



**BOARD OF DIRECTORS' REPORT ON THE COMPANY'S CORPORATE GOVERNANCE SYSTEM AND
ITS ADHERENCE TO THE CODE OF SELF REGULATION FOR PUBLICLY LISTED COMPANIES**

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SECTION 1: STRUCTURE OF CORPORATE GOVERNANCE

Preamble

The Corporate Governance Committee of Borsa Italiana SpA (“Borsa Italiana”) released in March 2006 an updated version of its Code of Self Regulation for Listed Companies, first issued in 2002.

The new Code of Self Regulation (“the Code”) aims to maintain and where appropriate raise quality standards on the Italian share market so as to increase confidence levels both amongst national and foreign investors, and those companies considering the change to publicly-traded status.

In particular, the object of the Code is to bring the corporate governance principles of Italian public-listed companies in line with international best practices and to provide a clear and complete definition of the role and function of controlling bodies. The updated Code takes into account legislative changes at national and European Community levels, which have led to a raft of legislation such as the reform of Italian company law introduced by Law 366/2001, subsequently implemented and modified, measures designed to protect savers contained in Law 262/2005 and its subsequent additions and modifications, as well as the adoption of related EU recommendations and directives.

The principles and criteria for their application contained in the Code include recommendations for the controlling bodies and shareholders of the companies issuing shares as well as the companies themselves. Such recommendations shall be implemented by the recipients on a timely basis.

Public traded companies that have adhered to the Code shall inform the market of the full or partial application of the recommendations via the publication of a Corporate Governance Report to be published in 2007, providing details of the recommendations applied and reasons for partial or non application (“comply or explain”).

On this point, Borsa Italiana in its communication dated 16th November 2006 gave details of the timescale each public-listed company must respect in communicating to the market its adherence to the Code in the form of its corporate governance report. In particular, companies which during 2006 have adhered to the Code are requested to describe the measures already taken or planned in order to adopt Borsa Italiana’s recommendations.

On 19th December 2006, the Board of Directors of Ansaldo STS SpA (hereinafter referred to variously as either “the Company” or “ASTS”) declared its adherence to the Code of Self Regulation adopted by Borsa Italiana in March 2006. The Board also wished to point out that the Company had already taken steps to implement the requirements of the Code, seen as providing important support for the implementation of the Company’s corporate governance policy. Furthermore, in applying the Code and implementing other changes where deemed necessary, the corporate governance model put into place by ASTS is in line with the most recent and advanced regulations and international best practices.

The present Report in section I illustrates ASTS’ Corporate Governance System and in section II describes the current state of implementations, including those arising from the recommendations contained in Borsa Italiana’s Code.

In particular, pursuant to Consob's Consultation Document dated 2nd February 2007, the final chapter of this report summarises the Company's current position with regards to each Code provision.

PRINCIPAL INSTRUMENTS OF CORPORATE GOVERNANCE

We provide below a list of the principal instruments of corporate governance adopted by the Company also in compliance with current legislation, the requirements of the Code of Self Regulation, and international best practices:

- Articles of association
- Code of Ethics
- Organisation, Management and Control Model pursuant to Legislative decree 231/2001
- Board of Directors' Regulations
- Internal Control Committee's Regulations
- Guidelines and Criteria for identifying significant transactions with related parties - Code of Conduct
- Regulations governing privileged information and the creation of an Insiders' Register
- Internal Dealing Code
- Regulations governing the Shareholders' Meeting

All the above documentation is available at the Company's website.

SHAREOWNERSHIP STRUCTURE

As at the date of this Report, the share capital of Ansaldo STS amounts to € 50,000,000 made up by ordinary shares with a nominal value of € 0.50 each.

Following the Company's floatation, Finmeccanica SpA owns 40 per cent of share capital and consequently exercises over the Company and its subsidiaries management and coordination powers pursuant to article 2497 et seq. of the Italian Civil Code. ASTS and its subsidiaries are included within Finmeccanica's area of

consolidation. As at the date of this Report, on the basis of the shareholders' register and taking into account communications received either pursuant to article 120 of Legislative decree 58/1998 or otherwise, shareholdings – direct or indirect – in the Company greater than 2 per cent of share capital are listed below:

SHAREHOLDER	NUMBER OF SHARES	% OF SHARE CAPITAL
CAAM Società di Gestione del Risparmio S.p.A.	2,270,000	2.270%
BIPIEMME Gestioni Società di Gestione del Risparmio S.p.A.	2,097,561	2.097%
Banca Popolare di Milano S.c.r.l.	2,000.208	2.000%

At the time of writing this Report, we are not aware of the existence of any voting pacts regarding the Company's share capital.

COMPANY ORGANISATION

The Company's organisation, which is based on structure typically adopted in Italy, is in compliance with legislation regarding public-listed companies:

- **ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING:** has powers to resolve the Company's business in accordance with legislation and the Articles of association.
- **BOARD OF DIRECTORS:** has the fullest powers for the running of the Company and shall perform those actions deemed appropriate and necessary in implementing corporate purpose, with the exception of those exclusively reserved to the Meeting foreseen by legislation or the Articles of association.
- **BOARD OF STATUTORY AUDITORS:** is responsible for overseeing
 - the observation of the law and the Articles of association in addition to the principles of the correct running of the Company;

- the adequacy of the Company's organisational structure, of its internal control system and, with regards to the internal audit system, its effectiveness in presenting a true and fair picture of the economic and financial position of the Company;
 - the adequacy of the guidelines and instructions given to subsidiaries regarding financial reporting requirements.
- **INDEPENDENT AUDITORS:** the duties of external auditing shall be carried out, as foreseen by current legislation, by a firm of auditors duly enrolled in Consob's register of recognised audit firms. The independent audit firm shall be appointed by the Shareholders' Meeting following consultation with the Board of Statutory Auditors. The audit firm appointed shall perform the same duties for almost all of the Company's subsidiaries.

CORPORATE PURPOSE AND MISSION

ASTS intends to maintain and strengthen its position as a major international competitor/player on the rail transport systems market. The Company operates in particular (i) in the project and design, production, distribution, management and maintenance of signalling systems, their sub-systems and components, so as to increase the levels of safety and efficiency of rail and underground transport systems, and (ii) in the design, realisation, integration and maintenance of "key-in-hand" transport systems, of which signalling systems are an essential component.

ASTS follows its corporate mission at all times aware of the need to create lasting value for its shareholders.

ORGANISATIONAL AND MANAGEMENT MODEL

Legislative decree 231 of 8th June 2001, and subsequent modifications, introduced a specific regime of administrative liability for companies in the case of certain types of crimes. Consequently, Ansaldo STS adopted a series of measures to avoid exposure to the criminal liability foreseen in the Decree in the form of specific oversight systems designed to prevent (i) corporate crime, (ii) acts or conduct prejudicial to the Public Administration and (iii) market abuse by the Company's board members, senior executives, employees or external collaborators.

In particular, the Board of Directors of Ansaldo STS in its meeting of 27th June 2006 approved the Company's "Organisation, Management and Control Model pursuant to Legislative decree 231/2001" in response to the requirements contained in the Decree and drawn up in accordance with the Italian Association of Industry – Confindustria - guidelines.

The key elements of the Model are:

- The Code of Ethics;
- Rules governing Conduct, Procedures and Oversight activities;
- An adequate system of powers and delegated authority;
- The diffusion of the Model to the Company's stakeholders (staff, external collaborators, clients, suppliers, partners);
- Learning and awareness raising amongst staff;
- A Disciplinary System;
- The creation of an Oversight Body ("OB").

The Model is made up by one general part and three special parts.

The General Part deals with: the Oversight Body and the information flows it has both to receive and to produce; staff training and the diffusion of the Model throughout the Company; the disciplinary system to be activated in the event of breaches to the Model.

The Special Part is divided into three sections: crimes prejudicial to the Public Administration; corporate crimes; market abuse. Each dedicated section outlines the areas at risk, defines decisional protocols, establishes code of conduct for those operating in the area in question, and fixes monitoring procedures.

On 27th June 2006, the Board of Directors resolved the setting up of an Oversight Body, which is currently composed by a non executive independent board member, Mr Gabriele Falciasacca (Chairman) and two other members, the chiefs, respectively, of the Legal Affairs Office and the Internal Audit Office.

During the same meeting of the 24th October 2006, the Board approved the articles of association of the Oversight Body and was subsequently informed by the OB of the adoption on its part of a specific Regulation.

The OB shall transmit to the Board of Directors on a six-monthly basis a report on the implementation of the Organisational, Management and Control Model.

In order to carry out its duties, the OB shall receive specific funding.

The OB shall, annually and in full autonomy, approve its supervisory plan, which shall include an assessment both of the adequacy of the Model and the degree of compliance to it.

Implementation of detailed aspects of the measures and procedures foreseen by the Model is currently in progress.

CODE OF ETHICS

The Code of Ethics adopted by the Company ideally is placed upstream of the entire Corporate Governance system and represents a charter of the ASTS Group's values. The Code establishes the principles on which the activities of the Company and its subsidiaries are based and the ethically correct way in which they are carried out.

The Code, in particular, evidences the commitment and ethical responsibility recognised by all those – employees, external collaborators, directors – who perform duties in the name of the Company.

The Company and its subsidiaries represent an industrial group operating in the high technology sector (transport in particular), which, as a result of the size and importance of its activities, is a significant player in terms of the influence it has on the market, economic development and the technological and scientific progress of the sectors in which it works.

In order to reach the Company's objectives, our staff work loyally, professionally, honestly and transparently at all times in respect of the law.

The Code of Ethics is, like all the Company's corporate governance instruments, subject to regular review in the light of a changing legislative and operational environment and also takes into account the monitoring activity carried out by the Officer responsible for Internal Control regarding compliance levels of individual units and structures.

SECTION II: INFORMATION REGARDING THE IMPLEMENTATION OF THE CODE OF SELF REGULATION

1. BOARD OF DIRECTORS 1.1. APPOINTMENT

The Company's Board of Directors is composed by a minimum of seven and a maximum of thirteen Board Members. The Shareholders' Meeting prior to electing the Board shall establish the number of Board Members within the range stated above.

Directors shall be appointed for a period no longer than three financial years and may be re-elected pursuant to article 2383 of the Italian Civil Code.

In accordance with current legislation, the Company's articles of association state that directors shall be appointed from an election list.

This election list may be presented either by the outgoing Board in addition to shareholders which, singly or with others, represent at least 2.5 per cent of shares with voting rights at the ordinary meeting.

Lists presented by the outgoing Board and by shareholders shall be deposited at the Company's registered office and published in at least three national newspapers, two of which specialised in economy and finance, respectively at least twenty and ten days prior to the date fixed for the meeting.

In order to prove rightful ownership of the number of shares required for the presentation of a list, shareholders shall deposit at the Company's registered office, together with the list of candidates, the required documentation demonstrating share ownership and the right to take part in the meeting.

Each valid list shall include one or more candidates with the requisite independence of judgement foreseen by the law, with the slate of nominees being headed by one name.

So as to guarantee the active participation of minority shareholders in the running of the Company as well as transparency in the directors' selection and appointment process, the articles of association expressly state that each shareholder may present (either in direct election to the Board or in the preliminary selection round) and vote for solely one list of candidates. Each list, along with the necessary documentation and within the respective terms established above, shall be accompanied by a statement of acceptance by each nominee in which the candidate declares that no grounds for ineligibility or incompatibility exist and that the candidate satisfies the requirements for the position as established by current legislation and the Company's articles of association.

The candidacy of a nominee appearing in more than one list shall be void.

Appointment to the Board is subject not only to being in possession of the personal and moral qualities foreseen by current legislation and regulations, but also the professional qualifications set forth in the Company's articles of association.

These include *inter alia* a minimum of three years' experience in one of the following areas:

- management and/or control of a joint stock company with a share capital of no less than € 2 million;
- professional career or university teaching in the legal, economic, financial, technical-scientific areas directly related to the Company's activities;

- managerial positions held in government bodies or agencies in the areas of banking, finance and insurance or areas directly related to the Company's activities.

An appointee found not to satisfy the above-mentioned requirements will be removed from the Board.

The candidate shall present an exhaustive *curriculum vitae* providing the personal and professional information required, along with details, where appropriate, of meeting the independence criteria in terms of character and judgement necessary for appointment as independent director. The *curriculum vitae* shall represent an express invitation for shareholders' votes during the meeting.

With reference to shareholders who, singly or jointly with other shareholders, have presented a list of candidates in accordance with the provisions stated above, the intermediary's request to intervene in the meeting shall be accompanied by a declaration made by all the shareholders who, singly or jointly, have presented a list, stating that the shares required for the presentation of a list have been at all times been in their possession since the presentation of the list. The same declaration shall be deposited at the Company's registered office on the closing day for the presentation of the request. Failure to observe the procedures stated above will render the election list void. In the case of an adjournment of the meeting, the same procedures for the presentation of election lists shall be repeated with the invalidation of any procedurally incorrect lists.

Directors are elected to the Board in the following ways: (i) two thirds of the total number of places on the Board shall be filled by those candidates slated in top-bottom order in the election list receiving the highest number of shareholders' votes. In the event of a fractional number, the number shall be rounded down to the nearest unit; (ii) the remaining places shall be filled by candidates from other election lists in accordance with the criteria and procedures established in the Company's articles of association.

In the event of only one or no list being presented, the meeting shall proceed to vote on the basis of the majority recognised by law.

If for whatever reason one or more directors can no longer perform their duties, the majority of directors shall be at all times made up by those appointed by the meeting pursuant to article 2386 of the Italian Civil Code.

In the absence of such a majority, the Board shall present its resignation and a shareholders' meeting shall be called without delay.

The shareholders' meeting shall elect the Chairman of the Board of Directors from the Board of Directors. In the event of the meeting's failure to elect the Chairman, election shall be made by the Board directly. The Board may also elect its Deputy Chairman, who in the absence or incapacity of the Chairman shall perform his duties.

1.2 CURRENT COMPOSITION

The following directors were appointed to the Board by the Company's Shareholders' Meeting of 21st November 2005: Mr Alessandro Pansa, Mr Giovanni Roberto Gagliardi, Mr Sante Roberti, Mr Mauro Gigante and Mr Francesco Lalli. Mr Alessandro Pansa was appointed Chairman.

The Board of Directors in its meeting of 9th February 2006 appointed Mr Giovanni Roberto Gagliardi as Chief Executive and on 24th February 2006 Mr Sante Roberti as Deputy Chairman.

The meeting in its deliberations of 24th March 2006 and 14th June 2006 approved the appointments to the Board of Mr Sergio Maria Carbone, Mr Attilio Savetti, Mr Maurizio Cereda and Mr Gabriele Falciaesecca.

On the basis of the documentation provided by the four directors named above, the Board of Directors were satisfied of the effective independence of the appointees as required by law and the current recommendations of the Code of Self Regulation.

The independent directors Mr Maurizio Cereda and Mr Gabriele Falciaesecca were appointed by the minority shareholders from the minority shareholders' election lists.

In order to allow minority shareholders the possibility to express their preferences freely, Finmeccanica SpA took no part in the election of the independent directors.

The Company's Board is currently made up of 9 directors: 3 executive directors pursuant to the Borsa Italiana Code and 6 non-executive directors, 4 of which are independent. The Board will come up for re-election following the approval of the 2007 annual report. The Board of Directors of Ansaldo ATS is as follows:

Alessandro Pansa	Chairman
Sante Roberti	Deputy Chairman
Giovanni Roberto Gagliardi	Chief Executive
Sergio Maria Carbone	Independent
Maurizio Cereda	Independent
Gabriele Falciaesecca	Independent
Mauro Gigante	Non-executive
Francesco Lalli	Non-executive
Attilio Salvetti	Independent

ALESSANDRO PANSA – CHAIRMAN.

Graduate in Economics at Bocconi University, Milan, Mr Pansa was a senior partner at Vitale Borghesi & C from 1993 to 1999 and then managing director of Lazard from 1999 to 2001. He sits on the boards of Borsa Italiana S.p.A., Feltrinelli Editore S.p.A., and the Italian Banking Association (ABI). He is also a member of the Italian Institute of Technology's consultancy committee and a member of the Council for Italy and United States' Relations. Since October 2004, Mr Pansa has been Joint General

Manager of Finmeccanica S.p.A., where he took over as Chief Financial Officer in 2001, with responsibilities in the areas of finance, administration, planning and control, M&A activities, tax policy, and investor relations.

SANTE ROBERTI – DEPUTY CHAIRMAN

Mr Roberti graduated in electronic engineering at the University of Naples and began his professional career as chief executive at Eternit. He joined the Ansaldo Group in 1979 and has since then held a wide range of positions such as supply manager at Italtrafo S.p.A, service operations manager at Ansaldo Energia S.p.A., business unit operations manager at Caldaie Ansaldo Energia S.p.A., senior manager in charge of Ansaldo Termosud S.p.A., business systems operations manager at Ansaldo Trasporti S.p.A., Chairman and Managing Director of Ansaldo Coemsa S.A., in Brazil. He is currently Deputy Chairman of Unione Industriali di Napoli and holds chairmanships of Società Consortile Petaso, Consorzio Ferroviario S. Giorgio-Volla, Consorzio Ferroviario S. Giorgio – Volla Due, Consorzio Ferroviario Vesuviano, ATI Alifana, Consorzio IRICAV UNO. He is Deputy Chairman of Consorzio IRICAV DUE. He has been Chief Executive of Ansaldo Trasporti – Sistemi Ferroviari since 2001.

GIOVANNI ROBERTO GAGLIARDI –CHIEF EXECUTIVE .

Graduate in electronic engineering, Mr Gagliardi began his career at Ilva's Process Control Department, where he later became chief. He subsequently was in charge at of R&D at Innocenti Santeustacchio. In joined Esacontrol, which later became Elsag Bailey Process Automation N.V., a Finmeccanica company listed on the NYSE and leader in the process automation sector. At Elsag, Mr Gagliardi was in charge of the company's iron and steel business unit. From 1991 to 1994 he was managing director of Bailey Petrovest in Norway with remit for the company's northern European markets. In 1994 he was appointed *President Directeur General* at Elsag Bailey (France) in Massy (Paris). After the sale of Elsag Bailey to ABB in 1999, he was Senior Vice President of Ansaldo Signal. After experience in the United States, he was appointed in 2001 Chief Executive Officer of Ansaldo Signal and sole member of the management board.

SERGIO MARIA CARBONE.

Full Professor of International Law, Navigation Law and European Union Law at the School of Law, University of Genoa, Sergio Maria Carbone is the author of numerous works in the area of commercial and company law.

In his capacity of lawyer, he represents several leading Italian and international industrial groups. He is Deputy Chairman of Banca Passadore, Chairman of the Control Committee and director of Ansaldo STS as well as board member of other important companies.

MAURIZIO CEREDA.

Maurizio Cereda is a graduate of Bocconi University, Milan.

He worked for three years with Rasfin S.p.A., a securities investment firm of the Ras Group, later joining the finance area in 1992 of Mediobanca S.p.A.

An executive at Mediobanca since 1999, Mr Cereda took charge of the Equity Capital Markets area in 2000 and in the same year was appointed senior manager. In 2003 he became joint head of the Corporate Finance area and in 2006 took charge of the Corporate Finance and Coverage Large Corporate areas.

GABRIELE FALCIASECCA.

Full Professor of Microwaves since 1980 at the Engineering Faculty, University of Bologna, Gabriele Falciasecca was Director of the *Centro Onde Millimetriche* at the U. Bordoni Foundation (Pontecchio Marconi); he has been Chairman of the G. Marconi Foundation's Scientific Committee since 1997.

He has been involved in numerous research projects in the mobile communications area, including the European Union's Prometheus, Drive and Race I and II projects. In 1995 he launched as its first Chairman, the European Personal and Mobile Communications Conference. His various technical and scientific consultancy positions include work for, amongst others, Italtel, Siemens, Motorola, Nokia and Enel *Centro Ricerche*. He is the author of numerous scientific publications and is currently a member of various Italian commissions such as CCIR, CEI and URSI, in addition to being a high level member of the *Consiglio Superiore Tecnico P.T.A.*.

MAURO GIGANTE.

A graduate in law at the University of Genoa, he completed a Master of Laws at Case Western Reserve University (Ohio-USA). He is a member of the Italian bar. Until 1996, he was lawyer for the Finmeccanica Group, where he was in charge of the Legal Department at Elsag Process Automation N.V., with responsibilities for Europe, Africa and the Middle East.

From 1996 to 2005 he worked for ENI's Legal Affairs Department, where he was head of the Group's Merger & Acquisition and Capital Market activities. He has been in charge of Finmeccanica's Legal and Corporate Affairs Department since 1st October 2005.

FRANCESCO LALLI.

Francesco Lalli graduated in Law at Rome (*Università degli Studi di Roma*) and from 1983 to 1984 was a senior officer at the Italian Government's Labour and Pensions Ministry. From 1984 to 1989 he held various positions at the then Ministry of Public Sector Holdings (*Ministero delle Partecipazioni Statali*). From 1989 to 2005 he worked for the Institutional Relations and Legislative Studies Office of AERITALIA - Società Aeronautica Italiana S.p.A. (in 1990, Alenia Aeronautica S.p.A.), where he was in charge from 1995 to 1996. Appointed Executive in 1996, he was head of the National Development Programmes Support Unit from 1996 to 1999 and the National Financing Programmes Unit from 1999 to 2002. He was later appointed Institutional Relations Chief. He has been Chief of Institutional Relations at Finmeccanica since April 2005.

ATTILIO SALVETTI.

A graduate in aeronautical engineering at the University of Pisa, he has been Full Professor of aeronautical construction at the same university since 1975. His research interests are in the fields of aeronautical structures, aeroplane and spacecraft project methods, dynamics and aircraft control.

Attilio Salvetti is the author of numerous scientific publications and has for more than 20 years supervised research at the Aerospace Engineering Department of the University of Pisa across a number of areas such as structure and materials, flight dynamics and control. He has led numerous national and international research projects.

He is a member of various industrial scientific committees and research centres and is currently a member of Nato's Applied Vehicle Technology Panel within the confines of Nato's Research and Technology Agency. He is also the Italian delegate on the International Committee on Aeronautical Fatigue (ICAF).

He was a Member of the Board of Directors of the Italian Space Agency and Group Coordinator of the Italian Space Agency's Space Engineering work group.

The Board of Directors feels that the present voting mechanism (i.e. election lists) offers a rigorous and transparent procedure for the appointment of new members, as well as guaranteeing a balance of executive and non-executive directors. Consequently, the formation of a nomination committee for board appointments is deemed unnecessary.

1.3 ROLE AND DUTIES

The Board's role is to provide entrepreneurial leadership of the Company in adherence with its corporate object.

The following sections (A, B and C) provide details of the powers reserved to the Board of Directors in accordance with current legislation, the Company's articles of association and the Board's Regulations, and also set forth the exclusive responsibilities of the Board.

- A. THE COMPANY'S ARTICLES OF ASSOCIATION, in addition to those powers provided for by law, attributes the Board the power to resolve the following:
- the opening or closing of secondary registered offices;
 - amendments to the Company's articles of association in the light of legislative changes;
 - mergers or spinoffs;
 - mergers or spinoffs pursuant to articles 2505, 2505 bis and 2506 ter (final section) of the Italian Civil Code;
 - the preparation of prospectuses relating to takeover bids or share-for-share offers pursuant to article 39 of CONSOB's deliberation no. 11971 of 14th May 1999;
 - the appointment of a senior officer of the Company responsible for the preparation of financial reporting subject to approval granted by the Board of Statutory Auditors.

The Board may in this regard present its resolutions concerning any of the points above to the attention of the Shareholders' Meeting.

B. THE BOARD OF DIRECTORS' REGULATIONS, as approved by the Board in its meeting of 29th January 2007, implementing the recommendations of the Code, established the duties and roles of the Board. Consequently, the Board of Directors shall:

- examine and approve the strategic, industrial and financial plans of the Company and of the Group of which it is Parent Company, the governance system of the Company, and the structure of the Group;
- evaluate the adequacy of the organisational, administrative and accounting structure of the Company and of its subsidiaries deemed by the Chief Executive as having strategic importance, with particular reference and on an annual basis to the adequacy, effectiveness and operation of the internal control system and the management of conflicts of interest;
- assign and revoke delegated powers to the Chief Executive without prejudice to those areas in which the Board has exclusive responsibility pursuant to article 2381 of the Italian Civil Code as well as those established by the Company's Articles of Association. The nature and method of such powers assigned to the Chief Executive by the Board shall be clearly defined;
- determine, after having examined the proposal of the Remuneration Committee and after having conferred with the Board of Statutory Auditors pursuant to article 2389, section 3, of the Italian Civil Code, the terms of the Chief Executive's service contract and related remuneration by means of the Remuneration Committee, which has specific powers in the matter, in addition to the remuneration of other Directors holding specific positions, including those on Committees established by the Board of Directors. The Board shall also, unless otherwise done so by the Shareholders' Meeting, establish Board Members' remuneration;
- review the overall running of the Company, in particular, on the basis of information produced by delegated bodies and shall periodically verify the reaching of targets;
- examine and approve ex-ante any transactions carried out by the Company and its subsidiaries of strategic, economic or financial importance to the Company itself, with particular regard to any situations in which, in relation to one or more Board Members, a real or potential conflict of interest (i.e. conflicted transactions) might arise and more generally to transactions with related parties. With this in mind, the Board shall establish general criteria to be used in identifying transactions at risk;
- monitor at least once a year the size, composition and operations of the Board itself and its committees and propose candidates to the Board with the professional skills it deems necessary;
- provide in its Corporate Governance report details of its activities in the areas illustrated and in particular details of the number of Board meetings held during the reporting period and the attendance (expressed as a percentage) of each Board Member.

C. THE BOARD OF DIRECTORS in its meeting of 9th February 2006, subject to the provisions contained in the law and the Company's articles of association, established that the Board shall have exclusive responsibility in the following areas:

- the formulation of Company strategy and organisation, including the granting of approval to industrial plans, programmes and budgetary decisions;
- in addition to that stated at point 1 above, the approval of non-mandatory investments either tangible or intangible not exceeding € 500,000 (five hundred thousand);
- the acceptance or release of shareholdings and equity investments both in existing and newly-formed companies also via the exercise or expiry of option rights, transfer, beneficial interest, pledged assets or any other act of transfer also as part of joint ventures and those subject to transfer restrictions underwritten by subsidiaries;
- the cession, transfer, lease, beneficial interest and any other act of transfer including those subject to transfer restrictions underwritten by the firm or branches of the firm; the purchase, lease, beneficial interest of firms or branches of firms of other companies;
- capital transactions, setting up of a company, transformation, listing, merger, spinoff, winding up, voting pacts with regards to subsidiaries;
- appointment of Directors and Statutory Auditors of subsidiaries;
- medium/long-term financial transactions generating gains or losses, excluding hedging or exchange-rate risks latent in orders;
- the granting of guarantees including suretyships and mortgages with the exception of those powers delegated by the Board to the Chief Executive;
- purchase, part exchange, and sale of real estate in addition to real estate contracts longer than nine years;
- the offer and signing of supply contracts:
 - (i) with an agreed price in excess of one of the following:
 - 10 per cent of the Company's total annual sales;
 - € 50 million;
 - (ii) which expose the Company to high levels of risks or which require substantial guarantees including orders with an EAV of less than 2 per cent of total revenues;
- the signing of on-going consultancy agreements with a term greater than one year and for amounts in excess of € 50,000;
- hiring, promotion and dismissal of key management.

1.4 EXECUTIVE DIRECTORS, DEPUTY CHAIRMAN, CHIEF EXECUTIVE

The Board of Directors may delegate powers to an executive committee and to the Chairman and/or other directors by the appointment of one or more chief executives. The delegated bodies may in turn decide to delegate within the confines of the powers attributed thereto the responsibility for single actions or types of actions to employees of the Company or to third parties with the right of sub-delegation.

As at the date of this Report, the Board of Directors has not appointed an executive committee.

The Chairman is the legal representative of the Company and has the power of signature. In his absence or unavailability, such powers shall be transferred to the Deputy Chairman whose exercise of such powers is proof of the absence or unavailability of the Chairman.

In accordance with the Company's articles of association, legal representation and the right of signature may be transferred, within the powers conferred, to chief executives if appointed or to other persons appointed by the Board and duly reported in the minutes of the Board meeting.

THE CHAIRMAN OF THE BOARD OF DIRECTORS convenes Board meetings, is responsible for the leadership of the board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is also responsible for ensuring that directors receive accurate, timely and clear information to enable them to make informed and balanced judgments on the questions presented to them.

In this regard, the Board of Directors has approved specific procedures for its internal workings consistent with the recommendations contained in the Code. These procedures seek to guarantee the utmost correctness both in reporting and in the running of the Board's business.

The Board of Directors has delegated to THE DEPUTY CHAIRMAN the responsibility (i) to develop both the Company's product portfolio and the business opportunities of its operative subsidiaries and (ii) to foster the process of integration between the activities of railway systems and signalling and the related companies.

The Board of Directors has delegated to THE CHIEF EXECUTIVE, in addition to legal representation vis-à-vis legal or administrative authorities and third parties, the following powers exercisable by signature:

- to run and manage the Company in accordance with the strategic objectives and policies established by the Board;
- to perform all those actions associated with the normal running of the Company;
- to carry out the Board's resolutions and to implement all extraordinary measures decided by it.

Non-exhaustive examples of the three areas of delegated authority outlined above include the power to:

- represent the Company vis-à-vis any judicial, administrative, tax, ordinary or special authority, at any instance, including the Council of State and the Court of Cassation. The chief executive shall also have the power of right of claim or appeal, proposing or supporting legal actions, administrative or judicial, all actions relating to bankruptcy or receivership, assignment of power of attorney, warrant of attorney, elected domicile, and the appointment of legal representation in court.
- settle any disputes, accept or reject proposed settlements, refer disputes to arbitration, appoint arbitrators and take the necessary measures arising from the award therefrom.

- provide sworn testimony, submit to questioning or summons also in the area of forgery of a public deed, institute civil action in criminal cases, elect domicile.
- enter into and revoke all forms of agency agreements.
- negotiate and agree the terms of overdraft credit.
- issue and underwrite all forms of bills of exchange.
- perform all forms of short-term financial transactions including the discounting of bills in the name of the Company, swap transactions with any bank including the Bank of Italy, providing the guarantees and respecting the procedural requirements entailed; use currency hedges for exchange risk latent in certain orders.
- discount third-party bills of exchange, endorse and receipt cheques, promissory notes, certificates of credit, drafts, post office money orders payable at banks, post offices, etc..
- issue bank and postal cheques on accounts, also in the event of their being overdrawn, held in the name of the Company.
- hire, suspend, dismiss non management staff; modify the terms and conditions of work between employees and the Company.
- represent the Company in its relations with trade unions and in its dealings with any institution, association and consortium.
- represent the Company in the general meetings of its subsidiaries, associates and minority interests.
- provide documentation relating to the salary and qualifications of the Company's staff both to pension, insurance and savings providers and to other institutions whether public or private; satisfy all requirements in the area of tax and where necessary and foreseen by related legislation issue any declaration or certification.
- sign letters of credit or debit to current accounts.
- accept – with the exception of those areas specifically reserved to the Board of Directors – and grant contracts for the carrying out of works and services and the signing of related agreements, taking part, if necessary, in public and private tenders and appointing, if necessary, representatives to take part in the related competitive tenders, auctions and bids.
- stipulate, modify and rescind on behalf of and in the name of the Company contracts relating to the purchase, part-exchange and sale of materials, products, machinery and plant and in general any other contracts relating to movables, including those registered, which give rise to risks and rewards on the part of the Company.
- stipulate, modify and rescind on behalf of and in the name of the Company any contract or agreement relating to trademarks, patents, models or similar; contracts relating to real property with a life not exceeding nine years; contracts relating to consortia, charter, transport, insurance, brokerage, agency, deposit, granting of credit.
- stipulate, modify and rescind on behalf of and in the name of the Company any contract relating to the creation of temporary joint ventures.

- record and extend mortgages or liens to the charge of third parties in favour of the Company; agree to the cancellation and limitation of mortgages to the charge of third parties in favour of the Company for the extinction or reduction of liabilities; waive a mortgage right or surrogate mortgage right, perform any mortgage transaction to the charge of third parties on behalf of and in the name of the Company and by so doing releasing mortgage registrars of any responsibility.
- provide for in the name of and in the interest of the Company the collection of all sums owed in any form by any entity or person such as the public administration and its various agencies at central, provincial, regional and communal levels, from banks including the Bank of Italy, the collection of payment orders issued or to be issued without time limits in favour of the Company for any amount of capital and interest owed by any of the entities referred to above.
- provide in the name of the Company any receipt of documentation necessary in the completion of a transaction including those required for the release of responsibility of any of the entities referred to above.
- collect any postal items registered and insured including postal orders and telegrams from post offices and appoint agents for the same purpose.
- carry out those actions and transactions necessary for the collection, receipt, unloading, etc of goods at the offices of railways, customs authorities, public or private transport firms, etc..
- represent the Company in any stage of the (re-)import and (re-)export transaction, whether temporary or permanent.
- provide banks or insurance companies with the guarantees and counter-guarantees required for customs transactions, participation in tenders, future work commitments, successful performance of supply commitments of the Company and its subsidiaries and associates, in Italy and abroad, within the limits foreseen in transactions requiring accessory guarantees; provide guarantees and sureties for subsidiaries up to € 30 million (thirty million).
- stipulate financing agreements with third parties including the public administration, banks and other financial institutions in any form relating to credits arising from the exportation of goods and services and the carrying out of works abroad.
- assign members of staff or third parties agency powers in specific areas with the right to sign on behalf of the Company.
- take any measure necessary to guarantee the conformity of the Company's activities to national and international laws and regulations and in particular in the areas of health and security in the workplace, environmental protection, urban planning, building and construction, industrial activity in addition to questions relating to labour law, employment, pension and health insurance commitments, exports, import and transit of materials, including weapons and high-technology materials, technology and services, personal information and privacy obligations; responsibility for any of the above-stated areas may be delegated to third parties.

In accordance with the Company's articles of association, BODIES WITH DELEGATED AUTHORITIES SHALL REPORT PROMPTLY TO THE BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS - or in the absence of such a body the Board of Directors shall report on a timely basis to the Board of Statutory Auditors – at least each quarter and nevertheless during each meeting of the Board of Directors and Board of Statutory Auditors. The delegated bodies shall report on their activities, the overall condition of the Company's affairs, probable outlook, and significant economic and financial transactions undertaken by the Company and its subsidiaries; in

particular, these bodies shall report on any transactions in which they have an interest, direct or on behalf of third parties, in addition to any atypical transactions with related parties the oversight of which is not exclusively reserved to the Board.

Details of conduct guidelines to be adopted in related party transactions are given at section 4.

In general, delegated bodies' reporting should coincide with the periodic approval on the part of the Board of Directors of the Company's financial statements (Annual Report, Half Year Report, Quarterly Report).

Transmission of the reports can be made either orally during Board meetings or in writing.

1.5 NON-EXECUTIVE DIRECTORS

The Board is composed of a majority of non-executive directors (i.e. directors without delegated operational authorities and/or responsibilities in the running of the Company), who, as part of a unitary board, constructively challenge and scrutinise the performance of management in meeting goals and objectives.

Non-executive directors contribute specific competences to the board meeting, providing a broad perspective to the Board's decisional processes.

With the exception of the Chief Executive, the Chairman and Deputy Chairman, the other six members of the board are non-executive directors.

In this regard, the Chairman, albeit not receiving specific delegated powers from the Board and therefore not carrying out an executive role inside the Company, shall, in the light of his executive functions held within the parent company Finmeccanica SpA, be assigned only those executive powers established in the Code.

1.6 INDEPENDENT DIRECTORS

The Board, implementing the provisions of the Code, on the basis of information supplied by Sergio Maria Carbone, Maurizio Cereda, Gabriele Falciasecca and Attilio Salvetti both at the moment of appointment and again in January 2007, confirmed that each director has met the independence criteria set out in article 3 of the Code.

1.7 DIRECTORSHIPS OR POSITIONS OF STATUTORY AUDITOR IN OTHER COMPANIES HELD BY ANSALDO STS DIRECTORS

The Company's directors were asked by the Board to provide details of other positions (director or statutory auditor) held in other companies listed on regulated markets both in Italy and abroad, in financial institutions, banks, insurance companies or other companies with annual revenues equal to or greater than those recorded in the Company's consolidated statements.

On the basis of the information provided, two directors hold such positions, details of which are given below (table 1.7).

Table 1.7 Other positions (director or statutory auditor) held in other companies by Ansaldo STS directors pursuant to the Code

DIRECTOR		POSITION HELD	COMPANY
Alessandro Pansa		Director	- Fintecna S.p.A. Borsa Italiana S.p.A. - Effe 2005 S.p.A.
Sergio Carbone	Maria	Director	- SIRT I S.p.A. - BPC S.p.A. - Società Finanziaria e Banca Passadore & C. S.p.A.

1.8 REPORTING TO THE BOARD OF DIRECTORS

The Chairman is responsible for ensuring that directors receive accurate, timely and clear information so as to enable the Board to make informed decisions regarding the matters on the agenda.

In accordance with the Board of Directors' Regulations, supporting documentation shall be sent to each director and statutory auditor on the same day as the call of the meeting and in the event of this not being possible, no later than three days prior to the Meeting, except for cases of urgency for which documentation shall be made available as soon as possible. If deemed appropriate by the Chairman and on the basis of the nature of the item and its related resolution, supporting documentation shall be provided directly during the meeting. Directors and statutory auditors shall be informed of such a decision within the timescale provided for above. Should they so require, directors and statutory auditors may have access to the information available at the Company's registered office in the days immediately prior to the meeting.

1.9 FREQUENCY OF BOARD OF DIRECTORS' MEETINGS

Members	No. meetings	Attendance
Alessandro Pansa¹	12	12
Sante Roberti*	12	10
Giovanni Roberto Gagliardi*	12	10
Sergio Maria Carbone**	9	9
Maurizio Cereda***	6	6
Gabriele Falciasecce***	6	5
Mauro Gigante*	12	12
Francesco Lalli*	12	10
Attilio Salvetti**	9	8

The Board of Directors shall be convened, in accordance with the Company's articles of association, by the Chairman or, in his absence, the acting chairman when and as often he deems it necessary and in response to a written request by a majority of the directors or by one or more statutory auditors.

In compliance with Borsa Italiana's Market Regulation ("*Regolamenti dei Mercati*"), the ATS Board of Directors' Regulations requires the Board of Directors to approve on an annual basis the principal events in the Company's calendar, which should be promptly transmitted and nevertheless not later than 30th January of every year.

The calendar shall provide details of dates fixed for: board meetings during the upcoming year; the Board's approval of the annual, half-year and quarterly statements, the annual general meeting; the Board's analysis of provisional results; presentation of headline results to financial analysts.

During 2006, the Board of Directors met 12 times. It is expected that the Board will meet 11 times during 2007.

1.10 PERFORMANCE EVALUATION

During 2007, the Board of Directors undertook for the first time board performance evaluation in line with international best practices.

During the board meeting of 29th January 2007, the Board approved the general criteria and procedures for the evaluation of its directors and committees. On 14th February 2007 the Board appointed a specialised firm to carry out an independent evaluation, which is currently in progress.

¹ Nominato dall'Assemblea in data 21 novembre 2005.

** Nominato dall'Assemblea in data 24 marzo 2006.

*** Nominato dall'Assemblea in data 14 giugno 2006.

1.11 DIRECTORS' REMUNERATION

The Remuneration Committee (paragraph 2.2) was formed *inter alia* to propose chief executive remuneration and responsibilities after having first consulted with the Board of Statutory Auditors where requested pursuant to article 2389 of the Italian Civil Code, within the confines and limits of legislation regulating the contract of employment between the chief executive and the Company.

The Remuneration Committee also assesses proposals by directors relating to the introduction or modification of share incentive schemes or stock grant plans in favour of directors of the Company or other companies of the Group to be presented to the Board.

As at the time of this Report, remuneration granted to the chief executive and deputy chairman (the latter an executive with delegated powers) in addition to salaries was as follows:

- share awards as established in the Company's stock grant plan for the period 1st January 2006 to 31st December 2007 with the number of shares assigned annually and subsequently awarded in the following year to that included in the plan;
- additional performance-related remuneration for the period 2006-2008 in the form of a cash payment foreseen in the Company's Long Term Incentive Plan.

The Company, in compliance with the reporting requirements set for listed companies, has prepared full details (provided in the explanatory notes accompanying the Company's financial statements) of the levels and forms of remuneration set for each director, including those of the Company's subsidiaries, and General Manager where appointed.

2. COMMITTEES.

Within the Board of Directors, the following Committees have been set up.

2.1. INTERNAL CONTROL COMMITTEE.

MEMBERS

ATTENDANCE

Sergio Maria Carbone	(Chairman)	No. 6 meetings
Maurizio Cereda		No. 6 meetings
Attilio Salvetti		No. 6 meetings

Since the date on which it was set up and in the course of 2006, the Committee has held 6 meetings.

The INTERNAL CONTROL COMMITTEE is made up of three non-executive and independent Directors.

The Internal Control Committee's main activity consists in assisting the Board of Directors, with consulting and advisory tasks, in carrying out the periodic monitoring activities as regards the adequacy and effective functioning of the organisational structure of the internal control system.

The Committee convenes at least on a half-yearly basis (upon adoption of the financial statements and half-year report by the Board of Directors) and has consulting and advisory functions towards the Board, while assisting the same in performing its surveillance activity.

In particular, the Committee's task is to evaluate the adequacy and effectiveness of the internal control system, as well as the actual compliance with the internal procedures and directives adopted, in order to ensure sound and effective management and to identify, prevent and manage financial and operational risks and fraud to the detriment of the Company.

The specific functions of the Committee include *inter alia* the following:

- to examine practices and problems concerning the control of corporate activities;
- to assess the work plan drawn up by the internal control manager and receive the periodic reports from the latter;
- to evaluate together with the independent auditors and with the Company's senior officers the adequacy of the accounting principles used and their consistency for the purposes of drawing up the consolidated balance sheet;
- to evaluate the auditing company's proposals concerning its appointment, as well as the intended plan of action for the audit, its report published in the Company's statements and any further suggestions;
- to report to the Board of Directors at least on a half-yearly basis, concomitant with the meetings for the adoption of the draft financial statements and of the half-yearly report, on the activity carried out and the adequacy of the internal control system, providing its own opinions on these matters;
- to perform any other tasks assigned by the Board of Directors, with special reference to relations with the independent auditors.

During its periodic monitoring activities concerning the adequacy and effective working of the organisational structure of the internal control system, the Committee has since its formation, addressed the following issues:

- it has examined and discussed with management and with the Internal Control Manager the most significant facts to have come to light, their causes, and any difficulties encountered in the course of its activity;
- it has monitored the issuing process of Directives and Procedures and checked their contents;

- it has monitored the progress of certain significant orders;
- it has reviewed the audit plan in force within the Company;
- within the limits of its own competence, it has controlled the preparation the quarterly and half-yearly reports, also meeting the auditing companies and reporting the outcome of these audits and suggestions, if any, to the Board;
- it has checked the adequacy of the accounting principles used and their consistency for the purposes of drawing up the consolidated financial statements;
- it has approved the Corporate Governance Regulations issued by the Company;
- it has met management in order to review the main corporate risks, identified by the Chief Executive Officer, and the measures adopted by management to prevent, monitor and control these risks.

The Committee's meetings were attended by the Board of Statutory Auditors, the Company's key management, the Company's General Secretary and the Internal Control Manager.

In order to perform the above mentioned tasks, the Committee has specific budget resources.

The Committee's activities are governed by a new Regulation, which replaces one previously adopted, approved by the Board on 29th January 2007, in line with the Board of Statutory Auditors' findings.

The Company has appointed an INTERNAL CONTROL MANAGER, who for the time being is also in charge of the Internal Audit Department.

From a hierarchical point of view, the Internal Control Manager is independent from managers in charge of operational areas, and reports directly, generally on a monthly basis, to the Chairman as well as to the Internal Control Committee and to the Board of Statutory Auditors.

Within the internal control function, the task of the Internal Audit Department is to carry out and coordinate the audit activity of ASTS and its subsidiaries so as to monitor and reduce risks, promote the on-going improvement of processes and procedures, evaluate the adequacy of internal control systems and their compliance with international best practice and with current legislation.

2.2. REMUNERATION COMMITTEE.

MEMBERS

Maurizio Cereda (Chairman)

ATTENDANCE

No. 3 meetings

Gabriele Falciasecca

No. 3 meetings

Mauro Gigante

No. 3 meetings

Since it was set up and during 2006, the Committee has held 3 meetings.

THE REMUNERATION COMMITTEE is made up of three non-executive directors, two of which are independent.

The Committee's task is to perform the following functions:

- as delegated to it by the Board of Directors, it shall advise on the remuneration and contractual conditions to be applied to the Chief Executive Officer, after consulting with the Board of Statutory Auditors in the cases provided for by art. 2389 of the Italian Civil Code, within the limits of the rules regulating relations between employer and employee, also with reference to the establishment and termination of work contracts, including voluntary termination, and to the discipline of post severance obligations;
- to evaluate the Chief Executive Officer's proposals concerning the general criteria regulating remuneration and incentives, as well as managerial development systems and plans, the Group's key resources and empowered directors of the Group's companies;
- to support the Company's top management in defining the best management policies for the Group's managerial resources;
- to evaluate the proposals put forward by the Company's top management concerning the introduction or modification of stock incentive plans or stock grant plans addressed to the directors and key management of the Company or of the Group's companies to be submitted to the Board of Directors;
- to draw up the remuneration plans, to be approved by the Board, based on the assignment of shares or options for the purchase of Company's shares, addressed to the directors and key managers of the Company and of the Group's Companies;
- to perform the functions assigned to it for the management of the Stock Grant Plan 2006-2007, as provided for by the relevant Regulation;
- to put forward the regulations implementing the remuneration plans as well as the management of stock incentive plans reaching expiry.

The Committee refers to the Board of Directors at least on a half-yearly basis.

The Committee's meetings have been attended by the Statutory Auditors Mr. Rosina and Ms. Tripodi, the General Secretary and the manager of the Human Resources and Business Improvement Department.

In order to carry out its tasks, the Committee can make use of external consultants at the Company's expense. The Committee has specific budget resources.

The Committee's activities are governed by a new Regulation, which replaces one previously adopted, approved by the Board on 29th January 2007, in line with the provisions of the Self-Governance Code.

Since it was set up, the Remuneration Committee has assisted the Board of Directors and Company's key management on certain primary issues concerning evaluation of the Company's managerial systems and the related variable remuneration plans.

In particular, the Committee has examined the following management incentive plans intended for directors with delegated powers of the Company and its subsidiaries, key management personnel of the Company and its subsidiaries and for self-employed professionals holding top positions within the Company and its subsidiaries:

- the *Stock Grant Plan*, which consists in the award of ASTS ordinary shares following the achievement of previously set targets; and
- the *Long Term Incentive Plan*, which consists in the payment of a sum of money where specific market, economic and managerial objectives are met.

The Committee has reviewed the regulations governing these plans as well as the content of the letters to be sent to the beneficiaries of the same, and has submitted these documents to the Company's Board, which approved them on 24th October 2006.

The Committee has also approved extending the Stock Grant Plan 2006-2007 to ten more Company's managers, as suggested by the Chief Executive Officer.

Overall, the Stock Grant Plan has 50 beneficiaries, and the Long Term Incentive Plan, 7.

3. HANDLING OF CONFIDENTIAL INFORMATION.

3.1. CONFIDENTIAL INFORMATION REGULATION AND CREATION OF THE INSIDERS' REGISTER.

According to article 114, paragraph 1, of Legislative Decree No. 58/98, Companies issuing financial instruments listed on regulated markets are obliged to timely inform the public of "privileged information" which directly concern either the issuers or their subsidiaries.

The term "privileged information" means any information not yet public which, on becoming so, would likely have an impact on the price of the listed financial instruments (art. 181 of Legislative Decree No. 58/1998).

Article 114, paragraph 2, provides that "*listed issuers shall give the necessary instructions so that subsidiaries can disclose all necessary information to comply with the communication duties provided for by the law*" and that "*subsidiaries shall promptly submit the information required*"; article 115 *bis* of Legislative Decree 58/1998, provides that listed issuers and their controlling entities shall establish and keep regularly updated a register of persons (i.e. an insiders' register) who, as a result of their professional or work profiles and in the light of the duties assigned, have access to the above-mentioned "privileged information".

In such a regulatory framework, in order for ASTS to comply with its obligations as a listed company, guidelines are required in for the maintenance and regular updating of the "REGISTERS OF PERSONS HAVING ACCESS TO PRIVILEGED INFORMATION" (hereinafter referred to as the "Register") as well as to ensure a correct flows of information between ASTS and the Group's companies, particularly with regards to effectively or potentially conflicted events and circumstances.

In compliance with the above-mentioned provisions, particular attention is given within the Company to the management and handling of privileged information and the form and manner of its disclosure outside the Company.

To this end, during its meeting held on 10th May 2006 the Board adopted two Internal Regulations which – while containing the same basic principles - regulate the procedures to be followed by Italian and foreign subsidiaries respectively when handling privileged information.

In particular, as far as foreign subsidiaries are concerned, in compliance with article 152, paragraph 4, of Consob Regulation No. 11971 of 1999, in order to optimise processes, it has been decided to establish and maintain only one register (so-called “GROUP REGISTER”), directly managed by ASTS, thus fulfilling both ASTS and all foreign subsidiaries’ obligations.

Therefore, the provisions of the REGULATION CONCERNING FOREIGN SUBSIDIARIES are aimed at regulating the handling of privileged information on the part of foreign subsidiaries so as to enable the Company to timely acquire all necessary and appropriate elements to maintain the Group Register in an accurate and proper manner.

The Company’s General Secretary has been appointed as the person in charge of maintaining the register, his deputy being the Company’s Corporate and Legal Affairs Manager.

The REGULATION CONCERNING ITALIAN SUBSIDIARIES is aimed at governing the handling of privileged information and the procedures these subsidiaries need to follow in order to set up and manage the Register.

With reference to both Italian and foreign subsidiaries, however, the final decision regarding the privileged status or otherwise of information for public disclosure, pursuant to article 114 of Legislative Decree 58/1998, shall be the responsibility of the Company, in the person of the Chief Executive Officer, who is also responsible for the prompt communication of information to the market.

3.2. INTERNAL DEALING CODE

With regards to the procedures concerning the handling and disclosure of information concerning the Company, on 24th March 2006 the Board of Directors also adopted the new CODE OF CONDUCT concerning INTERNAL DEALING (“Internal Dealing Code”), aimed at regulating the flows of information related to transactions involving shares issued by the Company or other “related financial instruments” as established by Consob, and carried out by Company personnel belonging to the categories “significant persons or insiders” and by persons “closely related” to the same (“significant transactions”).

For the purposes of the Company’s Internal Dealing Code, “significant persons” include:

- Directors, members of the Board of Statutory Auditors and the Company’s General Manager, if appointed;

- any other persons whose names have been indicated, as provided for by article 152 *sexies* paragraph 1, point c2) of the Issuers' Regulation, by the Chairman of the Board of Statutory Auditors and/or the Chief Executive Officer and/or the Company's General Manager, also separately;
- the persons provided for by article 152 *sexies* paragraph 1, points c3), c4) and d).

The provisions of the Company's Internal Dealing Code are currently addressed solely to directors and statutory auditors, as well as to the persons closely related to the same, as no other persons meeting the specifications provided for by article 152 *sexies* paragraph 1, points c2), c3) and c4) have been identified within the Company.

The Internal Dealing Code states the quantitative threshold over which transactions carried out after 1st April 2006 shall be notified. According to this rule, only transactions amounting to less than € 5,000 (five thousand) as at the end of each calendar year are excluded from such obligation.

As for the terms and procedures for disclosing information, the following rules apply:

- the significant person - with the exception of the persons specified by article 152 *sexies* paragraph 1, point c4) – shall report to the Company no later than two market trading days after the transaction date;
- the Company shall transmit the information received from the significant person to Consob no later than five market trading days after transaction date and to the public no later than the end of the market trading day following the day on which the information was transmitted by the significant person.

Persons specified by article 152 *sexies* paragraph 1 point c4) shall disclose significant transactions performed directly by them or by persons closely related to them, according to the terms and procedures specified by the 4th paragraph of article 152 *octies* of the Issuers' Regulation.

Furthermore, the Code states that during the so-called "BLOCKING PERIODS" significant persons are expressly not allowed to carry out any significant transactions.

These "Blocking Periods" are the following:

- the 15 days before adoption by the Board of Directors of the draft annual report, the half-yearly report and the quarterly reports, up to disclosure to the market of the press release with the resolutions adopted by the Board;
- other periods in which the Board, or, in case of urgent matters, the Chairman of the Board and/or the Chief Executive Officer, also separately, decides that the performance of significant transactions is either prohibited or limited.

The Internal Dealing Code complies with the regulations implementing the recent provisions introduced by European Directive 2003/6/CE on market abuse (so-called "MAD Directive").

In order to ensure the correct implementation of the new discipline, the Company has decided to introduce specific operating procedures providing significant persons with the necessary assistance for correct compliance.

4. TRANSACTIONS WITH RELATED PARTIES.

With reference to transactions with Related Parties, on 12th December 2005 the Company's Board of Directors formally adopted, together with the "*Criteria and Guidelines for the identification of significant transactions and transactions with related parties*", specific "*Lines of Conduct*" aimed at regulating the main substantive and procedural aspects pertaining to the management of these transactions, which may also be applied to those transactions falling outside the exclusive competence of the Board of Directors.

The CRITERIA AND GUIDELINES FOR THE IDENTIFICATION OF SIGNIFICANT TRANSACTIONS AND TRANSACTIONS WITH RELATED PARTIES identify "Significant Transactions" as the transactions reserved to the exclusive competence of the Board, details of which are provided above at 1.3.C.

Within Significant Transactions, transactions with related parties have not been differentiated, as the criteria adopted to identify the transactions reserved to the exclusive competence of the Board of Directors were deemed to provide sufficient levels of control.

According to the LINES OF CONDUCT FOR TRANSACTIONS WITH RELATED PARTIES ("Lines of Conduct"), the management of Transactions with Related Parties shall comply with special substantive and procedural fairness criteria.

As for the definition of RELATED PARTIES, the Lines of Conduct expressly refer to the notion contained in Consob Resolution No.14990 dated 14th April 2005, and therefore to the definition provided by the specific international accounting principle (IAS 24) endorsed by the European Commission Regulation (CE) No. 2238/2004 on 29th December 2004.

For the purposes of these lines of conduct, Transactions with Related Parties do not include standard or ordinary transactions, or transactions to be carried out at market conditions.

Standard or ordinary transactions include transactions which are not, in consideration of their subject matter or nature, unrelated to the Company's ordinary course of business, as well as transactions which are not characterized by special critical elements in consideration of their features or of the risks inherent to the counterparty's nature or to the time of their execution.

Transactions at market conditions include transactions concluded under conditions which are not significantly different from those normally practised in dealings with entities who are not Related Parties.

In addition, the Lines of Conduct make a distinction between "Transactions with Related Parties reserved to the exclusive competence of the Board" and "Transactions with Related Parties not subject to the Board's prior approval".

- TRANSACTIONS WITH RELATED PARTIES RESERVED TO THE EXCLUSIVE COMPETENCE OF THE BOARD.

The Board of Directors shall receive adequate information about the nature of the relation, the procedures of the transaction, the economic conditions and time frame for its implementation, the evaluative procedure followed and the underlying reasons and potential risks, if any, for the Company.

Each Member of the Board shall disclose to the Company any information which may help the latter to comply with these lines of conduct.

In particular, directors having an interest – potential or indirect - in the transaction, shall timely and exhaustively inform the Board about the existence of this interest and about the pertaining circumstances.

The same directors shall also leave the Board meeting when the resolution is voted, provided such absence does not prejudice the necessary quorum as established in the Company's articles of association.

When required by the nature, value or other features of the transaction, and in order to prevent the transaction from being carried out under different conditions to those that may reasonably have been negotiated between non-related parties, the Board of Directors may require the support of one or more independent professionals to carry out the transaction, in order to valuate the assets and/or to receive financial, legal or technical support.

In the choice of the above mentioned professionals (banks, auditing companies, legal firms or other professionals whose specific competence and skills are widely recognised), their independence shall carefully be taken into account and assessed. In the most significant cases, the Board may use different professionals for each related party.

- TRANSACTIONS WITH RELATED PARTIES NOT SUBJECT TO THE BOARD'S PRIOR APPROVAL.

The Transactions with Related Parties that are not reserved to the exclusive competence of the Board shall be represented by the Chairman or by the Chief Executive Officer in the periodic reporting addressed to the Board regarding the exercise of its delegated powers, and to the Board of Statutory Auditors regarding the most significant transactions, from an economic and financial point of view, executed by the Company or its subsidiaries, in compliance with article 150, paragraph 1, of Legislative Decree No. 58/98.

In the periodic reporting regarding these transactions, the Chairman or Chief Executive Officer shall describe the nature of the relation, the procedures to be followed in performing the transaction, the economic conditions and time frame for its implementation, the valuation procedures followed and the underlying reasons and potential risks, if any, for the Company.

5. Investor Relations

A special Investor Relations department - whose importance has also been highlighted by the Code - has been created so as to enable the Company to establish a professional and ongoing relationship with institutional investors and shareholders.

The department aims to raise awareness in the financial market of the intrinsic value of the Group's activities and it also seeks to develop an ongoing and transparent relationship with the Italian and international financial community, based upon a clear and strategic vision of the Company's business and its future development.

It also focuses on maintaining an ongoing relationship with shareholders and analysts, by commenting on market rumours, drawing up guidance documentation and providing careful monitoring of consensus estimates.

During the year there will be events aimed at establishing a closer relationship between the Group and the financial market and, on such occasions, the Group will present its own economic and financial results (financial and economic guidance).

The Investor Relations department intends to organise at least two institutional roadshows with the Company's top executives, preferably on occasion of the publication of annual and half year results, all in accordance with international listed companies' best practices.

These roadshows, lasting at least two days, will be held in the main European and world financial centres.

The events organised by the Investor Relations department include: conference calls for the financial market on occasion of publication of quarterly results and/or important extraordinary transactions; site visits to subsidiary plants which will be normally preceded by a Company presentation delivered by top executives.

The person in charge of the Investor Relations department, working directly with the Managing Director, is Andrea Razeto.

Contacts

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6. Shareholders' Meetings

Planning and management of meetings as well as completion of notices of meeting are carried out in order to favour maximum shareholder participation. Particular attention is devoted to the completion of the notices of meeting which are compiled in strict accordance with provisions regarding the dissemination of price-sensitive information.

Meetings are called by means of publication of notice of meeting in the Official Gazette of the Italian Republic ("*Gazzetta Ufficiale*") and in at least one national daily paper. The Company has adopted a series of Meeting Regulations in order to ensure that meetings are held fairly and that the right of shareholders to discuss any item on the agenda is guaranteed; the duration of each intervention in addition to voting procedures are also set by the Meeting Regulations.

Specific powers conferred on the Chairman are also regulated, so as to avoid instances of conflicts of interest as well as any abuse within the Board itself.

The aforementioned Regulations were approved by the Meeting on 12th December 2005 and copy of the document will be distributed to shareholders at each meeting.

7. BOARD OF STATUTORY AUDITORS

The Company's Board of Statutory Auditors is made up of three regular members and two substitute members appointed by the meeting held on 21st November 2005, and it is thus composed:

REGULAR MEMBERS

- **PAOLO COLOMBO - CHAIRMAN**
- **ANTONIO ROSINA**
- **FRANCESCA TRIPODI**

SUBSTITUTE MEMBERS

- **PIETRO CERASOLI**
- **DOMENICO LUNEDI**

The term of office of the Board of Statutory Auditors' members will expire at the date of approval of the financial statements for the financial year 2007.

Seven meetings took place in financial year 2006.

The following are data concerning the attendance rate of the Board of Statutory Auditors' members to the Board of Statutory Auditors (SA) meetings as well as to the 12 Board of Directors (BoD) meetings held in 2006.

	<u>SA</u>	<u>BoD</u>
PAOLO COLOMBO	7/7	8/12
ANTONIO ROSINA	7/7	12/12
FRANCESCA TRIPODI	7/7	12/12

Reasons for absence were duly justified.

The following is a brief professional profile of each member of the Board of Statutory Auditors.

- **PAOLO COLOMBO – CHAIRMAN**

A graduate in Business Economics at “Luigi Bocconi” University in Milan, he is a chartered accountant and registered auditor.

He teaches “Accounting and Financial Reporting” at Bocconi University and is in senior partner at *Borghesi Colombo & Associati*, a company providing advisory and consultancy services relating to financial transactions – including tax and corporate advisory services concerning extraordinary transactions – as well as services regarding strategic consultancy and corporate governance.

- **ANTONIO ROSINA**

He has been a Chartered Accountant since 1989 and became registered auditor pursuant to Ministerial Decree of 12th April 1995 published in the *Gazzetta Ufficiale* no 31/bis of 21st April 1995.

He has been, and currently is, Statutory Auditor and Board Member in many companies. He has been held several judicial appointments (liquidator, court- appointed administrator and expert witness) and is currently special manager of Ferrania S.p.A. (Special Management)

- **FRANCESCA TRIPODI**

She has been a Chartered Accountant since 27th October 1997, and became registered auditor pursuant to Ministerial Decree of 25th November 1999, published in the *Gazzetta Ufficiale* of 17th December 1999.

She is an experienced tax consultant and has also worked in the field of company restructuring and reorganization. She is a member of the advisory committee, specializing in tax litigation, of the Rome Society of Chartered Accountants and has been expert witness appointed by the preliminary investigations magistrate and expert witness appointed by the Public prosecutor in criminal court cases.

She is currently Statutory Auditor at Ansaldo STS S.p.A. and other companies.

- **PIETRO CERASOLI**

He became registered auditor pursuant to Ministerial Decree of 12th April 1995 advertised in the *Gazzetta Ufficiale* no 31/bis of 21st April 1995. Mr Cerasoli has worked with Finmeccanica since 1971, first in the inspectorate, finance and accounts division and then in the Audit, Economic Control and Planning division (1977) as Deputy Deputy Head from 1989 to 1999. He has been Director, Statutory Auditor and Chairman of the Board of Statutory Auditors in subsidiaries of the Finmeccanica Group. He currently is Statutory Auditor in other companies.

- **DOMENICO LUNEDEI**

He has been chartered accountant since 1967 and then registered auditor. He is also official expert witness at the Rome Court of Justice and arbitrator at the Arbitration Court of the Rome Chamber of Commerce.

He currently provides corporate, tax and contract advisory services as well as group restructuring advice (strategic, organizational, business, fiscal, commercial and juridical profiles), also in the areas of mergers, demergers, spin-offs, grants or sales. He is currently statutory auditor of at several large companies and has also been statutory auditor of companies listed on the Stock Exchange (MIB 30).

The Company's statutory auditors are like its directors appointed on the basis of a voting list (article 27.2 of the Company's articles of association).

The current articles provide that the voting list submitted by shareholders, and accompanied by relevant supporting documents, be deposited at the Company's registered office and advertised in national newspapers at least ten days prior to the first meeting.

Also in this case, submission of proposals for the appointment of statutory auditors on the part of shareholders is carried out according to the terms stated above, shall be considered valid.

As with the appointment of Directors, the notice of meeting states that shareholders are required to submit lists accompanied by a *curriculum vitae* of each candidate; this rule does not appear in the Company's articles.

Lists may be submitted only by shareholders who, individually or along with other shareholders, hold at least 2.5 per cent of the shares carrying voting rights to the ordinary meeting.

Finally, as mentioned above, the Company's Directors and Statutory Auditors are bound by privacy obligations which are regulated by specific procedures regarding the treatment of personal information.

The Company, authorised by the Board on occasion of the meeting held on 19th December 2006, with letter of 22nd December 2006 established the independence requirements of statutory auditors, as established by current legislation and Borsa Italiana's Code of Self Regulation ("the Code"). In the same letter, the Company recommended that the Auditors should give prompt communication of the existence of any interests (be they personal or on behalf of a third party) in the Company's transactions.

Auditors confirmed that they met the independence requirements established by the current legislation and by the Code.

- The Company's Board of Statutory Auditors hold periodical meetings with the aim to **SUPERVISE** the audit firm's (external auditors) activity and to give provisional approval of further appointments to be conferred on the same firm (external auditors) by the Company or its subsidiaries, in accordance with the provisions of article 160, Legislative Decree no. 58 /1998.

8. COMPLIANCE WITH RECOMMENDATIONS PURSUANT TO THE CODE OF SELF-REGULATION

On 19th December 2006 the Board of Directors, after declaring formal adherence to the Code adopted by Borsa Italiana S.p.A. in March 2006, approved the document "Information regarding the implementation of the Code of Self-Regulation", which sets forth guidelines for measures to be taken by the Company, and their completion times for compliance with the Code by the end of 2007.

The following sections illustrate the Company's state of compliance with recommendations contained in the Code. Cross references to previous paragraphs of this Report are also provided where necessary.

(I) ROLE OF THE BOARD OF DIRECTORS (ARTICLE 1 OF THE SELF REGULATION CODE)

Compliance with provisions of article 1 of the Code is nearly complete. It should be noted, however, that the Company had already started compliance procedures in 2006.

At the meeting of 29th January 2007 the Company, with a view to complying with the recommendations of the Code, approved the following documents in accordance with the Code's provisions: the Board of Directors' Regulations; the Internal Control Committee's Regulations; the Remuneration Committee's Regulations.

Measures adopted in the following areas are as follows:

a) strategic, industrial and financial plans:

- The Board of Directors approved the 2006-2008 industrial plan on 12th December 2005;
- the Group's organisational structure, based on four *region companies*, was evaluated and approved during the meeting held on 24th October 2006. The meeting of 19th December 2006 of the Board of Directors approved the criteria concerning identification of relevant subsidiaries by identifying them as companies in charge of a *region*.
- the Budget 2007 and the Strategic Plan 2007-2009 were examined by the Board on 14th February 2007 and subsequently approved at the meeting held on 22nd March 2007.

b) organisational, administrative and accounting structure:

- The Internal Explanatory Document on the Management Control System was approved by the Board on 12th December 2005;
- at the meeting held on 9th February 2006, the Board evaluated and approved the Company's internal organisational structure. Such evaluations have been and will be constantly updated at subsequent meetings;
- the Company has adopted a system of Group Directives and internal procedures aimed at regulating activities in the Group's core business areas, which are being implemented under supervision of the Internal Control Committee;
- at the 14th February 2007 meeting, the Board evaluated the Group and its subsidiaries' organisational, administrative and accounting structure - as regulated by the Directives and Internal Procedures currently under implementation - and deemed the criteria contained in the Directives appropriate in ensuring the effectiveness of the Internal Control System.

c) Chief executives' delegated powers:

- During the Board meeting of 9th February 2006 meeting, Mr Giovanni Roberto Gagliardi was appointed as the Company's chief executive, whose powers are illustrated in section 1.4.. The directors of the Company were conferred delegated powers, through power of attorney registered before a notary, on 30th May 2006. Monitoring meetings to assess the effective performance of the directors' delegated powers are held between the Chief Executive and directors on a quarterly basis.

d) Directors' remuneration

- On 24th February 2006, the Board of Directors approved two incentive plans for, amongst others, directors with delegated powers of the Company and its subsidiaries and to other executives playing key roles inside the Group.

e) management assessment

- The Board, on occasion of approval of quarterly reports, the half year report and annual report, assesses management performance by periodically comparing expected results with those delivered.

f) significant transactions

- Based on the Directive concerning the operational activities of subsidiaries' boards of directors, all transactions with strategic, economic and financial importance, carried out by these companies must be submitted for provisional approval by the Company.

The Company, as illustrated above, has adopted a procedure governing related party transactions, focusing in particular on situations in which one or more directors hold interests (be they personal or on behalf of a third party) in the Company's undertakings.

g) evaluation of size, composition and performance of the Board

- At the 29th January 2007 meeting, the Board approved the general criteria for the implementation of self-assessment of the Board of Directors and its Committees. On 14th February 2007, based on the offers submitted by various companies with experience in the field, the Board resolved to confer appointment for Board and Committee assessment one of the said companies. This self-assessment process has been implemented and is currently underway;
- at its meeting of 29th January 2007, the Board analysed directorships and statutory auditor positions held by the Company's directors in other companies listed on regulated markets (including those outside Italy), in finance companies, insurance companies and banking institutions or other large companies. It should be noted that, at the 19th December 2006 meeting, the Board defined 'significant companies' unlike those defined at article 1.C.2. of the Code as companies with total revenues equal to or greater than those recorded in the Company's consolidated statements;
- during the 14th February 2007 meeting, the Board approved a document fixing the maximum number of appointments to be held by Company Directors.

The Shareholders' Meeting did not authorise, either generally or provisionally, any derogation from competition restrictions pursuant to article 2390 of the Italian civil code.

(II) COMPOSITION OF THE BOARD OF DIRECTORS (ARTICLE 2 OF THE CODE)

The Company, in compliance with provisions made by the aforementioned article, identified as Executive Directors the Chairman of the Board of Directors, the Deputy Chairman and the Chief Executive.

During the meeting for approval of quarterly, half yearly and annual results the Chairman invites Board members to attend the *analyst presentation* concerning the analysis of period results.

Under the present circumstances, the appointment of a Lead Independent Director is deemed unnecessary.

(III) INDEPENDENT DIRECTORS (ARTICLE 3 OF THE CODE)

The Company complies with provisions made by the aforementioned article in that, independent members of its Board of Directors declared, upon their appointment, to meet the independence requirements set forth by Regulations for Markets Organized and Managed by Borsa Italiana S.p.A., by the Financial Law Consolidated Act ("*Testo Unico della Finanza*") and by article 3 of the Code. As provided by article 3 of the Code, upon request of the Board, the Company's independent directors reiterated such statements during the meeting held on 29th January 2007.

The Board of Directors is therefore able to confirm the independence of its own independent directors and specifies that no other parameters have been adopted other than those provided by the Code.

The number of the Company's independent directors amounts to 4, thus guaranteeing the correct composition of the Committee as prescribed by the Code.

The Board of Statutory Auditors has confirmed that the evaluation of the independency requirements of the independent members carried out by the Board are procedurally correct.

The independent directors met on 19th December 2006.

(IV) TREATMENT OF COMPANY INFORMATION (ARTICLE 4 OF THE CODE)

The Company complies with provisions made by the aforementioned article, in fact the Board of Directors' Regulations of the Company provides that the directors and the statutory auditors must keep all the documents and the information received carrying out their duties confidential. The Company complies with the rules relevant to privileged information as illustrated in section 3 above.

(V) BOARD COMMITTEES (ARTICLE 5 OF THE CODE).

The Company, as illustrated in section 2, fully complies with the provisions of the Code and has created and made operational a Remuneration Committee and an Internal Control Committee, each composed of three members.

(VI) APPOINTMENT OF DIRECTORS (ARTICLE 6 OF THE CODE)

The appointment procedures of directors are illustrated in the Company's articles of association. The renewal of the Board on the basis of election lists seeks to ensure transparency of the procedure and a balanced Board composition. The provisions of the articles guarantee, *inter alia*, prompt and suitable conveyance of information regarding the professional expertise of appointees. The Board has called for an extraordinary meeting of shareholders to be held along with the general meeting called to approve the financial statements for financial year 2006, in order to amend the Company's articles in the light of recent legislative changes.

The Code sets forth that an optional appointments committee, whose functions have been established by the Code itself, may govern the appointments procedures; the Company deems it fit not to avail itself of such a committee.

(VII) REMUNERATIONS OF DIRECTORS (ARTICLE 7 OF THE CODE)

The Company has created a Remuneration Committee and has appointed its members through the Board of Directors. The Committee is composed of non-executive directors two of which are independent.

The Board, at the 29th January 2007 meeting, adopted the new Regulations governing the operations of the Remuneration Committee, in accordance with the provisions of the Code.

(VIII) SYSTEM OF INTERNAL CONTROL (ARTICLE 8 OF THE CODE)

The Company, as illustrated above, fully complies with the provisions of the Code.

The Company has already created an Internal Control Committee, whose members have been chosen amongst the Independent Directors.

At the meeting held on 19th December 2006, the Board appointed the Chief Executive as person in charge of supervision of the system of internal control and, upon proposal of the Chief Executive himself, confirmed the appointment of the Head of Internal Audit as person in charge of internal control, conferring authority on the Chairman of the Board of Directors to fix the relevant remuneration.

At the meeting of 29th January 2007 the Board identified and approved parameters for the assessment of expertise in accounting and finance required by at least one member of the Internal Control Committee, and confirmed that at least two members of the Committee meet such requirements. Moreover, the Board adopted new regulations for the Internal Control Committee in compliance with provisions of the Code.

At the meeting held on 14th February 2007, the Company submitted to the Board the fully updated Risk Map as well as a document illustrating risk factors concerning the Company's business, which identifies the key risks faced by the Company and its subsidiaries, and proposes measures aimed at protecting the Company against them.

The Board examined the aforementioned documents and deemed the identification, management and monitoring of risks carried out by the system of internal control effective and perfectly in line with the Company's needs.

(IX) DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS (ARTICLE 9 OF THE CODE)

As illustrated above, the Company attained full compliance with the provisions contained in article 9 of the Code.

(X) STATUTORY AUDITORS (ARTICLE 10 OF THE CODE)

Appointments procedures of Statutory Auditors are illustrated in the Company's articles of association. A new appointment of the Board of Statutory Auditors takes place according to a voting list mechanism, which ensures maximum transparency of procedures and guarantees the presence of a regular member (appointed as Chairman of the Board of Statutory Auditors) and a substitute member appointed by minority shareholders. This procedure also provides that prompt and relevant information about the candidates' personal and professional profiles be made available to voters.

The Board has called for an extraordinary meeting of shareholders to be held along with the AGM to approve the financial statements for the financial year 2006 and to amend the Company's articles of association in order to meet regulatory and legislative changes.

(xi) RELATIONS WITH SHAREHOLDERS (ARTICLE 11 OF THE CODE)

The company has attained full compliance with the provisions contained in the article mentioned above.

On 12th December 2005 the Company's Meeting approved a set of Rules concerning the Company's Meetings.

At the same meeting, the role of investor relator was created, reporting directly to the Chief Executive.

The Company has also created a special section on its website exclusively devoted to shareholders, in order to enable them to gather information about the exercise of their rights, particularly in the area of voting rights.

(xii) ADMINISTRATION AND CONTROL SYSTEMS (DUALISTIC AND MONISTIC BOARD STRUCTURE)

The Company has opted for the traditional Italian system.

9. AMENDMENTS TO ARTICLES OF ASSOCIATION.

The Board has called for an Extraordinary Meeting of Shareholders, to be held concomitant with the AGM called to approve the financial statements financial year 2006 to carry out amendments to the Company's articles of association in order to meet (i) the requirements of the Italian Law on Savings following new directives pursuant to Legislative Decree no. 303 of 29 December 2006 as well as to comply with Consob regulations and (ii) to meet the requirements of the Code.

The aforementioned amendments to the articles will concern the:

- submission of lists for appointment of directors and amendments to minimum holding thresholds entitling the right to present election lists in the light of Consob Regulations;
- introduction of a new provision setting forth that in the event of a Board having more than seven directors, two of them shall be independent;
- introduction of professional legacy requirements to be met by the director in charge of Accounting Records;
- appointment or dismissal of external auditors: the Board of Statutory Auditors shall submit a motivated proposal for the appointment, dismissal or remuneration of external auditors;
- amendment to the term of submission of the voting lists for the appointment of Board members and Statutory Auditors (term amended from ten to fifteen days prior to meeting).

Genoa, 22 March 2007

On behalf of the Board of Directors
The Chairman

(Alessandro Pansa)

TABLE 1.: STRUCTURE OF BOARD OF DIRECTORS AND COMMITTEES.

DIRECTOR	TITLE	BOARD OF DIRECTORS			ATTENDANCE *	NUMBER OF OTHER APPOINTMENTS****	INTERNAL CONTROL COMMITTEE		REMUNERATION COMMITTEE	
		EXECUTIVE	NON EXECUTIVE	INDEPENDENT			MEMBERS	ATTENDANCE*	MEMBERS	ATTENDANCE*
ALESSANDRO PANSA	Chairman	X			12/12**	3				
SANTE ROBERTI	Vice Chairman	X			10/12**					
GIOVANNI ROBERTO GAGLIARDI	Managing Director	X			10/12**					
SERGIO MARIA CARBONE	Director		X	X	9/9***	3	X	6/6		
MAURIZIO CEREDA	Director		X	X	6/6****		X	6/6	X	3/3
GABRIELE FALCIASECCA	Director		X	X	5/6****				X	3/3
MAURO GIGANTE	Director		X		12/12**				X	3/3
FRANCESCO LALLI	Director		X		10/12**					
ATTILIO SALVETTI	Director		X	X	8/9***		X	6/6		

* Absence from the meetings of the Board of Directors and Committees has been duly justified.

** Directors appointed by the meeting of Shareholders held on 21 November 2005.

*** Director appointed by the Meeting of Shareholders on 24 March 2006.

**** Director appointed by the Meeting of Shareholders on 14 June 2006.

***** This column reports the number of appointments as director or statutory auditor held in companies listed on regular markets (including those outside Italy), finance and insurance companies, banking institutions, or large companies. Further details are provided in the Report.

TABLE 2.: BOARD OF STATUTORY AUDITORS: REGULAR MEMBERS AND SUBSTITUTE MEMBERS.

STATUTORY AUDITOR	TITLE	ATTENDANCE*
PAOLO COLOMBO	Chairman	7/7
ANTONIO ROSINA	Regular Member	7/7
FRANCESCA TRIPODI	Regular Member	7/7
PIETRO CERASOLI	Substitute Member	---
DOMENICO LUNEDI	Substitute Member	----

*Absence from meetings was duly justified.

TABLE 3.: OTHER PROVISIONS OF THE SELF REGULATION CODE.

	YES	NO	REASONS FOR POSSIBLE NON-COMPLIANCE WITH CODE PROVISIONS
<p>DELEGATED POWER SYSTEM AND THIRD PARTY TRANSACTIONS</p> <p>Does THE BOARD CONFER DELEGATED POWERS BY DEFINING:</p> <p>A) THEIR LIMITATION X</p> <p>B) HOW TO EXERCISE THEM X</p> <p>C) REPORTING REQUIREMENTS? X</p> <p>Does THE BOARD EXAMINE AND APPROVE SIGNIFICANT ECONOMIC AND FINANCIAL TRANSACTIONS (INCLUDING RELATED PARTY TRANSACTIONS)? X</p> <p>DID THE BOARD DEFINE GUIDELINES AND CRITERIA FOR THE IDENTIFICATION OF "SIGNIFICANT TRANSACTIONS"? X</p> <p>ARE THE AFOREMENTIONED GUIDELINES AND CRITERIA CONTAINED IN THE REPORT? X</p> <p>DID THE BOARD DEFINE PROCEDURES TO EXAMINE AND APPROVE RELATED PARTY TRANSACTIONS? X</p> <p>ARE THE PROCEDURES FOR RELATED PARTY TRANSACTIONS DESCRIBED IN THE REPORT? X</p>			
<p>PROCEDURES ADOPTED IN THE APPOINTMENT OF THE CURRENT BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS</p> <p>DID SUBMISSION OF VOTING LISTS FOR APPOINTMENT OF DIRECTORS TAKE PLACE AT LEAST 10 DAYS PRIOR TO THE MEETING? X</p> <p>WERE VOTING LISTS FOR APPOINTMENT OF DIRECTORS ACCOMPANIED BY A FULL EXPLANATORY DOCUMENTATION? X</p> <p>WERE DIRECTOR ELECTION LISTS ACCOMPANIED BY DOCUMENTATION STATING ELIGIBILITY AS INDEPENDENT DIRECTORS? X</p> <p>DID SUBMISSION OF VOTING LISTS FOR APPOINTMENT OF STATUTORY AUDITORS TAKE PLACE AT LEAST 10 DAYS PRIOR TO THE MEETING? X</p> <p>WERE VOTING LISTS FOR APPOINTMENT OF STATUTORY AUDITORS ACCOMPANIED BY FULL EXPLANATORY DOCUMENTATION? X</p>			

<p>MEETINGS</p> <p>DID THE COMPANY APPROVE A SET OF MEETING REGULATIONS?</p> <p>ARE THE REGULATIONS ATTACHED TO THE REPORT (<u>HAS IT BEEN CLARIFIED WHERE THEY CAN BE FOUND</u>)?</p>	<p style="text-align: center;">X</p> <p style="text-align: center;">X</p>	
<p>INTERNAL CONTROL</p> <p>HAS THE COMPANY APPOINTED PERSONS RESPONSIBLE FOR INTERNAL CONTROL?</p> <p>ARE SUCH PEOPLE HIERARCHICALLY INDEPENDENT FROM THOSE IN CHARGE OF OPERATIVE DIVISIONS?</p> <p>ORGANISATIONAL DIVISION IN CHARGE OF INTERNAL CONTROL (<i>PURSUANT TO</i> ARTICLE 8.C.1 OF SELF-REGULATORY CODE)</p>	<p style="text-align: center;">X</p> <p style="text-align: center;">X</p> <p style="text-align: center;">INTERNAL AUDIT</p>	
<p>INVESTOR RELATIONS</p> <p>HAS THE COMPANY APPOINTED A PERSON IN CHARGE OF INVESTOR RELATIONS?</p> <p>ORGANISATIONAL DIVISIONS AND CONTACTS (ADDRESS/TELEPHONE NUMBER/FAX NUMBER/E-MAIL) OF PERSON IN CHARGE OF INVESTOR RELATIONS</p>	<p style="text-align: center;">X</p> <p>INVESTOR RELATIONS c/ ANSALDO STS S.P.A. VIA P. MANTOVANI 3-5 16151 GENOVA Dott. Andrea Razeto Tel: +39 010 655 2068 Fax: + 39 010 655 2055 e-mail : investorelations@ansaldo-sts.com</p>	