CONSOLIDATED ANNUAL REPORT OF THE ANSALDO STS GROUP AT 31 DECEMBER 2008

Consolidated Annual Report
at 31 december 2008

This Consolidated Annual Report 2008 has been translated into English solely for the convenience of the international reader. In the event of conflict or inconsistency between the terms used in the Italian version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the official document.

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BOARD OF DIRECTORS
(for the 2008 / 2010 three-year period)

ALESSANDRO PANSA
Chairman

SANTE ROBERTI
Deputy Chairman

SERGIO DE LUCA
Chief Executive Officer

MAURIZIO CEREDA[1 2]

GERLANDO GENUARDI[2]

GREGORIO GITTI[1]

FRANCESCO LALLI[2]

EUGENIO PINTO[1]

ATTILIO SALVETTI[1]

MARIO ORLANDO
Secretary of the Board of Directors

BOARD OF STATUTORY AUDITORS
(for the 2008 / 2010 three-year period)

GIACINTO SARUBBI
Chairman

MASSIMO SCOTTON

FRANCESCA TRIPODI

ALTERNATE AUDITORS
(for the 2008/2010 three-year period)

BRUNO BORGIA

PIETRO CERASOLI

INDEPENDENT AUDITORS
(for the 2006/2014 period)

PRICEWATERHOUSECOOPERS SpA

1. Member of Internal Audit Committee
2. Member of Remuneration Committee

2 Report on operations at 31 december 2008

2.1 Introduction

The Ansaldo STS Group recorded a net profit of EUR 77,599 thousand at 31 December 2008 compared with net profit of EUR 58,278 thousand for the same period of 2007. Revenues at 31 December 2008 came to EUR 1,105,515 thousand, compared with EUR 973,094 thousand at 31 December 2007. The Group's EBIT margin went from 10.31% at 31 December 2007 to 10.63% at 31 December 2008. Orders at 31 December 2008 came to EUR 1,296,609 thousand compared with EUR 1,532,452 thousand at 31 December 2007. The decrease is principally attributable to the Transport Systems Business Unit, which closed the preceding year with the acquisition of an exceptionally large order (Naples Metro Line 6 for EUR 426 million). The value of the backlog at 31 December 2008, equal to EUR 3,136 million, reflects the trend of orders acquired, and shows an increase of 5.25% in comparison with the final figure for 2007 of EUR 2,980 million.

The data outlined above are fully in line with or in excess of the 2006-2008 targets published at the time of the IPO, and are evidence of a business year that can be considered satisfactory overall from the standpoint of the Group's growth, profitability, and capital and financial solidity.
In addition, it is noted that the actions undertaken and results achieved in 2008 have paved the way for the continuation of a positive trend for the Group, also for the near future.
More specifically, the significant order volume acquired by the Transport Systems Business Unit put the corresponding value of the backlog at more than EUR 1,843 million at 31 December 2008, equal to roughly seven years of productive activity: this paves the way for significant development of this business over the next three years.
As far as the Signalling Business Unit is concerned, the year of 2008 was marked by a sizeable geographic expansion of the potential market, which has already yielded important results in terms of the acquisition of new orders in particular important business segments and countries.
The Group has already acquired solid knowledge in the strategic technologies of the sector, for example with the European Traffic Management System (ERTMS) and driverless automatic train control (ATC), and it is consolidating its knowledge in other technologies such as communication-based train control (CBTC). This expertise, the peculiar geographic distribution of the Group business at global level, and the additional efforts of commercial penetration in the new areas characterised by high growth rates (Central and Eastern Europe, Southern Africa, and Middle and Far East) confirm the Group's favourable competitive position and make it possible to look to the future with reasonable serenity.

In the period from **2 January to 28 December 2008**, the official share price went from EUR 8.65 to EUR 10.02, with an increase of 15.4%. The increase materialised in a market whose overall performance for the same period is reflected by the S&P/Mib Index that lost 49.5% (with the corresponding capitalisation of the listed companies down by more than half), and the ALLSTAR index of reference which lost 40.5%.
The Ansaldo STS shares ranked in the fourth position on the list of only seven stocks on the Milan Borsa that performed positively for the year. The Ansaldo STS' beta with respect to the MIBTEL remained one of the lowest at 0.07 (conservative), while the index of correlation was 0.52 (moderate/low correlation).
During the final quarter of 2008, Berenberg Bank and EthicFinance published reports initiating coverage of the Ansaldo STS shares, with the latter institution indicating the possibility of an investment on the part of ethical funds. The new coverage is added to that begun by Unicredit, Banca Leonardo and Société Générale in 2008, for a total of 18 institutions now covering the shares.

It is noted that:
- Starting with the interim report at 31 March 2008, changes were made to the information in the balance sheet in order to comply with the requirements of IAS1, and therefore, the accounts "Income tax receivables " and "Income tax payables" were inserted to replace the accounts "Tax receivables" and "Tax payables", with the receivables and payables for indirect taxes reclassified as "Other assets" and "Other liabilities", respectively, with consequent alignment of the comparative data for the prior periods.
- Following the approval on 20 June 2008 and the subsequent execution on 26 September 2008 of the agreement for the merger by incorporation between Ansaldo STS SpA and its subsidiaries Ansaldo Segnalamento Ferroviario SpA and Ansaldo Trasporti Sistemi Ferroviari SpA, the option for the consolidated taxation mechanism elected on 15 June 2007 with regard to corporate income taxes was interrupted with effect as of 1 January 2009. The termination of the option does not alter the benefit acquired when the option was exercised inasmuch as Article 124 of the Consolidated Income Tax Act does not apply in this case.
- As from December 2008, adjustments have been made to the income statement, balance sheet and cash-flow statement, in order to evidence transactions with related parties, as required by IAS 1, IAS 24 and CONSOB regulations.
- As from April 2008, the subsidiary Union Switch & Signal Private Limited changed its name to Ansaldo STS Transportation Systems India Private Limited.
- As from January 2009, the American subsidiaries have changed their names as follows:
  - Union Switch & Signal Inc. to Ansaldo STS USA Inc;
  - Union Switch & Signal International Co. to Ansaldo STS USA International Co.;
  - Union Switch & Signal International Projects Co. to Ansaldo STS USA International Projects Co.;
  - Transcontrol Corporation to Union Switch & Signal Inc.;

with their new names being referenced in this report.

2.2 Group key figures

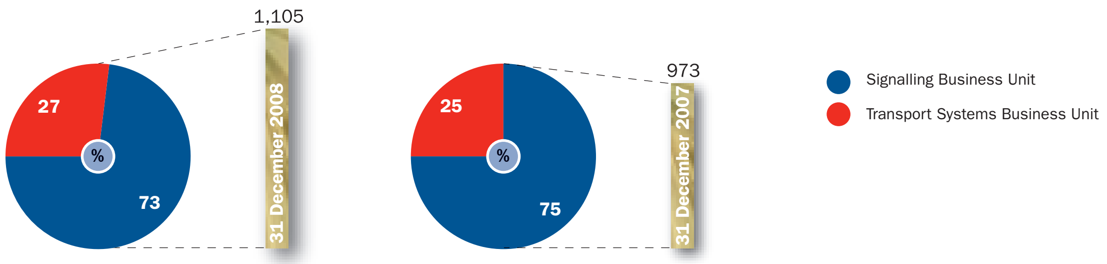
(EUR 000's)	**31.12.2008**	31.12.2007	Change
Orders	**1,296,609**	1,532,452	(235,843)
Order backlog	**3,136,430**	2,980,009	156,421
Production Revenues	**1,105,515**	973,094	132,421
EBIT	**117,562**	100,294	17,268
Adjusted EBITA	**119,197**	100,294	18,903
Net Profit (Loss)	**77,599**	58,278	19,321
Net working capital	**(166,322)**	(216,689)	50,367
Net invested capital	**42,882**	(6,820)	49,702
Net financial position (liquidity)	**(195,870)**	(184,521)	(11,349)
Free Operating Cash Flow	**43,242**	26,896	16,346
R.O.S.	**10.63%**	10.31%	+0.32 p.p.
R.O.E.	**37.27%**	38.57%	-1.30 p.p.
E.V.A.	**71,401**	56,557	14,844
Research and development	**44,512**	41,236	3,276
Employees (no.)	**4,352**	4,243	109

The year of 2008 closed with a consolidated net profit of EUR 77,599 thousand compared with a net profit of EUR 58,278 for 2007. The incremental profit of EUR 19,321 thousand reflects the increase of EUR 17,268 thousand in EBIT, additional net financial income of EUR 899 thousand and a decrease in taxes equal to EUR 1,154 thousand.

In line with the Group's growth objectives, production revenues rose by 13.61%, going from EUR 973,094 thousand for the year of 2007 to EUR 1,105,515 thousand for the year of 2008, with an increase of EUR 132,421 thousand in absolute value, principally attributable to the contribution of the Signalling Business Unit and the Transport Systems Business Unit during the two-year period of comparison:

- the Signalling Business Unit closed the year with production revenues (net of transactions with the Transport Systems Business Unit) equal to EUR 803,932 thousand (EUR 824,497 thousand inclusive of the transactions with the Transport Systems Business Unit), for an increase of EUR 74,404 thousand compared with the prior year;
- the Transport Systems Business Unit closed the year with production revenues equal to EUR 301,583 thousand (equal to the amount inclusive of the transactions with the Signalling Business Unit), for an increase of EUR 60,145 thousand compared with the prior year.

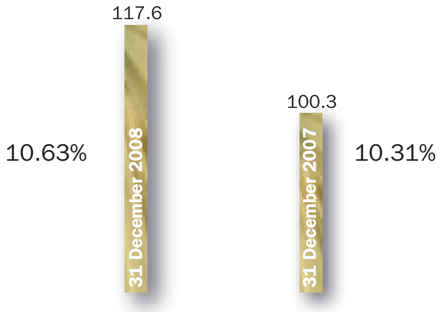
Production Revenues by Business Unit for 2008 and 2007 (EUR millions)



EBIT at 31 December 2008 came to EUR 117,562 thousand, for an increase of EUR 17,268 thousand compared with EUR 100,294 thousand for 2007. The EBIT margin was 10.63% for 2008 compared with 10.31% for 2007.

It is thus noted that:
- the Signalling Business Unit closed the year of 2008 with operating profit of EUR 96,980 thousand compared with the prior-year figure of EUR 86,507 thousand, with an increase of EUR 10,473 thousand;
- the Transport Systems Business Unit reported operating profit of EUR 28,070 thousand 31 December 2008, compared with the prior-year figure of EUR 21,986 thousand, with an increase of EUR 6,084 thousand.

EBIT and ROS 2008 -2007 (EUR millions)



In order to provide additional information about earnings, capital and financial position, the Group has prepared a reclassified Income Statement, a reclassified Balance Sheet, a reclassified Statement of net Financial Debt, and a reclassified Cash-Flow Statement.

Income statement

(EUR 000's)	**31.12.2008**	31.12.2007
Revenues (*)	1,105,515	973,094
Production Revenues	**1,105,515**	**973,094**
Costs for purchases and cost of labour (**)	(976,050)	(860,787)
Amortisation and Depreciation	(10,505)	(10,355)
Write-downs	(3,728)	(594)
Other net operating income (costs) (***)	6,543	(2,017)
Changes in inventories of work in progress, semi-finished products and finished goods	(2,578)	953
Adjusted EBITA	**119,197**	**100,294**
Restructuring costs	(1,635)	-
EBIT	**117,562**	**100,294**
Net financial income (costs)	4,465	3,566
Income taxes	(44,428)	(45,582)
Net Profit (Loss)	**77,599**	**58,278**
Group	77,544	58,172
Minority interests	55	106
Earnings per share		
Basic and Diluted	0.78	0.58

Notes for reconciling the reclassified Income Statement and the Income Statement:
(*) Includes "Revenues" and "Revenues from related parties".
(**) Includes "Costs from related parties", "Costs for purchases", "Costs for services" and "Costs of labour ", net of "Capitalised costs for internally produced assets".
(***) Includes the net amount of "Other operating income", "Other operating income from related parties", "Other operating costs "and "Other operating costs from related parties".

Balance sheet

(EUR 000's)	**31.12.2008**	31.12.2007
Non-current assets	254,051	257,064
Non-current liabilities	(44,847)	(47,195)
	209,204	**209,869**
Inventories	92,874	98,305
Contract work in progress	145,681	151,895
Trade receivables	370,014	326,537
Trade payables	(213,501)	(194,510)
Advances from customers	(502,405)	(506,802)
Working capital	**(107,337)**	**(124,575)**
Provisions for risks and charges	(28,541)	(26,215)
Other net current assets (liabilities) (*)	(30,444)	(65,899)
Net working capital	**(166,322)**	**(216,689)**
Net invested capital	**42,882**	**(6,820)**
Group shareholders' equity	238,259	177,315
Minority interests	493	386
Shareholders' equity	**238,752**	**177,701**
Net financial debt (liquidity)	**(195,870)**	**(184,521)**

Notes on the reconciliation between the reclassified Balance Sheet and the Balance Sheet:
(*) Includes "Income tax receivables", "Other current receivables from related parties (including "current receivables from related parties") and "Other current assets", net of "Income tax payables", "Other current payables to related parties"(including "current payables to related parties"), "Other current liabilities" except for financial receivables from related parties (included in "Current receivables from related parties").

At 31 December 2008, the **consolidated net invested capital** is equal to EUR 42,882 thousand compared with negative consolidated **net invested capital** of EUR 6,820 thousand at 31 December 2007; the difference of EUR 49,702 thousand is principally attributable to the change in net working capital which goes from a negative value of EUR 216,689 thousand at 31 December 2007 to a negative value of EUR 166,322 thousand at 31 December 2008, with a change of EUR 50,367 thousand. The change in the working capital balance can be attributed to the increase in trade receivables, only partially offset by the increase in trade payables.
The Group's **net financial position** (prevalence of financial receivables and cash/cash equivalents over borrowings) at 31 December 2008 is equal to EUR 195,870 thousand compared with a liquidity at 31 December 2007 of EUR 184,521 thousand and reflects an increase in liquidity equal to EUR 11,349 thousand, after the payment of the dividend of EUR 19,992 thousand, pursuant to the resolution of the shareholders' meeting of 1 April 2008.

2.3 Financial situation

(EUR 000's)	**31.12.2008**	31.12.2007
Short-term borrowings	8,713	11,491
Medium/long-term borrowings	3,315	4,371
Cash and cash equivalents	(71,536)	(63,385)
Bank debt	**(59,508)**	**(47,523)**
Financial receivables from related parties	(139,509)	(140,705)
Other financial receivables		-
Financial receivables	**(139,509)**	**(140,705)**
Borrowings to related parties	152	-
Other short-term borrowings	563	1,110
Other medium/long-term borrowings	2,432	2,597
Other borrowings	**3,147**	**3,707**
Net financial debt (liquidity)	**(195,870)**	**(184,521)**

The Ansaldo STS Group's net financial liquidity at 31 December 2008 was EUR 195,870 thousand.

The main events involved in the change in the Group's financial position are summarised below:

- principal collections of the Signalling Business Unit paid to: the Italian subsidiary, ASF, for the Wayside and On Board SCMT (EUR 75,170 thousand) and the Milan-Bologna and Novara-Milan high-speed rail lines (EUR 92,875 thousand); the Australian subsidiary for the WCCL, KFW and ETCS projects (EUR 70,300 thousand); the American subsidiary for the CTA Dearborn, CTA Loop, and UPCADX projects (EUR 18,278 thousand); and the French subsidiary for the Shitai Line and Madrid Lerida projects (EUR 23,557 thousand);
- principal collections of the Transport Systems Business Unit from the following projects: Copenhagen (EUR 49,751 thousand), Genoa Metro, Brescia Metro, Rome Metro and Milan Metro (EUR 119,704 thousand) and high-speed train lines (EUR 36,641 thousand);
- payment of the dividends approved by the shareholders' meeting on 1 April 2008 (EUR 19,992 thousand);
- payment of taxes, including advance payment of corporate income taxes (IRES) (EUR 53,771 thousand);
- payments for investments in property, plant and equipment, and intangible assets (EUR 14,600 thousand);
- receipt of financial income (EUR 4,900 thousand).

The cash and cash equivalents at 31 December 2008 came to EUR 71,536 thousand.
The Cash Flow Statement at 31 December 2008 is presented below:

Cash Flow

(EUR 000's)	**31.12.2008**	31.12.2007
Cash and cash equivalents - opening balance	**63,385**	**48,580**
Gross cash flow from operating activities	131,484	112,295
Changes in other operating items	(58,638)	(40,982)
Funds From Operations	**72,846**	**71,313**
Change in working capital	(16,265)	(26,629)
Cash flow from (used in) operating activities	**56,581**	**44,684**
Cash flow from ordinary investing activity	(13,339)	(17,788)
Free operating cash-flow	**43,242**	**26,896**
Strategic investments	(2,075)	(2,380)
Other changes in investing activities	-	57
Cash flow from (used in) investing activities	**(15,414)**	**(20,111)**
Dividends paid	(19,992)	-
Cash flow from financing activities	(13,486)	(8,878)
Cash flow from (used in) financing activities	**(33,478)**	**(8,878)**
Foreign exchange translation differences	**462**	**(890)**
Cash and cash equivalents - closing balance	**71,536**	**63,385**

The year of 2008 closed with a net increase in cash and cash equivalents equal to EUR 8,151 thousand.

The principal changes in cash flow are the following:

- cash flow generated by operating activities equal to EUR 56,581 thousand, an increase of EUR 11,897 thousand compared with the prior year mainly attributable to the change in working capital as already evidenced in the balance sheet;
- cash flow used in investing activities in the amount of EUR 15,414 thousand, most of which relates to investments in property, plant and equipment and intangible assets during the period, for a decrease of EUR 4,697 thousand with respect to the prior year (EUR 20,111 thousand at 31 December 2007); the decrease is mainly attributable to the lower ordinary investments during the period;
- cash flow used in financing activity in the amount of EUR 33,478 thousand compared with EUR 8,878 thousand of cash flow used at 31 December 2007; the change is principally linked to the reduction of certain lines of credit and to the payment of dividends for EUR 19,992 thousand.

The free operating cash flow (FOCF) before strategic investments for 2008 reflects cash flow generated of EUR 43,242 thousand compared with the generated cash flow of EUR 26,896 thousand reported at 31 December 2007; this change is mainly attributable to the change in working capital and to fewer ordinary investments in 2008.

2.4 Non-GAAP performance indicators

Ansaldo STS' management assesses the Group's earnings and financial performance and that of its business segments based on a number of indicators that are not envisaged by the IFRSs.
As required by Communication CESR/05-178b, below is a description of the components of each of these indicators:
- **EBIT:** the aggregate signifies earnings before interest and taxes, with no adjustments. EBIT also does not include costs and income resulting from the management of unconsolidated equity investments and other securities, nor the results of any sales of consolidated shareholdings, which are classified on the financial statements either as *"financial income (costs)"* or, for the results of equity investments accounted for with the equity method, under *"effects of the valuation of equity investments accounted for using equity method"*.
- **Adjusted EBITA:** it is arrived at by eliminating from EBIT (as defined above) the following items:
  - any impairment in goodwill;
  - amortisation of the portion of the purchase price allocated to intangible assets in relation to business combinations, as required by IFRS 3;
  - restructuring costs that are a part of significant, defined plans;
  - other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.

The reconciliation between EBIT and Adjusted EBITA for the periods compared is presented hereunder:

(EUR 000's)	**2008**	2007
Earnings before income taxes, net financial income and costs and share of results of equity accounted investments (EBIT)	**117,562**	**100,294**
Impairment of goodwill	-	-
Amortisation of intangible assets acquired through a business combination	-	-
Restructuring costs	(1,635)	-
Total exceptional costs (income)	-	-
Adjusted EBITA	**119,197**	**100,294**

- **Free Operating Cash Flow (FOCF):** This is the sum of the cash flow generated by (used in) operating activities and the cash flow generated by (used in) investment and divestment of intangible assets, property, plant and equipment, and equity investments, net of cash flows from the purchase or sale of equity investments that, due to their nature or significance, are considered "strategic investments". The calculation of FOCF for the periods concerned is presented in the reclassified statement of cash flows shown in the previous section 2.3.
- **Funds From Operations (FFO):** This is cash flow generated by (used in) operating activities, net of changes in working capital. The calculation of FFO for the periods concerned is presented in the reclassified statement of cash flows shown in the previous section 2.3.
- **Economic Value Added (EVA):** This is calculated as EBIT net of taxes and the cost of the average value of invested capital for the two periods concerned and measured on a weighted-average cost of capital (WACC) basis.
- **Orders:** This is the sum of the contracts executed with contractors during the year which have the contractual characteristics for being booked to the order book.
- **Order backlog:** This is the difference between the orders acquired and production revenues for the period of reference, net of the change in contract work in progress. This difference is added to the portfolio of the prior period.
- **Return on Sales (ROS):** This is the ratio between EBIT and revenues.
- **Return on Equity (ROE):** This is calculated as the ratio between the net profit and the average value of shareholders' equity for the two periods concerned.
- **Research and development (R&D) spending:** This is the sum of costs sustained for R&D expensed and sold. The costs for research expensed are normally referable to so-called "basic technology", i.e. rights to the attainment of new scientific knowledge and/or techniques applicable to different new products and/or services. The costs of research sold are those commissioned by the customer against which a specific sale order exists and which have accounting and operational treatment identical to ordinary supply (sale contract, profitability, invoicing, advances, etc.). In consideration of the rapid development within the productive sector in which the Ansaldo STS Group operates, this type of costs is generally not capitalised.
- **Workforce:** This is the number of employees reported on the last day of the period.

2.5 Market conditions and business climate

2.5.1 Signalling

The orders acquired in 2008 came to EUR 963,569 thousand and reflect an increase of EUR 141,241 thousand compared with the final figure for 2007 (EUR 822,328 thousand).
The value of the backlog at 31 December 2008 came to EUR 1,526,383 thousand compared with EUR 1,389,818 thousand for the prior year.

The most significant events of 2008 referring to the Signalling Business Unit are outlined below:

ANSALDO SEGNALAMENTO FERROVIARIO SpA

The domestic market witnessed a continuation of the slowdown in investments that began roughly two years ago, with regard to both the FS Group (RFI and Trenitalia) and, to a lesser extent, the regional railways and metro systems.
At present, RFI's liquidity is 100% focused on the completion of the high-speed, high-capacity (AV/AC) lines linking Turin, Milan, Bologna, Florence, Rome, and Naples and the programme for the rail traffic safety through the rail traffic management system (SCMT, *Sitema Controllo Marcia Treno*) and secondary command and control system (SSC).
The tenders in relation to new investments (European interoperable railway corridors with ERTMS, technological updating of the main railways, and extension of the AV/AC network) are being deferred to later years.
The current opportunities lie in the completion of the FS programmes in process; these programmes still offer significant volumes, such as changes/supplements to the AV/AC, service and maintenance for the AV/AC and the SCMT, and unification of the departmental Central Control Points and of the traffic control systems in the large stations already equipped with computer-based interlocking (ACC).
For the regional railways and metro systems, the accent has been placed on promoting the wayside and onboard SCMT system already supplied to FS, thereby providing for continuity in production.
At the same time, several initiatives have been inaugurated with regard to innovative products and components and new market segments (such as diagnostics and homeland security).
It should also be noted that new companies have entered these market segments, thereby increasing the competition.
Outside of Italy, there are prospective opportunities in both the railway sector (upgrading of existing lines with increasingly broader adoption of the ERTMS solution) and metro systems, where there is growing demand for CBTC and driverless ATC. Ansaldo STS is also continuing to develop business in the German market, with the aim of establishing a stronger presence in the vaster European market.
With reference to the Russian market, it is noted that a new protocol of intent signed between Finmeccanica and RZD in August 2008 should culminate with the first operating contract for Ansaldo STS at the start of 2009 for the application of the new ITARUS-ATC railway signalling system (based on ERTMS components) in Russia.
In the Saudi Arabian and Turkish markets, numerous projects are under way for the railway network (with ERTMS technological devices) and for the principal cities where there is significant interest in both light and heavy metro rail systems, all with advanced technologies (CBTC and/or automatic). In Saudi Arabia, a proposal has been submitted for installation of ERTMS Level 2 systems and station control systems for the railway lines running between the northern and southern parts of the country.
On 7 November and 28 November, Ansaldo STS respectively signed two important contracts for this business with the TCDD Turkish railways and the City of Ankara.
The contracts respectively regard the installation of signalling, interlocking, centralised traffic control (CTC), automatic train protection (ATP) and ERTMS Level 1 equipment on the Bogarzkopru-Yenice and Mersin-Toprakkale lines, and interlocking, CTC, ATP, and CBTC equipment for the Ankara Metro Lines 1, 2, 3, and 4.
These results add up to significant consolidation in the new markets, confirming the trend that began to take shape during the year 2008 with the award of important orders in Tunisia and China.

With reference to the Italian market, it is noted that the company has a series of outstanding bids for modifications to the works on the high-speed rail lines for the Milan-Bologna and Bologna-Florence tracts, inclusive of fire-prevention and climatisation systems, as well as modifications to the traffic control systems.
Bids have also been submitted to RFI for the installation of computer-based interlocking systems (ACC) at the Palermo junction and for assistance with the SCMT systems.
Bids pending in the foreign markets regard: Germany: the supply of a regional interlocking system for the Mundental line and negotiation with Siemens for the supply of onboard ERTMS Level 2 equipment for the Deutsche-Bahn's international passenger train transport; Austria: a bid for ERTMS Level 2 equipment for the Vienna-St. Poelten and Brenner axis tracts and prequalification for the supply of 432 onboard ERTMS Level 2 devices for the Austrian National Railways (OBB); Slovenia: the planned participation in a call for bids by the Slovenian National Railways (SŽ) for implementation of the ERTMS/ETCS Level 1 system on the line referring to the Italian border of Corridor V; Libya: the bid for the supply of a signalling system (interlocking, CTC, ATP and ERTMS Level 1 and Level 2 equipment) and telecommunications for the Al Khums-Sirth line (roughly 320 km) and Al Hishah-Sabha line (roughly 755 km); Russia: negotiation with RZD (in addition to the above-referenced negotiation for the pilot project for the ITARUS-ATC signalling system) for the supply of the security and automation signalling system to be used on the Sirth-Benghazi line (550 km) in Libya (the Russian National Railways has already signed a contract with the Libyan National Railways for the turnkey systems and equipments for the entire line); Bosnia Erzegovina: Ansaldo STS is prequalifying for two tenders in relation to a new interlocking; and Serbia: the company is anticipating various tenders in 2009 in relation to the renewal of signalling systems.
In Turkey, the company has an outstanding bid for signalling systems with the use of CBTC technology for the Kadikoy-Kartal line of the Istanbul metro system.
For the southern part of the Tunisian network (Lines 5 and 13), where the order for the signalling system has been acquired, the adoption of the CTC system has also been proposed and will be covered by a tender during the first months of 2009.
In Egypt, the company participated in the prequalification for two important tenders concerning the railway sector (Cairo-Alessandria corridor and Cairo-High Dam corridor) that are to be launched in first half of 2009.

The **orders acquired** at 31 December 2008 came to EUR 480.5 million, increasing with respect to the previous two years (EUR 333.2 million in 2007) and with regard to the records reached in 2005 and 2004 when the orders topped EUR 400 million.
In a significant development in 2008, the orders for export accounted for more than 60% of the total (EUR 311 million), whereas the exports in previous years had come to less then 10% and had reached only 20% in 2007.
Though exceptional in nature, the 2008 level is still in line with the strategic plan that calls for exports to exceed 40% of total orders.

ANSALDO STS FRANCE

The opportunities in the French railway market (RFF) exceeded expectations partly due to the upgrades in process on the conventional lines from which Ansaldo STS France is benefiting.
Ansaldo STS France's position on the market for the high-speed railway in France is very strong: the company was awarded the contract for the supply of the signalling system for the eastern tract of the new high-speed Rhin-Rhône line.
The possibilities for work on the transport systems in France are increasing, and the prime objective identified is the Rennes Metro. Opportunities also exist with regard to the Marsailles Metro, while there are expectations that the RATP will extend the Ouragan project to others lines over the medium term.
In Spain, the high-speed rail line programme is rapidly developing, offering various opportunities. Several municipalities ready to add urban transport systems, and in particular, tram systems, have already been identified.
In Portugal, REFER and RAVE are consolidating their plans for implementing European Train Control System (ETCS), placing the priority on a pilot project and a new high-speed line that will link the nation's main cities with the Spanish border. The related tenders are planned in 2009.
In Asia, a solid partnership in Korea is regularly generating new orders, even though construction of the new lines has been slowed by the current government.
In China, Ansaldo STS France is proceeding with the implementation of the first SEI interlocking in conformity with the Chinese standard CTCS-2 (Shitai Project) creating opportunities for the medium term.
In the countries of the Maghreb region - Tunisia, Algeria and Morocco - Ansaldo STS is involved in intense bidding for new rail lines and upgrades, even though only one project has thus far been awarded to the competitors.
Ansaldo STS is a pioneer of the ETCS systems in the UK (Cambrian pilot line) and Sweden (Ester pilot line): this ensures the company a strong position in those markets of northern Europe that will be developing ETCS in the coming years. A pilot line is planned in Norway, whereas Denmark intends to migrate its network to the ETCS system between 2010 and 2020.
Alongside the ground applications in the UK and in Sweden, plans are at an advanced stage for outfitting the rolling stock with onboard ETCS Level 1-2 equipment. Stiff competition is expected, and the company will try to contend with competitors despite its disadvantage of not being a supplier of rolling stock.
In these markets, there are also opportunities for renewing signalling systems on metro lines (London and Stockholm) as well as plans for Amsterdam. In any event, it will be necessary to compete with the new CBTC system that Ansaldo STS is developing.
Additional opportunities in the UK may arise from the Crossrail and Thamelink Projects related to the 2012 Olympic Games.
In France, bids have been submitted for the supply of onboard ERTMS Level 1 equipment for the regional Bombardier trains planned for France's conventional network (Porteur Polyvalent Project) as well as those planned for the Porteur High Density Project.
Negotiations are in process on the Iberian peninsula for the renewal of the Madrid-Lerida maintenance contract that covers four years of maintenance and another two years under option.
In China, the company has advanced its offer to Hollysis for 210 single databases (BDU) for equipping various lines (Zhenzhou-Xian, etc.).
In Venezuela, following the Valencia Metro success, there is renewed hope for ERTMS systems at Puerto Cabello where the Spanish consortium is still in an advantageous position.
In the UK, negotiations are under way for upgrading the signalling equipment of the Macclesfield station with the Ansaldo Segnalamento Ferroviario's ACC. The decision is expected in 2009.

The **orders acquired** at 31 December 2008 came to EUR 219 million, and mainly referred to the Western Europe region, coordinated by Ansaldo STS France and which also includes the following subsidiaries of the Signalling Business Unit: Ansaldo STS Ireland, Ansaldo STS Sweden and Ansaldo STS United Kingdom. At 31 December 2007, the value of the orders amounted EUR 193 million, with a backlog of EUR 256 million. The latter value instead came to EUR 274 million at 31 December 2008.

ANSALDO STS USA

The trend of fuel prices and the continuing financial crisis are having a negative impact on metro transport companies in the USA, South America and Asia, even though the traffic in the United States in 2008 still experienced a significant increase when compared with 2007. The New York Transit Authority alone announced a deficit of USD 1.2 billion versus the budget. The shortfall is to be covered by raising ticket and toll prices. Investment projects for 2009 and 2010 have been delayed by the State of New York's failure to act. In Brazil, the project for renewing the Rio de Janeiro commuter network has been put on hold while officials await the revision of financing plans that now include the involvement of the World Bank. Significant changes in the rates of exchange with the dollar have prompted delays in projects in Korea and Taiwan.
The legislative bill (HR 2095) approved by the U.S. House of Representatives was signed into law by President Bush on 16 October 2008. The law makes it mandatory for the leading railways (Class 1) to equip themselves with Positive Train Control by 2015 (the new ATP for cargo traffic could be extended to several passenger lines following the fatal accident that occurred in California in 2008). It is estimated that these investments could amount to USD 2 billion, and Ansaldo STS intends to capitalise on the positive experience of its work in process with the PTC in Alaska.
As mandated by the above-referenced law, proposals will also have to be presented in 2009 for High-Speed Intercity Systems for 11 corridors identified by the Department of Transportation. In the northeast corridor, it is expected that the travel time between New York and Washington, D.C. can be reduced to two hours.
In Korea, Taiwan and China, the mass transit systems projects are moving ahead. With regard to these markets, it is noted that two orders were procured in China, through the partner, INSIGMA, for the second line in Chengdu and the second line in Shenyang. Both orders regard signalling equipment with the CBTC system, which Ansaldo STS proposes as the new standard.

The **orders acquired** at 31 December 2008 came to EUR 120.7 million (USD 177.6 million), decreasing by 26% compared with the prior year (USD 241.1 million).

ANSALDO STS ASIA PACIFIC REGION

The recent global economic crisis is also exerting an impact on several projects in this area, but the forecasts suggest that it will be possible to contend with the consequences.
The local company and its subsidiaries are well positioned in each of the main markets and are expected to know how to take advantage of the opportunities that are presented.
Australia is a strong country with a stable economic and political system, and it offers opportunities for increasing services and reducing costs in the transport sector.
The Group's subsidiary has over time established continuous working relationships with the main cargo transporters in Australia, often formalising the relationships as alliances, and it thus can be expected to continue to receive new orders in the years to come.
Worth noting in this regard are the new Synergy Alliance in relation to the Queensland Rail Alliance, the Australian Rail Track Corporation (ARTC) Alliance that entails development for both the Advanced Train Management System (ATMS) and the new ARTC Ansaldo STS Network Control Systems Alliance, and the works for the Richmond Line Alliance.
Also worth noting is the important prospect of orders from Gorgon Gas Field Communications in Western Australia.
The ties with the Rio Tinto Australian Mining Railways are still important despite the recent "freeze" placed on the order for Phase 3 of the Automatic Train Operation (ATO) along 1,300 km of its lines.
In the Pacific area, Ansaldo STS submitted a bid to Ontrack in **New Zealand** for the signalling for Auckland's suburban network (DART).
In Southeast Asia, **Malaysia**, with its strong and stable political and economic system, will put out a request in 2009 for an update of 2007 bids to IRCON for the signalling of the dual-track Seremban-Gemas line, and will also conduct a tender for a lot of telecommunications works; though economically strong, **Thailand** has recurring symptoms of political instability thus reducing its attractiveness.
Economic uncertainty has cast some doubt as to revival of the very important project for the creation of a Trans-Asian railway that would offer a true logistical link with Southeast Asia.
The transportation sector in **India** suggests interesting opportunities for development, partly due to the country's economically strong and politically stable situation.
The Indian Railways intend to modernise roughly 500 interlocking systems during the 2009-2010 period, and to protect roughly 1,800 km of line with signal repetition systems (both onboard and ground systems). Ansaldo STS should therefore continue to benefit from a large number of station upgrade projects that have thus far supplied a stable stream of repetitive work to the local company. The Dedicated Cargo Corridor Project should also be finalised in 2009 with the tenders for civil works and systems packages. An application for financing from the German bank, KFW, is still pending with regard to an important change in the scope of the Ghaziabad-Kanpur project for the installation of signalling equipment on a new third track, and overlaying axle counters on the AFTC (Audio Frequency Track Circuiting) trains that Ansaldo STS is already supplying.
The primary objective in this nation is the efficiency of logistics services, focusing on customer-oriented improvements in capacity and on-time performance.
As to passenger transport, negotiations are currently in process between ASTS Malaysia and the general contractor, SCOMI, for signalling systems for the Mumbai monorail network.
Considering the economic recovery after years of instability, the emerging market of **South Africa** is opening up good possibilities in (a) cargo transport, with the revival of the mining sector, and (b) passenger transport, where the government has recognised the need for modernising and extending the network after years without investment, particularly in view of the media exposure of South Africa around the world during the 2010 FIFA World Cup.
Finally, a bid on a maintenance contract has been submitted to **Botswana**; the contract, which covers the signalling and communications service for the region's entire rail network, might possibly be awarded to Ansaldo STS' new local company.

The **orders acquired** at 31 December 2008 for the signalling business came to EUR 192 million (AUD 323 million), for an increase of more than 4.1% year on year (AUD 229 million).

2.5.2 Transport Systems

In terms of the outlook, it is believed that the market for transport systems at a global level will continue to grow, although such growth is the result of performance of different national markets, each with its own cyclical trend.
At a product level, the importance of the driverless metro segment has become increasingly evident, and not only in Europe. The segment serves as a significant factor in competition on the urban transport market overall, with an important advantage, including in terms of image, accruing to those companies in possession of the related technological expertise and systems skills.

Significant opportunities are offered by **Russia's** transport development programme, which embraces projects for the electrification of the national rail network and development of metro and suburban transport systems in the Moscow area. Among these is the Sochi Project, planned by the community that will host the 2014 Winter Olympic Games. This is a dual track 2x25 kV rail line of 58 km, with transport features similar to a metro (30,000 pphpd, headway 2 min). Ansaldo STS could be a subcontractor of the Russian National Railways (RZD) for signalling technologies, telecommunications and security. The companies Selex Communication, Selex Sistemi Integrati and Elsag Datamat will work as sub-suppliers of Ansaldo STS which will act as the integrating company. The signalling systems will be based on ITARUS-ATC technology, the subject of an agreement between companies belonging to the Finmeccanica Group and RZD.
In **Australia**, the Gold Coast Light Rail and the North West Rail Link (Sydney) have outlined the start of plans to build transport systems in the Australian market. The systems integration and risk management for these projects, which had been directly managed by the contractor in the past, will be part of the Transport Systems Business Unit's core business.

In **Malaysia** and **Thailand**, the prospects are mainly linked to the improvement of light-rail services in Kuala Lumpur and two monorail systems (Penang and Putra Jaya) for which the Transport Systems Business Unit is well positioned. In Malaysia, the acquisition of the order for the Malaysian North Double Tracking (worth EUR 139.28 million) constitutes the first important project secured by the Transport Systems Business Unit in the Asia Pacific region. Working in a joint venture with Balfour Beatty, ASTS Malaysia will handle the planning, supply, installation, and the testing and commissioning of signalling, telecommunications and electrification of 330 km of a dual track line between Ipoh and Padang Besar. In addition, there are other opportunities in this country for creating relationships/alliances at a local level with leading contractors such as SCOMI which participate in tenders for transport systems in neighbouring countries (such as the previously mentioned monorail in Mumbai, India).
In **India**, the driverless metro projects are generally awarded to conglomerates in the country that are ready to accept significant risks and non-standard trade terms. Ansaldo STS is preparing to strike accords with the leading players (e.g. Reliance, Larsen & Toubrou, etc.) placing the focus on the selection of the projects to be followed.
The main initiatives of 2008 entailed a strong commitment to bids in both the domestic and foreign markets.

In terms of activity on the domestic market, the following is noted:
- Follow-up bidding on Rome Line D and preparatory activity for a future bid to the Promoter (Condotte/Pizzarotti) in anticipation of the continuation of the proceeding for the project-financing tender.
- Activity for the preparation of bids in relation to WI-FI technology systems and security systems that will support the subsequent implementation of CBTC technology for signalling. More specifically, a bid was presented to Salini with reference to the extension of Line B1 of the Rome Metro; the bid provides for the design and construction of the WI-FI infrastructure for security (already made available for the CBTC) together with others telecommunications and signalling systems. The bid also provides an option for the implementation of the CBTC. Another possible initiative evaluated in 2008 is the extension of the Milan Metro Line 3 (yellow); in this case, the Transport Systems Business Unit will propose the planning and construction of the WI-FI infrastructure together with the signalling systems.
- Continuation of activity to support existing businesses for formalising new orders or changes to contracts or concessions already in effect.

The bids submitted abroad include:
- **Thenia-BBA Line:** bid submitted to the general contractor, the Chinese company, CCECC, the concessionaire of the works for the construction of a roughly 175 km line in Algeria for the planning, supply and installation of electrical sub-stations. The bid was submitted via a group of companies which includes BBR (catenary), Cegelec (assembly) and Ansaldo STS France (signalling and telecommunications) with the role of leader. The outcome of the tendering procedure is still pending.
- **Makkah Metro:** bid submitted for technological works in relation to the new heavy rail system for Mecca. The scope of the work embraces: signalling, telecommunications, supervisory control and data acquisition (SCADA), and platform doors. The outcome of the tendering procedure is still pending.
- **Taipei Metro:** bid submitted together with AnsaldoBreda for the planning and execution of the first phase of the new “Circular Line” line of the Taipei Metro. The project embraces: system engineering, signalling, power supply, telecommunications, SCADA, platform doors, ticketing, third rail, super structure, and deposit equipment. The outcome of the tendering procedure is still pending.
- **Dublin Metro North:** bid submitted to a group of firms (with OHL as leader) presenting a bid for the Dublin Metro North (tender in which Ansaldo STS is not directly participating) for the following work: signalling, vehicle localisation, telecommunications, SCADA (with an option for power supply and catenary). The outcome of the tendering procedure is still pending.

Among the other numerous initiatives abroad, the following projects are worth noting; the bidding on these projects began in 2008, and will be formalised at the start of 2009:
- **Riyhad Metro:** light driverless metro line at the women’s university in the Saudi city. A bid is to be submitted to a local company for the planning and execution of the electromechanical works.
- **Saint Petersburg:** light metro line. The company is bidding as part of a group (it is a project-financing initiative) within which it is committed as the supplier of the electromechanical works.

In addition, the commercial activity continued with regard to the company’s involvement in a consortium for the planning, construction, installation and management for a concession period of a high-speed rail link between the holy cities of Mecca and Medina along a roughly 450 km rail line. In 2008, however, the customer subdivided the project objectives, separating the supply of technological works and vehicles from the supply of civil works. Accordingly, the company is awaiting the publication of the dates for the presentation of the bids for the technological works.

The **orders acquired** at 31 December 2008 came to EUR 342,467 thousand, decreasing substantially compared with the prior-year figure of EUR 802,728 thousand, though the latter amount was exceptionally high. It is noted that the year of 2007 marked the end of negotiations with the City of Naples for the Supplemental Act in relation to the Concession for Line 6 of the Naples Metro (Mostra-Municipio tract for EUR 426.3 million) as well as the acquisition, on the part of a group of businesses which includes the company, of an order for the Rome Metro Line C for the portion of the works financed (total of EUR 321.8 million).
In any event, the backlog of the Transport Systems Business Unit went from EUR 1,809,872 thousand at the end of 2007 to EUR 1,843,542 thousand at 31 December 2008.

2.6 Business information

The **orders acquired** at 31 December 2008 came to a total of EUR 1,296,609 thousand compared with EUR 1,532,452 thousand for 2007 with a decrease of EUR 235,843 thousand, or 15.4%.
The orders acquired by the Signalling Business Unit came to EUR 954,142 thousand (net of the relationships with the Transport Systems Business Unit), whereas the Transport Systems Business Unit acquired orders for EUR 342,467 thousand.

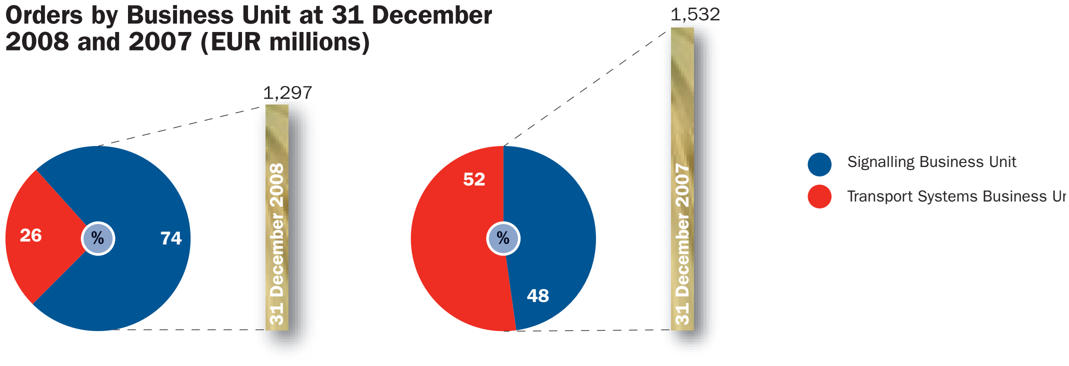
Following are the principal orders acquired by the Signalling Business Unit in 2008:

Country	Project	Customer	Value (EUR mn)
Turkey	Bogazkopru-Ulukisla-Yenice and Mersin-Toprakkale	TCDD	126.0
Turkey	Metro Ankara	Ankara Municipality	107.0
China	ERTMS On Board & Wayside on Zhengxi line	MoR	48.3
England	Cambrian Line Phase 2/3	Network Rail	44.3
France	Total Other component/ Service & Maintenance	Vari	41.2
USA	Total component/ Service & Maintenance	Vari	39.8
Italy	Total component/ Service & Maintenance	Vari	39.0
Sweden	ERTMS Lev 2 (“ESTER”)	BV	26.2
France	On Board Bi - Standard Equipment	SNCF	25.5
France	HSL Rhin / Rhone (SEI - DBC)	RFF	23.0
Italy	ATC On Board 6° Application Contract	Trenitalia	21.1
Tunisia	Electrification and Signalling Banlieue sud de Tunis	SNCFT	18.2
Australia	Various ARTC Small Projects (n.8 orders)	ARTC	17.9
China	Shanghai Line 2 East Extension	Shentong	16.4
Brazil	CPTM Lines A & F	CPTM	15.3
Australia	Mesa A Signal Construction	Robes River Mining	14.3
Italy	ACC Rho	RFI	14.0
Australia	Various Rio Tinto Projects (N.5 orders)	Rio Tinto	14.0
Australia	ATMS Phase 2	ARTC	14.0
Italy	ACC Pisa	RFI	13.5
Australia	Brockman 4 Construction	Hamersley Iron	12.5
Italy	HSL MI - BO	CEPAV 1	12.3
France	Various Vital Relays (components)	SNCF / RATP	12.2
China	Chengdu Line 1	INSIGMA	10.7
China	Shenyang Line 2	INSIGMA	9.5
Australia	Goonyella - Broadlea Wotonga Implementation	Q R	9.3
Australia	ICSS Fitout - 30 Locomotives	Hamersley Iron	9.1
Australia	Clearsway 3 Kingsgrove to Revensby	TIDC	9.1
Canada	South Yonge Resignalling	TTC	8.4
France	Maintenance RATP	RATP	6.3
Australia	Goonyella - Coppabella Yard	Q R	4.7
Sweden	ATP On Board (Sweden)	Skanetrafiken	4.0

Following are the principal orders acquired by the Transport Systems Business Unit in 2008:

Country	Project	Customer	Value (EUR mn)
Malaysia	Extension Contract North Ipoh to Pedang Besar	MMV Gramuda	135.0
Italy	Roma Linea C	Metro Roma	56.4
Italy	Alifana - variation order	Metro Campania	53.3
Italy	Vesuviane - variation order	Circum Vesuviana	24.2
Australia	ATO Phase 3 - Termination Provisions	Rio Tinto	15.4
Italy	Tramvia Firenze - variation order	Comune di Firenze	13.4
Italy	HSL Italy - variation	Iricav / Saturno	7.0
Denmark	Copenhagen - variation order	Orestadsselsk abet	6.9
Italy	Metro Brescia - variation order	Comune di Brescia	5.3

Orders by Business Unit at 31 December 2008 and 2007 (EUR millions)



Orders by geographic area:

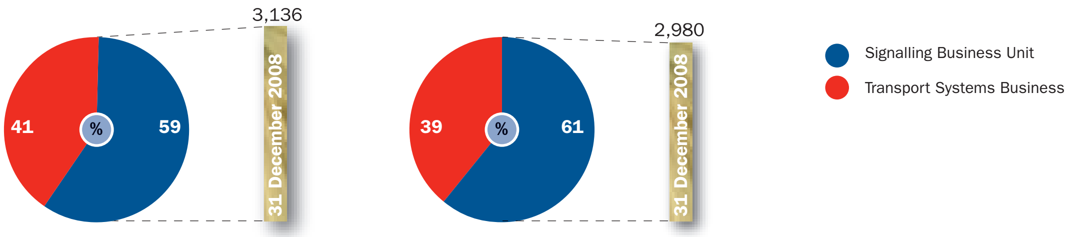
(EUR 000's)	**31.12.2008** Signalling Business Unit	Transport Systems Business Unit	Total	31.12.2007 Signalling Business Unit	Transport Systems Business Unit	Total
Italy	168,109	160,252	328,361	229,372	797,397	1,026,769
Rest of Western Europe	208,663	6,858	215,521	173,988	5,331	179,319
North America	53,092	-	53,092	93,069	-	93,069
Asia Pacific	254,306	175,343	429,649	224,612	-	224,612
Other	269,972	14	269,986	8,683	-	8,683
	954,142	**342,467**	**1,296,609**	**729,724**	**802,728**	**1,532,452**

The **order backlog** at 31 December 2008 amounted to a total of EUR 3,136,430 thousand with an increase of EUR 156,421 thousand (5.25%) over the total at 31 December 2007 (EUR 2,980,009 thousand).

The order backlog of the Signalling Business Unit at 31 December 2008 came to EUR 1,526,383 thousand (inclusive of the relationships with the Transport Systems Business Unit); the total includes: EUR 858,220 thousand pertaining to the Italian subsidiary, Ansaldo Segnalamento Ferroviario SpA, net of the relationships with the German subsidiary, Ansaldo STS GMBH; EUR 318,956 thousand pertaining to the subsidiary, Ansaldo STS USA; EUR 233,703 thousand pertaining to the French subsidiary, Ansaldo STS France; and EUR 251,084 thousand pertaining to the companies that are part of the Asia Pacific area (the values stated are inclusive of the amounts referring to the relationships between the companies).

The order backlog of the Transport Systems Business Unit at 31 December 2008 came to EUR 1,843,542 thousand and mainly regarded the following projects:
- Concessions in relation to the design and construction of the Naples Metro and Genoa Metro (EUR 574,667 thousand)
- Rome Metro Line C (EUR 330,056 thousand)
- Driverless metro in Brescia and Milan (EUR 284,820 thousand)
- Thessaloniki (EUR 149,112 thousand)
- Alifana (EUR 139,059 thousand)
- Malaysia North (EUR 135,000 thousand)
- Copenhagen Metro (EUR 77,069 thousand)
- High-speed rail lines (EUR 58,639 thousand)
- Other projects (EUR 95,119 thousand)

Order Backlog by Business Unit at 31 December 2008 and 2007 (EUR millions)



2.7 Environment

Ansaldo STS SpA directs and coordinates companies operating on the international markets as suppliers of complete rail transport systems and the related auxiliary systems for signalling, control and security. As such, Ansaldo STS SpA is committed to environmental protection on two fronts:
- the Company pursues a policy for continuously improving the environmental performance of its processes;
- the Company markets increasingly sophisticated, secure and reliable transport systems, in order to provide incentives for their use.

• Strategic orientation and managerial approach
For this purpose, the Company has adopted an environmental policy and implemented an environmental management system, defining the organisation, the responsibilities, the operating means and the investments necessary, thereby committing itself to the achievement of the following objectives:
- Ensuring compliance with regulations applicable to its processes, in the different countries where the subsidiaries are required to do business, by formalising procedures that facilitate the awareness of the regulatory framework of reference;
- Identifying environmental aspects significant for the reduction and the control of the related environmental impact;
- Defining indicators for easily checking the performance.

The ISO 14001 standards and the EMAS regulations represent the model that Ansaldo STS has indicated to its subsidiaries for development of operating systems whose certification constitutes the tool for developing an environmental awareness on the part of both internal personnel and suppliers and subcontractors.

• Innovation and broad-based implementation of good practices
The requirements of the market and the experience that some of the subsidiary companies have gained in this regard have led to the development of environmental management systems with subsequent certification in accordance with the ISO 14001 standards and the EMAS regulations. Ansaldo STS is committed to extending this programme to all companies of the Group.
The following table illustrates the present status of the certifications secured or in the process of being secured:

Country	France	Italy	Pacific	Spain	Sweden	UK	USA
The company has formalised the environmental policy.	Yes	Yes	Yes	Yes	No	Yes	Yes
The company has formalised an environmental management system.	Yes	Yes	Yes	Yes	No	Yes	Yes
The environmental management system is ISO 14001 certified.	Yes	Yes	No	No	No	Yes	No
The company intends to certify the management system.	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target for certification	2008	2003	2009	2009	2009	2004	2010

• Communications, training and information
All employees and external associates (suppliers/contractors) involved in operations at the head offices of the Ansaldo STS subsidiaries are required to participate in a training/information programme about environmental management when they become affiliated with the Company. Depending on the specific processes of each company and the related environmental aspects, subsequent training sessions are conducted in order to instruct the personnel in relation to the environmental management system requisites applicable to their activity.
The Company holds a register of all training programmes administered to the personnel operating at the various companies.
The training sessions are held by personnel knowledgeable in the field involved, and are documented by the personnel responsible for their execution.

• General environmental information
The activities carried out at the Ansaldo STS subsidiaries are essentially office activities for which Ansaldo STS ensures the total control, including with regard to environmental aspects.
There are a series of productive sites which are managed in a manner completely consistent with environmental protection concepts. Such sites also fall within the field of application of the certifications secured and to be secured. The Italian productive site has also secured EMAS (Environmental Management and Audit Scheme) registration.

• Water resources management
The consumption of water resources is exclusively linked to sanitary use, and is controlled.

• Production and management of special waste materials
The activity carried out at the offices is not the type that generates special waste materials. Photocopiers and office machines under lease require the owner to provide for the management of the waste materials (toner, broken or obsolete equipment, spare parts). In addition, the service maintenance is contracted to an external company that operates with its own stable personnel, and provides for the disposal of substitute components (e.g. neon tubes).

• Energy consumption, CO_2 emissions, emissions trading and other emissions
Essentially related to heating, lighting and electric motive force, the consumption of energy is controlled and is in line with the levels of consumption registered for similar activity.

• Management of hazardous substances
The processes carried out at the offices do not contemplate the use of hazardous substances.

• Substances damaging the ozone layer
The office facilities have no substances that could cause damage to the ozone layer.

2.8 Research and development

In the wake of the first half, Ansaldo STS' research and development in the second half of 2008 also contributed significantly to the success and growth of the Ansaldo STS Group in the world.

These important contributions are particularly appreciated by the world of rail systems, and especially the markets and segments in which the new technologies and the increasingly better performing products developed by Ansaldo STS' R&D team are becoming even more prevalent and more widely used, and are added to those products that by now have been traditional strengths of the Signalling and the Transport Systems Business Units.

Significant examples in the traditional sector are:
- Communication-Based Train Control (CBTC): Companies in the business of metro public transport have shown strong appreciation for this product. Again, it proved strategic and fundamental in securing additional contracts in China (new orders acquired for the Shenyang Line 2 and the Chendu Line 1), but also in new countries such a Turkey (the 4 Ankara lines).
- The application of the ERTMS/ETCS Level 2 technology to the high-speed rail lines such as the Milan-Bologna tract that became operational on 13 December 2008 and the Rhin-Rhone line in France for which a new contract was recently acquired.

At the same time, the following may be considered as successes in the non-traditional sectors:
- The development of the system known as Advanced Train Management System (ATMS) for the Australian Rail Track Corporation (ARTC), with the aim of significantly improving the Australian rail industry's capacity. The ATMS is to be developed by Ansaldo STS for the ARTC with the objective of improving the capacity of their rail network, making it more flexible, while also increasing the security, reliability and availability of the equipment used. Capitalising on GPS technology for the reporting and calculation of the position of the train along the line, the system also considerably reduces not only the costs of the final system but also of its annual maintenance, simultaneously increasing the safety of the personnel operating alone the line who are implementing it daily.
- New and advanced integrated security systems for the management of passenger traffic and information traffic exchanged between the periphery and centre for data collection and processing.
- The development of the Automatic Train Operation (ATO) system that manages the extraction and heavy transport of rails. This project is the first of its kind at a global level, and it contemplates the supply of a secure, totally automated system without any engineer piloting the train. The final objective of this new, totally automated and cutting-edge system is to increase the efficiency of the lines, while simultaneously ensuring greater security and reliability of the overall system. The project had initially been developed for the Rio Tinto Railways but it was later suspended.

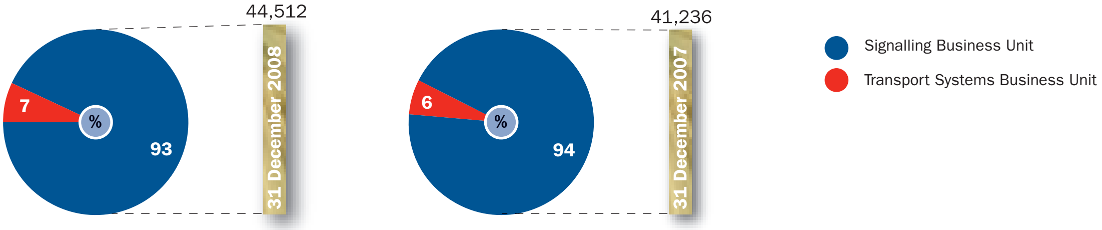
Also worth noting are the recent and additional framework agreements that Ansaldo STS has signed with some of the most important and prestigious Italian and foreign universities, and other agreements that are still planned. These agreements are mainly aimed at creating new working relationships (in addition to those which are already well established) for product design, development and sustainable production. The accent is on creating a new type of relationship between the business world and the world of university research, so as to improve the quality of the training and research processes for both parties and to foster development of an enterprise culture.

Research and development spending stood at EUR 44,512 thousand for 2008, compared with EUR 41,236 thousand for 2007, with an increase of 7.94%.
The activities developed by the Signalling Business Unit, for a total value of EUR 41,618 thousand, account for 93% of the total, and are referable to the following companies (data in EUR 000's):

• Ansaldo Segnalamento Ferroviario SpA (ASF):	10,777
• Ansaldo STS France:	16,312
• Ansaldo STS USA Inc.:	6,452
• Ansaldo STS Sweden AB:	5,143
• Other:	2,934

The activity developed by the Transport Systems Business Unit covered spending o EUR 2,894 thousand with an increase of EUR 618 thousand compared with the balance at 31 December 2007.

Research & Development by Business Unit at 31 December 2008 and 2007 (EUR thousands)



2.9 Personnel and organisation

Considering the prospective market scenarios in the years ahead and the business objectives that the Company intends to pursue, the contribution of the Human Resources & Organisation Direction Unit is even more strategic to the process of integration and international expansion that Ansaldo STS has undertaken in the past three yeas. One of the key factors of success for a company in the high-tech market is its capacity to attract and retain the best talent at a global level. A process of mapping the Group's most valuable resources has been structured for this purpose, thus making it possible to identify a pool of talented professionals at an international level who will be designated for professional development on a global scale.
Consistent with the initiatives launched in past years aimed at supporting the multi-cultural dimension and an understanding of differences within the Group, the Human Resources & Organisation Direction Unit continued to invest in 2008 in international development programmes (including the Columbus Programme) for the purpose of supporting integration.

2.9.1 Fast-Forward Driven By Business

Consistent with the development of the strategic objectives set in 2008, the Group launched a specific project known as "Fast-Forward Driven by Business" in order to reinforce the efforts under way to support the Group's internationalisation and the streamlining of the global approach to business. The project's main objective is to define and implement actions that will steer the Ansaldo STS Group's organisation toward a more integrated, coordinated and efficient approach with regard to both business processes and staff activities. For this purpose, the review of the current corporate structure (in which the signalling business is configured as a "federation of companies" and the transport systems business as an essentially regional operation) should be able to facilitate the global adoption of the operating solutions and best practices in place at a national level.
The management of Fast-Forward Driven By Business has been vested with a specific task force made up of internal staff from the Group's various companies. The direct participation of the largest possible number of employees coming from every continent on which the Group operates will make it possible to benefit from the Group's multi-cultural resources. The project contemplates a preparation phase that will be concluded in the first quarter of 2009, and that will lead to the identification of specific actions to be taken for the rest of the year.
Aware that every process of cultural change can be successful only if most of the staff are part of it, the Human Resources & Organisation area has implemented a major internal communications plan in order to illustrate to all of the employees the purposes of the project and to receive important feedback about the actions undertaken to support the integration and internationalisation processes in all geographic areas in which Ansaldo STS is present.

2.9.2 Ansaldo STS corporate structure

There were no changes in the Company's senior management in 2008, and therefore, the officers include:
• Chairman of the Board of Directors: Alessandro Pansa (shareholders' meeting on 21 November 2005);
• Vice-Chairman of the Board of Directors: Sante Roberti (Board of Directors of 24 February 2006);
• Chief Executive Officer: Sergio De Luca (Board of Directors of 14 June 2007).
All of these positions were confirmed by the shareholders' meeting and the meeting of the Board of Directors held on 1 April 2008.
The top tier of the Ansaldo STS organisational structure instead experienced some changes, as approved by the Board of Directors with resolutions passed on 22 January and 12 May 2008.
With resolution dated 22 January 2008, the Board of Directors formed a new entity named "Processes, Quality and Systems", with the mission of identifying opportunities for improving processes with a view to increasing the overall group efficacy and efficiency, coordinating the implementation of adequate and effective total business quality management systems, coordinating and managing the information systems of Ansaldo STS and the subsidiaries organised under the laws of Italy. The responsibility for these activities, which have a direct reporting relationship to the Chief Executive Officer, lies with Vice President Christian Andi. At the same time, the "Human Resources & Process Improvement" Direction, headed by the Senior Vice President Carlo Cremona, with the assistance of Vice President Francesco Romano as Deputy Chairman, took on the name of "Human Resources & Organisation".
Later, on 12 May 2008, the Board of Directors vested Vice Chairman Mauro Giganti with the responsibility of the Internal Audit function as of 1 June 2008.
Accordingly, the top level of the Company will be organised as follows:
• The following functions will report to the Company's Chairman:
  - Internal Audit, headed by Mauro Giganti, Vice President;
  - Risk Management (for project control activity), headed by Antonio Manzi, Senior Vice President.
• The following report to the CEO:
  - General Secretary, headed by Mario Orlando, General Counsel
  - Administration, Finance and Control Direction, headed by CFO Jean Paul Giani;
  - Human Resources & Organisation Direction, headed by the Carlo Cremona, Senior Vice President, with the assistance of Francesco Romano, Vice President;
  - Business Development Direction, headed by Emmanuel Viollet, Senior Vice President.

The General Secretary and the Directions are charged with planning and controlling all of the Group's activity. The corresponding Directions of the individual operating companies thus functionally report to the Directors of Ansaldo STS and directly report to the chief executive of their respective companies.
• The following functions also report to the Chief Executive Officer:
  - Processes, Quality and Systems, headed to Christian Andi, Vice President;
  - Investor Relations, headed by Andrea Razeto, Investor Relator;
  - Risk Management & Project Control (for risk management activity), headed by Antonio Manzi, Senior Vice President;
  - Industrial Competitiveness, headed up by Giuseppe Spezzi, Vice President.

At a meeting held on 18 April 2008, the Board of Directors rendered a positive opinion on the plan for the merger of the subsidiaries, Ansaldo Trasporti Sistemi Ferroviari SpA (ATSF) and Ansaldo Segnalamento Ferroviario SpA (ASF), into the Parent company, Ansaldo STS, at 1 January 2009.
The transaction has the following main objectives: the significant streamlining of the operations carried out in Italy; the simplification of the current chain of decision-making and governance; and the reduction of the costs related to the Group's corporate structure.
Trade union meetings were successfully held in May 2008 in relation to the merger transaction, as envisaged by Article 47 of Law no. 428 dated 29 December 1990.
At a meeting held on 12 December 2008, the Board of Directors of Ansaldo STS SpA passed a resolution providing for the organisational changes outlined below at the date of the incorporation Ansaldo Segnalamento Ferroviario SpA (ASF) and Ansaldo Trasporti-Systems Ferroviari SpA (ATSF):
- The Legal and Corporate Affairs activities of the two incorporated companies carried out to date as part of ATSF will be incorporated into the General Secretary's office.
- The Administration, Finance and Control activities of the two incorporated companies carried out to date as part of ATSF will be incorporated into the Administration, Finance and Control Direction of Ansaldo STS.
- The activities of the two incorporated companies in relation to quality assurance and management of certification systems will be incorporated into the Processes, Quality and Systems function.
- A new Reliability, Availability, Maintainability and Safety (RAMS) function will be set up and will report to the Chief Executive Officer; the function will be responsible for the same functions existing within the incorporated companies.
- The activities of the Transport Systems, Signalling and Technological Innovation in Italy will begin reporting to the Chief Executive Officer through their respective transfer to the Transport Systems Business Unit - Italy, the Signalling Business Unit - Italy and the Innovation Business Unit - Italy.
- The activities related to Facility Management and Purchasing not pertaining to the productive processes will be transferred to the Signalling Business Unit - Italy which will service the entire Ansaldo STS SpA structure.

The "employers" responsible for security in the workplace as defined by Italian Legislative Decree n. 81/08 have been appointed: Oscar Cantelmi for Genoa, Ulderigo Zona for Naples, Vincenzo Cinque for Tito Scalo (PZ), and Giuseppe Spezzi for Turin and for the worksites abroad. The appointments go into effect on 1 January 2009.

From an organisational perspective, a Coordination Team for the Development Activities of the CBTC System was formed. Several companies of the Ansaldo STS Group co-operate to this team. The Team is coordinated by Omar Rezzoug of Ansaldo STS France, while Leonardo Impagliazzo of Ansaldo Segnalamento Ferroviario is responsible for the team's coordination of V&V Activities, including the System Safety activity. The Team has the objective of monitoring the system developments in order to increase the level of product knowledge and to gain the confidence needed regarding the compatibility of the development times with the application demands of the Ansaldo STS company.

Other appointments include:
- Carlo Cremona as Security Manager of the Ansaldo STS Group, with the objective of coordinating and addressing the company heads of the various security units;
- Riccardo Acquaviva as the head of the External Relations unit of Ansaldo STS.

On the governance front, revisions were made in 2008 to the following:
- the Regulatory System within Ansaldo STS SpA, with the definition of an organised and consistent set of documents, useful for setting responsibilities, roles, rules and tasks for the implementation of the "Model for the Organisation, Management and Control pursuant to Legislative Decree no. 231 of 8 June 2001";
- the Travel Regulations, with the updating of the criteria for calculating and recognising the expenses incurred by employees working temporarily in offices other than that where they usually perform their work.

2.9.3 Regional Companies

Consistent with the Group's strategic international development needs, the subsidiaries that are organised according to a structure based on "Regional Companies" report to the Chief Executive Officer. In completing the implementation of the programme to streamline and simplify the Group's structure - a programme that began in 2007 with the reorganisation of the companies operating in the Asia Pacific area, the Board of Directors gave its definitive approval to the dissolution of the Dutch sub-holding company, Ansaldo Signal NV (in liquidation). Once the Dutch company is dissolved, certain foreign companies of the Group operating abroad (including Ansaldo STS France and Ansaldo STS USA) will be directly controlled by the Parent company, with an arrangement similar to that for Ansaldo STS Australia. In addition, on 1 May 2008, Alan E. Calegari was appointed as the new President and Chief Executive Officer of Ansaldo STS USA.

• Accordingly, the responsibilities for subsidiary companies are assigned as follows:
- Ansaldo Trasporti Sistemi Ferroviari: Sergio De Luca;
- Ansaldo Segnalamento Ferroviario: Sergio De Luca;
- Ansaldo STS France: Georges Dubot;
- Ansaldo STS U.S.A.: Alan E. Calegari;
- Ansaldo STS Australia: Lyle Jackson.

The Group's workforce at 31 December 2008 stood at 4,352, with an increase of 109 or 2.6%, compared with the figure of 4,243 at 31 December 2007.

The breakdown of the workforce by business unit is shown below:

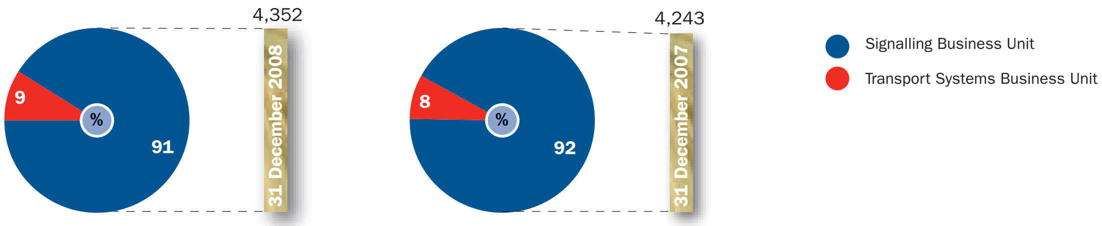
	No. Employees
• Signalling Business Unit:	3,901
• Transport Systems Business Unit:	376
• Other Activities (Corporate):	75

The 3,901 resources of the Signalling Business Unit are subdivided among the regional companies as follows:

	No. Employees
• Ansaldo Segnalamento Ferroviario:	1,010
• Ansaldo STS France	675
• Ansaldo STS USA:	950
• Ansaldo STS Asia Pacific:	1,132
• Ansaldo STS Sweden:	45
• Ansaldo STS UK:	53
• Ansaldo STS Ireland:	34
• Ansaldo Signal N.V. (in liquidation):	2

A more significant increase has occurred in the Asia Pacific region in view of growing market volumes in such area.

Workforce by Business Unit at 31 December 2008-2007



2.10 Security Policy Statement

"Information pursuant to Legislative Decree no. 196 of 30 June 2003 (Personal Data Protection Code)"
In accordance with the provisions of Section 26 of the Technical Regulations for minimum security measures (Annex B to Legislative Decree no. 196 of 30 June 2003 (Personal Data Protection Code)), it is noted that the Company has undertaken the activity of analysing and updating the Security Policy Statement (DPS) in relation to the electronic process of personal data. This activity will be completed by 31 March 2009 consistent with the deadline provided by the regulations.

2.11 Incentive plans

Ansaldo STS has developed and set the rules for:
- a medium-term stock grant incentive plan,
- a long-term cash incentive plan

The plans are part of an array of short-, medium- and long-term incentives that represent a significant component of total management compensation of the Group.

The incentive plans are furthermore structured so as to tie significant portions of a manager's compensation to the achievement and improvement of financial/business parameters and to strategic objectives particularly important for the creation of value at a Group level.

2.11.1 Stock grant plan
With reference to the stock grant plan, the Group proceeded with verifying the achievement of the objectives to which the assignment of the quota related to 2007 had been tied.
The three objectives assigned in relation to EVA, orders and share performance vis-à-vis the Mibtel Index for the year of 2007 were achieved in full.

As a result, consistent with the plan rules, all of the shares originally provided were assigned to the persons entitled thereto. The Company thus proceeded with the assignment of 317,022 shares on 1 December 2008.

2.11.2 2006-2008 Cash incentive plan - 2007 tranche
The 2006-2008 cash plan for 2007 involves five executives of Ansaldo STS and its subsidiaries, who are considered key in the achievement of the Group's strategic and business/financial objectives.
The three-year plan provides for the payment of a cash sum, up to a maximum of annual gross compensation (RAL), linked to the achievement of previously assigned objectives.

A review of the objectives assigned in 2007 indicates that they were fully achieved.
The plan also has access thresholds (that are different for the various managers), all of which were exceeded. Therefore, and in accordance with the plan regulation, in June 2008 the incentive portions accrued for the tranche 2007 were paid.

2.11.3 2007-2009 Cash incentive plan - 2007 tranche

The 2007-2009 cash plan for 2007 involves four executives of Ansaldo STS and its subsidiaries, who are considered key in the achievement of the Group's strategic and business/financial objectives.
The three-year plan provides for the payment of a cash sum, up to a maximum of annual gross compensation (RAL), linked to the achievement of previously assigned objectives.
A review of the objectives assigned in 2007 indicates that they were fully achieved.
The plan also has access thresholds (that are different for the various managers), all of which were exceeded. Therefore, and in accordance with the plan regulation, in June 2008 the incentive portions accrued for the tranche 2007 were paid.

2.12 Corporate governance and ownership structure of the company in compliance with Art. 123 bis of Legislative Decree no. 58 of 24 February 1998 and subsequent amendments (TUF)

The Ansaldo STS shares have been trading since 29 March 2006 on the STAR segment of the markets organised and managed by Borsa Italiana SpA
On 19 December 2006 the Ansaldo STS SpA Board of Directors adopted the Corporate Governance Code adopted by Borsa Italiana SpA in March 2006. During 2007 the Company has completed the adjustments to the requirements of the Corporate Governance Code, based on the conviction that these recommendations contribute significantly to the realisation of the key points of the Company's corporate governance policy. Specifically, the corporate governance system implemented has as its primary goal the creation of shareholder value, in recognition of the importance of transparency in the company decision-making process, and the need for an efficient internal control system.

With a view to the full compliance of the corporate governance with the most recent legislative and regulatory provisions, on 1 April 2008, the shareholders' meeting of Ansaldo STS SpA changed the wording of some articles of the Company's by-laws in order to:
- adjusting the by-laws to the ruling of the Court of Cassation of 13 September 2007 no. 19160, regarding the articles of by-laws of another listed company, concerning the chairmanship of the shareholders' meeting and the possibility for the retiring Board of Directors to present its own list, thereby eliminating, on the one hand, the possibility that - in the absence of the chairman and the deputy chairman of the Board of Directors - the chair may be taken by a proxyholder of the Board of Directors and that, on the other hand, the option granted to Board of Directors to present its own list of candidates for board membership;
- coordinating some by-laws provisions with the changes brought to the TUF in 2007, as amended in light of the transposition of Directive 2004/109/EC ("Transparency Directive"), and Consob Resolution no. 11971/99 and subsequent amendments and integrations (Issuers' Regulation);
- facilitate easier understanding of the procedure for the appointment of the Board of Statutory Auditors by rearranging the relevant provisions.

The office of the Board of Directors and of the Board of Statutory Auditors expired with the shareholders' meeting of Ansaldo STS held on 1 April 2008; the meeting appointed the following as of such date:
- The new Board of Directors in the persons of Alessandro Pansa (Chairman), Sante Roberti, Sergio De Luca, Maurizio Cereda, Gerlando Genuardi, Gregorio Gitti, Francesco Lalli, Eugenio Pinto and Attilio Salvetti. The Board will be in office for three years, therefore until the date of the ordinary shareholders' meeting for the approval of the financial statements for the year 2010.
- The new Board of Statutory Auditors in the persons of Giacinto Sarubbi (Chairman), Massimo Scotton and Francesca Tripodi; alternate auditors Bruno Borgia and Pietro Cerasoli were also appointed.

The new Board of Directors met on 1 April 2008 as well, and confirmed Sante Roberti as Deputy Chairman, Sergio De Luca as CEO and Mario Orlando, General Counsel of the Company, as Secretary of the Board. The Board also appointed the members of the Internal Control Committee (Gregorio Gitti (Chairman), Maurizio Cereda, Eugenio Pinto and Attilio Salvetti), the Remuneration Committee (Maurizio Cereda (Chairman), Gerlando Genuardi and Francesco Lalli), and the executive in charge of the preparation of the corporate accounting documents (Jean Paul Giani, Chief Financial Officer of the Company).
Members Maurizio Cereda, Gerlando Genuardi, Gregorio Gitti, Eugenio Pinto and Attilio Salvetti certified that they meet the independence requirements of applicable laws and the Corporate Governance Code, and accordingly, the Board of Directors of the Company presently includes five independent directors out of nine.
On 14 October 2008, the Board of Directors of Ansaldo STS established that Ansaldo STS, after having acknowledged the positive assessment rendered by the Board of Statutory Auditors, is in line with the provisions of Articles 36 and 37 of the regulations for the implementation of the Legislative Decree no. 58 of 24 February 1998 on the subject of markets (Consob Resolution n. 16191 of 29 October 2007 and subsequent amendments and integrations). As of the same date, a press release was issued providing appropriate disclosure thereof to the market.

Following is a list of the Company's main corporate governance instruments:
• By-laws
• Ethics Code
• Organisation, Management and Control model pursuant to Legislative Decree no. 231/01
• Regulations of the Board of Directors
• Regulations of the Internal Control Committee

• Regulations of the Remuneration Committee
• Guidelines and principles for identifying significant transactions with related parties – Principles of conduct
• Regulation for managing privileged information and setting up a register of persons who have access to that information
• Internal Dealing Code
• Regulations for shareholders' meetings

For more details on corporate governance, see the "Report on Corporate Governance", which also contains the information required by Art. 123 bis of TUF, available on the Company's web site www.ansaldo-sts.com.

2.13 Certification pursuant to Article 2.6.2, Paragraphs 12 and 13 of the Borsa Italiana Market Regulations

The Board of Directors of the Company certifies the existence of the conditions referenced in Article 36, Letters a), b) and c) and Article 37 of the regulations for the implementation of the Legislative Decree n. 58 of 24 February 1998 on the subject of markets, adopted by Consob with Resolution n. 16191 of 29 October 2007 and subsequent amendments and integrations.

2.14 Significant events during the period and subsequent events

On 18 April 2008 the Board of Directors of the Company approved the new Group company organisation which envisages:
- the merger by incorporation of the two subsidiaries Ansaldo Trasporti - Sistemi Ferroviari SpA (ATSF) and Ansaldo Segnalamento Ferroviario SpA (ASF) in the Parent company, Ansaldo STS SpA (ASTS);
- the liquidation and dissolution of the Dutch sub-holding company Ansaldo Signal NV (ASNV), transferring to ASTS the equity investments and all the other existing assets and legal relationships.

To that end, it is noted that the Board of Directors of the Company had previously passed important resolutions on the subject of changing the group organisational structure; specifically:
- on 19 December 2006, the incorporation of ATSF in ASF was authorised. This transaction should have been completed by the end of 2007. However, in order to facilitate the award to ASF of an important tender bid on the German market, the transaction was suspended in December 2007, with the intention to resume it after the contract was awarded;
- on 19 December 2007, the dissolution of the Dutch sub-holding company ASNV was authorised, with the aim of shortening and streamlining the current chain of control over subsidiaries and reducing the costs associated with the Group's corporate structure;
- also on 19 December 2007, the following transactions were approved (i) the transfer of Ansaldo STS Australia PTY Ltd. (and, therefore, Ansaldo STS Malaysia SDN BHD, a wholly owned subsidiary of ASTS Australia) from Union Switch & Signal Inc. (in turn controlled by Ansaldo STS USA Inc.) to Ansaldo STS SpA, and (ii) the transfer of Ansaldo STS Transportation System India Private Ltd. (India) from Ansaldo Signal NV to Ansaldo STS Australia PTY Ltd. The reason for these transactions is the opportunity to focus the activities of the Asia Pacific region that are directly controlled by Ansaldo STS SpA and the strong commercial and managerial interaction existing between these two Asia Pacific area companies, under which the Indian company operationally "reports" to the Australian company. These transfers took place on 1 January 2008.

Following these resolutions, the Board of Directors continued the work for the rationalisation of the Group's structure, authorising the two transactions indicated at the beginning of the list above.

With regard to the merger of ATSF and ASF by incorporation into ASTS, this transaction occurred on 1 January 2009 through the cancellation of all shares of Ansaldo Trasporti Sistemi Ferroviari and Ansaldo Segnalamento Ferroviario without any capital increase on the part of the incorporating company, Ansaldo STS, in as much as the incorporated companies were wholly owned subsidiaries.
The merger is aimed at the rationalisation of the operating activities performed by the Group in Italy by their concentration in a single company, the simplification of the current chain of control over the subsidiaries and the decrease of the costs associated with the Group's corporate structure.
The merger accordingly aims at the realisation of a more efficient shareholding structure within the Group, organised development of activities by focusing on the industrial and financial core businesses within the listed company, Ansaldo STS SpA, consistent with the role and the industrial objectives pursued by the latter.
The expected effects of the transaction can be summarised as follows:
• overall growth in size and earnings, expansion in world markets and entry into new business segments (such as security and telecommunications in the railway sector), complementary to the activities carried out presently;
• achievement of greater volumes thanks to commercial synergies and the joint development of new products and systems;
• decrease in overhead costs;
• simplification of financial flows.

The merger may bring these additional benefits:
• termination of all the service and supply contracts existing between the three companies, subsequently overcoming issues connected with agreements made between related parties and simplification of the relationships between the business units;
• simplification of the Group's corporate structure with a view to ever-increasing transparency to the market;
• strengthening of the business/capital structure of the publicly traded company, increasing shareholders' equity and gearing for extraordinary transactions as well.

The operational integration between the two business units, Signalling and Transport Systems, in ASTS will make it possible to capture more effectively the following strategic opportunities:

- for Transport Systems, the more direct, immediate and visible access to safety technology; the possession of this technology constitutes the qualifying and decisive factor for operating as a technological integrator, and it increases the integrator's credibility, reputation, skills and, as a result, business opportunities;
- for Signalling, the increase in commercial effectiveness in those market segments in which signalling technology is increasingly managed through a technological integrator, both for the immediate availability of a powerful promotional and selling tool, and for a better knowledge of the customer and its needs.

The merger plan was approved on 9 May 2008 by the Board of Directors of the companies to be merged and on 12 May 2008 by the Board of Directors of ASTS.
Later, on 20 June 2008, the Boards of Directors of ATSF, ASF and ASTS approved the merger by incorporation of ASF and ATSF into ASTS. Since ASTS controls 100% of ATSF and ASF, the merger was approved by the respective Boards of Directors in a simplified manner, as envisaged by Article 2505 of the Italian Civil Code.
On 26 September 2008 ASTS, ATSF and ASF executed the merger agreement, providing the transaction would become effective for civil-law, accounting and tax purposes as from 1 January 2009.

The Board of Directors of the company later authorised, on 8 May 2008, the liquidation and dissolution of the Dutch sub-holding company, Ansaldo Signal NV, and the subsequent transfer to ASTS of the equity investments held by ASNV, including the French company, Ansaldo STS France S.A., and the American company, Ansaldo STS USA Inc. The liquidation of ASNV was initiated on 16 June 2008. Mario Orlando, former Sole Managing Director of the company, was appointed as liquidator.
Later, on 12 December 2008, the Board of Directors of the Company decided to proceed with the merger by incorporation of the subsidiary, ASNV, into Ansaldo STS SpA, by virtue of the fact that the Dutch lawmakers implemented the Cross-Border Mergers Directive on 27 June 2008 with the issuance of Act n. 260/261.
The transaction will be carried out in 2009 on the basis of the two companies' financial statements at 31 December 2008.

On 13 March 2008, the Board of Directors of Ansaldo STS SpA authorised the incorporation of two new companies in South Africa, in order to facilitate new business opportunities in Botswana, South Africa and adjoining countries. The new companies are Botswana company, Ansaldo STS Southern Africa, which will be wholly owned by Ansaldo STS Australia, and an incorporated joint venture in South Africa which will be owned by Ansaldo STS Australia and a local partner, a solution necessary to comply with local regulations.

In April 2008, the corporate name of the Indian subsidiary was changed to Ansaldo STS Transportation Systems India Private Ltd. as part of the previous decision to re-brand the Group companies. The re-branding was completed on 1 January 2009 with the American subsidiary changing its name to Ansaldo STS USA.

On 1 May 2008, Alan E. Calegari was appointed new President and Chief Executive Officer of Ansaldo STS USA Inc. Emmanuel Viollet, who was the previous President and Chief Executive Officer will remain as Chairman of the Board of Directors until a new head of the company is identified.

2.15 Atypical and/or unusual transactions

The Ansaldo STS Group did not have any positions or settlements arising from atypical and/or unusual transactions during the year of 2008.

3 Performance by segment

3.1 Signalling

(EUR 000's)	**31.12.2008**	31.12.2007	Change
Orders	**963,569**	822,328	141,241
Order backlog	**1,526,383**	1,389,818	136,565
Production Revenues	**824,497**	750,093	74,404
EBIT	**96,980**	86,507	10,473
Adjusted EBITA	**98,615**	86,507	12,108
Net Profit (Loss)	**64,338**	50,019	14,319
Net working capital	**(37,216)**	(68,659)	31,443
Net invested capital	**54,210**	11,152	43,058
Free Operating Cash Flow	**36,817**	42,493	(5,676)
R.O.S.	**11.76%**	11.53%	+0.23 p.p.
Research and development	**41,618**	37,835	3,783
Employees (no.)	**3,901**	3,866	35

(The figures in this table are inclusive of transactions with other segments).

The Signalling Business Unit operates at an international level, designing and building railway and urban railway signalling components and systems worldwide mainly through four companies: the Italian company, Ansaldo Segnalamento Ferroviario SpA, with offices in Genoa, Naples, Turin, and Tito; the American subsidiary, Ansaldo STS USA, with branches in Pittsburgh (Pennsylvania) and Batesburg (South Carolina); Ansaldo STS France, a French company with offices in Paris and Riom; and the Australian company, Ansaldo STS Australia, based in Eagle Farm (Australia).
The Group also has small and medium-sized companies in Germany, Sweden, Finland, Ireland, the United Kingdom, Spain, China, India, Malaysia, South Africa and Botswana. The Group also has a large number of long-standing collaboration agreements with organisations in other countries such as Korea and Brazil.
Most of the Group's work is carried out by companies headquartered in Italy, the USA, France and Australia, which together account for about 96% of the Business Unit's revenue.
The main projects in which the Business Unit is participating, or in which it has participated, either carrying them out in their entirety or doing part of the work, include:

- the installation of computerised interlocking systems at the stations of Rome Termini, Manchester South, and the Sandbach-Winslow link (United Kingdom);
- the building the signalling systems for the driverless metros in Copenhagen and Brescia, for the New York and Los Angeles (Green Line) subways, and the metros of Shanghai (Line 2) and Tianjin/Binhai (China);
- the building of electrical/rail systems for the Milan Metro (Line 3) and complete signalling systems for the railways of Rawang Ipoh (Malaysia) and Hammersley Iron (Australia);
- the design, production and installation of signalling systems on high-speed trains on French (TGV) lines, the Madrid-Lerida line in Spain, the Seoul-Taegu line in Korea, and the Qinhuangdao-Shenyang line in China; in Italy, the Group is currently participating in the design, production and installation of the Milan-Bologna and Turin-Novara high-speed sections, supplying signalling systems via the Saturno Consortium.

The **orders acquired** in relation to the Signalling Business Unit at 31 December 2008 came to EUR 963,569 thousand, and reflect an increase year on year of EUR 141,241 thousand (17.18%), most of which is attributable to the companies in the Asia Pacific are and the Italian subsidiary, Ansaldo Segnalamento Ferroviario SpA.

The following table summarises the principal orders acquired by the Signalling Business Unit:

Country	Project	Customer	Value (EUR mln)
Turkey	Bogazkopru-Ulukisla-Yenice and Mersin-Toprakkale	TCDD	126.0
Turkey	Metro Ankara	Ankara Municipality	107.0
China	ERTMS On Board & Wayside on Zhengxi line	MoR	48.3
England	Cambrian Line Phase 2/3	Network Rail	44.3
France	Total component/ Service & Maintenance	Vari	41.2
USA	Total component/ Service & Maintenance	Vari	39.8
Italy	Total component/ Service & Maintenance	Vari	39.0
Sweden	ERTMS Lev 2 ("ESTER")	BV	26.2
France	On Board Bi - Standard Equipment	SNCF	25.5
France	HSL Rhin / Rhone (SEI - DBC)	RFF	23.0
Italy	ATC On Board 6° Application Contract	Trenitalia	21.1
Tunisia	Electrification and Signalling Banlieue sud de Tunis	SNCFT	18.2
Australia	Various ARTC Small Projects (n.8 orders)	ARTC	17.9
China	Shanghai Line 2 East Extension	Shentong	16.4
Brazil	CPTM Lines A & F	CPTM	15.3
Australia	Mesa A Signal Construction	Robes River Mining	14.3
Italy	ACC Rho	RFI	14.0
Australia	Various Rio Tinto Projects (N.5 orders)	Rio Tinto	14.0
Australia	ATMS Phase 2	ARTC	14.0
Italy	ACC Pisa	RFI	13.5
Australia	Brockman 4 Construction	Hamersley Iron	12.5
Italy	HSL MI - BO	CEPAV 1	12.3
France	Various Vital Relays (components)	SNCF / RATP	12.2
China	Chengdu Line 1	INSIGMA	10.7
China	Shenyang Line 2	INSIGMA	9.5
Australia	Goonyella - Broadlea Wotonga Implementation	Q R	9.3
Australia	ICSS Fitout - 30 Locomotives	Hamersley Iron	9.1
Australia	Clearsway 3 Kingsgrove to Revensby	TIDC	9.1
Canada	South Yonge Resignalling	TTC	8.4
France	Maintenance RATP	RATP	6.3
Australia	Goonyella - Coppabella Yard	Q R	4.7
Sweden	ATP On Board (Sweden)	Skanetrafiken	4.0

The **order backlog** of the Signalling Business Unit at 31 December 2008 came to EUR 1,526,383 thousand (inclusive of the relationships with the Transport Systems Business Unit).
A total of 56.23% of the order backlog regards the Italian subsidiary, Ansaldo Segnalamento Ferroviario, and is principally made up of projects in relation to the onboard and wayside SCMT, automatic control systems (ACS), high-speed rail lines, signalling connection control (SCC), metro systems and maintenance/service.

Production Revenues at 31 December 2008 in relation to the Signalling Business Unit amounted to EUR 824,497 thousand and reflect an increase of EUR 74,404 thousand (9.92%) with respect to the prior year.

The most significant production activities for the year of 2008 are summarised below:

ANSALDO SEGNALAMENTO FERROVIARIO SpA

HIGH-SPEED RAILWAYS

Production was mainly developed through the contracts in relation to the Milan-Bologna, Turin-Milan, Rome-Naples, and Bologna-Florence stretches, with a strong increase compared with the corresponding volume of the preceding year due to deliveries in relation to the Milan-Bologna line through the Saturno Consortium.
The commercial operation of the Milan-Bologna stretch was inaugurated as of the December, with the tract incorporating the first use on the RFI network of the new multi-station technology.
Alongside the development of the SCC, the installation of the fire-prevention and climate-control systems in the different offices was continued along the Bologna-Florence line.
In 2008, the commercial operation of the Rome-Naples and Turin-Novara stretches continued, with good results in terms of overall system reliability and regularity.
With regard to the Paris-Ostfrankreich-Sudwestdeutschland (POS) North project in Germany, the activities during the year were

developed for the definition of the detailed plan of the system, including within the framework of work groups in which the Customer has participated. A new contract programme was signed with the Customer that effectively defers the line's pre-operation activation to the end of August 2009.
Sub-supply orders have also been negotiated with the major German partners.
Following the procurement of the contract for outfitting the Zhengzhou-Xi'an line in the Peoples Republic of China with the ERTMS Level 2 system, activities in relation to the construction planning were started up in relation to onboard and ground equipment (radio block centre (RBC)), and the technology transfer process with respect to the local partner, Hollysys, was initiated.

WAYSIDE SCMT
Production regarded the completion of works and reconfiguration of systems that have already been built and activated. The overall decrease from the corresponding volume of the first half of 2007 was 13.5%. Activities were initiated for the introduction of SCMT technology in the Circumvesuviana railway operated under concession, following the acquisition of a contract for the testing of the ground sub-system, the completion of which was deferred to early 2009.
The programme for the installation of the Train Speed Control System on the railway network was in effect concluded, with the outfitting of the last kilometres during the prior year. All the same, the recent start-up of the network acceleration programme approved by RFI has led to production values in excess of those originally planned and a steady level of internal activities.
Work continued on the delineation of the Addendums to the individual contracts that will be used for defining the final amount of the works executed and the final basis for the works in application of the original contractual provisions; this effort is expected to continue for the entire year of 2009.

ONBOARD SCMT/ERTMS
The production mainly regarded the supply of the rolling stock specified in the framework agreement with Trenitalia and the continuation of activity in relation to the contracts in effect executed with others railway companies operating on the RFI national infrastructure in competition with Trenitalia. A tangible contribution was also supplied by the long-term contract procured in Greece for outfitting roughly 180 rail cars with the onboard ERTMS Level 1 equipment.
The production was significantly lower than the corresponding volume for the preceding year; the decrease reflects both the progressive completion of the process of equipping the Trenitalia rolling stock and the start-up of the Railways Security Agency which caused a slowdown in the procedure of formalising certifications for the "Series Head" rolling stock.
The year of 2008 was impacted by the following developments on the operating front:
- the development and validation of a new software version implemented on the ETR500 rolling stock with functionality suitable for circulation on the Milan-Bologna high-speed line;
- the development/integration in the SCMT of a new onboard signalling system known as SSC/SCMT BL3 that Trenitalia and smaller railway companies intend to use for the circulation of rolling stock (typically, diesel traction) on minor lines. Ansaldo has successfully completed the pre-operation activation, and has obtained from RFI the credentials necessary for participating in the tenders.

The state of completion of the works on the long-term contract for outfitting rolling stock in Greece is instead encountering difficulty in terms of interaction with the companies building the rolling stock (the Group's global competitors) and securing information for correct execution of the works.

AUTOMATED CONTROL SYSTEMS (ACS)
Production mostly developed on the Rogoredo, Mestre, and Pisa contracts and the recently acquired orders for Rebaudengo, Rho/Pero and Rho, a strong overall increase over the corresponding volume for 2007. With reference to the contribution from abroad, it is worth noting that activity was inaugurated in relation to the contracts acquired in Romania and Tunisia.
The main works regarded the activation of the first phase of the ACC for Pisa and Venice Mestre, and an important reconfiguration of the system at Rogoredo in relation to the Milan by-pass railway line. Activities for the contracts for Rebaudengo and the Rho/Pero Double Frog continue, with the activation of the project planned for 2009.
Finally, it is noted that the activities needed for the completion of the Naples Junction works are moving ahead to the extent needed, with the start-up of the Naples Piazza Garibaldi and Naples Granturco stations expected in early 2009; similarly, the activities are continuing for the delivery of the ACC for the Messina-Patti line for the operation of the final configuration in early 2009.

SIGNALLING CONNECTION CONTROL (SCC) LARGE NETWORKS
Production was developed mostly on the contracts for the Palermo junction, the Bologna-Brenner line, the Tyrrhenian line, the Adriatic line, and the Genoa, Naples and Venice junctions, with a significant overall decrease compared with the corresponding volume for the preceding year. The main activities performed relate to the Palermo contract, whose new control room has become operating; the works needed for the activation of the second tract in the next months were also developed. The activation of the railway operation of the Verona junction is also noted, with an important re-configuration of the SCC at Venice Mestre. The volumes of the original contracts are naturally decreasing. Negotiations are under way to define Addendums necessary for the governance of changes, sections and charges.

ANSALDO STS FRANCE
ATP ON BOARD CHINA
In accordance with the commitments undertaken by Ansaldo STS France with MOR and notwithstanding the scarcity of test sites built, 42 trains have been equipped and are ready to be put into service, using the new Chinese standard CTCS.
The I.64 software version was released to the satisfaction of MOR in November. In order to resolve several malfunctions of the BTM, the ASF supplier decided to substitute 140 sets; the substitution of a first tranche of 80 sets is already in process on the Chinese trains, while a second tranche of 60 sets was sent at the beginning of December 2008 and will be installed on the trains in February 2009.
Actions are still under way to make up for the delay in payment due to recent technical problems. The project is currently 84% completed; the next important milestone, relating to the installation of the BTM retrofit on the trains, is currently contemplated for February 2009.

SPANISH HIGH-SPEED LINE
The ERTMS Level 1 wayside system was put into service starting in May 2006, demonstrating a high rate of reliability, leading to an increase of speed from 250 to 280 Km/h, with a letter of satisfaction sent by the customer. A speed of 300 Km/h was achieved starting in May 2007.
With regard to ERTMS Level 2, after the completion of the test phase in June 2006, the final safety case was achieved in June 2007. Some 95% of the project has been completed.
Finally, negotiations for the financial settlement of a few contract items being disputed with the customer (Liquidacion) have been successfully completed, and a change in relation to the contract has been agreed.

SHITAI CHINA
In November 2007 Ansaldo STS France acquired from the Chinese Ministry of Railways a contract for the supply of railway signalling systems for a new line in the northern part of the country. The contract, of the overall value of some EUR 32 million, relates to the designing and installation of the new system of the CTCS (Chinese Train Control System) 2 type, thanks to which passenger trains can be controlled up to 300 Km/h on the new Shijazhuang – Taijuan line, which is 190 km long, and to the previously existing railway line in the area.
The contract is currently 55% completed and commercial operations are expected to commence in May 2009.

ANSALDO STS USA
UP CADX
The project, which is highly important for the US subsidiary, Ansaldo STS USA, involves the development and installation of a 'Next Generation Computer Aided Dispatch (CAD) System' and an 'Optimising Traffic Planner (OTP) System'. These systems must be installed among all 33,000 miles of the Union Pacific's North American railway network. The contract also covers maintenance of the CAD system through 2021.
With regard to the development of the OTP, it is noted that a contractual change was agreed and signed with the customer on 29 December 2008, whose two most important points can be summarised as follows: 1) pro-rata payment of USD 5.4 million as compensation for the project team's significant technical and performance-related progress on the OTP application; and 2) the re-setting of the contractual milestones for payment on the basis of quarterly releases.
As far as the "CADX Office" is concerned, it is noted that the process requested by Ansaldo STS USA's management through which a "Core CADX" and "Full CADX" version is defined was approved by the customer. The requested process is aimed at accelerating the implementation of the elements that are mostly required by the system planned on the customer site. To date, 92% of requirements, or 26 documents, have been classified as Core, with early delivery as compared with the remainder. Of these 26 documents, 9 have been completed, 3 will be completed by the end of February 2009, and 14 by the end of July 2009.
As to system maintenance activities, the system is continuing to show a high level of stability, and the monthly maintenance hours and related revenues increased for the contract in effect in 2008, in line with the activities requested mainly for the migration of the system.

CTA DEARBORN
On this project, Ansaldo STS USA is a subcontractor of Aldridge Electric Inc. (AE). The contract calls for the design, supply and testing of a new automatic train control system and an optional communication system to replace the system currently installed on Chicago's Blue Line/Dearborn-Congress from the Forest Park Terminal to the Jefferson Park station on the O'Hare Service/Kennedy Line.
This project involves wayside equipment for 22 miles of line, which is expected to be completed in September 2009.
With regard to the work status, it should be noted that 21 out of the 24 foreseen locations have been completed, of which 18 are currently operating. With regard to the contractual section relating to the Block 37, after the customer considered the possibility of cancelling it after delays from civil builders, it was decided to replace the supplier for the new tunnel, but a new date of completion has not been determined. The relevant materials have already been prepared and will be available for delivery.
Overall, the project is currently 95% completed and is on target with regard to the supply of materials and circuit designing: all 24 locations will be completed and placed into service by 30 June 2009.

NYCT CHAMBERS STREET
On this project, Ansaldo STS USA is a subcontractor of RWKS Comstock. The supply relates to the modernisation of the signalling system of three interlockings and the construction of station equipment in Chambers Street, World Trade Center and Canal Street on the NYC Eighth Avenue line.
The work is expected to be completed by April 2010. The contractual value for Ansaldo STS USA is USD 15.9 million; the project is currently 84% completed.
Circuit designing was completed for Chambers Street station and for the other two stations. In general the project is being completed as planned; the factory inspection was completed and the equipment was sent to LKC on 5 March 2008.
Circuit designing for Canal Street was completed in March 2008.
Ground equipment is being completed as planned.
For training activities, a sub-supply contract was signed with CTC&S in the reporting period.

The **EBIT** in relation to the Signalling Business Unit came to EUR 96,980 thousand at 31 December 2008 compared with EUR 86,507 thousand at 31 December 2007, and reflects an increase of EUR 10,473 thousand, or 12.10%.
This change is mainly attributable to the Italian subsidiary, Ansaldo Segnalamento Ferroviario, whose profitability increased on average for the contracts processed during the period, and the French subsidiary for the effect of higher production for components and projects related to signalling (SHITAI) that are marked by higher profitability.
The paragraphs below relate to company figures and, as a result, include transactions among companies of the Signalling Business Unit.

With regard to the contribution margin for 2008, the following should be noted:
- the Italian subsidiary, Ansaldo Segnalamento Ferroviario, reflects a slight drop in roughly EUR 3 million in volumes when compared with December 2007 (-1%), mainly due to the expected decrease in the SCMT segment, where the programme is already close to its planned

conclusion; by contrast, the level of average profitability improved year on year due to the different mix of the contracts processed and in particular, to the positive effect of the wayside SCMT contracts in the completion phase;
- the French subsidiary, Ansaldo STS France, reflects a sizeable increase in volume of roughly EUR 32 million compared with December 2007 (+17%), somewhat equally distributed between systems and components contracts, with an increase of average profitability for the period essentially due to the favourable mix of components contracts;
- the American subsidiary, Ansaldo STS USA, reflects a year-on-year decrease in production volumes in local currency terms (roughly USD 7 million, or 4%), essentially due to an unfavourable trend of components contracts, which had negative repercussions on average profitability for the period, which also decreased year on year;
- the subsidiaries of the Asia Pacific area realised a sizeable increase (AUD 110 million, or 47%) in production volumes, mainly due to more activity in Australia on the northwest projects (“FMG Infrastructure”), ARTC and QR Alliance, and to more deliveries of materials on the KFW and Gooty projects in India; average profitability media for the period remained at the level reported at December 2007.

As regards other structure costs, the rise over December 2007 is mostly due to the increase in supply activities and commercial operations in general, since administrative costs reflect savings with respect to the prior-year level.

Net working capital of the Signalling Business Unit was a negative EUR 37,216 thousand at 31 December 2008, and thus worsened by EUR 31,443 thousand compared with the negative EUR 68,659 thousand at 31 December 2007. This change is principally due to the American subsidiary, Ansaldo STS USA, for the effect of more supplier payments and the decrease in the fair value of hedging derivatives, and the Italian subsidiary, Ansaldo Segnalamento Ferroviario SpA, for the effect of the decrease of trade payables.

Net invested capital of the Signalling Business Unit came to EUR 54,210 thousand at 31 December 2008, rising by EUR 43,058 thousand over the EUR 11,152 thousand reported at 31 December 2007; this increase is essentially linked to the change in working capital.

Research and development spending amounted to EUR 41,618 thousand at 31 December 2008, compared with EUR 37,835 thousand at 31 December 2007.
The projects in which the companies of the Signalling Business Unit were involved regard the following market segments:
- HSL/ERTMS Level 2
- Main Lines/ERTMS Level 1 & 3
- Wayside
- Mass Transit
- Components
- Security/New initiatives

The **workforce** at 31 December 2008 came to 3,901, an increase of 35 compared with the figure at 31 December 2007. The change is mainly attributable to an increase in resources in the Asia Pacific area (+140), as a result of the current and prospective expansion of activity; an increase of the resources in the Western Europe region (+50), partially offset by a reduction of the Italian subsidiary’s resources (-70) as a result of transfers to the Parent company and to the Transport Systems Business Unit, and a reduction (-82) at the American subsidiary for the effect of the reorganisation plan (whose main objective is to streamline the Badesburg production facility) which generated restructuring charges.

3.2 Transport Systems

(EUR 000’s)	**31.12.2008**	31.12.2007	Change
Orders	**342,467**	802,728	(460,261)
Order backlog	**1,843,542**	1,809,872	33,670
Production Revenues	**301,583**	241,438	60,145
EBIT	**28,070**	21,986	6,084
Adjusted EBITA	**28,070**	21,986	6,084
Net Profit (Loss)	**43,694**	15,278	28,416
Net working capital	**(122,930)**	(143,324)	20,394
Net invested capital	**(3,035)**	(20,841)	17,806
Free Operating Cash Flow	**26,549**	(11,913)	38,462
R.O.S.	**9.31%**	9.11%	+0.20 p. p.
Research and development	**2,894**	2,276	618
Employees (no.)	**376**	327	49

(The figures in this table are inclusive of transactions with other segments).

The Transport Systems Business Unit designs and builds integrated transport systems, and specifically, studies, designs and plans how to integrate the activities of designing and building the equipment that goes into a system – that is, the super structure, signalling, power supply, telecommunications and vehicles (whether for inter-city or urban railways) as well as any other technological works which, collectively, constitute an integrated transport system. The final product - an integrated transport system, whether an inter-city line or an urban one - is then delivered as a "turnkey" project to the customer. However, the Group can also offer the expertise of the Signalling or Transport Systems Business Units separately, according to specific customer needs.

The main projects in which the Transport Systems Business Unit is participating, or in which it has participated, are as follows:
• the driverless metros of Copenhagen, Brescia and Thessaloniki;
• Naples Metro Line 1, and Rome Metro Lines A, B and C;
• light metro systems for Genoa and Naples Line 6 (on these two projects the Group is acting as concessionaire, and is thus responsible for the completion of the whole project including civilian works) and Lima;
• tram systems at Florence, Sassari, Birmingham (Midland Metro), Manchester (Metrolink), and Dublin (Lines A, B, C);
• the building of electrical/rail systems for the Milan Metro (Line 1);
• the design, construction, installation, testing and commissioning of signalling, telecommunications and electrification equipment for 330 km of the dual track line between Ipoh and Padang Besar, Malaysia.

Finally, in Italy, the Business Unit is working on high-speed rail lines, through the IRICAV UNO consortium (responsible for the Rome-Naples section), the IRICAV DUE consortium (responsible for the Verona-Padua section), and the Saturno consortium.

The **orders acquired** by the Transport Systems Business Unit came to EUR 342,467 thousand at 31 December 2008, and principally regard:

Country	Project	Customer	Value (EUR mln)
Malaysia	Extension Contract North Ipoh to Pedang Besar	MMV Gramuda	135.0
Italy	Roma Linea C	Metro Roma	56.4
Italy	Alifana - variation order	Metro Campania	53.3
Italy	Vesuviane - variation order	Circum Vesuviana	24.2
Australia	ATO Phase 3 - Termination Provisions	Rio Tinto	15.4
Italy	Tramvia Firenze - variation order	Comune di Firenze	13.4
Italy	HSL Italy - variation	Iricav / Saturno	7.0
Denmark	Copenhagen - variation order	Orestadsselsk abet	6.9
Italy	Metro Brescia - variation order	Comune di Brescia	5.3

In 2007, the orders acquired came to EUR 802,728 thousand.

The **order backlog** of the Transport Systems Business Unit came to EUR 1,843,542 thousand at 31 December 2008 (compared with EUR 1,809,872 thousand at 31 December 2007).
The backlog principally regards the following projects:
• High-speed trains (EUR 58,639 thousand)
• Copenhagen Metro (EUR 77,069 thousand)
• Concessions in relation to the Naples Metro and Genoa Metro (EUR 574,667 thousand)
• Driverless metro for Brescia and Milan (EUR 284,820 thousand)
• Rome Metro Line C (EUR 330,056 thousand)
• Thessaloniki (EUR 149,112 thousand)
• Alifana (EUR 139,059 thousand)
• Malaysia North (EUR 135,000 thousand)
• Other (EUR 95,119 thousand)

Production revenues of the Transport Systems Business Unit at 31 December 2008 came to EUR 301,583 thousand (EUR 241,438 thousand at 31 December 2007); the pronounced increase of EUR 60,145 thousand compared with the prior year is attributable to the development of important order backlog. The volumes were developed in Italy (76%) and abroad (24%), with 78% regarding the metro rail sector. Production developed in relation to the contracts for high-speed trains, the Rome Metro Line C, Copenhagen Metro, Genoa Metro, Alifana, Naples Metro Line 6 and Brescia Metro.

The most significant production activities are as follows:

HIGH-SPEED RAILWAYS
With regard to the works carried out through the Saturno consortium, the main event was the start-up of the commercial operation of the Milan-Bologna tract in December; the event received significant coverage in the national press.
With reference to the Rome-Naples tract, the customer approved the executive project for Operational Lot 2; work is now under way on the construction project (with the exclusion of part of the tunnel security), with the Consortium to re-submit the bid by February. The design and building activities for the Novara-Milan tract have been completed, while the date for the activation for the energy systems through the Rho peripheral station is to be agreed with the customer. Finally, the start-up of the energy systems was effected at the end of October for the Bologna-Florence tract in order to get under way with testing of the train on the line; it is noted that the commercial operation of this tract is slated to begin at the end of 2009.

Regarding the works made through the Iricav Uno Consortium and the consortium company, Pegaso, activities are concluding for the second-stage works on the anti-noise barriers for Operational Lot 1 of the Rome-Naples section, already in service.
For the Operational Lot 2, the laying of the super structure through the Afragola movement placement (included) has been completed, while installation works through the end of the tract were initiated and should be completed in the first quarter of 2009.
In particular, the Amicable Settlement sought by the Consortium in relation to presumed delays and noncompliance charged by the final customer to the general contractor was not reached. The Consortium has thus started arbitration proceedings.

GENOA METRO

The activities carried out in 2008 mainly refer to the civil works of the De Ferrari-Brignole section. After delays in past years caused by numerous archaeological findings, the work proceeded in 2008; in November, the tunnelling work was completed through Pozzo Brignole (367 m), whereas in December, the “partition” fell between the Allargo Corvetto toward the De Ferrari station (288 m).
At the start of 2009, the final 20 m between Allargo Corvetto and Pozzo Brignole (total of 335 m) will be completed to conclude the line’s tunnelling activity. The next initiatives regard the completion of the work on the walls inside the tunnel, and the works related to the foundation and the concrete slab.
Works at the Brignole Station also got under way in order to prepare for both the extension of the rail underpasses at the FS station, and structural works on the metro station itself.

Final budgets were prepared in 2008 for the S.Giorgio-Sarzano and the Sarzano-De Ferrari sections. It is expected that the formal documents will be finalised in the first quarter of 2009, following the technical/administrative testing.

Negotiations with the City of Genoa continued for the purpose of executing an addendum for the new Dinegro Depot. The objective is to manage to complete this work in time for the activation of the De Ferrari-Brignole functional tract, currently expected as of December 2011.

ALIFANA REGIONAL LINE

The construction of the Giugliano-Aversa Centro line (Second Operational Lot) was completed in terms of both line and station installations. The Giugliano sub-station is active.
The internal testing and the testing with the Works Management were completed, and the USTIF (Italian Agency for Transport and Fixed Plant) testing is currently under way. The pre-operation will begin in the first quarter of 2009.
Six traction units of MA100 trains for the Northwest Campania Metro were outfitted with ATP and TELOC 2500 equipment needed for their placement into service. This will allow for the public operation of two trains with a triple configuration.

The external works to the Giugliano, Aversa, Ippodrom and Aversa Centro stations which are covered by addenda signed in 2008 are nearing completion.
The Scampia Underpass, which was also contractually agreed in 2008, and the related link to the Piscinola Station (which is already in operation together with the Mugnano-Operational Lot 1 Station) are to be completed in 2009. Such works do not condition the opening of the public operation of the tract that is estimated to occur in the first quarter of 2009.

NAPLES METRO LINE 6

The year of 2008 was marked by three fundamental developments for continuing the works covered by the Sixth Mergellina-Municipio Addendum:
- Business/technical approval of the 2008 change to the sixth addendum;
- Approval by the Grantor City of Naples of the remodelling of the financial framework for the sixth addendum;
- Full-scale development of the works at the main work sites for the Mergellina–Municipio functional tract.

With reference to the first point, the change has been subdivided into two packages: a first tranche that does not call for any spending increase for the city administration, was made official in December, and will be covered by a resolution of the City Council during the first quarter of 2009. The second tranche is currently being examined by the City and the Works Management.
Instead, with reference to the second point, in December 2008, the Grantor approved, via resolution of the City Council, the restructuring of financial coverage of the entire project, due to changes in the contribution on the part of the Framework Law and the Campania Region.
Finally, with regard to the third point, the main structural work on the stations and tunnelling was initiated in the first half of 2008, and once an initial phase of the necessary trial period was completed, the work on the functional tract got under way in the final quarter of the year, with the land pre-consolidation works on the land, cthe construction of containment structures and geo-referenced monitoring of the land and the surrounding structures over the entire line.
With reference to the technological works, in order to comply with the prescription of the CIPE Resolution n. 91 of 30 August 2007, for the approval of the definitive project for the Mergellina-Municipio tract, in relation to *“supplying, during the period of the execution of the civil works, all necessary testing aimed at justifying the innovative technology of the signalling system”,* the Grantor approved in November the executive project for the traffic automation and signalling system, and later the Works Administration proceeded with the delivery of the related works for the supply activities only.
In conclusion, the year of 2008 was marked by the major effort undertaken by the concessionaire in order to achieve a final configuration of the structural works that involve both the stations and the tunnelling; inevitably, a price had to be paid for having to harmonise the positions in a temporary business association made up of four groups and five consortia commissioned for the execution of the works, as well as for the having to deal with the adverse opinions of various players directly or indirectly involved in the execution of the works (Archaeological and Cultural Monuments Office, local area committees, etc.). At any rate, however, it was possible to lay the foundation so as to be able to develop the ambitious production volumes for Line 6 in the years to come, and to do so in concert with the civil partner and in respect of the contractual programmes.

BRESCIA METRO

With reference to the Company’s works, the development of construction planning is continuing. Tests continued on the electrical supply systems, depot equipment, the third-rail sub-system, the ATC signalling sub-system, and the telecommunications sub-system.

The final assembly tests of the electrical sub-station and the third rail are in process in the depot, while the telecommunications and signalling installation work continues.
Regarding the civil works to be carried out by the partner, the shield tunnel boring machine left the Marconi station and will arrive soon at the Ospedale station in February, at which point only 30 metres will be left for the end of the tunnel boring machine's activity.
The line and station building activities along the line are proceeding, while the finishing work is just about completed at the depot area and the first two stations where Ansaldo STS' activity will begin in February.
With reference to the rolling stock for which AnsaldoBreda is responsible, the first three vehicles at the Naples facility are now being outfitted and the engines are being built, the carpentry work on the carriages is in process at the Reggio Calabria plant.
In the final months of the year, the dispute intensified between ATI (with particular reference to the civil partner, Astaldi) and Brescia Mobilità with regard to the recognition of reserves on the works. Meetings are being held between the parties in order to determine the basis for the reserves, and to find a way to resolve the dispute.

COPENHAGEN
Production during the period was almost exclusively marked by activities relating to the system operation and maintenance and some extra works requested by the customer.

ROMA METRO LINE C
In 2008, civil works continued on Tracts T4-T5-T6a and in the Depot. The first tunnel boring machine built roughly 1,500 metres of tunnel; the second started digging a separate second tunnel at the end of September, constructing roughly 750 metres.
The construction of cut-off trench and/or excavation is taking place at the sites where the stations will be located. Construction was initiated of the maintenance structure at the Graniti Depot, of the operations centre, and the principal underground passage.
During the same period, the customer approved with comments the executive project for the T6a-T7-Depot tracts, and an agreement was struck for the definition of a new general contractual programme for the first function tract, with a series of changes related to the new programme likewise determined.
Archaeological surveys for sections T3 and T2, and the final engineering of section T3 to the Imperial Forum station are continuing, with the delivery of the metro line station expected for the first quarter of 2009.
Other documents filed include the planning documents related to the Executive Works Programme Changes, S.Giovanni, WI-FI and additional civil works changes whose approvals (excluding the executive works programme change which was already approved) are expected for the first quarter of 2009.

THESSALONIKI METRO
As part of the shareholders' structure (AIASA JV), which includes ATSF, the holding company AEGEK (Greek company that builds a part of the civilian works) signed an agreement with a local entrepreneurial group (Ionios S.A.), for the transfer of a significant amount of shares.
The main activity during the year regarded the submission of the General Final Design 2 (GFD2), with the planning documentation revised by the customer in relation to the different electrical and mechanical systems.
Despite joint venture's numerous attempts at positively concluding a shared technical route (in particular, with the purpose of demonstrating the adequacy in terms of safety and performance of the signalling system architecture proposed by Ansaldo), the Customer has formally put in default the joint venture for the proposal of a signalling system "not responding to the specified requisites", thereby blocking the process of the revision of the General Final Design 2 of almost all of the other fields.
The Company has proposed various alternative technical solutions to get beyond the counterparty's objections. Appropriate actions are being taken for both satisfying the requisites from a technical standpoint and negotiating a solution to break the deadlock.
The completion of the General Final Design 2 by November 2008 was thus not achieved.
The procurement activities have nonetheless moved ahead, and the processes for the manufacturing of the signalling and telecommunications systems have been inaugurated at the suppliers' facilities; the materials already tested according to the contractual programme have not yet been acknowledge by the customer since the related technical specifications will be screened by the customer after the approval of the General Final Design 2.

EBIT for the Transport Systems Business Unit at 31 December 2008 came to EUR 28,070 thousand (9.31% of the value of revenues), and increased compared with prior-year result of EUR 6,084 thousand (2.02% of the value of revenues); the increase is the consequence of the incremental volumes developed.

Net working capital of the Transport Systems Business Unit at 31 December 2008 amounted to a deficit of EUR 122,930 thousand, and reflects deterioration of EUR 20,394 thousand compared with the deficit of EUR 143,324 thousand at 31 December 2007, with the change essentially due to an increase of the differential between trade receivables and payables and a decrease in advances from contractors.

Net invested capital at 31 December 2008 was a negative EUR 3,035 thousand, which reflects an increase of EUR 17,806 thousand compared with the negative value of EUR 20,841 thousand reported at 31 December 2007; this change is principally due to: the change in working capital outlined above; the decrease in non-current assets for the effect of the assignment of a portion of the advance for the "Thessaloniki Metro" for expenses which thus caused the balance to fall compared with December 2007; and the increase in non-current liabilities as a result of the recognition of increased deferred tax liabilities.

Research and development spending came to EUR 2,894 thousand at 31 December 2008, with an increase equal to EUR 618 thousand over the prior year when the balance equalled EUR 2,276 thousand.

The **workforce** at 31 December 2008 amounted to 376, while the average workforce for the year was 361.

4 Risks and uncertainties

The risks outlined hereunder take into account the characteristics of the Group's market and activities, and the main findings of the risk assessment activity carried out in the second half of 2007. The risk assessment, which was finalised upon definition of the audit plan and in general, the audit priorities, involved all companies of the Group and was carried out through interviews of the companies' principal managers, with the methodological support of Internal Audit. The assessment evidenced the risks of the processes under the managers' responsibility, and the main controls placed into effect for mitigating the risks.
The results of the risk assessment in 2007 are deemed to be still valid overall, on the basis of (i) targeted updates were carried out with respect to certain select processes in consideration of the finding of such risk assessment or to the companies' knowledge, and (ii) the overall monitoring of the internal controls system handled by Internal Audit.

In order to allow for greater transparency of the information disclosed, this report evidences the main risks detected from the evaluation and analysis on the part of the Group's management.

Risks related to the increase of the degree of competitiveness of the markets in which Ansaldo STS operates
The Signalling and Transport System markets, where the Group operates, are marked by rapid technological change and by a high level of business competition mostly among a limited number of great international industrial groups with size and financial resources that are significantly greater than those of the Group. These markets are also marked by rapid technological development. In this regard, Ansaldo STS believes that one of the key factors to contend with competitors is technological innovation and a continuous focus on the efficiency of planning and realisation. In this regard, the Group's policy envisages constant investments in R&D activities, aiming at offering innovative high-technology products paired with projects for improving efficiency.
However, in the future, the Group may not be able to carry on this investment and innovation policy in a different way from its competitors. This, together with pressure on prices generated by the entry of new market participants, could lead to the deterioration of the Group's market position and consequent adverse effects on its activity, earnings, capital and financial position.
In view of this uncertainty, the Group has defined a strategic plan on which the 2009-2012 guidelines supplied to the financial market are based; the plan is focused on market opportunities and on more efficient and integrated management of the Group.

Risks related to the international dimension of the Group's activity
The Group exercises its activity in different countries with a strategy aimed at intensifying its presence in international markets. This strategy, however, exposes the Group, in certain countries in which it operates or in which it intends to operate, to certain risks, including the risk of political, social and economic instability, hyper-inflation, changes in local regulations, difficulties in protecting intellectual property, fluctuation of exchange rates, and creditworthiness of counterparties. Such international expansion strategy, together with a dependence on customers subject to specific regulations or whose activity is conditioned by the policies of the state or public administrations or entities, exposes the Group to risks connected with the change in such regulations or policies, both in Italy, and in others countries, with consequent higher charges or limitations on its activity.
In order to mitigate such risks, the Group maintains continuous analysis of the situation of the different countries in which it operates, through the stable presence of subsidiaries and with the support of local partners and consultants. The processes for bidding and managing long-term contracts take into account the aforementioned risks. The close working relationships that the Group manages to develop with public authorities that govern or influence the sectors of the Group's activity make it possible to monitor the risk related to regulatory changes.

Prospects for the financial markets and economic trends
The financial markets crisis that began in the final months of 2008 and the uncertainties stemming from it with regard to the performance of the financial markets and the global economy entail risks for the Group with regard to the eventuality of contract cancellation or deferral, possible payment delays, less favourable financial conditions for new contracts, and more restrictive policies on the part of banks for the granting of guarantees.
The Group has nonetheless a solid capital and financial structure such as not to require external financing; it also has a significant order backlog equivalent to roughly three years of production. With this capital and financial solidity and the availability of credit lines for guarantees equal to EUR 430,193,375 at 31 December 2008, the Group is able to tap bank guarantees without significant difficulties. With reference to new contracts, the demand for less favourable conditions for the Company and for the Group companies will need to be negotiated with attention, maintaining as a reference the Group's parameters for the contract's creation of value.
In addition, the risk of contract cancellations or deferrals, as well as the risk of payment delays are less significant in the case of customers of a public nature since the state authorities in many countries are committed to policies to support the economy in order to moderate the current recession.
The economic support policies of major countries may conversely turn out to be an opportunity for the Group, given the significant infrastructure investments included within the framework of such policies.

Risks related to relationships between Finmeccanica and Ansaldo STS: dependence on Ansaldo brand licensing contract
On 27 December 2005, Ansaldo STS entered into a licensing agreement with Finmeccanica by virtue of which the latter granted Ansaldo STS the right to use the "Ansaldo" trademark for a period of 20 years. Amongst other things, the contract provides: (i) Finmeccanica's option to withdraw from the contract in the event in which a third party, directly or indirectly, alone or in concert with others, becomes a holder of a percentage of Ansaldo STS' share capital that is equal to or greater than the percentage held by Finmeccanica or in any event, is able to appoint the majority of the members of the Company's Board of Directors; (ii) the obligation on the part of Ansaldo STS, as of the contract expiration date, to cease immediately the use of the trademark and to arrange, within 30 days, to change its company name. Should Finmeccanica exercise the withdrawal option or should the contract be terminated for default, Ansaldo STS is obligated to change its company name within three months, and it maintains the right to market and sell the unsold products already bearing the trademark for a maximum term of six months.
Any exercise of the right of withdrawal by Finmeccanica, along with the obligation of Ansaldo STS to cease using the "Ansaldo" trademark

at the end of the contract, could have negative effects on the activity and on the earnings, capital and financial position of the Company and of the companies of the Group.

Risks related to dependence on important long-term contracts
Operating as technological systems experts in the rail and metro transport systems and in the complex technology of signalling, the Company and the Group are active in businesses largely dependent on long-term contracts involving significant amounts. Any interruption or cancellation of one or more important long-term contracts may adversely affect the business and the earnings, capital and financial position of Company and of the Group companies.
Such contracts are significantly concentrated with a few large customers, in several companies of the Group, even though less significant at a Group level. The risk therefore that large customers, in particular, customers in the public sector and whose spending programmes thus depend on public financing, revise or cancel their spending programmes has a lesser impact at a Group level and is monitored by risk management processes both during the bid phase and during the execution of the project.
The diversification of the markets and the monitoring of country risk and compliance risk make it possible to mitigate the risk. The risk of business concentration with a few large customers, to the extent in which it exists within several companies of the Group, is monitored by risk management processes both during the bid phase and during the execution of the project.

Third-party risks (subcontractors, suppliers and partners)
In carrying out its activity, the Group makes use of third parties, including subcontractors for producing, assembling and testing part of the Group's products, and suppliers of raw materials, semi-finished goods, sub-systems, components and services. The Group's capacity to meet its obligations with respect to contractors is thus subject to the proper fulfilment of contractual obligations on the part of both subcontractors and suppliers. Accordingly, should the aforementioned subcontractors and suppliers be partially in default with respect to Ansaldo STS, supplying the latter with products and/or services at times other than those agreed or products and/or services that do not have the quality requested or that are defective, Ansaldo STS could, in turn, end up in default or cause damage with respect to its contractor. In such circumstances, Ansaldo STS could be the target of damage claims on the part of the contractor, without prejudicing its right to seek recourse with respect to the subcontractors and suppliers, to which could be added possible negative effects in terms of reputation. If Ansaldo STS were not to be able to exercise the right of recourse to transfer the entire damage claim to the aforementioned parties, the events could have negative effects on the activity and on the earnings, capital and financial position of the Company and of the companies of the Group.
Each company of the Group plans and executes contracts on its own, or in association with other market participants. In the latter case, each party is generally jointly and severally liable to the contractor for the planning and execution of all of the work. Were a participant in the association to default or cause damages with respect to the contractor, the Company or the companies of the Group could be called on to substitute the defaulting or damaging party, and to pay all damages accrued by the contractor, without prejudice to the right of recourse with respect to the defaulting association participant. The inefficacy or the protraction of recourse actions with respect to the association participants in default or responsible for possible damages could negatively affect the activity, earnings, capital and financial position of the Company and of the companies of the Group.
These risks are mitigated by the Company's selection of qualified subcontractors and suppliers, by working relationships with partners already known and with proven reliability, by the definition, execution and management of suitable contractual and group clauses, by risk management processes, and if applicable, the requirement for special guarantees.

Risks related to bidding and design
The eventual incomplete assessment of the needs and requirements of the customer and of the contract and/or the non-availability of the technical solutions requested may lead to errors in preparing bids, operational estimates and design work. The possible non-involvement of the technical and project management areas in the bid phases could lead to inconsistency between the technical solutions proposed during the negotiation phase and the technical solutions actually available, thereby causing non-competitive bids or bids not in line with the objectives and/or margins expected.
Bid and project-management processes based on a careful evaluation of the needs and of the technical solutions suitable and on the participation of all business areas involved and on the analysis of the risks are factors that contribute to mitigating these risks.

Risks related to the activities of analysis and monitoring the risks of long-term contracts
The complexity of the projects may lead to errors in the initial risk analysis and the update of the same in relation to different aspects of the project (technical, legal, fiscal, and commercial) due to incomplete/incorrect information or an inappropriate bid/project team mix. Ineffective monitoring of contract risks could have negative effects on economic performance and could cause possible delays in the planning and execution of the project.
The risk management processes and the bid and project management processes based on the participation of all business areas involved are factors that contribute to mitigating this risk.

Risks related to legal proceedings
The complexity of the relationships with third parties (customers, subcontractors/suppliers and partners) and of the content of the systems and products produced, and specific business risks expose the Group to a significant risk of legal disputes. Legal disputes may also regard orders for the adjudication of the tenders.
Despite the existence of rigorous risk management processes during both the bidding phase and the operational phase, and the adoption of a prudential approach in booking the costs of the contracts and risk reserves, the risk arising from legal disputes could be manifested, thereby causing delays in the execution of the contracts, with negative effects on the activity and on the earnings, capital and financial position of the Company and of the companies of the Group.
Risk management processes during both the bidding phase and the operational phase, the careful checking of contractual clauses with the support of legal counsel, and the adoption of a prudential approach to booking the costs of the contract and the risk reserves are factors that contribute to mitigating this risk.

Risks related to the protection of intellectual property rights
In certain countries in which the Group is present or intends to operate, there are no specific regulations for the protection of intellectual property and, therefore, competitors could replicate the patents and technologies produced and applied Group. Should this occur, the Group could see its operating or market penetration capacity reduced in the future in such markets, with negative effects on the activity and on the earnings, capital and financial position of the Company and of the companies of the Group.
In addition, in order to penetrate certain markets, technology transfer agreements need to be established with the customer or with local businesses; such agreements could compromise the distinctive nature of the Group's know how.
The mitigation of this risk requires the presence of special protection clauses in the technology transfer accords, the clear identification of the technologies shared, and control over the observance of the agreements.

Risks related to the need to finance a high level of current activities
The planning and execution of contracts by the Company and the companies of the Group requires an adequate level of financing of current activities. The Group generally finances such activities through the sums paid to it by the contractor in the form of advances and in the form of payments related to the state of completion of the works, and through centralised treasury management.
Possible difficulties in negotiating suitable financial conditions, delays and/or interruptions in such payments, and changes to make the payment terms worse than those agreed are situations that could negatively affect the earnings, capital and financial position of the Company and of the companies of the Group. In addition, the Group's organisation in many operating companies could limit the inflow to Ansaldo STS of the cash generated by those companies because of regulatory or tax limitations, due to the companies' financial needs or other factors.
A commercial/operational policy for the contracts attentive to financial aspects and centralised treasury management are factors that contribute to mitigating this risk.

Risks related to Ansaldo STS' capacity to secure guarantees
The nature of the projects of the Company and of the companies of the Group requires the release of banking and/or insurance guarantees in favour of the contractor during various phases of the projects (bid bonds, advance payment bonds, performance bonds, retention money bonds, and warranty bonds) and/or guarantees released by the Parent company. The capacity to secure such guarantees at economical conditions depends on the assessment of the earnings, capital and financial position of the Company and of the companies of the Group. In particular, this capacity is generally linked to different valuation indicators, including the analysis of the earnings, capital and financial position of the Company and of the companies of the Group, the analysis of the contract risk, and the experience and competitive positioning in the sector of reference. Ansaldo STS believes that it respects the pertinent valuation indicators.
Should this capacity to secure guarantees at economical conditions disappear or diminish, there would be negative effects on the Group's activity, earnings, capital and financial position. At 31 December 2008, the Group had exposure for guarantees equal to EUR 1,212,191.
The earnings, capital and financial solidity of the Company and of the companies of the Group, together with the positive valuation indicators regarding the contracts (monitored during the bid process) and the Group's competitive positioning that can be evidenced are factors that contribute to mitigating this risk.

Risks in relation to liability to customers or third parties for defects in the products supplied
Possible design and production defects on the products of the Company and of the companies of the Group could generate civil and criminal liability with respect to customers and/or third parties. Even though the engineering and validation processes are carefully governed and constantly monitored, specific insurance policies have been taken out in order to protect against this risk and to cover any damages sustained by customers and/or third parties. Events not covered by the insurance policies that cause damages or events covered by the policies that cause damages in excess of the policy limits are events that could have adverse effects on the activity, earnings, capital and financial position of the Company and of the companies of the Group.
In addition, the supply of defective products could require additional activities or the possible withdrawal of the products from the market. This eventuality could specifically occur in relation to new products for which the Group has not yet built up significant operating expertise. The costs that might be sustained in relation to the additional activities or to the withdrawal of the products from the market could negatively affect the Group's activity, earnings, capital, financial position and reputation.
Cautious governance of the engineering and validation processes, monitoring of returns, and the planning of special cost accounts for contract reserves and specific policies to cover damages possibly sustained by customers and/or third parties are factors that contribute to mitigating this risk.

Risks related to the application of the European and non-European standards and regulations in relation to the products supplies and changes to such standards and regulations
The possible improper application of design standards/processes due to the lack of knowledge about the standards/processes provided by the regulations existing in the new markets which the Group is entering could entail the risk of planning solutions not in compliance with the regulations. Added to this is the risk of shortcomings in the process of monitoring the development of the product standards and regulations in Europe, with consequent risk of loss of competitive capacity on the markets.
Engineering and validation processes focused on the understanding of new standards/processes, as well as specific governance guidelines for monitoring of the development of the European standards/regulations are factors that contribute to mitigating this risk.

Risks related to related to security/reliability certification of the products developed and/or installed
Possible errors or delays in the RAMS (reliability, availability, maintainability, and safety) analysis of the products developed and their applications could make certification to the customer of the expected performance of the product in terms of security and/or reliability either impossible or delayed.
RAMS areas that are separate from the engineering and the monitoring of the project programme will contribute to mitigating this risk.

Risks related to the procurement and management of the human resources needed for carrying out business activity
The Group supplies high-technology systems and services whose design and production require the use of resources with specific expertise that is often difficult to tap on the market. The risk exists, particularly in the emerging nations of the Asia Pacific area and Eastern Europe, that it may not be possible for the Company to recruit and retain the resources needed in terms of number and quality, especially because of the high level of competition existing in labour markets of those countries.
The policies for hiring and managing and developing human resources are defined in close correlation with the needs of the business, making business managers the promoters of such policies.

Risks in relation to information systems
The information systems represent an essential component of the corporate operating structure and require management in line with the Company's strategic objectives. Information solutions not responding to the needs of the business, delayed updates of information solutions, and inefficient systems management may compromise the efficient and effective management of the activity of the Company and of the companies of the Group.
Possible non-availability or interruption of IT service, the possible loss of data due to intentional or unintentional reasons, disasters, system failures, etc. could have negative effects on the activity of the Company and of the companies of the Group.
The Group has a governance system inspired by best practices, and follows structured and monitored processes for managing the infrastructure and applications.

Compliance with health, safety and environmental regulations
The Company and the companies of the Group are subject to health, safety and environmental regulations in the various frameworks in which they operate. Such regulations are increasingly more stringent and entail exposure to risks that could have significant effects on the activity and reputation of the Company and of the companies of the Group. Such negative consequences may also involve the Company pursuant to Legislative Decree 231/2001 on the administrative responsibility of legal persons, with negative consequences on the Company's earnings, capital and financial position. In particular, the type of activity entails that the Company or the companies of the Group need to manage meddling with subcontractors or the partner having a presence at the work sites.
The Company and the companies of the Group adopt health, safety and environmental systems aimed at guaranteeing the rigorous respect of the regulations in accordance with best practices; the systems are subject to internal and external monitoring.

5 Analysis of the income Statement and the Balance Sheet of the Parent company

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

Ansaldo STS SpA closed the financial year 2008 with a net profit of EUR 7,601 thousand, worsening compared with the profit of EUR 43,223 thousand recorded in 2007.
This variation is due to the non-distribution of the dividend by the Dutch subsidiary Ansaldo Signal NV in liquidation (EUR 36,000 thousand in 2007). In fact, the disposal of the Italian subsidiary Ansaldo Segnalamento Ferroviario SpA to Ansaldo Trasporti Sistemi Ferroviari SpA, occurred in July 2007, led to the breaking of the corporate chain by which dividends were flowing to the Dutch subsidiary. Such a dividend for an amount of EUR 23,490 thousand was distributed in 2008 by ASF to ATSF and flew in Ansaldo STS SpA on 1 January 2009 as a result of the merger of ATSF into ASTS.

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

The striking fact of the financial year 2008 is represented by the approval on 20 June 2008 by the Board of Directors of the merger through incorporation into the Group parent Ansaldo STS SpA (ASTS) of the two subsidiaries Ansaldo Trasporti – Sistemi Ferroviari SpA (ATSF) and Ansaldo Segnalamento Ferroviario SpA (ASF).
Consequently since 1 January 2009, following the execution of the said merger, Ansaldo STS took over the universality of the juridical relationships, as well as of movable and immovable properties, tangibles and intangibles, vehicles, machinery, owned by ATSF and ASF at the effective merger date.
It thence follows that all the obligations connected with the approval of the financial statements of Ansaldo Trasporti – Sistemi Ferroviari SpA (ATSF) and Ansaldo Segnalamento Ferroviario SpA (ASF) closed at December 2008 fall under the competence of the corporate bodies of Ansaldo STS, as incorporating company.

It should be also reported that on 12 December 2008, the Board of Directors resolved to proceed in the course of 2009 with the incorporation of the Dutch subsidiary Ansaldo Signal NV in liquidation, on the basis of the financial statements at 31 December 2008.
In the light of this merger and in any case in view of the suspension of the business by Ansaldo Signal NV in liquidation, the Group's treasury service, carried out by the Dutch sub-holding, was centralised in ASTS in the month of December. In particular, the contract for deposit presently outstanding between ASNV and the related concern Finmeccanica Finance SA (Luxembourg) was closed; the same can be said for the current account contracts outstanding between ASNV and the subsidiaries thereof. All these relations have been replaced by identical relations towards ASTS.
New contracts have been stipulated, specifically: (i) a new contract for deposit with Finmeccanica Finance SA, similarly to the previous one with ASNV, made at *arm's length basis*; (ii) new current account contracts between Ansaldo STS SpA and the subsidiaries thereof.

On 27 March 2008 the Company collected from the Italian subsidiary Ansaldo Trasporti Sistemi Ferroviari SpA, dividends for EUR 14,544 thousand as per resolution approved by the corporate bodies of the latter.

Following the approval of 20 June 2008 and the subsequent stipulation on 26 September 2008 of the deed relating to the merger through incorporation between Ansaldo STS SpA and its subsidiaries Ansaldo Segnalamento Ferroviario SpA and Ansaldo Trasporti Sistemi Ferroviari SpA, the Consolidated Taxation Mechanism for IRES purposes (corporate income tax) has no longer been adopted since 1 January 2009, whose option had been exercised on 15 June 2007.
The suspension of this mechanism has not changed the benefits obtained with the exercise of the option, given that Art. 124 of T.U.I.R. is not applicable in this particular case.

At 31 December 2008 the Company showed deferred tax assets for EUR 1,549 thousand (2,975 at 31 December 2007) attributable for EUR 641 thousand to the gain from consolidation deriving from the set-off of the tax loss generated by Ansaldo STS, following the tax decreases due to the tax exemption at 95% of the dividend distributed by Ansaldo Trasporti Sistemi Ferroviari SpA, set-off executed thanks to the adhesion of the company to the Consolidated Taxation Mechanism with the Italian Group's companies (Ansaldo Segnalamento Ferroviario SpA and Ansaldo Trasporti Sistemi Ferroviari SpA) and for EUR 1,158 thousand to net deferred tax assets, partially offset by the IRAP payable (regional tax on productive activities) equal to EUR 204 thousand, and by taxes relative to previous financial years for EUR 46 thousand.
Ansaldo STS SpA, following the approval of 2008 Finance Law (Law no. 244 of 24 December 2007), has applied since 1 January 2008 the following tax rates: IRES 27.50% and IRAP 3.90%.
With reference to the tax losses generated in the years from 2004 to 2006, Ansaldo STS SpA has not deemed it appropriate to recognise any deferred tax asset.

It should be also pointed out that:
- since March 2008, in order to adjust the information of the Balance Sheet to the provisions required by IAS 1, the items "Income tax receivables" and "Income tax payables" have been adopted in place of "Tax receivables" and "Tax payables", classifying consequently the amounts relating to receivables/payables for indirect taxes under "Other assets" and "Other liabilities" respectively, with a related alignment of the comparative situations presented;
- since December 2008 the Balance Sheet, the Income Statement and the Cash Flow Statement have been adjusted with indication of the portions pertaining to related parties as required by IAS 1, IAS 24 and by the Consob regulations;
- since April 2008 the subsidiary Union Switch & Signal Private Limited modified its corporate name to Ansaldo STS Transportation Systems India Private Limited;

- since January 2009 the American subsidiaries changed their corporate names as follows:
  - Union Switch & Signal Inc. to Ansaldo STS USA Inc;
  - Union Switch & Signal International Co. to Ansaldo STS USA International Co.;
  - Union Switch & Signal International Projects Co. to Ansaldo STS USA International Projects Co.;
  - Transcontrol Corporation to Union Switch & Signal Inc.

In order to provide complete information on the performance and financial position of Ansaldo STS SpA, the following reclassification statements have been drawn up.
Below is given the Reclassified Income Statement for the year 2008 and the comparison with the financial year 2007:

Income Statement

(EUR 000)	**2008**	2007
Revenues (*)	18,266	14,000
Production Revenues	**18,266**	**14,000**
Costs for purchases and cost of labour (**)	(21,784)	(22,837)
Amortisation and Depreciation	(1,884)	(1,863)
Write-downs	-	-
Other net operating income (costs) (***)	(2,086)	2,501
Changes in inventories of work in progress, semi-finished and finished goods	-	-
Adjusted EBITA	**(7,488)**	**(8,199)**
Non-recurring income (costs)	-	-
Restructuring costs (****)	-	-
Amortisation of intangible assets acquired through business combination	-	-
EBIT	**(7,488)**	**(8,199)**
Net financial income (costs)	13,540	48,447
Income taxes	1,549	2,975
Net Profit (Loss) before Discontinued Operations	**7,601**	**43,223**
Result of *Discontinued Operations*	-	-
Net Profit (Loss)	**7,601**	**43,223**

Notes for reconciling the reclassified Income Statement and the Income Statement:
(*) Includes "Revenues" and "Revenues from related parties".
(**) Includes "Costs from related parties", "Costs for purchase", "Costs for services" and "Cost of labour"(net of restructuring costs), net of "Capitalised costs for internally produced assets".
(***) Includes the net amount of "Other operating income", "Other operating income from related parties", "Other operating costs" and "Other operating costs from related parties".
(****) Includes the restructuring costs classified as "Cost of labour" and "Other operating costs".

Costs for purchases and cost of labour break down as follows:
- Cost of labour (75 units at 31 December 2008) equal to EUR 8,790 thousand;
- Costs for purchases and services, equal to EUR 12,994 thousand include costs for the period of the Finmeccanica's right to use the 'Ansaldo' trademark for 20 years (EUR 1,615 thousand); the remaining amount relates to costs for performing service and specific activities of the Group parent.

Other net operating costs came to EUR 2,086 thousand, specifically:
- Other operating income (EUR 1,830 thousand) mainly refer to the rental income received from its subsidiaries for the building it owns at Via Mantovani, Genoa;
- Other operating costs (EUR 3,916 thousand) refer for: EUR 2,130 thousand to provisions for risks, EUR 631 thousand to direct taxes and EUR 1,160 thousand to other operating charges represented by donations and association fees, net of EUR 5 thousand due to a recovery of costs from related parties.

Financial income and costs break down as follows:
- Dividends collected from the subsidiary Ansaldo Trasporti Sistemi Ferroviari SpA for EUR 14,544 thousand;
- Exchange gains for EUR 2,551 thousand;
- Exchange losses due to conversion for EUR 3,065 thousand.

The table below contains the balance sheet at 31 December 2008 compared with the financial year 2007:

Balance Sheet

(EUR 000)	**31.12.2008**	31.12.2007
Non-current assets	173,335	159,572
Non-current liabilities (*)	(1,359)	(2,481)
	171,976	**157,091**
Inventories	-	-
Contract work in progress	-	-
Trade receivables	4,391	7,181
Trade payables	(6,935)	(8,410)
Advances from customers	-	-
Working capital	**(2,544)**	**(1,229)**
Provisions for risks and charges	(2,130)	-
Other net current assets (liabilities) (**)	(1,504)	(3,477)
Net working capital	**(6,178)**	**(4,706)**
Net invested capital	**165,798**	**152,385**
Shareholders' equity	**147,963**	**161,882**
Net financial debt (liquidity)	**17,835**	**(9,497)**

Notes for reconciling the reclassified Balance Sheet and the Balance Sheet:
(*) Includes all non-current liabilities, net of "Non-current borrowings";
(**) Includes "Income tax receivables", other current receivables from related parties (included under item "Current receivables from related parties"), "Other current assets" and "Derivative assets", net of "Income tax payables", of other current payables to related parties (included under item "Current payables to related parties"), of "Other current liabilities" except for financial receivables from related parties (included under item "Current receivables from related parties"), and of "Derivative liabilities";
(***) Includes the net amount of "Non-current assets held for sale" and "liabilities directly related to assets held for sale"

Non-current assets showed an increase of EUR 13,763 thousand mainly attributable to the increase in equity investments as a result of the acquisition from Ansaldo STS USA Inc (American subsidiary of Ansaldo Signal NV in liquidation) of the investment in Ansaldo STS Pty Australia (increase of EUR 25,854 thousand), partially offset by lower deferred tax assets (EUR 7,516 thousand), by the amortisation for the period (EUR 1,592 thousand) relating to the building located in Via Mantovani 3-5 - headquarters of the company, and by the costs for the year for Finmeccanica's right to use the 'Ansaldo' trademark for 20 years.
Non-current liabilities include the provision for severance pay (TFR) for the 75 employees of Ansaldo STS at 31 December 2008 (EUR 1,156 thousand), seniority bonuses (EUR 156 thousand) and payables for deferred taxes (EUR 47 thousand).
Trade receivables showed a decrease of EUR 2,790 thousand, mainly ascribable to the payments paid in the last months of the financial year towards the subsidiaries involved in the merger transaction.
Trade payables decreased by EUR 1,475 thousand, for the same reason already given relatively to trade receivables.

- Other net assets/(liabilities) showed a decrease in liabilities of EUR 1,973 thousand, mainly due to the changes in the balances in relation to the Italian subsidiaries for the effects deriving from the application of the Consolidated Taxation Mechanism to corporate income tax, the hedging of foreign exchange transactions, tax receivables and payables, and current receivables and payables in relation to the subsidiaries of the Ansaldo STS Group.

As a result of the foregoing, **net working capital** moved from a negative EUR 4,706 thousand at 31 December 2007 to a negative EUR 6,178 thousand at 31 December 2008, with an improvement of EUR 1,472 thousand; the increase in **net invested capital** is instead mainly attributable to the acquisition from Ansaldo STS USA Inc. (American subsidiary of Ansaldo Signal NV in liquidation) of the equity investment in Ansaldo STS Australia PTY Ltd for EUR 25,854 thousand.
Shareholders' equity went from EUR 161,882 thousand at 31 December 2007 to EUR 147,963 thousand with a decrease of EUR 13,919 thousand ascribable to the lower profit for the period and the distribution of the first dividend after the listing for a total of EUR 19,992 thousand.

Below is the reclassified Cash Flow Statement at 31 December 2008 compared with the prior year:

Cash Flow

(EUR 000)	**31.12.2008**	31.12.2007
Cash and cash equivalents - opening balance	**537**	**909**
Gross cash flow from operating activities	(5,022)	(5,574)
Changes in other operating items	8,897	(646)
Funds From Operations	**3,875**	**(6,220)**
Change in working capital	1,314	5,245
Cash flow from (used in) operating activities	**5,189**	**(975)**
Cash flow from (used in) ordinary investing activities	(666)	(542)
Share-premium reserve repayment	-	40,000
Dividends received	14,544	50,241
Free operating cash-flow	**19,067**	**88,724**
Strategic investments	(25,584)	-
Changes in other financing activities	1,006	(845)
Cash flow from (used in) investing activities	**(10,700)**	**88,854**
Dividends paid	(19,992)	-
Capital increases, net of the purchase of treasury shares	-	-
Cash flow from financing activities	30,121	(88,251)
Cash flow from (used in) financing activities	**10,129**	**(88,251)**
Foreign exchange translation differences	**-**	**-**
Cash and cash equivalents - closing balance	**5,155**	**537**

The financial year 2008 ended with a net increase in cash and cash equivalents of EUR 4,618 thousand, due to the following factors:
- Cash flow from operating activities moves from cash flow used for EUR 975 thousand to cash flow generated for EUR 5,189 thousand, with a change of EUR 6,164 thousand, mainly ascribable to the evolution of the working capital.
- Cash flow from investing activities moves from cash flow generated for EUR 88,854 thousand to cash flow used for EUR 10,700 thousand. The negative variation of EUR 99,554 thousand is mainly due to: fewer dividends collected in the financial year 2008 (EUR 14,544 thousand) compared with the previous financial year (EUR 50,241 thousand); the repayment of part of the share-premium reserve from the subsidiary Ansaldo Signal NV for EUR 40,000 thousand occurred in the financial year 2007; the increase in equity investments in the financial year 2008 materialized with the transfer of the interest in Ansaldo STS Australia PTY Ltd from the American subsidiary to Ansaldo STS SpA.
- Cash flow from financing activities moves from cash flow used for EUR 88,251 thousand to cash flow generated for EUR 10,129 thousand with a change of EUR 98,380 thousand attributable to the above-mentioned events.

Free operating cash flow (FOCF) before strategic investments amounted to a negative EUR 19,067 thousand in the period under review and is composed of as follows:
- Cash flow from operating activities EUR 5,189 thousand.
- Cash flow used for ordinary investments EUR 666 thousand.
- Dividends received EUR 14,544 thousand.

5.1 Income Statement

(€)	**2008**	**of which from related parties**	2007	of which from related parties
Revenues	18,265,965	18,265,965	14,000,430	14,000,430
Other operating income	1,830,063	1,825,237	3,499,096	3,497,097
Costs for purchases	(38,928)	-	(36,194)	-
Costs for services	(12,955,111)	(2,353,001)	(14,677,679)	(2,023,859)
Cost of labour	(8,789,957)	-	(8,123,768)	-
Amortisation, depreciation and write-downs	(1,883,573)	-	(1,863,020)	-
Other operating costs	(3,916,175)	5,308	(997,686)	134,332
EBIT	**(7,487,716)**		**(8,198,821)**	
Financial income	21,065,711	14,934,961	54,884,111	54,809,384
Financial costs	(7,525,890)	(1,057,152)	(6,437,519)	(6,220,424)
Profit (Loss) before taxes	**6,052,105**		**40,247,771**	
Income taxes	1,549,163		2,974,749	
Net Profit (Loss)	**7,601,268**		**43,222,520**	
Earnings per share				
Basic and Diluted	0.08		0.43	

5.2 Balance Sheet

(€)	31.12.2008	of which from related parties	31.12.2007	of which from related parties
Non-current assets				
Intangible Assets	119,331		335,817	
Tangible Assets	531,539		359,041	
Investment properties	57,624,680		59,208,436	
Equity investments	87,103,974		62,526,627	
Deferred taxes	2,124,759		9,641,294	
Other assets	25,831,144		27,501,285	
	173,335,427		**159,572,500**	
Current assets				
Inventories	-		-	
Contract work in progress	-		-	
Trade receivables	4,391,094	4,388,290	7,180,559	7,180,559
Income tax receivables (**)	5,701,788		-	
Financial receivables	266,061,288	266,061,288	20,637,291	20,637,291
Derivatives	773,167		-	
Other current assets (**)	3,983,020	1,062,564	10,675,755	8,813,759
Cash and cash equivalents	5,155,070		536,813	
	286,065,427		**39,030,418**	
Total assets	**459,400,854**		**198,602,918**	
Shareholders' equity				
Share capital	49,256,884		49,667,916	
Reserves	52,635,785		51,726,377	
Retained earnings (accumulated losses) carried forward	46,070,125		60,487,338	
Total shareholders' equity	**147,962,794**		**161,881,631**	
Non-current liabilities				
Severance pay and other employee liabilities	1,155,245		830,566	
Deferred taxes	47,583		1,554,912	
Other liabilities	156,017		95,975	
	1,358,845		**2,481,453**	
Current liabilities				
Trade payables	6,934,956	1,658,698	8,410,237	1,057,756
Borrowings	289,052,033	289,037,290	11,676,809	11,638,941
Income tax payables (**)	913,514		2,066,023	
Provisions for risks and charges	2,130,000		-	
Derivatives	266,263		-	
Other current liabilities	10,782,449	4,956,912	12,086,765	8,901,457
	310,079,215		**34,239,834**	
Total liabilities	**311,438,060**		**36,721,287**	
Total Liabilities and Shareholders' Equity	**459,400,854**		**198,602,918**	

(**) 2007 items have been modified as a result of the new classification under IAS1.

5.3 Cash Flow Statement

(€)	2008	of which from related parties	2007	of which from related parties
Cash flow from operating activities:				
Gross cash flow from operating activities	(5,022,171)		(5,573,646)	
Change in working capital	1,314,184	(3,392,547)	5,244,678	(2,802,667)
Changes in other operating items	8,897,522	(3,806,652)	(645,940)	(118,727)
Financial costs paid	-	-	-	-
Income taxes paid	-		-	
Cash flow from (used in) operating activities	**5,189,535**		**(974,908)**	
Cash flow from investing activities:				
Company acquisitions, net of cash acquired	(25,583,630)		-	
Investments in tangible and intangible fixed assets	(255,829)		(259,990)	
Sale of tangible and intangible fixed assets	-		-	
Share-premium reserve repayment	-		40,000,000	40,000,000
Sale of equity investments	-		-	
Dividends received	14,544,000	14,544,000	50,241,000	50,241,000
Purchases of treasury shares	(411,032)		(282,084)	
Other investments	1,006,283	-	(844,861)	-
Cash flow from (used in) investing activities	**(10,700,208)**		**88,854,065**	
Cash flow from financing activities:				
Net change in other borrowings	30,025,179	277,246,840	(88,020,620)	(200,189,955)
Capital increases	-		-	
Loss coverage	-		-	
Dividends cashed	-		-	
Dividends paid	(19,991,826)	(19,991,826)	-	
Change in reserves	95,577		(230,635)	
Net change in other financing activities	-	-	-	-
Cash flow from (used in) financing activities	**10,128,930**		**(88,251,255)**	
Net increase (decrease) in cash and cash equivalents	4,618,257		(372,098)	
Foreign exchange translation differences	-		-	
Cash and cash equivalents - opening balance	536,813		908,911	
Cash and cash equivalents - closing balance	**5,155,070**		**536,813**	

5.4 S.O.R.I.E. - Statement of recognised income and expense

(€)	**31.12.2008**	31.12.2007
Reserves of income (expense) recognised in equity		
- Actuarial gains (losses) related to defined-benefit plans	(134,887)	15,450
- Changes in cash-flow hedge	-	-
Tax effect on expense/(income) recognised in equity	37,094	(4,249)
Income/(expense) directly recognised in equity	(97,793)	11,201
Net Profit (Loss) for the year	7,601,269	43,222,520
Total income and expense for the year	**7,503,476**	**43,233,721**

5.5 Reconciliation of profit and shareholders' equity of Ansaldo STS SpA with that of the Ansaldo STS Group at 31 December 2008

(EUR 000)	**Shareholders' equity**	**Profit for the period**
The financial statements of Ansaldo STS SpA at 31 December 2008	**147,963**	**7,601**
- Shareholders' equity surplus in the annual financial statements including profit for the period, compared with the carrying value of the equity investments in consolidated entities	90,296	69,943
- Minority interests	493	55
The consolidated financial statements of Ansaldo STS Group at 31 December 2008	**238,752**	**77,599**

Genoa, 6 March 2009

On behalf of the Board of Directors
The Chairman
Alessandro Pansa

6 Financial Statements

6.1 Income Statement

Income Statement

(EUR 000)	Note	**31.12.2008**	**of which from related parties**	31.12.2007	of which from related parties
Revenues	10.2	1,105,515	151,683	973,094	115,112
Other operating income	10.3	21,689	282	14,053	1,867
Costs for purchases	10.4	(247,572)	(8,889)	(236,976)	(15,717)
Costs for services	10.4	(464,368)	(80,131)	(373,603)	(34,934)
Cost of labour	10.5	(266,608)		(250,666)	
Amortisation, depreciation and write-downs	10.6	(14,233)		(10,949)	
Other operating costs	10.7	(15,146)	(4)	(16,070)	(4)
Changes in inventories of work in progress, semi-finished and finished goods		(2,578)		953	
(-) Capitalised costs for internally produced assets	10.8	863		458	
EBIT		**117,562**		**100,294**	
Financial income	10.9	22,938	4,903	11,808	6,302
Financial costs	10.9	(18,323)	(321)	(8,332)	(173)
Effects of valuation of equity investments accounted for using equity method	10.10	(150)		90	
Profit (Loss) before taxes		**122,027**		**103,860**	
Income taxes	10.11	(44,428)		(45,582)	
Net Profit (Loss)		**77,599**		**58,278**	
Group		77,544		58,172	
Minority interests		55		106	
Earnings per share					
Basic and Diluted		0,78		0,58	

6.2 Balance Sheet

(EUR 000)	Note	**31.12.2008**	**of which from related parties**	31.12.2007	of which from related parties
Non-current assets					
Intangible Assets	9.2	48,922		47,987	
Tangible Assets	9.3	97,155		94,208	
Equity investments	9.4	30,037		29,071	
Receivables	9.5	11,517		15,153	
Deferred taxes		40,400		42,590	
Other assets	9.5	26,020		28,055	
		254,051		**257,064**	
Current assets					
Inventories	9.6	92,874		98,305	
Contract work in progress	9.7	145,681		151,895	
Trade receivables	9.8	370,014	88,609	326,537	56,686
Income tax receivables (**)	9.9	14,081		4,155	
Financial receivables	9.8	139,509	139,509	140,705	140,705
Derivatives	9.22	7,922		211	
Other current assets (**)	9.10	36,782	2,232	26,649	2,352
Cash and cash equivalents	9.11	71,536		63,385	
		878,399		**811,842**	
Total assets		**1,132,450**		**1,068,906**	
Shareholders' equity					
Share capital	9.12	49,257		49,668	
Reserves	9.13÷9.15	189,002		127,647	
Group's shareholders' equity		238,259		177,315	
Minority interests	9.16	493		386	
Total shareholders' equity		**238,752**		**177,701**	
Non-current liabilities					
Borrowings	9.17	5,747		6,968	
Severance pay and other employee liabilities	9.19	31,505		31,314	
Provisions for risks and charges	9.18	-		-	
Deferred taxes	9.11	4,740		6,654	
Other liabilities	9.20	8,602		9,227	
		50,594		**54,163**	
Current liabilities					
Advances from customers	9.7	502,405		506,802	
Trade payables	9.21	213,501	23,523	194,510	19,785
Borrowings	9.17	9,428	152	12,601	
Income tax payables (**)	9.9	7,247		7,827	
Provisions for risks and charges	9.18	28,541		26,215	
Derivatives	9.22	751		9,982	
Other current liabilities (**)	9.20	81,231	3,979	79,105	4,805
		843,104		**837,042**	
Total liabilities		**893,698**		**891,205**	
Total liabilities and shareholders' equity		**1,132,450**		**1,068,906**	

(**) 2007 items have been modified as a result of the new classification under IAS1.

6.3 Cash flow

(EUR 000)	Note	31.12.2008	of which from related parties	31.12.2007	of which from related parties
Cash flow from operating activities:					
Gross cash flow from operating activities	12	131,484		112,295	
Change in working capital	12	(16,265)	(28,528)	(26,629)	18,314
Changes in other operating items	12	(11,407)	(706)	9,011	935
Net financial costs paid	12	6,540	4,249	4,546	5,790
Income taxes paid	12	(53,771)		(54,539)	
Cash flow from (used in) operating activities		**56,581**		**44,684**	
Cash flow from investing activities:					
Company acquisitions, net of cash acquired		623		(683)	
Investments in tangible and intangible fixed assets		(14,389)		(17,430)	
Sale of tangible and intangible fixed assets		94		325	
Dividends received		333	333	339	339
Other investments		(2,075)		(2,662)	
Cash flow from (used in) investing activities		**(15,414)**		**(20,111)**	
Cash flow from financing activities:					
Net change in other financing activities		(33,478)	1,348	(8,878)	(8,577)
Capital increases				-	
Dividends paid to minority shareholders				-	
Cash flow from (used in) financing activities		**(33,478)**		**(8,878)**	
Net decrease in cash and cash equivalents		7,689		15,695	
Foreign exchange translation differences		462		(890)	
Cash and cash equivalents – opening balance		63,385		48,580	
Cash and cash equivalents - closing balance		**71,536**		**63,385**	

6.4 S.O.R.I.E. – "Statement of recognised income and expense"

(EUR 000)	31.12.2008	31.12.2007
Net Profit (Loss) for the year	77,599	58,278
Other income statement elements		
- Actuarial gains (losses) related to defined-benefit plans	(1,476)	1,743
- Changes in cash-flow hedge	13,831	(9,287)
- Tax effect on expense/(income) recognised in equity	(3,920)	3,111
- Foreign exchange translation differences	(4,644)	(1,848)
Other income statement elements net of tax effect	3,791	(6,281)
Total income and expense for the year	**81,390**	**51,997**
Attributable to:		
- of which Group	81,281	51,907
- of which minority interests	109	90

7 Notes to the Consolidated Annual Report at 31 December 2008

7.1 General information

Ansaldo STS is a company limited by shares based at Via Paolo Mantovani 3/5, Genoa with a branch establishment in Naples, Via Argine 425, and has been listed on the Italian stock exchange (Star segment) since 29 March 2006. Ansaldo STS SpA is a subsidiary of Finmeccanica SpA, whose headquarters are at Piazza Monte Grappa 4, Rome, listed on the Italian stock exchange (S&P/MIB), which manages and co-ordinates the activities of Ansaldo STS SpA.

The Ansaldo STS Group is a major player in the signalling and rail transport systems market segments. Ansaldo STS SpA, as Parent company, carries out the functions of business and strategic management, coordinating the operations of its subsidiaries (which together are known as the "Ansaldo STS Group" or "the Group"), which operate in the signalling and rail transport systems sectors.
The Ansaldo STS Group grew out of the transport signalling and systems operations which, until the second half of the 1990s, were carried out by Ansaldo Trasporti within the Finmeccanica Group. The formation of Ansaldo Signal NV in 1996 and of Ansaldo Trasporti Sistemi Ferroviari SpA in 2000 (together with the formation of AnsaldoBreda, for the vehicles segment, the same year) produced a reorganisation of the entire Transport Systems Business Unit, as a result of which Finmeccanica held a 100% stake in Ansaldo Signal NV, Ansaldo Trasporti Sistemi Ferroviari SpA and AnsaldoBreda.
Meanwhile, in 1996 Finmeccanica SpA had acquired S.I.C. Società Italiana Comunicazioni Srl, renamed EuroSkyway Srl in 1997; the company was put into liquidation in April 2005.
Following Finmeccanica's strategic decision in the second half of 2005 to list its signalling and transport systems companies on the stock exchange (having previously put in place a unitary management structure to enhance their business and commercial synergies) the EuroSkyway Srl shareholders' meeting, through its sole shareholder, Finmeccanica SpA, decided at the end of 2005 to revoke the company's state of liquidation and transform it into a company limited by shares, to change its own name to Ansaldo STS SpA, and to change its business object, focusing on signalling and transport systems for railways and urban rail systems.
To complete the above reorganisation, in February 2006 Ansaldo STS SpA, as already stated, acquired from Finmeccanica SpA the entire share capital of Ansaldo Signal NV and Ansaldo Trasporti Sistemi Ferroviari SpA and since 29 March 2006 Ansaldo STS SpA has been listed on the stock exchange.
Finmeccanica SpA placed on the market 60 million shares of the Company, equal to 60% of its share capital, at EUR 7.80 per share, retaining the remaining 40 million, equal to 40% of the share capital. The so-called greenshoe option was exercised to the full, in view of the extremely large number of requests to purchase the shares.

Upon the acquisition of stakes in Ansaldo Signal NV and in Ansaldo Trasporti Sistemi Ferroviari SpA (24 February 2006), all the companies operating worldwide in the Signalling sector were headed by Ansaldo Signal NV, while the Transport Systems activities were centred on Ansaldo Trasporti Sistemi Ferroviari SpA.

Subsequently, a process for the corporate reorganisation of the Group was put into action in order to (i) reduce and rationalize the current control chain of the subsidiaries and (ii) reduce the costs connected with the Group's corporate structure.
In the Asia Pacific area, the reallocation of a few equity investments in Group companies was finalized in consideration of the ever-increasing importance that those markets are assuming for the Group and of the close industrial and commercial interaction among these companies. Consequently, since 1 January 2008 Ansaldo STS Australia PTY, which is responsible for the management of the Asia Pacific area, has been controlling the Indian and Malaysian operating companies and has been put under the direct control of the Group parent Ansaldo STS SpA. Furthermore, two other companies have been established: Ansaldo STS Southern Africa (Botswana) and Ansaldo STS – InfraDEV South Africa, which, under the control of Ansaldo STS Australia PTY, operate on the expanding markets of Southern Africa.
In Italy, the two companies which operate in the two different business units (Signalling and Transport Systems) have merged, ex art. 2505 of the Italian Civil Code, into the listed Parent company, through incorporation of Ansaldo Segnalamento Ferroviario SpA and of Ansaldo Trasporti Sistemi Ferroviari SpA into Ansaldo STS SpA. The merger through incorporation, as set forth in the merger deed stipulated by Ansaldo STS SpA, Ansaldo Trasporti Sistemi Ferroviari SpA and Ansaldo Segnalamento Ferroviario SpA on 26 September 2008, has had legal, accounting and tax effective date since 1 January 2009.
In the scope of this corporate reorganisation, on 16 June 2008 the Dutch sub-holding Ansaldo Signal NV was put into liquidation; all the equity investments held by Ansaldo Signal NV will be transferred to Ansaldo STS SpA by means of the merger through incorporation, which will be executed in the course of 2009. As already said, the Ansaldo STS Group operates through two business units: Signalling and Transport Systems.
The "Signalling" Business Unit – whose reference main operating companies are Ansaldo Segnalamento Ferroviario SpA (Italy), Ansaldo STS France SA (France), Ansaldo STS Australia PTY (Asia Pacific) and Ansaldo STS USA Inc. (Americas) – designs and builds signalling systems, subsystems and components.
The "Transport Systems" Business Unit – being developed in all the group companies – designs and builds integrated transport systems, of which signalling is an essential part. In more detail, this activity studies, designs and plans how to integrate the activities of designing and building the technological equipment that goes to make up a system - that is, the track, signalling, power supply, telecommunications, and vehicles (whether for inter-city or urban railways) as well as any other technological works which, collectively, constitute an integrated transport system. The final product - an integrated transport system, whether an inter-city line or an urban one - is then delivered as a "turnkey" project to the customer. However, the Group can also offer the expertise of the Signalling or Transport Systems Business Units separately, according to specific customer needs.

7.2 Basis of preparation

In application of EC Regulation 1606/2002 of 19 July 2002, the financial statements at 31 December 2008 were prepared in accordance with the IAS/IFRS international accounting standards (hereinafter IFRS) endorsed by the European Commission, supplemented by the relevant interpretations *(Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standard Board (IASB).*

In certain respects, at the date of the preparation of these Notes, the official bodies had not yet completed their adaptation and interpretations. As a result, there may be further modifications or amendments to these standards and interpretations that could require or permit the Ansaldo STS Group to modify the accounting, measurement and classification standards adopted in preparing these consolidated financial statements.

The general principle used in preparing these consolidated financial statements is the cost method, except for the recognition of the financial assets available for sale and of the financial assets and liabilities (including the derivative financial instruments) valued at Fair value in the income statement. The changes introduced by the IAS 39 amendment, approved in November 2008, which permits the reclassification to other category of the non-derivative financial assets valued at Fair value in the income statement, have not been applied by the Group.

Among the options permitted by IAS 1, the Group has chosen to present its balance sheet by separating current and non-current items and its income statement by the nature of the items. The cash flow statement was instead prepared using the indirect method. Compared with the 2007 financial statements, the format of the statements presented has been modified, including the amounts pertaining to related parties in the balances relating to third parties, with indication in a separate column of the portion pertaining to the related parties; the Cash Flow Statement has also been modified accordingly.

All figures are in thousands of euros unless otherwise indicated.

Preparation of the consolidated financial statements required management to make certain estimates. The main areas affected by estimates or assumptions of particular importance or that have significant effects on the balances shown are described in the note relating to “Critical accounting estimates and assumptions”.

The consolidated financial statements at 31 December 2008 of Ansaldo STS SpA were approved by the Board of Directors authorising their dissemination on 6 March 2009.

The consolidated financial statements, prepared in accordance with IFRS, were audited by independent auditors PricewaterhouseCoopers SpA.

7.3 Accounting standards adopted

Standards and scope of consolidation

These consolidated financial statements include the accounts at 31 December 2008 of the companies/entities included in the scope of consolidation (‘consolidated entities’), which have been prepared in accordance with the IFRSs adopted by the Ansaldo STS Group. Below is a list of the consolidated entities included in the scope of consolidation and the relevant Group ownership percentage (direct or indirect):

List of companies consolidated on a line-by-line basis

Company	Direct/ indirect control	Registered office	Share capital (/000)	Currency	Share owned %
Ansaldo Trasporti Sistemi Ferroviari SpA	Direct	Naples (Italy)	30,300	EURO	100
Ansaldo Signal NV in liquidation	Direct	Amsterdam (Holland)	100	EURO	100
Ansaldo STS Australia Pty Ltd	Direct	Eagle Farm (Australia)	5,026	$AUS	100
Ansaldo Segnalamento Ferroviario SpA	Indirect	Tito Scalo (Italy)	45,240	EURO	100
Ansaldo STS Sweden AB	Indirect	Solna (Sweden)	4,000	SEK	100
Ansaldo STS Finland OY	Indirect	Helsinki (Finland)	10	EURO	100
Ansaldo STS Uk Ltd	Indirect	London (GB)	1,000	GBP	100
Ansaldo STS Ireland Ltd	Indirect	Tralee (Ireland)	100	EURO	100
Acelec SA	Indirect	Les Ulis (France)	168	EURO	100
Ansaldo STS Espana SA	Indirect	Madrid (Spain)	1,500	EURO	100
Ansaldo STS Beijing Ltd	Indirect	Beijing (China)	837	EURO	80
Ansaldo STS Hong Kong Ltd	Indirect	Hong Kong (China)	100	$ HK	100
Ansaldo STS France SA	Indirect	Les Ulis (France)	5.000	EURO	100
Union Switch & Signal Inc	Indirect	Greenville (Delaware USA)	1	$	100
Ansaldo STS Malaysia Sdn Bhd	Indirect	Kuala Lumpur (Malaysia)	3,000	RM	100
Union Switch & Signal Inc Canada	Indirect	Kingstone (Canada)	0	$CAN	100
Ansaldo STS Usa Inc	Indirect	Wilmington (Delaware USA)	0.1	$	100
Ansaldo STS Usa International Co	Indirect	Wilmington (Delaware USA)	1	$	100
Ansaldo STS Usa Int.Projects Co	Indirect	Wilmington (Delaware USA)	25	$	100
Ansaldo STS Transportation Systems India Pvt Ltd	Indirect	Bangalore (India)	12,915	RUPIA	100
Ansaldo STS Deutschland Gmbh	Indirect	Berlino (Germany)	26	EURO	100

List of companies accounted for using the equity method

Company	Direct/ indirect control	Registered office	Share capital (/000)	Currency	Share owned %
Ecosen CA	Indirect	Caracas (Venezuela)	1,310	VBF	48.00
Alifana SCARL	Indirect	Naples (Italy)	26	EURO	65.85
Alifana Due SCARL	Indirect	Naples (Italy)	26	EURO	53.34
Pegaso SCRL	Indirect	Rome (Italy)	260	EURO	46.87
Metro 5 SpA	Indirect	Milan (Italy)	25,000	EURO	24,60
International Metro Service Srl	Indirect	Milan (Italy)	700	EURO	49.00

List of companies accounted for at cost

Company	Direct/ indirect control	Registered office	Share capital (/000)	Currency	Share owned %
I.M. Intermetro SpA	Indirect	Rome (Italy)	2,461	EURO	16.67
Società Tram Di Firenze SpA	Indirect	Florence (Italy)	7,000	EURO	3.80
Metro C ScpA	Indirect	Rome (Italy)	150,000	EURO	14.00
Union Switch & Signal Inc Chile	Indirect	Santiago (Chile)	45,000	PESO C.	68.00
Ansaldo STS Infra Dev South Africa	Indirect	Johannesburg (South Africa)	2	ZAR	50.70
Ansaldo STS Southern Africa	Indirect	Gaborone (Botswana)	0.1	BWP	100
Ansaldo Railway System Tecnhnnical Service (Beijing) Ltd	Indirect	Beijing (China)	1,500	USD	100

The criteria adopted for consolidation of subsidiary companies are the following:

- assets and liabilities, costs and revenues of the consolidated companies are incorporated line by line in the consolidated accounts allotting, where applicable, to minority shareholders the portion of shareholders' equity and net profit due to them in the period in question. Minority interests are listed separately in the consolidated shareholders' equity and income statement;
- business combinations that result in the gaining of control of a given entity are entered using the purchase method. The cost of acquisition corresponds to fair value, as at the date of acquisition, of the assets taken over, the liabilities taken on, the equity securities issued and all other charges applicable. The difference between the cost of acquisition and the current value of the assets and liabilities obtained at the date of acquisition, if a positive figure, is entered as an asset under "Goodwill"; if it is a negative figure, after review of the current values of assets and liabilities acquired, it is entered in the income statement;
- unrealised profits and losses deriving from transactions conducted between Group companies and third parties are eliminated if they are significant, as are reciprocal debts and credits, costs and revenues, and financial costs and income deriving from transactions between fully consolidated companies;
- profits or losses deriving from the sale of shareholdings in consolidated companies are entered in the income statement. The amount entered is the difference between the sale price and the corresponding shareholding sold.

The acquisition by Ansaldo STS SpA of the 100% interest in Ansaldo Signal NV in liquidation and in Ansaldo Trasporti Sistemi Ferroviari SpA is defined in accordance with IFRS 3 as a transaction under common control, i.e. a transaction of business combination in which all the companies or operations concerned are controlled by the same company or companies both before and after the merger, and in which this control is not temporary. The manner in which such transactions appear in the accounts is not, at present, regulated by IFRSs, and therefore, as indicated by international financial reporting standards, we have adopted a "similar" set of accounting standards. In the event, it was decided that such operation should be recognised in the accounts of the company surviving the merger, using the figures in the accounts of the controlling company. Therefore, the carrying values of the businesses reflect the figures of the three above-mentioned companies that appear in Finmeccanica SpA's accounts at the date of acquisition. In calculating these figures, the following accounting operations were carried out:

- derecognition of goodwill of EUR 12,687 thousand in 2001 relating to the transfer of the "Systems" business concern by Ansaldo Trasporti SpA (a Finmeccanica group company) to Ansaldo Trasporti Sistemi Ferroviari SpA;
- recognition of goodwill relating to the acquisition of Ansaldo Signal NV in liquidation by the ultimate parent, Finmeccanica SpA.

Shareholdings in associated companies, over which the merged companies have significant influence (which is assumed to exist where a shareholding is between 20% and 50%), are valued with the equity method (IAS 28), except for cases in which the company at the moment of consolidation is considered not operating. This method is as follows:

- the accounting value of such shareholdings corresponds to the shareholders' equity as adjusted, where necessary, to reflect the application of IFRSs, and includes any goodwill identified at the time of acquisition;
- group profits or losses are entered in the income statement of the consolidated accounts from the date when significant influence

began until the date when it ceased. In the event that the loss attributable to the Group exceeds the shareholding of the associated company, taking account of any non-secured credits, the carrying value of the shareholding is eliminated and any excess is allocated to a specific provision, if the shareholding company is committed to meeting legal or other obligations of the investee company, or at least to covering its losses. Variations in the value of companies valued with the equity method and not reflected in the income statement are entered directly as an adjustment to equity reserves;
- unrealised profits and losses generated by transactions conducted between the parent company or its subsidiaries and associated companies are eliminated in proportion to the value of the Group's shareholding in the associated company. Unrealised losses are eliminated except where they represent an impairment.

Summary of accounting policies and measurement criteria

Segment reporting

The Group considers the organisation by industry to be 'primary', as company risks and benefits are influenced significantly by differences in the products and services provided, with the organisation by geographic area being 'secondary', as company risks and benefits are also significantly influenced by operating in different countries or different geographic areas.

Currency translation

Identification of the functional currency: the balances included in the financial statements of each Group entity are presented in the currency of the primary economy in which each enterprise operates (the functional currency). The consolidated financial statements for the Ansaldo STS Group have been prepared in euros, which is the functional currency of the Group parent.

Translation of items denominated in a foreign currency: items expressed in a currency other than the functional currency, whether monetary (cash and cash equivalents, receivables or payables due in pre-set or measurable amounts, etc.) or non-monetary (advances to suppliers of goods and services, goodwill, intangible assets, etc.), are initially recognised at the exchange rate prevailing at the date on which the transaction takes place. Subsequently, the monetary items are translated into the functional currency based on the exchange rate at the reporting date, and any differences resulting from this conversion are recognised in the income statement. Non-monetary items continue to be carried at the exchange rate on the date of the transaction, except in situations where there is a persistent unfavourable trend in the exchange rate concerned. If this is the case, exchange differences are recognised in the income statement.

Translation of financial statements expressed in a currency other than the functional currency: the rules for the translation of company accounts in foreign currency other than the euro, which is our functional currency, are the following:
- assets and liabilities are translated using the exchange rates prevailing at the reporting date of these financial statements;
- costs and revenues are translated using the average exchange rate during the period;
- the "translation reserve" covers exchange rate differences generated by both the translation of operating results at an exchange rate different from the closing and/or purchase exchange rate and the translation of opening shareholders' equity at an exchange rate different from the exchange rate prevailing at the closing of the reporting period;
- goodwill and adjustments deriving from fair value relating to the acquisition of a foreign company are treated as assets and liabilities of the foreign company, and converted at the closing exchange rate for the period;
- in preparing the consolidated cash flow statement, average exchange rates for the period have been used for translating cash flows of foreign subsidiaries.

The exchange rates applied in the translation of financial statements and balances in currencies other than the euro at 31 December 2008 and 2007 were as follows:

	At 31/12/2008	At 31/12/2007	12-month average at 31/12/2008	12-month average at 31/12/2007
US$	1.3917	1.4721	1.4714	1.3706
CAD	1.6998	1.4449	1.5546	1.4690
GBP	0.9525	0.7333	0.7928	0.6845
HK$	10.7858	11.4800	11.4594	10.6924
SEK	10.8700	9.4415	9.5836	9.2521
AU$	2.0274	1.6757	1.7344	1.6356
INR	67.6360	58.0210	63.4949	56.3706
MYR	4.8048	4.8682	4.8887	4.7076
BRL	3.2436	2.6108	2.6568	2.6651
CNY	9.4956	10.7524	10.1919	10.4206
VBF	2.9884	3.1610	3.5269	2.9440
BWP	10.5147	8.7369	9.9383	8.4147

Intangible Assets

These are made up of non-monetary elements without physical form, clearly identifiable and which are capable of generating future economic benefits. These elements are entered as their cost of acquisition and/or production, including expenses directly attributable to preparing the asset for operations, net of accumulated amortisation (with the exception of intangibles with an indefinite useful life) and any loss of value. Amortisation begins when the asset is available for use and is recognised systematically over its remaining useful life. In the period in which the intangible asset has been recognised for the first time, the amortisation rate applied takes into account the period of actual use of the asset.

(i) Goodwill

Goodwill posted as intangible assets relates to business combinations and represents the difference between the cost of acquisition of a company or a going concern and the algebraic sum of the values assigned, based on the values at the date of purchase, to each asset and liability of that company or going concern. Since goodwill has an indefinite useful life, it is not subject to amortisation, and is tested for impairment at least annually, except where the market and management indicators indicated by the Company show that goodwill should be tested for impairment in interim accounts as well. In order to conduct the impairment test, goodwill is allocated to individual cash generating units (CGUs), that is, to the smallest financially independent business units through which the Company operates in its various market segments.

(ii) Licenses and similar rights

For licenses and similar rights amortisation is calculated on a straight-line basis, so that the cost borne in acquiring a right is allocated over the shorter between the period of expected use and the duration of the relevant contracts, starting from the time the acquired right can be exercised.
Licenses that are acquired and relate to software are capitalised on the basis of the costs sustained in acquiring them. Amortisation is calculated on a straight-line basis over their expected useful life of 3 years.

(iii) Software costs

The costs related to the development and maintenance of software programs are recognised as costs when incurred. Costs that are directly connected with the production of unique, identifiable software controlled by the Company that generate future financial benefits over a period exceeding one year are entered as intangible assets. Direct costs include the costs related to employees who develop the software as well as any appropriate share of the general costs. Amortisation is calculated on a straight-line basis over the expected useful life of the software (3 years) beginning when the asset is available and ready for use.

(iv) Research and development spending

Research costs are charged to the income statement for the year in which they are incurred.
An intangible fixed asset that is generated internally and relates to development costs is entered in the accounts only if all the following requirements are simultaneously met:

- the asset can be identified;
- it is capable of generating future economic benefits;
- its development cost can be reliably measured;
- there is a market for the product generated by such development.

If these requirements are not met, development costs are expensed as incurred. Development costs are capitalised only when the four conditions listed above are met and are amortised at on a straight-line basis over their entire useful life

Leased assets

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

Tangible Assets

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

Charges incurred for routine and/or regular maintenance and repair are directly entered in the income statement for the year when they were incurred. Capitalisation of the costs relating to expansion, modernization, or improvement of elements owned or leased by the Group is carried out only in so far as these meet the requirements for being classified separately as assets or parts of assets. Any capital grants relating to tangible assets are entered as a direct deduction from the asset to which they relate.
The value of an asset is adjusted by systematic depreciation calculated based on the residual useful life of the asset itself. In the period in which the asset has been recognised for the first time, the depreciation rate applied takes into account the period of actual use of the asset.

The estimated useful lives adopted by the Company for the various asset classes are as follows:

Buildings:	20-33 years
Plant and machinery:	5-10 years
Equipment:	3-7 years
Other assets:	3-8 years

The estimate of the useful life and of the residual value is reviewed periodically.
Depreciation terminates at the date on which the asset is sold or the same is reclassified to asset held for sale.

If an asset to which depreciation is applied is made up of identifiable elements whose useful life is significantly different from that of other parts that make up the asset, depreciation is calculated separately for each part that makes up the asset, in keeping with the component approach.

Profits and losses deriving from the sale or disposal of assets are calculated as the difference between the proceeds from the sale and the net accounting value.

Civil buildings are valued according to the revalued cost method stipulated by IAS16. This consists of revaluing assets so that they are brought in line with fair value at the date of the revaluation, less accumulated depreciation and any loss of value. The revaluation is entered in an equity reserve and transferred directly to retained earnings/(losses) carried forward when the revalued amount is realised.

Investment properties
Those investments that can generate cash flows, regardless of the company business, are carried under 'Investment properties'; they are valued at purchase or production cost plus any related charges, net accumulated depreciation and impairment, if any. The useful life estimated by the Company, for the various categories of investment properties, is the same as used for the category of tangible assets.

Impairment of assets: assets with indefinite useful life are not depreciated or amortised, but are rather subject to impairment tests at least once a year to ascertain the recoverability of their book value.
For assets that are depreciated or amortised, an assessment is made to determine whether there is any indication of a loss in value. If so, the recoverable value of the asset is estimated, with any excess being recognised in the income statement.
The recoverable value is the greater of two figures: either its market value minus sales costs, or its value in use determined on the basis of a model of discounted cash flows. The discount rate incorporates the assets' specific risks which have not been considered yet in the expected cash flows.
For an asset that does not generate independent cash flows, the value is calculated in relation to the cash-generating unit to which such asset belongs.
If the conditions for a previous write-down no longer apply, the asset's accounting value is reinstated provided that such reinstated value does not exceed the net book value that the asset would have had if it had not been impaired in the preceding years. The reinstatement is recorded in the income statement. In no case, instead, the value of previously written-down goodwill is reinstated.

Inventories
Inventories are valued at the lower of cost or production cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and semi-finished products includes the costs of raw materials, direct labour costs, and indirect costs incurred in the course of normal production.
The net realisable value is the sales price in the course of normal operations net of estimated costs to finish the goods and those needed to make the sale.
Based on the value of inventory as determined above, provisions are made to allow for inventory that is considered obsolete or slow-moving.

Contract work in progress
Contract work in progress is entered using the degree of completion (or percentage of completion) method, in which revenue is counted on the basis of how far advanced work is. The criterion applied by the Company is that of the percentage of completion in the "cost to cost" application procedure.
The valuation reflects the best estimate of work programmes carried out at the reporting date. The assumptions on which the valuations are based are updated periodically. Any economic effects are entered into the accounts for the period in which the updating takes place. If it is felt that completion of an order may lead to a loss that affects operating margins, this is entered in its entirety in the year in which it can reasonably be foreseen to happen.
Work in progress under contract is shown net of any allowance for inventory obsolescence, as well as of any advances and instalments paid relating to such contract work. This measurement is made contract by contract. When the value of the work in progress exceeds that of the advances paid, the positive difference is shown on the asset side; negative differences are reported as liabilities, in the entry "advances from customers". Any amount entered in the advances still uncollected at the time the accounts (or interim reports) are drawn up, is offset by an entry under trade receivables.
Contracts for which payment is in foreign currency are valued by converting the portion that has been paid, determined using the percentage of completion method and the exchange rate at the end of the period in question.
However, the Company's policy for exchange-rate risk calls for all contracts in which cash inflows and outflows are significantly exposed to exchange rate fluctuations to be hedged specifically.

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

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

Loans and receivables: these financial instruments chiefly relate to trade receivables, are non-derivative, are not listed on an organised exchange and do not yield fixed or foreseeable payments. They are reported as current assets, with the exception of those due beyond 12 months after the reporting date, which are classified as non-current assets. Such assets are valued at amortised cost on the basis of the effective interest rate method. If there has been objective evidence of loss of value, the asset is written down so as to equal the discounted value of future income. Impairment losses are entered in the income statement. If in succeeding years the reasons for previous write-downs no longer apply, the value of such assets is restored up to the value they would have had if the amortised cost had been applied and the asset had not been written down.

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

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

Financial liabilities
These relate to financing, trade payables, and other obligations to pay; they are valued at amortised cost, using the effective interest rate method. If there is a change in the expected cash flow and it is possible to estimate these reliably, the value of the loans is recalculated to reflect this change on the basis of the present value of the new expected cash flows and of the internal rate of return originally determined. Financial liabilities are classified as current liabilities, except where the Company has an unconditional right to defer their payment for at least 12 months after the reporting date.

Financial liabilities are removed from the accounts when they are repaid, and the Company has transferred all the risks and charges relating to them.

Derivative instruments
Derivatives are still regarded as assets held for trading and stated at Fair value through the income statement unless they are deemed eligible for hedge accounting and effective in offsetting the risk in respect of underlying assets, liabilities or obligations undertaken by the Company.
In particular, the Company uses derivative instruments as part of hedging strategies to neutralize the risk of variations in the Fair value of assets or liabilities recognised or arising from contractually-defined obligations (Fair Value Hedge) or the risk of expected cash flow variations relating to contractually-defined or highly probably operations (Cash Flow Hedge). For details regarding the methodology for recognising hedges of the exchange rate risk on long-term contracts, see paragraph “Hedging of exchange rate risk”.

The effectiveness of hedging operations is recorded at the start of the operation and regularly thereafter (at a minimum on the date of publication of the annual or interim financial statements) and is measured by comparing the changes in Fair value of the hedging instrument with those of the underlying (dollar offset ratio) or, in the case of more complex instruments, through a statistical analysis based on variation of risk.

***Fair Value* Hedge:** the changes in the fair value of derivatives identified as *Fair Value Hedges* and that meet the requirements for being identified as such, are recognised in the income statement, as are changes in the fair value of the underlying assets or liabilities attributable to the risk neutralized through the use of hedging.

Cash Flow Hedge: the variations in the fair value of derivatives identified and qualifying as *Cash Flow Hedges* are recognised, to the extent of the effective portion, in a special equity reserve (the “Cash Flow Hedge reserve”). This reserve is released to earnings when the economic effects of the underlying materialise. The change in fair value relating to the ineffective portion is immediately recognised in the income statement for the period. If the underlying operation is no longer considered highly probable, the related portion of the “Cash Flow Hedge reserve” is immediately released to earnings. Otherwise, if the derivative instrument is sold or no longer qualifies as an effective hedge against the relevant risk, the relative portion of the “Cash Flow Hedge reserve” is kept until when the underlying contract does not materialize.

Determining *Fair Value* of financial instruments: the fair value of financial instruments listed on markets is set using the bid price on the last day of the reporting period. In the absence of an active market, Fair value is set with reference to the prices provided by outside suppliers and using valuation models based chiefly on objective financial variables, while also taking into account, where possible, the prices paid in recent transactions and the listed prices of comparable financial instruments.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks, other highly liquid short-term investments (which can be converted into cash within 90 days) and the current account overdraft (the last is entered among current liabilities). Cash and cash equivalents are recognised at *Fair value*.

Shareholders' equity

Share capital: the share capital is represented by capital subscribed and paid-up. Costs closely connected with the issue of shares are classified so as to decrease share capital, net of deferred taxes, if any, if they are directly attributable to capital transactions.

Treasury shares: these are deducted from share capital. Gains or losses on the purchase, sale, issue or cancellation of own shares are not recognised in the income statement.

Retained earnings/(losses) carried forward: these include earnings and losses for the period and the previous years in respect of the portion that has not been distributed nor accrued to a reserve (in the case of profits) or that is to be made good (in the case of losses). This also includes transfers from other equity reserves when the underlying obligation is discharged, as well as the effects of the recognition of changes in accounting standards and material errors.

Other reserves: these also include the Fair value reserve in respect of items accounted for at fair value through equity, the Cash Flow Hedge reserve regarding the recognition of the effective portion of hedges, the stock option /grant reserve in respect of the recognition of defined-benefit plans as holdings of capital and the reserve of actuarial effects on defined benefit plans recognised directly in equity.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated based on the temporary differences arising between the taxable amount of an asset or liability and its book value. Deferred tax assets and liabilities are calculated by applying the tax rate in force at the time the temporary differences will be reversed. Deferred tax assets are recognised to the extent that it is probable the company will post taxable income at least equal to the temporary differences in the financial periods in which such assets will be reversed.

Employee benefits

Post-employment benefits plans: the Company uses a variety of retirement or supplementary pension that may be classified as follows:

- *Defined-contribution plans* in which the company pays a set amount to a separate entity (e.g. a fund) and has no legal or constructive obligation to pay additional contributions in the event the appointed entity has insufficient assets to pay the benefits relating to the service rendered during the period of employment. The company only recognises the contribution to the plan once the employees have rendered their services in exchange for these contributions;
- *Defined-benefit plans* in which the company is required to provide agreed benefits for current and former employees and to assume the actuarial and investments risks related to the plan. Therefore, the cost of the plan cannot be determined based on the contributions owed in exchange for work, but rather is recalculated based on demographic, statistical assumptions and on the salaries dynamics. The "projected unit credit" method is used.

The Company recognises the defined-benefit plans applying the so-called "equity method", which consists in the recognition of actuarial gains and losses related to all plans directly in the equity as they occur.
With reference to the classification of the costs related to the defined-benefit plans, the costs for rendering service (current and past), as well as the costs relating to the *curtailment* recognition (where applicable) are recorded in the item "Cost of labour". On the contrary, *interest costs*, net of the expected return on the plan assets, are recorded under "financial costs".

Other long-term benefits and post-employment benefits: the Company grants employees with other benefits (such as seniority bonuses after a given period of service with the company) that, in some cases, continue to be provided after retirement (for example, medical care). These receive the same accounting treatment as defined-benefit plans, using the "projected unit credit method" and any actuarial gains and losses are recognised both immediately and in full as they occur.

Benefits payable for the termination of employment and incentive plans: termination benefits are recognised as liabilities and expenses when the enterprise is demonstrably committed to terminating the employment of an employee or group of employees before the normal retirement date or to providing termination benefits as a result of an offer made in order to encourage voluntary redundancy. The benefits payable to employees for the termination of employment do not bring any future economic benefits to the enterprise and are therefore recognised immediately as expenses.

Equity compensation benefits: the Company compensates its Top Managers through stock grant plans as well. In these cases, the theoretical benefit of the persons concerned is charged to the income statement for the years of the plan through an equity reserve. This benefit is quantified by measuring the Fair value of the awarded instrument also through financial valuation techniques, including market conditions, if necessary, and adjusting the number of rights that are expected to be awarded at each reporting date or interim reporting date.

Provisions for risks and charges

These are entered as a result of losses and charges of a particular type. These are either certain or probable but cannot, at the reporting date, be quantified, and/or their timing cannot be foreseen.
These are entered only when there is a current obligation (legal or implicit) for future cash outlays as a result of past events and it is likely that such outlays will be demanded in fulfilment of the obligation. The provision made represents the best estimate of the present value of the expenditure required to meet the obligation. The discount rate used in setting the present value of the liability reflects current market values and includes the further effects of the specific risk associated with each liability.
Risks for which a liability is only a possibility are mentioned in the relevant information section on commitments and risks. No provision is made for these.

Revenue recognition

Revenue is recognised at the fair value of the payment received, net of VAT, discounts, and quantity discounts. Revenue also includes changes to work in progress.
Revenue generated from the sale of goods is recognised when the enterprise has transferred to the buyer substantially all of the significant risks and rewards of ownership of the goods, which, in many cases coincides with the transfer of title or ownership to the buyer, or when the value of the revenue can be reliably determined.
Revenue from services rendered is entered, when it can be reliably estimated, on the basis of the percentage of completion.

Grants

If there is a formal document of attribution, grants are recognised on the basis of the matching principle, in direct correlation with the costs incurred. Operating grants are entered in the income statement as a direct reduction of the charge to which they refer. Capital grants are entered in the income statement in direct correlation to the depreciation process to which the goods or projects refer, and are deducted from depreciation itself.

Costs

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

Financial income and costs

Interest income and expense are recognised on the accrual basis of accounting using the effective interest method, i.e. using the interest rate through which all the inflows and outflows (including any income, unamortised discounts, commissions, etc.) of a given transaction are made financially equivalent. Financial costs are not charged as an asset.

Dividends

These are recognised when the shareholders' right to receive payment is established; this normally happens when the shareholders' meeting authorises the distribution of dividends. Distribution of dividends is thus entered as an asset in the period in which it is approved by the shareholders' meeting.

Taxes

Income taxes are recognised based on estimated taxable income in accordance with applicable provisions, taking into account applicable exemptions, if any, and the relevant Tax receivables.
Current taxes are entered in the income statement, with the exception of those relating to accounting entries that are directly debited or credited to equity, in which case the tax effect is applied directly to shareholders' equity. Current taxes are offset when the income tax is applied by the same tax authority, there is a legal set-off right and the net balance is expected to be collected.
We report that at the date of preparation of these Consolidated Financial Statements the regulations relating to the determination of the IRES taxable base for the companies which have adopted the international accounting standards has not been issued yet. Therefore, the determination of the current and deferred tax charge has been made on the basis of the best available information and based on a prudent interpretation of the regulations in force.

Transactions with related parties

Related party transactions are made at arm's length.

New IFRS and IFRIC interpretations

The IASB and the International Financial Reporting Interpretations Committee (IFRIC) published new standards and interpretations that have not yet been compulsory or not yet been endorsed by the European Commission; however, the company has considered to assess the effects as shown in the following table:

IFRS – IFRIC interpretation		**Effects for the company**
IAS 39 Amendments	Financial instruments	Not significant
IFRS 8	Operating segments	The application of the standard results in a different disclosure in the financial statements. The Group expects to apply these changes from 1 January 2009.
IAS 23	Borrowing costs	The Group does not currently capitalise borrowing costs. The new standard, which will be applied starting from 1 January 2009, requires on the contrary the capitalisation of borrowing costs for certain categories of assets.
IAS 1	Presentation of financial statements	The application will result in a different disclosure in the financial statements. The Group expects to apply these changes from 1 January 2009.
IFRS 2 Amendment	Share-based payment	Not significant. The Group expects to apply these changes from 1 January 2009.
IAS 27	Consolidated and separate financial statements	The Group currently applies the Parent company approach, no longer provided for by the Amendment of IAS 27. The Group expects to apply these changes as from 1 January 2010.
IFRS 3	Business combinations	The new version of IFRS 3 provides: (i) that transaction costs are recognised in the income statement; (ii) it is no longer compulsory to measure the assets and liability of the subsidiary at fair value in the acquisitions achieved in stages (step acquisitions); (iii) and the recognition at the acquisition date of the liabilities for conditional payments. The Group expects to apply these changes as from 1 January 2010.

The company is evaluating the impacts resulting from the IFRICs provided below. If significant, they will be applied in the financial year 2009 or after the homologation by the European Union, as for the IFRIC 14 amendment; while the IFRIC 13 amendment does not seem applicable to the company's business:

IFRIC 13	Customer loyalty programmes
IFRIC 14	The limit on a defined benefit asset, minimum funding requirements and their interaction
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 17	Distribution of non-cash assets to owners
IFRIC 18	Transfers of assets from customers

Critical accounting estimates and assumptions

Described below are the accounting principles that demand greater judgement on the part of the directors in making estimates. For these principles a change in the principles underlying the assumptions made could have a significant impact on consolidated financial statements:

Risk provisions and estimates of final costs of long-term contracts: the Company operates in business segments with especially complex contractual frameworks, which are entered in the accounts via the percentage of completion method. The operating margins in the income statement are a function both of the progress on a particular contract and of the operating margins that are expected to be recognised once the whole project is complete. Therefore, the correct assessment of work in progress and the operating margins expected from unfinished work requires a correct estimate on the part of management of the final costs and the estimated increases, as well as of the delays, cost overruns, and penalties that may reduce the expected operating margins. To provide a sounder basis for management estimates, the Company has equipped itself with procedures for managing and analysing contract risks, which aim to identify, monitor, and quantify the risks relating to the carrying out of these contracts. The figures entered in the accounts are management's best estimate at the time, made with the help of the above-mentioned procedures. Moreover, the Company operates in segments and markets where many problems are resolved only after a significant time-lag, especially in cases where the customer is a public body, which obliges management to forecast the results of such disputes.
Estimates of final costs depend on factors that may change over time and which could therefore produce a significantly different outcome from that expected by directors at the time the consolidated financial statements are drawn up.

Goodwill: in accordance with the accounting standards adopted for the consolidated accounts, directors test goodwill annually, to establish whether there are any impairments to be entered in the income statement. Most importantly, this test includes the allocation of goodwill to cash generating units, and the subsequent determination of the relative fair value. If fair value is lower than the book value of the cash generating units, the value of goodwill allocated is brought into line with the recoverable value. The allocation of goodwill to cash generating units and the determination of the fair value of such CGUs involves making estimates that depend on factors that may change over time and which could therefore produce a significantly different outcome from that expected by directors at the time the consolidated financial statements are drawn up.

Hedging long-term contracts against foreign exchange risk: in order to hedge exposure to changes in flows of receipts and payments associated with long-term construction contracts denominated in currencies other than the functional currency, the Company enters into specific hedges for the expected individual cash flows in respect of the contracts. The hedges are entered into at the moment the contracts are finalised. Exchange-rate risk is normally hedged with plain vanilla instruments (forward contracts).
In all cases where hedges prove to be ineffective, changes in the Fair value of such instruments are taken immediately to the income statement as financial items, while the underlying is valued as if it were exposed to exchange rate variations. The effects of this recognition policy are reported in the section “Financial income and costs”. Hedges in the former case are reported as Cash Flow Hedges, considering as ineffective the part relating to the premium or discount in the case of forwards or the time value in the case of options, which is recognised under financial items.

7.4 Effects of the changes in the accounting principles adopted

7.4.1 Changes in the financial statements

With regard to the financial statements, it is necessary to mention the changes introduced at 31 December 2008 on the basis of the instructions and clarifications received from the Parent company. For comparative purposes, the data at 31 December 2007 has been reclassified:

- The balances pertaining to related parties included in the balance sheet and in the income statement are shown in a separate column and no more as a distinct item of the same schedules. Therefore, for each balance sheet and income statement item, the related schedule indicates the overall amount, while the portion of the amounts pertaining to related parties is shown separately. In a separate column is also provided the portion pertaining to related parties of a few items relative to the Cash Flow Statement.

7.4.2 Reclassification of receivables/payables for indirect taxes among “other assets”, “other liabilities”

As to the Balance Sheet, in order to adjust the information provided to the provisions required by IAS 1, the items “tax receivables” and “tax payables” have been replaced by the items “Income tax receivables” and “Income tax payables”, with the resulting reclassification of the amounts relating to receivables/payables for indirect taxes under “Other assets” and “Other liabilities” respectively.

Below are summarised the effects on the comparative Balance Sheet as at 31 December 2007 of the above-mentioned changes:

Balance Sheet

(EUR 000)	31.12.2007	Reclassifications IAS 1	31.12.2007 "Restated"
Non-current assets			
Intangible Assets	47,987		47,987
Tangible Assets	94,208		94,208
Equity investments	29,071		29,071
Receivables	15,153		15,153
Deferred taxes	42,590		42,590
Other assets	28,055		28,055
	257,064	**-**	**257,064**
Current assets			
Inventories	98,305		98,305
Contract work in progress	151,895		151,895
Trade receivables	269,851		269,851
Current receivables from related parties	199,743		199,743
Income tax receivables	10,835	(6,680)	4,155
Derivatives	211		211
Other current assets	17,617	6,680	24,297
Cash and cash equivalents	63,385		63,385
	811,842	**-**	**811,842**
Total assets	**1,068,906**	**-**	**1,068,906**
Shareholders' equity			
Share capital	49,668		49,668
Reserves	127,647		127,647
Group's shareholders' equity	177,315	-	177,315
Minority interests	386		386
Total shareholders' equity	**177,701**	**-**	**177,701**
Non-current liabilities			
Borrowings	6,968		6,968
Severance pay and other employee liabilities	31,314		31,314
Deferred taxes	6,654		6,654
Other liabilities	9,227		9,227
	54,163	**-**	**54,163**
Current liabilities			
Advances from customers	506,802		506,802
Trade payables	174,725		174,725
Current payables to related parties	24,590		24,590
Borrowings	12,601		12,601
Income tax payables	17,169	(9,342)	7,827
Provisions for risks and charges	26,215		26,215
Derivatives	9,982		9,982
Other current liabilities	64,958	9,342	74,300
	837,042	**-**	**837,042**
Total Liabilities	**891,205**	**-**	**891,205**
Total Liabilities and Shareholders' Equity	**1,068,906**	**-**	**1,068,906**

8 Segment Reporting

8.1 Primary segment

The Group operates in two transport-related segments (railway and urban): signalling through the **Signalling Business Unit** and transport systems through the **Transport Systems Business Unit**.
For more detailed analysis of the main programmes, outlook, and management indicators for each unit, see the report on operations by segment.

The results of the business units at 31 December 2008, compared with those for the same period of the previous year, are as follows:

	31 december 2008									
(EUR 000)	**Signalling Business Unit**	of which from related parties	**Transport Systems Business Unit**	of which from related parties	**Other operations**	of which from related parties	**Eliminat.**	of which from related parties	**Total**	of which from related parties
Revenues	824,497	109,692	301,583	59,147	18,266	18,266	(38,831)	(35,422)	1,105,515	151,683
Other operating income	18,803	341	8,157	5,217	1,830	1,825	(7,101)	(7,101)	21,689	282
Costs for purchases	(205,691)	(5,351)	(58,481)	(20,177)	(39)		16,639	16,639	(247,572)	(8,889)
Costs for services	(289,691)	(38,273)	(192,963)	(70,746)	(12,955)	(2,353)	31,241	31,241	(464,368)	(80,131)
Cost of labour	(227,312)		(28,542)		(8,790)		(1,964)		(266,608)	
Amortisation, depreciation and write-downs	(11,615)		(734)		(1,884)		-		(14,233)	
Other operating costs	(10,296)	(24)	(950)	(1)	(3,916)	5	16	16	(15,146)	(4)
Changes in inventories of work in progress, semi-finished and finished goods	(2,578)		-		-		-		(2,578)	
Capitalised costs for internally produced assets	863		-		-		-		863	
EBIT	**96,980**		**28,070**		**(7,488)**		**-**		**117,562**	
Financial income	15,278	5,000	27,514	25,888	21,066	14,935	(40,920)	(40,920)	22,938	4,570
Financial costs	(13,049)	(2,031)	(634)		(7,526)	(1,057)	2,886	2,767	(18,323)	(321)
Effects of valuation of equity investments accounted for using equity method	(149)		(1)		-		-		(150)	
Profit (Loss) before taxes	**99,060**		**54,949**		**6,052**		**(38,034)**		**122,027**	
Income taxes	(34,722)		(11,255)		1,549		-		(44,428)	
Net Profit (Loss)	**64,338**		**43,694**		**7,601**		**(38,034)**		**77,599**	
Group	64,283		43,694		7,601		(38,034)		77,544	
Minority interests	55		-		-		-		55	
Capital expenditure	13,368		773		248		-		14,389	

	31 december 2007									
(EUR 000)	**Signalling Business Unit**	of which from related parties	**Transport Systems Business Unit**	of which from related parties	**Other operations**	of which from related parties	**Eliminat.**	of which from related parties	**Total**	of which from related parties
Revenues	750,093	93,658	241,438	36,334	14,000	14,000	(32,437)	(28,880)	973,094	115,112
Other operating income	10,401	930	3,917	1,204	3,499	3,497	(3,764)	(3,764)	14,053	1,867
Costs for purchases	(204,074)	(12,401)	(50,443)	(20,893)	(36)		17,577	17,577	(236,976)	(15,717)
Costs for services	(235,168)	(29,573)	(143,913)	(23,515)	(14,678)	(2,024)	20,156	20,178	(373,603)	(34,934)
Cost of labour	(214,958)		(26,052)		(8,124)		(1,532)		(250,666)	
Amortisation, depreciation and write-downs	(7,854)		(1,232)		(1,863)				(10,949)	
Other operating costs	(13,344)	(71)	(1,729)	(86)	(997)	134	-	19	(16,070)	(4)
Changes in inventories of work in progress, semi-finished and finished goods	953		-		-		-		953	
Capitalised costs for internally produced assets	458		-		-		-		458	
EBIT	**86,507**		**21,986**		**(8,199)**		**-**		**100,294**	
Financial income	8,427	4,299	5,534	4,231	54,884	4,568	(57,037)	(6,796)	11,808	6,302
Financial costs	(7,944)	(744)	(747)	(36)	(6,437)	(6,220)	6,796	6,827	(8,332)	(173)
Effects of valuation of equity investments accounted for using equity method	90		-		-		-		90	
Profit (Loss) before taxes	**87,080**		**26,773**		**40,248**		**(50,241)**		**103,860**	
Income taxes	(37,061)		(11,495)		2,974				(45,582)	
Net Profit (Loss)	**50,019**		**15,278**		**43,222**		**(50,241)**		**58,278**	
Group	49,913		15,277		43,223		(50,241)		58,172	
Minority interests	106		-		-				106	
Capital expenditure	14,914		2,519		244				17,677	

The segment Assets and Liabilities at 31 December 2008 and at 31 December 2007 are as follows:

(EUR 000)	31 december 2008 Signalling Business Unit	 Transport Systems Business Unit	 Other operations	 Total
Total assets	**483,642**	**332,088**	**316,720**	**1,132,450**
Total liabilities	**426,927**	**287,324**	**179,447**	**893,698**

(EUR 000)	31 december 2007 Signalling Business Unit	 Transport Systems Business Unit	 Other operations	 Total
Total assets	**639,254**	**277,814**	**151,838**	**1,068,906**
Total liabilities	**628,504**	**262,056**	**645**	**891,205**

8.2 Secondary segment

Geographically, Group Production Revenues break down as follows (according to the countries where customers are based):

Production Revenues

(EUR 000)	**31.12.2008**	31.12.2007
Italy	532,665	463,766
Rest of Western Europe	215,422	219,978
North America	87,005	106,095
Asia Pacific	250,709	172,504
Others	19,714	10,751
	1,105,515	**973,094**

Assets are broken down on the basis of their location as follows:

(EUR 000)	**31.12.2008**	31.12.2007
Italy	653,914	536,748
Rest of Western Europe	334,346	358,642
North America	6,361	127,385
Asia Pacific	124,969	42,459
Others	12,860	3,672
	1,132,450	**1,068,906**

Capital expenditure is broken down on the basis of where they are made as follows:

Capital expenditure

(EUR 000)	**31.12.2008**	31.12.2007
Italy	4,255	6,141
Rest of Western Europe	4,024	3,052
North America	3,129	6,714
Asia Pacific	2,885	1,770
Others	96	-
	14,389	**17,677**

9 Notes to the balance sheet

9.1 Transactions with related parties

In general, transactions with related parties are conducted at arm's length. Interest-bearing receivables and payables that are not governed by specific contractual conditions are treated in the same manner. The most important figures are as follows:

Receivables at 31.12.2008

(EUR 000)	Non-current financial receivables	Other non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
Parent company						
Finmeccanica SpA	-	-	-	5	-	**5**
Subsidiaries						
Alifana Scrl	-	-	-	125	-	**125**
Alifana Due Scrl	-	-	-	5,014	-	**5,014**
Associated companies						
International Metro Service Srl	-	-	-	10	858	**868**
Metro 5 SpA	-	-	-	18,845	-	**18,845**
Pegaso Scrl	-	-	-	232	-	**232**
Consortia						
Cons. Saturno	-	-	-	49,636	1,360	**50,996**
Cons. Ascosa quattro	-	-	-	102	-	**102**
Cons. Ferroviario Vesuviano	-	-	-	3,485	-	**3,485**
San Giorgio Volla Due	-	-	-	3,768	-	**3,768**
San Giorgio Volla	-	-	-	1,421	-	**1,421**
Other Group companies						
Finmeccanica Group Service	-	-	-	-	-	**-**
AnsaldoBreda SpA	-	-	-	5,450	14	**5,464**
Finmeccanica Finance	-	-	139,509	-	-	**139,509**
Elsag Datamat SpA	-	-	-	302	-	**302**
Ansaldo Argentina SA	-	-	-	-	-	**-**
Selex Communication SpA				1		**1**
Orizzonte Sistemi Navali	-	-	-	-	-	**-**
Galileo Avionica	-	-	-	12	-	**12**
Fata Logistic System SpA	-	-	-	-	-	**-**
Ansaldo Energia SpA	-	-	-	-	-	**-**
I.M. Intermetro SpA	-	-	-	201	-	**201**
Total	**-**	**-**	**139,509**	**88,609**	**2,232**	**230,350**

Receivables at 31.12.2007

(EUR 000)	Non-current financial receivables	Other non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
Parent company						
Finmeccanica SpA	-	-	283	205	-	**488**
Subsidiaries						
Alifana Scrl	-	-	-	123	-	**123**
Alifana Due Scrl	-	-	-	136	-	**136**
Associated companies						
International Metro Service Srl	-	-	-	-	2,083	**2,083**
Metro 5 SpA	-	-	-	6,759	-	**6,759**
Pegaso Scrl	-	-	-	116	-	**116**
Consortia						
Cons. Saturno	-	-	-	41,781	-	**41,781**
Cons. Ascosa quattro	-	-	-	342	-	**342**
Cons. Ferroviario Vesuviano	-	-	-	2,544	-	**2,544**
San Giorgio Volla Due	-	-	-	1,422	-	**1,422**
San Giorgio Volla	-	-	-	748	-	**748**
Other Group companies						
Finmeccanica Group Service	-	-	-	-	-	**-**
AnsaldoBreda SpA	-	-	-	1,785	23	**1,808**
Finmeccanica Finance	-	-	140,422	-	-	**140,422**
Elsag Datamat SpA	-	-	-	230	239	**469**
Ansaldo Argentina SA	-	-	-	37	-	**37**
Selex Communication SpA	-	-	-	2	-	**2**
Orizzonte Sistemi Navali	-	-	-	-	3	**3**
Fata Logistic System SpA	-	-	-	-	4	**4**
Ansaldo Energia SpA	-	-	-	1	-	**1**
I.M. Intermetro SpA	-	-	-	455	-	**455**
Total	**-**	**-**	**140,705**	**56,686**	**2,352**	**199,743**

Payables at 31.12.2008

(EUR 000)	Non-current borrowings	Other non-current payables	Current borrowings	Trade payables	Other current payables	Total
Parent company						
Finmeccanica SpA	-	-	152	51	-	203
Subsidiaries						
Alifana Scrl	-	-	-	167	3	170
Alifana Due Scrl	-	-	-	5,021	-	5,021
Ansaldo Railway STS (Beijing) Ltd	-	-	-	-	719	719
Associated companies						
Metro Service	-	-	-	478	-	478
Metro 5 SpA	-	-	-	-	3,210	3,210
Pegaso S.c.r.l.	-	-	-	4,055	-	4,055
Consortia						
Cons. Saturno	-	-	-	396	-	396
Cons. Ascosa quattro	-	-	-	79	8	87
Cons. Team	-	-	-	7	5	12
San Giorgio Volla Due	-	-	-	314	11	325
Cons. Ferroviario Vesuviano	-	-	-	404	8	412
San Giorgio Volla	-	-	-	78	8	86
Cesit	-	-	-	13	-	13
Cons. Filobus Vesuvio	-	-	-	-	-	-
Other Group companies						
Finmeccanica Group Service	-	-	-	606	-	606
Ansaldo Energia SpA			-	-	-	-
AnsaldoBreda SpA	-	-	-	3,119	-	3,119
Finmeccanica Finance	-	-	-	-	7	7
Elsag Datamat SpA	-	-	-	1,633	-	1,633
Selex Communication SpA	-	-	-	6,280	-	6,280
Selex Sistemi Integrati SpA			-	-	-	-
Fata Logistic System SpA	-	-	-	472	-	472
Electron Italia	-	-	-	136	-	136
Hr Gest SpA	-	-	-	140	-	140
Galileo Avionica				16		16
I.M. Intermetro SpA	-	-	-	2	-	2
Other	-	-	-	56	-	56
Total	**-**	**-**	**152**	**23,523**	**3,979**	**27,654**

Payables at 31.12.2007

(EUR 000)	Non-current borrowings	Other non-current payables	Current borrowings	Trade payables	Other current payables	Total
Parent company						
Finmeccanica SpA	-	-	-	84	135	219
Subsidiaries						
Alifana Scrl	-	-	-	488	3	491
Alifana Due Scrl	-	-	-	799	-	799
Associated companies						
Metro 5 SpA	-	-	-	76	4,612	4,688
Pegaso Scrl	-	-	-	2,569	-	2,569
Consortia						
Cons. Saturno	-	-	-	482	-	482
Cons. Ascosa quattro	-	-	-	77	8	85
Cons. Team	-	-	-	32	5	37
San Giorgio Volla Due	-	-	-	161	11	172
Cons. Ferroviario Vesuviano	-	-	-	203	8	211
San Giorgio Volla	-	-	-	201	8	209
Cesit	-	-	-	-	-	-
Cons. Filobus Vesuvio	-	-	-	-	1	1
Other Group companies						
Finmeccanica Group Service	-	-	-	86	-	86
Ansaldo Energia SpA				120		120
AnsaldoBreda SpA	-	-		4,666	-	4,666
Finmeccanica Finance	-	-	-	-	14	14
Elsag Datamat SpA	-	-	-	3,437	-	3,437
Selex Communication SpA	-	-	-	5,476	-	5,476
Selex Sistemi Integrati SpA				80		80
Fata Logistic System SpA	-	-	-	401	-	401
Electron Italia	-	-	-	-	-	-
Hr Gest SpA	-	-	-	290	-	290
I.M. Intermetro SpA	-	-	-	1	-	1
Other	-	-	-	56	-	56
Total	**-**	**-**	**-**	**19,785**	**4,805**	**24,590**

9.2 Intangible assets

(EUR 000)	Goodwill	Patents & similar rights	Concessions, licences and trademarks	Assets under development	Other	Total
Balance at 31 December 2007	**38,636**	**14**	**211**	**400**	**8,726**	**47,987**
Changes in the scope of consolidation	-	-	-	-	(6)	(6)
Acquisitions	194	158	717	579	1,638	3,286
Capitalisations	-	-	-	15	-	15
Sales	-	-	-	-	3	3
Amortisation and write-downs	-	(34)	(153)	-	(2,357)	(2,544)
Opening/closing foreign exchange rate differences	25	-	-	(11)	167	181
Transfer account from work in progress	-	503	-	(640)	137	-
Reclassifications	-	2	1	-	(3)	-
Balance at 31 December 2008	**38,855**	**643**	**776**	**343**	**8,305**	**48,922**

Investments for the period came to EUR 3,301 thousand and regarded the Signalling Business Unit for EUR 2,808 thousand, the Transport Systems Business Unit for EUR 492 thousand and Ansaldo STS SpA for EUR 1 thousand.

With regard to the Signalling Business Unit, intangible assets are composed of as follows:
- Ansaldo Segnalamento Ferroviario SpA (EUR 814 thousand), mainly for the replacement works of the PDM (DISA) with the new system PDM/PLM (Teamcenter).
- Ansaldo STS Australia PTY Ltd. and subsidiaries thereof (EUR 912 thousand), mainly for long-terms costs linked to software development projects.
- Ansaldo STS France SA (EUR 592 thousand), mainly for the purchases of software licenses.
- Ansaldo STS USA Inc. (EUR 490 thousand) mainly relating to SAP implementation activities.

The Transport Systems Business Unit reported an increase of EUR 492 thousand essentially due to the purchase of a software package from third parties in support of the design and planning activities of engineering lines for the development of the internal process of cost planning and control.
Ansaldo STS SpA showed an increase of EUR 1 thousand due to software purchased from third parties.

Amortisation for the period amounted to EUR 2,544 thousand and foreign exchange rate differences were positive for EUR 181 thousand.

With regard to goodwill, including the equity investments acquired on 24 February 2006 (as reported above), the breakdown by sector is as follows:

	31.12.2008	31.12.2007
Signalling	38,855	38,636
Transport systems	-	-
	38,855	**38,636**

The impairment test, in application of the Group procedures, is carried out upon the preparation of the Annual Report.
The test is conducted on the individual cash generating units (CGUs) by comparing the carrying amount with the greater of the value in use of the CGU and the amount recoverable by sale. In particular, the value in use is measured by discounting the cash flows of the five-year plans approved by management and projected beyond the explicit time horizon covered by the plan using growth rates of no greater than those forecast for the market in which the given CGUs operate.

9.3 Tangible assets

(EUR 000)	**Land and buildings**	**Plant and machinery**	**Equipment**	**Assets under development**	**Other**	**Leased assets**	**Total**
Balance at 31 December 2007	**70,552**	**5,416**	**4,106**	**3,689**	**10,404**	**41**	**94,208**
Change in the scope of consolidation	-	(1)	-	-	(10)		(11)
Acquisitions	117	1,067	1,614	3,603	3,839		10,240
Capitalisations			340	508			848
Sales	-	(32)	(1)	-	(75)		(108)
Depreciation and write-downs	(2,379)	(1,439)	(1,475)	-	(2,661)	(7)	(7,961)
Opening/closing foreign exchange rate differences	71	(38)	48	116	(253)	(5)	(61)
Transfer account from work in progress	1,847	371	1,020	(5,004)	1,766		-
Reclassifications	389	261	4	-	(654)	-	-
Other movements	1	-	(1)	-	-		-
Balance at 31 December 2008	**70,598**	**5,605**	**5,655**	**2,912**	**12,356**	**29**	**97,155**

Tangible assets include the value of the premises owned by the Parent company, Ansaldo STS SpA, located at Via Mantovani 3/5-16151 in Genoa and purchased in December 2005 from its parent Finmeccanica SpA for EUR 62,378 thousand.
In accordance with IAS 16, the component approach was applied to the above amount and therefore the amount of EUR 9,353 thousand was reclassified among the item “Land”.

Investments for the period came to EUR 11,088 thousand and regarded the Signalling Business Unit for EUR 10,560 thousand, the Transport Systems Business Unit for EUR 281 thousand and Ansaldo STS SpA for EUR 247 thousand.
With regard to the Signalling Business Unit, tangible assets can be broken down by company:
- EUR 2,675 thousand – Ansaldo Segnalamento Ferroviario SpA (Italy): mainly relative to the progress of the Turin canteen project and to the instrumentation acquired for the Tito factory and the Naples engineerings.
- EUR 3,163 thousand – Ansaldo STS France: mainly relating to the purchase of furniture, fittings and equipment for technical labs.
- EUR 2,626 thousand – Ansaldo STS USA: mainly relative to the maintenance of the plants of the Batesburg factory.
- EUR 1,805 thousand – Asia Pacific area companies (Australia, India, Malaysia): mainly attributable to the expansion and reorganisation of the sites to support the growth of production and personnel.
- EUR 291 thousand – other European companies (Ansaldo STS Sweden, Ansaldo STS U.K. and Ansaldo STS Ireland).

The Transport Systems Business Unit showed an increase of EUR 281 thousand mainly relating to the purchase of furniture, fittings and office machines for the arrangement of the offices in the Naples branch.

Ansaldo STS SpA recorded an increase of EUR 247 thousand regarding:
- equipment in the amount of EUR 114 thousand for the purchase of office electronic machines;
- other goods in the amount of EUR 133 thousand mainly for the purchase of furniture, fittings, electronic machines and signs.

Depreciation for the period amounted to EUR 7,961 thousand and foreign exchange differences are negative for EUR 61 thousand.

9.4 Equity investments

Equity investments at cost:

(EUR 000)

Balance at 31 December 2007	**22,553**
Change in scope of consolidation	(344)
Acquisitions/subscriptions and capital increases	1,204
Revaluations/write-downs	-
Disposals	
Other movements	(93)
Balance at 31 December 2008	**23,320**
Equity investments at equity	**6,717**
Total equity investments	**30,037**

List of equity investments with values in thousands of euros:

Name	Ownership %	Total assets	Total liabilities		Currency	Value
Metro 5 SpA (**)	24.60%	144,830	119,850		Euro	6,148
International Metro Service Srl (**)	49.00%	5086	4383	*	Euro	345
Pegaso Scrl (**)	46.87%	13,229	12,969	*	Euro	122
Ecosen CA (**)	48.00%	3,033,684	2,788,291		Vbf	72
Alifana Scarl (**)	65.85%	1,736	1,710	*	Euro	17
Alifana Due Scrl (**)	53.34%	3,257	3,232	*	Euro	13
Metro C ScpA.	14.00%	224,537	75,019	*	Euro	21,000
Ansaldo Railway STS (Beijing) Ltd	100.00%	nd	nd		Euro	1,078
I.M. Intermetro SpA	16.67%	1,531,728	1,522,258	*	Euro	523
Società Tram di Firenze SpA	3.80%	25,191	18,603	*	Euro	266
Ansaldo STS Infra DEV South Africa	50.70%	nd	nd		Euro	103
Iricav Uno	17.44%	3,402,245	3,401,725	*	Euro	91
Iricav Due	15.00%	63,306	62,790	*	Euro	77
Cons. ferroviario vesuviano	25.00%	204,704	204,549		Euro	39
S. Giorgio Volla 2	40.00%	16,253	16,181		Euro	29
Cris	1.00%	5,516	3,080	*	Euro	24
S. Giorgio Volla	25.00%	6,259	6,187		Euro	18
Ascosa Quattro	25.00%	108,647	108,590	*	Euro	14
Siit	2.30%	935	337	*	Euro	14
Cesit	16.67%	198	115		Euro	14
Saturno	33.34%	2,381,575	2,381,544		Euro	10
Cons. T.e.a.m.	22.22%	137	91	*	Euro	10
Cons. Train	3.76%	29,539	29,426	*	Euro	4
Sesamo Scarl	2.00%	nd	nd	*	Euro	2
Isict	6.67%	306	265	*	Euro	2
Cosila	0.90%	178	59	*	Euro	1
Filobus Vesuvio	1.00%	848	756		Euro	1
Ansaldo STS South Africa	100%	nd	nd		Euro	-
Union Switch & Signal Inc. Chile	68%	No longer in business	No longer in business		Euro	
Total	-	-	-		-	**30,037**

N.B: data relates to assets and liabilities for 2008
(*) data refers to financial year 2007
(**) Investments at equity

Equity investments at 31 December 2008 amounted to EUR 30,037 thousand, of which EUR 6,717 thousand valued with the net equity method and EUR 23,320 thousand valued at cost.
The equity investments valued at cost showed a positive variation of EUR 767 thousand mainly ascribable to the following acquisitions:
- Ansaldo Railway STS (Beijing) Ltd acquired in the course of 2008 for EUR 103 thousand;
- Ansaldo STS Infradev South Africa Pty Ltd acquired for EUR 1,078 thousand;

The further variation is mainly ascribable to the change of valuation method occurred in the financial year 2008 for the following investments:
- Ansaldo STS Deutschland GMBH - consolidated on a line-by-line basis being entirely held and already operating (in 2007, accounted for at cost for EUR 76 thousand);
- International Metro Service Srl - valued using the equity method since the financial year 2008 (in 2007, accounted for at cost for EUR 343 thousand);

The value of the investments valued using the net equity method showed an increase of EUR 199 thousand as a result of the already mentioned change in the valuation method of International Metro Service Srl for EUR 343 thousand, partially offset by the adjustments of the period for EUR 144 thousand.

9.5 Receivables and other non-current assets

(EUR 000)	**31.12.2008**	31.12.2007
Receivables from employees	4	-
Security deposits	1,622	1,385
Personal Income Tax receivables on severance pay	541	724
Other	9,350	13,044
Non-current receivables	**11,517**	**15,153**
Financial accrued income - non-current portion	-	583
Deferred charges	26,020	27,472
Other non-current assets	**26,020**	**28,055**

Non-current receivables at 31 December 2008 came to EUR 11,517 thousand. These refer to the Signalling Business Unit for EUR 8,864 thousand, specifically to the American subsidiary Ansaldo STS USA Inc. in relation to the “Pittsburgh facilities lease” receivable (EUR 6,956 thousand) and to the Transport Systems Business Unit for EUR 2,653 thousand in relation to the advance paid to the Thessaloniki metro - assignee of the relative contract (EUR 2,176 thousand).
Other non-current assets amounted to EUR 26,020 thousand and refer to the non-current portion of the long-term costs incurred to purchase the right to use the “Ansalso” trademark for 20 years.
Specifically, on 27 December 2005, Ansaldo STS SpA entered into a licensing agreement with Finmeccanica SpA to use the “Ansaldo” trademark under which the Company is known in the market. This agreement gives the Company exclusive use of the trademark up to 27 December 2025 in the sectors the Group does business, in exchange for an up-front payment of EUR 32,213 thousand.

9.6 Inventories

(EUR 000)	**31.12.2008**	31.12.2007
Raw materials, ancillary goods and consumables	39,365	42,426
Work in progress and semi-finished products	16,948	19,383
Finished products and goods	11,697	9,195
Advances to suppliers	24,864	27,301
Total	**92,874**	**98,305**

Inventories are stated net of write-down provisions totalling EUR 4,340 thousand (EUR 5,815 thousand at 31 December 2007).

9.7 Contract work in progress and advances from customers

(EUR 000)	**31.12.2008**	31.12.2007
Advances from customers	(21,910)	(19,713)
Invoices of instalments	(750,469)	(551,995)
Work in progress	918,060	723,603
Work in progress (net)	**145,681**	**151,895**
Advances from customers	55,403	82,275
Invoices of instalments	3,788,137	3,585,304
Work in progress	(3,341,135)	(3,160,777)
Advances from customers (net)	**502,405**	**506,802**

Work in progress is recognised as an asset if a contract-by-contract analysis reveals that the gross value of the work in progress is higher than the advances from customers. It is recognised as a liability if the advances from customers exceed the value of the related work in progress. The amount corresponding to any advances not received as of the end of the accounting period is recognised among customer receivables.

9.8 Trade and financial receivables

(EUR 000)	31.12.2008 Trade	31.12.2008 Financial	31.12.2007 Trade	31.12.2007 Financial
Receivables from customers	281,405	-	269,851	-
Total receivables from customers	**281,405**	**-**	**269,851**	**-**
Receivables from related parties	88,609	139,509	56,686	140,705
Total	**370,014**	**139,509**	**326,537**	**140,705**

Trade receivables from third parties came to EUR 281,405 thousand at 31 December 2008 and increased by EUR 11,554 thousand over 31 December 2007 (EUR 269,851 thousand).
The Signalling Business Unit recorded a decrease in trade receivables from third parties of EUR 20,429 thousand, mainly attributable to the subsidiary Ansaldo Segnalamento Ferroviario SpA for collections occurred in 2008 in relation to receivables recorded in the last months of 2007.
The Transport Systems Business Unit reported an increase of EUR 31,980 thousand due to the marked increase in the economic turnover recorded in the last part of the year.

Trade receivables from related parties showed an increase of EUR 31,923 thousand, mainly attributable to the Italian subsidiary of the Signalling Business Unit due to the invoices made in the period to the associated company Metro 5 and to the Saturno consortium.

With regard to CONSOB communication no. DAC/RM/97003369 of 9 April 1997, the Group reports that during the financial year 2008 it did not assign any recourse and non-recourse receivables.

9.9 Income tax receivables and payables

(EUR 000)	31.12.2008 Assets	31.12.2008 Liabilities	31.12.2007 Assets	31.12.2007 Liabilities
For direct taxes	14,081	7,247	4,155	7,827
Total	**14,081**	**7,247**	**4,155**	**7,827**

Since 1 January 2008 tax receivables and payables have referred exclusively to direct taxes, while other receivables from tax authorities and other payables to tax authorities have been classified in other current assets and other current liabilities respectively. The resulting balances at 31 December 2007 have been reclassified consequently (EUR 6,680 thousand in other current assets and EUR 9,342 thousand in other current liabilities).

Income tax payables amounted to EUR 7,247 thousand at 31 December 2008 with a decrease of EUR 580 thousand compared to 31 December 2007 (EUR 7,827 thousand).
Income tax payables are mainly referable to the foreign subsidiaries of the Signalling Business Unit (in particular EUR 3,159 thousand relating to Ansaldo STS Australia PTY Ltd.); with reference to the Italian subsidiaries, these mainly refer to IRAP (regional tax on productive activities) payables (globally EUR 463 thousand).

Income tax receivables came to EUR 14,081 thousand at 31 December 2008 compared with EUR 4,155 thousand at 31 December 2007, with an increase of EUR 9,926 thousand, and are essentially attributable to Ansaldo STS SpA, as consolidating Company (Consolidated Taxation Mechanism) and refer to the receivable relating to IRES (corporate income tax) (EUR 5,606 thousand) mainly due to the reduction in the IRES rate from 33% to 27.5% as established by the 2008 Finance Law (Law no. 244 of 24 December 2007), and to the French subsidiary of the Signalling Business Unit (EUR 6,131 thousand), in relation to a tax credit regarding research activities.

9.10 Other current assets

(EUR 000)	**31.12.2008**	31.12.2007
Current portion of prepaid expenses	16,968	7,168
Research subsidies	3,278	2,981
Receivables from employees	697	603
Receivables from social security institutions	889	891
Receivables for security deposits	472	1,443
Receivables for indirect taxes and other amounts due from tax authorities	6,989	6,680
Other	5,257	4,531
Total other assets	**34,550**	**24,297**
Other assets from related parties	2,232	2,352
Total	**36,782**	**26,649**

Other current assets from third parties at 31 December 2008 came to EUR 34,550 thousand with an increase of EUR 10,253 thousand compared with the figures as at 31 December 2007 (EUR 24,297 thousand); this change is primarily attributable to the increase of EUR 9,800 thousand in prepaid expenses.
The increase in prepaid expenses is attributable: - to the Transport Systems Business Unit for EUR 2,935 thousand and mainly reflects the registering of a charge in relation to the advance payment of the insurance premium for legal liability; - to the Copenhagen branch for EUR 2,610 thousand; - to the Signalling Business Unit for EUR 6,068 thousand mostly ascribable to the American subsidiary in relation to the employees' medical insurance for EUR 3,770 thousand and to the Italian subsidiary for EUR 2,442 thousand for insurance premiums.

Other assets from related parties amounted to EUR 2,232 thousand at 31 December 2008 and showed a decrease of EUR 120 thousand compared with the amounts recorded at 31 December 2007 (EUR 2,352 thousand).

9.11 Cash and cash equivalents

(EUR 000)	**31.12.2008**	31.12.2007
Cash	43	49
Bank deposits	71,493	63,336
Total	**71,536**	**63,385**

The balance of cash and cash equivalents at 31 December 2008 was equal to EUR 71,536 thousand of which EUR 43,203 thousand attributable to the Transport Systems Business Unit, EUR 23,178 thousand to the Signalling Business Unit and EUR 5,155 thousand to the Group parent Ansaldo STS SpA.
Cash and cash equivalents rose by EUR 8,151 thousand compared with 31 December 2007. For comments on the variations, please refer to paragraph 2.3 relative to the financial position of the Group.

9.12 Share capital

	Number of shares	**Par value**	**Treasury shares**	**Total**
Shares in circulation	100,000,000	€ 50,000,000,00	-	€ 50,000,000,00
Charges for share capital increase in 2005	-	-	-	-€ 50,000,00
Buy-back of own shares, net of shares sold	-	-	- € 282,080,00	-€ 282,080,00
31 december 2007	**100,000,000**	**€ 50,000,000,00**	**-€ 282,080,00**	**€ 49,667,920,00**
Buy-back of own shares, net of shares sold			-€ 411,032,00	-€ 411,032,00
31 december 2008	**100,000,000**	**€ 50,000,000,00**	**-€ 693,112,00**	**€ 49,256,888,00**

The share capital of EUR 50,000,000.00 is fully paid-up and divided into 100,000,000 ordinary shares with a par value of EUR 0.50 each.
Share capital decreased by EUR 50 thousand due to expenses attributable to the capital increase in 2005.
The amount relating to treasury shares (no. 107,150 shares) refers, almost entirely, to shares held by the Group parent Ansaldo STS, at the instructions of the beneficiaries, to meet their tax obligations in its capacity as tax collection agent for Italian employees who are beneficiaries of the Stock Grant Plan".

9.13 Changes in shareholders' equity

The following table shows the changes in shareholders' equity:

(EUR 000)	Share capital	Retained earnings/ losses carried forward	Other reserves	Total Group's shareholders' equity	Minority interests	Total shareholders' equity
Shareholders' equity at 1 January 2007	**49,950**	**98,125**	**(23,976)**	**124,099**	**360**	**124,459**
Change in consolidation reserves	-	-	(101)	(101)	(64)	(165)
Foreign exchange translation differences	-	-	(1,850)	(1,850)	(16)	(1,866)
Income (expense) recognised directly in equity	-	-	(9,245)	(9,245)	-	(9,245)
Profit at 31 December 2007	**-**	**58,172**	**-**	**58,172**	**106**	**58,278**
Net change in the reserve for stock grant plans	-	-	1,668	1,668	-	1,668
Actuarial profit related to defined-benefit plans	-	1,743	-	1,743	-	1,743
Allocation of the period result to legal reserve	-	(909)	909	-	-	-
Deferred taxes recorded in equity	-	895	2,216	3,111	-	3,111
Net change in treasury shares	(282)	-	-	(282)	-	(282)
Shareholders' equity at 31 December 2007	**49,668**	**158,026**	**(30,379)**	**177,315**	**386**	**177,701**
Shareholders' equity at 1 January 2008	**49,668**	**158,026**	**(30,379)**	**177,315**	**386**	**177,701**
Change in consolidation reserves	-	-	1,235	1,235	(2)	1,233
Foreign exchange translation differences	-	-	(4,694)	(4,694)	54	(4,640)
Net change in cash flow hedge reserve	-	-	13,834	13,834	-	13,834
Profit at 31 December 2008	**-**	**77,544**	**-**	**77,544**	**55**	**77,599**
Net change in the reserve for stock grant plans	-	-	(1,282)	(1,282)	-	(1,282)
Actuarial profit related to defined-benefit plans	-	(1,688)	212	(1,476)	-	(1,476)
Allocation of the period result to legal reserve	-	(2,161)	2,161	-	-	-
Dividends	-	(19,992)	-	(19,992)	-	(19,992)
Deferred taxes recorded in equity	-	-	(3,814)	(3,814)	-	(3,814)
Net change in treasury shares	(411)	-	-	(411)	-	(411)
Shareholders' equity at 31 December 2008	**49,257**	**211,729**	**(22,727)**	**238,259**	**493**	**238,752**

9.14 Retained earnings /(losses) carried forward

Retained earnings/ (losses) carried forward:

(EUR 000)	
Balance at 31 December 2007	**158,026**
Allocation of the period result to legal reserve	(2,161)
Actuarial profit (loss) related to defined-benefit plans	(1,476)
Net Profit (Loss) for the period	77,544
Dividends	(19,992)
Other changes	(212)
Balance at 31 December 2008	**211,729**

Retained earnings/(losses) carried forward at 31 December 2008 totalled EUR 211,729 thousand with an increase of EUR 53,703 thousand, mainly attributable to the result accrued in the period for EUR 77,544 thousand offset by the distribution of dividends for EUR 19,992 thousand.

9.15 Other reserves

(EUR 000)	Legal reserve	Cash Flow-Hedge reserve	Stock grant reserve	Reserve for deferred taxes relating to items posted to shareholders' equity	Translation reserve	Other	Total
31 December 2007	**909**	**(10,496)**	**3,507**	**3,762**	**(20,073)**	**(7,988)**	**(30,379)**
Change in the scope of consolidation	-	3	-	(1)	4	(424)	(418)
Charge to income statement	-	-	-	107	-	-	107
Translation differences	-	-	(42)	-	-	-	(42)
Increase/Decrease	2,161	-	(1,240)	-	-	1,659	2,580
Valuations posted to shareholders' equity	-	13,831	-	(3,920)	-	-	9,911
Other changes	-	-	-	-	(4,698)	212	(4,486)
31 December 2008	**3,070**	**3,338**	**2,225**	**(52)**	**(24,767)**	**(6,541)**	**(22,727)**

Legal reserve
The legal reserve amounted in the period to EUR 3,070 thousand with an increase of EUR 2,161 thousand equal to 5% of the net profit realised by Ansaldo STS SpA in the financial year 2007 and allocated to legal reserve as decided by the Shareholders' Meeting in the course of approving the 2007 financial statements.

Cash flow hedge reserve
This reserve includes the fair value of derivatives used by the Group to hedge its exposure to currency or interest rate risk, net of the effect of deferred taxes, until the moment in which the underlying position is recognised in the income statement. When this condition is met, the reserve is recognised in the income statement to offset the economic effects of the hedged transaction.

Stock grant reserve
The stock grant reserve came to EUR 2,225 thousand, a decrease of EUR 1,282 thousand over the preceding year.
The stock grant reserve is composed of as follows:
- EUR 438 thousand – reserve created at the end of the financial year 2008 following the delivery of shares, whose value had been set aside in the financial year 2007.
- EUR 1,787 thousand – allocation of the Stock Grant plan relative to 2008, which provides the delivery of shares in December 2009.

Reserve for deferred taxes relating to items posted to shareholders' equity
The reserve for deferred taxes relating to items posted to shareholders' equity came to a negative EUR 52 thousand and was created to recognise the deferred tax assets arising from actuarial gains/losses resulting from the adoption of the equity method for defined-benefit plans and from Cash Flow Hedges.

Translation reserve
This reserve is used to recognise the exchange rate differences resulting from the translation of the financial statements of consolidated companies. The most significant amounts were the result of the consolidation of the US subsidiary of the Signalling Business Unit, Ansaldo STS USA Inc..

Other reserves
Other reserves relate to the consolidation reserve and the capital grant received on 23 February 2006 from the Parent Finmeccanica SpA.

9.16 Minority interests

Minority interests

(EUR 000)	
Balance at 31 December 2007	**386**
Profits attributable to minority interests	55
Consolidation reserve attributable to minority interests	(2)
Translation reserve attributable to minority interests	54
Balance at 31 December 2008	**493**

This refers to the minority interest equal to 20% of Ansaldo STS Beijing Ltd. having its registered office in Beijing (China), held by the French subsidiary Ansaldo STS France (Signalling Business Unit).

9.17 Borrowings

(EUR 000)	31.12.2008 Current	31.12.2008 Non-current	31.12.2008 Total	31.12.2007 Current	31.12.2007 Non-current	31.12.2007 Total
Bank payables	8,713	3,315	12,028	11,491	3,697	15,188
Finance lease payables	27	-	27	8	32	40
Other borrowings	536	2,432	2,968	1,102	3,239	4,341
Total	**9,276**	**5,747**	**15,023**	**12,601**	**6,968**	**19,569**

Changes during the period were as follows:

(EUR 000)	31.12.2007	New position	Repayments	Change in scope of consolidation	Other changes	31.12.2008
Bank payables	15,188	-	(1,764)	(228)	(1,168)	12,028
Finance lease payables	40	-	(31)		18	27
Other borrowings	4,341	1,036	(362)	-	(2,047)	2,968
Total	**19,569**	**1,036**	**(2,157)**	**(228)**	**(3,197)**	**15,023**

Bank payables
Bank payables, equal to EUR 12,028 thousand, refer for EUR 8,315 thousand to the Signalling Business Unit, for EUR 3,698 thousand to the Transport Systems Business Unit and for EUR 15 thousand to the Group Parent Ansaldo STS SpA.
With regard to the Signalling Business Unit, these mainly refer to the short-term exposure for EUR 6,052 thousand of the Indian subsidiary of the Asia Pacific area, for EUR 735 thousand of the Australian subsidiary Ansaldo STS Australia, for EUR 1,446 thousand of the Italian subsidiary ASF for facilitated financing obtained in relation to research programmes.
With regard to the Transport Systems Business Unit, these refer to facilitated financing acquired under Law 346/88 for research activities.

Finance lease payables
The payables regard the tangible assets held by the Group under finance lease contracts. The amount at 31 December 2008 was EUR 27 thousand compared with EUR 40 thousand at 31 December 2007 and refers to the finance lease of automobiles by the Signalling Business Unit's Australian subsidiary, Ansaldo STS Australia.

Due to other lenders
This item showed a negative variation of EUR 1,373 thousand mainly due to the redemption of instalments falling due in 2008 by Ansaldo Segnalamento Ferroviario.

9.18 Provisions for risks and charges and contingent current liabilities

(EUR 000)	Penalties	Product warranties	Labour disputes	Provision for taxes	Contractual risks and charges	Disputes with third parties	Provision for restructuring	Other	Total
Balance at 31 December 2007	**87**	**13,284**	**394**	**1,517**	**7,893**	**893**	**-**	**2,147**	**26,215**
Reclassifications	-	-	-	-	(596)	-	-	1,800	1,204
Allocations	3	2,525	65	43	1,298	-	1,635	2,722	8,291
Reversals	-	(820)	-	(6)	(3,549)	-	-	-	(4,375)
Uses	-	(14)	(100)	(520)	(99)	-	(1,007)	(756)	(2,496)
Other changes	-	(90)	-	-	(88)	-	36	(156)	(298)
Balance at 31 December 2008	**90**	**14,885**	**359**	**1,034**	**4,859**	**893**	**664**	**5,757**	**28,541**
Current	87	13,284	394	1,517	7,893	893	-	2,147	26,215
Non-current	-	-	-	-	-	-	-	-	-
Balance at 31 December 2007	**87**	**13,284**	**394**	**1,517**	**7,893**	**893**	**-**	**2,147**	**26,215**
Current	90	14,885	359	1,034	4,859	893	664	5,757	28,541
Non-current	-	-	-	-	-	-	-	-	-
Balance at 31 December 2008	**90**	**14,885**	**359**	**1,034**	**4,859**	**893**	**664**	**5,757**	**28,541**

The risk provisions at 31 December 2008 amounted to EUR 28,541 thousand increasing by EUR 2,326 thousand compared with 31 December 2007.

In relation to the risk provisions, it should be noted that the companies of the Ansaldo STS Group work in sectors and markets where many disputes - both those initiated by the Group or those initiated by third parties against the Group - are resolved only after a considerable time-lag, especially where the party being dealt with is a government body.
To the best of our current knowledge, the various disputes that could give rise to a liability on the part of the Group that are not covered by a specific provision can be resolved in a satisfactory manner without a significant impact on results.
Obviously, in accordance with the applicable accounting standards, provisions have been made for any quantifiable liability that is likely to arise.

As to litigation, the following is noted:
• Ansaldo STS SpA is not directly involved in any litigation;
• none of the subsidiaries is involved in litigation that is so significant or risky as to require specific further disclosure other than that provided in the notes;
• for litigation in which a subsidiary is involved as a defendant and in which, on the basis of a prudent evaluation, an adverse outcome is likely, the relevant companies have established provisions to cover such eventuality.

Iricav Due Consortium/Treno Alta Velocità (TAV) SpA
The Concessions released to T.A.V. by the Ente Ferrovie dello Stato for the Milan-Verona, Verona-Padua and Milan-Genoa lines and to the General Contractors were revoked at the beginning of 2007 by the Italian Government.
The decree also establishes that, with respect to the termination of contract, the General Contractors will be entitled to compensation to the extent of the actual loss. The Iricav Due Consortium, which had already initiated arbitration proceedings to assess TAV's failure to perform its obligations - complaining specifically about the failure to perform acts of co-operation, including the development of the preliminary design and the raising of financial resources - following the revocation of the concession, has served notice of an appeal filed to the Lazio Regional Administrative Court (TAR).
The aim was to obtain the cancellation of the orders of the Ministry of Transportation and RFI SpA and the submission of the demand for a preliminary ruling to the Court of Justice of the European Communities.

In fact, in April 2007 TAV SpA had already formally presented to the Consortium a claim for the repayment of the advance and the related interest accrued to the date of payment and for the delivery of all project documents presented during the concession period.
The Lazio TAR suspended the effectiveness of the orders, subsequent to the law, with which RFI SpA revoked the concession and with which TAV SpA terminated contracts with the three General Contractors. The Lazio TAR also transferred the case to the European Court of Justice to verify, as requested by the appellant firms, the alleged incompatibility with European regulations.
TAV SpA appealed against this ruling to the Council of State to obtain the revocation of the suspension of the ruling of the court of first instance, without prejudice to the ruling on the main issue expected following the ruling of the European Court of Justice.
In 2007 the Ministry of Infrastructures proposed to the plaintiffs the formation of ad-hoc technical workshops to come to an agreement.
In the meanwhile, the Council of State with Order dated 10 October 2007 upheld the appeals made by the Office of the Prime Minister and the Ministry of Transportation, by TAV SpA and by R.F.I. SpA amending the Lazio TAR order, confirming the legitimacy of the submission to the European Court of Justice in relation to the evaluation of the compatibility of the revocation order with the EC regulations.
In September 2008 the Advocate General of the European Court of Justice deposited its opinions and acknowledged the legitimacy of the issued orders of revocation of the Convention. As a consequence, the Iricav Due Consortium notified the discontinuance of the administrative case, in abeyance, while awaiting the pronunciation of the European Court of Justice.
Following the discontinuance of the administrative case submitted by the Iricav Due Consortium, the Lazio TAR delivered a judgement which takes note of the discontinuance of the administrative action presented by the Consortium.
This sentence was notified to the European Court of Justice, which should also extinguish the preliminary ruling pending before the same, without thus pronouncing a judgement in relation to the compatibility with the EC regulations.
On 21 August 2008, Law no. 133 of 6 August 2008 was published being converted from Legislative Decree no.112 of 25 June 2008, which repealed Art. 13 of Legislative Decree no.7 of 31 January 2007 converted into Law no. 40 of 2 April 2007, which since 1 January 2009 has cancelled concessions (conventions) stipulated in 1991-94 between TAV and their respective General Contractor, reinstating them in the name of R.F.I.
In the meanwhile the IRICAV DUE Consortium continues the arbitration proceedings initiated to assess TAV's failure to perform its obligations, also because in the event of abandonment, it could no longer be initiated for the same reasons already produced.

9.19 Severance pay and other employee liabilities

The amount and the changes in the severance pay provision and the defined-benefit pension plans are reported below:

(EUR 000)	**31.12.2008**	31.12.2007
Severance pay provision	23,043	22,463
Defined-benefit pension plans	8,269	8,010
Other provisions for personnel	193	841
Total	**31,505**	**31,314**

	Severance pay obligations		**Defined-benefit plans**	
(EUR 000)	**31.12.2008**	31.12.2007	**31.12.2008**	31.12.2007
Present value of obligations	23,043	22,463	8,462	8,851
Fair value of the plan's assets	-	-	-	-
Unrecognised actuarial gains/(losses)	-	-	-	-
Total	**23,043**	**22,463**	**8,462**	**8,851**

(EUR 000)	**Severance pay provision**	**Defined-benefit plans**
Balance at 31 December 2007	**22,463**	**8,851**
Change in the scope of consolidation	-	-
Costs for the period	802	724
Contributions paid	(1,932)	(229)
Other movements	(2)	(648)
Actuarial (gains)/losses in equity	1,712	(236)
Balance at 31 December 2008	**23,043**	**8,462**

The amount recognised in the income statement breaks down as follows:

	Severance pay provision		**Defined-benefit plans**	
(EUR 000)	**31.12.2008**	31.12.2007	**31.12.2008**	31.12.2007
Costs for services	126	258	96	(110)
Interest costs	676	858	383	417
Actuarial (gains)/losses recognised during the period	1,712	-	(236)	-
Total	**2,514**	**1,116**	**243**	**307**

The main actuarial assumptions are as follows:

	Severance pay provision		**Defined-benefits plans**	
(EUR 000)	**31.12.2008**	31.12.2007	**31.12.2008**	31.12.2007
Discount rate (annual)	6.60%	4.2% - 4.28%	6.64%	4.04% - 4.8%
Rate of salary increases	5% - 6%	2.6% - 5.4%	2.82% - 4.15%	2% - 2.5%
Rate of turnover	2.3% - 6.12%	1.9% - 3.88%	0.65% - 4.29%	-

The severance pay provision *(trattamento di fine rapporto)* in Italy calls for the payment of the entitlement accumulated by employees until the time they leave the company under Art. 2120 of the Italian Civil Code. Law no. 296 of 27 December 2006 ("2007 Finance Law") and subsequent Decrees and Regulations issued in early 2007, as part of the reform of the supplementary pension system, significantly changed the working of this institute, providing for (in case of companies with more than 50 employees) the transfer of the severance pay accrued after the date of the Reform to the supplementary pension schemes or to the treasury fund managed by INPS.

In line with the recognition of this effect, the Group decided to modify the recognition criteria for actuarial gains/losses, as largely explained in paragraph 7.3 “Employee benefits”, thus abandoning the corridor method under which actuarial gains/losses were recognised in the income statement in compliance with the specific regulations and over a longer period in favour of the equity method under which the actuarial components are recognised directly and entirely in shareholders’ equity, net of the related deferred tax effect.

In reviewing the overall treatment of defined-benefit plans, changes were also made to the criteria for presenting interest costs, which have been no longer recognised under cost of labour, but rather under financial costs since 1 January 2006. As provided by IAS 8 “Accounting policies, changes in accounting estimates and errors”, the Group has applied the method retrospectively, also modifying the comparative data presented.

9.20 Other current and non-current liabilities

	31.12.2008		31.12.2007	
(EUR 000)	**Current**	**Non-current**	Current	Non-current
Due to employees	29,608	4,583	25,915	3,979
Deferred income	1,816	-	1,689	-
Payables for indirect taxes and other amounts due to tax authorities	11,039	-	9,342	-
Payables to social security institutions	14,318	-	13,476	-
Other payables to other third parties	20,471	4,019	23,878	5,248
Total other liabilities to third parties	**77,252**	**8,602**	**74,300**	**9,227**
Other liabilities to related parties	3,979	-	4,805	-
Total	**81,231**	**8,602**	**79,105**	**9,227**

Other current and non-current liabilities towards third parties came to EUR 85,854 thousand, an increase of EUR 2,327 thousand (EUR 83,527 thousand at 31 December 2007). This change is mainly ascribable to:

- an increase of “due to employees” for EUR 4,297 thousand, chiefly attributable to the Signalling Business Unit for EUR 2,830 thousand;
- the consequent increase of payables to social security institutions for EUR 842 thousand;
- the increases in payables for indirect taxes for EUR 1,697 thousand (attributable for EUR 1,529 thousand to the Signalling Business Unit, for EUR 97 thousand to the Transport Systems Business Unit and for EUR 71 thousand to the Parent company Ansaldo STS SpA);
- the decrease in other payables for EUR 4,636 thousand mainly generated by the Signalling Business Unit.

9.21 Trade payables

(EUR 000)	**31.12.2008**	31.12.2007
Due to suppliers	189,978	174,725
Total due to suppliers	**189,978**	**174,725**
Due to related parties	23,523	19,785
Total	**213,501**	**194,510**

Trade payables to third parties decreased by EUR 15,253 thousand; this change is mainly attributable to the Transport Systems Business Unit and is due to an increase in production obtained in the course of the financial year.
Trade payables to related parties increased by EUR 3,738 thousand also referable to the Transport Systems Business Unit due to greater production achieved in the year.

9.22 Derivatives

The table below details the asset and liability positions related to derivative instruments.

	31.12.2008		31.12.2007	
(EUR 000)	**Assets**	**Assets**	Attivi	Liabilities
Trading	-	72	-	-
Fair Value Hedge	773	412	-	95
Cash Flow Hedge	7,149	267	211	9,887
Instruments to hedge exchange rate risk	**7,922**	**751**	**211**	**9,982**
Total	**7,922**	**751**	**211**	**9,982**

Derivative assets showed an increase of EUR 7,711 thousand while derivative liabilities recorded a decrease of EUR 9,231 thousand. These changes are mainly attributable to the Signalling Business Unit and in particular to the American subsidiary Ansaldo STS USA Inc. as a result of the variation in the fair value, which turns from negative to positive because of the fluctuations in exchange rates (€ / USD).

Determination of fair value
At 31 December 2008, the Ansaldo STS Group did not hold listed derivative instruments. The fair value of non-listed derivative instruments is measured with reference to the financial valuation techniques. Specifically, the fair value of exchange rate futures contracts is calculated based on the market exchange rate at the reference date and the rate differentials between the relevant currencies. The fair value of swaps is calculated by discounting future cash flows using market parameters.
Hedging transactions are carried out predominantly with the banking system. At 31 December 2008, the Group had contracts referring to various currencies in the following notional amounts:

(EUR 000)	**31.12.2008**	31.12.2007
Euro	169,924	102,683
US dollar	68,660	69,653
GBP	5,788	7,109
Swedish krona	5,415	41,510
Canadian dollar	10,985	23,016
Australian dollar	34,072	35,262
Hong Kong dollar	288	0

The Group, though exposed to the risk linked to the trend of interest rates, does not make use of policies to hedge the risk connected with the rate variability.

9.23 Guarantees and other commitments

Lease
The Group holds a number of operating leases for the purposes of acquiring the use of property, plant and equipment. The minimum future payments are as follows:

(EUR 000)	Leasing operativi	Leasing finanziari
Within 1 year	7,945	8
2 to 5 years	12,170	-
More than 5 years	6,766	-
	26,881	**8**

Guarantees
At 31 December 2008, the Group had the following outstanding guarantees:

Direct guarantees and indemnities issued by third parties on behalf of the Group in favour of customers and other third parties (EUR 000)	**Signalling Business Unit**	**Transport Systems Business Unit**	**Total**
Unsecured guarantees issued by Finmeccanica (Parent Company Guarantees) and Finmeccanica Finance SA (advance payment bonds, performance bonds, retention money bonds) in favour of customers for commercial transactions	1.866,5	78.331,7	**80.198,2**
Unsecured guarantees issued by Ansaldo STS and Ansaldo Signal NV in liquidation (Parent Company Guarantees), in favour of customers for commercial transactions	112.157,2	1.377,8	**113.535,0**
Sureties and bonds (advance payment bonds, performance bonds, bid bonds, retention bonds) issued by credit institutions or insurance companies in favour of customers for commercial transactions	441.423,1	528.129,7	**969.552,8**
of which: counter-guaranteed by Finmeccanica	*18.321,5*	*154.289,6*	*172.611,1*
of which: counter-guaranteed by Ansaldo STS	*136.396,2*	*68.893,9*	*205.290,1*
Direct guarantees and indemnities by Finmeccanica and Ansaldo STS, credit institutions or insurance companies in favour of other third parties for non-contractual/commercial guarantees (financial, fiscal transaction)	40.932,1	7.973,2	**48.905,3**
of which: issued or counter-guaranteed by Finmeccanica	*3.106,5*	*7.973,2*	*11.079,7*
of which: issued or counter-guaranteed by Ansaldo STS	*37.825,6*	*0,0*	*37.825,6*
Total	**596.378,9**	**615.812,4**	**1.212.191,3**

10 Notes to the Income Statement

10.1 Transactions with related parties

Below are all transactions with related parties of the Group for the years 2008 and 2007:

31 dicembre 2008 (EUR 000)	**Revenues**	**Other operating income**	**Costs**	**Financial income**	**Financial costs**	**Other operating costs**
Parent company						
Finmeccanica SpA	-	4	2,040	4	321	-
Subsidiaries						
Alifana Scrl	-	-	655	-	-	-
Alifana Due Scrl	10,591	11	10,634	-	-	-
Associated companies						
International Metro Service Srl		92				
Metro 5 SpA	13,764	-	796	-	-	-
Pegaso Scrl	129	-	9,970	-	-	-
Metro Service AS	-	-	35,246	-	-	-
Consortia						
Cons. Saturno	103,522	-	4,918	-	-	-
Cons. Ascosa quattro	370	-	25	-	-	-
Team	139	-	16	-	-	-
SanGiorgio Volla Due	4,860	-	352	-	-	-
Other Group companies	3,271	-	438	-	-	-
Ansaldo Energia SpA	-	-	105	-	-	-
AnsaldoBreda SpA	256	-	78	-	-	-
Fata Logistic System SpA						
Finmeccanica Finance	-	5	-	-	-	-
Finmeccanica Group Service	12,857	25	3,428	-	-	-
Elsag Datamat SpA	-	-	1,947	-	-	-
HR Gest	-	-	48	4,566	-	-
Selex Communication SpA	-	-	1,344	-	-	4
Sogepa	97	143	7,686	-	-	-
Electron Italia Srl	-	-	629	-	-	-
Selex Sistemi Integrati Ltd.	-	1	8,429	-	-	-
Oto Melara SpA	-	-	-	-	-	-
Fata SpA	-	-	113	-	-	-
I.M. Intermetro SpA	-	-	-	-	-	-
Galileo Avionica	-	1	-	-	-	-
Fata S.p.A.	-	-	80	-	-	-
I.M. Intermetro S.p.A.	1,827		1	333	-	-
Galileo Avionica	-	-	42	-	-	-
Total	**151,683**	**282**	**89,020**	**4,903**	**321**	**4**

31 dicembre 2007 (EUR 000)	Revenues	Other operating income	Costs	Financial income	Financial costs	Other operating costs
Parent company						
Finmeccanica SpA	-	200	1,984	4,460	169	-
Subsidiaries						
Alifana Scrl	-	-	560	-	-	-
Alifana Due Scrl	6,620	-	7,355	-	-	-
Associated companies						
Metro 5 SpA	5,292	61	76	-	-	-
Pegaso Scrl	155	-	5,975	-	-	-
Consortia						
Cons. Saturno	87,398	-	3,748	-	-	-
Cons. Ascosa quattro	807	-	123	-	-	-
Team	83	-	58	-	-	-
SanGiorgio Volla Due	350	853	159	-	-	-
Cons. Ferroviario Vesuviano	2,343	-	202	-	-	-
Cesit	-	-	38	-	-	-
SanGiorgio Volla	362	-	59	-	-	-
Other Group companies						
Ansaldo Energia	-	-	(11)	-	-	-
AnsaldoBreda SpA	10,378	83	4,647	-	-	-
Fata Logistic System SpA	-	1	1,892	-	-	-
Finmeccanica Finance	-	-	77	1,503	-	-
Finmeccanica Group Service	-	56	332	-	-	4
Elsag Datamat SpA	-	477	9,122	-	4	-
Hr Gest	-	-	594	-	-	-
Selex Communication SpA	-	-	13,116	-	-	-
Sogepa	-	-	19	-	-	-
Electron Italia Srl	634	-	450	-	-	-
Selex Sistemi Integrati Ltd.	40	136	80	-	-	-
I.M. Intermetro SpA	650	-	-	339	-	-
Oto Melara SpA	-	-	(4)	-	-	-
Total	**115,112**	**1,867**	**50,651**	**6,302**	**173**	**4**

10.2 Revenues

(EUR 000)	**31.12.2008**	31.12.2007
Revenues from sales	590,195	601,722
Revenues from services	78,520	167,449
	668,715	**769,171**
Change in contract work in progress	285,117	88,811
Revenues from sales	**953,832**	**857,982**
Revenues from related parties	151,683	115,112
Total revenues	**1,105,515**	**973,094**

Revenues from sales amounted to EUR 953,832 thousand, an increase of EUR 95,850 thousand (+11.17%) over EUR 857,982 thousand at 31 December 2007.
Revenues from associated companies rose by EUR 36,571 thousand from the previous period.

10.3 Other operating income

(EUR 000)	**31.12.2008**	31.12.2007
Grants for research and development spending	1,498	2,414
Gains on sale of tangible and intangible fixed assets	10	24
Reversals of provision for doubtful accounts	1,351	-
Reversals of provisions for risks and charges	4,369	2,984
Insurance reimbursements	768	373
Royalties	3,059	3,075
Financial income and foreign exchange gains on operating items	2,107	431
Other operating income	8,245	2,885
Other revenues from sales	**21,407**	**12,186**
Other revenues from related parties	**282**	**1,867**
Total other revenues	**21,689**	**14,053**

Other revenues from sales rose by EUR 9,221 thousand as shown in the table above.
Other operating income includes R&D spending equal to EUR 5,366 thousand relating to the Signalling Business Unit and in particular the French subsidiary Ansaldo STS France for EUR 4,529 thousand and Ansaldo Segnalamento Ferroviario for EUR 837 thousand.

Other revenues from related parties fell from the previous year by EUR 1,585 thousand mainly due to sundry revenues in December 2007 from consortia SanGiorgio Volla Due.

10.4 Costs for purchases and services

(EUR 000)	**31.12.2008**	31.12.2007
Materials	234,865	236,914
Change in inventory	3,818	(15,655)
Services	366,775	324,308
Rent and operating leases	17,462	14,361
Total costs for purchases and services	**622,920**	**559,928**
Total costs from related parties	**89,020**	**50,651**
Total costs for purchases and services	**711,940**	**610,579**

Costs for purchases and services from third parties rose by EUR 62,992 thousand (+11.25%) from the previous year due to greater services, rent and leases of the Group in the period, in particular the Signalling Business Unit for EUR 42,467 thousand. Purchases of raw materials fell by EUR 2,049 thousand due essentially to the Signalling Business Unit, specifically to the Italian subsidiary Ansaldo Segnalamento Ferroviario SpA due to the reduction in production volumes.
Costs for purchases from related parties rose by EUR 38,369 thousand due to the inclusion in this item of Operation & Maintenance costs of Copenhagen of the associated Metro Service AS previously included under purchases from third parties.

10.5 Cost of labour

(EUR 000)	**31.12.2008**	31.12.2007
Payroll	199,173	188,663
Costs of stock grant plans	1,829	3,000
Pension and social security expenses	48,647	45,264
Severance pay provision costs	126	258
Costs relating to other defined-benefit plans	96	(110)
Costs relating to other defined-contribution plans	6,647	6,088
Recovery of cost of labour	(116)	(703)
Disputes with employees	65	(29)
Restructuring costs	1,635	-
Other costs	8,506	8,235
Total cost of labour	**266,608**	**250,666**

The headcount at 31 December 2008 came to 4,352, an increase of 109 on the 4,243 registered in the previous year. They are broken down as follows by business:

- Signalling Business Unit: 3,901 employees
- Trasporter System Business Unit: 376 employees
- Other (Corporate): 75 employees

'Cost of labour', which stood at EUR 266,608 thousand at 31 December 2008, compared with EUR 250,666 thousand for the same period in 2007 were higher largely because of an increase in the staff numbers paid by the Group from 4,127 in 2007 to 4,243 in 2008. The average cost per capita in 2008 was EUR 62.4 thousand (net of restructuring costs), a slight increase from the year 2007 (EUR 60.7 thousand). This growth is in line with the estimates of the Group and is lower than estimated in the budget for 2008. This is partly due to the cost control policies adopted, and partly to the redistribution of the Group headcount to countries with a lower labour cost.

The stock grant cost is recognised using the matching principle in the year when the services are rendered, therefore it relates to shares attached to objectives for the year 2008 to be delivered in December 2009 after these objectives are achieved.
This cost is determined on the basis of the number of shares to be assigned and the fair value at the date of approval by the Remuneration Committee on 13 February 2008, this value was 8.5230 per share.

Severance pay provision costs and costs relating to other defined-benefit costs only relates to service cost, because due to the adoption of the equity method, interest cost was recognised as a financial cost.

As shown in the table relating to the cost of labour, at 31 December 2008 restructuring costs for the existing reorganisation plan of the US subsidiary Ansaldo STS USA Inc. of the Signalling Business Unit; the main objective of the reorganisation is a rationalisation of the production structure of the plant in Badesburg.

10.6 Amortisation, depreciation and write-downs

(EUR 000)	**31.12.2008**	31.12.2007
Amortisation/Depreciation:		
- intangible assets	2,544	2,597
- tangible assets	7,961	7,758
	10,505	**10,355**
Write-downs:		
- operating receivables	3,728	594
- other assets	-	-
	3,728	**594**
Total amortisation, depreciation and write-downs	**14,233**	**10,949**

Amortisation and depreciation showed an increase over the period compared with the same period the previous year of EUR 150 thousand mainly due to the Signalling Business Unit. Amortisation and depreciation for the year stood at EUR 10,505 thousand (EUR 10,355 thousand for the same period of 2007), as described in detail in the schedules on tangible and intangible fixed assets.

Write-downs of EUR 3,728 thousand relate to trade receivables and are attributable to the Signalling Business Unit.

10.7 Other operating costs

(EUR 000)	**31.12.2008**	31.12.2007
Allocations to provisions for risks and charges	6,548	7,404
Association dues	542	-
Losses on sale of tangible and intangible fixed assets	26	37
Foreign exchange charges on realisation of operating items	111	56
Exchange rate alignment on operating items	514	302
Interest and other operating costs	286	3
Indirect taxes	4,664	3,626
Other operating costs	2,451	4,638
Total costs	**15,142**	**16,066**
Other costs from related parties	**4**	**4**
Total	**15,146**	**16,070**

Other operating costs from third parties fell by EUR 924 thousand from EUR 16,066 thousand at 31 December 2007 to EUR 15,142 thousand at 31 December 2008.
The most significant amount that accounted for this decrease relates to lower provisions of the Signalling Business Unit for guarantees given and contractual charges.

10.8 Capitalised costs for internally produced assets

(EUR 000)	**31.12.2008**	31.12.2007
Capitalised costs for internally produced assets	863	458

Capitalised costs relate to the Signalling Business Unit and are essentially due to the French subsidiary Ansaldo STS France SA and relate to costs for internally produced assets (personnel, material and provision of service) of intangible and tangible fixed assets.

10.9 Net financial income/(costs)

		31.12.2008			31.12.2007	
(EUR 000)	**Income**	**Expense**	**Net**	Income	Expense	Net
Interest and commissions	2,960	2,273	687	1,964	2,464	(500)
Exchange rate differences	14,054	14,393	(339)	3,507	4,023	(516)
Income from fair value measurement recognised in profit and loss	723	277	446	-	52	(52)
Interest on severance pay	-	676	(676)	-	858	(858)
Interest on other defined-benefit plans	-	383	(383)	-	417	(417)
Other financial income (costs)	298	-	298	35	345	(310)
Total net financial income and costs	**18,035**	**18,002**	**33**	**5,506**	**8,159**	**(2,653)**
Total financial income / (costs) from related parties	**4,903**	**321**	**4,582**	**6,302**	**173**	**6,129**
Effects of valuation of equity investments accounted for using equity method	(150)		(150)	90	-	90
Total	**22,788**	**18,323**	**4,465**	**11,898**	**8,332**	**3,566**

At 31 December 2008 net financial income amounted to EUR 4,465 thousand from net financial income of EUR 3,566 thousand at 31 December 2007. The increase of EUR 899 thousand is due to the improvement in financial exposure.
As shown in the table, due to the adoption of the equity method in the recognition of defined-benefit plans, interest cost is classified as such and not in labour cost.

10.10 Effects of valuation of equity investments accounted for using equity method

The effect of measurement of equity investments with the equity method (negative EUR 150 thousand) relates to the write-down (EUR 149 thousand) of Ecosen C.A., a Venezuelan company owned by Ansaldo STS France SA of the Signalling Business Unit, the write-down of Metro 5 SpA of EUR 2 thousand, and the revaluation of Int. Metro Service of EUR 1 thousand.

10.11 Income taxes

The entry breaks down as follows:

(EUR 000)	**31.12.2008**	31.12.2007
IRES (corporate income tax)	28,883	35,612
IRAP (regional tax on productive activities)	6,882	7,429
Income from consolidation	(641)	(2,111)
Other taxes on profit (foreign companies)	10,575	5,005
Taxes relating to previous years	365	(207)
Provisions/Reversals for disputes over taxes	37	520
Net deferred taxes	(1,673)	(666)
Total	**44,428**	**45,582**

Taxes fell by EUR 1,154 thousand mainly due to lower amounts paid as IRES and IRAP by the Italian companies of the group (lower taxes by EUR 7,276 thousand as total IRES and IRAP), offset by an increase in the taxes due by foreign companies (in particular the companies owned by Ansaldo STS France SA (greater taxes by EUR 3,124 thousand) and Ansaldo STS Australia PTY Ltd. (greater taxes by EUR 1,812 thousand) and the decrease in income from consolidation (lower income by EUR 1,470 thousand).
With regard to the Italian companies of the group, Finance Law 2008 (Law no. 244 of 24 December 2007) provided that from 1 January 2008 the decrease of the income tax rates, with IRES from 33% to 27.5%, and IRAP from 4.25% to 3.9%.
Income from consolidation (EUR 641 thousand) fell from the previous year (EUR 2,111 thousand) mainly due to the non payment of dividends from the subsidiary Ansaldo Signal NV in liquidation to the parent company Ansaldo STS SpA, due to the sale of Ansaldo Segnalamento Ferroviario SpA (from which the dividends were paid out) determined by the Dutch company.
Income from consolidation of the parent company Ansaldo STS SpA relates to the possibility - deriving from the exercise of the option to use the Consolidated Taxation Mechanism for the Group's Italian subsidiaries (Ansaldo Segnalamento Ferroviario SpA and Ansaldo Trasporti Sistemi Ferroviari SpA) – of using the tax loss generated in the period by Ansaldo STS SpA and offsetting it against the profits of the Italian subsidiaries.
This tax loss derives from the fact that, even if the parent company posted pre-tax profit of EUR 6,052 thousand, the dividends collected from the subsidiary Ansaldo Trasporti e Sistemi Ferroviari SpA (EUR 14,544 thousand) were 95% detaxed pursuant to Article 89, paragraph 2 of the Income Tax Code (with a decrease in taxable base).
The subsidiary Ansaldo Segnalamento Ferroviario SpA opted (as permitted by Finance Law 2008) for the tax exemption of the excess amounts deducted off-balance sheet, in previous years, in the EC Framework (pursuant to Article 109, paragraph 4, letter b) of the Income Tax Code).
The exemption exclusively regarded anticipated amortisation and amortisation calculated on a monthly basis (it was thought that the exemption of the excess amounts deducted off-balance sheet relating to the severance pay provision, the provision for bad debts and goodwill was not useful, because the reversal of these items cannot be easily placed in time).
The overall excess amount concerned by the exemption amounted to EUR 3,328 thousand, with the payment (in three annual installments, of which the first installment, equal to 40% of the total amount, expired on 16 June 2008) of the substitute tax, equal to 12%, for a total amount of EUR 399 thousand.
The exemption of these anticipated amortisation and amortisation on a monthly basis deducted off-balance sheet in previous years also led to reversal of deferred taxes (EUR 1,053 thousand).

Below is the analysis of the difference between the theoretical tax rate and the effective tax rate:

(EUR 000)	2008 amount		%	2007 amount		%
Result before taxes	122,026			103,860		
Taxes calculated at the applicable tax rate		33,557	27.50%		34,273	33.00%
Permanent differences	1,098	302	0.25%	2,803	925	0.89%
	123,124	33,859	27.75%	106,663	35,198	33.89%
Temporary differences taxed/deducted at a 33% tax rate with deferred taxation at a 27.5% tax rate					367	0.35%
Prior years' IRES taxes – compliance with the 27.5% tax rate					836	0.80%
Tax rate difference on foreign taxes		3,155	2.59%		1,748	1.68%
IRAP and other taxes calculated on a basis other than the pre-tax result		7,014	5.75%		7,120	6.86%
Prior years' taxes		365	0.30%		(207)	-0.20%
Provisions for tax risks		35	0.03%		520	0.50%
Total effective taxes carried to the income statement		**44,428**	**36.41%**		**45,582**	**43.89%**

The effective tax rate fell from 43.89% for year 2007 to 36.41% of the year 2008.
The improvement in the above said tax rates is mainly due to the reduction of the IRES and IRAP tax rates on the Italian companies as a result of the changes introduced by Finance Law 2008, as noted above.

Deferred taxes and the related receivables and payables at 31 December 2008 were generated by the following temporary differences:

(EUR 000)	Income Statement Assets	Income Statement Liabilities	Balance Sheet Assets	Balance Sheet Liabilities
Severance and retirement benefits	29	-	3.698	1.395
Remuneration	-	-	4.992	-
Goodwill	-	20	-	1.369
Tangible and intangible assets	139	(662)	802	700
Provisions for risks and charges	(805)	-	6.719	-
Inventory and work in progress	4	-	7.131	-
CFH - Defined-benefit plans	-	-	-	724
Past losses	252	-	9.263	-
Stock grants	(80)	-	283	552
Other	2280	788	7.512	0
Total	**1.819**	**146**	**40.400**	**4.740**

Deferred tax assets from the provisions for risks and charges mainly relate to the subsidiary Ansaldo STS USA Inc. (EUR 5,173 thousand). Deferred tax assets on past losses mainly relate to the subsidiaries Ansaldo STS USA Inc. (EUR 5,863 thousand) and Ansaldo STS France SA (EUR 2,523 thousand), while deferred tax assets for the cost of labour mainly relate to the Italian subsidiary Ansaldo Segnalamento Ferroviario SpA (EUR 1,899 thousand), and the subsidiary Ansaldo STS Australia PTY Ltd. (EUR 1,412 thousand).

Deferred tax assets and liabilities include deferred taxes attributed recognised in equity for derivative instruments recognised as cash-flow hedges and for actuarial losses/profits following the adoption of the equity method for defined-benefit plans (deferred taxes of EUR 724 thousand). The changes for the period for the equity item were as follows:

	31.12.2007	Transferred to the income statement	Fair value adjustments	Other changes	**31.12.2008**
Deferred taxes recognised directly in equity	**3,762**	**107**	**(3,920)**	**(1)**	**(52)**

11 Earning per share

Earnings per share (EPS) are calculated:
- by dividing the net profit attributable to holders of ordinary shares by the average number of ordinary shares for the period, less treasury shares (basic EPS);
- by dividing net result by the average number of ordinary shares and the shares that potentially result from the exercise of all the options under stock option plans, less treasury shares (diluted EPS).

Basic EPS	**31.12.2008**	31.12.2007
Average shares during the period	99,892,850	99,991,750
Net Profit (Loss)	77,599	58,278
Result of continuing operations	-	-
Basic and diluted EPS	**0.78**	**0.58**

12 Cash flow from operations

The following table sets out the cash flow from operations:

(EUR 000)	**31.12.2008**	31.12.2007
Net Profit (Loss)	77,599	58,278
Effects of valuation of equity investments accounted for using equity method	150	(90)
Income taxes	44,428	45,582
Costs of severance pay provision and other benefits	222	973
Costs of Stock Grant plans	2,196	3,000
Gains (losses) on sale of properties	16	-
Net financial income	(4,615)	(3,137)
Amortisation, depreciation and write-downs	14,233	10,949
Allocation/Reversal to provisions for risks	2,529	4,524
Allocations /Write-downs of inventories and work in progress	(5,274)	(7,784)
Total	**131,484**	**112,295**

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

(EUR 000)	**31.12.2008**	31.12.2007
Inventories	5,976	(18,844)
Contract work in progress and advances from customers	12,921	(32,470)
Trade receivables and payables	(35,162)	24,685
Total	**(16,265)**	**(26,629)**

Changes in operating items, net of the effects of the acquisition and sale of consolidated companies and translation differences, break down as follows:

(EUR 000)	**31.12.2008**	31.12.2007
Payment of the provision for severance pay and other defined-benefit plans	(2,163)	(3,594)
Taxes paid	(53,771)	(54,539)
Change in other operating items	(2,704)	17,151
Total	**(58,638)**	**(40,982)**

For information on changes in cash flow statement, please refer to section 2.3 on the Group financial situation.

13 Management of financial risks

The Group is exposed to financial risks associated with its operations, specifically related to these types of risks:
- market risks, relating to exchange rate risk (operativity in foreign currencies other than the functional currency) and interest rate risk;
- liquidity risks, relating to the availability of financial resources and access to the credit market;
- credit risks, resulting from normal commercial transactions or financing activities.

The Group specifically monitors each of these financial risks, with the objective of promptly minimizing them, also through hedging derivatives. Below is an explanation of how the Ansaldo STS Group, based on its in-house directives, manages these types of risk.

Exchange rate risk management

As indicated in the directive “Treasury management”, the exchange rate risk management of the Ansaldo STS Group focuses on the achievement of these objectives:
- limiting potential losses due to adverse fluctuations in the exchange rate as compared with the reporting currency of Ansaldo STS and its subsidiaries. In this case losses are defined in terms of cash flow rather in accounting terms;
- limiting estimated or real costs connected to the implementation of exchange rate risk management policies.

The exchange rate risk should be hedged only if it has a relevant impact on cash flow as compared with the reporting currency.
The costs and risks connected with a hedging policy (hedge, no hedge, or partial hedge) should be acceptable both financially and commercially.
These instruments may be used to hedge exchange rate risk:
- forward foreign exchange purchases and sales: exchange rate forwards are the most widely used instruments for cash flow hedges;
- Currency Swaps / Cross Currency Swaps: used together with exchange rate forwards, they are used to manage hedging dynamically by reducing the exchange rate risks of when cash flows occur earlier or later than expected in a currency other than the functional currency;
- Foreign currency funding/lending: foreign currency funding and lending is used to mitigate the exchange rate risk associated with the relevant credit or debit positions with bank counterparties or Group companies.

Using funding and lending in foreign currency as a hedging instrument must always be aligned with the overall treasury management and with the overall financial position of Ansaldo STS (long and short term).
Generally the purchase and sale of foreign currency is used in the case of exotic currencies where the capital market is not considered liquid or where alternative hedging instruments are not available or are only available at high cost.

Hedging of exchange rate risk

There are three types of exchange rate risk:
1. Economic risk:
   represented by the impact that currency fluctuations may have on capital budgeting decisions (investments, location of plants, procurement markets).
2. Transaction risk:
   the possibility that exchange rates could change during the period between the time at which a commitment to collect or pay in foreign currency at a future date (setting price lists, establishing budgets, preparing orders, invoicing) arises and the time at which such collection or payment occurs, thereby having a positive or negative impact on the exchange rate delta.
3. Translation risk:
   this relates to the impact that the translation of dividends or the consolidation of recognised assets and liabilities has on the financial statements of multinational companies whenever the consolidation exchange rates change from year to year.

The Ansaldo STS Group hedges transaction risks in accordance with the “Treasury Management” directive, which provides for the systematic hedging of commercial cash flows resulting from the assumption of contractual commitments of a specific nature as either buyer or seller, in order to ensure current exchange rates at the date of acquisition of long-term contracts and neutralising the effects of fluctuations in the reference exchange rates.

Cash flow hedges
Hedges are made at the time commercial contracts are finalised through plain vanilla instruments (swaps and forwards on foreign currencies) qualifying for hedge accounting under IAS 39. These hedges are carried as cash flow hedges. Accordingly, the changes in fair value of the hedging derivatives are recognised in a special cash flow hedge reserve once the effectiveness of the hedge is demonstrated. Should the hedges prove to be ineffective, i.e. they do not fall within the effective range of between 80-125%, changes in the fair value of the hedging instruments are immediately recognised in the income statement as financial items and the cash flow hedge reserve accumulated up until the date of the last successful effectiveness test is reversed to profit and loss.

Fair value hedges
A fair value hedge involves the hedging of an exposure to changes in the fair value of a recognised asset or liability, an irrevocable unrecognised commitment or an identified portion of such asset, liability or irrevocable commitment, attributable to a specific risk and that could affect the income statement.
The Group hedges against changes in fair value with regard to the exchange rate risk for assets and liabilities.

Hedging transactions are carried out predominantly with the banking system. At 31 December 2008 the Group had contracts referring to various currencies in the following notional amounts:

(local currency in thousands)	**31.12.2008**	31.12.2007
Euro	169,924	102,683
US dollar	68,660	69,653
GBP	5,788	7,109
Swedish krona	5,415	41,510
Canadian dollar	10,985	23,016
Australian dollar	34,072	35,262
Hong Kong Dollar	288	0

At 31 December 2008, the net fair value of derivative financial instruments was positive in the amount of about EUR 7,171 thousand.

Sensitivity analysis on exchange rates
For the presentation of market risks, IFRS 7 requires that a sensitivity analysis show the effects of the assumed changes in the most relevant market variables on the income statement and equity.
Exchange rate risks arise in respect of financial instruments (including trade receivables and payables) that are denominated in a currency other than the functional currency.
Since the US dollar is the primary foreign currency used by the Group, sensitivity analysis was performed on financial instruments denominated in dollars existing at 31 December 2008, assuming a 5% appreciation (depreciation) of the euro against the US dollar.
This analysis showed that an appreciation or depreciation of the euro against the US dollar would have the following impact on the Group's financial statements:

	31.12.2008		31.12.2007	
(EUR 000)	**+5% - appreciation of euro against the US dollar**	**-5% - depreciation of euro against the US dollar**	+5% - appreciation of euro against the US dollar	-5% - depreciation of euro against the US dollar
Income Statement	(157)	174	(2,063)	2,063
Cash Flow Reserve	(6,566)	6564	(4,621)	4,868
Translation Reserve	-	-	343	(146)

Compared with the same analysis performed in 2007, the Group's exposure to the US dollar has decreased as compared with the changes in the euro/dollar exchange rate. Conversely, the effects in equity were greater due to greater use of cash flow hedges.

Management of interest rate risk
The aforementioned directive states that the goal of the management of interest rate risk is to lessen the negative impact of changes in interest rates, which may affect the company's income statement, the balance sheet and the weighted average cost of capital.
Interest rate risk management by Ansaldo STS is designed to achieve the following objectives:
- to stabilize the weighted average cost of capital;
- to minimize the weighted average cost of capital of Ansaldo STS over the medium to long term. To achieve this objective, interest rate risk management will focus on the impact of interest rates on debt funding and equity funding;
- to optimise the profit on financial investments within a general profit-risk trade-off;
- to limit the costs relating to the execution of interest rate risk management policies, including the direct costs tied to the use of specific instruments and indirect costs relating to the internal organisation needed to manage such risk.

In order to allow future acquisition transactions, the Group invests excess liquidity in the short term. At the same time, financial debt is mainly in the short term. The common management of short-term assets and liabilities makes the group relatively neutral to changes in long-term interest rates.
In 2008 as well interest rate risk was managed without the use of interest rate derivatives.

Sensitivity analysis on interest rates

Sensitivity analysis was performed on the assets and liabilities exposed to interest rate risk, assuming a parallel and symmetric 50 basis point rise (fall) in interest rates at 31 December 2008.
The impact of these scenarios on the Group's financial statements at 31 December 2008 is summarised below:

(EUR 000)	**31.12.2008**		31.12.2007	
	+50 bps	**-50 bps**	+50 bps	-50 bps
Income Statement	604	(604)	864	(864)
Reserves	-	-	-	-

These impacts are the result of greater interest income that would be produced by floating rate net financial debt in the case of interest rates greater or lower than 50 basis points respectively.
The change in interest rates would have no impact on the valuation of financial instruments in the financial statements, except for amortised cost, as there are no financial assets or liabilities (not derivative) recognised at fair value through profit or loss.
The derivatives subscribed by the Group are exclusively exchange rate derivatives and a change in the interest rates of the various currencies would have non-relevant impacts on the year-end Fair Value.
There are no impacts on equity, as the company has no cash flow hedges on the interest rate risk.
The results achieved at 31 December 2008 do not differ significantly from those described above at 31 December 2007. At 31 December 2007 a simulation of a +(-) 50 basis point change shows an impact of about +(-) EUR 864 thousand on the income statement.

Management of liquidity risk

In order to support efficient management of liquidity and contribute to the growth in its businesses, the Ansaldo STS Group has established a set of tools to optimise the management of financial resources. This objective was achieved by centralising treasury operations (cash pooling contracts with Group companies) and maintaining an active presence on financial markets to obtain adequate short and medium-term credit lines. Within this context Ansaldo STS has obtained short and long-term credit lines and guarantees sufficient to meet the Group's needs.
At 31 December 2007 the Group had a net financial position of EUR 195,870 thousand, an increase over 31 December 2007 (EUR 184,521 thousand).

Liquidity analysis – amounts in thousands of euros – figures at 31 December 2008

A – Financial liabilities less derivatives	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Non-current liabilities			
Trade payables from third parties	-	5,747	-
Trade payables to related parties	-	-	-
Other non-current liabilities	-	1,356	-
Current liabilities			
Borrowings to related parties	24,404	-	-
Trade payables from third parties	189,645	333	-
Financial liabilities to third parties	9,278	-	-
Other financial liabilities	6,956	-	-
Total A	**230,283**	**7,436**	**-**
B – Negative value of derivatives			
Hedge derivatives	302	376	-
Trading derivatives (economic hedge)	72	-	-
Total B	**374**	**376**	
Total A + B	**230,657**	**7,812**	**-**

Against borrowings for EUR 238,469 thousand financial assets are posted in these amounts:

C - Financial assets	
Cash and cash equivalents	71,536
Trade receivables – third parties	281,405
Financial receivables to related parties	88,609
Financial receivables	139,509
Positive value of derivatives	7,922
Total financial assets	**588,981**
D – Credit lines	**49,263**
Total C + D	**638,244**
C+D-(A+B)	**399,775**

The Group has a net credit position and has available liquidity to self-finance and does not have to use banks to finance its own activity. The Group has a relatively little exposure to the tensions of the liquidity market which marked the final part of the year.

Credit risk management

The Group is not exposed to significant credit risk, both as regards the counterparties of its commercial transactions and for financing and investing activities. Its primary customers are, in fact, government entities or off-shoots of such entities, concentrated in the euro area, the United States and Southeast Asia. The typical customer rating of the Ansaldo Group is therefore medium/high. Despite this, in the case of contracts with customers/counterparties with which the Group does not ordinarily do business, the customers' solvency is assessed at the time of the offer to highlight any future credit risks.
The nature of Ansaldo's customers means that collection times are longer (in some countries significantly longer) than in other businesses, creating significant outstanding past due positions.
The following table shows the composition of receivables: at 31 December 2008 operativity with European Government entities significantly increased. Outstanding receivables slightly rose as compared with the previous year. In particular, outstanding receivables due for more than 5 years fell by 24%, receivables due for less than 5 years, but more than one year fell by 9%, and receivables due for less than one year fell by 18%.

31.12.2008	Government entities			Other customers			
(EUR 000)	**Europe**	**Americas**	**Other**	**Europe**	**Americas**	**Other**	**Total**
- Held as guarantees	3,159	-	-	2,560	-	13,118	18,837
- Receivables not past due	30,353	-	588	142,475	-	9,648	183,064
- Receivables past due less than 6 months	4,758	-	401	13,014	13,898	20,039	52,110
- Receivables past due between 6 months and 1 year	632	-	-	10,722	-	128	11,482
- Receivables past due between 1 and 5 years	355	-	3	13,604	-	467	14,429
- Receivables past due more than 5 years	-	-	-	129	-	1,354	1,483
Total	**39,257**	**-**	**992**	**182,504**	**13,898**	**44,754**	**281,405**

Movements in the provision for bad debts of group trade receivables are as follows:

(EUR 000)	**2008**	2007
1 January	6,832	6,679
Allocations	3,728	667
Transfers/Uses	(3,356)	(411)
Other changes	(77)	(103)
31 December	**7,127**	**6,832**

Other movements include the exchange rate differences generated upon the consolidation of foreign subsidiaries.

In relation with the credit risk originated from the positive value of derivatives, the counterparties of derivative contracts are mainly financial institutions.
The table below breaks down the positive value of derivatives by the counterparty's rating class.

The ratings below were provided by Fitch.

Rating class	Positive fair value
AA	1%
AA-	27%
A	67%
BBB	5%
Total positive fair value	**100%**

Classification and fair value of financial assets and liabilities

The table below gives a breakdown of the Group financial assets and liabilities by the accounting categories under IAS 39. Financial liabilities are all recognised on the amortised cost method, since the Group did not use the Fair Value Option. Derivatives are analysed separately.

31.12.2008 (EUR 000)	Fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Total	Fair Value
Non-current assets						
Non-current receivables from related parties	-	-	-	-	**-**	**-**
Financial assets at fair value	-	-	-	-	**-**	**-**
Receivables	-	11,517	-	-	**11,517**	**11,517**
Current assets						
Current receivables from related parties	-	230,350	-	-	**230,350**	**230,350**
Trade receivables	-	281,405	-	-	**281,405**	**281,405**
Financial assets at fair value	-	-	-	-	**-**	**-**
Financial receivables	-	-	-	-	**-**	**-**
Other current assets	31,668	2,882	-	-	34,550	34,550

31.12.2008 (EUR 000)	Fair value through profit or loss	Amortised Cost	Total	Fair Value
Non-current liabilities				
Non-current payables from related parties	-	-	**-**	**-**
Non-current borrowings	-	5,747	**5,747**	**5,747**
Other non-current liabilities	7,246	1,356	**8,602**	**8,602**
Current liabilities				
Current payables from related parties	-	27,654	**27,654**	**27,654**
Trade payables	-	189,978	**189,978**	**189,978**
Borrowings	-	9,276	**9,276**	**9,276**
Other current liabilities	-	77,252	77,252	77,252

For short-term financial instruments, such as trade receivables and payables, book value represents a fair approximation of fair value.

31.12.2007 (EUR 000)	**Fair value through profit or loss**	**Loans and receivables**	**Held to maturity**	**Available for sale**	**Total**	**Fair Value**
Non-current assets						
Non-current receivables from related parties	-	-	-	-	**-**	**-**
Financial assets at fair value					**-**	**-**
Receivables	-	15,153	-	-	**15,153**	**15,153**
Current assets						
Current receivables from related parties	-	199,743	-	-	**199,743**	**199,743**
Trade receivables	-	269,851	-	-	**269,851**	**269,851**
Financial assets at fair value	-	-	-	-	**-**	**-**
Financial receivables	-	-	-	-	**-**	**-**
Other current assets	-	24,297	-	-	24,297	24,297

31.12.2007 (€ migliaia)	**Fair value through profit or loss**	**Amortised Cost**	**Total**	**Fair Value**
Non-current liabilities				
Non-current payables from related parties	-	-	-	-
Non-current borrowings	-	6,968	6,968	6,968
Other non-current liabilities	-	9,227	9,227	9,227
Current liabilities				
Current payables from related parties	-	24,590	24,590	24,590
Trade payables	-	174,725	174,725	174,725
Borrowings	-	12,601	12,601	12,601
Other current liabilities	-	74,300	74,300	64,958

Derivatives

The table below provides the fair values of derivative instruments:

	Fair value at 31.12.2008	Fair value at 31.12.2007
Assets		
Interest rate swaps		
Trading	-	-
Fair value hedges	-	-
Cash flow hedges	-	-
Currency forward/swaps/options		
Trading	-	-
Fair value hedge	773	-
Cash flow hedge	7,149	211
Equity instruments (trading)		
Embedded derivatives (trading)		
Liabilities		
Interest rate swaps		
Trading	-	-
Fair value hedge	-	-
Cash flow hedge	-	-
Currency forward/swaps/options		
Trading	(72)	-
Fair value hedge	(412)	(95)
Cash flow hedge	(267)	(9,887)
Equity instruments (trading)		
Embedded derivatives (trading)		

The Group uses cash flow hedge derivatives hedging the exchange rate risk exposure for expected future transactions that are highly probable and fair value hedge derivatives hedging the exchange rate risk exposure of financial assets/liabilities recognised in the financial statements.
The negative value of trading derivatives relates to management derivatives hedging exchange rate risk that do not qualify as accounting hedges in accordance with the provisions of IAS 39.
With reference to derivatives hedging exchange rate risk, the Group hedges both future receipts and payments. The table below provides the maturities of these hedged payments.

	31.12.2008		31.12.2007	
	Notional amount (in thousands US$)		Notional amount (in thousands US$)	
Maturity	**Receipts**	**Payments**	Receipts	Payments
Within 1 year	2,672	3,320	6,876	1,774
2 to 3 years	7,393	-	-	-
4 to 9 years	-	-	-	-
More than 9 years	-	-	-	-
Total	**10,065**	**3,320**	**6,876**	**1,774**

14 Remuneration to key management personnel

Remuneration paid to persons who have power and responsibility over the planning, management and control of the Company, including executive and non-executive Directors, is as follows:

(EUR 000)	**2008**	2007
Compensation	5,344	5,221
Post-employment benefits	22	89
Other long-term benefits	-	-
Severance pay	-	1,145
Stock Grants	528	451
Total	**5,894**	**6,906**

Directors' fees amounted to EUR 5,894 thousand in 2008, EUR 6,906 thousand in 2007.
Statutory Auditors' fees amounted to EUR 229 thousand in 2008, EUR 184 thousand in 2007.
These fees include emoluments and any other sum paid as compensation and social security for the office of Director or Statutory Auditor of the Company.

As to the item "stock grants", in December 2008, the shares relating to the 2007 targets, which were all fully reached, were assigned. Therefore, the provision recognised in the previous year was used.
The value of the shares granted to employees participating in the plan was charged by the Group Parent to the subsidiaries as an "equity transaction" without affecting the income statement. The differentials relating to the fair value (difference between assignment and delivery) and to the percentage

	2008 (no. of shares)
Rights at 1 January	**-**
New rights assigned	10,395
Rights exercised during the year	10,395
Rights forfeited during the year	-
Rights at 31 December	**-**

15 Significant non-recurring events and transactions

The Ansaldo STS Group did not record any significant non-recurring events and transactions in 2008.

16 Atypical and/or unusual operations

In the year 2008 the Ansaldo STS group did not take any positions or enter into transactions resulting from atypical and/or unusual operations.

17 Subsequent events

From 1 January 2009 the merger by incorporation of the two Italian operating companies ATSF and ASF into the Group Parent Ansaldo STS SpA became effective.
On 21 January 2009 Ansaldo STS signed a contract for the construction designing and the construction of the electric and railway systems of Line 1 of Naples metro in the section Piazza Dante – Piazza Garibaldi; the countervalue of the job order is EUR 54 million.

18 Net financial position

The following table contains financial information required by CONSOB Notice DEM/60644293 of 28 July 2006.

(EUR 000)	**31.12.2008**	31.12.2007
A. Cash	43	49
B. Other cash equivalents (bank accounts)	71,493	63,336
C. Securities held for trading		-
D Liquidity (A+B+C)	**71,536**	**63,385**
E Current financial receivables	**139,509**	**140,705**
F Short-term bank debt	8,713	11,491
G. Current portion of non-current debt	-	-
H Other current borrowings	715	1,110
I Current financial debt (F+G+H)	**9,428**	**12,601**
J Current financial debt, net (I-E-D)	**(201,617)**	**(191,489)**
K Non-current bank debt	3,315	4,371
L. Bonds issued		-
M Other non-current debt	2,432	2,597
N Non-current financial debt (K+L+M)	**5,747**	**6,968**
O Net financial debt (liquidity) (J+N)	**(195,870)**	**(184,521)**

19 Outlook

Thanks to the commercial success of the Transport Systems Business Unit and a good performance of orders in Signalling during 2007, the order backlog of the Group at 1 January 2008 grew in comparison with the Group order backlog of the year-earlier period.

This paved the way, considering the results of these twelve months, to end the 2008 with production volumes by more than 13% greater than those that were already important in 2007. Programmes and actions oriented to improve efficiency will continue in order to further increase profitability on revenues, already greater by 0.3% compared with 2007.
Both the signalling and the transport systems markets are still marked by growth, even though in some countries – such as Italy, some programmes for railway investments are nearing their normal end. The Group still follows with particular interest the markets of countries with high economic growth and high capacity of investment in infrastructures, such as China, India, Turkey and Russia, as proved by the latest acquisitions.
Among them, a job order worth 54 million euros awarded to Ansaldo, again in January 2009, for the construction designing and construction of the electric and railway systems of Line 1 of Naples metro in the section Piazza Dante – Piazza Garibaldi.
This year will also be marked by the search for opportunities in the transport systems business worldwide. This will be possible by joining the Italian expertise in the transport systems business with the industrial presence of our subsidiaries in the Signalling Business Unit in the various markets.
Special attention is being paid to the management of the complexity of certain contracts of Ansaldo STS USA Inc., which are strategic for the technological contents.

The positive financial condition of the company allows to careful monitor the business performance, in order to research and select investment opportunities supporting growth, analysing possible acquisitions of or equity investments in companies that are complementarily present in the new markets of interest to the Group, or companies with a product portfolio that can extend the Group’s offer range.

Genoa, 6 March 2009

On behalf of the Board of Directors
The Chairman

Alessandro Pansa

20 Information pursuant to article 149-Duodecies of the CONSOB issuer regulation

This statement was prepared in accordance with Article 149-duodecies of the Consob Issuer regulation and reports the fees for the year 2008 for auditing services and for services other than auditing provided by the same auditing firm and member firms.

(EUR 000)	Entity providing the service	To	Fees for the year 2008 for the engagement
Auditing services	PricewaterhouseCoopers SpA	Group Parent	394 (1)
	PricewaterhouseCoopers SpA	Subsidiaries	369
	PricewaterhouseCoopers Network	Subsidiaries	550
Certification services	PricewaterhouseCoopers SpA	Subsidiaries	-
	PricewaterhouseCoopers Network	Subsidiaries	-
Tax consulting services	PricewaterhouseCoopers Network	Subsidiaries	261 (2)
Other services	PricewaterhouseCoopers SpA	Group Parent	10 (1)
	PricewaterhouseCoopers Network	Subsidiaries	-
			1,584

(1) See the appendix to the financial statements of Ansaldo STS SpA
(2) Tax assistance services for expatriates

Appendix B: list of significant equity investments pursuant to article 125 of CONSOB resolution 11971

Subsidiary (name and legal form)	Country	% of total	% Indirect control	% Direct control	Through	Type of ownership (see key)
Alifana - limited liability consortium company	Italia	65.850%	65.850%		Ansaldo Trasporti Sistemi Ferroviari SpA	1
Alifana due - limited liability consortium company	Italy	53.340%	53.340%		Ansaldo Trasporti Sistemi Ferroviari SpA	1
Automatismes Contrôles et Etudes Electroniques Acelec SA	France	99.999%	99.994%		Ansaldo STS France SA	1
			0.004%		Ansaldo STS France SA	9
			0.001%		Ansaldo STS Hong Kong Ltd.	1
Ansaldo Railway System Technical Service (Beijing) Ltd	China	100.000%	100.000%		Ansaldo Segnalamento Ferroviario SpA	1
Ansaldo Segnalamento Ferroviario SpA	Italy	100.000%	100.000%		Ansaldo Trasporti Sistemi Ferroviari SpA	1
Ansaldo STS Espana SA	Spain	100.000%	100.000%		Ansaldo STS France SA	1
Ansaldo STS Finland OY	Finland	100.000%	100.000%		Ansaldo STS Sweden AB	1
Ansaldo STS Infradev South Africa Pty Ltd.	South Africa	50.700%	50.700%		Ansaldo STS Australia Pty Ltd	1
Ansaldo STS Ireland Ltd.	Ireland	100.000%	99.999%		Ansaldo Signal NV in liquidation	1
			0.001%		Ansaldo STS USA Inc.(*)	1
Ansaldo Signal NV in liquidazione	The Netherlands	100.000%		100.000%		1
Ansaldo STS Southern Africa Pty Ltd.	Botswana	100.000%	100.000%		Ansaldo STS Australia Pty Ltd	1
Ansaldo STS Sweden AB	Sweden	100.000%	100.000%		Ansaldo Signal NV in liquidation	1
Ansaldo STS UK Ltd.	UK	100.000%	100.000%		Ansaldo Signal NV in liquidation	1
Ansaldo Trasporti Sistemi Ferroviari SpA	Italy	100.000%		100.000%		1
Ansaldo STS Deutschland GmbH	Germany	100.000%	100.000%		Ansaldo Segnalamento Ferroviario SpA	1
Ansaldo STS Beijing Ltd.	China	80.000%	80.000%		Ansaldo STS France SA	1
Ansaldo STS France SA	France	100.000%	99.999%		Ansaldo Signal NV in liquidation	1
			0.001%		Ansaldo Signal NV in liquidation	9
Ansaldo STS Hong Kong Ltd.	China	100.000%	99.999%		Ansaldo STS France SA	1
			0.001%		Ansaldo STS France SA	9
Ecosen SA	Venezuela	48.000%	48.000%		Ansaldo STS France SA	1
I.M. Intermetro SpA	Italy	16.666%	16.666%		Ansaldo Trasporti Sistemi Ferroviari SpA	1
International Metro Service Srl	Italy	49.000%	49.000%		Ansaldo Trasporti Sistemi Ferroviari SpA	1
Metro 5 SpA	Italy	24.600%	24.600%		Ansaldo Trasporti Sistemi Ferroviari SpA	1
Metro C. S.c.p.a..	Italy	14.000%	14.000%		Ansaldo Trasporti Sistemi Ferroviari SpA	1
Pegaso-limited liability consortium company	Italy	46.870%	46.870%		Ansaldo Trasporti Sistemi Ferroviari SpA	1
Union Switch & Signal Inc.(****)	USA	100.000%	100.000%		Ansaldo STS USA Inc.(*)	1
Transit Safety Research Alliance (no profit corporation)	USA	100.000%	100.000%		Ansaldo STS USA Inc.(*)	1
Union Switch & Signal Chile Ltda.[1]	Chile	68.000%	67.000%		Union Switch & Signal Inc. (****)	1
			1.000%		Ansaldo STS USA International Co. (**)	1
Ansaldo STS USA Inc.(*)	Delaware -USA	100.000%	100.000%		Ansaldo Signal NV in liquidation	1
Union Switch & Signal Inc. Canada	Ontario - Canada	100.000%	100.000%		Ansaldo STS USA Inc. (*)	1
Ansaldo STS USA International Co. (**)	Delaware -USA	100.000%	100.000%		Ansaldo STS USA Inc. (*)	1
Ansaldo STS USA International Projects Co. (***)	Delaware -USA	100.000%	100.000%		Ansaldo STS USA Inc. (*)	1
Ansaldo STS Transportation Systems India Private Limited.	India	100.000%	99.9999%		Ansaldo STS Australia PTY Ltd.	1
				0.0001%		1
Ansaldo STS Australia PTY Ltd.	Australia	100.000%		100.000%		1
Ansaldo STS Malaysia SDN BHD	Malaysia	100.000%	100.000%		Ansaldo STS Australia PTY Ltd.	1

Key: Types of share ownership or voting rights
1 Owned
2 Securities lender (riporto)
3 Securities borrower (riporto)
4 Registered owner on behalf of third party
5 Asset management
6 Pledge
7 Usufruct
8 Deposit
9 Voting rights by contract

(*) Until 31 December 2008 the company name was “Union Switch & Signal Inc.”
(**) Until 31 December 2008 the company name was “Union Switch & Signal International Co.”
(***) Until 31 December 2008 the company name was “Union Switch & Signal International Projects Co.”
(****) Until 31 December 2008 the company name was “Transcontrol Corporation”
1. Company dissolved on 31 December 2008

21 Certification of the consolidated financial statements pursuant to art. 154-Bis paragraphs 2 and 5 of legislative decree no. 58 of 24 february 1998 and art. 81-ter of CONSOB regulation no. 11971 of 14 may 1999, as amended

1. The undersigned Sergio De Luca, Chief Executive Officer, and Jean Paul Giani, the Manager in charge of the preparation of the company accounting documents of ANSALDO STS SpA, certify, also in accordance with Art. 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998 and subsequent amendments and integrations:

- the appropriateness of the financial statements with regard to the nature of the business and
- the effective application of administrative and accounting procedures in preparing the consolidated financial statements for the period running 1 January 2008 through 31 December 2008.

2. No significant issues have arisen in this regard.

3. It is also certified that the financial statements:
   a) correspond to the entries in the books and accounting records;
   b) are prepared in accordance with the International Accounting Standards recognised by the European Union, in accordance with Regulation (EC) 1606/2002, and, to our knowledge, provide a true and fair representation of the performance and financial position of the issuer and all the companies included in the scope of consolidation.

4. Finally, it is certified that the report on operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer and all the companies included in the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

5. This certification is made pursuant to and for the purposes of Art. 154-bis paragraphs 2 and 5 of Legislative Decree no. 58 of 1998..

Genoa, 6 March 2009

Signature of the Chief Executive Officer

Sergio De Luca

Signature of the Manager in charge of the preparation of company accounting documents
Jean Paul Giani

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Register of Enterprises of Genoa
Tax Code 01371160662

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A Finmeccanica Company