



AnsaldoSTS

A Finmeccanica Company

**ANSALDO STS GROUP
CONSOLIDATED FIRST-HALF REPORT
AT 30 JUNE 2007**

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1. BOARDS AND COMMITTEES

BOARD OF DIRECTORS *(for the 2005-2007 three-year period)*

ALESSANDRO PANSA
Chairman

SANTE ROBERTI
Vice Chairman

SERGIO DE LUCA
Chief Executive Officer

SERGIO MARIA CARBONE (1)

MAURIZIO CEREDA (1) (2)

GABRIELE FALCIASECCA (2)

MAURO GIGANTE (2)

FRANCESCO LALLI

ATTILIO SALVETTI (1)

MARIO ORLANDO
Secretary of the Board of Directors

BOARD OF STATUTORY AUDITORS *(for the 2005-2007 three-year period)*

PAOLO COLOMBO
Chairman

ANTONIO ROSINA

FRANCESCA TRIPODI

ALTERNATE AUDITORS *(for the 2005-2007 three-year period)*

PIETRO CERASOLI

DOMENICO LUNEDI

INDEPENDENT AUDITORS *(for the 2006/2014 period)*

PRICEWATERHOUSECOOPERS S.p.A.

(1) Member of Internal Auditing Committee

(2) Member of Remuneration Committee

Ansaldo STS Group

2 REPORT ON OPERATIONS AT 30 JUNE 2007

2.1 Introduction

The Ansaldo STS Group recorded a net profit of EUR 28,359 thousand for the first six months of 2007, compared with pro-forma profit of EUR 15,960 thousand for the same period of 2006, net of EUR 6,806,000 of non-recurring costs for the stock-market listing. Revenues at 30 June 2007 totalled EUR 461,333 thousand, compared with the EUR 442,363 thousand reported at 30 June 2006. The Group's profit margin on production went from 8.04% (9.57%, net of the aforementioned costs for the stock-market listing) at 30 June 2006 to 9.71 % at 30 June 2007.

Orders at 30 June 2007 came to EUR 546,744 thousand compared with EUR 821,932 thousand at 30 June 2006. The reduction should be viewed in the context of the exceptional value of contracts obtained in the first half of last year. The volume of orders obtained in the first half of 2007 was, however, satisfactory, as well as higher than the revenues for the period. Therefore, the value of the backlog of EUR 2,448 million at 30 June 2007 increased further over the already sizeable figure of EUR 2,414 million at the end of 2006, and the EUR 2,446 million reported at the end of the first half of last year.

The share price fell by 0.6% (from €9.88 to €9.78) during the first half of the year. There was significant volatility in the share price as a result of the negative trend in the European capital goods market. The European industrial indices for the transportation sector experienced a similar trend during the period.

The figures for 30 June 2006 and 31 December 2006 included for the purpose of comparison in the tables in this report only take into account the consolidation of the subsidiaries Ansaldo Trasporti Sistemi Ferroviari S.p.A. and Ansaldo Signal N.V. from the date of acquisition (24 February 2006). However, in order to make the information comparable and consistent with that made available to the market during the listing and in 2006, and in consideration of the negligible significance of the comparative figures presented, the report on operations includes the pro-forma figures of the companies that currently fall within the scope of consolidation for the figures at 30 June 2006 and 31 December 2006. Therefore, in order to facilitate understanding of the performance of the core businesses, the operational data and the comments in relation thereto are disclosed with a comparison with the pro-forma figures for the entire first half of 2006.

Ansaldo STS S.p.A., the holding company, exercised the option to use the Consolidated Taxation Mechanism for the Group's Italian subsidiaries (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.) for the 2007-2009 three-year period for IRES (corporate income tax). By electing this option, it will be possible to compute a single IRES taxable income base for the Italian companies of the Group, through the algebraic sum of the taxable income (fully considered) of the holding/consolidating company and the consolidated/subsidiary companies (Italian subsidiaries only).

The main financial benefits of using this mechanism are as follows:

- In the event one of the participating companies reports a tax loss, the use of the loss would not depend upon the subsequent generation of taxable income since the immediate transfer of the loss to the Group would allow quicker offsetting within the context of the consolidated results, with consequent advantages, at least of a financial nature; economic benefits would also accrue if the company reporting the loss were to have no expectations of its use due to lack of expected taxable income in the five tax periods following that in which the tax loss arises;
- The dividends distributed among companies participating in the Consolidated Tax Mechanism are fully tax exempt, instead of being subject to the 5% tax provided under the ordinary rules;
- There is the possibility to transfer assets that generate a taxable capital gain within the consolidation area on a tax-deferred basis (for IRES purposes only);

- There is the possibility to transfer not just IRES credit carryforwards but also other tax credits (IRAP, VAT, social security contributions, etc.) to the Group thereby allowing their use and immediate receipt.

The net profit for the first half of 2007 reflects overall improvement of EUR 12,399 thousand which is attributable to an increase of EUR 9,274 thousand in EBIT, an increase of EUR 618 thousand in financial income, and a reduction of EUR 2,507 thousand in the tax provisions for the period.

Taxes at 30 June 2007 came to EUR 18,415 thousand (EUR 20,922 thousand at 30 June 2006). Of this figure, EUR 4,203 thousand relates to IRAP (regional tax on productivity), EUR 16,672 thousand to IRES (corporate income tax) (including a consolidated tax gain by Ansaldo STS S.p.A.), and EUR (2,460) thousand was tax on overseas companies and others (deferred taxes and taxes from previous periods).

As disclosed in detail in this report, on 14 June 2007, the board of directors approved a plan to change the corporate names and trademarks of the subsidiary companies.

As of the date of this report (27 September 2007), such subsidiaries have already adopted the new name, consisting of the words "Ansaldo STS" and the name of the geographic region of reference (e.g. "CSEE Transport" has become "Ansaldo STS France", "Union Switch & Signal PTY" has become "Ansaldo STS Australia", and so forth). Consequently, the subsidiaries shall be referenced in this report with the use of the new corporate name.

2.2 Profit and loss account at 30 June

<i>(EUR 000)</i>	<i>For the six months ending 30 June</i>	
	<i>2007</i>	<i>2006 Pro-forma</i>
Revenues	461,333	442,363
Value of production	461,333	442,363
Purchases and staff costs	(415,444)	(402,631)
Changes in semi-finished products, finished goods and goods	2,894	2,435
Amortisation and depreciation	(4,616)	(4,807)
Impairment	(78)	(150)
Other operating revenues (costs), net	751	(1,644)
EBIT	44,840	35,566
Financial income (expense), net	1,934	1,316
Income tax	(18,415)	(20,922)
Net profit (loss)	28,359	15,960
<i>Group</i>	28,305	15,944
<i>Minority interests</i>	54	16

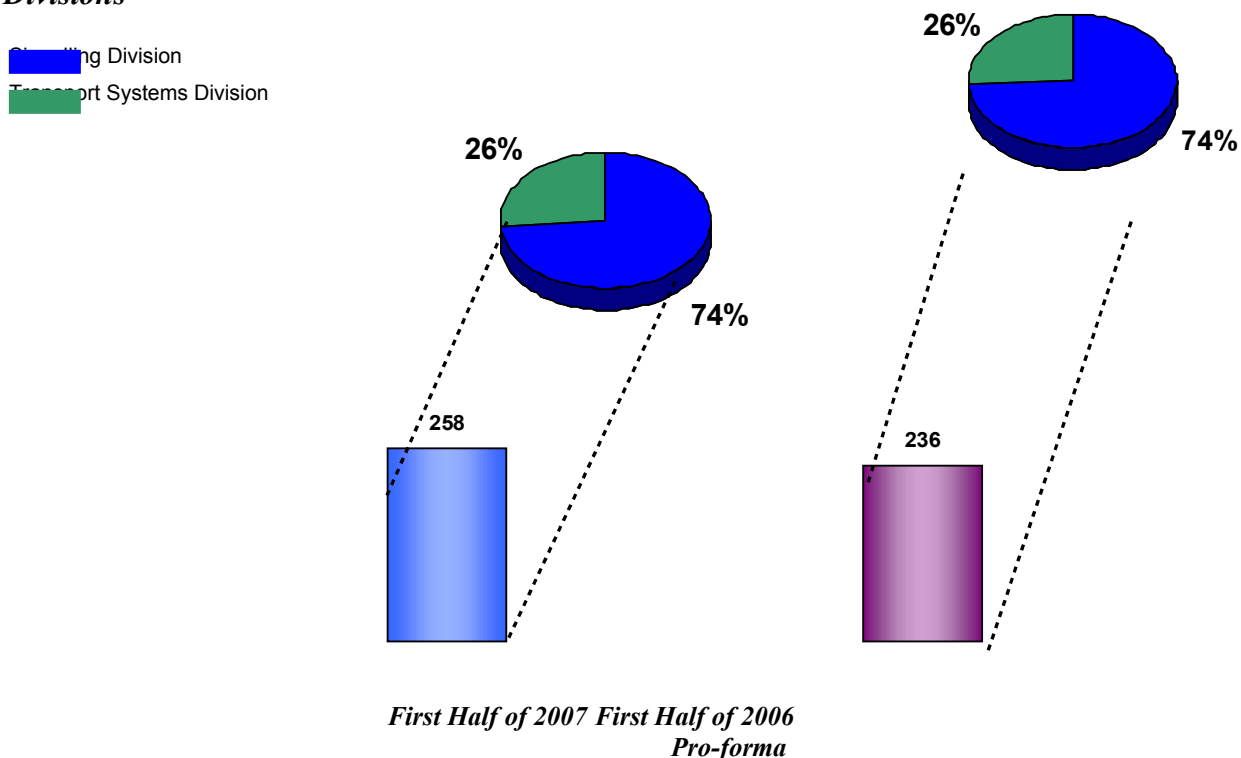
The first half of 2007 closed with a consolidated net profit of EUR 28,359 thousand compared with net earnings of EUR 15,960 thousand for the first half of 2006.

In line with the Group's growth objectives, the **value of production** rose by 4.3% going from EUR 442,363 thousand for the first half of 2006 to EUR 461,333 thousand for the first half of 2007 with an increase of EUR 18,970 thousand in absolute terms. The increase is attributable to the contribution of the Signalling Division during the two periods used for the comparison:

- Signalling (after netting out the relationships with the Transport Systems Division) expanded by EUR 23,115 thousand year on year,
- Transport Systems (after netting out the relationships with the Signalling Division) expanded by EUR 4,145 thousand year on year.

Value of production

First Half of 2007 versus First Half of 2006 (EUR million) and contribution of the Divisions



EBIT for the first half of 2007 amounted to EUR 44,840 thousand with an increase of EUR 9,274 thousand, over the pro-forma result of EUR 35,566 thousand for the same period of the previous year, which discounted non-recurring costs of EUR 6,806 thousand for the stock-market listing.

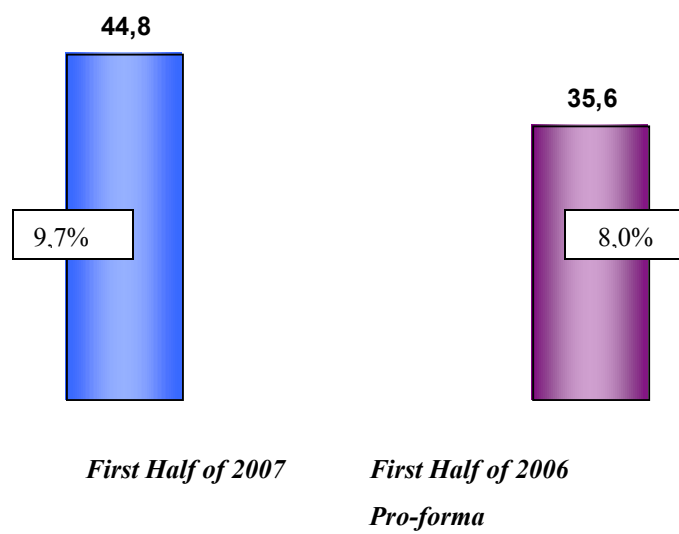
The EBIT margin amounted to 9.7% in 2007 versus 8.0% in 2006.

It is noted in this regard that:

- the Signalling Division closed the first half of 2007 with operating earnings of EUR 39,813 thousand compared with EUR 32,257 thousand for the same period of 2006, with an increase of EUR 7,556 thousand;
- the Transport Systems Division reported operating earnings of EUR 12,374 thousand for the first half of 2007 compared with EUR 12,259 thousand for the same period of 2006, with an increase of EUR 115 thousand.

EBIT and ROS

First Half of 2007 versus First Half of 2006 (EUR million)



2.3 Profit and loss account at 30 June 2007 and related comments

Profit and loss account (EUR 000)	For the six months ending 30 June	
	2007	2006 Pro-forma
Revenues	412,926	400,979
Revenues from related parties	48,407	41,384
Other operating revenues from related parties	1,350	204
Other operating revenues	6,304	4,840
Purchases	(119,300)	(100,240)
Services costs	(148,766)	(162,607)
Costs with respect to related parties	(18,855)	(24,207)
Staff costs	(128,523)	(115,774)
Changes in semi-finished products, finished products, and goods	2,894	2,435
Amortisation, depreciation and impairment	(4,694)	(4,957)
Other operating costs	(7,070)	(6,688)
(-) Capitalized costs for internally produced assets	167	197
EBIT	44,840	35,566
Financial income	3,404	3,429
Financial income from related parties	3,045	1,252
Financial expense	(4,429)	(2,953)
Financial expense with respect to related parties	(86)	(412)
Effect of measuring equity investments with the equity method		
Profit (loss) before taxes	46,774	36,882
Income tax	(18,415)	(20,922)
Net profit (loss)	28,359	15,960
Group	28,305	15,944
Minority interests	54	16
Earnings per share		
Basic and diluted	0,28	0,16

2.3.1 Transactions with related parties

The tables below summarize all of the transactions (revenues and costs) with related parties of the Group for first half of 2007 and the same period of the preceding year:

30 June 2007	Revenue	Other operatin g revenues	Costs	Financia l income	Financial expense
<i>(EUR 000)</i>					
<u>Parent company</u>					
Finmeccanica S.p.A.	-	-	952	3,045	86
<u>Subsidiaries</u>					
Alifana S.c.r.l.	-	-	72	-	-
Alifana Due S.c.r.l.	2,877	-	4,239	-	-
<u>Associated companies</u>					
I.M. Intermetro S.p.A.	127	-	-	-	-
Pegaso S.c.r.l.	130	-	2,143	-	-
Metro 5 S.p.A.	484	-	(43)	-	-
<u>Consortia</u>					
Cons. Cesit	-	-	14	-	-
Saturno	37,352	-	1,394	-	-
Ascosa quattro	115	-	41	-	-
Team	37	-	26	-	-
San Giorgio Volla 2	66	853	-	-	-
Cons. Ferroviario Vesuviano	873	-	-	-	-
San Giorgio Volla	166	-	-	-	-
<u>Other group companies</u>					
Mecfin	-	56	144	-	-
Ansaldo Energia	-	-	(1)	-	-
Ansaldo Breda	5,546	71	1,994	-	-
Fata Logistic	-	1	937	-	-
Finmeccanica Finance	-	-	42	-	-
Elsag S.p.A.	-	247	3,327	-	-
Elsag Gest	-	-	-	-	-
Ote S.p.A.	-	-	3,555	-	-
Sogepa	-	-	19	-	-
Electron Italia S.r.l.	634	-	-	-	-
Selex systems integrati Ltd	-	122	-	-	-
Ansaldo Ricerche	-	-	-	-	-
Orizzonte Sist Nav	-	-	-	-	-
Total	48,407	1,350	18,855	3,045	86

30 June 2006 Pro-forma

	Revenues	Other operating revenues	Costs	Financial income	Financial expense
<i>(EUR 000)</i>					
<i>Parent company</i>					
Finmeccanica S.p.A.	197	204	1,040	1,252	412
<i>Subsidiaries</i>					
Alifana S.c.r.l.	-	-	-	-	-
Alifana Due S.c.r.l.	1,664	-	11,020	-	-
<i>Associated companies</i>					
I.M. Intermetro S.p.A.	79	-	-	-	-
Pegaso S.c.r.l.	150	-	2,118	-	-
Metro 5 S.p.A.	-	-	-	-	-
<i>Consortia</i>					
Cons. Cesit	-	-	-	-	-
Saturno	36,707	-	1,442	-	-
Ascosa quattro	6	-	-	-	-
Team	-	-	(30)	-	-
San Giorgio Volla 2	-	-	-	-	-
Cons. Ferroviario Vesuviano	238	-	-	-	-
San Giorgio Volla	497	-	-	-	-
<i>Other group companies</i>					
Mecfin	44	-	2	-	-
Ansaldo Energia	-	-	6	-	-
Ansaldo Breda	1,758	-	2,463	-	-
Fata Logistic	-	-	662	-	-
Finmeccanica Finance	-	-	51	-	-
Elsag S.p.A.	-	-	5,081	-	-
Elsag Gest	-	-	303	-	-
Ote S.p.A.	-	-	20	-	-
Sogepa	-	-	-	-	-
Electron Italia S.r.l.	-	-	-	-	-
Selex systems integrati Ltd	44	-	-	-	-
Ansaldo Ricerche	-	-	12	-	-
Orizzonte Sist Nav	-	-	17	-	-
Total	41,384	204	24,207	1,252	412

2.3.2 Revenues from third parties

	<i>30 June 2007</i>	<i>30 June 2006</i> <i>Pro-forma</i>
	<hr/>	<hr/>
Revenues from sales	387,548	96,949
Revenues from services	134,555	59,437
Change in work in progress	(109,177)	244,593
Total revenues	<hr/> 412,926 <hr/>	<hr/> 400,979 <hr/>

The revenues from third parties amounted to EUR 412,926,000 for the six months ending 30 June 2007, versus EUR 400,979,000 for the six months ending 30 June 2006, with an increase of EUR 11,947,000 (+3%).

The table below summarizes the **value of the Group's production** split by geographic area (using the customer's country as the country of reference):

	<i>30 June 2007</i>	<i>30 June 2006</i> <i>Pro-forma</i>
	<hr/>	<hr/>
Italy	217,746	241,647
Rest of Western Europe	105,469	92,785
North America	56,259	61,763
Asia/Pacific	72,602	41,502
Other	9,257	4,666
Total revenues	<hr/> 461,333 <hr/>	<hr/> 442,363 <hr/>

2.3.3 Other operating revenue

	<i>30 June 2007</i>	<i>30 June 2006 Pro-forma</i>
	<hr/>	<hr/>
Grants for research and development	820	530
Capital gains on sale of fixed assets	17	4
Reversal of provision for doubtful accounts	-	50
Reversal of provisions for risks and charges	2,549	1,420
Positive difference from cost/revenue verification	-	34
Insurance reimbursements	2	-
Out-of-period gains and non-existent assets	-	-
Royalties	1,960	1,355
Other operating revenues	818	1,431
Financial income and foreign-exchange gains	138	16
Total other operating revenues	<hr/> 6,304 <hr/>	<hr/> 4,840 <hr/>

2.3.4 Purchases and services costs

	<i>30 June 2007</i>	<i>30 June 2006 Pro-forma</i>
	<hr/>	<hr/>
Materials	129,276	98,112
Change in inventories	(9,973)	2,128
Services	142,631	155,593
Rent and operating leases	6,132	7,014
Total purchases and services costs	<hr/> 268,066 <hr/>	<hr/> 262,847 <hr/>

The approximate 2.0% growth of purchases is essentially in line with the trend of revenues outlined above.

- Signalling Division: 3,797 employees
- Transport Systems Division: 316 employees
- Other activity (Corporate): 48 employees

2.3.6 Amortisation, depreciation and impairment

	<i>30 June 2007</i>	<i>30 June 2006 Pro-forma</i>
Depreciation of property, plant and equipment	3,954	4,173
Amortisation of intangible assets	662	634
	4,616	4,807
Writedowns of trade receivables	78	150
	78	150
Total amortisation, depreciation and impairment	4,694	4,957

The depreciation of property, plant and equipment decreased year on year by EUR 190 thousand. Such reduction is mainly attributable to certain assets of the French subsidiary, Ansaldo STS France (f/k/a CSEE Transport), which had reached the end of their useful life; the subsidiary is part of the Signalling Division.

The writedowns of EUR 78 thousand regard trade receivables, all of which were booked by the Signalling Division.

2.3.7 Other operating costs

	<i>30 June 2007</i>	<i>30 June 2006 Pro-forma</i>
Allocations to provisions for risks and charges	3,126	3,519
Indirect taxes and duties	1,742	1,598
Foreign-exchange charges of realization of operating items	-	16
Exchange-rate alignment on operating items	-	12
Association dues	347	125
Interest and other operating charges	401	-
Other operating costs	1,454	1,418
Total other operating costs	7,070	6,688

Operating costs rose by EUR 382 thousand, going from EUR 6,688 thousand at 30 June 2006 to EUR 7,070 thousand at 30 June 2007.

The increase in such costs is primarily attributable to interest accrued in relation to the operations of the Transport Systems Division (EUR 332 thousand) and the Signalling Division (EUR 69 thousand), and with reference to the settlement of past transactions.

2.3.8 Capitalized costs for internally produced assets

	<i>30 June 2007</i>	<i>30 June 2006</i> <i>Pro-forma</i>
Capitalized costs for internally produced assets	<u>167</u>	<u>197</u>
	<u>167</u>	<u>197</u>

2.3.9 Net financial income (expense)

	<i>30 June 2007</i>			<i>30 June 2006</i> <i>Pro-forma</i>		
	<u>Income</u>	<u>Charges</u>	<u>Net</u>	<u>Income</u>	<u>Charges</u>	<u>Net</u>
Dividends	339	-	339	397	-	397
Income from equity investments and securities	-	-	-	-	-	-
Interest and commissions	835	(1,091)	(256)	747	(1,099)	(352)
Exchange-rate differences	2,193	(3,010)	(817)	1,575	(1,130)	445
Income from fair-value measurement recognized in profit and loss account	12	(44)	(32)	103	(616)	(513)
Other financial income (expense)	25	(284)	(259)	607	(108)	499
Total financial income (expense)	<u>3,404</u>	<u>(4,429)</u>	<u>(1,025)</u>	<u>3,429</u>	<u>(2,953)</u>	<u>476</u>
Financial income (expense) - related parties	3,045	(86)	2,959	1,252	(412)	840
Total	<u>6,449</u>	<u>(4,515)</u>	<u>1,934</u>	<u>4,681</u>	<u>(3,365)</u>	<u>1,316</u>

The financial income accrued with regard to transactions with related parties amounted to EUR 1,934 thousand, and thus increased by EUR 618 thousand with respect to the EUR 1,316 thousand reported at 30 June 2006. The increase is essentially linked to the

improvement of the net financial position, which went from EUR 158,249 thousand at 31 December 2006 to EUR 184,714 thousand at 30 June 2007.

2.3.10 Income tax

The provision for income tax includes the following components:

	<i>30 June 2007</i>	<i>30 June 2006 Pro-forma</i>
	<hr/>	<hr/>
IRES (corporate income tax)	18,282	13,626
IRAP (regional tax on productivity)	4,203	3,441
Other income tax (foreign companies)	280	4,500
Gains from IRES consolidation	(1,610)	-
Taxes relating to previous years	2	(2,122)
Provisions for disputes over taxes	80	264
Net deferred taxes	(2,822)	1,213
Total	<hr/> 18,415 <hr/>	<hr/> 20,922 <hr/>

Ansaldo STS S.p.A., the Group's holding company, has elected, as a consolidating company, to file a consolidated national income tax return with the Italian companies of the Group (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.) for the 2007-2009 three-year period, for the purpose of settling corporate income taxes (IRES). By electing this option, it will be possible to compute a single IRES taxable income base for the Italian companies of the Group, through the algebraic sum of the taxable income (fully considered) of the holding/consolidating company and the consolidated/subsidiary companies (Italian subsidiaries only).

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

2.4 Balance sheet at 30 June 2007 and related comments

Balance sheet

<i>(EUR 000)</i>	<u>30/06/2007</u>	<u>31/12/2006</u>	<u>30/06/2006</u>
Non-current assets	257,292	250,554	234,519
Non-current liabilities	48,692	44,859	41,820
	<u>208,600</u>	<u>205,695</u>	<u>192,699</u>
Inventories	104,166	96,540	89,041
Work in progress	127,099	78,292	90,047
Trade receivables	277,738	311,145	233,373
Trade payables	206,016	166,289	179,730
Advances from customers	461,781	475,124	431,172
Provisions for risks and charges	22,245	22,310	25,454
Other net current assets (liabilities)	(56,124)	(59,559)	(54,132)
Net working capital	<u>(237,163)</u>	<u>(237,305)</u>	<u>(278,027)</u>
Net invested capital	<u>(28,563)</u>	<u>(31,610)</u>	<u>(85,328)</u>
Group shareholders' equity	155,809	126,279	95,942
Minority interests	342	360	371
Shareholders' equity	<u>156,151</u>	<u>126,639</u>	<u>96,313</u>
Financial debt (liquidity), net	<u>(184,714)</u>	<u>(158,249)</u>	<u>(181,641)</u>

At 30 June 2007, the **net invested capital** at a consolidated level was a negative balance of EUR 28,563,000, and compares with a negative balance of EUR 31,610 thousand at 31 December 2006; the difference of EUR 3,047 thousand is mainly attributable to: an increase in non-current assets of EUR 6,738 thousand (mostly due to increases in intangible assets (EUR 4,148 thousand) and deferred tax assets (EUR 3,278 thousand)); an increase in non-current liabilities of EUR 3,833 thousand (mostly due to increases in severance pay provisions as a result of the "curtailment" effect (EUR 1,692 thousand) and other liabilities (EUR 2,213 thousand)) and the change of EUR 142 thousand in **working capital** (which goes from a deficit position of EUR 237,305 thousand at 31 December 2006 to a deficit position of EUR 237,163 thousand at 30 June 2007). Working capital remained essentially in line with the balance as of 31 December 2006, since the reduction of trade receivables (increased collections of customer receivables)

and the increase in trade payables were basically offset by the increase in inventories on hand and work in progress, net of instalment invoices.

The Group's **net financial creditor position** (prevalence of financial receivables and cash/cash equivalents over financial payables) at 30 June 2007 was EUR 184,714 thousand, compared with the creditor position of EUR 158,249 thousand at 31 December 2006, with the position thus increasing by EUR 26,465 thousand (as illustrated in more detail in the notes). Current operations are generating positive cash flow. More specifically, free operating cash flow (FOCF) before strategic investments amounted to EUR 28,470 thousand for the first half of 2007; the figure reflects a decrease compared with the EUR 133,810 thousand reported for the first half of 2006, which was an exceptionally high amount.

The main factors behind the change in the Group's cash/cash equivalents may be summarized as follows:

- EUR 130,582 thousand of collections by the Italian subsidiary, Ansaldo Segnalamento Ferroviario, from the Italian National Railways (Ferrovie dello Stato);
- EUR 35,300 thousand of customer receivable collections by the Australian subsidiary, Ansaldo STS Australia (f/k/a Union & Switch PTY), most of which concern the Rawang Ipoh, ARTC, and Rio Tinto contracts, and EUR 12,900 thousand of collections by the French subsidiary, Ansaldo STS France, in relation to the CTRL Section II and the China On-Board ATP contracts;
- EUR 2,380 thousand of payments for the acquisition of the RM Star business unit by the U.S. subsidiary, US&S;
- EUR 10,073 thousand of value-added tax payments;
- EUR 29,339 thousand of tax payments;
- EUR 4,489 thousand of payments for investments in tangible and intangible assets;
- EUR 3,344 thousand of financial income received.

2.4.1 Balance sheet

<i>(EUR 000)</i>	<i>30/06/2007</i>	<i>31/12/2006</i>	<i>30/06/2006</i>
<i>Non-current assets</i>			
Intangible assets	49,241	45,093	41,810
Property, plant and equipment	91,188	91,770	92,954
Equity investments	28,949	28,582	28,503
Receivables	15,902	15,494	8,413
Non-current receivables from related parties	-	-	-
Deferred taxes	43,253	39,975	32,540
Other assets	28,759	29,640	30,299
	<u>257,292</u>	<u>250,554</u>	<u>234,519</u>
<i>Current assets</i>			
Inventories	104,166	96,540	89,041
Work in progress	127,099	78,292	90,047
Trade receivables	259,225	266,522	217,084
Current receivables from related parties	175,205	176,830	150,686
Tax receivables	10,918	7,698	19,446
Financial receivables	-	-	-
Derivatives	191	282	1,331
Other current assets	26,139	24,910	15,994
Cash and cash equivalents	42,313	48,580	61,847
	<u>745,256</u>	<u>699,654</u>	<u>645,476</u>
<i>Total assets</i>	<u>1,002,548</u>	<u>950,208</u>	<u>879,995</u>
<i>Shareholders' equity</i>			
Share capital	49,950	49,950	49,950
Other reserves	105,859	76,329	45,992
<i>Group shareholders' equity</i>	<u>155,809</u>	<u>126,279</u>	<u>95,942</u>
<i>Minority interests</i>	342	360	371
<i>Total shareholders' equity</i>	<u>156,151</u>	<u>126,639</u>	<u>96,313</u>
<i>Non-current liabilities</i>			
Non-current payables to related parties	-	-	-
Financial payables	8,196	8,475	10,272
Severance pay and other staff obligations	32,304	30,612	29,816
Provisions for risks and charges	-	-	-
Deferred taxes	7,265	7,337	5,811
Other liabilities	9,123	6,910	6,193
	<u>56,888</u>	<u>53,334</u>	<u>52,092</u>
<i>Current liabilities</i>			
Advances from customers	461,781	475,124	431,172
Trade payables	191,173	143,536	158,716
Current payables to related parties	19,661	27,682	21,014
Financial payables	6,076	13,984	4,331
Taxes payable	14,129	23,114	26,352
Provisions for risks and charges	22,245	22,310	25,454
Derivatives	4,172	1,540	3,052
Other liabilities	70,272	62,945	61,499
	<u>789,509</u>	<u>770,235</u>	<u>731,590</u>
<i>Total liabilities</i>	<u>846,397</u>	<u>823,569</u>	<u>783,682</u>
<i>Total liabilities and shareholders' equity</i>	<u>1,002,548</u>	<u>950,208</u>	<u>879,995</u>

2.4.2 Receivables from and payables to related parties

Business transactions with related parties, including the settlement of interest-bearing receivables and payables, are effected on the basis of normal market conditions. The receivables and payables with respect to related parties are reported in the tables below.

<i>Receivables at 30 June 2007</i> (EUR 000)	Current Financial Receivables	Trade Receivables	Other Current Receivables	Total
Parent company				
Finmeccanica S.p.A.	156,673	1	-	156,674
Subsidiaries				
Alifana Due Scrl	-	1,718	-	1,718
Alifana Scrl	-	93	-	93
Associated companies				
I.M. Intermetro S.p.A.	-	400	-	400
Metro 5 S.p.A.	-	2,105	-	2,105
Pegaso Scrl	-	249	-	249
Consortia				
Cons. Ascosa Quattro	-	342	-	342
Cons. Ferrov.S.Giorgio/Volla	-	-	-	-
Cons. Ferrov.S.Giorgio/Volla 2	-	171	-	171
Cons. Ferroviario Vesuviano	-	1,068	-	1,068
Cons. Saturno	-	10,273	-	10,273
Other group companies				
Alenia Aeronavali S.P.A.	-	133	-	133
Ansaldo Argentina S.A.	-	37	-	37
Ansaldo Energia S.P.A.	-	1	-	1
Ansaldo S.p.A.	-	879	11	890
Mecfin	-	-	-	-
Electron Italia S.R.L.	-	698	-	698
Elsag S.P.A.	-	297	-	297
Fata Logistic Systems S.p.A.	-	1	-	1
Laben	-	-	-	-
Fata S.p.A.	-	-	4	4
Finmeccanica Group Services S.p.A.	-	8	-	8
Orizzonte Sistemi Navali S.P.A.	-	-	3	3
Selex Systems Integrati Ltd	-	39	-	39
So.Ge.Pa. S.p.A.	-	-	1	1
Total	156,673	18,513	19	175,205

*Payables at 30 June
2007*
(EUR 000)

Current Financial Payables	Trade Payables	Other Current Payables	Total
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Parent company				
Finmeccanica S.p.A.	-	81	135	216
Subsidiaries				
Alifana S.c.r.l.	-	-	3	3
Alifana Due S.c.r.l.	-	3,249	-	3,249
Associated companies				
I.M. Intermetro S.p.A.	-	1	-	1
Metro 5 S.p.A.	-	-	4,613	4,613
Pegaso S.c.r.l.	-	1,142	-	1,142
Consortia				
Saturno	-	435	-	435
Ascosa quattro	-	4	-	4
Team	-	31	-	31
San Giorgio Volla 2	-	21	20	41
Cons. Ferroviario	-	158	8	166
San Giorgio Volla	-	130	8	138
Filobus Vesuviano	-	-	10	10
Other group companies				
Mecfin	-	74	-	74
Ansaldo Breda	-	4,173	-	4,173
Alcatel Alenia Space	-	-	-	-
Finmeccanica Finance	-	-	21	21
Prodotti elettronici	-	-	-	-
Elsag Gest	-	(21)	-	(21)
Elsag S.p.A.	-	2,212	-	2,212
Ote S.p.A.	-	2,738	-	2,738
Other	-	58	-	58
Sogepa	-	3	-	3
Orizzonte Sistemi Navali	-	-	-	-
Fata Logistic	-	354	-	354
Total	-	14,843	4,818	19,661

Receivables at 31 December 2006*(EUR 000)*

	Current Financial Receivables	Trade Receivables	Other Current Receivables	Total
<i>Parent company</i>				
Finmeccanica S.p.A.	132,128	130	79	132,337
<i>Subsidiaries</i>				
<i>Associated companies</i>				
I.M. Intermetro S.p.A.	-	411	-	411
<i>Consortia</i>				
Pegaso S.c.r.l.	-	70	-	70
Alifana S.c.r.l.	-	161	-	161
Alifana Due S.c.r.l.	-	3,485	-	3,485
Saturno	-	34,783	-	34,783
Cons. Ferroviario Vesuviano	-	1,460	-	1,460
San Giorgio Volla	-	1,421	-	1,421
<i>Other group companies</i>				
Finmeccanica Finance	-	-	-	-
Mecfin	-	52	-	52
Ansaldo Argentina	-	37	-	37
Ansaldo Breda	-	2,573	-	2,573
Altram	-	-	-	-
Laben	-	40	-	40
Total	132,128	44,623	79	176,830

Payables at 31 December 2006	Current Financial Payables	Trade Payables	Other Current Payables	Total
<i>(EUR 000)</i>				
<i>Parent company</i>				
Finmeccanica S.p.A.	-	521	230	751
<i>Subsidiaries</i>				
<i>Associated companies</i>				
I.M. Intermetro S.p.A.	-	1	-	1
<i>Consortia</i>				
Pegaso S.c.r.l.	-	4,204	-	4,204
Alifana S.c.r.l.	-	521	3	524
Alifana Due S.c.r.l.	-	5,134	-	5,134
Saturno	-	394	-	394
San Giorgio Volla 2	-	39	-	39
Cons. Ferroviario Vesuviano	-	108	-	108
San Giorgio Volla	-	130	-	130
Metro 5	-	4,656	-	4,656
Ascosa 4	-	6	-	6
<i>Other group companies</i>				
Finmeccanica Finance	-	-	21	21
Mecfin	-	9	-	9
Ansaldo Breda	-	5,534	-	5,534
Ansaldo Energia	-	-	-	0
Alcatel Alenia Space	-	-	36	36
Prodotti Elettronici	-	-	40	40
Sogepa	-	4	-	4
Electron	-	-	-	
Selex	-	64	-	64
Fata Logistic	-	426	-	426
Ote S.p.A.	-	3,684	-	3,684
Elsag Gest	-	-	-	
Elsag STI	-	-	-	
Elsag S.p.A.	-	1,917	-	1,917
Total	-	27,352	330	27,682

Given the balance-sheet relationships with related parties are summarized in this Section 2.4.2, the sections below refer to receivable and payable relationships with third parties only.

2.4.3 Receivables and other non-current assets

	<i>30/06/2007</i>	<i>31/12/2006</i>	<i>30/06/2006</i>
	<u> </u>	<u> </u>	<u> </u>
Security deposits	1,785	1,521	1,089
Receivables for loans to employees	-	-	-
Income tax credit for severance pay benefits	724	708	790
Other non-current receivables	13,393	13,265	356
Other sundry receivables	-	-	6,178
Total	<u>15,902</u>	<u>15,494</u>	<u>8,413</u>
Prepaid expenses - minority interests	579	661	508
Prepaid expenses - related parties	28,180	28,979	29,791
Total	<u>28,759</u>	<u>29,640</u>	<u>30,299</u>

Non-current receivables at 30 June 2007 totalled EUR 15,902 thousand, and included EUR 8,120 thousand of Signalling Division receivables (EUR 6,627 thousand of which refer to the Pittsburgh facilities lease booked by the U.S. subsidiary, Union Switch & Signal) and EUR 7,782 thousand of Transport Systems Division receivables (regarding advances paid for the Thessaloniki metro, the entity to which the related contract was awarded).

Other assets totalled EUR 28,759 thousand and essentially regard the non-current portion of long-terms costs related to the license to use the "Ansaldo" trade name for a term of 20 years.

More specifically, on 27 December 2005, Ansaldo STS S.p.A. entered into a licensing agreement with Finmeccanica to use the "Ansaldo" brand under which the Company is known in the market. Under the agreement, in exchange for an up-front payment of EUR 32,213 thousand, the Company has exclusive use of the brand in the sectors it does business until 27 December 2025.

2.4.4 Inventories

	<i>30/06/2007</i>	<i>31/12/2006</i>	<i>30/06/2006</i>
Raw materials	37,475	28,258	28,837
Work in progress and semi-finished products	23,249	22,117	18,524
Finished products and goods	8,613	6,619	6,877
Advances to suppliers	34,829	39,546	34,803
Total	104,166	96,540	89,041

Inventories are stated net of writedown provisions totalling EUR 5,737 thousand (EUR 5,175 thousand at 31 December 2006).

2.4.5 Work in progress and advances from customers

	<i>30/06/2007</i>	<i>31/12/2006</i>	<i>30/06/2006</i>
Work in progress (gross)	905,499	944,429	1,016,234
Advances from customers	(778,400)	(866,137)	(926,187)
Work in progress (net)	127,099	78,292	90,047
Advances from customers (gross)	3,145,502	3,220,461	3,035,676
Work in progress	(2,683,721)	(2,745,337)	(2,604,504)
Advances from customers (net)	461,781	475,124	431,172

Work in progress is booked 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 booked 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 booked among customer receivables.

2.4.6 Trade and financial receivables

	<u>30/06/2007</u>		<u>31/12/2006</u>		<u>30/06/2006</u>	
	<u>Trade</u>	<u>Financial</u>	<u>Trade</u>	<u>Financial</u>	<u>Trade</u>	<u>Financial</u>
Customers	259,225	-	266,522	-	217,084	-
Total	<u>259,225</u>	<u>-</u>	<u>266,522</u>	<u>-</u>	<u>217,084</u>	<u>-</u>

The trade and financial receivables do not include transactions with related parties, which are reported in detail in a separate section above.

Trade receivables totalled EUR 259,225 thousand at 30 June 2007, and declined by EUR 7,297 thousand compared with 31 December 2006 (EUR 266,522 thousand).

The change essentially reflects the following receipts through the Signalling Division: the collection by the Italian subsidiary, Ansaldo Segnalamento Ferroviario, of amounts due from the Italian National Railways (Ferrovie dello Stato) regarding the On-Board Automated Train Control System (SCMT), Wayside SCMT and High-Speed Railway programmes; collections by the Australian subsidiary of amounts due on the Rawang-Ipoh, ARTC and Rio Tinto projects; and collections by the French subsidiary of amounts due on the CTRL Section II and the China On-Board ATP projects.

2.4.7 Tax receivables and payables

	<u>30/06/2007</u>		<u>31/12/2006</u>		<u>30/06/2006</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Direct taxes	5,052	8,307	1,913	14,090	11,566	19,922
Other taxes	5,866	5,822	5,785	9,024	7,880	6,430
Total	<u>10,918</u>	<u>14,129</u>	<u>7,698</u>	<u>23,114</u>	<u>19,446</u>	<u>26,352</u>

The amount receivable for direct taxes and other amounts due from the tax authorities went from EUR 7,698 thousand at 31 December 2006 to EUR 10,918 thousand at 30

June 2007; the increase of EUR 3,220 thousand mainly reflects tax prepayments made by the French and Indian subsidiaries of the Signalling Division.

Ansaldo STS S.p.A., the Group's holding company, has elected, as a consolidating company, to file a consolidated national income tax return with the Italian companies of the Group (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.) for the 2007-2009 three-year period, for the purpose of settling corporate income taxes (IRES). By electing this option, it will be possible to compute a single IRES taxable income base for the Italian companies of the Group, through the algebraic sum of the taxable income (fully considered) of the holding/consolidating company and the consolidated/subsidiary companies (Italian subsidiaries only).

Tax payables came to EUR 14,129 thousand at 30 June 2007 compared with EUR 23,114 thousand at 31 December 2006, with a decrease of EUR 8,985 thousand.

The change is attributable both to the election of the consolidated tax return mentioned above and to a reduction in the local tax liabilities of the American and Australian subsidiaries of the Signalling Division.

The liability for corporate income tax (IRES) amounted to EUR 3,732 thousand, inclusive of EUR 4,241 thousand for the Signalling Division and EUR 1,121 thousand for the Transport Systems Division.

The liability for regional tax on productivity (IRAP) came to EUR 1,008 thousand, including EUR 694 thousand for the Signalling Division and EUR 374 thousand for the Transport Systems Division.

2.4.8 Other current assets

	<i>30/06/2007</i>	<i>31/12/2006</i>	<i>30/06/2006</i>
Due to staff	514	963	653
Current portion of prepaid expenses	9,146	10,875	6,832
Receivables from social security institutions	1,282	939	1,036
Research subsidies	3,063	3,284	2,164
Receivables for security deposits	11,015	326	-
Derivatives	191	282	1,331
Other	1,119	8,523	5,309
Total	26,330	25,192	17,325

Other current assets totalled EUR 26,330 thousand at 30 June 2007, an increase of EUR 1,138 thousand compared with the balance as of 31 December 2006 (EUR 25,192 thousand); EUR 793 thousand of the change refers to an increase in the security deposits of the U.S. subsidiary, while the remainder refers to additional receivables of the other foreign subsidiaries of the Signalling Division with regard to local entities.

2.4.9 Cash and cash equivalents

	<i>30/06/2007</i>	<i>31/12/2006</i>	<i>30/06/2006</i>
Cash	278	1	1,354
Bank deposits	42,035	48,579	60,493
Total	42,313	48,580	61,847

The balance of cash and cash equivalents at 30 June 2007 was EUR 42,313 thousand, and reflects a decrease of EUR 6,267 thousand compared with 31 December 2006: the change is mainly due to a reduction in the bank deposits of the Transport Systems Division in relation to advances received from the contractor, Iricav Uno Consortium, through the associated company, Pegaso S.c.r.l.

2.4.10 Share capital

	<i>Number of Shares</i>	<i>Par Value</i>	<i>Treasury Shares</i>	<i>Total</i>
	100,000,000	50,000,000	-	50,000,000
Charges for capital increase	-	-	-	(50,000)
Balance at 31 December 2006	100,000,000	50,000,000	-	49,950,000
Shares subscribed in first half of 2007	-	-	-	-
Balance at 30 June 2007	100,000,000	50,000,000	-	49,950,000

The share capital of EUR 50,000,000.00 is fully paid-up and divided into 100,000,000 ordinary shares with a par value of EUR 0.50 each.

Share capital decreased by EUR 50,000 due to expenses attributable to the capital increase in 2005. Ansaldo STS and the subsidiaries of Ansaldo STS do not own shares of the Company.

2.4.11 Financial payables

	30/06/2007			31/12/2006			30/06/2006		
	Current	Non-Current	Total	Current	Non-Current	Total	Current	Non-Current	Total
Bank payables	5,113	5,433	10,546	12,900	5,433	18,333	-	-	-
Due to other lenders	959	2,720	3,679	1,076	3,001	4,077	3,581	-	3,581
Finance lease payables	4	43	47	8	41	49	164	54	218
Other financial payables	-	-	-	-	-	-	586	10,218	10,804
Total	6,076	8,196	14,272	13,984	8,475	22,459	4,331	10,272	14,603

Changes during the period were as follows:

	31/12/2006	New Positions	Repayments	Other Changes	30/06/2007
Bank payables	18,333	-	(7,837)	50	10,546
Due to other lenders	4,077	-	(522)	128	3,683
Finance lease payables	49	-	(3)	(3)	43
Other financial payables	-	-	-	-	-
Total	22,459	-	(8,362)	175	14,272

Bank payables

The bank payables of EUR 10,546 thousand mainly refer to the Indian subsidiary of the Signalling Division (EUR 3,076 thousand) and a current account maintained with HSBC (Bank of India). The balance also includes EUR 435 thousand with reference to the Transport Systems Division for short-term subsidized financing secured pursuant to Law 346/88.

The non-current bank debt regards the Transport Systems Division and refers to:

- EUR 4,612 thousand of subsidized financing secured pursuant to Law 346/88 for research activity carried out in preceding years in relation to the STREAM Project. The first instalment to repay this financing was made on 31 December 2006. The final semi-annual instalment is due in July 2012. The interest is computed at the nominal annual rate of 6.30%, reduced by interest subsidies, with the effective rate thus equal to 1.8% per annum.
- EUR 821 thousand representing the Company's portion of subsidized financing on the SITI (Sicurezza in Tunnel Intelligente) Project presented by the TRAIN Consortium and in which the Company is participating. The initial repayment is due in June 2008. The final semi-annual instalment comes due in June 2013. The semi-annual interest rate is 0.25%.

Other changes refer to exchange-rate differences generated upon the conversion of the foreign subsidiaries' accounts.

Finance lease payables

The payables regard the property, plant and equipment held by the Group under finance lease contracts. The amount at 30 June 2007 was EUR 47 thousand compared with EUR 49 thousand at 31 December 2006 and refers to the lease of an auto vehicle by the Signalling Division's Australian subsidiary, Ansaldo STS Australia.

Due to other lenders

The financial payables amounted to EUR 3,683 thousand, and decreased by EUR 394 thousand compared with 31 December 2006 (EUR 4,077 thousand) as a result of the reimbursement during the period made by the Italian subsidiary, Ansaldo Segnalamento Ferroviario, with respect to subsidized financing made available San Paolo Imi for the Scaut and Time Qual projects and the credit provided by Mediocredito Centrale for the First PIA (Programma Integrato di Agevolazioni) call - Marte.

2.4.12 Provisions for risks and charges and contingent current liabilities

	Restructuring	Penalties	Product Warranties	Labour Disputes	Provision for Taxes	Other	Total
Balance at 31 December 2006	-	75	19,490	505	1,240	1,000	22,310
Reclassifications	-	-	1,000	-	-	(1,000)	-
Allocations	-	-	3,126	50	80	-	3,256
Uses	-	-	(2,636)	(101)	-	-	(2,737)
Other changes	-	-	(570)	(14)	-	-	(584)
Balance at 30 June 2007	-	75	20,410	440	1,320	-	22,245

The risk provisions went from EUR 22,310 thousand at 31 December 2006 to EUR 22,245 thousand at 30 June 2007, with a decrease of EUR 65 thousand.

- EUR 13 thousand of the decrease regards the Transport Systems Division, for the effect of the use of provisions for settlements of labour disputes;
- EUR 52 thousand of the decrease regards the Signalling Division, due to accruals for the period of EUR 3,256 thousand, transfers to the profit and loss account of EUR 2,650 thousand and exchange-rate differences and uses of EUR 658 thousand.

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.

As to litigation, the following is noted:

- Ansaldo STS S.p.A. is not directly involved in any litigation;

- none of the subsidiaries of the Transport Systems Division or Signalling Division is involved in litigation that is so significant or risky as to require specific further disclosure other than that provided in these 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) S.p.A.

Ansaldo Trasporti Sistemi Ferroviari is part of the IRICAV DUE Consortium (with a 15% interest); the consortium is the general contractor for the work of building the Verona-Padua high-speed railway section.

On 25 January 2007 the Council of Ministers of the Italian Government approved a law decree that establishes, among its provisions, the revocation of the concessions released to T.A.V. by the Ente Ferrovie dello Stato for the Milan-Verona, Verona-Padua and Milan-Genoa lines. The effects of the revocation extended to all agreements and contracts made with General Contractors on 15 October 1991 and 16 March 1992.

Said 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.

On 26 January 2007 the consortium initiated arbitration proceedings to assess TAV's failure to perform its obligations under the Agreement of 15 October 1991. Specifically, the consortium complains about the failure to perform acts of co-operation, including the development of the preliminary design and the raising of financial resources. The Arbitration Panel, composed of three members, was formed in Rome on 16 May 2007.

The Panel was given a term of 16 months to give its award, unless this term is extended. The Panel gave the Parties deadline of 15 July 2007 and 15 October 2007 for the filing of briefs and the production of documents, and set the hearing on 14 November 2007 in order to attempt settlement and discuss the matter. Following the revocation of the concession, on 6 April 2007 the Consortium served notice on the Ministry of Transportation, RFI S.p.A., T.A.V. S.p.A. and the Prime Minister's Office of an appeal filed to the Lazio Regional Administrative Court (TAR) in order to obtain: a) principally, that the orders of the Ministry of Transportation and RFI S.p.A. be cancelled – after suspension; b) secondly, that the orders challenged and/or the revocations ordered and/or made under Article 13, paragraph 8 *quinquiesdecies* and ff.

of the order and all the relevant subsequent deeds be cancelled – after demanding a preliminary ruling from the Court of Justice of the European Communities; c) thirdly and subject to submission to the Constitutional Court, that the orders adopted be declared as constitutionally illegitimate; and d) at all events, that the Italian Government, the Ministry of Transportation and RFI S.p.A. be sentenced to pay damages.

The Lazio TAR suspended the effectiveness of the orders with which RFI S.p.A. revoked the concession to TAV S.p.A. and with which TAV S.p.A. 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 of the revocation of the concessions with European regulations. TAV S.p.A. could appeal 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.

Moreover, in April 2007 TAV S.p.A. formally presented to the Consortium a claim for the repayment of the advance and the related interest accrued to the date of payment (EUR 7,165,840) and for the delivery of all project documents presented during the concession period.

The effect of the repayment of the advances, if any, would have effects on cash flow only and not on earnings, since they have been recorded as payables to the customer.

2.4.13 Severance pay and other liabilities towards staff

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

	<i>30/06/2007</i>	<i>31/12/2006</i>	<i>30/06/2006</i>
Severance obligations	22,617	21,639	20,809
Defined-benefit pension plans	9,687	8,973	9,007
Other provisions for personnel	-	-	-
Total	32,304	30,612	29,816

2.4.14 Other current and non-current liabilities

	<i>30/06/2007</i>		<i>31/12/2006</i>		<i>30/06/2006</i>	
	Non-Current	Current	Non-Current	Current	Non-Current	Current
Due to staff	8,294	29,003	6,910	25,301	6,193	23,895
Deferred income	-	133	-	-	-	-
Due to social security institutions	-	12,469	-	11,555	-	10,240
Derivatives	-	4,172	-	1,540	-	3,052
Other payables	829	28,667	-	26,089	-	27,364
Total	9,123	74,444	6,910	64,485	6,193	64,551

Other current and non-current liabilities amounted to EUR 83,567 thousand and increased by EUR 12,172 thousand compared with 31 December 2006.

The change mainly refers to the Signalling Division for the effect of the following events:

- An increase of EUR 2,632 thousand in the fair-value valuation as of 30 June 2007 of cash-flow hedging derivatives used by the foreign subsidiaries and mainly related to the forward contracts for Thessaloniki, Milan and Brescia contracts.
- An increase of EUR 6,000 thousand in amounts due to staff and social security institutions (EUR 1,392 thousand of which is related to the Transport Systems Division) as a result of an increase in staffing, as indicated in the comments on staff costs;

- An increase of EUR 3,540 thousand in other payables and deferred income (EUR 3,286 thousand related to the Signalling Division) as a result of increases in the payables at the foreign subsidiaries.

2.4.15 Trade payables

	<i>30/06/2007</i>	<i>31/12/2006</i>	<i>30/06/2006</i>
Due to suppliers	191,173	143,536	158,716
Total	191,173	143,536	158,716

The trade payables to suppliers increased by EUR 47,637,000: the increase is correlated to the increase in the Group's revenues.

2.5 Market conditions and business climate

The profit-and-loss aggregates at 31 December 2006 are pro-forma figures.

2.5.1 Signalling Division

During the first half of 2007, the Signalling Division's production volumes remained essentially in line with those reported for the same period of the preceding year.

The value of the new orders (EUR 377.3 million) was in line with that for the same period of the past year (EUR 399.2 million).

Ansaldo Segnalamento Ferroviario S.p.A. witnessed a continuation of the slowdown in investments by RFI and Trenitalia that began in the preceding year (from EUR 113 million in the first half of 2006 to around EUR 100 million in the first half of 2007). The company was able to make up for the reduction in the volume of new orders coming from the national market by intensifying its business development abroad. Such development is focused on diversification of the company's activity and a specific emphasis on the markets for which the company has responsibility within the framework of the Ansaldo STS Group.

The comparison of the orders from the foreign market for the Italian subsidiary during the first half of 2006 and the first half of 2007 is positive, inasmuch as they went from EUR 5.7 million to EUR 21.0 million.

At present, the most significant initiatives abroad include:

- The procurement of initial contracts in:
 - Romania (with a value of roughly EUR 4.2 million) for ERTMS wayside equipment
 - Greece (with a value of roughly EUR 12.5 million) for on-board equipment for the locomotives to be used in the country on the lines equipped with ERTMS Level-1 technology.

- Introduction in the following markets:

- Germany, with the presentation of the bid for the Saarbrücken-Mannheim high-speed line, the outcome of which is to be known by the end of this year;
- Russia, where, in the first half of 2007, a work group set up with the Russian Railways completed the initial part of an analysis for the specification of a common solution (based on ERTMS and Russian systems) for applications on all types of lines in Russia; such activity falls within the framework of the protocols of intent signed by Finmeccanica and the Russian Railways (RZD), and is intended to result in a stable presence in the Russian signalling market, including through the possible creation of industrial joint ventures;
- Poland, with the negotiations in process for a pilot interlocking project.

The commercial activity of our French subsidiary, Ansaldo STS France, experienced a slight drop compared with the first half of 2006. Significant orders for the period include the Rotem supply contract in relation to bi-standard equipment for Korea, the change in the order for the Daegu-Busan tract of the Korean high-speed railway, together with a sizeable volume of components.

Our U.S. subsidiary, Union Switch & Signal, procured orders worth EUR 80 million, including those covering the extension of the Binai contract, the Shanghai Line 2 CAB and Shenyang Line 1 in China. Commercial activities in the U.S. market generated good component sales and the Chambers Street order for New York

The orders acquired by our Australian subsidiary, Ansaldo STS Australia, the lead company in the Asia/Pacific area, were once again particularly important.

Our leadership position in the Indian market was confirmed in 2006 by the acquisition of a substantial order in the signalling and telecommunications area for the Ghaziabad-Kanpur line, as well as by the first contracts for the construction of an ATP system based on European technological standards. The Australian market was highly dynamic in the first quarter of 2007 and our subsidiary, Ansaldo STS Australia, acquired a significant volume of orders, including signalling and telecommunications systems for use in a mining operation and extensions to the ARTC contract.

Commercial activity in other markets where our subsidiaries operate directly, such as the United Kingdom, Malaysia and the Northern European countries, reflected the sluggish trends in these areas, although the foundations were laid for future opportunities.

We believe the global signalling products and systems market will continue the upward trend, which is nevertheless dependent on the dynamics of the various national markets, themselves subject to their own cycles.

The Chinese and Indian markets, which are fairly different from each other, present excellent growth prospects both in the rail and metro sectors, which are of great interest to our Group.

There should also be new opportunities in the Indonesian, Malaysian and Australian markets in the short-medium term.

At a European level it should be noted that the long period of large-scale investments by Italian National Railways (Ferrovie dello Stato) is inevitably slowing down, both due to saturation (for example on the ATP system known as the SCMT) and due to reduced investment capacity.

Other European rail markets such as Spain and the United Kingdom, and to a lesser extent Germany, France and the Northern European countries, will provide significant opportunities for our Group, which already operates in all these markets and has a portfolio of solutions suited to the most complex applications, such as those for high-speed railway lines. Growth in the urban railway segment is expected in high-tech applications such as driverless metro systems, both for architectures based on track circuits and on radio solutions (CBTC).

Market areas that until recently had not been of interest to our Group, such as North Africa, the Middle East and South America, are now showing an inclination toward investment in both rail and metro transport systems.

2.5.2 Transport Systems Division

Orders acquired in the first half of 2007 came to EUR 175 million, compared with EUR 425 million at 30 June 2006 (which mainly related to the three-year extension of the Copenhagen operation and maintenance contract, as well as the procurement of orders for the Milan metro Line 5 and the Thessaloniki metro). The most important procurement for the period regarded the Rome Line C project. In June, the shareholders' meeting of Metro C, having reached an agreement on the subdivision of the work, approved the transformation of the company from a joint-stock company (S.p.A.) to a consortium denominated by shares (S.c.p.a.). The by-laws envisage that costs and revenues will be passed on to the shareholders and, therefore, that the Company will book to the backlog only the portion of work financed to date. Specifically, in June the Inter-ministerial Economic Planning Committee (CIPE) approved a technical and financial change in the work which raises the overall amount to be paid and the related financed portion. We are waiting for the bureaucratic process to be completed with publication in the *Gazzetta Ufficiale* to recognise the further share. In addition, negotiations on formalizing direct work orders from the consortium to ATSF are nearing completion.

Other orders are as follows: EUR 6.9 million for Business Alifana Inferiore for the fitting out of 15 MA100 electric trains owned by Metrocampania Nordest with ATPc and ATPd signalling system, EUR 10.5 million for adjustments to the Milan-Bologna high-speed railway line obtained through the Saturno Consortium, EUR 2.6 million for recognition of changes relating to the Vesuviane business on the Ponticelli-Cercola section, and, finally, EUR 4.9 million in changes to the Copenhagen project related to Phase 3 Operation & Maintenance.

We believe the global transport systems market will continue the upward trend, which is nevertheless dependent on the dynamics of the various national markets, themselves subject to their own cycles.

In May, the heads of Finmeccanica, the Russian Railways (RZD) and the Russian National Science Institute (VNIIS) signed an agreement for a new railway signalling system built by Ansaldo STS to be used on existing Russian railway lines and stations. This innovative system, which has already been installed on Italy's high-speed network, can be adapted to the entire Russian railway network and may be used for any type of traffic. Trains will remain in constant communication with the command centres using radio systems manufactured by other Finmeccanica companies with localisation made possible using satellite technologies.

This aforementioned agreement is the latest in a series of agreements signed since 2005 in the transportation sector between Finmeccanica and the Russian Federation. In the agreement of last March signed in Bari during the Italian-Russian summit, the heads of the two companies signed an industrial collaboration agreement providing for the involvement of other Finmeccanica companies in the installation of security and electricity supply systems. Specifically, as to the Company, it provides that the first portion of the equipment for an electrical substation will be purchased in early August.

The natural by-product of these agreements is the development of significant synergies between the Finmeccanica group companies and the Russian Railways.

Indeed, such synergies led to one of the most important events in the first half of 2007, the qualification of the Mecca Medina Rail Link Consortium (composed of Saudi Oger Ltd, El Seif Engineering Contracting Co Ltd, Ansaldo Trasporti Sistemi Ferroviari S.p.A., AnsaldoBreda S.p.A., Selex Sistemi Integrati S.p.A., Ferrovie dello Stato S.p.A., and JSC "Russian Railways") to participate in the tender held by the Saudi Railway Organization.

The DBOT project involves the design, building, installation and management for the concession period of a high-speed railway link between the holy cities of Mecca and Medina, consisting of approximately 450 km of electrified line. The project is estimated to be worth USD 5-6 billion (excluding operating costs). The winning consortium is required to have a sound financial structure backed by an international bank, as well as superior technological leadership. In the event of a positive outcome, work is expected to begin at the end of 2008.

Other important events for the Company include the admission of the "Impregilo S.p.A.-AEGEK-SELI S.p.A.-Ansaldo Trasporti Sistemi Ferroviari" joint venture to participate

in the RFP 149/06 tender for the construction of the "extension of line 3 of the HAIDARI-PIRAEUS section of the Athens metro". The tender should begin in October.

With regard to the tender for the Rome Line D project, the customer has designated the team consisting of the Condotte and Pizzarotti companies as the Promoter, which will enjoy pre-emptive rights during the tender, namely the right to match any better offers made by other competitors.

Within the framework of the concession for the Naples Metro Line 6 project, progress had been made in negotiations with the City of Naples to define a sixth supplementary contract to the Concession regarding the completion of the line from Mostra to Municipio, including the section through San Pasquale, which is already covered by a previous fifth supplementary contract. The City of Naples has approved the draft contract and is awaiting final authorization on financing from the Inter-ministerial Economic Planning Committee (CIPE) for the final signing. The contract amount is about EUR 588 million (VAT included). Excluding the uncompleted portion of the previous supplementary contract, the additional order is worth around EUR 425 million.

2.6 Business information

For the entire ASTS Group, **orders acquired** in the first half of 2007 totalled EUR 546,744 thousand, compared with EUR 821,932 thousand for the same period last year, representing a decline of EUR 275,188 thousand or 33.5%.

Orders acquired by the Signalling Division totalled EUR 371,621 thousand, while the Transport Systems Division acquired orders worth EUR 175,123 thousand.

The main orders acquired by the Signalling Division in the first half of 2007 were the following:

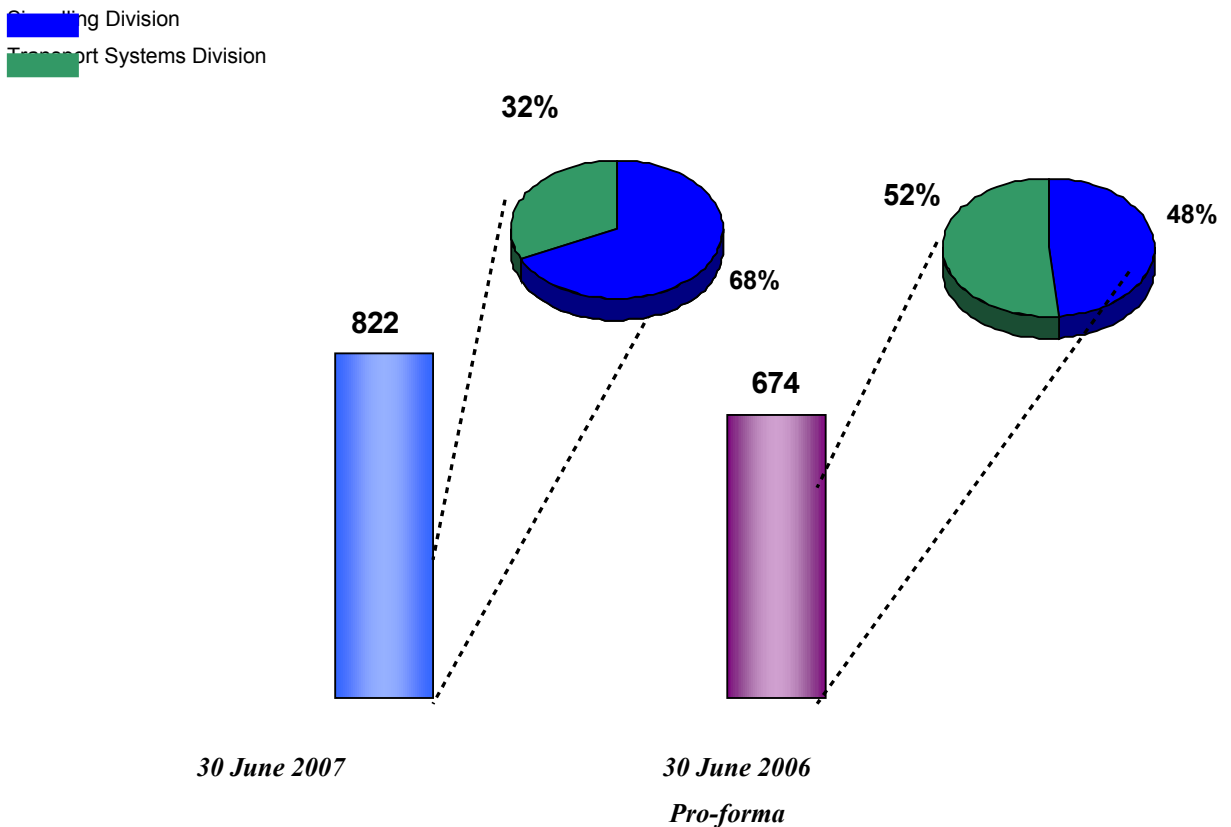
Country	Project	Customer	Value (€ mn)
Italy	Wayside SCMT	RFI	45.6
United States	Components service & maintenance	Various	15.9
Australia	Hope Downs Signalling & Comm	Rio Tinto	15.4
France	Components service & maintenance	Various	13.4
Australia	ARTC Projects	ARTC	13.0
Greece	ETCS lev 1 Wayside	ERGA-SE	12.5
USA	Chambers Street	NYCT	11.8
Italy	Components service & maintenance	Various	11.4
Australia	DP & ATO Phase 2	Rio Tinto	10.6
Australia	Fortescue Metal Group Project	FMG	9.9
China	Shenyang Line 1	Chinese Railways	9.1
Korea	HSL Daegu Busan	KRNA	8.8
Korea	On-Board Equipment	Rotem	7.7
Australia	TIDC Cleareways 3 Kingrove	TIDC	7.3
China	Binhai West Extension	Beijing Hua	6.8
Australia	Dalrympol Bay 3rd Ballon Loop	QR	6.2
Korea	Loco 8200	Rotem	5.9
China	Shangai Line 2 CAB	Chinese Railways	5.0
Australia	Rio Tinto project	Rio Tinto	4.3
Italy	On-Board SCMT - Venice	RFI	4.2
Romania	Bucharest - Brazov Line	CFR	4.2
Netherlands	HSA V2,3,0.	Ansaldo Breda	3.8
Sweden	STM-N Sweden/Norway	BV	3.5
Spain	Alstom On-Board Equipment	Alstom	3.1
Spain	Perpignan-Figueras	IFP	2.9
France	SCMT for TGV	SNCF	2.8
Italy	On-Board SCMT	Trenitalia	2.5

China	ATP	MOR	1.9
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The main orders acquired by the Transport Division in the first half of 2007 were the following:

Country	Project	Customer	Value (€ mn)
Italy	Rome Line C	Rome Metro	150.2
Italy	High-Speed Railway	TAV	10.5
Italy	Alifana	Metrocampania Nord Est	6.9
Denmark	Copenhagen	Orestad	4.9
Italy	Vesuviane	Circ. Vesuviana	2.6

Orders by division for the first half of 2007-2006 (EUR million)



Orders by geographic area:

	<i>First Half of 2007</i>			<i>First Half of 2006 pro-forma</i>		
	<i>Signalling Division</i>	<i>Transport Systems Division</i>	<i>Total</i>	<i>Signalling Division</i>	<i>Transport Systems Division</i>	<i>Total</i>
Italy	95,506	170,212	265,718	111,608	130,263	241,871
Rest of Western Europe	73,244	4,911	78,155	84,691	295,001	379,692
North America	55,718	-	55,718	73,543	-	73,543
Asia/Pacific	141,958	-	141,958	110,211	-	110,211
Other	5,195	-	5,195	16,615	-	16,615
Total	371,621	175,123	546,744	396,668	425,264	821,932

The **order backlog** at 30 June 2007 stood at EUR 2,487,738 thousand, an increase of EUR 42,202 thousand (1.72%) compared with EUR 2,445,536 thousand at 30 June 2006.

The Signalling Division's order backlog at 30 June 2007 totalled EUR 1,313,579 thousand (including transactions with the Transport Systems Division).

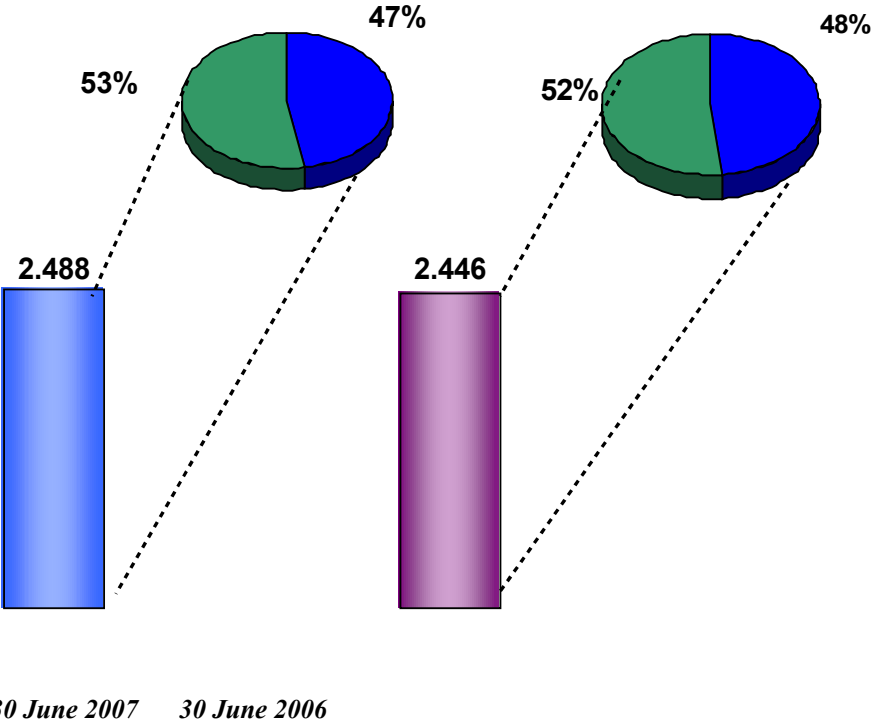
The figure includes: EUR 631,874 thousand for the Italian subsidiary, ASF; EUR 293,262 thousand for the U.S. subsidiary, US&S; EUR 221,185 thousand for the French subsidiary, Ansaldo STS France; and EUR 175,975 thousand for the subsidiaries in the Asia/Pacific region.

The Transport Systems Division order backlog at 30 June 2007 came to EUR 1,311,005 thousand, chiefly relating to the following projects:

- the high-speed trains (EUR 121,923 thousand)
- the Copenhagen metro (EUR 158,632 thousand)
- Concessions relating to the construction of the Naples, Rome and Genoa metros (EUR 388,057 thousand)
- Brescia and Milan driverless metro (EUR 322,507 thousand)
- Thessaloniki (EUR 162,564 thousand)
- Alifana (EUR 120,612 thousand)
- Other (EUR 36,708 thousand)

Order backlog by division at 30 June 2007-2006 (EUR million)

Engineering Division
Transport Systems Division



2.7 Financial situation

	<u>30/06/2007</u>	<u>31/12/2006</u>	<u>30/06/2006</u>
Short-term financial debt	6,071	13,984	4,167
Medium-/long-term financial debt	8,025	8,475	10,218
Cash and cash equivalents	<u>(42,313)</u>	<u>(48,580)</u>	<u>(61,847)</u>
BANK DEBT	<u>(28,217)</u>	<u>(26,121)</u>	<u>(47,462)</u>
Financial receivables from Group companies	(156,673)	(132,128)	(134,397)
Other financial receivables	<u>-</u>	<u>-</u>	<u>-</u>
FINANCIAL RECEIVABLES	<u>(156,673)</u>	<u>(132,128)</u>	<u>(134,397)</u>
Other short-term financial payables	133	-	164
Other medium-/long-term financial payables	<u>43</u>	<u>-</u>	<u>54</u>
OTHER FINANCIAL PAYABLES	<u>176</u>	<u>-</u>	<u>218</u>
NET FINANCIAL DEBT(LIQUIDITY)	<u>(184,714)</u>	<u>(158,249)</u>	<u>(181,641)</u>

At 30 June 2007, the Ansaldo STS Group had net financial liquidity of EUR 184,714 thousand.

The net financial position was affected by the following main transactions:

- EUR 130,582 thousand of collections by the Italian subsidiary, Ansaldo Segnalamento Ferroviario, from the Italian National Railways (Ferrovie dello Stato);
- EUR 35,300 thousand of customer receivable collections by the Australian subsidiary, Ansaldo STS Australia (f/k/a Union & Switch PTY), most of which concern the Rawang Ipoh, ARTC, and Rio Tinto contracts, and EUR 12,900 thousand of collections by the French subsidiary, Ansaldo STS France, in relation to the CTRL Section II and China's On-Board ATP contracts
- EUR 2,380 thousand of payments for the acquisition of the RM Star business unit by the U.S. subsidiary, US&S;
- EUR 10,073 thousand of value-added tax payments;
- EUR 29,339 thousand of tax payments;
- EUR 4,489 thousand of payments for investments in tangible and intangible assets;

- EUR 3,344 thousand of financial income received.

Cash and cash equivalents amounted to EUR 42,313 thousand at 30 June 2007.

The cash flow for the six months ending 30 June 2007 is shown in the table below:

<i>(EUR 000)</i>	<u>30/06/2007</u>	<u>31/12/2006</u> <i>Pro-forma</i>	<u>30/06/2006</u> <i>Pro-forma</i>
Opening balance of cash and cash equivalents	<u>48,580</u>	<u>35,973</u>	<u>35,973</u>
Gross cash flow from operations	42,792	100,209	54,690
Change in working capital	16,316	93,773	124,080
Changes in other operating assets and liabilities	<u>(22,298)</u>	<u>(53,098)</u>	<u>(31,516)</u>
Cash flow generated (used) by operations	<u>36,810</u>	<u>140,884</u>	<u>147,254</u>
Cash flow from (for) ordinary investment activity	(8,340)	(21,627)	(13,444)
Free operating cash flow	<u>28,470</u>	<u>119,257</u>	<u>133,810</u>
Strategic investments	<u>(2,380)</u>	<u>(60,371)</u>	<u>(54,805)</u>
Cash flow generated (used) by investment activity	<u>(10,720)</u>	<u>(81,998)</u>	<u>(68,249)</u>
Dividend paid	-	(32,000)	(32,000)
Capital increases	-	60,169	60,169
Cash flow from (for) financing activity	<u>(32,624)</u>	<u>(74,609)</u>	<u>(80,790)</u>
Cash flow generated (used) by financing activity	<u>(32,624)</u>	<u>(46,440)</u>	<u>(52,621)</u>
Foreign-exchange translation difference	267	161	(510)
Closing balance of cash and cash equivalents	<u>42,313</u>	<u>48,580</u>	<u>61,847</u>

The first half of 2007 ended with a net decrease in cash and cash equivalents of EUR 6,267 thousand, attributable to the following factors:

- Positive cash flow from operations of EUR 36,810 thousand, due to the collection of receivables from the Italian National Railways (Ferrovie dello Stato), Rawang Ipoh, ARTC, Rio Tinto, CTRL Section 2 and the China On-Board ATP;
- Cash flow used by ordinary investment activity in the amount of EUR 10,720 thousand in relation to investments made during the period in property, plant and equipment/intangible assets in the amount of EUR 8,340 thousand, and strategic

investments in the amount of EUR 2,380 thousand made by the U.S. subsidiary of the Signalling Division for the incorporation of the RM Star business unit.

- Cash flow used by financing activity in the amount of EUR 32,624 thousand, mainly in relation to changes in credit lines maintained with the parent company, Finmeccanica S.p.A.

The following table sets out the cash flow from operations:

	<i>30/06/2007</i>	<i>31/12/2006</i>	<i>30/06/2006</i>
	<u> </u>	<u><i>Pro-forma</i></u>	<u><i>Pro-forma</i></u>
Net profit	28,359	45,771	15,944
Effect of valuing equity investments with the net equity method	-	(71)	16
Income tax	18,415	41,994	20,922
Costs of severance pay provision and other benefits	4,712	7,184	1,831
Capital gains (capital losses) on disposal of buildings	(5)		
Net financial income	(1,934)	(3,217)	(1,316)
Amortisation, depreciation and impairment	4,695	10,996	4,957
Allocations to provisions for risks	1,976	1,318	3,519
Allocations for writedowns of inventories and work in progress	(13,426)	(3,766)	8,817
Gross cash flow from operations	<u><u>42,792</u></u>	<u><u>100,209</u></u>	<u><u>54,690</u></u>

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

	<i>30/06/2007</i>	<i>31/12/2006</i>	<i>30/06/2006</i>
	<u> </u>	<u><i>Pro-forma</i></u>	<u><i>Pro-forma</i></u>
Inventories	(8,822)	(7,696)	681
Work in progress and advances from customers	(56,132)	148,546	27,904
Trade receivables and payables	81,270	(47,077)	95,495
	<u><u>16,316</u></u>	<u><u>93,773</u></u>	<u><u>124,080</u></u>

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

30/06/2007 31/12/2006 30/06/2006

		<i>Pro-forma</i>	<i>Pro-forma</i>
Payment of the provision for severance pay and other defined-benefit plans	(1,666)	(2,362)	(970)
Taxes paid	(29,339)	(55,093)	(33,678)
Change in other operating items	8,707	4,357	3,132
	(22,298)	(53,098)	(31,516)

2.8 Research and development

On the research and development front in the first half of 2007, the Group completed important development activity with respect to key products for signalling and automation systems for both the railway and urban transport businesses. The Group has also achieved stronger and more decisive coordination of the different companies involved in research and development, and increasingly greater integration of their products within systems and solutions that are growing more and more sophisticated and complex.

Such achievements have also been possible through the definition and the implementation of processes and procedures that govern the identification and planning of new developments, and that leverage basic technologies and the technological skills within the Group companies and the synergies in relation thereto.

Another key element of achieving a more coordinated research and development effort is the decision to round out the coordination teams with the addition of product managers. The managers, who are filling new positions within the Group, are responsible for overseeing a portfolio of the Group's products, and in particular, identifying road maps covering the complete cycle of the products for which the managers are responsible.

A special emphasis has also been placed on continuing the activities initiated in past years for the purpose of achieving better coordination and cooperation of the various safety assurance and certification departments within the various companies of the Group, with respect to new products or the application of new products in new markets. This makes it possible to realize better planning and management of the testing and validation of the products developed and of product certification, whether with regard to

individual components, parts of complex sub-systems that are being developed and produced by several companies of the Group, or complete systems.

Ansaldo STS has become increasingly aware of the vital importance of the skills and knowledge within the Group.

With a view toward increasing the value, use, growth, and protection of such skills and knowledge, the Group has planned and implemented knowledge management programmes and systems increasingly with greater efficiency and effectiveness, thereby leveraging such skills and knowledge for further growth of the Group.

Finally, 2007 is also turning out to be a year in which new basic technologies have been identified. Proof-of-concepts followed by prototypes have been effected so as to launch the development of security platforms to be shared by the Group; such platforms not only have technical performance and features that are better than the platforms in use, but they also have prospects for longer lives and obsolescence.

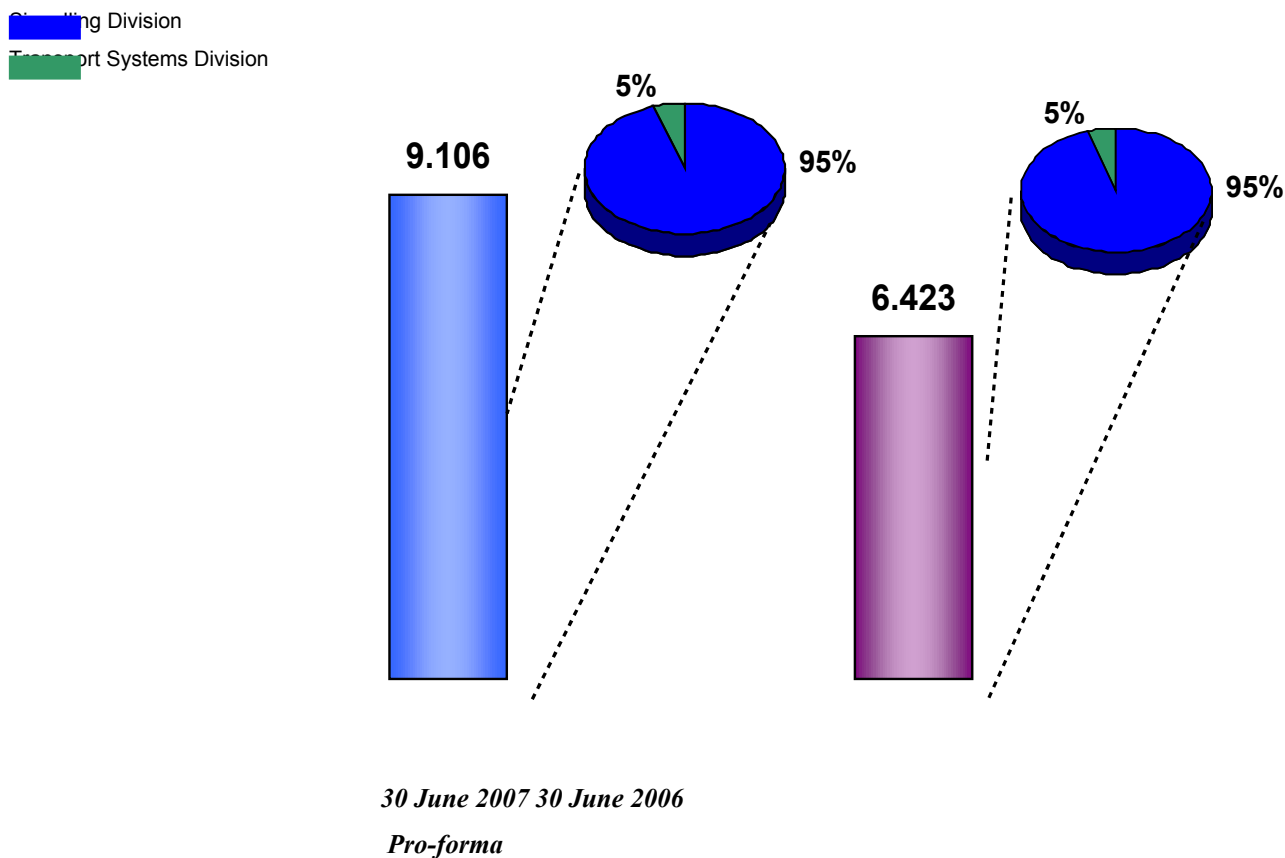
At 30 June 2007, the **expenses for research and development** came to EUR 23,995,000 compared with EUR 19,987,000 at 30 June 2006, with an increase of 20%.

The activities developed by the Signalling Division had a total value of EUR 22,399,000, or 93% of the total, and mainly refer to the following companies:

- Ansaldo Segnalamento Ferroviario S.p.A. (ASF): EUR 5,833,000
- Ansaldo STS France: EUR 9,767,000
- Union Switch & Signal Inc. (US&S): EUR 3,682,000

The activities developed by the Transport Systems Division had a total value of EUR 1,159,000, and thus increased by EUR 285,000 with respect to the amount reported at 30 June 2006.

Research and development by division at 30 June 2007-2006 (EUR 000)



2.9 Personnel and organization

2.9.1 Ansaldo STS Corporate

As part of the definition of the top tier of Ansaldo STS's corporate office, on 14 June 2007 the board of directors appointed Sergio De Luca as the chief executive officer to take the place of Giovanni Roberto Gagliardi who resigned for personal reasons.

The Company's officers thus 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);
- CEO: Sergio De Luca (board of directors of 14 June 2007).

On 29 January 2007 and 22 March 2007, the Ansaldo STS board of directors passed resolutions approving certain changes to the top level of the Company's organizational structure.

The resolution passed by the board on 29 January 2007 requires the risk management and project control areas, both headed by Antonio Manzi, senior vice president, to report respectively to the chief executive officer and the chairman of the board of directors.

As a result of the resolution passed by the board on 22 March 2007, the Human Resources & Business Improvement Unit has changed its name to the Human Resources & Process Improvement, and will be headed by Carlo Cremona, senior vice president, and his deputy, Francesco Romano, vice president. In addition, the Industrial Competitiveness Department has been set up for the purpose of improving the efficiency and productivity of the industrial system and will report to the chief executive officer. The department is being headed up by Giuseppe Spezzi, vice president, who is to ensure coordination of the related activities between the Italian company and other Ansaldo STS companies; Spezzi will also continue to be responsible for the Realization and Logistics Department.

Accordingly, the top level of the Company will be organized as follows:

- The following departments will report to the Company's chairman:
 - Internal Audit, headed by Christian Andi, vice president;
 - Risk Management (for project control activity), headed by Antonio Manzi, senior vice president.
- The following departments and business units will report to the Company's chief executive:
 - General Secretary Department, headed by Mario Orlando, general secretary
 - Administration, Finance and Control Unit, headed by Jean Paul Giani, CFO;
 - Human Resources & Process Improvement Unit, headed by Carlo Cremona, senior vice president, who will be assisted by Francesco Romano, vice president;
 - Business Development Unit, headed by Emmanuel Viollet, senior vice president.

The General Secretary and the business units are charged with planning and controlling all of the Group's activity. The corresponding business units of the individual subsidiary companies thus indirectly report to the business units of Ansaldo STS and report directly to the chief executive of their respective companies.

- The following departments also report to the chief executive officer:
 - Investor Relations, headed up by Andrea Razeto, investor relations manager;
 - Risk Management (for risk management activity), headed up by Antonio Manzi, senior vice president;
 - Industrial Competitiveness, headed up by Giuseppe Spezzi, vice president.
- The subsidiary companies in Italy, France, U.S. and Australia which have been organized as regional companies in accordance with the strategic needs for the Group's international development are also assigned to report directly to the chief executive officer; such companies:
 - have full responsibility for their profit and loss account and integrated responsibility/governance over the signalling and systems areas;
 - have responsibility for coordinating the "chain of activity" of the national/local companies below them;
 - operate through two dedicated business division (Signalling and Transport Systems).

At the meeting held on 14 June 2007, the board of directors also approved a plan to change the corporate names and trademarks of the subsidiary companies. As a result, the companies have adopted a name consisting of the words "Ansaldo STS", supplemented by the name of the geographic region of reference (e.g. "Ansaldo STS France", "Ansaldo STS Australia" and so forth).

The development plan goes through the completion of the organization by macro geographic areas and the integration of the two activities of signalling and transport systems, thereby making it possible to improve penetration in markets with substantial demand. In this regard, on 22 March 2007, the board of directors approved the

incorporation of a new company, Ansaldo STS Deutschland GmbH, which will have the ambitious task of inaugurating operations of Ansaldo STS in the German market for signalling and transport systems. In addition, on 22 May 2007, Ansaldo STS acquired RM Star Inc., a business unit operating in control systems for train switching stations in the United States; the acquisition was perfected through the American subsidiary, Union Switch & Signal. The transaction falls within the framework of an acquisition strategy aimed at selectively expanding the Company's product catalogue with complementary technologies that can favour greater market penetration.

Organizational changes include the creation of an Intellectual Property Rights (IPR) Management Committee, and the appointment of Daniele Bozzolo, as the IPR manager for the Ansaldo STS Group. The IPR manager is responsible for decisions regarding the protection and management of intellectual property rights in the overall interest of Ansaldo STS and the Ansaldo STS Group.

The creation of the committee and the IPR manager position are part of the plan to implement a system of Group directives and internal procedures aimed at governing the organizational, administrative and accounting structure of the corporate office and of the companies of the Ansaldo STS Group. In particular:

- the directives have the purpose of defining a governance model within the Ansaldo STS Group, by specifying the policies, strategies and conduct in general for governing relationships between the corporate office and the subsidiary companies and between the subsidiary companies themselves;
- the procedures have the objective of specifying and describing the means and responsibility for the execution of certain activities and operational processes within Ansaldo STS S.p.A.

Such procedures/directives have been prepared, and their underlying principles have been identified, by taking into account the fact that Ansaldo STS and its subsidiaries are subject to the direction and coordination of Finmeccanica S.p.A., and thus, by evidencing, when necessary, the ratification of the principles previously established by Finmeccanica. All of the procedures have been adopted by taking into account the organization, management and control model provided by Legislative Decree no. 231 of 8 June 2001.

Developments on the governance front in the first half of 2007 regarded the definition of:

—the means for interacting with the press, and the media in general, for the dissemination of "Privileged Information", as defined by the directive entitled *"Procedures for the management of privileged information and for the institution of the register of persons having access to privileged information"*, concerning Ansaldo STS and the Group companies, so as to ensure compliance with prevailing laws and regulations on the subject, in order to protect investors and the Group's image (*"Press Release"* directive);

—the means for changing the names and trademarks of the subsidiary companies which are taking on the "Ansaldo STS" name, supplemented by the indication the geographic areas of reference, and the management and dissemination of company information to third parties (*"Corporate Identity and Communication Management"* directive).

In terms of procedures, some 15 documents have been issued in 2007 in relation to information technology; the documents cover the operational implementation of the provisions contained in the related directives, so as to standardize the development, implementation and monitoring of IT processes within each company of the Ansaldo STS Group.

2.9.2 The integration between Signalling and Systems

The merger by incorporation of Ansaldo Segnalamento Ferroviario into Ansaldo Trasporti Sistemi Ferroviari authorized by the board resolution of 19 December 2006 was approved in early 2007.

All of the activities preliminary to the merger got under way thereafter, including the setting up of inter-company work groups needed for formalizing the new corporate structure. The union accord required by prevailing law was signed in Rome on 11 April 2007, with the involvement of the national and local union organizations (FIM, FIOM and UILM) affected by the merger.

The Group's **work force** at 30 June 2007 amounted to 4,161 employees, with an increase of 353, or 9.26 %, compared with the 3,808 employees on the payroll at 30 June 2006.

The breakdown of the total staffing by business unit as of mid-2007 is shown below:

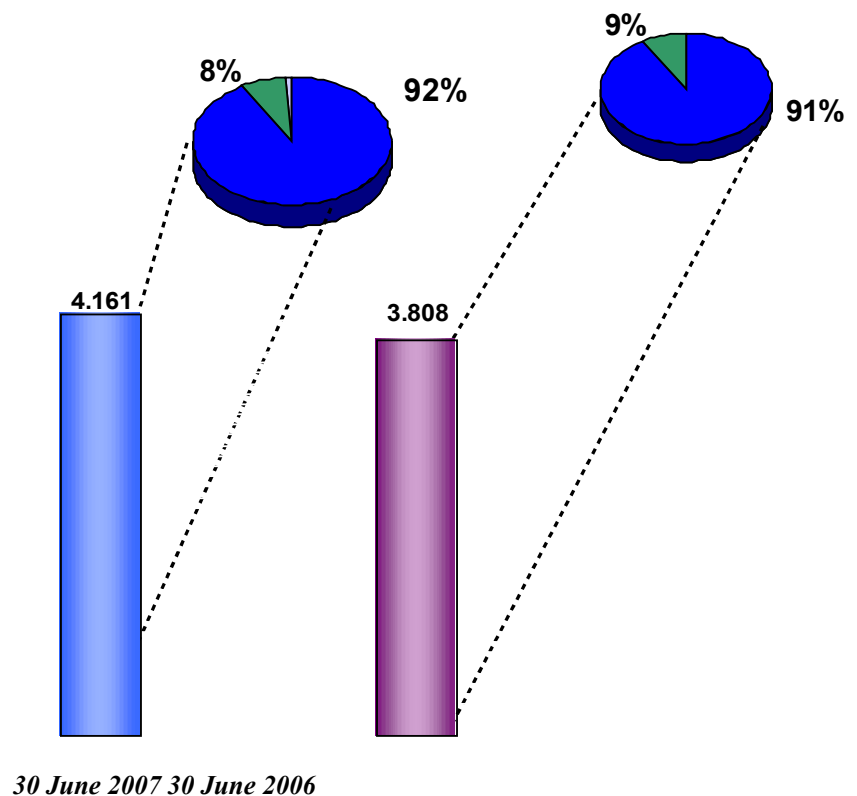
- Signalling Division: 3,797 employees
- Transport Systems Division: 316 employees
- Other activity (Corporate): 48 employees

The Corporate staff mainly represents employees transferred from the Italian subsidiaries, Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.

Work force by division at 30 June 2007-2006 (number)

■ Signalling Division

■ Transport Systems Division



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), the Security Policy Statement (DPS) was prepared in respect of personal data processing.

The DPS contains the information required to be given under Section 19 of said Technical Regulations and describes the security measures adopted by the Company in order to reduce to the minimum the risks of: destruction or loss, even by accident, of personal data; unauthorized access or unallowed processing; or processing that is non-compliant with the purposes of the collection.

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.

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

2.11.1 Stock grant plan

The Group conducted a review to verify the achievement of the objectives to which the stock grant plan had been linked for the year of 2006.

Of the three objectives set in relation to 2006, management achieved the one in relation to VAE and the one in relation to the order target.

The objective in relation to the share performance vis-à-vis Mibtel was not achieved. Accordingly, as provided by the plan rules, the persons participating in the plan will be entitled the assignment of 75% of the shares initially contemplated.

In the days ahead, the plan participants will receive notice of the results achieved and thus, of the shares granted.

The shares are to be delivered, as provided by the plan rules, by 1 December 2007.

2.11.2 2006-2008 cash incentive plan

The cash plan involves seven executives of Ansaldo STS and its subsidiaries, who are considered key in the achievement of strategic and business/financial objectives.

The three-year plan provides for the payment of a cash sum, up to an **RAL???**, linked to the achievement of previously assigned objectives.

The Group conducted a review to verify the achievement of the objectives for 2006.

Of the two objectives set, the one related to retained cash flow was achieved.

As in the case of the stock grant plan, the objective in relation to the share performance vis-à-vis Mibtel was not achieved.

The plan also provides for differing access thresholds for the various managers, all of which were surpassed. As a result, and in accordance with the plan regulations, the incentives accrued are to be paid to the recipients during the second half of 2007.

2.12 Corporate governance

The Ansaldo STS shares have been trading since 29 March 2006 on the STAR segment of the markets organized and managed by Borsa Italiana.

Before and after such date, the meeting of the shareholders and the Company's board of directors passed, in relation to the respective powers, various resolutions connected with, and consequent to, the decision to list the shares.

In this context, with a view to the then upcoming stock-market listing, the board of directors, in a meeting held on 12 December 2005, passed a resolution approving the Company's adoption of the corporate governance system set forth in the then-applicable Corporate Governance Code for Listed Companies adopted by Borsa Italiana S.p.A. in 2002.

Thereafter, in March 2006 the Corporate Governance Committee of Borsa Italiana S.p.A. prepared a new version of the Corporate Governance Code for Listed Companies, which is a further development of the preceding code.

On 19 December 2006 the Ansaldo STS S.p.A. board of directors formally stated that it would adopt the new Corporate Governance Code adopted by Borsa Italiana in March 2006, and at the same time approved a policy statement named "*Reception by ANSALDO STS of the recommendations of the new version of the corporate governance code for listed companies*", indicating the actions proposed and the related timing in order to ensure that the Company would transition to the new code in 2007.

Since the adoption of the new code, the Company has been operating in compliance with the recommendations contained therein, as it believes that these recommendations will contribute significantly to the realization of the key points of the Company's corporate governance policy.

Consistent with the provisions of the aforementioned policy document and with a view toward incorporating the most recent legislative and regulatory provisions into the Company's governance system, the shareholders decided at a meeting held on 22 May 2007:

- (i) To adjust the by-laws of the Company to (a) the new provisions of the Consolidated Financial Act, as amended by the Savings Law and Legislative Decree no. 303 of 29 December 2006 and by subsequent CONSOB regulations and (b) the provisions of the new Corporate Governance Code;

- (ii) To extend the mandate for the audit engagement conferred to PricewaterhouseCoopers S.p.A. for the 2006-2011 period pursuant to Article 159 of Legislative Decree no. 58 of 24 February 1998 (Consolidated Financial Act) and Article 8 of Legislative Decree no. 303 of 29 December 2006, to the years of 2012, 2013 and 2014;
- (iii) To approve an Ansaldo STS stock grant plan (*stock grant plan*) for the Company's key managers, approving the purchase and the granting of the shares to service the plan.

On 14 June 2007, the Company's board of directors, pursuant to Article 2365, Paragraph 2 of the Civil Code and the provisions of the by-laws, modified Article 27 of the Company's by-laws so as to ensure their conformity with the provisions of Article 148, Paragraph 2 of the Consolidated Financial Act, as implemented by the Issuer Regulations on the basis of amendments made with the CONSOB Resolution no. 15915/2007 in effect as of 16 May 2007.

Also on 14 June 2007, the Ansaldo STS S.p.A. board of directors appointed Jean Paul Giani, the Company's CFO, as the executive in charge of the preparation of the corporate accounting documents, pursuant to Article 154-bis of the Consolidated Financial Act. In accordance with the provisions of Paragraph 2 of said Article 154-bis, Giani has certified that the Ansaldo STS S.p.A. quarterly report at 30 June 2007 corresponds with the results in the accounting books and records.

The Company's main governance instruments are summarized hereunder:

- By-laws
- Ethics code
- Organization, Management and Control Model referenced in Legislative Decree no. 231/01
- Regulation of the Board of Directors
- Regulation of the Internal Auditing Committee
- Regulation of the Compensation Committee
- Guidelines and Principles for identifying significant transactions with Related Parties – Principles of conduct
- Regulation for managing Confidential Information and setting up a Register of persons who have access to that information
- Internal Dealing Code

- Meeting Regulations

For more details on corporate governance, see the "Report on Corporate Governance".

2.13 Main transactions during the period and subsequent events

On 6 July 2007, with a public act, the company, Ansaldo Trasporti - Sistemi Ferroviari S.p.A., and the company, Ansaldo Segnalamento Ferroviario S.p.A., signed an agreement covering the merger by incorporation of Ansaldo Segnalamento Ferroviario S.p.A. into Ansaldo Trasporti - Sistemi Ferroviari S.p.A., in execution of a merger plan approved by board resolutions passed on 19 April 2007.

The acquisition occurred on 29 June 2007, and became effective as of 12:01 a.m. on 1 July 2007. The price paid, EUR 76,297,621, is equal to the shareholders' equity of the transferred company, based on the book value of equity computed at 12:00 at night on 30 June 2007, in accordance with the IAS/IFRS.

The merger is occurring through the cancellation of all the shares of Ansaldo Segnalamento Ferroviario S.p.A. by Ansaldo Trasporti - Sistemi Ferroviari S.p.A., without any capital increase. The merger operation will have legal effect as of 1 November 2007, although its accounting and tax effects will be retroactive to 1 July 2007.

The integration of the railway signalling and transport systems businesses is motivated by consideration that the synergy between the two sectors could lead to growth in size and overall profitability, expansion in international markets, and entry into new business segments.

Greater integration could allow for more effectively taking advantage of the following strategic opportunities:

- with regard to railway transport systems, more direct, immediate and visible access to safety technology, the possession of which constitutes a decisive, qualifying factor for operating as a technological integrator, results in improved credibility, reputation, expertise and, therefore, business opportunities;
- with regard to signalling, greater commercial effectiveness in those market segments in which signalling technology is increasingly managed using a technological integrator, both as to the immediate availability of a strong

marketing and sales vehicle and as to greater awareness of the customer and its needs;

- for both, the more direct utilization of reciprocal synergies arising from the presence of one or the other in specific countries and/or business segments; strategic coordination of respective activities, and reduction in transaction times and costs;
- for the group, greater speed and efficacy in carrying out the original mission of the individual businesses, responding to new market requirements, for example security, that they may encounter only within the context of an integrated view of the railway system.

There are considerable business opportunities for transport systems in railway markets traditionally covered by the Signalling Division, especially with regard to the Italian National Railways (Ferrovie dello Stato), in terms of the supply and systemic integration of accessory technologies (electricity supply lines, transformer substations, tunnel safety). The regional and/or low-traffic density market, which is currently underserved by transport systems and signalling, promises interesting expansion rates for the future. Additionally, the merger will allow for concentrating the experience of the two original companies with relative benefits in terms of synergies and will make it possible to contain costs due to the greater structural efficiency of the two companies and the optimization of corporate processes.

The American subsidiary of the Signalling Division, Union Switch & Signal International, signed an industrial and commercial cooperation agreement with the Chinese company Zhejiang Zheda Company Ltd. ("Insigma"), specializing in application software and IT networks and infrastructure, for the construction of metro lines in China. The first contract awarded within the scope of this agreement is for Line 1 of the Shenyang metro.

Also during the period, US&S acquired the business unit of the company, RM Star, in consideration of the strategic importance of expanding its range of products.

Within the framework of the concession for the Naples Metro Line 6 project, progress had been made in negotiations with the City of Naples to define a sixth supplementary

contract to the Concession regarding the completion of the line from Mostra to Municipio, including the section through San Pasquale, which is already covered by a previous fifth supplementary contract. The City of Naples has approved the draft contract and is awaiting final authorization on financing from the Inter-ministerial Economic Planning Committee (CIPE) for the final signing. The contract amount is about EUR 588 million (VAT included). Excluding the uncompleted portion of the previous supplementary contract, the additional order is worth around EUR 425 million.

In July 2007 Roberto Gagliardi resigned as chief executive officer of Ansaldo STS S.p.A. for personal reasons. He was replaced by Sergio De Luca, who also holds the position of chief executive officer of ASF and of ATSF.

Also during July, Emmanuel Viollet, senior vice president of business development at Ansaldo STS, was appointed as CEO of the U.S. subsidiary US&S Inc. to take the place of Kenneth Burk, who resigned. Mario Orlando, general secretary of Ansaldo STS, was appointed as the sole managing director of the Dutch sub-holding, Ansaldo Signal N.V.

2.14 Atypical and/or unusual operations

In the first half of 2007, the Ansaldo STS Group did not take any positions or enter into transactions resulting from atypical and/or unusual operations.

3 REPORT ON OPERATIONS BY SEGMENT

3.1 Signalling

<i>EUR 000</i>	First Half of 2007	31/12/2006 Pro-forma	First Half of 2006 Pro-forma
Orders	377,301	833,066	399,242
Order backlog	1,313,579	1,319,579	1,257,280
Value of production	355,471	702,139	329,765
EBIT	39,813	73,901	32,257
R.O.S.	11.2%	10.5%	9.8%
Working capital	(86,802)	(69,987)	(108,472)
Net invested capital	(9,716)	8,558	(35,053)
Research and development	22,399	33,232	19,113
Employees (n.)	3,797	3,606	3,481

(The figures in the above table include transactions with other segments).

The Signalling Division operates at an international level, designing and building railway and urban railway signalling components and systems worldwide through four companies: the Italian company Ansaldo Segnalamento Ferroviario S.p.A. with offices in Genoa, Naples, Turin, and Tito; the American subsidiary Union Switch & Signal with branches in Pittsburgh, Pennsylvania, and Batesburg, South Carolina; Ansaldo STS France, a French company with offices in Paris and Riom; and the Ansaldo STS Australia, an Australian company based in Eagle Farm, Australia.

The Group also has smaller companies in Sweden, Finland, Ireland, the United Kingdom, Spain, India, and Malaysia. The Group has a large number of long-standing collaboration agreements with organizations in other countries, especially in China, Korea, and Brazil. On 26 March 2007, a new company was formed, Ansaldo STS Deutschland GmbH, with headquarters in Berlin, Germany.

Most of the Group's work is carried out in Italy, the USA, and France, which together account for about 80% of the division's revenue

The main projects the division is working (or has worked) on, either carrying them out in their entirety or doing part of the work, include:

- installation of computerized interlocking systems at the stations of Rome Termini, Manchester South, and the Sandbach-Wilmslow link (United Kingdom)
- building the automatic signalling systems for the driverless metros of Copenhagen and Brescia, for the New York and Los Angeles (Green Line) subways, and the metros of Shanghai (Line 2) and Tianjin/Binhai (China)
- installation of the electronic equipment for the Milan metro's Line 3 and complete signalling systems for the railways of Rawang Ipoh (Malaysia) and Hammersley Iron (Australia),
- installing signalling systems on high-speed trains on French (TGV) lines, on the Madrid-Lerida line, Spain, the Seoul-Taegu line, Korea, and the Qinhuangdao-Shenyang line in China. In Italy, the Group is working on the Milan-Bologna and Turin-Novara high-speed railway lines, supplying signalling systems via the Saturno consortium.

The Group intends to pursue a strategy of strengthening the Signalling Division's presence in the areas where it already operates and entering new markets, as well as consolidating its product portfolio and continuing to focus on business improvement.

The **orders acquired** during the six months ending 30 June 2007 were equal to EUR 377,301,000.

The Signalling Division achieved important results in its business during the first half of 2007, which are essentially reflected in the procurement of the following key orders:

Country	Project	Customer	Value (€ mn)
Italy	Wayside SCMT	RFI	45.6
United States	Components service & maintenance	Various	15.9
Australia	Hope Downs Signalling & Comm	Rio Tinto	15.4
France	Components service & maintenance	Various	13.4
Australia	ARTC Projects	ARTC	13.0
Greece	ETCS lev 1 Wayside	ERGA-SE	12.5
USA	Chambers Street	NYCT	11.8
Italy	Components service & maintenance	Various	11.4
Australia	DP & ATO Phase 2	Rio Tinto	10.6
Australia	Fortescue Metal Group Project	FMG	9.9
China	Shenyang Line 1	Chinese Railways	9.1
Korea	HSL Daegu Busan	KRNA	8.8
Korea	On-Board Equipment	Rotem	7.7
Australia	TIDC Cleareways 3 Kingrove	TIDC	7.3
China	Binhai West Extension	Beijing Hua	6.8
Australia	Dalrympol Bay 3rd Ballon Loop	QR	6.2
Korea	Loco 8200	Rotem	5.9
China	Shangai Line 2 CAB	Chinese Railways	5.0
Australia	Rio Tinto project	Rio Tinto	4.3
Italy	On-Board SCMT - Venice	RFI	4.2
Romania	Line Bucharest - Brazov	CFR	4.2
Netherlands	HSA V2,3,0.	Ansaldo Breda	3.8
Sweden	STM-N Sweden/Norway	BV	3.5
Spain	Alstom On-Board Equipment	Alstom	3.1
Spain	Perpignan-Figueras	IFP	2.9
France	SCMT for the TGV	SNCF	2.8
Italy	On-Board SCMT	Trenitalia	2.5
China	ATP	MOR	1.9

Compared with the first half of 2006, there was a decline of around 5% in the volume of new orders, due mainly to the fact that volumes failed to hold at the French subsidiary

and in the Asia/Pacific area (which had benefited in 2006 from high volumes of orders in the Australian and, especially, Indian markets). The staying power of the Italian market is very important, despite the signs of a slowdown in the second half of 2006.

In particular, Ansaldo Segnalamento Ferroviario was still benefiting during the first half of 2007 from the significant orders for the wayside SCMT, together with other small orders for on-board SCMT, and it also benefited from initial key orders, especially from a strategic point of view, in Greece and Romania, though contribution in the area of components and services is still not satisfactory. Ansaldo STS France received several contracts for the supply of on-board equipment and the change in the Korean high-speed railway order, together with a good volume of components; during the period, US&S reported the Chambers Street contract for the New York metro, the first order for CBTC technology in China on the Shenyang line, another two orders in China, respectively, for the extension of the contracts for Binai and Shanghai Line 2, combined with a small volume of orders for components; Ansaldo STS Australia received orders for nine ARTC projects and two substantial orders for Rio Tinto (Hope Downs and ATO); finally, PVT benefited from the signing of a contract for the upgrade of the signalling in 15 stations, thereby reaching the total of over 300 stations for the Indian railways.

The **order backlog** at 30 June 2007 stood at EUR 1,313,579 thousand.

Of this total, 48% related to the Italian subsidiary Ansaldo Segnalamento Ferroviario, and was made up of SCMT wayside projects, SCMT on-board projects, interlocking projects for Rogoredo, Mestre and Pisa and for work on the Novara-Milan and Milan-Bologna high-speed lines.

The **value of production** for the first half of 2007 came to EUR 355,471 thousand, an increase of EUR 25,706 thousand (+7.8%) compared with the same period of last year.

The main changes are as follows:

- EUR 27,829 thousand for the Asia/Pacific region subsidiaries, a net change due to increases for the following projects: the ARTC project (EUR 18,420 thousand), the Rawang Ipoh project (EUR 6,785 thousand), the Rio Tinto project (EUR 5,405 thousand), the Q R Projects (EUR 4,098 thousand), WNR - Train Control Centralisation (EUR 612 thousand), Ghaziabad-Kanpur (EUR 5,118 thousand) and other minor projects (EUR 174 thousand) and due to decreases for

the following projects: the O'Donnell Griffin project (EUR 2,050 thousand), the Botswana Railways project (EUR 1,273 thousand), the WAPS project (EUR 639 thousand), the Pilbara project (EUR 11,123 thousand), IRPMU – ETC North and South (EUR 7,447 thousand) and other projects (EUR 251 thousand).

- EUR 1,619 thousand for the American subsidiary, US&S, a net change resulting from the increase for the following projects: Shanghai Line 2 Cabs (EUR 886 thousand), Thessaloniki (EUR 872 thousand), WMATA Track Circuit (EUR 698 thousand), DART SE Extension (EUR 1,373 thousand), QN&L (EUR 2,273 thousand), UP CAD X/OTP (EUR 1,769 thousand), Copenhagen PH III (EUR 1,736 thousand), CTA Dearborn (EUR 1,299 thousand), NYTC Chambers (EUR 1,754 thousand), and Montreal (EUR 1,064 thousand) and the decrease for the following projects: LIRR M-& Cab (EUR 4,269 thousand), Charlotte (EUR 3,944 thousand), CTA Dan Ryan (EUR 1,844 thousand), Alaska (EUR 1,341 thousand) and other minor projects for EUR 1,614 thousand.
- EUR 4,952 thousand for the French subsidiary, Ansaldo STS France, due to increases in CTRL Section 2, TMV 430/Bi standard, SNCFT, Eurocab and HSL Korea activities.
- EUR 5,756 thousand decrease for the Italian subsidiary, Ansaldo Segnalamento Ferroviario, mainly attributable to the completion of significant sized contracts.

The residual amount of the change (EUR 2,937 thousand) concerned other minor Group companies.

The principal contracts contributing to revenues for the period are:

ANSALDO SEGNALAMENTO FERROVIARIO S.p.A. (ASF)

HIGH-SPEED RAILWAYS

In the first half of 2007, commercial operation continued on the Rome-Naples and Turin-Novara lines with good overall results in terms of the reliability and punctuality of the system.

In parallel with this, work continued on the type-approval of ERTMS on-board equipment, with test runs on the Rome-Naples line that ended with the issuance by the certifying body of authorization to install our Eurocab on this high-speed line also.

Commercial operations with passengers of trains fitted with Ansaldo ERTMS on-board equipment continued on the Turin-Novara line. In this case, too, good results were achieved in terms of overall reliability.

In addition, work continued on the design, construction and field installation of equipment for fitting out the Milan-Bologna high-speed line. The new generation of multistations - about which we have high hopes in terms of market potential - is also expected to be installed on this line.

Finally, it should be noted that no new financial resources were allocated during the first half of the year for new high-speed railways; the situation reflects the customers' desire to review priorities and, in general, to re-examine the draft of the contract for the execution of such works.

In fact, the mandates given to the general contractors (and, as a result, to the Saturno Consortium) concerning the Milan-Genoa (*Terzo Valico*), Milan-Verona and Verona-Padua lines have been cancelled.

As a result, any design and budgeting by ASF in preparation for the signing of contracts for the lines is currently suspended.

The Saturno Consortium, of which ASF is a member, is examining possible actions for the recognition of the costs incurred thus far and the damages suffered due to the non-assignment of the aforementioned tracts.

WAYSIDE SCMT

The value of production benefited by an increase in the profitability of contracts on the work done on the Ionian Axis for the districts of Naples and Reggio Calabria.

Our ability to design, produce and install wayside systems was confirmed when compared with the already remarkable results achieved in the second half of 2006. Thanks to the considerable commitment of all the companies involved and our partners, the foundations have been laid down to achieve the important objectives set by the RFI business plan for 2007.

The planned work on RFI's old network will be substantially completed with the jobs scheduled for 2007.

ON-BOARD SCMT

The first half of 2007 was characterized by the consolidation of production of SCMT equipment at the levels achieved in 2006. Specifically, 156 carriages were outfitted and returned to service, largely in line with the figures for the same period of 2006.

During the period, work began on a significant contract acquired in Greece for the supply of on-board equipment for high-speed trains that will be used within that country as well as for the fitting out of certain TGV trains for the French railways to be placed in service on France-to-Italy routes with SCMT equipment.

On a technological level, several ETR500 trains equipped with ERTMS devices completely developed and approved by the Company were placed into service on the Rome-Naples high-speed/high-capacity line.

In-service operation of SCMT and ERTMS equipment is currently deemed satisfactory.

LARGE NETWORK CENTRALIZED COMMAND AND CONTROL SYSTEMS (SCC) (8 CONTRACTS)

During the period, there was an increase of about 70% in the generation of revenues compared with the first half of 2006.

Work on the contracts for the centralized command and control system (SCC) lines and junctions (including Palermo and the CTC SCCs) is about 80% completed.

Also of note during the period is the activation of the Mestre-Sacile-Tarvisio sections with regard to the Secure Command system for the Venice junction of the SCC and the Molfetta-Bari P.Nord-Montenero segment for the Adriatic Axis SCC. Two reconfigurations of the Venice junction of the SCC were also carried out at the request of Ferrovie dello Stato.

Negotiations are currently under way for recognition of the contract extension and for the end-of-contract adjustments/divisions concerning the SCC for the Venice, Genoa and Naples junctions and the Adriatic Axis.

COMPUTER-BASED INTERLOCKING (ACC) (9 CONTRACTS)

The activities developed in this business segment during the period laid the ground work for the activation during the second half of the year of several systems delivered or in the process of being delivered to RFI. Construction is continuing at a healthy pace on the

Mestre and Pisa devices as can be seen in the individual values of production. Also of note is the reconfiguration of a number of sets of equipment which had begun some time ago to adjust them for new operational use. Of these, the activities relating to equipment to be modified for installation of the SCMT wayside system is of particular importance.

ANSALDO STS FRANCE

CTRL SECTION II

During 2006 practically all of the signalling and designing of the RBC, including the FAT, were completed on time. In general, the contract is progressing as scheduled and currently 94% of the work has been completed.

The Installation - Test & Commissioning activities were completed at the stations of Wennington, Dagenham, Ebbsfleet and Stratford, and are close to completion at St. Pancras.

Work on all activities should be completed by July 2007 and operations are due to begin in November 2007.

CHINA ON-BOARD ATP

On 6 April 2007 the Chinese government decided to increase the maximum speed, following strong pressure from the MOR for the use of ATP 200 for this purpose.

In accordance with the commitments undertaken by Ansaldo STS France with MOR and despite the scarcity of test sites built, the TVM + CTCS 2 version was safely constructed and installed on a train which has been in service since June 17.

The system still suffers from problems of instability that may lead to sudden braking of the trains. It should be noted that the project has been plagued by conflict and a high degree of irrationality. MOR refuses to admit, for internal reasons, that before a train can be put into service there is a minimum number of tests to be performed and adjustments to be made before it can achieve the level of use required, even though this is clearly provided in the contract. ■

As a result, MOR is continuing to block payment until the system instability problems have been resolved.

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. Starting in May 2007, the speed of 300 Km/h was achieved.

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. Spanish authorities have announced that it will be placed into commercial service during the fourth quarter of 2007.

Finally, negotiations for the "Liquidacion" were successfully completed and the related changes to the contract are due to be made by the end of 2007.

UNION SWITCH & SIGNAL INC.

UP CADX

The project, which is highly important for the US subsidiary US&S, involves the development and installation of a "Next Generation Computer Aided Dispatch (CAD) System" and an "Optimizing Traffic Planner System". These systems must be installed on all 33,000 miles of the Union Pacific's North American railway network. The contract also covers maintenance of the CAD system through 2021.

As to the OTP, the specifications for the system requirements (SRS) were signed by the customer. The OTP architecture specifications were completed at the end of September 2006 using version 1.0 as planned. The customer was fully satisfied.

Integration tests are currently under way and the US&S team is giving priority to fixing SPRs, where progress is reported to the customer on a monthly basis during testing of the OTP system.

During the period UP conducted an audit on the project which confirmed the correct choice of approach by US&S. UP expects production to commence in 2008.

Some project deadlines have been deferred due to problems in the tests of the integration system and in the coordination activities on the OTP; as a result, the FAT initially scheduled for June 2007 will thus be postponed to March 2008.

With regard to the specifications for the CAD-X architecture and the analysis of the system requirements, the second release of the specifications was issued to the customer in June as scheduled.

The completion of the design phase, initially scheduled for June 2007, has been postponed to September 2007.

CHARLOTTE

On this project US&S is a subcontractor of the Mass-Aldrige Joint Venture (MAJV). The contract involves the supply of a completely integrated system, including wayside signalling, on-board ATP and TWC equipment, the central office and all the communications systems. The on-board equipment is due to be installed on 16 new LRV locomotives supplied by Siemens and on 4 other existing locomotives. The central office and all communications and related equipment will be designed and supplied by the A&IS business unit of US&S.

The sub-supply contract between Mass Electric Construction and US&S was signed in December 2005. As to the scheduling, the Charlotte Area Transit System (CATS) publicly announced, without any modifications being made to the contract, a delay of about six to eight months due to problems with civil works and notified US&S at the same time to estimate the impact of such delays.

The impact was estimated and in April this led to a change of USD 520 thousand in the order's value and a 30-month extension of the delivery time.

Other requested changes in the order and two claims are being discussed with MAJV and CATS. A resolution is expected in the final quarter of 2007.

With regard to design activities, the final planning of all ten signal houses was approved by the customer and the planning of the software centre was completed. The customer's lack of qualified staff has been a problem in the matter of software development and threatens to frustrate all US&S's efforts.

As to the manufacture and supplying of materials, all deliveries were made in accordance with contractual requirements and the FAT was approved by the customer.

Nine of the ten signal houses have been delivered to Charlotte and installed. The last signal house is still at the Batesburg plant and will remain there until July. All remaining signalling equipment has been delivered to Charlotte.

CTA DEARBORN

On this project, US&S 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 ground equipment for 22 miles of line, which is expected to be completed in September 2009.

With regard to work status, the Western and Kedzie locations were completed as scheduled. In July, work began on fitting out the O'Hare line between Jefferson Park and downtown Chicago. Overall, the project is currently 62% complete and is on target with regard to the supply of materials and circuit designing.

Testing of the entire integration system is scheduled for August 2007.

EBIT came to EUR 39,813 thousand for the first half of 2007, compared with the pro-forma figure of EUR 32,257 thousand reported at 30 June 2006, and thus reflects an increase of EUR 7,556 thousand, or 23.4% year on year, with ROS of 11.2% versus the pro-forma 9.8% for the first half of 2006.

The change is due to the increase in the margin on production principally for the Australian subsidiary, Ansaldo STS Australia, which benefited from a significant increase in production volumes.

Working capital at 30 June 2007 was a negative EUR 86,802 thousand, with an improvement of EUR 16,815 thousand over the negative balance of EUR 69,987 thousand at 31 December 2006. The change is essentially attributable to the change in trade receivables (decrease of EUR 39,815 thousand) mainly associated with the Italian subsidiary of the Signalling Division, Ansaldo Segnalamento Ferroviario S.p.A. (EUR 11,632 thousand from third parties) and the Saturno Consortium (EUR 18,831 thousand) and Asia/ Pacific Area subsidiaries (EUR 10,345 thousand).

Net invested capital at 30 June 2007 was a negative balance of EUR 9,716 thousand compared with a positive balance of EUR 8,558 thousand, with a change of EUR 18,274 thousand: such change is largely due to the abovementioned change in working capital.

Research and development spending stood at EUR 22,399 thousand at 30 June 2007, compared with the pro-forma figure of EUR 19,113 thousand at 30 June 2006.

The main projects are:

- ERTMS level 2– RBC and Caraibi for Ansaldo Segnalamento Ferroviario;
- Ouragan, the on-board product line, track-side engineering and Chinese ATP for the French subsidiary, CSEE Transport;
- On-board activities (including CBTC and Next-Generation Cab, Microlok II and III S/W and H/W and OTP).

The **work force** at 30 June 2007 amounted to 3,797 employees, an increase of 316 year on year and 191 compared with 31 December 2006.

The growth in work force was necessary in the vital areas of RAMS engineering and development and in planning and logistics as a result of the increase in the current and forecast order backlog for US and Asia /Pacific area activities.

The increase for the U.S. subsidiary also derives from the development of Communication Based Train Control (CBTB), a strategically important project for the Signalling Division and thus for the Ansaldo STS Group.

3.2 Transport systems

<i>EUR 000</i>	First Half of 2007	31/12/2006 Pro-forma	First Half of 2006 Pro-forma
Orders	175,123	534,340	425,264
Order backlog	1,311,005	1,248,130	1,260,698
Value of production	112,248	236,753	116,359

EBIT	12,374	21,446	12,259
R.O.S.	11.0%	9.1%	10.5%
Working capital	(138,136)	(171,949)	(166,063)
Net invested capital	(94,784)	(124,304)	(127,965)
Research and development	1,159	1,985	874
Employees (n.)	316	327	327

(The figures in the above table include transactions with other segments).

The Transport Systems division, consisting of Ansaldo Trasporti Sistemi Ferroviari S.p.A., studies, designs and plans how to integrate the activities of designing and building the equipment that goes into a system – that is, the track, signalling, power supply, telecommunications and vehicles (whether for inter-city or urban railways) as well as any other technological works which, collectively, constitute an integrated transport system. The final product - an integrated transport system, whether an inter-city line or an urban one - is then delivered as a "turnkey" project to the customer. However, the Group can also offer the expertise of the Signalling or Transport Systems Division separately, according to specific customer needs.

The main projects the Transport Systems Division is working, or has worked, on include:

- the driverless metros of Copenhagen and Brescia and Thessaloniki,
- Naples metro line 1, and Rome metro lines A, B and C,
- light metro systems at Genoa and Naples line 6 (on these two projects the Group is acting as concessionaire, and is thus responsible for completion of the whole project including civilian works) and Lima,
- tram systems in Florence, Sassari, Birmingham (Midland Metro), Manchester (Metrolink), and Dublin (lines A, B, C),
- STREAM of Trieste,
- parts of the electronic rail systems of line 1 of the Milan metro.

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

Orders acquired during the first half of 2007 totalled EUR 175,123,000 and relate to:

Country	Project	Customer	Value (€ mn)
Italy	Rome Line C	Rome Metro	150.2
Italy	High-Speed Railway	TAV	10.5
Italy	Alifana	Metrocampania Nord Est	6.9
Denmark	Copenhagen	Orestad	4.9
Italy	Vesuviane	Circ. Vesuviana	2.6

During the same period of last year, new orders acquired came to a total of EUR 534,340,000.

The developments in the first half of 2007 are yet another confirmation of the effectiveness of the strategies adopted both at a company and at a Group level, and demonstrate our leadership in transport systems in Italy.

The **order backlog** at 30 June 2007 totalled EUR 1,311,005,000 (EUR 1,260,698,000 at 30 June 2006, EUR 1,248,130,000 at 31 December 2006).

The orders are mainly connected with products involving the following:

- high-speed trains
- Copenhagen metro
- Concessions relating to the building of the Naples, Rome and Genoa metros
- Brescia and Milan and Thessaloniki driverless metro
- Alifana

The **value of production** during the first half of 2007 came to EUR 112,248,000 (compared with the pro-forma figure of EUR 116,359,000 for the first half of 2006). This was generated by the projects concerning high-speed rail, Copenhagen, Genoa Metro, Alifana, Line 6 of the Naples metro and Brescia Metro.

The most significant production activities for the first half of the year are as follows:

HIGH-SPEED RAILWAYS

Work conducted through the Saturno consortium, responsible for technological activities on the Rome-Naples section, has received comments from Italferr for the project to execute Operational Lot 2 (the bid is in the process of being submitted). The planning phase continues for the Novara-Milan section ahead of the concession of the sites by the general contractor. Installations on the Milan-Bologna section are almost complete and negotiations are under way relating to the bid submitted for certain changes.

In relation to the first lot for the Rome-Naples section - already in service - where the Company participates both as general contractor (Iricav Uno Consortium) and technology supplier (Saturno Consortium), on 30 January 2007 the testing committee issued an Addendum to the final testing certificate, applying an overall deduction to the general contractor.

With regard to the second lot, the supply of crushed stone at the Gricignano storage area continued. The comparison with TAV/ITF is under way for the redefinition of the new works programme that will implement the change for technological works

GENOA METRO

In the first half work concentrated mainly on the De Ferrari-Brignole section.

Excavations were completed for the first and second service shafts for the Corvetto-Acquasola work site. After delays in 2006 due to the discovery of archaeological finds, the works are now running according to schedule.

Upgrades are being made to the land-train radio system on the Brin-De Ferrari section.

Finally, in June the delivery of spare parts for ten second-generation vehicles was completed permitting the drawing up and issuing of the final invoice.

ALIFANA REGIONAL LINE

Construction is largely completed for the sub-section from Giugliano to Aversa Centro (not affected by delivery of areas by the Grantor), both in terms of line installations and equipment. Installation of the Aversa Centro station is essentially completed and the fittings will be finished by the end of August. Work on the Aversa Ippodromo and

Giugliano stations is at an advanced stage and should be completed between the end of September and October due to a number of changes requested by the Grantor

NAPLES METRO LINE 6

In the first half of 2007, work was completed on the Mostra-Mergellina sub-section and, following the completion of testing and operational checks on the installations between October and December, the Naples USTIF interministerial committee certified that the system ready was for public use. Therefore, on 11 January 2007, the sub-section was opened in the presence of the most important ministers from the Italian government, led by Prime Minister Romano Prodi.

The installations have been in operation for about five months and have proved satisfactory with regard to the level of ensured service and the number of passengers transported. Certain operational windows during this period through August were agreed with the operator, Metronapoli S.p.A., in order to comply with the remaining requirements contained on the aforementioned USTIF certification.

As to the works relating to the completion of the Mostra-Mergellina/S. Pasquale-Municipio section of Line 6, object of the signing of the Sixth Supplementary Contract to the original agreement of July 1986, an agreement was reached with the Grantor City of Naples on the calculation of the amount to be paid under the contract. On 8 June 2007, the City government approved, through City Council resolution no. 2229, the draft of the Sixth Supplementary Contract and the related costs schedules for the total amount of around EUR 588 million (VAT included).

In the meantime, on 29 June 2007, in delivering pre-contractual works on 28 July 2006, and following the Grantor's note of 27 June 2007 in which it expressed its willingness to continue to carry out works in preparation for those contained in the new supplementary agreement, the Works Supervisor formalized a service order which, given the delays in the signing of the Sixth Supplementary Contract, ordered the Grantee to initiate certain works in accordance with pre-arranged plans.

BRESCIA METRO

The Company has completed about 96% of planning for its part of the contract. Tests have been carried out on electricity supply systems, the fittings, and the plant area for the third-rail sub-system and the telecommunications sub-systems.

With regard to the civil works for which the partner is responsible, the shield tunnel boring machine left at the beginning of July and is expected to arrive at the railway station by the end of September. With regard to the area in which archaeological finds have been made, work has begun on relocating the sub-systems near the San Faustino station and the Ministry of Cultural Heritage has given its approval for the removal of finds in the Vittoria station area. Along the entire line, work continues on relocating sub-systems and building the almost completed structures in the plant area where work has begun to add the first-level finishing touches and the installation of the underground installations. Fitting is due to begin by September. Main supply activities are under way for the portion of rolling stock for which AnsaldoBreda is responsible.

COPENHAGEN

During the first half of the year, the design and supply of materials for the signalling and obstacle detection systems for the extension of the metro towards the Copenhagen airport (phase 3), which will be open to the public in late 2007, were completed.

ROME LINE C

Since the transformation of the company into a consortium denominated by shares through today, the work done has essentially been in preparation for the opening of the work sites, the performance of archaeological investigations and the initiation of designing changes to the project that were approved during the June meeting of the Inter-ministerial Economic Planning Committee (CIPE).

EBIT for the first half of 2007 was EUR 12,374 thousand (11.0% of revenues) and is slightly higher year on year when compared with the pro-forma figure of EUR 12,259 thousand (10.5% of revenues).

Working capital at 30 June 2007 was negative EUR 138,136 thousand, an increase of EUR 33,813 thousand compared the negative EUR 171,949 thousand at 31 December 2006, attributable to growth in work in progress and a positive change in advances from customers relating to increased production and reduced billing during the period.

Net invested capital at 30 June 2007 was a negative balance of EUR 94,784 thousand, a decrease of EUR 29,520 thousand compared with the negative balance of EUR 124,304 thousand at 31 December 2006. This change reflects the change in working capital.

Research and development spending stood at EUR 1,159 thousand at 30 June 2007, a slight increase of EUR 285 thousand over the pro-forma figure of EUR 874 thousand for the previous year.

The **work force** at 30 June 2007 amounted to 316 employees, while the average for the period came to 315.

This is a decrease of 11 on the same period the previous year, partly due to the transfer of some employees to the parent company Ansaldo STS S.p.A.

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

In order to provide information on the performance and financial position of Ansaldo STS S.p.A., financial statements have been drawn up in accordance with IFRSs.

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

- In February 2006, Ansaldo STS S.p.A. acquired from Finmeccanica the entire share capital of Ansaldo Trasporti Sistemi Ferroviari S.p.A. and of Ansaldo Signal NV, itself the parent company of a group of 19 companies operating in the signalling sector in a number of countries.

The requisite financial resources were provided by Finmeccanica, partly through a capital increase and partly through a capital contribution.

- On 29 March 2006, the start of share trading marked the conclusion of the complex procedure begun in September 2005, which led to the quotation of the Ansaldo STS shares with a 'Star' rating on the MTAX market run by the Italian Stock Exchange. Finmeccanica offered 60 million of the company's shares, or 60% of its share capital, available to the market, retaining the remaining 40 million shares, or 40% of the share capital.
- The holding company, Ansaldo STS, bore the costs relative to the stock-market listing during the first half of 2006. These costs, which by definition are non-recurring, had an impact on the Ansaldo STS Group's results for the year of 2006.
- As already reported in detail, Ansaldo STS S.p.A., the holding company, exercised the option to use the Consolidated Taxation Mechanism for the Group's Italian subsidiaries (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.) for the 2007-2009 three-year period for IRES (corporate income tax). By electing this option, it will be possible to compute a single IRES taxable income base for the Italian companies of the Group, through the algebraic sum of the taxable income (fully considered) of the holding/consolidating company and the consolidated/subsidiary companies (Italian subsidiaries only). The main financial benefits of using this mechanism are as follows:

- In the event one of the participating companies reports a tax loss, the use of the loss would not depend upon the subsequent generation of taxable income since the immediate transfer of the loss to the Group would allow quicker offsetting within the context of the consolidated results, with consequent advantages, at least of a financial nature; economic benefits would also accrue if the company reporting the loss were to have no expectations of its use due to lack

of expected taxable income in the five tax periods following that in which the tax loss arises;

- The dividends distributed among companies participating in the Consolidated Tax Mechanism are fully tax exempt, instead of being subject to the 5% tax provided under the ordinary rules;
- There is the possibility to transfer assets that generate a taxable capital gain within the consolidation area on a tax-deferred basis (for IRES purposes only);
- There is the possibility to transfer not just IRES credit carryforwards but also other tax credits (IRAP, VAT, social security contributions, etc.) to the Group thereby allowing their use and immediate receipt.

Profit and loss account

<i>(EUR 000)</i>	<i>For the six months ending 30 June</i>		
	<i>2007</i>	<i>2006</i>	<i>31 December 2006</i>
Revenues			
Revenues	6,396	-	7,246

Value of production	6,396	-	7,246
Purchases	(20)	(3)	(7)
Services costs	(8,793)	(7,806)	(13,582)
Staff costs	(5,318)	-	(4,032)
Amortisation, depreciation and impairment	(925)	(811)	(1,707)
Restructuring costs	-	-	-
Other operating revenues (costs)	1,313	(330)	1,246
EBIT	(7,347)	(8,950)	(10,836)
Net financial income (expense)	12,845	(1,259)	29,025
Income tax	2,930	-	-
Net profit	8,428	(10,209)	18,189

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

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

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

- EUR 2,591 thousand of costs related to IT governance and the project covering the integration of the Transport Systems Division and the Signalling Division;
- EUR 526 thousand of costs related to the new HS9 reporting system;
- EUR 348 thousand of services regarding the implementation of Law 262;
- EUR 210 thousand of services related to the definition of the Group's strategic plan;
- EUR 621 thousand of costs sustained by the Signalling Division for services regarding the management of the Via Mantovani palazzo;
- EUR 495 thousand of costs sustained by the Signalling Division for treasury activity;
- EUR 850 thousand of costs for the services of specialized personnel in relation to corporate communications and compliance with respect to stakeholders;

- EUR 799 thousand of costs representing the accrual for the period of the fees for the use of the "Ansaldo" brand granted under license by Finmeccanica for a 20-year period;
- EUR 300 thousand for participation in trade fairs and exhibitions.

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

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

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

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

Financial income (expense) include:

- EUR 14,241 thousand of dividends received from the subsidiary, Ansaldo Trasporti Sistemi Ferroviari.
- EUR 3,045 thousand for interest earned on the current account maintained with Finmeccanica S.p.A.
- EUR 4,395 thousand of interest expense accrued on current accounts maintained with the subsidiaries, Ansaldo Signal N.V. (ASNV) and Ansaldo Trasporti Sistemi Ferroviari S.p.A. (ATSF)
- EUR 47 thousand of other interest, commissions and bank expenses.

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

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

Reclassified balance sheet

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

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

The non-current liabilities include the provision for severance pay (EUR 728 thousand) for the 48 employees on Ansaldo STS's payroll at 30 June 2007, seniority bonuses (EUR 95 thousand) and deferred taxes (EUR 1,959 thousand) mainly booked as a result of the accrual of the deferred tax asset positions of the subsidiaries, Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A., pursuant to the Consolidated Taxation Mechanism.

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

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

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

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

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

- Increased earnings for the period for the effect of the dividend from the subsidiary, Ansaldo Trasporti Sistemi Ferroviari S.p.A. (EUR 14,241 thousand);
- Reserves booked by the holding company for the Ansaldo STS stock grant plan (EUR 485 thousand)
- Reserves for the adjustment of the value of equity investments held (EUR 1,354 thousand).

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

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

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

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

- Cash flow used by financing activity in the amount of EUR 18,006 thousand (EUR 66,412 thousand at 31 December 2006) attributable to changes in the current account maintained with Finmeccanica.

4.1 Profit and loss account

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

4.2 Balance sheet

(EUR 000)

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

4.3 Cash flow

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

4.4 *Changes in shareholders' equity*

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

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

	Shareholders' equity	Profit for the period
The financial statements of Ansaldo STS SpA at 30 June	127,961	8,428
<ul style="list-style-type: none"> • Shareholders' equity surplus in the annual financial statements including profit for the period, compared with the carrying value of the equity investments in consolidated entities • Other adjustments • Minority interests 	38,538 (10,690) 342	19,877 - 54
	156,151	28,359
The consolidated financial statements of Ansaldo STS Group at 30 June 2007		

Rome , 27 September 2007

On behalf of the Board of Directors

The Chairman

Alessandro Pansa

Financial statements and explanatory notes to the consolidated half-year report at 30 June 2007

5 FINANCIAL STATEMENTS

5.1 Profit and loss account

<i>(EUR 000)</i>	<i>Notes</i>	<i>For the 6 months ended in June</i>		<i>12 months ended</i>
		2007	2006	<i>in</i> December 2006
Revenue	9.2	412,926	300,289	802,382
Revenues from related parties	9.1	48,407	23,542	8,048
Other operating revenues	9.3	6,304	4,086	12,607
Other operating revenues from related parties	9.2	1,350	204	939
Purchases	9.4	(119,300)	(85,405)	(221,691)
Service costs	9.4	(148,766)	(104,676)	(253,706)
Costs from related parties	9.1	(18,855)	(22,964)	(50,367)
Staff costs	9.5	(128,523)	(78,392)	(197,860)
Changes in work in progress, semi-finished products, finished products, and goods		2,894	3,209	300
Amortisation, depreciation and impairment	9.6	(4,694)	(3,621)	(9,691)
Other operating costs	9.7	(7,070)	(6,663)	(12,041)
Capitalized costs of assets produced internally	9.8	167	197	222
(EBIT)		44,840	29,806	79,142
Financial income	9.9	3,404	2,783	4,837
Financial income from related parties	9.1	3,045	1,252	3,295
Financial expense	9.9	(4,429)	(2,986)	(5,183)
Financial expense from related parties	9.1	(86)	(379)	(481)
Effects of measuring equity investments with the equity method		-	-	71
<i>Profit (loss) before taxes</i>		46,774	30,476	81,681
Income tax	9.10	(18,415)	(17,200)	(38,474)
<i>Net profit (loss)</i>		28,359	13,276	43,207
<i>Group</i>		28,305	13,247	43,124
<i>Minority interests</i>		54	29	83
Earnings per share				
<i>Basic and diluted</i>		0.28	0.13	0.43

5.2 Balance sheet

<i>(EUR 000)</i>	<i>Notes</i>	30-Jun-2007	31-Dec-2006	30-Jun-2006
<i>Non-current assets</i>				
Intangible assets	8.2	49,241	45,093	41,810
Property, plant and equipment	8.3	91,188	91,770	92,954
Equity investments	8.4	28,949	28,582	28,503
Receivables	8.5	15,902	15,494	8,413
Non-current receivables from related parties		-	-	-
Deferred taxes	9.10	43,253	39,975	32,540
Other assets	8.5	28,759	29,640	30,299
		<u>257,292</u>	<u>250,554</u>	<u>234,519</u>
<i>Current assets</i>				
Inventory	8.6	104,166	96,540	89,041
Work in progress	8.7	127,099	78,292	90,047
Trade receivables	8.8	259,225	266,522	217,084
Current receivables from related parties	8.1	175,205	176,830	150,686
Tax receivables	8.9	10,918	7,698	19,446
Financial receivables	8.8	-	-	-
Total derivatives	8.21	191	282	1,331
Other current assets	8.10	26,139	24,910	15,994
Cash and cash equivalents	8.11	42,313	48,580	61,847
		<u>745,256</u>	<u>699,654</u>	<u>645,476</u>
<i>Total Assets</i>		<u>1,002,548</u>	<u>950,208</u>	<u>879,995</u>
<i>Shareholders' equity</i>				
Share capital	8.12	49,950	49,950	49,950
Other reserves	8.13-8.14	105,859	76,329	45,992
<i>Group shareholders' equity</i>		<u>155,809</u>	<u>126,279</u>	<u>95,942</u>
<i>Minority interests</i>	8.15	342	360	371
<i>Total shareholders' equity</i>		<u>156,151</u>	<u>126,639</u>	<u>96,313</u>
<i>Non-current liabilities</i>				
Non-current payables to related parties	8.1	-	-	-
Net change in other financial payables	8.16	8,196	8,475	10,272
Severance pay and other staff provisions	8.18	32,304	30,612	29,816
Deferred taxes	9.10	7,265	7,337	5,811
Other liabilities	8.19	9,123	6,910	6,193
		<u>56,888</u>	<u>53,334</u>	<u>52,092</u>
<i>Current liabilities</i>				
Advances from customers	8.7	461,781	475,124	431,172
Trade payables	8.20	191,173	143,536	158,716
Current payables to related parties	8.1	19,661	27,682	21,014
Short-term payables	8.16	6,076	13,984	4,331
Taxes payable	8.9	14,129	23,114	26,352
Short-term provisions for risks	8.17	22,245	22,310	25,454
Total derivatives	8.21	4,172	1,540	3,052
Other current liabilities	8.19	70,272	62,945	61,499
		<u>789,509</u>	<u>770,235</u>	<u>731,590</u>
<i>Total liabilities</i>		<u>846,397</u>	<u>823,569</u>	<u>783,682</u>
<i>Total liabilities and shareholders' equity</i>		<u>1,002,548</u>	<u>950,208</u>	<u>879,995</u>

5.3 Cash flow

<i>(EUR 000)</i>	<i>For the 6 months ended 30 June</i>		<i>31 December</i>
	<i>2007</i>	<i>2006</i>	<i>2006</i>
<i>Cash flow from operations</i>			
Gross cash flow from operations	42,792	46,490	78,092
Change in working capital	16,316	81,269	(30,987)
Change in other assets and liabilities, taxes and interest	(22,298)	(36,631)	(37,831)
Cash flow from (for) operations	36,810	91,128	9,274
<i>Cash flow from investing activities</i>			
Company acquisitions, net of cash acquired	(371)	(86,805)	(58,639)
Investments in property, plant and equipment and intangible assets	(8,327)	(6,040)	(13,168)
Sale of property, plant and equipment and intangible assets	19	-	139
Dividends received	339	397	397
Other investments	(2,380)	(6,788)	(182)
Cash flow from (for) investing activities	(10,720)	(99,236)	(71,453)
<i>Cash flow from financing activities</i>			
Net change in other financial debts	(32,624)	10,272	50,240
Capital increases	-	60,169	60,169
Cash flow from (for) financing activities	(32,624)	70,441	110,409
Net decrease in cash and cash equivalents	(6,534)	62,333	48,230
Foreign exchange translation differences	267	(510)	326
Cash and cash equivalents at 1 January	48,580	24	24
Cash and cash equivalents at period-end	42,313	61,847	48,580

5.4 Changes in shareholders' equity

Shareholders' equity	Share capital	Consolidated retained earnings and reserves	Other reserves	Total Group shareholders' equity	Minority interests	Total shareholders' equity
Shareholders' equity at 31 December 2005	39,950	(2,490)	37	37,497	-	37,497
Change in scope of consolidation and other minor items	-	(84,406)	3 74,09	(10,313)	0 32	(9,603)
Foreign exchange translation differences	-	-	(2,514)	(2,514)	2 2	(2,512)
Income (expense) recognised in equity	-	-	(2,144)	(2,144)	-	(2,144)
Net profit at 30 June 2006	-	13,247	-	13,247	29	13,276
Capital increases/loss coverage	10,000	2,490	9 47,67	60,169	-	60,169
Shareholders' equity at 30 June 2006	49,950	(71,159)	117,151	95,942	371	96,313
Shareholders' equity at 31 December 2006	49,950	101,413	(25,084)	126,279	360	126,639
Change in scope of consolidation and other minor items	-	-	6 12	126	(74)	52
Foreign exchange translation differences	-	-	3 1,03	1,033	2	1,035
Income (expense) booked directly under net assets	-	-	(1,773)	(1,773)	-	(1,773)
Net profit at 30 June 2007	-	28,305	-	28,305	54	28,359
Net changes for Stock Grant plan	-	-	9 1,83	1,839	-	1,839
Other changes	-	(909)	9 90	-	-	(819)
Shareholders' equity at 30 June 2007	49,950	128,809	(22,950)	155,809	342	156,151

6 NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS AT 30 JUNE 2007

6.1 *General information*

Ansaldo STS is a company limited by shares based at Via Paolo Mantovani 3/5, Genoa, and has been listed on the Italian stock exchange (Star segment) since 29 March 2006. Ansaldo STS SpA is a subsidiary of Finmeccanica SpA, whose headquarters are at Piazza Monte Grappa 4, Rome, is listed on the Italian stock exchange (S&P/MIB), and directs and coordinates the activities of Ansaldo STS.

The Ansaldo STS Group is a major player in the signalling and rail transport systems market segments. Ansaldo STS SpA is the parent company, carrying out the functions of business and strategic management, co-coordinating the operations of its subsidiaries (which together are known as 'Ansaldo STS Group' or the 'Group').

The Ansaldo STS Group grew out of the transport signalling and systems operations which, until the second half of the 1990s, were carried out by Ansaldo Trasporti within the Finmeccanica group. The formation of Ansaldo Signal in 1996 and of Ansaldo Trasporti Sistemi Ferroviari in 2001 (together with the formation of AnsaldoBreda, for the vehicles segment, the same year) produced a reorganisation of the entire transport division, as a result of which Finmeccanica held a 100% stake in Ansaldo Signal, Ansaldo Trasporti Sistemi Ferroviari and AnsaldoBreda.

Meanwhile, in 1996 Finmeccanica had acquired SIC Società Italiana Comunicazioni Srl (SIC), later renamed EuroSkyway Srl in 1997. In April 2005 the company was put into liquidation.

Following Finmeccanica's strategic decision in the second half of 2005 to list its signalling and transport systems companies on the stock exchange (having previously put in place a unitary management structure to enhance their business and commercial synergies), the EuroSkyway Srl shareholders' meeting, through its sole shareholder, Finmeccanica, decided at the end of 2005 to revoke the company's state of liquidation

and transform it into a company limited by shares, to change its own name to Ansaldo STS SpA, and to change its company purpose, focusing on signalling and transport systems for railways and urban rail systems.

To complete the above reorganisation, in February 2006 Ansaldo STS, as already stated, acquired from Finmeccanica the entire share capital of Ansaldo Signal NV and Ansaldo Trasporti Sistemi Ferroviari SpA. From 29 March 2006 Ansaldo STS was listed on the stock exchange.

Finmeccanica placed on the market 60 million shares in the company, or 60% of its share capital, at EUR 7.80 per share, retaining the remaining 40 million, equal to 40% of the share capital. The greenshoe option was exercised to the full, in view of the extremely large number of requests to purchase the shares.

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

The Signalling Division designs and builds signalling systems, subsystems and components, whereas the Transport Systems Division designs and builds integrated transport systems, of which signalling is an essential part. Moreover, the transport systems division studies, designs and plans how to integrate the activities of designing and building the technological equipment that goes to make up a system - that is, the track, signalling, power supply, telecommunications, and vehicles (whether for inter-city or urban railways) as well as any other technological works which, collectively, constitute an integrated transport system. The final product-an integrated transport system, whether an inter-city line or an urban one-is then delivered as a 'turnkey' project to the customer. However, the Group can also offer the expertise of the signalling or transport systems division separately, according to specific customer needs.

6.2 Basis of preparation

As noted previously, Ansaldo STS S.p.A. acquired stakes in Ansaldo Signal NV and ATSF from Finmeccanica on 24 February 2006. For comparative purposes, the figures at 30 June 2006 and 31 December 2006 of Ansaldo STS S.p.A. and its subsidiaries

Ansaldo Trasporti Sistemi Ferroviari S.p.A. and Ansaldo Signal N.V. in the consolidated half-year financial statements are presented starting from the date of acquisition (24 February 2006). In order to make the information presented consistent with the information disclosed to the market at placement, and in light of the irrelevance of the comparative figures presented, the report on operations at 30 June 2006 and 31 December 2006 includes the pro forma figures of the companies now included in the scope of consolidation. Therefore, in order to facilitate understanding of the performance of the core businesses, the operational data and the comments in relation thereto are disclosed with a comparison with the pro-forma figures.

Based upon the foregoing, the balance sheet and profit and loss figures at 30 June 2006 and 31 December 2006 are not comparable with the comparative accounts presented at 30 June 2007. Therefore, reference should be made to Sections 1.1 and 1.2 of the report on operations for the analysis of the changes in the balance sheet and profit and loss statement for the period compared.

In compliance with Regulation (EC) no. 1606/2002 of 19 July 2002, the Ansaldo STS Group's report at 30 June 2007 has been drawn up in conformity with IASs/IFRSs (hereafter IFRSs), endorsed by the European Commission, and the interpretations of IFRSs by the Standing Interpretations Committee ("SIC") and the International Financial Reporting Interpretations Committee ("IFRIC") issued by the International Accounting Standard Board ("IASB").

The half-year consolidated report of the Ansaldo STS Group at 30 June 2007, as required by Article 81 of the amended Regulation implementing Legislative Decree 58/98 and subsequent amendments (adopted by CONSOB resolution no. 15520 of 27 July 2006), has been prepared in accordance with IAS 34 'Interim Financial Reporting', issued by the International Accounting Standard Board ("IASB"), as endorsed on the date of this half-year report.

All figures are in thousands of euros unless otherwise indicated.

In preparing this consolidated report, management made use of estimates.

6.3 Accounting standards adopted

Consolidation method

For consolidation purposes, the group used the IFRS accounts of the companies controlled, directly or indirectly, by Ansaldo STS that were prepared by the Ansaldo STS Group. In this instance control may be exercised either through the possession - direct or indirect - of a majority of shares with voting rights, or through the exercise of a dominant influence, the power to determine, even indirectly via legal or contractual agreements, companies' financial and management decisions and thus enjoy the relevant benefits, even without any shareholding being involved. The existence of potential voting rights that may be exercised as at the half-year reporting date is taken into account in determining where control lies.

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 profit and loss account;
- 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 the current values of assets and liabilities acquired are re-checked, it is entered in the profit and loss account;
- Unrealized 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 expense 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 profit and loss account. The amount entered is the difference between the sale price and the corresponding shareholding sold.

Ansaldo STS's acquisition of 100% of Ansaldo Signal and of Ansaldo Trasporti-Sistemi Ferroviari was, under IFRS 3, a 'common control' transaction, that is, a 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 are treated in the accounts is not, at present, governed by IFRSs, and therefore, as envisaged by those 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'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 division by Ansaldo Trasporti SpA (a Finmeccanica group company) to Ansaldo Trasporti-Sistemi Ferroviari;
- Recognition of goodwill relating to the acquisition of Ansaldo Signal by the parent company, Finmeccanica.

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). 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 profit and loss account 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 special fund, 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 profit and loss account are entered directly as an adjustment to equity reserves;

- Unrealized 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. Unrealized losses are eliminated except where they represent an impairment.

The standards 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 the relevant consolidated accounts;
- costs and revenues are translated using the average exchange rate during the year;
- 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 accounts, 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 30 June 2007 and 2006 were as:

	At		6-month average at	6-month average at
	30-Jun-2007	30-Jun-2006	30-Jun-2007	30-Jun-2006
US\$	1.3505	1.2713	1.3419	1.2428
CAD	1.4245	1.4132	1.4293	1.3997
GBP	0.6740	0.6921	0.6756	0.6885
HK\$	10.5570	9.8745	10.4854	9.6420
SEK	9.2525	9.2385	9.3290	9.3256
AU\$	1.5885	1.7117	1.5930	1.6755
INR	55.0150	58.0000	54.4888	55.9240
MYR	4.6630	4.6714	4.6238	4.5476
BRL	2.5970	2.7535	2.5954	2.7049
CNY	10.2820	10.1895	10.2439	9.9650
VEB	2,899.93	2,734.37	2,882.40	2,666.17

Scope of consolidation

Below is a list of the companies 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

NAME	DIRECT/ INDIRECT CONTROL	REGISTERED OFFICE	SHARE CAPITAL (/000)	CURRENCY	SHARE OWNED %
ANSALDO TRASPORTI SISTEMI FERROVIARI SPA	Direct	Naples (Italy)	30,300	EURO	100.00
ANSALDO SIGNAL NV	Direct	Amsterdam (Netherlands)	100	EURO	100.00
ANSALDO SEGNALAMENTO FERROVIARIO SPA	Indirect	Tito Scalo (Italy)	45,240	EURO	100.00
ANSALDO STS SWEDEN AB	Indirect	Solna (Sweden)	4,000	SEK	100.00
ANSALDO STS FINLAND OY	Indirect	Helsinki (Finland)	10	EURO	100.00
ANSALDO STS UK LTD	Indirect	London (UK)	1,000	GBP	100.00
ANSALDO STS IRELAND LTD	Indirect	Tralee (Ireland)	100	EURO	100.00
ACELEC S.A.	Indirect	Les Ulis (France)	168	EURO	100.00
ANSALDO STS ESPANA S.A.	Indirect	Madrid (Spain)	1,500	EURO	100.00
BEIJING CS. SIGNAL CONTR. SYST. CO. LTD	Indirect	Beijing (China)	7,558	YUAN	80.00
ANSALDO STS TRANSPORT HONG KONG LTD	Indirect	Hong Kong (China)	100	HK \$	100.00
ANSALDO STS FRANCE S.A.	Indirect	Les Ulis (France)	5,000	EURO	100.00
TRANSCONTROL CORPORATION	Indirect	Wilmington (Delaware, USA)	1	\$	100.00
ANSALDO STS MALAYSIA SDN BHD	Indirect	Kuala Lumpur (Malaysia)	300	RM	100.00
UNION SWITCH & SIGNAL INC. CANADA	Indirect	Burlington, Ontario (Canada)	400	CAN \$	100.00
UNION SWITCH & SIGNAL INC. (USA)	Indirect	Dover (Delaware, USA)	1	\$	100.00
UNION SWITCH & SIGNAL INT.CO	Indirect	Dover (Delaware, USA)	1	\$	100.00
UNION SWITCH & SIGNAL INT.PROJECTS CO.	Indirect	Dover (Delaware, USA)	25	\$	100.00
UNION SWITCH & SIGNAL PRIVATE LTD	Indirect	Bangalore (India)	12,915	RUPIA	100.00
ANSALDO STS AUSTRALIA PTY LTD	Indirect	Eagle Farm (Australia)	5,026	AUS \$	100.00

List of companies accounted for using the equity method

NAME	DIRECT/ INDIRECT CONTROL	REGISTERED OFFICE	SHARE CAPITAL (/000)	CURRENCY	SHARE OWNED %
ECOSEN C.A.	Indirect	Caracas (Venezuela)	240,000	BS	48.00
Alifana S.c.a.r.l.	Indirect	Naples (Italy)	26	EURO	65.85
Alifana due S.c.a.r.l.	Indirect	Naples (Italy)	26	EURO	53.34
Pegaso S.c.r.l.	Indirect	Rome (Italy)	260	EURO	46.87
Metro 5 S.p.A.	Indirect	Milan (Italy)	25,000	EURO	24.60

List of companies accounted for at cost

COMPANY	DIRECT/ INDIRECT CONTROL	REGISTERED OFFICE	SHARE CAPITAL (/000)	CURRENCY	SHARE OWNED %
I.M. Intermetro S.p.A.	Indirect	Rome (Italy)	2,461	EURO	16.67
Società Tram di Firenze S.p.A.	Indirect	Florence (Italy)	7,000	EURO	3.80
Metro C S.p.A.	Indirect	Rome (Italy)	150,000	EURO	14.00
Cadic Gombert S.A.	Indirect	Brussels (Belgium)	992	EURO	4.38
Union Switch & Signal Inc. Chile	Indirect	Santiago (Chile)	45,000	CHILEAN PESO	68.00
Ansaldo STS Deutschland GmbH	Indirect	Berlin (Germany)	26	EURO	100.00
International Metro Service S.r.l.	Indirect	Milan (Italy)	344	EURO	49.00

Summary of accounting policies and measurement criteria

The Group's consolidated half-year report has been drawn up using the cost principle, except in cases specifically mentioned in the following notes, where fair value has been applied, quoted in euros.

The following are the main accounting policies adopted.

Property, plant and equipment

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

Charges incurred for routine and/or regular maintenance and repair are directly entered in the profit and loss account for the year when they were incurred. Capitalisation of the costs relating to expansion, modernisation, or improvement of elements owned or leased by the Group is carried out only in so far as these meet the requirements for being classified separately as assets or parts of assets when the 'component approach' criterion

is applied. Any capital grants that relate to buildings, plant, and machinery are entered as a direct deduction from the asset to which they relate.

The value of tangible fixed assets entered is depreciated on a straight-line basis from the date when the asset is available and ready for use, in accordance with its estimated useful life.

The depreciation periods used are as follows:

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

The useful life and residual value of tangible fixed assets are reviewed annually and updated, where applicable, at the end of every year. Land is not subject to depreciation.

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

Profits and losses deriving from the sale or disposal of assets are calculated as the difference between the proceeds from the sale and the net accounting value of the asset disposed of, and are entered in the profit and loss account for the year in question.

Civilian 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 when the revalued amount is realized.

Intangible assets

These are made up of non-monetary elements, which are identifiable and not physical, and which are capable of generating future economic benefits. These items are entered at their cost of acquisition and/or production, including expenses directly attributable to preparing the asset for use, net of accumulated amortisation and any loss of value. Any interest expense accrued during and as a result of development of intangible fixed assets are charged to the profit and loss account. Amortisation begins when the asset is ready for use and is expensed out on a straight-line basis over its estimated useful life.

(i) Goodwill

Goodwill posted under 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 Group 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 Group operates.

(ii) Licences and similar rights

For licences 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 capitalized on the basis of the costs sustained in acquiring them. Amortization 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 recognized as costs when incurred. Costs that are directly connected with the production of unique, identifiable software controlled by the Group that generate future financial benefits over a period exceeding one year are entered as intangible assets. Direct costs include the costs related to employees who develop the software as well as any appropriate share of the general costs. Amortization is calculated on a straight-line basis over the expected useful life of the software (3 years) beginning when the asset is available and ready for use.

(iv) Research and development costs

Research costs are entered in the profit and loss account for the year in which they are sustained.

An intangible fixed asset that is generated internally and relates to development costs is entered in the accounts only if all the following conditions 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 conditions are not met, development costs are expensed as incurred. Development costs are capitalized only when the four conditions listed above are met and are amortized 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 Group, are recognized 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 financial debt. These goods are depreciated in accordance with the methods and criteria applicable to tangible fixed assets.

Leases in which the lessor essentially retains the risks and benefits incidental to ownership of the assets are recognized as operating leases. The costs relating to operating leases are entered on a straight-line basis in the profit and loss account throughout the leasing contract's duration.

Impairments of assets

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

Financial instruments

These include financial assets and liabilities whose classification is determined when they are first entered in the accounts according to the purpose for which they were acquired. Acquisitions and sales of financial instruments are entered in the accounts on the date of the transaction, or on the date on when the 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 organized exchange and do not yield fixed or foreseeable payments. They are reported as current assets, with the exception of those due beyond 12 months after the reporting date, which are classified as non-current assets.

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

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

length of time the asset is owned and on whether it can be traded; assets that are expected to be sold within 12 months of the date of the accounts are reported as current.

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

Financial liabilities

These relate to financing, trade payables, and other obligations to pay; they are valued at amortized cost, using the criterion of the effective interest rate. If there is a change in the expected cash flow and it is possible to estimate these reliably, the value of the loans is recalculated to reflect this change on the basis of the present value of the new expected cash flows and of the internal rate of return originally determined. Financial liabilities are classified as current liabilities, except where the Group 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 Group has transferred all the risks and charges relating to them.

Derivative instruments

The Group enters into contracts for derivatives operations in order to cover for exchange rate risks.

According to the financial policies adopted, the Group uses derivative contracts to manage exchange rate risks. Specifically, the Group uses derivative instruments as part of the hedging strategies that aim to mitigate the risk of cash flow variations caused by the future execution of obligations contractually entered into by a given reporting date. Essentially this is the risk connected to the variations in exchange rates relating to orders and purchase and sale orders denominated in currencies other than the company's functional currency (known also as a 'cash flow hedge').

The note explains the procedures for identifying and hedging risks to which the Group has exposure.

Derivative instruments are initially entered in the accounts at fair value, on the date the contract was entered into. Subsequent variations in the derivative instruments' fair value which do not meet the requirements for being entered into the accounts as instruments for hedging risk are entered as financial income or expenses. In the case of derivative instruments that do meet these requirements, subsequent variations in fair value are entered in the accounts according to the specific criteria explained below. In order for the derivative instruments that qualify as instruments for hedging risk to be identified, each comes with special documentation which makes clear the relationship between the hedging instrument and the risk itself, including the goals of risk management, the hedging strategy, and the methods for verifying effectiveness. The effectiveness of each hedge must be checked when each derivative instrument is established as well as during its life. In general, a hedge is considered to be highly effective if, at the start of its life and during its life, changes in the expected future cash flows of the underlying asset are essentially offset by changes in the fair value of the hedging instrument.

In the case of a cash flow hedge, the variations in a derivative instrument's fair value that occur after initial measurement are recognized- up to the extent of the effective portion- in a special equity reserve, the 'cash flow hedge reserve'. The reserve is reversed to the profit and loss account when the economic effects of the risk hedged materialise. The economic effects of the release of the reserve are recognized where the corresponding effects originating from the underlying asset are entered. If the hedge is not perfectly effective, the variation in the fair value of the hedging instrument attributable to the ineffective portion is immediately recognized under financial income and expense.

If during the life of a derivative financial instrument the expected cash flows being hedged are no longer considered highly likely to materialise, the portion of the cash flow hedge reserve relating to that instrument is immediately reversed to the profit and loss account as financial income or expense. Conversely, if the derivative instrument is sold, or no longer qualifies as an effective hedge, the cash flow hedge reserve recognised until then is kept as an equity component and is reversed to the profit and loss account

according to the classification criterion described above as the effects of the underlying assets materialise.

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.

Inventory

Inventory is valued at the lower of cost or production cost and net realizable value. Cost is determined using the weighted average cost method. The cost of finished goods and semi-finished products includes the cost of raw materials, direct labour costs, and indirect costs incurred in the course of normal production.

The net realizable value is determined on the basis of the estimated sale price under normal market conditions, net of direct sale costs.

Based on the value of inventory as determined above, provisions are made to allow for inventory that is considered obsolete or slow-moving.

Work in progress

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 Group 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 year 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 analysis is made contract by contract. Positive differences (when the value of the work in progress exceeds that of the advances paid) are 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.

Cash and cash equivalents

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

Shareholders' equity

Share capital

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

Treasury shares

They are shown so as to decrease the share capital. No gains or losses from the purchase, sale, issue or cancellation of treasury shares are recognised in the profit and loss account.

Retained earnings/(losses) carried forward

These include earnings and losses for the year and the previous years in respect of the portion that has not been distributed nor accrued to a reserve (in the case of profits) or that is to be made good (in the case of losses). This also 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 in respect of the recognition of the effective portion of the hedge and the stock option /grant reserve in respect of the recognition of defined-benefit plans as stock-holding.

Employee benefits

The Group uses several types of pension and supplementary benefit plans, which can be classified as follows:

- *Defined contribution plans* in which the company pays fixed amounts to a distinct entity (e.g. a fund) but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay the benefits accrued by employees during their period of employment with the company. The company recognises the contributions to the plan only if employees rendered their services to the company specifically in exchange for these contributions;
- *Defined benefit plans* in which the company undertakes to provide agreed benefits for current and former employees and incur the actuarial and investment risks associated with the plan. The cost of the plan is therefore not determined by the amount of the contributions payable in the financial period but, rather, is redetermined with reference to actuarial and economic and financial assumptions. The methodology used is the projected unit credit method. The "trattamento di fine rapporto" referred to in Article 2120 of the Italian Civil Code belongs to this category.

In compliance with IAS 19, the Finmeccanica Group uses the so-called ‘corridor’ approach in recognising actuarial losses and gains relating to defined benefit plans. This method makes it possible to dilute the effects of changes in the valuation parameters over a number of financial years. Consequently, net actuarial losses and gains at the end of the prior period that exceed the greater of 10% of the present value of the obligation and 10% of the fair value of the benefit plan assets divided by the remaining working life of employees are recognised in each period.

With regard to the severance pay, that is recognised as a defined-benefit plan at 31 December 2006, Law no. 296 of 27 December 2006 (‘Finance Law 2007’) and subsequent Decrees and Regulations issued in 2007 introduced, as part of the reform of the social security system, significant changes as to where to allocate the severance pay provision.

Specifically, the employee may choose to put the new accruals to the severance pay provision in supplementary pension schemes of his choice, or to keep them at the company (for companies with less than 50 employees), or to transfer them to the INPS (for companies with more than 50 employees). Based on these regulations, and on the generally accepted interpretations, the Group believed that:

- for the severance pays accrued at 31 December 2006, the provision is a defined-benefit plan to be measured on actuarial rules but without including future pay increases. The resulting difference was treated as a curtailment in accordance with the provisions of Section 109 of IAS 19 and, as a result, was recognised in the profit and loss account together with previously unrecognised actuarial gains and losses in compliance with the corridor approach. The estimated effects of this curtailment are described in Section 8.18. To this regard, the effect has been estimated based on the information now available, which is still incomplete and uncertain, given that the option appears to have been exercised mainly in the last days of the half-year 2007;
- for the severance pays accruing after 31 December 2006, the nature of supplementary pension funds and of funds allocated to the INPS treasury fund is that of a defined-contribution plan, without including actuarial estimates in the determination of the portion of cost attributable to the period.

With the defined-benefit plans, the Group assumes the obligation to ensure a specific retirement benefit level for employees participating in the plan, guaranteeing to make good any negative difference between value of plan assets and the agreed-upon benefit level.

Equity compensation benefits

The Company uses stock grant plans as part of its compensation of senior management. In these cases, the theoretical benefit attributable to the recipients is charged to the profit and loss account in the financial periods for which the plan is operative with a contra-item in an equity reserve. The benefit is quantified by measuring the fair value of the assigned instrument using financial valuation techniques that take account of market conditions and, at the date of each annual or interim report, an updated estimate of the number of instruments expected to be distributed.

Provisions for risks and charges

Provisions for risks and charges cover certain or probable losses and charges whose timing or amount was uncertain at the reporting date.

The provision is recognised only when a current obligation (legal or constructive) exists as a result of past events and it is probable that an outflow of economic resources will be required to settle the obligation. The amount accrued reflects the best current estimate of the cost of fulfilling the obligation. The interest rate used to determine the present value of the liability reflects current market rates and includes the additional effects relating to the specific risk associated with each liability.

Risks for which the emergence of a liability is merely a possibility are reported in the section in the notes on commitments and risks and no provision is recognised.

Translation of accounting entries in currencies other than the euro

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

Revenue recognition

Revenue is recognised at the fair value of the payment received, net of VAT, discounts, and quantity discounts. Revenue also includes changes to work in progress. Specifically, the Group enters into the accounts revenue from sale of goods at the moment that all the risks and benefits incidental to ownership are transferred to customers; in many cases, this moment coincides with the transfer of title or ownership to the buyer. Revenue from services rendered is entered, when it can be reliably estimated, on the basis of the percentage that has been completed.

Grants

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

Costs

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

Financial income and expense

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

Dividends

These are entered when the shareholders' right to receive payment is exercised; this normally happens when the shareholders' meeting passes the motion for the distribution of dividends. Distribution of dividends is thus entered as an asset in the year in which it is approved by the shareholders' meeting.

Taxes

Income taxes are recognised based on estimated taxable income in accordance with applicable provisions, taking into account applicable exemptions, if any, and the relevant tax credits.

Deferred taxes are assessed on all the temporary differences that arise between the taxable amount of an asset or liability and its book value, with the exception of goodwill and those relating to temporary differences resulting from shareholdings in subsidiaries, when the timescale governing the reversal of such differences is within the Group's control and it is likely that they will not be reversed within a reasonable time. Deferred tax assets, including tax loss carryforwards, for the portion that is not offset by deferred tax liabilities, are recognized to the extent that it is probable that there will be future taxable income against which they can be applied. Deferred taxes are assessed using tax rates that will be applicable to the years in which temporary differences will be realized or cancelled out.

Current and deferred taxes are entered in the profit and loss account, 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 and deferred 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.

Transactions with related parties

Related party transactions are made at arm's length.

Critical accounting estimates and assumptions

Described below are the accounting principles that demand greater subjectivity on the part of the directors in making estimates. For these principles a change in the principles underlying the assumptions made could have a significant impact on consolidated half-year figures:

Risk provisions and estimates of final costs of long-term contracts: the Group 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 profit and loss account 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 Group has equipped itself with procedures for managing and analyzing 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 Group 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 half-year figures are drawn up.

Goodwill: in accordance with the accounting standards adopted for the consolidated accounts, directors check goodwill annually, to establish whether there are any impairments to be entered in the profit and loss account. Most importantly, this check 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 accounting value of the cash generating units, the value of goodwill allocated is brought into line with the recoverable written-down 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 half-year accounts are drawn up.

Write-down of fixed assets: in accordance with the accounting standards applied by the Group, fixed assets are tested for impairment, which must be recorded via a write-down, when there are indicators that point to difficulties in recovering their net book value. Establishing whether such indicators exist demands that directors make subjective judgments based upon information available within the Group and in the market, as well as on experience. Moreover, if it is established that an impairment may have occurred, the Group proceeds to assess this, using the valuation techniques that are deemed appropriate. Proper identification of the elements that indicate a potential reduction in value, as well as the estimates for assessing such a reduction, depend on factors that may change over time and which could therefore produce a significantly different outcome from that expected by directors at the time the consolidated half-year accounts are drawn up.

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

7 SEGMENT REPORTING

7.1 Primary segment

The Group operates in two transport-related segments: signalling in railways and urban railways through the **signalling division**, and in transport systems through the **transport systems division**. For more detailed analysis of the main programmes, outlook, and management indicators for each division, see the report on operations by segment. Other operations relate to Ansaldo STS S.p.A..

The results of the divisions at 30 June 2007, compared with those for the same period of the previous year, are as follows:

<i>(EUR 000)</i>	<i>Six months ended 30 June 2007</i>				
	<i>Signalling Division</i>	<i>Transport systems</i>	<i>Other operations</i>	<i>Eliminations</i>	<i>Total</i>
Revenues	306,226	100,242	-	6,458	412,926
Revenues from related parties	49,245	12,006	6,396	(19,240)	48,407
Other operating revenues from related parties	433	1,029	1,719	(1,831)	1,350
Other operating revenues	5,411	893	-	-	6,304
Costs from related parties (less recoveries)	(14,065)	(18,235)	(1,714)	15,159	(18,855)
Purchases	(112,631)	(6,857)	(20)	208	(119,300)
Service costs	(81,320)	(60,367)	(7,079)	-	(148,766)
Staff costs	(107,593)	(14,858)	(5,318)	(754)	(128,523)
Changes in work in progress, semi-finished products, finished products, and goods	2,894	-	-	-	2,894
Amortisation, depreciation and impairment	(3,435)	(334)	(925)	-	(4,694)
Other operating costs	(5,518)	(1,146)	(406)	-	(7,070)
(-) Capitalised costs of assets produced internally	167	-	-	-	167
(EBIT)	39,814	12,373	(7,347)	-	44,840
Financial income	1,590	557	357	900	3,404
Financial income from related parties	1,660	3,074	16,947	(18,636)	3,045
Financial expense	(3,189)	(256)	(65)	(919)	(4,429)
Financial expense from related parties	(93)	(13)	(4,395)	4,415	(86)
Profit (loss) before taxes	39,782	15,735	5,497	(14,240)	46,774
Income tax	(14,699)	(6,646)	2,930	-	(18,415)
Net profit (loss)	25,083	9,089	8,427	(14,240)	28,359
<i>Group</i>	25,02			(14	
	9	9,089	8,427	,240)	28,305
	5				
<i>Minority interests</i>	4	-	-	-	54
<i>Investments</i>	7,782	387	158	-	8,327

Six months ended 30 June 2006

<i>(EUR 000)</i>	<i>Signalling Division</i>	<i>Transport systems division</i>	<i>Other operations</i>	<i>Elimination</i>
Revenues	240,014	63,785	-	
Revenues from related parties	-	23,542	-	
Other operating revenues	3,591	783	949	
Other operating revenues from related parties	-	204	-	
Purchases	(75,279)	(10,141)	(3)	
Service costs	(68,178)	(33,421)	(7,806)	
Costs from related parties	-	(22,964)	-	
Staff costs	(69,710)	(8,682)	-	
Changes in work in progress, semi-finished products, finished products, and goods	3,209	-	-	
Amortisation, depreciation and impairment	(2,615)	(195)	(811)	
Other operating costs	(4,727)	(657)	(1,279)	
Capitalized costs of assets produced internally	197	-	-	
(EBIT)	26,502	12,254	(8,950)	
Financial income	64	992	1,727	
Financial income from related parties	-	1,252	-	
Financial expense	-	-	(2,986)	
Financial expense from related parties	-	(379)	-	
Profit (loss) before taxes	26,566	14,119	(10,209)	
Income tax	(11,691)	(5,509)	-	
Net profit (loss)	14,875	8,610	(10,209)	
Group	14,846	8,610	(10,209)	
Minority interests	29	-	-	
Investments	5,102	410	528	

The divisions' assets and liabilities at 30 June 2007, 30 June 2006 and 31 December 2006 are as follows:

30 June 2007

	<i>Signalling Division</i>	<i>Transport systems</i>	<i>Other operations</i>	<i>Total</i>
Total Assets	437,843	212,716	351,98 9	1,002,54 8
Total Liabilities	409,427	202,251	234,71 9	846,39 7

30 June 2006

	<i>Signalling Division</i>	<i>Transport systems</i>	<i>Other operations</i>	<i>Total</i>
Total Assets	340,946	219,851	319,19 8	879,99 5
Total Liabilities	330,261	210,990	242,43 1	783,68 2

31 December 2006

	<i>Signalling Division</i>	<i>Transport systems</i>	<i>Other operations</i>	<i>Total</i>
Total Assets	424,723	207,894	317,59 1	950,20 8
Total Liabilities	420,703	192,278	210,58 8	823,56 9

7.2 Secondary segment

Geographically, Group revenues breaks down as follows (according to the countries where customers are based):

	<i>First half 2007</i>	<i>First half 2006</i>
Italy	217,746	176,663
Rest of Western Europe	105,469	68,678
North America	56,259	45,786
Asia/Pacific	72,602	29,434
Others	9,257	3,270
	461,333	323,831

Geographically, assets break down as follows:

	<i>First half 2007</i>	<i>December 2006</i>	<i>First half 2006</i>
Italy	557,117	549,841	593,736
Rest of Western Europe	387,161	228,726	112,518
North America	14,681	86,889	119,525
Asia/Pacific	36,701	84,752	54,216
Others	6,888	-	-
	1,002,548	950,208	879,995

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

	<i>First half 2007</i>	<i>December 2006</i>	<i>First half 2006</i>
Italy	1,882	4,512	2,054
Rest of Western Europe	1,220	1,672	906
North America	4,387	5,223	2,416
Asia/Pacific	-	1,761	664
Others	838	-	-
	8,327	13,168	6,040

8 NOTES TO THE BALANCE SHEET

8.1 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. Amounts are reported below.

<i>Receivables at 30 June 2007</i>	Non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
<i>(figures in EUR 000)</i>					
Parent company					
Finmeccanica SpA	-	156,673	1	-	156,674
Subsidiaries					
Alifana Due Scrl	-	-	1,718	-	1,718
Alifana scrl	-	-	93	-	93
Associated companies					
I.M. Intermetro Spa	-	-	400	-	400
Metro 5 Spa	-	-	2,105	-	2,105
Pegaso Scrl	-	-	249	-	249
Consortia					
Cons. Ascosa Quattro	-	-	342	-	342
Cons. Ferrov.S.Giorgio/Volla	-	-	-	-	-
Cons. Ferrov.S.Giorgio/Volla 2	-	-	171	-	171
Cons. Ferroviario Vesuviano	-	-	1,068	-	1,068
Cons. Saturno	-	-	10,273	-	10,273
Other Group companies					
Alenia Aeronavali S.P.A.	-	-	133	-	133
Ansaldo Argentina S.A.	-	-	37	-	37
Ansaldo Energia S.P.A.	-	-	1	-	1
AnsaldoBreda S.P.A.	-	-	879	11	890
Mecfin	-	-	-	-	-
Electron Italia S.R.L.	-	-	698	-	698
Elsag S.P.A.	-	-	297	-	297
Fata Logistic Systems Spa	-	-	1	-	1
Laben	-	-	-	-	-
Fata Spa	-	-	-	4	4
Finmeccanica Group Services Spa	-	-	8	-	8
Orizzonte Sistemi Navali S.P.A.	-	-	-	3	3
Selex Sistemi Integrati Ltd	-	-	39	-	39
So.Ge.Pa. Spa	-	-	-	1	1
Total	-	156,673	18,513	19	175,205

<i>Receivables at 31 December 2006</i>	Non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
<i>(figures in EUR 000)</i>					
Parent company					
Finmeccanica SpA	-	132,128	130	79	132,337
Subsidiaries					
Alifana Due Scrl	-	-	3,485	-	3,485
Alifana scrl	-	-	161	-	161
Associated companies					
I.M. Intermetro Spa	-	-	411	-	411
Metro 5 Spa	-	-	-	-	-
Pegaso Scrl	-	-	70	-	70
Consortia					
Cons. Ascosa Quattro	-	-	-	-	-
Cons. Ferrov.S.Giorgio/Volla	-	-	1,421	-	1,421
Cons. Ferrov.S.Giorgio/Volla 2	-	-	-	-	-
Cons. Ferroviario Vesuviano	-	-	1,460	-	1,460
Cons. Saturno	-	-	34,783	-	34,783
Other Group companies					
Alenia Aeronavali S.P.A.	-	-	-	-	-
Ansaldo Argentina S.A.	-	-	37	-	37
Ansaldo Energia S.P.A.	-	-	-	-	-
Ansaldobreda S.P.A.	-	-	2,573	-	2,573
Mecfin	-	-	52	-	52
Electron Italia S.R.L.	-	-	-	-	-
Elsag S.P.A.	-	-	-	-	-
Fata Logistic Systems Spa	-	-	-	-	-
Laben	-	-	-	-	-
Fata Spa	-	-	40	-	40
Finmeccanica Group Services Spa	-	-	-	-	-
Orizzonte Sistemi Navali S.P.A.	-	-	-	-	-
Selex Sistemi Integrati Ltd	-	-	-	-	-
So.Ge.Pa. Spa	-	-	-	-	-
Total	-	132,128	44,623	79	176,830

*Payables at 30 June
2007*

	Non-current financial payables	Other long-term debt	Current borrowings	Trade payables	Other current payables	Total
<i>(figures in EUR 000)</i>						
Parent company						
Finmeccanica SpA	-	-	-	81	135	216
Subsidiaries						
Alifana S.c.r.l.	-	-	-	-	3	3
Alifana Due S.c.r.l.	-	-	-	3,249	-	3,249
Associated companies						
I.M. Intermetro S.p.A.	-	-	-	1	-	1
Metro 5 Spa	-	-	-	-	4,613	4,613
Pegaso S.c.r.l.	-	-	-	1,142	-	1,142
Consortia						
Saturno	-	-	-	435	-	435
Ascosa Quattro	-	-	-	4	-	4
Team	-	-	-	31	-	31
SanGiorgio Volla 2	-	-	-	21	20	41
Cons. Ferroviario Vesuviano	-	-	-	158	8	166
SanGiorgio Volla	-	-	-	130	8	138
Filobus Vesuviano	-	-	-	-	10	10
Other Group companies						
Mecfin	-	-	-	74	-	74
Ansaldo Breda	-	-	-	4,173	-	4,173
Alcatel Alenia Space	-	-	-	-	-	-
Finmeccanica Finance	-	-	-	-	21	21
Prodotti elettronici	-	-	-	-	-	-
Elsag Gest	-	-	-	(21)	-	(21)
Elsag Spa	-	-	-	2,212	-	2,212
Ote Spa	-	-	-	2,738	-	2,738
Other	-	-	-	58	-	58
Sogepa	-	-	-	3	-	3
Orizzonte Sistemi Navali	-	-	-	-	-	-
Fata Logistic	-	-	-	354	-	354
Total	-	-	-	14,843	4,818	19,661

<i>Payables at 31 December 2006</i> (figures in EUR 000)	Non- current financial payables	Other long-term debt	Current borrowings	Trade payables	Other current payables	Total
<i>Parent company</i>						
Finmeccanica SpA	-	-	-	521	230	751
<i>Associated companies</i>						
I.M. Intermetro S.p.A.	-	-	-	1	-	1
<i>Consortia</i>						
Pegaso S.c.r.l.	-	-	-	4,204	-	4,204
Alifana S.c.r.l.	-	-	-	521	3	524
Alifana Due S.c.r.l.	-	-	-	5,134	-	5,134
Saturno	-	-	-	394	-	394
SanGiorgio Volla 2	-	-	-	39	-	39
Cons. Ferroviario Vesuviano	-	-	-	108	-	108
SanGiorgio Volla	-	-	-	130	-	130
Metro 5	-	-	-	4,656	-	4,656
Ascosa 4	-	-	-	6	-	6
<i>Other Group companies</i>						
Finmeccanica Finance	-	-	-	-	21	21
Mecfin	-	-	-	9	-	9
Ansaldo Breda	-	-	-	5,534	-	5,534
Ansaldo Energia	-	-	-	-	-	0
Alcatel Alenia Space	-	-	-	-	36	36
Prodotti Elettronici	-	-	-	-	40	40
Sogepa	-	-	-	4	-	4
Electron	-	-	-	-	-	-
Selex	-	-	-	64	-	64
Fata Logistic	-	-	-	426	-	426
Ote Spa	-	-	-	3,684	-	3,684
Elsag Gest	-	-	-	-	-	-
Elsag STI	-	-	-	-	-	-
Elsag Spa	-	-	-	1,917	-	1,917
Total	-	-	-	27,352	330	27,682

The sections below only contain assets and liabilities of minority interests, since all the transactions with related parties are listed in 8.1 above.

8.2 Intangible assets

	Goodwill	Patent and similar rights	Concessions, licences and trademarks	Assets under development	Other	Total
Balance at 31 December 2006	38,391	1	1,046	3,202	2,433	45,073
Change in scope of consolidation	-	-	-	-	-	-
Investments	26	-	39	2,086	2,125	4,276
Sales	-	-	-	-	-	-
Amortisation, depreciation and impairment	-	(3)	-	-	(498)	(501)
Exchange rate difference	(4)	-	(161)	(108)	(42)	(315)
Other changes	-	-	14	(32)	116	98
Balance at 30 June 2007	38,649	8	1,292	5,148	4,134	49,231

Acquisitions for the period amounted to EUR 4,866 thousand and relate to the signalling division (EUR 4,547 thousand), the transport system division (EUR 227 thousand) and the Group Parent (EUR 92 thousand).

The entries of the signalling division mainly relate to (i) the US subsidiary Union Switch & Signal (EUR 4,145 thousand) and stem from the purchase of the RM Star business line and the implementation of the SAP system, and (ii) the French subsidiary Ansaldo STS France (EUR 305 thousand) to purchase new licences; the entries of the system division mainly relate to software purchased by third parties to support the designing and planning activities for the engineering lines and the lines for the development of the planning, cost control, and project management internal process.

Goodwill included the equity investments purchased on 24 February 2006 (as described above) breaks down by segment as follows:

	31-Dec-06	Increases	Decreases	30-Jun-07
Signalling	38,391	262	4	38,649
Systems	-	-	-	-

38,391	262	4	38,649
---------------	------------	----------	---------------

Goodwill is subject to impairment testing to determine any losses in value. This is done by individual CGU by comparing the carrying amount with the greater of the value in use of the CGU and amount recoverable by sale. In particular, the value in use is measured by discounting the cash flows of the three-year plans approved by management and projected beyond the explicit time horizon covered by the plan using growth rates no greater than those forecast for the market in which the given CGU operates.

On 22 May 2007 the US subsidiary Union Switch & Signal Inc. acquired the RM Star business line whose effects are reported below:

	RM Star
Cash paid	2,303
Assets acquired:	
Inventory	148
Property, plant and equipment	71
Backlog, customer list and other minors	913
Software	909
Goodwill arising from acquisition	262

8.3 Property, plant and equipment

	Land	Buildings	Plant and machinery	Equipment	Assets under development	Other	Total
<i>Balance at 31 December 2006</i>	11,588	57,885	7,110	4,026	2,913	8,248	91,770
Change in scope of consolidation	-	-	11	-	-	8	19
Investments	-	49	415	64	321	1,586	3,461
Sales	-	-	-	(3)	-	(11)	(14)
Amortisation, depreciation and impairment	-	(1,171)	(896)	(766)	-	(1,122)	(3,955)
Other changes	(8)	1,127	(662)	48	(94)	(940)	(93)
<i>Balance at 30 June 2007</i>	11,580	58,332	5,978	4,389	3,140	7,769	91,188

Property, plant and equipment include the value of the premises owned by the parent company, Ansaldo STS, located at Via Mantovani 3/5 in Genoa and purchased in December 2005 from its parent company Finmeccanica S.p.A. 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 as 'Land'.

Apart from the Via Mantovani premises and EUR 667 thousand attributable to the Transport Systems Division, Group property, plant and equipment was almost entirely attributable to the Signalling Division.

Other changes mainly relate to the exchange rate differences generated from the translation of the amounts of foreign subsidiaries.

Capitalized costs for the period came to EUR 3,461 thousand and mainly refer to the Signalling Division for EUR 3,234 thousand, as follows:

- EUR 1,251 thousand, Ansaldo Segnalamento Ferroviario SpA (Italy)
- EUR 278 thousand, Union Switch & Signal Inc. (USA)
- EUR 774 thousand Ansaldo STS France (France)
- EUR 552 thousand, Asia/Pacific region companies
- EUR 379 thousand, other European companies (Ansaldo STS Sweden, Ansaldo STS U.K. and Ansaldo STS Ireland).

8.4 Equity investments

	<u>Investments at cost</u>	<u>Investments at equity</u>	<u>Total investments</u>
	22,1	6,	28,5
<i>Balance at 31 December 2006</i>	32	450	82
Change in scope of consolidation	-	-	-
		-	3
Acquisitions and capital increases	370		70
Sales	-	-	-
Exchange rate differences	-	(3)	(3)
	22,5	6,4	28,9
<i>Balance at 30 June 2007</i>	02	47	49

List of equity investments, in thousands of euros:

Company Name	ownership %	Total Assets	Total liabilities		Currency	Value
Metro C Spa	14.00%	72,321	35,043		Euro	21,000
Metro 5 Spa	24.60%	32,521	7,524		Euro	6,150
I.M. Intermetro	16.67%	1,450,431	1,442,377	*	Euro	523
International Metro Service	49.00%	not applicable	not applicable		Euro	344
Tram di Firenze	3.80%	not available	not available		Euro	266
Ecosen	51.00%	2,048,388	1,545,696	*	Veb	145
Pegaso Scrl	46.87%	21,447	21,187		Euro	122
Iricav uno	17.44%	not available	not available		Euro	91
Iricav 2	15.00%	81,338	80,822	*	Euro	77
Cons ferroviario vesuviano	25.00%	194,571	194,416		Euro	38
S. Giorgio Volla 2	40.00%	880	808		Euro	28
Ansaldo STS Deutschland	100.00%	not applicable	not applicable		Euro	26
Cris	1.00%	10,993	8,587	*	Euro	24
S. Giorgio Volla	25.00%	6,160	6,087		Euro	18
Alifana scrl	65.85%	2,111	2,085		Euro	17
Ascosa Quattro	25.00%	101,819	101,762	*	Euro	14
Siit	2.30%	600	5	*	Euro	14
Alifana Due Scrl	53.34%	12,717	12,691		Euro	13
Saturno	33.34%	1,086,319	1,086,288	*	Euro	10
Cons. Team	22.22%	99	53		Euro	10
Cesit	15.28%	293	227	*	Euro	9
Iscit	9.09%	217	187	*	Euro	4
Cons Train	2.74%	not available	not available		Euro	3
Cosila	0.90%	157	43	*	Euro	2
Filobus Vesuvio	1.00%	not available	not available		Euro	1
Total						28,949

Equity investments at 30 June 2007 came to EUR 28,949 thousand and are almost entirely attributable to the Transport Systems Division: EUR 21,000 thousand for the purchase of a 14% stake in Metro C SpA, a company formed on 3 April 2006 to design and build the new C line of the Rome metro and EUR 6,150 thousand to purchase 24.6% of Metro 5 SpA, a company formed on 5 June 2006 to design, build and operate the new Line no. 5 of the Milan metro. With regard to the Signalling division, on 26 March 2007 Ansaldo STS Deutschland GmbH was formed. Its share capital was fully subscribed by the Italian subsidiary Ansaldo Segnalamento Ferroviario.

With regard to the Transport Systems division, the increase for the period is mainly due to the acquisition of 49% in International Metro Service S.r.l., which was formed with ATM to implement a part of the Operation&Maintenance for the Copenhagen project (EUR 344 thousand).

8.5 Receivables and other non-current assets

	<i>30-Jun-2007</i>	<i>31-Dec-2006</i>
Security deposits	1,785	1,521
Receivables on loans to employees	-	-
Income tax credit for severance benefits	724	708
Other non-current receivables	13,393	13,265
Other sundry receivables	-	-
Total	15,902	15,494
Prepaid expenses – minority interests	579	661
Prepaid expenses – related parties	28,180	28,979
Total	28,759	29,640

Non-current receivables at 30 June 2007 came to EUR 15,902 thousand, of which EUR 8,120 thousand relates to the Signalling division, and are mainly due to the American subsidiary Union Switch & Signal in relation to the ‘Pittsburgh facilities lease’ receivable of EUR 6,627 thousand and the Transport System division for EUR 7,782 thousand; they also include the advance paid for the Thessaloniki underground, the awardee of the relevant contract, for EUR 6,766 thousand.

Other assets came to EUR 28,759 thousand and essentially regard the non-current portion of long-terms costs related to the license to use the ‘Ansaldo’ brand for 20 years. On 27 December 2005, Ansaldo STS S.p.A. entered into a licensing agreement with Finmeccanica to use the ‘Ansaldo’ brand under which the Company is known in the market. The agreement gives the Company exclusive use of the brand until 27 December 2025 in the sectors the Group does business, in exchange for an up-front payment of EUR 32,213 thousand.

8.6 Inventory

	<u>30-Jun-2007</u>	<u>31-Dec-2006</u>
Raw materials	37,475	28,258
Work in progress and semi-finished products	23,249	22,117
Finished products and goods	8,613	6,619
Advances to suppliers	34,829	39,546
Total	<u>104,166</u>	<u>96,540</u>

Inventories are shown net of write-downs of EUR 5,737 thousand.

8.7 Work in progress and advances from customers

	<u>30-Jun-2007</u>	<u>31-Dec-2006</u>
Work in progress (gross)	905,499	944,429
Advances from customers	<u>(778,400)</u>	<u>(866,137)</u>
Work in progress (net)	<u>127,099</u>	<u>78,292</u>
Advances from customers (gross)	3,145,502	3,220,461
Work in progress	<u>(2,683,721)</u>	<u>(2,745,337)</u>
Advances from customers (net)	<u>461,781</u>	<u>475,124</u>

Work in progress is recognized under assets 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 recognized among liabilities if the advances from customers exceed the value of the related work in progress. The amount corresponding to advances not received as of the end of the period is recognized under receivables from customers.

8.8 Trade and financial receivables

	<u>30-Jun-2007</u>	<u>31-Dec-2006</u>
From customers	259,225	266,522
Total	<u>259,225</u>	<u>266,522</u>

Trade and financial receivables do not include transactions with related parties and are reported in the relevant section.

With regard to Consob communication no. DAC/RM/97003369 of 9 April 1997, during the year 2007 the Group did not assign receivables with or without recourse.

8.9 Tax receivables and payables

	<u>30-Jun-2007</u>		<u>31-Dec-2006</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Direct taxes	5,052	8,307	1,913	14,090
Indirect taxes	4,638	4,508	-	-
Other taxes	1,228	1,314	5,785	9,024
Total	10,918	14,129	7,698	23,114

The amount receivable for direct taxes and other amounts due from the tax authorities fell from EUR 7,698 thousand at 31 December 2006 to EUR 10,918 thousand at 30 June 2007, mainly as a result of the tax advances paid by the French and Indian subsidiaries of the Signalling division.

Ansaldo STS S.p.A., the holding company, exercised the option to use the Consolidated Taxation Mechanism for the Group's Italian subsidiaries (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.) for the 2007-2009 three-year period for IRES (corporate income tax). By electing this option, it will be possible to compute a single IRES taxable income base for the Italian companies of the Group, through the algebraic sum of the taxable income (fully considered) of the holding/consolidating company and the consolidated/subsidiary companies (Italian subsidiaries only).

Tax payables were EUR 14,129 thousand at 30 June 2007 compared with EUR 23,114 thousand at 31 December 2006-an increase of EUR 8,985 thousand.

This is due to the application of the above said consolidated taxation mechanism and lower payables to the foreign Tax Authorities of the US and the Australian subsidiaries of the Signalling division.

IRES payable came to EUR 3,732 thousand, broken down into EUR 4,241 thousand for Signalling and EUR 1,121 thousand for Transport Systems.

IRAP payable came to EUR 1,008 thousand, broken down into EUR 694 thousand for Signalling and EUR 374 thousand for Transport Systems.

8.10 Other current assets

	<i>30-Jun-2007</i>	<i>31-Dec-2006</i>
Due from staff	514	963
Deferred income	9,146	10,875
Receivables from social security institutions	1,282	939
Research subsidies	3,063	3,284
Receivables for security deposits	1,785	326
Derivatives	191	282
Others	10,349	8,523
Total	<u>26,330</u>	<u>25,192</u>

Other current assets at 30 June 2006 amounted to EUR 26,330 thousand, an increase of EUR 1,138 thousand compared with 31 December 2005 (EUR 25,192 thousand). The change is essentially due to greater guarantee deposits from the US subsidiary (EUR 793 thousand) and to greater receivables from local entities of the other foreign subsidiaries of the Signalling division.

Prepaid expenses mainly refer to the current portion of costs incurred in purchasing the license to use the 'Ansaldo' brand (EUR 1,610 thousand), rent (EUR 1,853 thousand), insurance (EUR 2,355 thousand), bank commission (EUR 607 thousand), and the remaining amount (EUR 1,109 thousand) relates to maintenance costs.

Receivables for research subsidies essentially related to the Italian subsidiary of the Signalling Division (ASF) with regard to the following projects:

- CEE (TEN 2002-2003)
- MAP (MARTE – SAFEDMI)
- Law 488, 11th call
- Law 488 PIA

Other receivables (EUR 11,015 thousand) relate to transactions between foreign organizations and the establishments of the Signalling Division.

8.11 Cash and cash equivalents

	<i>30-Jun-2007</i>	<i>31-Dec-2006</i>
Cash	278	1
Bank deposits	42,035	48,579
Total	42,313	48,580

Cash and cash equivalents at 30 June 2007 were EUR 42,313 thousand, down from EUR 6,267 thousand at 31 December 2006; this change is mainly attributable to the Systems Division as a result of lower bank deposits in relation with the advances received from Consorzio Iricav Uno through the investee Pegaso S.c.r.l.

8.12 Share capital

	<i>Number of shares</i>	<i>Par value</i>	<i>Treasury shares</i>	<i>Total</i>
	100,000,000	50,000,000	-	50,000,000
Charges for capital increase	-	-	-	(50,000)
Balance at 31 December 2006	100,000,000	50,000,000	-	49,950,000
Shares subscribed in the first half 2007	-	-	-	-
Balance at 30 June 2007	100,000,000	50,000,000	-	49,950,000

The share capital of EUR 50,000,000.00 is fully paid-up and divided into 100,000,000 ordinary shares with a par value of Euro 0.50 each.

Share capital decreased by EUR 50 thousand due to expenses attributable to the capital increase in 2005. Ansaldo STS and the subsidiaries of Ansaldo STS do not own shares of the Company.

At 30 June 2007 Finmeccanica SpA owned 40% of the shares, JP Morgan Asset Management (UK) Limited owned 2.013% of the shares, Banca Popolare di Milano SCRL owned 2.201% of the shares, Altrinsic Global Advisors LLC owned 2.092% of the shares and CAAM Società di Gestione del Risparmio SpA owned 2.270% of the shares.

8.13 Retained earnings/losses carried forward

<i>Balance at 31 December 2006</i>	<u>101,413</u>
Change in scope of consolidation	-
Profit for the period	28,305
Capital increases/loss coverage	-
Other changes	(909)
<i>Balance at 30 June 2007</i>	<u><u>128,809</u></u>

Profit rose thanks to the Group profit for the period by EUR 28,305 thousand and fell by EUR 909 thousand due to the formation of the legal reserve from the Parent Company Ansaldo STS SpA with regard to the result at 31 December 2006.

8.14 Other reserves

	Other reserves	Cash flow hedge reserve	Translation reserve	Reserve for stock grant plans	Total
Balance at 31 December 2006	(7,449)	(1,251)	(18,223)	1,839	(25,084)
Change in scope of consolidation	18	-	(18)	-	-
Reversal to the profit and loss account	(65)	6	-	-	1
Net changes in the reserve for the Stock Grant plan	-	-	-	1,839	1,839
Translation differences	-	-	1,033	-	1,033
Valuations through equity	1,188	(3,062)	-	-	(1,874)
Other changes	1,035	-	-	-	1,035
Balance at 30 June 2007	(5,273)	(4,147)	(17,208)	3,678	(22,950)

Other reserves

Changes in other reserves are due to the Parent Ansaldo STS' statutory reserve and to the deferred taxes relating to cash flow hedge reserves.

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 recognized in the profit and loss account. When this condition is met, the reserve is reversed to the profit and loss account to offset the economic effects of the hedged transaction.

Translation reserve

This reserve is used to recognize 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 Union Switch & Signal Inc in the Signalling Division.

8.15 Minority interests

<i>Balance at 31 December 2006</i>	<u>360</u>
Change in scope of consolidation	-
Minority profit	(19)
Minority consolidation reserve	(1)
Minority conversion reserve	2
<i>Balance at 30 June 2007</i>	<u><u>342</u></u>

This refers to minority interests amounting to 20% of the Signalling Division by the Chinese subsidiary of Ansaldo STS France, Beijing CS. Signal Contr. Syst. Co. Ltd with offices in Beijing (China).

8.16 Financial payables

	<u>30-Jun-2007</u>			<u>31-Dec-2006</u>		
	<u>Current</u>	<u>Non-current</u>	<u>Total</u>	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Bank payables	5,113	5,433	10,546	12,900	5,433	18,333
Due to other lenders	963	2,720	3,683	1,076	3,001	4,077

Finance lease payables	-	43	43	8	41	49
Other financial payables	-	-	-	-	-	-
Total	6,076	8,196	14,272	13,984	8,475	22,459

The changes for the period are as follows:

	<i>31-Dec- 2006</i>	<i>New positions</i>	<i>Repayment s</i>	<i>Other changes</i>	<i>30-Jun- 2007</i>
Bank payables	18,333	-	(7,837)	50	10,546
Due to other lenders	4,077	-	(522)	128	3,683
Finance lease payables	49	-	(3)	(3)	43
Other financial payables	-	-	-	-	-
Total	22,459	-	(8,362)	175	14,272

Bank payables

Short-term bank payables of EUR 10,546 thousand mainly relate to the Indian subsidiary of the Signalling division of EUR 3,076 thousand in respect of an open-account transaction with HSBC (Bank of India), and EUR 435 thousand of the Transport System division for the short-term portion of the low-interest loan taken under Law 346/88.

Non-current bank payables relate to the Transport System division and relate to:

- EUR 4,612 thousand of the low-interest loan taken under Law 346/88 for research activities on the STREAM project carried out in prior years. The first instalment of this loan was paid at 31 December 2006. The last six-month instalment is due July 2012. Interest is calculated at a nominal 6.30% per year; the effective interest rate, i.e.: less interest grants, is 1.80% per year;
- EUR 821 thousand relates to the company's share of a low-interest loan on the SITI (*Sicurezza in Tunnel Intelligente*) research project which was presented by Consorzio TRAIN and in which the company is involved. The first instalment is to be paid in June 2008. The last six-month instalment will be due in June 2013. The interest rate is a six-month 0.25%.

Other changes relate to the exchange rate differences generated upon the translation of the financial statements of foreign subsidiaries.

Finance lease payables

These payables regard the tangible fixed assets held by the Group under finance lease contracts. The amount at 30 June 2007 was EUR 47 thousand compared with EUR 49 thousand at 31 December 2006 and relates to the purchase of a motor vehicle by the Signalling Division's Australian subsidiary Ansaldo STS Australia.

Due to other lenders

Financial payables amounted to EUR 3,683 thousand, a decrease of EUR 394 thousand over 31 December 2005 (EUR 4,077 thousand) due to repayments for the period by the Italian subsidiary Ansaldo Segnalamento Ferroviario in respect of the subsidized loans obtained from San Paolo Imi for the 'Scout e Time Qual' projects and from Mediocredito Centrale for the first PIA (*Programma Integrato di Agevolazioni*) Call – Marte.

8.17 Provisions for risks and charges and contingent current liabilities

	Reorganiz ation	Penalt ies	Product guarante es	Staff disputes	Provisi on for taxes	Others	Total
Balance at 31 December 2006	-	75	19,490	505	1,240	1,000	22,310
Reclassifications	-	-	1,000	-	-	(1,000)	-
Allocations	-	-	3,126	50	80	-	3,256
Uses	-	-	(2,636)	(101)	-	-	(2,737)
Other changes	-	-	(570)	(14)	-	-	(584)
Balance at 30 June 2007	-	75	20,410	440	1,320	-	22,245
<i>Current</i>	-	-	-	-	-	-	-
<i>Non-current</i>	-	-	-	-	-	-	-
Balance at 31 December 2006	-	-	-	-	-	-	-
<i>Current</i>	-	75	20,410	440	1,320	-	22,245
<i>Non-current</i>	-	-	-	-	-	-	-
Balance at 30 June 2007	-	75	20,410	440	1,320	-	22,245

As regards provisions for risks, it should be pointed out that the companies of the Ansaldo STS Group work in sectors and markets where many issues - 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 other party 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.

Provisions have been made for any quantifiable liability that is likely to arise.

As to litigation, the following apply:

- Ansaldo STS S.p.A. is not directly involved in any litigation;
- none of the subsidiaries in of the Transport Systems Division or Signalling Division are involved in litigation that is so significant or risky as to require specific disclosure, other than that provided below;
- 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 possibility.

Consorzio Iricav Due /TAV- Treno Alta Velocità S.p.A.

Ansaldo Trasporti Sistemi Ferroviari is part of the IRICAV DUE Consortium (with a 15% interest); the consortium is the general contractor for the work of building the Verona-Padua high-speed railway section.

On 25 January 2007 the Council of Ministers of the Italian Government approved a law decree that establishes, among its provisions, the revocation of the concessions released to T.A.V. by the Ente Ferrovie dello Stato for the Milan-Verona, Verona-Padua and Milan-Genoa lines. The effects of the revocation extended to all agreements and contracts made with General Contractors on 15 October 1991 and 16 March 1992.

Said 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.

On 26 January 2007 the consortium initiated arbitration proceedings to assess TAV's failure to perform its obligations under the Agreement of 15 October 1991. Specifically, the consortium complains about the failure to perform acts of co-operation, including the development of the preliminary design and the raising of financial resources. The Arbitration Panel, composed of three members, was formed in Rome on 16 May 2007.

The Panel was given a term of 16 months to give its award, unless this term is extended. The Panel gave the Parties deadline of 15 July 2007 and 15 October 2007 for the filing of briefs and the production of documents, and set the hearing on 14 November 2007 in order to attempt settlement and discuss the matter. Following the revocation of the concession, on 6 April 2007 the Consortium served notice on the Ministry of

Transportation, RFI S.p.A., T.A.V. S.p.A. and the Prime Minister's Office of an appeal filed to the Lazio Regional Administrative Court (TAR) in order to obtain: a) principally, that the orders of the Ministry of Transportation and RFI S.p.A. be cancelled – after suspension; b) secondly, that the orders challenged and/or the revocations ordered and/or made under Article 13, paragraph 8 *quinquiesdecies* and ff. of the order and all the relevant subsequent deeds be cancelled – after demanding a preliminary ruling from the Court of Justice of the European Communities; c) thirdly and subject to submission to the Constitutional Court, that the orders adopted be declared as constitutionally illegitimate; and d) at all events, that the Italian Government, the Ministry of Transportation and RFI S.p.A. be sentenced to pay damages.

The Lazio TAR suspended the effectiveness of the orders with which RFI S.p.A. revoked the concession to TAV S.p.A. and with which TAV S.p.A. 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 of the revocation of the concessions with European regulations. TAV S.p.A. could appeal 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.

Moreover, in April 2007 TAV S.p.A. formally presented to the Consortium a claim for the repayment of the advance and the related interest accrued to the date of payment (EUR 7,165,840) and for the delivery of all project documents presented during the concession period.

The effect of the repayment of the advances, if any, would have effects on cash flow only and not on earnings, since they have been recorded as payables to the customer.

8.18 Severance pay and other post-employment benefits

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

	<i>30-Jun-2007</i>	<i>31-Dec-2006</i>	<i>30-Jun-2006</i>
Severance obligations	22,617	21,639	20,809
Defined-benefit pension plans	9,687	8,973	9,007
Other provisions for personnel	-	-	-
Total	32,304	30,612	29,816

	Severance obligations		Defined-benefits plans	
	30-Jun-2007	31-Dec-2006	30-Jun-2007	31-Dec-2006
Present value of the obligations	22,687	24,345	9,687	8,973
Fair value of the plan's assets	-	-	-	-
Unrecognized actuarial loss	(70)	(2,706)	-	-
	22,617	21,639	9,687	8,973
	17	9	87	3

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

	Severance obligations		Defined-benefits plans	
	30-Jun-2007	31-Dec-2006	30-Jun-2007	31-Dec-2006
Cost of benefits paid	59	1,908	158	323
Interest	14	618	1	292
Curtailement effect	2,633	-	-	-
Actuarial gains/losses	8	7	-	-
	2,714	2,533	159	615

The main actuarial assumptions are as follows:

	Severance pay provision		Defined-benefits plans	
	30-Jun-07	31-Dec-06	30-Jun-07	31-Dec-06
Discount rate (annual)	3.53% - 3.50%	3.50% - 3.50%	4.16%	4.25%
Rate of salary increases	2.60% - 5.40%	2.60% - 5.40%	1.59% - 4.19%	2.00% - 2.50%
Rate of turnover	2.93% - 3.88%	0.00% - 3.88%	-	-

The statutory severance pay obligation (trattamento di fine rapporto) in Italy calls for the payment of the entitlement accumulated by employees until the time they leave the company. This provision is calculated in accordance with Article 2120 of the Italian Civil Code by dividing the fixed components of an employee's compensation by 13.5. During the first half of 2007 the accounting effects of the changes brought by the Finance Law 2007 to the regulation of the severance pay have been recognised, as discussed in Section 6.3.

Specifically, the provision accrued at 31 December 2006 in companies with more than 50 employees was redetermined (which maintains its nature of defined-benefit plan), except for future salary increases, as was the subsequent curtailment effect, which was recognised in the profit and loss account under section 109 of IAS 19 (EUR 2,633 thousand). Also, the portion of cost attributable to the year was recognised according to the rules for defined-contribution plans, without any actuarial valuation. The other movements mainly relate to the reclassification to other current liabilities of the portion to be transferred to the treasury fund managed by INPS.

8.19 Other current and non-current liabilities

	<u>30-Jun-2007</u>		<u>31-Dec-2006</u>		<u>30-Jun-2006</u>	
	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>	<u>Current</u>
Due to staff	8,294	29,003	6,910	25,301	6,193	23,895
Deferred income	-	133	-	-	-	-
Payables to social security institutions	-	12,469	-	11,555	-	10,240
Contributions for research	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Derivatives	-	4,172	-	1,540	-	3,052
Other payables	829	28,667	-	26,089	-	27,364
Total	<u>9,123</u>	<u>74,444</u>	<u>6,910</u>	<u>64,485</u>	<u>6,193</u>	<u>64,551</u>

The other current and non-current liabilities were EUR 83,567 thousand, up EUR 12,172 thousand from 31 December 2006.

The change is mainly due to the Signalling Division as a result of the following:

- Change in the fair value of EUR 2,632 thousand due to the recognition at 30 June 2007 of hedge derivatives (Cash flow hedges) used by the foreign subsidiaries, mainly forward contracts for the Thessaloniki, Milan and Brescia contracts.
- greater payables to staff and social security institutions of EUR 6,000 thousand due to the increase in the employees in place at the reporting date, as mentioned in the section on staff costs.
- Increase in other payables and deferred income of EUR 3,540 thousand, of which EUR 3,286 thousand relates to the Signalling Division as a result of the rise in sundry payables of foreign subsidiaries.

8.20 Trade payables

	<u>30-Jun-2007</u>	<u>31-Dec-2006</u>	<u>30-Jun-2006</u>
Due to suppliers	191,173	143,536	158,716
Total	<u>191,173</u>	<u>143,536</u>	<u>158,716</u>

Trade payables to third parties rose by EUR 47,637 thousand: this increase is correlated to the increase in the Group's revenues.

8.21 Derivative instruments

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

	<u>30-Jun-07</u>	
	<u>Assets</u>	<u>Liabilities</u>
Forward instruments and cross-currency swaps	191	4,172

Forward instruments and cross-currency swaps

In order to prevent exposure to changes in collections and payments relating to long-term construction contracts denominated in currencies other than the euro, the Group specifically hedges the individual cash flows expected from a contract. The management of exchange rate risk is governed by policies that envisage the systematic hedging of cash inflows and outflows deriving from contractual obligations that are certain, so as to guarantee the exchange rates prevailing on the date long-term contracts are signed and neutralize the effects of exchange rate variations. Hedges are put in place at the time commercial contracts are signed, through plain vanilla (swap and forward) instruments which are eligible for hedge accounting in accordance with IAS 39. These instruments

are recognised on the basis of the cash flow hedge accounting model, considering the part relating to the premium or the discount as an ineffective component in the case of forward instruments and the part relating to the time value in case of options, which is recognized under financial income and expense. If, on the other hand, the hedge does not prove effective, the variations in fair value of such instruments are immediately recognized in the profit and loss account as financial items, while the underlying is valued as if it were not hedged, and reflects exchange rate fluctuations.

Hedging transactions are carried out predominantly with the banking system. At 30 June 2007 the Group had contracts referring to various currencies in the following notional amounts:

<i>(local currency in thousands)</i>	30 June 2007	31 December 2006
Euro	105,385	105,082
US dollar	46,960	22,936
GBP	4,817	4,722
Danish krone	-	-
Swedish krona	18,804	33,419
YEN	-	-
Canadian dollar	25,178	22,374
Australian dollar	20,792	19,998

Although the Group is also exposed to it, it does not hedge interest-rate risk.

8.22 Guarantees and other commitments

Operating leases

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:

	<u>30 June 2007</u>	<u>31 December 2006</u>	
Within 1 year	4,583	6,709	
2 to 5 years	11,878	13,522	
More than 5 years	12,194	12,307	
	<u>28,655</u>	<u>32,538</u>	<u>Guarantees</u>

At 30 June 2007, the Group had the following outstanding guarantees:

<i>Signature commitments at 30 June 2007</i>			
Direct guarantees and indemnities issued by third parties on behalf of the Group in favour of customers and other third parties (thousands of euros).	Signalling Division	Transport systems	Total
Unsecured guarantees issued by Finmeccanica (Parent Company Guarantees) and Finmeccanica Finance S.A. (advance payment bonds, performance bonds, retention money bonds) in favour of customers	2.2	100.5	102.7
Unsecured guarantees from Ansaldo STS and Ansaldo Signal NV (Parent Company Guarantees), in favour of customers	125.0	1.4	126.4
Sureties and bonds (advance payment bonds, performance bonds, bid bonds, retention bonds) issued by credit institutions or insurance companies in favour of customers	423.5	553.6	977.1
<i>of which: counter-guaranteed by Finmeccanica</i>	75.5	209.4	284.9
<i>of which: counter-guaranteed by Ansaldo STS</i>	50.8	47.0	97.8
Direct guarantees and indemnities by Ansaldo STS, credit institutions or insurance companies in favour of other third parties for non-contractual guarantees	13.0	8.9	21.9
<i>of which: issued or counter-guaranteed by Finmeccanica</i>	3.6	8.9	12.5
<i>of which: issued or counter-guaranteed by Ansaldo STS</i>	-	-	-
Total	563.7	664.4	1,228.1

9 NOTES TO THE PROFIT AND LOSS ACCOUNT

9.1 Transactions with related parties

Below are all transactions with related parties of the Group for the half-years 2007 and 2006:

<i>30 June 2007</i>	Revenue s	Other operating revenues	Costs	Financial income	Financial expense
<i>(figures in EUR 000)</i>					
<u>Parent company</u>					
Finmeccanica SpA	-	-	95 2	3,045	86
<u>Subsidiaries</u>					
Alifana S.c.r.l.	-	-	7 2	-	-
Alifana Due S.c.r.l.	2,87 7	-	4,23 9	-	-
<u>Associated companies</u>					
I.M. Intermetro S.p.A.	12 7	-	-	-	-
Pegaso S.c.r.l.	13 0	-	2,14 3	-	-
Metro 5 spa	48 4	-	(43)	-	-
<u>Consortia</u>					
Cons. Cesit	-	-	14	-	-
Saturno	37,352	-	1,394	-	-
Ascosa quattro	115	-	41	-	-
Team	37	-	26	-	-
SanGiorgio Volla 2	66	853	-	-	-
Cons. Ferroviario Vesuviano	873	-	-	-	-
SanGiorgio Volla	166	-	-	-	-
<u>Other Group companies</u>					
Mecfin	-	56	144	-	-
Ansaldo Energia	-	-	(1)	-	-
Ansaldo Breda	5,546	71	1,994	-	-
Fata Logistic	-	1	937	-	-
Finmeccanica Finance	-	-	42	-	-
Elsag Spa	-	247	3,327	-	-
Elsag Gest	-	-	-	-	-
Ote Spa	-	-	3,555	-	-
Sogepa	-	-	19	-	-
Electron Italia S.r.l.	634	-	-	-	-
Selex sistemi integrati Ltd	-	122	-	-	-
Ansaldo Ricerche	-	-	-	-	-
Orizzonte Sist Nav	-	-	-	-	-
Total	48,40 7	1,35 0	18,85 5	3,045	86

30 June 2006	Revenues	Other operating revenues	Costs	Financial income	Financial expense
<i>(figures in EUR 000)</i>					
<i>Parent company</i>					
Finmeccanica SpA	197	204	1,024	1,252	379
<i>Subsidiaries</i>					
Alifana S.c.r.l.	-	-	-	-	-
Alifana Due S.c.r.l.	1,664	-	11,020	-	-
<i>Associated companies</i>					
I.M. Intermetro S.p.A.	79	-	-	-	-
Pegaso S.c.r.l.	150	-	2,118	-	-
Metro 5 Spa	-	-	-	-	-
<i>Consortia</i>					
Cons. Cesit	-	-	-	-	-
Saturno	19,178	-	1,442	-	-
Ascosa quattro	6	-	-	-	-
Team	-	-	30	-	-
SanGiorgio Volla 2	-	-	-	-	-
Cons. Ferroviario Vesuviano	109	-	-	-	-
SanGiorgio Volla	497	-	-	-	-
<i>Other Group companies</i>					
Mecfin	44	-	19	-	-
Ansaldo Energia	-	-	6	-	-
Ansaldo Breda	1,574	-	2,184	-	-
Fata Logistic	-	-	662	-	-
Finmeccanica Finance	-	-	51	-	-
Elsag Spa	-	-	4,116	-	-
Elsag Gest	-	-	303	-	-
Ote Spa	-	-	20	-	-
Sogepa	-	-	-	-	-
Electron Italia S.r.l.	-	-	-	-	-
Selex sistemi integrati Ltd	44	-	-	-	-
Ansaldo Ricerche	-	-	12	-	-
Orizzonte Sist Nav	-	-	17	-	-
Total	23,542	204	22,964	1,252	379

The sections below only contain costs and revenues from minority interests, since all the transactions with related parties are listed in 9.1 above.

9.2 Revenues

	<i>30 June 2007</i>	<i>30 June 2006</i>
Revenues from sales to third-party customers	387,548	58,673
Revenues from services to third-party customers	134,555	43,332
	<u>522,103</u>	<u>102,005</u>
Change in contract work in progress	(109,177)	198,284
Total revenues	<u>412,926</u>	<u>300,289</u>

Reference should be made to Section 2.3 for a comparison of changes for the period.

9.3 Other operating revenues

	<i>30 June 2007</i>	<i>30 June 2006</i>
Grants for research and development costs	820	530
Gains on the sale of intangible assets and tangible fixed assets	17	4
Reversal of provision for doubtful accounts	-	50
Reversal of provisions for risks and charges	2,549	1,420
Positive difference on assessment of costs/revenues	-	34
Insurance reimbursements	2	-
Out-of-period gains and non-existent assets	0	0
Royalties	1,960	742
Other operating revenues	818	1,290
Financial income and foreign exchange gains	138	16
Total	<u>6,304</u>	<u>4,086</u>

Reference should be made to see Section 2.3 for a comparison of changes for the period.

9.4 Purchases and service costs

	<i>30 June 2007</i>	<i>30 June 2006</i>
Materials	129,276	83,277
Change in inventory	(9,973)	2,128
Services	142,632	100,000
Rent and operating leases	6,132	4,676
Total purchasing and service costs	<u>268,067</u>	<u>190,081</u>

Reference should be made to Section 2.3 for a comparison of changes for the period.

9.5 Staff costs

	<i>30 June 2007</i>	<i>30 June 2006</i>
Payroll	89,002	60,078
Costs of stock grant plans	1,839	-
Pension and social security expenses	26,153	15,009
Severance pay provision costs	2,714	1,008
Costs relating to other defined-benefit plans	159	232
Costs relating to defined-contribution plans	2,184	1,530
Other costs	6,608	728
Recharge of labour cost	(136)	(193)
Total staff costs	<u>128,523</u>	<u>78,392</u>

Reference should be made to Section 2.3 for a comparison of changes for the period.

Labour cost relates to the Signalling and the Transport Systems Divisions acquired by Ansaldo STS on 24 February 2006. The workforce at 30 June 2007 was 4,161. The average workforce at 30 June 2007 was 4,037.

9.6 Amortization, depreciation and impairment

	<u>30 June 2007</u>	<u>30 June 2006</u>
Amortisation	3,954	3,048
Depreciation	662	423
	4,616	3,471
Write-downs of trade receivables	78	150
	78	150
Total amortization, depreciation and impairment	4,694	3,621

Reference should be made Section 2.3 for a comparison of changes for the period.

Amortization and depreciation for the period, equal to EUR 4,616 thousand, are detailed in the tables in notes 8.1 and 8.2 regarding property, plant and equipment and intangible assets.

Write-downs came to EUR 78 thousand and relate to trade receivables of the Transport System Division.

9.7 Other operating costs

	<u>30 June 2007</u>	<u>30 June 2006</u>
Allocations to provisions for risks and charges	3,126	3,519
Negative difference on assessment of costs/revenues	-	-
Losses on discounting of receivables	-	-
Indirect taxes	1,742	1,598

Foreign exchange charges on realization of operating items	-	16
Exchange rate alignment on operating items	-	12
Association dues	347	125
Interest and other operating costs	401	-
Other operating costs	1,454	1,393
Total other operating costs	7,070	6,663

Allocations to provisions for risks and charges mainly relate to the Signalling Division in the amount of EUR 3,126 thousand and regard product warranty.

Reference should be made to Section 2.3 for a comparison of changes for the period.

9.8 Capitalized costs for internally produced assets

	<i>30 June 2007</i>	<i>30 June 2006</i>
Capitalized costs for internally produced assets	167	197
Total	167	197

9.9 Net financial income/(expense)

	<i>30 June 2007</i>			<i>30 June 2006</i>		
	Income	Expense	Net	Income	Expense	Net
Dividends	339	-	339	397	-	397
Income from equity investments and securities	-	-	-	-	-	-
Interest and commissions	835	(1,091)	(256)	708	(1,132)	(424)
Exchange rate differences	2,193	(3,010)	(817)	1,575	(1,130)	445
Income from fair value measurement recognized in profit and loss	12	(44)	(32)	103	(616)	(513)
Other financial income/(expense)	25	(284)	(259)	-	(108)	(108)
Total net financial income/(expense)	3,404	(4,429)	(1,025)	2,783	(2,986)	(203)
Total financial income / (expense) from related parties	3,045	(86)	2,959	1,252	(379)	873

Total	<u>6,449</u>	<u>(4,515)</u>	<u>1,934</u>	<u>4,035</u>	<u>(3,365)</u>	<u>670</u>
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Reference should be made to Section 2.3 for a comparison of changes for the period.

9.10 Income tax

The entry breaks down as follows:

	<u>30 June 2007</u>	<u>30 June 2006</u>
IRES (corporate income tax)	18,282	11,641
IRAP (regional tax on productive activities)	4,203	2,580
Other taxes on profit (foreign companies)	280	3,670
Income from consolidation	(1,610)	-
Taxes relating to previous years	2	(2,122)
Provisions for disputes over taxes	80	264
Net deferred taxes	(2,822)	1,167
Total	<u><u>18,415</u></u>	<u><u>17,200</u></u>

Ansaldo STS S.p.A., the holding company, exercised the option to use the Consolidated Taxation Mechanism for the Group's Italian subsidiaries (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.) for the 2007-2009 three-year period for IRES (corporate income tax). By electing this option, it will be possible to compute a single IRES taxable income base for the Italian companies of the Group, through the algebraic sum of the taxable income (fully considered) of the holding/consolidating company and the consolidated/subsidiary companies (Italian subsidiaries only).

With regard to the holding company Ansaldo STS, thanks to the application of the Consolidated Taxation Mechanism, the consolidated profit and loss account includes current taxes, such as income from consolidation for IRES purposes of EUR 1,610 thousand and deferred tax assets of EUR 1,294 thousand.

Reference should be made to Section 2.3 for a comparison of changes for the period.

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

	<u>Taxable base</u>	<u>Taxes</u>	<u>%</u>
	46,77		
Result before taxes	4		
		15,43	
Tax calculated at the applicable tax rate		5	33.0%
Permanent differences	(3,328)	(919)	-2.0%
	43,446	14,516	31.0%
IRAP and other taxes calculated on a basis other than the result		3,81	
before taxes and foreign taxes		7	8.2%
		2.0	
Prior years' taxes		0	0.0%
		80.0	
Provisions for disputes over taxes		0	0.2%
Total effective taxes carried to profit and loss		18,415	39.4%

Deferred taxes and the related receivables and payables at 30 June 2007 were generated by the following temporary differences:

	Profit and loss account		Balance sheet	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Derivative instruments	(3)	327	-	
Severance pay provision, pension funds and seniority bonuses	12	(40)	711	1,222
Remuneration	402	-	2,265	-
Goodwill	-	(531)	-	1,843
Property, plant and equipment and intangible assets	-	-	95	-
Provisions for risks and charges	(123)	-	755	-
Provision for costs on closed construction contracts	(18)	-	652	-
Provision for bad debts and equity investments	(115)	(176)	411	684
Exchange rate differences and gains / (losses)			152	64
Contributions for research	43	(24)	215	201
Construction contracts shorter than 12 months recognised at revenue	-	824	-	72
Costs deductible in following years	116	-	279	-
Taxable revenues of coming years	-	(7)	102	297
Exceeding maintenance	(7)	-	131	-
Inventory write-down	(62)	-	1,304	-

Write-downs of work in progress	118	-	4,104	-
Transfer of prior years' provision for work in progress	1,807	-	2,597	-
Amortization	3	(185)	3	1,130
Finance leases	-	-	-	-
Interest expense	-	-	34	594
Past losses	-	-	29,431	-
Other	828	(9)	12	1,158
Total	3,001	17	43,253	7,265

Deferred tax assets and liabilities include deferred taxes attributed recognized in equity for derivative instruments recognized as cash-flow hedges. The changes for the period for the equity item were as follows:

	31- Dec-06	Reversal to the profit and loss account	Fair value adjustments	Other changes	30-Jun-07
Initial balance	438				
Change in scope of consolidation					
Deferred taxes recognized directly in equity	438	(65)	1,188		1,561

10 EARNINGS PER SHARE

Earnings per share (EPS) are calculated by dividing the net profit attributable to holders of ordinary shares by the average number of ordinary shares for the period:

Average number of shares during the period (in thousands)	100,000
Net profit (EUR 000)	28,359
Basic and diluted EPS	0.28

11 INFORMATION ON FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS AND DERIVATIVES

The Group is exposed to financial risks associated with its operations, specifically related to these types of risks:

- *market risk*, related to operations in currency areas other than the reporting currency area (exchange 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 minimising them, also through hedging derivatives.

The sections below provide an analysis, conducted through sensitivity analysis, of the potential impact on the final results deriving from assumed fluctuations in reference parameters. As required by IFRS 7, these analyses are based on simplified scenarios applied to the final results of the reference periods and, by their own nature, they cannot be considered as indicators of the actual effects of future changes in reference parameters with different financial statements and market conditions, and cannot reflect the inter-relations and the complexity of reference markets.

Exchange rate 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 Group enters into specific hedges for the individual cash flows expected under the contracts. The management of the exchange rate risk is governed by directives providing 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 neutralizing the effects of fluctuations in the reference exchange rates. Hedges are

made at the time commercial contracts are finalized through plain vanilla instruments (swaps and forwards) qualifying for hedge accounting under IAS 39. These hedges are carried 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. Should hedges prove to be ineffective, changes in the fair value of such instruments are taken immediately to the profit and loss account as financial items, while the underlying is valued as if it were exposed to exchange rate variations.

At 30 June 2006, Ansaldo STS had outstanding foreign exchange transactions with highly-rated financial counterparties in the interest of other Group companies totalling EUR 180,193 thousand of notional amount, mainly swaps and forwards. It is to be noted that the depreciation of the US dollar in 2007 (the difference between the 2006 value and the H1 07 value was 2.54%, with an impact on the average value for the period of 1.25562 from 1.32935 in H1 07) mainly due to expectations of a slow-down in US economy and the risks of further weakening, has brought an increase in the level of attention by the Group.

For the purposes of the sensitivity analysis, the potential effects of the fluctuations in the reference exchange rate €/US\$ have been analyzed. Should the euro be appreciated (depreciated) by 5% against the US\$ at 30 June 2007, the net result would have been lower (higher) by (EUR 2,511 thousand) EUR 2,511 thousand and equity would have been greater (lower) by EUR 4,730 thousand (EUR 4,726 thousand).

The Group is also exposed to the translation risk, i.e. the risk that assets and liabilities in consolidated companies whose reporting currency is not the euro (mainly US\$) can have different values in euros depending on the performance of exchange rates, which affects the equity reserve named translation reserve. The Group monitors the performance of this exposure, for which at 30 June 2007 no hedging transactions were in place.

Liquidity risk

The Group is exposed to the liquidity risk, i.e. the risk that it cannot manage efficiently the ordinary commercial and investment performance and that it cannot repay its payables at maturity. In order to support growth in its businesses, Ansaldo STS took on a set of tools with the aim of optimizing the management of financial resources.

Particularly relevant to that end is the decentralisation of treasury (achieved through cash pooling procedures with Group companies), and the subsequently easier maintenance of levels of sufficient cash and cash equivalents, also by unblocking receivables with longer collection times, and being in financial markets to obtain sufficient short- and long-term credit lines. Within this context Ansaldo STS has obtained short- and long-term non-revolving credit lines and guarantees sufficient to meet the Group needs.

Credit risk

The Group is exposed to credit risk, both to the counterparties of its commercial transactions and for financing and investing activities, as well as for the guarantees given on payables or third-party commitments.

Regarding commercial transactions, the most significant programmes are made with public administration companies or similar, mainly in the euro area, in the USA and South-East Asia. The risks associated with the counterparty, for contracts with countries for which there are no usual commercial relations, are analyzed and valued at the time of the offer in order to highlight insolvency risks, if any. Customers being public companies represents a guarantee for solvency, but, on the other hand, means that collection times are longer (in some countries they are significantly longer) than in other businesses, creating significant outstanding debts and the subsequent need for unblocking. At 30 June 2007 trade receivables of EUR 259,225 thousand were outstanding in the amount of EUR 133,662 thousand, of which EUR 33,926 thousand was due for more than 12 months. Current receivables from related parties of EUR 175,205 thousand mostly relate (EUR 156,673 thousand) to the current account to Finmeccanica SpA. Both trade and financial receivables are impaired individually if they are significant. For receivables that are not impaired individually, impairment provisions are accrued on an aggregate basis, using historical series and statistical data.

Recognition of financial assets and liabilities

The table below gives a breakdown of Group assets by type of recognition. Derivatives are analyzed separately. Liabilities are all recognised on the amortised cost method.

<u>Fair value</u>	<u>Loans and</u>	<u>Held to</u>	<u>Available</u>	<u>Total</u>
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	through profit or loss	receivables	maturity	for sale	
<i>Non-current assets</i>					
Non-current receivables from related parties	-	-	-	-	-
Receivables	-	16,481	-	-	16,481
<i>Current assets</i>					
Current receivables from related parties	-	175,205	-	-	175,205
Trade receivables	-	259,225	-	-	259,225
Financial receivables	-	-	-	-	-
Other assets	-	26,139	-	-	26,139

Derivatives

The table below provides the fair values of the different derivative instruments:

		Fair Value at 30 June 2007	Fair Value at 31 December 2006
Assets			
Currency forward/swaps			
	<i>Trading</i>	-	-
	<i>Fair value hedges</i>	-	-
	<i>Cash flow hedges</i>	191	282
Embedded derivatives (trading)		-	-
Liabilities			
Currency forward/swaps			
	<i>Trading</i>	-	-
	<i>Fair value hedges</i>	-	-
	<i>Cash flow hedges</i>	4,172	1,540
Embedded derivatives (trading)		-	-

With reference to derivatives hedging exchange rate risk, the Group hedges both future receipts and outflows. The table below provides the maturities of these hedged payments:

Notional amount (in thousands)

	Receipts	Payments
Maturity	US\$	US\$
2007	5,668	2,774
2008-2009	1,531	-
2010-2015	-	-
After 2015	-	-
Total	7,199	2,774

Below are movements in derivatives and their effects on the balance sheet and the profit and loss account:

	<u>31-Dec-06</u>	<u>30-Jun-07</u>
Non-current assets for hedging derivatives	282	191
Non-current liabilities for hedging derivatives	1,540	4,172
	<u>1,258</u>	<u>3,981</u>

	<u>Cash flow hedge reserve</u>	<u>Fair value through P&L</u>	<u>Embedded derivatives</u>	<u>Total</u>
Opening 1 January 2007	(1,251)			
Transferred to the profit and loss account	166	81	92	
Change in fair value	(3,062)			
Closing 30 June 2007	(4,147)			
Total change for the period	<u>(2,896)</u>	<u>81</u>	<u>92</u>	<u>(2,723)</u>

12 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:

	<u>For the six month ending</u>	
	<u>30-Jun-2007</u>	<u>30-Jun-2006</u>
Compensation and fees	2,136	1,640
Post-employment benefits	13	12
Other long-term benefits	-	-
Severance indemnity	-	-
Stock grants	-	-
Total charged by Finmeccanica	-	517
Total charged by/over to companies of the Finmeccanica group	<u>2,149</u>	<u>2,169</u>

Directors' fees amounted to EUR 2,149 thousand at 30 June 2007, and EUR 2,169 thousand at 30 June 2006.

Statutory Auditors' fees amounted to EUR 86 thousand at 30 June 2007, and EUR 87 thousand at 30 June 2006.

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.

13 POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS

At 30 June 2007 the Ansaldo STS Group was not involved in any positions or transactions arising from atypical and/or unusual operations.

14 NET FINANCIAL POSITION

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

	30-Jun-07	31-Dec-06
A. Cash	278	1
B. Other cash equivalents (bank accounts)	42,035	48,579
C. Securities held for trading	0	0
D Liquidity (A+B+C)	42,313	48,580
E Current financial receivables	156,673	132,128
F Short-term bank debt	5,241	13,984
G. Current portion of non-current debt	0	0
H Other short-term financial debt	963	0
I Short-term financial debt (F+G+H)	6,204	13,984
J Short-term financial debt, net (I-E-D)	(192,782)	(166,724)
K Long-term bank debt	5,305	8,475
L. Bonds issued	0	0
M Other long-term debt	2,763	0
N Long-term financial debt (K+L+M)	8,068	8,475
O Net financial debt (J+N)	(184,714)	(158,249)

15 OUTLOOK

Thanks to the commercial success of the Transport Systems business and a good performance of orders in signalling in the second half of the prior year, the order backlog of the Group grew in comparison with the Group order backlog of the year-earlier period.

This paves the way to greater production volumes in the current year that are at least in line with those of 2006, which were relevant and had significantly risen (10%) from those for the prior year. Programmes and actions oriented to improve efficiency will continue in order to further increase profitability on revenues.

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 and Russia.

This year will also be marked by the search for opportunities in the transport systems business worldwide. This will be possible by joining the expertise in the transport systems business of our Italian subsidiary Ansaldo Sistemi Trasporti Ferroviari SpA with the industrial presence of our subsidiaries in the Signalling division in the various markets.

The positive financial condition of the company allows us to carefully monitor the business performance, in order to research and select investment opportunities supporting growth, analyzing 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 range of offers.

Rome, 27 September 2007

On behalf of the Board of Directors
The Chairman
Alessandro Pansa

**STATEMENT OF THE MANAGER RESPONSIBLE FOR THE HALF-
YEAR REPORT 2007 PURSUANT TO ARTICLE 154 BIS
PARAGRAPH 2 OF THE FINANCE CODE**

I, Jean Paul Giani, the manager responsible for the preparation of the company's financial reports, certify, in accordance with Article 154-*bis* (2) of the Finance Code, that the half-year report 2007 corresponds with the information contained in the accounting documents, books and records.

Manager Responsible for the preparation
of the company's financial reports
(Jean Paul Giani)

Rome, 27 September 2007

**16 APPENDIX: LIST OF RELEVANT EQUITY INVESTMENT UNDER
ARTICLE 125 OF CONSOB RESOLUTION NO. 11971 AT 30 JUNE
2007**

<i>Subsidiary (name and legal form)</i>	<i>Country</i>	<i>% of total</i>	<i>% Indirect control</i>	<i>% Direct control</i>	<i>Through</i>	<i>Type of ownership (see key)</i>
Alifana - limited liability consortium	Italy	65.850%	65.850%		Ansaldo Trasporti–Sistemi Ferroviari S.p.A	1
Alifana due, limited-liability consortium	Italy	53.340%	53.340%		Ansaldo Trasporti–Sistemi Ferroviari S.p.A	1
Automatismes Controles et Etudes Electroniques Acelec S.A.	France	99.999%	99.994%		CSEE Transport S.A.	1
			0.004%		CSEE Transport S.A.	9
			0.001%		CSEE Transport Hong Kong Ltd.	1
Ansaldo Segnalamento Ferroviario S.p.A.	Italy	100.000%	100.000%		Ansaldo Signal NV	1
Ansaldo Signal España S.A.	Spain	100.000%	100.000%		CSEE Transport S.A.	1
Ansaldo Signal Finland OY	Finland	100.000%	100.000%		Ansaldo Signal Sweden AB	1
Ansaldo Signal Ireland Ltd.	Ireland	100.000%	99.999%		Ansaldo Signal NV	1
			0.001%		Union Switch & Signal Inc.	1
Ansaldo Signal NV	Netherlands	100.000%		100.000%		1
Ansaldo Signal Sweden AB	Sweden	100.000%	100.000%		Ansaldo Signal NV	1
Ansaldo Signal UK Ltd.	United Kingdom	100.000%	100.000%		Ansaldo Signal NV	1
Ansaldo Trasporti – Sistemi Ferroviari S.p.A.	Italy	100.000%		100.000%		1
Ansaldo STS Deutschland GmbH	Germany	100.000%	100.000%		Ansaldo Segnalamento Ferroviario S.p.A.	1
Beijing CS Signal Controlling System Co. Ltd.	China	80.000%	80.000%		CSEE Transport S.A.	1
CSEE Transport S.A.	France	100.000%	99.999%		Ansaldo Signal NV	1
			0.001%		Ansaldo Signal NV	9
CSEE Transport Hong Kong Ltd.	China	100.000%	99.999%		CSEE Transport S.A.	1
			0.001%		CSEE Transport S.A.	9
Ecosen S.A.	Venezuela	48.000%	48.000%		CSEE Transport S.A.	1
I.M. Intermetro S.p.A.	Italy	16.666%	16.666%		Ansaldo Trasporti–Sistemi Ferroviari S.p.A.	1
International Metro Service S.r.l.	Italy	49.000%	49.000%		Ansaldo Trasporti–Sistemi Ferroviari S.p.A.	1

<i>Subsidiary (name and legal form)</i>	<i>Country</i>	<i>% of total</i>	<i>% Indirect control</i>	<i>% Direct control</i>	<i>Through</i>	<i>Type of ownership (see key)</i>
Metro 5 S.p.A.	Italy	24.600%	24.600%		Ansaldo Trasporti–Sistemi Ferroviari S.p.A.	1
Metro C. S.p.A.	Italy	14.000%	14.000%		Ansaldo Trasporti–	1

					Sistemi Ferroviari S.p.A.	
Pegaso - limited liability consortium	Italy	46.870%	46.870%	Ansaldo Trasporti– Sistemi Ferroviari S.p.A.	1	
Transcontrol Corporation	USA	100.000%	100.000%	Union Switch & Signal Inc.	1	
Transit Safety Research Alliance (non-profit corporation)	USA	100.000%	100.000%	Union Switch & Signal Inc.	1	
Union Switch & Signal Chile Ltda.	Chile	68.000%	67.000%	Transcontrol Corporation	1	
			1.000%	Union Switch & Signal International Co.	1	
Union Switch & Signal Inc.	Delaware-USA	100.000%	100.000%	Ansaldo Signal NV	1	
Union Switch & Signal Inc. Canada	Ontario-Canada	100.000%	100.000%	Union Switch & Signal Inc.	1	
Union Switch & Signal International Co.	Delaware-USA	100.000%	100.000%	Union Switch & Signal Inc.	1	
Union Switch & Signal International Projects Co.	Delaware-USA	100.000%	100.000%	Union Switch & Signal Inc.	1	
Union Switch & Signal Private Ltd.	India	100.000%	99.9998%	Ansaldo Signal NV	1	
			0.0002%	Transcontrol Corporation	1	
Union Switch & Signal PTY Ltd.	Australia	100.000%	100.000%	Transcontrol Corporation	1	
Union Switch & Signal (Malaysia) SDN BHD	Malaysia	100.000%	100.000%	Union Switch & Signal PTY Ltd.	1	

Key: Types of share ownership or voting rights

- 1 Owned
- 2 Securities lender
- 3 Securities borrower
- 4 Registered owner on behalf of third party
- 5 Asset management
- 6 Pledge
- 7 Usufruct
- 8 Deposit
- 9 Voting rights under contractual agreements