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Annual Report
2010

AnsaldoSTS
A Finmeccanica Company

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WELCOME TO ANSALDO STS,

a company limited by shares, listed since 2006, leader in signalling and rail and subway transport systems, through its *Signalling and *Transportation Solutions** Business Units, operating in over 30 countries worldwide.**

Highlights 2010

(IAS-compliant amounts in EUR million)

	2010	2009
Orders	1,985.0	1,786.1
Order-book	4,551.1	3,759.7
Revenue	1,283.7	1,175.6
EBIT	137.1	125.1
ROS	10.7%	10.6%
Net Profit	94.9	87.8
Net Working Capital	(154.3)	(187.1)
Net Cash	(318.2)	(278.9)
Tax rate	28.8%	29.6%

(*) Starting from the 30 June 2009 first-half report, the "Segnalamento" and "Sistemi di Trasporto" Business Units were renamed the *'Signalling'* and *'Transportation Solutions'* Business Units with no change to their respective businesses. The change was purely terminological: accordingly, all the Group's profit and loss and financial disclosures by Business Unit made to date (prior periods and comparative periods), including the values given in the IPO prospectus of March 2006, are fully comparable.

Mission

We combine our experience and technological, financial and human resources to supply innovative solutions for the design and production of equipment and systems used in signalling and the automation of subway networks and conventional and high-speed railway lines.

Our objective is threefold:

- to realise ever more advanced and reliable products leading to the development of the most environment-friendly transport system currently available;
- to create value for all our stakeholders, by responding efficiently to a continually increasing demand for mobility;
- to become world leader in our industry by promoting a culture of quality, safety and responsibility.

The CEO's Report

The 2010 results confirm the Group's ability to deliver a positive performance even under difficult economic conditions, once again fully meeting the forecasts communicated to the market.

The income statement and balance sheet figures demonstrate significant further growth: the Group is now a global player with a geographically diversified order book and a full range of high-tech products.

In addition, the launch of our cost-cutting plan and our new internal organization enable us to better meet the challenges of a market in which demand is progressively becoming more globalised.

In 2010 Ansaldo STS Group made a net profit of EUR 94,908 thousand as against EUR 87,800 thousand in 2009.
The Group's 2010 revenue was EUR 1,283,710 thousand, as against EUR 1,175,640 thousand in 2009.
The Group's operating margin was 10.7%, in line with that of 2009.
At 31 December 2010 the orders were EUR 1,985,012 thousand as against EUR 1,786,071 thousand in 2009 - an increase of EUR 198,941 thousand.
New orders received in 2010 were as follows.

- In the *Transportation Solutions* Unit: acquisitions of EUR 1,142,756 thousand, mainly in respect of the award of the contract for the Copenhagen "Ring" metro (EUR 344,400 thousand), the linked Operation and Maintenance contract (EUR 232,400 thousand) as well as the Operation and Maintenance for Copenhagen's existing lines (EUR 221,500 thousand).

- In the *Signalling* Unit: acquisitions of EUR 890,205 thousand mainly in respect of the Sirte-Bengazi railway line in Libya (EUR 201,800 thousand), contracts awarded in Italy (EUR 199.500 thousand) and other work acquired in the US, Brazil, the PRC and Australia.

The backlog at 31 December 2010 was EUR 4,551,127 thousand, due to acquisitions. It increased by 21% over the end 2009 backlog, which was EUR 3,759,671 thousand.

These figures speak of a highly gratifying year in terms of the Group's growth, profitability and capital and financial solidity.

The action taken and the results achieved in 2010 lay the foundation for a continuance of the Group's achievements in the immediate future.

The *Transportation Solutions* Unit's exceptional level of new orders in prior years - together with the excellent level of acquisitions in 2010 - cause the backlog to exceed the already favourable level achieved at the end of 2009 reaching EUR 2,721,540 thousand; we expect this business to grow significantly over the next three years. For the *Signalling* Unit 2010 was a year of considerable extension of its potential market in terms of geographies, which has already yielded good results in terms of new orders in particularly important countries and business segments. The *Signalling* Unit's backlog was EUR 2,090,584 thousand at 31.12.2010 as against EUR 1,980,191 thousand at 31.12.2009.

The solid competency already acquired (ERTMS and driverless ATC) and being consolidated (CBTC) in the sector's strategic technologies, the Group's special geographical distribution worldwide and the additional efforts underway to penetrate new high-growth areas (Central and Eastern Europe and the Middle and Far East) further underline the Group's good competitive position and enable us to look ahead with reasonable confidence, unless there are political or macroeconomic changes which at the moment cannot be clearly foreseen.

The Group's latest strategic plan, which was announced to the financial community in December 2010, is based on a forecast of further growth in orders and revenue over the next three years. This projection seems credible, first, because the Group's market is forecast to grow (at an average annual rate of 4.5% according to the most respected analysts), and secondly because the Group as a concrete chance of increasing its market share, given its specific business model and its competitiveness, technological edge and international market presence, as mentioned above.

This positive outlook is tempered by the awareness of possible threats. First, competition is becoming sharper, due to market globalisation and product standardisation. To counter the effect of the consequent pressure on pricing, the Group has launched an internal and external cost reduction programme, in order to protect unitary margins in coming years.

Potentially more serious, because it cannot easily be countered, is the threat of a deterioration of the political and macroeconomic scenario, especially in those emerging markets in which the Group has made its strongest penetration: the Middle East and Libya in particular are the focus of this.

Developments in the destabilising events that are occurring as this note is being written and their consequences for Ansaldo STS's business prospects are difficult to foresee, at least in the current situation.

From an organisational point of view 2010 was marked by completion of the Fast Forward Driven by Business (FFDB) project; this was decided on in 2008 and drawn up in detail in 2009; it has transformed Ansaldo STS S.p.A. from its original role as a strategic financial holding company into an operating company in which all business decisions are concentrated. This process was initiated in 2009 with the absorption of the previous Italian subsidiaries Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A., and was extended in 2010 to all the Group's worldwide operations, which had previously been managed with ample autonomy by non-Italian subsidiaries. Under the new organisational structure Ansaldo STS S.p.A. includes two Business Units, respectively *Signalling* and *Transportation Solutions*, the Standard Platforms and Products unit and all staff functions. Consequently, all decisions and operating instructions emanate from Ansaldo STS S.p.A.. The non-Italian subsidiaries are responsible for local compliance and supporting the implementation of the global strategy. The main objective is to ensure maximum efficiency and effectiveness throughout the Group in a market in which globalisation is ever more evident.

Sergio De Luca
CEO Ansaldo STS Group

Sergio De Luca

Who we are and where we come from

Our Parent Company Ansaldo STS has its headquarters in Genoa and is listed in the Star segment of the Italian stock exchange. 40% of company capital is held by Finmeccanica, which is therefore the company's principal shareholder.

The Group is an industry leader in signalling and rail transport systems.

The Group, with its worldwide presence, operates in Central and Eastern Europe, Middle East, Western Europe, North Africa, the Americas and Asia Pacific.

We operate throughout the world as lead contractors, system integrators and turnkey suppliers of the largest railway and subway mass transit projects. Group companies provide traffic management, train control, production of signalling systems and maintenance services, all aiming to achieve lasting efficiency and safety for both clients and end-users.

We are the only company listed both on the main board of the Italian stock exchange, FTSE MIB (which includes Italy's most highly capitalised concerns) and in the Star segment, which groups companies of excellence according to specific requisites, viz. liquidity, corporate governance and transparent disclosure.

1853
Our origins lie in signalling and transport systems, which until the mid-1990s were carried on by Ansaldo Trasporti, a company that pioneered many innovations in its over 150 years of history, such as the design and management of over half the high-speed train systems running in the world, as well as the design of the first driverless subway train.

1996
This year saw the formation of Ansaldo Signal and subsequently Ansaldo Trasporti Sistemi Ferroviari, together with Ansaldo Breda in the rolling stock industry, all wholly owned by Finmeccanica, which led to a reorganisation of the whole transportation sector.

2005
Finmeccanica floated the signalling and transport systems businesses on the stock exchange after bringing them under a model of unitary management in order to optimise industrial and commercial synergies.

2006
The reorganisation was completed when Ansaldo STS was formed specifically for the purpose of acquiring from Finmeccanica its entire stake in both Ansaldo Signal (which controlled all the Group's signalling businesses) and Ansaldo Trasporti Sistemi Ferroviari (in which the transport systems businesses were concentrated).

As of 31 March 2006 Ansaldo STS was listed in the STAR segment on the Milan stock exchange.

To realise greater synergy and fully coordinate the various businesses - by increasing its size and overall profitability, further expanding in its markets and entering new product segments - a further reorganisation process was set in train in 2006 through which the Group aimed to:
- include in the mission of the signalling businesses came to include the development of a transportation solutions unit, using shared know-how and experience;
- rebrand the Group's subsidiaries under the Ansaldo STS name and uniform the brand, as well as increasing the sense of belonging to a single entity;
- place the Dutch sub-holding, Ansaldo Signal NV, in liquidation and transfer the Group's equity interests and legal obligations to Ansaldo STS by means of absorption;
- merge the two Italian subsidiaries Ansaldo Signalling Ferroviario and Ansaldo Trasporti Sistemi Ferroviari into the holding company Ansaldo STS to which operational functions were assigned.

2009
Effective 1 January, the subsidiaries Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A. were merged into Ansaldo STS S.p.A., approved on 20 June 2008 and signed on 26 September 2008.
The US subsidiaries were renamed as follows:
- Union Switch and Signal Inc. became Ansaldo STS USA Inc.
- Union Switch and Signal International Co. became Ansaldo STS USA International Co.
- Union Switch and Signal International Projects Co. became Ansaldo STS USA International Projects Co.
- Transcontrol Corporation became Union Switch and Signal Inc.

From 29 March of this year Ansaldo STS was included in the FTSE MIB index.

Starting from the 30 June 2009 first-half report, the "Segnalamento" and "Sistemi di Trasporto" Business Units were renamed the '*Signalling*' and '*Transportation Solutions*' Business Units with no change to their respective businesses. This change was purely terminological: accordingly, all the Group's profit and loss and financial disclosures by Business Unit made to date (prior periods and comparative periods), including the values given in the IPO prospectus of March 2006, are fully comparable.

On 1 October the merger of the Dutch subsidiary Ansaldo Signal N.V. into Ansaldo STS S.p.A. became effective.

2010
In December 2009 a new company was formed in Brazil under the name Ansaldo STS Sistemas de Transporte e Sinalização Ltda. Capital was paid in 2010. This subsidiary is consolidated at net equity.

Our Chinese subsidiary, Ansaldo Railway System Technical Service (Beijing) Ltd, was renamed Ansaldo Railway System Trading (Beijing) Ltd.

Effective December 2010 Kazakhstan TZ-Ansaldo STS LLP a joint venture incorporated with JSC Remlokomotiv (of which joint control is governed by a shareholders' agreement), has been consolidated using the proportional method. Our stake is 49%.

In 2010 Ansaldo STS, acquired from Corridor Infrastructure Development Holdings (Pty) Ltd its 49.3% stake in Ansaldo STS-Infradev South Africa (Pty) Ltd. through its subsidiary Ansaldo STS Australia. This brought our shareholding to 100% of the South African company. On 21 June 2010 the company name was changed to "Ansaldo STS South Africa (Pty) Ltd".

Business Segments

The *Signalling* Unit **operates around the world designing and building rail and subway signalling systems and components through four operating companies:**

- **Ansaldo STS SpA with sites in Genoa, Naples, Turin and Tito Scalo;**
- **Ansaldo STS USA with sites in Pittsburgh, PA and Batesburg, SC;**
- **Ansaldo STS France, which has sites in Paris and Riom; and**
- **Ansaldo STS Australia which has its office in Brisbane, Queensland.**

The Group also owns smaller operating companies in Germany, Kazakhstan, Finland, Sweden, Ireland, the UK, Spain, China, India, Malaysia, South Africa, Botswana and Brazil as well as several permanent establishments and cooperation agreements including South Korea, Libya and Turkey.

The main projects in which the Unit participates or has participated, wholly or partly responsible for completion, include:

- the installation of computer-based interlocking systems in Italian railway stations (Rome Termini, Pisa, Venice Mestre and Milan Rogoredo) and outside Italy in Manchester South and the Sandbach-Wilmslow junctions (UK);
- signalling systems supplied to the automated mass transit systems in Copenhagen, Brescia and the subways of New York, Los Angeles Green Line, Shanghai Line 2 and Tianjin-Binhai, PRC;
- electro-rail systems for Metro line 3 in Milan and complete signalling installations and systems on the railway lines of Rawang Ipoh, Malaysia, and Hammersley Iron, Australia;
- signalling systems for high-speed trains in France *(TGV)*, the Spanish Madrid-Lerida line, the South Korean Seoul-Taegu line, and the Chinese Qinhuangdao-Shenyang line, while in Italy the Group is involved in the high-speed trains programme (Milan-Bologna and Turin-Novara sections) supplying signalling systems through the Saturno consortium;
- supplying the signalling systems, telecommunications, security and power supply for EUR 541 million for the Ras Ajdir-Sirt (circa 650km) and Al Hishah-Sabha (circa 800km) sections in Libya.

The *Transportation Solutions* Unit **designs and produces integrated transport systems, i.e. it studies. designs and plans the integration of the design and construction of the technological elements that make up the transport system, including equipment, signalling, power supply, telecommunications and rolling-stock (whether for railway or metro trains), as well as any other technical items that, together with the foregoing, constitute an integrated transport system. The end product, i.e. an integrated transport system, whether railway line or metro line, is then delivered to the principal on a turnkey basis. The Group is also able to offer signalling and transportation systems competencies separately according to the client's needs.**

The Unit's larger projects include:

- automated metro systems in Copenhagen, Brescia and Salonika;
- the Naples 1 and Rome A/B/C metro lines;
- metropolitan light railways in Genoa and Naples 6 (for these two projects the Group as sub-contractor. is responsible for the whole construction including civil works);
- the tramway in Florence;
- part of the electro-rail installations for Milan's metro line 1; and
- production, installation, testing and commissioning of signalling, telecommunications and electrification for 330km of the two-track line between Ipoh and Padang Besar, Malaysia.

The Unit is also taking part in the realisation of high-speed railways in Italy through the Iricav Uno (responsible for the realisation of the Rome-Naples section), Iricav Due (responsible for the realisation of the Verona-Padua section), and Saturno consortia.

	2010	2009	Change
• Production Revenue:	EUR 841.8 M	EUR 805.0 M	EUR 36.8 M
• Order Backlog:	EUR 2,090.6 M	EUR 1,980.2 M	EUR 110.4 M
• Headcount:	3,315	3,504*	-189

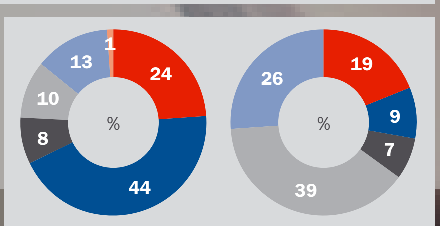
(*) restated

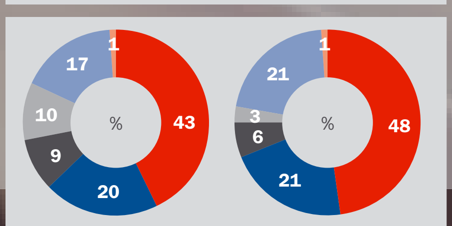
	2010	2009	Change
• Production Revenue:	EUR 504.4 M	EUR 417.1 M	EUR 87.3 M
• Order Backlog:	EUR 2,721.5 M	EUR 2,048.1 M	EUR 673.4 M
• Headcount:	449	348*	101

(*) restated

In ANSALDO STS we draw on experience gained throughout the world to take care of all design features and all specific technical solutions to meet the local needs of all our clients.

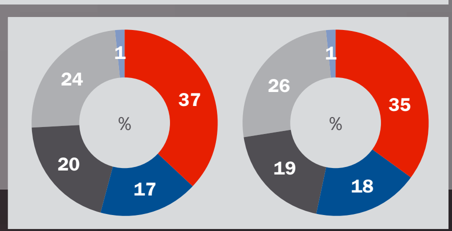
GEOGRAPHICAL AREAS	ORDERS (EUR MILLION) 2010	ORDERS (EUR MILLION) 2009	REVENUE (EUR MILLION) 2010	REVENUE (EUR MILLION) 2009
Italy	**479**	342	**557**	562
Rest of Europe	**870**	154	**254**	247
North America	**156**	132	**118**	75
North Africa / Middle East	**204**	691	**129**	34
Asia Pacific / South Africa Area	**257**	460	**216**	249
South America	**19**	7	**10**	9
TOTAL	**1,985**	1,786	**1,284**	1,176





LEGAL ENTITIES	HEADCOUNT 2010	HEADCOUNT 2009
ASTS Italia*	**1,570**	1,523
ASTS France**	**724**	796
ASTS USA	**839**	832
ASTS APAC	**1,021**	1,124
ASTS China	**63**	64
TOTAL	**4,217**	4,339

* includes ASTS Germany and Kazakhstan
** includes ASTS UK, Ireland, Sweden



Corporate Management's Roles

Emmanuel Viollet - President *Signalling*

Alberto Milvio - Chief Financial Officer

Roberto Passalacqua - Vice President of Risk Management

Alan E. Calegari - CEO Ansaldo STS USA

Lyle Jackson - President *Transportation Solutions*

Carlo Cremona - Senior Vice President Human Resources

Sergio De Luca - Chief Executive Officer

Giuseppe Spezzi - Vice President HSE and Facility Management

Mario Orlando - Company Secretary & General Counsel

Davide Cucino - Country Representative Officer

Mauro Giganti - Senior Vice President Internal Audit

Giovanni Bocchetti - Senior Vice President Innovation & Competitiveness

Maurizio Manfellotto - President Standard Products & Platform Unit

Christian Andi - Senior Vice President Std. Process, Quality & IT Services

Report on Operations for 2010 and Business Environment

The year is to be considered a satisfactory one in terms of the Company's growth, profitability, capital adequacy and financial soundness. The work done and the results achieved laid the foundations for the continuation of the Group's favourable trend in the immediate future, despite even sharper competitive conditions and an unstable political and macroeconomic situation, above all in the emerging markets of North Africa.

The *Signalling* Business Unit

In 2010 the Unit's new orders were EUR 890,205 thousand, a fall of 28% from 2009 (EUR 1,243,016 thousand). At 31 December 2010 the order backlog was EUR 2,090,584 thousand, 6% more than the end 2009 backlog of EUR 1,190,191.

The main events of 2010 occurred under three headings:
1) results of the projects based on new technologies,
2) orders for the key business and
3) strategic alliances for future prospects.

1) THE MAIN RESULTS

The use of the new Mass-Transit technology CBTC (Radio Communication-Based Train Control), a completely integrated system which provides high-speed two-way radio communication between land and train on-board equipment.
Its strengths include a large capacity increase in terms of the higher number of trains in circulation thanks to the reduction of distancing between trains; shorter stopping times in stations; fewer signals along the line resulting in lower supply costs as well as lower maintenance and spare parts costs later.
The possibility of superimposing this technology on existing systems, also means that:
- existing infrastructure can be kept in use while the various installations and tests of the new product are carried out (both along the lines and in the vehicles);
- mixed traffic (i.e. parallel running of trains already equipped with CBTC and others not yet fitted with it) may be run simultaneously; and
- all trains can be updated at different stages, avoiding a complete standstill until the upgrade is completed.

CBTC Applications in 2010:
- the superimposed system on line 3 of the Paris Metro, which was commissioned in March 2010 for operation with CBTC through gradual modernisation of the trains, enabling mixed traffic to be run for a certain period of time until the new technology has been fully adopted.
- the superimposed system on the Alifana line of the Naples Metro;
- a subcontract to supply the CBTC platform and the main hardware components for line 1 of Chengdu which runs underground for 18.5 km with 16 metro stations and 17 trains (34 cabin sets), which opened to the public in September 2010 (CBTC should be fully operational by the end of the first half of 2011);
- the Shenjang Line 1 is 27.9 km long, with a 23-vehicle capacity (46 cabin sets) for which Ansaldo STS USA is subcontractor of Insigma and supplies the basic CBTC platform and hardware components.

These lines will be completed in 2011 with ATO (Automatic Train Operation) equipment enabling full application of the CBTC system.

The use of ERTMS (European Railway Traffic Management System), an advanced interoperable signalling system, based on specifications that are now recognised and accepted throughout the world, which combines automatic control and train protection functions with the possibility of achieving higher network capacity through more efficient traffic management.
A train properly equipped with ERTMS may therefore travel on any network equipped with a similar system, regardless of the signalling system in use, the country and the legislation the infrastructure manager is required to comply with.
The main advantages are the system's suitability for networks running at speeds of up to 500kph, (~300 mph); rail network interoperability; increased rail traffic safety and efficiency; augmented network capacity and performance and reduced production and management costs.
The *Signalling* Unit operates with its systems based on this technology in over 50% of all the high-speed networks constructed throughout the world (except Japan) and is therefore the undisputed leader in level 2 ERTMS, the most advanced railway control system ever produced.

ERMTS Applications in 2010:
- the Zhengxi for the new Zhengzhou-Xi'an passenger line: on-board and wayside equipment (Radio Block Center);
- the passenger service of a 40 km stretch from Pwllheli ad Harlech on the Cambrian line from the Mackgulleth Signalling Centre (Wales).

Other Technology Applications for High-Speed Trains:
- the high-speed Daegu-Busan line passenger service in South Korea;
- coming into service of the high-speed KTXII train produced by the Hyundai-Rotem Company on the Seoul-Daegu line in South Korea.

New interchange system Applications based on computerised technology:
- the Vill Station Tunis, the largest in Tunisia with 111 railway sections and 55 movements;
- introduction of the new interchange system at Etaples of Réseau Ferré de France (RFF).

2. KEY BUSINESS ORDERS

Ansaldo STS was awarded four contracts for the **WMATA Washington's subway,** to:
- restore the orange and blue lines;
- complete stages 2-4 of the red line; and
- supply cabin sets.

Through its subsidiary Ansaldo STS USA, Ansaldo STS signed a contract for the implementation of a new CBTC system as part of its strategic alliance agreement with Zhejiang Zheda Insigma Group Company Ltd. (Insigma), which is based in Hangzhou, PRC.
This new contract is for **the realisation of a CBTC system for the Hangzhou Metro Line 1 project,** this is one of the largest cities in the Yangtze River delta, and the metro is the first to be built in the capital of Zhejiang Province. The new transit line will be 53.6 km long and will have 34 stations and 48 trains.
The opening is expected for June 2012.
The Hangzhou will also be the first to implement the new CPU Microlok® II with 2 on 2 architecture by Ansaldo STS USA with a hardware diversity safety structure.
This contract is Ansaldo STS USA's seventh metro project in the PRC the fifth within the strategic alliance with Insigma.
In June 2008, Ansaldo STS had already been awarded the contract for the extension of line 2 in Shanghai which is the link between Pudong International Airport and Hongqiao Airport. The agreement is for the supply of the proven Automatic Train Control (ATC) signalling and train control system, which includes the Automatic Train Protection, Automatic Train Operation and Automatic Train Supervision functions.

Rete Ferroviaria Italiana S.p.A. awarded works worth EUR 43.7 million to Ansaldo STS **for the technological upgrading of the Genoa railway network.**
These works include innovative safety and signalling equipment, a multi-station computerised connection (ACC) and telecommunication between Genova Voltri and Genova Brignole stations. The latter will have a control centre for multi-station operations at Genova Teglia, already the site of centralised traffic control (CTC) which has been in service since 2003 (the last section of the line was opened in 2006), developed and supplied exclusively by Ansaldo STS.

A consortium between Ansaldo STS and SELEX Communications, both Finmeccanica companies, has signed a contract worth some EUR 247 million with Zarubezhstroytechnology, which is controlled by Russian Railways JSC RZD, for the **supply of signalling, automation, telecommunications, energy supply, safety and ticketing systems for the Sirte-Bengazi line in Libya.**
Ansaldo STS leads the consortium with an 81.8% share, i.e. some EUR 202 million. The contract was awarded in a tender involving the main international competitors made by Russian Railways in its capacity ass main contractor for Libyan Railways in respect of all the works (civil works, fit-out and technologies) on the 550 km (342 miles) Sirte-Bengasi line.
The work assigned to Ansaldo STS and SELEX Communications will require three years to complete. Specifically, Ansaldo STS will be responsible for the interoperable European system known as European Rail Traffic Management System (ERTMS) / European Train Control System (ETCS).
This contract originated after a EUR 541 million agreement which Ansaldo STS signed directly with the Libyan Railways in July 2009 for the supply of signalling, telecommunications and energy supply for the coastal line from Ras Ajdir to Sirth and the inland line from Al-Hisha to Sabha, totalling 1,450 km (900 miles).

Contract for the Zhetygen - Korgas line in Kazakhstan
The joint venture "Kazakhstan TZ - Ansaldo STS Italia Srl" awarded Ansaldo STS a EUR 45.6 million contract for the design, supply, installation and bringing into service of signalling and telecommunication equipment for the Zhetygen-Korgas line (300 km - 186 miles - in the south east of the country). The agreement was announced in June. It is especially important in that it puts Ansaldo STS in a good position for the massive investment programme planned for the next ten years to upgrade the country's rail network.

3. STRATEGIC ALLIANCES
Ansaldo STS has signed a **Memorandum of Understanding with the Russian Railways (RZD) with a view to setting up a joint-venture between Ansaldo STS (with 49%) and NIIAS (49%) and SM (2%),** two subsidiaries of RZD, to develop initiatives in the fields of railway signalling, telecomunications, automation and health and safety.
Specifically the agreement envisages the supply of 100 stations, 100 vehicles and 50 railway lines by the end of 2020, to a value of up to EUR 1.5 billion. With this new agreement Ansaldo STS strengthens its position in the Russian signalling market, thus entering the station deployment segment.

The activities of planning, transport, installation, testing and bringing into service under the EUR 7.4 million contract signed at end 2009 between Ansaldo STS and NIIAS (a subsidiary of the Russian Railways JSC RZD) to experiment - on a test site near **Sochi - the innovative railway signalling system known as ITARUS-ATC** continue.
This system is based on the interoperability of the European Rail Traffic Management System (ERTMS) / European Train Control System (ETCS), and required the implementation of the most advanced Italian and Russian technological solutions. Conceived as a state-of-the-art system, ITARUS-ATC offers an effective cost ratio, can be adapted to railways with low-, medium- and high-volume traffic, including high-speed lines, and it can increase the safety and capacity of the lines. This contract is of great strategic importance and lays the foundations for further undertakings in the future on Russia's railways (e.g., new high-speed lines, Eurasian corridors or transport systems for the Sochi Olympic Games in 2014).

The world railway market

The long-term outlook is excellent: a growth rate of 3% in all segments, which has lasted for six years and will continue until 2019-2021. Starting from such a high initial level, the growth rate sill gradually fall towards an average of 1%-2%.

Substantial demand for railway control products is expected, mainly in Russia, Africa and the Middle East.

Western Europe should remain the most important accessible market up to 2020, after which its growth prospects are limited, since the most important orders for replacement basic rolling stock will have been filled and in light of the financial restrictions.

The Asia-Pacific area has now become the largest railway market in the world, having as much as doubled its value over the last four years and retaining potential for continuous growth.

Growth rates are higher in the urban segment, mainly driven by demand for metro systems in the megalopolises of the Asia-Pacific region and the Rest of America, while the high-speed market is declining. Light metropolitan railways are the segment showing the fastest growth, but it is still the smallest and therefore has the potential to become the next main growth driver.

STRATEGIES FOR 2011

The competitiveness of one's product portfolio is crucial, especially in the emerging economies' railway market and the US, while European railway operators (particularly in Germany, France and the UK) take the view that ERTMS is costly and has limited performance: they are therefore looking for optimal alternative combinations.

The adoption of a "system" rather than "product" approach is necessary to be able to manage external products in one's portfolio in the telecomunications field (Scada, CCTV, PI, energy sourcing, HLS and signalling components).

To achieve competitiveness by becoming more efficient, in the near future Ansaldo STS will have to:
- limit the development of sites around the world that require a complete organisation (personnel and operations) and therefore are burdened with high general expenses and indirect costs (for training, IT and travel);
- redefine the value of "closeness to the client", in order to exploit a more limited number of competency centres;
- utilise standard, more simply engineered platforms, in order to optimise R&D resources;
- take care to avoid duplications between the Business Units in their engineering capacity (Scada, Telecomunications, HLS and signalling);
- exploit the marketing operation of the *Transportation Solutions* Business Unit in the mass-transit field and, reciprocally, those of the *Signalling* Business Unit in the railway sector; and
- be more selective in choice of markets, avoiding overly competitive markets, but rather using partnerships (alliances and joint-ventures).

The *Transportation Solutions* Business Unit

In 2010 Ansaldo STS maintained the strong position it had acquired in the transportation solutions market, consolidating its technological and competitive leadership in the driverless metro segment.

In 2010 new orders amounted to EUR 1,142,756 thousand, an increase of 80% over the 2009 figure of EUR 632,467 thousand.

At 31 December 2010 the backlog was EUR 2,721,540 thousand, over 32% more than the EUR 2,048,073 thousand of 31 December 2009.

The most important order was the contract for the new Cityringen driverless metro in Copenhagen. This contract is worth EUR 576.8 million (not including the rolling stock to be supplied by Ansaldo Breda), is the largest in the history of ASTS and proves not only the company's technological excellence, which enables it to compete successfully in the international market, but also its ability to establish long-term relationships of trust with clients, as is shown by our many years of activity in Denmark, and the high regard in which the works already completed there are held.

Our leadership in the transportation solutions market received a significant boost in Italy, from which we received orders for conventional metro systems: the extension of line 6 of the Naples Metro (EUR 160.5 million); the extension of a section of the Genoa metro to the depot (EUR 42.4 million), the supply of seven new trains to the Genoa metro (EUR 31.6 million) and for the B1 Line of the Rome metro (EUR 7.1 million).

In the Asia-Pacific area Ansaldo STS signed a framework agreement in Australia for Rio Tinto goods transportation, which will guarantee a constant flow of income for the next five years totalling some EUR 340 million.

In 2010 we also continued developing and testing new technologies to increase our competitive advantage in the urban transport market.

In cooperation with Ansaldo Breda, we succeeded in bringing into service a new ground-level supply technology, without catenaries, known as TramWave; this technology is currently at the offer stage for application to the LRT system in Losail, Qatar.

The "Driven by Business" strategy has also given enormous impetus to our Business Unit, which it has enabled to evolve from the status of a highly successful European firm to that of a global supplier of competitive and sustainable transportation systems throughout the world.

In Italy plans to expand urban transport have been confirmed, even though in several cases their completion has been significantly postponed due to the slowdowns caused by the economic crisis.

In addition the extensions of contracts for existing concessions are expected shortly.
We are currently awaiting the outcome of a tender for Milan's driverless Line 4, for which we made an offer in December 2010.

In the European region, after the more recent success with Cityringen, Denmark has become a **highly strategic market, not least bearing in mind the longstanding presence of the group in the country:** the driverless metro in Copenhagen - where STS is also the operator - is one of the best business cards of our *Transportation Solutions* Business Unit.

In the rest of Europe the macroeconomic situation caused a slowdown in various projects (mainly in the Eastern European regions, where the European Community's development programme do not cover all local needs).

Middle Eastern countries are investing moderately in new public infrastructure.
In Qatar, as noted above, there are currently offers for the Losail LRT project, where we will propose the technology without catenaries, TramWave.
In Saudi Arabia the company is giving great importance to the driverless metro at Riyadh's Women's University, which was awarded to Ansaldo STS in 2009, with the expectation of being able to further increase our market share.
Many other mass transit projects are foreseen in the Middle East in the next 5-10 years, depending on the delays caused by the financial crisis.

In North Africa, due to the current situation of crisis and instability, we presume that most of the projects will be cancelled or delayed.

In Tunisia, two new lines of Tunisi's suburban railway are at the tender stage, but in light of the current situation in the country, the tender procedure should be prolonged.

All the other expectations of expansion in the Asia-Pacific region have by contrast been fully met.

In India and Thailand, there are various short- and medium-term projects, both for urban transportation and for railways. India, in particular, seems to be one of the areas with the greatest potential, thanks to the expectations for mass-transit projects and goods transportation.

In 2011 in Taipei offers will be opened for the extension of the Circular Line and a new metro line.

In Malaysia, our Business Unit is currently in the tender stage for the extension of the Ampang LRT system in Kuala Lumpur.

In North America, a significant step was taken with the offer for a driverless metro in Honolulu, currently being assessed.

There are concrete short- and long-term prospects for a number of tenders relating to the HSL segment, i.e. the new Desert Express line, which will link Los Angeles and Las Vegas.

In terms of opportunities in South America, the most interesting companies are Brazil, Colombia and Chile, where there are a number driverless metro projects.

Principal Orders

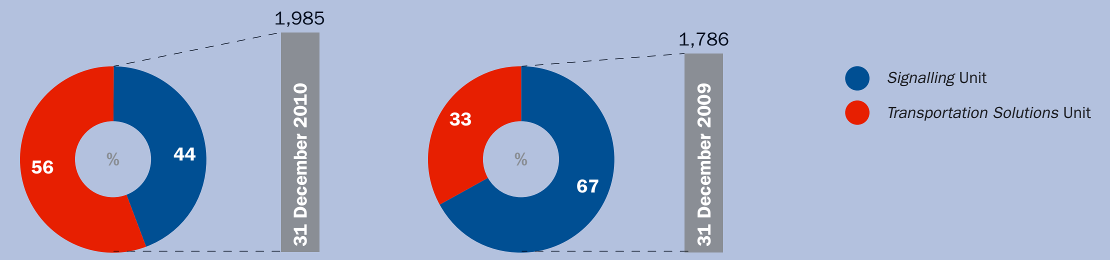
Signalling Unit

Country	Project	Principal	Value (EUR million)
Libya	Sirti Bengazi line	RDZ	201.8
Australia	ARTC various projects	ARTC	83.7
Kazakhstan	Korgas-Zhetygen (300 km)	KDZ	45.6
USA	UP CAD-X OTP (Settlement)	Union Pacific	44.7
Italy	ACC Nodo di Genova	RFI	43.7
Italy	On Board HSL Zephiro Train	Ansaldo Breda	29.5
Italy	ATC Wayside + On Board - variation	RFI	20.3
USA	WMATA Blue / Orange Line	WMATA	20.0
Brazil	Vale Switch Machines	Vale	18.0
Italy	HSL - variation orders	RFI	13.8
USA	WMATA 7000 CAB Series	WMATA	12.8
China	Chengdu Line 2	Insigma	11.6
China	380 ATP C3 (1st lot for 120 OBU)	Hollysis	8.1
USA	WMATA Red Line rehab	WMATA	8.0
Korea	Rotem 56 electric loco	Hyundai Rotem	7.1
Italy	ACC variation orders	RFI	6.7
Australia	Rio Tinto various projects (n.6 orders)	Rio Tinto	6.3
Italy	ATC Wayside: reconfig. Verona, Firenze	RFI	5.1
India	KfW variation orders	KfW	3.9
Australia	FMG - various orders	FMG	3.7
USA	Components, Service & Maintenance	Various	62.8
Italy	Components, Service & Maintenance	Various	33.9
France	Components, Service & Maintenance	Various	32.4
Australia	Components, Service & Maintenance	Various	9.7

Transportation Solutions Unit

Country	Project	Principal	Value (EUR million)
Denmark	Copenhagen Supply Ring	Metroselskabet	344.4
Denmark	Copenhagen O&M Ring	Metroselskabet	232.4
Denmark	Copenhagen Existing Line O&M	Metroselskabet	220.8
Italy	Napoli Linea 6 - Mostra Arsenale	Naples Municipality	160.5
Italy	Metro Genova deposit	Genoa Municipality	42.4
Italy	Metro Genova veichles	Genoa Municipality	31.6
Australia	Various Rio Tinto projets	Rio Tinto	16.0
Italy	Napoli Alifana Consortile - variation	Alifana	10.6
Italy	Roma Metro Linea B1	Salini	7.4
Denmark	Copenhagen Existing Line O&M - variation	Metroselskabet	6.7
Italy	HSL variations	IRICAV / SATURNO	5.6
Italy	Napoli Linea 6 - variation	Naples Municipality	4.9
Italy	Napoli Alifana Segnalamento - variation	Alifana	4.8

Orders at 31 December 2010 and 2009 (EUR million) and the Units' contribution



Analysis of the Income Statement, the Balance Sheet and the Financial Position

Consolidated net profit in 2010 was EUR 94,908 thousand as against EUR 87,800 thousand in 2009.

The increase of EUR 7,108 thousand was due to an increase in operating profit (EUR 12,013 thousand), an increase in net finance cost (EUR 3,595 thousand) and higher taxes (EUR 1,310 thousand).

Production revenues increased by 9,2%, in line with our targets, from EUR 1,175,640 thousand in 2009 to EUR 1,283,710 thousand in 2010 - an increase of EUR 108,070 thousand.

The *Signalling* Unit's production revenues increased by EUR 36,853 thousand from EUR 804,978 thousand in 2009 to EUR 841,831 thousand in 2010.

The *Transportation Solutions* Unit increased its production revenues by EUR 87,318 thousand from EUR 417,130 thousand in 2009 to EUR 504,448 thousand in 2010.
In 2010 there were greater elisions of EUR 16,101 thousand between the two Units than in 2009 (please see section 3.2 of the Notes to the Accounts for the details).
Operating profit was EUR 137,065 thousand as against EUR 125,052 thousand in 2009; the operating margin was 10.7% as against 10.6% in 2009.
In detail:

- The *Signalling* Unit achieved operating profit of EUR 104,232 thousand as against EUR 98,992 thousand in 2009 - an increase of EUR 5,240 thousand.
- The *Transportation Solutions* Unit returned a 2010 operating profit of EUR 46,294 thousand as against EUR 43,111 thousand in 2009 - an increase of EUR 3,183 thousand.

Net Invested Capital was EUR 63,311 thousand as against EUR 22,675 thousand in 2009.

The EUR 40,636 thousand increase was due to non-current items of EUR 7,771 thousand and net working capital of EUR 32,865 thousand.

The net cash position (i.e. cash and liquid assets exceeding liabilities) was EUR 318,150 thousand as against EUR 278,861 thousand in 2009 - an increase of EUR 39,289 thousand after the dividend payout of EUR 30,982 thousand, (EUR 26,971 thousand in 2009).

Income Statement (EUR thousand)

	31.12.2010	31.12.2009
Revenue*	1,283,710	1,175,640
Value of production	**1,283,710**	**1,175,640**
Purchases and personnel cost**	(1,136,762)	(1,041,400)
Depreciation and amortisation	(13,215)	(11,825)
Impairment	(6,430)	(1,819)
Other net operating income (expense)***	9,770	5,701
Changes in inventories of work in progress, semi-finished and finished goods	2,338	250
EBIT Adjusted	139,411	126,547
Reorganisation costs	(2,346)	(1,495)
EBIT	**137,065**	**125,052**
Net finance income (cost)	(3,854)	(259)
Income Taxes	(38,303)	(36,993)
Net Profit (Loss)	**94,908**	**87,800**
o!w Group	*94,592*	*87,756*
Minorities	*316*	*44*
Earnings per share		
Basic and Diluted	*0.79*	*0.73[1]*

1. Redetermined following the free share capital increase of July 5th, 2010.
Notes for reconciling the reclassified Income Statement and the Income Statement:
(*) Includes “Revenue” and “Revenue from related parties”.
(**) Includes “Costs from related parties”, “Raw materials and consumables used”, “Purchase of services” and “Cost of labour”, less “Work performed by the Group and capitalised”.
(***) Includes the net amount of “Other operating income”, “Other operating income from related parties”, “Other operating expenses” and “Other operating expenses from related parties”.

Balance Sheet (EUR thousand)

	31.12.2010	31.12.2009
Non-current assets	263,747	252,010
Non-current liabilities	(46,183)	(42,217)
	217,564	**209,793**
Inventory	127,632	99,178
Contract work in progress	216,928	151,146
Trade receivables	624,808	526,500
Trade payables	(403,133)	(248,168)
Advances from customers	(657,150)	(651,950)
Working capital	**(90,915)**	**(123,294)**
Provisions	(22,417)	(27,726)
Other net assets (liabilities)*	(40,921)	(36,098)
Net working capital	**(154,253)**	**(187,118)**
Net invested capital	**63,311**	**22,675**
Shareholders’ equity attributable to the Group	380,411	300,897
Minorities	1,050	639
Shareholders’ equity	**381,461**	**301,536**
Net debt (cash)	**(318,150)**	**(278,861)**

Notes for reconciling the reclassified Balance Sheet and the Balance Sheet:
(*) Includes “Income tax receivables”, other current receivables from related parties (carried under “Current receivables from related parties”) and “Other current assets”, less “Income tax payables”, other current payables from related parties (carried under “Current payables from related parties”), “Other current liabilities” except for financial receivables from related parties (carried under “Current receivables from related parties”).

Balance Sheet (EUR thousand)

	31.12.2010	31.12.2009
Short-term financial liabilities	3,089	12,187
Medium/long-term financial liabilities	1,115	2,881
Cash and cash equivalents	(153,320)	(128,541)
BANK BORROWINGS (CASH ON HAND)	**(149,116)**	**(113,473)**
Related-party financial receivables	(149,150)	(152,792)
Other financial receivables	(21,212)	(14,100)
FINANCIAL RECEIVABLES	**(170,362)**	**(166,892)**
Related-party financial payables	-	-
Other short-term financial liabilities	822	353
Other medium/long-term financial liabilities	506	1,151
OTHER FINANCIAL LIABILITIES	**1,328**	**1,504**
NET DEBT (CASH)	**(318,150)**	**(278,861)**

Cash Flow Statement (EUR thousand)

	31.12.2010	31.12.2009
Cash and cash equivalents at 1 January	**128,541**	**71,536**
Gross cash flow from operations	164,994	145,798
Changes in other operating assets and liabilities	(50,311)	(35,044)
Funds From Operations	**114,683**	**110,754**
Change in working capital	(41,717)	12,203
Cash flow generated (utilised) by operations	**72,966**	**122,957**
Cash flow from ordinary investment activities	(6,983)	(8,529)
Free operating cash-flow	**65,983**	**114,428**
Strategic investments	-	(3,210)
Other investment activity changes	-	-
Cash flow generated (utilised) by investment activity	**(6,983)**	**(11,739)**
Dividends paid	(30,982)	(26,971)
Cash flow from financing activity	(12,795)	(26,894)
Cash flow generated (utilised) by financing activity	**(43,777)**	**(53,865)**
Translation difference	**2,573**	**(348)**
Cash and cash equivalents at 31 December	**153,320**	**128,541**

Risks and Uncertainties

The risks described below are the result of an analysis of the characteristics of the Ansaldo STS Group's market and businesses together with the main outcomes of the updating of our Risk Assessment of processes.
Risk Assessment is designed to identify the main risks in respect of the processes defined as important, and the necessary mitigation actions, as well as the definition of the additional actions to be taken to reduce risk further or to improve process performance.

The Risk Assessment process adopted by Ansaldo STS uses the internationally recognised Enterprise Risk Management framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO report) which is intended to make Risk Assessment an integral part of the processes of planning and implementation of corporate objectives, in order to create value according to suitable risk management, as well as taking advantage of all opportunities.

This Risk Assessment process was initiated in 2009 and is now at the consolidation stage, both of the approach and of the supporting infrastructure.

The main risks and uncertainties faced by Ansaldo STS and the Group are described below in the Group's classification, viz. strategic risk, operational risk, financial risk and information risk. There may be risks that have not been identified or are considered not markedly important, which could however impact the Group's business activities.

Please see Section 3.7 of the Notes to the Accounts for the management of financial risks.

Strategic Risk

Competition in an international market, with high technological innovation content, and a small number of firms

The businesses in which the Group operates - transportation solutions and signalling - are characterised by a competitive environment based on technological innovation, in which only a few industrial groups are present. This competitive environment requires a constant commitment to technological innovation on the part of the Group, as well as the pursuit of efficiency and the penetration of new markets.

The Ansaldo STS Group's ability to sustain its present investment policy of and to properly evaluate innovations - one of the factors of the Group's success in recent years, enabling it to successfully compete with larger firms with greater investment capabilities - is crucial.

In recent years the Group has achieved some important commercial successes in new markets. The policy of penetrating new markets - especially those with the fastest growth rates - exposes the Group to risks such as: political, social and economic instability, mistaken assessments of local regulations and legislation (company law, tax law, or the rules governing the validation of signalling equipment), problems of intellectual property protection, exchange rate fluctuations and the credit of business counterparties. The policy of internationalisation also exposes the Group to a greater risk of misjudging market opportunities and competitors' positioning.

These risks could bring about a weakening of the Group's competitive position, the loss of business opportunities, a waste of resources in investments with a poor return in terms of profitability, difficulties in preparing suitable offers and in carrying through projects on time and on budget, which might negatively impact the order backlog and the profit, capital and financial strength of the Group.

To mitigate these risks, the Group has implemented an organisational and operational structure designed to provide integrated management of the Group's various businesses. The aim is to create the conditions for greater marketing effectiveness, to enhance our attention to marketing intelligence and innovation, and to increase operational efficiency. The new organisational set-up came into force on 1 January 2010, with the exception of our US subsidiary, which will be integrated starting from Q2 2011.

In addition, the 2011 Budget and the 2012-2015 Plan reaffirm selectivity in the choice of our main markets and the management of technological innovation, identifying efficiency objectives to be attained through a number of Excellence Programs.

Changes in the macroeconomic scenario and efficiency objectives

The Ansaldo STS Group operates, as mentioned above, an international market and is therefore exposed to risks of change in the global macro economy and the markets in which it operates or plans to operate. Various macroeconomic factors can impact the Group's business, such as the growth rate in specific markets and government plans for investment in infrastructure. Any failure to correctly judge the evolution of factors like these could jeopardise the Group's operational capability.

The current economic crisis and the government deficit reduction programmes - whether initiated or merely announced - designed to deal with the present economic situation, could cause contracts to be cancelled or postponed, payment delays, less favourable financial terms and conditions in new contracts and thus adversely impact Group performance.

In this phase the competitive environment becomes increasingly fragmented, complex and subject to pricing pressures. This could weaken the Group's competitiveness, should there be no proper standardisation of the solutions and the products offered, or a lack of increased efficiency and optimisation of the use of resources when carrying out our contracts.

In mitigation of this risk, as noted above, a new organisational and operational set-up was introduced in 2010 to increase the standardisation of solutions and products and, more generally, improve operational efficiency and effectiveness, in order to react to the competitive environment. In addition, market trends and the risks involved in specific markets are assessed during preparation of the Strategic Plan, commercial opportunities are assessed more selectively, offer evaluation processes and assessment of new contract negotiations paying attention to the reference parameters for the creation of value in our contracts, and specific areas have been identified in which steps will be taken to improve the offer and delivery processes. Lastly, the Group has a solid capital and financial structure and a significant order backlog (equivalent to some three years' work) which enables it to ride out this unfavourable economic period.

However, the current economic and market situation requires increasingly determined action to preserve our margins and thus the value of the company.

In this connection, as noted above, the 2011 Budget and the 2012-2015 Plan identify certain efficiency objectives to be attained through Excellence Programmes. Should these programmes fall short of expectations, there could be an adverse effect on margins and the value of the company.

Operational Risk

Dependency on Governmental Clients and Multi-year Contracts

The Group's business depends significantly on governmental clients and - especially in its transportation solutions business - on large-amount multi-year contracts.

Any delays, changes, revisions or cancellations of one or more large on-going multi-year contracts could adversely affect the business and the Group's profit, capital and financial situation.

Additionally, the assessment of multi-year contracts using the completion percentage method requires estimates of completion costs and project risks (technical, legal, fiscal and commercial) and of the progress of the activities. These estimates are based on assumptions regarding the consequences of future events, which - of their nature and given the complexity of the projects to be carried out - could turn out differently from what has been foreseen, thus adversely affecting the economic and financial performance of the project.

These risks can be mitigated by:
- diversifying markets and monitoring country and legislation risk;
- adopting risk management processes, both in the offer stage and during execution of the project, and life-cycle management processes based on constant comparison of physical progress with accounting progress and phase review processes.

Project Budgeting and Planning

A project team may not be able to execute its project on budget and on time, in particular one in a new market, due to ineffective project controlling processes, which could already be clear in the offer phase. Risk management might be ineffective due to being based on incomplete or inaccurate information, or inadequately defined and monitored. This risk could cause delays in the identification of project execution problems and inaccurate reporting and planning, with an adverse effect on the Group's profit, capital and financial situation.

To mitigate this risk, there are defined and monitored processes for checking the physical and accounting progress and for risk management, clear assignment of responsibilities to the Project Manager and the contract Controller, managerial reviews of the performance of the project, reviews of the estimates made in the offer phase and independent reviews by the Risk Management function. Further actions are planned to codify and structure controlling processes even more, and to uniform these processes according to current best practices in all the various businesses of the Group and at all levels of responsibility within each business.

Third Parties (subcontractors, sub-suppliers and partners)

In both the Group's businesses significant use is made of subcontractors for the provision of subsystems or assembly and installation services and of sub-suppliers of goods and services. The Group's ability to meet its obligations towards its client is therefore subject to fulfilment by both subcontractors and sub-suppliers of their contractual obligations. Failure to do so could therefore cause Ansaldo STS to default on its own obligations, which would adversely affect its reputation and, apart from any compensation obtained by legal action taken against subcontractors or sub-suppliers, the Group's profit, capital and financial situation.

The Group also executes contracts in association with other firms, especially in its transportation solutions business. In these forms of association, each party is usually jointly and severally responsible to the client for completion of the whole project. In the case of contractual breach or loss or damage caused to the client by an associated firm, Ansaldo STS might be called on to substitute the defaulting or damage-causing party and to pay compensation for the whole loss suffered by the client, while retaining its right to legal recourse against the defaulting associated firm. The inefficacy or protractedness of legal action against a defaulting or loss-causing associated firm might adversely affect the business and the Group's profit, capital and financial situation.

Additionally, given the Group's internationalisation strategy, preliminary assessment of partners, subcontractors and sub-suppliers in new markets could be ineffective and adversely affect the order book, our reputation, our profit, capital and financial situation, and the effectiveness of partnership governance (e.g. divergences between partners or misalignment of risk and cost/benefit assessment between individual partners).

To mitigate these risks, there are processes of selection and qualification of subcontractors and sub-suppliers, cooperation with partners that are already known to the Group and of proven reliability, drawing up, signing and managing appropriate contractual and grouping clauses, risk management processes and, where applicable, requesting specific guarantees. In selecting subcontractors and partners in international markets, these processes are followed with even greater attention, involving the legal department when drafting contractual clauses. Further actions have been identified to make the assessment of subcontractors and partners more effective in the offer stage.

Adequacy and efficiency of developments and technical references

The Group may fail to properly assess its innovation and development priorities, with the risk of being out of line with the market's needs, of a low economic return on the investment in the innovation and in the project and the loss of commercial opportunities. Development projects might not be carried out within the assigned budget or in line with a clear understanding and identification of requirements, negatively impacting our margins, delivery times and customer satisfaction. In certain circumstances the Group could also not have market and use references for certain products with the risk of missing commercial opportunities or failing in compliance during execution of the project, with adverse effects on project profitability and the Group's reputation.

To mitigate these risks, the Group has recently strengthened and rationalised its product portfolio definition processes, not least in the assessment of opportunities to re-use existing products in offers. Planning and control of development activities have been strengthened to ensure that priorities are correctly assessed and control over timing and costs. The risk of not having sufficient references for certain new products is carefully assessed in the offer phase and managed with recovery plans during execution.

Liability to clients or third parties for defects in products sold or delayed delivery

The technological complexity and the limited delivery times of the Group's products and systems could expose the Group to liability for delayed or failed delivery of contractual products or services, or their failure to meet the client's requirements (due to planning or production faults), failed or delayed commercialisation, and provision of post-sales service and product maintenance and servicing. Moreover, many products and services supplied by the Group are subject to certification or type approval, often involving third parties.

Supplying defective products may require additional activities or the withdrawal of such products from the market; this could occur with new products with which the Group has not yet gained significant experience of use.

These liabilities could arise from causes attributable to the Group or to external third parties, sub-suppliers or subcontractors. If these risks eventuate, the business could be adversely affected as could the Group's profit, capital and financial situation and its reputation. With regard to possible product faults, even when this is specifically insured, liability limits may be exceeded, by the claim arising out of an event, insurance premiums could be increased, adversely affecting the Group's profit, capital and financial situation.

To mitigate these risks, the Group takes out specific insurance policies, maintains careful control over its engineering processes, the validation and monitoring of output, and, in accordance with the risk management process, identifies mitigation action for each project and includes contingencies in its contract cost estimate.

Litigation

The complexity of relationships with third parties (clients, subcontractors, sub-suppliers and partners), and of the content of the products and systems we make, as well as the specific risks of the operations of the business, expose the Group to significant litigation risk. Litigation could concern inter alia tender rules. Settlement of litigation could be complex and require a long period, causing delay in the completion of projects with adverse effects on the business and the Group's profit, capital and financial situation.

To mitigate this risk, there are risk management processes both in the offer stage and during management of the project, careful checking of contractual clauses with the assistance of the legal department and the adoption of a prudent approach to the accounting recognition of project costs and provisions for risks and charges.

Human Resource Management

The Group supplies products and systems with a high technological content. To produce these we need human resources with specific knowledge and skills that are often hard to find in the market. Successful development of the business, especially in new markets depends on our ability to attract, retain and develop the skills of our people, especially for our international operations.

To mitigate this risk, we have drawn up human resource management policies closely related to the needs of the business, particularly in the current phase of integrated management of the business and expansion into new markets. The transfer of knowledge and experience and training programmes are performed increasingly through secondment and coaching programs, by codifying acquired knowledge in an integrated system documenting our processes and mapping available skills against those required in an increasing number of areas of the business. In 2010 personnel management processes were re-examined with a view to improving them and integrating them with the Group's businesses. Lastly, transition plans are drawn up and monitored during implementation of organisation and integrated processes, which came into force on 1 January 2010 for all areas of the Group except our US subsidiary, which will be integrated starting from Q2 2011.

Health, safety and environmental compliance

The Group is subject to health, safety and environmental regulations in its countries of operation.

Non-compliance with these rules due to inadequately managed operational processes or, especially in new markets, incorrect assessment of compliance could expose the Group to risks with adverse effects on the business and the Group's profit, capital and financial situation and reputation.

To mitigate this risk, the Group adopts health, safety and environmental management systems designed to ensure rigorous compliance with best practice monitored both internally and externally. These systems are certified under OHSAS standard 18001 for safety at work and ISO14001 for the environment in the larger Group entities. The parent company Ansaldo STS has reviewed and strengthened health and safety processes. The compliance required in new markets is assessed right from the offer phase and support is guaranteed if necessary with recourse to outside consultants. Common policies and procedures are being drawn up to ensure standard behaviours across the Group, while bearing in mind local legal requirements.

Financial risks

The ability to finance a high level of current operations and obtain the necessary guarantees

Completion of the Group's projects requires:

- an adequate level of financing of current operations;
- the issue of bank and insurance guarantees in the interest of the client in the various stages of the life of a project (bid bonds, advance payment bonds, performance bonds, retention money bonds and warranty bonds) and parent company guarantees.

Current operations are usually financed through advance payments and stage payments made by the client.

The ability to obtain guarantees at economic cost depends on the issuer's assessment of the Group's profitability, capital strength and financial capacity and is usually associated with various assessment ratios including the analysis of the Group's profitability, capital strength and financial capacity, the analysis of project risk, its experience and its competitive positioning in its sector. Ansaldo STS believes that it complies with the analytical requisites. At 31 December 2010 the Group had guarantee exposure of EUR 2,314,756 (EUR 1,463,258 at 31 December 2009).

Should there be difficulties in negotiating sufficient financial conditions, delayed or interrupted payments and a worsening of the agreed payment terms, or if the ability to obtain guarantees at economic cost should be lost or reduced, there could be adverse effects on the Group's business and its profit, capital and financial situation.

To mitigate these risks, our commercial and project management policies take financial needs into account, as well as our centralised management of treasury optimising the cash flow generated by Group entities, the Group's profitability and financial soundness and monitoring of the indexes used to assess contracts at the offer stage.

Project Financing Transactions and PPP (public and private partnership)

The market is increasingly oriented towards asking transportation system suppliers to draw up and manage a project finance scheme, involving private sources of finance as well.

These transactions involve several risks, e.g. deficiencies in the drafting and review of the tender documentation and inadequate assessment of the partners, which could expose the Group to inappropriate risks. Non-performance in the construction stage, especially in terms of lead times, and in operation and maintenance could trigger protection clauses and loss of return on, or of invested capital. These risks could have adverse effects on the Group's profit, capital and financial situation.

To mitigate this risk, the Group's offer process involves all relevant company departments and risk is assessed, as noted above, in the offer stage, including the assessment of project partners.

IT Risks

Management of information systems

Information systems are an essential component of the corporate operational structure and require management aligned with the Group's strategic objectives. The efficiency and effectiveness of the Group's activities could be jeopardised by IT solutions that fail to meet the firm's needs, especially in the current phase of reorganisation of the operating model, based on a more integrated management of the business, changes to IT tools that are out of line with users' needs or inefficient systems management.

In addition, any non-availability or interruption of IT services, data loss or damage, could impair the Group's operations.

To mitigate this risk, IT policies are drawn up with regard to our change management activities, the Group has a Governance system based on best practice and follows properly structured and monitored processes for infrastructure and IT application management.

Corporate Governance and Governing Bodies

Ansaldo STS is subject to direction and coordination by Finmeccanica SpA, which is the leading shareholder with 40% of company capital, the remaining 60% being floating and held by a large number of international investors. Most of the members of the Board of Directors are independent.

Since 29 March 2006 the Ansaldo STS share has been listed in the Star segment of the organised markets managed by Borsa Italiana and since 23 March 2009 it has been included in the FTSE MIB index.

On 19 December 2006 Ansaldo STS's Board of Directors resolved to adhere to the Corporate Governance Code adopted by Borsa Italiana S.p.A. in March 2006 (the "CGC"). In 2007 the Company completed alignment with the rules of the CGC and in subsequent years has promptly updated its Governance Model in line with amendments as they were issued, taking the view that the rules decisively contribute to realisation of the central points of its corporate governance policy. The main objective of the corporate governance system we intended to realise was the creation of shareholder value, in full awareness of the importance of the transparency of decisions and decision-making processes in the Company, as well as the need to set up an effective internal control system.

The members of Ansaldo STS's Board of Directors, appointed by the Shareholders' Meeting held on 1 April 2008 are: Alessandro Pansa (Chairman), Sante Roberti (Deputy Chairman), Sergio De Luca (Managing Director/CEO), Maurizio Cereda, Gerlando Genuardi, Gregorio Gitti, Francesco Lalli, Eugenio Pinto and Attilio Salvetti. The Board's term of office will run for three financial years, i.e. up to the date of the Shareholders' Meeting that will called to approve the Accounts for 2010. The members of the Board of Statutory Auditors, also appointed by the Shareholders' Meeting held on 1 April 2008, are: Giacinto Sarubbi (Chairman), Massimo Scotton and Francesca Tripodi; the following were appointed alternate auditors: Bruno Borgia and Pietro Cerasoli.

The new Board of Directors met on 1 April 2008 and confirmed Sante Roberti as Deputy Chairman, Sergio De Luca as CEO and Mario Orlando, Company Secretary, as Board Secretary. The Board then appointed the members of the Internal Control Committee (Gregorio Gitti - Chairman, Maurizio Cereda, Eugenio Pinto and Attilio Salvetti), the Remuneration Committee (Maurizio Cereda - Chairman, Gerlando Genuardi and Francesco Lalli) and the Nominated Officer responsible for drawing up the Company's accounts in the person of Jean Paul Giani, Chief Financial Officer of the Company. Subsequently, with effect from 1 August 2009, the position of Chief Financial Officer and the Nominated Officer responsible for drawing up the Company's accounts was taken up by Alberto Milvio in place of Jean Paul Giani, who had been called to another important position within the Finmeccanica Group.

The Directors Maurizio Cereda, Gerlando Genuardi, Gregorio Gitti, Eugenio Pinto and Attilio Salvetti attested on being elected that they possessed the requisites of independence required by the regulations and the CGC. As required by the CGC, the continuing possession of these requisites has been regularly checked; the most recent check, which took place in the second half of 2010, confirmed that all the independent directors continued to possess the requisites for independence.
Thus the current Board has five independent Directors out of a total of nine.

Similarly, as required by the CGC, the members of the Board of Statutory Auditors, Giacinto Sarubbi (Chairman), Massimo Scotton and Francesca Tripodi, attested that they possessed the requisites of independence required by the regulations, both on being elected and in the second half of 2010.

At its meetings of 27 January 2010 and 26 November 2010 the Board of Directors examined the result of the periodical review of the Company's Directors' Directorships or Statutory Auditor appointments in other listed companies, finance houses, banks, insurance companies or of large size, taking note of the offices declared by each Director and that no Director had disclosed business activity in competition with the issuer.

In the first half of 2010 the periodical assessment of the size, composition and workings of the Board and its committees, checking that it complied with the principles and application criteria of the CGC and with Italian and international best practice, was also completed.

In the first half of 2010 the Company published the first Sustainability Report of the Ansaldo STS Group, which marks the beginning of the activity of the Company's social and environmental reporting.

Lastly, on 26 November 2010 the Board of Directors of the Company, having received a favourable opinion from a Committee made up of all the Independent Directors, approved - pursuant to article 2391-*bis* of the Italian Civil Code and Consob Regulation 4 paras.1 and 3 governing related-party transactions adopted by resolution 17221 dated 12 March 2010 and subsequent amendments (the *"OPC Rule"* - the Procedure for related-party transactions and obtained on the same day the favourable opinion of the Board of Statutory Auditors in relation to the Procedure's compliance with the principles of the *OPC* Rule.

Ansaldo STS's Procedure governing related-party transactions may be consulted in its website www.ansaldo-sts.com.

The following is a list of the main instruments of governance currently in use by the Company:
- By-Laws
- Code of Conduct
- the Organisational, Managerial and Control Model prescribed by Law 231/2001
- Board of Directors Regulations
- Internal Control Committee Regulations
- Remuneration Committee Regulations
- Related-Party Transactions - Procedure adopted pursuant to article 4 of Consob Regulation 17221 dated 12 March 2010
- Regulations for the management of Privileged Information and the maintenance of a Register of persons having access to such information
- Internal Dealing Code
- Regulations for Shareholders' Meetings

For further information on the corporate governance of the Company, reference should be made to the "Corporate Governance Report", which *inter alia* contains the information prescribed by § 123-bis TUF; this can be found in the Company website at www.ansaldo-sts.com.

Governing Bodies and Committees

BOARD OF DIRECTORS
(for the financial years 2008-10)

ALESSANDRO PANSA
Chairman

SANTE ROBERTI
Deputy Chairman

SERGIO DE LUCA
Managing Director/CEO

MAURIZIO CEREDA[1 2]

GERLANDO GENUARDI[2]

GREGORIO GITTI[1]

FRANCESCO LALLI[2]

EUGENIO PINTO[1]

ATTILIO SALVETTI[1]

MARIO ORLANDO
Board Secretary

BOARD OF STATUTORY AUDITORS
(for the financial years 2008-10)

GIACINTO SARUBBI
Chairman

MASSIMO SCOTTON

FRANCESCA TRIPODI

ALTERNATE AUDITORS
(for the period 2006-14)

BRUNO BORGIA

PIETRO CERASOLI

EXTERNAL AUDITORS
(for the period 2006-14)

PRICEWATERHOUSECOOPERS S.p.A.

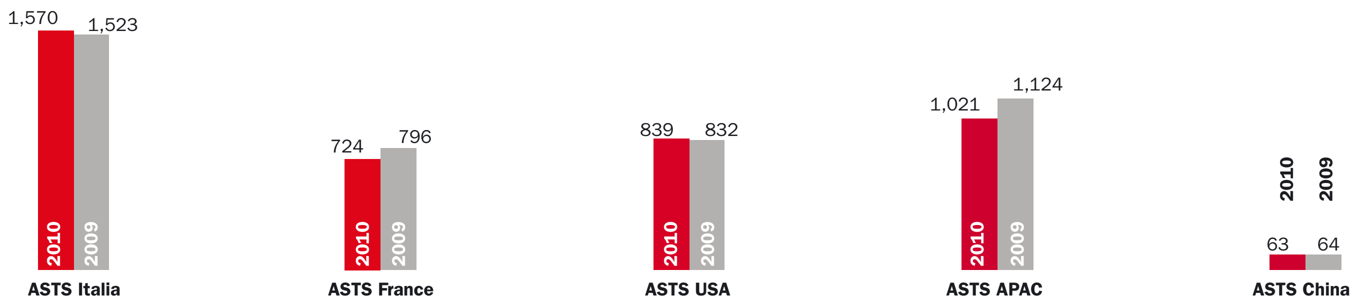
1. Member of the Internal Control Committee.
2. Member of the Remuneration Committee.

Human Resources

Our Group's headcount at 31 December 2010 was 4,217 people, virtually unchanged from the 4,339 people reported at 31 December 2009.

COMPANY	2009	**2010**	Change
ASTS Italia*	1,523	1,570	+ 47
ASTS France**	796	724	- 72
ASTS USA	832	839	+ 7
ASTS APAC	1,124	1,021	-103
ASTS China	64	63	-1

* Includes employees of ASTS Germany and ASTS Kazakhstan.
** Includes employees of ASTS UK, ASTS Ireland and ASTS Sweden.

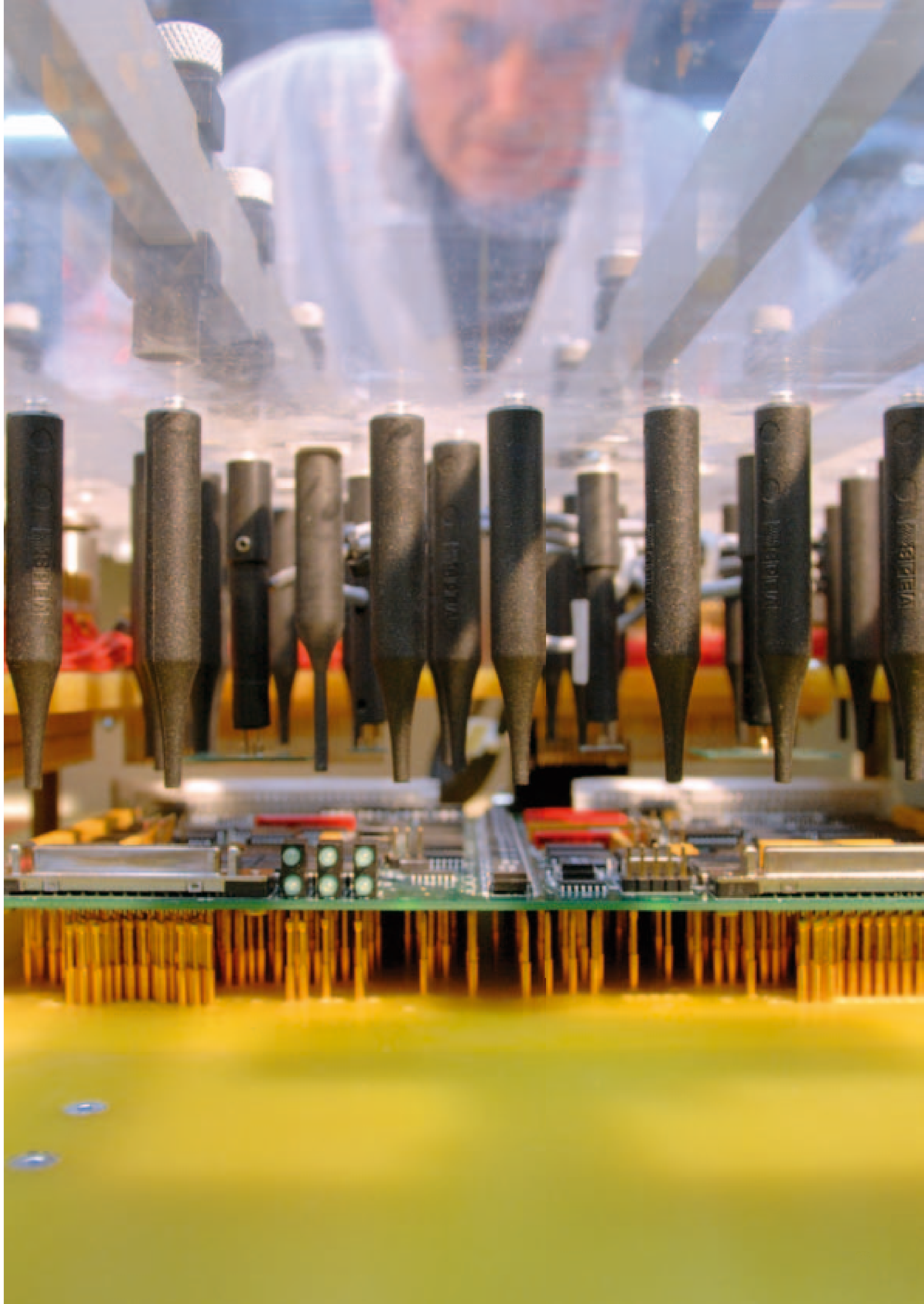


2010 was undoubtedly a historic year for Ansaldo STS. After months of preparation, on 1 January 2010 our new worldwide organisation was launched and the effects of an epochal revolution in our company could be felt in the field: the establishment of global professional families within which professionalism and ability are placed at the disposal of the business wherever it is in the world. 2010 saw the Company implementing an extraordinary action to meet the new needs of a global organisation.
The growing interrelations between staff belonging to different countries recorded in the year, which now give the Company a clear global connotation perfectly aligned with the needs of the market, required a review of corporate policies on human resources, which have always been considered a strategic factor for our Company, and one of the five values of Ansaldo STS. A new vision led our function in this challenging task in 2010: "support our people and the development of the business, by creating value for both".
This tough mission was approached by directing activity along two main lines:
- rationalisation and policies of efficiency improvement
- development of resources and skills.

The rationalisation objective, the foundation of the ASTS organisation's globalisation strategy, was broken down into three main areas.

1. Management of the staff requirements
The analysis and planning of the requirement of people to be included in the organisation is now part of a global structured authorisation process, which ensures that there are consistency and focus on the priorities of the business. Specifically, through a new policy of global recruiting, we are able to exercise greater control centrally over the positions to be filled in all the major entities of Ansaldo STS, with the consequent possibility of creating - through the job posting tool and by encouraging geographical mobility - internal opportunities before selecting external candidates. This makes it possible to implement a policy of containment of headcount and above all to create growth opportunities for internal staff internationally. Using a new global IT tool in use since October 2010 enables us to optimise the selection process, leading to a gradual reduction of the external provider cost by creating a single shared integrated database.

2. International Mobility
Development of ASTS's global integration requires staff to live new relationships, which rapidly exit their previous geographical and cultural ambiance. Their willingness to travel must therefore be different and certainly greater and presupposes a propensity to experience short- and long-term mobility at home and abroad, with renewed motivation. The significant phenomenon of the



expat, i.e. those with long-term foreign contracts, was as follows at the end of 2010: there were 95 employees in this group (of which 75% involved in direct activities or projects) from six home companies in 19 countries.
To govern this process cost-efficiently, the following supporting actions were taken:
- issuance of a global international mobility policy to standardise common practice for non-local staff management;
- establishment of a global integrated team;
- creation of a specific area in the Group's intranet to provide news on tools and practices or corporate policies and information on countries in which ASTS operates;
- development of integrated activity with H&S and Security;
- constant involvement of the Board in accounting and tax matters;
- creation of a pool of providers of specialist services (tax advice, insurance, relocation, immigration/emigration and security).

3. Cost Reduction
The mentioned growing interrelatedness of people belonging to different geographic areas inevitably increases communication costs. In particular, in situations of this kind travel and telephone costs can significantly increase, unless there is a rigorous cost containment policy and measures are taken to limit the use of the more costly tools. To this end, the Travel area Travel has drawn up a global policy to standardise and reduce expenses, inter alia by selecting a single global provider. Regular monitoring of travel costs, together with a continuous review of the services of the global provider, helps to keep all the aspects needing improvement, under control. This is made possible by use of the global SAP tool, and thanks to the introduction of a Travel Manager role operating centrally and locally. A further travel policy is the containment of travel between corporate offices, given the large amount invested in virtual communication technologies (VDC, OCS). Efficiency improvements are underway in telephone communication, mainly aimed at more focussed assignment of cell phones and in any case to reduce traffic. A sharp reduction in the number of recipients worldwide is expected as well as a more structured control over total expenditure through continuous monitoring. Additionally there are agreements with global providers, aimed at taking the best opportunities offered by the market.

The second line of activity has been development of resources and skills. In order to offer an integrated development scheme, guaranteeing opportunities of professional growth to all employees consistently and uniformly worldwide, a model was developed to offer an attractive strategy of "Total Rewarding", in which not only the cash element counts, but also a differentiated offer of professional and career development, skill enhancement, learning opportunities, international experience, involvement and motivation, etc.
This model comprises certain 'transverse' elements in that ideally it follows the employee's entire life cycle, from recruitment through all the professional growth phases, through assessment, development, rewarding and internal communication systems.

These include the Global Job System, an innovative and interesting framework for ASTS's system of roles and responsibilities.

This project originated in the need systematically uniformly and globally to map the entire system of roles, responsibilities and skills populating the new ASTS organisational scenario.

The output of this project for each of the professional families will be:
- the 'Family Backbone', a map of the current jobs;
- details of responsibilities, mission, competency and skills for each job, known as Work Levels;
- the Competency Model of organisational behaviours common to all the professional families;
- the Skill Dictionary of the specific technical skills for each professional family;
- identification of structured career plans in each professional family;
- the association of all Ansaldo STS employees with a 'work level'.

Another transverse element of the integrated development system is the segmentation model, by which it is possible to exploit both managerial potential and more specifically technical and professional qualities, giving equal importance to these two basic elements of our business.
Within the model the "High Potentials" are directed on to a managerial path, with three stages (Rockets, Talent pool, Stars) or to a technical path in two stages (Knowledge Owners and Technical Fellows) according to the individual characteristics of the person that has been selected.

Of the other projects underway, mention should be made of Succession Planning, which has made it possible for the Company to implement a structured approach to the identification of the successors of key managers. To this end we first identified the key positions within each organisation; these positions were then graded for criticality, i.e. how ready the potential successors within the organisation were to play the role. Among the potential candidates priority was given, in terms of future training and development initiatives, to those who are theoretically ready to succeed in the medium term (1-2 years) and have been identified in relation to high-criticality positions.

A new global non-executive staff compensation policy has been drawn up regulating the management of salary increases and bonuses by means of rules common throughout the world starting with timing, fixed for the month of July every year. The process strategy is based on regular rewarding of three main components:
- individual performance,
- the weight of the position,
- local market conditions.

Eligibility for salary review will be conditional on the assessment of the individual's performance over the previous two years; another essential element will be the placing of his or her salary within the salary scale defined by the importance of his or her position with reference to the local benchmark.

The output from this analysis will be a merit matrix taking two factors into account, viz.:
- assessment of the individual's performance over the previous two years,
- the placing of his or her salary within the salary scale.

The two possible results of the salary review will be a salary raise or a bonus, being a percentage of gross annual salary ("GAS") differentiated according to his or her grade or compensation band.

In a highly technological industry Ansaldo STS's ability to innovate and supply excellent systems and services is a key factor for success and future growth. It follows that the development of individual and collective competencies is a strategic objective. In our Company this has been assigned to the Academy, which in 2010 began operating globally to plan internationally relevant training programmes. The Academy has the task of designing courses on the basis of an annual assessment of training needs made by all functions. In 2010 the main projects completed concerned project management and technical and managerial training. The expected benefits of the activity of the Ansaldo STS Academy will make it possible to standardise the level of competency within each professional family in respect of transverse technical subjects, at the same time aiming to contain costs due to the economies of scale realised by centralisation and rationalisation of common training programmes for all the entities of the Group.

Ansaldo STS
There were no changes in the Board and senior management of the Company in 2010.
The following are therefore in office:
- **Chairman of the Board of Directors:** Alessandro Pansa (elected by the Shareholders' Meeting on 21 November 2005);
- **Deputy Chairman of the Board of Directors:** Sante Roberti (Board of Directors, 24 February 2006);
- **CEO:** Sergio De Luca (Board of Directors, 14 June 2007).

Since 1 January 2010, due to reorganisation under the Fast Forward Driven by Business project - to be completed in 2011 - Ansaldo STS has had a divisional organisational structure. This includes global Business Units reporting direct to the CEO and integrates the experience and professionalism of all the geographies served by the Group. The highest level of the new organisational structure in Ansaldo STS is therefore as follows:
- Reporting direct to the CEO Sergio De Luca:
  - **Signalling Business Unit:** Emmanuel Viollet
  - **Transportation Solutions Business Unit:** Lyle Jackson
  - **Standard Platforms & Products Unit:** Maurizio Manfellotto
  - **Innovation & Competitiveness:** Giovanni Bocchetti
  - **Company Secretary and General Counsel:** Mario Orlando
  - **Chief Financial Officer:** Alberto Milvio
  - **Human Resources:** Carlo Cremona
  - **Standard Processes Quality & IT Services:** Christian Andi
  - **Risk Management:** Roberto Passalacqua
  - **HSE & Facility Management:** Giuseppe Spezzi
  - **Security:** Giovanni Rapiti.
- Reporting direct to the Chairman of the Board of Directors:
  - **Internal Audit:** Mauro Giganti.

Alan Calegari continues in the position of CEO of Ansaldo STS USA, which will be integrated into the new global organisation starting from April 2011.

On 27 January 2011 the Board approved the proposal to set up a Newco in Saudi Arabia as a joint venture with a Saudi entity. Ansaldo STS has agreed with the SBG group to set up a Saudi-law company to develop the *business* in that region by jointly participating in tenders and private negotiations.
The Newco will be a Saudi Arabian Limited Liability Company (LLC) under the style Ansaldo STS Saudi, owned as to 65% by ASTS and as to 35% by Al Safwa.

On 29 March 2010 a draft of the first Sustainability Report of the Ansaldo STS group was presented to the Board; subsequently it was published at the Shareholders' Meeting held on 22/23 April 2010. It was also published in the Ansaldo STS website.

On 27 May 2010, pursuant to article 2 (b) of Law 81/2008, the Board approved a proposal by the Company to identify a single employer, and appointed Giuseppe Spezzi for this purpose.
The Board also approved the new health safety and environment department and gave Giuseppe Spezzi all the powers necessary to carry out its tasks.

The Board gave its favourable opinion for a consulting contract to be signed with Hay Group, which is assisting Ansaldo STS in developing its Global Job System, i.e. an organisational development platform which is the basis for subsequent performance of HR processes including recruitment, training, career and development planning, compensation and performance management.

Corporate Social Responsibility and Sustainability

The subject and observations indicated in this section are analysed and commented on in our 2010 Sustainability Report.

Starting from 2010, Ansaldo STS has had the Sustainability Report audited by external auditors.

The Report is available on request from Investor Relations and may be downloaded from our website www.ansaldo-sts.com

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Parent Company Accounts

1. Parent Company Financial Statements

at 31 December 2010

1. Parent Company Financial Statements

1.1 Income Statement (Euro Unit)

	31 december 2010	of which from related parties	31 december 2009	of which from related parties
Revenue	852,652,981	88,700,884	716,816,857	134,522,840
Other operating income	17,194,498	8,909,898	13,930,906	7,687,786
Raw materials and consumable used	(229,651,702)	(92,575,491)	(137,116,194)	(41,312,298)
Purchase of services	(397,958,272)	(85,165,848)	(395,651,697)	(82,664,985)
Personnel costs	(113,245,014)	-	(106,782,496)	-
Amortisation, depreciation and impairment	(10,572,693)	-	(6,748,130)	-
Other operating expenses	(3,844,050)	(59,121)	(3,208,146)	(17,209)
Changes in inventories of work in progress, semi-finished goods and finished goods	1,884,268	-	1,503,896	-
(-) Work performed by the Group and capitalised	-	-	-	-
EBIT	**116,460,016**	**-**	**82,744,996**	**-**
Finance Income	41,814,670	16,460,720	23,949,024	4,009,263
Finance Costs	(33,580,180)	(6,461,698)	(21,488,408)	(461,798)
Profit before taxes and effect of discontinued operations	**124,694,506**	**-**	**85,205,612**	**-**
Income taxes	(40,704,305)	-	(28,420,327)	-
(Loss) profit from discontinued operations	-	-	-	-
Net Profit	**83,990,201**	**-**	**56,785,285**	**-**
Earnings per share (basic and diluted)	**0.70**	**-**	**0.47***	**-**

(*) Redetermined following the free share capital increase of July 5th, 2010.

1.2 Statement of Comprehensive Income (Euro Unit)

	31 december 2010	31 december 2009
Profit (loss) of the year	83,990,201	56,785,285
- Financial assets available for sale	-	-
- Actuarial gain (losses) on defined-benefit plans	(594,317)	1,253,396
- Changes in cash-flow hedges	-	-
Tax on expense/(income) recognised in equity	163,437	(344,684)
Other components recognised in comprehensive income after taxes	(430,880)	908,712
Total comprehensive income (expense) for the year	**83,559,321**	**57,693,997**

1.3 Statement of Financial Position (Euro Unit)

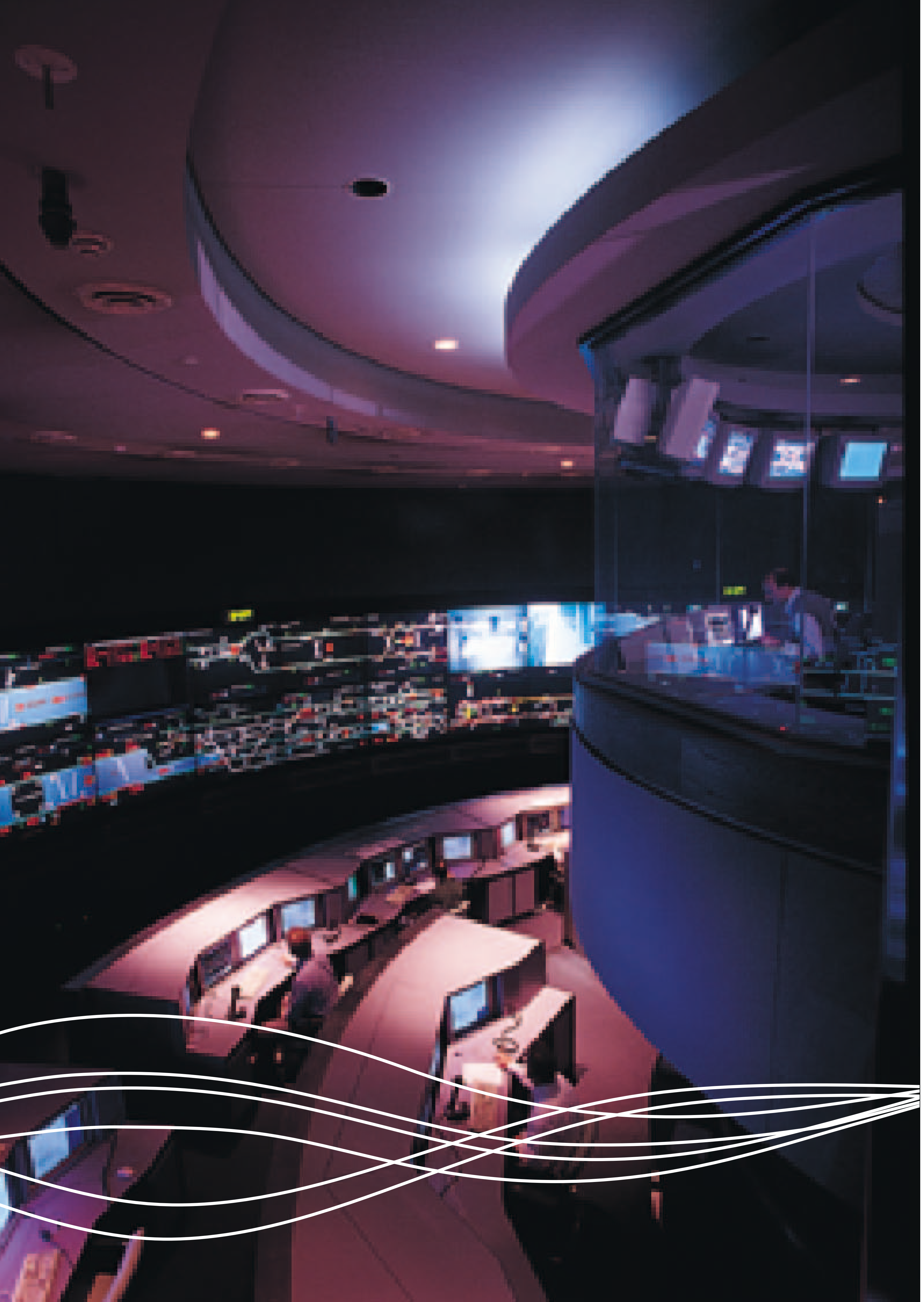
	31 december 2010	of which from related parties	31 december 2009	of which from related parties
Non-current assets				
Intangible assets	8,346,224	-	2,511,994	-
Property, plant and equipment	71,512,853	-	74,462,498	-
Investment properties	-	-	-	-
Equity Investments	139,322,607	-	144,148,123	-
Financial assets at fair value	-	-	-	-
Investments held to maturity	-	-	-	-
Receivables	4,026,893	1,005,640	3,078,690	-
Deferred tax assets	16,896,323	-	15,246,761	-
Other assets	23,246,310	-	25,227,416	-
	263,351,210	**-**	**264,675,481**	**-**
Current assets				
Inventories	86,300,626	-	67,267,016	-
Contract work in progress	102,482,909	-	66,684,383	-
Trade receivables	534,367,364	91,588,252	443,455,801	133,489,953
Financial assets at fair value	-	-	-	-
Investments held to maturity	-	-	-	-
Income tax receivables	2,711,348	-	1,323,166	-
Financial receivables	177,344,968	177,344,968	190,765,102	190,765,102
Derivatives	9,792,949	-	10,042,788	-
Other assets	25,645,405	1,564,243	19,936,952	1,755,177
Cash and cash equivalents	115,500,529	-	105,615,361	-
	1,054,146,098	**-**	**905,090,569**	**-**
Total assets	**1,317,497,308**	**-**	**1,169,766,051**	**-**
Shareholders' equity				
Share capital	59,707,589	-	49,193,946	-
Other reserves	133,273,094	-	125,077,351	-
Profit (losses) carried forward, including net profit of the year	111,526,619	-	75,661,714	-
Total Shareholders' equity	**304,507,302**	**-**	**249,933,012**	**-**
Non-current liabilities				
Borrowings	1,620,827	-	4,031,884	-
Severance pay and other employees liabilities	20,773,862	-	21,039,638	-
Provision for risks	-	-	-	-
Deferred tax liabilities	2,986,571	-	2,201,510	-
Other liabilities	2,687,500	-	2,536,579	-
	28,068,760	**-**	**29,809,610**	**-**
Current liabilities				
Advances from customers	504,559,293	-	513,216,928	-
Trade payables	374,857,440	83,170,292	218,138,012	42,279,176
Borrowings	31,525,171	28,958,348	93,007,733	90,163,713
Income tax payable	9,621,716	-	1,451,915	-
Provision for risks	6,008,924	-	8,165,753	-
Derivatives	10,063,576	-	8,902,675	-
Other liabilities	48,285,126	26,444	47,140,412	440,857
	984,921,246	**-**	**890,023,429**	**-**
Total liabilities	**1,012,990,006**	**-**	**919,833,039**	**-**
Total liabilities and shareholders' equity	**1,317,497,308**	**-**	**1,169,766,051**	**-**

1.4 Statement of Cash Flow (Euro Unit)

	31 December 2010	**of which from related parties**	31 December 2009	of which from related parties
Cash Flow from operating activities:				
Gross cash flow from operating activities	132,379,696	-	94,368,074	-
Change in operating working capital	2,318,094	82,792,817	(178,149)	(37,498,293)
Changes in other operating assets and liabilities	(17,986,522)	(223,479)	(10,524,014)	(2,013,532)
Net finance costs paid	122,674	(9,999,022)	9,634,339	3,547,465
Income taxes paid	(32,961,670)	-	(20,434,792)	-
Cash Flow generated from (used in) operating activities	**83,872,272**	**-**	**72,865,458**	**-**
Cash Flow from investing activities:				
Acquisitions of companies, net of cash acquired	(756,590)	-	(5,025,403)	-
Purchase of property, plant and equipment and intangible assets	(8,322,279)	-	(4,024,356)	-
Proceeds from sale of property, plant and equipment and intangible assets	-	-	-	-
Dividends received	15,000,000	-	-	-
Purchased of treasury shares	513,643	-	(112,937)	-
Other investing activities	1,032,903	-	(246,580)	-
Cash Flow generated from (used in) investing activities	**7,467,677**	**-**	**(9,409,276)**	**-**
Cash Flow from financing activities:				
Change in borrowings and financial receivables	(50,473,125)	(47,785,231)	88,906,589	90,156,709
Effect of merger of Ansaldo Signal N.V. in liquidation	-	-	(77,031,045)	(77,031,045)
Share capital increases	-	-	-	-
Loss coverage	-	-	-	-
Dividends paid	(30,981,657)	(30,981,657)	(26,971,070)	(26,971,070)
Change in reserves	-	-	-	-
Net change in other financing activities	**-**	**-**	**-**	**-**
Net cash used in financing activities	**(81,454,782)**	**-**	**(15,095,526)**	**-**
Net increase (decrease) in cash and cash equivalents	9,885,168	-	48,360,656	-
Translation differences	-	-	-	-
Cash and cash equivalents at 1° January	105,615,361	-	57,254,705	-
Cash and cash equivalents at period-end	**115,500,529**	**-**	**105,615,361**	**-**

1.5 Statement of Changes In Equity (Euro Unit)

	Share capital	**Retained earnings/(losses) carried forward**	**Reserve for stock-grant plans**	**Other reserves**	**Total Shareholders' equity**
Shareholders' equity at 1 January 2009	**49,256,884**	**46,070,123**	**1,882,449**	**50,753,336**	**147,962,792**
Revaluation reserve formed under Law 413/91 (former ASF)	-	-	-	832,179	832,179
Reserve formed under Law 488/92 – 1st call for PIA Innovazione (former ASF)	-	-	-	854,000	854,000
Reserve formed under Law 488/92 – 2nd call for PIA Innovazione (former ASF)	-	-	-	145,000	145,000
Reserve created with ministerial grants under Law 219/81 (former ASF)	-	-	-	208,828	208,828
Deferred taxes recognised in equity (former ASF and ATSF)	-	-	-	301,388	301,388
Change in reserves for SGPs (former ASF and ATSF)	-	-	566,268	-	566,268
Change in reserves from delivery of SGP shares (former ASF and ATSF)	-	-	(262,760)	-	(262,760)
Change in reserve for SGPs relating to previous years (former ASF and ATSF)	-	-	187,234	-	187,234
Severance pay provision for actuarial gains (losses) - (equity method) (former ASF and ATSF)	-	(1,095,958)	-	-	(1,095,958)
Surplus from merger through incorporation of ASF and ATSF	-	-	-	83,236,951	83,236,951
Adjustments deriving from merger through incorporation of ASF and ATSF	-	-	(566,268)	-	(566,268)
Shareholders' equity at 1 January 2009 - Pro-forma	**49,256,884**	**44,974,165**	**1,806,923**	**136,331,682**	**232,369,654**
Repurchase of treasury shares, less shares sold	(112,938)	-	-	-	(112,938)
Reclassification of costs for share capital increase	50,000	-	-	(50,000)	-
Other comprehensive income (expense) for the year, net of tax	-	1,253,396	-	(344,684)	908,712
Change in reserves for Ansaldo STS SpA SGP	-	-	(340,523)		(340,523)
Change in reserves for SGPs of other companies	-	-	-	943,028	943,028
Dividends (99,892,850 x 0.27)	-	(26,971,070)	-		(26,971,070)
Allocation of the period result to legal reserve	-	(380,063)	-	380,063	-
Deficit from merger through incorporation of ASNV with effective date 1 October 2009	-	-	-	(13,649,137)	(13,649,137)
Net profit (loss) at 31 December 2009	-	56,785,285	-		56,785,285
Shareholders' equity at 31 December 2009	**49,193,946**	**75,661,714**	**1,466,400**	**123,610,952**	**249,933,012**
Use of treasury shares for delivery of SGPs	513,643	-	-	-	513,643
Free share capital increase with issue of no. 20,000,000 shares	10,000,000	-	-	(10,000,000)	-
Other comprehensive income (expense) for the year, net of tax	-	(594,317)	-	163,437	(430,880)
Change in reserves for Ansaldo STS SpA SGP	-	-	658,074	-	658,074
Change in reserves for SGPs of other companies	-	-	-	824,909	824,909
Dividends (99,940,829 x 0.31)	-	(30,981,657)	-	-	(30,981,657)
Allocation of the period result to legal reserve	-	(6,549,322)	-	6,549,322	-
Allocation of the profit to the "reserve for adjustments to legal reserve"	-	(10,000,000)	-	10,000,000	-
Net profit (loss) 31 December 2010	-	83,990,201	-	-	83,990,201
Shareholders' equity at 31 December 2010	**59,707,589**	**111,526,619**	**2,124,474**	**131,148,620**	**304,507,302**



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2. Consolidated Financial Statements

2.1 Income Statement (EUR thousand)

	Note	31.12.2010	of which from related parties	31.12.2009	of which from related parties
Revenue	3.4.2	1,283,710	89,212	1,175,640	136,946
Other operating income	3.4.3	27,169	51	21,661	93
Raw materials and consumables used	3.4.4	(282,178)	(37,810)	(205,983)	(6,291)
Purchase of services	3.4.4	(550,625)	(80,266)	(557,401)	(81,831)
Personnel costs	3.4.5	(307,227)	-	(280,643)	-
Amortisation, depreciation and impairment	3.4.6	(19,645)	-	(13,644)	-
Other operating expenses	3.4.7	(17,399)	(59)	(15,960)	(17)
Changes in inventories of work in progress, semi-finished and finished goods	-	2,338	-	250	-
(-) Work performed by the Group and capitalised	3.4.8	922	-	1,132	-
EBIT		**137,065**	**-**	**125,052**	**-**
Finance income	3.4.9	34,308	719	39,557	1,938
Finance costs	3.4.9	(39,082)	851	(40,836)	(59)
Share of profit (loss) of equity accounted investments	3.4.10	920	-	1,020	-
Profit (loss) before taxes		**133,211**	**-**	**124,793**	**-**
Income taxes	3.4.11	(38,303)	-	(36,993)	-
Net Profit (loss)		**94,908**	**-**	**87,800**	**-**
Equity holders of the Company		*94,592*	-	*87,756*	-
Minority interests		*316*	-	*44*	-
Earnings per share					
Basic and diluted		**0,79**	**-**	**0,73***	**-**

* Redetermined following the share capital increase of 5 July 2010.

2.2 Statement of Comprehensive Income (EUR thousand)

	31.12.2010	31.12.2009
Profit (loss) for the year	94,908	87,800
Other comprehensive income		
- Actuarial gains (losses) on defined-benefit plans	(908)	436
- Changes in Cash Flow Hedges	-	-
fair value adjustment	973	(7,420)
transferred to income statement	404	-
- Translation differences	15,632	8,743
- Tax on expense/(income) recognised in equity	(1,652)	635
Other comprehensive income, net of tax	**14,449**	**2,394**
Total comprehensive income (expense) for the year	**109,357**	**90,194**
Attributable to:		
- Equity holders of the Company	108,967	90,173
- Minority interests	390	21

2.3 Statement of Financial Position (EUR thousand)

	Note	31.12.2010	of which from related parties	31.12.2009	of which from related parties
Non-current assets					
Intangible assets	3.3.2	50,231	-	44,636	-
Property, plant and equipment	3.3.3	98,653	-	99,993	-
Equity investments	3.3.4	31,230	-	30,254	-
Receivables	3.3.5	15,249	1,006	13,778	-
Deferred tax assets	3.4.11	45,138	-	37,138	-
Other assets	3.3.5	23,246	-	26,211	-
		263,747	**-**	**252,010**	**-**
Current assets					
Inventories	3.3.6	127,632	-	99,178	-
Contract work in progress	3.3.7	216,928	-	151,146	-
Trade receivables	3.3.8	624,808	85,007	526,500	130,654
Income tax receivables	3.3.9	8,705	-	7,029	-
Financial receivables	3.3.8	170,362	149,150	166,892	152,792
Derivatives	3.3.21	9,027	-	3,449	-
Other assets	3.3.10	45,041	1,564	40,124	1,754
Cash and cash equivalents	3.3.11	153,320	-	128,541	-
		1,355,823	**-**	**1,122,859**	**-**
Total assets		**1,619,570**	**-**	**1,374,869**	**-**
Shareholders' equity					
Share capital	3.3.12	59,708	-	49,194	-
Reserves	3.3.13 - 3.3.14	320,703	-	251,703	-
Capital and reserves attributable to equity holders of the Company		**380,411**	**-**	**300,897**	**-**
Minority interests in equity	**3.3.15**	**1,050**	**-**	**639**	**-**
Total Shareholders' equity		**381,461**	**-**	**301,536**	**-**
Non-current liabilities					
Borrowings	3.3.16	1,621	-	4,032	-
Severance pay and other employee liabilities	3.3.18	31,332	-	30,753	-
Deferred tax liabilities	3.4.11	4,525	-	2,810	-
Other liabilities	3.4.19	10,326	-	8,654	-
		47,804	**-**	**46,249**	**-**
Current liabilities					
Advances from customers	3.3.7	657,150	-	651,950	-
Trade payables	3.3.20	403,133	54,119	248,168	20,524
Borrowings	3.3.16	3,911	-	12,540	-
Income tax payables	3.3.9	11,225	-	3,667	-
Provisions for risks and charges	3.3.17	22,417	-	27,726	-
Derivatives	3.3.21	7,739	-	2,816	-
Other liabilities	3.4.19	84,730	27	80,217	441
		1,190,305	**-**	**1,027,084**	**-**
Total Liabilities		**1,238,109**	**-**	**1,073,333**	**-**
Total Liabilities and Shareholders' equity		**1,619,570**	**-**	**1,374,869**	**-**

2.4 Statement of Cash Flows (EUR thousand)

	31.12.2010	of which from related parties	31.12.2009	of which from related parties
Cash flow from operating activities:				
Gross cash flow from operating activities	164,994	-	145,798	-
Change in working capital	(41,717)	79,374	12,203	(44,967)
Changes in other operating assets and liabilities	(11,348)	(1,229)	(1,125)	150
Net finance costs paid	(1,294)	(132)	4,819	1,997
Income taxes paid	(37,669)	-	(38,738)	-
Net cash generated from operating activities	**72,966**	**-**	**122,957**	**-**
Cash flow from investing activities:				
Acquisitions of subsidiaries, net of cash acquired	(4)	-	618	-
Purchase of property, plant and equipment and intangible assets	(6,725)	-	(9,500)	-
Proceeds from sale of property, plant and equipment and intangible assets	(254)	-	353	-
Dividends received	-	-	-	-
Other investing activities	-	-	(3,210)	-
Net cash used in investing activities	**(6,983)**	**-**	**(11,739)**	**-**
Cash flow from financing activities:				
Net change in other financing activities	(43,777)	3,642	(53,865)	(13,435)
Share capital increases	-	-	-	-
Dividends paid to minority interests	-	-	-	-
Net cash used in financing activities	**(43,777)**	**-**	**(53,865)**	**-**
Net increase (decrease) in cash and cash equivalents	22,206	-	57,353	-
Translation differences	2,573	-	(348)	-
Cash and cash equivalents at 1 January	128,541	-	71,536	-
Cash and cash equivalents at 31 December	**153,320**	**-**	**128,541**	**-**

2.5 Statement of Changes in Equity

The following table shows the changes in Shareholders' equity:

(EUR thousand)	Share capital	Retained earnings/ losses carried forward	Cash Flow Hedge reserve	Stock grant reserve	Translation reserve	Other reserves	Total capital and reserves attributable to equity holders of the Company	Minority interests in equity	Total shareholders' equity
Shareholders' equity at 1 January 2009	**49,257**	**211,729**	**3,338**	**2,225**	**(24,767)**	**(3,523)**	**238,259**	**493**	**238,752**
Reclassification of actuarial reserve related to defined-benefit plans	-	577	-	-	-	(577)	-	-	-
Change in scope of consolidation	-	-	-	-	-	(1,181)	(1,181)	-	(1,181)
Change in consolidation reserves	-	-	-	-	-	(1,366)	(1,366)	125	(1,241)
Net change in Cash Flow Hedge reserve	-	-	349	-	-	-	349	-	349
Net change in the reserve for stock grant plans	-	-	-	(428)	-	-	(428)	-	(428)
Other comprehensive income, net of tax	-	-	(7,420)	-	8,766	1,071	2,417	(23)	2,394
Actuarial gain related to defined-benefit plans	-	-	-	-	-	-	-	-	-
Allocation of the period result to legal reserve	-	(380)	-	-	-	380	-	-	-
Dividends	-	(26,971)	-	-	-	-	(26,971)	-	(26,971)
Deferred taxes recognised in equity	-	-	-	-	-	863	863	-	863
Net change in treasury shares	(113)	-	-	-	-	-	(113)	-	(113)
Other movements	50	508	(30)	15	(40)	809	1,312	-	1,312
Net profit (loss) 31 December 2009	-	87,756	-	-	-	-	87,756	44	87,800
Shareholders' equity at 1 January 2010	**49,194**	**273,219**	**(3,763)**	**1,812**	**(16,041)**	**(3,524)**	**300,897**	**639**	**301,536**
Reclassification from "other reserves"	-	(57,954)	-	-	-	57,954	-	-	-
Change in scope of consolidation	-	(440)	-	-	-	-	(440)	21	(419)
Change in consolidation reserves	-	-	-	-	-	-	-	-	-
Net change in the reserve for stock grant plans	-	-	-	1,455	-	-	1,455	-	1,455
Other comprehensive income, net of tax	-	(908)	1,377	-	15,558	(1,652)	14,375	74	14,449
Free share capital increase with issue of no. 20,000,000 shares	10,000	-	-	-	-	(10,000)	-	-	-
Allocation of the period result to legal reserve	-	(6,550)	-	-	-	6,550	-	-	-
Dividends	-	(30,982)	-	-	-	-	(30,982)	-	(30,982)
Allocation of the profit to the "reserve for adjustments to legal reserve"	-	(10,000)	-	-	-	10,000	-	-	-
Net change in treasury shares	514	-				-	514	-	514
Other movements	-	-	-	71	(71)	-	-	-	-
Net profit (loss) 31 December 2010	-	94,592	-	-	-	-	94,592	316	94,908
Shareholders' equity at 31 January 2010	**59,708**	**260,977**	**(2,386)**	**3,338**	**(554)**	**59,328**	**380,411**	**1,050**	**381,461**

3. Notes

3.1 Notes to the Consolidated Financial Statements at 31 December 2010

3.1.1 General information

Ansaldo STS is a company limited by shares based in Genoa, Via Paolo Mantovani 3/5 with a branch establishment in Naples, Via Argine 425; it has been listed on the Italian stock exchange (Star segment) since 29 March 2006 and has been included on the FTSE MIB index since 23 March 2009. Ansaldo STS SpA is a subsidiary of Finmeccanica SpA - whose headquarters are in Rome, Piazza Monte Grappa 4 - which manages and co-ordinates the activities of the Company.
In the course of 2010 the Company increased freely its share capital through the issue of 20 million ordinary shares; therefore, the share capital of Ansaldo STS SpA amounts to EUR 60,000,000.00, represented by no. 120,000,000 ordinary shares having a nominal value of EUR 0.50 each.

The Ansaldo STS Group operates on a worldwide scale in the design, creation, marketing and sale of solutions, systems, products, components and services in the *"Signalling"* and *"Transportation Solutions"* sectors for inter-city and urban railways.
Ansaldo STS SpA, as Parent company, carries out the functions of business and strategic management, coordinating the operations of its subsidiaries (together known as the "Ansaldo STS Group" or the "Group"), which operate in the above-mentioned sectors.
The Ansaldo STS Group grew out of the transport signalling and systems operations which, until the second half of the 1990s, were carried out by Ansaldo Trasporti within the Finmeccanica Group. The formation of Ansaldo Signal NV in 1996 and of Ansaldo Trasporti Sistemi Ferroviari SpA in 2000 (together with the formation of AnsaldoBreda, for the vehicles segment, the same year) produced a reorganisation of the entire transport sector, as a result of which Finmeccanica held a 100% stake in Ansaldo Signal NV, Ansaldo Trasporti Sistemi Ferroviari SpA and AnsaldoBreda SpA.
Meanwhile, in 1996 Finmeccanica SpA had acquired S.I.C. Società Italiana Comunicazioni Srl, renamed EuroSkyway Srl in 1997; the company was put into liquidation in April 2005.
Following Finmeccanica SpA's strategic decision in the second half of 2005 to list its signalling and transport systems companies on the stock exchange (having previously put in place a unitary management structure to enhance their business and commercial synergies) the EuroSkyway Srl shareholders' meeting, through its sole shareholder, Finmeccanica SpA, decided at the end of 2005 to revoke the company's state of liquidation and transform it into a company limited by shares, to change its own name to Ansaldo STS SpA, and to change its business object, focusing on signalling and transport systems for inter-city and urban rail systems.
To complete the above reorganisation, in February 2006 Ansaldo STS SpA, as already stated, acquired from Finmeccanica SpA the entire share capital of Ansaldo Signal NV and of Ansaldo Trasporti Sistemi Ferroviari SpA and since 29 March 2006 Ansaldo STS SpA has been listed on the stock exchange.
Specifically, Finmeccanica SpA placed on the market 60 million shares of the Company, equal to 60% of its share capital, at EUR 7.80 per share, retaining the remaining 40 million, equal to 40% of the share capital.
Upon the acquisition of stakes in Ansaldo Signal NV and in Ansaldo Trasporti Sistemi Ferroviari SpA (24 February 2006), all the companies operating worldwide for the signalling-related activities were headed by Ansaldo Signal NV; while the transport systems activities were centred on Ansaldo Trasporti Sistemi Ferroviari SpA.
After the listing, a process for the corporate reorganisation of the Group was put into action in order to rationalise the current control chain of the subsidiaries and reduce the costs connected with the Group's corporate structure. This reorganisation led in the years 2007 - 2009 to the finalisation of these main transactions:

1. In the Asia Pacific region, the reallocation of a few equity investments in Group companies, in consideration of the ever-increasing importance that those markets have assumed for the Group and of the close industrial and commercial interaction among these companies. Consequently, since 1 January 2008 Ansaldo STS Australia PTY Ltd has been controlling the Indian and Malaysian operating companies and has been put under the direct control of the Group parent Ansaldo STS SpA. Furthermore, two other companies were established: Ansaldo STS Southern Africa (Botswana) and Ansaldo STS – InfraDEV South Africa[1], under the control of Ansaldo STS Australia PTY Ltd, operate on the expanding markets of Southern Africa.
2. In Italy, Ansaldo Segnalamento Ferroviario SpA and Ansaldo Trasporti Sistemi Ferroviari SpA, the two companies that operated in the two different Business Units (*Signalling* and *Transportation Solutions* respectively) have been merged through incorporation into the listed Group parent Ansaldo STS SpA. The merger through incorporation has had legal, accounting and tax effective date since 1 January 2009.
3. The Dutch sub-holding Ansaldo Signal NV was merged through incorporation into Ansaldo STS SpA, with legal, accounting and tax effective date since 1 October 2009. As a result of this transaction, all the equity investments held by Ansaldo Signal NV were transferred to Ansaldo STS SpA.

Moreover, in order to support the development of the Group business in South America, a new company "Ansaldo STS Sistemas de Transporte e Sinalização Limitada" was formed, in which Ansaldo STS SpA has an interest of 99.99% and Ansaldo STS USA International Co. an interest of 0.01% and, always with a view to expand its business, the Company formed, with the local partner JSC REMLOCOMOTIV, the Joint Venture "Kazakhstan TZ-Ansaldo STS Italy Limited Liability Partnership" in which ASTS has an interest of 49% and the Kazakhi partner holds the remaining 51%.
As already said, the Ansaldo STS Group operates in the inter-city and urban railway sector through two Business Units: *Signalling* and *Transportation Solutions*.

1. In the course of 2010 Ansaldo STS acquired a 49.3% interest in Ansaldo STS Infradev South Africa Pty Ltd therefore holding 100% of shares. Following this purchase, in the course of 2010 the company changed its corporate name to Ansaldo STS South Africa Pty Ltd.

The *"Signalling"* Business Unit carries out the following activities: design, production, management and maintenance of systems, subsystems and components of signalling for inter-city and urban rail transport; the reference main operating companies are the Group parent Ansaldo STS SpA in Italy (as a result of the incorporation of Ansaldo Segnalamento Ferroviario SpA), Ansaldo STS France SA in France, Ansaldo STS Australia PTY Ltd in the Asia Pacific region and Ansaldo STS USA Inc. in America.
The *"Transportation Solutions"* Business Unit carries out the following activities: design and creation of integrated transport systems, of which signalling is an essential part. In more detail, this activity studies, designs and plans how to integrate the activities of designing and building the technological equipment that goes to make up a system - that is, the track, signalling, power supply, telecommunications, and vehicles (whether for inter-city or urban railways) as well as any other technological works which, collectively, constitute an integrated transport system. The final product - an integrated transport system, whether an inter-city line or an urban one - is then delivered as a "turnkey" project to the customer. However, the Group can also offer the expertise of signalling or transport systems separately, according to specific customer needs.
The core competences of these activities are concentrated in Italy in the Group parent Ansaldo STS SpA, following the incorporation of the subsidiary Ansaldo Trasporti Sistemi Ferroviari SpA, which was the company dedicated exclusively to this sector; all the Group companies that operate abroad, born as signalling-related companies, have undertaken to develop their competences and their commercial presence in the transportation solutions sector as well.

3.1.2 Form, content and applicable accounting standards

In application of EC Regulation 1606/2002 of 19 July 2002, the Financial Statements at 31 December 2010 were prepared in accordance with the IAS/IFRS international accounting standards (hereinafter IFRSs) endorsed by the European Commission, supplemented by the relevant interpretations *(Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC)* issued by the *International Accounting Standard Board (IASB)*.

The general principle used in preparing these Consolidated Financial Statements is the cost method, except for the recognition of derivative instruments, for which IAS 39 allows the valuation with the fair value method.

Among the options permitted by IAS 1, the Group has chosen to present its balance sheet by separating current and non-current items and its income statement by the nature of the items. Instead, the statement of cash flows was prepared using the indirect method.

All figures are in thousands of euros unless otherwise indicated.

The Consolidated Financial Statements, prepared in accordance with IFRS, were audited by independent auditors PricewaterhouseCoopers SpA.

Preparation of the Financial Statements required Management to make certain estimates. The main areas affected by estimates or assumptions of particular importance or that have significant effects on the balances shown are described in 13.2.1.

3.1.2.1 Accounting policies adopted

Standards and scope of consolidation

These Consolidated Financial Statements include the accounts at 31 December 2010 of the companies/entities included in the scope of consolidation ("consolidated entities"), which have been prepared in accordance with the IFRSs adopted by the Ansaldo STS Group. Below is a list of the consolidated entities included in the scope of consolidation and the relevant Group ownership percentage (direct or indirect):

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

COMPANY	DIRECT/ INDIRECT CONTROL	REGISTERED OFFICE	SHARE CAPITAL (THOUSAND)	CURRENCY	SHARE OWNED %
ANSALDO STS AUSTRALIA PTY LTD	Direct	Eagle Farm (Australia)	5,026	AUD	100
ANSALDO STS SWEDEN AB	Direct	Solna (Sweden)	4,000	SEK	100
ANSALDO STS FINLAND OY	Indirect	Helsinki (Finland)	10	EURO	100
ANSALDO STS UK LTD	Direct	London (United Kingdom)	1,000	GBP	100
ANSALDO STS IRELAND LTD	Direct	Tralee (Ireland)	100	EURO	100
ACELEC Société par actions simplifiée	Indirect	Les Ulis (France)	168	EURO	100
ANSALDO STS ESPANA SA	Indirect	Madrid (Spain)	1,500	EURO	100
ANSALDO STS BEIJING LTD	Indirect	Beijing (China)	837	EURO	80
ANSALDO STS HONG KONG LTD	Indirect	Hong Kong(China)	100	HKD	100
ANSALDO STS FRANCE Société par actions simplifiée	Direct	Les Ulis (France)	5,000	EURO	100
UNION SWITCH & SIGNAL INC	Indirect	Greenville (Delaware USA)	1	USD	100
ANSALDO STS MALAYSIA SDN BHD	Indirect	Petaling Jaya (Malaysia)	3,000	MYR	100
ANSALDO STS CANADA INC	Indirect	Kingstone (Canada)	0	CAD	100
ANSALDO STS USA INC	Direct	Wilmington (Delaware USA)	0.1	USD	100
ANSALDO STS USA INTERNATIONAL CO	Indirect	Wilmington (Delaware USA)	1	USD	100
ANSALDO STS USA INT.PROJECTS CO	Indirect	Wilmington (Delaware USA)	25	USD	100
ANSALDO STS TRANSPORTATION SYSTEMS INDIA PVT LTD	Indirect	Bangalore (India)	1,312,915 *	INR	100
ANSALDO STS DEUTSCHLAND GMBH	Direct	Munich (Germany)	26	EURO	100
ANSALDO RAILWAY SYSTEM TRADING (BEIJING) Ltd	Direct	Beijing (China)	1,500	USD	100
ANSALDO STS SOUTH AFRICA PTY LTD	Indirect	Sandton (South Africa)	2	ZAR	100
ANSALDO STS SOUTHERN AFRICA PTY LTD	Indirect	Gaborone (Botswana)	0.1	BWP	100

(*) the share capital increased from 12,915,050 to 312,915,050 Indian rupees in the course of the year with the first tranche paid-in in February and the second one in November.

List of companies consolidated by proportionate method

COMPANY	DIRECT/ INDIRECT CONTROL	REGISTERED OFFICE	SHARE CAPITAL (THOUSAND)	CURRENCY	SHARE OWNED %
BALFOUR BEATTY ANSALDO SYSTEMS JV SDN BHD	Indirect	Selangor Darul Ehsan (Malesia)	6,000	MYR	40
KAZAKHSTAN TZ-ANSALDO STS ITALY LLP	Direct	Astana (Kazakhstan)	22,000	KZT	49

List of companies accounted for using the equity method

COMPANY	DIRECT/ INDIRECT CONTROL	REGISTERED OFFICE	SHARE CAPITAL (THOUSAND)	CURRENCY	SHARE OWNED %
ECOSEN CA	Indirect	Caracas (Venezuela)	1,310	VBF	48
ALIFANA SCRL	Direct	Naples (Italy)	26	EURO	65.85
ALIFANA DUE SCARL	Direct	Naples (Italy)	26	EURO	53.34
PEGASO SCRL	Direct	Rome (Italy)	260	EURO	46.87
METRO 5 SpA	Direct	Milan (Italy)	25,000	EURO	24.6
ANSALDO STS Sistemas de Transporte e Sinalização Limitada	Direct	Santana de Parnaìba (Brazil)	1,000	REAL	100
INTERNATIONAL METRO SERVICE Srl	Direct	Milan (Italy)	700	EURO	49

List of companies accounted for at cost

COMPANY	DIRECT/ INDIRECT CONTROL	REGISTERED OFFICE	SHARE CAPITAL (THOUSAND)	CURRENCY	SHARE OWNED %
I.M. INTERMETRO SpA in liquidation	Direct	Rome (Italy)	2,461	EURO	16.67
SOCIETÀ TRAM DI FIRENZE SpA	Direct	Florence (Italy)	7,000	EURO	3.8
METRO C ScpA	Direct	Rome (Italy)	150,000	EURO	14

For a better comprehension and comparability of the figures, it is necessary to outline the main changes in the scope of consolidation occurred in the course of 2010:
- the company "Kazakhstan TZ-Ansaldo STS Italy LLP" has been consolidated by proportionate method;
- the company "ANSALDO STS Sistemas de Transporte e Sinalização Limitada", previously accounted for at cost, has been consolidated using the equity method;
- in the course of 2010, the company I.M. Intermetro SpA has been put into liquidation.

Subsidiaries and entities controlled jointly

In particular, the entities over which Ansaldo STS Group exercises a controlling power, either by directly or indirectly holding a majority of shares with voting rights or by exercising a dominant influence through the power to govern the financial and operating policies of an entity and obtain the related benefits regardless of the nature of the shareholding, have been consolidated on a line-by-line basis.

Not consolidated on a line-by-line basis are those entities which, because of the dynamics of their operations (e.g. consortia without shares and controlling interests in equity consortia which, by charging costs to their members, do not have their own financial results and the financial statements of which do not, net of intercompany assets and liabilities, have material balances) or their current status (e.g. companies that are no longer operational, have no assets or personnel, or for which the liquidation process appears to be essentially concluded), would be immaterial to the Group's situation in both quantitative and qualitative terms. These holdings have been consolidated using the equity method.

Participating interests in entities (including special-purpose entities) over which control is exercised jointly with other parties are consolidated proportionally (so as to incorporate only the value of the assets, liabilities, costs and income proportional to the percentage held without, therefore, including the holdings of the other parties).

All controlled entities are consolidated at the date on which control was acquired by the Group. The entities are removed from the scope of consolidation at the date on which the Group relinquishes control.

Business combinations are recognised using the purchase method, whereby the acquirer purchases the equity and recognises all assets and liabilities, even if merely potential, of the acquired company. The cost of the transaction includes the fair value at the date of purchase of the assets sold, the liabilities assumed, the capital instruments issued, and all other incidental charges. Any difference between the cost of the transaction and the fair value at the date of purchase of the assets and liabilities is allocated to goodwill. In the event the process of allocating the purchase price should result in a negative difference, this difference is recorded as an expense immediately at the purchase date.
In the case of purchase of controlling stakes other than 100% stakes, goodwill is recognised only to the extent of the portion attributable to the Group parent.

Amounts resulting from transactions with consolidated entities have been eliminated, particularly where related to receivables and payables outstanding at the end of the period, as well as interest and other income and expenses recorded on the Income Statements of these enterprises. Also eliminated are the net profits or losses posted between the consolidated entities along with their related tax adjustments.

The consolidated entities all close their financial years on 31 December. The Group Consolidated Financial Statements have been prepared based on the ending balances at 31 December.

Other equity investments

Investments in entities over which significant influence is exercised, which generally corresponds to a holding of between 20% (10% if listed) and 50% (equity investments in associates), are accounted for using the equity method. In the case of the equity method, the value of the investment is in line with shareholders' equity adjusted, when necessary, to reflect the application of IFRSs, and includes the recognition of goodwill (net of impairments) calculated at the time of purchase, and to account for the adjustments required by the standards governing the preparation of Consolidated Financial Statements. Gains and losses realised between the entities consolidated using the equity method and other Group's entities consolidated also on a line-by-line basis are eliminated.
Any value losses in excess of book value are recorded in the provision for risks on equity investments.
The fair value of equity investments, in the event this method applies, is calculated based on the bid price of the last trading day of the month for which the IFRS report was prepared (in this case 31 December 2010), or based on financial valuation techniques for not listed instruments.

Investments available for sale, like those acquired with the sole purpose of being disposed within the subsequent twelve months, are classified separately within "Assets held for sale".

Segment information
In accordance with the compliance model followed, Management has adopted operating segments that correspond to the business sectors in which the Group operates (*Signalling* and *Transportation Solutions*).

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

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

Translation of financial statements expressed in a currency other than the functional currency
The rules for translating financial statements expressed in a foreign currency into the functional currency (except where the currency is that of a hyper-inflationary economy – a situation not applicable to the Group) are as follows:

- the assets and liabilities presented, even if solely for comparative purposes, are translated at the end-of-period exchange rate;
- costs and revenues, charges and income presented, even if solely for comparative purposes, are translated at the average exchange rate for the period in question, or at the exchange rate on the date of the transaction in the event this is significantly different from the average rate;
- the "translation reserve" covers exchange rate differences generated by both the translation of operating results at an exchange rate different from the closing 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.

The exchange rates applied in the translation of financial statements and balances in currencies other than the euro at 31 December 2010 and 2009 were as follows:

	At 31/12/2010	**At 31/12/2009**	**12-month average at 31/12/2010**	**12-month average at 31/12/2009**
USD	1.3362	1.4406	1.3271	1.3957
CAD	1.3322	1.5128	1.3669	1.5876
GBP	0.8608	0.8881	0.8586	0.8915
HKD	10.3856	11.1709	10.2978	10.8186
SEK	8.9655	10.2520	9.5482	10.6281
AUD	1.3136	1.6008	1.4453	1.7764
INR	59.7580	67.0400	60.6435	67.3076
MYR	4.0950	4.9326	4.2753	4.9086
BRL	2.2177	2.5113	2.3341	2.7777
CNY	8.8220	9.8350	8.9802	9.5339
VBF	3.4698	3.0934	3.4459	2.9917
BWP	8.6148	9.6014	9.0077	9.9480
ZAR	8.8625	10.6666	9.6930	11.6860
KZT	196.9640	-	195.5203	-

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

<u>(i) Goodwill</u>
Goodwill posted as intangible assets relates to business combinations and represents the difference between the cost of acquisition of a company or a going concern and the algebraic sum of the values assigned, based on the values at the date of purchase, to each asset and liability of that company or going concern. Since goodwill has an indefinite useful life, it is not subject to amortisation, and is tested for impairment at least annually, except where the market and management indicators indicated by the Company show that goodwill should be tested for impairment in interim accounts as well. In order to conduct the impairment test, goodwill is allocated to individual cash generating units (CGUs), that is, to the smallest business units with independent cash inflows through which the Company operates in its various market segments.
Every subsequent strategic reorganisation of the Group implies a review of the goodwill allocation process. Specifically, if an entity reorganises the structure of its information system so as to modify the composition of one or more cash generating units to which goodwill is allocated, the same should be reallocated to the relevant units.
Goodwill related to the acquisition of consolidated companies is recognised under intangible assets. Goodwill related to unconsolidated associates or subsidiaries is included in the value of equity investments.

<u>(ii) Licenses and similar rights</u>
This category includes: trademarks that establish the origin of the products of a given company; and licences for the know-how or software owned by others. The costs, including the direct and indirect costs incurred to obtain such rights, can be capitalised after receiving title to the rights themselves and are amortised systematically over the shorter of the period of expected use and that of ownership of the rights.

<u>(iii) Research and development costs</u>
Research costs are charged to the Income Statement for the year in which they are incurred.
An intangible fixed asset that is generated internally and relates to development costs is entered in the accounts only if all the following requirements are simultaneously met:
- the asset can be identified;
- it is capable of generating future economic benefits;
- its development cost can be reliably measured;
- there is a market for the product generated by such development.

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

Leased assets

<u>(i) Group entities as lessees in a finance lease</u>
At the date on which a lease is first recognised, the lessee records a non-current asset and a financial liability at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of the inception of the lease, using the implicit interest rate in the lease or the incremental borrowing rate. Subsequently, an amount equal to the depreciation expense for the asset and the finance charge separated from principal component of the lease payment made in the period is recognised in the Income Statement.

<u>(ii) Group entities as lessors in a finance lease</u>
At the date on which a lease is first recognised, the value of the leased asset is eliminated from the Balance Sheet and a receivable equal to the net investment in the lease is recognised. The net investment is the sum of the minimum payments plus the residual unguaranteed value discounted at the interest rate implicit in the lease contract. Subsequently, finance income is recognised in the Income Statement for the duration of the contract in an amount providing a constant periodic rate of return on the lessor's net investment.
The unsecured residual value is reviewed periodically for possible impairment.

<u>(iii) Operating leases</u>
Receipts and payments in respect of contracts qualifying as operating leases are recognised in the Income Statement over the duration of the contract on a straight-line basis.

Property, plant and equipment
These are valued at purchase 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 to return the site to its original state.
Charges incurred for routine and/or regular maintenance and repair are directly entered in the Income Statement for the year when they were incurred. Capitalisation of the costs relating to expansion, modernization, or improvement of elements owned or leased by the Group is carried out only in so far as these meet the requirements for being classified separately as assets or parts of assets. Any capital grants relating to property, plant and equipment are entered as a direct deduction from the asset to which they relate.
The value of an asset is adjusted by systematic depreciation calculated based on the residual useful life of the asset itself. In the period in which the asset has been recognised for the first time, the depreciation rate applied takes into account the date in which the asset is ready for use.
The estimated useful lives adopted by the Group for the various asset classes are as follows:

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

The estimate of the useful life and of the residual value is reviewed periodically.
Depreciation terminates at the date on which the asset is sold or the same is reclassified to asset held for sale.
If an asset to which depreciation is applied is made up of identifiable elements whose useful life is significantly different from that of other parts that make up the asset, depreciation is calculated separately for each part that makes up the asset, in keeping with the component approach.
Profits and losses deriving from the sale or disposal of assets are calculated as the difference between the proceeds from the sale and the net accounting value.
Finance costs attributable to the acquisition, construction or production of specific assets taking a substantial period of time to get ready for their intended use or sale *(qualifying assets)* are capitalised together with the related asset.

Investment properties

Properties held to earn rentals or for capital appreciation are carried under "Investment properties"; they are valued at purchase or production cost plus any related charges, net of accumulated depreciation and impairment, if any.

Impairment of intangible assets and property, plant and equipment

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

Inventories

Inventories are recorded at the lower of cost, calculated with reference to the weighted average cost, and net realisable value. They do not include finance costs and overheads. The net realisable value is the sales price in the course of normal operations, net of estimated costs to finish the goods and those needed to make the sale.

Contract work in progress

Contract work in progress is entered using the degree of completion (or percentage of completion) method, in which costs, revenue and margins are recognised on the basis of how far advanced work is. The state of completion is determined on the basis of the ratio between the costs incurred at the measurement date and the total costs expected according to the programme or based on the productions units delivered.
The valuation reflects the best estimate of work programmes carried out at the reporting date. The assumptions on which the valuations are based are updated periodically. Any economic effects are entered into the accounts for the period in which the updating takes place.
If it is felt that completion of an order may lead to a loss that affects operating margins, this is entered in its entirety in the year in which it can reasonably be foreseen to happen.
Work in progress under contract is shown net of any write-down provision, as well as of any advances and instalments paid relating to such contract work.
This analysis is carried out contract by contract: when the value of the work in progress exceeds that of the advances paid, the positive difference is shown on the asset side; negative differences are reported as liabilities, in the entry "advances from customers". Any amount entered in the advances still uncollected at the time the accounts (or interim reports) are drawn up, is offset by an entry under trade receivables.
Contracts for which payment is in foreign currency are valued by converting the portion that has been paid, determined using the percentage of completion method and the exchange rate at the end of the period.
However, the Group's policy for exchange-rate risk calls for all contracts in which cash inflows and outflows are significantly exposed to exchange rate fluctuations to be hedged specifically: in such cases, the recognition methods described in "Hedging long-term contracts against foreign exchange risk" are applied.

Receivables and financial assets

The Group classifies its financial assets into the following categories:
- financial assets at fair value through profit or loss;
- loans and receivables;
- financial assets held to maturity;
- financial assets available for sale.

Management classifies assets at the time they are first recognised.

<u>(i) Financial assets at fair value through profit or loss</u>
This category includes financial assets acquired for short-term trading purposes, as well as derivatives, which are discussed in the next section. The fair value of these instruments is determined with reference to their end-of-period bid price. For unlisted instruments, the fair value is calculated using commonly adopted valuation techniques. Changes in the fair value of instruments belonging to this category are recognised immediately in the Income Statement.
The classification of assets as current or non-current reflects management expectations regarding their trading. Current assets include those that are planned to be sold within 12 months or those designated as held for trading purposes.

<u>(ii) Loans and receivables</u>
This category includes the assets not represented by derivative instruments and not listed on an active exchange, from which fixed or measurable payments are expected. Such assets are valued at amortised cost on the basis of the effective interest rate method. Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset: the losses, determined through the impairment test, are entered in the Income Statement. If in succeeding years the reasons for previous write-downs no longer apply, the value of such assets is restored up to the amortised cost value it would have if no impairment had been recognised. These assets are reported as current assets, with the exception of those due beyond 12 months, which are classified as non-current assets.

<u>(iii) Financial assets held to maturity</u>
These are non-derivative assets with pre-set maturities that the Group has the intention and ability to hold to maturity. Those maturing within 12 months are carried under current assets. Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset: the losses, determined through the impairment test, are entered in the Income Statement. If in succeeding years the reasons for previous write-downs no longer apply, the value of such assets is restored up to the amortised cost value it would have if no impairment had been recognised.

<u>(iv) Financial assets available for sale</u>
This category encompasses non-derivative financial assets specifically designated as available for sale or not classified in any of the previous items. These are recognised at fair value, which is calculated with reference to their market price at the reporting date or using financial valuation techniques and models. Changes in value are recognised in a specific equity item ("Reserve for assets available for sale"). The reserve is reversed to Income Statement only when the financial asset is effectively sold or, in the event of cumulative negative change, when it is clear that the loss of value already entered in the equity reserve cannot be recovered. Whether such assets are classified as current or non-current depends on the management's intentions and on the effective marketability of the security itself: assets that are expected to be sold within 12 months are reported as current.
Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset: reductions in value previously recognised in equity are reversed to the Income Statement. The impairment value previously recognised is restored up if the reasons, that entailed the recognition applicable only to debt financial instruments, no longer apply.

Derivative instruments

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

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

<u>(i) Fair Value Hedge</u>
The changes in the fair value of derivatives identified and qualifying as Fair Value Hedges are recognised in the Income Statement, as are changes in the fair value of the underlying assets or liabilities attributable to the risk neutralized through the use of hedging.

<u>(ii) Cash Flow Hedge</u>
The changes in the fair value of derivatives identified and qualifying as Cash Flow Hedges are recognised, to the extent of the effective portion, in a specific equity reserve (the "Cash Flow Hedge reserve"). This reserve is released to the Income Statement when the economic effects of the underlying materialise. The change in fair value relating to the ineffective portion is immediately recognised in the Income Statement for the period. If the underlying operation is no longer considered highly probable, the related portion of the "Cash Flow Hedge reserve" is immediately released to the Income Statement. Otherwise, if the derivative instrument is sold or no longer qualifies as an effective hedge against the relevant risk, the relative portion of the "Cash Flow Hedge reserve" is kept until when the underlying contract does not materialise.

(iii) Determining fair value of financial instruments
The fair value of instruments listed on public markets is determined with reference to the bid price for the instrument in question at the reference date. The fair value of non-listed derivative instruments is measured with reference to financial valuation techniques: specifically the fair value of interest rate swaps is measured by discounting the expected cash flows, while the fair value of foreign exchange forwards is calculated based on the market exchange rates at the reference date and the rate differentials between the relevant currencies.

Cash and cash equivalents
The item includes cash, deposits with banks or other institutions providing current account services, post office accounts and other cash equivalents, as well as investments maturing in less than three months from the date of acquisition. Cash and cash equivalents are recognised at their fair value.

Shareholders' equity

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

(ii) Treasury shares
These are shown as a decrease in the Group's net equity. Gains or losses on the purchase, sale, issue or cancellation of own shares are not recognised in the Income Statement.

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

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

Payables and other liabilities
Payables and other liabilities are initially recognised at fair value net of transaction costs. They are subsequently valued at their amortised cost using the effective interest rate method.
Payables and other liabilities are defined as current liabilities unless the Group has the contractual right to settle its debts at least 12 months after the date of the annual or interim financial statements.

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

Employee benefits

(i) Post-employment benefits plans:
The Group companies use a variety of retirement (or supplementary) pension schemes that may be classified as follows:
- *Defined-contribution plans* in which the company pays a set amount to a separate entity (e.g. a fund) and has no legal or constructive obligation to pay additional contributions in the event the appointed entity has insufficient assets to pay the benefits relating to the service rendered during the period of employment. The company only recognises the contributions to the plan once the employees have rendered their services in exchange for these contributions;
- *Defined-benefit plans* in which the company is required to provide agreed benefits for current and former employees and to assume the actuarial and investments risks related to the plan. Therefore, the cost of the plan cannot be determined based on the contributions owed in exchange for work, but rather is recalculated based on demographic, statistical assumptions and on the salaries dynamics. The "projected unit credit" method is used. For the recognition of defined-benefit plans, the Group has adopted the recognition method, known as *"equity method"*. As a result of this option, the value of the liability recorded in the Financial Statements is aligned with that resulting from the actuarial valuation of the same, with full and prompt recognition of the actuarial gains and losses in the period in which they emerge, with direct counterpart in a specific reserve of the shareholders' equity ("reserve for actuarial gains (losses) in equity").

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

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

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

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

Revenue
Revenue generated by an operation is recognised at the fair value of the payment received, taking account of any discounts and reductions connected with quantity.
Revenue also includes changes to work in progress, the accounting policies for which are described in the preceding section "Contract work in progress".
Revenue generated from the sale of goods is recognised when the enterprise has transferred to the buyer substantially all of the significant risks and rewards of ownership of the goods, which in many cases coincides with the transfer of title or ownership to the buyer, or when the value of the revenue can be reliably determined.
Revenue from services rendered is entered, when it can be reliably estimated, on the basis of the percentage of completion.

Grants
If there is a formal document of attribution, grants are recognised on the basis of the matching principle, in direct correlation with the costs incurred. Specifically, capital grants are entered in the Income Statement in direct correlation to the depreciation process to which the goods or projects refer, and are recognised as a direct reduction in the value of the depreciation expense. In Balance Sheet, grants are recognised as a direct reduction of the related assets, for the amount not yet recognised to profit or loss.

Finance income and costs
Interest income and expense are recognised on the accrual basis of accounting using the effective interest method, i.e. using the interest rate through which all the inflows and outflows (including any income, unamortised discounts, commissions, etc.) of a given transaction are made financially equivalent.
Finance costs attributable to the acquisition, construction or production of specific assets taking a substantial period of time to get ready for their intended use or sale *(qualifying assets)* are capitalised together with the related asset.

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

Transactions with related parties
Related party transactions are made at arm's length.

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

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

Current taxes are entered in the Income Statement, with the exception of those relating to accounting entries that are directly debited or credited to equity and in the consolidated statement of comprehensive income, in which case the tax effect is recognised directly in equity and in the consolidated statement of comprehensive income. Current taxes are offset when the income tax is applied by the same tax authority, there is a legal set-off right and the net balance is expected to be collected.

New IFRSs and IFRIC interpretations
At the date of preparation of this report, the European Commission has endorsed certain standards and interpretations that are not compulsory which will be applied by the Group in the following financial periods.
The amendments and potential effects for the Group are summarised below:

IFRS - IFRIC interpretation		**Effects for the Group**
IAS 32 *Amendments*	Financial instruments: classification and presentation	The standard defines the treatment of rights (options or warrants) denominated in a currency other than the functional one. The Group will apply such standard starting from 1 January 2011. No effects are expected for the Group.
IAS 24 *Revised*	Related party disclosures	The standard clarifies the definition of a related party and simplifies the disclosure requirement for government-related entities. The Group will apply such standard starting from 1 January 2011. The Group shall revise the disclosure.
IFRIC 14 *Amendment*	Prepayments of a minimum funding requirement	The Group will apply such change starting from 1 January 2011. No significant effects are expected.
IFRIC 19	Extinguishing financial liabilities with equity instruments	The Group will apply such change starting from 1 January 2011. No significant effects are expected.

There are a number of standards or amendments to existing principles issued by the IASB or new interpretations of the International Financial Reporting Interpretations Committee (IFRIC) for which the revision and approval project is still under way. Among these, we note:
- IFRS9 - by this standard the IASB intends to amend significantly the treatment of financial instruments. This standard, in its final version, will replace IAS 39. At present, the IASB has modified the requirements for the classification and measurement of financial assets that are currently in the scope of IAS 39 and has published a document on the principles for the measurement of the amortised cost of financial instruments and for recognising impairment, if any. The new overall approach to financial instruments is currently under discussion by the various competent bodies and for the time being the date of adoption is not foreseeable. The current version of IFRS 9 will be applicable, subject to the approval by the European Union, as from 1 January 2013;
- the 2010 improvement project that provides for the revision of several principles, whose application is expected starting from 1 January 2011, including IFRS 1 (First-time adoption of International Financial Reporting Standards), IFRS 3 (Business combinations), IFRS 7 (Financial instruments: disclosures), IAS 1 (Presentation of financial statements), IAS27 (Consolidated and separate financial statements) and IAS 34 (Interim financial reporting).

Critical accounting estimates and assumptions
Described below are the accounting principles that demand greater judgement on the part of the directors in making estimates. For these principles a change in the principles underlying the assumptions made could have a significant impact on Consolidated Financial Statements:

Risk provisions and estimates of final costs of long-term contracts: the 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 Income Statement are a function both of the progress on a particular contract and of the operating margins that are expected to be recognised once the whole project is complete. Therefore, the correct assessment of work in progress and the operating margins expected from unfinished work requires a correct estimate on the part of management of the final costs and the estimated increases, as well as of the delays, cost overruns, and penalties that may reduce the expected operating margins. To provide a sounder basis for management estimates, the Group has equipped itself with procedures for managing and analysing contract risks, which aim to identify, monitor, and quantify the risks relating to the carrying out of these contracts. The figures entered in the accounts are management's best estimate at the time, made with the help of the above-mentioned procedures. Moreover, the 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. The main potential loss situations classified as "probable" or "possible" (no provision is recognised for the latter) are discussed below.

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

Impairment of assets: Group assets are tested for impairment at least annually if their lives are indefinite, or more often if there are indications of impairment. Similarly, impairment tests are conducted on all the assets showing signs of impairment, even if the amortisation already commenced.
Impairment tests are generally conducted using the discounted cash flow method: however, this method is highly sensitive to the assumptions contained in the estimate of future cash flows and interest rates applied.
For these valuations, the Group uses plans that have been approved by corporate bodies and financial parameters that are in line with those resulting from the current performance of reference markets.

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

3.1.2.2 Effects of changes in accounting policies adopted
Since 1 January 2010, the Group has adopted a number of new accounting standards and interpretations. Among these, we note:
- IAS27 Revised - Consolidated and separate financial statements. According to such standard, transactions with minority interests will not imply the recognition of gains recorded in the Separate Income Statement, nor any additional goodwill;
- IFRS3 Revised - Business combinations. According to such standard, transaction costs are recognised in the income statement; it is no longer compulsory to measure the assets and liability of the subsidiary at fair value in the acquisitions achieved in stages; and the recognition at the acquisition date of the liabilities for conditional payments;
- IFRS 2 Revised – Group share-based payments – that clarifies the treatment of share-based payments in case of Group incentive plans;
- The interpretations IFRIC 12 (Service concession arrangements), IFRIC 15 (Agreements for the construction of real estate), IFRIC 16 (Hedges on a net investment in a foreign operation), IFRIC 17 (Distributions of non-cash assets to owners) and IFRIC 18 (Transfers of assets from customers).

These changes along with the further changes to the accounting standards and interpretations applicable since 1 January 2010 had no effect on these consolidated financial statements.

3.2 Segment information

With regard to the indicators used by the management to assess the Group's financial performance, please refer to paragraph 2.5 of the Report on operations.

The Group operates in two different segments: signalling, for inter-city and urban railways, through the *Signalling* Business Unit and transport systems through the *Transportation Solutions* Business Unit. For more detailed analysis of the main programmes, outlook, and management indicators for each unit, see the Report on operations by segment.
The results of the Business Units in the 2010 financial year, compared with those for the same period of the previous year, are as follows:

EBIT by Business Unit

31.12.2010	*Signalling* Business Unit	*Transportation Solutions* Business Unit	Other operations	Eliminations	Total
Revenue	841,831	504,448	-	(62,569)	**1,283,710**
Other operating income	7,778	4,355	32,398	(17,362)	**27,169**
External costs	(492,176)	(420,418)	10,871	72,180	**(829,543)**
Personnel costs	(232,780)	(40,017)	(34,430)	-	**(307,227)**
Other operating expenses	(7,119)	(1,695)	(17,627)	9,042	**(17,399)**
Amortisation, depreciation and impairment	(13,302)	(379)	(5,964)	-	**(19,645)**
EBIT	**104,232**	**46,294**	**(14,752)**	**1,291**	**137,065**

EBIT by Business Unit

31.12.2009	*Signalling* Business Unit	*Transportation Solutions* Business Unit	Other operations	Eliminations	Total
Revenue	804,978	417,130	-	(46,468)	1,175,640
Other operating income	19,486	1,773	16,270	(15,868)	21,661
External costs	(463,883)	(340,128)	(19,083)	61,092	(762,002)
Personnel costs	(236,321)	(32,643)	(11,679)	-	(280,643)
Other operating expenses	(13,852)	(1,163)	(1,124)	179	(15,960)
Amortisation, depreciation and impairment	(11,416)	(1,858)	(370)	-	(13,644)
EBIT	**98,992**	**43,111**	**(15,986)**	**(1,065)**	**125,052**

Working capital by Business Unit

31.12.2010	*Signalling* Business Unit	*Transportation Solutions* Business Unit	Other operations	Eliminations	Total
Inventories	123,810	26,508	3,350	(26,036)	**127,632**
Contract work in progress, net	(273,203)	(193,054)	(1)	26,036	**(440,222)**
Trade receivables	357,543	324,864	4,097	(61,696)	**624,808**
Trade payables	(187,152)	(262,947)	(14,730)	61,696	**(403,133)**
Provisions for risks and charges	(20,698)	(670)	(1,049)	-	**(22,417)**
Working capital	**300**	**(105,299)**	**(8,333)**	**-**	**(113,332)**
Other net assets (liabilities)	-	-	(40,895)	(26)	**(40,921)**
Net working capital	**300**	**(105,299)**	**(49,228)**	**(26)**	**(154,253)**

Working capital by Business Unit

31.12.2009	*Signalling* Business Unit	*Transportation Solutions* Business Unit	Other operations	Eliminations	Total
Inventories	94,686	15,557	-	(11,065)	99,178
Contract work in progress, net	(303,314)	(210,693)	-	13,203	(500,804)
Trade receivables	292,611	278,119	6,408	(50,638)	526,500
Trade payables	(108,491)	(180,044)	(7,957)	48,324	(248,168)
Provisions for risks and charges	(24,690)	(906)	(2,130)	-	(27,726)
Working capital	**(49,198)**	**(97,967)**	**(3,679)**	**(176)**	**(151,020)**
Other net assets (liabilities)	-	-	(36,274)	176	(36,098)
Net working capital	**(49,198)**	**(97,967)**	**(39,953)**	**-**	**(187,118)**

The break-down by geographical area is the following:

Revenue (EUR thousand)	**31.12.2010**	31.12.2009
Italy	556,865	560,815
Rest of Western Europe	253,816	222,042
North America	117,552	74,796
Asia Pacific	215,989	256,927
Others	139,488	61,060
Total	**1,283,710**	**1,175,640**

Fixed assets (EUR thousand)	**31.12.2010**	31.12.2009
Italy	114,428	111,544
Rest of Western Europe	11,895	11,075
North America	15,765	15,066
Asia Pacific	6,796	6,946
Total	**148,884**	**144,630**

3.3 Notes to the Statement of Financial Position

3.3.1 Transactions with related parties

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. Below are provided the amounts relating to the earnings and financial performance. The incidence on the financial flows of related-party transactions is instead reported directly in the Statement of Cash Flows.

Receivables at 31.12.2010

(EUR thousand)	Non-current financial receivables	Other non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
Parent company						
Finmeccanica S.p.A.	-	-	635	27	145	**807**
Subsidiaries						
Alifana S.c.r.l.	-	-	-	123	-	**123**
Alifana Due S.c.r.l.	-	-	-	4,886	-	**4,886**
Associates						
International Metro Service S.r.l.	-	-	-	7	-	**7**
Metro 5 S.p.A.	-	1,006	-	29,087	-	**30,093**
Metro Service	-	-	-	35	-	**35**
Joint Ventures (*)						
Balfour Beatty Ansaldo Systems JV Sdn Bhd	-	-	-	691	-	**691**
Consortiums						
Consortium Saturno	-	-	-	22,627	1,361	**23,988**
Consortium Ascosa quattro	-	-	-	1,111	-	**1,111**
Consortium Ferroviario Vesuviano	-	-	-	13,809	-	**13,809**
San Giorgio Volla Due	-	-	-	996	4	**1,000**
San Giorgio Volla	-	-	-	1,421	-	**1,421**
Other Group companies						
Ansaldo Breda S.p.A.	-	-	-	8,411	-	**8,411**
Aeronautica Macchi S.p.A.	-	-	-	1	-	**1**
Electron Italia srl	-	-	-	275	-	**275**
Finmeccanica Finance SA	-	-	148,515	-	-	**148,515**
Elsag Datamat S.p.A.	-	-	-	474	-	**474**
Metro Service	-	-	-	863	-	**863**
Westland Industries LTD	-	-	-	39	-	**39**
Selex Communication S.p.A.	-	-	-	19	54	**73**
Galileo Avionica	-	-	-	63	-	**63**
I.M. Intermetro S.p.A.	-	-	-	42	-	**42**
Total	**-**	**1,006**	**149,150**	**85,007**	**1,564**	**236,727**
% on the total for the year	**-**	**7%**	**88%**	**14%**	**3%**	**-**

(*) Amounts refer to the portion not eliminated for proportionate consolidation.

Receivables at 31.12.2009

(EUR thousand)	Non-current financial receivables	Other non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
Parent company						
Finmeccanica S.p.A.	-	-	1,282	-	336	1,618
Subsidiaries						
Alifana S.c.r.l.	-	-	-	123	-	123
Alifana Due S.c.r.l.	-	-	-	3,769	-	3,769
Associates						
International Metro Service S.r.l.	-	-	-	5	-	5
Metro 5 S.p.A.	-	-	-	33,770	-	33,770
Pegaso S.c.r.l.	-	-	-	39	-	39
Metro Service	-	-	-	370	-	370
Ecosen	-	-	-	4	-	4
Joint Ventures (*)						
Balfour Beatty Ansaldo Syst. JV SDN BHD	-	-	-	783	-	783
Consortiums						
Consortium Saturno	-	-	-	67,515	1,360	68,875
Consortium Ascosa quattro	-	-	-	1,111	-	1,111
Consortium Ferroviario Vesuviano	-	-	-	13,711	-	13,711
Consortium San Giorgio Volla Due	-	-	-	876	4	880
Consortium San Giorgio Volla	-	-	-	1,421	-	1,421
Other Group companies						
AnsaldoBreda S.p.A.	-	-	-	6,613	-	6,613
Finmeccanica Finance S.A.	-	-	151,510	-	-	151,510
Elsag Datamat S.p.A.	-	-	-	307	-	307
Selex Communication S.p.A.	-	-	-	-	54	54
Galileo Avionica S.p.A.	-	-	-	37	-	37
I.M. Intermetro S.p.A. in liquidazione	-	-	-	125	-	125
AnsaldoBreda Inc. ex Breda Transp Inc.	-	-	-	21	-	21
Westland Industries Ltd.	-	-	-	7	-	7
Electron Italia Srl	-	-	-	47	-	47
Total	**-**	**-**	**152,792**	**130,654**	**1,754**	**285,200**
% on the total for the year	**-**	**-**	**92%**	**25%**	**4%**	**-**

(*) Amounts refer to the portion not eliminated for proportionate consolidation.

Payables at 31.12.2010

(EUR thousand)	Non-current borrowings	Other non-current payables	Current borrowings	Trade payables	Other current payables	Total
Parent company						
Finmeccanica Sede S.p.A.	-	-	-	468	-	**468**
Subsidiaries						
Alifana S.c.r.l.	-	-	-	162	3	**165**
Alifana Due S.c.r.l.	-	-	-	5,841	-	**5,841**
Ansaldo Railway System Technical Service (Beijing) Ltd	-	-	-	-	-	**-**
Associates						
International Metro Service S.r.l	-	-	-	-	-	**-**
Metro Service	-	-	-	2,769	-	**2,769**
Metro 5 S.p.A.	-	-	-	53	-	**53**
Pegaso S.c.r.l.	-	-	-	-	-	**-**
Joint Ventures (*)						
Balfour Beatty Ansaldo Syst. JV SDN BHD	-	-	-	2,098	-	**2,098**
Kazakhstan TZ	-	-	-	3,356	-	**3,356**
Consortiums						
Consortium Saturno	-	-	-	253	-	**253**
Consortium Ascosa Quattro	-	-	-	154	8	**162**
Consortium San Giorgio Volla 2	-	-	-	105	-	**105**
Consortium Ferroviario Vesuviano	-	-	-	548	8	**556**
Consortium San Giorgio Volla	-	-	-	6	8	**14**
Cesit	-	-	-	26	-	**26**
Other Group companies						
Finmeccanica Group Service S.p.A.	-	-	-	652	-	**652**
AnsaldoBreda S.p.A.	-	-	-	385	-	**385**
Finmeccanica Finance S.A.	-	-	-	-	-	
Elsag Datamat S.p.A.	-	-	-	2,356	-	**2,356**
Selex Communication S.p.A.	-	-	-	33,542	-	**33,542**
Selex Service Management S.p.A.	-	-	-	191	-	**191**
Finmeccanica Inc	-	-	-	63	-	**63**
Fata Logistic System S.p.A.	-	-	-	833	-	**833**
Fata S.p.A.	-	-	-	258	-	**258**
Galileo Avionica S.p.A.	-	-	-	-	-	**-**
Other	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**-**	**54,119**	**27**	**54,146**
% on the total for the year	**-**	**-**	**-**	**13%**	**0%**	**-**

(*) Amounts refer to the portion not eliminated for proportionate consolidation.

Payables at 31.12.2009

(EUR thousand)	Non-current borrowings	Other non-current payables	Current borrowings	Trade payables	Other current payables	Total
Parent company						
Finmeccanica Sede S.p.A.	-	-	-	324	-	324
Subsidiaries						
Alifana S.c.r.l.	-	-	-	50	3	53
Alifana Due S.c.r.l.	-	-	-	2,601	-	2,601
Ansaldo Railway System Technical Service (Beijing) Ltd	-	-	-	-	-	-
Associates						
International Metro Service S.r.l.	-	-	-	-	-	-
Metro Service	-	-	-	-	-	-
Metro 5 S.p.A.	-	-	-	-	-	-
Pegaso S.c.r.l.	-	-	-	1,983	-	1,983
Joint Ventures (*)						
Balfour Beatty Ansaldo Syst. JV SDN BHD	-	-	-	1,687	-	1,687
Consortiums						
Consortium Saturno	-	-	-	605	-	605
Consortium Ascosa Quattro	-	-	-	79	8	87
Consortium San Giorgio Volla 2	-	-	-	101	-	101
Consortium Ferroviario Vesuviano	-	-	-	734	8	742
Consortium San Giorgio Volla	-	-	-	18	8	26
Cesit	-	-	-	-	-	-
Other Group companies						
Finmeccanica Group Service S.p.A.	-	-	-	598	-	598
AnsaldoBreda S.p.A.	-	-	-	1,429	-	1,429
Finmeccanica Finance S.A.	-	-	-	-	14	14
Elsag Datamat S.p.A.	-	-	-	3,233	-	3,233
Selex Communication S.p.A.	-	-	-	4,578	-	4,578
Selex Service Management S.p.A.	-	-	-	72	-	72
Finmeccanica North America Inc	-	-	-	50	-	50
Fata Logistic System S.p.A.	-	-	-	430	-	430
Hr Gest S.p.A.	-	-	-		-	-
Galileo Avionica S.p.A.	-	-	-	14	-	14
Other	**-**	**-**	**-**	**1,938**	**400**	**2,338**
Total	**-**	**-**	**-**	**20,524**	**441**	**20,965**
% on the total for the year	**-**	**-**	**-**	**8%**	**1%**	**-**

(*) Amounts refer to the portion not eliminated for proportionate consolidation.

3.3.2 Intangible assets

(EUR thousand)	Goodwill	Patents & similar rights	Concessions, licenses and trademarks	Assets under development	Other	Total
Balance at 31 December 2009	**35,017**	**457**	**929**	**1,030**	**7,203**	**44,636**
Change in scope of consolidation	-	-	-	-	-	-
Acquisitions	-	45	733	6,029	941	7,748
Capitalisations	-	-	-	104	-	104
Disposals	-	-	-	-	(237)	(237)
Amortisation and impairment	-	(224)	(523)	-	(1,893)	(2,640)
Other movements	-	-	-	28	(9)	19
Opening/closing foreign exchange rate differences	35	-	-	14	552	601
Transfer account from work in progress	-	-	-	-	-	-
Reclassifications	-	-	-	(265)	265	-
Balance at 31 December 2010	**35,052**	**278**	**1,139**	**6,940**	**6,822**	**50,231**

Intangible assets amounted to EUR 50,231 thousand. Investments for the period came to EUR 7,852 thousand and mainly regarded the following companies:

- Ansaldo STS SpA (EUR 6,810 thousand), ascribable to the projects started in the context of the widest reorganisation activities at world level.
  Specifically:
  - Implementation of the Group "New Controlling Model" on the new transitional platform SAP ECC 6.0, started in the course of 2009;
  - Product Data Management (PDM), regarding the implementation of Team Center as the only product data management system, integrated with SAP;
  - Life Cycle Management (LCM), relative to the implementation of the new project planning and control model made through SAP / Primavera integration;
  - HCM regarding the implementation of the SABA tool in support of the process to assess the competencies and objectives of resources by the HR department.

- Ansaldo STS Australia PTY Ltd and subsidiaries thereof (EUR 631 thousand) mainly for long-term costs linked to software development projects;
- Ansaldo STS France SA (EUR 408 thousand) mainly for acquisitions of software licenses.

Amortisation for the period amounted to EUR 2,640 thousand and foreign exchange rate differences were positive for EUR 601 thousand.
Goodwill is equal to EUR 35,052 thousand, in line with the value recorded in 2009 (EUR 35,017 thousand). The decrease of EUR 35 thousand is due to the effects of exchange rate differences for the portion attributable to the US subsidiary Ansaldo STS USA.
It should be noted that goodwill recorded in the course of 2009 showed a decrease of EUR 3,822 thousand, due to the accounting effects of the merger through incorporation occurred through the writing-off of the goodwill carried by Ansaldo Segnalamento Ferroviario (EUR 1,825 thousand) and by Ansaldo Signal NV (EUR 1,997 thousand) formed by the previous acquisitions of business concerns no longer existing.

The impairment test, in application of the Group procedures, is carried out upon the preparation of the Annual Report.
The test has been conducted, taking into account the reorganization in progress and of the new organizational and operational set-up, on the reference cash generating units (CGUs), *Signalling* and *Transportation Solutions*, by comparing the carrying amount with the greater of the value in use of the CGU and the amount recoverable by sale. In particular, the value in use is measured by discounting the cash flows, in the "unlevered" version, resulting from the five-year plans (for the 2011 – 2015 period) approved by management, and projected beyond the explicit time horizon covered by the plan according to the perpetuity growth method (so-called terminal value), using growth rates of no greater than those forecast for the market in which the given CGUs operate (2% in 2010, in line with the previous financial year).
The cash flows used are those generated by the company's activities, in their current conditions, before finance costs and income taxes, and include the investments in capital assets and the monetary movements of working capital, while do not include the cash flows relating to financing activities, extraordinary events or the payment of dividends.
The flows thus determined are discounted using a rate (WACC) determined by applying the method of Capital Asset Pricing Model. At 31 December 2010 the WACC used was equal to 9.38%, in line with that recorded in the previous financial year.
The tests carried out have not shown any impairment and no external indicators of impairment have been reported.
A similar result would be obtained if the interest rate used to discount cash flows were to rise by 50 basis points or if growth rate in the calculation of the terminal value was to fall by 50 basis points.
The basic assumptions used for the projections of the financial flows of the five-year plans approved by the managements are outlined in the Report on operations.

3.3.3 Property, plant and equipment

(EUR thousand)	Land and buildings	Plant and machinery	Equipment	Assets under construction	Other	Leased assets	Advances to suppliers-third parties' materials	Total
Balance at 31 December 2009	**68,889**	**7,319**	**6,376**	**3,766**	**13,135**	**493**	**15**	**99,993**
Acquisitions	520	420	1,040	2,207	2,453	-	8	6,648
Capitalisations	-	-	227	591	-	-	-	818
Sales	-	(121)	(1)	-		(15)	-	(137)
Depreciation and impairment	(2,343)	(2,044)	(1,675)	-	(4,391)	(143)	-	(10,596)
Opening/closing foreign exchange rate diff.	256	471	55	145	749	91	-	1,767
Reclassifications	979	225	724	(2,734)	981	-	(15)	160
Balance at 31 December 2010	**68,301**	**6,270**	**6,746**	**3,975**	**12,927**	**426**	**8**	**98,653**

Property, plant and equipment (EUR 98,653 thousand) include the value of the premises owned by the Parent Company, Ansaldo STS SpA, located in Genoa, Via Mantovani 3/5-16151 and purchased in December 2005 from its parent Finmeccanica SpA for EUR 62,378 thousand.

Investments for the period came to EUR 7,466 thousand and are detailed as follows:
- EUR 1,512 thousand - Ansaldo STS SpA: mainly relative to renovation works and to the instrumentation acquired for the Tito factory and the Turin factory building.
- EUR 2,209 thousand – Ansaldo STS France: mainly relating to the purchase of equipment for technical labs and tools for production (EUR 966 thousand), improvement works in the Riom plants.
- EUR 2,606 thousand – Ansaldo STS USA: mainly relative to the maintenance of the plants in the Batesburg factory.
- EUR 64 thousand – Ansaldo STS China Ltd relating to the project for the establishment of two technical labs.
- EUR 992 thousand – Asia Pacific area companies (Australia, India, Malaysia): mainly attributable to the expansion and reorganisation of the sites.
- EUR 83 thousand – other European companies (Ansaldo STS Sweden, Ansaldo STS U.K., Ansaldo STS Ireland and Ansaldo STS Deutschland).

Depreciation for the period amounted to EUR 10,596 thousand and foreign exchange differences were positive for EUR 1,767 thousand.

3.3.4 Equity investments

Equity investments valued at cost (EUR thousand)

Balance at 31 December 2009	**22,518**
Change in scope of consolidation	(400)
Acquisitions/subscriptions and capital increases	4
Revaluations/impairment	-
Disposals/repayments	-
Balance at 31 December 2010	**22,122**
Equity investments	**9,108**
Total equity investments	**31,230**

List of equity investments with values in thousands of euros

Name (EUR thousand)	Ownership %	Total assets	Total liabilities	data	Currency	Value (EUR thousand)
Metro 5 S.p.A. (**)	24.60%	271,654	246,665	1	Euro	6,150
International Metro Service S.r.l. (**)	49.00%	4,850	39	1	Euro	343
Pegaso S.c.r.l. (**)	46.87%	10,751	10,491	1	Euro	122
Alifana S.c.a.r.l. (**)	65.85%	810	784	2	Euro	17
Alifana Due S.c.r.l. (**)	53.34%	14,467	14,441	2	Euro	14
Metro C S.c.p.A.	14.00%	372,595	223,077	1	Euro	21,000
Ansaldo STS Sistemas de Transporte e Sinalização LTDA (**)	99.99%	-	-	2	Euro	400
I.M. Intermetro S.p.A. in liquidation	16.67%	1,543,071	1,538,308	1	Euro	523
Società Tram di Firenze S.p.A.	3.80%	60,040	53,406	1	Euro	266
Iricav uno	17.44%	3,584,503	3,583,983	1	Euro	91
Iricav 2	15.00%	51,053	50,537	2	Euro	77
Cons. ferroviario vesuviano	25.00%	235,972	235,817	2	Euro	39
S. Giorgio Volla 2	40.00%	41,283	41,211	2	Euro	18
Cris	1.00%	4,587	2,142	1	Euro	24
S. Giorgio Volla	25.00%	6,205	6,133	2	Euro	18
Ascosa Quattro	25.00%	79,818	79,761	1	Euro	14
Siit	2.30%	919	317	1	Euro	14
Cesit	20.00%	272	189	1	Euro	17
Saturno	33.34%	2,743,497	2,743,466	2	Euro	10
Cons. Train	3.76%	39,302	38,130	1	Euro	4
Sesamo S.c.a.r.l.	2.00%	1,264	1,180	1	Euro	2
Isict	10.00%	310	268	1	Euro	4
Cosila	0.92%	189	75	1	Euro	1

(**) Investments at equity.

1. data refers to financial year 2009.
2. data refers to financial year 2010.

List of Joint Ventures with overall values in thousands of euros:

(EUR thousand) 31.12.2010	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Operating expenses
Balfour Beatty Ansaldo Syst. JV SDN BHD	4,167	73,749	-	79,548	27,816	25,091
Kazakhstan TZ - AnsaldoSTS Italy LLP	-	10,140	-	10,163	-	135

Equity investments at 31 December 2010 amounted to EUR 31,230 thousand, of which EUR 9,108 thousand valued with the net equity method and EUR 22,122 thousand valued at cost. The decrease in the scope of consolidation of the investments valued at cost for EUR 400 thousand is attributable to the inclusion of the company "Ansaldo STS Sistemas de Transporte e Sinalização LTDA" in the equity investments valued with the net equity method because the company has become operative since 2010.

The equity investments valued with the net equity method amounted to EUR 920 thousand for the financial year 2010, reflecting the positive result of International Metro Service Srl for EUR 937 thousand and the impairment of the Venezuelan company Ecosen for EUR 17 thousand.

It should be noted that in the course of the financial year 2010, the company "Kazakhstan TZ-Ansaldo STS Italy LLP", joint venture established with the partner JSC Remlokomotiv has been consolidated by proportionate method.

Still in the course of the year, the company I.M. Intermetro SpA was put into voluntary liquidation in June 2010 as a result of the substantial completion of the works relating to the Rome metro line A and B.
On the basis of the liquidation plan approved by the Shareholders' meeting in September 2010, there are no elements that may lead to write-down the cost of the equity investment.

3.3.5 Receivables and other non-current assets

(EUR thousand)	31.12.2010	31.12.2009
Loans to third parties	-	-
Receivables from employees	-	-
Security deposits	1,672	2,150
Receivables for finance lease sales	-	-
Personal Income Tax receivables on severance pay	-	194
Other	12,571	11,434
Non-current receivables from related parties	1,006	-
Non-current receivables	**15,249**	**13,778**
Financial prepaid expenses - non-current portion	-	-
Other prepaid expenses – Finmeccanica	23,246	26,211
Other non-current assets	-	-
Other non-current assets	**23,246**	**26,211**

Non-current receivables at 31 December 2010 came to EUR 15,249 thousand rising by EUR 1,471 thousand over 2009 mainly for the increase in "other" receivables. This value mainly refers to the American subsidiary Ansaldo STS USA in relation to the *"Pittsburgh facilities lease"* receivable for EUR 8,091 thousand. Particular mention should be also given to the amount of EUR 2,176 thousand attributable to the portion paid by the partners to the Joint Venture Thessaloniki metro - assignee of the contract for the construction of the said underground and for which the Company shares the expenses that the Joint Venture has been incurring - in the initial phase of the development of the contract. The advance will be paid back under the terms of the agreement reached by the partners.

The amount of EUR 1,006 thousand refers to non-current receivables from related parties, specifically a shareholder loan (EUR 984 thousand for capital amount and EUR 22 thousand for interest accrued) paid-in during the financial year to Metro 5 under agreements with other shareholders, in order to construct a section of the Milan metro.

Other non-current assets amounted to EUR 23,246 thousand and mainly refer to the non-current portion of the long-term costs incurred to purchase the right to use the "Ansaldo" trademark for 20 years.
Specifically, on 27 December 2005, Ansaldo STS SpA entered into a licensing agreement with Finmeccanica SpA to use the "Ansaldo" trademark under which the Company is known in the market. This agreement gives the Company exclusive use of the trademark up to 27 December 2025 in the sectors the Group does business, in exchange for an up-front payment of EUR 32,213 thousand.

3.3.6 Inventories

(EUR thousand)	31.12.2010	31.12.2009
Raw materials, supplies and consumables	34,626	35,951
Work in progress and semi-finished goods	17,335	17,452
Finished goods and merchandise	14,343	10,653
Advances to suppliers	61,328	35,122
Total	**127,632**	**99,178**

Inventories are stated net of write-down provisions totalling EUR 6,883 thousand (EUR 5,255 thousand at 31 December 2009).

3.3.7 Contract work in progress and advances from customers

(EUR thousand)	31.12.2010	31.12.2009
Advances from customers	(14,359)	(13,390)
Invoices of instalments	(928,880)	(653,687)
Work in progress	1,160,167	818,223
Work in progress (net)	**216,928**	**151,146**
Advances from customers	(316,251)	(259,329)
Invoices of instalments	(3,843,148)	(4,267,530)
Work in progress	3,502,249	3,874,909
Advances from customers (net)	**(657,150)**	**(651,950)**
Work in progress, net of advances	**(440,222)**	**(500,804)**

Generally, work in progress is recognised as an asset if the gross value of the work in progress is higher than the advances from customers. It is recognised as a liability if the advances from customers exceed the value of the related work in progress. The increase in advances from customers is due to the advances received in the course of the financial year.
Specifically, the increase in work in progress is due to the greater production achieved compared with the amount invoiced.

3.3.8 Trade and financial receivables

(EUR thousand)	31.12.2010 Trade	31.12.2010 Financial	31.12.2009 Trade	31.12.2009 Financial
Receivables from third parties	539,801	21,212	395,846	14,100
Total receivables from third parties	**539,801**	**21,212**	**395,846**	**14,100**
Receivables from related parties	85,007	149,150	130,654	152,792
Total	**624,808**	**170,362**	**526,500**	**166,892**

Trade receivables from third parties came to EUR 593,801 thousand at 31 December 2010 rising by EUR 143,955 thousand over 31 December 2009 (EUR 395,846 thousand). This increase is due to higher receivables of the Group parent Ansaldo STS SpA; specifically, some receivables from customers in Campania and some from Libyan and Turkish customers.
Trade receivables from related parties showed a decrease of EUR 45,647 thousand mainly attributable to the Group parent Ansaldo STS SpA as a result of the lower credit positions towards Consortium Saturno for High-Speed projects.
Financial receivables from third parties at 31 December 2010 amounted to EUR 21,212 thousand (EUR 14,100 thousand in 2009) and are essentially attributable to the Australian subsidiary as a result of short-term deposits with local bank institutes.
Financial receivables from related parties amounted to EUR 149,150 thousand and are referable for EUR 148,515 thousand to relationships with Finmeccanica Finance SA and EUR 635 thousand with Finmeccanica Spa, both referable to the Group parent.
With regard to CONSOB communication no. DAC/RM/97003369 of 9 April 1997, the Group reports that during the financial year ended 31 December 2010 it did not assign any recourse and non-recourse receivables.

3.3.9 Income tax receivables and payables

(EUR thousand)	31.12.2010 Assets	31.12.2010 Liabilities	31.12.2009 Assets	31.12.2009 Liabilities
For direct taxes	8,705	11,225	7,029	3,667
Total	**8,705**	**11,225**	**7,029**	**3,667**

Income tax receivables amounted to EUR 8,705 thousand at 31 December 2010 compared with EUR 7,029 thousand at 31 December 2009, with an increase of EUR 1,676 thousand.
This increase is attributable for EUR 1,388 thousand to the tax receivables paid abroad by the Group parent Ansaldo STS SpA, and by the French subsidiary Ansaldo STS France for EUR 218 thousand, in consequence of the receivables connected with the R&D activities carried out in the period.
Income tax receivables mainly refer to the Group parent Ansaldo STS SpA for EUR 2,711 thousand, to the French companies of the Group for EUR 3,765 thousand, to the Australian companies of the Group for EUR 1,776 thousand and to the American companies of the Group for EUR 453 thousand.
Income tax payables amounted to EUR 11,225 thousand at 31 December 2010 with an increase of some EUR 7,558 thousand compared with 31 December 2009 (EUR 3,667 thousand).
Income tax payables are mainly referable to the Group parent Ansaldo STS SpA for EUR 9,622 thousand, to the French subsidiaries for EUR 606 thousand, to the subsidiaries of the Asia Pacific area for EUR 242 thousand, to the American subsidiaries for EUR 644 thousand and to Ansaldo STS China for EUR 111 thousand.
Income tax payables of the Group parent Ansaldo STS amounted to EUR 9,622 thousand and refer to IRES for EUR 8,332 thousand and to IRAP for EUR 1,290 thousand; both values are net of the advance payments.

3.3.10 Other current assets

(EUR thousand)	31.12.2010	31.12.2009
Current portions of prepaid expenses	14,870	13,502
Research subsidies	4,271	2,903
Receivables from employees	796	502
Receivables from social security institutions	187	898
Receivables for security deposits	7	3,752
Receivables for indirect taxes and other amounts due from tax authorities	11,973	4,995
Other	11,373	11,818
Total other assets	**43,477**	**38,370**
Other assets from related parties	1,564	1,754
Total	**45,041**	**40,124**

Other current assets from third parties at 31 December 2010 came to EUR 43,478 thousand with an increase of EUR 5,108 thousand compared with the figures as at 31 December 2009 (EUR 38,370 thousand); this change is mainly attributable to the increase in other receivables for indirect taxes with a contextual decrease in receivables for security deposits.
Other assets from related parties at 31 December 2010 amounted to EUR 1,564 thousand and are in line with the figures recorded at 31 December 2009 (EUR 1,754 thousand).

3.3.11 Cash and cash equivalents

(EUR thousand)	31.12.2010	31.12.2009
Cash	91	89
Bank deposits	153,229	128,452
Total	**153,320**	**128,541**

The balance of cash and cash equivalents at 31 December 2010 amounted to EUR 153,320 thousand and mainly refer to Ansaldo STS SpA for EUR 115,501 thousand, Ansaldo STS USA group for EUR 17,021 thousand and Ansaldo STS France group for EUR 7,896 thousand.
Compared with 31 December 2009 cash and cash equivalents rose by EUR 24,779 thousand, due to the greater liquidity of the Group parent Ansaldo STS SpA. For comments on the variations, please refer to paragraph 2.3 relative to the financial position of the Group.

3.3.12 Share capital

	Number of shares	Par value	Treasury shares	Total
Outstanding shares at 31 December 2009	100,000,000	€ 50,000,000.00	-	€ 50,000,000.00
Treasury shares, net of shares sold	-	-	-€ 806,054.00	-€ 806,054.00
31 December 2009	**100,000,000**	**€ 50,000,000.00**	**-€ 806,054.00**	**€ 49,193,946.00**
Free issue of shares as per shareholders' meeting resolution of 23 April 2010	20,000,000	€ 10,000,000.00	-	€ 10,000,000.00
Use of treasury shares for SGP delivery	-	-	€ 513,643.00	€ 513,643.00
31 December 2010	**120,000,000**	**€ 60,000,000.00**	**-€ 292,411.00**	**€ 59,707,589.00**

The share capital of EUR 60,000,000 is fully paid-up and divided into 120,000,000 ordinary shares with a par value of EUR 0.50 each. On 5 July 2010, as resolved by the Extraordinary Shareholders' Meeting held on 23 April 2010, the first tranche of the free share capital increase was executed for an amount of EUR 10,000,000 through the issue of 20,000,000 ordinary shares with a par value of EUR 0.50 each.
During the said Meeting, a free share capital increase has been resolved, pursuant to Art. 2442 of the Italian Civil Code, for a total of EUR 50,000,000 by recognising distributable reserves to share capital and specifically: for EUR 47,678,624.34 from the capital contribution reserve, that will be fully utilised and for EUR 2,321,375.66 from the Merger Surplus reserve that will be reduced accordingly for this amount. The share capital increase will be made through the issue of no. 100,000,000 ordinary shares of the Company, with a par value of EUR 0.50 each, to be implemented in five annual tranches of EUR 10,000,000 each, represented by no. 20,000,000 newly-issued ordinary shares with a par value of EUR 0.50 each, within 31 December 2014.

The amount relating to treasury shares (EUR 292,411 thousand) refers to no. 31,353 shares as the residual of shares in portfolio after the process of purchase and assignment of shares to the executives of the company included in the Stock Grant Plan.

At 31 December 2010 the share capital of Ansaldo STS is held by:

Investor	Position %
Finmeccanica S.p.A.	40.00
Altrinsic Global Advisors LLC	2.09
Scottish Widows Investment Partnership Limited	2.02
William Blair Capital Management LLC	2.02
Columbia Wanger Asset Management LLC	2.01
Other shareholders with an interest below 2%	51.86

3.3.13 Retained earnings /(losses) carried forward, including net profit for the year and consolidation reserves

Retained earnings/ (losses) carried forward (EUR thousand)

Balance at 31 December 2009	**273.219**
Reclassification from "other reserves"	(57.954)
Appropriation from the period result for the creation of the "reserve for adjustments to the legal reserve"	(10.000)
Allocation of the period result to legal reserve	(6.550)
Actuarial gain (loss) related to defined-benefit plans	(908)
Net Profit (Loss) for the period	94.592
Dividends	(30.982)
Other movements	(440)
Share capital increases/capital contributions	-
Balance at 31 December 2010	**260.977**

Retained earnings/(losses) carried forward, including net profit for the year and consolidation reserves at 31 December 2010 amounted to EUR 143,761 thousand with a variation mainly attributable to the Group's result accrued in the period for EUR 94,592 thousand, to the distribution of dividends for EUR 30,982 thousand, to the allocation to legal reserve for EUR 6,550 thousand and to a reclassification from other reserves.
In the course of the financial year, in fact, the consolidation reserve has been reclassified from "other reserves" to "Retained earnings carried forward".

The item "Other movements" refers to the movement of the consolidation reserve following the change in the consolidation area attributable to the variation of the consolidation method for the Brazilian subsidiary (with the shift from the cost method to the net equity method) and to the inclusion of JV Kazakhstan Tz – Ansaldo STS Italy LLP among the companies consolidated by proportionate method.

3.3.14 Other reserves

(EUR thousand)	Legal reserve	Reserve for adjustments to the legal reserve	Cash Flow Hedge reserve	Stock grant reserve	Reserve for deferred taxes relating to items posted to shareholders' equity	Translation reserve	Other	Total
31 December 2009	**3,450**	**-**	**(3,763)**	**1,812**	**1,224**	**(16,041)**	**(8,198)**	**(21,516)**
Reclassification to Retained earnings/(losses) carried forward and consolidation reserve	-	-	-	-	-	-	57,954	57,954
Change in scope of consolidation	-	-	-	-	-	-	-	-
Charge to Income Statement	-	-	404	-	(1,649)	-	-	(1,245)
Translation differences	-	-	-	-	-	15,558	-	15,558
Increase/Decrease	6,550	-	-	1,455	-	-	-	8,005
Valuations posted to shareholders' equity	-	-	973	-	(3)	-	-	970
Creation of the "reserve for adjustments to the legal reserve"	-	10,000	-	-	-	-	-	10,000
Reversal from "reserve for adjustments to the legal reserve" following the 1st capital increase tranche	2,000	(2,000)	-	-	-	-	-	-
Share capital increase by appropriation from distributable reserves	-	-	-	-	-	-	(10,000)	(10,000)
Other movements	-	-	-	71	-	(71)	-	-
31 December 2010	**12,000**	**8,000**	**(2,386)**	**3,338**	**(428)**	**(554)**	**39,756**	**59,726**

Legal reserve
The legal reserve amounted to EUR 12,000 thousand compared with EUR 3,450 thousand at 31 December 2009. The increase of EUR 8,550 thousand is a result of the shareholders' meeting resolution on the approval of the 2009 financial statements whereby the shareholders resolved, in addition to the allocation of 5% of the profit to reserve, the adjustment of the same reserve up to the maximum limit equal to 20% of the share capital. Moreover, following the resolution of a share capital increase of EUR 50,000 thousand with the objective to maintain the amount of the legal reserve always equal to 20% of the share capital, a Reserve for adjustments to the legal reserve was formed to be converted automatically into legal reserve when the free share capital increase is effective. In the course of the year, following the first tranche of share capital increase, EUR 2,000 thousand was recorded from the "Reserve for adjustments to the legal reserve" to the legal reserve as per shareholders' meeting resolution.

Reserve for adjustments to the legal reserve
The Reserve is equal to EUR 8,000 thousand; it was set-up for EUR 10,000 thousand at the time of 2009 profit allocation as provided by the shareholders' meeting resolution approving the 2009 financial statements and free share capital increase. According to the resolutions of the said meeting, on 5 July 2010, following the free share capital increase for EUR 10,000 thousand, the legal reserve has been adjusted to the 20% of the share capital, using the "Reserve for adjustments" for EUR 2,000 thousand.

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 effects of deferred taxes, until the moment in which the underlying position is recognised in the Income Statement. When this condition is met, the reserve is recognised in the Income Statement to offset the economic effects of the hedged transaction.

Stock grant reserve
The stock grant reserve came to EUR 3,338 thousand, an increase of EUR 1,526 thousand over the preceding year.
The Stock grant reserve is composed of as follows:
- EUR 555 thousand – reserve created following the delivery of shares in the financial years from 2007 to 2010.
- EUR 3,893 thousand – allocation of the Stock Grant Plan relative to 2010 (delivery: December 2011).

Reserve for deferred taxes relating to items posted to shareholders' equity
The reserve for deferred taxes relating to items posted to shareholders' equity was equal to EUR 428 thousand and was created to recognise the deferred tax assets arising from actuarial gains/losses resulting from the adoption of the equity method for defined-benefit plans and from Cash Flow Hedges.

Translation reserve
This reserve is used to recognise the exchange rate differences resulting from the translation of the financial statements of consolidated companies. The most significant amounts were the result of the consolidation of the subsidiaries Ansaldo STS USA and Ansaldo STS Australia.

Other reserves
Other reserves relate to the capital contribution reserve for EUR 37,678 thousand recorded in the financial statements of the Group parent. The reserve was formed in 2006 following the unrecoverable capital contribution received from the Parent Finmeccanica SpA. The decrease of EUR 10,000 thousand is due to the shareholders' meeting resolution approving the 2009 financial statements and the free share capital increase whereby the shareholders resolved to allocate the capital contribution reserve on a line-by-line basis and the Merger Surplus Reserve for EUR 2,321 thousand for the free share capital increase. On 5 July 2010, after the free issue of the first tranche of shares, the capital contribution reserve was used by charging EUR 10,000 thousand to share capital. Moreover, this item includes the revaluation reserve and the reserves formed following the awarding of research grants by the Group parent.

3.3.15 Minority interests in equity

(EUR thousand)	
Balance at 31 December 2009	**639**
Change in scope of consolidation	21
Profit attributable to minority interests	316
Consolidation reserve attributable to minority interests	(4)
Translation reserve attributable to minority interests	78
Balance at 31 December 2010	**1,050**

This refers to the minority interests equal to 20% of Ansaldo STS Beijing Ltd having its registered office in Beijing (China) held by the French subsidiary Ansaldo STS France. The change in scope of consolidation derives from the purchase by the subsidiary Ansaldo STS Australia, on 21 June 2010, of the residual minority interests equal to 49.30% of Ansaldo STS InfraDEV South Africa Pty Ltd. having its registered office in Johannesburg (South Africa).

3.3.16 Borrowings

	31.12.2010			31.12.2009		
(EUR thousand)	Current	Non-current	Total	Current	Non-current	Total
Bank borrowings	3,089	1,115	4,204	12,187	2,881	15,068
Finance lease payables	-	-	-	13	-	13
Other borrowings	822	506	1,328	340	1,151	1,491
Total	**3,911**	**1,621**	**5,532**	**12,540**	**4,032**	**16,572**

Changes during the period were as follows:

(EUR thousand)	31.12.2009	New borrowings	Repayments	Reclassifications	Other changes	31.12.2010
Bank borrowings	15,068	535	(12,435)	-	1,036	4,204
Finance lease payables	13	-	(15)	-	2	-
Other borrowings	1,491	-	(645)	-	482	1,328
Total	**16,572**	**535**	**(13,095)**	**-**	**1,520**	**5,532**

Bank borrowings
Bank borrowings, equal to EUR 4,204 thousand, are mainly attributable to the subsidiaries of the Asia Pacific area for EUR 1,339 thousand and to the Group parent Ansaldo STS SpA for EUR 2,863 thousand. The reduction in bank borrowings of EUR 12,435 thousand is mostly ascribable to the partial redemption of the debt by the Indian subsidiary.

Due to other lenders
This item refers to the facilitated loans obtained in relation to research projects. A negative variation of EUR 163 thousand was recorded in the course of 2010 due to the repayment of the loan instalments pertaining to the financial year.

Financial debt

The Group's financial liabilities are subject to the following repayment schedules and exposures to interest rate risk:

	Bank borrowings		Bonds		Related parties		Other		Total	
31 December 2010 (EUR thousand)	**Floating**	**Fixed**	**Floating**	**Fixed**	**Floating**	**Fixed**	**Floating**	**Fixed**	**Floating**	**Fixed**
Within 1 year	1,341	1,748	-	-	-	-	487	335	1,828	2,083
2 to 5 years	-	1,115	-	-	-	-	-	506	-	1,621
Beyond 5 years	-	-	-	-	-	-	-	-	-	-
Total	**1,341**	**2,863**	**-**	**-**	**-**	**-**	**487**	**841**	**1,828**	**3,704**

	Bank borrowings		Bonds		Related parties		Other		Total	
31 December 2009 (EUR thousand)	**Floating**	**Fixed**	**Floating**	**Fixed**	**Floating**	**Fixed**	**Floating**	**Fixed**	**Floating**	**Fixed**
Within 1 year	11,009	1,178	-	-	-	-	-	353	11,009	1,531
2 to 5 years	-	2,881	-	-	-	-	-	1,151	-	4,032
Beyond 5 years	-	-	-	-	-	-	-	-	-	-
Total	**11,009**	**4,059**	**-**	**-**	**-**	**-**	**-**	**1,504**	**11,009**	**5,563**

Below is the financial information required under CONSOB communication no. DEM/6064293 of 28 July 2006:

(EUR thousand)	**31.12.2010**	31.12.2009
A. Cash	91	89
B. Other cash equivalents (bank accounts)	153,229	128,452
C. Securities held for trading	-	-
D. LIQUIDITY (A+B+C)	**153,320**	**128,541**
E. CURRENT FINANCIAL RECEIVABLES	**170,362**	**166,892**
F. Current bank borrowings	3,089	12,187
G. Current portion of non-current debt	-	-
H. Other current borrowings	822	353
I. CURRENT FINANCIAL DEBT (F+G+H)	**3,911**	**12,540**
J. CURRENT FINANCIAL DEBT, NET (I-E-D)	**(319,771)**	**(282,893)**
K. Non-current bank borrowings	1,115	2,881
L. Bonds issued	-	-
M. Other non-current payables	506	1,151
N. NON-CURRENT FINANCIAL DEBT (K+L+M)	**1,621**	**4,032**
O. NET FINANCIAL DEBT (LIQUIDITY) (J+N)	**(318,150)**	**(278,861)**

3.3.17 Provisions for risks and charges and contingent current liabilities

(EUR thousand)	**Product warranties**	**Labour disputes**	**Provision for taxes**	**Disputes with third parties**	**Provision for restructuring**	**Other**	**Total**
Balance at 31 December 2009	**15,317**	**325**	**(1)**	**893**	**323**	**10,869**	**27,726**
Reclassifications	-	-	-	-	-	-	-
Allocations	2,884	339	3	-	1,770	3,145	8,141
Reversals	(2,196)	(68)	-	-	-	(3,220)	(5,484)
Uses	(142)	(190)	-	(893)	(1,067)	(6,100)	(8,392)
Other changes	400	-	-	-	26	-	426
Balance at 31 December 2010	**16,263**	**406**	**2**	**-**	**1,052**	**4,694**	**22,417**
Current	15,317	325	(1)	893	323	10,869	27,726
Non-current	-	-	-	-	-	-	-
Balance at 31 December 2009	**15,317**	**325**	**(1)**	**893**	**323**	**10,869**	**27,726**
Current	16,263	406	2	-	1,052	4,694	22,417
Non-current	-	-	-	-	-	-	-
Balance at 31 December 2010	**16,263**	**406**	**2**	**-**	**1,052**	**4,694**	**22,417**

The risk provisions at 31 December 2010 amounted to EUR 22,417 thousand decreasing by EUR 5,309 thousand compared with 31 December 2009. This reduction is mainly attributable to the Group parent for EUR 4,096 thousand.

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

As to litigation, the following is noted:
- with regard to Ansaldo STS SpA there are no disputes that are so significant or risky as to require specific disclosure, except for what herein described;
- none of the subsidiaries of the *Transportation Solutions* Business Unit or *Signalling* Business Unit is involved in litigation that is so significant or risky as to require specific further disclosure;
- for litigation in which, on the basis of a prudent evaluation, an adverse outcome is likely, the relevant companies have established provisions to cover such eventuality.

The events described below are provided to give a correct disclosure.
The Concessions released to TAV by the Ente Ferrovie dello Stato for the Milan-Verona, Verona-Padua and Milan-Genoa lines and to the General Contractors were revoked at the beginning of 2007 by the Italian Government.
The decree also establishes that, with respect to the termination of contract, the General Contractors will be entitled to compensation to the extent of the actual loss. The Iricav Due Consortium, which had already initiated arbitration proceedings to obtain the termination of the Convention for TAV's failure to perform its obligations - complaining specifically about the failure to perform acts of co-operation, including the development of the preliminary design and the raising of financial resources - following the revocation of the concession, has served notice of an appeal filed to the Lazio Regional Administrative Court (TAR).
The aim was to obtain the cancellation of the orders of the Ministry of Transportation and RFI SpA and the submission of the demand for a preliminary ruling to the Court of Justice of the European Communities. In fact, in April 2007 TAV SpA had already formally presented to the Consortium a claim for the repayment of the advance and the related interest accrued to the date of payment and for the delivery of all project documents presented during the concession period.
The Lazio TAR suspended the effectiveness of the orders, subsequent to the law, with which RFI SpA revoked the concession and with which TAV SpA terminated contracts with the three General Contractors. The Lazio TAR also transferred the case to the European Court of Justice to verify, as requested by the appellant firms, the alleged incompatibility with European regulations.
TAV SpA appealed against this ruling to the Council of State to obtain the revocation of the suspension of the ruling of the court of first instance, without prejudice to the ruling on the main issue expected following the ruling of the European Court of Justice.
In 2007 the Ministry of Infrastructures proposed to the plaintiffs the formation of ad-hoc technical workshops to come to an agreement. Such workshops have never been formed.
In the meanwhile, the Council of State with Order dated 10 October 2007 upheld the appeals made by the Office of the Prime Minister and the Ministry of Transportation, by TAV SpA and by R.F.I. SpA amending the Lazio TAR order, confirming the legitimacy of the submission to the European Court of Justice in relation to the evaluation of the compatibility of the revocation order with the EC regulations.
In September 2008 the Advocate General of the European Court of Justice deposited its opinions and acknowledged the legitimacy of the issued orders of revocation of the Convention. As a consequence, the Iricav Due Consortium notified the discontinuance of the administrative case, in abeyance, while awaiting the pronunciation of the European Court of Justice.
Following the discontinuance of the administrative case submitted by the Iricav Due Consortium, the Lazio TAR delivered a judgement which takes note of the discontinuance of the administrative action presented by the Consortium.
This sentence was notified to the European Court of Justice, which should also quash the preliminary ruling pending before the same, without thus pronouncing a judgement in relation to the compatibility with the EC regulations.
On 21 August 2008, Law no. 133 of 6 August 2008 was published being converted from Legislative Decree no.112 of 25 June 2008, which repealed Art. 13 of Legislative Decree no.7 of 31 January 2007 converted into Law no. 40 of 2 April 2007, which since 1 January 2009 has cancelled concessions (conventions) stipulated in 1991-94 between TAV and their respective General Contractors.
Iricav Due Consortium decided not to avail itself of Art. 12 of Law no.133 dated 6 August 2008 converted into Legislative Decree no. 112 of 25 June 2008, that brought into force the Concessions again, but in its own interest to continue the arbitration proceedings also because in the event of abandonment, it could no longer be initiated afterwards for the same reasons for which the termination to the detriment of TAV has been requested.
In the course of 2009 the Arbitration Board decided that it was necessary to have a court-appointed expert's report (CTU).
In brief, the CTU agreed to part of the questions put by the Consortium Iricav Due by acknowledging the costs borne, the designs rendered and the damages suffered.

With expert witness memorial, TAV questioned the content of the expert's report asking for the integral renewal of the CTU and the Consortium replied with disapproval. Therefore the Arbitration Board, with order of 31 August 2010, set the hearing for 13 October 2010. At this hearing, the Board fixed for 29 July 2011 the term for filing the award.

3.3.18 Severance pay and other employee liabilities

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

(EUR thousand)	**31.12.2010**	31.12.2009
Severance pay provision	20,774	21,040
Defined-benefit pension plans	10,558	9,713
Total	**31,332**	**30,753**

	Severance pay provision		**Defined-benefit plans**	
(EUR thousand)	**31.12.2010**	31.12.2009	**31.12.2010**	31.12.2009
Present value of obligations	20,774	21,040	10,558	9,713
Fair value of the plan assets	-	-	-	-
Unrecognised actuarial gains/(losses)	-	-	-	-
Total	**20,774**	**21,040**	**10,558**	**9,713**

(EUR thousand)	**Severance pay provision**	**Defined-benefit plans**
Balance at 31 December 2009	**21,040**	**9,713**
Change in the scope of consolidation	-	-
Costs for the period	792	865
Contributions paid	(1,652)	(335)
Other movements	-	14
Actuarial (gains)/losses in equity	594	301
Balance at 31 December 2010	**20,774**	**10,558**

The amount recognised in the Income Statement breaks down as follows:

	Severance pay provision		**Defined-benefit plans**	
(EUR thousand)	**31.12.2010**	31.12.2009	**31.12.2010**	31.12.2009
Costs of benefits paid	128	77	396	341
Interest costs	664	784	469	386
Actuarial (gains)/losses recognised during the period	594	(1,253)	314	817
Total	**1,386**	**(392)**	**1,179**	**1,544**

The main actuarial assumptions are as follows:

	Severance pay provision		**Defined-benefit plans**	
	31.12.2010	31.12.2009	**31.12.2010**	31.12.2009
Discount rate (annual)	3,4%	3,5%	3,4%	3,5%
Rate of salary increases	N.A.	N.A.	2,3% - 3,7%	2% - 2,5%
Rate of turnover	3,3% - 9,8%	3,8% - 7,7%	3,3% - 9,8%	3,8% - 7,7%

3.3.19 Other current and non-current liabilities

	31.12.2010		31.12.2009	
(EUR thousand)	**Current**	**Non-current**	Current	Non-current
Due to employees	31,985	5,503	28,531	4,632
Deferred income	49	-	895	-
Payables for indirect taxes and other amounts due to tax authorities	11,641	-	13,564	-
Payables to social security institutions	13,570	-	14,904	-
Other payables to other third parties	27,458	4,823	21,882	4,022
Total other liabilities to third parties	**84,703**	**10,326**	**79,776**	**8,654**
Other liabilities to related parties	**27**	**-**	**441**	**-**
Total	**84,730**	**10,326**	**80,217**	**8,654**

Other current and non-current liabilities towards third parties came to EUR 95,029 thousand, an increase of EUR 6,599 thousand (EUR 88,430 thousand at 31 December 2009), as detailed in the table.
Other current and non-current liabilities towards related parties amounted to EUR 27 thousand, a decrease of EUR 414 thousand compared with 31 December 2009.

3.3.20 Trade payables

(EUR thousand)	**31.12.2010**	31.12.2009
Due to suppliers	349,014	227,644
Total due to suppliers	**349,014**	**227,644**
Due to related parties	54,119	20,524
Total	**403,133**	**248,168**

Trade payables to third parties rose by EUR 121,370 thousand: this change is attributable to the increase in production obtained in the period under review.

Trade payables to related parties increased by EUR 33,595 thousand and mainly refer to the debit positions of suppliers with back-to-back contracts compared with the credit position towards the final customer.

The increase in trade payables to related parties is essentially due to the related concern Selex Communications SpA for the progress of the activities in Libya.

There are no trade payables with residual maturity after 5 years.

3.3.21 Derivatives

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

	31.12.2010		31.12.2009	
(EUR thousand)	**Derivative assets**	**Derivative liabilities**	Derivative assets	Derivative liabilities
Trading	-	-	-	121
Fair value hedge	3.388	1.061	2.647	15
Cash Flow hedge	5.639	6.678	802	2.680
Instruments to hedge exchange rate risk	**9.027**	**7.739**	**3.449**	**2.816**

Derivative assets showed a net increase of EUR 5,578 thousand. This change is mainly attributable to the subsidiaries of the Asia Pacific area as a result of the fair value variance on hedging transactions.
Derivative liabilities recorded an increase of EUR 4,923 thousand due to the variation in the fair value of the transactions made by the US subsidiary Ansaldo STS USA and by the subsidiaries of the Asia Pacific area.

Determination of fair value

At 31 December 2010, the Ansaldo STS Group did not hold listed derivative instruments. The fair value of non-listed derivative instruments is measured with reference to the financial valuation techniques. Specifically, the fair value of exchange rate futures contracts is calculated based on the market exchange rate at the reference date and the rate differentials between the relevant currencies. The fair value of swaps is calculated by discounting future cash flows using market parameters.

Hedging transactions are carried out predominantly with the banking system. At 31 December 2010, the Group had contracts referring to various currencies in the following notional amounts:

(EUR thousand)	**31.12.2010**	31.12.2009
Euro	178,512	200,190
US dollar	82,277	52,835
Pound Sterling - GBP	7,986	5,649
Swedish krona	25,745	20,185
Canadian dollar	3,976	12,873
Australian dollar	17,603	41,281
Hong Kong dollar	63	417
Japanese Yen	3,506	-

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

3.3.22 Guarantees and other commitments

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:

(EUR thousand)	**Operating leases**	**Finance leases**
Within 1 year	5,888	-
2 to 5 years	9,632	-
Beyond 5 years	3	-
	15,523	**–**

Guarantee portfolio

The sureties and bonds granted by credit institutes or insurance companies in favour of principals/customers for commercial transactions are key to the finalisation of national/international tenders and are an essential condition to the successful stipulation of contracts.

BID BOND

The Bid Bond is required as part of a bidding process. Generally, it is valid for 3/6 months and amounts to 1-3% of the basic bid value or the estimated tender price.
The total value of bid bonds within the guarantee portfolio is generally modest based on the nature of the guarantee. In the guarantee portfolio at 31 December 2010 this typology amounted to EUR 170 million.

PERFORMANCE BOND

The Performance Bond is a surety to guarantee satisfactory completion of the project or successful supply. This is usually required during the stipulation of contracts. The duration of the performance bond is connected with the labour or supply for which it has been issued. The bond is of short duration for supply contracts while can achieve the maximum duration for turn-key contracts since it includes the “Operation & Maintenance” phase as well.
The amount varies in accordance to the type of contract and the relevant context. Generally, its amount varies to the extent of 10-15% of the contractual value.
In the guarantee portfolio at 31 December 2010 this typology represents a significant portion, amounting to some EUR 500 million.

RETENTION MONEY BOND

Where provided for by the contract, the Retention Money Bond represent the guarantee given for the release of the amounts withheld as guarantee by the principal/customer on the works performed and invoiced. The bond is released in stages and for minimum amounts, (for example in the amount of 5% of the works/supplies performed and invoiced). The bond can also be released upon the completion of works, where not expressly contemplated by the contract.
In the guarantee portfolio, at 31 December 2010 this typology amounted to some EUR 130 million.

ADVANCE PAYMENT BOND

The Advance Payment Bond, also called Down Payment Bond, enables the customer to recover an advance payment made to the supplier at the beginning of the project/supply. The advance payment bond decreases as the advance is reabsorbed through the invoicing of the supplier to the customer. The amount of this typology of guarantee varies on the basis of the contract type and of the context in which it has been issued. Generally, this guarantee can vary from 10% to 15% of the contractual amount up to 25%-35% in some international contexts.
At 31 December 2010 this category amounted to over EUR 400 million.

COUNTER GUARANTEE

Another important type of guarantee is formed by Counter Guarantees. These are presented by Ansaldo STS SpA in the scope of contracts undersigned as member of Consortia and business combinations. This typology of guarantee, at 31 December 2010, amounted to some EUR 240 million.

PARENT COMPANY GUARANTEE

The parent company guarantee (PCG) represents the guarantee released by the parent company in favour of third parties to guarantee the commitments of a subsidiary. This guarantee can arise for various reasons that go from the direct granting of commercial guarantees taking the place of credit institutes (for example: for Advance, Performance and Retention Bond) to the guarantee for direct credit lines granted by credit institutes to Group companies.
This second type of PCG is of primary importance for those newly-established or small-sized companies, that find it more difficult to obtain significant credit lines granted directly by banks. Therefore this instrument appears very useful to start operating in new markets/countries by forming small local companies with the objective to develop them in the course of the time but giving them an adequate financial support since the beginning.

The Parent Company Guarantee outstanding at 31 December 2010 amounted to over EUR 100 million.

At 31 December 2010, the Group had the following outstanding guarantees:

Direct guarantees and indemnities issued by third parties on behalf of the Group in favour of customers and other third parties (EUR thousand)	***Signalling* Business Unit**	***Transportation Solutions* Business Unit**	**Total**
Unsecured guarantees issued by Finmeccanica (Parent Company Guarantees) and Finmeccanica Finance SA (advance payment bonds, performance bonds, retention money bonds) in favour of customers for commercial transactions	260	545,696	**545,956**
Unsecured guarantees issued by Ansaldo STS and Ansaldo Signal NV (Parent Company Guarantees), in favour of customers for commercial transactions	86,143	-	**86,143**
Sureties and bonds (advance payment bonds, performance bonds, bid bonds, retention bonds) issued by credit institutions or insurance companies in favour of customers for commercial transactions	772,391	883,361	**1,655,752**
of which: counter-guaranteed by Finmeccanica	*25,268*	*119,499*	*144,767*
of which: counter-guaranteed by Ansaldo STS	*727,491*	*763,862*	*1,491,353*
Direct guarantees and indemnities by Finmeccanica and Ansaldo STS, credit institutions or insurance companies in favour of other third parties for NON-contractual/commercial guarantees (financial, fiscal transaction)	18,932	7,973	**26,905**
of which: counter-guaranteed by Finmeccanica	-	*7,973*	*7,973*
of which: counter-guaranteed by Ansaldo STS	*18,932*	-	*18,932*
Total	**877,726**	**1,437,030**	**2,314,756**

3.4 Notes to the Income Statement

3.4.1 Transactions with related parties

31 December 2010 (EUR thousand)	**Revenue**	**Other operating income**	**Costs**	**Finance income**	**Finance costs**	**Other operating expenses**
Parent company						
Finmeccanica S.p.A.	-	-	2,565	1	124	-
Subsidiaries						
Alifana S.c.r.l.	25	-	160	-	-	-
Alifana Due S.c.r.l.	5,574	3	9,744	-	-	-
Associates						
International Metro Service S.r.l.	-	7		-	-	-
Metro 5	30,076	-	489	-	-	-
Pegaso S.c.r.l.	63	-	2,445	-	-	-
Metro Service A.S.	-	-	45,641	-	-	-
Joint Ventures (*)						
Balfour Beatty Ansaldo Syst. JV SDN BHD	2,484	-	10	-	727	-
Kazakhstan	370	-	-	-	-	-
Consortiums						
Ascosa quattro	254	-	75	-	-	-
Cesit	-	-	35	-	-	-
Consortium Ferroviario Vesuviano	1,703	-	166	-	-	-
Cris	-	-	110	-	-	-
SanGiorgio Volla 2	207	-	5	-	-	-
SanGiorgio Volla	1,777	-	65	-	-	-
Saturno	32,198	-	2,384	-	-	-
Team in liquidation	-	-	-	-	-	-
Other Group companies						
Alenia	-	-	-	-	-	-
Ansaldo Breda	12,495	3	3,432	-	-	2
Ansaldo Energia	-	-	52	-	-	-
Electron Italia S.r.l.	308	-	681	-	-	-
Elsag Datamat	1,442	-	11,769	-	-	-
Fata S.p.A.	-	-	215	-	-	-
Fata Group S.p.A.	-	-	-	-	-	-
Fata Logistic	-	-	-	-	-	-
Fata Logistic System S.p.A.	-	-	2,451	-	-	-
Finmeccanica Finance	-	-	-	718	-	-
Finmeccanica Group Service	-	-	1,756	-	-	57
I.M. Intermetro S.p.A.	170	38	-	-	-	-
Oto Melara S.p.A.	-	-	-	-	-	-
Selex Communication	-	-	33,348			
Selex Service Management S.p.A.	-	-	314	-	-	-
Westland Industries Ltd	66	-	-	-	-	-
Other	**-**	**-**	**164**	**-**	**-**	**-**
Total	**89,212**	**51**	**118,076**	**719**	**851**	**59**
% on the total for the year	**7%**	**N.S.**	**14%**	**2%**	**2%**	**N.S.**

(*) Amounts refer to the portion not eliminated for proportionate consolidation.

31 December 2009 (EUR thousand)	Revenue	Other operating income	Costs	Finance income	Finance costs	Other operating expenses
Parent company						
Finmeccanica S.p.A.	-	-	2.342	1	178	-
Subsidiaries						
Alifana S.c.r.l.	25	-	50	-	-	-
Alifana Due S.c.r.l.	10.115	-	10.706	-	-	-
Associates						
International Metro Service S.r.l.	-	24	20	-	-	-
Metro 5 S.p.A.	26.605	-	1.210	-	-	-
Pegaso S.c.r.l.	129	-	6.311	-	-	-
Metro Service A.S.	-	-	41.498	-	-	-
Ecosen S.A.	-	-	(4)	-	-	-
Joint Ventures (*)						
Balfour Beatty Ansaldo Syst. JV SDN BHD	2.668	-	(368)	-	(237)	-
Consortiums						
Consortium Saturno	75.723	-	3.610	-	-	-
Consortium Ascosa quattro	54	-	-	-	-	-
Consortium Team in liq.	-	-	-	-	-	-
Consortium San Giorgio Volla Due	2.502	-	47	-	-	-
Consortium Ferroviario Vesuviano	7.047	-	732	-	-	-
Consortium Cesit		-	35	-	-	-
Consortium San Giorgio Volla	50	-	17	-	-	-
Other Group companies						
Ansaldo Energia S.p.A.	-	-	-	-	-	-
AnsaldoBreda S.p.A.	10.219	27	2.908	-	-	-
Fata Logistic System S.p.A.	-	-	2.123	-	-	-
Finmeccanica Finance S.A.	-	-	14	1.937		
Finmeccanica Group Service S.p.A.	-	-	1.543	-	-	13
Elsag Datamat S.p.A.	625	-	7.786	-	-	-
Hr Gest S.p.A.	-	-	649	-	-	4
Selex Communication S.p.A.	-	-	6.498	-	-	-
Galileo Avionica S.r.l.	-	-	37	-	-	-
Electron Italia S.r.l.	-	-	18	-	-	-
Oto Melara S.p.A.	-	-	(1)	-	-	-
Fata Group S.p.A.	-	-	75	-	-	-
I.M. Intermetro S.p.A. in liquidation	938	42	-	-	-	-
Selex Service Management S.p.A.	-	-	266	-	-	-
Westland Industries Ltd	31	-	-	-	-	-
Other	**215**	**-**	**-**	**-**	**-**	**-**
Total	**136.946**	**93**	**88.122**	**1.938**	**(59)**	**17**
% on the total for the year	**12%**	**N.S.**	**12%**	**5%**	**N.S.**	**N.S.**

(*) Amounts refer to the portion not eliminated for proportionate consolidation

3.4.2 Revenue

(EUR thousand)	31.12.2010	31.12.2009
Revenue from sales	1,187,860	684,028
Revenue from services	105,725	79,184
	1,293,585	**763,212**
Change in contract work in progress	(99,087)	275,482
Revenue from third parties	**1,194,498**	**1,038,694**
Revenue from related parties	**89,212**	**136,946**
Total revenue	**1,283,710**	**1,175,640**

Revenue from third parties amounted to EUR 1,194,498 thousand at 31 December 2010 over EUR 1,038,694 thousand at 31 December 2009, with an increase of EUR 155,804 thousand.
Revenue from related parties fell by EUR 47,734 thousand over the previous period, mainly attributable to a decrease in revenue in relation to AnsaldoBreda and Consortium Saturno.
The trend of revenue detailed by business sector is commented in the previous notes.

3.4.3 Other operating income

(EUR thousand)	31.12.2010	31.12.2009
Grants for research and development costs	2,328	730
Gains on disposal of property, plant and equipment and intangible fixed assets	2	1
Reversals to provision for doubtful accounts	76	1,115
Reversals to provisions for risks and charges	5,484	5,085
Insurance reimbursements	67	-
Royalties	1,747	2,901
Finance income and foreign-exchange gains on operating items	5,456	2,320
Tax receivable for R&D	5,490	5,305
Other operating income	6,468	4,111
Other operating income from third parties	**27,118**	**21,568**
Other operating income from related parties	**51**	**93**
Total	**27,169**	**21,661**

Other operating income from third parties amounted to EUR 27,118 thousand, with an increase of EUR 5,550 thousand attributable to the higher grants obtained for R&D activities set aside in the year in relation to the progress of the relevant projects and to the interest on trade receivables accrued as per contract.

3.4.4 Raw materials and consumables used and purchase of services

(EUR thousand)	31.12.2010	31.12.2009
Purchase of materials	243,239	196,884
Change in inventories	1,129	2,808
Purchase of services	449,062	457,165
Rent and operating leases	21,297	18,405
Total raw materials and consumables used and purchase of services from third parties	**714,727**	**675,262**
Total raw materials and consumables used and purchase of services from related parties	**118,076**	**88,122**
Total raw materials and consumables used and purchase of services	**832,803**	**763,384**

Raw materials and consumables used and purchase of services showed an increase of EUR 69,419 thousand, compared with the previous financial year due to the higher production achieved.

Specifically, the increase in raw materials and consumables used from third parties was equal to EUR 39,465 thousand and the increase in raw materials and consumables used from related parties was equal to EUR 29,954 thousand.

3.4.5 Personnel costs

(EUR thousand)	31.12.2010	31.12.2009
Wages and salaries	241.827	215.880
Costs for stock grant plans	3.810	1.998
Pension and social security	50.141	47.516
Severance pay provision costs	128	77
Costs related to other defined-benefit plans	469	341
Costs related to other defined-contribution plans	4.047	3.916
Recovery of personnel costs	(393)	(476)
Employee disputes	271	(19)
Restructuring costs	2.346	1.495
Other costs	4.581	9.915
Total personnel costs	**307.227**	**280.643**

The workforce at 31 December 2010 came to 4,217 resources with a decrease of 122 units compared with the 4,339 units reported at the end of the previous year; this item is broken down as follows:
Signalling: 3,315 employees
Transportation Solutions: 449 employees
Other activities (staff): 453 employees

The average size of the Group workforce employed in 2010 was equal to 4,299 resources against 4,289 resources reported in 2009.
"Personnel costs" (inclusive of restructuring costs) for the year 2010 totalled EUR 307,227 thousand compared with EUR 280,643 thousand in 2009.
The increase of EUR 26,584 thousand (+9.5%) is partly due to the increase in per capita cost, which went from EUR 65.4 thousand in 2009 to EUR 71.4 thousand in 2010. It should be also noted that the increase in personnel costs was partly caused by a depreciation of the Euro against some local currencies, in particular the Australian Dollar.

The stock grant cost is recognised in the year when the services are rendered, therefore it relates to shares attached to objectives for the year 2010 to be delivered in December 2011 after these objectives are achieved.
This cost is determined on the basis of the estimated number of shares to be granted and the fair value at the date of approval by the Remuneration Committee (EUR 8.5230 per share at 13 February 08 for the 2008-2010 plan, the unitary value, after the free share capital increase of 5 July 2010 was redetermined and is equal to EUR 7.103 per share; EUR 14.37 per share at 27 May 2010 for the 2010-2012 plan, the unitary value, after the free share capital increase of 5 July 2010 was redetermined and is equal to EUR 11.975 per share).

Severance pay provision costs and costs relating to other defined-benefit plans relate to the "service cost" only, since, as a result of the adoption of the equity method, interest costs are now classified under "finance costs".

As shown in the table relating to the personnel costs, we should report that the restructuring costs recorded at 31 December 2010 and at 31 December 2009 refer to the existing reorganisation plan of the American subsidiary Ansaldo STS USA and the Irish subsidiary Ansaldo STS Ireland.

3.4.6 Amortisation, depreciation and impairment

(EUR thousand)	31.12.2010	31.12.2009
Amortisation/Depreciation:		
- intangible assets	2,640	2,781
- property, plant and equipment	10,575	9,044
	13,215	**11,825**
Impairment:		
- operating receivables	6,409	1,812
- other assets	21	7
	6,430	**1,819**
Total amortisation, depreciation and impairment	**19,645**	**13,644**

Amortisation and Depreciation increased in the period by EUR 1,390 thousand compared with the previous financial year.
Amortisation and depreciation are detailed in the schedules on property, plant and equipment and intangible fixed assets.

The impairment charges, equal to EUR 6,430 thousand, refer to trade receivables and are mainly ascribable to the Group parent Ansaldo STS and to the subsidiaries of the Asia Pacific area.

3.4.7 Other operating expenses

(EUR thousand)	31.12.2010	31.12.2009
Allocations to provisions for risks and charges	4,425	4,889
Losses on disposal of receivables	-	-
Association dues	692	558
Capital loss on the disposal of property, plant and equipment and intangible assets	116	138
Foreign exchange charges on realization of operating items	1,755	1,682
Exchange rate alignment on operating items	1,165	1,050
Interest and other operating expenses	1,464	1,015
Indirect taxes	3,483	3,946
Other operating expenses	4,240	2,665
Total other operating expenses from third parties	**17,340**	**15,943**
Total other operating expenses from related parties	**59**	**17**
Total other operating expenses	**17,399**	**15,960**

Other operating expenses from third parties increased by EUR 1,397 thousand going from EUR 15,943 thousand at 31 December 2009 to EUR 17,340 thousand at 31 December 2010.
The most substantial amount is attributable to the higher finance costs on operating items emerged in the subsidiaries of the Asia Pacific area.

3.4.8 Work performed by the Group and capitalised

(EUR thousand)	31.12.2010	31.12.2009
Work performed by the Group and capitalised	(922)	(1,132)

Capitalised costs are substantially attributable to the French subsidiary Ansaldo STS France and relate to costs for internally produced tangible and intangible assets (staff, materials, services).

3.4.9 Net finance income/(costs)

	31.12.2010			31.12.2009		
(EUR thousand)	Income	Cost	Net	Income	Cost	Net
Interest and commissions	1.110	3.068	(1.958)	1.094	3.899	(2.805)
Exchange-rate differences	28.474	29.328	(854)	32.249	32.282	(33)
Income from fair-value measurement recognised in Income Statement	3.860	4.660	(800)	4.035	3.392	643
Interest on severance pay provision	-	664	(664)	-	784	(784)
Interest on other defined-benefit plans	-	396	(396)	-	386	(386)
Other finance income (costs)	145	115	30	241	152	89
Total net finance income and costs	**33.589**	**38.231**	**(4.642)**	**37.619**	**40.895**	**(3.276)**
Total finance income and costs from related parties	**719**	**851**	**(132)**	**1.938**	**(59)**	**1.997**
Total	**34.308**	**39.082**	**(4.774)**	**39.557**	**40.836**	**(1.279)**

At 31 December 2010, net finance costs from third parties totalled EUR 4,642 thousand compared with EUR 3,276 thousand recorded at 31 December 2009.
The change of EUR 1,366 thousand is due to a concurring decrease in finance income and costs; the decrease in income of EUR 4,030 thousand has been offset partially by the reduction in finance costs for EUR 2,664 thousand.
This change may be attributable to:
- the reduction of EUR 831 thousand in the cost of commissions paid to the credit institutes;
- the worsening of the exchange rates recorded in the financial year that generated a negative net effect on exchange differences for EUR 854 thousand (EUR 33 thousand in 2009);
- the decrease of EUR 1,443 thousand in the fair value results of the derivative contracts not yet entered into at the closing date of these financial statements.

Net finance income from related parties at 31 December 2010 totalled EUR -132 thousand with a decrease of EUR 2,129 thousand compared with 31 December 2009 (positive for EUR 1,997 thousand).

The change of EUR 2,129 thousand is due to a decrease in income for EUR 1,219 thousand and to an increase of costs for EUR 910 thousand. The reduction in income is mainly due to:
- the decrease in interest income as a result of a reduction in the average deposits compared with 2009 connected with a decrease in the average rate going from 1.4% in 2009 to 0.7% in 2010;
- the increase in interest expense, mainly due to the indebtnedness of the Indian subsidiary of the Asia Pacific area.

As shown in the table, due to the adoption of the equity method in recognising defined-benefit plans, interest costs are now classified under net finance income (costs) and no longer under personnel costs.

3.4.10 Share of profit (loss) of equity accounted investments

	31.12.2010			31.12.2009		
(EUR thousand)	Income	Cost	Net	Income	Cost	Net
Share of profit (loss) of equity accounted investments	937	17	920	1,020	-	1,020
Total	**937**	**17**	**920**	**1,020**	**-**	**1,020**

The share of profit of equity accounted investments amounted to EUR 920 thousand and reflected the positive result of International Metro service Srl for EUR 937 thousand and the impairment of the Venezuelan investee company Ecosen for EUR 17 thousand.

3.4.11 Income taxes

Income taxes break down as follows:

(EUR thousand)	31.12.2010	31.12.2009
IRES (corporate income tax)	32,384	24,804
IRAP (regional tax on productive activities)	8,416	6,816
Income from consolidation	-	-
Other taxes on profit (foreign companies)	6,163	7,809
Taxes relating to previous years	332	(1,261)
Provisions for disputes over taxes	-	(992)
Net deferred taxes	(8,992)	(183)
Total	**38,303**	**36,993**

Income taxes increased by EUR 1,310 thousand compared with the previous financial year. Specifically, this change is attributable to: the increase in the IRES and IRAP charge for the period (EUR 7,580 thousand and EUR 1,600 thousand respectively) for the higher taxable basis in the year; lower taxes due by foreign companies (EUR 1,646 thousand); higher taxes relating to previous years (EUR 1,593 thousand); and to a higher provision for net deferred tax assets going from EUR 183 thousand to EUR 8,992 thousand. This latter change is attributable to the reversal of a provision for risks relating to taxes on losses recorded in the previous financial years by the subsidiary Ansaldo STS USA, as the possibility of use has become certain.

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

	31.12.2010			31.12.2009		
(EUR thousand)	Amount		%	Amount		%
Result before taxes	**133,211**			**124,793**		
Tax calculated at the applicable tax rate	-	36,633	27.50%	-	34,318	27.50%
Permanent differences	(8,316)	(2,287)	-1.72%	(6,015)	(1,653)	-1.30%
	124,895	**34,346**	**25.78%**	**118,778**	**32,665**	**26.20%**
Rate differential on foreign taxes and/or for losses for the period	-	9,277	6.96%	-	448	0.36%
IRAP and other taxes calculated on a basis other than the result before taxes	-	7,793	5.85%	-	5,992	4.80%
Prior years' taxes	-	(13,316)	-10.00%	-	(1,120)	-0.90%
Provisions for disputes over taxes	-	203	0.15%	-	(992)	-0.82%
Total effective taxes carried to Income Statement	**-**	**38,303**	**28.75%**	**-**	**36,993**	**29.64%**

The effective tax rate at 31 December 2010 is equal to 28.75% against a rate of 29.64% recorded at 31 December 2009.
The reduction of 0.89% is attributable to the lower percentage incidence of IRAP for the Group parent, as a result of the higher foreign production for the period, higher untaxed net finance income and costs, and higher tax credits for research grants related to the subsidiary Ansaldo STS France.

Deferred taxes and the related receivables and payables at 31 December 2010 were generated by the following temporary differences:

	Income Statement		Balance Sheet	
(EUR thousand)	Assets	Liabilities	Assets	Liabilities
Severance pay provision, pension funds	307	163	8,965	576
Remuneration	-	-	-	-
Goodwill	-	-	2,233	-
Property, plant and equipment and intangible assets	(294)	(410)	433	269
Provisions for risks and charges	1,662		3,348	-
Research subsidies	-	288	458	903
Provision relating to work in progress and Inventory write-down	283	-	17,445	-
Finance leases	-	-	-	-
Cash Flow Hedge - defined-benefit plans	-	-	2,773	1,187
Past losses	4,095	-	7,198	-
Stock grants	194	-	84	-
Other	3,366	580	2,201	1,591
Total	**9,613**	**621**	**45,138**	**4,526**

Deferred tax assets deriving from the recognition of "Provisions for risks and charges" are mainly attributable to the Group parent (EUR 3,348 thousand).
Deferred tax assets on "tax losses" refer to the subsidiaries Ansaldo STS France (EUR 2,172 thousand) and Ansaldo STS USA (EUR 5,026 thousand). In the latter case, the reversal is expected in the course of the next year.
Deferred tax assets relating to the inventory write-down and to the write-down provision relating to work in progress mainly refer to the subsidiary Ansaldo STS USA (EUR 9,987 thousand) and to the Group parent Ansaldo STS SpA (EUR 7,458 thousand).
The item "Other" mainly refers to the Group parent Ansaldo STS (EUR 833 thousand), to the subsidiary Ansaldo STS Australia (EUR 95 thousand) and to the subsidiary Ansaldo STS USA (EUR 149 thousand).

Deferred tax assets and liabilities include deferred taxes accounted for, with direct counterpart in equity, on derivative instruments recognised with the "cash flow hedge" method and on actuarial losses/gains as a result of the adoption of the equity method for defined-benefit plans. The movement for the period of this equity item is as follows:

	31.12.2009	Reversal to the Income Statement	Fair value adjustments	Other changes	31.12.2010
Deferred taxes recognised directly in equity	1,224	(1,649)	(274)	271	(428)

3.5 Earning per Share

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

Basic EPS	31.12.2010	31.12.2009
Average shares during the period	119,921,623	119,862,765*
Net profit	94,908	87,800
Profit from continuing operations	-	-
Basic EPS and diluted EPS	**0.79**	**0.73***

* Redetermined following the free share capital increase of 5 July 2010.

For comparative purposes, the EPS index has been redetermined for the 2009 financial year and in particular the average number of ordinary shares pertaining to the year has been recalculated.
It turned out to be necessary following the first tranche of the share capital increase dated 5 July 2010, when no. 20,000,000 newly-issued shares with a par value of EUR 0.50 were put into circulation and assigned freely to the Shareholders existing on that date, on the basis of one newly-issued share every five shares already owned.

3.6 Cash Flow from operating activities

The cash flow from operating activities is shown in the table below:

(EUR thousand)	**31.12.2010**	31.12.2009
Profit	94,908	87,800
Share of profit (loss) of equity accounted investments	(920)	(1,020)
Income taxes	38,303	36,993
Costs of severance pay provision and other benefits	597	418
Costs for stock grant plans	4,713	2,475
Capital gains (losses) on disposals of real estate assets	114	137
Net finance income (costs)	4,774	1,279
Restructuring costs	2,346	1,495
Amortisation, depreciation and impairment	19,645	13,644
Allocation/Reversal to provisions for risks	(706)	(215)
Other operating income/expenses	(82)	(1,115)
Allocations /Reversal of inventories and work in progress write-down	1,302	3,907
Total	**164,994**	**145,798**

Changes in working capital, net of the effects deriving from the acquisitions and disposals of consolidated companies and translation differences, break down as follows:

(EUR thousand)	**31.12.2010**	31.12.2009
Inventories	(28,070)	(7,048)
Contract work in progress and advances from customers	(52,088)	144,981
Trade receivables and payables	38,441	(125,730)
Total	**(41,717)**	**12,203**

Changes in other operating items, net of the effects deriving from the acquisitions and disposals of consolidated companies and translation differences, break down as follows:

(EUR thousand)	**31.12.2010**	31.12.2009
Payment of the provision for severance pay and other defined-benefit plans	(1,987)	(1,897)
Taxes paid	(37,669)	(38,738)
Changes in other operating items	(10,655)	5,591
Total	**(50,311)**	**(35,044)**

For information on changes in the Statement of Cash Flows, please refer to paragraph 2.3 relative to the Groups' financial position.

3.7 Management of Financial Risks

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

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

Exchange rate risk management

As indicated in the directive "Treasury management", the exchange rate risk management of the Ansaldo STS Group focuses on the achievement of these objectives:
- limiting potential losses due to adverse fluctuations in the exchange rate as compared with the reporting currency of Ansaldo STS SpA and its subsidiaries;
- limiting estimated or real costs connected to the implementation of exchange rate risk management policies.

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

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

Hedging of exchange rate risk

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

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

Cash Flow Hedge

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

Fair Value Hedge

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

Hedging transactions are carried out predominantly with the banking system. At 31 December 2010 the Group had contracts referring to various currencies in the following notional amounts:

(local currency in thousands)	Sell10	Buy10	**31.12.2010**	Sell09	Buy09	31.12.2009
Euro	134,155	44,357	178,512	144,546	55,645	200,190
US dollar	56,555	25,722	82,278	49,097	3,738	52,835
GBP	7,986	-	7,986	176	5,473	5,649
Swedish krona	-	25,745	25,745	-	20,185	20,185
Canadian dollar	3,976	-	3,976	11,403	1,470	12,873
Australian dollar	11,023	6,580	17,603	3,637	37,644	41,281
Hong Kong Dollar	63	-	63	230	188	417
Japanese yen	3,506	-	3,506	-	-	-

At 31 December 2010, the net fair value of derivative financial instruments was positive in the amount of about EUR 1,288 thousand.

Sensitivity analysis on exchange rates

For the presentation of market risks, IFRS 7 requires a sensitivity analysis, that shows the effects of the assumed changes in the most relevant market variables on the Income Statement and equity.
Exchange rate risks arise from financial instruments (including trade receivables and payables) recorded in the Financial Statements or from highly probable cash flows denominated in a currency other than the functional currency.
Since the US dollar is the primary foreign currency used by the Group, sensitivity analysis was performed on financial instruments denominated in dollars existing at 31 December 2010, assuming a 5% appreciation (depreciation) of the euro against the US dollar. This analysis showed that an appreciation or depreciation of the euro against the US dollar would have the following impact on the Group's Financial Statements:

	31.12.2010		31.12.2009	
(EUR thousand)	**+5% - appreciation of euro against the US dollar**	**-5% - depreciation of euro against the US dollar**	+5% - appreciation of euro against the US dollar	-5% - depreciation of euro against the US dollar
Income Statement	2,537	(2,804)	(58)	65
Cash Flow Reserve	(6,656)	6,656	(5,619)	5,634
Translation Reserve	-	-	-	-

Compared with the same analysis performed in 2009, it results a higher exposure of the Income Statement in relation to the euro/dollar exchange rate variations, as well as a lower impact on equity. This situation is attributable to the lower use of project Cash Flow hedges as a result of a reduction in the currency exposure towards the US Dollar by the Group companies.

Management of interest rate risk

The aforementioned directive states that the goal of the management of interest rate risk is to lessen the negative impact of changes in interest rates, which may affect the Company's Income Statement, the Balance Sheet and the weighted average cost of capital.
Interest rate risk management by Ansaldo STS is designed to achieve the following objectives:

- to stabilise the weighted average cost of capital;
- to minimise the weighted average cost of capital of Ansaldo STS over the medium to long term. To achieve this objective, interest rate risk management will focus on the impact of interest rates on debt funding and equity funding;
- to optimise the profit on financial investments within a general profit-risk trade-off;
- to limit the costs relating to the execution of interest rate risk management policies, including the direct costs tied to the use of specific instruments and indirect costs relating to the internal organisation needed to manage such risk.

In order to allow future acquisition transactions, the Group invests excess liquidity in the short term. At the same time, financial debt is mainly in the short term. The common management of short-term assets and liabilities makes the Group relatively neutral to changes in long-term interest rates.
In 2010 as well interest rate risk was managed without the use of interest rate derivatives.

Sensitivity analysis on interest rates

Sensitivity analysis was performed on the assets and liabilities exposed to interest rate risk, assuming a parallel and symmetric 50 basis point rise (fall) in interest rates; the adopted range has been chosen by IAS for the analysis.
The impact of these scenarios on the Group's Financial Statements at 31 December 2010 is summarised in the following table:

	31.12.2010		31.12.2009	
(EUR thousand)	**+50 bps**	**-50 bps**	+50 bps	-50 bps
Income Statement	1,709	(1,709)	1,090	(1,090)
Reserves	-	-	-	-

These impacts are the result of greater interest income that would be produced by floating rate net financial debt, in the case of interest rates greater or lower than 50 basis points respectively.
The change in interest rates would have no impact on the valuation of financial instruments in the Financial Statements, as there are no financial assets or liabilities (not derivative) recognised at fair value through profit or loss.
The derivatives subscribed by the Group are exclusively exchange rate derivatives and a change in the interest rates of the various currencies would have non-relevant impacts on the year-end Fair Value.
There are no impacts on equity, as the company has no cash flow hedges on the interest rate risk.
The results achieved at 31 December 2010 showed a considerable increase compared with 31 December 2009; this effect stems from the significant increase in variable-rate assets. At 31 December 2009 a simulation of a +(-) 50 basis point change showed an impact of about +(-) EUR 1,709 thousand on the Income Statement.

Management of liquidity risk

In order to support efficient management of liquidity and contribute to the growth in its businesses, the Ansaldo STS Group has established a set of tools to optimise the management of financial resources. This objective was achieved by centralising treasury operations with current account contracts between the Parent Company and the Group companies and maintaining an active presence on financial markets to obtain adequate short and long-term credit lines for endorsement facilities and for cash sufficient to meet the Group's needs.
At 31 December 2010, the Group shows a net financial liquidity of EUR 318,150 thousand recording an improvement over 31 December 2009, when the net financial position was equal to EUR 278,861 thousand.

Liquidity analysis - figures at 31 December 2010

A – Financial liabilities less derivatives (EUR thousand)	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Non-current liabilities			
Borrowings from third parties	-	1,621	-
Borrowings from related parties	-	-	-
Other non-current liabilities	-	-	-
Current liabilities			
Trade payables to related parties	50,113	4,006	-
Trade payables to third parties	348,651	363	-
Financial liabilities to third parties	3,911	-	-
Financial liabilities to related parties	-	-	-
Other financial liabilities	-	-	-
Total A	**402,675**	**5,990**	**-**
B – Negative value of derivatives			
Hedge derivatives	7,739	-	-
Trading derivatives (economic hedge)	-	-	-
Total B	**7,739**	**-**	**-**
Total A + B	**410,414**	**5,990**	**-**

Against borrowings and trade payables for EUR 416,404 thousand financial assets are posted in these amounts:

C - Financial assets	
Cash and cash equivalents	153,320
Trade receivables – third parties	539,801
Trade receivables – related parties	85,007
Financial receivables	170,362
Positive value of derivatives	9,027
TOTAL FINANCIAL ASSETS	**957,517**
D – Credit lines	**38,471**
TOTAL C + D	**995,988**
C+D-(A+B)	**585,574**

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

Credit risk management

The Group is not exposed to significant credit risk, both as regards the counterparties of its commercial transactions and for financing and investing activities. Its primary customers are, in fact, government entities or off-shoots of such entities, concentrated in the euro area, the United States and Southeast Asia. The typical customer rating of the Ansaldo STS Group is therefore medium/high. Despite this, in the case of contracts with customers/counterparties with which the Group does not ordinarily do business, the customers' solvency is assessed at the time of the offer to highlight any future credit risks.
The nature of Ansaldo's customers means that collection times are longer (in some countries significantly longer) than in other businesses, creating significant outstanding past due positions.
At 31 December 2010 trade receivables from third parties, equal to EUR 539,801 thousand (EUR 395,846 thousand at 31 December 2009) are overdue for EUR 209,965 thousand, of which EUR 36,628 thousand past due between 1 and 5 years.
Trade receivables at 31 December 2010 mainly refer to the Group parent Ansaldo STS SpA for EUR 442,779 thousand with a total overdue amount equal to EUR 161,236 thousand, of which EUR 34,382 expired by more than 12 months.

The following table shows the composition of receivables: at 31 December 2010:

	Government entities			Other customers			
31.12.2010 (EUR thousand)	**European Area**	**American Area**	**Other**	**European Area**	**American Area**	**Other**	**Total**
- Held as guarantees	-	-	3,992	1,199	4,616	15,010	**24,817**
- Receivables not past due	56,107	-	100,562	127,895	8,241	37,031	**329,836**
- Receivables past due less than 6 months	44,338	-	5,331	32,956	2,393	6,975	**91,993**
- Receivables past due between 6 months and 1 year	32,494	-	2,669	15,028	-	6,255	**56,446**
- Receivables past due between 1 and 5 years	15,137	-	367	19,310	-	1,814	**36,628**
- Receivables past due more than 5 years	-	-	-	-	-	81	**81**
Total	**148,076**	**-**	**112,921**	**196,388**	**15,250**	**67,166**	**539,801**

Movements in the provision for doubtful accounts of Group trade receivables are as follows:

(EUR thousand)	**2010**	2009
01 January	**7,911**	**7,127**
Allocations	6,409	1,812
Reversals/Uses	(888)	(1,106)
Other changes	352	78
31 December	**13,784**	**7,911**

In the course of the year, the provision for doubtful trade receivables rose by EUR 5,873 thousand. This increase is mainly relative to the allocation charges of the Group parent (EUR 4,785 thousand) and the write-down of receivables from Firema.
Other changes include the exchange rate differences generated upon the consolidation of foreign subsidiaries.

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

The ratings below were provided by S&P.

Rating class	**Fair Value Attivo**
AA	8.96%
AA-	33.45%
A+	8.93%
A	42.72%
A-	1.84%
BBB	4.10%
Total positive fair value	**100%**

Classification and fair value of financial assets and liabilities

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

Derivatives are analysed separately.

31.12.2010 (EUR thousand)	**Fair value through profit or loss**	**Loans and receivables**	**Available for sale**	**Total**	**Fair Value**
Non-current assets					
Non-current receivables from related parties	-	1,006	-	**1,006**	**1,006**
Financial assets at fair value	-	-	-	**-**	**-**
Receivables	-	14,243	-	**14,243**	**14,243**
Current assets				**-**	
Current receivables from related parties	-	85,007	-	**85,007**	**85,007**
Trade receivables	-	539,801	-	**539,801**	**539,801**
Financial assets at fair value	-	170,362	-	**170,362**	**170,362**
Financial receivables	-	-	-	**-**	**-**
Other current assets	-	-	-	**-**	**-**

31.12.2010 (EUR thousand)	**Fair value through profit or loss**	**Amortised Cost**	**Total**	**Fair Value**
Non-current liabilities				
Non-current payables to related parties	-	-	**-**	**-**
Non-current borrowings	-	1,621	**1,621**	**1,621**
Other non-current liabilities	-	-	**-**	**-**
Current liabilities				
Current payables to related parties	-	54,119	**54,119**	**54,119**
Trade payables	-	349,014	**349,014**	**349,014**
Borrowings	-	3,911	**3,911**	**3,911**
Other current liabilities	-	-	**-**	**-**

31.12.2009 (EUR thousand)	Fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Total	Fair Value
Non-current assets						
Non-current receivables from related parties	-	-	-	-	**-**	-
Financial assets at fair value	-	-	-	-	**-**	-
Receivables	-	13,778	-	-	**13,778**	13,778
Current assets						
Current receivables from related parties	-	130,654	-	-	**130,654**	130,654
Trade receivables	-	395,846	-	-	**395,846**	395,846
Financial assets at fair value	-	-	-	-	**-**	-
Financial receivables	-	166,892	-	-	**166,892**	166,891
Other current assets	-	3,868	-	-	**3,868**	3,868

31.12.2009 (EUR thousand)	Fair value through profit or loss	Amortised Cost	Total	Fair Value
Non-current liabilities				
Non-current payables to related parties	-	-	-	-
Non-current borrowings	-	4,032	4,032	4,032
Other non-current liabilities	-	-	-	-
Current liabilities				
Current payables to related parties	-	7,477	7,477	7,477
Trade payables	-	229,395	229,395	229,395
Borrowings	-	12,539	12,539	12,539
Other current liabilities	-	793	793	793

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

Derivatives

The IFRS provides the classification of the fair value of derivatives on the basis of reference parameters inferable from the market or from other financial indicators (for example: exchange rates, interest rate curve, etc.). Financial derivatives on currencies to hedge exchange rate risk fall within Level 2 of hierarchy since the fair value of these instruments is determined by recalculating the current value through official fixing of period-end exchange and interest rates listed on the market.

The table below provides the fair values of derivative instruments.

Fair value hierarchy at the reporting date	Fair Value at 31.12.2010 Level 2	Fair Value at 31.12.2009 Level 2
Assets		
Interest rate swap		
Trading	-	-
Fair value hedge	-	-
Cash flow hedge	-	-
Currency forward/swap/option		
Trading	-	-
Fair value hedge	3,389	2,647
Cash flow hedge	5,638	802
Equity instruments (trading)	-	-
Embedded derivatives (trading)	-	-
Liabilities		
Interest rate Swap		
Trading	-	-
Fair value hedge	-	-
Cash flow hedge	-	-
Currency forward/swap/option		
Trading		121
Fair value hedge	1,061	15
Cash flow hedge	6,678	2,680
Equity instruments (trading)	-	-
Embedded derivatives (trading)		-

The Group uses cash flow hedge derivatives hedging the exchange rate risk exposure for expected future transactions that are highly probable and fair value hedge derivatives hedging the exchange rate risk exposure of financial assets/liabilities recognised in the Financial Statements.

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

	31.12.2010 Notional amount (in thousands of USD)		31.12.2009 Notional amount (in thousands of USD)	
Maturity	**Receipts**	**Payments**	Receipts	Payments
Within 1 year	8,680	4,622	11,578	2,642
2 to 3 years	-	260	-	2,407
4 to 9 years	-	76	-	336
More than 9 years	-	-	-	-
Total	**8,680**	**4,958**	**11,578**	**5,385**

3.8 Remuneration to Key Management Personnel

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

(EUR thousand)	2010	2009
Compensation	4,149	6,006
Post-employment benefits	-	99
Other long-term benefits	-	-
Severance pay	-	-
Stock Grants	597	623
Total	**4,746**	**6,728**

Directors' fees amounted to EUR 4,746 thousand in 2010, EUR 6,728 thousand in 2009.
Statutory Auditors' fees amounted to EUR 140 thousand in 2010, value remained unchanged from 2009.
These fees include emoluments and any other sum paid as compensation and social security for the office of Director or Statutory Auditor in the Group parent and in the other companies included in the scope of consolidation, that represented a cost for the Group.

The detail of compensation paid to the Directors, Statutory Auditors and General Managers of the Group parent is reported in the following table*:

Person (Euro units)	Description of position						
Name	Position	Office term	Term of office expiring	Emoluments by position in the reporting Company for 2010	Non-cash benefits	Bonuses and other incentives	Other remunerations
Pansa Alessandro	Chairman of BoD	21/11/2005	Approval of 2010 Financial Statements	60,000 (1)	-	-	-
Roberti Sante (a)	Deputy Chairman of BoD	21/11/2005	Approval of 2010 Financial Statements	40,000 (9)	6,065	50,000	90,357**
Sergio De Luca	Chief Executive Officer	14/06/2007	Approval of 2010 Financial Statements	40,000 (2)	97,197	80,000	1,367,830***
Lalli Francesco (b)	Director	21/11/2005	Approval of 2010 Financial Statements	55,000 (3)	-	-	-
Salvetti Attilio (c)	Director	24/03/2006	Approval of 2010 Financial Statements	55,000 (4)	-	-	-
Cereda Maurizio (e) (d)	Director	14/06/2006	Approval of 2010 Financial Statements	75,000 (5)	-	-	-
Genuardi Gerlando (f)	Director	27/09/2007	Approval of 2010 Financial Statements	55,000 (6)	-	-	-
Pinto Eugenio (g) (h)	Director	01/04/2008	Approval of 2010 Financial Statements	75,000 (7)	-	-	-
Gitti Gregorio (i)	Director	01/04/2008	Approval of 2010 Financial Statements	60,000 (8)	-	-	-
Sarubbi Giacinto	Chairman of BoSA	01/04/2008	Approval of 2010 Financial Statements	60,000	-	-	-
Scotton Massimo	Statutory Auditor	01/04/2008	Approval of 2010 Financial Statements	40,000	-	-	-
Tripodi Francesca	Statutory Auditor	21/11/2005	Approval of 2010 Financial Statements	40,000	-	-	-

(*): data extracted from the 2009 Financial Statements of Ansaldo STS SpA.

(Euro units)	Unitary emoluments per year
Chairman of BoD	60,000
Member of BoD	40,000
Chairman of Supervisory Board	20,000
Member of Supervisory Board	15,000
Chairman of Remuneration Committee	20,000
Member of Remuneration Committee	15,000
Chairman of Internal Audit Committee	20,000
Member of Internal Audit Committee	15,000

(a) Deputy Chairman of BoD - appointed 24/02/2006
(b) Member of Remuneration Committee - appointed 27/06/2006
(c) Member of Internal Audit Committee - appointed 24/03/2006
(d) Member of Internal Audit Committee - appointed 27/06/2006
(e) Chairman of Remuneration Committee - appointed 27/06/2006
(f) Member of Remuneration Committee - appointed 01/04/2008
(g) Member of Internal Audit Committee - appointed 01/04/2008
(h) Chairman of Supervisory Board - appointed 01/04/2008
(i) Chairman of Internal Audit Committee - appointed 01/04/2008

(1) 12 months Chairman of BoD Remuneration renounced since 1.4.2008
(2) 12 months BoD - Remuneration retroceded to Ansaldo STS SpA
(3) 12 months BoD + 12 months RC - Remuneration renounced since 1.4.2008
(4) 12 months BoD + 12 months ICC
(5) 12 months BoD and ICC +12 months RC Chairman
(6) 12 months BoD + 12 months RC
(7) 12 months BoD and ICC + 12 months SB Chairman
(8) 12 months BoD + 12 months ICC Chairman
(9) 12 months BoD - Remuneration retroceded to Ansaldo STS SpA up to 31.05.2010

(**): entirely fixed remuneration. Subordinate employment was interrupted on 31 May 2010
(***): of which EUR 445,560 for fixed remuneration for the position of CEO in 2010 FY and EUR 922,270 for variable remuneration paid for the same position in 2009 FY.

The Group Parent, Ansaldo STS SpA, in order to create an incentive and retention system for Group employees and consultants, implemented incentive plans providing for the granting of Ansaldo STS SpA shares, subject to the attainment of specific objectives.

With regard to the "Stock Grant" item, the shares relating to the 2009 objectives were granted in December 2010 since all the targets were achieved; consequently the reserve recognised in the previous financial year was used.
The counter-value of the shares granted to employees participating in the plan was charged by the Group parent to the subsidiaries as an "equity transaction" without affecting the Income Statement. The differentials relating to the fair value (difference between assignment and delivery) and to the percentage of granted shares were recorded in a special equity reserve (please refer to section § 15.14).

3.9 Outlook

The Group's order backlog at 31 December 2010 has expanded compared with the same previous year-end, thanks to the excellent performance in the acquisition of new orders mainly in the transportation solutions sector.
Moreover, actions oriented to improve efficiency will continue in order to obtain the expected profitability targets.

Since 1 January 2010, and for the American area since the early 2011, the Group has availed itself of the new organisational structure through the project of internal reorganisation called "Fast Forward Driven By Business" (FFDB). This reorganisation is directed to recover industrial and commercial efficiency, and therefore additional margins of profitability, through a more rational and centralised organisation of activities related to R&D, production, procurement, presence on the markets, management of job-orders. With regard to the reference markets, the signalling and transportation solutions sectors in both the inter-city and urban railway context are still marked by slight growth.

The recent destabilisation of the political scenario in North Africa, and in particular the riots occurred in Libya, brought about a sudden suspension of the activities on the projects that Ansaldo STS has acquired in that country.
Therefore, the uncertainty over the future pattern of events makes it difficult to forecast the impacts of possible delays on the execution of the works in the course of 2011.

Genoa, 1 March 2011

On behalf of the Board of Directors
The Chairman

Alessandro Pansa

3.10 List of significant Equity Investments under article 125 of Consob resolution no. 11971

Subsidiary (name and legal form)	State	% of total	% Indirect control	% Direct control	Through	Type of ownership (see key)
Acelec Société par actions simplifié (Automatismes Contrôles et Etudes Electroniques)*	France	100%	100%		Ansaldo STS France Société par actions simplifié	1
Alifana -Società consortile a responsabilità limitata	Italy	65.850%		65.850%		1
Alifana due -Società consortile a responsabilità limitata	Italy	53.340%		53.340%		1
Ansaldo Railway System Trading (Beijing) Ltd	China	100.000%		100.000%		1
Ansaldo STS Australia PTY Ltd.	Australia	100.000%		100.000%		1
Ansaldo STS Beijing Ltd.	China	80.000%	80.000%		Ansaldo STS France Société par actions simplifié	1
Ansaldo STS Canada Inc.	Ontario – Canada	100.000%	100.000%		Ansaldo STS USA Inc.	1
Ansaldo STS Deutschland GmbH	Germany	100.000%		100.000%		1
Ansaldo STS Espana S.A.	Spain	100.000%	100.000%		Ansaldo STS France Société par actions simplifié	1
Ansaldo STS Finland OY	Finland	100.000%	100.000%		Ansaldo STS Sweden AB	1
Ansaldo STS France Société par actions simplifié**	France	100.000%		100.000%		1
Ansaldo STS Hong Kong Ltd.	China	100.000%	100.000%		Ansaldo STS France Société par actions simplifié	1
Ansaldo STS Ireland Ltd.	Ireland	100.000%		99.999%		1
			0.001%		Ansaldo STS USA Inc.	1
Ansaldo STS Malaysia SDN BHD	Malaysia	100.000%	100.000%		Ansaldo STS Australia PTY Ltd.	1
Ansaldo STS Sistemas de Transporte e Sinalização Limitada	Brazil	100.000%		99.99%		1
			0.01%		Ansaldo STS USA International Co.	1
Ansaldo STS Infradev South Africa Ltd.***	South Africa	100.000%	100.000%		Ansaldo STS Australia PTY ltd	1
Ansaldo STS Southern Africa Pty Ltd.	Botswana	100.000%	100.000%		Ansaldo STS Australia Pty Ltd	1
Ansaldo STS Sweden AB	Sweden	100.000%		100.000%		1
Ansaldo STS Transportation Systems India Private Limited.	India	100.000%	99.9999%		Ansaldo STS Australia PTY Ltd.	1
				0.0001%		1
Ansaldo STS UK Ltd.	England	100.000%		100.000%		1
Ansaldo STS USA Inc.	Delaware -USA	100.000%		100.000%		1
Ansaldo STS USA International Co.	Delaware -USA	100.000%	100.000%		Ansaldo STS USA Inc.	1
Ansaldo STS USA International Projects Co.	Delaware -USA	100.000%	100.000%		Ansaldo STS USA Inc.	1
Balfour Beatty Ansaldo Systems Jv Sdn Bhd	Malaysia	50.000%	40.000%		Ansaldo STS Malaysia Sdn Bhd	1
			10.000%		Ansaldo STS Malaysia Sdn Bhd	9
Ecosen S.A.	Venezuela	48.000%	48.000%		Ansaldo STS France Société par actions simplifié	1
I.M. Intermetro S.p.A. in liquidation	Italy	16.666%		16.666%		1
International Metro Service S.r.l.	Italy	49.000%		49.000%		1
Kazakhstan TZ - Ansaldo STS Italy LLP	Kazakhstan	49.000%		49.000%		1
Metro 5 S.p.A.	Italy	24.600%		24.600%		1
Metro C. S.c.p.a.	Italy	14.000%		14.000%		1
Pegaso-Società consortile a responsabilità limitata	Italy	46.870%		46.870%		1
Transit Safety Research Alliance (no profit corporation)	USA	100.000%	100.000%		Ansaldo STS USA Inc.	1
Union Switch & Signal Inc.	USA	100.000%	100.000%		Ansaldo STS USA Inc.	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

(*): In the course of 2010 the company changed its legal form from "Société anonyme" to "Société par actions simplifié" and contextually, Ansaldo STS France acquired 100% direct ownership in the company.
(**): In the course of 2010 the company changed its legal form from "Société anonyme" to "Société par actions simplifié" and contextually, Ansaldo STS SpA acquired 100% direct ownership in the company.
(***): In the course of 2010 Ansaldo STS Australia Pty ltd acquired a 49.3% interest in Ansaldo STS Infradev South Africa Pty Ltd therefore reaching 100% direct ownership. Following this purchase, in the course of 2010 the company changed its corporate name to Ansaldo STS South Africa Pty Ltd.

3.11 Information pursuant to article 149-duodecies of the Consob Issuer Regulation

The following statement was prepared in accordance with Article 149-duodecies of the Consob Issuer Regulation and reports the fees for the year 2010 related to auditing services and services other than auditing provided by the same auditing firm and entities belonging to the auditing firm's network.

(EUR thousand)	**Entity providing the service**	**To**	**Fees for the year 2010 for the engagement**	
Auditing services	PricewaterhouseCoopers SpA	Group parent	470	(1)
	PricewaterhouseCoopers SpA	Subsidiaries	-	
	PricewaterhouseCoopers network	Subsidiaries	807	
Certification services	PricewaterhouseCoopers SpA	Group parent	86	(1)
	PricewaterhouseCoopers SpA	Subsidiaries	-	
	PricewaterhouseCoopers network	Subsidiaries	-	
Tax consulting services	PricewaterhouseCoopers SpA	Group parent	30	(1)
	PricewaterhouseCoopers SpA	Subsidiaries		
	PricewaterhouseCoopers network	Subsidiaries	205	(2)
Other services	PricewaterhouseCoopers SpA	Group parent	64	(1)
	PricewaterhouseCoopers SpA	Subsidiaries	-	
	PricewaterhouseCoopers network	Subsidiaries	4	
			1,666	

(1) See statement attached to the Financial Statements of Ansaldo STS SpA.
(2) Tax assistance services related to expatriates.

3.12 Attestation of the Consolidated Financial Statements pursuant to art. 81-ter of the Consob Regulation no. 11971 of 14 May 1999 and amendments and integration thereof and to art. 154-bis, para. 2 of Legislative Decree no. 58 of 24 February 1998 and amendments and integration thereof

1. The undersigned Sergio De Luca, Chief Executive Officer and Alberto Milvio, the Manager in charge of the preparation of the company accounting documents of Ansaldo STS SpA certify, in accordance with Art. 154-*bis*, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998 and amendments and integrations thereof:
   - the appropriateness of the Financial Statements with regard to the nature of the business and
   - the effective application of administrative and accounting procedures in preparing the Consolidated Financial Statements for the period 1 January 2010 – 31 December 2010.

2. No significant issues have arisen in this regard.

3. It is also certified that:
   3.1 the Consolidated Financial Statements:
   a) are prepared in accordance with the International Accounting Standards recognised by the European Community pursuant to (EC) Regulation no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b) correspond to the entries in the documents, books and accounting records;
   c) provide a true and fair view of the performance and financial position of the issuer and all the companies included in the scope of consolidation.
   3.2 The Report on operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer and all the companies included in the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

4. This attestation is made pursuant to and for the purposes of Art. 154-*bis*, paragraph 2, of Legislative Decree no. 58 of 1998.

Genoa, 1 March 2011

Signature of the Chief Executive Officer

Ing. Sergio De Luca

Signature of the Manager in charge of the preparation of company accounting documents

Dott. Alberto Milvio

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AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the Shareholders of
Ansaldo STS SpA

1 We have audited the consolidated financial statements of Ansaldo STS SpA and its subsidiaries ("Ansaldo STS Group") as of 31 December 2010, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and related explanatory notes. The directors of Ansaldo STS SpA are responsible for the preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the national stock exchange commission. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 16 March 2010.

3 In our opinion, the consolidated financial statements of the Ansaldo STS Group as of 31 December 2010 comply with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, result of operations and cash flows of the Ansaldo STS Group for the year then ended.

4 The directors of Ansaldo STS SpA are responsible for the preparation of the report on operations and the report on corporate governance and shareholding structure, published in section "Corporate Governance" of the website of Ansaldo STS SpA, in compliance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of article 123-bis of Legislative Decree 58/98 presented in the

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report on corporate governance and shareholding structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard 001 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by CONSOB. In our opinion the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of article 123-bis of Legislative Decree 58/98 presented in the report on corporate governance and shareholding structure are consistent with the consolidated financial statements of Ansaldo STS SpA as of 31 December 2010.

Naples, 10 March 2011

PricewaterhouseCoopers SpA

Signed by

Pier Luigi Vitelli
(Partner)

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international readers.

Shareholder information

Shareholders

Shareholders may request further copies of this Report and other corporate financial documents from our website **www.ansaldo-sts.com** > Investor Relations > Contacts.

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This Annual Report was drawn up with the assistance and under the coordination
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Francesco Spiezia - Vice President, Group Consolidation.

Strategic Concept, Copywriting, Graphic Design and Execution by:

www.mercurioitaly.it

Printed in the month of April 2011

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Paid-in Share Capital EUR 60,000,000
R.E.A. n. 421689
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Tax Code 01371160662

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