

# Economic performance

Ansaldo STS' economic sustainability is its strategic answer to the macroeconomic context and transportation market trends, based on a business model that develops distinctive abilities and the necessary skills to boost the company's competitiveness on markets - growth in human and organisational capital.

Ansaldo STS also recognises the importance of a balanced distribution of value generated by its activities with stakeholders, a value that they have directly or indirectly contributed to generating. By analysing the value distributed, Ansaldo STS highlights the flow of resources to its employees and suppliers of goods services and capital, to the public administration and the communities in which it is present.

Economic sustainability is therefore increasingly tied to social and environmental aspects, both at company level and in terms of market scenarios. Ansaldo STS has evaluated the repercussions on transportation systems that macrotrends involving variables related to the environment, health and safety, demographic growth and economic development in emerging countries and the result is that the global transportation market will shift ever more towards railways that are safe, efficient and capable of meeting growing environmental concerns.

## THE MARKET CHARACTERISTICS AND ANSALDO STS' POSITION

### The market and its evolution

Ansaldo STS' market remains sound and shows global growth rates of around 2% to 3% per annum. The key market drivers remain positive: growth in global trade and growing traffic, urbanisation, environmental concerns, expanding emerging markets, infrastructures and intermodal transport. In part due to urbanisation trends, emerging markets are growing faster than highly industrialised nations, increasing their relative weight. However, there are also sound growth opportunities to be found in the United States and Australia as well in the signalling segment. The result of these trends is a reduction in Western Europe's weight.

#### **Ansaldo STS' position**

Ansaldo STS boasts solid roots in industrialised countries' markets and is well positioned in emerging markets. It can meet global demand thanks to its demonstrated skills and expertise in delivering on time and according to budget.

### Traditional and emerging technologies

ERTMS, CBTC and driverless technologies are becoming global standards. Focus is now shifting to the technological innovations destined to dominate the market in the next few years, GNSS (Global Navigation Satellite System), used in remote areas that are difficult to reach and where traffic volumes are low.

#### **Ansaldo STS' position**

Ansaldo STS' product portfolio includes traditional technologies and innovative, high-tech transportation solutions.

### Price pressure

Competition pressure continues to intensify between the world's leading players, triggering a significant reduction in unit prices, mainly in the signalling sector, where Ansaldo STS responds with both innovation and product differentiation, continuously striving to improve its efficiency and effectiveness by creating specific plans.

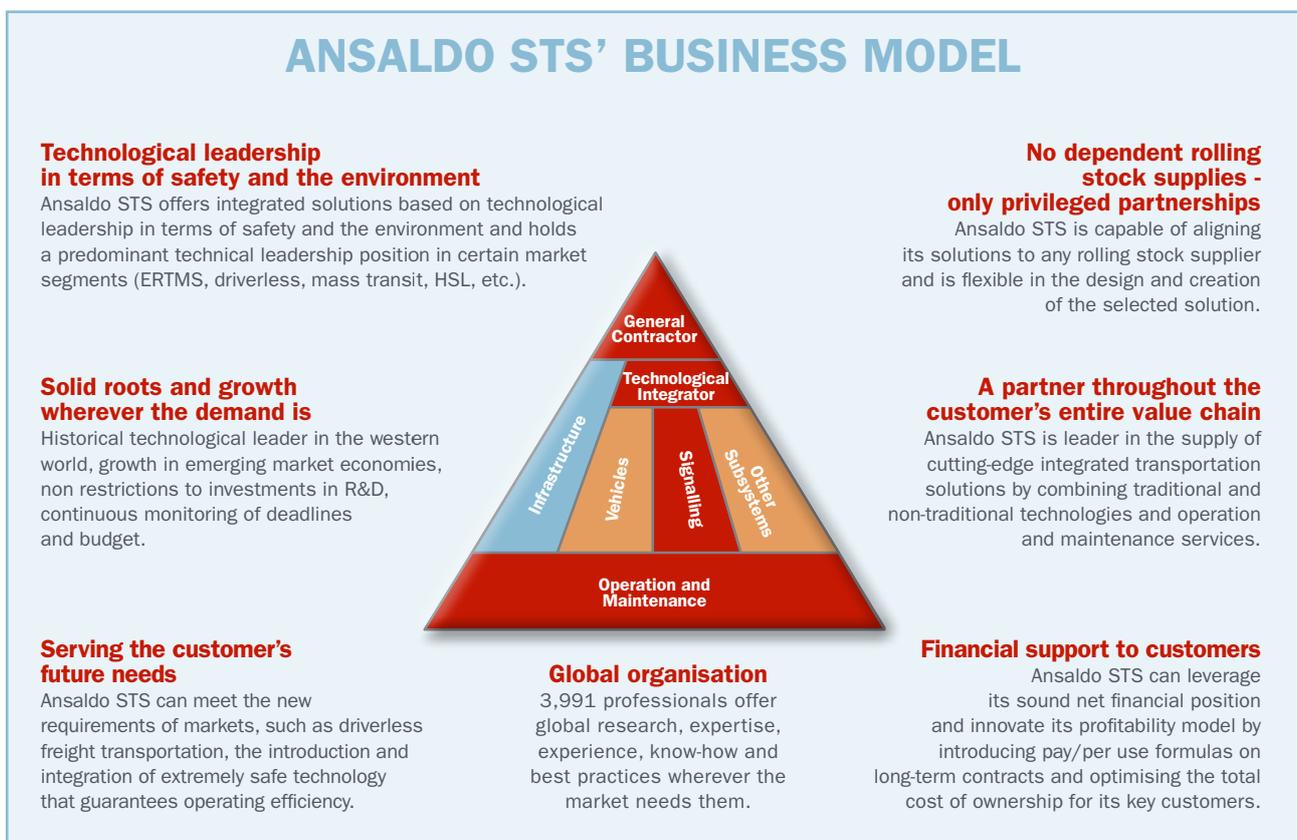
#### **Ansaldo STS' position**

Ansaldo STS has built its business model around customers, ensuring product flexibility and maintaining competitive prices by standardising products and implementing efficiency-boosting projects.

## The business model

Ansaldo STS' abilities and organisation fully meet the need to innovate to boost transportation efficiency and safety and reduce environmental impact.

Ansaldo STS is, indeed, a company that operates on a global market. It boasts great flexibility in meeting international demand and is open to new markets. It carries out research and development for transportation solutions that focus in particular on the environment and safety. It facilitates the standardisation of solutions, while also developing the ability to create customised products for different customer needs. It has the necessary financial soundness to meet future challenges, lead innovation and make the most of growth opportunities by promoting new projects. Ansaldo STS' business model is customer based, and enables it to forge fruitful, long-lasting relationships at global level.



## Strategy

Ansaldo STS is committed to maintaining and developing a series of distinctive abilities and expertise that create value and guarantee long-lasting company growth over time. This commitment can be seen in the company's three strategic trajectories:

**1. Selectivity:** focus on markets where it has a strong competitive position.

Ansaldo STS' growth is the result of a continuous process beginning with its awareness of its positioning and competitive edge, the identification of market opportunities in relation to its competitive levers and their translation into action plans. This process has led to the definition of strategic markets – the domestic market and the areas in which the company has a significant, recognised presence, as well as markets presenting growth opportunities, by focussing on large projects with low overheads.

**2. Innovation:** focus on innovation as a lever to gain competitive edge for long-term growth.

Ansaldo STS' innovation strategy to increase turnover is based on improving the products it currently offers customers and differentiating its product portfolio to expand the offer, extending its business model by offering complementary services that meet its customers' specific needs (management and maintenance activities) and meeting the specific needs of customers given their particular geographical situations (complex areas with low traffic volumes), offering cutting-edge satellite technology solutions.

**3. Flexibility and efficiency:** maintain its competitive edge by optimising the business model with a focus on the flexibility of the offer and operating efficiency.

Efficiency is one of the strategic levers in which Ansaldo STS invests to bolster its competitive position and ensure excellence in the performance of activities. To pursue these aims, it has launched an improvement programme that covers all company areas and exploits the opportunities arising from its global organisation.

In order to ensure the implementation of all efficiency initiatives, and, in general, all strategic initiatives, Ansaldo STS has developed an **Action Implementation Monitoring (AIM)** system. Through AIM, the following have been defined:

- the definition process for action and monitoring plans;
- the governance rules to ensure the frequency of review meetings focused on initiatives and the identification of any corrective action in the event of critical areas;
- tools to support management of the initiatives.

The contribution that Ansaldo STS expects of AIM is:

- completeness: having a consistent, updated picture of all initiatives underway;
- consistency: doing what has been proposed and following up on it until implementation;
- initiatives explicitly linked to company plans.

## The competitive advantages

### RAILWAYS AND MASS TRANSIT

**Leveraging its success to gain global leadership** – Focusing on a sound relationship with customers, to ramp up the adoption of standards and consolidate its presence in key countries; selecting global opportunities to sustain profitable growth, how to get the best relaunch plans and the best of emerging markets.

**Leveraging portfolio standardisation** – Developing a portfolio of standard platforms that are flexible to meet the specific needs of local customers; leveraging its leadership in R&D to standardise the product portfolio; continuing to focus on investments in R&D; adopting a make or buy policy for components; optimising hardware and platform costs.

**Industrialising delivery** – Expanding its expertise in deliveries to all customers in accordance with standard criteria; improving the punctuality of deliveries and containment of costs, leveraging the implementation of the best practices developed by the group.

**Taking advantage of the sector's sound performance** – Strengthening its technological leadership through other maintenance services both in mature and emerging markets and supporting, where possible, the allocation of work by introducing the formula pay/per use for the larger contracts in order to optimise the management of the customer's total cost.

**Important projects and technological references** – Winning major high-tech projects, including CBTC (Communications Based Train Control), driverless solutions and the punctual delivery of projects in progress in line with budget.

**Local activities and global knowledge** – Professionalism in the local management of activities is the key to projects that meet commitments assumed, along with having processes and tools to efficiently share the know-how acquired at global level. Agreements and local arrangements with civil partners and key suppliers are also crucial in negotiations and success on various markets.

**Financing to exploit sector opportunities** – Certain projects require financial packaging (PFI/PPP) with the commitment to assume an equity interest; leveraging the company's financial soundness to support concession projects, which could also give rise to operation and maintenance opportunities.

**Multi-disciplinary and interdisciplinary expertise** – With its experience in a variety of roles within different projects, Ansaldo STS has expanded its expertise in complementary and transversal areas as well, developing a complete, unique vision of transportation systems over their entire life cycle.

**Maximising local content** – In its projects, Ansaldo STS tends to maximise the local procurement of materials, services and labour, in order to be increasingly competitive and contribute to the development of local economies, including in emerging countries. Data on the Taipei and Honolulu projects are given below as an example of this approach:

- Taipei local content: roughly 80% of total design and construction costs;
- Honolulu local content: roughly 93% of total design, construction, operating and maintenance costs. This is very high because the project also includes several years of O&M in which local personnel used reaches nearly 100%.

### FREIGHT

**A specific organisational division** – Created with the aim of capturing a global business, by leveraging on the experience that has already been tested considerably at local level in projects like Rio Tinto and Roy Hill.

**A dedicated team based in two key geographical segments** – Through its solid presence in Australia and the US, traditionally the two most important markets for the freight segment, Ansaldo STS plans to lay the foundation for global expansion of its freight opportunities.

**Innovative technological solutions** – Given the significance of the solutions developed for Rio Tinto and Roy Hill, two of its most important freight customers, Ansaldo STS is poised to become a leader in this sector and a benchmark for competitors.

## Value directly generated and distributed

Ansaldo STS recognises the importance of balancing the distribution of value generated by its activities to stakeholders, the value that they have directly or indirectly contributed to generating.

By analysing distributed value, Ansaldo STS studies the flow of resources directed towards its employees, suppliers, service providers, lenders, the public administration and the communities in which it is present.

### VALUE DIRECTLY GENERATED AND DISTRIBUTED (K€)

	2013	2012	2011
<b>Value generated</b>	<b>1,293,935</b>	<b>1,289,800</b>	<b>1,258,279</b>
Revenue	1,256,419	1,247,849	1,211,944
Other revenue	15,766	21,314	19,578
Financial income	21,658	20,637	26,757
Profit from non-current assets held for sale	92	-	-
<b>Value distributed</b>	<b>1,229,102</b>	<b>1,219,453</b>	<b>1,198,803</b>
Operating costs (procurement, services and investments)	806,302	802,121	784,495
Employee remuneration	309,454	311,988	296,560
Shareholder remuneration	28,800	28,000	33,592
Lender remuneration	40,644	34,128	37,827
Public administration remuneration	42,577	41,756	44,818
Donations and sponsorships	1,325	1,460	1,511
<b>Value withheld</b>	<b>64,833</b>	<b>70,347</b>	<b>59,476</b>
Depreciation, amortisation, impairment losses and adjustments	18,818	22,651	20,012
Self-financing	46,015	47,696	39,464

The value generated by the Group reached approximately €1.294 billion, up roughly 0.3% on 2012. The increase is due to the slight growth in revenue from sales and services.

The value withheld by the company amounts to €64.8 million, and mainly consists of amortisation, depreciation, impairment losses and accruals to provisions for risks, along with the self-financing that was generated.

€1.229 billion was distributed among the following stakeholders:

- most value, or roughly €806.3 million, relates to costs incurred to purchase materials (suppliers), services (contractors and sub-contractors) and other goods;
- approximately €309.4 million to employees, mainly for wages, salaries, social security and pension contributions and defined contribution plans;

- approximately €42.6 million to the tax authorities and other local bodies for direct and indirect taxes;
- €40.6 million to lenders for interest and commissions, financial expense and operating exchange rate differences;
- €28.8 million to shareholders in the form of dividends<sup>34</sup>;
- €1.3 million to the community in the form of gifts, external donations and sponsorships (with or without publicity).

### 2013 - VALUE DISTRIBUTED (%)

