

## ECONOMIC SUSTAINABILITY

Business Model

Performance and Key Figures

Value directly generated and distributed

Governing Innovation

*The company's 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).*

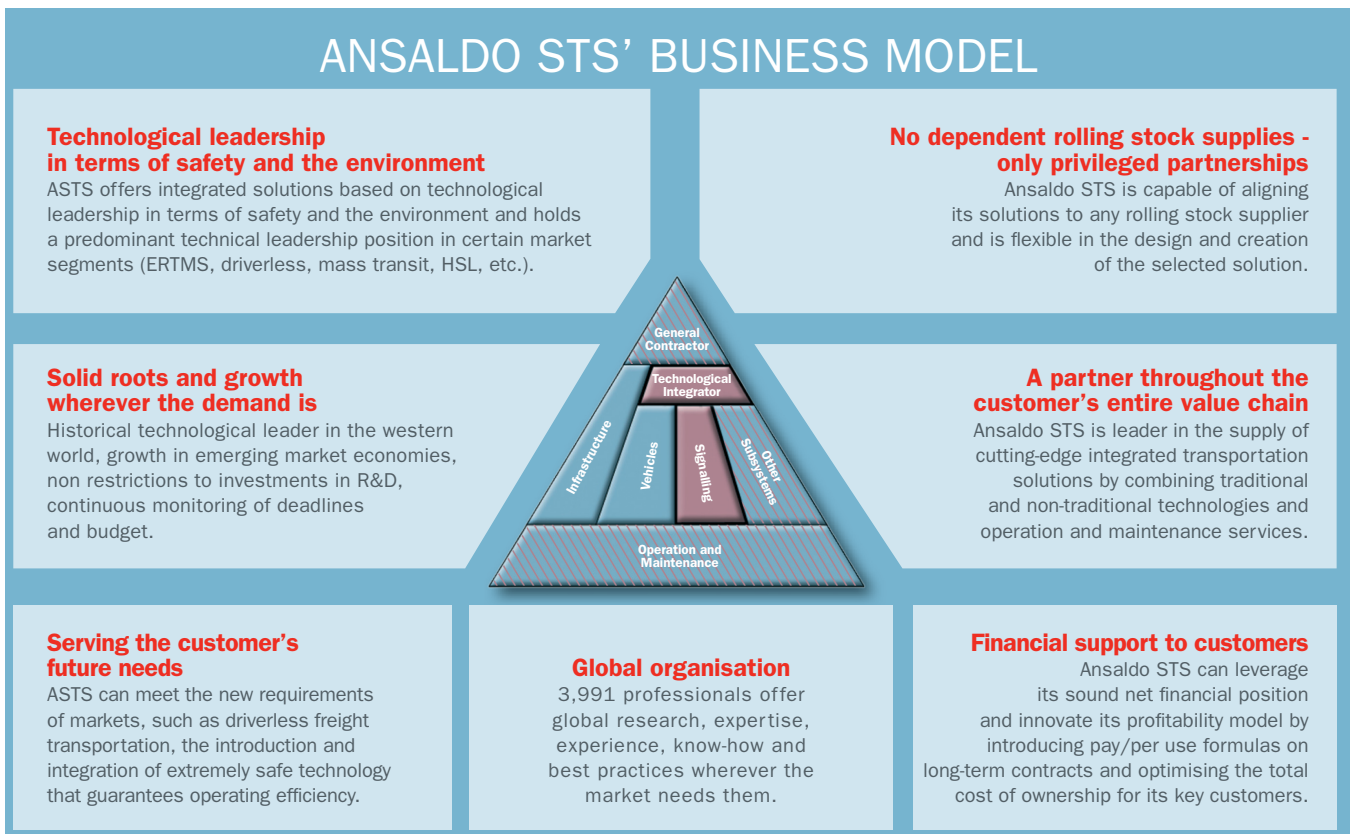
## Business Model

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.

The creation of value at Ansaldo STS is based on the achievement of customer intimacy through an organisation geared to customer satisfaction, technological leadership supported by investments in research and development and flexibility which characterise its offer of products and services for the railway transportation and urban rail industry.

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 economic 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 macro trends 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.



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 taken on 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.

## The market characteristics and Ansaldo STS’ position

The market	Ansaldo STS’ position
<p><b>A sound, growing market</b>                      In general, despite the severe financial and economic crisis, Ansaldo STS’ market remains sound and shows, at global level, annual growth rates in the range of 2-3%. Except for governments’ financial difficulties, all other key drivers of the market are positive, showing growth in global trade and the increase in traffic, urbanisation processes, environmental concerns, growth of emerging markets, infrastructures and intermodal transport.</p> <p><b>Geographical market development</b>                      Thanks in part to urbanisation trends, emerging markets are growing faster than highly industrialised countries, and increasing their relative weight. There are interesting growth opportunities in the US and Australia in the signalling sector, however. The result of these trends is a reduction in Western Europe’s relative weight.</p> <p><b>Traditional and emerging technologies</b>                      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.</p> <p><b>Price pressure</b>                      The intensification of competition between the world’s major players has continued in 2012, with a substantial reduction in unit prices, mainly in the signalling sector. All competitors have adopted and are implementing product standardisation strategies and efficiency-boosting plans at various levels.</p>	<p><b>A sound, growing market</b>                      Ansaldo STS has strong roots in industrialised countries’ markets and is well positioned in emerging markets.</p> <p><b>Geographical market development</b>                      Ansaldo STS meets global demand on the strength of its demonstrated expertise and continuous monitoring of deadlines and budgets.</p> <p><b>Traditional and emerging technologies</b>                      Ansaldo STS’ product portfolio includes traditional technologies and innovative, high-tech transportation solutions</p> <p><b>Price pressure</b>                      Ansaldo STS has built its business model around customers, ensuring product flexibility and maintaining competitive prices, not only by standardising products, but also by boosting efficiency.</p>

## Ansaldo STS' strategy

Ansaldo STS is committed to maintaining and developing a series of distinctive capabilities and expertise to create value and ensure the company's long-lasting growth over time.

It fulfils this commitment with three strategies:

**1. Selectivity:** focusing 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' expressed 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 in order to strengthen its competitive position and ensure excellence in its business activities. In order to pursue these objectives, it has launched an improvement plan across all company areas, leveraging the opportunities provided by its global organisation. The purpose of the plan is to make company processes more efficient by identifying and sharing best practices, while at the same time exploiting the economies of scale offered by the new organisation.

The plan consist of five separate modules, each focused on one company area:

- Global Supply Chain: "Road to 150"<sup>15</sup> project to optimise external procurement costs.
- Lean Manufacturing: an integrated production structure designed to meet customers' current and future needs.
- Flexible Delivery: flexible and global planning and management in accordance with specifically project requirements.
- Streamlined Support Functions: exploitation of the potential synergies and benefits arising from the global scale and review of processes.
- Global Development Centres: standardisation of platforms and optimisation of product families.

Each module consists of a series of projects and the content of each project has been defined with the participation of Ansaldo STS personnel at all levels: improvement areas were identified during a diagnostic stage in which information was gathered through interviews, questionnaires to all personnel and the mapping of activities performed. The results of the diagnostics were consolidated by a dedicated team and submitted to the attention of top management, which provided, in accordance with the company's strategy, input for the definition of priorities and, therefore the planned projects to be kicked off.

The improvement projects are managed by teams using internal personnel selected on the basis of specific expertise and skills, with the support of a centralised project management office.

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

15. see section *Social sustainability* chapter *Supply chain management*.

## Competitive advantages of Business Units

### **SIGNALLING**

**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.

### **TRANSPORTATION SOLUTIONS**

**The strategic entrance for the signalling business** – The transportation solutions business is growing and constitutes a privileged entrance for signalling; 15-20% of the future of the signalling business will begin with turnkey transportation solution projects; the transportation solution market could also give rise to operation and maintenance opportunities.

**Flexibility towards rolling stock** – High speed solutions could be developed by choosing key partners, without the need to supply rolling stock; urban transport projects could be developed in partnership with local independent operators offering competitive prices and relationships already in place in emerging countries.

**Important projects and technological references** – Winning major high-tech projects, including CBTC (Communications Based Train Control) driverless solutions and continuous monitoring of deadlines and budgets.

**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%.

The percentage is high because the project calls for a long period of O&M activities with the use of nearly 100% local personnel.