Connecting Pieces of Your World

2016 ANNUAL REPORT
ANSALDO STS **S.P.A.**

DRAFT FINANCIAL STATEMENTS

Ansaldo STS A Hitachi Group Company

2016 Annual Report
Ansaldo STS **S.p.A.**

(Translation from the Italian original which remains the definitive version)

Company bodies and committees

BOARD OF DIRECTORS
(elected by the shareholders on 13 May 2016
for the 2016 - 2018 three-year period)

ALISTAIR DORMER (1)
Chairperson

ALBERTO DE BENEDICTIS (2) (3) (4)
Deputy chairperson *

ANDREW THOMAS BARR (1)
Chief executive officer
and general manager

ROSA CIPRIOTTI (4)

MICHELE ALBERTO FABIANO CRISOSTOMO ** (4)

MARIO GARRAFFO (2) (3) (4)

FABIO LABRUNA (4)

KATHERINE JANE MINGAY (1)

KATHARINE ROSALIND PAINTER (2) (3) (4)

FRANCESCO GIANNI***
Board secretary

BOARD OF STATUTORY AUDITORS
(for the 2014 - 2016 three-year period)

GIACINTO SARUBBI
Chairperson

RENATO RIGHETTI

MARIA ENRICA SPINARDI

SUBSTITUTE STATUTORY AUDITORS
(for the 2014 - 2016 three-year period)

FABRIZIO RICCARDO DI GIUSTO

GIORGIO MOSCI

DANIELA ROSINA

INDEPENDENT AUDITORS
(for the 2016 - 2024 period)

EY S.p.A. ****

(1) Member of the executive committee (i.e. bid committee)

(2) Member of the risk and control committee

(3) Member of the appointments and remuneration committee

(4) Member meeting independence requirements

* Position held by Katherine Jane Mingay from 13 May 2016 to 28 October 2016. Alberto De Benedictis was appointed deputy chairperson by the board of directors during the meeting of 28 October 2016.

** Michele Alberto Fabiano Crisostomo was appointed director of Ansaldo STS S.p.A. by the shareholders' meeting of 19 January 2017, to replace Giuseppe Bivona who, pursuant to art. 2393 of the Italian Civil Code, was removed from the position of company director.

*** Appointed on 16 May 2016 to replace Filippo Corsi.

**** Following the resignation of KPMG S.p.A. on 14 November 2016, the shareholders' meeting of 19 January 2017 appointed the independent auditors EY S.p.A. to audit the company's accounts for the years 2016-2024.

Directors' report
at **31 December 2016**

Directors' report at 31 December 2016

Dear shareholders

The profit for 2016 totalled €145.9 million, including dividends from subsidiaries and associates of €112.7 million, compared to €35.9 million in 2015, which included dividends totalling €6.0 million.
Operating profit came to €60.7 million compared to €49.8 million last year.
Equity amounted to €475.3 million compared to €362.6 million for 2015.

The Company's financial and economic performance can be considered particularly positive despite certain exceptional events that characterised the year, particularly with reference to the negative effects of the arbitration with the Russian customer Zarubezhstroytechnology (ZST) relating to the project in Libya, thanks to the professional skills and qualities of your company's resources.

The year 2016 was full of significant events; we note in particular the change in the shareholding structure, the Company's updated governance and events correlated with deeds carried out by the individual shareholders, regarding which the Company provided prompt market disclosure and which will be addressed below.

Information about the takeover bid made by Hitachi Rail Italy Investments S.r.l. is provided in the communications and documentation made available to the public pursuant to the relevant legislation on the company's website page http://www.ansaldo-sts.com/it/investor-relations/offerta-pubblica-dacquisto.

Key events of the year

The key performance indicators table below presents the key data relating to the company's financial position and results of operations:

(€'000)	**31.12.2016**	31.12.2015
New orders*	735,067	451,911
Order backlog*	5,056,649	5,206,525
Revenue	829,992	721,731
Turnover	898,709	650,942
Gross profit	122,018	104,666
Gross profit %	*14.7%*	*14.5%*
Operating profit (EBIT)*	60,707	49,834
Adjusted EBIT*	60,707	49,834
ROS*	7.3%	6.9%
Profit for the year	145,857	35,901
Net financial position*	(160,251)	(57,627)
Net cash flows*	102,624	(23,416)
EVA*	17,319	8,721
Headcount	1,704	1,551
Research and development*	19,157	20,697

* please refer to Note 2.4 *Non-Gaap Alternative Performance Indicators* and other indicators for the definition of the performance indicators presented in the table above.

Orders acquired totalling roughly €735.1 million (approximately €451.9 million in 2015), and regard important contracts signed in Italy and abroad.
In particular, we highlight: in Italy, roughly €74.8 million relating to the signalling of the Rome-Florence section of the high-speed line and, as awarded by the Saturno consortium, around €174.6 million relating to the supply of technological systems for the Milan-Genoa high-speed line, "Terzo Valico dei Giovi"; abroad, the turnkey agreement entered into by the consortium consisting of Ansaldo STS, Hitachi Ltd. and RSEA Engineering Corp. with NCTG DORTS (New Taipei City Government Department of Rapid Transit System), relating to the San-Ying (Sanxia-Yingge) line of the Taipei underground railway system, for a value of around €219.8 million.
The order backlog totalled €5,056.6 million at 31 December 2016 (€5,206.5 million at 31 December 2015).

Revenue increased to around €830.0 million from €721.7 million in 2015 (+€108.3 million) essentially due to progress on the contracts acquired in the past few years, including Line 3 of the Riyadh metro, the Copenhagen Cityringen metro line, the Aarhus tramway line and the Honolulu metro.
In more detail, the Operating Profit rose by €10.9 million from €49.8 million in 2015 to €60.7 million; the increase was due to the effect of the higher production volumes during the year and the different and more favourable mix of contracts worked on during the period, offset by negative results relating to the Libya project due to the arbitration with the Russian customer (€8.1 million), the increase in costs relating to more intense commercial activities and the recognition of costs correlated with settlements taking place following the resignation of strategic figures within the company (€2.4 million).
The Profit for the year of €145.9 million was higher than in 2015 (€35.9 million), due to the improvement of the operating profit and, primarily, the increase in the overall value of net financial expense and income, which includes the collection of dividends from subsidiaries and associates (€112.7 million compared to €6.0 million in 2015), as well as the negative impact of the arbitration cited above (€7.7 million).

The company's net financial position was €160.3 million (€57.6 million at 31 December 2015) and net cash inflows came to €102.6 million (outflows of €23.4 million in 2015); the latter includes, in particular, the dividend pay-out to shareholders of €36.0 million (€30.0 million in 2015) and the collection of dividends from subsidiaries and associates of €112.7 million (€6.0 million in 2015) as well as the outlay to the Russian customer ZST to close the dispute (€37.4 million).

Financial position and results of operations

The company's reclassified schedules showing its financial position and results of operations are presented below.

Income statement

Reclassified schedules are presented by nature and function for 2016 and the previous year, in order to provide full disclosure on Ansaldo STS S.p.A.'s ("ASTS" or "Ansaldo STS") financial position and results of operations.

(€'000)	**31.12.2016**	31.12.2015
Revenue	**829,992**	**721,731**
Purchases and personnel expense (*)	(772,468)	(677,277)
Change in work-in-progress, semi-finished products and finished goods	620	85
Amortisation, depreciation and impairment losses	(12,247)	(12,104)
Other net operating income (**)	14,810	17,399
Adjusted EBITA	**60,707**	**49,834**
Restructuring costs	-	-
Operating profit (EBIT)	**60,707**	**49,834**
Net financial income	101,256	1,708
Income taxes	(16,106)	(15,641)
Profit for the year before discontinued operations	**145,857**	**35,901**
Profit (loss) from discontinued operations	-	-
Profit for the year	**145,857**	**35,901**

Reconciliation between the reclassified income statement and the income statement included in the separate financial statements:
(*) Includes the captions "Purchases", "Services", "Personnel expense" and "Accrual to (use of) the provision for expected losses to complete contracts", net of "Restructuring costs" and "Internal work capitalised".
(**) Includes the net amount of "Other operating income" and "Other operating expense" (net of restructuring costs and accrual to (use of) the provision for expected losses to complete contracts).

2016 revenue totalled €829,992 thousand, up €108,261 thousand on 2015 (15.0%) due to the development of the significant order backlog. Revenue earned on the Italian market came to €307,683 thousand (€321,228 thousand in 2015) and €522,309 thousand on the foreign market (€400,503 thousand in 2015).
Total purchases and personnel expense increased by €95,191 thousand, mainly due to greater volumes.
EBIT came to €60,707 thousand (7.3% as a percentage of revenue), compared to €49,834 thousand (6.9% as a percentage of revenue) in 2015.
Net financial income (€101,256 thousand), which also includes the negative results of the arbitration for the project in Libya, increased compared to 2015 (€1,708 thousand), substantially due to the collection of dividends from subsidiaries and associates of €112,660 thousand (€6,041 thousand in 2015).
Income taxes equalled €16,106 thousand (1.9% as a percentage of revenue) compared to €15,641 thousand (2.2% as a percentage of revenue) in 2015; as a percentage of pre-tax profit, they came to 9.9% (2015: 30.3%). The change in the percentage is due essentially to the arithmetic effect of the weight of dividends.
Profit for the year totalled €145,857 thousand (17.6% as a percentage of revenue), compared to €35,901 thousand (5.0% as a percentage of revenue) in 2015.

The income statement reclassified by function is as follows:

(€'000)	**31.12.2016**	31.12.2015
Revenue	829,992	721,731
Operating expense	(707,974)	(617,064)
Gross operating profit	122,018	104,667
Gross operating profit as a percentage of revenue	*14.7%*	*14.5%*
Overheads	(64,061)	(62,095)
Net operating income	2,750	7,262
Operating profit (EBIT)	**60,707**	**49,834**

The increase in revenue compared to the previous year was due to the progress of the main projects acquired in recent years; overall average profitability is substantially in line with the previous year due to the different mix and profitability of the projects worked on in the two years being compared, although it does take into account the impact of the negative results of the arbitration relating to the Libya contract.
Overheads increased by €1,966 thousand due to higher commercial overheads (€3,571 thousand), partially offset by lower research expense (€1,540 thousand).
Net operating income amounts to €2,750 thousand (2015: €7,262 thousand); the decrease can be attributed substantially to the recognition of costs correlated with transactions that took place following the resignation of strategic figures within the company and the reduction of other operating income from related parties referring to the closure in 2015 of specific transactions with the consortia/companies of which Ansaldo STS S.p.A. is part.

Statement of financial position

The company's statement of financial position as at 31 December 2016 and corresponding previous year figures are set out below:

(€'000)	**31.12.2016**	31.12.2015
Non-current assets	304,485	305,088
Non-current liabilities	(31,021)	(30,198)
	273,464	**274,890**
Inventories	95,279	95,642
Contract work in progress (net)	178,438	179,483
Trade receivables	606,054	548,539
Trade payables	(398,666)	(345,525)
Progress payments and advances from customers (net)	(427,932)	(455,573)
Working capital	**53,174**	**22,566**
Provisions for risks and charges - current portion	(2,105)	(2,475)
Other current assets (liabilities), net (*)	(9,460)	10,001
Net working capital	**41,609**	**30,091**
Net invested capital	315,073	304,982
Equity	**475,323**	**362,608**
Net financial position	**(160,251)**	**(57,627)**

Reconciliation between the reclassified statement of financial position and the statement of financial position included in the separate financial statements:
(*) Includes "Tax assets", "Other current assets" and "Derivative assets", net of "Tax liabilities", "Other current liabilities" and "Derivative liabilities".

The net amount of non-current assets and liabilities (€273,464 thousand) is substantially in line with that of the previous year (down €1,426 thousand).
Net working capital increased €11,518 thousand from €30,091 thousand to €41,609 thousand.
This is to be attributed to the decline in the item progress payments and advances from customers, which includes changes in the balance of advances from customers, the increase in trade receivables, only partially offset by the increase in trade payables and the lower balance of other current assets and liabilities.

The €112,715 thousand increase in equity mainly follows the recognition of profit for the year of €145,857 thousand, the payment of €36,000 thousand in dividends for 2015 and the change in the stock grant reserve.

Net financial position

The company's net financial position at 31 December 2016 and 2015 is set out below:

(€'000)	**31.12.2016**	31.12.2015
Current loans and borrowings	1,771	1,607
Cash and cash equivalents	(202,996)	(178,636)
Bank loans and borrowings	**(201,225)**	**(177,029)**
Related party loan assets	(22,791)	(22,079)
Other loan assets	(28,443)	(28,443)
Loan assets	**(51,234)**	**(50,522)**
Related party loans and borrowings	92,208	169,924
Other loans and borrowings	-	-
Loans and borrowings	**92,208**	**169,924**
Net financial position	**(160,251)**	**(57,627)**

The company's net financial position of €160,251 thousand at 31 December 2016 compares with €57,627 thousand at the previous year end.
Specifically, the loan assets of €51,234 thousand at 31 December 2016 (31 December 2015: €50,522 thousand) represent a short-term loan granted to the associate S.P. M4 S.c.p.a. and joint current accounts with the subsidiaries Ansaldo STS Malaysia SDN BHD and Ansaldo STS UK LTD (with the latter fully impaired).
Loan assets include the euro equivalent amount of the Libyan dinar advance on the first of the two contracts in Libya deposited in a local bank (€28,443 thousand).
The reduction in related party loans and borrowings with respect to the previous year (€77,716 thousand) is attributable primarily to dividends distributed by certain subsidiaries.

The net financial position in 2015 included the €29,345 thousand remainder of the advance received from the Russian customer, Zarubezhstroytechnology (ZST), for the project agreed in August 2010 and suspended as from 21 February 2011, for the development of signalling, automation, telecommunication, power supply, security and ticketing systems on the Sirth to Benghazi section in Libya. In 2013, a dispute began with ZST, which launched an arbitration procedure at the Vienna International Arbitral Centre, which in May 2016 decided in favour of the Russian customer, almost completely rejecting the demands of Ansaldo STS.
In October 2016, Ansaldo STS reimbursed ZST for its part of the advance held by the JV in addition to legal expenses and interest accrued until the repayment date.

The company's reclassified statement of cash flows for 2016 is presented below, with corresponding prior year figures.

(€'000)	31.12.2016		31.12.2015	
Opening cash and cash equivalents	**178,636**		**179,381**	
Profit for the year	145,857		35,901	
Amortisation, depreciation and impairment losses	12,247		12,104	
Income taxes	16,105		15,641	
Accruals to/reversals of provisions for risks	646		845	
Italian post-employment and other employee benefits	519		324	
Defined benefit plans and stock grant plans	3,922		1,521	
Financial income/(expense), net of impairment losses on equity investments measured at cost	(101,256)		(1,708)	
Gross cash flows from operating activities	**78,040**		**64,628**	
Changes in other operating assets and liabilities	(15,041)		(23,894)	
Funds from operations		**62,999**		**40,734**
Change in working capital	(30,608)		(15,509)	
Cash flows from operating activities	**32,391**		**25,225**	
Cash flows used in ordinary investing activities	(2,760)		(6,238)	
Free operating cash flow		**29,631**		**18,987**
Strategic transactions	(2,099)		(15,503)	
Dividends from ASTS group companies	111,092		3,100	
Cash flows from (used in) investing activities	**106,233**		**(18,641)**	
Dividends paid	(36,000)		(30,000)	
Cash flows from (used in) financing activities	(78,264)		22,671	
Cash flows used in financing activities	**(114,264)**		**(7,329)**	
Net increase (decrease) in cash and cash equivalents	**24,360**		**(745)**	
Closing cash and cash equivalents	**202,996**		**178,636**	

Free operating cash flow performance improved compared to 2015, due in general to operations, as well as the outlay inherent in the dispute relating to the project in Libya.
The increase in cash flows from investing activities, the result of higher dividends from Group Companies, was offset by the reduction in loans and borrowings from the same Companies.

Non-GAAP alternative performance indicators and other indicators

Non-GAAP alternative performance indicators

Ansaldo STS's management also assesses the performance of the company and the business units using certain indicators that are not defined by the IFRS, also used as financial targets in internal and external presentations.
As required by CESR communication 05 - 178b, the components of each of these indicators are described below:

- **Operating profit (EBIT):** represents an indicator for the assessment of operating performance and is equal to the unadjusted profit before income taxes and financial income and expense.
- **Adjusted EBIT (Adj):** is the EBIT as described above, net of the following items (where applicable):
  - any impairment losses on goodwill;
  - amortisation of the portion of any purchase price allocated to intangible assets as part of business combinations, pursuant to IFRS 3;
  - restructuring costs in relation to defined and significant plans;
  - other income or expense not of an ordinary nature, i.e., related to particularly significant events unrelated to ordinary activities.
- **Free Operating Cash Flow (FOCF):** the sum of cash flows generated by (used in) operating activities and cash flows generated by (used in) investments in and disinvestments of property, plant and equipment, intangible assets and equity investments, net of cash flows for acquisitions or disposals of equity investments which qualify as "strategic transactions" given their nature or materiality. The method used to calculate the FOCF for the current and previous years is shown in the reclassified statement of cash flows in the "Net financial position" section.
- **Funds From Operations (FFO):** the cash flows generated by (used in) operating activities, net of changes in working capital. The method used to calculate the FFO for 2016 and 2015 is shown in the reclassified statement of cash flows in the "Net financial position" section.
- **Economic Value Added (EVA):** the difference between operating profit net of income taxes and the cost of the average invested capital of the two years under comparison, calculated using the weighted average cost of capital (WACC).
- **Net working capital:** it include trade receivables and payables, inventories and work in progress, advances from customers and provision for risks.
- **Net invested capital:** the sum of non-current assets, non-current liabilities and net working capital.
- **Net cash flows:** the change in the statement of cash flows for the current and previous years.
- **Net financial position or debt:** the calculation method used complies with paragraph 127 of CESR recommendation 05-054b, implementing EC regulation 809/2004.
- **Return on Sales (ROS):** the ratio of operating profit to revenue.
- **Research and development expense:** the total expense incurred for research and development, both expensed and sold. Research expense taken to profit or loss usually relates to "general technology", i.e., aimed at gaining scientific knowledge and/or techniques applicable to various new products and/or services. Sold research expense represents that commissioned by customers and for which there is a specific sales order and it is treated exactly like an ordinary order (sales contract, profitability, invoicing, advances, etc.) in accounting and management terms. These types of costs are generally not capitalised given the fast-changing nature of the production sector in which Ansaldo STS operates.

Other indicators

- **New orders:** the sum of the contracts agreed with customers during the year that meet the contractual requirements to be recorded in the orders book.
- **Order backlog:** the difference between new orders and revenue for the year (less the change in contract work in progress). This difference is added to the backlog for the previous year.
- **Headcount:** the number of employees recorded in the relevant register on the reporting date.

Sales performance

New orders acquired in 2016 totalled €735.1 million (2015: €451.9 million).
Specifically, the key events of the year by geographical segment are described below:

ITALY

The orders acquired during the period amount to €429.2 million.
They regard primarily contracts for a total value of €74.8 million related to the design and implementation of the ERTMS L2 Trackside Subsystem and the technological upgrade of the Florence-Rome high-speed line and, as awarded by the Saturno Consortium, the contract relating to the Milan-Genoa high-speed line (the "Terzo Valico dei Giovi"), for a value of €174.6 million, the work scope of which regards the supply of technological systems relating to signalling equipment, the command and control system (SCCM/AV), the light and utility power system and the tunnel safety monitoring system.
In addition, there were order variations on existing contracts, in particular those relating to the Line 6 project for the Naples metro for around €30.0 million and assistance and components contracts for a total of €28.2 million.

REST OF EUROPE

New orders approximate €50.8 million, consisting for the most part of order variations relating to projects in Denmark of €31.7 million.

NORTH AFRICA AND THE MIDDLE EAST

Orders totalled around €3.2 million, consisting exclusively of variations on the maintenance contract for the metro line dedicated to the Princess Nourah women's university in Riyadh.

AMERICAS

They totalled €2.6 million relating to orders from the US subsidiary (€1.2 million) and variants in the project in Honolulu (€1.4 million).

ASIA - ASIA PACIFIC

Orders during the period amount to roughly €249.3 million.
The main purchase order regards the turnkey agreement entered into by the consortium consisting of Ansaldo STS, Hitachi Ltd. and RSEA Engineering Corp. with NCTG DORTS (New Taipei City Government Department of Rapid Transit System), relating to the San-Ying (Sanxia-Yingge) line of the Taipei underground railway system.
The scope of work for Ansaldo STS, as consortium leader, involves the supply of CBTC (*Communication Based Train Control*) technology and all electro-mechanical systems (power supply, telecommunications, platform doors, ticketing systems, SCADA and depot equipment), for a value of €219.8 million.
Lastly, a contract (€15.9 million) was entered into with NMRC (*Noida Metro Rail Corporation*) relating to the implementation of the CBTC signalling system for the Noida - Greater Noida Metro project in India.

Order backlog

The company's order backlog at 31 December 2016 totalled €5,057 million, compared to €5,207 million at the previous year end and mainly consists of the Copenhagen metro (approximately 14.6%); the Honolulu metro (roughly 16.5%); the Lima metro (10.8%); the Riyadh metro (8.5%); the concessions to build the Naples and Genoa metros (around 5.2%); the Brescia and Milan automated metros (approximately 4.2%); the Taipei and Sanying metros (6.9%); the Thessaloniki metro (3.5%); Line C of the Rome metro (2.1%); the construction of the Aarhus tram line (1.1%); the projects inherent in Wayside technologies in Italy and abroad (roughly 4.8%); high-speed railway contracts in Italy (approximately 4.2%) and components and services (around 1.0%).
The total value of the backlog includes €428.9 million (8.5%) related to the project in Libya, which is still halted.

Production performance

Revenue totalled €830.0 million (2015: €721.7 million).
The main events by geographical segment are presented below:

ITALY

HIGH-SPEED RAILWAYS:
Production activities during the year were focused mainly on the Treviglio-Brescia section as part of the Saturno consortium. The entire 56 km line was activated in December in accordance with the accelerated schedule requested by the customer RFI.

In addition, with regard to a dispute between the Saturno Consortium (in which the Company holds a 33.33% investment) and one of its main consortium members, in the third quarter the arbitration award was issued in favour of the consortium, concerning in particular compensation for damages due to failure to participate in a tender. Any effects, in terms of assets and liabilities, income and expense that may arise from the complete closure of that dispute, will be charged back to the consortium members by the Saturno Consortium.

RAILWAYS - CENTRAL AUTOMATED SYSTEM:
The activities involved especially the project for the technological upgrade of the Turin-Padua line, for which various milestones of partial activations along the line were reached during the year; in particular, in December phase 4.3 was activated relating to 4 stations and the activation of a further 50 km section of the line.
In relation to the other projects, please note that for the Brescia Centrale station, in August the Roncadelle system was rolled out in support of the activation of the Treviglio-Brescia high-speed section, and in September the Central Automated System was activated for the Villa Literno – San Marcellino – Aversa section.

ON-BOARD SYSTEMS:
With respect to the SCMT/ERTMS systems, work to equip the ETR1000 high speed trains for the Trenitalia fleet continued using the ASTS on-board technology, with the completion and delivery of 38 trains.

MAINTENANCE & SERVICE AND SPARE PARTS:
Activities in the component area mainly involved the supply of spare parts to RFI (High-speed railway buoys), the production of circuit boards for AnsaldoBreda (now Hitachi Rail Italy) and intragroup component supplies to Ansaldo STS France, China and USA.
The service activities mainly related to RFI, as well as the services outsourcing contract with FS (the Italian railways) for technical system support.

NAPLES METRO LINE 6:
Civil works continued in addition to the electro-mechanical installations for the Mergellina-S. Pasquale line; in particular, the S. Pasquale station has been essentially completed in accordance with the updated schedule.

ROME METRO LINE C:
In March, civil works resumed for the construction of the San Giovanni station and the T3 section (from San Giovanni to Fori Imperiali), which were previously suspended.
The economic/financial disputes of Metro C with the customer are still under way.
Please note that the judicial authority intervened for analyses of the relationships between Metro C and the client.

MILAN METRO LINE 5:
The project relating to Milan metro line 5 has been completed, the entire line is operating and the management is currently focused on the guarantee phase.
There were some delays in obtaining work completion certificates due to alleged issues relating to system performance, which are currently being investigated.

MILAN METRO LINE 4:

During the year, engineering and procurement activities continued, while the initial access to the line was postponed due to delays in the execution of the works of civil partners.
The municipality also approved a significant variation which streamlines civil work activities relating to stations in the historical centre.

GENOA METRO:

The project has experienced delays due to civil works at the Dinegro depot; they are currently in the completion stage and delivery is expected in the first half of 2017.

ALIFANA:

The works are substantially halted and negotiations are ongoing between the supplier companies and the customer for their resumption.
With respect to the dispute between the Company and Metro Campania Nord Est relating to injunctions due to unpaid invoices, please note that at the end of July, the ruling was issued rejecting the opposing party's claims with respect to the nullity of the concession relationship and the connected contract riders, sentencing the counterparty to pay the amounts due.
However, the judge accepted the requests of the opposing party on the claimed lack of jurisdiction of the ordinary judge, in relation to certain invoices, in favour of the administrative judge. On this point, the Company is preparing the dedicated documentation to proceed with an appeal.

REST OF EUROPE

TURKEY:

In Turkey, recent geopolitical events have not yet had consequences on contracts in progress.
With reference to the Mersin-Toprakkale project, works were completed for the installation of multi-station devices on the north section, in particular MS2 (Yesilhisar, Akkoy, Arapli), MS3 (Huyuk, Ovacik, Nidge), MS4 (Bor, Bereket) and MS5 (Altay, Karalar) devices. At the same time, works on the south section are in the completion stage, where the MS12 device, which covers an additional 50 km of line, was activated in December, while the last MS11 device is now complete and ready for activation.
With respect to the Ankara metro, since March 2016, the safety assessment documents were issued as well as the relative certification of lines M1, M2 and M3 for the regular entry into service in CBTC mode. The CBTC system for these lines is therefore available for the customer's use, ready for passenger service.

GREECE:

With reference to the project for the construction of the Thessaloniki metro, works resumed pending the formalisation of the agreement with the customer to close the arbitration procedure concerning the request by the contractor consortium for the recognition of higher expenses and/or costs incurred. The team continues with the design and procurement activities relating to the technological systems.

DENMARK:

In Denmark, project activities moved forward relating to the Copenhagen Cityringen metro line, in parallel with the dynamic testing activities on the trial rail.
The company has been awarded additional work for the supply of equipment for the line and the depot.
The activities related to supplies and installation will continue during 2017. The O&M activities related to the existing metro line, will progress steadily.
At the same time, installation activities continued in the country along the line for the construction of the tramway in the city of Aarhus, albeit with delays in reaching certain milestones.

NORTH AFRICA AND THE MIDDLE EAST

SAUDI ARABIA:

In Saudi Arabia, activities continue for the Riyadh Metro Line 3 project, with a delay compared to the initial schedule, due to project modifications and variations requested by the customer. During 2017 it is expected the completion of the shipping of goods as well as the beginning of the installation phase.

LIBYA:
The Libyan railway project is still on hold and it is difficult to say when it will resume. With respect to the contract with the Russian customer Zarubezhstroytechnology for the Sirth - Benghazi line in Libya, the arbitration initiated by the customer in Vienna against the Ansaldo STS - Selex ES joint venture was concluded with the almost complete acceptance of the demands of the opposing party.

TUNISIA:
With respect to the contract in Tunisia, please note that, with respect to the dispute between the ASTS /Alstom Consortium and Société Nationale des Chemins de Fer Tunisiens, in September the Court of Arbitration of the Paris Chamber of Commerce concluded its procedures and issued the final document which partially accepts the demands of the consortium. Activities are under way for the finalisation of the dispute.

AMERICAS

USA:
Activities for the construction of the Honolulu metro continued in Hawaii: specifically, static testing began on the first two trains that arrived on site.
There were delays in the completion of civil works that were not part of the scope of work of ASTS, but were in preparation for it.

PERU:
The design and procurement activities continued for the construction of Lines 2 and 4 of the Lima metro; the civil works are still affected by the delays caused by the difficulties in acquiring the areas to be expropriated. During 2017 goods supply and engineering activities are expected to progress based upon the ongoing negotiations with the final customer. It is expected also the final acceptance for engineering activities regarding the project phase 1 & 2 and a further progress related to phase 3. In addition, during this year, the impact of the delays related to civil works and the possible changes on track line will be assessed.

ASIA - ASIA PACIFIC

TAIWAN:
Design and production activities continued for the construction of the Taipei Metro Circular Line metro. The delays in civil works heavily impacted the metro construction times, and this postponement is currently under discussion with the customer.
Please note that the first vehicle functional for the work in the last part of the year has been delivered.

In parallel, also in Taipei, engineering and procurement activities began for the new contract for the construction of the new San-Ying metro line, acquired in the first part of 2016.

CHINA:
The project for the construction of the Zhuhai cable-free tramway was basically concluded in 2016 with the resolution of the technical issues identified during the field tests which led to a delay in completion of the works in 2015.

INDIA:
The Kolkata metro project continues to incur delays caused by the civil works and the unavailability of design inputs. However, during the year the customer reassigned the rolling stock supply contract in preparation for the resumption of the various technological activities.

Investments

Investments in property, plant and equipment and intangible assets and deferred expense recognised in 2016 approximated €8.8 million.

They may be analysed as follows:

• Buildings	€0.1 million
• Plant	€0.2 million
• Equipment	€1.0 million
• Other assets	€2.4 million
• Licences and software	€1.0 million
• Capitalised development expense	€4.1 million

The Satellite and Rail Telecom project launched in 2012 continued in 2016. This is a development plan to include satellite technologies in the new railway signalling systems. Costs of €4.1 million were incurred in 2016 and capitalised as development expense for which the company received grants of €1.1 million. The project is co-financed by the European Space Agency and the Galileo Supervisory Authority.

Key risks and uncertainties

The risks described below stem from a consideration of the features of Ansaldo STS's market (demand and offer) and business, together with the key findings of the updated risk assessment process. Risk assessment aims at identifying and evaluating the main risks that could have an impact on achieving objectives, for those processes identified as relevant, and the related mitigating actions, as well as defining additional actions to be taken to further reduce the risk or improve process performance.

Ansaldo STS's risk assessment process is based on the Committee of Sponsoring Organisations of the Treadway Commission's internationally-recognised Enterprise Risk Management framework (COSO report) and seeks to integrate risk assessment into the processes of planning, pursuing corporate and internal control targets in order to create value while properly managing risks and mitigation plans, in addition to exploiting any opportunities.

The key risks and uncertainties faced by Ansaldo STS S.p.A. are outlined below following the classification adopted by the company (strategic, operational, financial and IT risks). Risks may exist that have not yet been identified or that are deemed immaterial but which could nonetheless impact company operations.

Strategic risks

A) Changes in the macroeconomic and market context

Ansaldo STS operates internationally and is exposed to risks arising from macroeconomic/geopolitical changes and a reference market presenting the greatest opportunities in emerging nations and those with the highest growth rates. Moreover, the market has seen greater volatility in the acquisition of contacts, due partly to the fact that projects tend to grow in size and scope and there is an increasingly consolidated trend towards the standardisation of products and technological solutions, especially in the signalling business unit. This leads to tougher competition, with decreasing prices and market consolidation even though the market shows modest growth in the medium term. The clauses in new contracts are more complex and generate greater risks which include the greater resort to project financing due to the contraction in funding available to customers. This market situation could negatively impact the company's competitive edge and performance, e.g., difficulties in obtaining new contracts, contracting margins on new orders and exposure to less advantageous contractual terms.

Macroeconomic and geopolitical factors that could impact the company's operations include the growth rate in the reference countries and public spending on infrastructure. The current macroeconomic and financial uncertainty, low raw material prices, which reduces customers' spending capacity in certain markets, political instability in some geographical areas of interest and plans to reduce public debt could generate delays or reductions in new orders, delays in payments and less favourable terms for new contracts, having a negative impact on Ansaldo STS's performance.

The company's strategy may not be immediately updated and adjusted in response to these many variables and uncertainties in the macroeconomic and market context, negatively impacting its competitiveness and performance.

A key element of the company's strategy is to optimise its operating structure by standardising the solutions and products offered and greater efficiency/optimisation in the use of resources during project implementation.

B) Innovation: a competitive factor
The company's business units feature a high level of technological innovation and this represents an important competitive factor.

Ansaldo STS's ability to anticipate technological changes and implement an efficient investment policy is therefore paramount. If it fails to accurately assess innovation requirements, the contents of innovation and development projects, their benefits and related priorities, the company runs the risk of delays in the availability of new products and technical solutions, instability of new products, additional development costs on projects and lost sales. Processes to update the product portfolio and regularly assess products' technical competitiveness are in place to mitigate these risks and ensure greater optimisation when making bids.

The features and degree of technological innovation of the company's products and technical solutions generate a risk of obsolescence. There are specific processes in place to ensure its effective management.

Operational risks

C) Country risk
Ansaldo STS's policy of penetrating new markets, particularly those with the highest rates of development, expose it to risks such as: political, social and economic instability, not accurately evaluating local legislation (as applies to companies, the sector and tax), the challenge of protecting intellectual property, exchange rate fluctuations, as well as the creditworthiness of counterparties, which can negatively impact the company's financial position and results of operations. Country risk is assessed when the company decides which offers and bids to make. Any mitigating actions are also contemplated at the time the bids are prepared and contracts managed.

D) Reliance on public customers and complex long-term contracts
The operations of Ansaldo STS are highly dependent on public customers and, particularly in the turnkey systems business, on complex long-term contracts of a significant amount.

Delays, amendments, revisions or cancellations of one or more significant contracts acquired could negatively impact Ansaldo STS's operations and its financial position and results of operations.

Assessing long-term contracts using the percentage of completion method requires the estimates of costs to complete the activities, project risks (technical, legal, tax and commercial) and contract progress. These estimates are based on assumptions related to the impact of future events which, by their very nature and given the complexity of the projects underway, may not occur as envisaged, thus negatively impacting the project's financial and economic performance. Indeed, there is often an element of uncertainty related to third-party performance of civil works for transportation infrastructure and the company cannot always cover the related impacts on programs with contractual clauses.

Market diversification and monitoring of country and compliance risk, structured project review processes involving senior management, the regular review and adjustment of contract and programme estimates and the adoption of risk management processes both at the time the bid is made and throughout project implementation, as well as lifecycle management processes involving the regular comparison of physical and accounting progress are in place to mitigate these risks.

E) Budgeting and project planning
Ineffective project planning and control processes and weak project technical management could mean the project team cannot implement the project within the set budget and timeframes, especially complex projects. These risks could cause delays in identifying issues during project roll-out and related remedial actions as well as inaccurate reporting and planning, with a consequent negative impact on the company's financial position and results of operations.
To mitigate this risk, there are formalised and monitored processes to check physical and accounting progress and risk management, clear allocation of responsibilities within the project team, managerial review of project performance, review of the estimates during the bidding and project phases and an independent review carried out by the risk management department.

F) Third parties (subcontractors, sub-suppliers and partners)
Ansaldo STS makes considerable use of subcontractors to supply subsystems or assembly and installation services and of subsuppliers for goods or services in its business. The company's ability to fulfil its obligations to customers therefore relies on both subcontractors and subsuppliers properly fulfilling their contractual obligations. A breach thereby could in turn cause a breach by Ansaldo STS, negatively impacting its reputation and, unless it is possible to obtain compensation from the subcontractors and subsuppliers, the company's financial position and results of operations.

Moreover, particularly in the turnkey projects business, the company also carries out contracts in conjunction with other operators. In these cases, each operator generally has joint and several responsibility vis-à-vis the customer for the completion of the entire contract. In the event of a breach or damage caused to the customer by an operator, Ansaldo STS could be called on to replace the operator causing the breach or damage, and to compensate the damage caused to the customer in full, without prejudice to the company's right of recourse vis-à-vis the defaulting operator. If the right of recourse against the operator responsible for the breach or damage is ineffective or protracted, this could negatively impact the company's operations as well as its financial position and results of operations.

The preliminary assessment and consequent qualification of partners, suppliers, subcontractors and subsuppliers, particularly in new markets, may be inadequate, with negative impacts on the competitive nature of the technical solutions offered, project performance and on the effectiveness of partnership governance (for instance, differences of opinion between the partners, misalignment of risks and costs/benefits for the individual partners).

To mitigate these risks, the company has processes in place to select and evaluate suppliers, subcontractors and subsuppliers, it works with known and reliable partners, it defines, agrees and manages appropriate contractual and joint venture clauses, it has risk management processes and it requests specific guarantees, where applicable.

G) Efficient technical operations and relevant technical references
Development and engineering activities carried out without a clear understanding and identification of the requirements, specifications or effective configuration management could negatively affect the project budget, compliance with deadlines, performance and customer satisfaction. To mitigate this risk, the company has requirement and configuration management processes in place to ensure quality, compliance with deadlines and efficiency in projects and development management. It has rolled out special projects to monitor the proper implementation of these processes during projects.
Furthermore, if Ansaldo STS does not have adequate market and operating references for products, this could lead to lost sales and non-compliant project implementation, negatively impacting the company's competitiveness and its financial position and results of operations. Such risk is carefully assessed when the bid is being prepared.
It is managed through processes designed to ensure adequate interaction between the engineering unit, which communicates the customers' requirements, the portfolio unit, which assesses the market's technical requirements and possible technical solutions, and the development unit, as well as via the development and monitoring of the product development roadmap.

H) Liability to customers or third parties for product defects or delivery delays

Technological complexity and tight delivery times for company products and systems could leave Ansaldo STS liable for delays in or failure to supply contractually-agreed products or services, for their non-compliance with customer requirements (for instance, due to design or construction faults) and for breaches of and/or delays in roll-out, the provision of post-sales services and product maintenance and servicing. Moreover, many products and systems supplied by the company are subject to certifications and approval, including by third-party bodies.

Such liability could be directly attributable to Ansaldo STS or to third-party operators such as subsuppliers or subcontractors. These risks could negatively impact the company's operations, its financial position and results of operations and its reputation, and could also result in the company incurring costs to repair faulty products or their withdrawal from the market in extreme cases. Even if adequate insurance is in place, the sum insured could be exceeded or the premiums could be raised following a claim, negatively impacting the company's financial position and results of operations.

To mitigate these risks, the company agrees specific insurance coverage and carefully supervises its engineering, validation and returns monitoring processes.

I) Legal disputes

The complexity of dealings with third parties (customers, subcontractors/subsuppliers and partners), especially for international projects and the content of systems and products developed, as well as specific business risks expose the company to a significant risk of legal disputes. Legal disputes could also relate to the awarding of bids. The settlement of disputes could be complex and take a long time, leading to delays in completing projects and negative impacts on the company's operations and its financial position and results of operations.

To mitigate this risk, there are risk management processes in place during both the bid and management stages, disputes are monitored closely, contractual clauses are examined carefully with the legal department, and a prudent approach is adopted in recognising specific items under contract costs and provisions for risks.

In addition, as the company operates within a complex international environment, it could be exposed to trade compliance risks. The lack of awareness or underestimation of trade compliance risk could negatively impact the company's reputation and profitability.

To mitigate this risk, the company has initiated a process of mapping and evaluating the controls in place and those to be implemented, which is currently in the completion phase.

J) Human resource management

Ansaldo STS supplies products and systems featuring cutting-edge technology on a global scale and to do so, it requires human resources with specific expertise, which can be difficult to procure on the labour market. The success of the business development plans, especially in new markets, also depends on the ability to attract, retain and develop the skills of its human resources, particularly in order to operate in a global market context and on complex projects.

To mitigate this risk, human resource management policies reflect the business needs. Ansaldo STS also has an integrated human resource management and development system under which regular checks of expertise and performance are carried out and relevant training initiatives identified, as well as enabling the best possible allocation of resources.

K) Health, safety and environmental compliance

The company has to comply with health, safety and environmental legislation in the various countries in which it operates. Failure to comply with such legislation as a result of operating processes which are not adequately monitored or - especially in new markets in countries where standards are below-par or that are exposed to specific risks (e.g., high crime rates, terrorist attacks or epidemic risks) - due to an inadequate evaluation of such requirements and necessary measures, could expose the company to risks having significant impacts on its operations, its financial position and results of operations and its reputation.

To mitigate this risk, Ansaldo STS adopts health, safety and environmental management systems ensuring rigorous compliance with legislation in accordance with best practices, subject to internal and external monitoring and integrated with the security processes monitored by an independent internal unit.

Requirements in new markets are evaluated at the time the bid is prepared and the assistance of external consultants is also sought. Policies and procedures have also been set to ensure a consistent approach throughout the company's various units while still allowing for specific local legislation.

Financial risks

L) Ability to finance a high level of current assets and obtain guarantees

To carry out contracts, Ansaldo STS requires:

- adequate funding of current assets;
- bank and/or insurance guarantees issued to the customer in the various project stages (bid bond, advance payment bond, performance bond, retention money bond and warranty bond) and/or guarantees issued by the parent (parent company guarantees).

Current assets are usually funded by customer advances and progress payments.

The company's ability to obtain guarantees at good rates depends on the evaluation of its financial position and results of operations, which is usually based on various indices including an analysis of its financial position, analysis of the contract risk and experience and competitive positioning in the reference sector. Ansaldo STS believes it complies with the relevant parameters. At 31 December 2016, it had guarantees of €3,957,292 thousand.

Difficulty in negotiating suitable financial terms for new contracts, payment delays and/or suspension and deterioration of existing terms of payments, or the inability or greater difficulty in obtaining guarantees at good rates, would negatively impact the company's operations and its financial position and results of operations.

To mitigate these risks, the company has commercial and contract management policies focussed on financial aspects, centralised treasury management which optimises its cash flows; its financial position is solid and the contract parameters are assessed right from the time of the bid stage.

In the present economic and market context, due to new contracts which have less favourable financial terms, working capital is monitored closely and specific initiatives are in place to mitigate its impact.

IT risks

M) IT systems

IT systems are a vital part of Ansaldo STS's operating structure and their management must be in line with the company's strategic objectives. IT solutions that do not match business needs, or upgrades thereof that do not meet users' needs, or inefficient system or outsourcer management, could compromise the efficiency and effectiveness of company operations.

Moreover, the unavailability or interruption of IT services or network and data loss or damage (including sensitive data or intellectual property), also as a result of hacking, could compromise company operations.

To mitigate this risk, the IT policies took into account the organisational and process change initiatives. Moreover, the company has a governance system based on best practices and follows structured and monitored processes for hardware and software management, including cyber-security aspects.

Research and development

Research and development expense taken directly to profit or loss for the year ended 31 December 2016 totalled €21.1 million (€23.5 million in the previous year), against grants approximating €1.9 million (€2.8 million in the previous year).

In 2016, the PLUG IN projects were concluded (as part of the activities of the Liguria District on Research in collaboration with the MIUR) with the creation of an urban mobility platform to manage multi-source information and CRYSTAL, with the development of safety tools.

The projects financed by the MIUR are:

- Tesys Rail, to define strategies for the energy optimisation of rail traffic.
- the PON3 projects carried out through the Campania district DATTILO (High technology district for transport and logistics) and the Campania laboratory TOP IN (Optoelectronic technologies for industry):
  - MODISTA, which deals with innovative solutions for the monitoring and preventative diagnosis of infrastructure and vehicle fleets in order to increase the levels of availability, efficiency and safety;
  - OPTOFER for the application of innovative optoelectronic technologies for railway infrastructure monitoring and diagnosis;
  - FERSAT, which studies a railway signalling system suitable for urban environments based on the innovative use of satellite technologies and their integration with existing technologies; in the first half of 2016, the in the field survey activities necessary for the future installation of the equipment relating to the Demonstrator and the development of the main software components were completed;
  - NEMBO for the study and experimentation of highly-efficient innovative embedded systems for railway applications.

The projects financed by the European Commission are:

- NGTC, aimed at developing future rail and urban traffic control systems. Ansaldo STS heads up the work package related to satellite positioning;
- MANTIS, financed by the ECSEL Joint Undertaking (a public private body which provides European Commission grants for embedded system innovation) and the Ministry for Research, which aims to increase knowledge regarding the decision-making process for the railway system maintenance phase;
- IN2RAIL, funded by the European Commission as part of the Shif2Rail project; the project is aimed at optimising railway infrastructure reducing the construction and maintenance costs and increasing capacity;
- SHIFT2RAIL JU, for which the following projects were launched in the second half of the year:
  - CONNECTA, *CONtributing to Shift2Rail's NExt generation of high Capable and safe TCMS and brAkes*, which aims to contribute to the next generation of TCMS architecture and components with wireless functionality, as well as the next generation of electronic braking systems;
  - X2RAIL1, *Start-up activities for Advanced Signalling and Automation System*, which aims to respond to the long-term requirements of a future flexible and intelligent traffic management system;
  - IN2SMART, Intelligent maintenance systems and strategies to provide a holistic, innovative solution for the maintenance of railway assets;
  - ATTRACTIVE, *Advanced Travel Companion & Tracking Services* which aims to improve the travel experience of passengers using railway transport systems through the development of an integrated solution;
  - FR8RAIL, *Development of functional requirements for sustainable and attractive European rail freight*, with a focus on facing the main challenges to the development of sustainable and attractive rail freight in Europe;
  - PLASA, *Smart Planning and Safety for a safer and more robust European railway sector*, the objectives of which are, on one hand, to improve the planning activities of the various railway system operators through railway simulation and, on the other hand, to provide a methodology for managing railway system safety based on a risk assessment;
  - IMPACT1, *Indicator Monitoring for a new railway PAradigm in seamlessly integrated Cross modal Transport chains* – Phase 1 for the creation of an integrated sub-system which allows for the representation of all Shift2Rail innovations;
  - ARCC, *Start-up activities for freight automation*, essentially relating to freight traffic matters.

The European Commission also finances satellite technology projects.
Specifically, the aim of the ERSAT EAV project, coordinated by Ansaldo STS, is to adopt and customise satellite technologies for railway signalling, notably with respect to checking that the EGNSS/EGNOS technology and the new Galileo services can be used in ERTMS signalling. As part of the ERSAT EAV project, in the first half of 2016 GNSS algorithms were defined which are capable of using Signal In Space from the GPS, EGNOS and Galileo constellations. In addition, the preliminary verifications were conducted on their proper behaviour, confirming the accuracy of the open and modular architecture of the Ansaldo augmentation system. In addition, demonstrations of the proper functioning of the trial site in Sardinia were carried out as part of national workshops.

In 2016, activities began for the STARS and RHINOS projects, which are part of the European GNSS Agency (GSA) research programme, Horizon H2020.

Development activities also took place on the following projects, which do not receive external funding:
- CBTC *(Communication-Based Train Control)*;
- Automatic Train Supervision (ATS) – Metro applications;
- MacroLok Interlocking;
- "FAST" tools suite;
- FDU-3G (new third-generation entity controllers);
- MicroLok Interlocking;
- On Board;
- Shift2Rail – IP2.

Human resources

Headcount

The headcount in 2016 came to 1,704, against 1,551 in 2015. The breakdown is as follows: 57 managers, 330 junior managers, 1,272 white collars and 45 blue collars; 206 employees work in branches operating abroad.
The 153 employee increase on 31 December 2015 was a result of 199 new hires and 46 employees leaving the company.

New employees included:
- 27 new employees, hired with open-ended contracts;
- 3 employees, hired with a fixed-term contract;
- 62 employees, previously hired with temporary work contracts or from related sectors;
- 107 employees, hired at branches, considering the new orders.

Outgoing personnel was as follows:
- 13 resignations;
- 2 employees who retired;
- 7 employees for other reasons (death, transfers, dismissals, end of trial period);
- 24 employees of branches which were closed.

Training

1,006 employees took part in training courses in 2016, for a total of 23,056 hours, equal to an average per capita of approximately 23 hours.
The key initiatives were as follows:

Technical-specialist training:
- Project Management Programme - SME;
- Advanced negotiations;
- Specialist courses in railway techniques.

Managerial training:
- Economics courses for talents;
- Emotional intelligence.

Compliance training:
- Safety training courses (the "365 SafetyDays 365 SafetYes" campaigns) for building site personnel;
- Specific risks course as per article 37 of Italian Legislative decree no. 81/08.

Language training:
- English project offering traditional classroom, video call and e-learning courses;
- Non-English language training for employees working in certain areas (for example, Spanish for resources in Peru).

Industrial relations

The company met with the trade unions in July 2016 to provide greater disclosure on its position. During the meeting, the current situation, company performance, the backlog, the headcount and personnel expense were described.
In addition, the 2016 hiring plan focusing primarily on the strengthening and in-sourcing of skills was presented, based mainly on the hiring of resources from staffing providers (temporary staff/staff leasing and personnel from external firms).
Thanks to this plan, the company was able to consistently reduce external consulting contracts.
During the same meeting, the efficiency and profitability targets for the 2016 Performance bonus were defined and the actual results of the 2015 Performance bonus were presented, which entailed the disbursement of 100% of the bonus along with the July 2016 salary payments.

Incentive plans

Ansaldo STS developed and regulated:
- a medium-term stock grant plan;
- a long-term cash incentive plan (LTIP).

These plans form part of a series of short-, medium- and long-term incentive plans and represent a considerable portion of company management's total remuneration.
They are designed to link a significant portion of managers' remuneration to the achievement and improvement of financial ratios, as well as strategic objectives that are especially important for the company's creation of value.

Stock grant plans

2014-2016 stock grant plan

On 20 February 2014, the board of directors based of the proposal of the remuneration committee of 17 February 2014, which was subsequently passed by the shareholders on 15 April 2014, approved a three-year stock grant plan. The plan, which applies to a maximum of 46 employees plus the CEO and key managers, has the same vesting conditions as the 2012-2013 plan (EVA, FOCF and share performance against the FTSE Italia All-Share index).
Like the previous plan, the 2014-2016 stock grant plan complies with the recommendations of article 7 of the Code of conduct, as modified in March 2010 by Borsa Italiana S.p.A.'s Corporate Governance committee, and of the current article 6 of such code, as amended in December 2011, and confirms:
- a three-year vesting period for all beneficiaries;
- a two-year lock-up period for 20% of the shares due to the CEO and key managers;
- a very thin (2.5%) tolerance band, within which a proportional amount of the shares will vest on a linear basis, for each objective.

The company formally checked that the objectives underlying the granting of the portion related to 2015 were achieved.

All three objectives assigned of EVA, FOCF and share performance compared to the FTSE IT All-Share index were met for 2015.
Accordingly, in compliance with the plan regulation, 100% of the shares initially earmarked were assigned to the beneficiaries.
The total shares due to the 33 current beneficiaries numbered 210,769. As a result of the three-year vesting period, the shares will actually be delivered in April 2018.

2012-2013 stock grant plan

In May 2016, the shares for the 2013 instalment of the 2012-2013 stock grant plan were delivered. Of the three objectives assigned for 2013 (EVA, FOCF and share performance compared to the FTSE Italia All-Share index) only the last one was met.
The company assigned 85,799 shares, net of the quota withheld from Italian investors to comply with the legal tax requirements and the quota for the lock-up clause.

LTIPs

2013-2015 cash plan - 2015 instalment

This plan was set up for the CEO and one key manager of Ansaldo STS.
It has a three-year term and provides for a cash payment not exceeding one year's gross remuneration based on the achievement of agreed objectives.
The plan also includes an access threshold defined as the company's profit for the year which, as it was not reached, meant that no incentives were earned. Accordingly, checking that the 2015 objectives were met was immaterial even though the company did check them for documentary completeness.

2014-2016 cash plan - 2015 instalment

This plan was set up for the CEO and three key managers of Ansaldo STS.
It has a three-year term and provides for a cash payment not exceeding one year's gross remuneration based on the achievement of agreed objectives.
The plan also includes an access threshold defined as the company's profit for the year.
As the access threshold and one of the two performance objectives (working capital) were met, 50% of the amounts due will be paid to the beneficiaries. As a result of the annual vesting period, the cash will actually be paid in May 2017.
In May 2016, 100% of the 2014 tranche was disbursed.

2015-2017 cash plan - 2015 instalment

This plan was set up for the CEO and three key managers of Ansaldo STS.
As the plan was not assigned at the time, in accordance with the decisions made in board of directors resolution of 3 November 2015, the share for the 2015 tranche will be equal to that disbursed for 2014.
As a result of the annual vesting period, the relative cash will actually be paid in May 2017.

Investments held by directors

Following the amendments made by CONSOB (the Italian commission for listed companies and the stock exchange) with resolution no. 18049 of 23 December 2011 to the Regulation adopted with resolution no. 11971 of 14 May 1999 (the "Issuer Regulation"), information on investments held in the issuer or companies controlled thereby by members of management bodies, general managers and key managers, as well as their spouses, unless legally separated, and minor children, directly or via subsidiaries, trustees or nominees referred to in the repealed article 79 of such regulation is now presented in compliance with the provisions of article 84-quater.4 of the regulation, in the remuneration report prepared pursuant to article 123-ter of Italian Legislative decree no. 58/98 and in compliance with schedule 7-bis of annex 3A to the Issuer Regulation. The remuneration report is made available to the public as provided for by law and regulations.

Company facilities

The company's facilities are located as follows

GENOA	VIA MANTOVANI 3-5 - 16151	Registered offices
NAPLES	VIA ARGINE 425 - 80147	Branch

The company has permanent foreign establishments in Bucharest (Romania), Athens and Thessaloniki (Greece), Tunis (Tunisia), Copenhagen (Denmark), Taipei (Taiwan), Ankara (Turkey), Riyadh (Saudi Arabia), Tripoli (Libya), Kolkata, Mumbai and Noida (India - project office), Abu Dhabi (United Arab Emirates) and Lima (Peru).
The company also forms part of a joint venture in Honolulu (Hawaii).

Financial disclosure

Financial market transactions

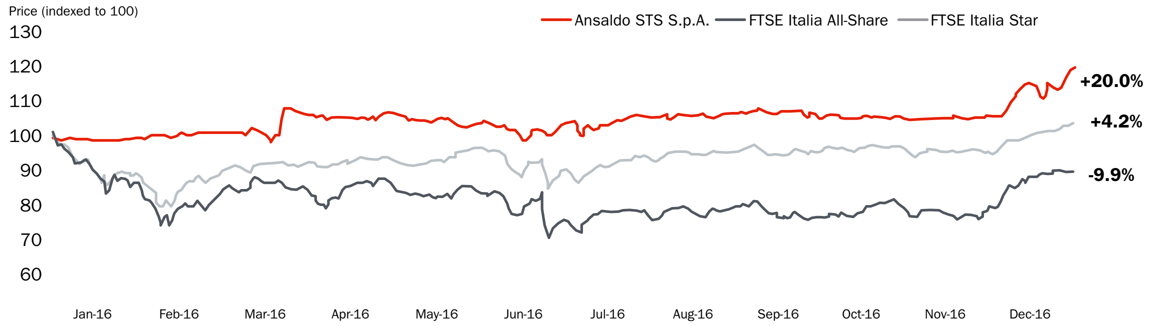
The Investor relations department liaises constantly with analysts and investors in order to grasp market disclosure requirements and accurately tailor communications from senior management.
The aim is to maintain ongoing dialogue with the Italian and international financial community, providing sensitive information for the market in a timely and transparent manner and ensuring that the parent is presented properly.
Total share coverage remained basically the same as last year, with 10 investment banks; in particular, only 5 of them maintained active involvement after the conclusion of the takeover bid by Hitachi on the Ansaldo STS share capital and the entry into the shareholding structure of the US Elliott fund, while the other 5, despite the fact that they did not officially stop their coverage, maintained a more detached attitude pending future developments.
On a quarterly basis before the financial results are issued, the Investor Relations department requests brokers assigned to the parent's share for their latest forecasts on its key financial indicators. This is an accurate update of sell-side analysts' perception, which is discussed and considered by management.

With regard to communication activities, the annual plan is used to plan and develop Investor Relations activities. The aim is to disseminate and communicate the company's market analyses, policies and strategies.
For the year 2016, Ansaldo STS temporarily suspended its participation in conferences and roadshows, focusing its communication activities with analysts and investors mainly through conference calls.
With the same resources and quality of its activities compared to 2015, the investor relations department continued to monitor and analyse the market and the competition in 2016, in order to support management.
In addition to the usual daily focus on and weekly collection of market "rumours", the department periodically distributes in-depth updated analyses on the performance of competitors, markets and main business sector analyses.
The website, which contains a section specifically dedicated to all Investor Relations topics, remains the main instrument for the collection and disclosure of financial information to stakeholders.

Share performance

The official share price in the **31 December 2015** to **31 December 2016** period rose from €9.87 to €11.84, up 20.0%.
The share's high for the year and all-time company record of €11.84 was recorded on 30 December 2016 and its low for the year of €9.73 on 18 March 2016.
An average of 201,762 shares were traded daily in the year, compared to 1,308,883 in 2015. The decrease in volumes was a direct consequence of the decline in the free float, following the conclusion of the takeover bid and the subsequent acquisitions by Hitachi Rail Italy Investments, which led to an increase in its investment to the current level of 50.772%, and as a result of the aggregate position of roughly 30% reached by the Elliott fund.
The FTSE Italia All-Share index lost 9.9% during the year while the FTSE Italia STAR index gained 4.2%.

Share performance compared to the main indices (base 100)



Key shareholders at 31 December 2016

On the basis of the communications sent to CONSOB and received by the parent as required by Italian Legislative Decree no. 25 of 15 February 2016, which entered into force on 18 March 2016, in implementation of directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013, which amended art. 120, paragraph 2 of the Consolidated finance act, the table below gives a list of the investors which hold more than 3% of Ansaldo STS S.p.A.'s share capital at 31 December 2016:

Shareholder	No. of shares	% held
HITACHI RAIL ITALY INVESTMENTS	101,544,702	50.772
PAUL E. SINGER		
(as general partner, directly and indirectly, of the Limited Partnerships Elliott International, LP Elliott Associates, LP and The Liverpool Limited Partnership)	43,818,344	21.909
UBS	12,619,952	6.310

Dividend per share

(in euro)	**2016**	2015
Dividend per share	**0.18***	**0.18**

*proposed to the shareholders.

The parent distributed dividends for the first time in 2007, one year after its stock market listing on 29 March 2006. The amount proposed to the shareholders to be distributed as dividends in 2016 totalled €36,000 thousand (dividends with the same value were distributed in 2015).

Litigation

In general, the following should be noted:

1. Tecnocostruzioni Costruzioni Generali S.p.A. versus Ansaldo STS S.p.A.

Tecnocostruzioni S.p.A, as a member of the joint venture engaged by Ansaldo Trasporti S.p.A. (now Ansaldo STS S.p.A.) to carry out the civil works for Line 6 of the Naples metro (formerly "L.T.R."), initiated legal proceedings to confirm an alleged breach by the company of a commitment undertaken in 1998, vis-à-vis the joint venture, to terminate the agreement entered into with ANM and the Naples municipality due to the delayed payment of the final agreed instalment. The compensation claimed equals €17.4 million, plus interest and cost-of-living adjustments. The Naples Court's ruling was published in October 2006, rejecting Tecnocostruzioni's claim and dividing court fees between the parties. Tecnocostruzioni appealed this ruling before the Naples Court of Appeals with a claim form served to Ansaldo Trasporti Sistemi Ferroviari S.p.A. (now Ansaldo STS S.p.A.) in December 2007.
In October 2011, the Naples Court of Appeals disallowed Tecnocostruzioni's appeal, handing down its ruling at the end of December; Tecnocostruzioni appealed to the Court of Cassation in February 2012.
Ansaldo STS appeared before the court. The date for the hearing has not yet been set.

2. Metro C Società Consortile per Azioni versus Roma Metropolitane S.r.l.

In 2007, the contractor of the works, design and construction of the new line “C” of the Rome metro (Metro C consortium, 14% held by Ansaldo STS S.p.A.), served the customer (Roma Metropolitane S.r.l.), with a request for arbitration concerning the additional fees and time required following delays in validating the T4 and T5 section executive designs.
Pending the conclusion of the arbitration, a compromise committee was set up, which at the end of 2011, proposed an outline agreement whereby the work plan would be redesigned and the claims reformulated on a lump-sum, all-inclusive basis, in the amount of €230 million.
In December 2012, CIPE (Interministerial economic planning committee) granted Roma Metropolitane the amounts necessary to financially cover the settlement agreement between Roma Metropolitane and Metro C; this resolution took effect and came into operation with its publication in the Italian Official Journal in June 2013.

Instead of implementing the provisions of the settlement agreement, the newly-installed municipal council challenged the contents. The situation became more tense and Metro C was forced to suspend/slow works given the enormous financial difficulties produced by the persistent failure to pay.
In September 2013, Metro C and Roma Metropolitane signed the “Implementing deed for CIPE resolution no. 127 of 11 December 2012 and resulting adjustment of the Contract of 12 October 2006” which, inter alia, recalculated the deadlines for the completion of the functional stages following the variations made during the work, ruled that Metro C was due €230 million plus €90 million for general contractor costs and VAT for the higher costs claimed, excluding any amounts related to additional claims, provided that Metro C waived all claims recognised at the deed date and that Roma Metropolitane would renounce appealing the partial award.
As the amounts certified and invoiced as per the Implementing deed were not paid (mainly the general contractor costs), in January 2014 Metro C was forced to notify Roma Metropolitane of the order of the court for the total amount of approximately €269 million plus VAT. Roma Metropolitane opposed such court order, requesting authorisation to summon the financing bodies, which was granted by the appeal judge at the first hearing held in September 2014. Accordingly, a second hearing was scheduled, where Metro C was not granted the provisional seizure of the amounts not yet paid by Roma Metropolitane to date, in addition to accrued interest.
At the subsequent hearing in September 2016, the Parties presented their conclusions and the Judge assigned a deadline for the submission of final statements and reply briefs, with the resulting reservation of judgment in the case.
At the end of 2015, as the amount provided for in the Implementing deed had not been paid nor the amounts invoiced for work regularly performed and certified, Metro C sued Roma Metropolitane S.r.l. and the Rome municipality, challenging a number of instances of non-compliance in the period from September 2013 to October 2015. It also requested payments of various amounts including the outstanding receivables of approximately €350 million referred to in the claim form.
At the hearing in September 2016, the discussion was held on the claim pursuant to article 186 ter of the Italian penal code; the Court of Rome assigned a deadline to Roma Metropolitane for any observations on the new calculations carried out by Metro C. We are waiting for the court to make a decision on the merits for the subsequent assignment of legal deadlines for the briefs pursuant to article 183 of the Italian Code of Civil Procedure.
Please note that the judicial authority intervened for analyses and the acquisition of documentation as part of the investigations initiated in relation to the construction of Line C of the Rome Metro, in particular in the relationships between the company and the client relating to the use of the system of reserves and the associated settlement agreements.

3. Ansaldo STS versus Metro Campania Nord Est

In April 2011, Ansaldo STS produced two orders of the court against Metro Campania Nord Est (MCNE), as part of the Alifana project, for unpaid invoices approximating €31 million. MCNE opposed the orders on various grounds. With respect to the order relating to the works on the Piscinola-Teverola section, in September 2011 the Judge rejected the request to suspend enforceability and Ansaldo STS collected the first initial payment in December.
At the end of July 2016, the ruling was issued rejecting the opposing party’s claims with respect to the nullity of the concession relationship and the connected contract riders, sentencing the counterparty to pay the amounts due. However, the judge accepted the requests of the opposing party on the claimed lack of jurisdiction of the ordinary judge, in relation to certain invoices, in favour of the administrative judge. On this point, the Company is preparing the dedicated documentation to proceed with an appeal in order to obtain full payment of the receivables due.
With reference to the second opposed court order, the Judge rejected the opposition of the opposing party, which most recently filed an appeal, with regard to which the first hearing has not yet been scheduled.

4. Ansaldo STS versus Naples municipality
With respect to the court order filed by the company against the Naples municipality in 2011 for the collection of outstanding receivables, the municipality submitted a formal opposition. As negotiations were under way for an amicable settlement, the case was postponed to the first part of 2017.
In the meantime, the parties came to an agreement to settle their claims.

5. Ansaldo STS – Collapse of a building in Via Riviera di Chiaia
The company is involved in the criminal proceeding following the accident of 4 March 2013 where a building located in Via Riviera di Chiaia 72, Naples, partially collapsed, allegedly due to the works underway to construct the Arco Mirelli station for Line 6 of the Naples metro. In this project, the company is the operator appointed by the Naples municipality.
The alleged crimes are those assumed when recorded in the criminal records registry, i.e. articles 676 and 434 of the Italian Penal code: "*Destruction of buildings or other constructions" and "Collapse of constructions or other malicious disasters*".
In 2015 and until the first hearing before the Judge for the Preliminary Hearing, the company's defendants were called for spontaneous questioning. Based on the results of this questioning and the findings of the preliminary investigations, two employees were committed for trial while the motion to dismiss the case for the third employee is pending. During the preliminary hearing of June 2015, certain third parties joined the proceeding as civil parties seeking damages, including the Naples municipality. The Judge for the Preliminary Hearing set another hearing for December 2015, during which the company was held liable for compensation for pecuniary and moral damage to the civil parties. Following the request for the exclusion of ASTS as the civilly liable party and the integration of the notices to the civil parties, a series of scheduled hearings were held for the relative measures, as a result of which the exclusion of ASTS as the civilly liable party was declared and the requests for the admission of the requested evidence were handled. At the subsequent hearings in December 2016 and January 2017, the admitted witnesses were examined, and the examination of the experts appointed during the initial phase of the proceedings was scheduled for February 2017.
With respect to the civil proceedings related to the collapse of the buildings, 31 cases for claims for damages were pending in 2016.

6. Ansaldo STS versus the Russian customer Zarubezhstroytechnology (ZST)
In relation to the project for the construction of a technological system in Libya for the Sirth-Benghazi section, halted by Zarubezhstroytechnology (ZST) - a Russian-based construction company which is the customer of the ASTS-Selex joint arrangement - at the beginning of August 2013, ZST enforced the advance payment bond and notified its intention to terminate the contract.

Ansaldo STS appealed immediately as per article 700 of the Italian Code of Civil Procedure to stop the bank (Banca Crédit Agricole) enforcing the guarantee (advance payment bond) issued for the advances paid on the contract price.
This contract had originally been halted by the customer in February 2011 following the well-known events of the "Arab spring".
The appeal as per article 700 of the Italian Code of Civil Procedure was lodged before the Milan Court in August 2013.
In August 2013, the Milan Civil Court upheld the claims of the applicants, Ansaldo STS and Selex ES, ordering Crédit Agricole not to enforce ZST's guarantee.
In October 2013, the judge reserved their judgement on whether the injunction on the bank paying the guarantee would be confirmed or not.
Later in October, the Milan Civil Court confirmed the decree of August, also ruling that Crédit Agricole and ZST, with the latter intervening in the proceedings, should pay the court costs.
In November 2013, the Milan Court issued an order whereby Crédit Agricole shall not pay the guarantee requested by ZST up to €29.3 million, which is the same amount claimed by Ansaldo STS for design and supplying activities carried out for the contract until its halt.
Accordingly, the guarantor bank paid the above amount subsequently replacing the Russian creditor and thereby acting retrospectively vis-a-vis Ansaldo STS which, at the beginning of December 2013, paid the bank €41.3 million.
Subsequently, in March 2014, ZST issued the statement of claim and formally launched the arbitration procedure at the Vienna International Arbitral Centre in order to obtain payment of the portion of the Advance payment bond not allowed by the Milan Court on a provisional basis.

In May 2014, the procedure to form the arbitration panel was completed with the appointment of the chairperson, in addition to the arbitrators. In January 2015, the ASTS-Selex joint arrangement filed its Statement of defence and counterclaim with the VIAC.
In May 2016, the arbitration panel rejected nearly all of the demands of Ansaldo STS, in particular requiring the reimbursement to ZST of the advance withheld, in addition to legal costs and interest accrued until the date of repayment.
The Company evaluated all other possible solutions with the support of its lawyers, and in the end deemed any other path unfeasible. In October, the Company paid ZST its part totalling €37.4 million.

7. AISA JV - Attiko Metro arbitration
In January 2014, the AIASA joint venture (of which Ansaldo STS holds 22%) issued an arbitration request to the Greek company ATTIKO METRO S.A. and the Greek Ministry for Infrastructure and Transport.
The aim is to request payment of greater expense and/or curtailments on some progress reports and/or extra costs incurred by the joint venture in completing the contract for the design and construction of the Thessaloniki metro.
Given the considerable number of issues under arbitration, and for a more efficient settlement of the dispute, six different arbitration panels were set up, each resolving on a certain group of claims made by the AIASA joint venture against ATTIKO METRO.
In December 2014, the arbitration panel deciding on Dispute 66 ruled that the current work schedule discretionally set by the customer is illegitimate. In light of such award, AIASA informed the customer Attiko Metro that the contract was terminated as its term had expired now that the discretional extension had expired.
To date a series of arbitration awards was also issued in relation to some of which an appeal was filed before the Athens Court of Appeals by Attiko Metro.
The AIASA JV and the customer Attiko Metro subsequently sought to define a contractual solution to allow for the resumption of works.

8. ASTS /Alstom consortium - Société Nationale des Chemins de Fer Tunisiens arbitration
An arbitration panel was set up in May 2014 to resolve the dispute between the Ansaldo STS – Alstom consortium and Société Nationale des Chemins de Fer Tunisiens (SNCFT), in relation to the claim for compensation of greater expense and higher costs incurred by the consortium due to the technical variations and additional works requested by the customer in the technological upgrading of the railway line from Tunis Ville to Borj Cédria.
The parties formally set up the arbitration panel that will rule in accordance with the procedural rules of the International Chamber of Commerce (ICC) and pursuant to applicable French law.
The arbitration panel issued its final award in September 2016 in favour of the Ansaldo STS - Alstom consortium; with reference to the party ASTS, sums were recognised for damages due to delays and variations in the amount of roughly €2.5 million, including outstanding receivables, plus interest and legal costs.
The ensuing actions to have the results of the award become enforceable are currently being analysed.

9. Ansaldo STS S.p.A. - Metro C S.p.A. arbitration
In December 2014, the procedure to form the arbitration panel for the dispute introduced by Ansaldo STS versus Metro C S.p.A. commenced. It involved the company's request for greater expense and extra costs (for delays in the delivery of areas, archaeological finds and requests for variations from the customer) incurred due to delays which led to longer times to complete the contracts for the system engineering, construction of the sub systems for the automated train controls and on-board communications. Following the appointment of a court-appointed expert and the filing of the relative report, the arbitration panel has set the deadlines for the parties to submit their briefs, reserving any decision to after that time.

10. Alstom Ferroviaria S.p.A. – Ansaldo STS S.p.A. / RFI
In 2016, proceedings began before the Puglia Regional Administrative Court in Bari, lodged by Alstom Ferroviaria S.p.A., which requested the cancellation of the measures awarding tender no. DAC1.2015.0008, for a contractual value of roughly €15.0 million, relating to the design and implementation of a line ACC-M system located in Bari Lamasinata and for the line systems in the Foggia-Bari section. The applicant requested the cancellation, after precautionary suspension, of the awards in favour of ASTS by way of succession. Following the ruling of the Puglia Regional Administrative Court in Bari no. 1210 of 20/10/2016 accepting Alstom's petition against the acts of the tender carried out by RFI, an appeal was lodged before the Council of State. The hearing for the discussion of the suspension is expected to take place in the first few months of 2017, which will be followed by the judge's decision on the merits.

11. AISAF SA – Ansaldo STS S.p.A.
In the second half of 2016, the company ISAF SA submitted an application for arbitration to the International Chamber of Commerce, Bucharest, Romania. The arbitration regards the Consortium formed by ISAF and ASTS in relation to the “Rehabilitation of the section Campina-Predeal on the railway line Bucharest – Brasov, Lot 4” project. It regards a demand for compensation for damages of up to around €5.0 million from ISAF SA in relation to non-payments in its favour by the customer, allegedly attributable to delays and/or omissions of ASTS. The arbitration proceedings are currently suspended pending the resolution of the separate arbitration between ISAF SA and the customer concerning the demand for compensation for damages caused by the above-mentioned non-payments in its favour and the relative delays and/or omissions. If it loses, ISAF SA would continue with the arbitration against ASTS, as it deems it liable for the damages suffered.
Attempts to amicably settle the dispute are currently under way.

12. Other minor legal proceedings
The company has accrued a provision for risks to cover any minor liabilities arising from legal proceedings underway related to contracts performed. The provision which reflects the risks and charges of legal proceedings underway approximated €1 million.
At the reporting date, the company believes the amounts accrued in the provision for risks and charges and those accrued for each contract within the allowance for write-down, in order to cover any liabilities generated by pending or potential litigation, are adequate on the whole for the charges estimated by the company which are deemed probable.
With respect to disputes where the company is claimant in enforcement procedures against railway-sector companies in which the region holds a stake, the moratorium - originally provided by Italian Decree law no. 83/2012 and subsequently by Italian Decree law no. 151/2013 -, which suspended enforcement procedures against such companies until 31 December 2014, was most recently reiterated with Italian Decree law no. 193/2016.
However, the parties are attempting to meet in order to reach an out-of-court settlement.

Corporate Governance and ownership structure pursuant to article 123-bis of Italian Legislative Decree no. 58 of 24 february 1998 and subsequent amendments and integrations (the Consolidated Finance Act)

The Ansaldo STS shares have been listed on the Star segment of the markets organised and managed by Borsa Italiana S.p.A. since 29 March 2006.
They were included in the FTSE MIB index from 23 March 2009 to 23 March 2014 and in the FTSE Italia Mid Cap index from 24 March 2014 until 6 April 2015. They then were re-included in the FTSE MIB index from 7 April 2015 until 20 December 2015. Since 21 December 2015, the shares have been included in the FTSE Italia Mid Cap index again.
With the approval of the board of directors given on 19 December 2006, Ansaldo STS adopted the Code of conduct endorsed by Borsa Italiana S.p.A. in March 2006 and came into line with its requirements during 2007.
Borsa Italiana S.p.A.’s corporate governance committee adopted a new Code of conduct in December 2011. On 18 December 2012, Ansaldo STS’s board of directors resolved to comply with the principles of this new code and to update its own governance systems to comply with them. The committee adopted a new version of such code in July 2014 and, furthermore, in July 2015; Ansaldo STS’s corporate governance system basically comply with the latest version.
Lastly, Ansaldo STS is completing a review of its documents and operating protocols in order to align its corporate governance system with the new regulations on “market abuse” introduced with Directive 2014/57/EU (MAD 2) and Regulation (EU) 569/2014 (MAR), which repealed Directive 2003/6/EC and Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.
Detailed disclosure on the parent’s corporate governance structure is provided in the section of the directors’ report covering corporate governance and the adoption of the Code of conduct for listed companies related to 2016, approved by the board of directors on 27 February 2017, published at the same time as this annual report.

On 9 November 2015, the board of directors, pursuant to article 2386 of the Italian Civil Code, appointed Alessandra Piccinino as new non-executive independent director to replace Barbara Poggiali.
Furthermore, on 25 November 2015, in relation to Mr. Hirayangi's resignation, the board of directors pursuant to article 2386 of the Italian Civil Code, appointed Mario Garraffo as new non-executive independent director.
On the same date, the directors appointed Karen Boswell as the company's new deputy chairperson.
Ms. Piccinino and Mr. Garraffo remained in office until the next shareholders' meeting as provided for by article 2386 Paragraph 1 second part of the Italian Civil Code.
Subsequently, following the resignation on 30 March 2016 of Alistair Dormer, Karen Boswell and Stefano Siragusa, and as the majority of directors appointed by the shareholders' meeting held on 2 November 2015 were no longer in office, the board of directors, taking into account the provisions of article 16.8 of the by-laws, called the shareholders' meeting to, inter alia, appoint the new board of directors.
The shareholders' meeting held on 13 May 2016 determined that there would be nine directors and then appointed the new board for 2016-2018. In particular, the meeting appointed the following as new directors of Ansaldo STS S.p.A.: Alistair Dormer (chairperson), Katherine Jane Mingay, Andrew Thomas Barr, Giuseppe Bivona, Rosa Cipriotti, Mario Garraffo, Alberto de Benedictis, Fabio Labruna and Katharine Rosalind Painter.
Subsequently, at its meeting on 16 May 2016, the board of directors appointed Katherine Jane Mingay as deputy chairperson of the board of directors.
On 24 May 2016, the board of directors appointed Andrew Thomas Barr as chief executive officer and general manager of Ansaldo STS S.p.A.
Lastly, following the resignation of Katherine Jane Mingay from the role of deputy chairperson of Ansaldo STS S.p.A. on 21 October 2016 effective immediately, during its meeting on 28 October 2016 the board of directors appointed Alberto de Benedictis as deputy chairperson of the board of directors.

During the meeting held on 28 October 2016, the board of directors resolved by majority to establish an executive committee (the bid committee). The committee was vested with the power to evaluate and approve bids for the acquisition of contracts for public and private sector customers exceeding €150 million and within the limit of €350 million per transaction. The executive committee consists of chairperson Alistair Dormer, chief executive officer Andrew Thomas Barr and director Katherine Jane Mingay.

The company's board of statutory auditors, appointed for the three-year term from 2014 to 2016 by the shareholders on 15 April 2014, includes Giacinto Sarubbi (chairperson), Renato Righetti and Maria Enrica Spinardi and the substitute statutory auditors Fabrizio Riccardo Di Giusto, Giorgio Mosci and Daniela Rosina.

On 16 May 2016, the board of directors appointed Francesco Gianni as board secretary.
On 16 May 2016, the board of directors appointed the members of the risk and control committee (Alberto de Benedictis – chairperson, Mario Garraffo and Katharine Rosalind Painter) and the appointments and remuneration committee (Katharine Rosalind Painter– chairperson, Alberto de Benedictis and Mario Garraffo).
On 24 May 2016, the board of directors also confirmed the CFO Roberto Carassai as manager in charge of financial reporting pursuant to article 154-bis of Italian Legislative decree no. 58/1998.
On 19 October 2016, Roberto Carassai signed a consensual termination agreement with the company, based on which he will take leave of his role as CFO and Manager in charge of financial reporting as of 28 February 2017.
On their appointment, the directors Giuseppe Bivona, Rosa Cipriotti, Fabio Labruna, Katharine Rosalind Painter, Alberto de Benedictis and Mario Garraffo confirmed that they meet the requirements for independence pursuant to the current legislation and the Code of conduct. The board of directors also assessed these requirements on 16 May 2016 and, with respect to Mr. Garraffo, on 24 May 2016. Also at the request of the board of statutory auditors, on 11 July and 19 December 2016 the board of directors evaluated whether director Alberto de Benedictis continued to meet the independence requirements.

Furthermore, in the meeting held on 24 May 2016, pursuant to principle 7.P.3 of the Code of conduct, the company's board of directors appointed the CEO, Andrew Thomas Barr, as director in charge of the internal control and risk management system. During the same meeting, the board of directors also confirmed the assignment of the internal audit function to the external company Protiviti S.r.l., and Giacomo Galli, managing director and country leader of that company as internal audit manager.
On the same date, the board of directors confirmed Nicoletta Garaventa and Alberto Quagli as chairperson and external member, respectively, of the company's supervisory body, as well as Filippo Corsi, general counsel of Ansaldo STS, as the internal member of the supervisory body.

Pursuant to the Code of conduct, during the first meeting of the board of statutory auditors, held on 15 April 2014, the statutory auditors Giacinto Sarubbi, Renato Righetti and Maria Enrica Spinardi, also confirmed that they meet the independence requirements pursuant to current legislation and stated thereby at the time of their appointment. Compliance with the independence requirements was subsequently verified and confirmed by the members of the board of statutory auditors during the meetings held on 9 December 2014 and 2 February 2016, for 2015, as well as on 28 November 2016.
With respect to the independent auditors appointed to perform the legally-required audit of Ansaldo STS S.p.A.'s financial statements, in their meeting of 7 May 2012, the shareholders awarded the audit engagement for the 2012-2020 period to KPMG S.p.A.
Following the resignation of the independent auditors KPMG S.p.A. received on 14 November 2016, at its meeting held on 24 November 2016 the board of directors called the ordinary shareholders' meeting to engage a new auditor.
On 19 January 2017, the shareholders awarded the audit engagement for the 2016-2024 period to EY S.p.A..

Lastly, on 25 February 2016 the board of directors approved the parent's remuneration policy for the year 2016, in compliance with the recommendations of article 6 of the Code of conduct, on the basis of the proposal prepared by the appointments and remuneration committee dated 25 February 2016.

On 25 February 2016, after discussion with the appointments and remuneration committee, the board of directors also approved the remuneration report prepared by the company pursuant to article 123-ter of the Consolidated finance act and article 84-quater of the Issuer regulation.
Finally, pursuant to article 123-ter, paragraph 6 of the Consolidated finance act, the ordinary shareholders' meeting held on 13 May 2016, approved the first section of the above-mentioned report required by article 123-ter, paragraph 3 of the Consolidated finance act, which describes the company's remuneration policy for its officers and key managers, and the procedure followed to implement and describe this policy.

Pursuant to articles 70, paragraph 8 and 71, paragraph 1-bis of the Issuer regulation, we note that, on 28 January 2013, in compliance with articles 70, paragraph 8 and 71, paragraph 1-bis of the Issuer regulation, the Board of directors of Ansaldo STS S.p.A. resolved to opt out of the requirement to publish the relevant documents for transactions such as mergers, demergers, share capital increases via contributions in kind, acquisitions and sales.
The key corporate governance tools that the company has implemented in compliance with the most recent legislative and regulatory requirements, as well as by the Code of conduct and national and international best practices, are as follows:
- By-laws;
- Code of ethics;
- Organisational, management and control model pursuant to Italian Legislative decree no. 231/01;
- Shareholders' meeting regulations;
- Board of directors' regulations;
- Executive committee (i.e. bid committee) regulations;
- Risk and control committee regulations;
- Appointments and remuneration committee regulations;
- Related party transactions - Procedure adopted pursuant to article 4 of CONSOB regulation no. 17221 of 12 March 2010 as amended;
- Procedure for the establishment and updating of the list of people with access to privileged information;
- Procedure for the handling and communication of privileged and confidential information;
- Internal Dealing code of conduct.

For further details on the parent's corporate governance, reference should be made to the "Corporate governance report", comprising all disclosure required by article 123-bis of the Consolidated finance act, available on the company's website www.ansaldo-sts.com

Statement pursuant to article 2.6.2.8/9 of the Regulations for markets organised and managed by Borsa Italiana S.p.A.

The company's board of directors confirms the compliance with the conditions referred to in articles 36, letters a), b) and c), point i) and 37 of the Regulation implementing Italian Legislative decree no. 58 of 24 February 1998 on markets, adopted by Consob with resolution no. 16191 of 29 October 2007 and subsequent amendments.

Data protection document

Pursuant to paragraph 26 of the Technical requirements governing minimum security measures, which forms Annex B to Italian Legislative decree no. 196 of 30 June 2003 (personal data protection code), Ansaldo STS S.p.A. has drawn up a Data protection document for the processing of personal data.
This document contains the information required by paragraph 19 of Annex B and describes the security measures implemented by the company to minimise the risk of destruction or loss, including accidental, of personal data, unauthorised access or unapproved processing, or processing that does not comply with the purposes for which it was gathered.

The environment

Ansaldo STS S.p.A. has pursued sustainability in recent years in the belief that respecting environmental and social values leads to the creation of long-term value for the business. In its Sustainability report, the group transparently discloses its values, strategies, policies and decisions in terms of economic, environmental and social sustainability.
In full compliance with ruling legislation, the law, the code of ethics, 231 Model, policies and all health and safety (HSE) regulations, Ansaldo STS pursues sustainable management of social and environmental matters linked to the services in all its business areas.
Ansaldo STS's commitment to "sustainable development" has seen it focus on:

- quality of life;
- ensuring the protection of natural resources;
- ensuring the safeguarding and protection of the environment and the adoption of environmental sustainability principles and values;
- avoiding permanent environmental damage.

Environmental protection is part of our social responsibility and is key to our business strategy promoting growth in the company's value over the long term.
From an environmental point of view, Ansaldo STS S.p.A. is involved:

- as a producer, committed to pursuing environmental protection policies not only by just complying with existing laws, regulations and directives but by pursuing ongoing improvement in the environmental impact of its products and production processes;
- as a supplier of railway operators, in the knowledge that offering increasingly evolved, safe and reliable railway traffic control and automation products promotes the rapid development of the most environmentally-friendly transport system available today.

Strategic orientation and management approach

The company has implemented an Integrated Management System (IMS) for environment, safety and quality issues. It has set policies and procedures to ensure the controlled management of the processes and workplace safety and environmental protection activities.
It has defined local policies in relation to the environment, safety and instructions in order to achieve the following objectives:

- ensuring the best available technologies are used and international best practices adopted in order to continuously improve operating management, the rational and efficient use of energy, the prevention of pollution and the reduction of the environmental impact related to the use of fossil fuels;

- ensuring liquid waste, gas emissions and waste from assets in running conditions and activities performed are controlled, gradually reduced and kept at a minimum;
- ensuring compliance with legal requirements applicable to its processes in the various countries in which the subsidiaries operate, by formalising procedures that increase awareness of the applicable legislative framework;
- identifying significant direct and indirect environmental issues in order to reduce and control the related impact, both as relates to the companies and its suppliers and partners;
- defining key indicators with a view to facilitating the assessment of performance;
- defining roles, duties and responsibilities within the scope of activities.

Ansaldo STS follows the ISO 14001 framework and EMAS (Eco-Management and Audit Scheme) regulation in developing its management systems. Certification is regarded as key to developing an entrenched environmental awareness and has been obtained for the Tito production site.

Innovation and the promotion of good practices

The environmental management system adopted by Ansaldo STS S.p.A. is applied to the following:

- **PRODUCTION FACILITIES** for products used in safety, control and monitoring systems supplied by Ansaldo STS S.p.A.
- **OFFICES** (non-production sites) mainly for signalling plant design; the analysis of safety, reliability and availability; laboratory testing; contract management and control; research and development; procurement; and prevention and protection;
- **WORK SITES** Ansaldo STS's direct activities at work sites relate to management and coordination, surveillance and control of production, commissioning and roll-out of plant and delivery to the customer. With respect to environmental issues as a result of such activities, Ansaldo STS operates in accordance with operating control procedures, based on an initial environmental analysis of the work to be performed at the site, prepared and agreed with the subcontractors, followed by an environmental monitoring plan to continuously ensure legal compliance and that all steps are taken to limit the environmental impact that the opening of any site inevitably entails.

Ansaldo STS is also committed to providing the best and safest products and the best system solutions, using the best design methodologies and procedures and the best possible manufacturing methods and processes, in line with its aim of reducing energy consumption and both direct and indirect environmental impact.

Energy efficiency

Ansaldo STS's search for energy efficiency is broken down into the following macro-areas:

- Support for the design of turnkey systems through holistic hardware-in-the-loop type simulators intended to provide a transport system that uses energy efficiently.
- "Operation – rail & driverless", the focus of which is seeking out the optimal speed profile, taking into account scheduling and driving conduct.
- "Energy saving technologies", with a focus on trackside recovery systems, geothermal heat pumps and simulators for the optimal sizing of supercapacitor battery systems.

These areas are developed in the MERLIN (Management of Energy in Railway Systems), OSIRIS (Optimal Strategy to Innovate and Reduce energy consumption In urban rail Systems) and SFERE (Sistemi FERroviari: eco-sostenibilità e risparmio Energetico [Railway Systems: eco-sustainability and energy savings]) projects.

Eco-design

Partially due to certain new contracts, Ansaldo STS is focusing more closely on eco-design aspects, also in relation to customer environmental requirements, regarding for example:

- Analysis of conformity with the REACH – Registration, Evaluation and Authorisation of Chemicals regulation (an integrated chemical substance registration, evaluation, authorisation and restriction system established by the European Union);
- Analysis of material reuse and recyclability;
- Life Cycle Assessment (LCA).

LED technology

For some years now Ansaldo STS has been manufacturing safety semaphore systems in its Tito Scalo plant using LED technology. This innovation has a positive impact on energy consumption, maintenance management and the disposal of materials after maintenance works. It is sufficient to think that traditional lamps are changed every 4 months on average, while LEDs operate continuously for at least 10 years.

Commitment to fight climate change

Ansaldo STS is committed to progressively reducing CO2 emissions in all areas of operations. The activities and initiatives to deal with climate change are undertaken within the context of a global-level carbon management strategy. This entails definition of an emission reduction objective.
The following principles underpin Ansaldo STS's climate strategy:

1. A global approach: developing mechanisms that take into account the commitment of all Ansaldo STS S.p.A. facilities.
2. Reasonable and feasible long-term objectives: it is crucial to establish a clear and realistic vision of the steps to be taken.
3. Support the development of technologies: research into advanced technological solutions.

Communication, training and education

The company's specific training programme is fundamental to fostering a sense of environmental responsibility and constructive environment-related dialogue among employees and suppliers/contractors.
Ansaldo STS S.p.A.'s training and educational programmes are designed to increase awareness of:

- the importance of complying with the environmental policy and the environmental management system procedures and requirements;
- actual or potential significant environmental impacts of activities and the environmental benefits that each individual can pursue;
- roles and responsibilities in order to comply with the environmental policy and environmental management system procedures and requirements, including the preparation of contingency and response plans;
- the potential consequences of deviating from the operating procedures;
- the potential offered by the effective implementation of a combined quality, environment and safety policy for Ansaldo STS's business development.
  Subsequent environmental management system training sessions are held for personnel based on the specific corporate processes and related environmental aspects relevant to their activity.
  Records are kept of all training provided to personnel in its facilities.

General environment-related information

The operations of Ansaldo STS S.p.A.'s subsidiaries mainly comprise office-based activities which ensure full control in terms of direct and indirect environmental aspects.
The operations of several production facilities are fully compliant with the concepts of environmental protection and are among those which have been certified or for which the certification process is underway.

Management of water resources

Water consumption is purely for sanitary uses and is monitored and subject to regular sampling. Ansaldo STS S.p.A. has rolled out water-saving initiatives in recent years, such as the installation of automatic sensor taps.

Generation and management of special waste

The activities carried out at the facilities involve the generation of non-toxic special waste, mainly paper and cardboard and plastic packaging. This is handled by companies authorised for its transport and recycling.
Hazardous special waste generated by maintenance activities is disposed of by the global service companies contracted by Ansaldo STS S.p.A.

Energy consumption, CO_2 emissions, emission trading and other emissions

Energy consumption mainly stems from heating, lighting and utility power; it is monitored and is in line with consumption levels reported for similar businesses.
Ansaldo STS has obtained RECS (Renewable Energy Certificate System) certification for the consumption of electrical energy at its Italian facilities. These 1 MWh certificates attest the use of renewable resources.

Management of dangerous substances

Dangerous substances used in group processes are handled in full respect of the environment by adopting all possible precautions.

Disclosure on management and coordination and related party transactions

As described in the introduction, Finmeccanica S.p.A. executed the sale of its entire investment in the company to Hitachi Rail Italy Investments S.r.l., wholly controlled by Hitachi Ltd., on 2 November 2015.
Pursuant to article 2497-bis of the Italian Civil Code, we note that, as ascertained on 21 December 2015 by the company's directors, the company is managed and controlled by Hitachi Ltd.
Key figures from the most recently-approved financial statements of Hitachi Ltd. are presented in the table under note 39.
Pursuant to article 2497-bis, last point, of the Italian Civil Code, the following tables present the relationships between the company exercising management and coordination activity and the other companies subject to such activity in 2016 and the previous year.
The other companies subject to management and coordination by Hitachi Ltd. are those included in the consolidated financial statements of Hitachi Ltd., pursuant to article 2497-sexies of the Italian Civil Code. They include, as well as Hitachi Ltd. itself, all the subsidiaries of Ansaldo STS S.p.A. and Hitachi Ltd.
This disclosure is also required by article 2428.3.2 of the Italian Civil Code, together with that related to the subsidiaries and associates and companies subject to the control thereof.
The tables presented in notes 10 and 26 of the notes to the financial statements also disclose details of the companies that are related parties in Hitachi Ltd's consolidated financial statements due to the total investments held by the Hitachi Ltd. Group companies in Ansaldo STS companies. Moreover, note 38 presents total and individual directors', statutory auditors' and key managers' fees.
Disclosure on transactions with the company exercising management and coordination activities and other companies subject thereto, together with disclosure on the amount of related party transactions in Hitachi Ltd.'s consolidated financial statements and directors, statutory auditors' and key managers' fees, represent the related party disclosure required by IAS 24 "Related party disclosures".

FINANCIAL ASSETS AT 31 DECEMBER 2016 (€'000)	**Loan assets**	**Trade receivables**	**Other current financial assets**	**Total**
Ultimate parents	-	467	-	467
Subsidiaries	22,524	37,322	-	59,846
Associates	267	10,332	-	10,598
Consortia	-	48,916	4	48,920
Total	**22,791**	**97,035**	**4**	**119,831**
% of the total corresponding financial statements caption	**44%**	**16%**	**0.01%**	

FINANCIAL LIABILITIES AT 31 DECEMBER 2016 (€'000)	**Loans and borrowings**	**Trade payables**	**Other current financial liabilities**	**Total**
Ultimate parents	-	-	-	-
Subsidiaries	92,208	20,952	3	113,163
Associates	-	16,335	371	16,705
Consortia	-	3,103	36	3,139
Total	**92,208**	**40,389**	**410**	**133,007**
% of the total corresponding financial statements caption	**98%**	**10%**	**0.7%**	

AT 31 DECEMBER 2016 (€'000)	**Revenue**	**Other operating income**	**Costs**	**Recovery of costs**	**Other operating expense**	**Financial income**	**Financial expense**
Ultimate parents	492	-	567	11	-	-	-
Subsidiaries	29,460	10,723	52,904	1,322	-	112,922	270
Associates	31,584	1,300	61,213	16	4	1,568	-
Consortia	60,799	-	2,888	48	-	-	-
Total	**122,334**	**12,023**	**117,571**	**1,397**	**4**	**114,490**	**270**
% of the total corresponding financial statements caption	**15%**	**66%**	**18%**		**0,1%**	**96%**	**1%**

FINANCIAL ASSETS AT 31 DECEMBER 2015 (€'000)	Loan assets	Trade receivables	Other current financial assets	Total
Ultimate parents	-	301	-	301
Subsidiaries	21,516	36,897	-	58,412
Associates	563	13,515	-	14,078
Consortia	-	41,560	4	41,564
Total	**22,079**	**92,273**	**4**	**114,356**
% of the total corresponding financial statements caption	**44%**	**17%**	**0.01%**	

FINANCIAL LIABILITIES AT 31 DECEMBER 2015 (€'000)	Loans and borrowings	Trade payables	Other current financial liabilities	Total
Ultimate parents	-	-	-	-
Subsidiaries	167,424	12,247	3	179,676
Associates	2,500	21,517	371	24,386
Consortia	-	3,314	29	3,343
Total	**169,924**	**37,078**	**402**	**207,404**
% of the total corresponding financial statements caption	**99%**	**11%**	**0.7%**	

AT 31 DECEMBER 2015 (€'000)	Revenue	Other operating income	Costs	Recovery of costs	Financial income	Financial expense
Ultimate parents	-	-	-	301	-	-
Subsidiaries	31,863	11,345	29,500	1,459	3,646	2,572
Associates	29,944	4,151	60,303	6,041	3,161	-
Consortia	43,540	-	2,672	68	-	-
Total	**105,347**	**15,496**	**92,475**	**7,869**	**6,807**	**2,572**
% of the total corresponding financial statements caption	**15%**	**71%**	**15%**		**29%**	**12%**

In 2016, the Company entered into transactions with Hitachi Ltd.; in particular, revenues amount to €492 thousand and relate to services provided for a project in Vietnam, while costs, amounting to €567 thousand, relate primarily to information technology activities.

Transactions with subsidiaries are as follows:

financial

Financial income includes dividends collected from the subsidiaries totalling €111,092 thousand.
Ansaldo STS S.p.A. has joint current accounts with its subsidiaries to settle trading and non-trading items with Ansaldo STS group companies. Financial income and expense presented in the table and which arise from such transactions totalled €462 thousand in income and €215 thousand in expense.

The balance of the joint current accounts with the subsidiaries at 31 December 2016 consists of credit balances due from Ansaldo STS Malaysia (€22,524 thousand), and debit balances due to Ansaldo STS France (€52,109 thousand), Ansaldo STS USA (€33,155 thousand), Ansaldo STS Australia (€6,807 thousand) and ASTS Sweden AB (€137 thousand). The terms applied to the current accounts with Ansaldo STS group companies are presented below.

For those contracts expressed in Euros:
- the debit interest rate applied by the parent to the subsidiary on each debit balance on the current account is the 1-month EURIBOR + 100 basis points;
- the credit interest rate applied by the parent to the subsidiary on each credit balance on the current account is the 1-month EURIBOR - 25 basis points.

For contracts expressed in foreign currency:
- the debit interest rate applied by the parent to the subsidiary on each debit balance on the current account is the 1-month LIBOR for the relevant currency + 100 basis points;
- the credit interest rate applied by the parent to the subsidiary on each credit balance on the current account is the 1-month LIBOR for the relevant currency - 25 basis points.

trading and other

- trading transactions with subsidiaries include the supply of spare parts and subsupplies by the subsidiary Ansaldo STS France;
- important contracts are in place with the subsidiary Ansaldo STS USA International Co. for the Aarhus, Milan, Riyadh, Copenhagen metro and Lima metro projects;
- operating income from Ansaldo STS Australia, Ansaldo STS France, Ansaldo Railway System Trading (Beijing), Ansaldo STS Sweden, Ansaldo STS Spain and Ansaldo STS Germany mainly relate to subcontracts or supplies to fulfil specific contracts signed by foreign subsidiaries;
- other operating income mainly relates to recharges for services provided by Ansaldo STS S.p.A. to all ASTS group companies under the general service agreement for a total of €8,973 thousand;
- recovery of expense mainly relates to the recharge of costs of €812 thousand to use the “Ansaldo” trademark and of €510 thousand for the supply of an international centralised videoconference service.

Transactions with other related companies mainly relate to trading activities, for sales of systems, components or spare parts and to purchase materials. These include the contracts with Metro Service AS for the Copenhagen contract and Hitachi Rail Italy S.p.A. (AnsaldoBreda S.p.A. until 2 November 2015) for the vehicle supply contracts for the Genoa and Copenhagen metro projects.

The most significant of the non-trading transactions with related parties include the lease instalment and recharge for the management and use of shared services in the Naples facilities by Hitachi Rail Italy S.p.A. The 2016 lease payment amounts to €894 thousand, and the charge for shared services is equal to €1,999 thousand.

Consortia are set up to carry out works; specifically, Saturno consortium was set up to carry out works related to the high-speed railway and the MM4 consortium was established for the Milan metro line 4.

Disclosure on financial risk management and financial instruments

Reference should be made to the relevant section of the notes to the financial statements for disclosure on financial instruments and financial risks pursuant to article 2428.2.6-bis of the Italian Civil Code, which also complies with the requirements of IFRS 7 “Financial instruments: disclosures”.

Key events of and after the reporting period

Please recall that on 24 February 2015, Hitachi Ltd. and Finmeccanica S.p.A. communicated their signing of a binding contract for Hitachi’s purchase of Finmeccanica’s entire investment in Ansaldo STS S.p.A., equal to 40% of its share capital. As a result, on 2 November 2015, Finmeccanica S.p.A. executed the sale of its investment in Ansaldo STS (80,131,081 shares for 40.07% of its share capital) to Hitachi Rail Italy Investments S.r.l., wholly owned by Hitachi Ltd. Accordingly, Hitachi Ltd., by its wholly owned controlled company, became the company’s controlling shareholder of Ansaldo STS S.p.A., pursuant to article 2359.1.2) of the Italian Civil Code and article 93 of the Consolidated finance act. On 21 December 2015, the company’s board of directors verified that Ansaldo STS is managed and coordinated by Hitachi Ltd. in accordance with article 2497 and subsequent articles of the Italian Civil Code.

Please recall that on 2 November 2015 and following the sale of the above shares, the legal conditions materialised obliging Hitachi Rail Italy Investments S.r.l., Hitachi Ltd.’s subsidiary, to make a takeover bid for all the company’s remaining ordinary shares (119,868,919 shares equal to 59.93% of its share capital) pursuant to articles 102 and 106.1-bis of the Consolidated finance act (the “takeover bid”). The period for acceptance of the takeover bid was concluded on 14 March 2016. The ordinary shares of Ansaldo STS S.p.A. for which the bid was accepted numbered 12,832,398, equal to 6.416% of the company’s share capital. Therefore, on 21 March 2016, the date of payment of the consideration due to holders of the shares for which the bid was accepted and their simultaneous transfer to the bidder, the investment in Ansaldo STS S.p.A. held by Hitachi Rail Italy Investments S.r.l. was equal to 46.482% of the share capital.

As Hitachi Rail Italy Investments S.r.l.’s investment came to lower than 90% of the share capital of Ansaldo STS S.p.A., the requirements were not met for the exercise of the commitment to buy pursuant to art. 108.2, of the Consolidated finance act or the commitment to buy pursuant to art. 108.1 of the Consolidated finance act and the right to buy, pursuant to article 111 of the Consolidated finance act.
Subsequently, Hitachi Rail Italy Investments S.r.l. acquired an additional 8,581,223 ordinary shares of Ansaldo STS S.p.A. Due to this purchase, the investment held by Hitachi Rail Italy Investments S.r.l. in Ansaldo STS S.p.A. is currently equal to 50.772% of the share capital.

More information about the takeover bid is provided in the communications and documentation made available to the public pursuant to the relevant legislation on the company’s website page http://www.ansaldo-sts.com/it/investor-relations/offerta-pubblica-dacquisto.

On 21 June 2016, Ansaldo STS and Hitachi, Ltd., as members of the ARH consortium (consisting of Ansaldo STS SpA, RSEA Engineering Corp. and Hitachi, Ltd.), signed a turnkey agreement with New Taipei City Government Department of Rapid Transit System (NTCG DORTS) with a total value of roughly €885 million.
The scope of work for Ansaldo STS, as consortium leader, involves the supply of CBTC (Communication Based Train Control) technology and all electro-mechanical systems (power supply, telecommunications, platform doors, ticketing systems, SCADA and depot equipment), for a value of €219.8 million (excluding VAT).
CBTC technology is leading to a new era in the sector of railway transport control, boosting flexibility, reducing maintenance costs and improving interoperability.
The scope of the supply of Hitachi, Ltd. includes the design and construction of cars for metropolitan trains and consists of 29 two-car trains for a total of 58 cars.
For NTCG DORTS, this turnkey project includes civil, electro-mechanical and rolling stock works and is the first medium capacity metro built and managed by New Taipei City.
The entire Sanying line is 14.29 km long, with 12 stations and a depot. The line, which includes completely elevated stations, goes from Dingpu station on the MRT blue line in Tucheng, and goes through Sanxia to Yingge.

As part of the "3-*rings*-3-*lines*" project, the Sanying line will enter the construction phase in the second half of 2016 and is expected to be completed in 2023. It will provide a comfortable and safe public transport system to the citizens of New Taipei City.

In September 2016, Ansaldo STS was awarded two contracts with a total value of €74.8 million relating to signalling on the direct Rome - Florence section of the high capacity/high speed Turin-Milan-Naples line.
In the contracts awarded by RFI (Rete Ferroviaria Italiana), the scope of the work for Ansaldo STS encompasses the design and execution of works for the implementation of the ERTMS/ETCS Level 2 Trackside Subsystem, the ACC-M and complementary and accessory activities for the technological upgrade of the direct Rome - Florence section of the high capacity/high speed Turin-Milan-Naples line.
Ansaldo STS's signalling systems will support the current 234 km of double track line, elevating the line to the highest technological levels.

At the end of December 2016, "Consorzio Saturno per la realizzazione di opere ferroviarie ad elevato contenuto tecnologico per il sistema ferroviario italiano ad alta velocità" [Saturno Consortium for the implementation of railway works with high technological content for the Italian high speed railway system], of which Ansaldo STS S.p.A. is a member, signed an engagement with the General Contractor, Consorzio Collegamenti Integrati Veloci ("Cociv"), for the implementation of technological systems relating to the high speed/high capacity project of the Milan-Genoa line, "Terzo Valico dei Giovi".
The scope of the work pertaining to Ansaldo STS regards the supply of technological systems relating to railway signalling equipment, the command and control system (SCCM/AV), the light and utility power system and the tunnel safety monitoring system.
The works awarded to Ansaldo STS are worth a total of €174.6 million.

By deed dated 14 July 2016, the Funds Elliott petitioned the Court of Genoa to cancel the shareholders' meeting resolution of 13 May 2016 appointing the board of directors and chairperson Dormer, after suspending its effectiveness and prohibiting Hitachi Rail, which was also served with the summons, from exercising its voting rights.

The Elliot Funds had also submitted a petition for the appointment of a special receiver pursuant to art. 78 of the Italian Code of Civil Procedure, who would represent the company in court. On 18 July 2016, the Elliott Funds served the company with the order signed on 14 July 2016 whereby the chief judge of the Court of Genoa, in acceptance of their petition, appointed a special receiver.
The appointment measure was revoked by the chief judge of the Court of Genoa on 1 August 2016 due to procedural irregularities.
On 11 August 2016, in acceptance of a new petition from the Elliot Funds, the Court of Genoa again appointed attorney Alessandro Barca as special receiver.
After the company submitted a complaint, on 6 September 2016 the Genoa Court of Appeals definitively cancelled the Court's appointment of the receiver, ruling out "*the existence of conflicting interests between the legal representatives and the company*".
The company therefore appeared before the court in the proceedings for the precautionary suspension of the appealed resolution, presenting its defence, and after the hearing of the directors and statutory auditors, on 9 November 2016 the Court of Genoa rejected the request for the precautionary suspension of the shareholders' resolutions of 13 May 2016. In particular, the Court recognised that circumstances prior to the appoint of the board of directors could not be enforced with respect to the company and its board of directors - as they "*are outside the sphere of knowledge of the current corporate bodies (as these are facts pre-existing their appointment, in which Ansaldo STS did not participate*)" - and that all directors in office had been appointed legitimately. The Elliot Funds did not submit any complaint against the order in question.
The decision on the merits is pending, the parties have presented their conclusions and the decision is expected for the first months of 2017.

On 23 November 2016, the Elliott International L.P., The Liverpool Limited Partnership and Elliott Associates L.P. Funds sent the Board of Statutory Auditors a report pursuant to art. 2408 of the Italian Civil Code, requesting a verification regarding certain corporate governance aspects, of which the company was informed on 27 November 2016.

At the ordinary shareholders' meeting of Ansaldo STS S.p.A. on 19 January 2017, the Board of Statutory Auditors presented its conclusions with respect to the report pursuant to art. 2408 of the Italian Civil Code submitted by the Elliott Funds; they have been made available to the public by means of publication on the company website at www.ansaldo-sts.com/it/governance/assemblea-azionisti/assemblea-nomina-revisore-legale-conti-2017.
Please recall that, also during the shareholders' meeting held on 13 May 2016, the board of statutory auditors responded to a previous report dated 9 April 2016 pursuant to art. 2408 of the Italian Civil Code from the shareholders Elliott International L.P., The Liverpool Limited Partnership and Elliott Associates L.P., with respect to which reference is made to the company webpage http://www.ansaldo-sts.com/it/governance/assemblea-azionisti/assemblea-2016.

On 19 January 2017, the ordinary shareholders' meeting of Ansaldo STS S.p.A., acknowledging the resignation of KPMG S.p.A. on 14 November 2016, appointed EY S.p.A. to audit the company's accounts for the years 2016-2024. On the basis of a request to supplement the agenda submitted on 29 December 2016 and pursuant to art. 126-bis of the Consolidated finance act by the shareholder Hitachi Rail Italy Investments s.r.l., the meeting also resolved to lodge a corporate action for liability pursuant to art. 2393 of the Italian Civil Code against director Giuseppe Bivona who, as a result, was removed from office. Therefore, as set forth in relevant legislation and the by-laws, the shareholders' meeting appointed Michele Alberto Fabiano Crisostomo as company director, as he was the first unelected candidate on the non-controlling shareholder list submitted jointly on 21 April 2016 by the non-controlling shareholders Elliott Associates L.P., Elliott International L.P. and The Liverpool Limited Partnership ("Elliott Funds"); when the list was submitted, the candidate had declared that he met the independence requirements laid out by relevant legislation and the Code of conduct for listed companies promoted by Borsa Italiana S.p.A. The Elliott shareholders declared during the meeting that the office was accepted and that the independence requirements were fulfilled.

Outlook

2017 will continue to see progress on the contracts acquired in the past few years with a related increase in revenue. The commercial activity is expected to considerably grow both in domestic and overseas markets.

Proposal to the shareholders

Dear shareholders
We present the 2016 financial statements for your approval, which show profit for 2016 of €145,857,237.53.
Pursuant to article 2433 of the Italian Civil Code, the shareholders are also required to resolve on the allocation of the profit for the year shown in the statutory financial statements.
In this regard the company's board of directors formulated a proposal for the allocation of the profit for the year and dividend distribution included in the relevant report required by article 125-ter of Italian Legislative decree no. 58 of 24 February 1998 ("Consolidated finance act"), as amended, made available to the public in the manner and within the timeframe provided for by enacted legislation.
This proposal provides for: (i) the distribution of a €0.18 dividend, gross of withholdings, to shareholders, for each of the shares with a nominal amount of €0.50, currently outstanding and bearing the right to dividends; (ii) the carry forward of the remaining amount.
It does not provide for any accrual to the legal reserve as it amounts to €20,000,000.00, equal to 20% of the share capital, which represents the maximum amount provided for by article 2430 of the Italian Civil Code.
Specifically, the above proposal provided for the allocation of the profit for the year in the amount of €36,000,000.00 to shareholders in the form of a dividend of €0.18, gross of withholdings, for each of the 200,000,000 shares currently outstanding and bearing the right to dividends, and for the retention of the remaining amount of €109,857,237.53.
The total amount of the dividend proposed for distribution corresponds to 36% of the share capital, roughly 25% of the profit for the year of Ansaldo STS S.p.A. and around 46% of the group's profit for 2016, which amounts to €77,968,238.27.
For further information about detachment, payable dividends date and the relevant record date pursuant to ex article 83-quarter ("Consolidated finance act"), please refers to the above mentioned report formulated by the company's board of directors pursuant to article 125-ter ("Consolidated finance act").

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Dear shareholders

We invite you to approve the following resolution:
"In their ordinary meeting, the shareholders of Ansaldo STS S.p.A.,
- having read the directors' report,
- the report of the board of statutory auditors,
- the financial statements at 31 December 2016,
- and having acknowledged the report of the independent auditors, EY S.p.A.

resolve

to approve the directors' report and the financial statements at 31 December 2016."

Milan, 27 February 2017

On behalf of the board of directors
The Chairperson

Alistair Dormer

Separate financial statements at **31 December 2016** and notes thereto

Separate financial statements at 31 December 2016 and notes thereto

Income statement

in euros	Note	2016	of which, related parties	2015	of which, related parties
Revenue	27	829,991,777	122,334,367	721,730,800	105,347,373
Other operating income	28	18,327,633	12,023,183	21,895,916	15,496,056
Purchases	29	(275,734,297)	(49,115,871)	(222,092,924)	(19,741,621)
Services	29	(356,683,508)	(67,058,233)	(327,321,269)	(64,864,925)
Personnel expense	30	(144,064,413)	897,999	(128,781,324)	1,655,524
Amortisation, depreciation and impairment losses	32	(12,246,977)	-	(12,103,590)	-
Other operating expense	28	(4,203,676)	(4,386)	(8,272,397)	-
Changes in finished goods, work-in-progress and semi-finished products	31	620,482	-	85,170	-
(-) Internal work capitalised	33	4,700,268	-	4,693,608	-
Operating profit (EBIT)		**60,707,289**		**49,833,990**	
Financial income	34	121,097,521	114,489,712	23,626,798	6,807,354
Financial expense	34	(19,842,036)	(270,423)	(21,918,494)	(2,572,357)
Profit before taxes and discontinued operations		**161,962,774**		**51,542,294**	
Income taxes	35	(16,105,536)	-	(15,641,407)	-
Profit (loss) from discontinued operations		-	-	-	-
Profit for the year		**145,857,238**		**35,900,887**	

Statement of comprehensive income

in euros	Note	2016	2015
Profit for the year		145,857,238	35,900,887
Items that will not be reclassified to profit or loss:			
- Actuarial gains (losses) on defined benefit plans	19	(37,009)	527,271
- Income tax	35	11,783	(145,000)
		(25,226)	**382,271**
Items that will or may be reclassified to profit or loss:			
- Change in fair value of cash flow hedges	19	(1,129,428)	(3,158,877)
- Foreign operations – foreign currency translation differences	19	114,715	5,215,420
- Income tax	35	394,817	(565,550)
		(619,896)	**1,490,993**
Other comprehensive income (expense), net of taxes		**(645,122)**	**1,873,264**
Comprehensive income for the year		**145,212,116**	**37,774,151**

Statement of financial position

in euros		**2016**	**of which, related parties**	2015	of which, related parties
Non-current assets					
Intangible assets	7	10,061,520	-	12,252,228	-
Property, plant and equipment	8	62,792,005	-	63,767,725	-
Equity investments	9	169,786,813	-	167,181,485	-
Loans and receivables	11	27,634,202	25,521,827	25,234,362	21,210,250
Deferred tax assets	15	18,120,644	-	18,320,643	-
Other non-current assets	11	16,090,169	-	18,332,007	36,041
		304,485,353		**305,088,450**	
Current assets					
Inventories	12	95,279,408	-	95,642,164	-
Contract work in progress	13	178,438,024	-	179,482,642	-
Trade receivables	14	606,054,373	97,035,403	548,538,790	92,272,983
Tax assets	16	17,446,617	-	15,008,472	-
Loan assets	14	51,233,847	22,790,842	50,521,847	22,078,842
Derivatives	17	9,801,950	-	8,437,775	-
Other current assets	18	57,280,535	4,334	64,811,967	4,334
Cash and cash equivalents	19	202,995,688	-	178,636,361	-
		1,218,530,442		**1,141,080,018**	
Total assets		**1,523,015,795**		**1,446,168,468**	
Equity					
Share capital	20	100,000,000	-	100,000,000	-
Other reserves	20	98,276,030	-	95,418,260	-
Retained earnings, including the profit for the year	20	277,047,347	-	167,190,109	-
Total equity		**475,323,377**		**362,608,369**	
Non-current liabilities					
Loans and borrowings		-	-	-	-
Employee benefits	23	18,294,171	-	17,947,846	-
Deferred tax liabilities	35	9,218,684	-	8,730,698	-
Other non-current liabilities	23	3,508,509	-	3,520,020	-
		31,021,364		**30,198,564**	
Current liabilities					
Progress payments and advances from customers	13	427,931,841	-	455,572,919	-
Trade payables	24	398,666,380	40,389,387	345,524,783	37,078,022
Loans and borrowings	20	93,978,687	92,207,799	171,531,126	169,923,893
Tax liabilities	15	8,303,752	-	4,726,387	-
Provisions for risks and charges	21	2,104,648	-	2,475,119	-
Derivatives	16	22,615,176	-	16,436,212	-
Other current liabilities	23	63,070,570	409,694	57,094,989	402,109
		1,016,671,054		**1,053,361,535**	
Total liabilities		**1,047,692,418**		**1,083,560,099**	
Total liabilities and equity		**1,523,015,795**		**1,446,168,468**	

Statement of cash flows

in euros	Note	2016	of which, related parties	2015	of which, related parties
Gross cash flows from operating activities:					
Profit for the year		145,857,238	-	35,900,887	-
Depreciation and impairment losses		12,246,978	-	12,103,590	-
Income texes		16,105,536	-	15,641,407	-
Accruals to provisions		646,000	-	844,564	-
Italian post-employment benefits		518,793	-	323,994	-
Defined benefit plans and stock grant plans		3,921,212	-	1,521,911	-
Financial income (expenses), net of impairment losses on equity investments measured at cost		(101,255,485)	-	(1,708,304)	-
Gross cash flows from operating activities	**36**	**78,040,272**	**(114,219,290)**	**64,628,049**	**(4,234,997)**
Inventories		362,756	-	(15,619,887)	-
Work in progress and progress payments and advances from customers		(26,596,460)	-	(51,141,178)	-
Trade receivables and Payables		(4,373,986)	-	51,252,365	-
Change in operating working capital	**36**	**(30,607,690)**	**(1,451,055)**	**(15,508,700)**	**35,246,258**
Changes in other operating assets and liabilities	36	(2,389,555)	378,085	(9,999,108)	(246,524)
Net interest paid	36	(9,554,091)	-	(7,706,439)	(4,234,997)
Income taxes paid	36	(3,098,222)	-	(6,188,142)	-
Cash flows from operating activities		**32,390,713**		**25,225,660**	
Cash flows from investing activities:					
Acquisitions of companies, net of cash acquired		(2,099,400)	-	(15,502,713)	-
Investments in property, plant and equipment and intangible assets		(2,601,749)	-	(4,221,421)	-
Dividends received from ASTS group companies		111,092,053	111,092,053	3,100,000	3,100,000
Other investing activities		(158,001)	(1,765,301)	(2,017,368)	(4,542,874)
Cash flows used in investing activities		**106,232,903**		**(18,641,502)**	
Cash flows from financing activities:					
Net change in loan assets and loans and borrowings		(78,264,289)	-	22,671,008	33,387,496
Dividends paid		(36,000,000)	-	(29,999,789)	-
Cash flows from (used in) financing activities		**(114,264,289)**		**(7,328,781)**	
Net increase (decrease) in cash and cash equivalents		24,359,327	-	(744,623)	-
Opening cash and cash equivalents		178,636,361	-	179,380,984	-
Closing cash and cash equivalents		**202,995,688**		**178,636,361**	

Statement of changes in equity

in euros	Share capital	Retained earnings	Stock grant reserve	Hedging reserve	Other reserves	Total equity
Equity at 1 January 2015	**99,999,298**	**161,579,070**	**3,183,342**	**3,369,245**	**86,830,044**	**354,960,999**
Use of treasury shares for SGP	702	-	-	-	-	702
Other comprehensive income (expense), net of taxes	-	-	-	(3,158,878)	5,032,142	1,873,264
Change in SGP reserves - Ansaldo STS S.p.A.	-	(290,059)	189,242	-	-	(100,817)
Change in SGP reserves - other companies	-	-	-	-	(26,877)	(26,877)
Dividends (199,998,595 x 0.15)	-	(29,999,789)	-	-	-	(29,999,789)
Profit for the year ended 31 December 2015	-	35,900,887	-	-	-	35,900,887
Equity at 31 December 2015	**100,000,000**	**167,190,109**	**3,372,584**	**210,367**	**91,835,309**	**362,608,369**
Other comprehensive income (expense), net of taxes	-	-	-	(1,129,428)	484,306	(645,122)
Change in SGP reserves - Ansaldo STS S.p.A.	-	-	2,948,771	-	-	2,948,771
Change in SGP reserves - other companies	-	-	-	-	554,121	554,121
Dividends (200,000,000 x 0.18)	-	(36,000,000)	-	-	-	(36,000,000)
Profit for the year ended 31 December 2016	-	145,857,238	-	-	-	145,857,238
Equity at 31 December 2016	**100,000,000**	**277,047,347**	**6,321,355**	**(919,061)**	**92,873,736**	**475,323,377**

Notes to the separate financial statements at 31 December 2016

1. General information

Ansaldo STS is a company limited by shares with its registered office in Via Paolo Mantovani 3-5, Genoa, a branch in Via Argine 425, Naples, a plant in Tito (Potenza) and an office in Piossasco (Turin).
The Ansaldo STS shares have been listed on the Star segment of the markets organised and managed by Borsa Italiana S.p.A. since 29 March 2006.
Its shares were included in the FTSE MIB index from 23 March 2009 to 23 March 2014 and in the FTSE Italia Mid Cap index from 24 March 2014 until 6 April 2015. They then were re-included in the FTSE MIB index from 7 April 2015 until 20 December 2015. Since 21 December 2015, the shares have been included in the FTSE Italia Mid Cap index again.

On 2 November 2015, Finmeccanica S.p.A. executed the sale of its entire investment in Ansaldo STS (80,131,081 shares for 40.07% of the share capital) to Hitachi Rail Italy Investments S.r.l., indirectly controlled by Hitachi Ltd. Accordingly, Hitachi Ltd., by its wholly owned controlled company, became the company's controlling shareholder of Ansaldo STS S.p.A., pursuant to article 2359.1.2) of the Italian Civil Code and article 93 of the Consolidated finance act.
At 31 December 2016 Hitachi Rail Italy Investments S.r.l. holds 101,544,702 ordinary shares of the company, equal to 50.772% of the share capital of Ansaldo STS S.p.A..
In addition, please note that Hitachi Ltd. exercises management and coordination activities with respect to Ansaldo STS S.p.A. pursuant to articles 2497 et seq. of the Italian Civil Code.

Ansaldo STS operates internationally in the design, construction and operation of signalling and transport systems for above-ground and underground railway lines, both for freight and passengers. It operates worldwide as a main contractor and supplier of turnkey systems. Ansaldo STS S.p.A., as parent, also exercises industrial and strategic guidance and control, coordinating the activities of its operating subsidiaries.

2. Basis of preparation

Ansaldo STS S.p.A.'s separate financial statements at 31 December 2016 are drafted in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Commission pursuant to EC regulation no. 1606/2002 of 19 July 2002, integrated by the interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Standard Interpretations Committee (IFRSIC) issued by the International Accounting Standards Board (IASB).

These separate financial statements have been prepared on a historical cost basis, except for those captions which, as required by the IFRS-EU, are to be recognised at fair value or for which this methodology is chosen, as described in the relevant accounting policies.

As permitted by IAS 1, assets and liabilities are presented in the statement of financial position as current and non-current (assets and liabilities are considered current when it is expected to realized or settled in their normal operating cycle), while income statement captions are shown by nature. The statement of cash flows was prepared using the indirect method. The income statements presents the Operating profit (EBIT), a significant indicator of the operating performance of the Group. The Operating profit is equal to the unadjusted profit before income taxes and financial income and expense. It does not include income and expense on non-consolidated equity investments and securities or the gains (losses) on the disposal of consolidated equity investments, classified in "Financial income and expense" in the financial statements or, for equity-accounted investees, in the caption "Share of profit or loss of equity-accounted investees".
Amounts are shown in thousands of euros, as allowed by law, unless stated otherwise.
The separate financial statements of Ansaldo STS S.p.A. at 31 December 2016 were approved and authorised for publication on 27 February 2017 by the board of directors in accordance with ruling legislation.

These financial statements have been prepared in accordance with the IFRS endorsed by the EU and audited by EY S.p.A..
Preparation of the separate financial statements required management to make estimates. Reference should be made to note 4 for information on the main areas which entailed particularly significant measurements and assumptions, along with those having a significant effect on the financial statements.

3. Accounting policies

Functional currency: these separate financial statements are presented in euros, which is the company's functional currency.

Foreign currency transactions: foreign currency monetary items, cash and cash equivalents, assets and liabilities to be received or settled in established or determinable monetary amounts, etc., as well as non-monetary items, advances to suppliers of goods and/or services, goodwill, intangible assets, etc., are initially recognised at the transaction date exchange rate. Subsequently, monetary amounts are translated into the functional currency at the closing rate and any translation differences are taken to profit or loss. Non-monetary amounts are maintained at the exchange rate ruling at the date of the transaction, unless continuing adverse economic trends affect the rate, in which case exchange rate differences are taken to profit or loss.

Intangible assets
Intangible assets are identifiable non-monetary assets without physical substance that generate future economic benefits for the group. They are recognised at purchase and/or production cost, including directly related charges incurred to prepare them for use, net of accumulated amortisation, except for assets with an indefinite useful life, and any impairment losses. Amortisation begins when the asset becomes available for use and is calculated systematically over the residual useful life of each asset. Amortisation is calculated considering the actual use of the asset in the year in which an intangible asset is initially recognised.

(i) Concessions, licences and trademarks
These include trademarks identifying the origin of products or goods from a specific company and licences to use third-party know-how or software. The costs, including direct and indirect expenses incurred to obtain these rights, are capitalised after the rights have been acquired and are amortised systematically over the shorter of the period of expected use and the period for which the right has been acquired.

(ii) Research and development expense
Research expense is taken to profit or loss when incurred.
Internally generated intangible assets and the related development expense are recognised only when all the following conditions exist simultaneously:
- the asset can be identified;
- the asset may generate future economic benefits;
- the cost to develop the asset can be measured reliably;
- there is a reference market for the product generated by the development activity.

If these conditions are not met, development expense is recognised in profit or loss when incurred. This expense, which is capitalised only when the above four conditions are met, is amortised on a straight-line basis over the asset's useful life.
The initial capitalisation of development costs is also based on whether the management's opinion on the technical and economic feasibility of the project is confirmed, and capitalisation includes only expenses incurred which may be attributed directly to the development process.

Leased assets
Assets held under finance lease, whereby the risks and rewards of ownership are substantially transferred to the company, are recognised as assets at their present value or, if lower, at the present value of minimum lease payments. The corresponding liability to the lessor is recognised under loans and borrowings. These assets are depreciated using the above criterion and rates described in the section about property, plant and equipment.
Leases whereby the lessor substantially retains the risks and rewards of ownership are classified as operating leases. Costs related to operating leases are recognised in profit or loss on a straight-line basis over the lease term.

Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost, net of accumulated depreciation and any impairment losses. Cost includes direct charges incurred to prepare assets for use and any disposal and removal costs that will be incurred to restore the site to its original conditions in line with contractual terms.

Costs for ordinary and/or routine maintenance and repairs are taken directly to profit or loss when incurred. Costs to expand, upgrade or improve owned or leased assets are capitalised only to the extent they meet the requirements to be classified separately as assets or part of an asset. Grants related to assets are taken as a direct decrease in the cost of the asset to which they relate.

The carrying amount of each asset is depreciated on a systematic basis. Depreciation is calculated on a straight-line basis each year over the residual useful lives of assets. Depreciation is calculated considering the actual use of the asset in the year in which an item of property, plant and equipment is initially recognised. The following table lists depreciation periods for each item of property, plant and equipment:

	Years
Land	indefinite useful life
Buildings	33.33
Plant and machinery	6.45 – 10
Industrial equipment	4
Other assets	4 – 8.33

If a depreciable asset is comprised of separately identifiable components with useful lives that differ significantly from the other components comprising the asset, depreciation is calculated separately for each component, using the component approach.

Profits and losses on the sale of assets are measured by comparing the sales price with the related carrying amount.

Impairment losses

Assets with an indefinite useful life are not depreciated/amortised, but are tested for impairment annually. Depreciable assets are tested to check whether there is any indication that they may be impaired. If any such indication exists, the recoverable amount of the asset is estimated and any excess thereof is recognised in profit or loss. When the reasons underlying a previously recognised impairment loss no longer exist, the carrying amount of the asset is restored to the extent of its original carrying amount. Reversals of impairment losses are also recognised in profit or loss. An impairment loss recognised for goodwill is never reversed.

Equity investments

The company classifies its equity investments as follows:

- “subsidiaries”, in which the investor has the power to govern the financial and operating policies so as to obtain benefits from the investee’s activities;
- “associates”, in which the investor has significant influence (at least 20% of votes in ordinary shareholders’ meetings). Jointly controlled entities (e.g., joint arrangements) are included in this category;
- “parents”, when the investee holds shares of its parent;
- “other companies” that do not fall into either of the above categories.

Subsidiaries, including jointly-controlled subsidiaries, associates and other entities, with the exception of those that are classified as “assets held for sale”, are measured at acquisition or incorporation cost. This cost remains in subsequent financial statements unless there are impairment losses or reversals of impairment losses following a variation in the purpose of the company or equity transactions.

The table in note 9 “Equity investments” summarises equity investments. Figures about subsidiaries are taken from the respective draft financial statements at 31 December 2016 approved by the relevant board of directors, while the carrying amounts of investments in subsidiaries, associates and other companies were compared with the equity of such investees, as per the most recently approved financial statements.

Inventories
Inventories are measured at the lower of purchase/production cost and net realisable value. Cost is calculated using the weighted average cost method. Finished goods and semi-finished products include costs for raw materials, direct labour costs and indirect costs allocated considering ordinary production capacity.

Net realisable value is the estimated sales price in the ordinary course of business considering any costs of completion and the estimated costs necessary to make the sale. The carrying amount of inventories is adjusted through a specific allowance to consider slow-moving or obsolete items.

Contract work in progress
Contract work in progress is recognised in accordance with the percentage of completion method whereby contract cost, revenue and contract profits (losses) are recognised using the percentage of completion method at the reporting date. The company uses the cost-to-cost percentage of completion method.
The measurement reflects the best estimate of the stage of completion at the reporting date. The entity periodically updates the assumptions underlying these measurements. Any profits or losses are recognised in the year in which the adjustments are made.
The estimations also include the evaluation of the probability of occurrence of potential liabilities (projects' risks like, for example, delivery delaies); these estimations are considered in preparing projects' budget costs if the underlined risk is considered probable. With reference to claims that could arose during the execution of the project or even and the end, they are considered in evaluating write-downs of work in progress if the underlined risk is considered probable.
The expected loss on a contract is recognised in full under operating expense when it becomes reasonably foreseeable, along with an accrual to the provision for expected losses to complete contracts.
Contract work in progress is recognised net of any allowances, expected losses to complete contracts and progress payments and advances relating to contracts in progress. This analysis is performed individually for each contract, recognising the positive difference (work in progress in excess of payments on account, allowance and expected losses to complete contracts) under contract work in progress and the negative difference under "Progress billings". If the amount recognised under advances is not collected at the preparation date of the annual and/or interim financial statements, a balancing entry is recognised under trade receivables.
Contracts with consideration in a currency other than the functional currency are measured by translating the portion of consideration accrued, as per the percentage of completion method, at the closing rate.
However, under the company's policy governing currency risk, all contracts whose cash inflows and outflows are significantly exposed to exchange rate fluctuations are adequately hedged.

Financial instruments
Financial instruments include financial assets and financial liabilities which are classified upon initial recognition based on the reason for which they were purchased. Purchases and sales of financial instruments are recognised on the date the transaction took place, being the date on which the company undertakes to purchase or sell the asset.

Financial assets
Financial assets are initially recognised in one of the following categories:

(i) Loans and receivables: these are non-derivative financial instruments, mainly related to trade receivables, with fixed or determinable payments that are not quoted on an active market. They are included in the current section, except for those which are due after more than twelve months after the reporting date which are therefore included under the non-current section. They are initially recognised at fair value, adjusted to reflect any transaction costs, and subsequently measured at amortised cost using the effective interest method. If there is objective evidence of impairment, the carrying amount of the asset is discounted to the estimated future cash flows. Impairment losses are recognised in profit or loss. If, in subsequent years, the reasons underlying the previous impairment losses no longer exist, the carrying amount of the asset is restored to the extent of the carrying amount that would have been obtained had the impairment not been recognised.

(ii) Available-for-sale financial assets: these are non-derivative financial assets that are designated as available for sale or are not classified under any of the above categories. They are measured at fair value and fair value gains or losses are taken to an equity reserve which is released to profit or loss only when the financial asset is actually sold or, in the case of cumulative losses, when the impairment loss recognised in equity will not be recovered.

Classification under current or non-current assets depends on strategic choices about the term of ownership of the asset and its actual trading possibilities. Assets which are expected to be realised within one year of the reporting date are recognised as current assets.

(iii) Financial assets at fair value through profit or loss
This category includes financial assets acquired for sale in the short term or designated as such by management, in addition to derivative instruments, in relation to which reference should be made to the paragraph below. The fair value of these instruments is based on the bid price at the reporting date: the fair value of unlisted instruments is determined using generally accepted financial valuation techniques. Fair value gains or losses of the financial instruments included in this category are recognised immediately in profit or loss.

Classification as current or non-current reflects management expectations about trading: they are included under current assets when they are expected to be traded within twelve months or when they are recognised as held for trading.
The factoring of receivables without recourse based on which all risks and benefits are substantially transferred to the assignee results in the derecognition of the receivables from the balance sheet assets, as the requirements laid out in IAS 39 are met.

(iv) Held-to-maturity investments
These are non-derivative financial assets with fixed maturity that the company has the positive intention and ability to hold to maturity. They are measured at amortised cost, using the effective interest method. They are initially recognised at fair value on the trade date, inclusive of any transaction costs and subsequently classified under current assets when their contractual maturity is within twelve months. If there is objective evidence of impairment, the carrying amount of the asset is reduced to that of discounted future cash flows. Impairment losses identified by means of impairment tests are recognised in profit or loss. If, in subsequent years, the reasons underlying the impairment loss cease to exist, the carrying amount of the asset is restored to the amount that it would have had had the impairment not been recognised.
Financial assets are derecognised when the company's right to receive cash flows from the instrument no longer exists and the company has transferred all risks and rewards of the instrument and control thereof.

Financial liabilities
Financial liabilities relate to loans, trade payables and other payment obligations. They are initially recognised at fair value, less any transaction costs, and subsequently measured at amortised cost, using the effective interest method. If changes in expected cash flows can be estimated reliably, the carrying amount of loans is recalculated to reflect the change based on the present value of the new expected cash flows and the initially determined internal rate of return. Financial liabilities are classified under current liabilities, unless the company has the unconditional right to defer payment by at least twelve months of the reporting date.
Financial liabilities are derecognised upon settlement and when the company has transferred all the risks and charges related to the instrument.

Derivatives
The company uses only derivatives exclusively as part of its strategies of hedging the risk of fluctuations in the fair value of recognised assets or liabilities or due to contractual commitments (fair value hedges), using the so-called forward instruments which, sometimes, despite a substantial and operating hedging effect, do not qualify for hedge accounting under IAS 39. Specifically, fluctuations in the fair value of these instruments and the related underlying items are recognised immediately in profit or loss, under financial items.

The effectiveness of hedges is documented at the inception of the transaction, as well as periodically at each annual or interim reporting date. Hedge effectiveness is measured by comparing the variations in the fair value of the hedging instrument with those of the hedged item (dollar offset ratio), or, for more complex instruments, using statistical analyses based on risk variations.
Fair value hedges: changes in the fair value of derivatives designated as fair value hedges and which qualify as such are recognised in profit or loss, as are changes in the fair value of the underlying assets or liabilities attributable to the risk eliminated by the hedging transaction.
Cash flow hedges: changes in the fair value of derivatives designated as cash flow hedges and which qualify as such are recognised to the extent of the portion determined to be "effective", in a specific equity reserve ("hedging reserve"). This is subsequently reclassified to profit or loss when the forecast transaction affects profit or loss.

The change in the fair value of the ineffective portion is recognised immediately in profit or loss. If the hedging instrument for which it was agreed is sold or no longer meets the criteria for hedge accounting or the forecast transaction is no longer highly probable, the relevant portion of the "hedging reserve" is released immediately to profit or loss.

Determining the fair value of financial instruments: the fair value of financial instruments quoted on active markets is calculated using the bid price at the reporting date. In the absence of an active market, fair value is calculated based on the prices provided by external operators and using models which are mainly based on objective financial variables considering, where possible, the recent prices of actual transactions and the quotations of similar financial instruments.

Financial assets and financial liabilities carried at fair value (derivatives) are classified based on the three following hierarchy levels which reflect the significance of the inputs used in measuring fair value. Specifically:
- Level 1: financial assets and financial liabilities whose fair value is calculated based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: financial assets and financial liabilities whose fair value is calculated based on inputs other than the quoted prices referred to in level 1 that may be observed either directly or indirectly;
- Level 3: financial assets and financial liabilities whose fair value is calculated based on unobservable market data.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances, call deposits with banks, other highly liquid short-term investments and current account overdrafts (the latter are recognised under current liabilities). They are recognised at fair value.

Equity
Share capital: share capital is fully subscribed and paid-up. Costs which are strictly related to share issues are recognised as a reduction of share capital, net of any deferred tax effect, if directly attributable to equity transactions.

Treasury shares: they are classified as a decrease in share capital. Profits and losses on the sale, issue or cancellation of treasury shares are not recognised in profit or loss.

Deferred taxes
Deferred taxes are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. Deferred tax assets and liabilities are measured at the tax rates that are expected to be enacted when realising assets and settling liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable profits will be available in the years the related temporary differences reverse against which the deductible temporary differences can be utilised.

Employee benefits
(i) Post-employment benefits: several pension (or supplementary) schemes are in place. They can be analysed as follows:
- Defined contribution plans under which the company pays fixed contributions into a separate entity (e.g. a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay employees benefits relating to employee service. Contributions payable to a defined contribution plan are recognised only when employees have rendered service in exchange for such contributions.
- Defined benefit plans whereby the company has an obligation to provide the agreed benefits to current and former employees and bears the actuarial and investment risks of the plan. Consequently, the cost of this plan is not calculated based on the contributions of the year, rather, actuarial and financial assumptions are applied using the projected unit credit method.

Defined benefit plans are recognised using the so-called equity method whereby the actuarial gains and losses of all plans are recognised directly in equity when they take place.
With respect to the classification of costs related to defined benefit plans, current and past service costs and curtailment (where applicable) are recognised under "Personnel expense". Conversely, interest expense, net of the expected return on any plan assets, are classified under "financial interest". Moreover, costs related to defined contribution plans are recognised under "personnel expense".

(ii) Other long-term employee benefits
Some employees are granted benefits such as, for example, jubilee benefits and seniority bonuses. The accounting treatment is the same as that applied to defined benefit plans, hence the "projected unit credit method" is used and any actuarial gains and losses are recognised immediately and entirely when they arise.

(iii) Termination benefits
Termination benefits are recognised as a liability and an expense when the company is demonstrably committed to terminating the employment of an employee or group of employees before their normal retirement date or providing termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits do not generate future economic benefits for the company and, accordingly, are immediately expensed.

(iv) Stock grant plans
Stock grant plans are in place for the company's senior management. In this case, the theoretical benefits granted to the relevant parties are recognised in profit or loss for the years covered by the plan, with a balancing entry in equity. These benefits are calculated by measuring the fair value of the relevant instrument using financial valuation techniques which include market conditions, if any, and by adjusting the number of rights which are expected to be granted at each annual or interim reporting date.

Provisions for risks and charges
The provisions for risks and charges are recognised against certain or probable losses and expenses for which the group is uncertain of the timing and/or amount at the reporting date.
Provisions for risks and charges are recognised if, at the reporting date, as a result of a past event, the group has a legal or constructive obligation that will lead to an outflow of resources. The amount recognised as a provision is the best estimate of the discounted outlay required to settle the obligation. The discount rate used reflects current market assessments and the additional effects of the risk specific to the liability.
Risks for which liabilities are only possible are disclosed in a specific section of the notes on commitments and risks. They are not provided for.

Recognition of revenue
Revenue is measured at the fair value of the consideration received or due, net of value added tax, discounts and volume rebates. Revenue also includes work in progress.
Revenue relating to the sale of goods is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the goods which generally coincides with transfer of title or possession to the buyer, or when the revenue can be measured reliably.
Revenue from the rendering of services is recognised based on the percentage of completion method, provided that it can be estimated reliably.
Revenue from contracts with Italian customers only is recognised under "progress payments and advances from customers" in the statement of financial position and subsequently reversed to profit or loss upon completion of the contract and, hence, of the related work in progress.

Grants
In accordance with the accounting standards, government grants, including non-monetary grants at fair value, are only recognised when there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received. Grants related to income are recognised on an accruals basis and in direct correlation with costs incurred when their allocation has been formally approved. Grants related to assets are recognised in profit or loss directly in line with the depreciation/amortisation of the assets/projects to which they relate and are recognised as a direct reduction in depreciation/amortisation.

Costs
Costs are recognised based on the criteria of proper qualification, temporal allocation and classification established by the accounting standards adopted by the enterprise.
Costs are recognised when they relate to goods and services, excluding contract work in progress, sold or consumed during the year or based on a systematic allotment, or when their future useful life cannot be identified.
Personnel expense includes the amount of remuneration paid, accruals to the provisions for pension funds and for unused holidays accrued and social security and pension contributions in application of contracts and legislation in force.

Costs for the acquisition of new knowledge or discoveries, the study of alternative products or processes and new techniques or models, the design and construction of prototypes or, in any event, incurred for other scientific research or technological development activities, are generally considered current costs and recognised in the income statement in the year in which they are incurred; these costs are recognised in the balance sheet assets ("Intangible assets") only when the conditions described in IAS 38 are met.

Net financial income/(expense)
Interest income and expense are recognised on an accruals basis using the effective interest method, i.e., at the interest rate that makes all cash inflows and outflows (including any premiums, discounts, commissions, etc.) comprising the transaction financially equivalent. Financial expense is not capitalised under assets as it does not meet the requirements set out in IAS 23 (revised).

Dividends
Dividends are recognised when the right to receive payment is established. This usually coincides with the shareholders' resolution approving their distribution.
Dividends paid to the shareholders of Ansaldo STS S.p.A. are considered as a change in equity and recognised as a liability in the year in which the distribution was approved by the company's shareholders.

Income taxes
Income taxes are recognised based on an estimate of taxable income in accordance with ruling legislation, taking into account any applicable exemptions and tax assets.
Current taxes are recognised in profit or loss, except for those related to captions that are directly taken to equity or comprehensive income, in which case the tax effect is recognised directly in equity or comprehensive income. They are offset when they are levied by the same taxation authority, there is a legally enforceable right to set off the recognised amounts and settlement on a net basis is expected.

Related party transactions
All related party transactions take place on an arm's length basis.

Other information
As the company owns investments in subsidiaries, it is required to prepare group consolidated financial statements.

New reporting standards (IFRS) and interpretations (IFRIC)

At the preparation date of these separate financial statements, the EU has endorsed several standards and interpretations which are not yet mandatory and which the company will apply in the next few years. The main changes (excluding the annual improvements) and potential impacts on the company are as follows:

IFRS - IFRIC		Nature and impacts on the group
IAS 7	Statement of cash flows	The amendments to IAS 7 Statement of cash flows are part of the IASB disclosure initiative and require an entity to provide supplemental information that enables users of financial statements to evaluate changes in liabilities linked with financing activities. Application of these amendments are not expected to have any significant effect on the company's financial statements. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of these amendments are not expected to have any significant effect on the company's financial statements. The company will apply these amendments starting from 1 January 2017.
Amendment to IAS 12	Income taxes	The amendments aim to clarify how to account for deferred tax assets relating to debt instruments measured at fair value. Application of these amendments are not expected to have any significant effect on the company's financial statements. The company will apply these amendments starting from 1 January 2017.
IFRS 2	Share-based Payment	The amendments aim to clarify the recognition of certain types of transactions with share-based payment. The impact on the group of adopting this standard is currently being analysed. The company will apply this standard starting from 1 January 2018.
IFRS 9	Financial instruments	This standard significantly amends the accounting treatment of financial instruments and will eventually replace IAS 39. At present, the IASB has amended the requirements for classifying and measuring financial assets currently set out in IAS 39. Moreover, the IASB has published a document on measuring financial instruments at amortised cost and assessing any impairment indicators. However, the competent bodies are still discussing the new general approach to financial instruments and, at present, it is not yet known when the adoption date will be. The impact on the company of adopting this standard is currently being analysed. The current version of IFRS 9 will be applicable as of 1 January 2018, subject to the EU's endorsement.
IFRS 15	Revenue from contracts with customers	This standard redefines how to recognise revenue, which must be recognised when control of goods or services is transferred to customers, and requires that additional disclosure be provided. The impact on the company of adopting such standard is currently being analysed. The company will apply this standard starting from 1 January 2018.
IFRS 16	Leases	The standard published in January 2016 to replace IAS 17 Leases, IFRIC 4, SIC-15 and SIC-27 defines the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases in the financial statements based on a single model similar to that used to account for financial leases in accordance with IAS 17. The company will apply this standard starting from 1 January 2019.

As regards the adoption of IFRS 15 and IFRS 16, analysis activities are under way which will make it possible to evaluate in 2017 any effects deriving from the application of those standards.

Insights into IFR15

As mentioned elsewhere in the Notes to the Financial Statements, the IASB issued IFRS 15 Revenue recognition, a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under IFRS, for Ansaldo STS, in particular, the new standard will supersede IAS 11 Construction Contracts and IAS 18 Revenue.

The new standard applies to revenue from contracts with customers: its core principle is that a company will recognize revenue when it transfers goods or services to customers at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, management will need to use more judgement and make more estimates than under today's guidance.

Application of the new standard is required for annual periods beginning on or after 1 January 2018; Ansaldo STS will not early adopt the new standard, even if permitted under IFRS. The new standard is required to be applied retrospectively and the transition will follow either a full retrospective approach or a modified retrospective approach. The modified approach allows the standard to be applied to existing contracts beginning with the current period. Ansaldo STS does not decided yet which option adopt for the retrospective approach.

IFRS 15 establishes a five-step model that will apply to revenue earned from contracts with a customers (with limited exceptions), regardless of the type of revenue transaction.

Regarding revenue streams, they basically fall into two main categories: (i) designing, building, operating and maintaining Railway and Mass Transit solutions that range from fully integrated turnkey solutions to traditional signalling systems for passenger rail systems; (ii) designing and production of a full range of signalling solutions and components and provides operation and maintenance services for Heavy Haul and Freight customers around the world.

Implementation plan of IFRS 15 will require Ansaldo STS to review its contracts following the five steps approach of the new standard in order to identify potential effects on net equity and income statements. Based on the preliminary overview performed, the main focus area of analysis and of potential impact have been identified in the following:

- accounting for contract modification (in particular, change order);
- transactions among partners (contracts with customers of Ansaldo STS frequently involved other partners in managing relationships and transactions with the final customers: based on contracts' clauses, in accordance with IFRS 15, transactions with partners could not represent revenue for the Company);
- costs to obtain contracts (incremental costs sustained to obtain contracts must be capitalized if recoverable through the sale);
- performance obligation in the contracts (the new standards requires to identify “multiple elements” within the contract which could be subject to separate evaluation and accounting with potential impact on revenue and margins from contracts);
- warranties (based on the characteristics of the warranties required and allowed, they could be considered separate performance obligation to be spin off from the main contract);
- transfer of control (critical analysis of contract terms for the purposes of identification of the model that better reflects the principles of the standard based on the transfer of control of goods and services).

The timeline of IFRS 15 implementation has been design to complete the analysis of the most significant existing contracts, in terms of size of revenue, within June 2017, in order to be able to provide preliminary conclusions in the consolidated half year report as of and for the six months period ended on June 30, 2017. A second a final step of the plan is actually expected within the end of 2017, in order to provide quantitative disclosure of the new standard in the year end consolidated financial statements as of December 31, 2017.

4. Significant accounting policies

The application of generally accepted accounting principles for the preparation of the financial statements and the interim accounting reports requires the company management to make accounting estimates based on complex and/or subjective opinions, estimates based on past experience and assumptions deemed reasonable and realistic on the basis of the information known at the moment of the estimate.
The use of these accounting estimates impacts the value at which assets and liabilities are recognised and the disclosure on contingent assets and liabilities at the reporting date, as well as the amount of revenue and costs in the reference year. The actual results may differ from those estimated due to the uncertainty characterising the assumptions and conditions on which the estimates are based.

The most significant accounting policies which require that directors prepare estimates based on a greater degree of subjectivity and for which a change in one of the underlying conditions would have a significant impact on financial statements are described below:
<u>(i) Costs estimation to complete construction contracts:</u> the company operates in a business and with contractual arrangements which are recognised using the percentage of completion method. Profits recognised in profit or loss reflect contract progress and the profits which will be recognised for the entire contract once it is completed. Consequently, for the purposes of correctly recognising work in progress and profits related to works yet to be completed, management is required to make an accurate estimate of expected losses, expected increases and delays, additional costs and penalties which could have an impact on the expected margin. More specifically, the expected loss estimate procedure requires estimates of the cost of materials, the number of hours required to carry out the works set forth in the contract, the financial expense incurred to cover guarantees issued by financial institutions and the possible outcome of disputes with contractual counterparties, partners and suppliers. In order to better assist management's estimates, the company has adopted contract risk management and analysis procedures which identify, monitor and quantify the risks related to contract performance. Carrying amounts reflect management's best estimate at that time, assisted by the above procedural tools.
The valuation of work in progress consider the estimations of the possible impacts arising from disputes with customers; in cases where there are disputes for risk of probable future liabilities, management sets aside special bad debt provision of the work in progress.

<u>(ii) Bad debt provision for receivables:</u> the company has a credit analysis procedures aimed to identify, monitor and quantify the risks reflected in the provision for doubtful receivables, which therefore represents the best estimate at the time of preparation of the consolidated financial statements.

<u>(iii) Impairment losses:</u> the company's assets with an indefinite useful life are tested for impairment at least once each year or more often if there is evidence of impairment. Likewise, all assets showing evidence of impairment are tested, also when depreciation/amortisation has already begun. Impairment tests are usually performed using the discounted cash flow method; however, this method is considered highly sensitive to the assumptions included in the estimate of future cash flows and of the interest rates applied.

For the purposes of these valuations, the company uses the plans approved by the body and financial parameters which are in line with those reflecting the current trend of reference markets. Expected cash flows may be quantified in light of the information available at the moment of the estimate on the basis of subjective judgements regarding the future performance of variables such as prices, costs, demand growth rates and production profiles, and are discounted using a rate that takes into account the risk inherent in the activity concerned.

5. Effects of amendments to the IFRS

The company has adopted certain accounting standards and amendments for the first time which are in force for financial years starting on 1 January 2016.

The nature and impact of each new accounting standard and amendment are described below:
- The amendment to IAS 19, which introduced a simplification of the accounting treatment of certain types of contributions to defined benefit plans by employees or third parties. This has not impacted the company's financial position and results of operations;
- IAS 27 provides for the possibility of measuring investments in subsidiaries, joint ventures and associates at

equity;

- The amendment to IAS 16 and 38 clarifies that it is inappropriate to use revenue-based methods to calculate the depreciation of an asset as revenues reflect a model of economic benefits which are generated by the running of a business, rather than the economic benefits that are consumed with the use of the asset.

Although these new standards and amendments were applied for the first time in 2016, they have not had material impacts on the financial statements or the notes.

6. Segment reporting

In compliance with the aggregation criteria laid out in IFRS 8, ASTS has identified one single operating segment. Therefore, the information required by IFRS 8 correspond to those presented in the consolidated income statement in line with previous years.
Some consolidated accounting information is provided below on a geographical basis, which represents the main way in which the management monitors business performance.
A breakdown of revenue by geographical segments is as follows:

(€'000)	**2016**	2015
Revenue:		
Italy	221,446	247,524
Rest of Europe	214,146	179,483
North Africa and the Middle East	106,996	93,603
Americas	95,460	53,344
Asia/Pacific	69,609	42,429
Total revenue	**707,657**	**616,384**
Revenue from related parties:		
Italy	86,237	73,697
Rest of Europe	20,503	10,090
North Africa and the Middle East	-	-
Americas	762	156
Asia/Pacific	14,832	21,403
Total revenue from related parties:	**122,334**	**105,347**
Total	**829,992**	**721,731**

Assets are considered based on the area where they are located:

(€'000)	**2016**	2015
Assets:		
Italy	71,391	75,486
Rest of Europe	192	171
North Africa and the Middle East	778	184
Americas	428	138
Asia/Pacific	65	41
Total	**72,854**	**76,020**

7. Intangible assets

(€'000)	Development expense	Patents and similar rights	Concessions, licences and trademarks and other similar rights	Other	Assets under construction	Total
At 31 December 2015						
Cost	22,172	20,177	4,880	3,025	-	50,254
Grants	(4,617)	-	(9)	-	-	(4,626)
Amortisation and impairment losses	(13,118)	(12,812)	(4,430)	(3,014)	-	(33,375)
Carrying amount	**4,436**	**7,365**	**440**	**11**	**-**	**12,253**
Changes of 2016						
Investments	4,126	893	105	5	-	5,129
Transfers from assets under construction	-	-	-	-	-	-
Grants	(1,141)	-	-	-	-	(1,141)
Amortisation	(2,043)	(3,857)	(277)	(2)	-	(6,180)
At 31 December 2016						
Cost	26,298	21,070	4,985	3,030	-	55,383
Grants	(5,758)	-	(9)	-	-	(5,767)
Amortisation and impairment losses	(15,161)	(16,670)	(4,707)	(3,016)	-	(39,554)
Carrying amount	**5,379**	**4,401**	**269**	**14**	**-**	**10,062**

Intangible assets at 31 December 2016 totalled €10,062 thousand, down by €2,191 thousand on €12,253 thousand at 31 December 2015.

They can be analysed as follows:

- "Development expense" (€5,379 thousand) mainly includes the Satellite and Rail Telecom project to develop satellite technologies. This year saw an increase of €4,126 thousand, the €1,141 thousand grant and amortisation of €2,043 thousand. This project is co-financed by the European Space Agency and the Galileo Supervisory Authority.
  The Stream project was fully amortised in previous years.
- "Patents and similar rights" (€4,401 thousand) fell €2,964 thousand.
  Specifically, the fall is due to new investments (€893 thousand) and amortisation (€3,857 thousand).
  In more detail, during the year investments related primarily to the "*Nuovo Internet Global Company*" (€479 thousand), "*New Hyperion Application*" (€100 thousand), "*Workload Management System (WMS)*" (€58 thousand) and "*Tool IET Enterprise for Facility MGT*" (€35 thousand).
- "Concessions, licences and trademarks and other similar rights" (€269 thousand) relate to software licences. Investments of the year amount to €105 thousand and mainly relate to the purchase of licences relating to the "*Network Security*" project dedicated to the protection of the company's ICT systems (€25 thousand), the "*Dogana Virtuale*" project for the centralisation of the control and management of personnel user access (€31 thousand) and for other "Cyber Security" activities (€16 thousand).
  Please also note the development of several technical tools (€33 thousand).
  As a consequence of the grants received, these assets cannot be sold before five years. The carrying amount of concessions, licences, trademarks and other similar rights subject to this limitation amounts to €21 thousand.
- "Other" of €14 thousand, net of accumulated amortisation, rose €5 thousand with amortisation of €2 thousand.
- "Assets under development" had a nil balance.

8. Property, plant and equipment

(€'000)	Land and buildings	Plant and machinery	Equipment	Other	Assets under construction	Total
At 31 December 2015						
Cost	81,106	15,352	12,026	12,926	12	121,422
Grants	(171)	(885)	(406)	-	-	(1,462)
Depreciation and impairment losses	(25,306)	(11,156)	(9,933)	(9,797)	-	(56,191)
Carrying amount	**55,629**	**3,311**	**1,687**	**3,129**	**12**	**63,768**
Changes of 2016						
Investments	98	198	1,032	2,363	74	3,765
Transfers from assets under construction	-	12	-	-	(12)	-
Write-offs	-	-	-	-	-	-
Depreciation	(2,018)	(593)	(818)	(1,312)	-	(4,742)
At 31 December 2016						
Cost	81,204	15,562	13,058	15,289	74	125,187
Grants	(171)	(885)	(406)	-	-	(1,462)
Depreciation and impairment losses	(27,324)	(11,749)	(10,751)	(11,109)	-	(60,933)
Carrying amount	**53,709**	**2,928**	**1,901**	**4,180**	**74**	**62,792**

"Property, plant and equipment", net of accumulated depreciation, amount to €62,792 thousand (31 December 2015: €63,768 thousand).

Specifically:
"Land and buildings" of €53,709 thousand (net of accumulated depreciation and grants) relate to the real estate complex in via Salita della Grotta, Naples (€1,686 thousand), the industrial buildings in Turin and Tito (€6,943 thousand) and the property purchased in via Paolo Mantovani 3/5, Genoa (€45,080 thousand) for a consideration of €62,378 thousand.
The decrease of the year is due to new investments (€98 thousand) into the maintenance of the Tito (€51 thousand), Turin (€10 thousand) and Genoa (€37 thousand) facilities and depreciation (€2,018 thousand).

"Plant and machinery" amount to €2,928 thousand, net of accumulated depreciation (31 December 2015: €3,311 thousand).
The variation of the year is the sum of the increase, €198 thousand, depreciation of €593 thousand and the transfers from assets under construction of €12 thousand related to the partial upgrade of the fluid mechanics system in the Piossasco facility office building.
The increases of the year are as follows:
- the Tito production facility (€43 thousand), relating to the nitrogen storage plant for the temperature chamber (€29 thousand), the re-layout of the welding area plant (€7 thousand) and the upgrade of the dark chamber electrical system (€7 thousand);
- the Turin office (€145 thousand) relating to bringing the "open space" lighting system up to regulations (€28 thousand), the overhaul of the air conditioning and aeraulic systems (€43 thousand), bringing the heating sub-station pump units up to regulations (€23 thousand), upgrading the low building power supply panels (€41 thousand) and lastly to the heating sub-station HVAC plant supervision system (€10 thousand);
- the Naples offices (€5 thousand) relating to the office CDZ machine;
- the Genoa office (€6 thousand) relating to real estate maintenance.

"Equipment" (€1,901 thousand) rose as a consequence of investments of the year (€1,032 thousand) and fell as a result of depreciation (€818 thousand).
Investments relate to:
- the Tito facility (€234 thousand), relating to the EDA burn-in chamber completion (€28 thousand), the upgrade of the FLEXY machine to ATEXI (€4 thousand), the implementation of Fixtures and SW for FDC circuit board testing (€69 thousand), the development of new automatic testing on the PXI platform (€35 thousand), new testing equipment for FDC circuit boards (€25 thousand) and lastly new laboratory equipment (€73 thousand);
- the Genoa offices (€194 thousand), relating to new generation hardware devices based on the new product WSP, QMR and WSP2G (€154 thousand) and other laboratory equipment (€40 thousand);

- the Piossasco facility (€292 thousand) for the renewal of equipment for systems of instruments and tools for MIS activities on Italian and foreign plants (€35 thousand), new laboratory equipment (€144 thousand) and lastly new pallet racks to increase warehouse storage space (€113 thousand);
- the Naples offices (€312 thousand) related to the upgrade of electrical measurement instruments and laboratory equipment.

“Other assets” (€4,180 thousand) rose as a consequence of investments of the year (€2,363 thousand). They relate to the renewal or replacement of IT equipment used by company personnel (€659 thousand), laboratory instruments and equipment (Genoa €80 thousand; Naples €195 thousand; Piossasco €60 thousand) and the purchase of furniture and fittings (Naples €12 thousand; Piossasco €6 thousand). The residual €1,351 thousand relates to the capitalisation of branch costs (Saudi Arabia €928 thousand, Honolulu €235 thousand, Peru €95 thousand, Denmark €84 thousand, others €9 thousand).
The €1,312 thousand decrease is due to depreciation of the year.

The historical cost of “Land and buildings”, “Plant and machinery” and “Equipment” is reduced by the grants received pursuant to Italian Law no. 488/92, applications 8 and 11, first and second application of the PIA Innovazione (Integrated Aids Package), totalling €1,462 thousand.
As a consequence, the assets covered by the above grants cannot be sold before five years. The historical cost of these assets is equal to €340 thousand for “Land and buildings”, €2,189 thousand for “Plant and machinery” and €946 thousand for “Equipment”.

“Assets under construction” amount to €74 thousand due to maintenance works on the Piossasco facility buildings. The €12 thousand decrease is due to the completion of the partial upgrade of the fluid mechanics system in the Piossasco facility office building.

The company did not enter into any finance leases.

Finally, in 2004, a restriction concerning the use of the company parking lot by third parties was granted in favour of the Piossasco municipality (Turin). Based on the above restriction, in 2007, said Municipality approved the zoning of part of the area used as a parking lot, allowing the construction of a company canteen.
The Piossasco municipality placed a restriction on such area that the canteen may also be used by third parties.

9. Equity investments

At 31 December 2016, equity investments amounted to €169,787 thousand, up by €2,606 thousand, net, on the previous year.

(€’000)	**2016**	2015
Opening balance	**167,181**	**157,482**
Acquisitions/subscriptions and capital increases	2,113	11,202
Reversals of impairment losses/impairment losses	(55)	(1,389)
Principal repayment	(2)	(86)
Sales	-	(1)
Other changes	549	(27)
Closing balance	**169,787**	**167,181**

The change was caused primarily by the share capital increase subscribed in the SPV Linea M4 S.p.A. (€2,100 thousand) for the completion of assigned works and the increase in the value of investments in subsidiaries (€554 thousand).

The table below lists equity investments at 31 December 2016 as permitted by IFRS 12, also containing the additional disclosures required by CONSOB (the Italian commission for listed companies and the stock exchange) communication no. DEM/6064293 of 28 July 2006:

Name	Registered office	Type of activity	Reference reporting date	Accounting standards used*	Share capital (€'000)	Functional currency	Equity (€'000)	Profit (loss) (€'000)	Total assets (€'000)	Total liabilities (€'000)	Stake (%)	Percentage of voting rights (%)	Holding type > 50% of voting rights without control	Holding type < 50% of voting rights with control	Holding type > 20% of voting rights without significant influence	Holding type < 20% of voting rights with significant influence	Measurement with the equity method 31/12/2016	Carrying amount
Investments in subsidiaries																		
Alifana S.c.r.l.	Naples (Italy)	Transportation	31.12.2016	ITAGaap	26	EUR	26	-	814	788	65.85%	65.85%	N/A	N/A	N/A	N/A	17	17
Alifana Due S.c.a.r.l.	Naples (Italy)	Transportation	31.12.2016	ITAGaap	26	EUR	26	-	1,466	1,440	53.34%	53.34%	N/A	N/A	N/A	N/A	14	14
Ansaldo STS Sweden AB	Solna (Sweden)	Transportation	31.12.2016	IFRS	419	SEK	5,139	2,761	43,818	38,679	100.00%	100.00%	N/A	N/A	N/A	N/A	5,139	240
Ansaldo STS France S.A.	Les Ulis (France)	Transportation	31.12.2016	IFRS	5,000	EUR	52,602	38,372	243,184	190,582	100.00%	100.00%	N/A	N/A	N/A	N/A	52,602	22,481
Ansaldo STS USA Inc.	Wilmington (Delaware USA)	Transportation	31.12.2016	IFRS	-	USD	136,004	9,699	226,320	90,316	100.00%	100.00%	N/A	N/A	N/A	N/A	136,004	55,623
Ansaldo STS UK Ltd.	London (United Kingdom)	Transportation	31.12.2016	IFRS	1,168	GBP	-8,070	575	1,991	10,061	100.00%	100.00%	N/A	N/A	N/A	N/A	-8,070	-
Ansaldo STS Australia PTY Ltd.	Eagle Farm (Australia)	Transportation	31.12.2016	IFRS	3,443	AUD	64,418	2,321	98,387	33,969	100.00%	100.00%	N/A	N/A	N/A	N/A	64,418	26,276
Ansaldo STS Transportation Systems India Private Limited	Bangalore (India)	Transportation	31.12.2016	IFRS	78,400	INR	15,866	-1,369	36,002	20,136	0.00%	0.00%	N/A	N/A	N/A	N/A	-	-
Ansaldo STS Deutschland GmbH	Berlin (Germany)	Transportation	31.12.2016	IFRS	26	EUR	2,440	446	10,862	8,422	100.00%	100.00%	N/A	N/A	N/A	N/A	2,440	2,176
Ansaldo STS do Brasil Sistema de Transporte Ferroviario e Metropolitano Ltda	Fortaleza (Brazil)	Transportation	31.12.2016	Local Gaap	292	BRL	245	-27	246	1	99.99%	99.99%	N/A	N/A	N/A	N/A	245	334
Ansaldo Railway System Trading (Beijing) Ltd	Beijing (China)	Transportation	31.12.2016	IFRS	1,400	CNY	16,618	7,620	32,297	15,679	100.00%	100.00%	N/A	N/A	N/A	N/A	16,618	1,078
																		108,238
Investments in associates																		
International Metro Service S.r.l.	Milan (Italy)	Transportation	31.12.2015	ITAGaap	700	EUR	8,044	2,979	8,337	293	49%	49.00%	N/A	✓	N/A	N/A	3,942	343
MetroBrescia Srl	Brescia (Italy)	Transportation	31.12.2015	ITAGaap	4020	EUR	5379	986	61,014	55,635	19.80%	19.80%	N/A	N/A	N/A	✓	1,065	796
S.P.M4 S.C.p.a.	Milan (Italy)	Transportation	31.12.2015	ITAGaap	360	EUR	360	-	4,126	3,766	16.90%	16.90%	N/A	N/A	N/A	✓	61	61
Metro 5 S.p.A.	Milan (Italy)	Transportation	31.12.2015	ITAGaap	53,300	EUR	56,694	-4,304	732,034	675,340	24.60%	24.60%	N/A	N/A	N/A	N/A	13,947	13,112
Pegaso S.c.r.l. (in liquidation)	Rome (Italy)	Construction	31.12.2015	ITAGaap	260	EUR	260	-	4,551	4,291	46.87%	46.87%	N/A	✓	N/A	N/A	122	122
																		14,433
Consortia																		
Saturno consortium	Rome (Italy)	Transportation	31.12.2015	ITAGaap	31	EUR	31	-	1,676,378	1,676,347	33.34%	33.34%	N/A	✓	N/A	N/A	10	10
Ascosa Quattro consortium	Rome (Italy)	Transportation	31.12.2014	ITAGaap	57	EUR	57	-	78,574	78,517	24.92%	25.00%	N/A	N/A	✓	N/A	14	14
San Giorgio Volla Due consortium	Naples (Italy)	Transportation	31.12.2015	ITAGaap	71	EUR	72	-	59,001	58,929	25.46%	25.00%	N/A	N/A	✓	N/A	18	18
CRIS consortium	Naples (Italy)	Research	31.12.2015	ITAGaap	2,377	EUR	2,445	-	4,583	2,138	1%	1.00%	N/A	N/A	N/A	N/A	24	24
Cosila consortium (in liq.)	Naples (Italy)	Research	31.12.2015	ITAGaap	100	EUR	100	-	100	-	1%	0.92%	N/A	N/A	N/A	N/A	1	1
ISICT consortium	Genoa (Italy)	Research	31.12.2015	ITAGaap	43	EUR	51	1	241	190	14.29%	14.29%	N/A	N/A	N/A	✓	7	6
Train consortium	Rome (Italy)	Transportation	31.12.2015	ITAGaap	120	EUR	1,180	-	33,664	32,484	4.55%	4.55%	N/A	N/A	N/A	✓	54	5
San Giorgio Volla consortium	Naples (Italy)	Transportation	31.12.2015	ITAGaap	71	EUR	72	-	6,155	6,083	25.46%	25.00%	N/A	N/A	N/A	N/A	18	18
Ferroviario Vesuviano consortium	Naples (Italy)	Transportation	31.12.2015	ITAGaap	153	EUR	155	-	217,788	217,633	33.34%	33.34%	N/A	N/A	N/A	N/A	52	51
Iricav Uno consortium	Rome (Italy)	Transportation	31.12.2015	ITAGaap	520	EUR	520	-	7,850	7,330	17.44%	17.44%	N/A	N/A	N/A	✓	91	91
MetroB srl	Rome (Italy)	Transportation	31.12.2015	ITAGaap	20,000	EUR	17,693	-344	17,772	79	2.47%	2.47%	N/A	N/A	N/A	✓	437	494
Dattilo Scarl	Naples (Italy)	Transportation	31.12.2015	ITAGaap	100	EUR	99	-	360	261	14.00%	14.00%	N/A	N/A	N/A	✓	14	14
MM4 consortium	Milan (Italy)	Transportation	31.12.2015	ITAGaap	200	EUR	200	-	17,191	16,991	17.68%	18.20%	N/A	N/A	N/A	✓	36	35
D.I.T.S. srl	Rome (Italy)	Research	31.12.2015	ITAGaap	40	EUR	69	-	112	43	12.00%	12.00%	N/A	N/A	N/A	✓	8	5
TOP IN Scarl consortium	Naples (Italy)	Transportation	31.12.2015	ITAGaap	80	EUR	79	-	118	39	5.29%	5.29%	N/A	N/A	N/A	N/A	4	4
Radiolabs consortium	Rome (Italy)	Research	31.12.2015	ITAGaap	258	EUR	233	12	1,608	1,375	25.00%	25.00%	N/A	N/A	✓	N/A	58	52
SPV Linea M4 S.p.A.	Milan (Italy)	Transportation	31.12.2015	ITAGaap	26700	EUR	102897	-303	213,332	110,435	5.55%	5.55%	N/A	N/A	N/A	N/A	N/A	7,740
Iricav Due consortium	Rome (Italy)	Transportation	31.12.2015	ITAGaap	510	EUR	516	-	85,833	85,317	17.05%	17.05%	N/A	N/A	N/A	✓	88	88
Metro de Lima Linea 2 S.A.	Lima (Peru)	Transportation	31.12.2015	IFRS	55,112	USD	118,064	6,345	198,713	80,649	12.24%	16.90%	N/A	N/A	N/A	✓	19,953	16,639
																		25,310
Other companies																		
I.M. Intermetro S.p.A. (in liquidation)	Rome (Italy)	Transportation	31.12.2015	ITAGaap	2,461	EUR	1,877	-259	5,320	3,443	21.26%	16.67%	N/A	N/A	N/A	✓	313	523
Metro C S.c.p.A.	Rome (Italy)	Transportation	31.12.2015	ITAGaap	150,000	EUR	149,518	-	404,634	255,116	14.00%	14.00%	N/A	N/A	N/A	✓	20,933	21,000
SESAMO Security and Safety Mobility S.c.a.r.l.	Naples (Italy)	Transportation	31.12.2015	ITAGaap	100	EUR	91	-11	854	763	2.00%	2.00%	N/A	N/A	N/A	N/A	2	2
SIIT S.c.p.a.	Genoa (Italy)	Research	31.12.2015	ITAGaap	600	EUR	614	5	1,991	1,377	2.33%	2.30%	N/A	N/A	N/A	N/A	14	14
Tram di Firenze S.p.A.	Florence (Italy)	Transportation	31.12.2015	ITAGaap	7,000	EUR	12,484	2,030	228,596	216,111	3.80%	3.80%	N/A	N/A	N/A	N/A	474	266
																		21,805
TOTAL EQUITY INVESTMENTS at 31.12.2016																		**169,787**

* For certain equity investments, accounting standards other than IAS/IFRS are applied, but there are no significant adjustments that would arise from standardising them

In particular, the total value of equity investments (€169,787 thousand) is broken down into: investments in subsidiaries (€108,238 thousand), in associates (€14,433 thousand), in consortia (€25,310 thousand) and in other companies (€21,805 thousand).

Changes of the year are as follows:
1. a €2,100 thousand increase for the share capital increase of SPV Linea M4 S.p.A., which will build and maintain the Milan metro line M4 under concession and will be responsible for its technical, administrative, economic and financial management;
2. a €13 thousand increase following the exit of one of the shareholders from the Ferroviario Vesuviano consortium;
3. a decrease of €57 thousand following the liquidation of the subsidiary, Kazakhstan TZ Ansaldo STS Italy LLP, in November, with reimbursement of the share capital of €2 thousand and impairment of the residual amount of the equity investment (€55 thousand);
4. the €554 thousand increase due primarily to the adjustment of carrying amounts of the investments in Ansaldo STS USA Inc, Ansaldo STS France S.A. and Ansaldo STS Australia Pty Ltd following the granting of the 2016 shares as per the 2014-2016 Stock grant plan and the delivery of the 2013 shares after the three-year vesting period provided for by the 2012-2013 stock grant plan.

The carrying amount of the investment in Metro C reflects the 38% subscribed quota capital. Consequently, with respect to the carrying amount of the investment equal to €21,000 thousand, the residual portion still unpaid (€12,950 thousand) was recognised under other current liabilities.

Together with the other shareholders, the company undertook to increase the contribution to Metro 5 S.p.A., partly as equity and partly as a shareholder loan. During the year, a shareholder loan of €524 thousand was disbursed which, together with the loans granted in the previous year, brings the total loans to €22,534 thousand, including interest.

Metro 5 S.p.A. shares were pledged to guarantee the contractual obligations to the other financial institutions involved in the project financing to build Line 5 of the Milan metro under concession.
The shares of Tram di Firenze were also pledged as agreed with the bodies financing the works. The same guarantee was given on the financing granted to the investee (see note 11 on “Receivables and other non-current assets”).
In relation to the investment in the Iricav Due consortium, at the end of 2015 undertakings were signed for the transfer of the stakes to civil partners which did not come into effect in 2016.
With respect to the measurement of investments in subsidiaries, in accordance with group policies, impairment tests are conducted when annual financial statements are prepared. Each subsidiary is tested by comparing their carrying amounts with their recoverable amounts, using the discounted cash flow and the multiple method.
The cash flows used are those generated by group assets, in their present condition, before financial expense. They include capital expenditure and monetary changes in working capital and exclude cash flows from financing activities, non-recurring events or dividend distributions.
These cash flows are discounted using the WACC (Weighted Average Cost of Capital) method which is calculated based on the Capital Asset Pricing Model. At 31 December 2016 the average WACC is 7.39% compared to 7.45% used in previous year.
The comparables panel in 2016 is the same of the previous year.
The performed tests have pointed out a levels of coverage; in addition, there are no other external indicators showing evidence of impairment.
The Company performed a sensitivity analysis considering a WACC increase of 0.5%, 1.0% and 1.5% and, at the same time, shortening the terminal value growth rate about 0.5% and 1.0%. These analysis show a broad coverage about the recoverability of the assets under impairment tests.
The impairment tests carried out at 31 December 2016, on the basis on the Five-year strategic plan (2017-2021) approved by the company’s board of directors had a positive outcome.

The growth rates included in the terminal values were equal to the expected long-term inflation rates in the countries where the Group’s subsidiaries are based (in line with the International Monetary Fund outlook). The basic assumptions underlying the projected cash flows for the five-year plans approved by board of directors are described in detail in the directors’ report.

The company participates in the foreign joint arrangement AIASA set up to construct the Thessaloniki metro.
Ansaldo Honolulu became operative in 2012. In November 2011, the consortium set up by Ansaldo STS and AnsaldoBreda (now Hitachi Rail Italy) entered into an agreement with HART (Honolulu Authority for Rapid Transportation) to construct the technological part and provide the vehicles of the new driverless underground line in Honolulu (Hawaii).
Finally, the company participates in the ArRiyadh New Mobility (ANM) in Riyadh and Nuevo Metro de Lima consortia for the related contracts.

10. Related party assets and liabilities

Related party assets and liabilities at 31 December 2016 and 2015 are shown below:

FINANCIAL ASSETS AT 31 DECEMBER 2016 (€'000)	**Loan assets**	**Trade receivables**	**Other current financial assets**	**Total**
Ultimate parents				
Hitachi Rail Europe LTD	-	312	-	**312**
Hitachi Ltd (Rail)	-	155	-	**155**
Associates				
Hitachi Rail Italy S.p.A.	-	6,188	-	**6,188**
MetroBrescia S.r.l.	-	629	-	**629**
Hitachi High-Technologies Europe GmbH	-	68	-	**68**
S.P. M4 S.c.p.a. (in liquidation)	267	-	-	**267**
Metro 5 S.p.A.	-	1,390	-	**1,390**
I.M. Intermetro S.p.A. (in liquidation)	-	387	-	**387**
Metro Service AS	-	1,668	-	**1,668**
Subsidiaries				
Ansaldo STS Transportation Systems India Private Limited	-	2,123	-	**2,123**
Ansaldo STS Australia PTY Ltd.	-	7,339	-	**7,339**
Ansaldo STS Deutschland GmbH	-	1,679	-	**1,679**
Ansaldo STS France S.A.	-	5,820	-	**5,820**
Ansaldo Railway System Trading (Beijing) Ltd	-	1,327	-	**1,327**
Ansaldo STS UK Ltd.	-	23	-	**23**
Ansaldo STS Sweden AB	-	11,942	-	**11,942**
Ansaldo STS Southern Africa PTY LTD - Botswana	-	5	-	**5**
Ansaldo STS Espana S.A.U.	-	701	-	**701**
Ansaldo STS USA Inc.	-	4,645	-	**4,645**
Ansaldo STS Canada Inc	-	7	-	**7**
Ansaldo STS Malaysia SDN BHD	22,524	1,380	-	**23,904**
Alifana Due S.c.a.r.l.	-	238	-	**238**
Alifana S.c.a.r.l.	-	93	-	**93**
Consortia				
Saturno Consortium	-	29,529	-	**29,529**
San Giorgio Volla Due consortium	-	3,489	4	**3,493**
San Giorgio Volla consortium	-	1,421	-	**1,421**
Ascosa Quattro consortium	-	1,157	-	**1,157**
Ferroviario Vesuviano consortium	-	1,462	-	**1,462**
MM4 consortium	-	11,857	-	**11,857**
	22,791	**97,035**	**4**	**119,831**
% of the total corresponding financial statements caption	**44%**	**16%**	**0.01%**	

FINANCIAL LIABILITIES AT 31 DECEMBER 2016 (€'000)	**Loans and borrowings**	**Trade payables**	**Other current financial liabilities**	**Total**
Associates				
Metro Service AS	-	2,704	-	**2,704**
Hitachi Rail Italy S.p.A.	-	13,569	-	**13,569**
MetroB S.r.l.	-	-	371	**371**
Pegaso S.c.r.l. in liquidation	-	61	-	**61**
Subsidiaries				
Ansaldo STS Australia PTY Ltd.	6,807	165	-	**6,972**
Ansaldo STS Espana S.A.U.	-	95	-	**95**
Ansaldo STS Malaysia SDN BHD	-	211	-	**211**
Ansaldo STS USA Inc.	33,155	1,074	-	**34,229**
Ansaldo STS France S.A.	52,109	11,545	-	**63,654**
Ansaldo Railway System Trading (Beijing) Ltd	-	196	-	**196**
Ansaldo STS Transportation Systems India Private Limited	-	472	-	**472**
Ansaldo STS Sweden AB	138	-	-	**138**
Ansaldo STS Deutschland GmbH	-	2,461	-	**2,461**
Ansaldo STS USA International CO.	-	4,501	-	**4,501**
Alifana Due S.c.r.l.	-	109	-	**109**
Alifana S.c.a.r.l.	-	125	3	**128**
Consortia				
Saturno Consortium	-	2,066	-	**2,066**
MM4 consortium	-	591	-	**591**
San Giorgio Volla Due consortium	-	206	-	**206**
San Giorgio Volla consortium	-	5	8	**13**
Ascosa Quattro consortium	-	150	8	**158**
Ferroviario Vesuviano consortium	-	85	21	**106**
Total	**92,208**	**40,389**	**410**	**133,007**
% of the total corresponding financial statements caption	**98%**	**10%**	**0.7%**	

FINANCIAL ASSETS AT 31 DECEMBER 2015 (€'000)	Loan assets	Trade receivables	Other current financial assets	Total
Ultimate parents				
Hitachi Rail Europe LTD	-	301	-	**301**
Associates				
International Metro Service S.r.l.	-	121	-	**121**
Hitachi Rail Italy S.p.A.	-	9,689	-	**9,689**
MetroBrescia S.r.l.	-	1,070	-	**1,070**
S.P. M4	563	-	-	**563**
Metro 5 S.p.A.	-	1,733	-	**1,733**
I.M. Intermetro S.p.A. (in liquidation)	-	389	-	**389**
Metro Service AS	-	512	-	**512**
Subsidiaries				
Ansaldo STS Transportation Systems India Private Limited	-	1,251	-	**1,251**
Ansaldo STS Australia PTY Ltd.	-	7,215	-	**7,215**
Ansaldo STS Deutschland GmbH	-	2,270	-	**2,270**
Ansaldo STS France S.A.	-	4,377	-	**4,377**
Ansaldo Railway System Trading (Beijing) Ltd	-	3,062	-	**3,062**
Ansaldo STS UK Ltd.	-	48	-	**48**
Ansaldo STS Sweden AB	-	12,603	-	**12,603**
Ansaldo STS Southern Africa PTY LTD - Botswana	-	25	-	**25**
Ansaldo STS Espana S.A.U.	-	16	-	**16**
Ansaldo STS USA Inc.	-	4,338	-	**4,338**
Ansaldo STS Canada Inc	-	3	-	**3**
Ansaldo STS Malaysia SDN BHD	21,516	1,200	-	**22,715**
Alifana Due S.c.r.l.	-	360	-	**360**
Alifana S.c.a.r.l.	-	128	-	**128**
Consortia				
Saturno Consortium	-	23,536	-	**23,536**
San Giorgio Volla Due consortium	-	1,137	4	**1,141**
San Giorgio Volla consortium	-	1,421	-	**1,421**
Ascosa Quattro consortium	-	1,157	-	**1,157**
Ferroviario Vesuviano consortium	-	1,168	-	**1,168**
MM4 consortium	-	13,141	-	**13,141**
	22,079	**92,273**	**4**	**114,356**
% of the total corresponding financial statements caption	**44%**	**17%**	**0.01%**	

FINANCIAL LIABILITIES AT 31 DECEMBER 2015 (€'000)	Loans and borrowings	Trade payables	Other current financial liabilities	Total
Associates				
Metro Service AS	-	4,821	-	**4,821**
I.M. Intermetro S.p.A. (in liquidation)	-	2	-	**2**
MetroBrescia S.r.l.	-	142	-	**142**
S.P. M4	-	553	-	**553**
Hitachi Rail Italy S.p.A.	2,500	15,998	-	**18,498**
MetroB S.r.l.	-	-	371	**371**
Subsidiaries				
Ansaldo STS Australia PTY Ltd.	34,577	98	-	**34,675**
Ansaldo STS Espana S.A.U.	-	22	-	**22**
Ansaldo STS Malaysia SDN BHD	-	161	-	**161**
Ansaldo STS USA Inc.	-	1,102	-	**1,102**
Ansaldo STS France S.A.	102,933	5,428	-	**108,361**
Ansaldo Railway System Trading (Beijing) Ltd	-	154	-	**154**
Ansaldo STS Transportation Systems India Private Limited	-	318	-	**318**
Ansaldo STS Sweden AB	29,915	-	-	**29,915**
Ansaldo STS Deutschland GmbH	-	476	-	**476**
Ansaldo STS USA International CO.	-	4,081	-	**4,081**
Alifana Due S.c.r.l.	-	313	-	**313**
Alifana S.c.a.r.l.	-	93	3	**96**
Consortia				
Saturno Consortium	-	2,232	5	**2,237**
CRIS consortium	-	1	-	**1**
MM4 consortium	-	592	-	**592**
San Giorgio Volla Due consortium	-	181	-	**181**
San Giorgio Volla consortium	-	5	8	**13**
Ascosa Quattro consortium	-	157	8	**165**
Ferroviario Vesuviano consortium	-	145	8	**153**
Total	**169,924**	**37,078**	**402**	**207,404**
% of the total corresponding financial statements caption	**99%**	**11%**	**0.7%**	

Total related party assets amount to €119,831 thousand (31 December 2015: €114,356 thousand). The increase was caused mainly by the value of trade receivables (€97,035 thousand in 2016; €92,273 thousand in 2015) and in particular the position with respect to the Saturno consortium (€29,529 in 2016; €23,536 thousand in 2015).

Total related party liabilities amount to €133,007 thousand (31 December 2015: €207,404 thousand). The decrease was caused primarily by the reduction in loans and borrowings due to the collection of dividends from the subsidiaries; they declined by a total of €77,716 thousand, in particular relating to the subsidiary Ansaldo STS France S.A. (€52,109 thousand in 2016; €102,933 thousand in 2015), Ansaldo STS Sweden AB (€138 thousand in 2016; €29,915 thousand in 2015) and Ansaldo STS Australia (€6,807 thousand in 2016, €34,577 thousand in 2015).
For additional information about related party transactions, reference should be made to the directors' report ("Management and coordination and related party transactions" section) and to note 38 ("Directors' and statutory auditors' fees and key managers' remuneration").

11. Loans and receivables and other non-current assets

(€'000)	**2016**	2015
Guarantee deposits	1,290	923
Other	26,344	24,311
Non-current financial assets	**27,634**	**25,234**
Other prepayments - non-current portion	16,090	18,296
Other prepayments - associates	-	36
Other non-current assets	**16,090**	**18,332**

Non-current financial assets at 31 December 2016 amount to €27,634 thousand (31 December 2015: €25,234 thousand). They mainly include:
- €22,534 thousand related to the shareholder loan (principal of €18,783 thousand and accrued interest of €3,751 thousand) of Metro 5 S.p.A. following the agreements to construct the related section of the Milan metro;
- €2,534 thousand related to the shareholder loan (principal of €2,401 thousand and accrued interest of €133 thousand) of SPV Linea M4 S.p.A. following the agreements to construct the related section of the Milan metro;
- €788 thousand related to a loan granted to Tram di Firenze on which a pledge exists in favour of the financing bodies. The same guarantee was used in respect of the investment held therein;
- €182 thousand paid to the MM4 consortium to cover costs incurred before activities began;
- €272 thousand paid as an advance to Consorcio EPC Lima to cover costs on the related project;
- €1,290 thousand (31 December 2015: €923 thousand) related to guarantee deposits for premises and areas leased after the opening of work sites.

Other non-current assets amount to €16,090 thousand (31 December 2015: €18,332 thousand). They can be analysed as follows:
- €3,222 thousand (31 December 2015: €3,853 thousand) related to prepaid insurance, down €631 thousand on the previous year;
- €12,868 thousand (31 December 2015: €14,479 thousand) related to the deferred income on the "Ansaldo" trademark which fell by €1,611 thousand, with respect to the portion for the year. With reference to the trademark, Ansaldo STS S.p.A. agreed a contract with Finmeccanica on 27 December 2005 allowing the company to use the "Ansaldo" trademark on the market. Against the advance payment of a consideration of €32,213 thousand, which was supported by a specific assessment carried out by an independent party, this contract gives Ansaldo the exclusive right to use this trademark for twenty years.

12. Inventories

(€'000)	**2016**	2015
Raw materials, consumables and supplies	5,943	6,299
Work-in-progress and semi-finished products	7,733	7,245
Finished goods	1,574	1,440
Advances to suppliers	80,030	80,658
Total	**95,279**	**95,642**

Net inventories amount to €95,279 thousand, down by €363 thousand compared to €95,642 thousand at 31 December 2015.
The carrying amount of raw materials decreased by €356 thousand on the previous year and they were recognised net of the allowance for write-down (€806 thousand; 31 December 2015: €1,225 thousand). The decrease in the allowance (€419 thousand) is due to the scrapping of obsolete codes which could no longer be used (€428 thousand) and provisions for new positions (€9 thousand).

Third party assets with the company amount to €3 thousand (31 December 2015: €3 thousand), while the company's assets with third parties total €29,736 thousand (31 December 2015: €14,895 thousand).
The company outsourced its warehouse management to the service company, Fata Logistic System.

13. Work in progress and progress payments and advances from customers

(€'000)	**2016**	2015
Work in progress (gross)	2,099,941	2,078,289
Progress payments	(1,886,966)	(1,842,741)
Advances from customers	(13,318)	(32,761)
Provision for expected losses to complete contracts	(4,269)	(5,854)
Allowance for write-down	(16,950)	(17,450)
Work-in-progress (net)	**178,438**	**179,483**
Progress payments	(1,997,034)	(1,739,850)
Work-in-progress	1,867,186	1,659,996
Advances from customers	(288,177)	(364,634)
Provision for expected losses to complete contracts	(8,557)	(6,385)
Allowance for write-down	(1,350)	(4,700)
Progress payments and advances from customers (net)	**(427,932)**	**(455,573)**
Work-in-progress, net of progress payments and advances from customers	**(249,494)**	**(276,090)**

Work in progress, net of progress payments and advances from customers, is a negative €249,494 thousand, improving €26,596 thousand on the €276,090 thousand of the previous year. This is due primarily to the reduction in the value of advances from customers, including the return of the remaining advance from the Russian customer Zarubezhstroytechnology (ZST) for the contract in Libya (€29,345 thousand), only partially offset by the higher turnover in the previous year in relation to the production volume.
The net balance of work in progress includes the net advance of €112,154 thousand related to the contract in Libya, which is still halted given the well-known events which have affected this country over the past few years, as detailed in the directors' report. This advance amply covers the work carried out to date and not yet invoiced. As a consequence, at the reporting date, there are no probable risks which would require any accrual.

Contract work in progress, net, decreased from €179,483 thousand at 31 December 2015 to €178,438 thousand at 31 December 2016, while progress payments and advances from customers, net, decreased from €455,573 thousand at 31 December 2015 to €427,932 thousand at 31 December 2016. The latter caption includes advances from customers of €301,495 thousand (31 December 2015: €397,395 thousand).
Specifically, work in progress under assets net of the provision for expected losses to complete contracts amounted to €2,095,672 thousand (31 December 2015: €2,072,435 thousand) and included costs of €2,218,757 thousand (31 December 2015: €2,186,045 thousand) and profit of €269,159 thousand (31 December 2015: €319,620 thousand), gross of final billing.
Work in progress under liabilities net of the provision for expected losses to complete contracts amounted to €1,858,629 thousand (31 December 2015: €1,653,611 thousand) and included costs of €3,844,420 thousand (31 December 2015: €3,780,715 thousand) and profit of €875,061 thousand (31 December 2015: €882,137 thousand), gross of final billing.

Similarly to inventories, contract work in progress and progress payments and advances from customers are shown net of the allowance for write-down which, at 31 December 2016, amounted to €18,300 thousand (31 December 2015: €22,150 thousand).
Specifically, €16,950 thousand reflects the decrease in "contract work in progress, net" and €1,350 thousand that of "progress payments and advances from customers, net".
This allowance is adequate for the possible liabilities which may arise from critical issues and risks on existing contracts, which were also assessed based on the risk management procedure.

The allowance for write-down covers the following risks:
- contractual risks: penalties for late delivery of contracted works or significant parts thereof at final or interim dates; performance penalties for failure to comply with functional requirements or the specified RAM parameters;
- technological risks.

The above risks are typical of all construction contracts and increase when contracts have a complex contractual structure of a highly technical nature which could give rise to contractual changes or issues at any stage of the

contracts, including, sometimes, after the delivery of works and their roll out. Consequently, many risks cease to exist only once the contract is terminated.
Starting from 2012, the provision for expected losses to complete contracts is shown separately. This provision reflects losses not yet incurred but for which a provision was accrued on a prudent basis when the contract budget corresponds to a loss.
The provision refers to the relevant contracts. Specifically, €4,269 thousand (31 December 2015: €5,854 thousand) reflects the decrease in "contract work in progress, net" and €8,557 thousand (31 December 2015: €6,385 thousand) that of "progress payments and advances from customers, net".

14. Trade receivables and loan assets

	2016		2015	
(€'000)	**Trade receivables**	**Loan assets**	Trade receivables	Loan assets
Third parties	509,019	28,443	456,266	28,443
Related parties	97,035	22,791	92,273	22,079
Total	**606,054**	**51,234**	**548,539**	**50,522**

The nominal value of trade and financial receivables corresponds to their fair value.
There was an increase in trade receivables (€606,054 thousand) compared to 2015 (€548,539 thousand); in particular, trade receivables from third parties rose by €52,753 thousand and those from related parties rose by €4,762 thousand.
The main increasing positions were those with respect to the EPC consortium in Lima, City and Industrial Development for the Mumbai project, Metroselskabet I/S in Denmark and the municipality of Naples.
Trade receivables are shown net of the allowance for impairment of €23,294 thousand (31 December 2015: €21,971 thousand). Of this amount, €255 thousand relates to related parties. The increase of the year is due to the collection risk of doubtful receivables. The €4,785 thousand included in the allowance relates to the impairment of the Firema receivable following the latter company's extraordinary administration which began on 2 August 2010, as per the decree of the Ministry of Economic Development.
During the year, the company factored without recourse receivables not yet due for a total of €11,939 thousand.

Loan assets increased (€712 thousand) as a result of the increase in the portion from related parties, as specified in note 10.
This caption also includes the euro equivalent amount of the Libyan dinar advance on the first of the two contracts in Libya and deposited in a local bank. This amount (€28,443 thousand) is tied up pending the resumption of activities.

15. Tax assets and liabilities

	2016		2015	
(€'000)	**Loans and receivables**	**Liabilities**	Loans and receivables	Liabilities
Direct taxes	17,447	8,304	15,008	4,726
Total	**17,447**	**8,304**	**15,008**	**4,726**

Tax assets equalled €17,447 thousand, up on the €15,008 thousand at 31 December 2015. The increase on 2015 is due to the greater assets generated during the year by the branches.
They are comprised of foreign tax assets of €12,729 thousand (31 December 2015: €9,974 thousand); a tax credit recognised in December 2012 in connection with the claim for reimbursement pursuant to article 2.1-quater of Italian Law decree no. 201/2011, related to the lower IRES due for the 2007-2011 period as a result of the IRAP deductibility on personnel expense (€3,716 thousand); an IRES tax credit of €70 thousand which refers to the 10% flat rate deduction of the IRAP tax paid in 2006 and 2007 pursuant to Italian Law decree no. 185/2008 (the so-called Anti-Crisis Decree) and discussed by the Tax authorities with circular 16/E of 14 April 2009.

Tax liabilities relate to current IRES for €8,304 thousand (31 December 2015: €4,726 thousand) and current IRAP for €100 thousand (31 December 2015: IRAP tax assets of €304 thousand).

16. Derivatives

Derivative assets and liabilities may be analysed as follows:

	2016		2015	
(€'000)	**Assets**	**Liabilities**	Assets	Liabilities
Fair value hedges	8,611	8,749	8,331	7,364
Currency hedges				
Cash flow hedges	1,191	13,866	107	9,072
Currency hedges				
	9,802	**22,615**	**8,438**	**16,436**

The total value of fair value hedges includes hedges on cash flows of subsidiaries as well as on foreign currency joint accounts.
The company uses derivatives to hedge the currency risk (fair value hedges) for subsidiaries. This risk arises from the exposure to cash flows in currencies other than the functional currency. These are back-to-back transactions as the currency risk is hedged by identifying the exposure to the bank issuing the hedging instrument, while recognising a balancing entry with respect to the subsidiary. At 31 December 2016, the fair value of these transactions amounted to €8,510 thousand (31 December 2015: €7,254 thousand) and the relative economic effects, with a nil balance, are recognised in financial income and expense.

At 31 December 2016, the company had derivatives hedging foreign currency joint accounts with the aim of hedging the company against year-end currency risk. At the reporting date, these derivatives were recognised under assets and liabilities at €101 thousand (31 December 2015: €1,076 thousand) and €239 thousand (31 December 2015: €110 thousand), respectively.

At 31 December 2016, the company also had cash flow hedges relating to the cash flows of the Abu Dhabi, Riyadh Metro, Lima and Kolkata Metro contracts.

17. Other current assets

(€'000)	**2016**	2015
Prepayments - current portion	9,134	5,836
Grants	18,938	18,013
Employees	1,789	1,189
Social security institutions	2	38
Other tax assets	22,760	33,373
Other	4,654	6,359
Total current third party assets	**57,277**	**64,808**
Total current related party assets	4	4
Total	**57,281**	**64,812**

Other current assets amounted to €57,281 thousand at 31 December 2016 (31 December 2015: €64,812 thousand). The decrease is mainly due to tax assets.

Prepayments amount to €9,134 thousand (31 December 2015: €5,836 thousand) and mainly relate to activities pertaining to subsequent years relating to the Riyadh branch (€4,557 thousand), insurance premiums pertaining to subsequent years (€1,857 thousand), fees on sureties paid early (€737 thousand) and the current portion (€1,610 thousand) to purchase the right to use the "Ansaldo" trademark.

At the reporting date, grants amounted to €18,938 thousand (31 December 2015: €18,013 thousand). They can be analysed as follows:

- grants for projects financed by the European Community or the Ministry for Education and Research (€18,643 thousand);
- grants pursuant to Italian Law no. 488, first application, PIA, (€69 thousand);
- grants related to assets pursuant to Italian Law no. 488, eleventh application, 2001 (€226 thousand).

With reference to research grants, please refer to the directors' report for details on projects financed. Please note that the disbursement of grants is subject to the implementation of a specific project and/or the channelling of grants for the projects financed.

Paragraph 20, Equity, provides details on the reserves established and restricted in relation to decisions to award grants.
For additional information reference should be made to the "Research and development" section of the directors' report.

Other tax assets amount to €22,760 thousand (31 December 2015: €33,373 thousand) and are related to the VAT credit in Italy for €19,611 thousand (31 December 2015: €24,206) and the branches for €2,823 thousand (31 December 2015: €8,977), and a receivable for undeducted VAT on the use of vehicles and other receivables requested for reimbursement for €326 thousand.

18. Cash and cash equivalents

(€'000)	**2016**	2015
Cash-in-hand	50	65
Bank accounts	202,946	178,571
Total	**202,996**	**178,636**

The balance is made up of cash-in-hand and bank account balances.

Moreover, it includes the advances (€2,574 thousand) received from the customer Iricav Uno consortium through the investee Pegaso S.c.r.l., which constructed the high-speed railway Rome-Naples section on behalf of the company (31 December 2015: €2,755 thousand) and advances of €155 thousand (31 December 2015: €155 thousand) received from the customer Metro Campania NordEst through the Alifana Due consortium which constructs the Piscinola-Aversa railway section on behalf of the company. These advances are allocated to specific current accounts held by the company which are used exclusively to support the future costs of the works to be performed by the company.
Cash and cash equivalents are totally available and there are no disposal costs.

19. Equity

At 31 December 2016, equity amounted to €475,323 thousand, up by a net €112,715 thousand on 31 December 2015 (€362,608 thousand).
The increase is due to the profit for the year (€145,857 thousand), the dividend distribution related to 2015 (€36,000 thousand), the net change in the stock grant reserve (€3,503 thousand), the net decrease in the hedging reserve (€851 thousand), the net change in the translation reserve (€231 thousand) and the net decrease in the actuarial reserve for defined benefit plans (€25 thousand).

Equity can be analysed as follows:

Share capital

	No. of shares	Nominal amount	Treasury shares	Total
31 December 2009	**100,000,000**	**50,000,000**	**(806,054)**	**49,193,946**
Bonus issue of 5 July 2010 as per the minutes of the extraordinary shareholders' meeting of 23 April 2010	20,000,000	10,000,000	-	10,000,000
Use of treasury shares for SGP	-	-	513,643	513,643
31 December 2010	**120,000,000**	**60,000,000**	**(292,411)**	**59,707,589**
Bonus issue of 4 July 2011 as per the minutes of the extraordinary shareholders' meeting of 23 April 2010	20,000,000	10,000,000	-	10,000,000
Use of treasury shares for SGP	-	-	290,586	290,586
31 December 2011	**140,000,000**	**70,000,000**	**(1,825)**	**69,998,175**
Bonus issue of 9 July 2012 as per the minutes of the extraordinary shareholders' meeting of 23 April 2010	20,000,000	10,000,000	-	10,000,000
Use of treasury shares for SGP	-	-	133	133
31 December 2012	**160,000,000**	**80,000,000**	**(1,692)**	**79,998,308**
Bonus issue of 15 July 2013 as per the minutes of the extraordinary shareholders' meeting of 23 April 2010	20,000,000	10,000,000	114	10,000,114
31 December 2013	**180,000,000**	**90,000,000**	**(1,578)**	**89,998,422**
Bonus issue of 14 July 2014 as per the minutes of the extraordinary shareholders' meeting of 23 April 2010	20,000,000	10,000,000	-	10,000,000
Use of treasury shares for SGP	-	-	876	876
31 December 2014	**200,000,000**	**100,000,000**	**(702)**	**99,999,298**
Use of treasury shares for SGP	-	-	702	702
31 December 2015	**200,000,000**	**100,000,000**	**-**	**100,000,000**
Use of treasury shares for SGP	-	-	-	-
31 December 2016	**200,000,000**	**100,000,000**	**-**	**100,000,000**

The fully paid-up share capital amounts to €100,000,000 and is comprised of 200,000,000 ordinary shares with a nominal amount of €0.50 each.

The company does not have treasury shares at 31 December 2016 as the shares acquired during the year to grant shares to the company managers as part of the 2013 Stock Grant Plan ("SGP") were all delivered.

At 31 December 2016, share capital was as follows:

Shareholder	No. of shares	% held
HITACHI RAIL ITALY INVESTMENTS	101,544,702	50.772
PAUL E. SINGER *(as general partner, directly and indirectly, of the Limited Partnerships Elliott International, LP Elliott Associates, LP and The Liverpool Limited Partnership)*	43,818,344	21.909
UBS	12,619,952	6.310
Other shareholders with an investment of less than 3%	42,017,002	21.009

Retained earnings, including the profit for the year

(€'000)	Retained earnings	Profit for the year	Total
2015	**131,289**	**35,901**	**167,190**
Allocation of profit for the year:			
- dividends	-	(36,000)	(36,000)
- legal reserve	-	-	-
- reserve for legal reserve adjustment	-	-	-
- retained earnings	(99)	99	-
Profit for the year	-	145,857	145,857
2016	**131,190**	**145,857**	**277,047**

Retained earnings, including the profit for the year, may be analysed as follows:

- "Retained earnings" declined from €131,289 thousand at 31 December 2015 to €131,190 thousand at 31 December 2016, following the decision of the shareholders who approved the 2015 financial statements to use, in addition to profit for the year, €99 thousand of the retained earnings for the distribution of the dividend;
- the profit for the year of €145,857 thousand (€35,901 thousand in 2015).

Other reserves

(€'000)	Legal reserve	Negative goodwill	Reserve as per Law no. 413/91	Reserve as per Law no. 488/92, second application, PIA	Reserve for 50% grant as per article 55 of Law no. 219/81 TUIR (Consolidated income tax act)	Reserve as per Law no. 488/92, first application, PIA	Stock grant reserve	Deferred tax reserve	Hedging reserve	Coverage of losses	Actuarial gains and losses on Italian post-employment benefits	Translation reserve	Total
2015	**20,000**	**67,216**	**832**	**145**	**209**	**854**	**4,611**	**(574)**	**210**	**37**	**(2,234)**	**4,112**	**95,418**
Stock grant plans:													
- 2016 Stock grant plan allocation - ASTS	-	-	-	-	-	-	3,577	-	-	-	-	-	**3,577**
- Stock grant plan disbursement	-	-	-	-	-	-	(628)	-	-	-	-	-	**(628)**
- SGP reserve - other companies	-	-	-	-	-	-	554	-	-	-	-	-	**554**
Other changes:													
- actuarial gains on 2016 Italian post-employment benefits	-	-	-	-	-	-	-	-	-	-	(37)	-	**(37)**
- deferred taxes on equity items	-	-	-	-	-	-	-	406	-	-	-	-	**406**
- hedging	-	-	-	-	-	-	-	-	(1,129)	-	-	-	**(1,129)**
- foreign currency translation differences	-	-	-	-	-	-	-	-	-	-	-	115	**115**
2016	**20,000**	**67,216**	**832**	**145**	**209**	**854**	**8,114**	**(168)**	**(919)**	**37**	**(2,271)**	**4,227**	**98,276**

The legal reserve amounts to €20,000 thousand and is unchanged from the previous year, having already reached 20% of the share capital at 31 December 2015.

Negative goodwill recognised in the 2009 financial statements amounted to €67,216 thousand.
Of this amount, €83,237 thousand arose from the merger of Ansaldo Segnalamento Ferroviario and Ansaldo Trasporti Sistemi Ferroviari on 1 January 2009, specifically:

- €93,094 thousand representing the difference between the carrying amounts of the investments in Ansaldo Segnalamento Ferroviario (€76,298 thousand), wholly owned by Ansaldo Trasporti Sistemi Ferroviari and Ansaldo Trasporti Sistemi Ferroviari (€38,123 thousand), wholly owned by Ansaldo STS, and the equity of the merged companies;
- €9,857 thousand reflecting the elimination of goodwill included in the financial statements of Ansaldo Segnalamento Ferroviario S.p.A. (€1,825 at 31 December 2008) and Ansaldo Trasporti Sistemi Ferroviari S.p.A. (€12,687 thousand at 31 December 2008), net of deferred taxes of €4,655 thousand. The above goodwill was eliminated as it pertained to prior year infragroup non-recurring transactions; specifically: Ansaldo Segnalamento Ferroviario S.p.A. residual goodwill of €1,825 thousand relates to the contribution of the "Signalling" business unit by Ansaldo Trasporti S.p.A. in 1996 and Ansaldo Trasporti Sistemi Ferroviari's residual amount (€12,687 thousand) refers to the contribution of the "Systems" business unit by Ansaldo Trasporti S.p.A. in 2001.

The other transactions that led to the overall balance were:

- €13,649 thousand relating to goodwill arising from the merger of Ansaldo Signal N.V. in liquidation which took place on 1 October 2009. It arises from the derecognition of the investment in Ansaldo Signal N.V. in liquidation (€21,946 thousand), which was wholly owned by Ansaldo STS S.p.A.;
- €50 thousand was used following the reclassification of the 2005 costs for the share capital increase. The amount was reclassified by allocating the above costs to an available equity reserve as permitted by IAS 32;
- €2,321 thousand in 2014 following the last instalment of the bonus issue, after having fully used the reserve for capital injections (€7,679 thousand), as per the shareholders' resolution of 23 April 2010;

There were no changes in 2016.

The revaluation reserve as per Italian Law no. 413/91 amounts to €832 thousand. It was already present in Ansaldo Segnalamento Ferroviario S.p.A.'s equity and, therefore, was recognised by Ansaldo STS S.p.A. following the merger, as it was taxable on distribution.

The reserve as per Italian Law no. 488/92 second application, PIA, amounts to €145 thousand. It was already present in Ansaldo Segnalamento Ferroviario's equity and, therefore, was recognised by Ansaldo STS S.p.A. after the merger. This reserve, which was set up as resolved by the shareholders during the meeting called to approve the 2006 financial statements, is subject to the limitations established by the provisional licence decree issued by the Ministry of Production Activities on the second application, PIA, in accordance with the above law.

The reserve for Ministerial grants as per Italian Law no. 219/81 amounts to €209 thousand. It was already present in Ansaldo Segnalamento Ferroviario's equity and, therefore, was recognised by Ansaldo STS S.p.A. after the merger, as it was taxable on distribution. This reserve became unavailable when the company received the grants related to assets in prior years.

The reserve as per Italian Law no. 488/92 first application, PIA, amounts to €854 thousand. It was already present in Ansaldo Segnalamento Ferroviario S.p.A.'s equity and, therefore, was recognised by Ansaldo STS S.p.A. after the merger. This reserve, which was set up as resolved by the shareholders during the meeting called to approve the 2004 financial statements, is subject to the limitations established by the temporary licence decree issued by the Ministry of Production Activities on the first application, PIA, in accordance with the above law.

The Stock grant reserve amounts to €8,114 thousand, compared to €4,611 thousand at 31 December 2015. This reserve was set up in 2007 following the board of directors' approval of the Stock Grant Plan (SGP) under which Ansaldo STS shares are awarded to "strategic" and "key" resources and high potential managers upon reaching the agreed targets. For additional information, reference should be made to the section on "Human resources and organisation" in the directors' report.
The increase in the balance (€3,503 thousand) is due to:

- the €4,131 thousand attributable to the shares related to 2016 vesting conditions (2014-2016 plan) recognised at the grant date (€10.5 per share);
- a €628 thousand decrease due to the 2013 awarding of shares related to the 2012-2013 stock grant plan.

The deferred tax reserve amounts to -€168 thousand (31 December 2015: -€574 thousand). It is comprised as follows:
- deferred taxes on the 2016 actuarial losses on Italian post-employment benefits (€12 thousand), allocated to the specific reserve using the equity method (31 December 2016: €626 thousand);
- deferred taxes on the cash flow hedges recognised in equity during the year for €278 thousand (31 December 2016: €220 thousand);
- deferred taxes on the translation reserve in the financial statements of the branch for €116 thousand (31 December 2016: -€1,014 thousand).

The hedging reserve amounts to -€919 thousand and fell by a net €1,129 thousand as a result of the individual transactions performed (the related tax effect of €278 thousand is recognised in the "Deferred tax reserve").

The actuarial reserve for defined benefit plans amounts to -€2,271 thousand. It changed following application of the equity method to actuarial gains/losses on Italian post-employment benefits. During the year, it decreased as a consequence of the actuarial loss of €37 thousand, as per the independent actuarial appraisal of Italian post-employment benefits at 31 December 2016 (the related tax effect for the year of €12 thousand is recognised under the "Deferred tax reserve").

The translation reserve amounts to €4,227 thousand. It increased €115 thousand during the year due to the exchange rate differences which arose from the translation of the financial statements of foreign branches, prepared in a currency other than the company's presentation currency.

The table below shows the origin, possible use, distribution and actual use of reserves in the past three years.

				Use in 2015		Use in 2014		Use in 2013	
Nature/Description	Amount	Possible use	Available portion	to cover losses	other reasons	to cover losses	other reasons	to cover losses	other reasons
Share capital									
Outstanding shares	100.000			-	-	-	-	-	-
Treasury shares				-	-	-	-	-	-
Equity-related reserves:									
Revaluation reserve as per Law no. 413/91	832	A - B - C	832	-	-	-	-	-	-
Capital injections	-	A - B	-	-	-	-	-	-	10.000
Coverage of losses	37	B	-	-	-	-	-	-	-
Negative goodwill	67.216	A - B - C	67.216	-	-	-	-	-	-
Income-related reserves:									
Legal reserve	20.000	B	-	-	-	-	-	-	-
Reserve for Ministerial grants as per article 55 of Law no. 219/81 of the Consolidated income tax act	209	A - B - C	209	-	-	-	-	-	-
Reserve as per Law no. 488/92, application 11, 2001			-	-	-	-	-	-	-
Reserve as per Law no. 488/92, application 14, 2002			-	-	-	-	-	-	-
Reserve as per Law no. 488/92, application 1, PIA, 2003	854	A - B - C	854	-	-	-	-	-	-
Reserve as per Law no. 488/92, application 2, PIA	145	A - B - C	145	-	-	-	-	-	-
Stock grant reserve:			-	-	-	-	-	-	-
- allocation	8.114	B	-	-	-	-	-	-	-
- delivery			-	-	-	-	-	-	-
Translation reserve	4.227	A - B	-	-	-	-	-	-	-
Hedging reserve	(919)		-	-	-	-	-	-	-
Reserve for actuarial gains/losses (IAS 19)	(2.271)	n.a.	-	-	-	-	-	-	-
Deferred tax reserve	(168)	n.a.	-	-	-	-	-	-	-
Retained earnings	131.190	A - B - C	131.190	-	-	-	-	-	-
Total	**329.466**	**-**	**200.446**	**-**	**-**	**-**	**-**	**-**	**10.000**
Undistributable portion	-	-	**5.378**	-	-	-	-	-	-
Residual distributable portion	-	-	**195.068**	-	-	-	-	-	-

Key:
A: for share capital increase
B: to cover losses
C: dividends

20. Loans and borrowings

(€'000)	2016 Current	2016 Non-current	2016 Total	2015 Current	2015 Non-current	2015 Total
Bank loans and borrowings	-	-	-	-	-	-
Loans and borrowings from other financial backers	-	-	-	-	-	-
Finance lease payables	-	-	-	-	-	-
Other loans and borrowings	1,771	-	1,771	1,607	-	1,607
Total loans and borrowings from third parties	**1,771**	**-**	**1,771**	**1,607**	**-**	**1,607**
Related party loans and borrowings	92,208	-	92,208	169,924	-	169,924
Total	**93,979**	**-**	**93,979**	**171,531**	**-**	**171,531**

Third party loans and borrowings amounted to €1,771 thousand at 31 December 2016 and related to companies part of joint ventures for which Ansaldo STS is lead contractor.
The value of related party loans and borrowings relates to joint current accounts with the subsidiaries to settle trading and non-trading items with Ansaldo STS group companies. The reduction with respect to the previous year (€77,716 thousand) is attributable primarily to dividends distributed by certain subsidiaries.

Loans and borrowings may be analysed as follows:

(€'000)	2015	**Increases**	**Decreases**	**2016**
Bank loans and borrowings	-	-	-	-
Loans and borrowings from other financial backers	-	-	-	-
Other loans and borrowings	1,607	1,771	1,607	1,771
Total	**1,607**	**1,771**	**1,607**	**1,771**

Please also note that at 31 December 2016, the company's credit lines amounted to €106,000 thousand and are to be used mainly for overdrafts.

Financial position
The following disclosure is presented in accordance with the format required by CONSOB communication no. DEM/6064293 of 28 July 2006.

(€'000)	**2016**	2015
Cash-in-hand	50	65
Bank accounts	202,946	178,571
Securities held for trading	-	-
Cash and cash equivalents	**202,996**	**178,636**
Third party loan assets	28,443	28,443
Related party loan assets	22,791	22,079
Current loan assets	**51,234**	**50,522**
Current bank loans and borrowings	-	-
Current portion of non-current loans and borrowings	-	-
Other current loans and borrowings	93,979	171,531
Current financial debt	**93,979**	**171,531**
Net current financial position	**(160,251)**	**(57,627)**
Non-current bank loans and borrowings	-	-
Loans and borrowings from other financial backers - non-current	-	-
Bonds issued	-	-
Other non-current financial liabilities	-	-
Non-current financial debt (position)	**-**	**-**
Net financial position	**(160,251)**	**(57,627)**

There is no collateral on the company's assets.

21. Provisions for risks and charges and contingent liabilities

(€'000)	Disputes with employees	Completed contracts	Taxation	Other	Total
At 1 January 2015	**439**	**399**	**-**	**1,013**	**1,851**
Accruals	195	100	550	-	845
Utilisation	7	103	-	41	151
Reversals	70	-	-	-	70
Other changes	-	-	-	-	-
At 31 December 2015	**557**	**396**	**550**	**972**	**2,475**
Broken down as follows:					
Current	557	396	550	972	2,475
Non-current	-	-	-	-	-
	557	**396**	**550**	**972**	**2,475**
At 1 January 2016	**557**	**396**	**550**	**972**	**2,475**
Accruals	546	100	-	-	646
Utilisation	74	90	550	15	729
Reversals	287	-	-	-	287
Other changes	-	-	-	-	-
At 31 December 2016	**742**	**406**	**-**	**957**	**2,105**
Broken down as follows:					
Current	742	406	-	957	2,105
Non-current	-	-	-	-	-
	742	**406**	**-**	**957**	**2,105**

At 31 December 2016, the provision for risks and charges reflects probable and quantifiable risks in accordance with relevant accounting standards.

It amounts to €2,105 thousand (31 December 2015: €2,475 thousand). Specifically:

- the provision for disputes with employees reflects the assessment of disputes with a probably unfavourable outcome for the company. In 2016, €74 thousand of this provision was used for disputes that were resolved during the year and €287 thousand was absorbed for positions no longer considered at risk. It contains an accrual (€546 thousand) for the estimation of new situations that arose in 2016;
- the provision for completed contracts was accrued in respect of contractually mandatory obligations to update product technologies and documentation and implement changes to equipment and facilities related to completed contracts. In 2016, this provision was used for €90 thousand, accruing €100 thousand for future works;
- the entire provision for taxation was used upon completion of the tax audit at the Danish branch;
- other provisions cover minor disputes currently underway (€957 thousand). €15 thousand was used to settle minor disputes during the year, while the residual amount was deemed adequate to cover probable risks at the reporting date.

22. Employee benefits

Italian post-employment benefits can be analysed as follows:

(€'000)	**2016**	2015
Italian post-employment benefits	18,294	17,948
Defined benefit pension plans	-	-
Other provisions for personnel	-	-
Total	**18,294**	**17,948**

Pursuant to article 2120 of the Italian Civil Code, Italian post-employment benefits provide for the payment of the amount accrued by employees until the date they leave the company.
Italian Law no. 296 (2007 Finance act) of 27 December 2006 and the subsequent decrees and regulations issued in early 2007 as part of the reform of supplementary pensions, considerably changed the structure of Italian post-employment benefits and for companies with more than 50 employees, post-employment benefits accrued after the date of the reform must be transferred to supplementary pension schemes or the Treasury funds managed by INPS (the Italian social security institute).

The tables below show changes in the Italian post-employment benefits and the amounts recognised in profit or loss:

(€'000)	**2016**	2015
Opening balance	**17,948**	**20,120**
Current service costs	519	324
Interest expense	268	289
Actuarial (gains) losses taken to equity	37	(527)
of which:		
Actuarial gains (losses) taken to equity following changes to financial assumptions	*62*	*(282)*
Actuarial gains (losses) taken to equity following experience-based adjustments	*(25)*	*(245)*
Other changes		
Benefits paid	(478)	(2,258)
Intragroup transfers		
Other changes		
Closing balance	**18,294**	**17,948**

	Italian post-employment benefits	
(€'000)	**2016**	2015
Current service costs	519	324
Personnel expense	**519**	**324**
Interest expense	268	289
Total	**787**	**613**

The following main actuarial assumptions were used in measuring Italian post-employment benefits at year end:

	Italian post-employment benefits	
(€'000)	**2016**	2015
Discount rate	1.56%	1.91%
Salary increase rate	N.A.	N.A.
Turnover rate	2.09% - 5.69%	2.09% - 5.69%

A sensitivity analysis was performed for each significant actuarial assumption, showing the effects on the company's obligation:

	Italian post-employment benefits	
	-0.25%	**0.25%**
Discount rate (p.a.)	18,671	17,938
Inflation rate	18,027	18,567
Annual turnover rate	18,291	17,297

The average term of the Italian post-employment benefits is 13 years.

23. Other current and non-current liabilities

(€'000)	Non-current 2016	Non-current 2015	Current 2016	Current 2015
Employees	3,509	3,520	19,667	17,283
Supplementary pension schemes and INPS Treasury fund	-	-	1,716	1,534
Social security institutions	-	-	9,671	9,268
R&D grants	-	-	10,601	8,843
Other tax liabilities	-	-	4,042	4,297
Deferred income	-	-	-	-
Other	-	-	16,964	15,468
Total other current and non-current third party liabilities	**3,509**	**3,520**	**62,661**	**56,693**
Total other related party liabilities	-	-	410	402
Total	**3,509**	**3,520**	**63,071**	**57,095**

Other non-current liabilities relate to other long-term benefits (employees' jubilee bonuses).

The following main actuarial assumptions were used in measurements at year end:

	Long-term benefits 2016	Long-term benefits 2015
Discount rate (p.a.)	1.56%	1.91%
Salary increase rate	2.47% - 3.58%	2.47% - 3.58%
Turnover rate	2.09% - 5.69%	2.09% - 5.69%

Other current liabilities amount to €63,071 thousand, compared to €57,095 thousand at 31 December 2015. The overall increase (€5,976 thousand) is mainly due to the increase in payables to employees and R&D grants.
Other includes the residual unpaid 62% of the subscribed share capital of Metro C S.c.p.A. (€12,950 thousand).
Other tax liabilities of €4,042 thousand mainly relate to withholding taxes on employees' remuneration to be paid as withholding agent.

24. Trade payables

(€'000)	2016	2015
Trade payables	358,277	308,447
Total trade payables	**358,277**	**308,447**
Related party trade payables	40,389	37,078
Total	**398,666**	**345,525**

The nominal value of trade and financial receivables corresponds to their fair value.
Total trade payables rose from €345,525 thousand at 31 December 2015 to €398,666 thousand at 31 December 2016.
The increase was seen almost exclusively in third party trade payables and is due to the greater volumes, particularly in the final quarter of the year and the back-to-back contracts in respect of the credit position with the end customer.
Details regarding the increase in related party liabilities are provided in note 10.

As in 2015, no maturity factoring transactions were completed during the year.
This tool enables the company's suppliers to carry out factoring transactions which entail the transfer and collection of amounts due from the company for the supply of goods and/or services, allowing the company to further extend settlement of trade payables, bearing the related interest.

25. Leases, guarantees and other commitments

Leases

The company has certain operating leases mainly for use of properties and cars. Minimum future commitments related to operating leases amount to €4,505 thousand for properties (31 December 2015: €5,585 thousand) and €3,946 thousand (31 December 2015: €175 thousand) for the renewal of car lease agreements.

They may be analysed as follows:

	2016		2015	
(€'000)	Operating leases	Finance leases	Operating leases	Finance leases
Within one year	2,059	-	1,267	-
Between two and five years	6,392	-	3,662	-
After five years	-	-	831	-
Total	**8,451**	**-**	**5,760**	**-**

Reference should be made to note 29 for detailed information about the amounts recognised in profit or loss in respect of operating leases of properties and cars.
Operating leases of properties mainly relate to the Naples offices and were entered into with the related company Hitachi Rail Italy S.p.A, as the lessor. The property houses the company's administrative and branch offices.

Car leases, which usually have a five-year term, provide for price revisions based on the consumer price index, motor third-party insurance increases, car registration tax increases and price increases as per car manufacturers' official price lists.

Guarantees and other commitments

The company had the following guarantees at 31 December 2016:

(€'000)	2016	2015
Sureties issued by Hitachi Ltd to ASTS customers*	1,468,018	1,447,861
Sureties issued by ASTS and banks and insurance companies to third party customers on behalf of subsidiaries	1,138,534	898,144
Sureties issued by banks and insurance companies to third party customers	1,350,740	1,418,863
Subtotal	**3,957,292**	**3,764,868**
Guarantees received	687,084	595,226
Guarantees received from related parties	749,896	533,284
Subtotal	**1,436,980**	**1,128,510**
Total	**5,394,272**	**4,893,378**

** the data from 2015 are positions with respect to Finmeccanica, before Hitachi Ltd. took over the sureties.*

Guarantees given total €3,957,292 thousand (31 December 2015: €3,764,868 thousand). They are mainly comprised of bank/insurance and company sureties given to Italian and foreign customers to guarantee participation in tenders, proper fulfilment of contracts and orders, advances and early payments of guarantees received from customers.
The change in the balance compared to last year is mainly due to the completion and reduction of existing commitments, including the release of the guarantees given as part of the Metro C, Copenhagen Cityringen and Zhuhai Tramwave projects and new commitments in relation to new orders.

At 31 December 2016, the company has parent company guarantees issued by the parent Hitachi Ltd (€1,284,230 thousand) to foreign customers and insurance guarantees granted on credit lines of the parent (€183,788 thousand) relating to the project in Honolulu. Sureties issued by ASTS, banks and insurance companies to third party customers on behalf of subsidiaries amount to €1,138,534 thousand and are comprised as follows:

- €904,548 thousand related to parent company guarantees and bank guarantees against the company's credit lines, given in favour of foreign customers on behalf of the subsidiaries.
- €233,986 thousand related to counter guarantees for the use of the company's credit lines, given in favour of subsidiaries.

Sureties issued by banks and insurance companies to third parties (€1,350,740 at 31 December 2016) include the counter guarantees given in favour of banks for the relevant portion of sureties in relation to participation in consortia and joint arrangements of €113,757 thousand.

Guarantees received by the company total €1,436,980 thousand (31 December 2015: €1,128,510 thousand). They can be analysed as follows:

- €687,084 thousand related to guarantees received from the company's suppliers or subcontractors for the proper fulfilment of tenders and orders, advances and retentions paid by the company;
- €749,896 thousand related to company guarantees given by subsidiaries and related parties.

During the year, the company carried out direct negotiations with banks to obtain credit lines of approximately €416,000 thousand. Part of this amount may be used for Ansaldo STS group companies. The company has available bank overdrafts of €106,000 thousand at year end.

Purchase and sale commitments

At 31 December 2016, the following purchase and sale commitments were in place:

(€'000)	**2016**	2015
Third party customers order backlog	4,537,911	4,790,450
Related party customers order backlog	518,738	400,970
Third party suppliers order backlog	1,218,090	1,258,686
Related party suppliers order backlog	254,992	288,860
Total	**6,529,731**	**6,738,966**

These amounts include commitments to purchase property, plant and equipment and intangible assets of €1,034 thousand and €588 thousand, respectively.

26. Impact of related party transactions on profit or loss

The impact of related party transactions on profit or loss for 2016 and 2015 is shown below:

AT 31 DECEMBER 2016 (€'000)	**Revenue**	**Other operating income**	**Costs**	**Recovery of costs**	**Other operating expense**	**Financial income**	**Financial expense**
Ultimate parents							
Hitachi Rail Europe LTD	-	-	4	11	-	-	-
Hitachi Ltd (Rail)	492	-	563	-	-	-	-
Associates							
International Metro Service S.r.l.	(76)	6	-	-	4	1,568	-
S.P. M4 S.c.p.a. (in liquidation)	-	-	33	-	-	-	-
Metro 5 S.p.A.	12,979	1,277	110	-	-	-	-
Hitachi Rail Italy S.p.A.	11,951	-	28,055	16	-	-	-
MetroBrescia S.r.l.	345	16	9	-	-	-	-
Hitachi High-Technologies Europe GmbH	101	-	-	-	-	-	-
Metro Service AS	6,283	-	32,797	-	-	-	-
I.M. Intermetro S.p.A. (in liquidation)	1	-	-	-	-	-	-
Pegaso S.c.r.l. (in liquidation)	-	-	209	-	-	-	-
Subsidiaries							
Ansaldo STS Transportation Systems India Private Limited	580	700	1,850	57	-	-	-
Ansaldo STS Australia PTY Ltd.	10,428	2,066	799	365	-	16,670	148
Ansaldo STS UK Ltd.	277	4	-	3	-	1,488	-
Ansaldo STS Sweden AB	3,186	473	12	63	-	26,156	-
Ansaldo STS Deutschland GmbH	2,505	-	2,461	-	-	-	-
Ansaldo STS France S.A.	5,294	3,942	23,428	385	-	55,000	-
Ansaldo STS Espana S.A.U.	2,933	-	198	42	-	-	-
Ansaldo STS USA Inc.	762	3,539	12,414	349	-	-	67
Ansaldo STS Canada Inc	-	-	4	-	-	-	-
Ansaldo STS USA International CO.	-	-	9,826	-	-	-	-
Ansaldo STS Malaysia SDN BHD	-	-	1,273	11	-	341	-
Ansaldo Railway System Trading (Beijing) Ltd	3,225	-	286	48	-	13,266	-
Alifana Due S.c.r.l.	137	-	260	-	-	-	-
Alifana S.c.a.r.l.	25	-	94	-	-	-	-
KazakhstanTz-AnsaldoSTS Italy LLP	107	-	-	-	-	-	55
Consortia							
Saturno consortium	34,809	-	1,697	14	-	-	-
San Giorgio Volla Due consortium	2,877	-	197	-	-	-	-
MM4 consortium	22,467	-	912	34	-	-	-
San Giorgio Volla consortium	(5)	-	4	-	-	-	-
Ascosa Quattro consortium	59	-	-	-	-	-	-
Ferroviario Vesuviano consortium	592	-	78	-	-	-	-
Total	**122,334**	**12,023**	**117,571**	**1,397**	**4**	**114,490**	**270**
% of the total corresponding financial statements caption	**15%**	**66%**	**18%**		**0.1%**	**96%**	**1%**

AT 31 DECEMBER 2015 (€'000)	Revenue	Other operating income	Costs	Recovery of costs	Other operating expense	Financial income	Financial expense
Ultimate parents							
Hitachi Rail Europe LTD	-	-	-	301	-	-	-
Associates							
International Metro Service S.r.l.	-	10	-	-	-	2,940	-
S.P. M4 S.c.p.a. (in liquidation)	-	-	503	-	-	210	-
Metro 5 S.p.A.	26,390	4,067	112	-	-	-	-
Hitachi Rail Italy S.p.A.*	2,162	-	14,329	245	-	-	-
MetroBrescia S.r.l.	1,370	74	60	-	-	11	-
Hitachi Rail Espana SAU	8	-	-	-	-	-	-
Metro Service AS	-	-	45,113	5,796	-	-	-
I.M. Intermetro S.p.A. (in liquidation)	15	-	2	-	-	-	-
Pegaso S.c.r.l. (in liquidation)	-	-	185	-	-	-	-
Subsidiaries							
Ansaldo STS Transportation Systems India Private Limited	674	16	1,613	56	-	-	(112)
Ansaldo STS Australia PTY Ltd.	12,061	3,850	1,072	405	-	-	895
Ansaldo STS UK Ltd.	261	2	-	3	-	153	400
Ansaldo STS Ireland LTD	-	-	-	-	-	3,100	1,389
Ansaldo STS Sweden AB	3,564	399	265	73	-	-	-
Ansaldo STS Deutschland GmbH	954	-	-	-	-	-	-
Ansaldo STS France S.A.	4,595	3,345	11,717	409	-	-	-
Ansaldo STS Espana S.A.U.	709	-	159	43	-	-	-
Ansaldo STS USA Inc.	156	3,733	7,254	392	-	117	-
Ansaldo STS USA International CO.	-	-	6,883	-	-	-	-
Ansaldo STS Malaysia SDN BHD	522	-	158	11	-	277	-
Ansaldo Railway System Trading (Beijing) Ltd	8,147	-	166	49	-	-	-
Alifana Due S.c.r.l.	195	-	213	19	-	-	-
Alifana S.c.a.r.l.	25	-	-	-	-	-	-
Consortia							
Saturno consortium	21,343	-	1,911	-	-	-	-
San Giorgio Volla Due consortium	668	-	70	-	-	-	-
MM4 consortium	22,468	-	604	68	-	-	-
San Giorgio Volla consortium	(80)	-	(4)	-	-	-	-
CRIS consortium	-	-	1	-	-	-	-
Ascosa Quattro consortium	134	-	40	-	-	-	-
Ferroviario Vesuviano consortium	(993)	-	49	-	-	-	-
Total	**105,347**	**15,496**	**92,475**	**7,869**	**-**	**6,807**	**2,572**
% of the total corresponding financial statements caption	**15%**	**71%**	**15%**		**0%**	**29%**	**12%**

* As of 2 November 2015.

Revenue with related parties (€122,334 thousand) increased since the previous year by €16,987 thousand (from €105,347 thousand in 2015 to €122,334 thousand in 2016).
The expense increased by €31,568 thousand, from €84,606 thousand in 2015 to €116,174 thousand in 2016.
Other operating income mainly related to services (€8,973 thousand) provided to other group companies under the general service agreement.

Related party income and expense can be analysed as follows:

- €55,000 thousand for the dividend from the subsidiary Ansaldo STS France S.A., €26,156 thousand for the dividend from the subsidiary ASTS Sweden, €16,670 thousand for the dividend from the subsidiary ASTS Australia PTY Ltd., €13,266 thousand for the dividend from the subsidiary ASTS Railway System Trading (Beijing) Ltd. and €1,568 thousand for the dividend from the associate International Metro Service S.r.l.;
- €1,367 thousand for the revaluation of the joint current account with Ansaldo STS UK Limited due to the transfer of the allowance for impairment recognised in previous years;
- €463 thousand for interest on the joint current accounts with subsidiaries which had a debit position during the year;
- €270 thousand for financial expense relating to the loss on the equity investment in KazakhstanTz-Ansaldo STS Italy LLP (€55 thousand), whose liquidation process was completed during the year, and interest on the joint current account with the subsidiaries Ansaldo STS Australia (€148 thousand) and Ansaldo STS USA Inc. (€67 thousand), which had credit positions towards the company during the year.

27. Revenue

(€'000)	**2016**	2015
Sales - third parties	504,914	2,061,047
Sales – related parties	29,922	359,425
Total revenue from sales	**534,836**	**2,420,472**
Services - third parties	33,969	35,004
Services - related parties	28,495	17,561
Total revenue from services	**62,464**	**52,565**
Change in work in progress - third parties	168,774	(1,479,667)
Change in work in progress - related parties	63,918	(271,639)
Total change in work in progress	**232,692**	**(1,751,306)**
Total revenue	**829,992**	**721,731**

Total revenue increased €108,261 thousand from €721,731 thousand in 2015 to €829,992 thousand in 2016, mainly due to the progress made in metro projects in Saudi Arabia, Denmark and Honolulu.
Italian and foreign production amounted to €307,683 thousand (2015: €321,228 thousand) and €522,309 thousand (2015: €400,503 thousand), respectively.

During the year, revenue of €39,655 thousand (2015: €2,084,753 thousand) was recognised thanks to the recording of the final progress reports related to the CTC Nodo project in Naples.

28. Other operating income and expense

	2016		2015	
(€'000)	**Revenue**	**Costs**	Revenue	Costs
R&D grants	1,898	-	2,843	-
Gains on sales of property, plant and equipment and intangible assets	-	-	9	-
Accruals/Reversals of provisions for risks and charges	-	100	70	100
Accruals for expected losses	-	586	-	3,778
Royalties	292	-	288	-
Net exchange rate gains	403	512	242	396
Prior year items	228	98	385	338
Indirect taxes	-	790	-	950
Interest on trade receivables/payables	1,900	1,347	2,218	1,873
Other net operating income	1,584	767	345	837
Total other third party operating income	**6,305**	**4,200**	**6,400**	**8,272**
Total other related party operating income	12,023	4	15,496	-
Total	**18,328**	**4,204**	**21,896**	**8,272**

Other third party operating income amounts to €6,305 thousand (2015: €6,400 thousand), down by €95 thousand on the previous year.
This caption is mainly comprised as follows:

- R&D grants of €1,898 thousand (2015: €2,843 thousand). For additional information about the amount and a breakdown of the research and development expense recognised in profit or loss, reference should be made to the relevant section of the directors' report;
- operating interest on trade receivables of €1,900 thousand (2015: €2,218 thousand);
- prior year debit items of €228 thousand (2015: €385 thousand);
- royalties on hardware licences of €292 thousand (2015: €288 thousand);
- exchange rate gains on operative items of €403 thousand (2015: €242 thousand).

Other third party operating expense amounts to €4,200 thousand (2015: €8,272 thousand). It is comprised of indirect taxes of €790 thousand, other operating expense of €767 thousand, exchange rate losses on operative items of €512 thousand, inexistence of prior year credit items of €98 thousand, accruals to the provisions for risks and charges of €100 thousand, operating interest on trade payables of €1,347 thousand and expected losses to complete contracts of €586 thousand. The €4,072 thousand decrease in other third party operating expense is mainly due to the lower expected losses to complete contracts.
Other operating expense of €767 thousand relates to membership fees of €422 thousand, donations of €48 thousand, gifts and entertainment expenses of €155 thousand and sundry expenses of €142 thousand.

For a breakdown of other revenue and related party operating expense, reference should be made to note 26 on related parties and the directors' report ("Management and coordination and related party transactions" section).

29. Purchases and services

(€'000)	**2016**	2015
Materials from third parties	226,262	205,066
Change in raw materials	356	(2,715)
Total purchases from third parties	**226,618**	**202,351**
Purchases from related parties	49,116	19,742
Total purchases	**275,734**	**222,093**
Services from third parties	280,776	254,924
Rentals and operating leases	4,522	3,960
Hire expense	4,328	3,572
Total services from third parties	**289,626**	**262,456**
Services from related parties	67,058	64,865
Total services	**356,684**	**327,321**
Total	**632,418**	**549,414**

Total purchases and services for 2016 (€632,418 thousand) increased on 2015 by €83,004 thousand due to greater production volumes developed during the year.
Purchases of raw materials, consumables, supplies and goods amounted to €275,734 thousand (2015: €222,093 thousand), up €53,641 thousand.
Services amount to €356,684 thousand (2015: €327,321 thousand), up by €29,363 thousand.
Rentals and operating leases mainly relate to long-term rentals of company cars, software licences and the lease of the premises housing the Naples offices.
For a breakdown of costs for purchases and services from related parties, reference should be made to note 27 on related parties and the directors' report ("Management and coordination and related party transactions" section).

30. Personnel expense

(€'000)	**2016**	2015
Wages and salaries	103,977	95,816
Stock grant plans	3,933	1,444
Social security and pension contributions	27,340	26,627
Italian post-employment benefits	519	324
Other defined benefit plans	(12)	78
Defined contribution plans	4,363	4,439
Disputes with personnel	255	195
Recharge of personnel expense	(982)	(1,990)
Other costs	4,671	1,848
Total	**144,064**	**128,781**

Personnel expense for 2016 amounts to €144,064 thousand (2015: €128,781 thousand).
The total amount rose by €15,283 thousand compared to last year, for wages and salaries, as a result of the higher average headcount, and other costs correlated with costs recognised for transactions with the company's strategic and non-strategic personnel.
Recharge of personnel expense relates to personnel seconded to "related" companies mainly for: €524 thousand related to Ansaldo STS group companies, €62 thousand to MM4 consortium, €235 thousand to the Saturno consortium and €77 thousand to Hitachi Rail Italy S.p.A.

The headcount at 31 December 2016 numbered 1,616, compared to 1,498 employees in the previous year.

The table below shows employees by category and average number:

	2016	2015
Managers	60	60
Junior managers	318	309
White collars	1.193	1.084
Blue collars	45	45
Total	**1.616**	**1.498**

On 20 February 2014, the board of director on the basis of the proposition of the remuneration committee on 17 February 2014 and subsequently passed by the shareholders on 15 April 2014 approved a three-year stock grant plan (2014-2016).. The plan, which applies to a maximum of 46 employees plus the CEO and key managers, has the same vesting conditions as the 2012-2013 plan (EVA, FOCF and share performance against the FTSE Italia All-Share index), with a three-year vesting period.
The stock grant plan cost is recognised on an accruals basis in the reporting period in which the services are rendered. The amount therefore relates to the portion pertaining to the year of the shares related to the 2016 vesting conditions (as per the 2014-2016 plan), which will be delivered considering the three-year vesting conditions.
The cost is determined on the basis of the number of shares to be assigned and their fair value.
In accordance with IFRS 2 “Share-based payment” and IFRIC 11 “Group and treasury share transactions” and their current interpretations, the cost for the stock grant plan for 2016, equal to €3,933 thousand (2015: €1,444 thousand), was recognised with a balancing entry in an equity reserve.

31. Changes in finished goods, work-in-progress and semi-finished products

(€'000)	**2016**	2015
Changes in finished goods, work-in-progress and semi-finished products	**620**	**85**

This caption improved by €535 thousand, from €85 thousand in 2015 to €620 thousand in 2016.

32. Amortisation, depreciation and impairment losses

(€'000)	**2016**	2015
Amortisation and depreciation:		
- intangible assets	6,180	5,227
- property, plant and equipment	4,742	4,376
	10,922	**9,603**
Impairment losses:		
- current loans and receivables	1,325	2,501
- other property, plant and equipment and intangible assets	-	-
	1,325	**2,501**
Total amortisation, depreciation and impairment losses	**12,247**	**12,104**

Amortisation and depreciation amounted to €10,922 thousand, up by €1,319 thousand on 2015.
Specifically, €6,180 thousand relates to intangible assets and €4,742 thousand to property, plant and equipment.
The balance is shown net of deferred income of €4 thousand for grants related to assets (Italian Law no. 488/92) and for the satellite project (€1,152 thousand).
The value of impairment losses on current loans and receivables fell compared to the previous year.

33. Internal work capitalised

In 2016, this caption amounted to €4,700 thousand (2015: €4,694 thousand).
The “Satellite and Rail Telecom” project to develop satellite technologies for new railway signalling systems began in 2012. Costs incurred during the year amount to €4,126 thousand. This project is co-financed with the European Space Agency and the Galileo Supervisory Authority.

34. Net financial income/(expense)

	2016			2015		
(€'000)	**Income**	**Expense**	**Net**	Income	Expense	Net
Interest	58	7,722	(7,663)	32	14	18
Interest on Italian post-employment benefits	-	268	(268)	-	289	(289)
Exchange rate gains and losses	2,122	4,789	(2,667)	6,976	1,822	5,154
Fair value gains and losses	4,198	2,966	1,233	9,774	13,966	(4,192)
Cash flow gains and losses	229	3,234	(3,005)	38	2,526	(2,488)
Other financial income and expense	-	593	(593)	-	729	(729)
Total net financial expense	**6,608**	**19,572**	**(12,964)**	**16,820**	**19,346**	**(2,526)**
Dividends	112,660	-	112,660	6,041	-	6,041
Reversals of impairment losses/Impairment losses on investment	1,367	55	1,312	-	1,790	(1,790)
Interest and other financial income/(expense)	463	215	247	766	782	(16)
Net related party financial income	**114,490**	**270**	**114,219**	**6,807**	**2,572**	**4,235**
Total	**121,098**	**19,842**	**101,255**	**23,627**	**21,918**	**1,709**

Net financial income and expense rose considerably compared to the previous year, with a positive balance in 2016 of €101,255 thousand compared to a positive balance of €1,709 thousand in 2015. Net third party financial income and expense include interest paid to the Russian customer following the conclusion of the arbitration on the Libyan contract (€7,670 thousand). Related party income and expense increased essentially due to the distribution of dividends by some subsidiaries and associates.

Third party income and expense can be analysed as follows:
- interest income on current accounts for €58 thousand (2015: €32 thousand) and interest expense on current accounts of €52 thousand (2015: €14 thousand). The remaining share of interest expense (€7,670 thousand) relates, as noted above, to interest paid to the Russian customer following the conclusion of the arbitration on the Libyan contract (please refer to the directors' report for more details);
- interest expense on Italian post-employment benefits of €268 thousand (2015: €289 thousand) arising from the actuarial calculation carried out in accordance with IAS 19;
- exchange rate gains of €4,198 thousand (2015: €9,774 thousand) and exchange rate losses of €2,966 thousand (2015: €13,966 thousand) which relate to currency risk hedging transactions using fair value hedges;
- exchange rate gains/losses from the translation of current account balances in foreign currency using closing rates: positive effects on the 2016 profit and loss account of €2,122 thousand (2015: €6,976 thousand) and negative effects of €4,789 thousand (2015: €1,822 thousand);
- exchange rate gains and losses of €229 thousand and €3,234 thousand, respectively, arising from currency risk hedging transactions using cash flow hedges;
- finally, sundry financial expense of €593 thousand related essentially to banking fees and commissions.

For a breakdown of related party financial income and expense, reference should be made to note 26 on related parties and the directors' report (“Management and coordination and related party transactions” section).

35. Income taxes

Income taxes for 2016 amount to €16,106 thousand and may be analysed as follows:

(€'000)	2016	2015
IRES	12,663	12,595
IRAP	2,134	1,985
Prior year taxes	220	(315)
Provisions for tax risks	-	550
Net deferred tax (income) expense	1,089	826
Total	**16,106**	**15,641**

The difference between the theoretical and effective tax rates is analysed below:

	2016			2015		
(€'000)	**Taxable amounts**	**Income taxes**	%	Taxable amounts	Income taxes	%
Pre-tax profit	**161,963**			**51,542**		
Taxes calculated at ruling tax rates		44,540	27.50%		14,174	27.50%
Deferred tax assets recoverable during the year		-	-		-	-
Permanent differences						
- non-deductible expense	1,850	509	0.31%	5,148	1,416	2.75%
- tax-exempt dividends (95%)	(107,027)	(29,432)	-18.17%	(5,739)	(1,578)	-3.06%
- tax benefit (ACE)	(4,922)	(1,354)	-0.84%	(4,668)	(1,284)	-2.49%
- IRAP deduction - personnel expense	(1,316)	(362)	-0.22%	(997)	(274)	-0.53%
- tax-exempt income	(1,367)	(376)	-0.23%	-	-	0.00%
Profit net of permanent differences	**49,181**	**13,525**	**8.35%**	**45,286**	**12,454**	**24.16%**
Effective IRES recognised in profit or loss and effective tax rate	-	13,525	8.35%	-	12,454	24.16%
IRAP	-	2,310	1.43%	-	1,883	3.65%
Prior year taxes	-	220	0.14%	-	235	0.46%
Adjustment to new nominal rates	-	51	0.03%	-	1,069	2.07%
Total effective taxes recognised in profit or loss and related rate	**-**	**16,106**	**9.94%**	**-**	**15,641**	**30.35%**

The tax rate was 9.94% in 2016 compared to 30.35% in 2015. The decrease of 20.41% was caused primarily by the arithmetic effect of the weight of the value of dividends received in 2016 totalling €112,660 thousand, compared to €6,041 thousand in 2015, taxable for IRES purposes only to the extent of 5%. In addition, please note that in 2015 the tax rate was impacted by the adjustment to the IRES nominal rate of 24% for deferred tax assets and liabilities relating to items that would be reversed in years subsequent to 2016.

The following table shows the breakdown of temporary differences and related balances:

	31.12.16						31.12.15				
Importi in (K€)	Temporary differences	Tax rate	Deferred tax assets / liabilities	Equity effect	Reclassi-fication	Financial effect (+ income/- expenses), net of reclassification	Temporary differences	Tax rate	Deferred tax assets / liabilities	Reclassification / Equity effect	Financial effect (+ income/- expenses), net of reclassification
Deferred tax assets											
Write downs of work in progress	18,300	24.00%	4,392	-	-	-924	22,150	24.00%	5,316	-	-
Write downs of work in progress (only IRAP)	18,300	4.34%	794	-	-	-167	22,150	4.34%	961	-	-
Write downs of inventories (IRES)	806	24.00%	193	-	-	-100	1,224	24.00%	294	-	-
Provision for risks and charges (only IRES)	1,699	24.00%	408	-	-	41	1,529	24.00%	367	-	-
Provision for completed contracts and warranty provisions (IRES/IRAP)	406	28.34%	115	-	-	3	396	28.34%	112	-	-
Non-deductible amortization / depreciation (IRES/IRAP) - within 2016	-	31.84%	-	-	-	-3	9	31.84%	3		-
Non-deductible amortization / depreciation (IRES/IRAP)	1,185	28.34%	336	-	-	27	1,091	28.34%	309	-	-
Non-deductible amortization / depreciation (IRES)	94	24.00%	23	-	-	-	94	24.00%	23	-	-
Translation differences - branch	443	24.00%	106	-	-	-	443	24.00%	106	-	-
Costs deductible in subsequent years (IRES/IRAP)	-	31.84%	-	-	-	-10	32	31.84%	10		-
Costs deductible in subsequent years (IRES/IRAP) - over 2016	4	28.34%	1	-	-	-	4	28.34%	1	-	-
Loss-making contracts (IRES)	12,826	24.00%	3,078	-	-	1,014	8,601	24.00%	2,064	-	-
Loss-making contracts (IRES) - within 2016	-	27.50%	-	-	-	-1,001	3,639	27.50%	1,001	-	-
Loss-making contracts (IRAP)	12,826	4.34%	557	-	-	25	12,240	4.34%	531	-	-
Goodwill amortization (IRES/IRAP) - within 2016	-	31.84%	-	-	-	-264	829	31.84%	264	-	-
Goodwill amortization (IRES/IRAP)	2,073	28.34%	587	-	-	-	2,073	28.34%	587	-	-
Misalignment framework EC - EX ATSF (IRAP)	1,658	4.34%	72	-	-	-	1,658	4.34%	72	-	-
Non-deductible italian post-retirement benefits	1,255	24.00%	301	-	-	21	1,168	24.00%	280	-	-
Allowance for bad debts	2,691	24.00%	646	-	-	-	2,691	24.00%	646	-	-
Exchange rate losses	-	27.50%	-	-	-	-11	93	27.50%	26	-	-24
Allowance for impairment for interests in areas	13,171	24.00%	3,161	-	-	363	11,659	24.00%	2,798	-	-
Interests in arreas	8,071	24.00%	1,937	-	-	164	7,388	24.00%	1,773	-	-
Deductible costs in subsequent years (IRES)	714	24.00%	171	-	-	10	585	27.50%	161	-	-
Net equity effect on traslation difference branch	-	24.00%	-	-	-	-	-	27.50%	-	-303	-
Cash flow hedge reserve	919	24.00%	221	221	-	-	-	-	-	-	-
Italian post-retirement benefits (IAS 19)	-	31.84%	-	12	-	-12	-	-	-	-	-
Others	4,256	24.00%	1,021	-	102	305	2,560	24.00%	615	286	-286
Total	**101,697**	**-**	**18,121**	**233**	**102**	**-519**	**104,306**	**-**	**18,321**	**-17**	**-310**

	31.12.16						31.12.15				
	Temporary differences	Tax rate	Deferred tax assets / liabilities	Equity effect	Reclassi-fication	Financial effect (+ income/- expenses), net of reclassification	Temporary differences	Tax rate	Deferred tax assets / liabilities	Reclassification / Equity effect	Financial effect (+ income/- expenses), net of reclassification
Deferred tax liabilities											
Research grants (IRES/IRAP)	41	28.34%	12	-	-	-	41	28.34%	12	-	-
Research grants (IRES)	9,080	24.00%	2,179	-	102	-39	8,817	24.00%	2,116	286	-286
Allowance for bad debts (EC framework)	2,106	24.00%	505	-	-	-	2,106	24.00%	505	-	-
Uncollecte interests for arreas	21,486	24.00%	5,157	-	-	446	19,629	24.00%	4,711	-	-
Italian post-employment benfits (IAS 19)	-	27.50%	-	-	-	-	-	27.50%	-	145	-145
Translation differences branch	91	24.00%	22	-	-	-	91	24.00%	22	-	-
Net equity effect on traslation difference branch	4,227	24.00%	1,014	-116	-	-	4,112	27.50%	1,131	1,131	-
Cash flow hedge reserve	-	27.50%	-	-58	-	-	210	27.50%	58	-869	869
Margin on projects below 12 months	1,372	24.00%	329	-	-	168	587	27.50%	161	-	-
Exchange rate gains	-	27.50%	-	-	-	-5	51	27.50%	14	-	2
Total	**38,403**	**-**	**9,218**	**-174**	**102**	**570**	**35,644**	**-**	**8,730**	**693**	**440**

The IRES and IRAP rates used for deferred taxes are those estimated when temporary differences will reverse. Specifically, for IRES purposes, deferred taxes were recognised at the new IRES rate in force starting in the tax period subsequent to 2016 (24%). The rate used for IRAP purposes is 4.34%.
The IRAP nominal rate rose by 3.9% as a consequence of the increase in the regions' health care deficit based on a local allocation (up 1.07% in Campania and 0.92% in Lazio).

Net deferred taxes recognised against equity in 2016 and in prior years (€168 thousand of net deferred taxes) arose from actuarial gains/losses on Italian post-employment benefits (deferred tax assets of €626 thousand against actuarial losses of €2,271 thousand) using the equity method as per IAS 19, and the hedging reserve (deferred tax assets of €221 thousand against an equity reserve of a negative €919 thousand) and the reserve for exchange rate gains or losses related to the branches (deferred taxes of €1,014 thousand against positive net reserves of €4,227 thousand).

36. Cash flows from operating activities

	For 12 months at 31 December	
(€'000)	**2016**	2015
Profit for the year	145,857	35,901
Depreciation and impairment losses	12,247	12,104
Income taxes	16,105	15,641
Accruals to provisions	646	845
Italian post-employment benefits	519	324
Defined benefit plans and stock grant plans	3,922	1,521
Financial income/(expense), net of impairment losses on equity investments measured at cost	(101,256)	(1,708)
Gross cash flows from operating activities	**78,040**	**64,628**

	For 12 months at 31 December	
(€'000)	**2016**	2015
Inventories	363	(15,620)
Work in progress and progress payments and advances from customers	(26,596)	(51,142)
Trade receivables and payables	(4,375)	51,253
Changes in working capital	**(30,608)**	**(15,509)**

	For 12 months at 31 December	
(€'000)	**2016**	2015
Payment of Italian and other post-employment benefits and stock grants	(478)	(2,258)
Utilisation of the provisions for risks	(1,016)	(221)
Changes in other operating items	(13,547)	(21,415)
Total changes in other operating items and net financial expense and taxes paid	**(15,041)**	**(23,894)**

Gross cash flows from operating activities rose compared to 2015. With reference to the change in working capital, the absorption of cash arising from the progress of new contracts is not offset by changes in trade receivables and payables.

37. Financial risk management

The following disclosure about financial risks and financial instruments is given as required by IFRS 7 "Financial instruments: disclosures" and article 2428.2.6-bis of the Italian Civil Code.

The company's operations expose it to the following financial risks:
- *market risks*, related to the company's exposure to interest-bearing financial instruments (interest rate risks) and to operations in areas that use currencies other than the company's functional currency (currency risk);
- *liquidity risks*, related to the availability of financial resources and access to the credit market;
- *credit risk*, arising from normal trading transactions or financing activities.

The company specifically monitors each of these financial risks and acts promptly to minimise them via tailored risk management policies and hedging derivatives.

The potential impact of hypothetical fluctuations in the reference parameters on actual results is analysed below using sensitivity analyses. As set out in IFRS 7, these analyses are based on simplified scenarios applied to the actual figures of the reference years. However, because of their nature, they cannot be considered as indicators of the real effects of future changes in reference parameters when a different financial position and results of operations and different market conditions are considered. Moreover, they do not reflect the interrelations and complexities of the reference markets.

Interest rate risk
As described in the treasury management policy, the aim of interest rate risk management is to reduce the negative effects of interest rate fluctuations on the company's financial position, results of operations and weighted average cost of capital.

Ansaldo STS manages interest rate risk to pursue the following objectives:
- stabilise the weighted average cost of capital;
- minimise and defer Ansaldo STS's WACC from medium- to long-term. Weighted average cost of capital by focusing on the effects of interest rates on both debt funding and equity funding;
- optimise the return on financial investments within a general risk/return trade-off;
- limit costs related to the implementation of interest rate management policies, including direct costs related to the use of specific instruments and indirect costs linked to the internal structure needed to manage the risk.

Thanks to the combined short-term management of assets and liabilities, the company's exposure to interest rate fluctuations in the long term is relatively neutral.
Again in 2016, the group managed this risk without the use of derivatives.

Cash flows from operations are deposited in a current account held with the parent, setting up from time to time short-term time deposits, not more than three months, for amounts in excess of operating requirements, which are remunerated with higher interest rates. The company uses third party financial resources: specifically it applies for fixed-rate subsidised loans when the interest payable is lower than the interest receivable on available financial resources.

Sensitivity analysis of interest rates

Interest rate risks are measured using sensitivity analyses in accordance with IFRS 7. With respect to the liquidity bearing floating rates, assuming an increase or decrease of 50 basis points in interest rates at year end, profit for the year (gross of the tax effect) and equity would have been greater (smaller) by €1,176 thousand, respectively.

	2015	2016		2016	2016
(€'000)	Value at Floating Rate	**Value at Floating Rate**	**Average**	**Assumption 1 50.00**	**Assumption 2 -50,00**
Non-current related party loans and receivables	21,028	22,534	21,781	109	(109)
Trade receivables	92,403	122,918	107,661	538	(538)
Assets at fair value	-	-	-	-	-
Third party loan assets	-	-	-	-	-
Related party loan assets	21,516	22,524	22,020	110	(110)
Derivative assets - CF Hedge	107	1,191	649	3	(3)
Derivative assets - FV hedges (no back-to-back)	1,076	101	588	3	(3)
Cash and cash equivalents	178,636	202,996	190,816	954	(954)
Assets	**314,766**	**372,263**	**343,515**	**1,718**	**(1,718)**
Third party trade payables	59,051	59,618	59,335	297	(297)
Third party financial liabilities	-	-	-	-	-
Related party financial liabilities	34,577	39,961	37,269	186	(186)
Derivative liabilities - CF Hedge	9,072	13,866	11,469	57	(57)
Derivative liabilities - FV Hedge (no back-to-back)	110	239	174	1	(1)
Liabilities	**102,810**	**113,684**	**108,247**	**541**	**(541)**
Total	**211,956**	**258,579**	**235,268**	**1,176**	**(1,176)**

Currency risk

As described in the above policy, the company manages currency risk by pursuing the following objectives:
- limit potential losses generated by unfavourable exchange rate fluctuations against the currencies used by Ansaldo STS and its subsidiaries. Losses are defined in cash flows rather than accounting terms;
- limiting forecast or actual costs related to the implementation of currency risk management policies.

Currency risk shall only be hedged if it has a material impact on cash flows, compared to the functional currency. Costs and risks related to a hedging policy (hedge, no hedge or partial hedge) must be acceptable in both financial and commercial terms.

Currency risk may be hedged using the following tools:
- purchase and sale of currency forwards: these are the most commonly used cash flows hedges;
- currency/cross currency swaps: used in conjunction with currency forwards to dynamically hedge currency risks represented by the early or deferred impact of future cash flows in currencies other than the functional currency;
- funding/lending in foreign currency: used to mitigate the currency risk related to similar receivable and payable positions with banks or group companies.

The use of funding and lending in foreign currency as a hedging instrument shall only take place when consistent with the company's overall treasury management and financial position (both long- and short-term).
The purchase and sale of foreign currency is generally the hedge tool used when exotic currency markets are not sufficiently liquid or when it is the most cost effective method of hedging.

Currency risk hedging

There are three main types of currency risk:

1. Economic risk:
   - is the impact exchange rate fluctuations can have on capital budgeting decisions (investments, the location of production facilities and supply markets).
2. Transaction risk:
   - is the possibility that exchange rates may fluctuate between the time a commitment is undertaken to make future collections or payments in foreign currency (price list, budgets, orders preparation and invoicing) and when the actual collection or payment takes place, generating either exchange rate gains or losses.
3. Translation risk:
   - is the effect on the financial statements of multinational companies of translating dividends, or of consolidating assets and liabilities when exchange rates adopted for consolidation purposes differ from one reporting period to the next.

The company hedges the transaction risk in line with the foreign exchange risk management policy, i.e., via the systematic hedge of cash flows generated by firm contractual commitments to buy and sell, in order to fix the exchange rates at the date the construction contracts are agreed, thereby neutralising the effects of exchange rate fluctuations.

Fair value hedges

These hedge fair value changes in a recognised asset or liability, an unrecognised firm commitment, an identified portion of this asset, liability or irrevocable commitment, related to a particular risk and that could impact profit or loss.

The company hedges fair value gains or losses related to the currency risk on recognised assets and liabilities.

Hedges are undertaken with banks. The company has contracts in place for the following notional foreign currency amounts at the reporting date:

(local currency '000)	**Sell16**	**Buy16**	**31.12.2016**	Sell15	Buy15	31.12.2015
US dollar	246,276	25,820	272,096	323,900	14,620	338,520
Pound sterling	18,426	-	18,426	7,350	-	7,350
Swedish krona	-	-	-	-	274,300	274,300
Australian dollar	-	9,900	9,900	-	51,300	51,300
United Arab Emirates dirham	50,000	-	50,000	50,000	-	50,000
Indian rupee	101,478	-	101,478	101,478	-	101,478
Total in €'000	**269,497**	**31,277**	**300,774**	**321,445**	**77,714**	**399,158**

The net fair value of the derivatives in place at 31 December 2016 was a negative €12,814 thousand (31 December 2015: a negative €7,998 thousand). Notional amounts are shown in the above table. The balance includes back-to-back contracts (see note 16).

During the year, new forward sale transactions of foreign currency took place against trade collections for the Glasgow project.

The currency risk relates to foreign currency receivables and payables and the balances of the company's permanent establishments.

Exchange rate gains and losses arise from the adoption of the local currency in preparing the financial position of permanent establishments. With the exception of a few cases, no hedging transactions were carried out with respect to the exchange rate differences related to foreign permanent establishments as the cost of the transaction would have exceeded the expected benefits.

Sensitivity analysis of exchange rates

For the purposes of the presentation of market risks, IFRS 7 requires a sensitivity analysis that shows the effects of the hypothetical changes in the most significant market variables on profit or loss and equity.
Currency risks arise from recognised financial instruments (including trade receivables and payables) or 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 company, a sensitivity analysis was performed on financial instruments denominated in US dollars in place at 31 December 2016, 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 company's financial statements:

	2016		2015	
(€'000)	**+5% - appreciation of the euro against the US dollar**	**-5% - depreciation of the euro against the US dollar**	+5% - appreciation of the euro against the US dollar	-5% - depreciation of the euro against the US dollar
Income statement	(4,268)	4,717	(6,201)	6,853

Liquidity risk

Liquidity risk can result in the inability to efficiently manage ordinary business and investment operations and to repay the amounts due at their expiry date.
The company has rolled out a series of tools to optimise treasury management with a view to the efficient management of cash and cash equivalents and to help its business grow. This was achieved by centralising the treasury function and an active presence on financial markets to obtain short- and medium-term credit lines. In this context, the company obtained short- and long-term non-revolving cash and unsecured credit lines to meet its needs and those of the group.
It had a net financial position of - €160,251 thousand at 31 December 2016 (31 December 2015: - €57,627 thousand).
Considering the positive net financial position, comprised of on-demand liquidity and current account overdrafts of €106,000 thousand, management believes the company can meet its needs for investing activities and working capital management and settle its payables on their expiry dates.

Liquidity analysis

(€'000) - 31 December 2016	**Within one year**	**Between one and five years**	**After five years**
A – Financial liabilities excluding derivatives			
Current liabilities			
Related party trade payables	40,361	29	-
Third party trade payables	356,335	1,942	-
Related party loans and borrowings	92,208	-	-
Third party loans and borrowings	1,771	-	-
Other financial liabilities	-	-	-
Total A	**490,674**	**1,971**	**-**
B – Negative value of derivatives			
Hedging derivatives (including back-to-back derivatives)	22,615	-	-
Trading derivatives (economic hedge)	-	-	-
Total B	**22,615**	**-**	**-**
Total A + B	***513,290***	***1,971***	**-**

The following financial assets are recognised against financial liabilities for a total amount of €515,261 thousand:

C - Financial assets	
Securities held for trading	-
Cash-in-hand and cash and cash equivalents	202,996
Third party trade receivables	509,019
Related party trade receivables	97,035
Third party loan assets	28,443
Related party loan assets	22,791
Positive value of derivatives (including back-to-back)	9,802
TOTAL FINANCIAL ASSETS	**870,086**

D – Unsecured credit lines	**106,000**
TOTAL C + D	**976,086**
C+D-(A+B)	**460,825**

The company has a net credit position and has available liquidity to self-finance and does not have to use banks to finance its operations. Consequently, it has relatively limited exposure to the liquidity market tensions.

Credit risk

The company does not have significant credit risks, either in terms of its trading counterparties or its financing and investing activities.

With respect to trading transactions, its main customers are public entities or related to public bodies, mostly in the Eurozone. With respect to counterparty risks, for contracts with countries with which the company does not have regular trading transactions, solvency is analysed at the time the offer is placed, in order to avoid future credit risks. The nature of these customers is a guarantee of solvency; however, collection times (particularly in certain countries) may be significantly longer than those typical of other businesses, with sometimes considerable overdue amounts which may also trigger disposal transactions. As described below, this situation is particularly marked during this period of crisis.
At 31 December 2016, third party trade receivables amounted to €509,019 thousand (31 December 2015: €456,266 thousand) and were overdue for €216,433 thousand (31 December 2015: €216,846 thousand), of which €160,131 thousand (31 December 2015: €130,350 thousand) by more than 12 months.

With respect to the concentration of third party trade receivables at year end, the following table gives a break down of trade receivables by public body and other customers, geographical area and overdue bracket.

	Public bodies			Other customers			
(€'000)	**Europe**	**Americas**	**Other**	**Europe**	**Americas**	**Other**	**Total**
Retentions	18,466	7,871	10,125	15,637	-	1,516	53,616
Not overdue	42,861	-	20,051	108,510	-	67,548	238,970
Overdue by less than one year	22,713	2,582	-	21,295	-	9,711	56,302
Overdue between one and five years	64,060	-	46,166	47,175	-	2,731	160,131
Overdue by more than five years	-	-	-	-	-	-	-
Total	**148,100**	**10,454**	**76,342**	**192,617**	**-**	**81,506**	**509,019**

Classification of financial assets and liabilities

The table below gives a breakdown of the company's financial assets and liabilities by measurement category. Financial liabilities are all recognised using the amortised cost method.

(€'000)	**Fair value through profit or loss**	**Loans and receivables**	**Held to maturity**	**Available for sale**	**Total**	**Fair value**
Non-current assets						
Loans and receivables	-	4,918	-	-	4,918	4,918
Related party loan assets	-	22,716	-	-	22,716	22,716
Current assets						
Third party assets at fair value	-	-	-	-	-	-
Third party trade receivables	-	509,019	-	-	509,019	509,019
Related party trade receivables	-	97,035	-	-	97,035	97,035
Third party loan assets	-	28,443	-	-	28,443	28,443
Related party loan assets	-	22,791	-	-	22,791	22,791

IFRS 7 requires the classification of fair value of derivatives on the basis of reference parameters that can be inferred from the market or from other financial indicators (for example: exchange rates, interest rate curve, etc.). Financial derivatives on currencies to hedge the currency risk fall within Level 2 of the hierarchy since the fair value of these instruments is determined by recalculating the present value through the official fixing of closing exchange and interest rates listed on the market.

The table below shows the fair values of financial instruments in portfolio, excluding back-to-back instruments.

Fair value hierarchy at the reporting date (€'000)	**Fair value at 31.12.2016 Level 2**	Fair value at 31.12.2015 **Level 2**
Assets		
Interest rate swaps		
Trading	-	-
Fair value hedges	-	-
Cash flow hedges	-	-
Currency forward/swap/option		
Trading		
Fair value hedges	101	1,076
Cash flow hedges	1,191	*107*
Equity instruments (trading)	-	-
Embedded derivatives (trading)	-	-
Liabilities		
Interest rate Swap		
Trading	-	-
Fair value hedges	-	-
Cash flow hedges	-	-
Currency forward/swap/option		
Trading	-	-
Fair value hedges	239	110
Cash flow hedges	13,866	9,072
Equity instruments (trading)	-	-
Embedded derivatives (trading)	-	-

38. Directors' and statutory auditors' fees and the general manager's and key managers' remuneration

Fees paid to those who have the power to plan, manage and control the company, including executive and non-executive directors, are as follows:

(€'000)	**2016**	2015
Directors' fees	5,549	4,161
Stock grants	180	247
Total	**5,729**	**4,408**

Fees paid to directors, key managers and the general manager amounted to €5,729 thousand in 2016 (2015: €4,408 thousand).
They include fees and any other type of remuneration and social security sums due for the position of director, key manager or general manager of the company, which represented a cost for the company.
Costs correlated with transactions with the company's strategic figures were incorporated in 2016. A one-off financial incentive was incorporated in 2015 for those persons holding certain key roles within the group, with a view to maintaining business continuity in light of the transfer of the controlling interest in the parent's share capital.
Fees include those paid to the members of the board of directors and the supervisory bodies.
Statutory auditors' fees amounted to €210 thousand in 2016 (unchanged from 2015).
In order to implement an incentive and loyalty scheme for certain employees, the company has launched incentive plans which, upon reaching set vesting conditions, provide for the awarding of Ansaldo STS shares. Shares were delivered in 2016 as the 2013 vesting conditions of the 2012-2013 plan have a three-year term. In addition, the shares for the 2016 vesting conditions as part of the new 2014-2016 plan were accrued.
Shares held by members of the board of directors, the general manager and key managers are as follows:

Name and surname	Position	No. of shares held at the end of the previous year	No. of shares awarded	No. of shares purchased	No. of shares sold	No. of shares held at the end of the year
Eng. Andrew Thomas Barr	Chief executive officer and general manager	-	-	-	-	-
Eng. Stefano Siragusa*	Chief executive officer and general manager	-	-	-	-	-
Dr. Christian Andi	Key manager	-	2,890	-	2,890	-
Eng. Michele Fracchiolla	Key manager	-	3,292	-	3,292	-
Eng. Giuseppe Gaudiello	Key manager	1,960	3,723	-	3,723	1,960

* Eng. Stefano Siragusa has resigned from the director of BoD, Managing Director and CEO on March 30, 2016 with effect from 13 May 2016 and the information relates to the balance held on the latter date.

Annual fees paid to directors and statutory auditors are as follows:

(in euros)

POSITION	POSITION						
Name and surname	Position	Date of appointment	End of term	Fees for the position held in the reporting company for 2016	Non-monetary benefits	Bonuses and other incentives	Other fees paid
Alistair Dormer	Chairperson of the BoD	13/05/2016	Approval of 2018 financial statements	75,000 (1)			
Alberto de Benedictis (b) (c)	(Deputy chairperson)	13/05/2016	Approval of 2018 financial statements	60,219 (2)			
Katharine Rosalind Painter (a) (d)	Director	13/05/2016	Approval of 2018 financial statements	60,219 (3)			
Andrew Thomas Barr	Chief executive officer and general manager since 24/05/2016	24/05/2016	Approval of 2018 financial statements	48,387 (4)	9,175		194,917*
Mario Garraffo (b) (d)	Director	13/05/2016	Approval of 2018 financial statements	75,355 (5)			
Katherine Jane Mingay	Director and Deputy chairperson of the BoD until 28/10/2016	13/05/2016	Approval of 2018 financial statements	31,694 (6)			
Rosa Cipriotti	Director	13/05/2016	Approval of 2018 financial statements	31,694 (7)			
Fabio Labruna	Director	13/05/2016	Approval of 2018 financial statements	31,694 (7)			
Giuseppe Bivona	Director	13/05/2016	Approval of 2018 financial statements	31,694 (7)			
Karen Boswell	Director since 02/11/2015, holding the role of deputy chairperson since 25/11/2015	02/11/2015	Approval of 2017 financial statements	18,306 (8)			
Nicoletta Garaventa (e)	Chairperson of the supervisory body	06/05/2013	three-year term	25,000			
Alberto Quagli (f)	Member of the supervisory body	06/05/2013	three-year term	20,000			
Giacinto Sarubbi	Chairperson of the board of statutory auditors	15/04/2014	Approval of 2016 financial statements	75,000			15,000**
Maria Enrica Spinardi	Statutory auditor	15/04/2014	Approval of 2016 financial statements	50,000			10,000**
Renato Righetti	Statutory auditor	15/04/2014	Approval of 2016 financial statements	50,000			10,000**
Stefano Siragusa (g)	Chief executive officer and general manager until 13/05/2016	02/11/2015	Approval of 2017 financial statements	29,462 (9)	27,534		3,447,471***
Paola Giannotti (m)	Director in office until 13/05/2016	02/11/2015	Approval of 2017 financial statements	27,459 (10)			
Giulio Gallazzi (h)	Director in office until 13/05/2016	02/11/2015	Approval of 2017 financial statements	25,628 (11)			
Alessandra Piccinino (i)	Director in office until 13/05/2016	09/11/2015	Approval of 2017 financial statements	23,798 (12)			
Bruno Pavesi (i) (m)	Director in office until 13/05/2016	02/11/2015	Approval of 2017 financial statements	32,951 (13)			
Giovanni Cavallini (l)	Director in office until 13/05/2016	02/11/2015	Approval of 2017 financial statements	29,290 (14)			

* fixed remuneration of €194,917 for the position of general manager and other fees for 2016
** fees for positions on committees
*** fixed remuneration of €246,470 for the position of general manager and other fees for 2016 until 13/05/2016 and €3,201,001 for termination of the employment relationship.

(a) Chairperson of the appointments and remuneration committee
(b) Member of the appointments and remuneration committee
(c) Chairperson of the risk and control committee
(d) Member of the risk and control committee
(e) Chairperson of the supervisory body
(f) Member of the supervisory body
(g) Chief executive officer and general manager until 13/05/2016
(h) Chairperson of the appointments and remuneration committee until 13/05/2016
(i) Member of the appointments and remuneration committee until 13/05/2016
(l) Chairperson of the risk and control committee until 13/05/2016
(m) member of the risk and control committee until 13/05/2016

(1) chairperson of the BoD (in office since 13/05/2016 with a new mandate)
(2) in office since 13/05/2016 BoD - ARC - chair. RCC and from 28/10/2016 dep. chair. BoD
(3) in office since 13/05/2016 as member of BoD - RCC and chair. ARC
(4) since 24/05/2016 CEO
(5) in office since 02/11/2015 BoD and since 13/05/2016 RCC and ARC
(6) BoD and deputy chair. BoD from 13/05/2016 to 28/10/2016
(7) BoD since 13/05/2016
(8) in office BoD from 02/11/2015 to 13/05/2016 and dep. chair. BoD since 25/11/2015
(9) CEO and general manager until 13/05/2016
(10) BoD and RCC until 13/05/2016
(11) BoD - chair. ARC until 13/05/2016
(12) BoD and ARC until 13/05/2016
(13) BoD - ARC and RCC until 13/05/2016
(14) BoD - chair. RCC until 13/05/2016

In euros	Annual unit fees
Chairperson of the board of directors	75,000
Member of the board of directors	50,000
Chairperson of the supervisory body	25,000
Member of the supervisory body	20,000
Chairperson of the appointments and remuneration committee	20,000
Member of the appointments and remuneration committee	15,000
Chairperson of the risk and control committee	30,000
Member of the risk and control committee	25,000

39. Highlights at 31 march 2016 of the company that carries out management and coordination activities (article 2497-*bis* of the Italian Civil Code)

The highlights of the parent Hitachi Ltd., shown in the summary schedule as required by article 2497 bis of the Italian Civil Code, were taken from the financial statements at 31 March 2016.
For an adequate and comprehensive picture of Hitachi Ltd.'s financial position and results of operations as at and for the year ended 31 March 2016, reference should be made to Finmeccanica's financial statements, which are available as required by law along with the report of the independent auditors.
The most recently approved financial statements of Hitachi Ltd. are those at 31 March 2016, as its reporting period is from 1 April to 31 March.

HITACHI LTD (Millions of yen)

STATEMENT OF FINANCIAL POSITION	**31 March 2016***
ASSETS	
NON-CURRENT ASSETS	2,503,861
CURRENT ASSETS	1,364,772
TOTAL ASSETS	**3,868,633**
LIABILITIES	
EQUITY:	
- Share capital	458,790
- Reserves and retained earnings	854,718
- Profit for the year	64,934
	1,378,442
NON-CURRENT LIABILITIES	698,348
CURRENT LIABILITIES	1,791,843
TOTAL LIABILITIES	**3,868,633**
INCOME STATEMENT	
REVENUE	1,859,605
OTHER REVENUE	120,610
EXPENSE	(1,853,788)
EXTRAORDINARY INCOME AND EXPENSE	12,193
INCOME TAXES	(73,686)
PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	-
PROFIT FOR THE YEAR	**64,934**

Hitachi LTD prepares consolidated financial statements.

* The most recently approved financial statements of Hitachi Ltd are those at 31 March 2016, as its reporting period is from 1 April to 31 March.

40. Information pursuant to article 149-*duodecies* of the issuer regulation

The following schedule was prepared in accordance with article 149-duodecies of Consob regulation no. 11971/1999 and subsequent amendments (Issuer regulation) and shows the fees for 2016 related to services provided by the audit company or entities belonging to its network.

(€'000)	**Service provider**	**2016 fees**
Audit	KPMG S.p.A.	55
	EY S.p.A.	136
Attestation services	KPMG S.p.A.	72
	EY S.p.A.	-
Tax consultancy services	KPMG S.p.A.	-
	EY S.p.A.	-
Other services	KPMG S.p.A.	10
	EY S.p.A.	40
		313

Milan, 27 February 2017

On behalf of the board of directors
The Chairperson
Alistair Dormer

Statement on the separate financial statements pursuant to article 81-*ter* of Consob regulation no. 11971 of 14 May 1999 and subsequent amendments and integrations and article 154-bis.2 of Italian Legislative Decree no. 58 of 24 February 1998 and subsequent amendments and integrations

1. The undersigned, Andrew Thomas Barr, as CEO and general manager, and Roberto Carassai as manager in charge of financial reporting for Ansaldo STS S.p.A., also considering the provisions of article 154-bis.3/4 of Italian Legislative decree no. 58 of 24 February 1998 and subsequent amendments and integrations, state that the administrative and accounting procedures used to draft the separate financial statements at 31 December 2016:
   - are appropriate in relation to the nature of the business and
   - have been effectively applied.
2. There is nothing to report in this regard.
3. Moreover:
   3.1 the separate financial statements:
      a) are drafted in compliance with the IFRS endorsed by the European Community, pursuant to EC regulation no. 1606/2002 issued by the European Parliament and Council on 19 July 2002;
      b) are consistent with the accounting ledgers and accounting entries;
      c) give a true and fair view of the issuer's financial position and results of operations.
   3.2. The directors' report accompanying the separate financial statements provides a reliable analysis of the important events taking place in the year, together with a description of the key risks and uncertainties.

Milan, 27 February 2017

Signature of the CEO and general manager	Signature of the Manager in charge of financial reporting
Andrew Thomas Barr	**Roberto Carassai**

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Independent auditor's report in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010 (Translation from the original Italian text)

To the Shareholders of
Ansaldo STS S.p.A.

Report on the financial statements

We have audited the accompanying financial statements of Ansaldo STS S.p.A., which comprise the statement of financial position as at December 31, 2016, the income statement, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors of Ansaldo STS S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Ansaldo STS S.p.A. as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Other matters

The financial statements of Ansaldo STS S.p.A. for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 17 March 2016.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the financial statements. The Directors of Ansaldo STS S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the financial statements of Ansaldo STS S.p.A. as at December 31, 2016.

Genoa, March 27, 2017
EY S.p.A.
Signed by: Enrico Lenzi, Partner

This report has been translated into the English language solely for the convenience of international readers.

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mercurio GP
www.mercuriogp.eu

Ansaldo STS A Hitachi Group Company

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Register of Enterprises of Genoa
Tax Code 01371160662

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