

ANSALDO STS S.p.A. REGISTERED OFFICE: VIA PAOLO MANTOVANI 3-5, GENOA

SHARE CAPITAL EUR 100,000,000.00 FULLY SUBSCRIBED AND PAID UP

REGISTRATION NUMBER AT THE GENOA COMPANY REGISTER AND TAX IDENTIFICATION NUMBER 01371160662

SUBJECT TO THE MANAGEMENT AND COORDINATION OF HITACHI LTD.

## **Ordinary and Extraordinary Shareholders' Meeting**

**11 May 2017**

*Explanatory Report of the Board of Directors*

*produced pursuant to Article 72, paragraph 1-bis of Consob Resolution No 11971 of 14 May 1999 on the*

### **Sole item on the agenda of the extraordinary part:**

***“Proposal for an amendment to the By-laws concerning the date of closing of the financial year. Related and consequent resolutions.”***

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Dear Shareholders,

You have been convened for an extraordinary session to discuss and pass resolution on the proposal to amend the date of closure of the financial year, as indicated below.

Article 29 of the By-laws of Ansaldo STS provides that the company financial year closes on 31 December of each year.

However, the Japanese "Hitachi" Group, of which Ansaldo STS became a part with effect from November 2015, has adopted the date of 31 March as the closing date of its financial year. All companies belonging to Hitachi Group use 31 March as the closing date of their financial year. The Italian companies that control Ansaldo STS, "Hitachi Rail Italy Holding S.r.l." (the indirect parent company) and "Hitachi Rail Italy Investments S.r.l." (the direct parent company) also close their financial year on 31 March.

The parent company "Hitachi Ltd", which is listed on the Tokyo stock exchange, is subject to numerous market disclosure obligations which have a consequent impact on the Group. These companies are required to implement specific procedures for reporting to the parent company which, due to market disclosure and internal management requirements, are particularly complex and onerous in administrative terms.

In this context, it is clear that with regard to the date of closure of the financial year adopted within the Hitachi Group (31 March), reporting is more complex and subject to specific auditing procedures by the group Auditor.

Thus, the presence of an important subsidiary such as Ansaldo STS, which closes its financial year on a date other than 31 March, involves certain inefficiencies in several respects. In particular:

- The fact that Ansaldo STS closes its financial year on 31 December, and that it is subject to complex reporting procedures related to the date of March 31, means that double the effort is required to produce managerial and financial data, with an obvious burden in terms of the cost of both internal staff and the external entities involved in the relevant process (in particular the auditing firm);
- Reporting procedures linked to the date of 31 March contain some inefficiencies in terms of the accuracy and timelines of the data provided, given that the data arises from a procedure for the closure of the company year which is not subject to such rigorous control.

For these reasons it has been deemed advisable to amend Article 29 of the By-laws to change the closing date of the Ansaldo STS company financial year to March 31 of each year, with effect from the current financial year, which would therefore have a duration of more than one year, i.e. from 1 January 2017 until 31 March 2018.

Such a change would make it possible to eliminate these inefficiencies and optimise the reporting process.

The decision to establish a transitional financial year of 15 months during the initial application phase of the proposed amendment to the By-laws is justified by the fact that a three-month transitional company year such as 1 January 2018 to 31 March 2018 would result in an inaccurate representation of the company's performance, as it would account for only the results of the first three months of operations and therefore it would not provide a full and comprehensive picture of an entire financial year, particularly given the specific business of Ansaldo STS. Furthermore, the Company would also be obliged to incur the exceptional financial and reporting charges of a normal 12-month year for a transitional period of only three months.

Authoritative legal theory and recent case law have upheld the view that the principle, according to which financial years must have a duration of a year, must be reconciled with the right of the Company to choose the start date of its financial year and if necessary to change it, for justified reasons, during the company's lifetime. In such a case, to provide, for the first financial year and in order to find a solution for the transitional period, for a financial year which can last less or more than 12 months, with the condition, in such a case, that the financial statements concerning a period lasting more than 12 months is not significative.

Therefore there are no obstacles to the Shareholders' Meeting adopting a resolution that provides, together with a change in the date of closure of the company financial year, for a transitional financial period which is somewhat, but not significantly, longer than one year.

In view of these considerations, and given the advisability of aligning the closure of the financial year of Ansaldo STS with that of Hitachi Group companies, an amendment to the current Article 29.1 of the By-laws, providing for the closure of the financial year on 31 March of each year, is submitted for approval at the Extraordinary Shareholders' Meeting of Ansaldo STS.

It should be noted that for the purposes of consistency of the text of the By-laws, in addition to an amendment to Article 29.1, it would be appropriate to amend Article 3.1 to bring the term of the company into line with the close of the financial year.

The text of the current By-laws, compared to the proposed text, is indicated below for a clear view of the amendments in question.

CURRENT TEXT	PROPOSED TEXT
<p><u>Financial statements and Earnings</u></p> <p><u>Article 29</u></p> <p>29.1 The company financial year closes on 31 December of each year.</p>	<p><u>Financial statements and Earnings</u></p> <p><u>Article 29</u></p> <p>29.1 The company financial year closes on <b>31 December 31 March</b> of each year.</p>
<p><u>Term of the company</u></p> <p><u>Article 3</u></p> <p>3.1 The term of the company shall expire on 31 December 2100 and may be extended on one or more occasions by resolution of the Shareholders' Meeting.</p>	<p><u>Term of the company</u></p> <p><u>Article 3</u></p> <p>3.1 The term of the company shall expire on <b>31 December 31 March</b> 2100 and may be extended on one or more occasions by resolution of the Shareholders' Meeting.</p>

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Note that the above proposals for amendment to the By-laws do not grant a right of withdrawal to shareholders who do not approve them, as they do not come within any of the grounds for withdrawal identified in Article 2437 of the Italian Civil Code.

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In view of the foregoing, we hereby submit the following proposed resolution for the approval of the Shareholders' Meeting of Ansaldo STS S.p.A.:

*"The Extraordinary Shareholders' Meeting of Ansaldo STS S.p.A., after examining the explanatory report of*

*the Board of Directors, and acknowledging the opinion of the Board of Statutory Auditors,*

*resolves*

- to amend Article 29.1 of the By-laws as formulated in the right column of the table with parallel text in the explanatory report produced by the Board of Directors pursuant to Article 72, paragraph 1-bis of Consob Resolution No. 11971 of 14 May 1999, with the result that the financial year commencing on 1 January 2017 shall end on 31 March 2018;*
- to amend Article 3.1 of the By-laws as formulated in the right column of the table with parallel text in the explanatory report produced by the Board of Directors pursuant to Article 72, paragraph 1-bis of Consob Resolution No. 11971 of 14 May 1999;*
- to approve the new text of the By-laws, updated and coordinated to incorporate the amendments resolved as indicated in the preceding points;*
- to grant a mandate to the Chairman of the Board of Directors and to the Chief Executive Officer, including separately and if necessary through special representatives, to fulfil all requirements and formalities in any way related to or arising from this resolution, and to introduce any amendments to this resolution that may be necessary for the purposes of registration with the Company Register".*

Genoa, 29 March 2017

For the Board of Directors

The Chairman

(Alistair Dormer)