

Ansaldo STS A Hitachi Group Company

INTERIM FINANCIAL REPORT

AT 31 MARCH 2017

ANSALDO STS S.p.A.

Registered office: Via P. Mantovani 3-5, Genoa

Paid-up share capital: €100,000,000

Genoa company registration no. and tax code: 01371160662

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DIRECTORS' REPORT AT 31 MARCH 2017

Introduction

The group's financial performance was satisfactory and in line with forecasts in the first quarter of 2017.

It is summarised in the table below:

Key performance indicators

| (€'000) | 31.03.2017 | 31.03.2016 | Change |
|---------------------------------|------------------|------------------|------------------|
| New orders | 266,100 | 311,327 | (45,227) |
| Order backlog | 6,454,031 | 6,417,271 | 36,760 |
| Revenue | 299,142 | 291,209 | 7,933 |
| Operating profit (EBIT) | 25,892 | 23,394 | 2,498 |
| Adjusted EBIT | 25,892 | 23,394 | 2,498 |
| Profit for the period | 20,003 | 19,736 | 267 |
| Net working capital | 151,414 | 93,264 | 58,150 |
| Net invested capital | 398,541 | 343,444 | 55,097 |
| Net financial position | (327,018) | (328,270) | 1,252 |
| Free operating cash flow | (10,967) | (8,538) | (2,429) |
| ROS | 8.7% | 8.0% | +0.7 p.p. |
| ROE | 11.2% | 14.8% | -3.6 p.p. |
| EVA | 8,497 | 8,919 | (422) |
| Research and development | 7,936 | 9,140 | (1,204) |
| Headcount (no.) | 4,084 | 3,803 | 281 |

Ansaldo STS group recognised a profit of €20.0 million for the period under examination, compared to €19.7 million for the corresponding quarter of the previous year. Revenue came to €299.1 million, up on the first quarter of 2016 (€291.2 million), and ROS was 8.7%, compared to 8.0% in the first quarter of 2016.

More specifically:

New orders totalled €266.1 million compared to €311.3 million at 31 March 2016; the order backlog amounted to €6,454.0 million (€6,417.3 million at 31 March 2016 and €6,488.4 million at 31 December 2016).

Revenue totalled €299.1 million compared to €291.2 million in the first quarter of 2016 (+2.7%). Specifically, the further advancement of projects in the Americas and in the Europe offsets the decline in the Asia Pacific area.

Operating profit (EBIT) stood at €25.9 million compared to €23.4 million in the first quarter of 2016. ROS was 8.7% compared to 8.0% in the corresponding period of the previous year.

Net profit stood at €20.0 million (€19.7 million in the first quarter of 2016).

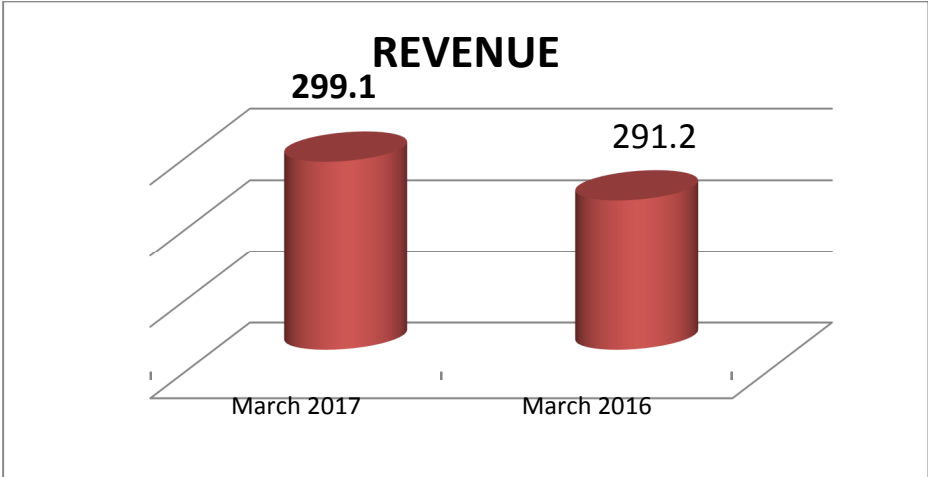
The group's net financial position decreased from -€338.0 million at 31 December 2016 (-€328.3 million at 31 March 2016) to -€327.0 million.

Research and Development expense amounted to €7.9 million, compared to €9.1 million in 2016.

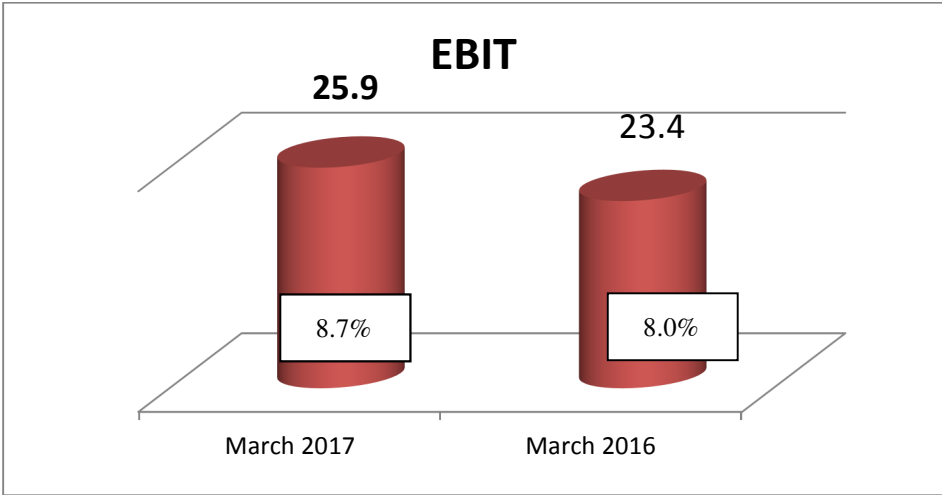
The group's headcount was 4,084 employees, up from 3,803 at 31 March 2016 and 3,951 at 31 December 2016.

The average headcount was 4,007 employees compared to 3,750 in the first quarter of 2016 (3,828 for 2016).

Revenue for the quarters ended 31 March 2017 and 2016 (€m)



EBIT and ROS for the quarters ended 31 March 2017 and 2016 (€m)



The reclassified consolidated income statement, consolidated statement of financial position, consolidated net financial position and consolidated statement of cash flows follow to provide further disclosure on the Group's financial position, results of operations and cash flows.

The following table shows the consolidated income statements at March 2017 and 2016:

| Consolidated income statement (€'000) | First quarter of | |
|-----------------------------------------------------------------------|------------------|----------------|
| | 2017 | 2016 |
| Revenue | 299,142 | 291,209 |
| Purchases and personnel expense (*) | (271,708) | (268,363) |
| Amortisation, depreciation and impairment losses | (4,527) | (4,193) |
| Other net operating income (**) | 320 | 531 |
| Change in work-in-progress, semi-finished products and finished goods | 2,665 | 4,210 |
| Adjusted EBIT | 25,892 | 23,394 |
| Restructuring costs | - | - |
| Operating profit (EBIT) | 25,892 | 23,394 |
| Net financial income | 3,054 | 3,559 |
| Income taxes | (8,943) | (7,217) |
| Profit (losses) from discontinued operations | - | - |
| Profit for the period | 20,003 | 19,736 |
| <i>attributable to the owners of the parent</i> | 20,008 | 19,744 |
| <i>attributable to non-controlling interests</i> | (5) | (8) |
| Earnings per share | | |
| <i>Basic and diluted</i> | 0.10 | 0.10 |

Reconciliation between the items of the Reclassified consolidated income statement and the Income statement included in the consolidated financial statements:

() Includes the captions "Purchases", "Services", "Personnel expense" (net of restructuring costs) and "Accruals to (use of) the provision for expected losses to complete contracts" net of "Internal work capitalised".*

*(**) Includes the net amount of "Other operating income" and "Other operating expense" (net of restructuring costs, impairment losses and accruals to (use of) the provision for expected losses to complete contracts).*

The increase in operating profit (EBIT) (+€2.5 million) is essentially attributable to the recognition in the first quarter of 2016 of the €2.4 million in accounting effects of transactions with key personnel who resigned during the period; lower financial income and higher taxes also contributed to the overall change in net profit (+€0.3 million).

The group's reclassified consolidated statement of financial position as at 31 March 2017 is set out in the table below:

| Consolidated statement of financial position (€'000) | 31.03.2017 | 31.12.2016 |
|----------------------------------------------------------------|-------------------|-------------------|
| Non-current assets | 307,465 | 310,406 |
| Non-current liabilities | (60,338) | (61,131) |
| | 247,127 | 249,275 |
| Inventories | 128,785 | 125,067 |
| Contract work in progress | 383,259 | 358,865 |
| Trade receivables | 715,670 | 728,852 |
| Trade payables | (452,364) | (458,119) |
| Progress payments and advances from customers | (592,833) | (598,012) |
| Working capital | 182,517 | 156,653 |
| Provisions for risks and charges | (13,813) | (14,040) |
| Other assets (liabilities), net (*) | (17,290) | (22,081) |
| Net working capital | 151,414 | 120,532 |
| Net invested capital | 398,541 | 369,807 |
| Equity attributable to the owners of the parent | 725,344 | 707,626 |
| Equity attributable to non-controlling interests | 214 | 220 |
| Equity | 725,558 | 707,846 |
| Non-current assets held for sale | - | - |
| Net financial position | (327,018) | (338,039) |

Reconciliation between the items of the Reclassified consolidated statement of financial position and the Statement of financial position included in the consolidated financial statements:

() Includes "Tax assets", "Other current assets" and "Derivative assets", net of "Tax liabilities", "Other current liabilities" and "Derivative liabilities".*

Net invested capital totalled €398.5 million compared to €369.8 million at 31 December 2016 (€343.4 million at 31 March 2016). The €28.7 million increase is essentially due to the rise in net working capital as a result of the higher value of work in progress.

The net financial position at 31 March 2017 compared to data at 31 December 2016 is set out in the statement below:

| (€'000) | 31.03.2017 | 31.12.2016 |
|----------------------------------------|-------------------|-------------------|
| Current loans and borrowings | 2,065 | 1,780 |
| Non-current loans and borrowings | - | - |
| Cash and cash equivalents | (294,032) | (305,586) |
| NET CASH AND CASH EQUIVALENTS | (291,967) | (303,806) |
| Related party loan assets | (267) | (267) |
| Other loan assets | (34,784) | (33,966) |
| LOAN ASSETS | (35,051) | (34,233) |
| Related party loans and borrowings | - | - |
| Other current loans and borrowings | - | - |
| Other non-current loans and borrowings | - | - |
| OTHER LOANS AND BORROWINGS | - | - |
| NET FINANCIAL POSITION | (327,018) | (338,039) |

At 31 March 2017, the Group's net financial position (greater loan assets and cash and cash equivalents than loans and borrowings) was -€327.0 million, compared to -€338.0 million at 31 December 2016 and -€328.3 million at 31 March 2016.

The consolidated statement of cash flows for the period ended 31 March 2017 follows:

| Statement of cash flows (€'000) | <u>31.03.2017</u> | <u>31.03.2016</u> |
|--------------------------------------------------------------------------|-------------------|-------------------|
| Opening cash and cash equivalents | 305,586 | 304,306 |
| Profit for the year | 20,003 | 19,736 |
| Share of profits (losses) of equity-accounted investees | (2,759) | (4,203) |
| Income taxes | 8,943 | 7,217 |
| Italian post-employment and other employee benefits | 210 | 192 |
| Stock grant plans | 836 | 1,796 |
| Net gains (losses) on the sale of assets | (4) | 2 |
| Net financial income | (295) | 644 |
| Amortisation, depreciation and impairment losses | 4,527 | 4,193 |
| Accruals to/reversals of provisions for risks | (774) | 1,168 |
| Other operating income/expense | 5,594 | 4,811 |
| Write-downs/reversals of write-downs of inventories and work in progress | 2,588 | (202) |
| Gross cash flows from operating activities | 38,868 | 35,354 |
| Changes in other operating assets and liabilities | (39,834) | (29,353) |
| Funds from operations | (965) | 6,001 |
| Change in working capital | (7,454) | (11,767) |
| Cash flows from (used in) operating activities | (8,419) | (5,765) |
| Cash flows used in ordinary investing activities | (2,548) | (2,773) |
| Free operating cash flow | (10,967) | (8,538) |
| Strategic transactions | - | - |
| Other changes in investing activities | 130 | 178 |
| Cash flows used in investing activities | (2,418) | (2,595) |
| Dividends paid | - | - |
| Cash flows used in other financing activities | (661) | (1,699) |
| Cash flows used in financing activities | (661) | (1,699) |
| Net exchange rate gains (losses) | (56) | (1,866) |
| Closing cash and cash equivalents | 294,032 | 292,381 |

Cash and cash equivalents slightly increased by €1.6 million to €294.0 million at the reporting date from the balance for the corresponding period of the previous year.

The Free Operating Cash Flow (FOCF) used before strategic transactions totalled €11.0 million compared to €8.5 million as at 31 March 2016.

NON-IFRS ALTERNATIVE PERFORMANCE INDICATORS

Ansaldo STS's management also assesses the performance of the group and the business units also using certain indicators that are not defined by the IFRS.

As required by CESR Communication 05-178b, the components of each of these indicators are described below:

- **Operating profit (EBIT):** 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 profits (losses) of equity-accounted investees".
- **Adjusted EBIT:** is the EBIT as described earlier, net of:
 - any impairment losses on goodwill;
 - amortisation of the portion of purchase price allocated to intangible assets acquired 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.

A reconciliation of EBIT and Adjusted EBIT for the reporting period and corresponding period of the previous year is set out below:

| <i>(€'000)</i> | First quarter of | |
|----------------------|----------------------|----------------------|
| | <u>2017</u> | <u>2016</u> |
| EBIT | 25,892 | 23,394 |
| Restructuring costs | - | - |
| Adjusted EBIT | <u>25,892</u> | <u>23,394</u> |

- **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 from acquisitions or disposals of equity investments which qualify as "strategic transactions" given their nature or materiality. The reclassified statement of cash flows set out in the previous section shows how FOCF is arrived at for the current reporting period and corresponding period of the previous year.

- **Funds From Operations (FFO):** the cash flows generated by (used in) operating activities, net of changes in working capital. The reclassified statement of cash flows set out in the previous section shows how FFO is arrived at for the current reporting period and corresponding period of the previous year.
- **Economic Value Added (EVA):** the difference between EBIT net of income taxes and the cost of the average invested capital of the two periods under comparison, calculated using the Weighted Average Cost of Capital (WACC).
- **Operating working capital:** comprises trade receivables and payables, inventories, work in progress, progress payments and advances from customers and provisions for risks and charges.
- **Net working capital:** operating working capital less other current assets and liabilities.
- **Net invested capital:** the sum of non-current assets, non-current liabilities and net working capital.
- **Net financial position or debt:** the calculation method, which complies with paragraph 127 of the CESR/05-054b recommendations implementing Regulation EC no. 809/2004.
- **New orders:** the sum of the contracts agreed with customers during the period that meet the contractual requirements to be recorded in the orders book.
- **Order backlog:** the difference between new orders and revenue for the period (including the change in contract work in progress). This difference is added to the backlog for the previous period.
- **Headcount:** the number of employees recorded in the relevant register on the reporting date.
- **Return on Sales (ROS):** the ratio of operating profit to revenue.
- **Return on Equity (ROE):** the ratio of the profit or loss for the reporting period to the average amount of equity at the reporting date and the corresponding period reporting date.
- **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 new 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.

PERFORMANCE

The market and commercial situation

New orders acquired during the reporting period approximate €266 million (€311 million in the corresponding period of the previous year).

The key events of the reporting period are described by geographical segment below:

ITALY

New orders during the period amount to around €84 million and mainly relate to the Framework Agreement signed with Hitachi Rail Italy for the supply of on-board devices for the entire fleet of Caravaggio trains. This also includes an initial portion (€12 million) already licenced and recognised in December 2016. The value added at March 2017 is around €61 million.

REST OF EUROPE

New orders approximate €69 million.

In France, note in particular the contract with Vossloh relating to the supply of components and TVM 430 on-board devices for a total of around €14 million.

Also note approximately €10 million in Denmark relating to variations on the Copenhagen metro, in Sweden for around €7 million relating to the contract with Stadler for the supply of on-board devices and around €4 million for a variation to the ERTMS L2 contract in Haparanda.

Lastly, note the €14 million relating to the Ankara Metro Depot and interconnection of lines M1-M4.

AMERICAS

New orders acquired during the period amount to approximately €68 million, of which around €10 million relates to variations on the Honolulu metro, approximately €10 million relates to variations to contracts for the supply of on-board and wayside devices signed with the Long Island Rail Road (LIRR) for the Jamaica station and roughly €9 million with MBTA (Massachusetts Bay Transportation Authority). Lastly, around €17 million relates to the sale of components, maintenance and modernisation of freight lines.

ASIA PACIFIC

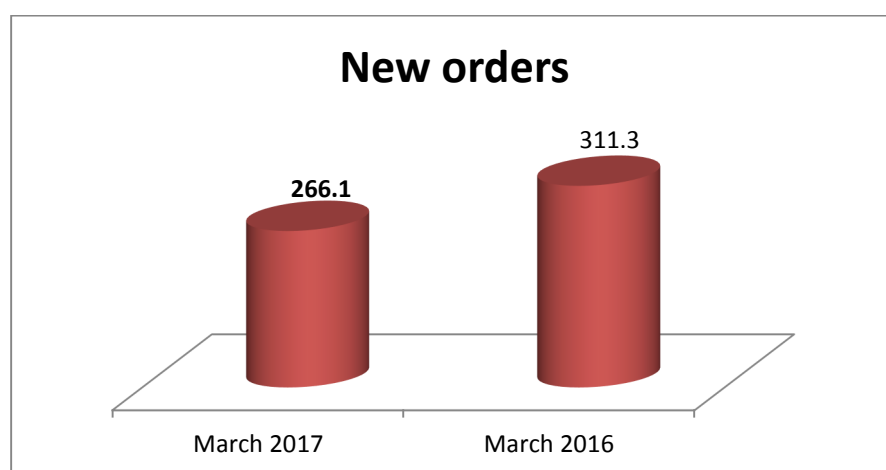
New orders come to approximately €44 million, including roughly €10 million acquired in Australia for components and variations on the Rio Tinto.

Also note around €9 million in South Korea relating to the contract with Rotem for the supply of on-board devices and approximately €6 million in India, mainly comprising the contract signed with Hitachi Ltd relating to DFCC (Dedicated Freight Corridor Corporation).

Key orders acquired in the first quarter of 2017 are as follows:

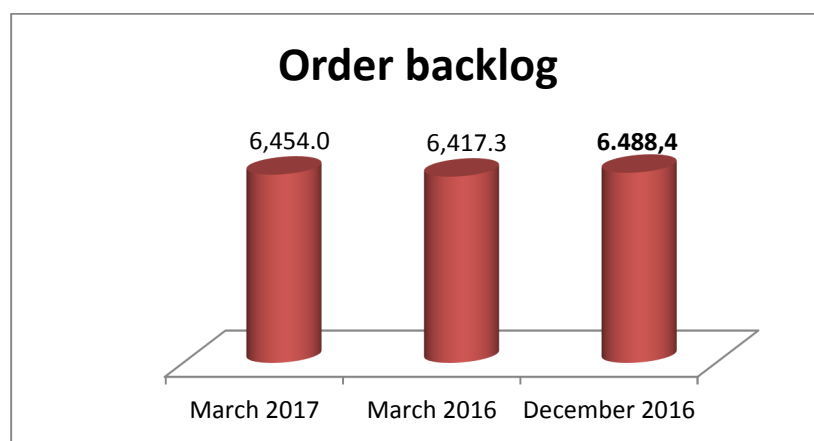
| Country | Project | Customer | Amount (€m) |
|------------------|-------------------------------------------------------------|-------------------------------|-------------|
| Italy | On-board devices for Caravaggio trains | HRI | 61 |
| Turkey | On-board and wayside devices - Ankara Metro - Change orders | Municipal Authority of Ankara | 14 |
| USA | On-board and wayside devices - Change orders | LIRR | 10 |
| Denmark | Copenhagen Metro - change orders | Metroselskabet | 10 |
| USA | Honolulu Metro - change orders | Honolulu Authority | 10 |
| South Korea | On-board devices | Rotem | 9 |
| USA | On-board and wayside devices - Change orders | MBTA | 9 |
| Sundry EU / Asia | Components | Sundry | 28 |
| USA | Components | Sundry | 17 |
| Sundry EU / Asia | Service & Maintenance | Sundry | 13 |

New orders for the first quarters of 2017 and 2016 (€m)



The order backlog amounts to €6,454.0 million at 31 March 2017 compared to €6,488.4 million at 31 December 2016, down by €34.4 million (€6,417.3 million at 31 March 2016).

Order backlog at 31 March 2017 and 2016 (€m) and 31 December 2016



The order backlog at 31 March 2017 includes the residual amount of contracts in Libya, currently halted, worth €428.9 million.

Business performance

Revenue in the first quarter of 2017 totalled €299 million (€291 million at 31 March 2016).

The key events of the reporting period are described by geographical segment below:

ITALY

RAILWAYS - CENTRAL AUTOMATED SYSTEM:

Activities mainly related to the project for the technological upgrade of the Turin-Padua Line to meet the 3.2.1 milestone envisaged in the first half of the second quarter and subsequent start-up planned during the year.

January saw the inauguration of the new SCCM (Multistation Command and Control System) Control Room in Teglia as part of the SCCM Genoa project.

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 Hitachi Rail Italy S.p.A. and component supplies.

The service activities mainly related to contracts with RFI, as well as Technical System Support provided under the services outsourcing contract with FS (the Italian railways).

NAPLES METRO LINE 6:

The civil works and the electro-mechanical installations continued for the Mergellina-S. Pasquale line.

ROME METRO LINE C:

With respect to Line C of the Rome metro, civil works continued on construction of the section T3 (from San Giovanni to Fori Imperiali) and rollout activities are in progress for the San Giovanni station. Formalisation is in progress of the contract associated with ATC maintenance activities already commenced and due for completion by the end of the year, unless extended.

Financial disputes between Metro C and the customer are still in progress and there have been no significant updates.

MILAN METRO LINE 5:

The project for Line 5 of the Milan metro has been completed; the entire line is running and management is currently focused on the guarantee stage. Delays are reported in obtaining the works completion certificates due to alleged system performance-related problems that are currently being resolved with the customer.

MILAN METRO LINE 4:

Engineering and procurement activities continued in the reporting period. Initial access to the line was postponed due to delays in the civil works; a new consortium work plan is at definition stage.

GENOA METRO:

The contract was affected by delays in the civil works at the Dinegro depot, but works were completed during the quarter.

ALIFANA:

Regarding the ongoing dispute between the Concessionaires Consortia of works involving the Company and the customer Metro Campania Nord Est, note that two transactions were concluded in first quarter, one of which will allow the recommencement of works downstream of the payments due from the customer to the Consortia responsible for civil and technological works. As part of these, further discussions are in progress to reach final agreement on the economic and financial distribution among the shareholders.

SATELLITE:

During the period, tests were completed in Sardinia on the ERSAT EAV, the satellite technology to safely control and manage rail traffic on the conventional secondary lines, local and regional. ERSAT EAV is the first system in Europe to integrate the European Rail Traffic Management System with the GALILEO satellite navigation and location system and the public telecommunications networks.

REST OF EUROPE

TURKEY:

With reference to the Mersin-Toprakkale project, the Multistation 11 and related CTC went into operation.

In relation to the Ankara metro, Line 3 (M3) went into operation in March with the CBTC system, whilst work continues to reach similar goals on the other lines.

GREECE:

With reference to the Thessaloniki metro project, planning and procurement continued in relation to the technological systems, pending the formalisation of the settlement reached with the customer, which closes the arbitration proceedings made by the consortium contractor to obtain the payment of sundry greater expense and/or extra costs incurred.

DENMARK:

Planning work on the Copenhagen Cityringen metro line continued in Denmark.

In parallel, activities for the construction of the tramline in Aarhus are also going ahead, though with contract delays.

SWEDEN:

As regards the Red Line project for the Stockholm metro, installation continues for the first functional section using the CBTC system but with a number of critical technical and contractual issues currently under review.

FRANCE:

March saw the service start-up of the Interlocking SEI-NG system at Gare de Lyon. The new generation of the SEI-NG system will offer enhanced performance in terms of train location, optimisation of operations through a greater capacity to generate and model routes and to improve the safety and reliability of the network through continuous control over all the line systems.

In addition, in February the pre-inauguration was held for the high-speed Tours-Bordeaux line. The new line will open to the public on 2 July and will allow Bordeaux to be reached from Paris in just 2 hours (the journey currently takes 3.5 hours).

NORTH AFRICA AND THE MIDDLE EAST

SAUDI ARABIA:

In Saudi Arabia, activities continue on the Riyadh Metro Line 3. Installation activities in the functional section have commenced.

Also note the delay in assigning the O&M contract relating to the Riyadh PNU.

LIBYA:

The local railway project is still on hold and it is difficult to say when it will resume.

AMERICAS

USA:

In Hawaii, activities for the construction of the Honolulu metro continue, in terms of design and production activities and mobilisation of the construction team.

Delays are reported in completing the civil works.

PERU:

The design activities for the second phase of the Lines 2 and 4 project of the Lima metro are near completion, while the civil works are still affected by the delays caused by the difficulties in acquiring the areas to be expropriated. Arbitration proceedings were requested by the Consortium against the contracting party in order to obtain recognition of expense relating to these delays.

ASIA PACIFIC

TAIWAN:

Design and production activities continued for the construction of the Taipei Metro Circular Line. The delays in civil works heavily impacted the construction times of the metro, and these delays are currently being discussed with the customer. Installation activities continued in the period.

Again in Taipei, engineering and procurement activities are in progress in relation to the new contract for building the new Sanying metro line, acquired in the first half of 2016.

CHINA:

Upgrading of the CBTC lines continues with the installation of the new CBTC software version, improved in terms of performance compared to that currently installed.

INDIA:

The Kolkata metro project continues to incur delays caused by the civil works and the unavailability of design inputs.

The executive design activities are instead nearing completion for the Noida metro project.

Lastly, design and materials procurement continue for the project relating to Line 1 of the Navi Mumbai metro.

AUSTRALIA

As regards the AutoHaul project, software upgrading and installation on the locomotives and line testing of the system continued. Project completion is at present expected in the second half of 2018.

With respect to the Roy Hill project, handover of the fixed block functions for stage 4 (CBS) was completed, whilst work on the moving block functions continue, although they are behind the original schedule.

Negotiations continue with the customers about the claims for higher costs incurred.

MALAYSIA:

Lastly, negotiations continue in Malaysia in relation to claims for extra time and higher costs incurred on the MNDT contract.

KEY EVENTS OF AND AFTER THE REPORTING PERIOD

On 19 January 2017, the ordinary Shareholders' Meeting of Ansaldo STS S.p.A., taking into account the resignation of KPMG S.p.A on 14 November 2016, appointed EY S.p.A. as the Company's independent auditors for the years 2016-2024.

Based on a request for addition to the agenda received from the shareholder Hitachi Rail Italy Investments s.r.l. on 29 December 2016 and pursuant to art. 126-*bis* of the Consolidated Finance Act, the Shareholders' Meeting also resolved to file corporate liability action pursuant to art. 2393 of the Italian Civil Code against the Director Giuseppe Bivona who, as a result, was removed from office. Consequently, as envisaged in current regulations and the company By-Laws, the Shareholders'

Meeting appointed Michele Alberto Fabiano Crisostomo as Director of the Company, the first candidate not appointed from the minority list filed jointly on 21 April 2016 by the minority shareholders Elliott Associates L.P., Elliott International L.P. and the Liverpool Limited Partnership (“Elliott Funds”). At the time of filing the list, the candidate in question had declared meeting the independence requirements envisaged in current regulations and the Corporate Governance Code of listed Companies issued by Borsa Italiana S.p.A.. During the Shareholders' Meeting, the Elliott shareholders confirmed that the appointment was accepted and the independence requirements were met.

On 27 February, the Board appointed *ad interim*, with effect from 1 March 2017, Renato Gallo as Chief Financial Officer of the Company and, with opinion in favour from the Board of Statutory Auditors, as Manager in charge of financial reporting pursuant to art. 154-bis of Italian Legislative Decree no. 58/1998, to replace Roberto Carassai.

On 28 March, the Company confirmed the appointment of Renato Gallo as Chief Financial Officer of Ansaldo STS.

Renato Gallo has already covered important offices within the Company and in recent years was Deputy CFO and Senior Vice President Management & Statutory Reporting.

On 24 February, the Company presented ERSAT and ERSAT EAV: the satellite technology applied for the first time in Europe to rail traffic management. The first European test was completed with a trial journey from Cagliari to Decimomannu.

ERSAT is the latest-generation signalling project, which - for the first time in Europe - interfaces and integrates the European rail traffic management system (ERTMS) with Galileo satellite navigation and location technology.

The ERSAT EAV Project, presented jointly with Rete Ferroviaria Italiana and Trenitalia in Sardinia, is included in the European research programme Horizon 2020 and forms part of the ERSAT project. Launched under Ansaldo STS coordination, the main purpose of the project is to define and test development of the ERTMS signalling system through train convoy location based on satellite technology.

The satellite technologies are designed to safely control and manage rail traffic on the conventional secondary lines, local and regional.

Andy Barr, the CEO of Ansaldo STS, remarked: “The rail signalling market, the core business of Ansaldo STS, calls for increasingly innovative, reliable and competitive solutions in terms of savings in costs, time and energy, in addition to safety and environmental impact. We are particularly proud to be testing this innovative technology today, for which many statements of interest have already been received from infrastructure managers and rail operators in Italy and in Europe due to the numerous benefits of this system”.

The technology uses the results from the previous 3InSat Project, financed by the European Space Agency (ESA) with support from the Italian Space Agency (ASI).

ERSAT EAV locates the trains via satellite and interfaces with the rail traffic monitoring system (ERTMS). This data and information exchange was made possible through the devices installed on board the train and the radio bases located wayside along the railway line. The info points on the current signalling systems - the buoys along the line - will be replaced by virtual buoys managed via satellite receiver, integrated with the ERTMS signalling system.

The benefits of ERSAT EAV are:

- to increase traffic capacity available to the rail companies in favour of passengers and to reduce CO2 emissions;
- to guarantee high safety standards and punctual operation of rail traffic;
- to reduce operating expense in that the new technology devices will require lower installation and maintenance investments.

Ansaldo STS has contributed in the definition of requirements to support the integration of satellites with the public radio communications networks.

It also set up the test site in Sardinia where the full functions of the new technology were tested.

The same GPS-based Ansaldo STS solution is already in operation in Australia: the first solution worldwide.

The tests carried out at the site in Sardinia were used to complete the Roy Hill Iron Ore project in Australia, the first system in the world for rail signalling of this type (in this case used for freight transport).

Roy Hill, in fact, recently developed its own project to mine iron ore and transport 55 million tonnes per year, via rail, from the mine to the port, for a total of 350 km of track.

The turnkey solution for signalling and communications dedicated to freight rail transport, developed by Ansaldo STS for Roy Hill, includes high-technology Integrated Signalling and Communications solutions which envisage, amongst other things, an automatic train protection system with satellite positioning that allows an increase in density in the number of trains on the line through moving block functions.

The Ansaldo STS solution optimises operating efficiency and allows automatic routing and control of trains to be managed from the control centre in Perth, more than 1,300 kilometres away. This solution also offers significantly improved safety of all the line activities.

Ansaldo STS has delivered stage 1 of the project - the integrated electronic system known as Integrated Electronic Train Order (IETO) - which entered into service in September 2016. The radio signalling system, or Communications Based Signalling (CBS) was completed in January 2017, and the final stage of the project - moving block functions - is nearing delivery.

FINANCIAL DISCLOSURE

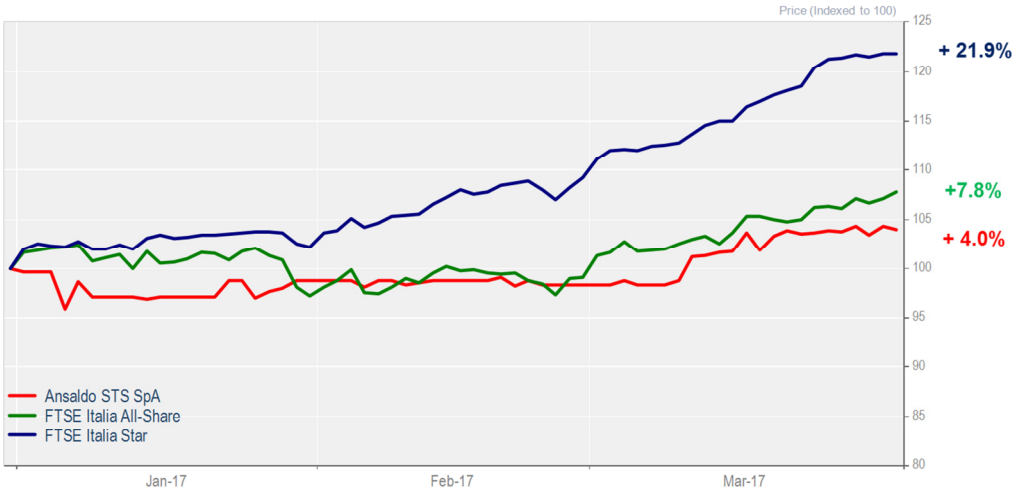
The official share price in the 31 December 2016 to 31 March 2017 period rose from €11.84 to €12.31, up 4.0%.

The share's period high of €12.35 was recorded on 30 March 2017 and its low of €11.35 on 5 January 2017.

An average 60,923 shares were traded daily in the period, compared to 614,915 shares traded in the corresponding period of the previous year. The variation of volumes is a direct consequence of the reduced float, following the conclusion during the first quarter of 2016 of the IPO launched by Hitachi Rail Italy Investments on Ansaldo STS and the subsequent purchases on the market by HRII, which led to an increase in the investment up to its current 50.772%.

The FTSE Italia All-Share index gained 7.8% during the period while the FTSE Italia STAR index gained 21.9%.

Share performance compared to the main indices (base 100)



1 CONSOLIDATED FINANCIAL STATEMENTS

1.1 Income statement

| (€'000) | First quarter of | | | |
|------------------------------------------------------------------------|------------------|------------------------------|---------------|------------------------------|
| | 2017 | of which, related parties | 2016 | of which, related parties |
| Revenue | 299,142 | 14,274 | 291,209 | 19,144 |
| Other operating income | 4,231 | 320 | 6,667 | 306 |
| Purchases | (73,830) | (3,578) | (73,393) | (5,494) |
| Services | (111,673) | (16,238) | (111,602) | (12,060) |
| Personnel expense | (88,183) | - | (86,204) | - |
| Amortisation, depreciation and impairment losses | (4,527) | - | (4,193) | - |
| Other operating expense | (2,753) | - | (4,388) | (4) |
| Changes in finished goods, work-in-progress and semi-finished products | 2,665 | - | 4,210 | - |
| (-) Internal work capitalised | 820 | - | 1,088 | - |
| Operating profit (EBIT) | 25,892 | | 23,394 | |
| Financial income | 6,873 | - | 6,562 | - |
| Financial expense | (6,578) | - | (7,206) | - |
| Share of profits (losses) of equity-accounted investees | 2,759 | - | 4,203 | - |
| Pre-tax profit | 28,946 | | 26,953 | |
| Income taxes | (8,943) | - | (7,217) | - |
| Profit (losses) from discontinued operations | - | - | - | - |
| Profit for the period | 20,003 | | 19,736 | |
| <i>attributable to the owners of the parent</i> | 20,008 | | 19,744 | |
| <i>attributable to non-controlling interests</i> | (5) | | (8) | |
| Earnings per share | | | | |
| <i>Basic and diluted</i> | 0.10 | | 0.10 | |

1.2 Statement of comprehensive income

Statement of comprehensive income

(€'000)

| | First quarter of | |
|----------------------------------------------------------------------|-------------------------|-----------------------|
| | 2017 | 2016 |
| Profit for the period | 20,003 | 19,736 |
| <u>Items that will not be reclassified to profit or loss:</u> | | |
| - Net actuarial losses on defined benefit plans | (215) | (408) |
| - Income tax | 61 | 130 |
| | <u>(154)</u> | <u>(278)</u> |
| <u>Items that will or may be reclassified to profit or loss:</u> | | |
| - Net change in fair value of cash flow hedges | 597 | 6,904 |
| - Net exchange rate gains (losses) | 529 | (8,434) |
| - Income tax | (127) | (1,796) |
| | <u>999</u> | <u>(3,326)</u> |
| Other comprehensive income (expense), net of taxes | <u>845</u> | <u>(3,604)</u> |
| Total comprehensive income for the period | <u>20,848</u> | <u>16,132</u> |
| Attributable to: | | |
| - the owners of the parent | 20,854 | 16,148 |
| - non-controlling interests | (6) | (16) |

1.3 Statement of financial position

| (€'000) | <u>31.03.2017</u> | <u>of which, related parties</u> | <u>31.12.2016</u> | <u>of which, related parties</u> |
|---------------------------------------------------------|-------------------------|--------------------------------------|-------------------------|--------------------------------------|
| ASSETS | | | | |
| Non-current assets | | | | |
| Intangible assets | 49,086 | - | 49,262 | - |
| Property, plant and equipment | 83,875 | - | 85,198 | - |
| Equity investments | 72,783 | - | 73,047 | - |
| Loans and receivables | 45,561 | 25,842 | 45,485 | 25,522 |
| Deferred tax assets | 40,944 | - | 41,324 | - |
| Other non-current assets | 15,216 | - | 16,090 | - |
| | <u>307,465</u> | | <u>310,406</u> | |
| Current assets | | | | |
| Inventories | 128,785 | - | 125,067 | - |
| Contract work in progress | 383,259 | - | 358,865 | - |
| Trade receivables | 715,670 | 52,031 | 728,852 | 62,376 |
| Tax assets | 26,625 | - | 22,649 | - |
| Loan assets | 35,051 | 267 | 34,233 | 267 |
| Other current assets | 86,566 | 9 | 84,604 | 4 |
| Cash and cash equivalents | 294,032 | - | 305,586 | - |
| | <u>1,669,988</u> | | <u>1,659,856</u> | |
| Non-current assets held for sale | - | - | - | - |
| Total assets | 1,977,453 | | 1,970,262 | |
| EQUITY AND LIABILITIES | | | | |
| Equity and liabilities | | | | |
| Share capital | 100,000 | - | 100,000 | - |
| Reserves | 625,344 | - | 607,626 | - |
| <i>Equity attributable to the owners of the parent</i> | 725,344 | | 707,626 | |
| <i>Equity attributable to non-controlling interests</i> | 214 | - | 220 | - |
| Total equity | <u>725,558</u> | | <u>707,846</u> | |
| Non-current liabilities | | | | |
| Employee benefits | 36,469 | - | 36,048 | - |
| Deferred tax liabilities | 11,259 | - | 12,175 | - |
| Other non-current liabilities | 12,610 | - | 12,908 | - |
| | <u>60,338</u> | | <u>61,131</u> | |
| Current liabilities | | | | |
| Progress payments and advances from customers | 592,833 | - | 598,012 | - |
| Trade payables | 452,364 | 18,044 | 458,119 | 19,671 |
| Loans and borrowings | 2,066 | - | 1,780 | - |
| Tax liabilities | 16,867 | - | 8,978 | - |
| Provisions for risks and charges | 13,813 | - | 14,040 | - |
| Other current liabilities | 113,614 | 410 | 120,356 | 410 |
| | <u>1,191,557</u> | | <u>1,201,285</u> | |
| Total liabilities | <u>1,251,895</u> | | <u>1,262,416</u> | |
| Total liabilities and equity | 1,977,453 | | 1,970,262 | |

1.4 Statement of cash flows

| (€'000) | 31.03.2017 | <i>of which, related parties</i> | 31.03.2016 | <i>of which, related parties</i> |
|--------------------------------------------------------------------------|-----------------|--------------------------------------|-----------------|--------------------------------------|
| <i>Cash flows from operating activities:</i> | | | | |
| Profit for the year | 20,003 | - | 19,736 | - |
| Share of profits (losses) of equity-accounted investees | (2,759) | - | (4,203) | - |
| Income taxes | 8,943 | - | 7,217 | - |
| Italian post-employment and other employee benefits | 210 | - | 192 | - |
| Stock grant plans | 836 | - | 1,796 | - |
| Net gains (losses) on the sale of assets | (4) | - | 2 | - |
| Net financial income | (295) | - | 644 | - |
| Amortisation, depreciation and impairment losses | 4,527 | - | 4,193 | - |
| Accruals to/reversals of provisions for risks | (774) | - | 1,168 | - |
| Other operating income/expense | 5,594 | - | 4,811 | - |
| Write-downs/reversals of write-downs of inventories and work in progress | 2,588 | - | (202) | - |
| Gross cash flows from operating activities | 38,868 | | 35,354 | |
| Inventories | (4,163) | - | (4,826) | - |
| Work in progress and progress payments and advances from customers | 12,900 | - | 29,371 | - |
| Trade receivables and payables | (44,411) | (11,972) | (56,479) | (2,896) |
| Change in working capital | (35,674) | | (31,934) | |
| Changes in other operating assets and liabilities | (4,423) | 5 | (5,237) | (402) |
| Net interest paid | (2,962) | - | (397) | - |
| Income taxes paid | (4,228) | - | (3,551) | - |
| Cash flows from (used in) operating activities | (8,419) | | (5,765) | |
| <i>Cash flows from investing activities:</i> | | | | |
| Investments in property, plant and equipment and intangible assets | (2,548) | - | (2,773) | - |
| Sales of equity investments | (79) | - | (33) | - |
| Sales of property, plant and equipment and intangible assets | 209 | - | 211 | - |
| Cash flows from (used in) investing activities | (2,418) | | (2,595) | |
| <i>Cash flows from financing activities:</i> | | | | |
| Net change in other financing activities | (661) | - | (1,699) | (2,112) |
| Cash flows from (used in) financing activities | (661) | | (1,699) | |
| Net increase (decrease) in cash and cash equivalents | (11,498) | - | (10,059) | - |
| Net exchange rate gains (losses) | (56) | - | (1,866) | - |
| Opening cash and cash equivalents | 305,586 | - | 304,306 | - |
| Closing cash and cash equivalents | 294,032 | | 292,381 | |

1.5 Statement of changes in equity

| (€'000) | Share capital | Retained earnings and consolidation reserves | Hedging reserve | Stock grant reserve | Translation reserve | Other reserves | Equity attributable to the owners of the parent | Equity attributable to non-controlling interests | Total equity |
|----------------------------------------------------------------|----------------|----------------------------------------------|-----------------|---------------------|---------------------|----------------|-------------------------------------------------|--------------------------------------------------|----------------|
| Equity at 1 January 2016 | 100,000 | 504,504 | (1,469) | 4,611 | 28,722 | 18,418 | 654,787 | 306 | 655,093 |
| Change in consolidation scope and companies measured at equity | - | (1,427) | - | - | 271 | - | (1,156) | - | (1,156) |
| Net change in stock grant reserve | - | - | - | 1,645 | - | - | 1,645 | - | 1,645 |
| Other comprehensive income (expense), net of taxes | - | - | 6,904 | - | (8,426) | (2,074) | (3,596) | (8) | (3,604) |
| Other changes | - | - | - | - | - | - | - | - | - |
| Profit for the period ended 31 March 2016 | - | 19,744 | - | - | - | - | 19,744 | (8) | 19,736 |
| Equity at 31 March 2016 | 100,000 | 522,821 | 5,435 | 6,256 | 20,567 | 16,344 | 671,424 | 290 | 671,714 |
| Equity at 1 January 2017 | 100,000 | 544,451 | 3,042 | 8,115 | 36,755 | 15,263 | 707,626 | 220 | 707,846 |
| Change in consolidation scope and companies measured at equity | - | (3,695) | - | - | - | - | (3,695) | - | (3,695) |
| Net change in stock grant reserve | - | - | - | 559 | - | - | 559 | - | 559 |
| Other comprehensive income (expense), net of taxes | - | - | 597 | - | 530 | (281) | 846 | (1) | 845 |
| Other changes | - | - | - | - | - | - | - | - | - |
| Profit for the period ended 31 March 2017 | - | 20,008 | - | - | - | - | 20,008 | (5) | 20,003 |
| Equity at 31 March 2017 | 100,000 | 560,764 | 3,639 | 8,674 | 37,285 | 14,982 | 725,344 | 214 | 725,558 |

2 Notes to the condensed interim consolidated financial statements at 31 March 2017

2.1 General information

Ansaldo STS is a company limited by shares with its registered office in Via Paolo Mantovani 3-5, Genoa, and a branch in Via Argine 425, Naples. It has been listed on the Star segment of the stock exchange managed by Borsa Italiana S.p.A. since 29 March 2006. It was included in the FTSE MIB index from 23 March 2009 until 23 March 2014 and in the FTSE Italia Mid Cap index from 24 March 2014 until 6 April 2015. They then were re-included again in the FTSE MIB index starting from 7 April 2015 until 20 December 2015. Since 21 December 2015, the Company's shares have again been included in the FTSE Italia Mid Cap index.

The company's fully subscribed and paid-up share capital equals €100,000,000.00, comprising 200,000,000 ordinary shares of a nominal amount of €0.50 each.

Hitachi Rail Italy Investments S.r.l. currently owns 101,544,702 ordinary shares, equal to 50.772% of Ansaldo STS S.p.A.'s share capital.

Moreover, Hitachi Ltd. manages and coordinates Ansaldo STS S.p.A. pursuant to article 2497 and following articles of the Italian Civil Code.

Ansaldo STS Group operates internationally in the design, construction and operation of signalling and transport systems for aboveground 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 Company, also exercises industrial and strategic guidance and control, coordinating the activities of its operating subsidiaries (together, "Ansaldo STS Group" or the "Group").

2.2 Basis of preparation

Ansaldo STS group's Interim financial report at 31 March 2017 is drafted in accordance with article 154-ter, paragraph 5 of Legislative Decree no. 58/98 (the Consolidated Finance Act) and subsequent amendments and integrations and in accordance with IAS 34 "Interim Financial Reporting", issued by the International Accounting Standards Board (IASB).

This Interim financial report as at 31 March 2017 was approved and authorised for publication by the Board of Directors in accordance with ruling legislation in the meeting held on 28 April 2017.

As per IAS 34 "Interim financial reporting", the notes to the condensed interim consolidated financial statements do not include all disclosures required for the preparation of the annual financial statements, as they refer only to those items that are essential to understand the Group's

financial position, results of operations and cash flows given their amount, breakdown or changes therein. These condensed Interim consolidated financial statements should, therefore, be read in conjunction with the 2016 Annual consolidated financial statements.

The accounting policies used for the condensed Interim consolidated financial statements are unchanged from those of the 2016 Annual consolidated financial statements.

Amounts are shown in thousands or millions of Euros unless stated otherwise.

Preparation of the condensed Interim consolidated financial statements required management to make estimates.

2.3 Consolidation scope

Ansaldo STS Group's condensed Interim consolidated financial statements at 31 March 2017 include the interim financial statements of the companies/entities in the consolidation scope (the "consolidated entities") drafted pursuant to the IFRS-EU accounting principles applied by Ansaldo STS Group. The consolidated entities are listed below, showing the Group's related direct or indirect interest therein:

Companies consolidated on a line-by-line basis

| NAME | INVESTMENT TYPE | REGISTERED OFFICE | SHARE/QUOTA CAPITAL ('000) | CURRENCY | INVESTMENT % |
|---------------------------------------------------|-----------------|---------------------------|----------------------------|----------|--------------|
| ANSALDO STS AUSTRALIA PTY LTD | Direct | Eagle Farm (Australia) | 5,026 | AUD | 100 |
| ANSALDO STS SWEDEN AB | Direct | Solna (Sweden) | 4,000 | SEK | 100 |
| ANSALDO STS UK LTD | Direct | London (UK) | 1,000 | GBP | 100 |
| ANSALDO STS ESPAÑA S.A.U. | Indirect | Madrid (Spain) | 1,500 | EUR | 100 |
| ANSALDO STS BEIJING LTD | Indirect | Beijing (China) | 837 | EUR | 80 |
| ANSALDO STS HONG KONG LTD | Indirect | Hong Kong (China) | 100 | HKD | 100 |
| ANSALDO STS FRANCE Société par actions simplifiée | Direct | Les Ulis (France) | 5,000 | EUR | 100 |
| UNION SWITCH & SIGNAL INC | Indirect | Wilmington (Delaware USA) | 1 | USD | 100 |
| ANSALDO STS MALAYSIA SDN BHD | Indirect | Petaling Jaya (Malaysia) | 3,000 | MYR | 100 |
| ANSALDO STS CANADA INC | Indirect | Kingston (Canada) | - | CAD | 100 |
| ANSALDO STS USA INC | Direct | Wilmington (Delaware USA) | 0.001 | USD | 100 |
| ANSALDO STS USA INTERNATIONAL CO | Indirect | Wilmington (Delaware USA) | 1 | USD | 100 |
| ANSALDO STS TRANSPORTATION SYSTEMS INDIA PVT LTD | Indirect | Bangalore (India) | 5,612,915 | INR | 100 |
| ANSALDO STS DEUTSCHLAND GMBH | Direct | Munich (Germany) | 26 | EUR | 100 |
| ANSALDO RAILWAY SYSTEM TRADING (BEIJING) LTD | Direct | Beijing (China) | 1,500 | USD | 100 |
| ANSALDO STS SOUTHERN AFRICA PTY LTD | Indirect | Gaborone (Botswana) | 0.1 | BWP | 100 |

Companies measured using the equity method

| NAME | INVESTMENT TYPE | REGISTERED OFFICE | SHARE/QUOTA CAPITAL ('000) | CURRENCY | INVESTMENT % |
|-------------------------------------------|-----------------|-------------------------|----------------------------|----------|--------------|
| ALIFANA SCARL | Direct | Naples (Italy) | 26 | EUR | 65.85 |
| ALIFANA DUE SCARL | Direct | Naples (Italy) | 26 | EUR | 53.34 |
| PEGASO SCARL (in liq.) | Direct | Rome (Italy) | 260 | EUR | 46.87 |
| METRO 5 S.p.A. | Direct | Milan (Italy) | 53,300 | EUR | 24.6 |
| METRO BRESCIA S.r.l. | Direct | Brescia (Italy) | 4,020 | EUR | 19.796 |
| INTERNATIONAL METRO SERVICE S.r.l. | Direct | Milan (Italy) | 700 | EUR | 49 |
| BALFOUR BEATTY ANSALDO SYSTEMS JV SDN BHD | Indirect | Kuala Lumpur (Malaysia) | 6,000 | MYR | 40 |

Companies measured at cost

| NAME | INVESTMENT TYPE | REGISTERED OFFICE | SHARE/QUOTA CAPITAL ('000) | CURRENCY | INVESTMENT % |
|-------------------------------------------------------------------------------|-----------------|--------------------|----------------------------|----------|--------------|
| Metro C S.c.p.A. | Direct | Rome (Italy) | 150,000 | EUR | 14 |
| I.M. Intermetro S.p.A. (in liquidation) | Direct | Rome (Italy) | 2,461 | EUR | 16.67 |
| Società Tram di Firenze S.p.A. | Direct | Florence (Italy) | 7,000 | EUR | 3.8 |
| Iricav Uno consortium | Direct | Rome (Italy) | 520 | EUR | 17.44 |
| Iricav Due consortium | Direct | Rome (Italy) | 510 | EUR | 17.05 |
| Ferrovioario Vesuviano consortium | Direct | Naples (Italy) | 153 | EUR | 33.34 |
| San Giorgio Volla consortium | Direct | Naples (Italy) | 71 | EUR | 25.00 |
| San Giorgio Volla Due consortium | Direct | Naples (Italy) | 71 | EUR | 25.00 |
| Cris consortium | Direct | Naples (Italy) | 2,377 | EUR | 1 |
| Ascosa Quattro consortium | Direct | Rome (Italy) | 57 | EUR | 25.00 |
| Siit S.C.p.A. | Direct | Genoa (Italy) | 600 | EUR | 2.30 |
| Saturno consortium | Direct | Rome (Italy) | 31 | EUR | 33.34 |
| Train consortium | Direct | Rome (Italy) | 120 | EUR | 4.55 |
| Sesamo S.c.a.r.l. | Direct | Naples (Italy) | 100 | EUR | 2 |
| ISICT consortium | Direct | Genoa (Italy) | 43 | EUR | 14.29 |
| Cosila consortium (in liq.) | Direct | Naples (Italy) | 100 | EUR | 1.03 |
| MM4 consortium | Direct | Milan (Italy) | 200 | EUR | 17.68 |
| Radiolabs consortium | Direct | Rome (Italy) | 103 | EUR | 50 |
| SPV M4 S.p.A. | Direct | Milan (Italy) | 35,795 | EUR | 5.54 |
| Ansaldo STS do Brasil Sistemas de Transporte Ferroviario e Metropolitano LTDA | Direct | Fortaleza (Brazil) | 1,000 | BRL | 99.99 |
| Metro de Lima Linea 2 S.A. | Direct | Lima (Peru) | 368,808 | PEN | 16.90 |
| TOP IN S.c.a.r.l. | Direct | Naples (Italy) | 87 | EUR | 4.84 |
| D.I.T.S. Development & Innovation in Transportation Systems S.r.l. | Direct | Rome (Italy) | 40 | EUR | 12 |
| Dattilo S.c.a.r.l. | Direct | Naples (Italy) | 100 | EUR | 14 |
| S.P. M4 S.c.p.a. | Direct | Milan (Italy) | 360 | EUR | 16.9 |
| MetroB S.r.l. | Direct | Rome (Italy) | 20,000 | EUR | 2.47 |

2.4 Exchange rates adopted

The following exchange rates were adopted to translate the foreign currency financial statements and balances for the current and previous years:

| | Spot rate at 31/03/2017 | Average rate for the quarter ended 31/03/2017 | Spot rate at 31/03/2016 | Average rate for the quarter ended 31/03/2016 |
|-----|------------------------------------|--------------------------------------------------------------|------------------------------------|--------------------------------------------------------------|
| USD | 1.06910 | 1.06475 | 1.11940 | 1.10161 |
| CAD | 1.42650 | 1.40921 | 1.47410 | 1.51621 |
| GBP | 0.85553 | 0.85941 | 0.78450 | 0.77023 |
| HKD | 8.30740 | 8.26361 | 8.68350 | 8.56544 |
| SEK | 9.53220 | 9.50387 | 9.26900 | 9.32536 |
| AUD | 1.39820 | 1.40528 | 1.49010 | 1.53032 |
| INR | 69.39650 | 71.30609 | 74.47430 | 74.41686 |
| MYR | 4.73130 | 4.73404 | 4.47120 | 4.62873 |
| BRL | 3.38000 | 3.34642 | 4.07950 | 4.30333 |
| CNY | 7.36420 | 7.33483 | 7.28730 | 7.20939 |
| VEB | 10,677.60000 | 10,634.16000 | 11,180.00000 | 7,770.03000 |
| BWP | 11.23480 | 11.13690 | 12.49320 | 12.47898 |
| ZAR | 14.24040 | 14.08250 | 17.31560 | 17.47713 |
| KZT | 335.77700 | 343.24935 | 383.80400 | 392.47298 |
| JPY | 119.55000 | 121.03482 | 127.13000 | 126.94419 |
| AED | 3.92467 | 3.90869 | 4.10932 | 4.04401 |
| KRW | 1,194.54000 | 1,227.38823 | 1,306.67000 | 1,324.18538 |

3 SEGMENT REPORTING

A breakdown of Group's revenue by geographical segment is as follows:

| <i>(€'000)</i> | 31/03/2017 | 31/03/2016 |
|------------------------------|-------------------|-------------------|
| Italy | 55,719 | 64,289 |
| Rest of Europe | 98,859 | 82,319 |
| North Africa and Middle East | 25,727 | 25,759 |
| Americas | 77,187 | 56,483 |
| Asia/Pacific | 41,650 | 62,359 |
| Total | 299,142 | 291,209 |

Property, plant and equipment and intangible assets may be broken down by the geographical segment in which the investment was made as follows:

| <i>(€'000)</i> | 31/03/2017 | 31/12/2016 |
|------------------------------|-------------------|-------------------|
| Italy | 105,239 | 105,961 |
| Rest of Europe | 13,567 | 13,745 |
| North Africa and Middle East | 796 | 778 |
| Americas | 11,349 | 12,010 |
| Asia/Pacific | 2,010 | 1,966 |
| Total | 132,961 | 134,460 |

4 NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017

Related party assets and liabilities

Related party trading transactions generally take place on an arm's length basis. The relevant statement of financial position balances are shown below. The statement of cash flows presents the impact of related party transactions on cash flows.

| <i>FINANCIAL ASSETS AT 31.03.2017</i> | Non-current loan assets | Other non-current financial assets | Current loan assets | Trade receivables | Other current financial assets | Total |
|-------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------------|---------------------------|----------------------|-----------------------------------------|---------------|
| <i>(€'000)</i> | | | | | | |
| <u>Parent Company</u> | | | | | | |
| Hitachi Rail Europe LTD | - | - | - | 312 | - | 312 |
| Hitachi Ltd (Rail) | - | - | - | 50 | - | 50 |
| <u>Subsidiaries</u> | | | | | | |
| Alifana S.c.r.l. | - | - | - | 95 | - | 95 |
| Alifana Due S.c.r.l. | - | - | - | 111 | - | 111 |
| <u>Associates</u> | | | | | | |
| Metro Service A.S. | - | - | - | 1,708 | - | 1,708 |
| Metro de Lima Linea 2 S.A. | - | 272 | - | - | - | 272 |
| I.M. Intermetro S.p.A. (in liq.) | - | - | - | 387 | - | 387 |
| Metro 5 S.p.A. | - | 22,854 | - | 1,414 | - | 24,268 |
| Metro Brescia S.r.l. | - | - | - | 504 | - | 504 |
| SPV Linea 4 S.p.A. | - | 2,534 | - | - | - | 2,534 |
| SP M4 S.C.p.A. | - | - | 267 | - | - | 267 |
| <u>Joint Ventures</u> | | | | | | |
| Balfour Beatty Ansaldo Systems JV Sdn Bhd | - | - | - | 2,262 | - | 2,262 |
| <u>Consortia</u> | | | | | | |
| Saturno consortium | - | - | - | 23,073 | - | 23,073 |
| Ascosa Quattro consortium | - | - | - | 1,157 | - | 1,157 |
| Ferroviano Vesuviano consortium | - | - | - | 1,783 | - | 1,783 |
| MM4 consortium | - | 182 | - | 10,954 | - | 11,136 |
| San Giorgio Volla Due consortium | - | - | - | 567 | 4 | 571 |
| San Giorgio Volla consortium | - | - | - | 1,421 | - | 1,421 |
| <u>Other group companies</u> | | | | | | |
| Hitachi Rail Italy S.p.A. | - | - | - | 4,788 | 5 | 4,793 |
| Hitachi Rail Inc. | - | - | - | 985 | - | 985 |
| Hitachi High Technologies Europe GMBH | - | - | - | 460 | - | 460 |
| Total | - | 25,842 | 267 | 52,031 | 9 | 78,149 |
| % of the total corresponding condensed interim consolidated financial statements caption | | | | | | |
| | | 57% | 1% | 7% | 0.01% | |

| <i>FINANCIAL ASSETS AT 31.12.2016</i> | Non-current loan assets | Other non-current financial assets | Current loan assets | Trade receivables | Other current financial assets | Total |
|-------------------------------------------------------------------------------------------------|----------------------------------------|-------------------------------------------------------|------------------------------------|------------------------------|---------------------------------------------------|---------------|
| <i>(€'000)</i> | | | | | | |
| <u>Parent Company</u> | | | | | | |
| Hitachi Ltd (Rail) | - | - | - | 155 | - | 155 |
| Hitachi Rail Europe Ltd | - | - | - | 313 | - | 313 |
| <u>Subsidiaries</u> | | | | | | |
| Alifana S.c.r.l. | - | - | - | 93 | - | 93 |
| Alifana Due S.c.r.l. | - | - | - | 238 | - | 238 |
| <u>Associates</u> | | | | | | |
| I.M. Intermetro S.p.A. (in liq.) | - | - | - | 387 | - | 387 |
| Metro 5 S.p.A. | - | 22,534 | - | 1,391 | - | 23,925 |
| Metro Service A.S. | - | - | - | 1,668 | - | 1,668 |
| SP M4 S.C.p.A. | - | - | 267 | - | - | 267 |
| SPV Linea M4 S.p.A. | - | 2,534 | - | - | - | 2,534 |
| Metro de Lima Linea 2 S.A. | - | 272 | - | - | - | 272 |
| Metro Brescia S.r.l. | - | - | - | 629 | - | 629 |
| <u>Joint Ventures</u> | | | | | | |
| Balfour Beatty Ansaldo Systems JV Sdn Bhd | - | - | - | 2,246 | - | 2,246 |
| <u>Consortia</u> | | | | | | |
| Saturno consortium | - | - | - | 29,529 | - | 29,529 |
| Ascosa Quattro consortium | - | - | - | 1,157 | - | 1,157 |
| Ferrovio Vesuviano consortium | - | - | - | 1,462 | - | 1,462 |
| MM4 consortium | - | 182 | - | 11,858 | - | 12,040 |
| San Giorgio Volla Due consortium | - | - | - | 3,489 | 4 | 3,493 |
| San Giorgio Volla consortium | - | - | - | 1,421 | - | 1,421 |
| <u>Other group companies</u> | | | | | | |
| Hitachi High Technologies Europe GMBH | - | - | - | 68 | - | 68 |
| Hitachi Rail Italy S.p.A. | - | - | - | 6,272 | - | 6,272 |
| Total | - | 25,522 | 267 | 62,376 | 4 | 88,169 |
| % of the total corresponding condensed interim consolidated financial statements caption | | 56% | 1% | 9% | 0.005% | |

**FINANCIAL LIABILITIES AT
31.03.2017**

(€'000)

| | Non-current loans and borrowings | Other non-current financial liabilities | Current loans and borrowings | Trade payables | Other current financial liabilities | Total |
|---------------------------------------------------------------------------------------------------------|----------------------------------------|--------------------------------------------------|------------------------------------|-------------------|----------------------------------------------|---------------|
| Parent Company | | | | | | |
| Hitachi Rail Europe LTD | - | - | - | 1 | - | 1 |
| Hitachi Ltd (Rail) | - | - | - | 434 | - | 434 |
| Subsidiaries | | | | | | |
| Alifana S.c.r.l. | - | - | - | 125 | 3 | 128 |
| Alifana Due S.c.r.l. | - | - | - | 48 | - | 48 |
| Associates | | | | | | |
| Metro Service A.S. | - | - | - | 4,993 | - | 4,993 |
| MetroB S.r.l. | - | - | - | - | 370 | 370 |
| Pegaso S.c.r.l. (in liq.) | - | - | - | 61 | - | 61 |
| Consortia | | | | | | |
| Saturno consortium | - | - | - | 1,679 | - | 1,679 |
| Ascosa Quattro consortium | - | - | - | 150 | 8 | 158 |
| MM4 consortium | - | - | - | 421 | - | 421 |
| Ferroviano Vesuviano consortium | - | - | - | 85 | 21 | 106 |
| San Giorgio Volla consortium | - | - | - | 5 | 8 | 13 |
| Other group companies | | | | | | |
| Hitachi Rail Italy S.p.A. | - | - | - | 10,042 | - | 10,042 |
| Total | - | - | - | 18,044 | 410 | 18,454 |
| % of the total corresponding condensed interim consolidated financial statements caption | | | | 4% | 0.4% | |

**FINANCIAL LIABILITIES AT
31.12.2016**

(€'000)

| | Non-current loans and borrowings | Other non-current financial liabilities | Current loans and borrowings | Trade payables | Other current financial liabilities | Total |
|-------------------------------------------------------------------------------------------------|----------------------------------------|--------------------------------------------------|------------------------------------|-------------------|----------------------------------------------|---------------|
| Parent Company | | | | | | |
| Hitachi Rail Europe LTD | - | - | - | - | - | - |
| Subsidiaries | | | | | | |
| Alifana S.c.r.l. | - | - | - | 125 | 3 | 128 |
| Alifana Due S.c.r.l. | - | - | - | 109 | - | 109 |
| Associates | | | | | | |
| Metro Service A.S. | - | - | - | 2,704 | - | 2,704 |
| I.M. Intermetro S.p.A. (in liq.) | - | - | - | - | 370 | 370 |
| Pegaso S.c.a.r.l. (in liq.) | - | - | - | 61 | - | 61 |
| Consortia | | | | | | |
| Saturno consortium | - | - | - | 2,066 | - | 2,066 |
| Ascosa Quattro consortium | - | - | - | 150 | 8 | 158 |
| San Giorgio Volla Due consortium | - | - | - | 206 | - | 206 |
| Ferroviano Vesuviano consortium | - | - | - | 85 | 21 | 106 |
| San Giorgio Volla consortium | - | - | - | 5 | 8 | 13 |
| MM4 consortium | - | - | - | 591 | - | 591 |
| Other group companies | | | | | | |
| Hitachi Rail Italy S.p.A. | - | - | - | 13,569 | - | 13,569 |
| Total | - | - | - | 19,671 | 410 | 20,081 |
| % of the total corresponding condensed interim consolidated financial statements caption | | | | 4% | 0.3% | |

At 31 March 2017, trade receivables from related parties amounted to €52,031 thousand, down by €10,345 thousand compared to 31 December 2016, mainly due to the collection of open positions with the Saturno consortium.

Trade payables to related parties are substantially in line with the 31 December 2016 balance.

Non-current assets

Non-current assets totalled €307,465 thousand at 31 March 2017, as follows:

| <i>(€'000)</i> | <u>31.03.2017</u> | <u>31.12.2016</u> |
|-------------------------------|-----------------------|-----------------------|
| Intangible assets | 49,086 | 49,262 |
| Property, plant and equipment | 83,875 | 85,198 |
| Equity investments | 72,783 | 73,047 |
| Loans and receivables | 45,561 | 45,485 |
| Deferred tax assets | 40,944 | 41,324 |
| Other non-current assets | 15,216 | 16,090 |
| Total | <u>307,465</u> | <u>310,406</u> |

Specifically:

- intangible assets amount to €49,086 thousand and mainly include goodwill (€34,569 thousand). The group recognised capitalisation of €759 thousand relating to the Satellite and Rail Telecom project during the quarter and amortisation for the period totalled €1,315 thousand;
- property, plant and equipment amount to €83,875 thousand and essentially refer to properties owned by the Parent Company. Capitalisations and acquisitions for the period amounted to €1,201 thousand and depreciation totalled €2,491 thousand;
- equity investments amounted to €72,783 thousand, down €264 thousand compared to 31 December 2016, mainly due to the measurement of investments at equity for International Metro Service S.r.l. (€48 thousand), Metro 5 S.p.A. (-€586 thousand), Metro Brescia S.r.l. (€233 thousand) and the JV Balfour Beatty Ansaldo Systems JV SDN BHD (€40 thousand);
- non-current loans and receivables of €45,561 thousand are substantially in line with the 31 December 2016 balance;
- deferred tax assets decreased by €380 thousand to €40,944 thousand, relating to the parent company and the French and US subsidiaries;
- other non-current assets of €15,216 thousand show a decrease of €874 thousand, mostly due to the reduction of the non-current prepaid trademark licence fees.

Non-current liabilities

Non-current liabilities of €60,338 thousand at the reporting date are made up as follows:

| <i>(€'000)</i> | <u>31.03.2017</u> | <u>31.12.2016</u> |
|-------------------------------|----------------------|----------------------|
| Employee benefits | 36,469 | 36,048 |
| Deferred tax liabilities | 11,259 | 12,175 |
| Other non-current liabilities | 12,610 | 12,908 |
| Total | <u>60,338</u> | <u>61,131</u> |

Specifically:

- the employee benefits, which include the Italian post-employment benefits and other employee benefit obligations, rose €421 thousand to €36,469 thousand compared to 31 December 2016;
- deferred tax liabilities decreased by €916 thousand to €11,259 thousand.

Inventories

Inventories totalled €128,785 thousand at the reporting date, as follows:

| <i>(€'000)</i> | <u>31.03.2017</u> | <u>31.12.2016</u> |
|---------------------------------------------|-----------------------|-----------------------|
| Raw materials, consumables and supplies | 25,160 | 24,782 |
| Work-in-progress and semi-finished products | 13,950 | 12,668 |
| Finished goods | 11,107 | 9,790 |
| Advances to suppliers | 78,568 | 77,827 |
| Total | <u>128,785</u> | <u>125,067</u> |

The net increase for the period was €3,718 thousand compared to 31 December 2016.

Work-in-progress, net of progress payments and advances from customers

Work-in-progress, net of progress payments and advances from customers, is a negative €209,574 thousand. It can be analysed as follows:

| <i>(€'000)</i> | <u>31.03.2017</u> | <u>31.12.2016</u> |
|-------------------------------------------------------------------------------|-------------------------|-------------------------|
| Advances from customers | (43,826) | (41,789) |
| Progress payments | (1,933,803) | (1,886,966) |
| Work-in-progress | 2,402,734 | 2,328,511 |
| Provision for expected losses to complete contracts | (12,232) | (12,803) |
| Allowance for write-down | (29,614) | (28,088) |
| Work-in-progress (net) | <u>383,259</u> | <u>358,865</u> |
| | | 21,769 |
| Advances from customers | (309,559) | (310,480) |
| Progress payments | (1,995,027) | (2,009,246) |
| Work-in-progress | 1,724,862 | 1,735,070 |
| Provision for expected losses to complete contracts | (10,860) | (12,006) |
| Allowance for write-down | (2,249) | (1,350) |
| Progress payments and advances from customers (net) | <u>(592,833)</u> | <u>(598,012)</u> |
| Work-in-progress, net of progress payments and advances from customers | <u>(209,574)</u> | <u>(239,147)</u> |

The overall carrying amount increased by €29,573 thousand mainly due to production in excess of revenue.

Trade receivables and payables

Trade receivables and payables at 31 March 2017 are made up as follows:

| <i>(€'000)</i> | <u>31.03.2017</u> | | <u>31.12.2016</u> | |
|-----------------|--------------------------|-----------------------|--------------------------|-----------------------|
| | <i>Trade receivables</i> | <i>Trade payables</i> | <i>Trade receivables</i> | <i>Trade payables</i> |
| Third parties | 663,639 | 434,320 | 666,476 | 438,448 |
| Related parties | 52,031 | 18,044 | 62,376 | 19,671 |
| Total | <u>715,670</u> | <u>452,364</u> | <u>728,852</u> | <u>458,119</u> |

A decrease was recorded in total amount of trade receivables (€13,182 thousand) and in total amount of trade payables (€5,755 thousand) compared to the previous year-end balances.

Amounts of third-parties' receivables and payables is substantially in line with the respective amounts at the end of the previous year.

Amounts of related-parties' receivables and payables decrease, as previously mentioned.

Provisions for risks and charges

Provisions for risks and charges amount to €13,813 thousand at 31 March 2017 and are substantially in line with 31 December 2016 (€14,040 thousand).

Other assets/liabilities

Other current liabilities, net, of €27,048 thousand, are made up as follows:

| <i>(€'000)</i> | <i>31.03.2017</i> | | <i>31.12.2016</i> | |
|-------------------------------|-------------------|--------------------|-------------------|--------------------|
| | <i>Assets</i> | <i>Liabilities</i> | <i>Assets</i> | <i>Liabilities</i> |
| Prepayments - current portion | 15,008 | - | 12,314 | - |
| Research grants | 17,324 | - | 18,944 | - |
| Employees | 1,680 | 44,892 | 2,006 | 39,316 |
| Social security institutions | 24 | 16,408 | 30 | 17,401 |
| Indirect and other tax assets | 34,512 | 11,167 | 31,146 | 14,471 |
| Derivatives | 8,009 | 11,185 | 10,515 | 17,008 |
| Other | 10,000 | 29,552 | 9,645 | 31,750 |
| Total other assets | 86,557 | 113,204 | 84,600 | 119,946 |
| Related parties | 9 | 410 | 4 | 410 |
| Total | 86,566 | 113,614 | 84,604 | 120,356 |

Details of the main items are set out below:

- prepayments of €15,008 thousand increased by €2,694 thousand on 31 December 2016, mainly due to prepaid insurance premiums and prepaid commissions on sureties for taking part in bids;
- net liabilities at the end of the period to employees of €43,212 thousand rose by €5,902 thousand on 31 December 2016 due to the deferred remuneration recognised in the period;
- net indirect and other tax assets amount to €23,345 thousand compared to €16,675 thousand at 31 December 2016;
- other liabilities, net, of €19,552 thousand dropped by €2,553 thousand from €22,105 thousand at 31 December 2016.

Financial disclosure

The following disclosure is required by Consob Communication no. DEM/6064293 of 28 July 2006.

| <i>(€'000)</i> | <u><i>31.03.2017</i></u> | <u><i>31.12.2016</i></u> |
|-----------------------------------------------------------|--------------------------------|--------------------------------|
| A Cash in hand | 131 | 109 |
| B Other cash and cash equivalents (bank current accounts) | 293,901 | 305,477 |
| C Securities held for trading | - | - |
| D CASH AND CASH EQUIVALENTS (A+B+C) | <u>294,032</u> | <u>305,586</u> |
| E CURRENT LOAN ASSETS | <u>35,051</u> | <u>34,233</u> |
| F Current bank loans and borrowings | - | - |
| G Current portion of non-current loans and borrowings | - | - |
| H Other current loans and borrowings | 2,066 | 1,780 |
| I CURRENT FINANCIAL DEBT (F+G+H) | <u>2,066</u> | <u>1,780</u> |
| J NET CURRENT FINANCIAL POSITION (I-E-D) | <u>(327,017)</u> | <u>(338,039)</u> |
| K Non-current bank loans and borrowings | - | - |
| L Bonds issued | - | - |
| M Other non-current financial liabilities | - | - |
| N NON-CURRENT FINANCIAL DEBT (POSITION) (K+L+M) | <u>-</u> | <u>-</u> |
| O NET FINANCIAL POSITION (J+N) | <u><u>(327,017)</u></u> | <u><u>(338,039)</u></u> |

Analysis of the income statement

Impact of related party transactions on profit or loss

Related party trading transactions generally take place on an arm's length basis. The relevant income statement balances are shown below.

| | Revenue | Other operating income | Costs | Financial income | Financial expense | Other operating expense |
|-------------------------------------------------------------------------------------------------|---------------|------------------------|---------------|------------------|-------------------|-------------------------|
| 31.03.2017 | | | | | | |
| (€'000) | | | | | | |
| <u>Parent Company</u> | | | | | | |
| Hitachi Rail Europe LTD | 5 | - | - | - | - | - |
| Hitachi Ltd (Rail) | 176 | - | 434 | - | - | - |
| <u>Subsidiaries</u> | | | | | | |
| Alifana S.c.r.l. | 34 | - | - | - | - | - |
| Alifana Due S.c.r.l. | - | - | 141 | - | - | - |
| <u>Associates</u> | | | | | | |
| Metro 5 S.p.A. | 596 | 320 | 36 | - | - | - |
| I.M. Intermetro S.p.A. (in liq.) | 8 | - | - | - | - | - |
| Metro Service A.S. | 1,774 | - | 14,460 | - | - | - |
| Metro Brescia S.r.l. | 98 | - | - | - | - | - |
| <u>Joint Ventures</u> | | | | | | |
| Balfour Beatty Ansaldo Syst. JV SDN BHD | 332 | - | 9 | - | - | - |
| <u>Consortia</u> | | | | | | |
| Saturno consortium | 2,930 | - | 203 | - | - | - |
| SanGiorgio Volla consortium | (40) | - | - | - | - | - |
| SanGiorgio Volla Due consortium | 501 | - | (6) | - | - | - |
| Ferroviano Vesuviano consortium | 28 | - | (1) | - | - | - |
| MM4 consortium | 4,155 | - | 121 | - | - | - |
| <u>Other group companies</u> | | | | | | |
| Hitachi Rail Italy S.p.A. | 2,708 | - | 4,412 | - | - | - |
| Hitachi Rail Inc. | 634 | - | - | - | - | - |
| Hitachi India Pvt Ltd Rail Systems Company | 134 | - | - | - | - | - |
| Hitachi High Technologies Europe GMBH | 201 | - | - | - | - | - |
| Hitachi Australia Pty Ltd | - | - | 7 | - | - | - |
| Total | 14,274 | 320 | 19,816 | - | - | - |
| % of the total corresponding condensed interim consolidated financial statements caption | 5% | 8% | 11% | - | - | - |

| <u>31.03.2016</u> | Revenue | Other operating income | Costs | Financial income | Financial expense | Other operating expense |
|-------------------------------------------------------------------------------------------------|---------------|------------------------|---------------|------------------|-------------------|-------------------------|
| (€'000) | | | | | | |
| <u>Parent Company</u> | | | | | | |
| Hitachi Ltd (Rail) | 30 | - | - | - | - | - |
| <u>Subsidiaries</u> | | | | | | |
| Alifana S.c.r.l. | - | - | - | - | - | - |
| Alifana Due S.c.r.l. | 38 | - | 48 | - | - | - |
| <u>Associates</u> | | | | | | |
| Metro 5 S.p.A. | 1,187 | 306 | 27 | - | - | - |
| International Metro Service S.r.l. | (76) | 6 | - | - | - | 4 |
| Metro Brescia S.r.l. | 135 | (6) | 9 | - | - | - |
| <u>Joint Ventures (*)</u> | | | | | | |
| Balfour Beatty Ansaldo Syst. JV SDN BHD | 150 | - | 40 | - | - | - |
| <u>Consortia</u> | | | | | | |
| Saturno consortium | 7,758 | - | (303) | - | - | - |
| Ascosa Quattro consortium | (26) | - | - | - | - | - |
| SanGiorgio Volla Due consortium | 478 | - | (36) | - | - | - |
| Ferroviario Vesuviano consortium | 27 | - | - | - | - | - |
| MM4 consortium | 5,407 | - | 105 | - | - | - |
| Metro Service A.S. | 1,656 | - | 13,870 | - | - | - |
| I.M. Intermetro S.p.A. (in liq.) | 1 | - | - | - | - | - |
| Hitachi Rail Italy S.p.A. | 2,346 | - | 3,794 | - | - | - |
| Hitachi Rail Inc. | 33 | - | - | - | - | - |
| Total | 19,144 | 306 | 17,554 | - | - | 4 |
| % of the total corresponding condensed interim consolidated financial statements caption | 7% | 4.6% | 9% | - | - | 0.1% |

Revenue from related parties at 31 March 2017 totalled €14,274 thousand, down €4,870 thousand due mainly to the decrease in the open position with the Saturno consortium.

Related party costs in the reporting period increased by €2.262 thousand to €19,816 thousand on the corresponding period of the previous year (€17,554 thousand) due mainly to greater costs from Metro Service A.S.

Revenue

Revenue rose €7,933 thousand to €299,142 thousand from €291,209 thousand for the corresponding period of the previous year (reference should be made to the directors' report for further details).

Other operating income

| <i>(€'000)</i> | <i>First quarter of</i> | |
|-----------------------------------------------|-------------------------|--------------|
| | <i>2017</i> | <i>2016</i> |
| Reversals of provisions for risks and charges | 793 | 700 |
| Royalties | 28 | 104 |
| Exchange rate gains on operating items | 1,661 | 2,917 |
| Tax asset for R&D | 452 | 558 |
| Other operating income | 977 | 2,082 |
| Other third party operating income | 3,911 | 6,361 |
| Other related party operating income | 320 | 306 |
| Total other operating income | 4,231 | 6,667 |

Other operating income amounted to €4,231 thousand, down €2,436 thousand compared to €6,667 thousand in the corresponding period of the previous year. The decrease is related to smaller income and exchange rate gains on operating items.

Purchases and services

| <i>(€'000)</i> | <i>First quarter of</i> | |
|---------------------------------------------------|-------------------------|----------------|
| | <i>2017</i> | <i>2016</i> |
| Materials | 70,745 | 70,967 |
| Change in inventories | (493) | (3,068) |
| Services | 90,459 | 94,963 |
| Rentals and operating leases | 4,976 | 4,579 |
| Total third party purchases and services | 165,687 | 167,441 |
| Total related party purchases and services | 19,816 | 17,554 |
| Total purchases and services | 185,503 | 184,995 |

Purchase and service costs were essentially in line between the two comparison periods.

Personnel expense

| <i>(€'000)</i> | <i>First quarter of</i> | |
|-------------------------------------------|-------------------------|---------------|
| | <i>2017</i> | <i>2016</i> |
| Wages and salaries | 68,112 | 64,653 |
| Stock grant plans and LTIPs | 836 | 1,796 |
| Social security and pension contributions | 16,940 | 14,926 |
| Italian post-employment benefits | 138 | 106 |
| Other defined benefit plans | 212 | 167 |
| Other defined contribution plans | 442 | 718 |
| Ongoing disputes with personnel | 457 | 48 |
| Other costs | 1,046 | 3,790 |
| Total personnel expense | 88,183 | 86,204 |

Personnel expense increased by €1,979 thousand to €88,183 thousand from €86,204 thousand in the corresponding period of the previous year, mainly due to the higher average headcount (4,007 at 31 March 2017; 3,750 at 31 March 2016), partly offset by the recognition in March 2016 of the accounting effects of transactions with key personnel who had resigned from the company.

Amortisation, depreciation and impairment losses

Specifically:

| <i>(€'000)</i> | <i>First quarter of</i> | |
|---------------------------------------------------------------|-------------------------|--------------|
| | <i>2017</i> | <i>2016</i> |
| Amortisation of intangible assets | 1,315 | 1,744 |
| Depreciation of property, plant and equipment | 2,491 | 2,402 |
| Impairment losses | 721 | 47 |
| Total amortisation, depreciation and impairment losses | 4,527 | 4,193 |

Amortisation, depreciation and impairment increased by €334 thousand to €4,527 thousand from €4,193 thousand in the corresponding period of the previous year. Specifically, the increase in depreciation of property, plant and equipment and impairment losses were offset by a decrease in the amortisation of intangible assets.

Other operating expense

| (€'000) | First quarter of | |
|--------------------------------------------------|------------------|--------------|
| | 2017 | 2016 |
| Accruals to the provisions for risks and charges | 19 | 1,868 |
| Membership fees | 195 | 205 |
| Losses to complete contracts | (1,158) | (1,749) |
| Exchange rate losses on operating items | 2,215 | 2,639 |
| Interest and other operating expense | 237 | 223 |
| Indirect taxes | 787 | 846 |
| Other operating expense | 458 | 352 |
| Total other third party operating expense | 2,753 | 4,384 |
| Other related party operating expense | - | 4 |
| Total other operating expense | 2,753 | 4,388 |

Other operating expense decreased by €1.635 thousand on the corresponding period of the previous year mainly due to the lower accrual to the provision for risks and charges for product warranties.

Internal work capitalised

| (€'000) | First quarter of | |
|---------------------------|------------------|-------|
| | 2017 | 2016 |
| Internal work capitalised | 820 | 1,088 |

Internal work capitalised mainly relates to the Parent Company Ansaldo STS S.p.A. (€759 thousand); it mainly consists of intangible assets and, in particular, work performed on the Satellite and Rail Telecom project.

Net financial expense

| (€'000) | First quarter of | | | | | |
|-----------------------------------------------------|------------------|--------------|------------|--------------|--------------|--------------|
| | 2017 | | | 2016 | | |
| | Income | Expense | Net | Income | Expense | Net |
| Interest and fees | 108 | 217 | (109) | 218 | 116 | 102 |
| Exchange rate gains and losses | 4,620 | 4,156 | 464 | 6,177 | 6,399 | (222) |
| Fair value gains and losses | 2,145 | 1,976 | 169 | 167 | 454 | (287) |
| Interest on Italian post-employment benefits | - | 71 | (71) | - | 86 | (86) |
| Interest on other defined benefit plans | - | 62 | (62) | - | 72 | (72) |
| Other financial income and expense | - | 96 | (96) | - | 79 | (79) |
| Total net financial expense | 6,873 | 6,578 | 295 | 6,562 | 7,206 | (644) |
| Net related party financial income (expense) | - | - | - | - | - | - |
| Total | 6,873 | 6,578 | 295 | 6,562 | 7,206 | (644) |

Net financial income amounted to €295 thousand compared to -€644 thousand in the corresponding period of the previous year.

The improvement of this balance is mainly due to the smaller net exchange rate losses and net fair value losses on derivatives still in place at the end of the reporting period.

The share of profits (losses) of equity-accounted investees came to €2,759 thousand and relates to the profits (losses) of Metro 5 S.p.A. (€2,437 thousand), International Metro Service S.r.l. (€48 thousand), Metro Brescia S.r.l. (€233 thousand) and Balfour Beatty Ansaldo Systems JV SDN BHD (€41 thousand).

| | First quarter of | | | | | |
|---------------------------------------------------------|------------------|----------|--------------|--------------|----------|--------------|
| | 2017 | | | 2016 | | |
| | Income | Expense | Net | Income | Expense | Net |
| (€'000) | | | | | | |
| Share of profits (losses) of equity-accounted investees | 2,759 | - | 2,759 | 4,203 | - | 4,203 |
| Total | 2,759 | - | 2,759 | 4,203 | - | 4,203 |

Income taxes

| | First quarter of | |
|-----------------------------------|------------------|--------------|
| | 2017 | 2016 |
| (€'000) | | |
| IRES | 3,378 | 1,900 |
| IRAP | 516 | 297 |
| Other foreign taxes | 5,666 | 4,014 |
| Prior year taxes | (10) | 383 |
| Net deferred tax (income) expense | (607) | 623 |
| Total | 8,943 | 7,217 |

Income taxes for the reporting period amount to €8,943 thousand compared to €7,217 thousand for the first quarter of 2016.

The €1,726 thousand increase is attributable to the different mix of the taxable base.

The tax rate at 31 March 2017 is 30.9% (26.8% at 31 March 2016).

5 EARNINGS PER SHARE

Earnings per share (“EPS”) are calculated by:

- dividing the profit for the period attributable to holders of ordinary shares by the average number of ordinary shares outstanding in the period, net of treasury shares (basic EPS);
- dividing the profit for the year by the average number of ordinary shares and those that could arise from the exercise of all options under stock option plans, net of treasury shares (diluted EPS).

| <i>Basic EPS</i> | <u>31.03.2017</u> | <u>31.03.2016</u> |
|----------------------------------------------|-------------------|-------------------|
| Average shares outstanding during the period | 200,000,000 | 200,000,000 |
| Profit for the period | 20,003 | 19,736 |
| <i>Basic and diluted EPS</i> | <u>0.10</u> | <u>0.10</u> |

6 FINANCIAL RISK MANAGEMENT

The Group’s operations expose it to the following financial risks:

- market risks, related to operations in areas that use currencies other than the group’s functional currency (currency risk) and the risk of interest rate fluctuations;
- 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 Group specifically monitors each of these financial risks and acts promptly to minimise them including via hedging derivatives. Ansaldo STS Group’s approach to managing these risks, in line with internal policies, is described below.

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

| <i>local currency '000</i> | <i>Sell17</i> | <i>Buy17</i> | <i>31.03.2017</i> | <i>Sell16</i> | <i>Buy16</i> | <i>31.03.2016</i> |
|-----------------------------|---------------|--------------|-------------------|---------------|--------------|-------------------|
| Euro | 30,502 | 50,432 | 80,934 | 21,482 | 40,863 | 62,345 |
| US dollar | 256,907 | 73,121 | 330,028 | 330,936 | 66,620 | 397,556 |
| Pound sterling | 57,641 | - | 57,641 | 10,014 | - | 10,014 |
| Swedish krona | 825 | 5,022 | 5,847 | - | 29,849 | 29,849 |
| Australian dollar | - | 7,224 | 7,224 | - | 34,436 | 34,436 |
| Hong Kong dollar | 448 | - | 448 | 1,291 | - | 1,291 |
| Indian rupee | 5,327 | - | 5,327 | 5,133 | - | 5,133 |
| United Arab Emirates dirham | 12,740 | - | 12,740 | 12510 | - | 12,510 |

The net fair value of the derivatives in place (both fair value and cash flow hedges) at 31 March 2017 is a negative €3,174 thousand.

7 SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

There were no significant non-recurring events or transactions during the reporting period.

8 ATYPICAL AND/OR UNUSUAL TRANSACTIONS

During the reporting period, no atypical and/or unusual transactions took place.

9 OUTLOOK

To date, 2017 production volumes and profitability (ROS) are expected to be in line with those of the previous year.

10 DISCLOSURE ON THE OPT-OUT REGIME

Pursuant to articles 70 paragraph 8 and 71 paragraph 1-*bis* of the Issuers' Regulation, we note that, in their meeting of 28 January 2013 and as permitted by articles 70 paragraph 8 and 71 paragraph 1-*bis* of the Issuers' Regulation, the Board of Directors of the Company 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.

Milan, 28 April 2017

On behalf of the Board of Directors

The Chairperson

Alistair Dormer

ANNEX A: STATEMENT PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 2 OF LEGISLATIVE DECREE NO. 58/1998

In accordance with the provisions of article 154-*bis* of the Consolidated Finance Act, the undersigned, Renato Gallo, Manager in charge of financial reporting of Ansaldo STS S.p.A., states that the Interim financial report at 31 March 2017 is consistent with the accounting evidence, ledgers and records.

Milan, 28 April 2017

The Manager in charge of financial reporting

Renato Gallo