Ansaldo STS A Hitachi Group Company

DRAFT FINANCIAL STATEMENTS

Ansaldo STS S.p.A.

SEPARATE FINANCIAL STATEMENTS

AT 31 DECEMBER 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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COMPANY BODIES AND COMMITTEES

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

ALISTAIR DORMER (1)
Chairperson

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

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

ROSA CIPRIOTTI (4)

MICHELE ALBERTO FABIANO CRISOSTOMO ** (4)

MARIO GARRAFFO (2) (3) (4)

FABIO LABRUNA (4)

KATHERINE JANE MINGAY (1)

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

FRANCESCO GIANNI***
Board secretary

BOARD OF STATUTORY AUDITORS
(for the 2017 - 2019 three-year period)

ANTONIO ZECCA
Chairperson

GIOVANNI NACCARATO

ALESSANDRA STABILINI

SUBSTITUTE STATUTORY AUDITORS
(for the 2017 - 2019 three-year period)

VALERIA GALARDI

CRISTIANO PROSERPIO

ALESSANDRO SPERANZA

INDEPENDENT AUDITORS
(for the 2016 - 2024 period)

EY S.p.A. ****

(1) Member of the executive committee (i.e. Bid Committee)
(2) Member of the risk and control committee
(3) Member of the appointments and remuneration committee
(4) Member meeting independence requirements

* Position held by Katherine Jane Mingay from 13 May 2016 to 28 October 2016. Alberto De Benedictis was appointed deputy chairperson by the board of directors during the meeting of 28 October 2016.
** Michele Alberto Fabiano Crisostomo was appointed director of Ansaldo STS S.p.A. by the shareholders' meeting of 19 January 2017, to replace Giuseppe Bivona who, pursuant to art. 2393 of the Italian Civil Code, was removed from the position of company director.
*** Appointed on 16 May 2016 to replace Filippo Corsi.
**** Following the resignation of KPMG S.p.A. on 14 November 2016, the shareholders' meeting of 19 January 2017 appointed the independent auditors EY S.p.A. to audit the company's accounts for the years 2016-2024.

DIRECTORS' REPORT AT 31 DECEMBER 2017

Dear shareholders

The profit for 2017 totalled €72.0 million, including dividends from subsidiaries and associates of €36.5 million, compared to €145.9 million in 2016, which included dividends totalling €112.7 million.
Operating profit came to €52.9 million compared to €60.7 million last year.
Equity amounted to €532.2 million compared to €475.3 million for 2016.

The company's financial performance can essentially be said to be positive, both in terms of commercial acquisitions and operating performance, despite particular and unforeseen events, as also occurred in 2016. In particular there was the project in Sweden, for which the Italian company is a subsupplier, in which the customer, claiming default by the Swedish subsidiary, unilaterally terminated the contract and requested reimbursement of advances paid, plus penalties and compensation for damages. Though challenging such conduct, through the Swedish subsidiary the company signed an agreement for the reimbursement of advances, plus interest, against the return of all bonds previously released to the customer. In the meantime, all possible initiatives are being assessed for defending the company's rights and payment for the work completed.

KEY PERFORMANCE INDICATORS OF THE YEAR

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

(€'000)	*31.12.2017*	*31.12.2016*
New orders *	939,947	735,067
Order backlog *	5,113,506	5,056,649
Revenue	824,813	829,992
Turnover	952,155	898,709
Gross profit	116,865	122,018
Gross profit %	*14.2%*	*14.7%*
Operating profit (EBIT) *	52,866	60,707
ROS *	*6.4%*	*7.3%*
Profit for the year	71,988	145,857
Net financial position	(231,520)	(160,251)
Net cash flows *	71,269	102,624
EVA *	10,291	17,319
Headcount	1,857	1,704
Research and development*	21,019	19,157

* for a definition of the performance indicators shown, please refer to the note: *Non-GAAP alternative performance indicators and other indicators*.

New orders for the year, increasing the Order Backlog (please refer to the note *Non-Gaap Alternative Performance Indicators and other indicators* for the definition of "*Order Backlog*") totalled around €939.9 million (roughly €735.1 million in 2016).

For the Italian market in particular note the project for the high speed Verona-Vicenza line as part of the IRICAV DUE consortium (the concession holder), after CIPE approval was obtained for the first functional section for around €336.1 million, the framework agreement with RFI for technical support and maintenance of the Ansaldo STS systems operating on the RFI network (€100.0 million), the contract signed with Hitachi Rail Italy for the supply of on-board devices on Caravaggio trains (€62.6 million) and the supply to RFI of ACC and ACC-M signalling systems (€40.0 million).

The order backlog totalled €5,113.5 million at 31 December 2017 (€5,056.6 million at the end of 2016).

Revenue increased to around €824.8 million, down by around €5.2 million from €830.0 million in 2016. In particular, as activities progressed on the projects acquired in the past few years, including the Copenhagen Cityringen metro line and Line 3 of the Riyadh metro, along with resumption of works on the Thessaloniki metro, a decrease was recorded after the final phase was reached in certain major contracts due to works completion, including the high speed Milan-Verona line (Treviglio-Brescia), Line 5 of the Milan metro and a number of ACC technology projects for RFI.

Operating profit came to €52.9 million, down €7.8 million on the €60.7 million recorded It was penalised by lower profit margins achieved on contracts completed during the year and by amounts set aside for developments in Northern Europe (€9.6 million), whereas in the previous year it included significant provisions relating to the outcome of the arbitration case in Libya (€8.1 million) and the departure of certain strategic personnel from the group (€2.4 million). The decrease for the year can be summarised as caused by a different and unfavourable mix of contracts worked in the two periods, stronger Marketing & Sales and Research & Development activities, partially offset by a stronger positive balance of net operating income.

The Profit for the year of €72.0 million was lower than in 2016 (€145.9 million), mainly due to the decrease in value of dividends collected from subsidiaries and associates (€36.5 million compared to €112.7 million in 2016), included under net financial income and expense.

The company's net financial position was €231.6 million (€160.3 million at the end of 2016) and net cash inflows came to €71.3 million (€102.6 million in 2016) including, in particular, the collection of dividends from subsidiaries and associates of €36.5 million (€112.7 million in 2016). It should be remembered that no dividends were paid to shareholders in 2017 (€36.0 million in 2016).

FINANCIAL POSITION AND RESULTS OF OPERATIONS

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

Income statement

Reclassified schedules are presented by nature and function for 2017 and the previous year, in order to provide full disclosure on Ansaldo STS S.p.A.'s ("ASTS" or "Ansaldo STS") financial position and results of operations.

(€'000)	*31.12.2017*	*31.12.2016*
Revenue	824,813	829,992
Purchases and personnel expense (*)	(773,489)	(772,468)
Change in work-in-progress, semi-finished products and finished goods	(1,352)	620
Amortisation, depreciation and impairment losses	(12,648)	(12,247)
Other net operating income (**)	15,542	14,810
Operating profit (EBIT)	**52,866**	**60,707**
Net financial income	34,605	101,256
Income taxes	(15,482)	(16,106)
Profit for the year before discontinued operations	**71,988**	**145,857**
Profit (loss) from discontinued operations		
Profit for the year	**71,988**	**145,857**

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

2017 revenue totalled €824,813 thousand, down €5,179 thousand on 2016 (-0.6%). The volumes achieved on the Italian market came to €274,828 thousand (€307,683 thousand in 2016) and €549,985 thousand on the foreign market (€522,309 thousand in 2016).

Total purchases and personnel expense increased by €1,021 thousand.

EBIT came to €52,866 thousand (6.4% as a percentage of revenue), compared to €60,707 thousand (7.3% as a percentage of revenue) in 2016.

Net financial income (€34,605 thousand) decreased compared to 2016 (€66,651 thousand), substantially due to the collection of dividends from subsidiaries and associates of €36,532 thousand in 2017 (€112,660 thousand in 2016).

Income taxes equalled €15,482 thousand (1.9% as a percentage of revenue) compared to €16,106 thousand (1.9% as a percentage of revenue) in 2016; as a percentage of pre-tax profit, they came to 17.7% (2016: 9.9%). The change in the percentage is due essentially to the arithmetic effect of the weight of dividends.

Profit for the year totalled €71,988 thousand (8.7% as a percentage of revenue), compared to €145,857 thousand (17.6% as a percentage of revenue) in 2016.

The income statement reclassified by function is as follows:

(€'000)	*31.12.2017*	*31.12.2016*
Revenue	824,813	829,992
Operating expense	(707,948)	(707,974)
Gross operating profit	116,865	122,018
Gross operating profit as a % of revenue	*14.2%*	*14.7%*
Overheads	(70,225)	(64,061)
Net operating income	6,226	2,750
Operating profit (EBIT)	**52,866**	**60,707**

Total revenue was down by €5,179 thousand. In particular, the reduction recorded on the Italian market was due to the completion of certain contracts, partially offset by the increase in foreign revenue.

Total average profitability was down slightly on the previous year due to the different mix and profitability of contracts in the two years compared.

Overheads increased by €6,164 thousand in absolute terms due to increased sales activities (€3,713 thousand) and research and development (€1,862 thousand).

Net operating income amounts to €6,226 thousand (2016: €2,750 thousand); the increase can be attributed substantially at the recognition of income correlated with transactions during the year with customers and with costs recorded in 2016 following the resignation of strategic figures within the company.

Statement of financial position

The company's statement of financial position as at 31 December 2017 and corresponding previous year figures are set out below:

(€'000)	*31.12.2017*	*31.12.2016*
Non-current assets	307,846	304,485
Non-current liabilities	(29,713)	(31,021)
	278,133	**273,464**
Inventories	79,808	95,279
Contract work in progress (net)	164,881	178,438
Trade receivables	635,131	606,054
Trade payables	(352,542)	(398,666)
Progress payments and advances from customers (net)	(509,998)	(427,932)
Working capital	**17,279**	**53,174**
Provisions for risks and charges - current portion	(3,860)	(2,105)
Other current assets (liabilities), net (*)	9,119	(9,460)
Net working capital	**22,538**	**41,609**
Net invested capital	300,670	315,073
Equity	**532,191**	**475,323**
Net financial position	**(231,520)**	**(160,251)**

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

The net amount of non-current assets and liabilities (€278,133 thousand) increased by €4,669 thousand compared to the previous year.

Net working capital totalled €22,538 thousand, down by €19,071 thousand compared to 2016 (€41,609 thousand). The change is largely due to the reduction in total inventories (note the change in advances from customers), only partially offset by the decrease in trade payables, the increase in trade receivables and the higher balance of other current assets and liabilities.

The €56,868 thousand increase in equity mainly follows the recognition of profit for the year of €71,988 thousand and the decline in the translation reserve, net of the tax effect, for €12,530 thousand.

Net financial position

The company's net financial position at 31 December 2017 and 2016 is set out below:

(€'000)	*31.12.2017*	*31.12.2016*
Current loans and borrowings	413	1,771
Cash and cash equivalents	(184,463)	(202,996)
Bank loans and borrowings	**(184,050)**	**(201,225)**
Related party loan assets	(63,254)	(22,791)
Other loan assets	(28,443)	(28,443)
Loan assets	**(91,697)**	**(51,234)**
Related party loans and borrowings	44,227	92,208
Other loans and borrowings	0	0
Loans and borrowings	**44,227**	**92,208**
Net financial position	**(231,520)**	**(160,251)**

The company's net financial position of €231,520 thousand at 31 December 2017 compares with €160,251 thousand at the previous year end.

Specifically, the loan assets of €91,697 thousand at 31 December 2017 (31 December 2016: €51,234 thousand) represent a short-term loan granted to the associate S.P. M4 S.c.p.a. and joint current accounts with the subsidiaries Ansaldo STS Malaysia SDN BHD and Ansaldo STS UK LTD (with the latter fully impaired).

Loan assets include the euro equivalent amount of the Libyan dinar advances received in Libya and deposited in a local bank (€28,443 thousand).

The reduction in related party loans and borrowings with respect to the previous year (€47,981 thousand) is attributable primarily to dividends distributed by certain subsidiaries and collected by the Parent.

The company's reclassified statement of cash flows for 2017 is presented below, with corresponding prior year figures.

(€'000)	*31.12.2017*		*31.12.2016*	
Opening cash and cash equivalents	**202,996**		**178,636**	
Profit for the year	71,988		145,857	
Amortisation, depreciation and impairment losses	12,648		12,247	
Income taxes	15,482		16,105	
Accruals to provisions	1,969		646	
Italian post-employment benefits	657		519	
Defined benefit plans and stock grant plans	1,209		3,922	
Financial expense, net of impairment losses on equity investments measured at cost	(34,605)		(101,256)	
Gross cash flows from operating activities	**69,348**		**78,040**	
Changes in other operating assets and liabilities	(58,762)		(15,041)	
Funds From Operations		**10,586**		**62,999**
Change in operating working capital	35,894		(30,608)	
Cash flows generated from operating activities	**46,480**		**32,391**	
Cash flows used in ordinary investing activities	(5,639)		(2,760)	
Free Operating Cash Flow		**40,841**		**29,631**
Strategic transactions	(3,128)		(2,099)	
Dividends received from ASTS group companies	33,556		111,092	
Cash flows generated from investing activities	**24,789**		**106,233**	
Dividends paid	-		(36,000)	
Cash flows used in other financing activities	(89,802)		(78,264)	
Cash flows used in financing activities	**(89,802)**		**(114,264)**	
Net increase (decrease) in cash and cash equivalents	(18,533)		24,360	
Closing cash and cash equivalents	**184,463**		**202,996**	

The Free Operating Cash Flow performance increased in 2017. Of note in 2016 was the outlay to the customer Russo as a result of conclusion of the arbitration proceedings on the Libya project for a total of €37.4 million.

The decrease in cash flows from investing activities, the result of lower dividends from group companies, was offset by the reduction in loans and borrowings from those companies and the loan asset granted to Ansaldo STS Sweden to meet the demands of the Swedish customer AB Storstockholms Lokaltrafik ("SL") resulting from the dispute fully described in the section "Litigation".

NON-GAAP ALTERNATIVE PERFORMANCE INDICATORS AND OTHER INDICATORS

Non-GAAP alternative performance indicators

Ansaldo STS's management also assesses the performance of the company and the business units using certain indicators that are not defined by the IFRS, also used as financial targets in internal and external presentations.

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

- **Operating profit (EBIT)**: represents an indicator for the assessment of operating performance and is equal to the unadjusted profit before income taxes and financial income and expense. It does not include income and expense on non-consolidated equity investments and securities or the gains (losses) on the disposal of consolidated equity investments, classified in "Financial income and expense" in the financial statements or, for equity-accounted investees, in the caption "Share of profit or loss of equity-accounted investees".

- **Free Operating Cash Flow (FOCF)**: the sum of cash flows generated from (used in) operating activities and cash flows generated from (used in) investments in and disinvestments of property, plant and equipment, intangible assets and equity investments, net of cash flows for acquisitions or disposals of equity investments which qualify as "strategic transactions" given their nature or materiality. The method used to calculate the FOCF for the current and previous years is shown in the reclassified statement of cash flows in the "Net financial position" section.

- **Funds from operations (FFO)**: the cash flows generated from (used in) operating activities, net of changes in working capital. The method used to calculate the FFO for the current and previous years is shown in the reclassified statement of cash flows in the "Net financial position" section.

- **Economic value added (EVA)**: the difference between operating profit net of income taxes and the cost of the average invested capital of the two periods under comparison, calculated using the weighted average cost of capital (WACC).

- **Net working capital:** includes trade receivables and payables, inventories and work in progress, advances from customers and provision for risks.

- **Net invested capital**: the sum of non-current assets, non-current liabilities and net working capital.
- **Net cash flows**: the change in the statement of cash flows for the current and previous years.
- **Net financial position or debt**: the calculation method used complies with paragraph 127 of CESR recommendation 05-054b, implementing EC regulation 809/2004.
- **Return on Sales (ROS)**: the ratio of operating profit to revenue.
- **Research and development expense**: the total expense incurred for research and development, both expensed and sold. Research expense taken to profit or loss usually relates to "general technology", i.e., aimed at gaining scientific knowledge and/or techniques applicable to various new products and/or services. Sold research expense represents that commissioned by customers and for which there is a specific sales order and it is treated exactly like an ordinary order (sales contract, profitability, invoicing, advances, etc.) in accounting and management terms. These types of costs are generally not capitalised given the fast-changing nature of the production sector in which Ansaldo STS operates.

Other indicators

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

SALES PERFORMANCE

New orders acquired in 2017 approximated €940 million (2016: €735 million).
Specifically, the key events of the year by geographical segment are described below:

ITALY

The orders acquired during the period amount to roughly €762 million. In the railway sector these mainly relate to the project for the high speed Verona-Vicenza line as part of the IRICAV DUE consortium for around €336 million, the framework agreement with RFI for technical support and maintenance of the Ansaldo STS systems operating on the RFI network (€100 million), the contract signed with Hitachi Rail Italy for the supply of on-board devices on Caravaggio trains (€63 million) and the supply to RFI of ACC and ACC-M signalling systems (€40 million).

As regards the Mass Transit sector, note the variations to Line 6 of the Naples metro (€24 million) and to the Alifana Line (€16 million).

REST OF EUROPE

New orders approximate €85 million, recorded in Denmark. These refer to the southern extension of the Cityringen in Copenhagen for approximately €60 million, plus other agreed variations - including Operation & Maintenance - for a total of €82 million and one variation relating to the Aarhus tramway.

NORTH AFRICA AND THE MIDDLE EAST

The orders in this area amount to around €24 million, mainly relating to the variations on contracts for line 3 of the Riyadh metro (€19 million) and for the maintenance of the Princess Noura University line (€5 million).

AMERICAS

Note that €10 million relate to variations for the Honolulu metro.

ASIA - ASIA PACIFIC

New orders for the period amounted to around €3 million, mainly from the subsidiary Ansaldo STS Railway System Trading (Beijing) for about €2 million.

Order backlog

The company's order backlog at 31 December 2017 totalled €5,114 million, compared to €5,057 million at the previous year end and mainly refer to: the Copenhagen metro (approximately 12.5%); the Honolulu metro (roughly 15.5%); the Lima metro (9.9%); the Riyadh metro (6.8%); the concessions to build the Naples and Genoa metros (around 4.9%); the Brescia and Milan automated metros (approximately 3.7%); the Taipei and Sanying metros (5.9%); the Thessaloniki metro (2.9%); Line C of the Rome metro (1.8%); the Rome-Florence direct line project (roughly 1.3%); high-speed railway contracts in Italy (approximately 10.6%) and components and services (around 2.4%).

The total value of the backlog includes €427.3 million (8.4%) related to the project in Libya, which is still halted due to the socio-political situation in the country.

PRODUCTION PERFORMANCE

Revenue totalled €825 million (2016: €830 million).

The main events by geographical segment are presented below:

ITALY

RAILWAYS:

Production mainly related to the project for the technological upgrade of the Turin-Padua line, for which phases 3.2.1, 1.4 and 1.2.2 were activated as scheduled.

As part of the ACCM Genoa projects (Multistation Central Automated Systems), January saw the inauguration of the new SCCM (Multistation Command and Control System) Control Room in Teglia, and in March and July activation phases 2B and 2C for the Voltri area were completed.

As regards the Florence-Rome direct line project, the design and procurement activities have progressed.

As part of the Ventimiglia ACC projects, December saw the activation of phase 1B relating to the ACC systems in Ventimiglia and Bordighera.

MAINTENANCE & SERVICE AND SPARE PARTS:

Activities in the components area mainly concentrated on the supply of spare parts to RFI (conventional and high speed networks), the production of circuit boards for Hitachi Rail Italy S.p.A. and component supplies.

The service segment 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:

Civil works and system installations on the Mergellina-Municipio line continued on schedule. The Municipality of Naples approved the variation projects for completion of the interim stations of Arco Mirelli and Chiaia and therefore civil works could recommence.

ROME METRO LINE C:

Excavation works for construction of the T3 line (from San Giovanni to Fori Imperiali) are progressing slowly due to archaeological findings, whilst rollout activities have continued for the

San Giovanni station. In particular, integration testing was completed in December and pre-startup activities have commenced.

The economic/financial disputes of Metro C with the customer are still under way and there were no significant updates during the year.

MILAN METRO LINE 5:

The project relating to Milan metro line 5 has been completed, the entire line is operating and the management is currently focused on the guarantee phase. Delays are reported in obtaining the testing 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 during the period. Initial access to the line was granted and installation activities began in the Expo section.

A new works schedule is awaiting approval and envisages partial opening of the line and overall extension of the contract timing.

GENOA METRO:

At the end of February the Dinegro depot was completed on schedule and delivered to the customer. The vehicle rollout activities continue: the last train has been delivered and is currently at pre-startup stage.

ALIFANA:

The ongoing dispute between the Concessionaires Consortia of works involving the Company and the customer Metro Campania Nord Est ended in February 2017 with the parties signing of a settlement agreement, after which Metro Campania Nord Est deposited its first payments and scheduled the next. Lastly, note the opening of work sites at the Scampia station.

REST OF EUROPE

TURKEY:

With reference to the Mersin-Toprakkale project, the Multistation 11 and related CTC went into operation and the preliminary documentation for rollout of the ETCS Level 1 system for Multistations 01 to 05 was released.
In relation to the Ankara metro, Line 3 (M3, in March) and Line 4 (M4, in October) went into operation with the CBTC system, whilst work continues to reach similar goals on the other lines.
As regards the Gebze Kosekoy project, the line has been operational since April 2017 and an agreement is being formalised with the customer for settlement of the variations and of claims arising in relation to the project.

GREECE:

With reference to the project to construct the Thessaloniki metro, design and procurement activities continue in relation to the technological systems and installation work has begun.
Extension of the project timing was made formal, now envisaging works completion by the end of 2020. The arbitration proceedings can be said to be nearing conclusion.

DENMARK:

Planning work on the Copenhagen Cityringen metro line continued in Denmark.
As regards construction of the tramway in Aarhus, the urban section of the line went into operation in December whilst installation activities and testing continue on the suburban sections.

SWEDEN:

As regards the Red Line project for the Stockholm metro, for which the company acts as subsupplier to the subsidiary Ansaldo STS Sweden AB, June saw the completion of the installation activities on the first functional section (the Trial Line) using the CBTC system.
However, in the last quarter of the year the customer first requested reimbursement of part of the advances paid on the project due to failure to reach an agreement on the installation scheduling with variations. As envisaged in the contract, Ansaldo STS Sweden AB reimbursed part of the advances requested for about €34 million (plus VAT and interest).
The customer later served notice of cancellation of the contract, requesting reimbursement of the remaining advances plus compensation for damages.

The company challenged both the unilateral termination of the contract and the request for reimbursement of the advances and compensation for damages, considering them unfounded. An agreement was signed envisaging, on the one hand, reimbursement of the residual advances received (about €24 million plus interest), but on the other hand the return of all bonds previously released by the customer.
Reference should be made to the “Litigation” section for further details.

Note that, for the company, at 31 December 2017 the Red Line project had gross work in progress for €2.4 million and an allowance for impairment of around €9.6 million allocated following assessment of the risk deriving from the existing contractual termination dispute described above.

AMERICAS

USA:

In Hawaii, activities for the construction of the Honolulu metro have progressed in terms of design and production activities and mobilisation of the construction team. Furthermore, dynamic testing began in October. Delays are in any event reported in completing the civil works.

PERU:

The phase 1A design has been approved and the design for phase 1B for the construction of Lines 2 and 4 of the Lima metro is now pending approval; in the meantime, the civil works are still affected by the delays caused by the difficulties in acquiring the areas to be expropriated and consequently also having an impact on works covered by the scope of Ansaldo STS work. In this respect, note that depot works have commenced at 3 stations, with around 5km of tunnel completed. In addition, 20 trains and various materials and machines relating to the railway works have been produced and shipped to the location.
Arbitration proceedings have been requested through the ICSID (International Center for Settlement of Investment Disputes) in Washington by the concession holder against the contracting party, with a view to obtaining recognition of expense relating to these delays and to changes in the construction sequence, as well as works not included in the technical bid.

NORTH AFRICA AND THE MIDDLE EAST

SAUDI ARABIA:

In Saudi Arabia, activities continue on the Riyadh Metro Line 3 and installation activities in the functional section have commenced. The integration tests conducted in Canada for the Ansaldo STS on-board system installed on the vehicle manufactured by Bombardier were completed with satisfactory results.

Also note the delay in assigning the O&M contract for the Riyadh PNU, pending which a temporary extension to the current maintenance contract has been defined.

In a consortium with other partners, Ansaldo STS is competing in the tender for the management and maintenance of the Riyadh metro.

LIBYA:

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

ASIA PACIFIC:

TAIWAN:

Activities continued for the construction of the Taipei Metro Circular Line. The delays in civil works heavily impacted the metro construction times, and this postponement is currently under discussion with the customer. The installation activities have continued, of note among which is completion of the activities relating to the power supply for substation 1 and the depot.

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

INDIA:

With regard to the Calcutta metro, an agreement has been finalised with the customer for a variation in the scope of work (from DTG technology to CBTC). The design and production activities continue according to schedule.

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

Lastly, the executive design for the project relating to Line 1 of the Navi Mumbai metro has been completed and is pending approval by the customer. Materials procurement and site delivery are, however, in progress.

INVESTMENTS

Investments in property, plant and equipment and intangible assets and deferred expense recognised in 2017 approximated €9.8 million.

They may be analysed as follows:

- Buildings €0.1 million
- Plant €0.4 million
- Equipment €1.9 million
- Other assets €4.1 million
- Licences and software €1.4 million
- Capitalised development expense €1.9 million

The Satellite and Rail Telecom project launched in 2012 continued in 2017. This is a development plan to include satellite technologies in the new railway signalling systems. Costs of €1.9 million were incurred during the year and capitalised as development expense for which the company received grants of €0.6 million. The project is co-financed by the European Space Agency and the Galileo Supervisory Authority.

KEY RISKS AND UNCERTAINTIES

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

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

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

Strategic risks

A) Changes in the macroeconomic and market context

The Ansaldo STS market of operations is characterised by volatility in the acquisition of contacts, due partly to the fact that projects tend to grow in size and scope and there is an increasingly consolidated trend towards the standardisation of products and technological solutions, especially in the signalling business unit.

The factors that could have a significant impact the company's operations include public spending on infrastructure and low raw materials prices which diminish the spending power of customers.

The economic and geopolitical instability arising from external factors such as Brexit, financial and monetary volatility, increased geopolitical tension, terrorism, uncertainty as regards national and international leadership and potential international trade restrictions could seriously compromise global growth. This in combination with the weakness of Italy's role in the global

economy and the slowdown in economic growth in Ansaldo STS's areas of operation could have a negative impact on the confidence level and economic stability.
This scenario could translate into new orders with a lower profit margin, cancellations or delayed acquisition of contracts, payment delays, less favourable contractual conditions with a resulting negative impact on profit and loss of competitiveness on the market.

Furthermore, with the worsening of contractual and financial terms in new contracts, along with the increased complexity of the contracts themselves that involve greater risks and, among these, due to reduced customer funding sources, there is greater recourse to Project Financing. This market situation could negatively impact the company's competitive edge and performance, e.g., difficulties in obtaining new contracts, contracting margins on new orders and exposure to less advantageous contractual terms.

The company's strategy may not be immediately updated and adjusted in response to these many variables and uncertainties in the macroeconomic and market context, negatively impacting its competitiveness and performance.
A key element of the company's strategy is to optimise its operating structure by standardising the solutions and products offered and greater efficiency/optimisation in the use of resources during project implementation.

B) Innovation: a competitive factor

The company's business units feature a high level of technological innovation and this represents an important competitive factor.
Developments in technical standards that are not promptly adopted by the company could have a negative effect on competitiveness and market shares. Ansaldo STS's ability to anticipate technological changes and implement an efficient investment policy is therefore paramount. If it fails to accurately assess innovation requirements, the contents of innovation and development projects, their benefits and related priorities, the company runs the risk of delays in the availability of new products and technical solutions, instability of new products, additional development costs on projects and lost sales.
Processes to update the product portfolio and regularly assess products' technical competitiveness are in place to mitigate these risks and ensure greater optimisation when making bids.

Rapid technological developments conflicting with contractual obligations that impose long-term availability of spare parts generate a risk of obsolescence. There are specific processes in place to ensure its effective management.

Operational risks

C) Reliance on public customers and complex long-term contracts

Ansaldo STS operations are highly dependent on public customers and, particularly in the turnkey systems business, on complex long-term contracts of a significant amount.
Delays, amendments, revisions or cancellations of one or more significant contracts acquired could negatively impact Ansaldo STS's operations and its financial position and results of operations.

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

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

D) Budgeting and project planning

Ineffective project planning and control processes, weak project technical management and contractual requirements open to differing interpretation could mean the project team cannot implement the project within the set budget and timeframes, especially complex projects. These risks could cause delays in identifying issues during project roll-out and related remedial actions

as well as inaccurate reporting and planning, with a consequent negative impact on the company's financial position and results of operations.
To mitigate this risk, there are formalised and monitored processes to check physical and accounting progress and risk management, clear allocation of responsibilities within the project team, managerial review of project performance, review of the estimates during the bidding and project phases and an independent review carried out by the risk management department.

E) Third parties (subcontractors and subsuppliers)

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

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

The preliminary assessment and consequent qualification of suppliers, subcontractors and subsuppliers, particularly in new markets, may be inadequate, with negative impacts on the competitive nature of the technical solutions offered and on project performance.
To mitigate these risks, the group has processes in place to select and evaluate suppliers, subcontractors and subsuppliers, it defines, agrees and manages appropriate contractual and joint venture clauses, it has risk management processes and it requests specific guarantees, where applicable.

F) Management of requirements and relevant technical references

A different interpretation of unstable or incomplete requirements with specific shortcomings could have a negative impact on product compliance, on compliance with the budget and deadlines, on project performance and on customer satisfaction.
Ineffective configuration management due to difficulties in product/component traceability could result in poor spare parts, repairs and maintenance management.

To mitigate this risk, the group has requirement and configuration management processes in place to ensure quality, compliance with deadlines and efficiency in projects and development management. It has rolled out special projects to monitor the proper implementation of these processes during projects.

Furthermore, if Ansaldo STS does not have adequate market and operating references for products, this could lead to lost sales and non-compliant project implementation, damage to reputation and the application of penalties, negatively impacting the company's competitiveness and its financial position and results of operations. Such risk is carefully assessed when the bid is being prepared. It is managed through processes designed to ensure adequate interaction between the engineering unit, which communicates the customers' requirements, the portfolio unit, which assesses the market's technical requirements and possible technical solutions, and the development unit, as well as via the development and monitoring of the product development roadmap.

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

Technological complexity and tight delivery times for company products and systems could leave Ansaldo STS liable for delays in or failure to supply contractually-agreed products or services, for their non-compliance with customer requirements (for instance, due to design or construction faults) and for breaches of and/or delays in roll-out, the provision of post-sales services and product maintenance and servicing. Moreover, many products and systems supplied by the company are subject to certifications and approval, including by third-party bodies.
Such liability could be directly attributable to Ansaldo STS or to third-party operators such as subsuppliers or subcontractors. These risks could negatively impact the company's operations, its financial position and results of operations and its reputation, and could also result in the company incurring costs to repair faulty products or their withdrawal from the market in extreme cases. Even if adequate insurance is in place, the sum insured could be exceeded or the

premiums could be raised following a claim, negatively impacting the company's financial position and results of operations.

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

H) *Legal disputes and Governance*

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

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

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

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

An unfavourable news report due to incorrect interpretation of corporate governance decisions and financial data could have a negative impact on reputation and result in dispute-related costs.

I) Human resource management

Ansaldo STS supplies products and systems featuring cutting-edge technology on a global scale and to do so, it requires human resources with specific expertise, which can be difficult to procure on the labour market.

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

J) Health, safety and environmental compliance

The company has to comply with health, safety and environmental legislation in the various countries in which it operates. Failure to comply with such legislation as a result of operating processes which are not adequately monitored or due to an inadequate evaluation of such requirements and necessary measures, could expose Ansaldo STS to risks having significant impacts on its operations, its financial position and results of operations and its reputation.
To mitigate this risk, Ansaldo STS adopts health, safety and environmental management systems ensuring rigorous compliance with legislation in accordance with best practices, subject to internal and external monitoring and integrated with the security processes monitored by an independent internal unit.

Policies and procedures have also been set to ensure a consistent approach throughout the company's various entities.

Financial risks

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

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

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

The company's ability to obtain guarantees at good rates depends on the evaluation of its financial position and results of operations, which is usually based on various indices including an analysis of its financial position, analysis of the contract risk and experience and competitive positioning in the reference sector.

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

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

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

IT risks

L) IT systems

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

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

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

RESEARCH AND DEVELOPMENT

Research and development expense taken to profit or loss for the year ended 31 December 2017 totalled €23.3 million (€21.1 million in 2016), against grants approximating €2.3 million (€1.9 million in the previous year).

The stronger investments were concentrated on the range of on-board systems to adapt to ERTMS standards and to improve CBTC application performance. In addition, the project was launched for the new automation products platform ready for the digital technology developments.

As regards projects funded by the Italian Ministry of Research, note the following:

- Tesys Rail, to define strategies for the energy optimisation of rail traffic;
- PON3, through the Campania district DATTILO (High technology district for transport and logistics) and the Campania laboratory TOP IN (Optoelectronic technologies for industry):
  - ✓ MODISTA, which dealt with innovative solutions for the monitoring and preventative diagnosis of infrastructure and vehicle fleets in order to increase the levels of availability, efficiency and safety. This project terminated at the end of June;
  - ✓ OPTOFER for the application of innovative optoelectronic technologies for railway infrastructure monitoring and diagnosis. This project terminated at the end of the first quarter;
  - ✓ FERSAT, which studied a railway signalling system suitable for urban environments based on the innovative use of satellite technologies and their integration with existing technologies. This project terminated at the end of June;
  - ✓ NEMBO for the study and experimentation of highly-efficient innovative embedded systems for railway applications. This project terminated at the end of the third quarter.

Of note among the projects financed by the European Commission are:

- NGTC, aimed at developing future rail and urban traffic control systems. Ansaldo STS headed up the work package related to satellite positioning and actively participated in definition of the IP Communications. This project terminated in the first quarter;
- MANTIS, financed by the ECSEL Joint Undertaking (a public private body which provides European Commission grants for embedded system innovation) and the Ministry for Research, which aims to increase knowledge regarding the decision-making process for railway system maintenance;
- IN2RAIL, linked to the Shif2Rail initiative which is aimed at optimising railway infrastructure reducing construction and maintenance costs and increasing capacity.

The following projects are in progress since last year as a broad part of the SHIFT2RAIL, Europeaen programme related to the railway inter-operability:

- CONNECTA, CONtributing to Shift2Rail's NExt generation of high Capable and safe TCMS and brAkes, which aims to contribute to the next generation of TCMS architecture and components with wireless functionality, as well as the next generation of electronic braking systems;
- X2RAIL1, Start-up activities for Advanced Signalling and Automation System, which aims to respond to the long-term requirements of a future flexible and intelligent traffic management system;
- IN2SMART, Intelligent maintenance systems and strategies to provide a holistic, innovative solution for the maintenance of railway assets;
- ATTRACTIVE, Advanced Travel Companion & Tracking Services, which aims to improve the travel experience of passengers using railway transport systems through the development of an integrated solution;
- FR8RAIL, Development of functional requirements for sustainable and attractive European rail freight, with a focus on facing the main challenges to the development of sustainable and attractive rail freight in Europe;
- PLASA, Smart Planning and Safety for a safer and more robust European railway sector, which intends to improve the customer experience and the robustness of the European railway sector. The objectives are, on one hand, to improve the planning activities of the various railway system operators through railway simulation and, on the other hand, to provide a methodology for managing railway system safety based on a risk assessment;

- IMPACT1, Indicator Monitoring for a new railway PAradigm in seamlessly integrated Cross modal Transport chains – Phase 1, for the creation of an integrated sub-system which allows for the representation of all Shift2Rail innovations;
- ARCC, Start-up activities for freight automation, essentially relating to freight traffic matters.

The following projects were added to the aforementioned programme at the beginning of September:

- IN2STEMPO, *Innovative Solutions in Future Stations, Energy Metering and Power Supply,* for the definition of smart energy metering solutions for the system and future solutions for the stations;
- CONNECTIVE, *Connecting and Analysing the Digital Transport Ecosystem,* which will define a new level of interaction and access to services and data on the transport systems in a distributed multimodal environment;
- FR8HUB, *Real-time information applications and energy efficient solutions for rail freight,* which aims to increase the percentages of freight traffic by rail through greater transport system efficiency, with particular reference to terminals, junctions and hubs;
- IMPACT-2, *Indicator Monitoring for a new railway PAradigm in seamlessly integrated Cross modal Transport chains–Phase 2,* the aim of which is to assess and increase the effects on mobility and on the environment of the technology solutions and developments made as part of the Shift2rail programme;
- X2RAIL-2, *Enhancing railway signalling systems based on train satellite positioning; on-board safe train Integrity; formal methods approach and standard interfaces, enhancing Traffic Management System functions,* which aims to promote signalling innovation (introduction of satellite technology and *Train Integrity*), supervision (*Traffic Management evolution*) and development process management (introduction of *Formal Methods*).

Note that certain satellite technology projects are also financed by the European Commission. Specifically, the aim of the ERSAT EAV project, coordinated by Ansaldo STS, is to adopt and customise satellite technologies for railway signalling, notably with respect to checking that the EGNSS/EGNOS technology and the new Galileo services can be used in ERTMS signalling. In addition, the verifications were conducted on the accuracy of the open and modular architecture of the Ansaldo augmentation system. Demonstrations of the proper functioning of the trial site

were later arranged in Sardinia as part of national workshops. ERSAT EAV was completed at the end of April.
Again in the satellite environment, activities are in progress for the STARS project, whilst RHINOS terminated at the end of October. Both projects are part of the European GNSS Agency (GSA) research programme, Horizon 2020.

For STARS in particular, important research activities were completed relating to the definition of methodologies and tools required to calculate the ground truth (temporal and spatial reference) with respect to which performance measurements can subsequently be taken. In addition, measurement activities continued at the Sardinia and Pontremolese trial sites in order to acquire Signal In Space (RF signal) and observation data relating to GPS, EGNOS and Galileo in different railway environmental conditions. The development of EGNSS services were also defined to satisfy performance and safety requirements for railways and to identify any impact on the ERTMS/ETCS systems.

For RHINOS, the phase of defining a functional architecture of an ERTMS system was completed, based on future satellite technology. This technology is suitable for the most stringent requirements, such as track discrimination, high availability and integrity. The results of these activities were discussed at the international workshop held at Stanford University.

Still part of the satellite environment but funded by the ESA (European Space Agency), the following projects were launched in the last quarter of 2017:

- DB4RAIL (*Digital Beamforming for RAIL*), which will develop a digital beamforming platform within the context of ERTMS and implement an advanced GNSS antenna and signal processing techniques to increase immunity from intentional electromagnetic interference (EMI);
- SAT4TRAIN, with aims to develop an economically efficient *Multi Link Communication Platform* (MLCP) to replace the GSM-R system which is destined to become obsolete in the next few years;
- SIM4RAIL, has the purpose of specifying and developing highly controllable laboratory tools for bench testing and to support the development of PNT technologies for railway signalling applications, including the virtual beacon detection system based on GNSS on the ERTMS system).

Development activities also took place on the following projects, which do not receive external funding:

- MacroLok Interlocking Platform (RBC and the "FAST" tools suite)
- Automation v2.0
- OnBoard (ALA)

In detail, the activities continued include: the evolutionary development activities on the Interlocking MacroLok platform, seeking to improve and expand the functions offered by the platform so as to satisfy global market demand; those on the RBC programme (on the MacroLok platform), which aim to adapt the Generic Application, the more advanced ERTMS and generic product standards; those relating to development of the new "FAST" tools suite (on the MacroLok platform), dedicated to system design and configuration.

Note in particular that activities began on the new multiyear programme "Automation v2.0", committing resources both in Italy and the USA. The new development aims to standardise the hardware/middleware to increase platform efficiency, develop a new infrastructure to host future "value added services" and create a new user interface. The aim of Automation v2.0 is to better satisfy demand and keep up with new digitization trends.

As concerns Onboard, activities continued for the resolution of obsolescence issues on the Italian platform (ALA), with the design of a new microprocessor card which borrows from the architecture and components of other developments already made by Ansaldo STS with a view to standardising HW solutions.

HUMAN RESOURCES

HEADCOUNT

The headcount in 2017 came to 1,857, against 1,704 in 2016. The breakdown is as follows: 64 managers, 349 junior managers, 1,400 white collars and 44 blue collars; 292 employees work in branches operating abroad.
The 153 employees increase on 2016 was the result of 228 new hires and 75 employees leaving the company.

New employees included:

- 33 new employees, hired with open-ended contracts;
- 7 employees, hired with a fixed-term contract;
- 53 employees, previously hired with temporary work contracts or from related sectors;
- 135 employees hired at branches on the basis of contracts acquired.

Outgoing personnel was as follows:

- 22 resignations;
- 3 employees for other reasons (death, transfers, dismissals, end of trial period);
- 50 branch employees.

TRAINING

1,330 employees took part in training courses during the year for a total of 25,500 hours, equal to an average per capita of approximately 20 hours.
The key initiatives were as follows:

Technical-specialist training:

- Project Management Programme - SME;
- Finance course;
- Specialist courses in railway techniques.

Managerial and Soft Skills training:

- Talent training path;
- Effective communications courses;
- Time management in complex businesses;

- E-learning courses (e.g., assertive communications, interpersonal skills, creative thinking).

Compliance training:

- Safety training courses (the “365 SafetyDays 365 SafetYes” campaigns) for building site and office personnel. These courses include both classroom learning and e-learning methods.

Language training:

- English project offering traditional classroom, video call and e-learning courses;
- Non-English language training for employees working in certain areas.

In addition, the collective labour agreement for the category has imposed a training obligation upon the company of 24 hours pro capita for all employees, starting from 2017 and for the next three years. This contractual provision was used to strengthen the areas for improvement in certain cross-business areas associated with communications and self-development perceived by employees in Italy in the results of the survey launched in September 2017.
For this purpose, e-learning courses were made available on the company Intranet for a total of 13 hours and 30 minutes.

INDUSTRIAL RELATIONS

The company met with the trade unions in July 2017 to provide greater disclosure on its position. During the meeting, the current situation, company performance, the backlog, the headcount and personnel expense were described.
In addition, the 2017 hiring plan focusing primarily on the strengthening and in-sourcing of skills was presented, based mainly on the hiring of resources from staffing providers (temporary staff/staff leasing and personnel from external firms).
Thanks to this plan, the company was able to reduce external consulting contracts.
During the same meeting, the efficiency and profitability targets for the 2017 Performance bonus were defined and the actual results of the 2016 Performance bonus were presented, which entailed the disbursement of 103% of the bonus along with the July 2017 salary payments.

The company welfare plan, launched in 2017 in compliance with the collective labour agreement for the industry through a dedicated portal where every employee can select goods or services from among those offered, was presented at the same meeting.

The welfare contribution made available to personnel for 2017 was approximately €100 per employee.

Incentive plans

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

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

Stock grant plans

2014-2016 stock grant plan

On 20 February 2014, the board of directors based of the proposal of the remuneration committee of 17 February 2014, which was subsequently passed by the shareholders on 15 April 2014, approved a three-year stock grant plan. The plan, which applies to a maximum of 46 employees plus the CEO and key managers, has the same vesting conditions as the 2012-2013 plan (EVA, FOCF and share performance against the FTSE Italia All-Share index).
Like the previous plan, the 2014-2016 stock grant plan complies with the recommendations of article 7 of the Code of conduct, as modified in March 2010 by Borsa Italiana S.p.A.'s Corporate Governance committee, and of the current article 6 of such code, as amended in December 2011, and confirms:

- a three-year vesting period for all beneficiaries;
- a two-year lock-up period for 20% of the shares due to the CEO and key managers;
- a very thin (2.5%) tolerance band, within which a proportional amount of the shares will vest on a linear basis, for each objective.

The group formally checked that the objectives underlying the granting of the portion related to 2016 were achieved.

All three objectives assigned of EVA, FOCF and share performance compared to the FTSE IT All-Share index were met for 2016. The tolerance band principle was applied in order to successfully meet the EVA objective. Accordingly, in compliance with the plan regulation, 94.5% of the shares initially earmarked were assigned to the beneficiaries.
The total shares due to the 33 current beneficiaries numbered 394,182. As a result of the three-year vesting period, the shares will actually be delivered in April 2019.

2017-2019 stock grant plan

On 24 March 2017, the Board of Directors, based of the proposal of the remuneration committee of 23 March 2017, which was subsequently passed by the shareholders on 11 May 2017, approved a three-year stock grant plan, addressed to the CEO, key managers and other executives (or equivalent categories) of Ansaldo STS considered key resources by the Company.
The objectives of the Plan are the same as those of the previous 2014-2016 Plan (EVA, FOCF and share performance compared to the FTSE Italia All-Share index).
Like the previous plan, the 2017-2019 stock grant plan complies with the recommendations of article 7 of the Code of conduct, as modified in March 2010 by Borsa Italiana S.p.A.'s Corporate Governance committee, and of the current article 6 of such code, as amended in December 2011, and confirms:

- a three-year vesting period for all beneficiaries;
- a two-year lock-up period for 20% of the shares due to the CEO and key managers;
- a very thin (2.5%) tolerance band, within which a proportional amount of the shares will vest on a linear basis, for each objective.

LTIPs

2014-2016 cash plan - 2016 instalment

This plan was set up for the CEO and three key managers of Ansaldo STS S.p.A..
It has a three-year term and provides for a cash payment not exceeding one year's gross remuneration based on the achievement of agreed objectives.
The plan also includes an access threshold defined as the group's profit for the year which, as it was not reached, meant that no incentives were earned. Accordingly, checking that the 2016 objectives were met was immaterial even though the company did check them for documentary completeness.
In May 2017, in accordance with the annual vesting period and related accrual, 50% of the 2015 tranche was disbursed.

2015-2017 cash plan - 2016 instalment

This plan was set up for the CEO and three key managers of Ansaldo STS.

It has a three-year term and provides for a cash payment not exceeding one year's gross remuneration based on the achievement of agreed objectives.

The plan also includes an access threshold defined as the group's profit for the year.

As the access threshold and the two performance objectives (Invested Capital and ROS%) were met, 100% of the amounts due will be paid to the beneficiaries. As a result of the annual vesting period, the cash will actually be paid in May 2018.

In May 2017, in accordance with the decisions made in board of directors resolution of 3 November 2015, the share disbursed for the 2015 tranche was equal to that disbursed for 2014, i.e. 100%.

2016-2018 cash plan - 2016 instalment

This plan was set up for the CEO and three key managers of Ansaldo STS S.p.A..

It has a three-year term and provides for a cash payment not exceeding one year's gross remuneration based on the achievement of agreed objectives, with an access threshold identified as the group's profit for the year.

As neither objective was reached (new orders and working capital), the beneficiaries will receive no cash payment.

INVESTMENTS IN ANSALDO STS S.P.A. OR IN ITS SUBSIDIARIES

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

COMPANY FACILITIES

The company's facilities are located as follows:

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

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

FINANCIAL DISCLOSURE

Financial market transactions

The primary objective of Ansaldo STS is to maintain ongoing dialogue with the Italian and international financial community, providing sensitive information for the market in a timely and transparent manner and ensuring that the company is presented properly. The Investor Relations Department, reporting directly to the Chief Financial Officer, liaises constantly with analysts and investors in order to grasp market disclosure requirements and accurately tailor communications from senior management.
The regular surveys carried out with stakeholders have always confirmed the overall positive impression of the Investor Relations team's operations, recognised as the main point of contact between the company and the financial community.
Total share coverage remained basically the same as last year, with 10 investment banks; in particular, only 5 of them maintained active involvement after the conclusion of the takeover bid by Hitachi on the Ansaldo STS share capital and the entry into the shareholding structure of the US Elliott fund, while the other 5, despite the fact that they did not officially stop their coverage, maintained a more detached attitude pending future developments.
A number of investment banks provide periodic industry studies and competitor analyses which the Investor Relations Department collects, studies and disseminates internally, along with official market announcements.
On a quarterly basis before the financial results are issued, the Investor Relations Department requests brokers assigned to the parent's share for their latest forecasts on its key financial

indicators. This is an accurate update of sell-side analysts' perception, which is discussed and considered by management.

With regard to communication activities, the annual communications plan is used to plan and develop Investor Relations activities. The aim is to disseminate and communicate the company's market analyses, policies and strategies.

With the same resources and quality of its activities compared to the previous year, the Investor Relations Department continued to monitor and analyse the market and the competition in reporting period, in order to support management.

In addition to the usual daily focus on and weekly collection of market "rumours" (IR NEWS), the department periodically analyses and updates the performance of competitors, markets and main business sector analyses.

The website, which contains a section specifically dedicated to all Investor Relations topics, remains the main instrument for the collection and disclosure of financial information to stakeholders.

Share performance

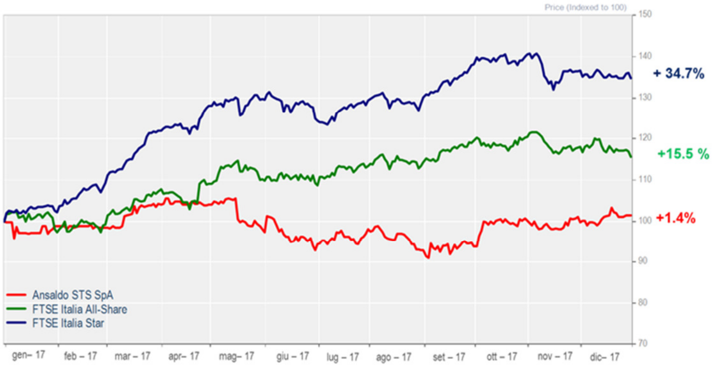
The official share price in the **31 December 2016** to **31 December 2017** period rose from €11.84 to €12.00, therefore recording a slight increase of 1.4%.

The share's high for the year and all-time company record of €12.50 was recorded on 5 April 2017 and its low for the year of €10.78 on 4 September 2017.

An average of 112,750 shares were traded daily in the year, compared to 201,762 in 2016. The decline in volumes is a direct consequence of the reduced float.

The FTSE Italia All-Share index gained 15.5% during the year while the FTSE Italia STAR index gained 34.7%.

Share performance compared to the main indices (base 100)



Key shareholders at 31 December 2017

Considering the communications sent to CONSOB and received by the parent as required by Italian Legislative Decree no. 25 of 15 February 2016, which entered into force on 18 March 2016, in implementation of directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013, which amended art. 120, paragraph 2 of the Consolidated finance act, the table below gives a list of the investors which hold more than 3% of Ansaldo STS S.p.A.'s share capital at 31 December 2017:

Shareholder	No. of shares	% held
HITACHI RAIL ITALY INVESTMENTS	101,544,702	50,772
PAUL E. SINGER (as general partner, directly and indirectly, of the Limited Partnership Elliott International and The Liverpool Limited Partnership)	51,330,030	25,665
UBS	10,068,228	5,034
LITESPEED MASTERFUND	7,532,322	3,766

Key data per share

Earnings per share

(€)	2017	2016
Basic and diluted EPS	**0.32**	0.39
Dividend per share	**0.15***	-

*proposed to the shareholders

The amount proposed to the shareholders to be distributed as dividends on the 2017 profit totalled €30,000 thousand (the shareholders' meeting had decided not to distribute a dividend for 2016).

LITIGATION

In general, the following should be noted:

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

Tecnocostruzioni S.p.A, as a member of the joint venture engaged by Ansaldo Trasporti S.p.A. (now Ansaldo STS S.p.A.) to carry out the civil works for Line 6 of the Naples metro (formerly "L.T.R."), initiated legal proceedings to confirm an alleged breach by the company of a commitment undertaken in 1998, vis-à-vis the joint venture, to terminate the agreement entered into with ANM and the Naples municipality due to the delayed payment of the final agreed instalment. The compensation claimed equals €17.4 million, plus interest and cost-of-living adjustments.

The Naples Court's ruling was published in October 2006, rejecting Tecnocostruzioni's claim and dividing court fees between the parties. Tecnocostruzioni appealed this ruling before the Naples Court of Appeals with a claim form served to Ansaldo Trasporti Sistemi Ferroviari S.p.A. (now Ansaldo STS S.p.A.) in December 2007.

In October 2011, the Naples Court of Appeals disallowed Tecnocostruzioni's appeal, handing down its ruling at the end of December; Tecnocostruzioni appealed to the Court of Cassation in February 2012. Ansaldo STS appeared before the court. At the discussions hearing held in July 2017, the case was deferred for decision pending the filing of statements by Ansaldo STS. By order filed with the clerk of court on 13 October 2017, the Court of Cassation rejected the Tecnocostruzioni appeal, also ordering their payment of proceedings costs. These proceedings are therefore considered closed.

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

In 2007, the contractor of the works, design and construction of the new line "C" of the Rome metro (Metro C consortium, 14% held by Ansaldo STS S.p.A.), served the customer (Roma Metropolitane S.r.l.), with a request for arbitration concerning the additional fees and time required following delays in validating the T4 and T5 section executive designs.

Pending the conclusion of the arbitration, a compromise committee was set up, which at the end of 2011, proposed an outline agreement with redesign of the work plan and reformulation of the claims on a lump-sum, all-inclusive basis, in the amount of €230 million. In December 2012, CIPE (Interministerial economic planning committee) granted Roma Metropolitane the amounts necessary to financially cover the settlement agreement between Roma Metropolitane and Metro C; this resolution took effect and came into operation with its publication in the Italian Official

Journal in June 2013. Instead of implementing the provisions of the settlement agreement, the newly-installed municipal council challenged the contents. The situation became more tense and Metro C was forced to suspend/slow works given the enormous financial difficulties produced by the persistent failure to pay. In September 2013, Metro C and Roma Metropolitane signed the "Implementing Deed for CIPE resolution no. 127 of 11 December 2012 and resulting adjustment of the Contract of 12 October 2006" which, inter alia, recalculated the deadlines for the completion of the functional stages following the variations made during the work, ruled that Metro C was due €230 million plus €90 million for general contractor costs and VAT for the higher costs claimed, excluding any amounts related to additional claims, provided that Metro C waived all claims recognised at the deed date and that Roma Metropolitane would renounce appealing the partial award.

As the amounts certified and invoiced as per the Implementing deed were not paid (mainly the general contractor costs), in January 2014 Metro C was forced to notify Roma Metropolitane of the order of the court for the total amount of approximately €269 million plus VAT. Roma Metropolitane opposed such court order, requesting authorisation to summon the financing bodies, which was granted by the appeal judge at the first hearing held in September 2014. Accordingly, a second hearing was scheduled, where Metro C was not granted the provisional seizure of the amounts not yet paid by Roma Metropolitane to date, in addition to accrued interest.

At the subsequent hearing in September 2016, the Parties presented their conclusions and the Judge assigned a deadline for the submission of final statements and reply briefs, with the resulting reservation of judgment in the case.

At the end of 2015, as the amount provided for in the Implementing deed had not been paid nor the amounts invoiced for work regularly performed and certified, Metro C sued Roma Metropolitane S.r.l. and the Rome municipality, challenging a number of instances of non-compliance in the period from September 2013 to October 2015. It also requested payments of various amounts including the outstanding receivables of approximately €350 million.

The hearing was held in September 2016 to discuss the claim pursuant to article 186-ter of the Italian penal code; the Court assigned a deadline to Roma Metropolitane for any observations on the new calculations carried out by Metro C.

At the hearing on 31 October 2017, Roma Metropolitane filed documents relating to works progress report no. 4 for the add-on agreement of July 2014 relating to maintenance. The lawyers raised objection to this late filing but the court accepted the documents in question, assigning Metro C a deadline to file their own documentary evidence in good time before the new hearing to define conclusions set for the end of November 2017. At that hearing, the decision on the case was adjourned to early 2018, establishing legal deadlines for the filing of conclusions and reply briefs.

Also note that the judicial authority intervened for analyses and the acquisition of documentation as part of the investigations initiated in relation to the construction of Line C of the Rome Metro, in particular in the relationships between the company and the client relating to the use of the system of reserves and the associated settlement agreements.

3. *Ansaldo STS versus Ente Autonomo Volturno S.r.l. - EAV (merging entity of Metro Campania NordEst S.r.l.)*

In 2011, Ansaldo STS produced two orders of the court against Metro Campania Nord Est (now EAV), as part of the Alifana project, for unpaid invoices approximating €31 million. EAV opposed the orders on various grounds.

With respect to the first injunction order challenged, relating to the works on the Piscinola-Teverola section, in September 2011 the Judge rejected the request to suspend enforceability and Ansaldo STS collected the first initial payment in December.

At the end of July 2016, the ruling was issued rejecting the opposing party's claims with respect to the nullity of the concession relationship and the connected contract riders, sentencing the counterparty to pay the amounts due. However, the judge accepted the requests of the opposing party on the claimed lack of jurisdiction of the ordinary judge, in relation to certain invoices, in favour of the administrative judge.

At the same time, a series of decisions challenging the injunction orders for payment obtained due to non-payment by the contracting party arose between EAV and the temporary consortium established to complete the works (AS.CO.S.A Ferroviaria s.c.a.r.l.).

Given the unpaid creditor claims, in February 2017 the parties reached a settlement agreement to close the credit positions involved in the transaction and associated with the injunction orders challenged as indicated in the agreement.

Furthermore, at the end of December 2017, EAV and Ansaldo signed a further settlement agreement in relation to additional debit/credit positions.

The aforementioned sums in favour of Ansaldo also cover the injunction orders challenged and mentioned previously, which by agreement closed the positions due to inertia or waiver by the parties following payment of the agreed amount.

4. Ansaldo STS versus Naples Municipality

With respect to the court order filed by the company against the Municipality of Naples in 2011 for the collection of outstanding receivables, the municipality submitted a formal opposition. Following the acceptance of Ansaldo claims, the Municipality of Naples appealed against the decision, requesting cancellation of the supplementary proceedings papers and rejection of the claims filed by Ansaldo. As negotiations were under way for an amicable settlement, the case was postponed to mid-2018.

In the meantime, the parties came to an agreement to settle the Ansaldo claims.

5. Ansaldo STS – Collapse of a building in Via Riviera di Chiaia

The company is involved in the criminal proceeding following the accident of 4 March 2013 where a building located in Via Riviera di Chiaia 72, Naples, partially collapsed, allegedly due to the works underway to construct the Arco Mirelli station for Line 6 of the Naples metro. In this project, the company is the operator appointed by the Naples municipality.

The alleged crimes are those assumed when recorded in the criminal records registry, i.e. articles 676 and 434 of the Italian Penal code: "*Destruction of buildings or other constructions*" and "*Collapse of constructions or other malicious disasters*".

In 2015 and until the first hearing before the Judge for the Preliminary Hearing, the company's defendants were called for spontaneous questioning. Based on the results of this questioning and the findings of the preliminary investigations, two employees were committed for trial while the motion to dismiss the case for the third employee is pending. During the preliminary hearing of June 2015, certain third parties joined the proceeding as civil parties seeking damages, including the Naples municipality. The Judge for the Preliminary Hearing set another hearing for December 2015, during which the company was held liable for compensation for pecuniary and moral damage to the civil parties. Following the request for the exclusion of ASTS as the civilly liable party and the integration of the notices to the civil parties, a series of scheduled hearings were held for the relative measures, as a result of which the exclusion of ASTS as the civilly liable party was declared and the requests for the admission of the requested evidence were handled. After the examination by experts appointed during the initial phase of the proceedings, the later hearings in 2016 and 2017 were subject to a number of adjournments and hearing of the admitted witnesses is now being scheduled.

With respect to the civil proceedings related to the collapse of the buildings, 32 cases for claims for damages, 1 for prior technical ascertainment and 1 for expected damages were pending in 2017.

6. AIASA JV - Attiko Metro arbitration

In January 2014, the AIASA joint venture (of which Ansaldo STS holds 22%) issued an arbitration request to the Greek company ATTIKO METRO S.A. and the Greek Ministry for Infrastructure and Transport.

The aim is to request payment of greater expense and/or curtailments on some progress reports and/or extra costs incurred by the AIASA joint venture in completing the contract for the design and construction of the Thessaloniki metro. Given the considerable number of issues under arbitration, and for a more efficient settlement of the dispute, six different arbitration panels were set up, each resolving on a certain group of claims made by the joint venture against ATTIKO METRO. In this respect, note in particular the arbitration panel decision of December 2014 on "Dispute 66" which ruled that the current work schedule discretionally set by the customer is illegitimate. In light of such award, the JV informed the customer Attiko Metro that the contract was terminated as its term had expired now that the discretional extension had expired.

Subsequently, the JV and the customer tried to define a contractual solution in order to resume the work.

To date the Parties have essentially finalised most of the disputes covered by the 6 different arbitration proceedings and the initial payments are in progress.

7. ASTS /Alstom Consortium - Société Nationale des Chemins de Fer Tunisiens arbitration

An arbitration panel was set up in May 2014 to resolve the dispute between the Ansaldo STS – Alstom consortium and Société Nationale des Chemins de Fer Tunisiens (SNCFT), in relation to the claim for compensation of greater expense and higher costs incurred by the consortium due to the technical variations and additional works requested by the customer in the technological upgrading of the railway line from Tunis Ville to Borj Cédria.

The parties formally set up the arbitration panel that will rule in accordance with the procedural rules of the International Chamber of Commerce (ICC) and pursuant to applicable French law.

The arbitration panel issued its final award in September 2016 in favour of the Ansaldo STS - Alstom consortium; with reference to the party ASTS, sums were recognised for damages due to delays and variations in the amount of roughly €2.5 million, plus interest, outstanding invoices and legal costs.

In December 2017, SNCFT filed an appeal for annulment of the arbitration award, instigating the related proceedings before the Paris Court of Appeal. It is expected for the first half of 2018SNCFT's filing of its introductory brief, triggering the deadlines for Ansaldo to file its own defence briefs. After this the appointed Court of Appeal will establish the dates for filing of additional defence statements. The first hearing should be scheduled within a year.

8. Ansaldo STS S.p.A. - Metro C S.p.A. arbitration

In December 2014, the procedure to form the arbitration panel for the dispute introduced by Ansaldo STS versus Metro C S.p.A. commenced. It involved the company's request for greater expense and extra costs (for delays in the delivery of areas, archaeological finds and requests for variations from the customer) incurred due to delays which led to longer times to complete the contracts for the system engineering, construction of the sub systems for the automated train controls and on-board communications. Following the appointment of a court-appointed expert and the filing of the relative report, the arbitration panel has set the deadlines for the parties to submit their briefs, reserving any decision to after that time. The discussions hearing was held in May 2017, as a result of which the arbitration panel gave Ansaldo STS a deadline of June 2017 for the filing of additional technical briefs and a July deadline to Metro C for their reply. After filing of the briefs, the arbitration panel set a hearing date in October 2017 for discussion of the judicial inquiries. As a result of that hearing, by order issued in November 2017, the arbitration panel ordered Metro C to submit a number of documents and, by a further order in December 2017, granted a deadline of early 2018 for comments on documents submitted by the parties.

9. Alstom Ferroviaria S.p.A. – Ansaldo STS S.p.A. / RFI

In 2016, proceedings began before the Puglia Regional Administrative Court in Bari, lodged by Alstom Ferroviaria S.p.A., which requested the cancellation of the measures awarding tender no. DAC1.2015.0008, for a contractual value of roughly €15.0 million, relating to the design and implementation of a line ACC-M system located in Bari Lamasinata and for the line systems in the Foggia-Bari section. The applicant requested the cancellation, after precautionary suspension, of the awards in favour of ASTS by way of succession. Following the ruling of the Puglia Regional Administrative Court in Bari no. 1210 of 20/10/2016 accepting Alstom's petition against the acts of the tender carried out by RFI, an appeal was lodged before the Council of State. The hearing for discussion of the suspension was held on 4 May 2017. Ruling no. 3640/2017 was filed on 24 July 2017, confirming the first instance decision. These proceedings are therefore considered closed.

10. ISAF SA – Ansaldo STS S.p.A.

In the second half of 2016, the company ISAF SA submitted an application for arbitration to the International Chamber of Commerce, Bucharest, Romania. The arbitration regards the Consortium formed by ISAF and ASTS in relation to the "Rehabilitation of the section Campina-Predeal on the railway line Bucharest – Brasov, Lot 4" project. It regards a demand for compensation for damages of up to around €5.0 million from ISAF SA in relation to non-payments in its favour by the customer, allegedly attributable to delays and/or omissions of ASTS. The arbitration proceedings were suspended pending the resolution of the separate arbitration between ISAF SA and the customer concerning the demand for compensation for damages caused by the above-mentioned non-payments in its favour and the relative delays and/or omissions. If it loses, ISAF SA would continue with the arbitration against ASTS, as it deems it liable for the damages suffered. Following the successful conclusion of the arbitration proceedings against the customer, which constituted a precondition, in November 2017 ISAF informed the ICC that it did not wish to pursue the suspended arbitration proceedings against Ansaldo.

11. Stockholm Red Line.

With regard to the "System Delivery Agreement" signed on 3 November 2010 between Ansaldo STS Sweden (a 100% subsidiary of Ansaldo STS S.p.A.) and AB Storstockholms Lokaltrafik ("customer") for updating of the signalling system of one of the lines of the Stockholm metro, i.e. the "Red Line" (for a total value of around €127 million), in October 2017 the customer requested reimbursement of the advances paid for roughly €35 million, plus VAT and interest. Then on 7 November 2017 it served notice of its unilateral termination of the contract, claiming default by Ansaldo STS Sweden ("company") and requesting the reimbursement of residual advances paid (around €24 million, plus VAT and interest), as well as the application of penalties and compensation for damages estimated at a total of €17 million. The company challenged both the unilateral termination of the contract and the request for reimbursement of the advances and compensation for damages, considering them unfounded. On 20 December 2017, the Parties signed an agreement for the return to Ansaldo STS Sweden of all bonds previously released to the customer, against the reimbursement of residual advances paid by the customer for a total of around €31 million (VAT and interest included). Based on this agreement, the company paid the aforementioned amount on 25 January 2018, at the same time receiving the return of all bonds by the customer. This payment, and likewise the previous amounts paid to the customer for €45 million (VAT and interest included), was made by the company, reserving the right to re-enact all measures without prejudice to its own rights and pending legal conclusion of the dispute.

The company is assessing all possible legal options to defend its rights, including the right to receive full payment for all works carried out to date as well as compensation for damages incurred, "also" due to the unilateral termination of the contract by the customer. In this respect note that, amongst other things, a report by a well-known international expert on such matters has been sent to the customer. The report analyses the contractual delay challenged, from which preliminary liability of the customer emerges for having caused the delay beyond the originally agreed work schedule, consequently resulting in postponement of the planned deadline for final acceptance from 30 September 2014 (contractual date) to at least 4 June 2021. Pending conclusion of this dispute, Ansaldo STS Sweden and AB Storstockholms Lokaltrafik have agreed upon provisional activities to be implemented from January 2018.

Other minor legal proceedings

The company has accrued a provision for risks to cover any minor liabilities arising from legal proceedings underway related to contracts performed. The provision which reflects the risks and charges of legal proceedings underway approximated €1 million.

At the reporting date, the company believes the amounts accrued in the provision for risks and charges and those accrued for each contract within the allowance for write-down, in order to cover any liabilities generated by pending or potential litigation, are adequate on the whole for the charges estimated by the company which are deemed probable.

CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE PURSUANT TO ARTICLE 123-*BIS* OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 AND SUBSEQUENT AMENDMENTS AND INTEGRATIONS (THE CONSOLIDATED FINANCE ACT)

The Ansaldo STS shares have been listed on the Star segment of the markets organised and managed by Borsa Italiana S.p.A. since 29 March 2006.

They were included in the FTSE MIB index from 23 March 2009 to 23 March 2014 and in the FTSE Italia Mid Cap index from 24 March 2014 until 6 April 2015. They then were re-included in the FTSE MIB index from 7 April 2015 until 20 December 2015. Since 21 December 2015, the shares have been included in the FTSE Italia Mid Cap index again.

With the approval of the board of directors given on 19 December 2006, Ansaldo STS adopted the Code of conduct endorsed by Borsa Italiana S.p.A. in March 2006 and came into line with its requirements during 2007.

Borsa Italiana S.p.A.'s corporate governance committee adopted a new Code of conduct in December 2011. On 18 December 2012, Ansaldo STS's board of directors resolved to comply with the principles of this new code and to update its own governance systems to comply with them. The committee adopted a new version of such code in July 2014 and, furthermore, in July 2015; Ansaldo STS's corporate governance system basically complies with the latest version.

Detailed disclosure on the parent's corporate governance structure is provided in the section of the directors' report covering corporate governance and the adoption of the Code of conduct for listed companies related to 2017, approved by the board of directors on 14 March 2018, published at the same time as this annual report.

The shareholders' meeting held on 13 May 2016 determined that there would be nine directors and appointed the new board for 2016-2018. In particular, the meeting appointed the following as new directors of Ansaldo STS S.p.A.: Alistair Dormer (chairperson), Katherine Jane Mingay, Andrew Thomas Barr, Giuseppe Bivona, Rosa Cipriotti, Mario Garraffo, Alberto de Benedictis, Fabio Labruna and Katharine Rosalind Painter.

Subsequently, at its meeting on 16 May 2016, the board of directors appointed Katherine Jane Mingay as deputy chairperson of the board of directors.

On 24 May 2016, the board of directors appointed Andrew Thomas Barr as Chief Executive Officer and General Manager of Ansaldo STS S.p.A.

Lastly, following the resignation of Katherine Jane Mingay from the role of deputy chairperson of Ansaldo STS S.p.A. on 21 October 2016 effective immediately, during its meeting on 28

October 2016 the board of directors appointed Alberto de Benedictis as deputy chairperson of the board of directors.

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

Note that the ordinary shareholders' meeting of 19 January 2017 resolved to take corporate liability action pursuant to art. 2393 of the Italian Civil Code against Giuseppe Bivona who, as a result, was immediately removed from office. At the same meeting, the shareholders' meeting appointed Michele Alberto Fabiano Crisostomo as new company director, replacing Giuseppe Bivona. Mr. Crisostomo will remain in office until expiry of the current Board's term of office.

The members of the Board of Statutory Auditors appointed for the period 2017-2019 by the shareholders on 11 May 2017 are: Antonio Zecca (chairperson), Giovanni Naccarato (statutory auditor) and Alessandra Stabilini (statutory auditor), with Valeria Galardi, Cristiano Proserpio and Alessandro Speranza as substitute statutory auditors.

On 16 May 2016, the board of directors appointed Francesco Gianni as Board secretary.

On 16 May 2016, the board of directors appointed the members of the risk and control committee (Alberto de Benedictis – chairperson, Mario Garraffo and Katharine Rosalind Painter) and the appointments and remuneration committee (Katharine Rosalind Painter– chairperson, Alberto de Benedictis and Mario Garraffo).

On 27 February, with effect from 1 March 2017 and with opinion in favour from the Board of Statutory Auditors, the Board appointed Renato Gallo to replace Roberto Carassai as Manager in charge of financial reporting pursuant to art. 154-bis of Italian Legislative Decree no. 58/1998 and, ad interim, as Chief Financial Officer of the Company. Then on 28 March 2017 the Company confirmed the appointment of Renato Gallo as Chief Financial Officer of Ansaldo STS.

At its meeting of 15 June 2017 the board of directors accepted the declarations submitted by the independent directors (Rosa Cipriotti, Fabio Labruna, Katharine Rosalind Painter, Alberto de Benedictis, Mario Garraffo and Michele Alberto Fabiano Crisostomo) and confirmed that they continue to meet the independence requirements pursuant to current regulations and to the Code of conduct. An the meeting held on 24 May 2016, pursuant to principle 7.P.3 of the Code of conduct, the company's board of directors appointed the CEO, Andrew Thomas Barr, as director

in charge of the internal control and risk management system. During the same meeting, the board of directors also confirmed the assignment of the internal audit function to the external company Protiviti S.r.l., and Giacomo Galli, managing director and country leader of that company as internal audit manager. Later, the board meeting of 24 March 2017 confirmed Protiviti as the entity responsible ad interim for internal audit until 30 September 2017. Lastly, note that on 28 July 2017 the board appointed Andrea Crespi, a former consultant of Protiviti, as the new Internal Audit Manager with effect from 1 October 2017.
On 24 May 2016, the board of directors also confirmed Nicoletta Garaventa and Alberto Quagli as chairperson and external member, respectively, of the company's supervisory body, as well as Filippo Corsi, general counsel of Ansaldo STS, as the internal member of the supervisory body.

Pursuant to the Code of conduct, during the meeting of the Board of Statutory Auditors, held on 5 July 2017, the statutory auditors Antonio Zecca, Giovanni Naccarato and Alessandra Stabilini also confirmed that they meet the independence requirements pursuant to current legislation and stated thereby at the time of their appointment.

With respect to the independent auditors appointed to perform the legally-required audit of Ansaldo STS S.p.A.'s financial statements note that, in their meeting of 19 January 2017, the shareholders awarded the audit engagement for the 2016-2024 period to EY S.p.A..

Then on 24 March 2017 the board of directors approved the parent's remuneration policy for the year 2017, in compliance with the recommendations of article 6 of the Code of conduct, on the basis of the proposal prepared by the appointments and remuneration committee dated 23 March 2017.
On 24 March 2017, after discussion with the appointments and remuneration committee, the board of directors also approved the remuneration report prepared by the company pursuant to article 123-*ter* of the Consolidated Finance Act and article 84-*quater* of the Issuer Regulation.
Finally, pursuant to article 123-*ter*, paragraph 6 of the Consolidated Finance Act, the ordinary shareholders' meeting held on 11 May 2017, approved the first section of the above-mentioned report required by article 123-*ter*, paragraph 3 of the Consolidated Finance Act, which describes the company's remuneration policy for its officers and key managers, and the procedure followed to implement and describe this policy.

Pursuant to articles 70, paragraph 8 and 71, paragraph 1-*bis* of the Issuer Regulation, we note that, on 28 January 2013, in compliance with articles 70, paragraph 8 and 71, paragraph 1-*bis* of the Issuer Regulation, the Board of directors of Ansaldo STS S.p.A. resolved to opt out of the requirement to publish the relevant documents for transactions such as mergers, demergers, share capital increases via contributions in kind, acquisitions and sales.

The disputes regarding corporate and governance aspects can be summarised as follows. In relation to that already reported for the dispute between Ansaldo STS S.p.A. and Giuseppe Bivona, with writ of summons served on 15 May 2017 and as follow-up to the resolution of 19 January 2017, the company exercised liability action against the former director, Mr. Bivona. The company requests i) ascertainment of liability of Mr. Bivona for breach of his duties as director of Ansaldo STS and for conduct harmful to the company's reputation, as well as ii) compensation for the damages suffered. The first hearing will be held in March 2018.

In relation to the dispute Amber Capital Italia SGR S.p.A. ("Amber Fund"), Elliott Funds/Litespeed Management versus Ansaldo STS S.p.A., it should be remembered that by separate writs of summons the Amber Fund, on the one hand, and the Elliott Funds and Litespeed Management on the other, challenged the shareholders' meeting resolution of 19 January 2017 to take liability action against the former director, Bivona.

As part of this dispute, the Amber Fund also requested the appointment of a special receiver, but the Court of Genoa rejected the claim by order (of 24 May 2017) which was not challenged by the legal deadline. Amber was ordered to reimburse all proceedings costs.

Through separate appeals, the Amber Fund, Elliott Funds and Litespeed Management requested suspension of the effects of the decision challenged. Following the hearing to discuss the injunction appeal, the Court of Genoa rejected the appeal by order of 7 July 2017, announcing lack of grounds both for *fumus boni iuris* and *periculum*.

The two cases were combined and will continue through the next hearing set for February 2018.

In that it relates to organisational aspects of the company, i.e. the validity of a resolution relating to a director and his termination, no specific economic or asset-related effect on the Company can be calculated per se for this dispute.

With regard to the dispute Elliott International L.P., The Liverpool Limited Partnership, Elliott Associates, L.P. ("Elliott Funds") versus Ansaldo STS S.p.A. an versus Hitachi Rail Investments S.r.l., note that by writ of summons served on 14 July 2016 the Elliott Funds challenged the

Shareholders Meeting resolutions of 13 May 2016 appointing the board of directors and its chairperson and requested an injunction order to suspend the resolutions challenged.
On 18 July 2016 the Elliott Funds submitted a petition for the appointment of a special receiver.
The procedure for appointment of a special receiver lapsed on final rejection of the Elliott Funds claim by the Genoa Court of Appeal, by order dated 6 September 2016, which accepted the company's petition and revoked the order of the Court of Genoa issued on 11 August 2016 appointing a special receiver.
The injunction proceedings concluded by order dated 9 November 2016, by which the Court of Genoa rejected the request of the Elliott Funds to suspend the shareholders meeting resolutions challenged, due to its lack of all legal standing.

The hearing on the merits ended with the decision of 28 July 2017 by which the Court of Genoa rejected the Elliott Funds claims.

By writ of summons served in October 2017, the Elliott Funds challenged the Court of Genoa's first instance decision. The preliminary hearing will be held in May 2018.

In that it relates to organisational aspects of the company, i.e. the validity of the appointment of a board of directors, no specific economic or asset-related effect on the Company can be calculated per se for this dispute.

By petition pursuant to art. 700 of the Italian Code of Civil Procedure, served upon the company on 10 April 2017, director Labruna asked the Court of Genoa to adopt an urgent measure to obtain integration of the agenda for the next meeting of the board of directors as well as a series of documents of special interest.
The decision of the sole judge of the Court of Genoa rejected the claim by order dated 24 April 2017 as lacking *fumus* and ordered the petitioner to pay all proceedings costs. After director Labruna proposed a complaint against the monocratic decision, the Court of Genoa pronounced as a united bench, rejecting the complaint and again ordering the petitioner to pay all proceedings costs.

The key corporate governance tools that the company has implemented in compliance with the most recent legislative and regulatory requirements, as well as by the Code of conduct and national and international best practices, are as follows:

- By-laws;
- Code of ethics;
- Organisational, management and control model pursuant to Legislative decree no. 231/01;
- Shareholders' meeting regulations;
- Board of directors' regulations;
- Executive committee (i.e. bid committee) regulations;
- Risk and control committee regulations;
- Appointments and remuneration committee regulations;
- Related party transactions - Procedure adopted pursuant to article 4 of CONSOB regulation no. 17221 of 12 March 2010 as amended;
- Procedure for the handling and disclosure of inside and relevant information and for the setup and updating of the Insider List;
- Internal Dealing code of conduct.

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

STATEMENT PURSUANT TO ARTICLE 2.6.2.8/9 OF THE REGULATIONS FOR MARKETS ORGANISED AND MANAGED BY BORSA ITALIANA S.P.A.

The company's board of directors confirms compliance with the conditions referred to in articles 15, letters a), b) and c), point i) and 16 of the Regulation implementing Italian Legislative decree no. 58 of 24 February 1998 on markets, adopted by Consob with resolution no. 20249 of 28 December 2017.

DATA PROTECTION DOCUMENT

Pursuant to paragraph 26 of the Technical requirements governing minimum security measures, which forms Annex B to Italian Legislative decree no. 196 of 30 June 2003 (personal data protection code), Ansaldo STS S.p.A. has drawn up a Data protection document for the processing of personal data.

This document contains the information required by paragraph 19 of Annex B and describes the security measures implemented by the company to minimise the risk of destruction or loss, including accidental, of personal data, unauthorised access or unapproved processing, or processing that does not comply with the purposes for which it was gathered.

THE ENVIRONMENT

Ansaldo STS S.p.A. has pursued sustainability in recent years in the belief that respecting environmental and social values leads to the creation of long-term value for the business. In its Sustainability report, the group transparently discloses its values, strategies, policies and decisions in terms of economic, environmental and social sustainability, in accordance with the new Global Reporting Initiative criteria and corresponding to complete application of requirements of the GRI Guidelines. The new GRI-G4 Guidelines place increasing attention on detecting and analysing stakeholder expectations, identifying issues of most importance to the Group and its stakeholders through the materiality matrix which forms the basis for the Sustainability Report preparation process.

In full compliance with ruling legislation, the law, the code of ethics, 231 Model, policies and all health, safety and environmental (HSE) regulations, Ansaldo STS pursues sustainable management of social and environmental matters linked to the services in all its business areas.

Ansaldo STS S.p.A.'s commitment to "sustainable development" has seen it focus on:

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

Environmental protection is part of the company's social responsibility and is key to our business strategy promoting growth in the group's value over the long term.

From an environmental point of view, Ansaldo STS S.p.A. is involved:

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

Strategic orientation and management approach

The company has implemented an Integrated Management System (IMS) for environment, safety and quality issues. It has set policies and procedures to ensure the controlled management of the processes and workplace safety and environmental protection activities. The integrated management model steers and coordinates the procedures, outlining short and long-term guidelines and principles, stimulating interiorisation of the sustainability and environmental and safety strategies.

Through a constant process of action, monitoring and assessment, Ansaldo has achieved environmental benefits associated with its business activities, particularly as regards the rational use of resources and the reduction in CO_2 emissions.

It has defined local policies in relation to the environment, safety and instructions in order to achieve the following objectives:

- ensuring the best available technologies are used and international best practices adopted in order to continuously improve operating management, the rational and efficient use of energy, the prevention of pollution and the reduction of the environmental impact related to the use of fossil fuels;
- ensuring liquid waste, gas emissions and waste from assets in running conditions and activities performed are controlled, gradually reduced and kept at a minimum;
- ensuring compliance with legal requirements applicable to its processes in the various countries in which the subsidiaries operate, by formalising procedures that increase awareness of the applicable legislative framework;
- identifying significant direct and indirect environmental issues in order to reduce and control the related impact, both as relates to the companies and its suppliers and partners;
- defining key indicators with a view to facilitating the assessment of performance;
- defining roles, duties and responsibilities within the scope of activities.

Ansaldo STS S.p.A. follows the ISO 14001 framework and EMAS (Eco-Management and Audit Scheme) regulation in developing its management systems. Certification is regarded as key to developing an entrenched environmental awareness and has been obtained for the Tito production site. In 2017 Ansaldo STS launched the migration process to the new UNI EN ISO 14001:2015 standard which, compared to the previous version, promotes deep rooting of the Management System into company activities, extending the improvement strategies to a much broader view of environmental sustainability. In this context, Ansaldo STS has begun a procedure to integrate the sustainability principles into its business.

Innovation and the promotion of good practices

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

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

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

Energy efficiency

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

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

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

Eco-design

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

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

LED technology

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

Commitment to fight climate change

Ansaldo STS is committed to progressively reducing CO_2 emissions in all areas of operations. The activities and initiatives to deal with climate change are undertaken within the context of a global-level carbon management strategy. This entails definition of an emission reduction objective.

The following principles underpin Ansaldo STS group's climate strategy:

1. a global approach in developing mechanisms that take into account the commitment of all Ansaldo STS group facilities;
2. reasonable and feasible long-term objectives in order to establish a clear and realistic vision of the steps to be taken;
3. support in developing advanced technological solutions.

Communication, training and education

The company's specific training programme is fundamental to fostering a sense of environmental responsibility and constructive environment-related dialogue among employees and suppliers/contractors.

Ansaldo STS S.p.A.'s training and educational programmes are designed to increase awareness of:

- the importance of complying with the environmental policy and the environmental management system procedures and requirements;
- actual or potential significant environmental impacts of activities and the environmental benefits that each individual can pursue;
- roles and responsibilities in order to comply with the environmental policy and environmental management system procedures and requirements, including the preparation of contingency and response plans;
- the potential consequences of deviating from the operating procedures;
- the potential offered by the effective implementation of a combined quality, environment and safety policy for Ansaldo STS's business development.

Subsequent environmental management system training sessions are held for personnel based on the specific corporate processes and related environmental aspects relevant to their activity.

Records are kept of all training provided to personnel in its facilities.

General environment-related information

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

Ansaldo STS monitors the environmental aspects of its business with a view to enhancing local resources and reducing interference with the ecosystems to a minimum.

Management of water resources

Ansaldo STS remains committed to the rational use of water resources, also through training and sensitisation on this issue. Water consumption is purely for sanitary uses and is monitored and subject to regular sampling. Ansaldo STS S.p.A. has rolled out water-saving initiatives in recent years, such as the installation of automatic sensor taps.

Generation and management of special waste

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

Energy consumption, CO2 emissions, emission trading and other emissions

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

Management of dangerous substances

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

DISCLOSURE ON MANAGEMENT AND COORDINATION AND RELATED PARTY TRANSACTIONS

On 2 November 2015, Finmeccanica S.p.A. executed the sale of its entire investment in Ansaldo STS to Hitachi Rail Italy Investments S.r.l., wholly controlled by Hitachi Ltd.

Pursuant to article 2497-bis of the Italian Civil Code, we note that, as ascertained on 21 December 2015 by the company’s directors, the company is managed and controlled by Hitachi Ltd.

Key figures from the most recently-approved financial statements of Hitachi Ltd. are presented in the table under note 39.

Pursuant to article 2497-*bis*, final paragraph, of the Italian Civil Code, the following tables present the relationships between the company exercising management and coordination activity and the other companies subject to such activity in 2017 and the previous year.

The other companies subject to management and coordination by Hitachi Ltd. are those included in the consolidated financial statements of Hitachi Ltd., pursuant to article 2497-sexies of the Italian Civil Code. They include, as well as Hitachi Ltd. itself, all the subsidiaries of Ansaldo STS and Hitachi Ltd..

This disclosure is also required by article 2428.3.2 of the Italian Civil Code, together with that related to the subsidiaries and associates and companies subject to the control thereof.

The tables presented in notes 10 and 26 of the notes to the financial statements also disclose details of the companies that are related parties in Hitachi Ltd.’s consolidated financial statements due to the total investments held by the Hitachi Ltd. Group companies in Ansaldo STS companies. Moreover, note 38 presents total and individual directors’, statutory auditors’ and key managers’ fees.

Disclosure on transactions with the company exercising management and coordination activities and other companies subject thereto, together with disclosure on the amount of related party transactions in Hitachi Ltd.’s consolidated financial statements and directors, statutory auditors’ and key managers’ fees, represent the related party disclosure required by IAS 24 “Related party disclosures”.

(€'000) FINANCIAL ASSETS AT 31 DECEMBER 2017	Loan assets	Trade receivables	Other current financial assets	Total
Ultimate parents	-	114	-	114
Subsidiaries	63,022	42,532	-	105,554
Associates	232	11,251	17	11,500
Consortia	-	41,399	4	41,403
Total	**63,254**	**95,296**	**21**	**158,571**
% of the total corresponding financial statements caption	**69%**	**15%**	**0.04%**	

(€'000) FINANCIAL LIABILITIES AT 31 DECEMBER 2017	Loans and borrowings	Trade payables	Other current financial liabilities	Total
Ultimate parents	-	2	-	2
Subsidiaries	44,227	22,736	3	66,966
Associates	-	27,448	371	27,819
Consortia	-	2,083	36	2,119
Total	**44,227**	**52,269**	**410**	**96,906**
% of the total corresponding financial statements caption	**99%**	**15%**	**1%**	

(€'000) AT 31 DECEMBER 2017	Revenue	Other operating income	Costs	Recovery of costs	Other operating expense	Financial income	Financial expense
Ultimate parents	786	-	512	-	-	-	-
Subsidiaries	25,421	9,388	41,629	1,500	-	38,121	1,159
Associates	17,906	1,344	85,405	-	-	10	-
Consortia	45,142	129	2,869	169	-	-	-
Total	**89,255**	**10,861**	**130,415**	**1,669**	**0**	**38,131**	**1,159**
% of the total corresponding financial statements caption	**11%**	**55%**	**20%**		**0.0%**	**74%**	**7%**

(€'000) FINANCIAL ASSETS AT 31 DECEMBER 2016	Loan assets	Trade receivables	Other current financial assets	Total
Ultimate parents	-	467	-	467
Subsidiaries	22,524	37,321	-	59,846
Associates	267	10,331	-	10,598
Consortia	-	48,916	4	48,920
Total	**22,791**	**97,035**	**4**	**119,831**
% of the total corresponding financial statements caption	**44%**	**16%**	**0.01%**	

(€'000) FINANCIAL LIABILITIES AT 31 DECEMBER 2016	Loans and borrowings	Trade payables	Other current financial liabilities	Total
Ultimate parents	-	-	-	-
Subsidiaries	92,208	20,952	3	113,163
Associates	-	16,334	371	16,705
Consortia	-	3,103	36	3,139
Total	**92,208**	**40,389**	**410**	**133,007**
% of the total corresponding financial statements caption	**98%**	**10%**	**0.7%**	

(€'000) AT 31 DECEMBER 2016	Revenue	Other operating income	Costs	Recovery of costs	Other operating expense	Financial income	Financial expense
Ultimate parents	492	-	567	11	-	-	-
Subsidiaries	29,460	10,723	52,904	1,322	-	112,922	270
Associates	31,584	1,300	61,213	16	4	1,568	-
Consortia	60,798	-	2,887	48	-	-	-
Total	**122,334**	**12,023**	**117,571**	**1,397**	**4**	**114,490**	**270**
% of the total corresponding financial statements caption	**15%**	**66%**	**18%**		**0.1%**	**96%**	**1%**

In 2017, the Company entered into transactions with Hitachi Ltd.; in particular, revenue amounts to €786 thousand and relate to services provided for a project in Vietnam, while costs, amounting to €504 thousand, relate primarily to information technology activities.

Transactions with subsidiaries are as follows:

financial

Financial income includes dividends collected from the subsidiaries totalling €36,522 thousand.
Ansaldo STS S.p.A. has joint current accounts with its subsidiaries to settle trading and non-trading items with Ansaldo STS group companies. Financial income and expense presented in the table and which arise from such transactions totalled €549 thousand in income and €1,159 thousand in expense.
The balance of the joint current accounts with the subsidiaries at 31 December 2017 consists of credit balances due from Ansaldo STS Malaysia (€15,584 thousand), from Ansaldo STS USA Inc. (€2,976 thousand) and Ansaldo STS Sweden AB (€44,462 thousand), and debit balances due to Ansaldo STS France (€31,982 thousand) and Ansaldo STS Australia (€12.244 thousand). The terms applied to the current accounts with Ansaldo STS group companies are presented below.

For those contracts expressed in Euros:

- the debit interest rate applied by the parent to the subsidiary on each debit balance on the current account is the 1-month EURIBOR + 100 basis points;
- the credit interest rate applied by the parent to the subsidiary on each credit balance on the current account is the 1-month EURIBOR - 25 basis points.

For contracts expressed in foreign currency:

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

trading and other

- trading transactions with subsidiaries include the supply of spare parts and subsupplies by the subsidiary Ansaldo STS France;

- important contracts are in place with the subsidiary Ansaldo STS USA International Co. for the Aarhus, Milan, Riyadh, Copenhagen metro, Lima metro, Taipei, Thessaloniki and Ankara projects;
- operating income from Ansaldo STS Australia, Ansaldo STS France, Ansaldo Railway System Trading (Beijing), Ansaldo STS Sweden, Ansaldo STS Spain and Ansaldo STS Germany mainly relate to subcontracts or supplies to fulfil specific contracts signed by foreign subsidiaries;
- other operating income mainly relates to recharges for services provided by Ansaldo STS S.p.A. to all ASTS group companies under the general service agreement for a total of €8,385 thousand;
- recovery of expense mainly relates to the recharge of costs of €581 thousand to use the "Ansaldo" trademark and of €594 thousand for the supply of an international centralised videoconference service.

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

The most significant of the non-trading transactions with related parties include the lease instalment and recharge for the management and use of shared services in the Naples facilities by Hitachi Rail Italy S.p.A.. The 2017 lease payment amounts to €894 thousand, and the charge for shared services is equal to €1,999 thousand.

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

During the year, no atypical and/or unusual transactions as defined in Communication DEM/6064293 of 28 July 2006 were carried out.

DISCLOSURE ON FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

KEY EVENTS OF AND AFTER THE REPORTING PERIOD

On 19 January 2017, the ordinary shareholders' meeting of Ansaldo STS S.p.A., acknowledging the resignation of KPMG S.p.A. on 14 November 2016, appointed EY S.p.A. to audit the company's accounts for the years 2016-2024.

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

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 CO_2 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.

In June, Ansaldo STS signed a Memorandum of Understanding with Metroselskabet for the development of a Proof of Concept (prototype) for the new Dynamic Headway Solution created from Hitachi technology for the Copenhagen metro lines M1 and M2.
The Dynamic Headway Solution will be developed using Ansaldo STS railway control systems and the Hitachi technological digitization IoT (Internet of Things), characterised by its sensor detection of passenger flow on the platforms to analyse passenger needs. And on the basis of this mobility demand, the number of carriages available can be optimised automatically, responding dynamically to sudden changes in the number of users present.
This technology is particularly useful if there is an increase in the demand for vehicles during metro operations. A dynamic solution that will help to resolve potential congestion even before the repercussions on passengers are felt, thereby also increasing passengers’ level of satisfaction. For

the operator, this solution that is highly reactive and adapts the numbers of trains to actual demand in real time, equates to an opportunity to reduce energy costs and operating costs, so improving service operations.

In July, Hitachi Ansaldo Baltimore Rail Partners LLC, a company established by Hitachi Rail Italy S.p.A. and Ansaldo STS USA, Inc. (the US subsidiary of Ansaldo STS S.p.A.), was awarded a contract by Maryland Transit Administration (MTA) valued at USD 400.5 million for the Baltimore metro. The contract is for the supply of new trains and the Communication Based Train Control (CBTC) system for the Baltimore Metro Subway Link.

As regards replacement of the existing signalling system with Ansaldo STS's innovative CBTC system, the value is around USD 148 million.

At the end of December, the CIPE approved the final project for the high speed Verona-Vicenza junction line and authorised the start of construction works on the first functional section of the high speed/high capacity Verona-Padua line. Ansaldo STS participates in this project's implementation through its involvement in the Iricav Due consortium (investors: Astaldi 37.49%, Salini Impregilo 34.10%, Ansaldo STS 17.05%, Società Italiana per Condotte d'Acqua 11.35%, Fintecna 0.01%), the concession holder. The value of Ansaldo STS's portion of the work equals roughly €336 million.

OUTLOOK

2018 will continue to see progress on the contracts acquired in the past few years with a related increase in revenue.

PROPOSAL TO THE SHAREHOLDERS

Dear shareholders

We present the 2017 financial statements for your approval.

The financial statements show profit for the year of €71,988,273.75.

Pursuant to article 2433 of the Italian Civil Code, the shareholders are also required to resolve on the allocation of the profit for the year shown in the statutory financial statements.

In this regard the company's board of directors formulated a proposal for the allocation of the profit for the year and dividend distribution included in the relevant report required by article 125-*ter* of Legislative decree no. 58 of 24 February 1998 ("TUF"), as amended, made available to the public in the manner and within the timeframe provided for by enacted legislation.

This proposal envisages: (i) the distribution of a €0.15 dividend, gross of withholdings, to shareholders, for each of the shares with a nominal amount of €0.50, currently outstanding and bearing the right to dividends; (ii) the carry forward of the remaining amount.

It does not provide for any accrual to the legal reserve as it amounts to €20,000,000.00, equal to 20% of the share capital, which represents the maximum amount provided for by article 2430 of the Italian Civil Code.

Specifically, the above proposal provided for the allocation of the profit for the year in the amount of €30,000,000.00 to shareholders in the form of a dividend of €0.15, gross of withholdings, for each of the 200,000,000 shares currently outstanding and bearing the right to dividends, and for the retention of the remaining amount of €41,988,273.75.

The total amount of the dividend proposed for distribution corresponds to 30% of the share capital, roughly 42% of the profit for the year of Ansaldo STS S.p.A. and around 46% of the group's profit for 2017, which amounts to €64,975,423.46.

For further information about detachment, dividend payment date and the relevant record date pursuant to article 83-*quater* of the Consolidated Finance Act, please refer to the above-mentioned report formulated by the company's board of directors pursuant to article 125-*ter* of the Consolidated Finance Act.

****

Dear shareholders

We invite you to approve the following resolution:

"In their ordinary meeting, the shareholders of Ansaldo STS S.p.A.,

- having read the directors' report,

- the report of the board of statutory auditors,

- the financial statements at 31 December 2017,

- and having acknowledged the report of the independent auditors, EY S.p.A.

resolve

to approve the directors' report and the financial statements at 31 December 2017."

Genoa, 14 March 2018

On behalf of the board of directors
The Chairperson

Alistair Dormer

FINANCIAL STATEMENTS AT 31 DECEMBER 2017

SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2017 AND NOTES THERETO

INCOME STATEMENT

in euros	*Notes*	***31 December 2017***	***of which, related parties***	***31 December 2016***	***of which, related parties***
Revenue	*27*	824,812,698	89,255,438	829,991,777	122,334,367
Other operating income	*28*	19,896,947	10,861,434	18,327,633	12,023,183
Purchases	*29*	(298,186,293)	(46,355,793)	(275,734,297)	(49,115,871)
Services	*29*	(336,481,811)	(82,390,654)	(356,683,508)	(67,058,233)
Personnel expense	*30*	(143,874,350)	1,552,407	(144,064,413)	897,999
Amortisation, depreciation and impairment losses	*32*	(12,648,146)	-	(12,246,977)	-
Other operating expense	*28*	(2,167,959)	-	(4,203,676)	(4,386)
Changes in finished goods, work-in-progress and semi-finished products	*31*	(1,352,111)	-	620,482	-
(-) Internal work capitalised	*33*	2,866,860	-	4,700,268	-
Operating profit		**52,865,835**		**60,707,289**	
Financial income	*34*	51,805,598	38,130,991	121,097,521	114,489,712
Financial expense	*34*	(17,200,798)	(1,159,484)	(19,842,036)	(270,423)
Profit before taxes and discontinued operations		**87,470,635**		**161,962,774**	
Income taxes	*35*	(15,482,361)	-	(16,105,536)	-
Profit (loss) from discontinued operations					
Profit for the year		**71,988,274**		**145,857,238**	

STATEMENT OF COMPREHENSIVE INCOME

in euros	*Notes*	***31 December 2017***	***31 December 2016***
Profit for the year		71,988,274	145,857,238
Items that will not be reclassified to profit or loss:			
- Actuarial gains (losses) on defined benefit plans	*19*	(937,780)	(37,009)
- Income tax	*35*	265,767	11,783
		(672,013)	(25,226)
Items that will or may be reclassified to profit or loss:			
- Change in fair value of cash flow hedges	*19*	(1,728,196)	(1,129,428)
- Foreign operations – foreign currency translation differences	*19*	(16,487,244)	114,715
- Income tax	*35*	4,371,705	394,817
		(13,843,735)	(619,896)
Other comprehensive income (expense), net of taxes		**(14,515,748)**	**(645,122)**
Comprehensive income for the year		**57,472,526**	**145,212,116**

STATEMENT OF FINANCIAL POSITION

in euros	*Notes*	***31 December 2017***	***of which, related parties***	***31 December 2016***	***of which, related parties***
Non-current assets					
Intangible assets	*7*	8,612,437	-	10,061,520	-
Property, plant and equipment	*8*	63,658,097	-	62,792,005	-
Equity investments	*9*	172,767,354	-	169,786,813	-
Loans and receivables	*11*	27,829,703	25,627,020	27,634,202	25,521,827
Deferred tax assets	*35*	21,183,927	-	18,120,644	-
Other non-current assets	*11*	13,794,504	-	16,090,169	-
		307,846,022		**304,485,353**	
Current assets					
Inventories	*12*	79,808,188	-	95,279,408	-
Contract work in progress	*13*	164,880,567	-	178,438,024	-
Trade receivables	*14*	635,130,714	95,295,820	606,054,373	97,035,403
Tax assets	*15*	18,656,575	-	17,446,617	-
Loan assets	*14*	91,696,989	63,253,984	51,233,847	22,790,842
Derivatives	*16*	10,991,761	-	9,801,950	-
Other current assets	*17*	54,995,258	21,186	57,280,535	4,334
Cash and cash equivalents	*18*	184,462,987	-	202,995,688	-
		1,240,623,037		**1,218,530,442**	
Total assets		**1,548,469,058**		**1,523,015,795**	
Equity					
Share capital	*19*	100,000,000	-	100,000,000	-
Other reserves	*19*	83,239,536	-	98,276,030	-
Retained earnings, including the profit for the year	*19*	348,951,157	-	277,047,347	-
Total equity		**532,190,693**		**475,323,377**	
Non-current liabilities					
Loans and borrowings					
Employee benefits	*22*	19,497,275	-	18,294,171	-
Deferred tax liabilities	*35*	6,663,032	-	9,218,684	-
Other non-current liabilities	*23*	3,552,813	-	3,508,509	-
		29,713,120		**31,021,364**	
Current liabilities					
Progress payments and advances from customers	*13*	509,998,349	-	427,931,841	-
Trade payables	*24*	352,542,044	52,268,888	398,666,380	40,389,387
Loans and borrowings	*20*	44,639,759	44,226,754	93,978,687	92,207,799
Tax liabilities	*15*	4,453,388	-	8,303,752	-
Provisions for risks and charges	*21*	3,860,405	-	2,104,648	-
Derivatives	*16*	7,308,642	-	22,615,176	-
Other current liabilities	*23*	63,762,658	409,694	63,070,570	409,694
		986,565,245		**1,016,671,054**	
Total liabilities		**1,016,278,365**		**1,047,692,418**	
Total liabilities and equity		**1,548,469,058**		**1,523,015,795**	

STATEMENT OF CASH FLOWS

in euros	*Notes*	*31 December 2017*	*of which, related parties*	*31 December 2016*	*of which, related parties*
Cash flows from operating activities:					
Profit for the year		71,988,274	-	145,857,238	-
Amortisation, depreciation and impairment losses		12,648,146	-	12,246,978	-
Income taxes		15,482,361	-	16,105,536	-
Accruals to provisions		1,968,540	-	646,000	-
Italian post-employment benefits		656,709	-	518,793	-
Defined benefit plans and stock grant plans		1,209,174	-	3,921,212	-
Financial expense, net of impairment losses on equity investments measured at cost		(34,604,799)	-	(101,255,485)	-
Gross cash flows from operating activities	***36***	***69,348,405***	***(36,971,507)***	***78,040,272***	***(114,219.29)***
Inventories		15,471,220	-	362,756	-
Work in progress and progress payments and advances from customers		95,623,965	-	(26,596,460)	-
Trade receivables and payables		(75,200,676)	-	(4,373,986)	-
Change in operating working capital	***36***	***35,894,509***	***13,619,085***	***(30,607,690)***	***(1,451,055)***
Changes in other operating assets and liabilities	36	(53,494,197)	(16,852)	(2,389,555)	378,085
Net financial income/(expense)	36	7,720,309	-	(9,554,091)	-
Taxes paid	36	(12,988,684)	-	(3,098,222)	-
Cash flows generated from operating activities		**46,480,342**		**32,390,713**	
Cash flows from investing activities:					
Acquisitions of companies, net of cash acquired		(3,128,000)	-	(2,099,400)	-
Investments in property, plant and equipment and intangible assets		(4,676,235)	-	(2,601,749)	-
Sales of property, plant and equipment and intangible assets		-	-	-	-
Dividends received from ASTS group companies		33,556,380	33,356,380	111,092,053	111,092,053
Use (Acquisitions) of treasury shares		-	-	-	-
Other investing activities		(963,118)	(105,193)	(158,001)	(1,765,301)
Cash flows generated from investing activities		**24,789,027**		**106,232,903**	
Cash flows from financing activities:					
Net change in loan assets and loans and borrowings		(89,802,070)	-	(78,264,289)	-
Share capital increases		-	-	-	-
Coverage of losses		-	-	-	-
Dividends paid		-	-	(36,000,000)	-
Change in reserves		-	-	-	-
Net change in other financing activities		-	-	-	-
Cash flows used in financing activities		**(89,802,070)**		**(114,264,289)**	
Net increase (decrease) in cash and cash equivalents		(18,532,701)	-	24,359,327	-
Net exchange rate gains or losses		-	-	-	-
Opening cash and cash equivalents		202,995,688	-	178,636,361	-
Closing cash and cash equivalents		**184,462,987**		**202,995,688**	

STATEMENT OF CHANGES IN EQUITY

in euros	Share capital	Retained earnings	Stock grant reserve	Hedging reserve	Other reserves	Total equity
Equity at 1 January 2016	**100,000,000**	**167,190,109**	**3,372,584**	**210,367**	**91,835,309**	**362,608,369**
Other comprehensive income (expense), net of taxes	-	-	-	(1,129,428)	484,306	(645,122)
Change in SGP reserves - Ansaldo STS S.p.A.	-	-	2,948,771	-	-	2,948,771
Change in SGP reserves - other companies	-	-	-	-	554,121	554,121
Dividends (199,998,595 x 0.18)	-	(36,000,000)	-	-	-	(36,000,000)
Profit for the year ended 31 December 2016	-	145,857,238	-	-	-	145,857,238
Equity at 31 December 2016	**100,000,000**	**277,047,347**	**6,321,355**	**(919,061)**	**92,873,736**	**475,323,377**
Other comprehensive income (expense), net of taxes	-	-	-	(1,728,196)	(12,787,552)	(14,515,748)
Change in SGP reserves - Ansaldo STS S.p.A.	-	(84,464)	(433,979)	-	-	(518,443)
Change in SGP reserves - other companies	-	-	-	-	(86,767)	(86,767)
Profit for the year ended 31 December 2017	-	71,988,274	-	-	-	71,988,274
Equity at 31 December 2017	**100,000,000**	**348,951,157**	**5,887,376**	**(2,647,257)**	**79,999,417**	**532,190,693**

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

1. GENERAL INFORMATION

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

On 2 November 2015, Finmeccanica S.p.A. executed the sale of its entire investment in Ansaldo STS (80,131,081 shares for 40.07% of the share capital) to Hitachi Rail Italy Investments S.r.l., indirectly owned by Hitachi Ltd.. Accordingly, Hitachi Ltd. became the company's controlling shareholder pursuant to article 2359.1.2 of the Italian Civil Code and article 93 of the Consolidated Finance Act.
At 31 December 2017 Hitachi Rail Italy Investments S.r.l. holds 101,544,702 ordinary shares of the company, equal to 50.772% of the share capital of Ansaldo STS S.p.A..
In addition, please note that Hitachi Ltd. exercises management and coordination activities with respect to Ansaldo STS S.p.A. pursuant to articles 2497 et seq. of the Italian Civil Code.

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

2. BASIS OF PREPARATION

Ansaldo STS S.p.A.'s separate financial statements at 31 December 2017 are drafted in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Commission pursuant to EC regulation no. 1606/2002 of 19 July 2002, integrated by the interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Standard Interpretations Committee (IFRSIC) issued by the International Accounting Standards Board (IASB).

These separate financial statements have been prepared on a historical cost basis, except for those captions which, as required by the IFRS-EU, are to be recognised at fair value (where fair value means the price that would be received from the sale of an asset, or that would be paid to transfer a liability, in a regular transaction between market operators at the valuation date) or for which this methodology is chosen, as described in the relevant accounting policies.

As permitted by IAS 1, assets and liabilities are presented in the statement of financial position as current and non-current (assets and liabilities are considered current when it is expected to realized or settled in their normal operating cycle), while income statement captions are shown by nature. The statement of cash flows was prepared using the indirect method. The income statements present the Operating profit (EBIT), a significant indicator of the operating performance of the company and of the group. The Operating profit is equal to the unadjusted profit before income taxes and financial income and expense. It does not include income and expense on non-consolidated equity investments and securities or the gains (losses) on the disposal of consolidated equity investments, classified in "Financial income and expense" in the financial statements or, for equity-accounted investees, in the caption "Share of profit or loss of equity-accounted investees".

Amounts are shown in thousands of euros, as allowed by law, unless stated otherwise.
The separate financial statements of Ansaldo STS S.p.A. at 31 December 2017 were approved and authorised for publication on 14 March 2018 by the board of directors in accordance with ruling legislation.
These financial statements have been prepared in accordance with the IFRS endorsed by the EU and audited by EY S.p.A..
Preparation of the separate financial statements required management to make estimates. Reference should be made to note 4 for information on the main areas which entailed particularly

significant measurements and assumptions, along with those having a significant effect on the financial statements.

3. ACCOUNTING POLICIES

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

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

Intangible assets

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

The following table lists depreciation periods for each item:

Goodwill:	indefinite useful life
Concessions, licences and trademarks:	3-5 years
Research and development expense:	3-5 years
Other intangible assets:	3-5 years

(i) Concessions, licences and trademarks

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

(ii) Research and development expense

Research expense is taken to profit or loss when incurred.

Internally generated intangible assets and the related development expense are recognised only when all the following conditions exist simultaneously:

- the asset can be identified;
- the asset may generate future economic benefits;
- the cost to develop the asset can be measured reliably;
- there is a reference market for the product generated by the development activity.

If these conditions are not met, development expense is recognised in profit or loss when incurred. This expense, which is capitalised only when the above four conditions are met, is amortised on a straight-line basis over the asset's useful life.

The initial capitalisation of development costs is also based on whether the management's opinion on the technical and economic feasibility of the project is confirmed, and capitalisation includes only expenses incurred which may be attributed directly to the development process.

Leased assets

Assets held under finance lease, whereby the risks and rewards of ownership are substantially transferred to the company, are recognised as assets at their present value or, if lower, at the present value of minimum lease payments. The corresponding liability to the lessor is recognised under loans and borrowings. These assets are depreciated using the above criterion and rates described in the section about property, plant and equipment.

Leases whereby the lessor substantially retains the risks and rewards of ownership are classified as operating leases. Costs related to operating leases are recognised in profit or loss on a straight-line basis over the lease term.

Property, plant and equipment

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

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

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

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

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

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

Impairment losses

Assets with an indefinite useful life are not depreciated/amortised, but are tested for impairment annually.

Depreciable assets are tested to check whether there is any indication that they may be impaired. If any such indication exists, the recoverable amount of the asset is estimated and any excess thereof is recognised in profit or loss.

When the reasons underlying a previously recognised impairment loss no longer exist, the carrying amount of the asset is restored to the extent of its original carrying amount. Reversals of impairment losses are also recognised in profit or loss. An impairment loss recognised for goodwill is never reversed.

Equity investments

The company classifies its equity investments as follows:

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

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

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

Inventories

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

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

Contract work in progress

Contract work in progress is recognised in accordance with the percentage of completion method whereby contract cost, revenue and contract profits (losses) are recognised using the percentage of completion method at the reporting date. The company uses the cost-to-cost percentage of completion method.

The measurement reflects the best estimate of the stage of completion at the reporting date. The entity periodically updates the assumptions underlying these measurements. Any profits or losses are recognised in the year in which the adjustments are made.

The estimations also include the evaluation of the probability of occurrence of potential liabilities (projects' risks like, for example, delivery delays); these estimations are considered in preparing projects' budget costs if the underlined risk is considered probable. With reference to claims that could arose during the execution of the project or even and the end, they are considered in evaluating write-downs of work in progress if the underlined risk is considered probable.

The expected loss on a contract is recognised in full under operating expense when it becomes reasonably foreseeable, along with an accrual to the provision for expected losses to complete contracts.

Contract work in progress is recognised net of any allowances, expected losses to complete contracts and progress payments and advances relating to contracts in progress. This analysis is performed individually for each contract. The company recognises the positive difference (work in progress in excess of payments on account, allowance and expected losses to complete contracts) under contract work in progress and the negative difference under "Progress payments and advances from customers". If the amount recognised under advances is not collected at the preparation date of the annual and/or interim financial statements, a balancing entry is recognised under trade receivables.

Contracts with consideration in a currency other than the functional currency are measured by translating the portion of consideration accrued, as per the percentage of completion method, at the closing rate.

However, under the company's policy governing currency risk, all contracts whose cash inflows and outflows are significantly exposed to exchange rate fluctuations are adequately hedged.

Financial instruments

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

Financial assets

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

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

(ii) Available-for-sale financial assets: these are non-derivative financial assets that are designated as available for sale or are not classified under any of the above categories. They are measured at fair value and fair value gains or losses are taken to an equity reserve which is released to profit or loss only when the financial asset is actually sold or, in the case of cumulative losses, when the impairment loss recognised in equity will not be recovered. Classification under current or non-current assets depends on strategic choices about the term of ownership of the asset and its actual trading possibilities. Assets which are expected to be realised within one year of the reporting date are recognised as current assets.

(iii) Financial assets at fair value through profit or loss

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

Classification as current or non-current reflects management expectations about trading: they are included under current assets when they are expected to be traded within twelve months or when they are recognised as held for trading.

This category normally includes trade and other receivables for which the financial component is insignificant.

The factoring of receivables without recourse based on which all risks and benefits are substantially transferred to the assignee results in the derecognition of the receivables from the balance sheet assets, as the requirements laid out in IAS 39 are met.

(iv) Held-to-maturity investments

These are non-derivative financial assets with fixed maturity that the company has the positive intention and ability to hold to maturity. They are measured at amortised cost, using the effective interest method. They are initially recognised at fair value on the trade date, inclusive of any transaction costs and subsequently classified under current assets when their contractual maturity is within twelve months. If there is objective evidence of impairment, the carrying amount of the asset is reduced to that of discounted future cash flows. Impairment losses identified by means of impairment tests are recognised in profit or loss. If, in subsequent years, the reasons underlying the impairment loss cease to exist, the carrying amount of the asset is restored to the amount that it would have had had the impairment not been recognised.

Financial assets are derecognised when the company’s right to receive cash flows from the instrument no longer exists and the company has transferred all risks and rewards of the instrument and control thereof.

Financial liabilities

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

Derivatives

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

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

agreed is sold or no longer meets the criteria for hedge accounting or the forecast transaction is no longer highly probable, the relevant portion of the "hedging reserve" is released immediately to profit or loss.

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

Derivative assets and liabilities carried at fair value are classified based on the three following hierarchy levels which reflect the significance of the inputs used in measuring fair value. Specifically:

- Level 1: financial assets and financial liabilities whose fair value is calculated based on quoted prices (unadjusted) in active markets for identical assets or liabilities at the valuation date;
- Level 2: financial assets and financial liabilities whose fair value is calculated based on inputs other than the quoted prices referred to in level 1 that may be observed either directly or indirectly;
- Level 3: financial assets and financial liabilities whose fair value is calculated based on unobservable market data.

Cash and cash equivalents

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

Equity

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

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

Deferred taxes

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

Employee benefits

(i) Post-employment benefits: several pension (or supplementary) schemes are in place. They can be analysed as follows:

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

Defined benefit plans are recognised using the so-called equity method whereby the actuarial gains and losses of all plans are recognised directly in equity when they take place.

With respect to the classification of costs related to defined benefit plans, current and past service costs and curtailment (where applicable) are recognised under "Personnel expense". Conversely, interest expense, net of the expected return on any plan assets, are classified under "financial interest". Moreover, costs related to defined contribution plans are recognised under "personnel expense".

(ii) Other long-term employee benefits

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

(iii) Termination benefits

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

(iv) Stock grant plans

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

Provisions for risks and charges

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

Recognition of revenue

Revenue is recognised to the extent it is likely that the economic benefits are achieved and the associated amount can be measured reliably.
Revenue relating to the sale of goods is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the goods which generally coincides with transfer of title or possession to the buyer.
As regards revenue from contracts, at the moment in which the economic result can be estimated reliably, contract revenue is recognised in relation to the progress of the activity at the reporting date, based on the relationship between the costs incurred for the activity carried out until the reporting date and the total estimated costs of the contract, except where the latter is considered representative of the progress status of the contract. Contract changes and price revisions are included to the extent they are reasonably certain. Contract revenue is recognised up to the limits of the contract costs that are expected to be recovered and the contract costs are booked as costs in the year in which they are incurred.
Revenue from contracts with Italian customers only is recognised under "progress payments and advances from customers" in the statement of financial position and subsequently reversed to profit or loss upon completion of the contract and, hence, of the related work in progress.

Recognition of grants

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

Costs

Costs are recognised based on the criteria of proper qualification, temporal allocation and classification established by the accounting standards adopted by the enterprise. Costs are recognised when they relate to goods and services, excluding contract work in progress, sold or consumed during the year or based on a systematic allotment, or when their future useful life cannot be identified.

Personnel expense includes the amount of remuneration paid, accruals to the provisions for pension funds and for unused holidays accrued and social security and pension contributions in application of contracts and legislation in force.

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

Net financial income/(expense)

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

Dividends

Dividends are recognised when the right to receive payment is established. This usually coincides with the shareholders' resolution approving their distribution.

Dividends paid to the shareholders of Ansaldo STS S.p.A. are considered as a change in equity and recognised as a liability in the year in which the distribution was approved by the company's shareholders.

Income taxes

Income taxes are recognised based on an estimate of taxable income in accordance with ruling legislation, taking into account any applicable exemptions and tax assets.

Current taxes are recognised in profit or loss, except for those related to captions that are directly taken to equity or comprehensive income, in which case the tax effect is recognised directly in equity or comprehensive income. They are offset when they are levied by the same taxation authority, there is a legally enforceable right to set off the recognised amounts and settlement on a net basis is expected.

Related party transactions

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

Other information

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

New reporting standards (IFRS) and interpretations (IFRIC)

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

IFRS - IFRIC interpretation		**Nature and impacts on the group**
IFRS2	Share-based Payment	The amendments aim to clarify the recognition of certain types of transactions with share-based payment. The impact on the group of adopting this standard is currently being analysed. The Group will apply this standard starting from 1 January 2018.
IFRS 9	Financial instruments	This standard significantly amends the accounting treatment of financial instruments and will eventually replace IAS 39. The IASB introduced a new standard, whose final version incorporates the requirements of all three phases of the financial instruments project, i.e.: • classification-measurement; • impairment; • hedge accounting. As regards the classification and valuation of financial assets, the new standard allows both the amortised cost method and the fair value measurement method to be applied. For the latter, in particular, the fair value changes relating to credit risk are booked to Other Comprehensive Income and not to the income statement. As regards impairment, IFRS 9 establishes a new "expected loss" model which replaces the "incurred loss" mode of IAS 39 - based on the expected model. The allowance for impairment must be determined with a forward looking approach using a three-step model. For hedging transactions, the new accounting model is simpler and more closely related to risk management activities. The result is a greater probability of qualifying transactions as hedges, and therefore less volatility in the income statement. The current version of IFRS 9 will be applicable as of 1 January 2018, and the Company does not expect any impacts from adopting said

		standard.
IFRS 15	Revenue from contracts with customers	The IASB issued a single general framework for the recognition of revenue. The guidelines in IFRS 15 are much more detailed than the provisions of the current IFRS for the recognition of revenue given they include operating guides and examples. This standard redefines how to recognise revenue, which must be recognised when control of goods or services is transferred to customers, and requires that additional disclosure be provided. The group will apply this standard starting from 1 January 2018, and the impact of the adoption of this standard on the Company is described in the following paragraphs.
IFRS 16	Leases	The standard published in January 2016 contains a single model for the accounting recognition of leases, eliminating the distinction between operating leases and finance leases from the lessee's perspective; it therefore replaces IAS 17 Leases, IFRIC 4, SIC-15 and SIC-27. In particular, the new standard defines the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases in the financial statements based on a single model similar to that used to account for financial leases in accordance with IAS 17. The Group will apply this standard starting from 1 January 2019.

As regards the adoption of IFRS 15 and IFRS 9, a project was implemented in 2017 dedicated to analysing the impacts of the application of these standards from a quality and quantity perspective.

Adoption of IFRS 15 "Revenue from contracts with customers"

As already described at the time of preparation of the consolidated financial statements as at 31 December 2016, the IASB issued IFRS 15 "Revenue from contracts with customers", which provides a new regulatory framework which will replace, effective for financial statements for years starting on or after 1 January 2018, all pre-existing accounting provisions regarding the recognition of revenue from the sale of goods and services to the customers present, particularly as regards Ansaldo STS, in the following documents and related interpretations:

- IAS 11 "Construction contracts";
- IAS 18 "Revenue".

The objective of the new standard is to ensure financial statements users fully understand the nature, amount, timing and uncertainties of revenue and cash flows generated by contracts stipulated with customers.

IFRS 15 introduces a raft of changes and are structured into a detailed series of accounting provisions, which constitute, as a whole, the single new model for recognising revenue from contracts with customers.

In particular, as already mentioned at the time of preparation of the financial statements as at 31 December 2016, IFRS 15 requires a 5-step process to be followed for the recognition of revenue:

- Step 1 – Identification of the contract;
- Step 2 – Identification of the performance obligations;
- Step 3 – Determination of the transaction price;
- Step 4 – Allocation of the transaction price to the different performance obligations;
- Step 5 – Recognition of revenue.

In light of the changes introduced by IFRS 15, the management of Ansaldo STS, as outlined in the financial statements as at 31 December 2016, deemed it appropriate to launch, in the first half of 2017, a project aimed at identifying the potential impacts of adopting the new standard.

In this context, Ansaldo STS' management set up a special work group which, in implementing the gap analysis project, focussed its activities on the following aspects:

- comparative analysis of the accounting policies adopted by the company and by the group in terms of the recognition of revenue with respect to the requirements of the new international accounting standard;
- recognition of the main standard differences which could potentially have significant accounting, organisational and system impacts;
- identification of the main contracts with customers stipulated by the company and by the group and analysis of the associated contractual structure, in order to verify the existence of potential impacts of application of the new accounting standard;
- analysis of the process of recognition of contract costs (pre-operating and operating) adopted by the company and by the group to identify the main cost categories attributed to the contract;
- verification of the compliance of each cost category identified on the basis of the activities pursuant to the previous point with the guidelines included in the new accounting standard;
- analysis of the transition options set forth by the new international accounting standard.

In light of the analyses conducted, some changes emerged, deriving from the application of IFRS 15 and the regulatory provisions contained in IAS 11 "Construction contracts".

The main qualitative differences identified are outlined below:

Combining and Segmenting Construction Contracts

The new standard introduces more restrictive rules regarding "combining" a group of contracts into a single construction contract, establishing that this circumstance may only be verified in the event in which the contracts are entered into at the same time or almost at the same time with the same customer and one or more of the following conditions are met:

a) the contracts are negotiated as a package with a single commercial objective;

b) the consideration of a contract depends on another contract;

c) the goods or services promised in the contracts are considered as a single performance obligation.

In addition, as regards the identification of separate performance obligations contained in a single contract, with respect to the requirements of IAS 11, it will be necessary to exercise a greater degree of judgment regarding the elevated interrelationship and integration of the different elements of the construction contract, in order to consider it as a single performance obligation.

Variable considerations

The new standard requires variable considerations to be estimated at their expected value or the most likely amount. IFRS 15 also establishes that variable consideration is only included in the transaction price if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved.
Highly probable is a new concept, not provided for under IAS 11, explained in the new regulatory context through specific application guides.

Contractual amendments

IAS 11, paragraph 13 establishes that a variation must be included in contract revenue only if *(i)* it is probable that it will be approved and *(ii)* the amount of associated revenue may be reliably measured. The aforementioned principle of paragraph 14 also sets out that considerations relating to the price revision (claims) must be recognised only when *(i)* negotiations with the customer have reached an advanced stage such that it is probable that the customer will accept the claim; and *(ii)* the probable amount that will be accepted by the customer can be measured reliably.

The general approach of IFRS 15, both as regards variations, and claims, is instead based on the fact that contractual changes must only be recognised when the rights and obligations related to them are "enforceable" by the parties to the contract. In order to determine whether the rights and obligations created or changed due to the modification are enforceable, the entity must consider all the relevant facts and circumstances, including the terms of the contract and/or other elements of proof.

Pre-operating costs

With respect to the contents of IAS 11, paragraph 21 relating to the inclusion in contract costs of the expenses incurred to ensure obtainment of the tender contract, IFRS 15 introduces more stringent rules which establish that only the following can generally be recognised as assets *(i)* the external incremental costs of obtaining the contract (commissions and success fees) and *(ii)* costs incurred for "satisfying" the contract (e.g. costs relating to the design of the work incurred during the offer phase).

Significant financial components inherent in the contract

Based on the new regulatory body of the IAS/IFRS, if, in a contract with a customer, a payment extension is granted outside of the normal market conditions, the agreed consideration must be discounted to the present value. By contrast, the previous IAS/IFRS did not provide guidelines on the accounting of advance payments. With the new standard, it is necessary to verify whether each contract contains a significant financial component and, subsequently, determine the implicit interest rate inherent in the transaction, reflecting the credit rating of the contracting party that actually obtained a loan. The implicit interest rate is determined at the start of the contract and it is not necessary to subsequently update it to reflect changes in circumstances.

The main quantitative differences identified are outlined below:

The Company its detailed analysis of the adoption of IFRS 15 and the quantitative impacts of application of the new standard relate primarily to the "Segmenting of construction contracts" - essentially to separate, in turnkey contracts, the construction phase from the Operation&Maintenance phase - and determination of "variable considerations".

As anticipated, the new standard is applied by the Company from 2018 and the Cumulative Effect Method will be used to recognise previous impacts. Therefore, the 2017 revenue recognised on the basis of IAS 11 and IAS 18 will not be restated but an adjustment will be recognised to the Contract work in progress and Advances from customers, with a reserve for gains or losses as contra-item, therefore directly impacting Equity.

In this way, the revenue difference, for contracts in place as at 31 December 2017, calculated as if the new standard IFRS 15 had always been applied, will be accounted, as at 1 January 2018, in a retained earnings/accumulated losses reserve due to change of standard, for a total value of around € -33 million (reducing Equity), with a reduction of Work in progress and Advances from customers as a contra-item.

Deferred tax assets and/or liabilities will be disclosed on said impact with a contra-item in Equity of around € 9 million (increasing Equity).

Adoption of IFRS 9 "Financial instruments"

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, replacing IAS 39 *Financial Instruments*: *Recognition and measurement.* IFRS 9 brings together all three aspects relating to the project for the accounting of financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for years starting on or after 1 January 2018; early application is permitted. With the exception of hedge accounting, the standard must be applied retrospectively, but providing comparative information is not mandatory. As regards hedge accounting, the standard is generally applied prospectively, with some limited exceptions.

The Company will adopt the new standard, including the new rules regarding hedge accounting, from the date of entry into force and, in any case, will not restate the comparative information. During 2017, the Company conducted an analysis of the impacts of all the aspects addressed in IFRS 9 and did not note any impacts from its application. This analysis is based on the information currently available and could be subject to changes as a result of additional information that should become available for the Company in 2018. In principle, the Company does not expect the adoption of IFRS 9 to have significant impacts on the statement of financial position and equity.

a) Classification and measurement

The Company does not expect the application of the classification and measurement requirements of IFRS 9 to have significant impacts on its financial statements and equity.

The assets in the financial statements measured at amortised cost will continue to be measured in the same way.

The Company intends to maintain equity investments in unlisted companies in the portfolio in the near future. The Company currently measures minority interests at cost. Starting from 1 January 2018, these equity investments will be measured at fair value. Changes eventually recognised under purchase cost and fair value, will be accounted as a contra-item to equity: no significant impacts are expected. The Company will then apply the option of presenting fair value changes under other comprehensive income.

b) Impairment

IFRS 9 requires the Company to record expected credit losses on all bonds in the portfolio, loans and trade receivables, taking as a reference either a 12-month period or the entire contractual duration of the instrument (e.g. lifetime expected loss). The Company, having only trade receivables in the financial statements, will apply the simplified approach and, therefore, will record expected losses on all trade receivables on the basis of their residual contractual duration. The Company does not expect significant impacts from adopting this standard. The associated deferred taxes will, in any case, be calculated on said higher allocation.

c) Hedge accounting

The company has established that all existing hedging relationships which are currently designated as effective hedges will continue to qualify for hedge accounting in line with IFRS 9. The company has chosen not to apply IFRS 9 retrospectively to hedges for which, at the moment of designation of the hedge in accordance with IAS 39, forward points had been excluded. Given that IFRS 9 does not modify the general principle on the basis of which an entity accounts for effective hedging relationships, the application of the requirements of IFRS 9 for the purposes of defining hedges will not have significant impacts on the Company's financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The application of generally accepted accounting principles for the preparation of the financial statements and the interim accounting reports requires the company management to make accounting estimates based on complex and/or subjective opinions, estimates based on past experience and assumptions deemed reasonable and realistic on the basis of the information known at the moment of the estimate.

The use of these accounting estimates impacts the value at which assets and liabilities are recognised and the disclosure on contingent assets and liabilities at the reporting date, as well as the amount of revenue and costs in the reference year. The actual results may differ from those estimated due to the uncertainty characterising the assumptions and conditions on which the estimates are based.

The most significant accounting policies which require that directors prepare estimates based on a greater degree of subjectivity and for which a change in one of the underlying conditions would have a significant impact on financial statements are described below:

Revenue recognition and work in progress valuation:

The Company operates in a kind of business in which complex contractual agreements are common, these are recognised using the percentage of completion method. Revenue and related margin are recognised in profit or loss reflecting project progress and the profitability which will be expected for the entire contract once it is completed, consequently, for the purposes of correctly recognising work in progress and revenue related to projects yet to be completed, management is required to make an accurate estimate of expected losses, expected increases and delays, additional costs and penalties which could have an impact on both the expected margin and the project progress and, consequently, project revenues.

More specifically, the expected loss estimate procedure requires estimates of the cost of materials, the number of hours required to carry out the works set forth in the contract, the financial expense incurred to cover guarantees issued by financial institutions and the possible outcome of disputes with contractual counterparties, partners and suppliers. The valuation of work in progress consider the estimations of the possible impacts arising from disputes with customers; in cases where there are disputes for risk of probable future liabilities, management sets aside special bad debt provision of the work in progress.

In order to better assist management’s estimates, the company has adopted contract risk management and analysis procedures which identify, monitor and quantify the risks related to contract performance. Carrying amounts reflect management’s best estimate at that time, assisted by the above procedural tools.

Bad debt provision for receivables:

The Company has a credit analysis procedures aimed to identify, monitor and quantify the risks reflected in the provision for doubtful receivables, which therefore represents the best estimate at the time of preparation of the consolidated financial statements.

Impairment losses:

The Company’s assets with an indefinite useful life are tested for impairment at least once each year or more often if there is evidence of impairment. Likewise, all assets showing evidence of impairment are tested, also when depreciation/amortisation has already begun.

Impairment tests are usually performed using the discounted cash flow method; however, this method is considered highly sensitive to the assumptions included in the estimate of future cash flows and of the interest rates applied.

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

Hedging construction contracts against currency risk

To avoid the risk of fluctuations in foreign currency cash inflows and outflows on construction contracts, the Company specifically hedges the individual cash flows expected on the contract. Hedges are agreed when commercial contracts are signed. Currency risk is usually hedged using plain vanilla (forward) instruments.

If the hedge is not deemed effective, fair value gains or losses on these instruments are immediately expensed as financial items and the related underlying item is measured as if it were not hedged, hence it is exposed to the currency risk. The effects of this accounting treatment are described in the note on “financial income and expense”. Hedges which fall under the first case are recognised as cash flow hedges, considering the premium or the discount as the ineffective part in the case of forwards, or time value in the case of options. The ineffective part is recognised under financial items.

5. EFFECTS OF AMENDMENTS TO THE IFRS

The company has adopted certain accounting standards and amendments for the first time which are in force for financial years starting on 1 January 2017.
The nature and impact of each new accounting standard and amendment are described below:

IAS 7 Disclosure Initiative – Amendments to IAS
The changes to IAS 7 are part of the wider Disclosure initiative project that the International Accounting Standard Board (IASB) published in 2013.
In particular, the amendments to IAS 7 require entities to provide a disclosure that allows financial statements users to evaluate the changes occurred, from the start to the end of the year, in liabilities deriving from financing activities, including non-cash changes and the changes instead stemming from cash flows.
It should be noted that, in relation to financial liabilities deriving from financing activities, the change in the year refers exclusively to cash flow changes, like 2016, represented primarily by the payment of the dividend of € 36 million.
At the time of initial application of this amendment, entities do not need to present comparative information relating to previous periods.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses
The amendments to IAS 12 - Income Taxes relate to the recognition and measurement of Deferred Tax Assets (DTA).
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.
The company applied these amendments retrospectively. However, their application did not have any effects on the Company’s financial position and results given that there are no deductible temporary differences or assets that fall under the scope of this amendment.

Annual cycle of improvements - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12.

The amendments clarify, in particular, that the disclosure requirements of IFRS 12, other than those set out in paragraphs B10-B16, apply to an entity's interests in a subsidiary, joint venture or an associate (or to the share of an interest in a joint venture or in an associate) which is classified (or included in a classified disposal group) as available for sale.

Although these new standards and amendments were applied for the first time in 2017, they have not had any impacts on the financial statements or the notes.

6. SEGMENT REPORTING

In compliance with the aggregation criteria laid out in IFRS 8, ASTS has identified one single operating segment. Therefore, the information required by IFRS 8 correspond to those presented in the consolidated income statement in line with previous years.

Some consolidated accounting information is provided below on a geographical basis, which represents the main way in which the management monitors business performance.

A breakdown of revenue by geographical segments is as follows:

(€000)	**2017**	**2016**
Revenue:		
Italy	217,549	221,446
Rest of Europe	242,801	214,146
North Africa and the Middle East	112,735	106,996
Americas	94,553	95,460
Asia/Pacific	67,920	69,609
Total revenue	**735,558**	**707,657**
Revenue from related parties:		
Italy	57,279	86,237
Rest of Europe	20,934	20,503
North Africa and the Middle East	-	-
Americas	1,895	762
Asia/Pacific	9,147	14,832
Total revenue from related parties:	**89,255**	**122,334**
Total	**824,813**	**829,992**

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

(€000)	**2017**	**2016**
Property, plant and equipment and Intangible assets:		
Italy	69,580	71,391
Rest of Europe	219	192
North Africa and the Middle East	1,567	778
Americas	617	428
Asia/Pacific	287	65
Total	**72,270**	**72,854**

7. INTANGIBLE ASSETS

(€'000)	**Development expense**	**Patents and similar rights**	**Concessions, licences and trademarks and other similar rights**	**Other**	**Assets under construction**	**Total**
At 31 December 2015 broken down as follows						
Cost	22,172	20,177	4,880	3,025	-	50,254
Grants	(4,617)	-	(9)	-	-	(4,626)
Amortisation and impairment losses	(13,118)	(12,812)	(4,430)	(3,014)	-	(33,375)
Carrying amount	**4,436**	**7,365**	**440**	**11**	**-**	**12,253**
Changes of 2016						
Investments	4,126	893	105	5	-	5,129
Transfers from assets under construction	-	-	-	-	-	-
Grants	(1,141)	-	-	-	-	(1,141)
Amortisation	(2,043)	(3,857)	(277)	(2)	-	(6,180)
At 31 December 2016 broken down as follows						
Cost	26,298	21,070	4,985	3,030	-	55,383
Grants	(5,758)	-	(9)	-	-	(5,767)
Amortisation and impairment losses	(15,161)	(16,670)	(4,707)	(3,016)	-	(39,554)
Carrying amount	**5,379**	**4,401**	**269**	**14**	**-**	**10,062**
Changes of 2017						
Investments	1,936	955	483	10	-	3,384
Transfers from assets under construction	-	-	-	-	-	-
Grants	(560)	-	-	-	-	(560)
Amortisation	(2,245)	(1,706)	(314)	(8)	-	(4,274)
At 31 December 2017 broken down as follows						
Cost	28,234	22,026	5,467	3,040	-	58,767
Grants	(6,317)	-	(9)	-	-	(6,326)
Amortisation and impairment losses	(17,407)	(18,376)	(5,021)	(3,025)	-	(43,828)
Carrying amount	**4,510**	**3,650**	**437**	**15**	**-**	**8,612**

Intangible assets at 31 December 2017 totalled €8,612 thousand, down by €1,450 thousand on €10,062 thousand at 31 December 2016.

It is composed mainly of:

- "Development expense" (€4,510 thousand) mainly includes the Satellite and Rail Telecom project to develop satellite technologies. This year saw an increase of €1,936 thousand, the €560 thousand grant and amortisation of €2,245 thousand. This project is co-financed by the European Space Agency and the Galileo Supervisory Authority.

The Stream project was fully amortised in previous years.

- “Patents and similar rights” (€3,650 thousand) recorded a decrease of €751 thousand compared to the previous year.

  Specifically, the variation is due to new investments (€955 thousand) and amortisation (€1,706 thousand).

  More specifically, the investments are attributable mainly to the projects *“Customer Relationship Management (CRM)”* for €280 thousand, *“Clear Case & Clear ReQuest (CC & CR)”* for €101 thousand, *“Implementazione SAP in Taiwan Branch”* for €107 thousand, *“Implementazione SAP WM Module”* in Tito for €105 thousand and other minor proprietary software for €362 thousand.
- “Concessions, licences and trademarks and other similar rights” (€437 thousand) relate to software licences. The investments made in the year (€483 thousand) mainly concern the purchase of standard Microsoft and Vmware licences.

  As a consequence of the grants received, these assets cannot be sold before five years. The carrying amount of concessions, licences, trademarks and other similar rights subject to this limitation amounts to €21 thousand.

8. PROPERTY, PLANT AND EQUIPMENT

(€'000)	**Land and buildings**	**Plant and machinery**	**Equipment**	**Other**	**Assets under construction**	**Total**
At 31 December 2015 broken down as follows						
Cost	81,106	15,352	12,026	12,926	12	121,422
Grants	(171)	(885)	(406)	-	-	(1,462)
Depreciation and impairment losses	(25,306)	(11,156)	(9,933)	(9,797)	-	(56,191)
Carrying amount	55,629	3,311	1,687	3,129	12	63,768
Changes of 2016						
Investments	98	198	1,032	2,363	74	3,765
Transfers from assets under construction	-	12	-	-	(12)	-
Write-offs	-	-	-	-	-	-
Depreciation	(2,018)	(593)	(818)	(1,312)	-	(4,742)
At 31 December 2016 broken down as follows						
Cost	81,204	15,562	13,058	15,289	74	125,187
Grants	(171)	(885)	(406)	-	-	(1,462)
Depreciation and impairment losses	(27,324)	(11,749)	(10,751)	(11,109)	-	(60,933)
Carrying amount	**53,709**	**2,928**	**1,901**	**4,180**	**74**	**62,792**
Changes of 2017						
Investments	85	369	1,854	3,179	929	6,415
Transfers from assets under construction	-	74	-	-	(74)	-
Write-offs	-	-	-	-	-	-
Depreciation	(2,004)	(555)	(1,022)	(1,969)	-	(5,550)
At 31 December 2017 broken down as follows						
Cost	81,289	16,005	14,912	18,468	929	131,603
Grants	(171)	(885)	(406)	-	-	(1,462)
Depreciation and impairment losses	(29,328)	(12,304)	(11,773)	(13,078)	-	(66,483)
Carrying amount	**51,790**	**2,816**	**2,733**	**5,390**	**929**	**63,658**

"Property, plant and equipment", net of accumulated depreciation, amount to €63,658 thousand (31 December 2016: €62,792 thousand).

Specifically:

"Land and buildings" of €51,790 thousand (net of accumulated depreciation and grants) relate to the real estate complex in via Salita della Grotta, Naples (€1,637 thousand), the industrial buildings in Turin and Tito (€6,843 thousand) and the property purchased in via Paolo Mantovani 3/5, Genoa (€43,310 thousand) for a consideration of €62,378 thousand.

The decrease of the year is due to new investments (€85 thousand) into the maintenance of the Tito (€31 thousand), Turin (€48 thousand) and Genoa (€6 thousand) facilities and depreciation (€2,004 thousand).

“Plant and machinery” amount to €2,816 thousand, net of accumulated depreciation (31 December 2016: €2,928 thousand).

The variation of the year is the sum of the increase, €369 thousand, depreciation of €555 thousand and the transfers from assets under construction from previous years of €74 thousand related to the partial upgrade of the aeraulic system in the Tito facility office building.

The total increases of the year are as follows:

- Tito production unit of €236 thousand, relating mainly to the P.T. offices air conditioning system and central heating (€145 thousand);
- the Piossasco site for €131 thousand, relating primarily to the overhaul of the air conditioning and aeraulic systems (€82 thousand);
- the Naples offices (€12 thousand) relating to the office CDZ machine;
- to the Genoa branch for €64 thousand related to the updating of the elevator system.

“Equipment” (€2,733 thousand) rose as a consequence of investments of the year (€1,854 thousand) and fell as a result of depreciation (€1,022 thousand).

Investments relate to the setting-up and maintenance of laboratory equipment in the Tito facility for €667 thousand, Genoa offices for €553 thousand, the Piossasco facility for €256 thousand and the Naples offices for €378 thousand.

The item “Other” (€5,390 thousand) increased by €1,210 thousand as a consequence of investments of the year (€3,179 thousand). These investments relate to the renewal or replacement of IT equipment used by company personnel (€463 thousand), laboratory instruments and equipment (€429 thousand) and the purchase of furniture and fittings (€106 thousand); the residual €2,181 thousand relates to the capitalisation of branch costs (Saudi Arabia €1,412 thousand, Peru €315 thousand, Taiwan €266 thousand, Denmark €42 thousand, Greece €57 thousand others €89 thousand).

The €1,969 thousand decrease is due to depreciation of the year.

The historical cost of “Land and buildings”, “Plant and machinery” and “Equipment” is reduced by the grants received pursuant to Italian Law no. 488/92, applications 8 and 11, first and second application of the PIA Innovazione (Integrated Aids Package), totalling €1,462 thousand.

As a consequence, the assets covered by the above grants cannot be sold before five years. The historical cost of these assets is equal to €340 thousand for "Land and buildings", €2,189 thousand for "Plant and machinery" and €946 thousand for "Equipment".

"Assets under construction" amount to €929 thousand due to maintenance works on the Tito facility buildings for seismic adjustments (€158 thousand) and upgrading of the lighting system at the Genoa branch and Tito facility (€661 thousand).

The company did not enter into any finance leases.

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

9. EQUITY INVESTMENTS

At 31 December 2017, equity investments amounted to €172,767 thousand, up by €2,980 thousand, net, on the previous year.

(€'000)	*31 December 2017*	*31 December 2016*
Opening balance	169,787	167,181
Acquisitions/subscriptions and capital increases	3,128	2,113
Reversals of impairment losses/impairment losses	0	(55)
Principal repayment	(61)	(2)
Sales	0	0
Other changes	(87)	550
Closing balance	**172,767**	**169,787**

The change was caused by the share capital increase subscribed in the SPV Linea M4 S.p.A. (€3,128 thousand) for the performance of works assigned, slightly offset by the reimbursement of the equity investment for the liquidation of SP M4 S.c.p.A. (€61 thousand) and the impairment of equity investments in subsidiaries (€87 thousand).

The table below lists equity investments at 31 December 2017 as permitted by IFRS 12, also containing the additional disclosures required by CONSOB (the Italian commission for listed companies and the stock exchange) communication no. DEM/6064293 of 28 July 2006:

Name	Registered office	Type of activity	Reporting date	Accounting standards*	Share capital (Euro'000)	Currency	Equity (in Euro'000)	Profit (Loss) (Euro'000)	Total assets (Euro'000)	Total liabilities (Euro'000)	Investment (%)	Holding type > 50% of voting rights without control	Holding type < 50% of voting rights with control	Holding type > 20% of voting rights without significant influence	Holding type < 20% of voting rights with significant influence	Measurement with the equity method 31/12/2017	Carrying amount
Investments in subsidiaries																	
Alifana S.c.r.l.	Naples (Italy)	Transportation	31.12.2017	ITAGaap	26	EUR	26	-	487	461	65.85%	N/A	N/A	N/A	N/A	17	17
Alifana Due S.c.a.r.l.	Naples (Italy)	Transportation	31.12.2017	ITAGaap	26	EUR	26	-	838	812	53.34%	N/A	N/A	N/A	N/A	14	14
Ansaldo STS Sweden AB	Solna (Sweden)	Transportation	31.12.2017	IFRS	406	SEK	-9,050	-14,584	81,986	91,036	100.00%	N/A	N/A	N/A	N/A	-9,050	240
Ansaldo STS France S.A.	Les Ulis (France)	Transportation	31.12.2017	IFRS	5,000	EUR	35,535	12,388	215,409	179,874	100.00%	N/A	N/A	N/A	N/A	35,535	22,452
Ansaldo STS USA Inc.	Wilmington (Delaware USA)	Transportation	31.12.2017	IFRS	-	USD	129,329	11,748	236,356	107,027	100.00%	N/A	N/A	N/A	N/A	129,329	55,622
Ansaldo STS UK Ltd.	Londra (United Kingdom)	Transportation	31.12.2017	IFRS	1,127	GBP	-7,105	691	4,025	11,130	100.00%	N/A	N/A	N/A	N/A	-7,105	-
Ansaldo STS Australia PTY Ltd.	Eagle Farm (Australia)	Transportation	31.12.2017	IFRS	3,275	AUD	63,255	2,978	95,356	32,101	100.00%	N/A	N/A	N/A	N/A	63,255	26,219
Ansaldo STS Transportation Systems India Private Limited	Bangalore (India)	Transportation	31.12.2017	IFRS	73,270	INR	12,717	-2,270	35,297	22,580	0.00%	N/A	N/A	N/A	N/A	0	0
Ansaldo STS Deutschland GmbH	Berlino (Germany)	Transportation	31.12.2017	IFRS	26	EUR	2,591	150	9,180	6,589	100.00%	N/A	N/A	N/A	N/A	2,591	2,176
Ansaldo STS do Brasil Sistema de Transporte Ferroviario e Metropolitano Ltda	Fortaleza (Brazil)	Transportation	31.12.2016	LocalGaap	292	BRL	245	-27	246	1	99.99%	N/A	N/A	N/A	N/A	245	334
Ansaldo Railway System Trading (Beijing) Ltd	Pechino (China)	Transportation	31.12.2017	IFRS	1,313	CNY	11,701	2,580	30,836	19,135	100.00%	N/A	N/A	N/A	N/A	11,701	1,078
																	108,151
Investments in associates																	
International Metro Service S.r.l.	Milan (Italy)	Transportation	31.12.2016	ITAGaap	700	EUR	4,943	99	5,056	113	49.00%	N/A	✔	N/A	N/A	2,422	343
MetroBrescia Srl	Brescia (Italy)	Transportation	31.12.2016	ITAGaap	4,020	EUR	6,555	1,175	79,197	72,643	19.80%	N/A	N/A	N/A	✔	1,298	796
Metro 5 S.p.A.	Milan (Italy)	Transportation	31.12.2016	ITAGaap	53,300	EUR	66	9,908	797,625	731,292	24.60%	N/A	N/A	N/A	N/A	16,318	13,112
Pegaso S.c.r.l. (in liquidazione)	Rome (Italy)	Construction	31.12.2016	ITAGaap	260	EUR	260	-	3,959	3,699	46.87%	N/A	✔	N/A	N/A	122	122
																	14,373
Consortia																	
Saturno consortium	Rome (Italy)	Transportation	31.12.2016	ITAGaap	31	EUR	31	-	1,758,577	1,758,546	33.34%	N/A	✔	N/A	N/A	10	10
Ascosa Quattro consortium	Rome (Italy)	Transportation	31.12.2016	ITAGaap	57	EUR	57	-	66,324	66,267	24.92%	N/A	N/A	✔	N/A	14	14
San Giorgio Volla Due consortium	Naples (Italy)	Transportation	31.12.2017	ITAGaap	71	EUR	72	-	78,585	78,513	25.00%	N/A	N/A	✔	N/A	18	18
CRIS consortium	Naples (Italy)	Research	31.12.2017	ITAGaap	2,377	EUR	2,445	-	2,636	191	1.00%	N/A	N/A	N/A	N/A	24	24
Cosila consortium (in Liq.)	Naples (Italy)	Research	31.12.2016	ITAGaap	93	EUR	93	-	115	22	1.11%	N/A	N/A	N/A	N/A	1	1
ISICT consortium	Genoa (Italy)	Research	31.12.2016	ITAGaap	43	EUR	53	1	172	120	14.29%	N/A	N/A	N/A	✔	8	6
TRAIN consortium	Rome (Italy)	Transportation	31.12.2016	ITAGaap	120	EUR	1,180	-	25,832	24,653	4.68%	N/A	N/A	N/A	✔	54	6
San Giorgio Volla consortium	Naples (Italy)	Transportation	31.12.2017	ITAGaap	71	EUR	72	-	6,149	6,077	25.00%	N/A	N/A	N/A	N/A	18	18
Ferroviario Vesuviano consortium	Naples (Italy)	Transportation	31.12.2016	ITAGaap	153	EUR	155	-	223,137	222,982	33.34%	N/A	N/A	N/A	N/A	52	51
Iricav Uno consortium	Rome (Italy)	Transportation	31.12.2016	ITAGaap	520	EUR	520	-	4,278	3,758	17.44%	N/A	N/A	N/A	✔	91	91
MetroB srl	Rome (Italy)	Transportation	31.12.2017	ITAGaap	20,000	EUR	19,844	2,384	19,902	58	2.47%	N/A	N/A	N/A	✔	490	494
Dattilo Scarl	Naples (Italy)	Transportation	31.12.2016	ITAGaap	100	EUR	100	-0	353	253	14.00%	N/A	N/A	N/A	✔	14	14
Consorzio MM4	Milan (Italy)	Transportation	31.12.2017	ITAGaap	200	EUR	200	-	31,950	31,750	17.68%	N/A	N/A	N/A	✔	36	35
D.I.T.S. srl	Rome (Italy)	Research	31.12.2016	ITAGaap	40	EUR	89	21	198	109	12.00%	N/A	N/A	N/A	✔	11	5
TOP IN S.c.a.r.l. consortium	Naples (Italy)	Transportation	31.12.2016	ITAGaap	87	EUR	101	-	194	93	4.84%	N/A	N/A	N/A	N/A	5	4
RadioLabs consortium	Rome (Italy)	Research	31.12.2016	ITAGaap	258	EUR	239	5	1,794	1,555	20.02%	N/A	N/A	✔	N/A	60	52
SPV Linea M4 S.p.A.	Milan (Italy)	Transportation	31.12.2016	ITAGaap	35,795	EUR	127,228	546	295,604	168,376	5.55%	N/A	N/A	N/A	N/A	n.a.	10,868
Iricav Due consortium	Rome (Italy)	Transportation	31.12.2017	ITAGaap	510	EUR	516	-	96,745	96,229	17.05%	N/A	N/A	N/A	✔	88	88
Metro de Lima Linea 2 S.A.	Lima (Peru)	Transportation	31.12.2017	IFRS	100,058	USD	116,146	5,622	316,635	200,489	16.90%	N/A	N/A	N/A	✔	19,629	16,639
																	28,438
Other companies																	
I.M. Intermetro S.p.A. (in liq.)	Rome (Italy)	Transportation	31.12.2016	ITAGaap	2,461	EUR	1,765	-112	5,278	3,513	21,26%	N/A	N/A	N/A	✔	294	523
Metro C S.c.p.A.	Rome (Italy)	Transportation	31.12.2016	ITAGaap	150,000	EUR	149,518	-	347,412	197,894	14,00%	N/A	N/A	N/A	✔	20,933	21,000
SESAMO Security and Safety Mobility S.c.a.r.l.	Naples (Italy)	Transportation	31.12.2016	ITAGaap	100	EUR	92	-10	855	763	2,00%	N/A	N/A	N/A	N/A	2	2
SIIT S.c.p.a.	Genoa (Italy)	Research	31.12.2016	ITAGaap	600	EUR	617	2	1,937	1,320	2,33%	N/A	N/A	N/A	N/A	14	14
Tram di Firenze S.p.A.	Florence (Italy)	Transportation	31.12.2016	ITAGaap	7,000	EUR	-4,067	2,271	340,268	344,335	2,42%	N/A	N/A	N/A	N/A	-155	266
																	21,805
TOTAL EQUITY INVESTMENTS at 31.12.2017																	**172,767**

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

In particular, the total value of equity investments (€172,767 thousand) is broken down into: investments in subsidiaries (€108,151 thousand), in associates (€14,373 thousand), in consortia (€28,438 thousand) and in other companies (€21,805 thousand).

Changes of the year are as follows:

1. a €3,128 thousand increase for the share capital increase of SPV Linea M4 S.p.A., which will build and maintain the Milan metro line M4 under concession and will be responsible for its technical, administrative, economic and financial management;
2. decrease of €61 thousand due to the liquidation of SP M4 S.C.p.A. in November.
3. the €87 thousand decrease due to the adjustment of carrying amounts of the investments in Ansaldo STS USA Inc, Ansaldo STS France S.A. and Ansaldo STS Australia Pty Ltd following the granting of the 2017 shares as per the 2017-2019 Stock grant plan and the delivery of the 2014 shares after the three-year vesting period provided for by the 2014-2016 stock grant plan.

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

It should be noted that, in 2017, the executive committee of Metro 5 S.p.A resolved the repayment of part of the shareholders loan. Therefore, the portion of interest whose collection is expected next year was reclassified to the current portion, amounting to €4,581 thousand, and the total value of the non-current receivable, including interest accrued, amounts to €19,285 as at 31.12.2017.

Metro 5 S.p.A. shares were pledged to guarantee the contractual obligations to the other financial institutions involved in the project financing to build Line 5 of the Milan metro under concession.
The shares of Tram di Firenze were also pledged as agreed with the bodies financing the works. The same guarantee was given on the financing granted to the investee (see note 11 on "Receivables and other non-current assets").
With respect to the measurement of investments in subsidiaries, in accordance with group policies, impairment tests are conducted when annual financial statements are prepared. Each company is tested by comparing their carrying amounts with their recoverable amounts, using the discounted cash flow method.
The cash flows used are those generated by group assets, in their present condition, before financial expense and taxes. They include capital expenditure and monetary changes in working capital and exclude cash flows from financing activities, non-recurring events or dividend distributions.
These cash flows are discounted using the WACC (Weighted Average Cost of Capital) method which is calculated based on the Capital Asset Pricing Model. At 31 December 2017 the average Group WACC is 6.88% compared to 7.39% used in previous year.
The comparables panel in 2017 is the same as the previous year, with the exception of Faiveley Transport SA acquired in 2017 from Westinghouse Air Brake Technologies Corporation and replaced with the latter.
The tests performed have highlighted a level of coverage; in addition, there are no other external indicators showing evidence of impairment.
The Company performed a sensitivity analysis considering a WACC increase of 0.5%, 1.0% and 1.5% and, at the same time, shortening the terminal value growth rate about 0.5% and 1.0%. These analyses show a broad coverage about the recoverability of the assets under impairment tests.

Impairment tests were carried out at 31 December 2017, on the basis on the Five-year strategic plan (2018-2022) approved by the company's board of directors.

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

The company participates in the foreign joint arrangement AIASA set up to construct the Thessaloniki metro.

Ansaldo Honolulu became operative in 2012. In November 2011, the consortium set up by Ansaldo STS and AnsaldoBreda (now Hitachi Rail Italy) entered into an agreement with HART (Honolulu Authority for Rapid Transportation) to construct the technological part and provide the vehicles of the new driverless underground line in Honolulu (Hawaii).

Finally, the company participates in the ArRiyadh New Mobility (ANM) in Riyadh and Nuevo Metro de Lima consortia for the related contracts.

During the year, the Board of Directors approved the winding-up of the company Ansaldo STS Do Brasil Sistemas de Transporte Ferroviario e Metropolitano LTDA (a direct investee of Ansaldo STS S.p.A. which holds 99.99% and Ansaldo STS USA International Co. which holds 0.01%). It was formed to participate in the tender for the construction of the Fortaleza underground which the company did not win, and given there are no further short-term commercial opportunities in the country, the decision was taken to proceed with the winding-up.

10. RELATED PARTY ASSETS AND LIABILITIES

Related party assets and liabilities at 31 December 2017 and 2016 are shown below:

(€'000)	**Loan assets**	**Trade receivables**	**Other current financial assets**	**Total**
FINANCIAL ASSETS AT 31 DECEMBER 2017				
Ultimate parents				
Hitachi LTD (Rail)	-	114	-	**114**
Associates				
Hitachi Rail Italy S.p.A.	-	2,700	-	**2,700**
MetroBrescia S.r.l.	-	522	-	**522**
S.P. M4 S.c.p.a.	232	-	-	**232**
M4 S.p.A.	-	-	17	**17**
Metro 5 S.p.A.	-	5,937	-	**5,937**
I.M. Intermetro S.p.A.	-	387	-	**387**
Metro Service AS	-	1,705	-	**1,705**
Subsidiaries				
Ansaldo STS Transportation Systems India Private Limited	-	2,249	-	**2,249**
Ansaldo STS Australia PTY Ltd.	-	4,737	-	**4,737**
Ansaldo STS Deutschland GmbH	-	1,445	-	**1,445**
Ansaldo STS France S.A.	-	8,329	-	**8,329**
Ansaldo Railway System Trading (Beijing) Ltd	-	605	-	**605**
Ansaldo STS UK Ltd.	-	135	-	**135**
Ansaldo STS Sweden AB	44,462	14,843	-	**59,305**
Ansaldo STS Southern Africa PTY LTD - Botswana	-	2	-	**2**
Ansaldo STS Espana S.A.U.	-	1,608	-	**1,608**
Ansaldo STS USA Inc.	2,976	7,233	-	**10,209**
Ansaldo STS Canada Inc	-	3	-	**3**
Ansaldo STS Malaysia SDN BHD	15,584	1,001	-	**16,585**
Alifana Due S.c.r.l.	-	341	-	**341**
Consortia				
Saturno consortium	-	11,904	-	**11,904**
San Giorgio Volla Due consortium	-	786	4	**790**
San Giorgio Volla consortium	-	1,421	-	**1,421**
Ascosa Quattro consortium	-	1,280	-	**1,280**
Ferroviario Vesuviano consortium	-	2,085	-	**2,085**
MM4 consortium	-	23,924	-	**23,924**
	63,254	**95,296**	**21**	**158,571**
% of the total corresponding financial statements caption	**69%**	**15%**	**0.04%**	

(€'000)	Loans and borrowings	Trade payables	Other current financial liabilities	Total
FINANCIAL LIABILITIES AT 31 DECEMBER 2017				
Ultimate parents				
Hitachi Rail Europe LTD	-	2	-	**2**
Associates				
Metro Service AS	-	6,842	-	**6,842**
Hitachi System CBT S.p.A.	-	937	-	**937**
Metro B srl	-	-	371	**371**
M4 S.p.A.	-	157	-	**157**
Hitachi Rail Italy S.p.A.	-	19,429	-	**19,429**
Pegaso S.c.r.l. in liquidation	-	83	-	**83**
Subsidiaries				
Ansaldo STS Australia PTY Ltd.	12,244	133	-	**12,377**
Ansaldo STS Southern Africa PTY LTD - Botswana	-	1,063	-	**1,063**
Ansaldo STS Espana S.A.U.	-	45	-	**45**
Ansaldo STS Malaysia SDN BHD	-	152	-	**152**
Ansaldo STS USA Inc.	-	3,291	-	**3,291**
Ansaldo STS France S.A.	31,983	9,847	-	**41,830**
Ansaldo Railway System Trading (Beijing) Ltd	-	399	-	**399**
Ansaldo STS UK Ltd.	-	25	-	**25**
Ansaldo STS Sweden AB	-	917	-	**917**
Ansaldo STS Deutschland GmbH	-	219	-	**219**
Ansaldo STS USA International CO.	-	6,355	-	**6,355**
Alifana Due S.c.a.r.l.	-	157	-	**157**
Alifana S.c.r.l.	-	134	3	**137**
Consortia				
Saturno consortium	-	968	-	**968**
MM4 consortium	-	161	-	**161**
San Giorgio Volla consortium	-	5	8	**13**
Ascosa Quattro consortium	-	885	8	**893**
Ferroviario Vesuviano consortium	-	64	20	**84**
Total	**44,227**	**52,269**	**410**	**96,906**
% of the total corresponding financial statements caption	**99%**	**15%**	**1%**	

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

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

Total related party assets amount to €158,571 thousand (31 December 2016: €119,831 thousand). The increase was caused mainly by the value of trade receivables (€63,254 thousand at 31 December 2017; €22,791 thousand 31 December 2016) and in particular the position with respect to Ansaldo STS Sweden (€44,462 at 31 December 2017, €0 at 31 December 2016), a consequence of the dispute with the Swedish customer outlined in detail in the directors' report.

Total related party liabilities amount to €96,906 thousand (31 December 2016: €133,007 thousand). The variation is attributable primarily to the reduction in loans and borrowings of €47,981 thousand, in particular relating to the subsidiary Ansaldo STS France S.A. (€31,983 thousand at 31 December 2017, €52,109 thousand at 31 December 2016) Ansaldo STS USA Inc. (€0 thousand at 31.12.2017, €33,155 thousand at 31.12.2016), partially offset by an increase in trade payables (€52,269 thousand at 31.12.2017, €40,389 thousand at 31.12.2016).

For additional information about related party transactions, reference should be made to the directors' report ("Management and coordination and related party transactions" section) and to note 38 ("Directors' and statutory auditors' fees and key managers' remuneration").

11. LOANS AND RECEIVABLES AND OTHER NON-CURRENT ASSETS

(€'000)	*31 December 2017*	*31 December 2016*
Guarantee deposits	1,382	1,290
Other	26,448	26,344
Non-current financial assets	**27,830**	**27,634**
Other prepayments - non-current portion	13,795	16,090
Other prepayments - associates	0	0
Other non-current assets	**13,795**	**16,090**

Non-current financial assets at 31 December 2016 amount to €27,830 thousand (31 December 2016: €27,634 thousand). They mainly include:

- €19,285 thousand related to the shareholder loan (principal of €18,783 thousand and accrued interest of €502 thousand) of Metro 5 S.p.A. following the agreements to construct the related section of the Milan metro. It should be noted that interest of €4,581 thousand was reclassified to the current part, as collection is forecast in the next year;
- €6,160 thousand related to the shareholder loan (principal of €5,731 thousand and accrued interest of €429 thousand) of SPV Linea M4 S.p.A. following the agreements to construct the related section of the Milan metro;
- €788 thousand related to a loan granted to Tram di Firenze on which a pledge exists in favour of the financing bodies. The same guarantee was used in respect of the investment held therein;
- €182 thousand paid to the MM4 consortium to cover costs incurred before activities began;
- €1,382 thousand (31 December 2016: €1,290 thousand) related to guarantee deposits for premises and areas leased after the opening of work sites.

Other non-current assets amount to €13,795 thousand (31 December 2016: €16,090 thousand). They can be analysed as follows:

- €2,537 thousand (31 December 2016: €3,222 thousand) related to prepaid insurance, down €685 thousand on the previous year;
- €11,258 thousand (31 December 2016: €12,868 thousand) related to the deferred income on the "Ansaldo" trademark which fell by €1,610 thousand, with respect to the portion for the year. With reference to the trademark, Ansaldo STS S.p.A. agreed a contract with Finmeccanica on 27 December 2005 allowing the company to use the "Ansaldo" trademark on the market. Against the advance payment of a consideration of €32,213 thousand, which was supported by a specific assessment carried out by an independent party, this contract gives Ansaldo the exclusive right to use this trademark for twenty years.

12. INVENTORIES

(€'000)	***31 December 2017***	***31 December 2016***
Raw materials, consumables and supplies	6,178	5,943
Work-in-progress and semi-finished products	6,313	7,733
Finished goods	1,641	1,574
Advances to suppliers	65,676	80,029
Total	**79,808**	**95,279**

Net inventories amounted to €79,808 thousand, down by €15,471 thousand compared to €95,279 thousand at 31 December 2016, mainly due to the reduction in advances to suppliers.
The carrying amount of raw materials increased by €235 thousand on the previous year and they were recognised net of the allowance for write-down (€1,504 thousand; 31 December 2016: €806 thousand).

Third party assets with the company amount to €3 thousand (31 December 2016: €3 thousand), while the company's assets with third parties total €29,030 thousand (31 December 2016: €29,736 thousand).
The company outsourced its warehouse management to the service company, Fata Logistic System.

13. WORK IN PROGRESS AND PROGRESS PAYMENTS AND ADVANCES FROM CUSTOMERS

(€'000)	*31 December 2017*	*31 December 2016*
Work in progress (gross)	1,435,189	2,099,941
Progress payments	(1,238,554)	(1,886,966)
Advances from customers	(25,516)	(13,318)
Provision for expected losses to complete contracts	(3,038)	(4,269)
Allowance for write-down	(3,200)	(16,950)
Work-in-progress (net)	**164,881**	**178,438**
Progress payments	(2,595,619)	(1,997,034)
Work-in-progress	2,358,019	1,867,186
Advances from customers	(246,448)	(288,177)
Provision for expected losses to complete contracts	(7,601)	(8,557)
Allowance for write-down	(18,350)	(1,350)
Progress payments and advances from customers (net)	**(509,998)**	**(427,932)**
Work-in-progress, net of progress payments and advances from customers	**(345,117)**	**(249,494)**

Work in progress, net of progress payments and advances from customers, is a negative €345,117 thousand, with respect to a negative value of €249,494 thousand at 31 December 2016, marking a decrease of €95,623 thousand. This relates primarily to the higher turnover in the period and the fall in advances from customers.

The net balance of work in progress includes the net advance of €112,154 thousand related to the contract in Libya, which is still halted given the well-known events which have affected this country over the past few years, as detailed in the directors' report. This advance amply covers the work carried out to date and not yet invoiced. As a consequence, at the reporting date, there are no probable risks which would require any accrual.

Contract work in progress, net, decreased from €178,438 thousand at 31 December 2016 to €164,881 thousand at 31 December 2017, while progress payments and advances from customers, net, decreased from €427,932 thousand at 31 December 2016 to €509,998 thousand at 31 December 2017. The latter caption includes advances from customers of €271,964 thousand (31 December 2016: €301,495 thousand).

Specifically, work in progress under assets net of the provision for expected losses to complete contracts amounted to €1,432,151 thousand (31 December 2016: €2,095,672 thousand) and included costs of €1,767,710 thousand (31 December 2016: €2,218,757 thousand) and profit of €206,502 thousand (31 December 2016: €269,159 thousand), gross of final billing.
Work in progress under liabilities net of the provision for expected losses to complete contracts amounted to €2,350,418 thousand (31 December 2016: €1,858,629 thousand) and included costs of €4,873,095 thousand (31 December 2016: €3,844,420 thousand) and profit of €999,735 thousand (31 December 2016: €875,061 thousand), gross of final billing.

Similarly to inventories, contract work in progress and progress payments and advances from customers are shown net of the allowance for write-down which, at 31 December 2017, amounted to €21,550 thousand (31 December 2016: €18,300 thousand).
Specifically, €3,200 thousand reflects the decrease in "contract work in progress, net" and €18,350 thousand that of "progress payments and advances from customers, net".
This allowance is adequate for the possible liabilities which may arise from critical issues and risks on existing contracts, which were also assessed based on the risk management procedure.

The allowance for write-down covers the following risks:

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

The above risks are typical of all construction contracts and increase when contracts have a complex contractual structure of a highly technical nature which could give rise to contractual changes or issues at any stage of the contracts, including, sometimes, after the delivery of works and their roll out. Consequently, many risks cease to exist only once the contract is terminated.
Starting from 2012, the provision for expected losses to complete contracts is shown separately. This provision reflects losses not yet incurred but for which a provision was accrued on a prudent basis when the contract budget corresponds to a loss.
The provision refers to the relevant contracts. Specifically, €3,038 thousand (31 December 2016: €4,269 thousand) reflects the decrease in "contract work in progress, net" and €7,601 thousand (31 December 2016: €8,557 thousand) that of "progress payments and advances from customers, net".

14. TRADE RECEIVABLES AND LOAN ASSETS

(€'000)	*31 December 2017* Trade receivables	Loan assets	*31 December 2016* Trade receivables	Loan assets
Third parties	539,835	28,443	509,019	28,443
Related parties	95,296	63,254	97,035	22,791
Total loans and receivables	**635,131**	**91,697**	**606,054**	**51,234**

The value of trade and financial receivables corresponds to their fair value.

There was an increase in trade receivables (€635,131 thousand) compared to the final balance at 31 December 2016 (€606,054 thousand); in particular, trade receivables from third parties rose by €30,816 thousand and those from related parties fell by €1,739 thousand.

The main increasing positions were those with respect to the Gruppo Ferrovie dello Stato (State Railways Group), the MM4 consortium for the Milan metro Line 4, City and Industrial Development for the Mumbai project, and the municipality of Naples.

Trade receivables are shown net of the allowance for impairment of €16,553 thousand (31 December 2016: €23,294 thousand). Of this amount, €255 thousand relates to related parties. The variation in the year is due to the closing of transactions under which part of the receivable previously written down was recognised to the company. The €4,785 thousand included in the allowance relates to the impairment of the Firema receivable following the latter company's extraordinary administration which began on 2 August 2010, as per the decree of the Ministry of Economic Development.

During the year, the company did not factor without recourse receivables not yet due; in 2016, it had entered into factoring transactions for a total of €11,939 thousand.

Loan assets increased (€40,463 thousand) as a result of the increase in the portion from related parties, as specified in note 10.

This caption also includes the euro equivalent amount of the Libyan dinar advance on the first of the two contracts in Libya and deposited in a local bank. This amount (€28,443 thousand) is tied up pending the resumption of activities.

15. TAX ASSETS AND LIABILITIES

	31 December 2017		*31 December 2016*	
(€'000)	**Loans and receivables**	**Liabilities**	**Loans and receivables**	**Liabilities**
Direct taxes	18,657	4,453	17,447	8,304
Total	**18,657**	**4,453**	**17,447**	**8,304**

Tax assets equalled €18,657 thousand at 31 December 2017 (€17,447 thousand at 31 December 2016). The increase on 2016 is due mainly to the higher assets generated during the year by the branches, and the IRAP credit for higher advances paid of €205 thousand (IRAP debt balance of €100 thousand at 31 December 2016).

They mainly relate to foreign tax assets (€15,829 thousand; 31 December 2016: €12,729 thousand) and to a tax credit in connection with the reimbursement claimed pursuant to article 2.1-quater of Decree Law no. 201/2011, related to the lower IRES due for the 2007-2011 period as a result of the IRAP deductibility on personnel expense (€1,632 thousand).

Tax liabilities relate to current IRES for €4,453 thousand (31 December 2016: €8,204 thousand).

16. DERIVATIVES

Derivative assets and liabilities may be analysed as follows:

	31 December 2017		*31 December 2016*	
(€'000)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Fair value hedges *Currency hedges*	6,753	6,845	8,611	8,749
Cash flow hedges *Currency hedges*	4,239	464	1,191	13,866
	10,992	**7,309**	**9,802**	**22,615**

The total value of fair value hedges includes hedges on cash flows of subsidiaries as well as on foreign currency joint accounts.

The company uses derivatives to hedge the currency risk (fair value hedges) for subsidiaries. This risk arises from the exposure to cash flows in currencies other than the functional currency. These are back-to-back transactions as the currency risk is hedged by identifying the exposure to the bank issuing the hedging instrument, while recognising a balancing entry with respect to the subsidiary. At 31 December 2017, the fair value of these transactions, including also the total value of FVH, amounted to €6,370 thousand (31 December 2016: €8,510 thousand) and the relative economic effects, with a nil balance, are recognised in financial income and expense.

At 31 December 2017, the company had derivatives hedging foreign currency joint accounts with the aim of hedging the company against year-end currency risk. At the reporting date, these derivatives were recognised under assets and liabilities at €382 thousand (31 December 2016: €101 thousand) and €475 thousand (31 December 2016: €239 thousand), respectively.

At 31 December 2017, the company also had cash flow hedges relating to the cash flows of the Abu Dhabi, Riyadh Metro, Lima Metro and Kolkata Metro contracts.

17. OTHER CURRENT ASSETS

(€'000)	*31 December 2017*	*31 December 2016*
Prepayments - current portion	6,174	9,134
Grants	18,124	18,938
Employees	2,223	1,789
Other tax assets	24,824	22,760
Other assets	3,629	4,655
Total current third party assets	**54,974**	**57,277**
Total current related party assets	21	4
Total	**54,995**	**57,281**

Other current assets amounted to €54,995 thousand at 31 December 2017 (31 December 2016: €57,281 thousand). They refer predominantly to tax assets and R&D grants.

Prepayments amount to €6,174 thousand (31 December 2016: €9,134 thousand) and mainly relate to activities pertaining to subsequent years relating to the Riyadh branch (€1,737 thousand), insurance premiums pertaining to subsequent years (€1,664 thousand), fees on sureties paid early (€763 thousand) and the current portion (€1,610 thousand) to purchase the right to use the “Ansaldo” trademark.

At the reporting date, grants amounted to €18,124 thousand (31 December 2016: €18,938 thousand). They can be analysed as follows:

- grants for projects financed by the European Community or the Ministry for Education and Research (€17,829 thousand);
- grants pursuant to Italian Law no. 488, first application, PIA, (€69 thousand);
- grants related to assets pursuant to Italian Law no. 488, eleventh application, 2001 (€226 thousand).

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

Paragraph 19, Equity, provides details on the reserves established and restricted in relation to decisions to award grants.

For additional information reference should be made to the "Research and development" section of the directors' report.

Other tax assets amount to €24,824 thousand (31 December 2016: €22,760 thousand) and are related to the VAT credit in Italy for €26,536 thousand (31 December 2016: €19,611), partially offset by the debt balances at branches totalling €2,199 thousand (credit balance of €2,823 thousand at 31 December 2016), and a receivable for undeducted VAT on the use of vehicles and other receivables for which a request for reimbursement was made for €481 thousand.

18. CASH AND CASH EQUIVALENTS

(€'000)	***31 December 2017***	***31 December 2016***
Cash-in-hand	61	50
Bank accounts	184,402	202,946
Total	**184,463**	**202,996**

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

Moreover, it includes the advances (€1,291 thousand) received from the customer Iricav Uno consortium through the investee Pegaso S.c.r.l., which constructed the high-speed railway Rome-Naples section on behalf of the company (31 December 2016: €2,574 thousand) and advances of €155 thousand (31 December 2016: €155 thousand) received from the customer Metro Campania NordEst through the Alifana Due consortium which constructs the central Piscinola-Aversa railway section on behalf of the company. These advances are allocated to specific current accounts held by the company which are used exclusively to support the future costs of the works to be performed by the company. Cash and cash equivalents are totally available and there are no disposal costs.

19. EQUITY

At 31 December 2017, equity amounted to €532,191 thousand, up by a net €56,868 thousand on 31 December 2016 (€475,323 thousand).

The change is due to the profit for the year (€71,988 thousand), partially offset by the net decrease in the translation reserve for €12,530 thousand, the net decrease in the hedging reserve (€1,313 thousand), the net decrease in the actuarial reserve for defined benefit plans (€672 thousand) and the net decrease in stock grant reserve (€522 thousand).

Equity can be analysed as follows:

Share capital

	No. of shares	Nominal amount	Treasury shares	Total
31 December 2014	**200,000,000**	**100,000,000**	**(702)**	**99,999,298**
Use of treasury shares for SGP			702	702
31 December 2015	**200,000,000**	**100,000,000**	**0**	**100,000,000**
Use of treasury shares for SGP				
31 December 2016	**200,000,000**	**100,000,000**	**0**	**100,000,000**
Use of treasury shares for SGP				
31 December 2017	**200,000,000**	**100,000,000**	**0**	**100,000,000**

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

The company does not have treasury shares at 31 December 2017 as the shares acquired during the year to grant shares to the company managers as part of the 2014 Stock Grant Plan ("SGP") were all delivered.

At 31 December 2017, share capital was as follows:

Shareholder	No. of shares	% held
HITACHI RAIL ITALY INVESTMENTS	101,544,702	50,772
PAUL E. SINGER (as general partner, directly and indirectly, of the Limited Partnership Elliott International and The Liverpool Limited Partnership)	51,330,030	25,665
UBS	10,068,228	5,034
LITESPEED MASTERFUND	7,532,322	3,766
Other shareholders with an investment of less than 3%	29,524,718	14,763

Retained earnings, including the profit for the year

(€'000)

	Retained earnings	Profit for the year	Total
31 December 2016	**131,190**	**145,857**	**277,047**
Allocation of profit for the year:			
- dividends	-	-	-
- legal reserve	-	-	-
- reserve for legal reserve adjustment	-	-	-
- retained earnings	145,773	(145,857)	(84)
Profit for the year	-	71,988	71,988
31 December 2017	**276,963**	**71,988**	**348,951**

Retained earnings, including the profit for 2017, may be analysed as follows:

- “Retained earnings” rose from €131,190 thousand at 31 December 2016 to €276,963 thousand at 31 December 2017, as a result of the decision of the shareholders' meeting that approved the 2016 financial statements and the use of €84 thousand of the retained earnings to close some positions of the previous 2012-2013 stock grant plan.
- the profit for the year of €71,988 thousand (€145,857 thousand at 31 December 2016).

Other reserves

(€000)	Legal reserve	Negative goodwill	Reserve as per Law no. 413/91	Reserve as per Law no. 488/92, second application, PIA	Reserve for 50% grant as per article 55 of Law no. 219/81 TUIR (Consolidated income tax act)	Reserve as per Law no. 488/92, first application, PIA	Stock grant reserve	Deferred tax reserve	Hedging reserve	Coverage of losses	Actuarial gains and losses on Italian post-employment benefits	Translation reserve	Total
31 December 2016	**20,000**	**67,216**	**832**	**145**	**209**	**854**	**8,114**	**(168)**	**(919)**	**37**	**(2,271)**	**4,227**	**98,276**
Stock grant plans:													
- 2017 Stock grant plan allocation - ASTS SpA	-	-	-	-	-	-	1,165	-	-	-	-	-	**1,165**
- Stock grant plan allocation - ASTS SpA	-	-	-	-	-	-	(1,600)	-	-	-	-	-	**(1,600)**
- SGP reserve - other companies	-	-	-	-	-	-	(87)	-	-	-	-	-	**(87)**
Other changes:													
- actuarial gains on 2017 Italian post-employment benefits	-	-	-	-	-	-	-	-	-	-	(938)	-	**(938)**
- deferred taxes on equity items	-	-	-	-	-	-	-	4,639	-	-	-	-	**4,639**
- CFH hedging	-	-	-	-	-	-	-	-	(1,728)	-	-	-	**(1,728)**
- foreign currency translation differences	-	-	-	-	-	-	-	-	-	-	-	(16,487)	**(16,487)**
31 December 2017	**20,000**	**67,216**	**832**	**145**	**209**	**854**	**7,592**	**4,471**	(2,647)	**37**	**(3,209)**	**(12,260)**	**83,240**

The legal reserve amounts to €20,000 thousand and is unchanged from the previous year, having already reached 20% of the share capital at 31 December 2016.

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

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

The other transactions that led to the overall balance were:

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

There were no changes in 2017.

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

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

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

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

The Stock grant reserve amounts to €7,592 thousand, compared to €8,114 thousand at 31 December 2016. This reserve was set up in 2007 following the board of directors' approval of the Stock Grant Plan (SGP) under which Ansaldo STS shares are awarded to "strategic" and "key" resources and high potential managers upon reaching the agreed targets. For additional information, reference should be made to the section on "Human resources and organisation" in the directors' report.

The decrease in the balance (€522 thousand) is due to:

- the allocation for 2017 (€1,621 thousand);
- a €-2.143 thousand decrease due to the 2014 awarding of shares related to the 2014-2016 stock grant plan.

The **deferred tax reserve** amounts to €4,471 thousand (€-168 thousand at 31 December 2016). It is comprised as follows:

- deferred taxes on the 2017 actuarial losses on Italian post-employment benefits (€266 thousand), allocated to the specific reserve using the equity method (31 December 2017: €892 thousand);

- deferred taxes on the cash flow hedges recognised in equity during the year for €415 thousand (31 December 2017: €636 thousand);

- deferred taxes on the translation reserve in the financial statements of the branches for €3,957 thousand (31 December 2017: €2,943 thousand).

The hedging reserve amounts to €-2,647 thousand and recorded a net variation of €-1,728 thousand in the year as a result of the individual transactions performed (the related tax effect of €415 thousand is recognised in the "Deferred tax reserve").

The actuarial reserve for defined benefit plans amounts to -€3,209 thousand. It changed following application of the equity method to actuarial gains/losses on Italian post-employment benefits. During the year, it decreased as a consequence of the actuarial loss of €938 thousand, as per the independent actuarial appraisal of Italian post-employment benefits at 31 December 2017 (the related tax effect for the year of €266 thousand is recognised under the "Deferred tax reserve").

The translation reserve amounts to €-12,260 thousand. It recorded a variation of €-16,487 thousand during the year due to the exchange rate differences which arose from the translation of the financial statements of foreign branches, prepared in a currency other than the company's presentation currency (the associated tax effect for the year of €3,957 thousand is recognised in the "Deferred tax reserve").

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

Nature/Description	Amount	Possible use	Available portion	Use in 2016		Use in 2015		Use in 2014	
				to cover losses	other reasons	to cover losses	other reasons	to cover losses	other reasons
Share capital (*)									
Outstanding shares	100,000								
Treasury shares									
Equity-related reserves:									
Revaluation reserve as per Law no. 413/91	832	A - B - C	832						
Capital injections	-	A - B	-						
Coverage of losses	37	B							
Negative goodwill	67,216	A - B - C	67,216						
Income-related reserves:									
Legal reserve	20,000	B							
Reserve for Ministerial grants as per article 55 of Law no. 219/81 of the Consolidated income tax act	209	A - B - C	209						
Reserve as per Law no. 488/92, application 1, PIA, 2003	854	A - B - C	854						
Reserve as per Law no. 488/92, application 2, PIA	145	A - B - C	145						
Stock grant reserve:									
- allocation	7,593	B							
- delivery									
Translation reserve	(12,260)	A - B							
Hedging reserve	(2,647)								
Reserve for actuarial gains/losses (IAS 19)	(3,209)	n.a.							
Deferred tax reserve	4,471	n.a.							
Retained earnings	276,963	A - B - C	276,963						
Total	**460,203**		**346,219**	**-**	**-**	**-**	**-**	**-**	**-**
Undistributable portion			**4,509**						
Residual distributable portion			**341,710**						

Key:

A : for share capital increase

B : to cover losses

C : for distribution to shareholders

20. LOANS AND BORROWINGS

(€'000)	*31 December 2017*			*31 December 2016*		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Bank loans and borrowings	143	-	143	-	-	-
Loans and borrowings from other financial backers	-	-	-	-	-	-
Finance lease payables	-	-	-	-	-	-
Other loans and borrowings	270	-	270	1,771	-	1,771
Total loans and borrowings from third parties	**413**	**-**	**413**	**1,771**	**-**	**1,771**
Related party loans and borrowings	44,227	-	44,227	92,208	-	92,208
Total	**44,640**	**-**	**44,640**	**93,979**	**-**	**93,979**

Third party loans and borrowings amounted to €413 thousand at 31 December 2017 and related primarily to amounts of collections pertaining to companies part of joint ventures for which Ansaldo STS is lead contractor.

The value of related party loans and borrowings relates to joint current accounts with the subsidiaries to settle trading and non-trading items with Ansaldo STS group companies. The reduction with respect to the previous year (€47,981 thousand) is attributable primarily to dividends distributed by certain subsidiaries and transfers of funds.

Loans and borrowings may be analysed as follows:

(€'000)	*31 December 2016*	*Increases*	*Decreases*	*Changes in scope*	*Other changes*	*31 December 2017*
Bank loans and borrowings	-	143	-	-	-	143
Loans and borrowings from other financial backers	-	-	-	-	-	-
Other loans and borrowings	1,771	270	1,771	-	-	270
Total	**1,771**	**413**	**1,771**	**-**	**-**	**413**

Please also note that at 31 December 2017, the company's credit lines amounted to €125,000 thousand and are to be used mainly for overdrafts.

Net financial position

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

(€'000)	***31 December 2017***	***31 December 2016***
Cash-in-hand	(61)	(50)
Bank accounts	(184,402)	(202,946)
Securities held for trading	-	-
Cash and cash equivalents	**(184,463)**	**(202,996)**
Third party loan assets	(28,443)	(28,443)
Related party loan assets	(63,254)	(22,791)
Current loan assets	**(91,697)**	**(51,234)**
Current bank loans and borrowings	143	-
Current portion of non-current loans and borrowings		
Other current loans and borrowings	44,497	93,979
Current financial debt	**44,640**	**93,979**
Net current financial position	**(231,520)**	**(160,251)**
Non-current bank loans and borrowings		
Loans and borrowings from other financial backers - non-current		
Bonds issued		
Other non-current financial liabilities		
Non-current financial debt (position)	**-**	**-**
Net financial position	**(231,520)**	**(160,251)**

There is no collateral on the company's assets.

21. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

(€'000)	**Disputes with employees**	**Completed contracts**	**Taxation**	**Other**	**Total**
At 31 December 2016	**742**	**406**	**0**	**957**	**2,105**
Broken down as follows:					
Current	742	406	-	957	2,105
Non-current	-	-	-	-	-
	742	**406**	**-**	**957**	**2,105**
At 1 January 2017	**742**	**406**	**-**	**957**	**2,105**
Accruals	1,629	340	-	-	1,969
Utilisation	71	81	-	61	213
Reversals	-	-	-	-	-
Other changes	-	-	-	-	-
At 31 December 2017	**2,300**	**665**	**-**	**896**	**3,860**
Broken down as follows:					
Current	2,300	665	-	896	3,860
Non-current	-	-	-	-	-
	2,300	**665**	**-**	**896**	**3,860**

At 31 December 2017, the provision for risks and charges reflects probable and quantifiable risks in accordance with relevant accounting standards.

It amounts to €3,860 thousand (31 December 2016: €2,105 thousand). Specifically:

- the provision for disputes with employees reflects the assessment of disputes with a probably unfavourable outcome for the company. In 2017, €71 thousand of this provision was used for disputes that were resolved during the year; no amounts were absorbed and it contains an accrual (€1,629 thousand) for the estimation of new situations that arose in the year;
- the provision for completed contracts was accrued in respect of contractually mandatory obligations to update product technologies and documentation and implement changes to equipment and facilities related to completed contracts. In 2017, this provision was used for €81 thousand, accruing €340 thousand;
- other provisions cover minor disputes currently underway (€896 thousand). €61 thousand was used to settle minor disputes.

22. EMPLOYEE BENEFITS

Italian post-employment benefits can be analysed as follows:

	Italian post-employment benefits	
(€'000)	*31 December 2017*	*31 December 2016*
Current service costs	657	519
	-	-
Personnel expense	**657**	**519**
Interest expense	275	268
Total	**932**	**787**

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

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

(€'000)	*31 December 2017*	*31 December 2016*
Opening balance	**18,294**	**17,948**
Current service costs	657	519
Interest expense	275	268
Actuarial losses (gains) taken to equity	938	37
of which:		
Actuarial gains (losses) taken to equity following changes to demographic assumptions		
Actuarial gains (losses) taken to equity following changes to financial assumptions	630	62
Actuarial gains (losses) taken to equity following experience-based adjustments	308	(25)
Other changes		
Benefits paid	(666)	(478)
Intragroup transfers		
Other changes		
Closing balance	**19,498**	**18,294**

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

	Italian post-employment benefits	
	31 December 2017	*31 December 2016*
Discount rate	1.22%	1.56%
Salary increase rate	N.A.	N.A.
Turnover rate	2.09% - 5.69%	2.09% - 5.69%

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

	Italian post-employment benefits	
	-0.25%	*0.25%*
Discount rate (p.a.)	19,901	19,117
Inflation rate	19,207	19,796
Annual turnover rate	19,515	19,481

The average term of the Italian post-employment benefits is 14 years.

23. OTHER CURRENT AND NON-CURRENT LIABILITIES

	Non-current		Current	
(€'000)	*31 December 2017*	*31 December 2016*	*31 December 2017*	*31 December 2016*
Employees	3,553	3,509	16,697	19,667
Supplementary pension schemes and INPS Treasury fund	-	-	1,319	1,716
Social security institutions	-	-	8,790	9,671
R&D grants	-	-	14,664	10,601
Other tax liabilities	-	-	5,817	4,042
Deferred income	-	-	-	-
Other	-	-	16,066	16,964
Total other current and non-current third party liabilities	**3,553**	**3,509**	**63,353**	**62,661**
Total other related party liabilities	-	-	410	410
Total	**3,553**	**3,509**	**63,763**	**63,071**

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

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

	Long-term benefits	
	31 December 2017	*31 December 2016*
Discount rate (p.a.)	1.22%	1.56%
Salary increase rate	2.47% - 3.58%	2.47% - 3.58%
Turnover rate	2.09% - 5.69%	2.09% - 5.69%

Other current liabilities amount to €63,763 thousand, compared to €63,071 thousand at 31 December 2016. The increase (€692 thousand) is mainly due to the increase in payables for R&D grants relating to advances collected on research projects only partially offset by the reduction in payables to employees.

Other includes the residual unpaid 62% of the subscribed share capital of Metro C S.c.p.A. at 31 December 2017 (€12,950 thousand).

Other tax liabilities of €5,817 thousand mainly relate to withholding taxes on employees' remuneration to be paid as withholding agent.

24. TRADE PAYABLES

(€'000)	*31 December 2017*	*31 December 2016*
Trade payables	300,273	358,277
Total trade payables	**300,273**	**358,277**
Related party trade payables	52,269	40,389
Total	**352,542**	**398,666**

The nominal value of trade and financial receivables corresponds to their fair value.

The total value of trade payables came to €352,542 thousand (31 December 2016: €398,666 thousand).

The variation is composed of the decrease in third party trade payables (€58,004 thousand) and the increase in related party liabilities (€11,880 thousand).

Details regarding the increase in related party liabilities are provided in note 10.

As in 2016, no maturity factoring transactions were completed during the year.
This tool enables the company's suppliers to carry out factoring transactions which entail the transfer and collection of amounts due from the company for the supply of goods and/or services, allowing the company to further extend settlement of trade payables, bearing the related interest.

25. LEASES, GUARANTEES AND OTHER COMMITMENTS

Leases

The company has certain operating leases mainly for use of properties and cars. Minimum future commitments related to operating leases amount to €3,483 thousand for properties (31 December 2016: €4,505 thousand) and €2,680 thousand (31 December 2016: €3.946 thousand) for the renewal of car lease agreements.

They may be analysed as follows:

(€'000)	***31 December 2017***		***31 December 2016***	
	Operating leases	**Finance leases**	**Operating leases**	**Finance leases**
Within one year	1,784	-	2,059	-
Between two and five years	4,379	-	6,392	-
After five years	-	-	-	-
Total	**6,163**	**-**	**8,451**	**-**

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

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

Guarantees and other commitments

The company had the following guarantees at 31 December 2017:

(€'000)	2017	2016
Sureties issued by Hitachi Ltd to ASTS customers	813,348	1,468,018
Sureties issued by ASTS and banks and insurance companies to third party customers on behalf of subsidiaries	1,133,904	1,138,534
Sureties issued by banks and insurance companies to third party customers	1,458,679	1,350,740
Subtotal	**3,405,931**	**3,957,292**
Guarantees received	788,448	687,084
Guarantees received from related parties	1,083,696	749,896
Subtotal	**1,872,144**	**1,436,980**
Total	**5,278,075**	**5,394,272**

Guarantees given total €3,405,931 thousand (31 December 2016: €3,957,292 thousand). They are mainly comprised of bank/insurance and company sureties given to Italian and foreign customers to guarantee participation in tenders, proper fulfilment of contracts and orders, advances and early payments of guarantees received from customers.

At 31 December 2017, the company has parent company guarantees issued by the parent Hitachi Ltd (€813,348 thousand) to foreign customers as part of commercial contracts stipulated by the company and insurance guarantees granted on credit lines of the company and counter-guaranteed by the parent for €296,828 thousand relating to the Honolulu project and the Baltimore project. Sureties issued by ASTS, banks and insurance companies to third party customers on behalf of subsidiaries amount to €1,133,904 thousand and are comprised as follows:

- €618,005 thousand related to parent company guarantees and bank guarantees against the company's credit lines, given in favour of foreign customers on behalf of the subsidiaries;
- €515,899 thousand related to counter guarantees for the use of the company's credit lines, given in favour of subsidiaries.

Sureties issued by banks and insurance companies to third parties (€1,458,679 at 31 December 2017) include the counter guarantees given in favour of banks for the relevant portion of sureties in relation to participation in consortia and joint arrangements of €97,599 thousand.

Guarantees received by the company total €1,872,144 thousand (31 December 2016: €1,436,980 thousand). They can be analysed as follows:

- €788,448 thousand related to guarantees received from the company's suppliers or subcontractors for the proper fulfilment of tenders and orders, advances and retentions paid by the company;
- €1,083,696 thousand related to company guarantees given by subsidiaries and related parties.

During the year, the company carried out direct negotiations with banks and insurance companies to obtain new credit lines of approximately €863,000 thousand. Part of this amount may be used for Ansaldo STS group companies. The company has available bank overdrafts of €125,000 thousand at year end.

Purchase and sale commitments

At 31 December 2017, the following purchase and sale commitments were in place:

(€'000)	**2017**	**2016**
Third party customers order backlog	4,588,899	4,537,911
Related party customers order backlog	524,607	518,738
Third party suppliers order backlog	1,354,748	1,218,090
Related party suppliers order backlog	273,637	254,992
Total	**6,741,891**	**6,529,731**

These amounts include commitments to purchase property, plant and equipment and intangible assets of €2,568 thousand and €173 thousand, respectively.

26. IMPACT OF RELATED PARTY TRANSACTIONS ON PROFIT OR LOSS

The impact of related party transactions on profit or loss for 2017 and 2016 is shown below:

(€000) **AT 31 DECEMBER 2017**	**Revenue**	**Other operating income**	**Costs**	**Recovery of costs**	**Other operating expense**	**Financial income**	**Financial expense**
Ultimate parents							
Hitachi Rail Europe LTD	-	-	8	-	-	-	-
Hitachi Ltd (Rail)	786	-	504	-	-	-	-
Associates							
S.P. M4 S.c.p.a.	-	-	32	-	-	-	-
M4 S.p.A.	-	-	157	-	-	10	-
Metro 5 S.p.A.	1,696	1,332	44	-	-	-	-
Hitachi Rail Italy S.p.A.	9,160	-	31,027	-	-	-	-
MetroBrescia S.r.l.	225	12	-	-	-	-	-
Hitachi High-Technologies Europe GmbH	386	-	-	-	-	-	-
Hitachi System CBT S.p.A.	-	-	1,659	-	-	-	-
Metro Service AS	6,432	-	52,227	-	-	-	-
I.M. Intermetro S.p.A.	8	-	-	-	-	-	-
Pegaso S.c.r.l. (in liquidation)	-	-	258	-	-	-	-
Subsidiaries							
Ansaldo STS Transportation Systems India Private Limited	161	768	1,912	68	-	-	-
Ansaldo STS Australia PTY Ltd.	7,065	1,653	850	108	-	-	168
Ansaldo STS UK Ltd.	318	1	24	22	-	1,150	-
Ansaldo STS Sweden AB	(502)	283	44	65	-	34	873
Ansaldo STS Deutschland GmbH	1,286	-	219	-	-	-	-
Ansaldo STS France S.A.	11,929	3,233	21,775	380	-	30,000	-
Ansaldo STS Espana S.A.U.	1,085	-	45	44	-	-	-
Ansaldo STS USA Inc.	1,895	3,436	6,835	707	-	8	119
Ansaldo STS USA International CO.	-	-	7,865	-	-	-	-
Ansaldo STS Malaysia SDN BHD	119	-	568	39	-	408	-
Ansaldo Railway System Trading (Beijing) Ltd	1,016	-	645	66	-	6,522	-
Alifana Due S.c.a.r.l.	294	14	795	1	-	-	-
Alifana S.c.r.l.	755	-	52	-	-	-	-
Consortia							
Saturno consortium	15,029	39	1,184	147	-	-	-
San Giorgio Volla Due consortium	186	-	219	-	-	-	-
MM4 consortium	22,803	90	341	22	-	-	-
San Giorgio Volla consortium	(7)	-	4	-	-	-	-
CRIS consortium	-	-	3	-	-	-	-
Ascosa Quattro consortium	5,104	-	836	-	-	-	-
Ferroviario Vesuviano consortium	2,026	-	282	-	-	-	-
Total	**89,255**	**10,861**	**130,415**	**1,669**	-	**38,131**	**1,159**
% of the total corresponding financial statements caption	**11%**	**55%**	**20%**		**0.0%**	**74%**	**7%**

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

Revenue with related parties (€89,255 thousand) decreased compared to the previous year by €33,079 thousand (from €122,334 thousand at 31 December 2016 to €89,255 thousand at 31 December 2017) following the closure of some contracts.

The expense increased by €12,572 thousand, from €116,174 thousand in 2016 to €128,746 thousand in 2017.

Other operating income mainly related to services (€8,385 thousand) provided to other group companies under the general service agreement.

Related party income and expense can be analysed as follows:

- for (€30,000 thousand) to the dividend distributed by the subsidiary Ansaldo STS France S.A. (€55,000 thousand in 2016), €6,522 thousand to the dividend of the subsidiary ASTS Railway System Trading (Beijing) Ltd. (€13,266 thousand in 2016) and for €10 thousand to the dividend of the associate Sp M4 S.c.p.A. following liquidation. Lastly, it should be noted that dividends were also distributed in 2016 by the subsidiary ASTS STS Sweden amounting to €26,156 thousand and by Ansaldo STS Australia PTY totalling €16,670 thousand;

- €1,050 thousand for the revaluation of the joint current account with Ansaldo STS UK Limited due to the transfer of the allowance for impairment recognised in previous years;
- €549 thousand for interest income on the joint current accounts with subsidiaries which had a debit position during the year;
- €1,159 thousand relating to interest expense on the joint current accounts with the subsidiaries Ansaldo STS Australia (€168 thousand) and Ansaldo STS USA Inc. (€119 thousand) which, during the year, had credit positions with the company and, for €873 thousand to Ansaldo STS Sweden for the portion of interest pertaining to the ultimate parent for interest paid and allocated in relation to the dispute with the Swedish customer AB Storstockholms Lokaltrafik.

27. REVENUE

(€'000)	**31 December 2017**	**31 December 2016**
Sales - third parties	728,806	504,914
Sales - related parties	204,801	29,922
Total revenue from sales	**933,607**	**534,836**
Services - third parties	45,391	33,969
Services - related parties	22,985	28,495
Total revenue from services	**68,376**	**62,464**
Change in work in progress - third parties	(38,640)	168,774
Change in work in progress - related parties	(138,530)	63,918
Total change in work in progress	**(177,170)**	**232,692**
Total revenue	**824,813**	**829,992**

Total revenue amounted to €824,813 thousand at 31 December 2017, compared to €829,992 thousand at 31 December 2016, marking a slight decrease of €5,179 thousand. The main volumes concern the progress of the activities of the metro contracts in Denmark, Saudi Arabia, Honolulu, Lima and Taipei.

Italian and foreign production amounted to €274,828 thousand (31 December 2016: €307,683 thousand) and €549,985 thousand (31 December 2016: €522,309 thousand), respectively.

During the year, revenue of €292,511 thousand (€39,655 thousand at 31 December 2016) was recognised, mainly relating to projects falling under the settlement agreements with Ente Autonomo Volturno, the Bologna-Florence high-speed section and other projects abroad.

28. OTHER OPERATING INCOME AND EXPENSE

	31 December 2017		*31 December 2016*	
(€'000)	**Revenue**	**Costs**	**Revenue**	**Costs**
R&D grants	2,334	-	1,898	-
Tax credit on R&D costs	-	-	-	-
Gains on sales of property, plant and equipment and intangible assets	-	-	-	-
Accruals/Reversals of provisions for risks and charges	-	340	-	100
Accruals for expected losses	-	(2,187)	-	586
Royalties	166		292	-
Net exchange rate gains	40	337	403	512
Prior year items	697	72	228	98
Insurance compensation	-	-	-	-
Restructuring costs	-	-	-	-
Indirect taxes	-	861	-	790
Interest on trade receivables/payables	5,467	1,673	1,900	1,347
Other net operating income	332	1,072	1,584	767
Total other third party operating income	**9,036**	**2,168**	**6,305**	**4,200**
Total other related party operating income	10,861	-	12,023	4
Total	**19,897**	**2,168**	**18,328**	**4,204**

Other third party operating income amounts to €9,036 thousand (31 December 2016: €6,305 thousand), up by €2,731 thousand on the previous year.

This caption is mainly comprised as follows:

- R&D grants of €2,334 thousand (31 December 2016: €1,898 thousand). For additional information about the amount and a breakdown of the research and development expense recognised in profit or loss, reference should be made to the relevant section of the directors' report;
- operating interest on trade receivables of €5,467 thousand (31 December 2016: €1,900 thousand);
- prior year debit items of €697 thousand (31 December 2016: €228 thousand);

- royalties on hardware licences of €166 thousand (31 December 2016: €292 thousand);
- exchange rate gains on operative items of €40 thousand (31 December 2016: €403 thousand).

Other third party operating expense amounts to €2,168 thousand (31 December 2016: €4,200 thousand). It is comprised of operating interest on trade payables of €1,673 thousand, other operating expense of €1,072 thousand, indirect taxes of €861 thousand, exchange rate losses on operative items of €337 thousand, accruals to the provisions for risks and charges of €340 thousand, inexistence of prior year debit/credit items of €72 thousand and uses for losses to complete contracts of €2,187 thousand. The €2,032 thousand decrease in other third party operating expense in the two periods being compared is mainly due to the higher use of the provision for expected losses to complete contracts with respect to accruals.

Other operating expense of €1,072 thousand relates to membership fees of €501 thousand, donations of €102 thousand, gifts and entertainment expenses of €212 thousand and sundry expenses of €258 thousand.

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

29. PURCHASES AND SERVICES

(€'000)	31 December 2017	31 December 2016
Materials from third parties	252,066	226,262
Change in raw materials	(236)	356
Total purchases from third parties	**251,830**	**226,618**
Purchases from related parties	46,356	49,116
Total purchases	**298,186**	**275,734**
Services from third parties	245,901	280,775
Rentals and operating leases	4,522	4,522
Hire expense	3,668	4,328
Total services from third parties	**254,091**	**289,625**
Services from related parties	82,391	67,058
Total services	**336,482**	**356,684**
Total	**634,668**	**632,418**

Total purchases and services for (€634,668 thousand) are virtually in line with those of the previous year, registering an increase of €2,250 thousand.
Purchases of raw materials, consumables, supplies and goods amounted to €298,186 thousand (31 December 2016: €275,734 thousand), up €22,452 thousand.
Services amounted to €336,482 thousand (31 December 2016: €356,684 thousand), down by €20,202 thousand.
Rentals and operating leases mainly relate to long-term rentals of company cars, software licences and the lease of the premises housing the Naples offices.

For a breakdown of costs for purchases and services from related parties, reference should be made to note 29 on related parties and the directors' report ("Management and coordination and related party transactions" section).

30. PERSONNEL EXPENSE

(€'000)	**31 December 2017**	**31 December 2016**
Wages and salaries	109,311	103,977
Stock grant plans	1,165	3,933
Social security and pension contributions	27,380	27,340
Italian post-employment benefits	657	519
Other defined benefit plans	44	(12)
Defined contribution plans	3,695	4,363
Disputes with personnel	1,629	255
Restructuring costs	-	-
Recharge of personnel expense	(1,566)	(982)
Other costs	1,559	4,671
Total personnel expense	**143,874**	**144,064**

Personnel expense amounted to €143,874 thousand (31 December 2016: €144,064 thousand).
The total value is virtually in line with the previous year. In summary, the increase in the item 'wages and salaries', as a result of the higher average headcount, was more than offset by the reduction in the item 'other costs'; it should be noted that, in 2016, said item included the recognition of costs related to transactions with the company's strategic personnel.
The recharge of personnel expense relates to personnel seconded to "related" companies mainly for: €1,088 thousand related to Ansaldo STS group companies, €104 thousand to MM4 consortium, €360 thousand to the Saturno consortium and €14 thousand to secondments to third party companies.

The headcount at 31 December 2017 numbered 1,774, compared to 1,616 employees in the previous year.

The table below shows employees by category and average number:

	31 December 2017	31 December 2016
Managers	59	60
Junior managers	333	318
White collars	1,337	1,193
Blue collars	45	45
Total	**1,774**	**1,616**

On 24 March 2017, the Board of Directors, based of the proposal of the remuneration committee of 23 March 2017, which was subsequently passed by the shareholders on 11 May 2017, approved a three-year stock grant plan, addressed to the CEO, key managers and other executives (or equivalent categories) of Ansaldo STS considered key resources by the Company. The objectives of the Plan are the same as those of the previous 2014-2016 Plan (EVA, FOCF and share performance compared to the FTSE Italia All-Share index).

Like the previous plan, the 2017-2019 stock grant plan complies with the recommendations of article 7 of the Code of conduct, as modified in March 2010 by Borsa Italiana S.p.A.'s Corporate Governance committee, and of the current article 6 of such code, as amended in December 2011, and confirms:

- a three-year vesting period for all beneficiaries;
- a two-year lock-up period for 20% of the shares due to the CEO and key managers;
- a very thin (2.5%) tolerance band, within which a proportional amount of the shares will vest on a linear basis, for each objective.

The stock grant plan cost is recognised on an accruals basis in the reporting period in which the services are rendered. The amount therefore relates to the portion pertaining to the year of the shares related to the 2017 vesting conditions (as per the 2017-2019 plan), which will be delivered considering the three-year vesting conditions.

The cost is determined on the basis of the number of shares to be assigned and their fair value.

In accordance with IFRS 2 "Share-based payment" and IFRIC 11 "Group and treasury share transactions" and their current interpretations, the cost for the stock grant plan for 2017, equal to €1,165 thousand (2016: €3,933 thousand), was recognised with a balancing entry in an equity reserve.

31. CHANGES IN FINISHED GOODS, WORK-IN-PROGRESS AND SEMI-FINISHED PRODUCTS

(€'000)	31 December 2017	31 December 2016
Changes in finished goods, work-in-progress and semi-finished products	**(1,352)**	**620**

This item recorded a decrease of €1,972 thousand, from a positive €620 thousand at 31 December 2016 to a negative €1,352 thousand in 31 December 2017.

32. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

(€'000)	*31 December 2017*	*31 December 2016*
Amortisation and depreciation:		
- intangible assets	4,273	6,180
- property, plant and equipment	5,550	4,742
	9,823	**10,922**
Impairment losses:		
- current loans and receivables	2,825	1,325
- other property, plant and equipment and intangible assets	-	-
	2,825	**1,325**
Total amortisation, depreciation and impairment losses	**12,648**	**12,247**

Amortisation and depreciation amounted to €9,823 thousand, up by €1,099 thousand on 2016. Specifically, €4,273 thousand relates to intangible assets and €5,550 thousand to property, plant and equipment. The balance is shown net of deferred income of €4 thousand for grants related to assets (Italian Law no. 488/92) and for the satellite project (€1,173 thousand).

The impairment of current loans and receivables amounted to €2,825 thousand, up by €1,500 thousand compared to 2016.

33. INTERNAL WORK CAPITALISED

In 2017, this caption amounted to €2,867 thousand (31 December 2016: €4,700 thousand).
The "Satellite and Rail Telecom" project to develop satellite technologies for new railway signalling systems began in 2012. Costs incurred during the year amount to €1,936 thousand. This project is co-financed with the European Space Agency and the Galileo Supervisory Authority.

34. NET FINANCIAL INCOME/(EXPENSE)

	31 December 2017			*31 December 2016*		
(€'000)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Interest	412	200	212	58	7,722	(7,663)
Interest on Italian post-employment benefits		275	(275)	-	268	(268)
Net exchange rate losses	4,599	5,229	(630)	2,122	4,789	(2,667)
Fair value gains and losses	4,639	3,936	703	4,198	2,966	1,233
Cash flow gains and losses	4,024	5,712	(1,688)	229	3,234	(3,005)
Other financial expense	-	689	(689)	-	593	(593)
Total net financial expense	**13,675**	**16,041**	**(2,367)**	**6,608**	**19,572**	**(12,964)**
Dividends	36,532	-	36,532	112,660	-	112,660
Impairment loss on investment	1,050	-	1,050	1,367	55	1,312
Interest and other financial income/(expense)	549	1,159	(611)	463	215	247
Net related party financial income	**38,131**	**1,159**	**36,972**	**114,490**	**270**	**114,219**
Total	**51,806**	**17,201**	**34,605**	**121,098**	**19,842**	**101,255**

Net financial income and expense fell considerably compared to the previous year, with a positive balance at 31 December 2017 of €34,605 thousand compared to a positive balance of €101,255 thousand 31 December 2016. Related party income and expense refers primarily to the distribution of dividends by some subsidiaries and associates.

Third party income and expense can be analysed as follows:

- interest income on current accounts for €412 thousand (31 December 2016: €58 thousand) and interest expense on current accounts of €200 thousand (31 December 2016: €52 thousand). Interest expense in 2016 included €7,670 thousand relating to the interest paid to the Russian customer following the conclusion of the arbitration on the Libyan contract.

- interest expense on Italian post-employment benefits of €275 thousand (31 December 2016: €268 thousand) arising from the actuarial calculation carried out in accordance with IAS 19;
- exchange rate gains of €4,639 thousand (31 December 2016: €4,198 thousand) and exchange rate losses of €3,936 thousand (31 December 2016: €2,966 thousand) which relate to currency risk hedging transactions using fair value hedges;
- exchange rate gains/losses from the translation of current account balances in foreign currency using closing rates: positive effects on the 2016 profit and loss account of €4,599 thousand (31 December 2016: €2,122 thousand) and negative effects of €5,229 thousand (31 December 2016: €4,789 thousand);
- income from exchange rate gains €4,024 thousand (€229 thousand at 31 December 2016) and exchange losses of €5,712 thousand (€3,234 thousand at 31 December 2016), for exchange gains and losses and the associated costs arising from currency risk hedging transactions using cash flow hedges;
- income for €549 thousand related to interests coming from internal current accounts maintained with subsidiaries that, during the year, have had credit positions;
- expenses for €1,159 thousand related to interests coming from internal current accounts managed with the subsidiaries Ansaldo STS Australia (€168 thousand) and Ansaldo STS USA Inc. (€119 thousand) that, during the year, have had debit positions with parent company and €873 thousand for Ansaldo STS Sweden for the interests related to the parent company paid and accrued for the litigation with the Swedish customer AB Storstockholms Lokaltrafik;
- finally, sundry financial expense of €689 thousand related essentially to banking fees and commissions (€593 thousand at 31 December 2016).

35. INCOME TAXES

Income taxes amounted to €15,482 thousand in the year. They are analysed as follows:

(€'000)	**31 December 2017**	**31 December 2016**
IRES	12,680	12,663
IRAP	1,934	2,134
Income from consolidation		
Other foreign taxes		
Prior year taxes	1,830	220
Provisions for tax risks	-	-
Net deferred tax (income) expense	(962)	1,089
Total	**15,482**	**16,106**

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

(€'000)	31 December 17			31 December 16		
	Taxable amounts	**Income taxes**	%	**Taxable amounts**	**Income taxes**	%
Pre-tax profit	**87,471**			**161,963**		
Taxes calculated at ruling tax rates		20,993	24.00%		44,540	27.50%
Deferred tax assets recoverable during the year						
Permanent differences						
- non-deductible expense	3,411	819	0.94%	1,850	509	0.31%
- tax-exempt dividends (95%)	(34,705)	(8,329)	-9.52%	(107,027)	(29,432)	-18.17%
- tax benefit (ACE - aid for economic growth)	(3,992)	(958)	-1.10%	(4,922)	(1,354)	-0.84%
- IRAP deduction - personnel expense	(1,597)	(383)	-0.44%	(1,316)	(362)	-0.22%
- tax-exempt income	(1,825)	(438)	-0.50%	(1,367)	(376)	-0.23%
Profit net of permanent differences	**48,763**	**11,703**	**13.38%**	**49,181**	**13,525**	**8.35%**
Effective IRES recognised in profit or loss and effective tax rate		**11,703**	**13.38%**		**13,525**	**8.35%**
IRAP		1,949	2.23%		2,310	1.43%
Prior year taxes		1,830	2.09%		220	0.14%
Adjustment to new nominal rates			0.00%		51	0.03%
Total effective taxes recognised in profit or loss and related rate		**15,482**	**17.70%**		**16,106**	**9.94%**

The tax rate was 17.70% at 31 December 2017 compared to 9.94% in 2016. The increase of around 7.76% was due mainly to the effect of the dividends collected in 2017 totalling €36,532 thousand, compared to €112,660 thousand in 2016, taxable for IRES purposes only to the extent of 5%; in fact, net of said item, the tax rate in 2017 is essentially in line with that of 2016.

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

Euro/000	31/12/2017 Temporary differences	Tax rate	Deferred tax assets / liabilities	Equity effect	Reclassification	Financial effect (+ income/- expenses), net of reclassification	31/12/2016 Temporary differences	Tax rate	Deferred tax assets / liabilities	Reclassification / Equity effect	Financial effect (+ income/- expenses), net of reclassification
Deferred tax assets											
Write downs of work in progress	21.550	24,00%	5.172	-	-	780	18.300	24,00%	4.392	-	(924)
Write downs of work in progress (only IRAP)	21.550	4,34%	935	-	-	141	18.300	4,34%	794	-	(167)
Write downs of inventories (IRES)	1.504	24,00%	361	-	-	168	806	24,00%	193	-	(100)
Provision for risks and charges (only IRES)	3.209	24,00%	770	-	-	362	1.699	24,00%	408	-	41
Provision for completed contracts and warranty provisions (IRES/IRAP)	665	28,34%	188	-	-	73	406	28,34%	115	-	3
Non-deductible amortization / depreciation (IRES/IRAP)	1.269	28,34%	360	-	-	24	1.185	28,34%	336	-	(3)
Non-deductible amortization / depreciation (IRES)	94	24,00%	23	-	-	-	94	24,00%	23	-	27
Translation differences - branch	443	24,00%	106	-	-	-	443	24,00%	106	-	-
Costs deductible in subsequent years (IRES/IRAP) - over 2016	-	28,34%	0	-	-	(1)	4	28,34%	1	-	(10)
Loss-making contracts (IRES)	10.638	24,00%	2.553	-	-	(525)	12.826	24,00%	3.078	-	13
Loss-making contracts (IRAP)	10.638	4,34%	462	-	-	(95)	12.826	4,34%	557	-	25
Goodwill amortization (IRES/IRAP)	1.244	28,34%	353	-	-	(235)	2.073	28,34%	587	-	(264)
Misalignment framework EC - EX ATSF (IRAP)	1.658	4,34%	72	-	-	-	1.658	4,34%	72	-	-
Non-deductible italian post-retirement benefits	1.579	24,00%	379	-	-	78	1.255	24,00%	301	-	21
Allowance for bad debts	2.691	24,00%	646	-	-	-	2.691	24,00%	646	-	-
Exchange rate losses	157	24,00%	38	-	-	(10)	-	24,00%	-	-	(11)
Allowance for impairment for interests in arrear	6.436	24,00%	1.545	-	-	(1.616)	13.171	24,00%	3.161	-	363
Interests in arrear	9.703	24,00%	2.329	-	-	392	8.071	24,00%	1.937	-	164
Deductible costs in subsequent years (IRES)	737	24,00%	177	-	-	6	714	24,00%	171	-	10
Net equity effect on traslation difference branch	12.260	24,00%	2.942	2.942	-	-	-	24,00%	-	-	-
Cash flow hedge reserve	2.647	24,00%	635	415	-	-	919	24,00%	221	221	-
Italian post-retirement benefits (IAS 19)	-	31,84%	0	265	-	(265)	-	31,84%	-	12	(12)
Others	4.743	24,00%	1.139	-	-	118	4.256	24,00%	1.021	102	305
Total	**115.415**		**21.184**	**3.622**	**0**	**-607**	**101.697**		**18.121**	**335**	**-519**

	31/12/2017 Temporary differences	Tax rate	Deferred tax assets / liabilities	Equity effect	Reclassification	Financial effect (+ income/- expenses), net of reclassification	31/12/2016 Temporary differences	Tax rate	Deferred tax assets / liabilities	Reclassification / Equity effect	Financial effect (+ income/- expenses), net of reclassification
Deferred tax liabilities											
Research grants (IRES/IRAP)	41	28,34%	12	-	-	-	41	28,34%	12	-	-
Research grants (IRES)	5.110	24,00%	1.226	-	-	(953)	9.080	24,00%	2.179	102	(39)
Allowance for bad debts (EC framework)	2.106	24,00%	505	-	-	-	2.106	24,00%	505	-	-
Uncollecte interests for arrear	19.325	24,00%	4.638	-	-	(519)	21.486	24,00%	5.157	-	446
Italian post-employment benfits (IAS 19)	-	27,50%	-	-	-	-	-	27,50%	-	-	-
Translation differences branch	91	24,00%	22	-	-	-	91	24,00%	22	-	-
Net equity effect on traslation difference branch	-	24,00%	-	(1.014)	-	-	4.227	24,00%	1.014	(116)	-
Cash flow hedge reserve	-	27,50%	-	-	-	-	-	27,50%	-	(58)	-
Margin on projects below 12 months	926	24,00%	222	-	-	(107)	1.372	24,00%	329	-	168
Exchange rate gains	156	24,00%	37	-	-	11	-	24,00%	-	-	(5)
Total	**27.755**		**6.663**	**-1.014**	**0**	**-1.569**	**38.403**		**9.218**	**-72**	**570**

The IRES and IRAP rates used for deferred taxes are those estimated when temporary differences will reverse. Specifically, for IRES purposes, deferred taxes were recognised at the new IRES rate in force starting in the tax period subsequent to 2016 (24%). The rate used for IRAP purposes is 4.34%.

The IRAP nominal rate rose by 3.9% as a consequence of the increase in the regions' health care deficit based on a local allocation (up 1.07% in Campania and 0.92% in Lazio).

Net deferred taxes recognised against equity arose from the allocation of actuarial gains/losses on Italian post-employment benefits to equity (deferred tax assets of €892 thousand against actuarial losses of €3,209 thousand) using the equity method as per IAS 19, and the hedging reserve (deferred tax liabilities of €636 thousand against an equity reserve of a negative €2,647 thousand) and the reserve for exchange rate gains or losses related to the branches (deferred tax assets of €2,943 thousand against net negative reserves of €12,260 thousand).

36. CASH FLOWS FROM OPERATING ACTIVITIES

(€'000)	*For 12 months at 31 December*	
	2017	***2016***
Profit for the year	71,988	145,857
Amortisation, depreciation and impairment losses	12,648	12,247
Income taxes	15,482	16,105
Accruals to provisions	1,969	646
Italian post-employment benefits	657	519
Defined benefit plans and stock grant plans	1,209	3,922
Financial expense, net of impairment losses on equity investments measured at cost	(34,605)	(101,256)
Gross cash flows from operating activities	**69,348**	**78,040**

(€'000)	***For 12 months at 31 December***	
	2017	***2016***
Inventories	15,471	363
Work in progress and progress payments and advances from customers	95,623	(26,596)
Trade receivables and payables	(75,200)	(4,375)
Changes in working capital	**35,894**	**(30,608)**

(€'000)	***For 12 months at 31 December***	
	2017	***2016***
Payment of Italian and other post-employment benefits and stock grants	(2,367)	(478)
Accruals/Reversals of provisions for risks	(213)	(1,016)
Changes in other operating items	(56,182)	(13,547)
Total changes in other operating items and net financial expense and taxes paid	**(58,762)**	**(15,041)**

Gross cash flows from operating activities fell compared to 2016. With reference to the change in working capital, the cash arising from the progress of new contracts was only partially offset by changes in trade receivables and payables.

37. FINANCIAL RISK MANAGEMENT

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

The company's operations expose it to the following financial risks:

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

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

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

Interest rate risk

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

Ansaldo STS manages interest rate risk to pursue the following objectives:

- stabilise the weighted average cost of capital;
- minimise and defer Ansaldo STS's WACC from medium- to long-term. To reach this objective, interest rate risk management will focus on the effects of interest rates on both debt funding and equity funding;

- optimise the return on financial investments within a general risk/return trade-off;
- limit costs related to the implementation of interest rate management policies, including direct costs related to the use of specific instruments and indirect costs linked to the internal structure needed to manage the risk.

Thanks to the combined short-term management of assets and liabilities, the company's exposure to interest rate fluctuations in the long term is relatively neutral.
Again in 2017, the group managed this risk without the use of derivatives.

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

Sensitivity analysis of interest rates

Interest rate risks are measured using sensitivity analyses in accordance with IFRS 7. With respect to the liquidity bearing floating rates, assuming an increase or decrease of 50 basis points in interest rates at year end, profit for the year (gross of the tax effect) and equity would have been greater (smaller) by €1,449 thousand, respectively.

(€'000)	**31 December 2016**	**31 December 2017**		**31 December 2017**	**31 December 2017**
	Value at Floating Rate	Value at Floating Rate	Average	Assumption 1	Assumption 2
				50.00	-50.00
Non-current related party loans and receivables	22,534	19,285	20,909	105	(105)
Trade receivables	122,918	131,370	127,144	636	(636)
Assets at fair value	-	-	-	-	-
Third party loan assets	-	-	-	-	-
Related party loan assets	22,524	63,022	42,773	214	(214)
Derivative assets - CF Hedge	1,191	4,239	2,715	14	(14)
Derivative assets - FV hedges (no back-to-back)	101	382	241	1	(1)
Cash and cash equivalents	202,996	184,463	193,729	969	(969)
Assets	**372,263**	**402,762**	**387,513**	**1,938**	**(1,938)**

Third party trade payables	59,618	68,413	64,016	320	(320)
Third party financial liabilities	-	130	65	-	-
Related party financial liabilities	39,961	12,244	26,103	131	(131)
Derivative liabilities - CF Hedge	13,866	464	7,165	36	(36)
Derivative liabilities - FV Hedge (no back-to-back)	239	475	357	2	(2)
Liabilities	**113,684**	**81,726**	**97,705**	**488**	**(488)**
Total	**258,579**	**321,036**	**289,808**	**1,449**	**(1,449)**

Currency risk

As described in the above policy, the company manages currency risk by pursuing the following objectives:

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

Currency risk shall only be hedged if it has a material impact on cash flows, compared to the functional currency.

Costs and risks related to a hedging policy (hedge, no hedge or partial hedge) must be acceptable in both financial and commercial terms.

Currency risk may be hedged using the following tools:

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

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

Currency risk hedging

There are three main types of currency risk:

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

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

Fair value hedges

These hedge fair value changes in a recognised asset or liability, an unrecognised firm commitment, an identified portion of this asset, liability or irrevocable commitment, related to a particular risk and that could impact profit or loss.
The company hedges fair value gains or losses related to the currency risk on recognised assets and liabilities.

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

(local currency '000)	*Sell17*	*Buy17*	*31.12.2017*	*Sell16*	*Buy16*	*31.12.2016*
US dollar	206,323	37,996	244,319	246,276	25,820	272,096
GBP	19,376	-	19,376	18,426	-	18,426
Swedish krona	437,800	-	437,800	-	-	-
Australian dollar	-	18,800	18,800	-	9,900	9,900
United Arab Emirates dirham	50,000	-	50,000	50,000	-	50,000
Indian rupee	101,478	-	101,478	101,478	-	101,478
Total in €'000	251,026	43,933	294,959	269,497	31,277	300,774

The net fair value of the derivatives in place at 31 December 2017 was a positive €3,683 thousand (31 December 2016: a negative €12,814 thousand) and the notional values are reported in the previous table. Notional amounts are shown in the above table. The balance includes back-to-back contracts (see note 16).

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

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

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

Sensitivity analysis of exchange rates

For the purposes of the presentation of market risks, IFRS 7 requires a sensitivity analysis that shows the effects of the hypothetical changes in the most significant market variables on profit or loss and equity.

Currency risks arise from recognised financial instruments (including trade receivables and payables) or highly probable cash flows denominated in a currency other than the functional currency.

Since the US dollar is the primary foreign currency used by the company, a sensitivity analysis was performed on financial instruments denominated in US dollars in place at 31 December 2017, assuming a +(-) 5% appreciation (depreciation) of the euro against the US dollar.
This analysis showed that an appreciation or depreciation of the euro against the US dollar would have the following impact on the company's financial statements:

	31 December 2017		***31 December 2016***	
(€'000)	+5% - appreciation of the euro against the US dollar	-5% - depreciation of the euro against the US dollar	+5% - appreciation of the euro against the US dollar	-5% - depreciation of the euro against the US dollar
Income statement	(5,361)	5,925	(4,268)	4,717

Liquidity risk

Liquidity risk can result in the inability to efficiently manage ordinary business and investment operations and to repay the amounts due at their expiry date.
The company has rolled out a series of tools to optimise treasury management with a view to the efficient management of cash and cash equivalents and to help its business grow. This was achieved by centralising the treasury function and an active presence on financial markets to obtain short- and medium-term credit lines. In this context, the company obtained short- and long-term non-revolving cash and unsecured credit lines to meet its needs and those of the group.
It had a net financial position of €231,520 thousand at 31 December 2017 (31 December 2016: €160,251 thousand).
Considering the positive net financial position, comprised of on-demand liquidity and current account overdrafts of €125,000 thousand at 31 December 2017, management believes the company can meet its needs for investing activities and working capital management and settle its payables on their expiry dates.

Liquidity analysis

(€'000) - 31 December 2017

A – Financial liabilities excluding derivatives	**Within one year**	**Between one and five years**	**After five years**
Non-current liabilities			
Third party loans and borrowings	-	-	-
Related party loans and borrowings	-	-	-
Other non-current liabilities	-	-	-
Current liabilities			
Related party trade payables	51,749	520	-
Third party trade payables	299,258	1,014	-
Related party loans and borrowings	44,227	-	-
Third party loans and borrowings	413	-	-
Other financial liabilities	-	-	-
Total A	**395,647**	**1,534**	**-**
B – Negative value of derivatives			
Hedging derivatives (including back-to-back derivatives)	7,309	-	-
Trading derivatives (economic hedge)	-	-	-
Total B	**7,309**	**-**	**-**
Total A + B	**402,956**	**1,534**	**-**

The following financial assets are recognised against financial liabilities for a total amount of €404,490 thousand:

C - Financial assets	
Securities held for trading	-
Cash-in-hand and cash and cash equivalents	184,463
Third party trade receivables	539,835
Related party trade receivables	95,296
Third party loan assets	28,443
Related party loan assets	63,254
Positive value of derivatives (including back-to-back)	10,992
TOTAL FINANCIAL ASSETS	**922,283**
D – Unsecured credit lines	**125,000**
TOTAL C + D	**1,047,283**
C+D-(A+B)	**642,792**

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

Credit risk

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

With respect to trading transactions, its main customers are public entities or related to public bodies, mostly in the Eurozone. With respect to counterparty risks, for contracts with countries with which the company does not have regular trading transactions, solvency is analysed at the time the offer is placed, in order to avoid future credit risks. The nature of these customers is a guarantee of solvency; however, collection times (particularly in certain countries) may be significantly longer than those typical of other businesses, with sometimes considerable overdue amounts which may also trigger disposal transactions. As described below, this situation is particularly marked during this period of crisis.

At 31 December 2017, third party trade receivables amounted to €539,835 thousand (31 December 2016: €509,019 thousand) and were overdue for €236,604 thousand (31 December 2016: €216,433 thousand), of which €137,698 thousand (31 December 2016: €160,131 thousand) by more than 12 months.

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

(€'000)	**Public bodies**			**Other customers**			
	Area Europe	**Area Americas**	**Other**	**Area Europe**	**Area Americas**	**Other**	**Total**
Retentions	18,770	8,579	10,125	11,664	-	12,430	61,567
Not overdue	42,147	6,310	20,051	143,194	-	29,962	241,664
Overdue by less than one year	37,335	-	-	27,221	-	34,349	98,906
Overdue between one and five years	50,244	-	46,216	25,196	-	16,042	137,698
Overdue by more than five years	-	-	-	-	-	-	-
Total	**148,497**	**14,889**	**76,392**	**207,275**	**-**	**92,783**	**539,835**

Classification of financial assets and liabilities

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

(€'000)	**Fair value through profit or loss**	**Loans and receivables**	**Held to maturity**	**Available for sale**	**Total**	**Fair value**
Non-current assets						
Loans and receivables	-	2,203	-	-	2,203	2,203
Related party loan assets	-	25,627	-	-	25,627	25,627
Current assets						
Third party assets at fair value	-	-	-	-	-	-
Third party trade receivables	-	539,835	-	-	539,835	539,835
Related party trade receivables	-	95,296	-	-	95,296	95,296
Third party loan assets	-	28,443	-	-	28,443	28,443
Related party loan assets	-	63,254	-	-	63,254	63,254

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

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

(€'000)			Fair value at 31.12.2017	Fair value at 31.12.2016
	Fair value hierarchy at the reporting date		Level 2	Level 2
Assets				
	Interest rate swaps			
		Trading	-	-
		Fair value hedges	-	-
		Cash flow hedges	-	-
	Currency forwards/swaps/options			
		Trading		
		Fair value hedges	382	101
		Cash flow hedges	4,239	1,191
	Equity instruments (trading)		-	-
	Embedded derivatives (trading)		-	-
Liabilities				
	Interest rate swaps			
		Trading	-	-
		Fair value hedges	-	-
		Cash flow hedges	-	-
	Currency forwards/swaps/options			
		Trading	-	-
		Fair value hedges	475	239
		Cash flow hedges	464	13,866
	Equity instruments (trading)		-	-
	Embedded derivatives (trading)		-	-

38. DIRECTORS' AND STATUTORY AUDITORS' FEES AND THE GENERAL MANAGER'S AND KEY MANAGERS' REMUNERATION

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

(€'000)	***31.12.2017***	***31.12.2016***
Fees	3,769	5,549
Stock grants	573	180
Total	**4,342**	**5,729**

Fees paid to directors, key managers and the general manager amounted to €4,342 thousand in 2017 (2016: €5,729 thousand).

These amounts include fees and any other type of remuneration and social security sums due for the position of director, key manager or general manager in the parent or in other companies included in the consolidation scope, which represented a cost for the group.

In 2017, as outlined in more detail in the paragraph "Personnel and Organisation", Mr. Corsi and Mr. Gallo were appointed as Key Managers and the relevant compensation inserted in said scheme, while 2016 included costs related to transactions with the company's strategic personnel.

Fees include those paid to the members of the board of directors and the supervisory bodies.

Statutory auditors' fees pertaining to the company amounted to €210 thousand in 2017 (2016: €210 thousand).

In order to implement an incentive and loyalty scheme for certain employees, the company has launched incentive plans which, upon reaching set vesting conditions, provide for the awarding of Ansaldo STS S.p.A. shares. Shares were delivered in 2017 as the 2014 vesting conditions of the 2014-2016 plan have a three-year term. In addition, the shares for the 2017 vesting conditions as part of the new 2017-2019 plan were accrued.

Shares held by members of the board of directors, the general manager and key managers are reported in the Remuneration Report to which reference should be made.

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

(in euros)

ENTITY	POSITION			Fees for the position held in the reporting company for 2017	Non-monetary benefits	Bonuses and other incentives	Other fees paid
Name and surname	*Position*	*Date of appointment*	*End of term*				
Alistair Dormer	Chairperson of the BoD	13/05/2016	Approval of 2018 financial statements	75,000 (1)			
Alberto de Benedictis (b) (c)	Deputy chairperson - BOD	13/05/2016	Approval of 2018 financial statements	95,000 (2)			
Katharine Rosalind Painter (a) (d)	Director	13/05/2016	Approval of 2018 financial statements	95,000 (3)			
Andrew Thomas Barr (g)	Chief executive officer and general manager	24/05/2016	Approval of 2018 financial statements	80,000 (4)	30,212		419,610*
Mario Garraffo (b) (d)	Director	13/05/2016	Approval of 2018 financial statements	90,000 (5)			
Katherine Jane Mingay	Director	13/05/2016	Approval of 2018 financial statements	50,000 (6)			
Rosa Cipriotti	Director	13/05/2016	Approval of 2018 financial statements	50,000 (6)			
Fabio Labruna	Director	13/05/2016	Approval of 2018 financial statements	50,000 (6)			
Giuseppe Bivona	Director in office until 19/01/2017	13/05/2016	Approval of 2018 financial statements	2,603 (7)			
Michele Alberto Fabiano Crisostomo	Director in office from 19/01/2017	19/01/2017	Approval of 2018 financial statements	47,397 (8)			
Nicoletta Garaventa (e)	Chairperson of the supervisory body	24/05/2016	three-year term	25,000			
Alberto Quagli (f)	Member of the supervisory body	24/05/2016	three-year term	20,000			
Giacinto Sarubbi (h)	Chairperson of the board of statutory auditors	15/04/2014	Approval of 2016 financial statements	26,958			5,342**
Maria Enrica Spinardi (i)	Statutory auditor	15/04/2014	Approval of 2016 financial statements	17,972			3,562**
Renato Righetti (i)	Statutory auditor	15/04/2014	Approval of 2016 financial statements	17,972			3,562**
Antonio Zecca (l)	Chairperson of the board of statutory auditors from 11/05/2017	11/05/2017	Approval of 2019 financial statements	48,042			9,658**
Giovanni Naccarato (m)	Statutory auditor since 11/05/2017	11/05/2017	Approval of 2019 financial statements	32,028			6,438**
Alessandra Stabilini (m)	Statutory auditor since 11/05/2017	11/05/2017	Approval of 2019 financial statements	32,028			6,438**

* of which, fixed remuneration of €340,463 for the position of general manager and other fees for 2017 and €79,147 for variable remuneration paid for such position.

** fees for positions on committees

(a) Chairperson of the appointments and remuneration committee	(1) Chairperson of BOD.
(b) Member of the appointments and remuneration committee	(2) Deputy Chairperson of BOD - ARC - Chairperson of RCC
(c) Chairperson of the risk and control committee	(3) BOD - RCC and Chairperson of ARC
(d) Member of the risk and control committee	(4) CEO and general manager
(e) Chairperson of the supervisory body	(5) BOD - RCC and ARC
(f) Member of the supervisory body	(6) BOD
(g) Chief executive officer and general manager	(7) BOD until 19/01/2017
(h) Chairperson of the board of statutory auditors until 10/05/2017	(8) BoD since 19/01/2017
(i) Statutory auditor until 10/05/2017	
(i) Chairperson of the board of statutory auditors from 11/05/2017	
(m) Statutory auditor from 11/05/2017	

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

39. HIGHLIGHTS AT 31 MARCH 2017 OF THE COMPANY THAT CARRIES OUT MANAGEMENT AND COORDINATION ACTIVITIES (ARTICLE 2497-BIS OF THE ITALIAN CIVIL CODE)

The highlights of the parent Hitachi Ltd., shown in the summary schedule as required by article 2497 bis of the Italian Civil Code, were taken from the financial statements at 31 March 2017.

For an adequate and comprehensive picture of Hitachi Ltd.'s financial position and results of operations as at and for the year ended 31 March 2017, reference should be made to Finmeccanica's financial statements, which are available as required by law along with the report of the independent auditors.

The most recently approved financial statements of Hitachi Ltd. are those at 31 March 2017, as its reporting period is from 1 April to 31 March.

HITACHI LTD *(Millions of yen)*

STATEMENT OF FINANCIAL POSITION	**31 March 2017***
ASSETS	
NON-CURRENT ASSETS	2,385,773
CURRENT ASSETS	1,684,474
TOTAL ASSETS	**4,070,247**
LIABILITIES	
EQUITY:	
- Share capital	458,790
- Reserves and retained earnings	940,914
- Profit for the year	97,724
	1,497,428
NON-CURRENT LIABILITIES	767,109
CURRENT LIABILITIES	1,805,710
TOTAL LIABILITIES	**4,070,247**
INCOME STATEMENT	
REVENUE	1,906,532
OTHER REVENUE	146,816
COSTS	(1,981,751)
EXTRAORDINARY INCOME AND EXPENSE	59,354
INCOME TAXES	(33,227)
PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	-
PROFIT FOR THE YEAR	**97,724**

Hitachi LTD prepares consolidated financial statements

*** The most recently approved financial statements of Hitachi Ltd are those at 31 March 2017*, as its reporting period is from 1 April to 31 March**

40. INFORMATION PURSUANT TO ARTICLE 149-DUODECIES OF THE ISSUER REGULATION

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

(€'000)	**Service provider**	**2017 fees**
Audit	EY S.p.A.	207
Attestation services	EY S.p.A.	170
Tax consultancy services	-	-
Other services	-	-
		377

Genoa, 14 March 2018

On behalf of the board of directors
The Chairperson

Alistair Dormer

STATEMENT ON THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND INTEGRATIONS AND ARTICLE 154-BIS.2 OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 AND SUBSEQUENT AMENDMENTS AND INTEGRATIONS

1. The undersigned, Mr. The undersigned, Andrew Thomas Barr, as CEO and general manager, and Renato Gallo as manager in charge of financial reporting for Ansaldo STS S.p.A., also considering the provisions of article 154-bis.3/4 of Italian Legislative decree no. 58 of 24 February 1998 and subsequent amendments and integrations, state that the administrative and accounting procedures used to draft the consolidated financial statements for the 1 January 2017 - 31 December 2017 period
   - are appropriate in relation to the nature of the business and
   - have been effectively applied.
2. There is nothing to report in this regard.
3. Moreover:

3.1 the separate financial statements:

a) are drafted in compliance with the IFRS endorsed by the European Community, pursuant to EC regulation no. 1606/2002 issued by the European Parliament and Council on 19 July 2002;

b) are consistent with the accounting ledgers and accounting entries;

c) give a true and fair view of the issuer’s financial position and results of operations.

3.2. The directors’ report accompanying the separate financial statements provides a reliable analysis of the important events taking place in the year, together with a description of the key risks and uncertainties.

Genoa, 14 March 2018

Signature of the Chief executive officer and general manager	Signature of the Manager in charge of financial reporting
Eng. Andrew Thomas Barr	**Renato Gallo**