Ansaldo STS

A Hitachi Group Company

First Quarter 2018 results

Analysts Conference Call

May 9, 2018

Agenda and contents

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Roberto Corsanego, Head of IR

1. Orders and recent performance by region

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Q1 2018 Results - Main Orders Booked

Country	Project Name	Customer	Value (M€)
Saudi Arabia	Princess Noura University O&M	Princess Noura Bint Abdul Rahman University	34
France	OCTYS system for Paris Metro Line 6	RATP	18
USA	Los Angeles track circuit replacements	LACMTA	15
Australia	Rio Tinto - Variation orders	Rio Tinto	13
Various EU/Asia	Components	Various	23
Various EU/Asia	Service & Maintenance	Various	16
USA	Components	Various	12

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Princess Noura University O&M - Riyadh

Ansaldo STS, together with our local joint venture partner Arail, has been awarded a €34 million contract from the Princess Noura Bint Abdul Rahman University for the provision of an operation and maintenance (O&M) service contract for its driverless metro at its Riyadh campus. This is the largest university for women in the world, with over 40,000 students. The metro is 11.5 km long, all on a viaduct, with 14 stations. We have been working on the site since the start in 2009. Under the new contract Ansaldo STS as leader will be the operator of the transit system APM (automated people mover) and Arail will have responsibility for facility management, infrastructure maintenance and cleaning. Over the last six years Ansaldo STS has supported the main contractor for the campus construction in the O&M activities.

Signing ceremony with the University Vice Rector (centre left) and Italian ambassador (centre right)

Ceremony attended by our management and joint venture partner Arail

OCTYS CBTC system for Paris Metro line 6

RATP (Régie Autonome des Transports Parisiens), Paris metro operator, has awarded Ansaldo STS a 18 Euro million contract for the implementation of the OCTYS system (Open Control of Trains, Interchangeable & Integrated System), CBTC based technology to modernize the 14 km serving 28 stations of Paris metro line 6.

The project is part of “Metro 2030” strategic plan initiated by RATP for the modernization of the metro operating systems with the development of digital technologies on Paris metro network. Already operating since end of 2012 on line 3, Ansaldo STS’s CBTC offers the highest performances by reducing significantly the headways and increase operational efficiency.

Within the scope of the contract, Ansaldo STS will provide an updated version of its CBTC technology and systems (Zone Controller, Frontam), as well as related devices and architecture to interface with existing wayside signalling equipment, in order to perform the wayside automation systems on RATP line 6.

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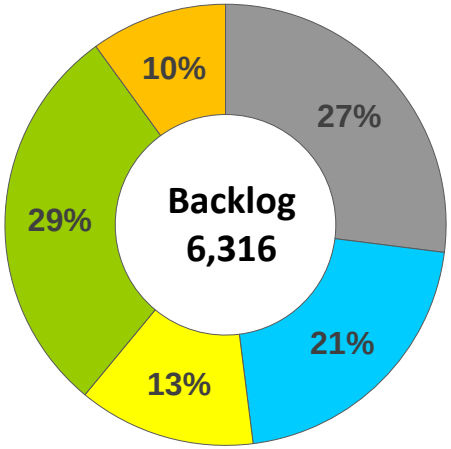
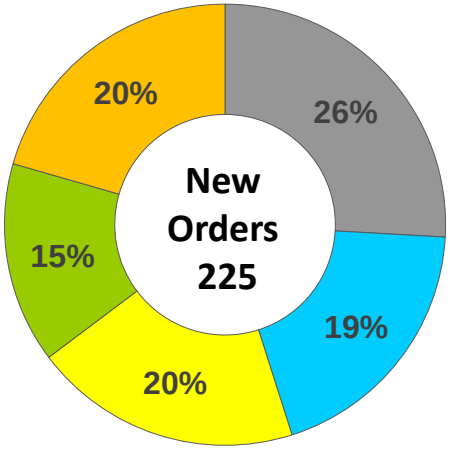
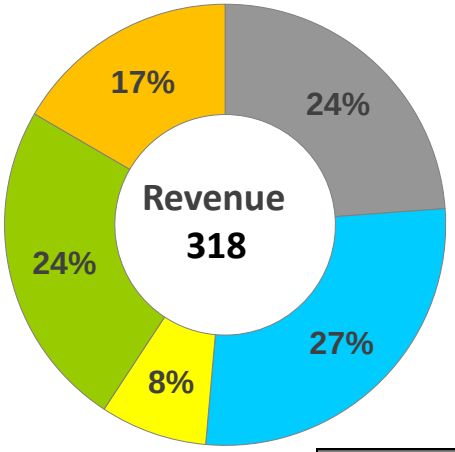
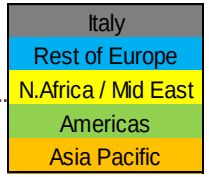
Backlog, Orders & Revenue by Geographic Area

Q1 - 2018









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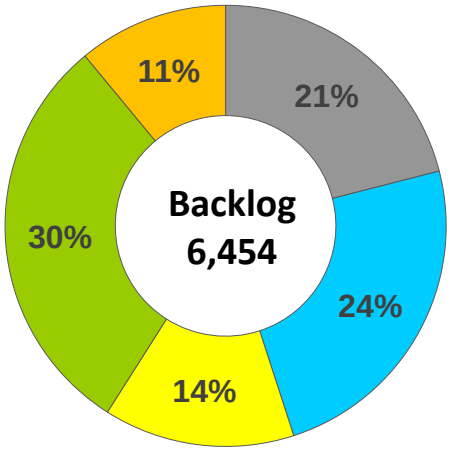
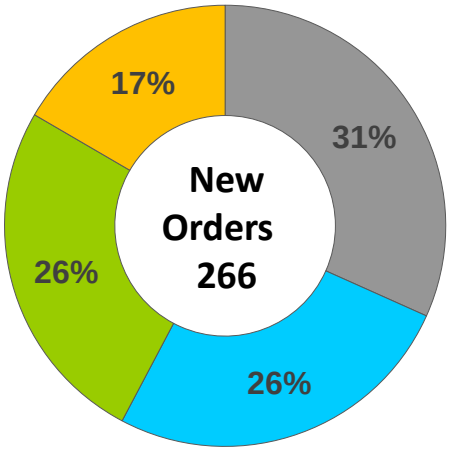
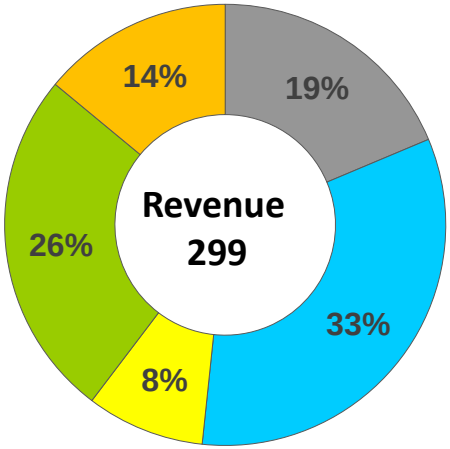






Orders & Revenues by Area – Q1 2018 vs Q1 2017

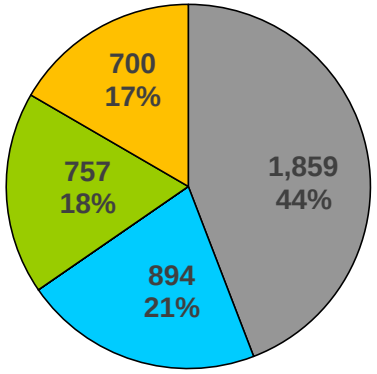
ORDERS	Q1 2018	Q1 2017	*% change*
Italy	58	84	*-31%*
Rest of Europe	43	69	*-38%*
N. Africa / Middle East	44	0	*n.s.*
Americas	33	68	*-52%*
Asia Pacific	46	44	*5%*
TOTAL	225	266	*-16%*

REVENUE	Q1 2018	Q1 2017	*% change*
Italy	76	56	*37%*
Rest of Europe	88	99	*-11%*
N. Africa / Middle East	25	26	*-4%*
Americas	77	77	*0%*
Asia Pacific	53	42	*27%*
TOTAL	318	299	*6%*

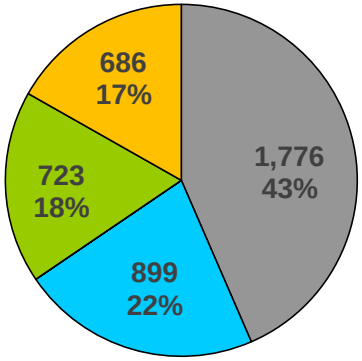
Headcount

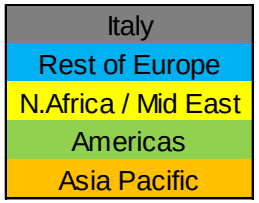
Country	Main Locations	Q1 2018	Q12017
ITALY	Genoa, Naples, Turin, Potenza, Branches	1,859	1,776
FRANCE	Les Ulis, Riom	650	647
SPAIN	Madrid	172	172
SWEDEN	Stockholm	55	64
OTHER EUROPE	Munich, London	17	16
USA - CANADA	Pittsburgh, Batesburg, Montreal	757	723
AUSTRALIA	Perth, Brisbane	260	266
INDIA	Bangalore, Noida, Kolkata, Mumbai	316	302
MALAYSIA	Kuala Lumpur	60	54
CHINA	Beijing	64	64
TOTAL HEADCOUNT		4,210	4,084

Q1 2018



Q1 2017





2. Recent key events

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Stockholm Red Line Metro update

- On November 7, 2017, the Swedish client SL has terminated unilaterally the contract, alleging breach by Ansaldo STS.

- On December 20, 2017, an agreement was signed between Ansaldo STS and SL, regarding the return to the Company of all the bonds previously provided in favor of SL, following the repayment of all the advance payments paid by SL to the Company, for a total amount of approximately EUR 76 million (approximately EUR 14 million of VAT and EUR 4 million of interest included).

- According to the signed agreement Ansaldo STS paid back the above mentioned amounts against the release by SL of all the bonds. This payment was made under protest, without prejudice to Ansaldo STS' rights and pending the final legal resolution of the dispute.

- The Company has evaluated all the possible judicial initiatives to defend its own rights, including the right to obtain the full payment of the work performed to date as well as the compensation for the damages suffered, in particular due to the unilateral termination by SL of the contractual relationship.

- Further to this, Ansaldo STS has on April 3, 2018, filed a request for arbitration against SL.

- In the request for arbitration Ansaldo STS has appointed its arbitrator and has stated that it intends to claim that the arbitral tribunal shall establish SL’s termination of the System Delivery Agreement and the Maintenance Agreement was unfounded, the rescission constitutes a breach of contract and Ansaldo STS is entitled to compensation.

3. Financials

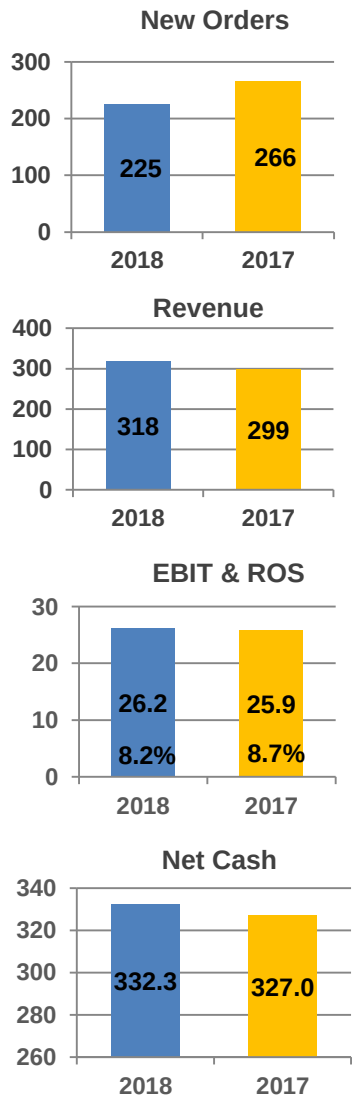
Q1 2018 - Key Facts

❑ **New Orders** at 225 M€, down 41 million (-15%) compared with Q1 2017, also due to the shifting of some important opportunities. Main orders booked in the first quarter of the year are: Princess Noura University O&M in Riyadh for 34M€; OCTYS CBTC system for Paris Metro line 6 for 18M€; Los Angeles track circuit replacements for 15M€; Rio Tinto variation orders for 13M€.

❑ **Revenue** at 318 million, with an increase of 19 million (+7%) compared with Q1 2017, mainly due to higher contribution coming from projects in Italy and Asia Pacific regions, only partially offset by lower production in Rest of Europe region.

❑ **EBIT** at 26.2 M€, 0.3 M€ higher versus same period last year, with a **ROS** of 8.2% compared to 8.7% in Q1 2017. The period is characterized by higher volumes and higher R&D investments. Starting from January 1st this year new IFRS 15 standard came into force: net of this, **ROS restated** would have been 8.7%, in line with Q1 2017.

❑ **Net Financial Position** (**cash**) at 332.3 M€, with an improvement of 5 million versus the amount achieved in Q1 2017. **FOCF (Free Operating Cash Flow)** equal to -22.3 M€ compared to -11.0 M€ in Q1 2017, substantially in line with the expectations.



Q1 2018 Results - Key Data

(M€)	Q1 2018	Q1 2017	*% change*
New Orders	**225.4**	266.1	*-15.3%*
Order Backlog	**6,315.5**	6,454.0	*-2.1%*
Revenue	**318.5**	299.1	*6.5%*
EBIT	**26.2**	25.9	*1.2%*
ROS	**8.2%**	8.7%	*-0.5 p p*
Tax Rate	**25.5%**	30.9%	*-5.4 p p*
Net Result	**21.5**	20.0	*7.6%*
Net Working Capital	**132.4**	151.4	*-12.6%*
Net Financial Position	**(332.3)**	(327.0)	*1.6%*
R&D	**11.1**	7.9	*39.9%*
Total Headcount	**4,210**	4,084	*3.1%*
EVA	**10.5**	8.5	*23.1%*

New ruling and reason

- The year 2018 sees a change in the way we account for large contracts due to the introduction of IFRS 15 new accounting principle, mandatory from January 1st, 2018

- The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue arising from a contract with a customer.

The new standard

Performance obligation	A promise in a contract to transfer to the customer either: i. a good or service (or a bundle or goods or services) that is distinct; or ii. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
Transaction price	The amount that an entity expects to be entitled in exchange for transferring promised goods or services to a customer.
Bidding costs	Identify the Bidding costs with the new rule to capitalize the fulfillment costs and incremental bid costs, while all the other bidding costs cannot be recorded on the project anymore.

New ruling and expected impacts on ASTS

- Accounting new rules can be summarized mainly as split of contracts among performance obligations and bidding costs not to be recharged on projects anymore.

- The new accounting principle effects have been estimated by Ansaldo STS for the year 2018

  As a general statement, it is important to say that: 1) No impacts will be recognized on whole life revenue and margin of single contracts; 2) No impacts will be recognized on cash flows

  Mainly as a consequence of the split of contracts among performance obligations (i.e. two separate projects for Delivery and O&M) and depending on the percentage of completion of the single projects, it has been estimated a negative impact on the 2018 profitability, for approximately -50 basis points of ROS.

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2018 main Key Data Guidance

(M€)	2017 Actual	2018 *Guidance*
New Orders	1,500.8	1,500 - 2,000
Order Backlog	6,457.5	6,450 - 7,050
Revenue	1,361.0	1,350 - 1,450
ROS	7.4%	8.0% - 8.5%
Net Financial Position	(357.5)	(300) - (380)

- *2018 ROS is penalized by the implementation of the IFRS 15 new standard. Estimated impact is approximately -50 basis points.*

4. Q&A

5. Accounting definitions

Renato Gallo, the Manager in charge of preparing the company's financial reports, hereby declares, pursuant to article 154-bis, paragraph 2 of the Consolidated Law on Finance, that the actual accounting information contained in this presentation corresponds to document results, books and accounting records

This Analysts Presentation contains forward-looking statements which are based on current plans and forecasts of Ansaldo STS S.p.A. Such forward-looking statements are by their nature subject to a number of risk and factors not foreseeable that could cause actual results to differ from the plans, objectives and expectations expressed in such forward-looking statements.
These such forward-looking statements speak only as of the date on which they are made, and Ansaldo STS S.p.A. undertakes no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

Accounting definitions

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

The components of each indicator are described below as required by CESR/05 - 178b Communication:

EBIT: earnings before interest and taxes, before any adjustment. EBIT excludes gains or losses on unconsolidated equity investments and securities, as well as any gains or losses on sales of consolidated equity investments, which are classified under "financial income and expense" or "share of profits (losses) of equity-accounted investees" if related to equity-accounted investments.

Return on Sale (ROS): it is calculated as the ratio of EBIT to Revenue.

Free operating cash flow (FOCF): this indicator is the sum of cash flows generated by (used in) operating activities and cash flows generated by (used in) investing and disinvesting in property, plant and equipment, intangible assets and equity investments, net of cash flows from acquisitions and sales of equity investments which are deemed "strategic" due to their nature or importance. The FOCF is shown in the reclassified consolidated statement of cash flows.

Economic Value Added (EVA): it is the difference between EBIT, net of income taxes and the cost of the average invested capital of the current and previous year measured on the base of the Weighted Average Cost of Capital (WACC).

Net Working Capital: It is working capital less provisions for current risks and other current assets and liabilities.

Net Financial Position (NFP) or Debt: The calculation model used complies with paragraph 127 of the CESR/05-054b recommendations implementing Regulation (EC) n° 809/2004.

New Orders: It is the sum of the contracts agreed with customers during the reporting period that meet the contractual requirements to be recorded in the orders book.

Order Backlog: It is the difference between new orders and revenue for the period (including the change in contract work in progress). This difference is added to the backlog for the previous year.

Headcount: It is the number of employees recorded in the relevant register on the reporting date.

Research and development costs: 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.

6. Glossary of rail terminology abbreviations

ACC – M: “Apparato Centrale Computerizzato Multistazione” is a centralized interlocking system through which it is possible to manage multiple stations along the line.

APM: Automated People Mover, is a type of small scale automated guideway transit system, usually serving small areas such airports, downtown districts or parks.

APRs: Automatic Position Reporting System, radio based digital communications system for local, regional, or long distance.

ATC: Automatic Train Control, or ATC, is an integrated signaling system that guarantees the secure movement of trains. ATC integrates various subsystems positioned on-board and wayside. In addition to a full interlocking system, a complete ATC system consists of three subsystems: (i) ATP, (ii) ATO and (iii) ATS.

ATP: Automatic Train Protection, or ATP, is an ATC subsystem responsible for the safe operation of a signaling system. It imposes speed limits on trains, both to maintain a safe operating distance between them and to comply with safety and speed requirements. The ATP system is designed to be a fail-safe (vital) system.

ATO: Automatic Train Operation, or ATO, is an ATC subsystem which performs on-board, non-vital functions normally performed by a train driver, including ensuring a smooth acceleration of the train to the running speed, speed regulation and smoothly stopping the train at the proper position at station platforms or in front of stopping signals. ATO subsystems are primarily located on-board and represent one of the principal components of a driverless system. Additionally, ATO subsystems report vehicle health status to the central control offices.

ATS: Automatic Train Supervision, or ATS, is an ATC subsystem which operates to control trains automatically by means of ATO and ATP, in accordance with the railway timetable. This also involves a CTC system.

BALISE: An electronic beacon or transponder placed between the rails of a railway as part of an Automatic Train Protection system.

CBI: Computer Based Interlocking, or CBI, is an Interlocking System (see below) where the traditional wired networks of relays are replaced by software logic running on special-purpose fail-safe control hardware. The fact that the logic is implemented by software rather than hard-wired circuitry greatly facilitates the ability to make modifications when needed by reprogramming rather than rewiring (ACC, MicroLok® and SEI/PAI-NG are the Ansaldo STS CBI interlockings).

CBS: Communications Based Signalling.

CBTC: Communication Based Train Control, or CBTC, is a system that allows for the interchangeability of different technological systems in use on various metro lines. CBTC can be understood as an attempt to create an ERTMS type standard for the mass transit industry.

CENELEC: European Committee for Electro technical Standardization.

CTC: A Centralized Traffic Control system, or CTC, monitors the status of signaling on a line or network and displays the relevant status information to a central operator, assists in the management of the line or network consistent with the timetable and exercises control to prevent small schedule disturbances from becoming traffic jams. CTC also notifies the operator of ATC equipment failures and of failures in traction power and passenger station support facilities.

CTC EVO: Evolved Centralized Traffic Control.

CTCS : Chinese Train Control System, a train control system used on railway lines in China

DPL: Dedicated Passenger Line.

DTG: Distance to Go, Wayside and on board ATP system track circuit based.

ERSC: Emulation Code Block, system that assure distance from trains with code in track circuits

ETCS: The European Train Control System (ETCS) is a signaling, control and train protection system designed to replace the many legacy safety systems currently used by European railways, especially on high-speed lines.

ERSAT: latest satellite generation that interfaces and integrates the railway technology ERTMS (European Rail Traffic Management System) with the navigation and satellite positioning technology Galileo. The acronym comes from ER, for ERTMS, and SAT, indicating the satellite technology.

ERSAT EAV: project, funded with the contribution of GSA, where new localization algorithms were tested together with the ability to integrate EGNOS and Galileo in the Ansaldo STS's ERTMS solution, integrated with satellite technology and scheduled for ERSAT solution. The acronym EAV means Enabling and Validation.

ERTMS: The European Rail Traffic Management System, or ERTMS, was introduced by the EU in 1992 as a means of creating a uniform system of command, control and coordination of rail traffic to allow for ''interoperability'' throughout EU territory. The ERTMS standard exists at three levels (ERTMS 1, 2 and 3) depending on use, each distinguished by the type of wayside and on-board equipment used and the manner in which this equipment communicates relevant data.

EUROCAB / EVC: Onboard computer used to process ETCS information.

GA: Generic Application.

GCP: Grade Crossing Predictor, an electronic device which is connected to the rails of a railroad track and activates the crossing's warning devices (lights, bells, gates, etc.), based on a range of factors, including train speed, which minimizes waiting delays for drivers and therefore reduces the number of accidents.

GNSS: Global Navigation Satellite System, satellite-based global navigation system, can rely on US GPS (Global Positioning System), or Russian GLONASS (Global Navigation Satellite System), or European Galileo system under development.

GP: Generic Product.

GSM-R: Global System for Mobile Communications-Railway, an international wireless communications standard for railway communication.

HERMES: Automation – Supervision system used for mass transit system.

HSL: High Speed Line, or HSL, refers to railway lines with capacity for speeds in excess of 200 km/h (125 mph).

ICSS: Integrated Control & Safety System. Integrated Communication Switching System.

IETO: Integrated Electronic Train Order.

IXL: Interlocking System. An interlocking system is responsible for the reliable and safe movement of trains inside a station, through complex junctions and for the length of the line. The interlocking system ensures that train movement is permitted only when a route is available and the switches along this route are safely locked in their position. In all cases the interlocking allocates a track portion or a route to one train at a time, excluding all others.

LDS: Localization Determination System, satellite-based solution for train control system SIL 4 localization.

LEU: Encoder. Product that is interfaced to balise and permit it to change the telegram to be sent to the train in the intermittent ATP according to the status of the route.

LRT: Light Rail Transit, or LRT, refers to a form of urban rail transit that utilizes equipment and infrastructure that is typically less massive than that used for metro systems, with modern light rail vehicles usually running along the system.

MTBF: Mean time between failures is the predicted elapsed time between inherent failures of a system during operation.

MTBHE: Mean Time Between Hazardous Events, estimated time between two events that can cause an hazardous event.

MT: Mass Transit.

OCC: Operational Control Centre, system that monitors the status of signaling on the line and the location of trains.

OCTYS: Open Control of Trains, Interchangeable & Integrated System.

OTP: Optimizing Traffic Planner, or OTP, is a traffic management system that permits real time monitoring of the positioning of trains throughout a railway system. OTP optimizes system or network capacity by safely minimizing the time between trains, reducing operating costs. OTP is primarily designed for those markets where railway systems infrastructure is being used to full capacity.

PTC: Positive Train Control, North American freight railway implementation of CBTC.

RBC: Radio Block Centre. All trains automatically report their exact position and direction of travel to the RBC at regular intervals. RBC sends by radio fail safe information to the train (ATP).

ROC: Remote Operations Centre.

SA: Specific Application.

SCADA: A Supervisory Control And Data Acquisition system, or SCADA, allows for the supervision of the various subsystems at work in a railway or mass transit environment. SCADA collects information from remote installations, transfers it back to a central office, analyzes the information, takes appropriate action and displays that data on a number of operator screens.

SCC: Automation – Supervision system used for railways system.

SCMT: Sistema di Controllo della Marcia del Treno. Automatic train protection system.

SIL: 0, 2, 4: Safety Integrity Level (SIL) is determined for components and systems with safety functions.

SSA: Support System for Automatic dispatch.

SSC: Sistema Supporto Condotta, Italian train stopping system. Less sophisticated than SCMT.

STO: Semi-automated Operation Mode.

TETRA: Terrestrial Trunked Radio , digital data and voice communication system.

TLC: Telecom networking.

TSRs: Temporary Speed Restrictions.

TTCS: Train Conformity Check System verifies the conformity of running Rolling Stocks.

TVM: Transmission Voie-Machine (TVM, track-to-train transmission in English) is a form of in-cab signalling originally deployed in France and used on high-speed railway lines.

UTO: Grade of Automation for systems, where there is no driver in the front cabin of the train, nor accompanying staff assigned to a specific train. This can also be referred to as Unattended Train Operation, or UTO.

VSS: Vital Safety Server used in freight application (both as for IXL and RBC).

Our commitment to the theme of sustainable development is expressed in the countries where we operate, across five continents, through the dissemination of our corporate vision, attention to environmental, social, and promote our work through a climate of cooperation with local cultures.

In coherence with our vision we have joined the Global Compact, a voluntary initiative launched by the UN to spread the culture of respect for human rights, labor, environment and the fight against corruption.

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