

**Participation by the Board of Statutory Auditors in the Shareholders' Meeting of Ansaldo STS S.p.A. pursuant to Art. 2408 of the Italian Civil Code**

**I asked the Chairman of the Shareholders' Meeting for the floor to read out the response from the Board of Statutory Auditors to a complaint pursuant to Art. 2408 of the Italian Civil Code and to provide information about a matter concerning the Board of Statutory Auditors, which it views with profound disappointment, given the apparent unfairness of the matter in the light of the heavy workload and extensive efforts of the Statutory Auditors.**

On 23 November 2016, Elliott International LP, the Liverpool Limited Partnership and Elliott Associates LP (collectively “**Elliott**”), as shareholders of Ansaldo STS S.p.A. (“**Ansaldo STS**”) – who on 23 November 2016 declared that they held a total equity interest in Ansaldo STS of 21.626% – sent the Board of Statutory Auditors of Ansaldo STS a complaint “... *aimed at reporting certain facts concerning the management of Ansaldo STS and its corporate governance structure...*” pursuant to Art. 2408 of the Italian Civil Code (the “**Complaint**”).

The Board of Statutory Auditors observes that the aforementioned Complaint should be viewed within the framework of Art. 2408, paragraph 2, of the Italian Civil Code, which requires that if a complaint is lodged by shareholders who “*represent at least one... fiftieth in companies whose shares are listed on regulated markets or are widely held by the public, the Board of statutory auditors must investigate the facts cited in the complaint without delay and present its conclusions and proposals, if any, to the Shareholders' Meeting....*”

Before examining the Complaint in detail, the Board of Statutory Auditors believes it will be appropriate to recall that the subject matter of paragraph 4 of the Complaint has already been thoroughly discussed in the “*Proposal by the Board of Statutory Auditors for the Ordinary Shareholders' Meeting for the award of the new independent auditing engagement for the period 2016-2024 and the determination of the related consideration*” included in the “*Illustrative report by the Board of Directors drafted pursuant to Art. 125-ter of Legislative Decree 58 of 24 February 1998,*” published on 19 December 2016 in view of the Ordinary Shareholders' Meeting called for 19 January 2017 in single session, referenced in full herein.

The Board of Statutory Auditors would further like to clarify that, pursuant to applicable legislation, it is tasked with taking a position, in the legally mandated forms (Art. 2408 of the Italian Civil

Code), as to whether the circumstances that the complainant regards as objectionable – and hence that form the subject matter of the complaint – are in fact objectionable. It thus follows that in this report the Board of Statutory Auditors has only considered the contents of the Complaint and not also those of the letter of 14 June 2016, sent to, among others, the Board of Statutory Auditors by Elliott Advisors UK Limited (attached to the Complaint), which the latter company did not designate a complaint pursuant to Art. 2408 of the Italian Civil Code. However, it should be noted that a part of the subject matter discussed in that letter is taken up in this document, while the remaining issues have been analysed and investigated by the Board of Statutory Auditors and then reported to the Board of Directors or supervisory authorities, as appropriate in each case. The Board of Statutory Auditors believes it to be its duty to assess the reports it has received, as long as those reports are not clearly specious and are plausible on their face. However, it bears reiterating that the Statutory Auditors' remarks are directed, as appropriate in each case, to the Board of Directors, the Shareholders' Meeting, the Supervisory Committee, Consob and all other competent authorities, and thus that – for obvious reasons of propriety and transparency – any improper direct dialogue with the directors and shareholders is excluded.

Conversely, pursuant to the above legislation, it is the task not of the Board of Statutory Auditors but of the directors to satisfy requests for information about management matters or questions beyond the scope of the powers vested in the Board of Statutory Auditors under applicable legislation, except in the event of any irregularities.

In consideration of the foregoing, the Board of Statutory Auditors presents the following remarks.

1. With respect to the matter discussed in the Complaint of the “*Appointment of Mr Alberto De Benedictis as deputy chairman of the board of directors*,” Elliott has asked the Board of Statutory Auditors “... *to proceed, without delay, with all necessary and appropriate initiatives to ensure that inquiries into the satisfaction of independence requirements by Mr De Benedictis are completed with the utmost urgency and, if it is indeed found that the independence requirements have not been met, that all necessary measures be taken.*”

First of all, it will be appropriate to recall, in this regard, that the Board of Directors decided that Mr. De Benedictis satisfied the independence requirements established by the Consolidated Finance Act and the Self-Governance Code in the resolutions passed by the majority (five in favour and three against, with the director in question abstaining) on 16 May

2016 and 11 July 2016. In particular, the latter resolution was passed in response to observations presented by several independent directors, followed by clarification provided by the interested party in a note and on the basis of the legal opinion requested by the Company and issued by Professor Umberto Tombari, dated 6 July 2016, which concludes that Mr De Benedictis satisfies the independence requirements.

The Board of Statutory Auditors nonetheless requested further inquiry into the matter during the meeting of the Board of Directors held on 27 July 2016, in the light of the various important roles played by the director in question within the Ansaldo STS group and also on the basis of a legal opinion by Professor Piergaetano Marchetti (requested by the Board of Statutory Auditors and rendered on 4 July 2016, entered into the record during the meeting of the Board of Statutory Auditors of 21 July 2016 and presented at the aforementioned session of the Board of Directors of 27 July), since this opinion raised some doubts as to whether Mr De Benedictis satisfied the independence requirements established by the Self-Governance Code.

Given this situation, and also considering the time that had elapsed (it had been approximately four months since the issue was raised by the Board of Statutory Auditors), on 21 November 2016, the Board of Statutory Auditors, through its Chairman, asked Chairman Dormer to include a specific item in the agenda of the session of the Board of Directors of 24 November concerning the examination of the independence requirements of the director Mr. De Benedictis.

Since this request was not fulfilled, the Board of Statutory Auditors asked Chairman Dormer, pursuant to Art. 27.5 of the Articles of Association of Ansaldo STS, to convene a meeting of the Board of Directors by 21 December 2016, with an agenda to include discussion of whether board member de Benedictis satisfied independence requirements, and informed him that if he failed to do so, the Board of Statutory Auditors would report the circumstances in question to Consob in a complaint pursuant to Art. 149, paragraph 3, of the Consolidated Finance Act.

On 19 December 2016 the Board of Directors was also asked to vote on this matter and the majority decided (five in favour and three against, with the interested party abstaining) that board member De Benedictis satisfied the independence requirements.

Following the above session of the Board of Directors, the Company requested another opinion on the matter from Professor Carlo Angelici, who issued his opinion on 12 December 2016, confirming that the independence requirements in question had been met.

In the interest of thoroughness, it should also be mentioned that, on the evening of 18 December 2016 board member Bivona sent all of the directors and statutory auditors an opinion issued by Professor Mazzoni, which concludes “*on a structural level*” in favour of “*attention to the role of Mr De Benedictis*” and “*on a behavioural level*” as follows: “*the conduct of Mr De Benedictis and of the directors who, like him, are exponents of Hitachi, credibly supports the view that Mr De Benedictis is not independent.*”

Chairman Dormer decided not to admit that opinion into the Board’s records since it was presented late and only in Italian, and thus was not able to be evaluated by all directors, but he did allow board member Bivona to provide a summary of the opinion during the meeting of the Board of Directors.

In this same vein, the Board of Statutory Auditors would also like to clarify that the independence requirements cited in the Articles of Association of Ansaldo STS are those established by law (Art. 148, paragraph 3, of Consolidated Act 58/1998), but that Ansaldo STS also adopts self-governance principles. Since Ansaldo STS has adopted the Self-Governance Code, the Board of Directors must nonetheless provide adequate support for the criteria used to assess the significance of the previous positions and relationships of the director whom it regards as independent, in both the specific press release and in the annual corporate governance report (Art. 3.C.4 of the Self-Governance Code). This type of disclosure does not appear to have been adequately provided either in the press release of 19 December 2016 or in the press release circulated on 16 May 2016 after the appointment, in which it is simply stated that the independence requirements have been met.

For its part, the Board of Statutory Auditors, including by producing the aforementioned opinion, identified aspects such as previous relationships with an important company of the Finmeccanica Group, the predecessor of Hitachi by acquisition, that raised doubts as to whether board member De Benedictis met the independence requirements established by the Self-Governance Code.

Moreover, the Board of Statutory Auditors does not have access to the final version of the minutes of the meeting of the Board of Directors of 19 December 2016, nor indeed to the final versions of the minutes of other previous meetings of the Board of Directors. On this subject, the Board of Statutory Auditors calls for the minutes to be prepared in a more timely manner.

The Board of Statutory Auditors also finds that Chairman Dormer acted objectionably when he failed to put the matter of whether board member De Benedictis satisfies independence requirements before the Board of Directors again in a timely manner. Furthermore, the Board of Statutory Auditors is convinced that in any event he could have formally admitted to the Board's records the opinion issued by Professor Alberto Mazzoni and submitted by Mr Bivona, who, after all, was allowed to provide a summary of it during the meeting of the Board of Directors.

The Board of Statutory Auditors further holds that the criteria followed in assessing Mr De Benedictis' position have not been sufficiently indicated in the disclosures mentioned above, and it therefore asks the Board of Directors – which is ultimately responsible for assessing independence – to provide detailed information on the merits of the matter and the procedures adopted in its corporate governance report.

2. Turning to the matter raised in the Complaint of the “*Formation of the Bid Committee,*” Elliott has asked the Board of Statutory Auditors “... *to proceed, without delay, with all appropriate assessments and inquiries and to take the resulting measures*” and “... *to verify whether the decision-making processes relating to these tenders have been and are being conducted with rigour and in strict compliance with, among other provisions, the (disclosure and, where applicable, abstention) obligations imposed by Art. 2391 of the Italian Civil Code and rules governing transactions with related parties.*”

On this subject, the Board of Statutory Auditors would like to clarify that during the session of the Board of Directors of Ansaldo STS of 24 November 2016 it confirmed – in the light of the documentation received and examined during that same meeting of the Board of Directors, to the extent within its purview, with regard to the appointment of a "Bid Committee" during the session of the Board of Directors of 28 October 2016 – that pursuant to Art. 2381 of the Italian Civil Code and Art. 24 of the Articles of Association of Ansaldo STS (this latter article has been in force since the listing of Ansaldo STS) the Board of Directors may appoint an

executive committee in addition, naturally, to the internal board committees envisaged in the Self-Governance Code set out in Art. 24.3 of the Articles of Association of Ansaldo STS, whereas there is no general reference to the power to appoint other committees with management powers.

During that same session of the Board of Directors, the Board of Statutory Auditors therefore asked the Board of Directors to take a position on the subject once again and to clarify whether the committee appointed on 28 October 2016 should be regarded as an executive committee and, if this was not the case, the Board of Directors wished to waive the appointment of the committee due to a lack of a basis for its appointment in the Articles of Association.

The Board of Statutory Auditors would like to emphasise that, further to the above requests, during the session of 24 November 2016 the Board of Directors confirmed, by majority vote, the formation of an executive committee of three directors, whose members are Chairman Dormer, Chief Executive Officer Barr and board member Mingay, and approved its rules and procedures.

The Board of Statutory Auditors therefore believes that the above committee was formed in accordance with the Articles of Association. The Board of Statutory Auditors is not responsible for assessing the strategic value of the appointment and the powers to be granted to the committee, provided, of course, that the powers granted to the executive committee do not “override” the functions assigned to the Board of Directors by law and without prejudice to (i) the supervisory duty retained by the Board of Directors (also to be understood as the Board of Directors’ right to be informed in a timely manner of the actions of the delegated bodies) and (ii) compliance with procedures in place to protect specific needs, such as those relating to transactions with related parties. In this regard, to the extent within its purview, as above, the Board of Statutory Auditors does not believe that, at present, there are any objections to be raised with regard to the application of the related party procedure. However, the Board of Statutory Auditors asks, to the extent it is competent to do so, in the light of the characteristics of the corporate structure of Ansaldo STS and the peculiarities of tender procedures, that the Board of Directors ensure, including through the executive committee, the utmost punctuality and transparency of information about the tender projects in which the

Ansaldo STS group participates, with particular regard to cases in which those processes give rise to issues relating to transactions with related parties.

3. With respect to the matter raised in the Complaint of the “*Termination of the employment relationship between Ansaldo STS and CFO Roberto Carassai*,” Elliott has asked the Board of Statutory Auditors: “(a) *to inquire into the reasons for disclosing to the public a significant item of price sensitive information such as the information in question (the departure of a senior manager directly assigned important tasks and responsibilities relating to the Company’s accounting documents) with singular delay (the ‘consensual termination agreement’ was allegedly signed on 19 October 2016, whereas the related press release was only circulated on 28 October 2016)*”; (b) “*to verify whether the timing and methods of such disclosure were compliant with applicable laws and regulations*”; and (c) “*to verify whether Mr Carassai was (or will be) in receipt of a severance package and, if so, how much....*”

On this subject, the Board of Statutory Auditors would first like to emphasise that it has conducted all appropriate inquiries within its purview into the termination of the employment relationship between Ansaldo STS and CFO Roberto Carassai, a process which included meeting with Mr Romano, the current head of human resources at Ansaldo STS, and Mr. Carassai himself.

In particular, the Board of Statutory Auditors learned the following through the above inquiries: (i) the private agreement to terminate the employment relationship (the “**Private Agreement**”) was signed by Mr. Carassai and Mr. Romano on 19 October 2016; (ii) the decision to terminate the employment relationship between Mr. Carassai and Ansaldo STS was reached freely by the interested party, who believed that the group’s future strategies might result in a rethinking of the role of the CFO and that it was thus more expedient to agree with Ansaldo STS on the process of his departure from the company; (iii) although there are no provisions on the matter in the Private Agreement, Mr. Carassai confirmed that he is willing, as requested by the company, to sign the 2016 financial statements, which are to be approved by his last day of service prior to termination, scheduled for 28 February 2017; and (iv) the total sum to be paid to Mr. Carassai also includes the value of a non-compete agreement with a term of ten months from the date of termination of the relationship.

The Board of Statutory Auditors would like to emphasise the following with regard to the matters set out above: (i) although Art. 3, point 13, of the Rules and Procedures of the Board

of Directors leaves room for interpretation regarding the person responsible for approving the consensual termination of employment of executives who report directly to the chief executive officer (as the provision in question refers only to the engagement, promotion and dismissal of such executives, but not also to consensual termination) and Art. 23 of the Articles of Association of Ansaldo STS (in accordance with Art. 154-*bis* of the Consolidated Finance Act) only assigns the Board of Directors responsibility for appointing the manager responsible for preparing the company's accounting documents and not also for terminating that manager's employment, the Board of Statutory Auditors believes that it would have been, at the very least, appropriate for the Board of Directors to have been directly involved. In addition, even if it were to be held that the Board of Directors does not have the power to perform this function, the Board of Statutory Auditors nonetheless believes that it would have been preferable for the disclosure in question to have been provided to the Board of Directors and the Board of Statutory Auditors before being revealed by the Chairman during the session of the Board of Directors of 28 October 2016 and, in any event, prior to the approval of the quarterly results; (ii) although the provisions governing the minimum content of press releases concerning, among other matters, the termination of employment relationships with key company executives do not indicate when such disclosures must be made to the public, the Board of Statutory Auditors would like to clarify that, according to the procedure for the management and disclosure of the inside and confidential information of Ansaldo STS, the resignation (and thus also, it is believed, the consensual termination) of the company's key managers should qualify, in general terms, as inside information and thus be disclosed to the market "... *as soon as possible*," without prejudice to the application of the deferral procedure. In the opinion of the Board of Statutory Auditors, although the procedure does not specify when such disclosure must be released to the market (*i.e.*, when the agreement is signed, when the Board of Directors becomes aware of it or when the relationship is effectively terminated), reasons of expedience would suggest that the moment of disclosure should coincide with the approval/acknowledgement by the Board of Directors of termination of employment. It therefore follows that, without prejudice to the circumstances set out in point (i), the disclosure to the market of the signing of the Private Agreement at the end of the meeting of the Board of Directors of 28 October 2016 during which the Board of Directors and the Board of Statutory Auditors became aware of the signing of the agreement may be regarded as compatible with the information received during the session of the Board of Directors and is any event justifiable, with regard to the time required for circulation.



Genoa, 19 January 2017

The Board of Statutory Auditors

Giacinto Sarubbi [*signed*]

Renato Righetti [*signed*]

Maria Enrica Spinardi [*signed*]