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Message by Andrew Barr, CEO and GM Ansaldo STS
Build the future, fuelling the present.

The Strategic Business Overview is a structured analysis including the Ansaldo STS vision of the future Railway business, the Company’s ambition and roadmap to achieve the targets. This document is intended for stakeholders to show the way the Company will address the changes of the market and the desire to become provider of integrated technological solutions and full value-added services.

I am pleased to be able to provide this Strategic Business Overview which is the result of significant research and validation of the market in which Ansaldo STS operates.

Ansaldo STS is unique in the business it conducts and the projects it delivers. Our industry is considered to play a key role in answering the demand for better and safer mobility, together with having a key social and environmental responsibility.

At Ansaldo STS we are at the forefront of this challenge. Our analysis has shown that the market and the way in which we operate must be the basis of everything we do. Utilising the significant global presence the Company already has, we must capitalise on the regional skills to gain the best from what is accessible to us.

As a consequence of our position in the Hitachi Group, we have already been able to benefit from access to new exciting technologies as while maximising the technical expertise which exists to support our established products.

This helps us to widen our horizons and our business opportunities: we are heading towards multimodal solutions and a full service approach to Operations.

Our company is changing into one of major project delivery which is a change from recent years. However our signalling technologies remain the core of what we deliver. We must ensure that our capabilities and technologies are the most up to date and relevant on a market by market basis.

This will require some changes to our technological focus and to the way in which we work, leading to the evolution of our operating model. As the industry evolves, now requiring end-to-end solutions, we must ensure that we have access to the most appropriate technologies to give us a strong position in the market.

The Strategic Business Overview is an important part of the Ansaldo STS journey to remain at the forefront of our industry.

Andrew Barr,
Chief Executive Officer and General Manager Ansaldo STS
MARKET OVERVIEW

Differentiated by geography and line of business
The addressable market for Rail Signalling and Turnkey systems is worth around € 15 Bn/year, with future growth slightly below the expectations because of the global economic environment.

According to our assessment, the market will remain flat in the short to medium term. However our analysis predicts a varying outlook based on geographies and lines of business. Western Europe and Asia Pacific are expected to remain the largest markets, while the US and Canada to be the fastest growing countries. In the field of Turnkey projects, where Ansaldo STS acts as a systems integrator, the Operation & Maintenance (O&M) segment is expected to grow faster than the other lines of business, boosted by jumbo projects in specific regions such as the Middle East. Moreover, a relevant share of future Turnkey projects is expected to be financed through Public - Private Partnerships (P3).

Heat-map of the Rail Signalling and Turnkey System market

Sources: Ansaldo STS, PwC Strategy& analysis

Technological trends

- European Railway Traffic Management System (ERTMS) industry standard
- All on-board train centric trend
- Stable technology impacted by product commoditization and price pressure
- Driverless requirements in all the geographies
- Communication-Based Train Control (CBTC) required by most of the global projects
- New offering and services, enabled by digital technologies
- Technology not yet mature and standards still to be defined
- Opportunities for implementation in not electrified lines
INDUSTRY FOCUS

Impacted by consolidation and clients’ evolution
The Railway market increased competitiveness and consolidation is leading to structural changes and additional price pressure. Rail operators are changing the way they procure contracts and are demanding new value-added services and technologies. Increasing competitiveness is characterising the Rail industry because of the entrance of new players, increasing price pressure in both the Signalling and Turnkey segments. The market providers are reacting by expanding their portfolio beyond their traditional core technologies, seeking new revenue streams while defending the traditional business by moving towards the innovative and full service solutions expected to be required in future tenders. Moreover, Rail industry consolidation has continued during the last 5 years and relevant M&A transactions have been concluded, creating by far the biggest Rail player: CRRC in China. In Europe, the German industrial group Siemens and the French rival Alstom announced in September 2017 the intention to merge their rail operations, potentially leading to the creation of the biggest European Rail player.

<table>
<thead>
<tr>
<th>Acquirer</th>
<th>Target</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wabtec</td>
<td>Faiveley</td>
<td>2016</td>
</tr>
<tr>
<td>Stadler</td>
<td>Vossloh</td>
<td>2015</td>
</tr>
<tr>
<td>Hitachi</td>
<td>Ansaldo STS</td>
<td>2015</td>
</tr>
<tr>
<td>Hitachi</td>
<td>Ansaldo Breda</td>
<td>2015</td>
</tr>
<tr>
<td>CRRC</td>
<td>CNR and CSR</td>
<td>2014</td>
</tr>
<tr>
<td>Alstom</td>
<td>GE Signalling</td>
<td>2014</td>
</tr>
<tr>
<td>Siemens</td>
<td>Invensys Rail</td>
<td>2012</td>
</tr>
</tbody>
</table>

Sources: 2017 public financial reports elaborated by Ansaldo STS and PwC Strategy&

Two main trends are affecting the industry, leading some traditional Rail clients to procure projects through structured financing schemes and to request technology to pursue their vision of future mobility. Rail and Mass Transit infrastructure managers, owners and operators are evolving into multimodal players operating within smart cities. This is to embrace the increasing demand for an end-to-end travel experience, using digital technology. Consequently technology and service suppliers renew their offering to be able to provide integrated systems and solutions.
Reinforced by latest achievements and awards
Ansaldo STS is in a healthy position, benefitting from its distinctive capabilities in the market: 2017 performance confirms the trend.

Ansaldo STS can compete in the market environment leveraging its technologies and capabilities, and its current business footprint. The Company will benefit from its technological competitive advantage and its position in faster growing lines of business and geographies, thereby able to outperform the average market growth. Ansaldo STS holds a strong position in technologically advanced countries, which represent the world’s largest Railway markets, and also in geographical markets which are expected to grow faster. Additionally, the organisation will leverage its consolidated system integration expertise to access complex Signalling and Turnkey jumbo projects, and specific capabilities to pursue commercial O&M opportunities.

### Latest performances

In 2017, Ansaldo STS grew in New Orders (+2%) and in Revenues (+3%) when compared to FY 2016. Book-to-Bill ratio is >1.

<table>
<thead>
<tr>
<th></th>
<th>FY - 2017</th>
<th>FY - 2016</th>
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<tbody>
<tr>
<td>Backlog</td>
<td>6,457</td>
<td>6,488</td>
</tr>
<tr>
<td>New Orders</td>
<td>1,501</td>
<td>1,476</td>
</tr>
<tr>
<td>Revenues</td>
<td>1,361</td>
<td>1,327</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Backlog</th>
<th>New Orders</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>27%</td>
<td>21%</td>
<td>24%</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>10%</td>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>29%</td>
<td>51%</td>
<td>20%</td>
</tr>
<tr>
<td>Americas</td>
<td>14%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>13%</td>
<td>13%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Ansaldo STS financial statement. Figures in €m

FY 2017 key figures and achievements confirmed the Company's growth trend across all regions, its high level of competitiveness and strong delivery capabilities.

Last year, Ansaldo STS was awarded two major contracts, namely Verona-Padua High Speed Line in Italy (336M€) and Baltimore Metro Subway Link CBTC in USA (148M USD), confirming its leadership in core technologies (ERTMS and CBTC). Meanwhile, several project milestones have been achieved all over the world, confirming the ability to deliver our commitments. Specifically, Ansaldo STS put in revenue service two High Speed Lines in France (South East Atlantic and Brittany-Loire), multiple interlocking systems in Italy / France / USA / India, the urban section of the Aarhus Tram-Train System in Denmark. Additionally, the Company successfully trial ran the first train of the fully autonomous Freight Line in Australia for Rio Tinto and the first train of Honolulu Metro in Hawaii.
1. Honolulu Driverless Unattended Metro first train running

6. Aarhus Tram-Train urban section revenue service

9. South Europe-Atlantic and Brittany-Loire LGV High Speed Line revenue service

21. AutoHaul® fully autonomous freight rail trial
Key New Contracts Awarded in 2017

3. Baltimore Metro Subway Link CBTC

13. Verona-Padua High Speed / High Capacity Line

1. Honolulu Driverless Metro + O&M (USA)
2. Boston MBTA PTC (USA)
3. Baltimore Metro Subway Link CBTC (USA)
4. Metro Lima Line 2 and 4 Driverless Metro CBTC (Perú)
5. Copenhagen Cifringen Driverless Metro CBTC + O&M (Denmark)
6. Aarhus Tram-Train (Denmark)
7. Glasgow Driverless Metro CBTC (UK)
8. Brussels Line 1 and 5 CBTC (Belgium)
9. France network High Speed Line (France)
10. Milan-Genoa High Speed Line (Italy)
11. Turin-Padua ERTMS L2 (Italy)
12. Milan Line 4 Driverless Metro CBTC (Italy)
13. Verona-Padua High Speed / High Capacity Line (Italy)
14. Rome Metro driverless Line C (Italy)
15. Thessaloniki Driverless Metro (Greece)
16. Ankara Metro CBTC (Turkey)
17. Morocco HSL ERTMS L1 and L2 (Morocco)
18. Riyadh Driverless Metro CBTC and PNU Driverless Metro + O&M (KSA)
19. Navi Mumbai and Noida Metro CBTC (India)
20. Taipei Circular and Sanying Lines Driverless Metro CBTC (Taiwan)
21. AutoHaul® Freight Line (driverless upgrade) (Australia)
22. Roy Hill Freight Line (satellite) (Australia)
VISION OF THE FUTURE

Integrating multimodal transport systems and solutions
Ansaldo STS core experience is utilising signalling products, both safety critical and non-vital, that are the basis of a complete project. Our future focus will be on integration and innovation in order to become a provider of mobility solutions where the rail system is the key contributor, integrating information with other transport systems.

The Ansaldo STS vision for the future is to become a provider of integrated technological solutions and full value-added services, leveraging its technological competitive advantages, and safety/security expertise.

**Key aspects**
- **Signalling Next Generation:** Ansaldo STS will continue to invest in advanced CBTC / ERTMS standards, which are replacing conventional Signalling technologies globally. Automation, Digital and (potentially) Satellite applications will become the future focus of our business model.

**Integrated Multimodal Transport Systems and Solutions:** Future Signalling systems will focus on the integration of current Signalling technologies with non-conventional/advanced technologies. Ansaldo STS will leverage its strengths in systems integration and Turnkey management to provide solutions for multimodal operators serving end-to-end mobility requirements.

Ansaldo STS translated its vision into four strategic imperatives and specific initiatives:

1. **Organic Growth:**
   - Leveraging current positioning by geography and line of business to outperform the market
   - Adopting a regional based approach
   - Developing new innovative services and value proposition
   - Developing our O&M business, leveraging current assets and partnering with operators

2. **Non-organic growth:**
   - Exploring selective JV and M&A opportunities to strengthen positioning in key markets/business

3. **Organisational Alignments:**
   - Adapting the operating model to business requirements
   - Tuning the organisational structure and delivery model

4. **Effectiveness and Efficiency:**
   - Localising key capabilities
   - Strengthening Structured Finance, O&M, Innovation capabilities

   - Optimising product platforms
   - Focusing investments on future leading technologies
   - Continuing to work on efficiency programs
TARGET BUSINESS MODEL

In line with the vision of the future
The Ansaldo STS target is to keep growing, meeting the demand of the market. The Company will evolve its operating model according to the vision for the future, in addition to benefitting from being part of Hitachi Group.

The current operating model is well established and fits with current business requirements. With the change in focus on new technologies and capabilities, the Company will develop additional specific competences and adapt its future way of doing business to the evolving transportation and mobility trends.

This will affect key elements of the current operating model:

- Signalling evolving to Next Generation, according to the future leading technologies (ERTMS / CBTC / Satellite) and including innovative value propositions relevant to Railways Operations and Asset Management
- Turnkey approach enhancement, implementing P3 financing schemes and integrating new digital technologies
- Structured approach to O&M activities, evolving into a Full Service offering

Collaborative model and benefits from Hitachi Group

Ansaldo STS aims at growing, against a background of an ever more competitive future scenario. Sustainable and profitable growth requires the fostering of collaborations and partnerships.

Several actions are in place to underpin our future growth:

- Strengthening the full Turnkey approach, through Rolling Stock providers and Civil Work players
- Setting-up JVs with local players in new markets
- Partnering with experienced railway operators
- Strengthening current P3 capabilities through financial partners

- Complementing our technological offering through digital players

Ansaldo STS has the support of Hitachi Group in this ambitious journey, benefitting from its global footprint, financial power and capabilities and preferential access to key enabling technologies such as Rolling Stock and Digital platforms.
KEY INITIATIVES

To sustain the future organic growth
Ansaldo STS will leverage current Turnkey O&M capabilities and assets to access new key business opportunities, enriching the current portfolio offering to complete the full range of services:

- Short-term enhancing O&M approach, establishing partnerships with operators in order to maximise combined benefits
- Mid-term evolving into the Full Service business, developing and providing a complete range of services enabled by technology upgrades and digitalisation
Special thanks for the collaboration of PwC Strategy&