

PRELIOS 



**Annual** 2012  
**Financial**  
**Report**



# Letter from the CEO

## Dear Shareholders and Stakeholders,

2012 was a particularly important year for Prelios. The company, although operating in an economic context of continued uncertainty and complexity, laid the foundations for new growth and development.

At European level, the dynamics of the real estate sector remained substantially stable compared to the previous year, but at the same time the gap between more solid markets – Germany, Nordic countries and UK – and southern European countries – including Italy – increased. While the German market experienced strong volumes in the residential and commercial sectors, the recessive macroeconomic scenario and the prolonged political and financial instability seriously affected the domestic market, falling to the lowest level since the early 1990s, with a drastic drop in sales and investment volumes reduced by half compared to the previous year.

The limited availability of loans penalised the number and dimension of transactions, however, the most critical issue was the gradual flight of international investors from Italy, who consider our country as playing an increasingly marginal role: just three years ago Italy represented 6% of cross-border investments, today the percentage is slightly above one percent.

This scenario had an inevitable impact on our Company's accounts, which made losses in 2012, once again affected by the devaluation of equity interests in investment companies: a legacy of the past business model. Conversely, the management and services platform, since less connected to the rotation of portfolios, strengthened its positive performance.

Notwithstanding the results, 2012 was a turning point for Prelios. The terms were set for an extraordinary operation aimed at strengthening the Group's assets, returning to financial stability and relaunching the Group's prospects, through robust recapitalisation and restructuring of indebtedness at sustainable levels with the new business plans.

The relaunch project – which was approved by the Board of Directors after receiving support from the various stakeholders involved, foremost the financing entities and the shareholders – is of far-reaching industrial significance and includes the support of Feidos S.p.a. which will not only take part in the recapitalisation of the Company but will also take responsibility in the management and development of the Company thanks to its distinctive experience in the real estate finance sector.

Our objective is clear and challenging, and our roadmap well defined: make Prelios become a European reference point for advanced real estate and financial services over the next few years. The main prerequisite of our strategic plan is to reposition Prelios as a pure management company, which also means a “return to roots”: focus on services for the management of third party portfolios through dedicated companies (SGR, Property & Project, Agency, Valuations, Credit Servicing) in Italy, Germany and Poland, and gradual discontinuation of co-investment activities, on which the crisis has had the most significant impact, within an adequate timeframe for full exploitation.

Overall, these guidelines identify various trends, including a sharp growth in the assets managed – both real estate assets and non-performing loan portfolios –, a sharp recovery of the operating margin and, finally, a tendential reduction by half of the net financial position.

These are the foundations on which our Company promotes truly sustainable development: definition of a simple and credible business model, which takes account of the market's structural changes and places emphasis on real estate, management and organisational skills; a financial structure that is consistent with this model and more stable, making less use of leverage and taking a “lighter” approach to the capital invested; attention to all aspects of “doing business” and to its numerous economic, environmental and social dimensions, foremost the internal community, by maintaining current occupational levels and increasing the professionalisation of staff.

The general economic situation, particularly of our sector, is not expected to recover, at least not in the short term, the problems have not been resolved and we have difficult and challenging years ahead of us. For a company providing services, such as Prelios, it is essential to firmly pursue values of quality, transparency and respect for all stakeholders – shareholders, customers, investors, partners or suppliers – in order to resume a major role in the international competitive arena.

**Sergio Iasi**

Prelios Chief Executive Officer

## CONTENTS

A. Directors' Report on Operations	
1 Corporate Review	4
1.1 Mission	4
1.2 Real estate market	4
1.2.1 Global real estate market	4
1.2.2 European real estate market	4
1.2.3 Italian real estate market	5
1.2.4 German real estate market	8
1.2.5 NPL	9
1.2.6 Real estate funds	10
1.3 Group Profile	11
1.4 Activities and services	12
1.5 Economic-financial highlights	15
1.6 Shareholder structure	16
1.7 Performance of Prelios share	16
1.8 Workforce	17
1.9 Values and sustainability	18
2 Corporate officers	20
3 Prelios in 2012	22
3.1 Financial debt	23
3.2 Initiatives targeted at strengthening the company's equity structure	24
4 Notes on main Group economic and financial data	27
4.1 Income Statement	28
4.2 Review of the financial position	30
4.3 Net bank debt of funds and investment companies	32
5 Review of the consolidated income statement	33
6 Portfolio managed - Assets under Management and Real Estate Net Asset Value at December 31, 2012	35
6.1 Real Estate Assets Under Management	35
6.2 Basis of preparation - going concern assumption in preparing the financial statements	37
6.3 Representation of the real estate portfolio	38
7 Divisional performance	42
7.1 Italy Real Estate	42
7.2 Germany Real Estate	46
7.3 Poland Real Estate	47
7.4 Non-performing loans	47
8 Risks and uncertainties	50
8.1 Liquidity risk	50
8.2 Financial risks	51
8.3 Currency risk	51
8.4 Interest rate risk	51
8.5 Price risk	51
8.6 Credit risk	51
8.7 Risks associated with human resources	52
8.8 Tax risks	52
8.9 Tenants risk	53
8.10 Risks connected o the competitive environment	53
8.11 Risks connected to trends in demand	53
8.12 Legal risks	54
8.13 Risks related to legislative developments - Decree Law 95/2012 ("spending review") and Law 27/2012	54
9 Subsequent events	56
10 Business outlook	57
11 Annual report on corporate governance and ownership structures	58
12 Other information	59
12.1 Extraordinary Shareholders' Meeting	59
12.2 Treasury shares	59
12.3 Group tax consolidation	59
12.4 Publication of information documents	59

13 Prelios S.p.A., the Parent Company	60
14 Appendices	62
B. The Prelios Group - consolidated financial statements as at December 31, 2012	67
1. Consolidated Balance Sheet	68
2. Consolidated Income Statement	70
3. Consolidated Statement of Comprehensive Income	71
4. Consolidated Statement of Changes in Equity	72
5. Consolidated Cash Flow Statement	73
6. Consolidated Financial Statement as at December 31, 2012 - Explanatory Notes	74
6.1 General information	74
6.2 Basis preparation - adoption of the going concern assumption in preparing the financial statements	74
6.3 Accounting standards and policies	75
6.3.1 Accounting standards and interpretations endorsed and in force from January 1, 2012	75
6.3.2 International accounting standards and/or interpretations issued but not yet in force and/or yet endorsed	75
6.3.3 Reporting formats	81
6.3.4 Consolidation area	81
6.3.5 Consolidation methods	82
6.3.6 Accounting policies	83
6.4 Financial risk management policies and additional disclosures on financial instruments	92
6.5 Capital management policy	99
6.6 Accounting estimates and assumptions	99
6.7 Seasonal trends	100
6.8 Information on the Consolidated Balance Sheet and Consolidated Income Statement	100
6.9 Segment information	137
6.10 Related party transactions	142
6.11 Other information	145
7. Supplementary Tables to the Consolidated Financial Statements	146
7.1 Appendix 1: Consolidation area	146
8. Certification of the Consolidated Financial Statements	151
9. Independent Auditors' Report	152
C. Annual report on corporate governance and ownership structures	155
D. Shareholders' meeting call notice	193
E. Proposed resolutions	198

## 1. CORPORATE REVIEW

### 1.1 Mission

“Generating sustainable value using real estate strategies and solutions based on excellence, innovation and skills integration.”

### 1.2 Real estate market

#### 1.2.1 Global real estate market

According to the preliminary figures disclosed by Jones Lang LaSalle<sup>(1)</sup> at the end of 2012, the global volumes of “commercial” real estate investments were higher than the forecasts, reaching 436 billion dollars, essentially stable when compared to 435 billion dollars in 2011, marking an increase of 36% over 2010.

In global terms, in the fourth quarter of 2012, volumes amount to 141 billion dollars, compared to 100 billion dollars in the third quarter and 119 billion dollars in the fourth quarter of 2011.

Direct ownership of properties exhibits our appeal in a world of high liquidity and low returns with economic growth prospects below trend for 2013.

In the United States, the fiscal cliff and sustained demand led to growth in investment volumes of 51% on a quarterly basis, as a result of sellers' worries over the increase in taxes on capital income and the need to allocate capital, 34% higher than in the fourth quarter of 2011 and 11% higher YoY.

Europe exceeded expectations, reaching 2011 levels in terms of euro, but registering a decrease of 8% in terms of dollars, partly due to the weakness of the euro.

The UK remained the most active market in 2012 and the fourth quarter saw an increase in activities on the continent, with France, Germany and the Nordic countries the strongest performers towards the end of the year.

On the back of a better end to 2012 than the forecasts, Jones Lang LaSalle estimates volumes to be between 450 and 500 billion dollars for the whole of 2013, with final results similar to those achieved in 2011 and 2012.

With respect to the stable market in the Americas, figures are expected to improve in Pacific Asia and results for the Emea area are forecast to be in line with 2012.

Growth recorded in the last quarter of the year demonstrates once more that the property markets are in a recovery phase and are now experiencing a YoY increase in the volume of transactions.

#### 1.2.2 European real estate market

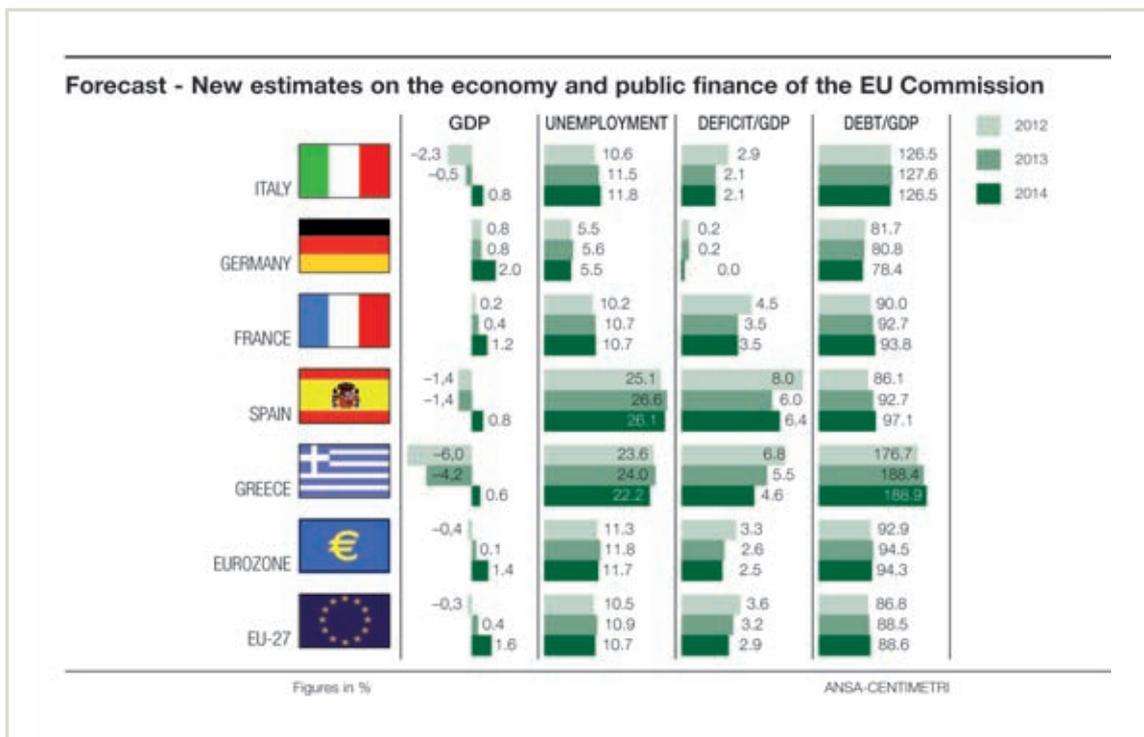
According to the European Commission, in 2012, GDP fell by 0.3% in real terms in EU-27 and by 0.4% in the Eurozone. However, 2013 can expect to see a gradual return to growth: GDP should increase by 0.4% in the EU and by 0.1% in the Eurozone, even though there will be sizeable variations from one country to the next. However, competitiveness is gradually coming back, which had been lost in some EU countries.

The forecasts were also confirmed in the latest ECB bulletin (February 2013), which highlights that economic growth in the Eurozone will continue to be “weak in the first half of 2013” but then “should gradually recover, sustained by an accommodating monetary policy”. This is a result of an improvement in the climate of confidence in the markets and lower fragmentation of the latter.

Thanks to this, and to structural reforms, a more robust and more uniformly distributed expansion will be possible in 2014, a year which can expect to see growth of 1.6% in GDP in the EU and 1.4% in the Eurozone<sup>(2)</sup>.

(1) Jones Lang LaSalle Exceptional Q4 pushes Global Commercial Real Estate Investment Volumes to \$ 436B in 2012, January 2013.

(2) [www.istat.it](http://www.istat.it); [www.ec.europa.eu](http://www.ec.europa.eu)



In the last three months of 2012, the real estate market witnessed a sharp acceleration in European investments<sup>(3)</sup>, both compared to the last quarter (+48%) and with respect to the same period in 2011 (+16%). The annual figure proves to be in line with the 2011 figure, standing at 120 billion euro.

The increase in volumes in the stronger countries in Western Europe offset the slowdown in activities in countries in Southern Europe and Central and Eastern Europe, despite the solid year-end result for Russia and Poland.

It should be noted that the fourth quarter of 2012 was Poland's most dynamic since 2006.

In particular, the trends that emerged at the end of 2011 were confirmed in 2012; the flight to quality dynamic of investors, increasingly risk averse, and renewed interest in the secondary markets with values made appealing by the re-pricing carried out from the start of the crisis until now.

In the first market group, Germany, the "Nordic" countries (Northern countries, led by Norway) and the UK recorded record annual volumes, and in the second group, Spain, Ireland and Poland registered significant growth in volumes in the last quarter, although still below pre-crisis levels.

Despite an increase in the volume of investments in the last three months, France closed the year with a decrease of around 10%, when compared to 2011.

### 1.2.3 Italian real estate market

The constant flow of foreign capital, the wait and see policy of national institutional operators linked to the protraction of recessionary prospects, as well as restrictive conditions on access to financial leverage fostered a drastic reduction in the Italian real estate market.

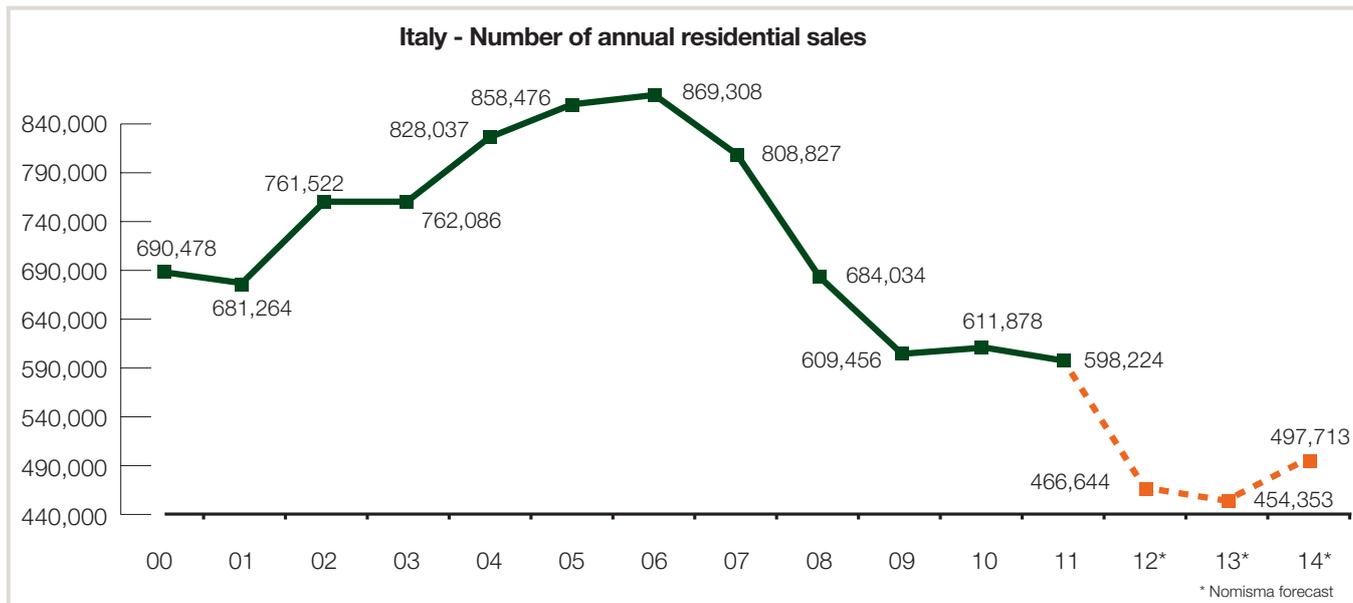
According to the latest report from CBRE<sup>(4)</sup>, with an investment volume of 2.6 billion euro, Italy returned to 2001 levels, one of the lowest investment volumes recorded in the last 10 years.

The factors that weighed most heavily on the result achieved by Italy were external factors with respect to the real estate market: the sovereign debt crisis, which increased the Btp-Bund (Italian and German Government Bonds) spread to record levels, whose main effect was to drive international investors away from Italy for good; the new property tax (IMU), which left both domestic and international investors hanging until the end of 2012; political uncertainty and fears linked to a possible exit from the Euro.

(3) CBRE, European Investment Quarterly MarketView, January 2013.

(4) CBRE, European Investment Quarterly MarketView, January 2013.

**RESIDENTIAL**



The Italian residential market returned to the 1992 level of purchases/sales, and, according to CRIF, the recovery in trading of around 500,000 transactions is only expected in 2014<sup>(5)</sup>.

At the same time, over the last four years, the prices per square metre have fallen by around 15%, and will not rise again in the near future. The decrease recorded applies more to used properties than to new or renovated properties, confirming that better property quality increases the ability to withstand market weakness. With reference to mortgage-backed purchases, the introduction of ABI (Italian Banking Association) Guidelines for the valuation of properties to guarantee credit exposures is also pushing banks to adopt stricter valuation standards which target the identification of more appropriate and often lower property prices.

(5) CRIF and MutuiSupermarket.it, Bussola mutui, January 2013.

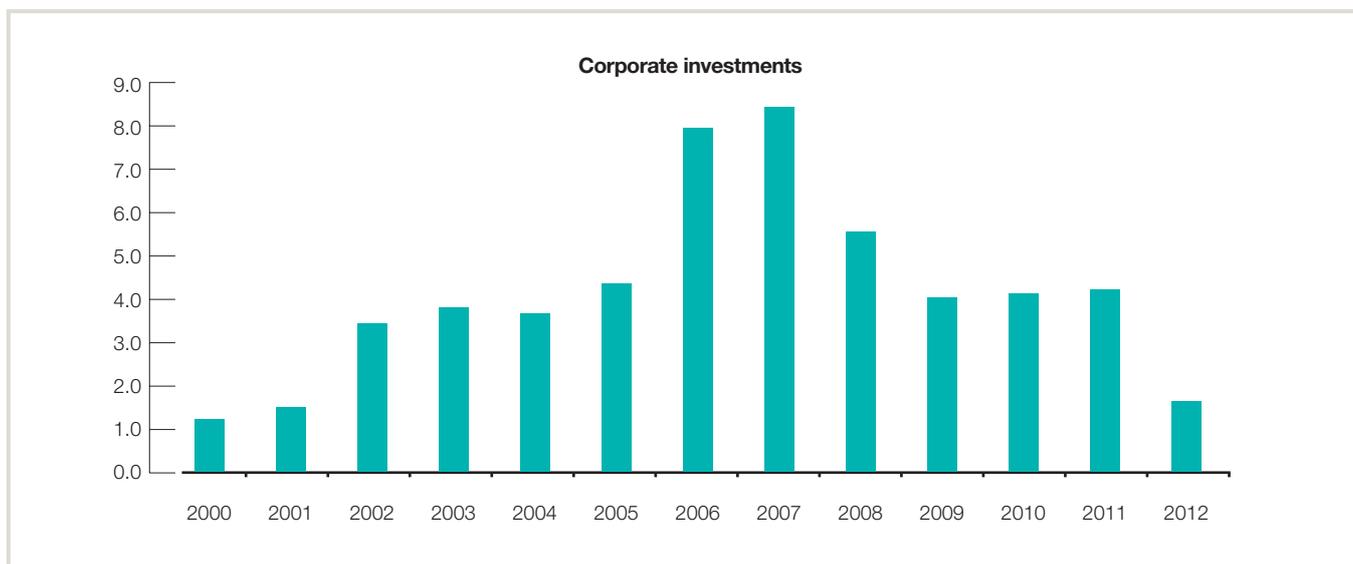
(6) Scenari Immobiliari, Acquisti di case da parte di stranieri in Italia (Home purchases by foreigners in Italy), December 2012.

(7) Jones Lang LaSalle, La fiducia nell'Italia passa attraverso il re-pricing (Confidence in Italy is linked to re-pricing), February 2013.

In 2012, an increase was registered in foreign investments in Italian residential real estate<sup>(6)</sup>, however the phenomenon is linked to specific investments in luxury properties primarily by UK, German and Russian investors. The most in-demand regions included Puglia, Lazio and Tuscany.

**COMMERCIAL**

According to Jones Lang LaSalle<sup>(7)</sup> in a note containing market figures for the year just ended, with an outlook for 2013, the year 2012 closes with transactions down by half on the whole, with little activity in the Milan and Rome office space "markets". The volume of non-residential investments reached 1.8 billion euro in December 2012, compared to almost 4 billion euro in 2011, a reduction of 50%.



A total of 40% of these investments were in the office sector, 24% in hotels, 16% in retail, 2% in logistics and 18% concerned mixed use projects or other uses.

A total of 6% of transactions involved properties earmarked for complete or partial renovation by the buyers.

During the year, investors and property users needed to adjust prices into line with the new market conditions.

In the investment market, re-pricing provides the opportunity to purchase properties with higher returns, and in the leasing market, leads to an intensification of negotiations.

Absorption in the Milan and Rome office market also suffered, if compared to 2011.

This is because the main Italian business hubs continue to suffer from the impact of the economic cycle on the decisions of corporate units relating to spaces for their offices.

In Milan, absorption was in line with the expectations, at 249 thousand square metres.

In Rome, transactions in the leasing sector involved 61 thousand square metres.

The decrease in absorption in Rome (-64% compared to 2011) is the result of both the slowdown in public administration activities, and the role assumed by renegotiations in the user market.

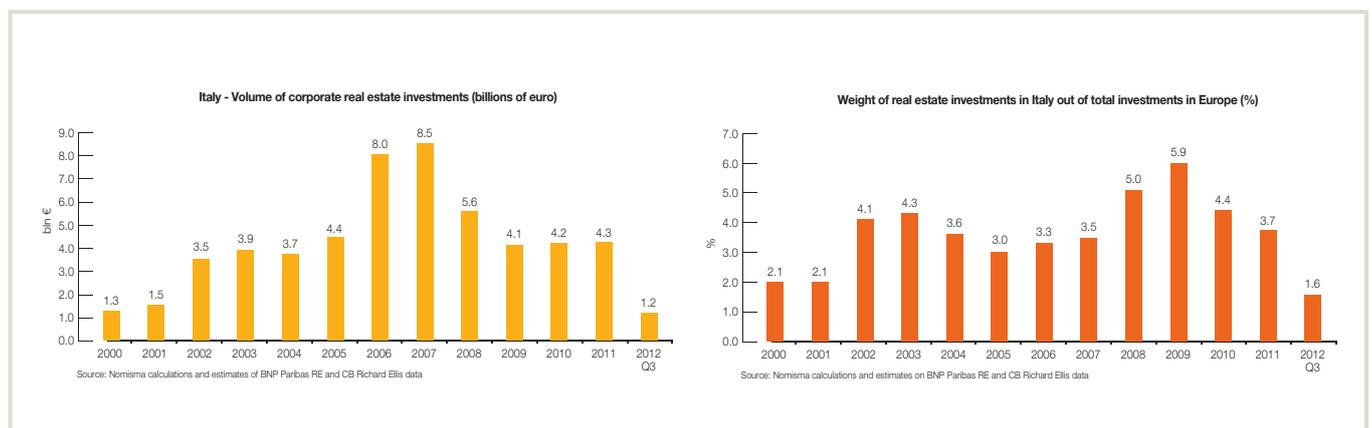
The prospects for investment activities in 2013 are deemed, however, to be fairly positive, also thanks to some operations launched in 2012. The market trend of lengthening times to complete transactions was confirmed, especially during the initial phases of operations.

The weak economic outlook and the fall in employment instead contributed to the formulation of a less optimistic scenario than 2012 for the office leasing market.

Aside from letting activities in the strictest sense, negotiations of existing contracts take on increasingly greater significance.

As regards the retail sector, in 2012 the volume of investments in Italy fell by 42% compared to 2011, reaching 1.4 billion euro.

With respect to the previous year, the worsening in Italy's position in Europe, with fears over the exit from the Eurozone, definitely contributed to the negative result, especially among international investors who are the chief buyers of shopping centres in Italy. In addition, factors such as the general uncertainty linked to political events and to the weight of the IMU (municipal property tax), only communicated in December, helped significantly lengthen negotiation times, also leading, in some cases, to the suspension of negotiations already commenced. The High Street sector, a more domestic market, with around 290 million euro, registered a decrease of almost 80% in the volume of investments compared to 2011. In this case, a combination of factors, such as the low supply of properties for sale and misalignment between supply and demand in terms of values, had the greatest impact on the result.



## MORTGAGES

The year 2012 was a “black year in terms of the demand for household loans”: mortgage demand fell by 42%<sup>(8)</sup> compared to 2011, while the demand for loans went down by 4%, but in comparison to 2008, hence before the consolidation of the negative economic situation, the overall decrease stood at 18%. An analysis of the trend recorded throughout the whole of 2012 confirms the considerable weakness deriving from fragile family budgets, shaped by a rise in inflation, from unemployment levels that are worryingly on the rise and persistent uncertainty over the recovery prospects of the economy, which led to a very cautious approach to obtaining credit, both in the form of mortgages and loans.

(8) www.crif.it

As regards the demand for mortgages, the survey explains, it also reflects the hugely negative trend in the buying/selling of residential properties which, in the year just closed, in fact returned to volumes not even remotely comparable to those recorded in the peak years, between 2004 and 2008.

#### 1.2.4 German real estate market

According to the latest ULI –PWC report<sup>(9)</sup>, German cities dominate the investment prospects for the commercial real estate sector in Europe.

The classification of 27 cities across Europe, on the basis of expectations regarding the market performance in 2013, sees Munich top the league table, followed by Berlin in second place, and Hamburg in fifth spot, as a result of the cities' strong local micro-economic climate and resilient property market conditions.

The strong and liquid Munich market is an attractive proposition for investors looking for dependable locations that can withstand economic turbulence. Munich has a mixture of global and mid-sized business occupiers and has expanding biotechnology, environmental sciences and media industries. Low vacancy rates and constrained supply mean that investors are confident of rental growth in 2013, while a rapid increase in tourist numbers, especially from BRIC countries, provides a positive outlook for Munich's retail market.

Dubbed by many as Europe's "Silicon Allee", Berlin has a growing reputation as a technology hub with over 15,000 tech companies: the influx of skilled professionals has had a boost on the city's residential market; while the city's reputation as a cultural centre has benefitted the hotel sector.

Hamburg – investor interest in Germany's second largest city is driven by its "safe-haven" status.

### RESIDENTIAL

According to BNP Paribas<sup>(10)</sup>, with a transaction volume of just over 11.4 billion euro, the residential investments market in Germany soared spectacularly in 2012, doubling the excellent figures achieved in the previous year (+91%), also exceeding the average turnover in the last five years by more than 81%.

Only the boom years (2005-2007) recorded higher values than these.

After a weak quarter, investments in the residential sector in the last three months of the year added 2.7 billion euro.

One of the reasons for the exceptional performances in 2012 was an entire series of large transactions, e.g. the sale of more than 21,000 LBBW units, for more than 1.4 billion euro, the disposal of around 25,000 homes owned by Dkb Immobilien AG for around 960 million euro, the purchase by Deutsche Wohnen AG of roughly 23,500 residential units for BauBeCon for more than 1.3 billion euro and the sale of TLG Wohnen to TAG Immobilien AG for around 470 million euro.

The position of strength of listed real estate companies, already observed in the first three quarters, was confirmed even more towards the end of the year.

Real estate funds also made a substantial contribution: a little under 18% of sales were generated primarily by activities in the large portfolio market segment. With a share of a little under 73%, German investors generated the bulk of the volume of business.

Foreign buyers also showed huge interest in German residential units, investing a total of more than 3 billion euro, accounting for 27% of the total.

Over the last 18 months, the rise in demand led to an increase in prices that, however, have now started to stabilise.

The price levels for traditional portfolios are generally between 700 and 850 euro per square metre, while for more modern properties, prices are considerably higher (from 1,900 to 2,100 euro per square metre).

According to research institutes, high demand for residential assets will remain unchanged in 2013; in particular, increased interest is likely to come from buyers from outside Germany, with the possibility of a growing number of investors from Asia and the Middle East.

### COMMERCIAL

As regards investments in the commercial sector, Frankfurt and Munich over-performed, registering unexpected growth of 3.2 billion euro (+9%) and 3.6 billion euro (+26%) respectively in 2012; Berlin again

(9) ULI –PWC, Emerging Trends in real Estate Europe 2013, January 2013.

(10) BNP Paribas Real Estate, residential Investment Germany 2012, January 2013.

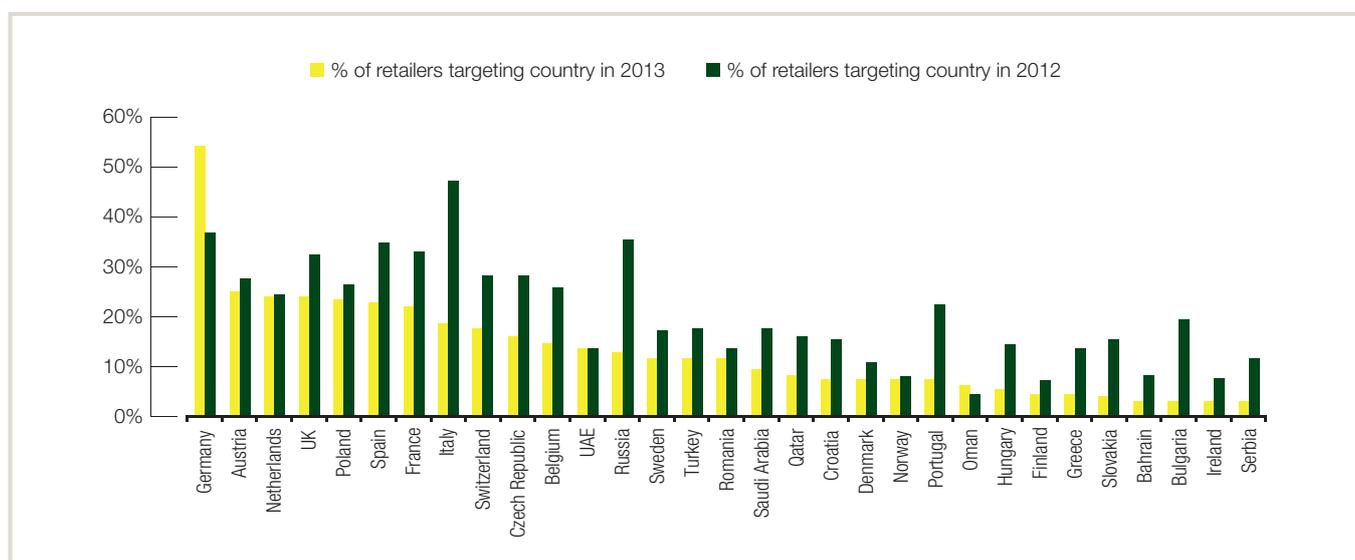
recorded brilliant performances (+65% in 2012 with a total of 3.85 billion euro) while Hamburg's volumes remained stable.

With sole reference to the offices market, investments in the city of Berlin recorded a 137% increase compared to the previous year, reaching 1.9 billion euro at the end of 2012. Munich, which recorded 2.8 billion euro, was the best performing German city in 2012.

In 2013, Germany again proves to be most important market for retailers and that is probably the result of its strong economy within the Eurozone. In the first half of 2012, 20 new international brands joined the German market, prevalently high-end and operating in the luxury sector, including Paule Ka, Belstaff, Stone Island, Loiza, Zadig & Voltaire, Tory Burch and J. Lindberg<sup>(11)</sup>. According to CBRE<sup>(12)</sup>, Germany returned to being the preferred destination for international retailers, with interest from foreign companies which does not show any sign of subsiding and a level of consumption that remains constant from year to year.

Rising competition among tenants in securing the best locations led to an average increase of 5% in high-street prime rents in the six largest German cities in the second quarter of 2011. Frankfurt and Munich recorded the biggest increases (up 12% and 6% respectively). Fresh increases in lease values are expected in Frankfurt, Berlin and Hamburg<sup>(13)</sup>.

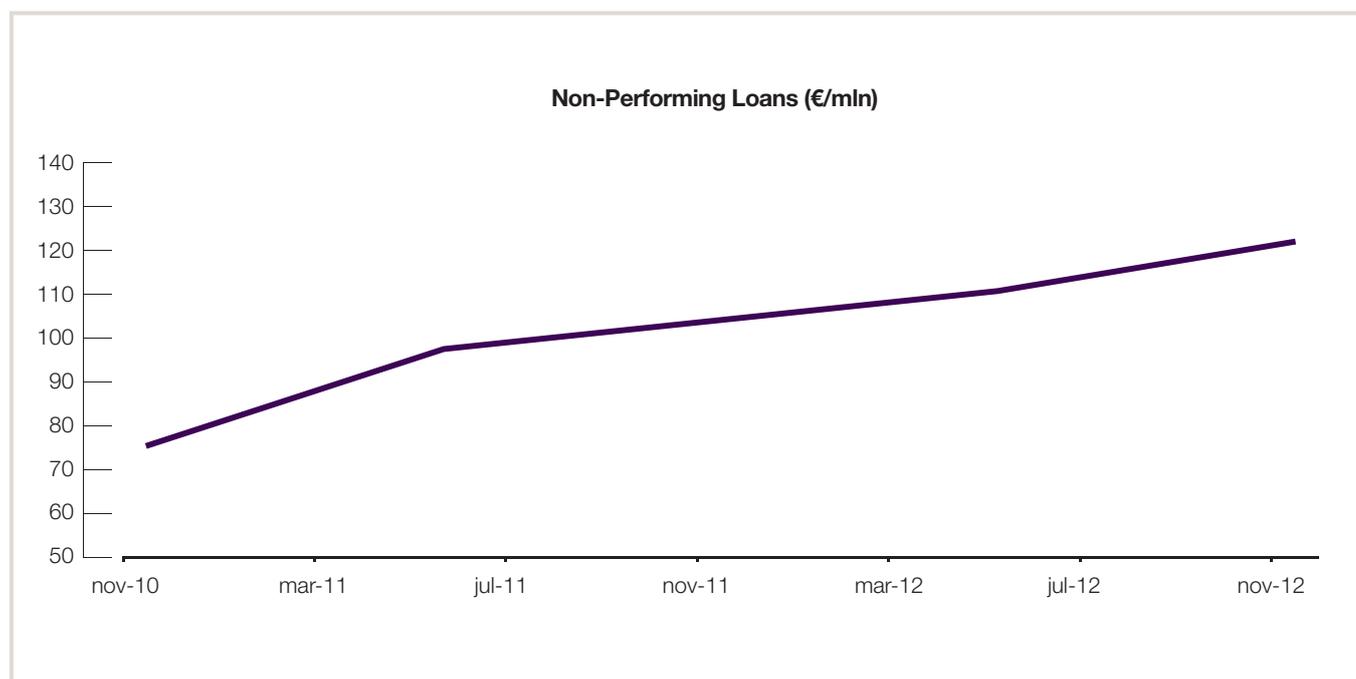
- (11) BNP Paribas, Real Estate, Mopic 2012 - In the retail markets of Western Europe, prime locations are registering a swell in interest from retailers, December 2012.
- (12) CBRE, How active are retailers in EMEA?, December 2012.
- (13) BNP Paribas, Mopic 2012 - In the retail markets of Western Europe, prime locations are registering a swell in interest from retailers, December 2012.



### 1.2.5 NPL

At the end of November 2012, gross non-performing loans (before writedowns) totalled 121.8 billion euro, 2 billion euro more than October and up 17.5 billion euro over November 2011, marking an annual increase of roughly 16.8%.

Non-performing loans account for 6.1% of loans at November 2012 (5.3% a year earlier). Non-performing loans after writedowns totalled almost 62.2 billion euro in November 2012, around 2.3 billion euro more than the previous month and up by around 11.6 billion euro over November 2011 (an annual increase of +22.9%). The net non-performing loans/total loans ratio stood at 3.23% (3.12% in October 2012 and 2.62% in November 2011).



### 1.2.6 Real estate funds

Despite the difficult period for the economy, assets under management and the real estate market, the Italian real estate fund industry continued to perform positively, recording better results than all other European countries over the last five years. Between 2008 and 2012, the number of active funds grew by 38.2% to 329, the NAV increased by 34.8% to 37.2 billion euro, property assets rose by 35.8% to 47 billion euro, proving to be the highest valued private assets in Italy, and debt rose by 88.7% to 30 billion euro. In the same period, the Italian real estate market recorded a decrease of 10.8%, from 121.9 billion euro to 108.7 billion euro<sup>(14)</sup>.

The number of operating funds also increased (up 5.4%)<sup>(15)</sup>, while the number should only fall in 2013 as a result of the closure of various restricted type funds. The forecasts for the next year, drawn up on the basis of the intent expressed by the main asset management companies, indicate a further increase in the NAV and assets that should hit the 50 billion euro mark (the estimate does not take in potential public funds). Performances are expected to be down slightly over the previous year (0.4% compared to a performance of 0.7% in 2011).

As regards asset allocation, despite the presence of few transactions, an increase was recorded in the offices-large-scale retail channel pair concentration, in line with the behaviour of major European operators.

A look at the figures published in the 2012 report from Scenari immobiliari shows that the 2013 forecasts indicate further growth of 6% in the segment, despite the fact investment instruments operating in the real estate sector are, on the whole, feeling the effects of uncertain economic conditions and, in particular, a lack of confidence from companies, investors and the banks themselves.

(14) Scenari Immobiliari, I fondi immobiliari in Italia e all'estero (Real estate funds in Italy and abroad), 2012 Update, November 2012.

(15) [www.ilqi.it](http://www.ilqi.it)

## REAL ESTATE FUNDS IN ITALY (RETAIL AND RESERVED FUNDS)

DESCRIPTION	2007	2008	2009	2010	2011	2012*	2013°
N° operating Found <sup>1</sup>	186	238	270	305	312	329	305
Nav <sup>2</sup>	23,940	27,600	31,200	34,000	36,100	37,200	39,500
Real Estate Asset directly held	32,350	34,700	40,600	43,500	46,400	47,100	50,000
Weakening exercised <sup>3</sup>	14,280	15,900	22,700	24,800	28,500	30,000	–
Performance % (Roe) <sup>4</sup>	6.2	4.9	2.6	3.5	0.7	0.4	–

- 1) Funds authorised by the Bank of Italy which completed the placement
  - 2) Net Asset Value of funds at December 31st of each year
  - 3) Loans effectively received (estimate)
  - 4) ROE of retail funds and of a sample of reserved funds
- \* Estimated  
° Forecast

### 1.3 Group Profile

Prelios has been listed on the Italian Stock Exchange (Borsa Italiana) since 2002 and is one of the leading European real estate asset management and services companies, with around 10 billion euro in Assets under Management (AuM).

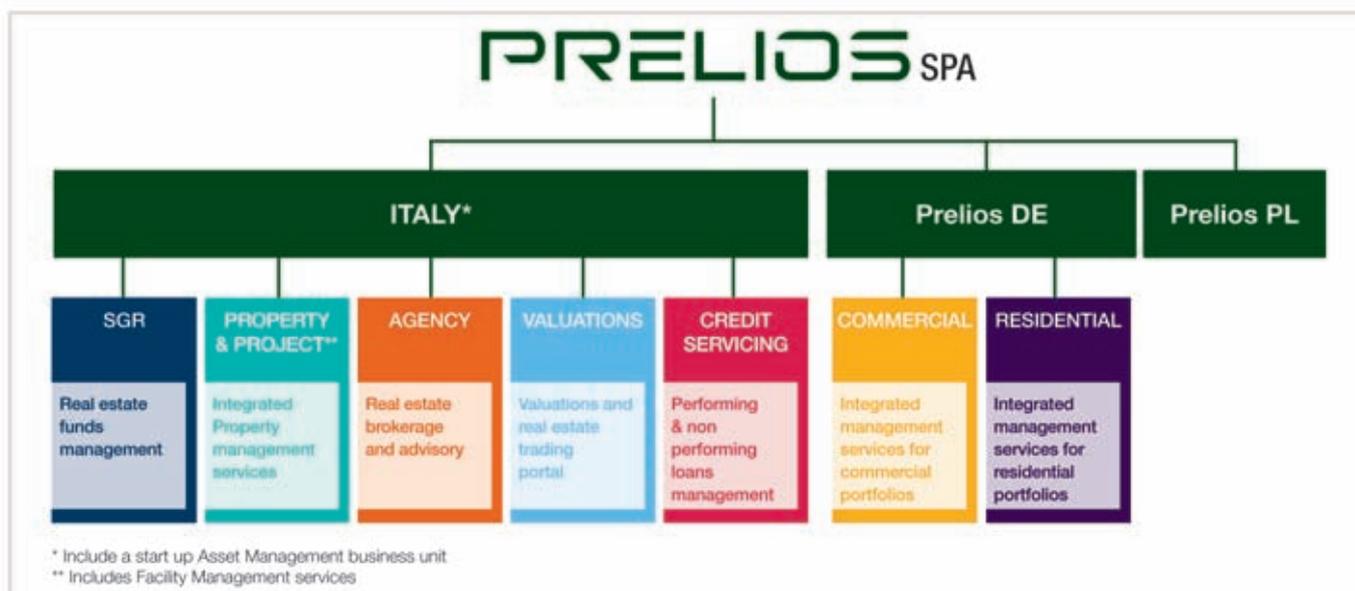
Prelios operates in Italy, Germany and Poland, relying on a skilled organisation of around 900 employees, with significant professional expertise and an excellent track record built up over the years in a competitive international arena.

Prelios used to take on minority stakes in the investments managed, with the aim of benefitting from any increases in value; now the Group is consolidating its repositioning according to a “pure management company” model, which forms the basis of the Prelios relaunch plan and which makes provision, among other things, for decisive equity strengthening, aimed at structurally guaranteeing its financial stability, and the entry of an industrial partner with recognised experience to the shareholding structure.

Through independent operating companies, Prelios now is the unique Italian real estate specialist and financial services platform, providing a complete and integrated range of activities aimed at increasing the value of third party portfolios:

- Real estate fund management
- Integrated property management services
- Real estate agency
- Valuations
- Performing and non-performing loans management

The Group is also one of the leading real estate services operators in Germany, operating through highly specialised departments in the “residential” and “commercial” segments, and in Poland, mainly in the management and improvement of development areas.



As at December 31, 2012, total Assets under Management (AuM) amount to 9.7<sup>(16)</sup> billion euro, and include real estate assets of 8.7 billion euro (market value) and non-performing loans (NPL) of 1 billion euro.

In terms of the geographical breakdown of solely real estate assets, 4.9 billion euro are in Italy, mainly through real estate funds (around 4.3<sup>(17)</sup> billion euro in 23 real estate funds) managed by subsidiary Prelios SGR, one of the leading players in the Italian real estate market.

The remaining part of the managed portfolio is located in Germany and Poland (3.8 billion euro, of which around 0.1 billion euro in Poland).

## 1.4 Activities and services

### ITALY

The Prelios Italian management platform offers, through independent companies, an entire range of services for the management and development of third party property portfolios.

#### Prelios SGR – Real estate fund management

The Group manages real estate funds through the subsidiary Prelios SGR (90% Prelios, 10% Intesa Sanpaolo), which – with 23 funds and around 4.3<sup>(17)</sup> billion euro in assets under management – is one of the leading real estate management companies in Italy.

Prelios SGR today relies on a management team with in-depth knowledge of both the market and investors and an operating structure boasting high transparency, governance and risk management standards.

The company promotes and manages investment funds, separate accounts and provides advisory services to leading institutional, national and international investors, assisting them as partner for the definition of real estate investment strategies.

The funds managed also include two retail property funds, listed on the MIV segment of Borsa Italia (Italian Stock Exchange): Tecla, the first Italian fund with private contributions placed in 2004, and Olinda Fondo Shops.

In more than ten years of activity, Prelios SGR stand out for track record funds results, particularly in the core and core plus categories, which account for 75% of total AuM. The company obtained numerous awards, winning the eminent IPD European Property Investment Awards (with Cloe in 2010, Clarice in 2011 and FIPRS in 2012) three years in a row.

#### Prelios Property & Project - Integrated property management services

Prelios Property & Project Management is one of the Italian leading operators in the integrated property management and project development services field, with 4.9 billion euro AuM, for over 4.1 million square metres.

The company offers an integrated service of active and dynamic management (asset, property and facility management) aimed at asset value increase on behalf of public and private customers: from property administrative and accounting management to the relationship with tenants, technical maintenance services, and sales support.

In the context of development & project management, the company deals with all the phases of design and construction of a property or a real estate compound, ranging from concept development to turn-key delivery. In particular, Prelios Property & Project boasts distinguished expertise in the field of sustainability: from the development of new eco-sustainable properties, to green retrofitting, energy certification and energy from renewable sources. This is testified by the numerous awards received over the years, including the Mipim Award in 2011 in the "Green Building" category for the 3M Italia headquarters, one of the leading examples of contemporary eco-architecture.

For retail, the company has a highly specialised department, responsible for the development and value increase of shopping centres in Italy, including operational and administrative management, the relationship with retailers and the strategic optimisation of the tenant mix.

(16) Assets under management, with the exception of non-performing loans stated at book value, are stated at market value as at December 31, 2012, on the basis of appraisals by independent experts.

(17) Market value expressed at 100% and including Excelsia 9 Srl portfolio.

### **Prelios Agency - Real estate agency**

Prelios Agency is one of the leading Italian real estate agency operators with over 7 billion euro transactions in the past 6 years. In particular, in the commercial segment, the company has reached a market share slightly below 20%.

The company is specialised in the provision of professional advisory services for the purchase and sale or lease of single properties and entire portfolios of office, residential, industrial, logistic and retail properties.

Thanks to a team of highly skilled professionals and a network of more than 400 loyal agents in Italy, Prelios Agency serves as a one-stop reference partner for all kinds of customers: from the corporate world to public and private investors; from real estate funds to institutional operators. It is a leading player in the Capital Markets, where it has collaborated with all the major Italian and international investors.

Prelios Agency assists its customers by providing advisory services in all the different steps of the value increase process: from the definition of the investment strategy or disposal of an asset to the implementation of the transaction, and from the analysis of tenants to the optimisation of the profitability of a property through highly specialised services like data room support, due diligence and the definition of marketing plans.

For commercial real estate, Prelios Agency represents Knight Frank in Italy on an exclusive basis.

### **Prelios Valuations - Valuations**

Prelios Valuations is one of Italy's leading independent operators in appraisals of the value of single properties and real estate asset portfolios in the light industrial/office and residential segments. With over 20,000 appraisals in 2012, it is also a leading company in Italy for valuation services for banks ("Loan Services").

The company has a team of professionals and a network of approximately 150 appraisers enrolled in the relevant professional registers, acting in compliance with the strictest international standards as well as the ABI guidelines and RICS Red Book. The company is also a founding partner of Assovib, the Italian association for the promotion of quality and professional culture in the sector of valuations made on behalf of Banks.

The organisational structure is divided into three areas of activity: mass appraisals, regarding large real estate asset portfolios, using statistical methods through the proprietary Magister technology; full appraisals, consisting in analysis of the value of properties and asset portfolios also through economic-financial analyses; loan services, i.e. loan support services by banking groups, leasing and private banking companies.

Prelios Valuations is also the owner of Casaclick.it, one of the leading real estate trading portals in Italy, operating in the promotion of property purchasing and leasing.

### **Prelios Credit Servicing - Management of performing and non-performing loans**

With a portfolio of 8.7 billion euro<sup>(18)</sup>, Prelios Credit Servicing (80% Prelios, 20% indirectly Crédit Agricole Corporate & Investment Bank) is one of the leading operators for NPL management volume in Italy.

The company operates through a highly specialised structure, with offices in the main Italian cities (Milan, Rome, Naples, Palermo), combining financial, real estate (technical and appraisal-oriented) and legal expertise.

Prelios Credit Servicing offers Special Servicing services, i.e. the management and recovery of both secured and unsecured non-performing loans, in court and out of court; Master and Corporate Servicing, including the management of performing loans, cash and payment servicing and management as Servicer pursuant to Italian Law 130/99; due diligence of portfolios of loans subject to transfer and advisory services for securitisation transactions.

Prelios Credit Servicing is a privileged partner for leading financial institutions and its sound and reliable organisation is confirmed by the positive rating assigned by the most prominent rating agencies (Standard & Poor's and Fitch).

## **GERMANY**

Prelios Deutschland ("Prelios DE") is one of the leading platforms of integrated real estate asset services in Germany, with approximately 3.8 billion euro Assets Under Management.

(18) Gross Book Value.

The company offers management, technical-administrative and commercial services, operating through highly specialised departments in the “residential” and “commercial” sectors.

Thanks to its management, with over 20 years experience in the sector, the company has become a partner of reference for prominent customers and investors, including large international funds and financial institutions. Through main and secondary offices and multi-service regional branches Prelios DE operates in all major German cities, such as Hamburg, Kiel, Hannover, Munich, Berlin, Frankfurt, Konstanz and Lübeck. In the residential sector, Prelios DE is among the major players on the German market with 50,000 properties managed on behalf of leading investors through an integrated management system for profit optimisation (PMPLUS) as well as specialised services for letting, condominium management and caretaker services.

The excellence of the commercial department, managing 1.6 million square metres, is recognised by the large, loyal customer and investor base, under long-term contracts. It manages shopping centres, multi-tenant retail premises, offices, mixed used assets as well as the Highstreet retail portfolio, consisting of 85 department stores of the German retail chain Karstadt.

The German platform received many awards, recently winning the first prize for the best Shopping Centre in Germany in 2012 with Konstanz “Lago” <sup>(19)</sup>.

## POLAND

Prelios Polska (the new company name of Pirelli Pekao Real Estate as from December 31, 2012) manages assets of about 50 million euro at the domestic level, corresponding to almost 0.7 million square metres, mainly in the area of development and value increase projects. The company operates in Warsaw and Gdansk in the residential and commercial sectors.

Prelios Polska offers a full range of real estate services: from technical consulting to urban planning, from masterplan development to construction and turn-key delivery.

Its customers include prominent public and private investors, with whom Prelios Polska has established a long-term partnership.

Over the last few years, Prelios Polska has implemented residential projects for over 3,000 units and commercial projects for 46,000 square metres in total, both characterised by the adoption of high eco-sustainable standards. It also built a medical centre in the Gdansk university district, covering 34,000 square metres and with 300 beds.

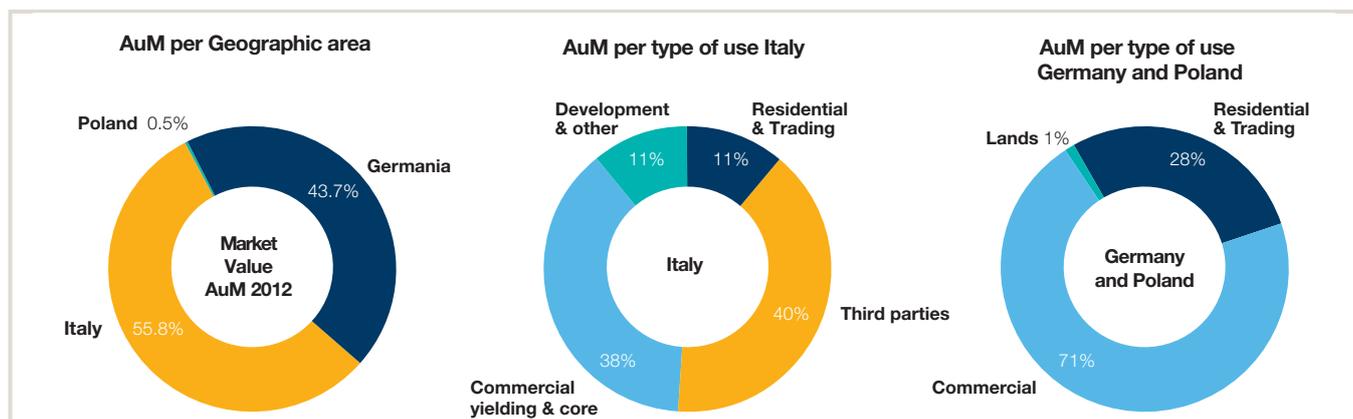
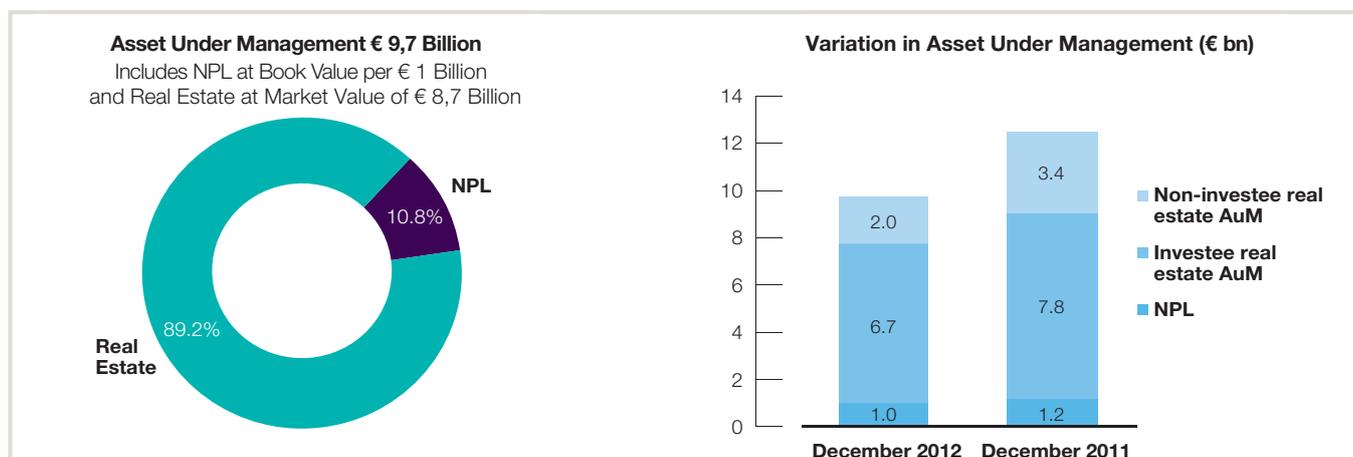
(19) Ecostra, Shopping Centre Performance Report 2012.

## 1.5 Economic-financial highlights

Income statement data	2012	2011	2010	2009	2008
Consolidated revenues	131.0	177.8	254.0	271.7	365.1
<i>of which services</i>	124.9	149.0	162.3	187.3	224.3
<i>of which others</i>	6.1	28.8	91.7	84.4	140.8
Operating result	(72.1)	(26.1)(*)	41.1	(6.6)	(36.7)
<i>of which Management Platform</i>	8.5	20.3	24.1	7.8	(30.3)
<i>of which Investment Activities</i>	(80.6)	(46.4)	17.0	(14.4)	(6.4)
One-off property tax	-	(8.9)	-	-	-
Restructuring costs	(21.4)	(48.7)	(21.2)	(23.9)	(44.2)
Property writedowns/revaluations	(86.0)	(194.6)	(77.3)	(31.4)	(135.8)
<b>Net income (loss) for the year</b>	<b>(241.7)</b>	<b>(289.6)</b>	<b>(95.3)</b>	<b>(104.3)</b>	<b>(195.0)</b>
<b>Balance sheet data</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Equity	80.4	326.2	589.6	663.1	366.4
<i>of which Group equity</i>	74.2	318.8	579.8	653.4	361.7
Net Financial Position	(520.5)	(488.0)	(424.0)	(445.8)	(861.8)
<b>Ratios</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Employees at year-end (**)	878	974	1.027	1.097	1.473
Real estate assets under management - (billions)	8.7	11.2	13.2	14.4	17.3
Pro-rata NAV (billions)	0.6	0.8	1.0	1.2	0.8

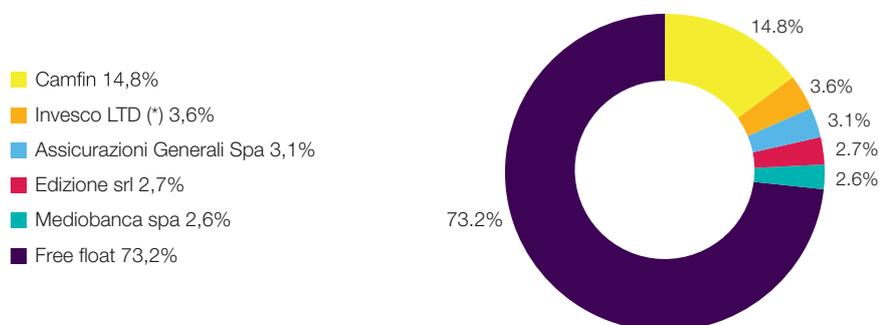
(\*) Taking into consideration the capital gain, net of directly attributable costs, generated by the sale of the operating company Rinascence/Co.in, amounting to 31.8 million euro, operating results amounts to a positive 5.7 million euro as at December 31, 2011.

(\*\*) The number of employees was 878 at December 31, 2012, plus 6 temporary staff, compared with 974 at December 31, 2011, plus 25 temporary staff.



### 1.6 Shareholder structure

As at December 31, 2012, on the basis of the Shareholders' Register, and disclosures sent to Consob and to the company, the following significant stakes are held in the share capital of Prelios Spa:



(\*) On January 22, 2013, Invesco Ltd increased its stake in Prelios to 5.089%

The shareholders' agreement between Assicurazioni Generali, Camfin, Edizione, Intesa Sanpaolo, Massimo Moratti and Mediobanca regarding Prelios shares was renewed on March 28, 2012 for a further 18 months, and therefore until October 25, 2013, for a total amount of around 21.3% of share capital.

### 1.7 Performance of Prelios share

In 2012, the Prelios share recorded a negative performance of 4.13% in absolute terms.

In the same period, sector ratios EPRA and sx86p recorded positive performances of 29.4% and 31.1% respectively. Therefore, over the 12-month period, the Prelios share underperformed these sector ratios.

Performance of the Prelios share in relation to the trend in the FTSE MIB and sector ratios of the European EPRA and SX86p



## QUOTED PRICE AND CAPITALIZATIONS

Reference price a 12/31/2012	€ 0.079
Maximum reference price in 2012	€ 0.188
Minimum reference price in 2012	€ 0.066
Average stock exchange capitalization in 2012	€ 92 mln

source: Bloomberg

The considerable increase in the risk premium recorded at the start of the second half of 2011 – as a result of the widening of spreads on sovereign debt securities – heavily shaped the performance of the financial markets. Therefore, 2012 was characterised by “risk on/off” phases, as a result of the trends recorded on the sovereign debt market. Hence, these phenomena represented the driver of allocations between the different asset classes and, within equity, determined the portfolio construction approaches.

Investors, in the presence of rising risk premiums, hence with widening spreads, (“risk off”), preferred to assume highly defensive investment profiles, favouring companies with high levels of capitalisation, solid business models (companies with competitive advantages, or recognised brands, or price makers), visible cash flows and strong financial structures.

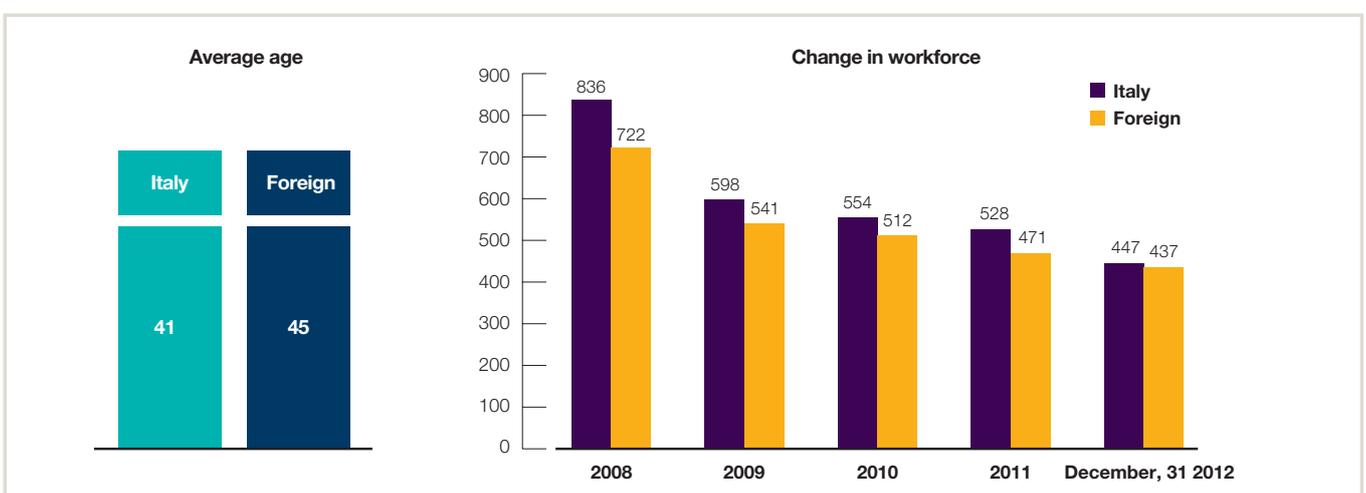
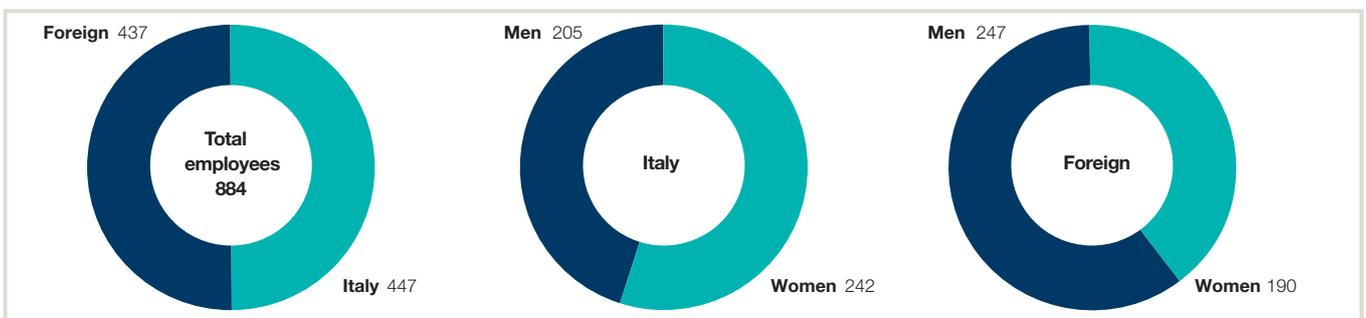
There has been a complete about-turn in these approaches, following the intervention of the ECB governor at the end of July 2012 in London. Therefore, the market assumed (“risk on”) favourable attitudes to more risky asset classes, therefore those sectors/securities “lagging” in terms of the performance of the business cycle started in 2009.

The positive link between the market method (“risk on/off”) and the relative and absolute over/underperformance of the Prelios share was broken by the market rally at the end of July, due to the uncertainty led by the Group restructuring. The partiality of information known and the configuration of the relative terms/conditions, did not allow the market to express a complete judgment.

Therefore, the Prelios share underperformed the main Italian share market ratios and the main operators in the Italian real estate segment.

## 1.8 Workforce<sup>(20)</sup>

(20) Including temporary staff.



## 1.9 Values and sustainability

### The values

The long-term horizons and daily operations of the men and women who work for Prelios are inspired by the Group's values: respect, transparency, quality.

Respect is the core value of the work performed by the professionals that make up the workforce of the Group companies: they draw from this value the deepest sense of meaning in terms of being a team and as regards their conduct in professional relationships with all company stakeholders: from the internal community to customers, from partners to institutional and private investors.

Transparency is the necessary condition for attracting and developing economic value through long-lasting partnerships and is today a fundamental requirement at the level of international competitiveness.

Prelios encourages and cultivates a culture based on quality and service without compromise. All the Group companies share the same commitment: always to be promoters of the evolution of processes and skills, to maximise the value created through real estate assets. Quality management systems (QMS) extended to the different activities, the judgments of rating agencies and the acknowledgements and awards obtained over the years at international level are concrete proof of this.

For Prelios, sustainable governance means integration of sustainability into the various aspects and areas of corporate management. This translates into, among other things, the mapping, control and sustainable management of risks associated with the company's business. Prelios promotes value creation for all stakeholders through innovation, capitalisation of know-how, sustainability.

### The sustainability approach, model and tools

Prelios adopts a multi-stakeholder approach, i.e. it pursues sustainable and lasting growth based as far as possible on a fair balance between interests and expectations of all those who interact with the company, in particular:

- Environment;
- Shareholders and Financial backers;
- Human Resources;
- Customers;
- Suppliers;
- Institutions;
- External Community.

There are many initiatives, activities, discussion tools and projects of specific interest to the categories of stakeholder mentioned above. All this was discussed in depth in the 2012 Sustainability Report, to which the reader is referred for the relative insights.

Prelios's Sustainability Model is based on the principles of the UN Global Compact. The Global Compact requires businesses to implement and support, within their sphere of influence, ten basic principles in the area of human rights, working standards, the environment and combating corruption.

Prelios bases its internal and external activity on respect for the "Values" and principles contained in the "Code of Ethics". The Code of Ethics presents the general principles (transparency, correctness and loyalty) which inspire the performance and management of business, the objectives and values on which the company's business is based and which are pursued in conjunction with economic targets.

### Sustainability dimensions

In keeping with its values, the Prelios Group's sustainability project considers all the main tools for orienting and governing decisions that affect the different dimensions of "doing business" and its "citizenship": from those of Corporate Governance (values, code of ethics, specific bodies) to those concerning relations with shareholders and with the other corporate stakeholders, to those relating to quality, the environment and safety. The Sustainability Report published by Prelios for the eighth year is intended to bring together and report on all of these aspects, which are briefly outlined below.

### Economic dimension

It is of primary interest for Prelios to establish and maintain a constant dialogue with its shareholders and with institutional investors. The company promotes an active policy of communication with institutional investors through an Investor

Relations programme. The Investor Relations department is entrusted with the task of organising presentations during the year – live or via conference calls – on the occasion of regular publication of the Group’s results or of other events that require direct communication to the market. Moreover, the Group has recently launched an information project aimed at its retail shareholders revolving around the specific section of the website entitled Shareholders’ Corner, which brings together useful information for private investors in a simple and intuitive manner.

Again as regards the economic sphere, Prelios’s attention and sensitivity to the quality of services provided have led to the completion and application of the Quality Management System (QMS) and to systems to measure the quality of activities performed and services provided. Today Prelios Agency (for both the Institutional and the Franchising parts), Prelios Valuations & E-Services and Prelios Property & Project Management (both for the work of providing integrated property management services and for the design and construction work) have a certified Quality Management System.

The unique feature of this model is its ability to keep the customer at the centre of a complete and exhaustive service catalogue: the customer’s needs are examined through a global and synergistic vision of the product range in order to provide specialised and effective support for the improvement and modern management of assets.

With reference to the sustainable approach to relations with suppliers, Prelios applies the “Health, Workplace Safety, Environment and Social Responsibility Policy”, which expressly indicates the company’s commitment to “establishing and keeping active the procedures necessary to assess and select suppliers and sub-suppliers on the basis of their commitment in the field of social responsibility and the environment”.

### Environmental dimension

The environmental dimension is central in Prelios and extends both to attention for the environment in performing its activities and to the services offered which include, in particular through the subsidiary Prelios Property & Project Management, development and regeneration services (“Green Retrofitting”), and energy certification services based on the Ecobuilding programme, aligned, that is, to the maximum standards in terms of eco-sustainability. Prelios also assesses and manages the impacts of its activities on the community. Direct operations are carried out at the company’s offices and the potential impacts could be associated with the presence in the area of the company’s employees. Constant monitoring has allowed a considerable reduction in energy consumption in the main Italian and foreign offices.

### Social dimension

As regards the social dimension, Prelios is a company that has always distinguished itself on the real estate market for its innovative approach to the business and for the recognised skills of its employees. Prelios is a demanding employer, but is also attentive to people at all stages:

- selection which aims at searching for young people with potential to invite into and develop in the Group and for the critical know-how needed to strengthen the management team;
- development which aims at maintaining constant monitoring of young talents and key persons present in the company for whom specific development programmes are defined. One aspect of this area, among other things, is the recently developed course for new recruits;
- rewards which aim at attracting, motivating and retaining people of value;
- industrial relations which aim at creating open discussions and collaboration with trade union representatives;
- organisation aimed at ensuring clarity in corporate contacts and in each person’s responsibilities;
- human resources management which, in general, acts as a facilitator of dialogue between the company and its staff;
- outplacement offered to resources involved in restructuring plans to support them in finding new jobs. This support aims to facilitate rapid and qualified re-employment in a new professional job above all through motivational support for people, helping them manage the stress of leaving and reducing transition times from one company to another.

Also with reference to relations with regulators and trade unions, Prelios has distinguished itself for an approach of maximum compliance and collaboration with institutional and social contact people.

The Prelios Group’s Industrial Relations are carried on against the backdrop of constructive dialogue, correctness and respect for roles. Relations and negotiations with trade unions are conducted at the appropriate levels, in accordance with laws, and national and/or company collective contracts.

Conscious of its role in society, in 2012 Prelios renewed its commitment to carrying on its activities in an ethical and sustainable manner, establishing a solid and fruitful relationship with the community in which it works, in keeping with the concept of business citizenship. Through long-term projects and programmes, it has supported a number of actions to enhance the environmental, cultural and social assets of the areas in which it operates, overcoming the limit of sponsorship conceived as “visibility space” achieving forms of patronage and professional collaboration.

## 2. CORPORATE OFFICERS

### Board of Directors<sup>(21)</sup>

Marco Tronchetti Provera	Chairman
Enrico Parazzini <sup>(22)</sup>	Deputy Chairman
Sergio Iasi <sup>(23)</sup>	Chief Executive Officer – CEO
Giuseppe Angiolini	Independent Director
Marina Brogi	Independent Director
Carlo Emilio Croce	Independent Director
Giovanni Fiori	Independent Director
Jacopo Franzan	Director
Valter Lazzari	Independent Director
Amedeo Nodari	Director
Dario Trevisan	Independent Director
Giorgio Valerio	Independent Director
Giovanni Jody Vender	Independent Director
Anna Chiara Svelto	Board Secretary

### Internal Control, Risk and Corporate Governance Committee<sup>(24)</sup>

Dario Trevisan	Independent Director - Chairman
Marina Brogi	Independent Director
Giovanni Fiori	Independent Director
Valter Lazzari	Independent Director

### Remuneration Committee

Giovanni Jody Vender	Independent Director - Chairman
Carlo Emilio Croce	Independent Director
Giorgio Valerio	Independent Director

### Board of Statutory Auditors<sup>(25)</sup>

Enrico Laghi	Chairman
Roberto Bracchetti	Standing Auditor
Lelio Fornabaio	Standing Auditor
Franco Ghiringhelli	Alternate Auditor
Paola Giudici	Alternate Auditor

### Supervisory Board

Dario Trevisan	Chairman
Sergio Beretta	Member
Lelio Fornabaio	Member
Sergio Romiti	Member

### Manager responsible for corporate financial reporting<sup>(26)</sup>

Angelo Cattaneo

**Independent Auditors**Reconta Ernst & Young S.p.A. <sup>(27)</sup>

Via della Chiusa, 2

20123 Milan

- (21) The shareholders' meeting of April 21, 2011, appointed a 15-member Board of Directors, to serve until the date of approval of the financial statements for the year ending December 31, 2013. At the end of the Shareholders' Meeting, the Board appointed the corporate roles, set up the additional Board committees, and appointed the members of the Supervisory Board. On April 17, 2012, the Shareholders' Meeting resolved to reduce the number of directors from 15 to 14, choosing not to replace Giulio Malfatto who handed in his resignation from the roles of Director and Deputy Chairman of the Company on November 11, 2011. On December 18, 2012, the Shareholders' Meeting - following the resignations of Davide Malacalza from the role of Director, on October 11, 2012, and Paolo Massimiliano Bottelli from the role of Director, Chief Executive Officer and General Manager, on November 13, 2012 - resolved to reduce the number of directors from 14 to 13, also confirming the appointment of Sergio Iasi as Director, resolved, pursuant to art. 2386 of the Italian Civil Code, by the Board of Directors on November 13, 2012. n data 3 dicembre 2012.
- (22) Appointed Deputy Chairman by the Board of Directors on December 3, 2012.
- (23) On December 18, 2012, the Shareholders' Meeting confirmed the appointment of Sergio Iasi as Director, resolved, pursuant to art. 2386 of the Italian Civil Code, by the Board of Directors on November 13, 2012. At the end of the shareholders' meeting, the Board appointed Sergio Iasi as Chief Executive Officer, confirming his role and the associated powers already conferred previously on December 3, 2012.
- (24) On August 28, 2012, the activities and tasks of the "Internal Control and Corporate Governance Committee" were redrafted, assigning it the functions of the "Risk Committee" which, as a result, was replaced. The Committee - renamed the "Internal Control, Risk and Corporate Governance Committee" is composed of non-executive directors, all independents.
- (25) The Shareholders' Meeting of April 19, 2010 appointed the members of the Board of Statutory Auditors to serve until the date of approval of the financial statements for the year ending December 31, 2012.
- (26) On March 27, 2013, the Board of Directors - following the resignation of Riccardo Taranto on February 28, 2013 - appointed, based on the prior favourable opinion of the Board of Statutory Auditors, Angelo Cattaneo as the Manager responsible for corporate financial reporting.
- (27) Appointed by the Shareholders' Meeting of April 14, 2008.

### 3. PRELIOS IN 2012

As a result of the financial uncertainties that continue to affect the Euro area, a weak market context persists, in a macroeconomic scenario characterised by a high degree of instability. More specifically, as already indicated previously, the real estate sector in Italy again came to a standstill in the first half of the year, with a slump in property trading linked to the reduced capacity for accessing credit and re-pricing expectations, showing the lowest investment volumes recorded in recent years. Germany recorded growth in investments in the commercial segment and the main German cities dominate the commercial investment prospects in Europe. The German residential sector recorded excellent performances in terms of the volumes of trading, also thanks to large portfolio transactions.

In respect of the domestic market difficulties, the Group largely reflects the negative effects linked to future prospects which led to a deterioration in the profiles of expected cash flows from real estate assets and a considerable slowdown in trading such to make said cash flows incompatible with the sustainability of corporate debt as renegotiated in December 2011. This new scenario inevitably has a significant impact on the sale prices of properties, in case of short-term sales.

Within this difficult context, in 2012, despite the real estate market shrinking considerably, the Group was able to maintain positive operating margins for the management platform, while waiting for growth opportunities to concretely materialise in the real estate fund segment, which is showing an interesting trend.

Therefore, Prelios confirms the strategic objective of operating as a “pure management company”, through the relaunch of the subsidiary Prelios SGR S.p.A. (“SGR”) and the increasing development of management activities for third parties. In the scenario highlighted, writedowns of equity interests and real estate investments affected the Group’s accounts in 2012 too, which closes with a net loss of 241.7 million euro, compared to an equally negative result of 289.6 million euro in 2011. The result was affected by restructuring expenses of 21.4 million euro and writedowns of equity interests and real estate investments of 86 million euro, as a result of the worsening, in Italy, in the economic conditions under which real estate transactions are performed, which led independent external appraisers to reduce their appraisal values further.

Prelios S.p.A. (“Prelios” or the “Company”) therefore found itself in a financial and liquidity crisis, which made it necessary to implement some extraordinary measures needed to restore equity and financial equilibrium, also compromised by the critical situation in the reference market due, initially, to the financial crisis and, later, to the subsequent negative macroeconomic effects that have affected Italy and Europe in recent years.

It should be briefly pointed out that – upon the approval of the consolidated half-year financial report as at June 30, 2012 – the company’s Board of Directors (hereinafter also the “Board”) also examined and approved Prelios’s financial and economic position as at June 30, 2012, which showed a loss exceeding one-third of share capital, pursuant to art. 2446, par. 1, of the Italian Civil Code, making it necessary to call the Shareholders’ Meeting to put in place the necessary measures in accordance with the law. The company’s Board of Directors subsequently resolved to call the Shareholders’ Meeting, for the provisions within its area of responsibility, held on December 18, 2012. During said meeting, on the basis of the Company’s results and the development of the market context, uncertainties over the Company’s ability to continue as a going concern were shown, in the absence of extraordinary transactions that changed the current financial structure or that were able to generate additional cash flows with respect to those that can be generated by ordinary operations, as well as financial risks relating primarily to the sustainability of existing financial debt.

On November 13, 2012, the Company’s Board of Directors – at the time of the approval of the consolidated interim report as at September 30, 2012 – examined and approved Prelios’s financial and economic position as at September 30, 2012, which confirmed a decrease of more than one-third of share capital.

The Board of Directors also approved the key terms of the preliminary agreement with the industrial investor Feidos S.p.A., in relation to the economic-financial structure of an extraordinary transaction aimed at equity strengthening through the recapitalisation of the company and the rebalancing of the financial structure, providing the company with new growth and development prospects (the “Transaction”), then set out in a Memorandum of Understanding (MoU) signed by Prelios and Feidos S.p.A. on November 14, 2012.

On the same day, the Board of Directors acknowledged the resignation of Paolo Massimiliano Bottelli from the roles of Director, Chief Executive Officer and General Manager and co-opted Sergio Iasi in the role of Company Director, then appointed Chief Executive Officer on December 3, 2012, also assuming Administration, Finance and Control powers. Consequently, Enrico Parazzini, former Managing Director Finance, assumed the office of Deputy Chairman with the authority to monitor the development of the

Transaction. Subsequently, the Shareholders' Meeting, which met on December 18, 2012, confirmed Sergio Iasi as Company Director, and the Board of Directors, which met on the same day after the Shareholders' Meeting, confirmed him as Chief Executive Officer.

On December 18, 2012, the Shareholders' Meeting, having acknowledged (i) Prelios's financial and economic position as at September 30, 2012, (ii) the Directors' Report drafted in accordance with art. 2446 of the Italian Civil Code and pursuant to art. 74, par. 1, of the Issuers Regulations and (iii) the remarks of the Board of Statutory Auditors, resolved to approve the Company's balance sheet as at September 30, 2012 and defer the adoption of provisions pursuant to art. 2446 of the Italian Civil Code to a date to be proposed by the Board of Directors, also in relation to the development and implementation of the Transaction and, nonetheless, in compliance with the provisions of par. 2 of said art. 2446 of the Italian Civil Code. For more details, please refer to the relative documentation published in accordance with the law and available on the company's website, [www.prelios.com](http://www.prelios.com).

Prelios' balance sheet and income statement as at December 31, 2012 – included in the financial statements as at December 31, 2012 approved by the company's Board of Directors on March 27, 2013 – record an operating loss of 214.0 million euro, and the decrease amounting to more than one-third of share capital pursuant to art. 2446 of the Italian Civil Code was also confirmed at the end of 2012.

The Transaction (as envisaged in the Framework Agreement detailed in paragraph 3.2 below, signed following the Memorandum of Understanding and in compliance with the same) represents the implementation of the necessary measures targeted, in brief, to allow:

- the equity strengthening of the Company, also to be carried out through the increase in the current number of shareholders with the entry of a new industrial shareholder; and
- the complete review of the present financial debt structure in order to restructure the current debt exposure and ensure the rebalancing of the financial position through a redevelopment plan and the associated restructuring agreements.

The measures set out in the previous points (i) and (ii) also appropriately supplement the necessary provisions to be adopted in accordance with art. 2446 of the Italian Civil Code, already subject – as previously mentioned – to deferment by the Shareholders' Meeting on December 18, 2012, and should allow not only the equity strengthening of Prelios, but the rebalancing of the overall financial structure of the company and of the Prelios Group, and, within an evolving economic and market context, the relaunch of the industrial development prospects of the Company and of the Prelios Group.

### 3.1 Financial debt

Prelios's current financial debt amounts to a total of 561<sup>(28)</sup> million euro at December 31, 2012 (including interest accrued at said date) and originates from two loan agreements stipulated on December 28, 2011, bringing forward the original maturity of July 2012.

In fact, on said date, Prelios signed a loan agreement for a total of 359 million euro ("Club Deal Loan Agreement") with a pool of banks, comprised of Intesa Sanpaolo S.p.A., UniCredit S.p.A., Banca Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano Soc. Coop. a r.l., Banca Popolare di Sondrio Soc. Coop. a r.l., Banca Popolare dell'Emilia Romagna Soc. Coop., Banca Carige S.p.A. – Cassa di Risparmio di Genova e Imperia and Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A. (known collectively as the "Lending Banks"), with Banca IMI S.p.A. as agent bank.

On December 28, 2011 also, the Company signed a loan agreement for a total of 160 million euro ("P&C Loan Agreement") with Pirelli & C. S.p.A. ("P&C" and, together with the Lending Banks, the "Lenders").

The Club Deal Loan Agreement was jointly reviewed and sent to the Lending Banks on June 18, 2012, and definitively formalised on July 20, 2012 with which, among other things, the parties agreed to suspend the financial covenants and the associated communication obligations from June 30, 2012 (included) until June 30, 2013 (excluded) and to defer (initially until December 31, 2012 and, subsequently, until March 31, 2013 pursuant to the Standstill defined below) the payment of the first interest instalment of 14.8 million euro due from the Company as at June 30, 2012 (included).

The P&C Loan Agreement was formally reviewed on June 27, 2012, with which, among other things, the parties agreed to suspend the financial covenants and the associated communication obligations from June 30, 2012 (included) until June 30, 2013 (excluded) and to defer to June 30, 2013 the payment of the interest due from the Company as at June 30, 2012 (included), amounting to around 7.0 million euro, and as at

(28) Gross debt of 561 million euro, net of residual up-front fees, is represented by payables due to the "Club Deal" lending banks, amounting to 359 million euro, plus interest accrued of 28.5 million euro, in addition to the payable due to Pirelli & C. S.p.A. of 160 million euro, plus interest accrued of 13.5 million euro.

December 31, 2012 (included) respectively, for a cumulative total, including the interest due as at June 30, 2012, of roughly 13.5 million euro.

On December 28, 2012, Prelios and the Lending Banks then reached an agreement on the postponement of the expiry dates set out in the Club Deal Loan Agreement. Based on said agreement, the Lending Banks granted Prelios another deferment of the payment obligations (the “Standstill”) to earlier date between (a) March 31, 2013 and (b) the date on which the extraordinary transaction is carried out or on which negotiations between Feidos and Prelios are ended, in order to allow said entity to fulfil its commitments in consideration of the expected completion of the Transaction.

Despite the willingness shown by Lenders to support the Company granting the aforementioned extension of the payment terms for interest instalments and of the measurement of covenants, the failure to carry out the transactions initially set out in the Prelios Group’s cash plans – due to the persistence, and in some ways, worsening, in a negative market scenario – meant the Company’s financial exposure was higher than that envisaged in the industrial plans drawn up previously and, therefore, no longer in line with the financial commitments undertaken by the Company.

This situation involved – as stated – the need to assess the adoption of the necessary measures to allow the company to maintain the conditions to continue to operate as a going concern, also through extraordinary transactions that modified the current overall financial structure or which were suitable for producing additional cash flows with respect to those generated by the ordinary operations envisaged.

Therefore, within said scenario, in 2012, the company started a number of initiatives targeted at equity strengthening, rebalancing of the financial structure and the industrial relaunch of the Prelios Group, which then led to the definition of the Transaction, as better detailed in paragraph 3.2 below.

### 3.2 Initiatives targeted at strengthening the Company’s equity structure

The initiatives put in place by the Company in 2012, in consideration of the debt position and the persistent crisis in the reference market, meant the Company directors, after having performed the necessary checks and valuations, were reasonably hopeful that the company could, in time to ensure the protection of its equity strength and the sustainability of financial debt, define a transaction able to strengthen equity through the recapitalisation of the Company and the rebalancing of the financial structure, providing the Company with new growth and development prospects (the said Transaction).

In fact, at the start of 2012, with the help of its advisors, the Company launched initiatives aimed at the sale of assets with which to generate extraordinary cash flows to sustain debt repayment commitments, and, starting from the end of the second quarter of 2012, initiatives targeted at attracting, including through competitive processes, third party investors and potential industrial partners, through a structured search for parties potentially interested in an extraordinary transaction under the terms outlined above, which led to the establishing of contacts with various operators falling into three categories: (i) networks managed by national entrepreneurs; (ii) entities with industrial integration projects; and (iii) Italian and international financial investors/private equity funds. Thanks to this process, the Company received expressions of interest from leading Italian (Feidos S.p.A.) and international (Fortress Investment Group UK Ltd) investors, that proposed possible structured extraordinary transactions which would have allowed the recapitalisation of the Company thanks to these parties becoming shareholders, potentially involving the current lenders (banking system and P&C).

After in-depth contractual activities and due diligence, on October 11, 2012, Prelios’ Board of Directors reviewed the definitive offers received from potential investors in relation to the extraordinary transactions to be implemented. Following the assessment of the contents of the proposals received, the Board, as communicated to the market, resolved to grant an exclusivity period to Feidos S.p.A (“Feidos” or “Industrial Investor”); in this regard, the Board also acknowledged the willingness shown by the main financial backers and shareholders subscribed to the Prelios shareholder’s agreement currently in force (“Prelios Agreement”)<sup>(29)</sup> to support a transaction targeted to achieve equity and financial stability and the relaunch of the Group.

During the aforementioned exclusivity period, as already highlighted previously, the company and Feidos signed a Memorandum of Understanding (“MoU”), which reflects the agreements in principle reached by the parties in relation to the structure of the extraordinary transaction proposed.

On December 21, 2012, in compliance with the provisions of the MoU, Prelios and Feidos 11 S.p.A. (“Feidos 11”), a special purpose vehicle controlled by Feidos in which the Rovati, Diaz della Vittoria Pallavicini and Cornetto Burlot families have an investment through dedicated vehicles, signed the Framework Agreement which makes provision for and governs activities relating to:

(29) Camfin, Assicurazioni Generali, Mediobanca, Intesa San Paolo, Edizione, Massimo Moratti.

- the recapitalisation of the Company through a share capital increase of 185 million euro;
- the restructuring of existing debt on the basis of the new business plan, according to which:
  - 250 million euro will remain in the form of a loan (super-senior and senior); and
  - up to 269 million euro will be converted to convertible debt type investment instruments, with cash option for the redemption exercisable by the Company.

The understandings in the Framework Agreement subsequently fine-tuned by the parties make provision for a proposed share capital increase of 185 million euro, structured into two tranches through (a) the issue of ordinary shares up to a maximum of 115 million euro, offered under option (share capital increase under option) and whose subscription is guaranteed, according to the provisions of the Framework Agreement, among other things, by Lenders and (b) the issue of new shares without voting rights (category B shares), for a maximum amount of 70 million euro, reserved for subscription to a newly incorporated company invested in by Feidos 11 and the main lenders (reserved share capital increase).

The recapitalisation will see the Prelios Agreement contribute at least around 25 million euro, to guarantee the subscription of the aforementioned share capital increase up to 115 million euro, in compliance with the provisions of the understandings reached and formally confirmed to the Company.

This undertaking, combined with the commitment to the cash subscription of category B shares totalling 70 million euro (of which 20 million euro guaranteed by Feidos 11 and 50 million euro guaranteed by the main lenders) and the subscription guarantee from the Lenders, with respect to the ordinary shares offered under option, formally confirmed to the Company for an amount of 90 million euro (of which 5 million in cash and up to 85 million through the conversion of receivables due), ensures the Company a share capital increase in cash of at least 100 million euro in new financial resources. On the basis of the Framework Agreement and subsequent understandings, the Industrial Investor is also expected to assume responsibility for the management of Prelios in order to maximise its contribution to the relaunch of the business. As regards the general structure of the transaction and the understandings reached by the various parties involved, the completion of the activities envisaged for the purpose of executing the Transaction is subject to certain conditions, including:

- the definition and signing of agreements with the Lenders for debt restructuring;
- the certification of the redevelopment plan by an independent expert pursuant to art. 67, par. 3, letter d), of Royal Decree no. 267 of 1942;
- the commitment by current shareholders in the Prelios Agreement, Lenders and Feidos 11 to subscribe to and/or guarantee the subscription of the share capital increase, as approved by the Shareholders' Meeting, in accordance with the terms outlined previously;
- the issuing by Consob of the exemption from the obligation to launch a full takeover bid for parties involved in the Transaction: and
- the approval by the Prelios Shareholders' Meeting of share capital increases within the proposed terms and, subsequently, of the new Prelios Articles of Association.

These conditions are deemed, at the current state of play, to be primarily executive elements of the agreements already reached. In particular:

- the debt restructuring agreements with the Lenders consist of the acknowledgement, in an act amending the loan agreements, of the conditions negotiated and agreed with said Lenders that communicated the approval of the Term Sheet by the respective decision-making bodies on March 26, 2013.
- the process for the certification of the redevelopment plan by an independent expert pursuant to art. 67, par. 3, letter d) of Royal Decree no. 267 of 1942 is essentially finished and the expected judgment confirms the truthfulness of the company data based on the plan and the feasibility of the same;
- the commitment by the current shareholders of the Prelios Agreement, by the Lenders and Feidos 11 to subscribe to and/or guarantee the share capital increase, already expressed preliminarily, then confirmed by said parties;

Therefore, the participation of the different parties involved in the Transaction requires, as regards the recapitalisation of the Company through a share capital increase totalling 185 million euro:

- the Industrial Investor to subscribe 20 million euro in cash, out of a total of 70 million euro of the reserved share capital increase;
- the main Lenders to subscribe 50 million in cash out of a total of 70 million euro of the reserved share capital increase;

- the Prelios Agreement to guarantee the cash subscription of 115 million euro of the share capital under option, for an amount of around 25 million;
  - the Lenders to guarantee – according to the proportions and amounts defined between them – the subscription of 115 million euro of the share capital increase under option, for a total amount of 90 million euro (of which 5 million euro in cash and up to 85 million euro through the conversion of receivables due);
- and, as regards the restructuring of existing debt, that the Lenders contribute – according to the proportions defined between them – to the following two components:
- 250 million euro will remain in the form of a loan (super-senior and senior); and
  - up to 269 million euro will be converted to convertible bond type investment instruments, with cash option for the redemption exercisable by the Company.

## 4. NOTES ON MAIN GROUP ECONOMIC AND FINANCIAL DATA

This section will examine the Group's economic results and financial position at December 31, 2012. The review of operating results in section 4.1 uses Non-GAAP performance measures, generally adopted by management to monitor and assess the Group's performance. The purpose is to present the result of the Group's ordinary continuing operations, net of the impact of transactions that are unusual in nature or size, and net of changes in the value of its property portfolio, and in this way ensure that its results and reporting over time are more comparable with other major players using similar Non-GAAP measures.

These measures are obtained by aggregating or reclassifying accounting figures as reconciled in Appendix A to this report. Such Non-GAAP performance measures have been adopted to analyse the economic results according to the nature of the events originating them. Section 5 contains an analysis of the results as reported in the IFRS income statement. The review of the financial position in section 4.2 also includes Non-GAAP measures, the composition of which is disclosed in Appendix A to this report on operations. As we are talking, in the case of equity amounts, about measures generally adopted for financial communication purposes, and are easily reconciled to figures reported in the primary financial statements, it has not been necessary to supplement the performance analysis with specific comments on the latter.

In particular, the Non-GAAP measures indicated below have been determined by isolating the following aspects, all of which are fully reconciled to amounts reported in the IFRS financial statements in Appendix A: "One-off property tax", "Restructuring costs" and "Property writedowns/revaluations", as better detailed in the paragraph below.

The item that best reflects the performance of the Group's Management Platform and Investment Activities is the operating result, including income from investments and income from shareholder loans before one-off property tax, restructuring costs, and property writedowns/revaluations.

## 4.1 Income Statement

(million euro)	2012	2011
Consolidated revenues;	131.0	177.8
– of which services	124.9	149.0
– of which others	6.1	28.8
<b>Management Platform:</b> operating result before restructuring costs, impairment and property writedowns/revaluations	9.9	19.2
<b>Management Platform:</b> net income from investments before restructuring costs and property writedowns/revaluations	3.1	1.1
<b>Management Platform:</b> management platform impairment	(4.5)	
<b>Total management platform: operating result</b>	<b>8.5</b>	<b>20.3</b>
<b>Investment Activities:</b> operating result before restructuring costs, NPL portfolio loss and property writedowns/revaluations	(20.6)	(24.5)
<b>Investment Activities:</b> net income from investments before restructuring costs and property writedowns/revaluations	(10.5)	15.1
<b>Investment Activities:</b> income from shareholder loans <sup>(1)</sup>	12.1	23.8
<b>Investment Activities:</b> loss from valuation of NPL portfolio	(61.6)	(60.9)
<b>Total investment activities: operating result</b>	<b>(80.6)</b>	<b>(46.4)</b>
<b>Operating result</b>	<b>(72.1)</b>	<b>(26.1)</b>
Rinascente/Coin capital gain net of directly related expenses		31.8
<b>Profit (loss) before financial expenses, one off property tax, restructuring costs, property writedowns/revaluations and income taxes</b>	<b>(72.1)</b>	<b>5.7</b>
Financial expenses	(52.0)	(29.8)
<b>Profit (loss) before property tax, restructuring costs, property writedowns/revaluations and income taxes</b>	<b>(124.2)</b>	<b>(24.1)</b>
One-off property tax		(8.9)
Restructuring costs	(21.4)	(48.7)
Property writedowns/revaluations	(86.0)	(194.6)
<b>Profit (loss) before taxes</b>	<b>(231.5)</b>	<b>(276.2)</b>
Income taxes	(9.5)	(15.3)
<b>Net income (loss)</b>	<b>(241.0)</b>	<b>(291.5)</b>
Minority interests	(0.7)	1.9
<b>Net income (loss) for the Group</b>	<b>(241.7)</b>	<b>(289.6)</b>

(1) This amount consists of interest income on financial receivables due from associates and joint ventures.

Consolidated revenues amount to 131 million euro in 2012, compared with 177.8 million euro in 2011. In particular, revenues from the Management Platform, foreign and Italian, total 124.9 million euro in 2012, a decrease of 24.1 million euro with respect to the 149 million euro recorded in 2011. The decrease relates mainly, for 17.7 million euro, to specialist agency and property & project management services in Italy, amounting to 13.2 million euro and 4.5 million euro respectively, determined by lower volumes of transactions brokered and contracts managed, and for 5.8 million euro to fund management activities.

Operating result posts a negative value of 72.1 million euro, compared to a negative value of 26.1 million euro in 2011 which befitted, both for the Management Platform and for Investment Activities, from the positive results of certain transactions such as, in particular, the sale of the historic building, fully leased to La Rinascente, and located in Piazza Duomo in Milan (by the Retail & Entertainment fund in which the Group invests) and other transactions on the foreign market. It should also be noted that the result includes a negative effect relating to the NPL business amounting to 59.5 million euro (of which 61.6 million euro for the

loss from the NPL portfolio valuation), compared to a negative value of 46.2 million euro in 2011 (of which 60.9 million euro for the loss from the NPL portfolio valuation).

The item "Restructuring costs" generally includes voluntary redundancy costs, expenses for rationalising the Group and its offices, extraordinary charges arising from settlements for tax litigation, and support, including with the waiving of receivables, enabling investee companies to continue as going concern as part of financial restructuring plans previously formalised on or at an advanced stage of negotiation with financial backers and partners; this is to demonstrate how such restructuring costs differ from the Group's ordinary operating activities.

The item, amounting to 21.4 million euro, mainly includes receivables write-off as part of the plan to restructure certain investees, expenses linked to the rationalisation of Group offices and expenses deriving from settlements for tax litigation. In 2011, this item amounted to 48.7 million euro, including, among other things, 13.6 million euro arising from the accrual of deferred contractual charges linked to the sale of the facility management unit and the minority share of the former Pirelli RE SGR.

The item "Property writedowns/revaluations", amounting to 86 million euro in 2012, mainly includes value adjustments to real estate assets in Italy, therefore excluding Non-Performing Loans.

Income taxes, amounting to 9.5 million euro, compared to 15.3 million euro in 2011, largely relate to foreign companies. In particular, the total amount is composed of IRES and other taxes on foreign income amounting to 7.6 million euro (compared to 13 million euro in 2011 which benefitted from around 6 million euro in contingent assets relating to the recognition of higher deductibility of costs on foreign income concerning previous years) and IRAP for 1.9 million euro (compared to 2.3 million in 2011).

The Group net income (loss) in 2012 is a loss of 241.7 million euro, compared with a loss of 289.6 million euro in 2011.

#### Management Platform <sup>(30)</sup>

Fund and asset management activities and property and project management and agency specialist services, as well as those connected to Non-Performing Loans (credit servicing), including general and administrative expenses, led to a positive result of 13 million euro in 2012; considering the negative impact of 4.5 million euro relating to the impairment of the Management Platform, the operating result is a positive 8.5 million euro compared to 20.3 million euro in 2011.

#### Investment Activities <sup>(31)</sup>

In 2012, investment activities reported a negative operating result of 19 million euro with respect to a positive operating result of 14.4 million euro in 2011. This included the already mentioned positive contributions from certain real estate transactions. Considering the negative impact of the loss from the valuation of the NPL portfolio, of 61.6 million euro in 2012 and 60.9 million euro in 2011 respectively, the operating result is a negative 80.6 million euro in 2012, compared to a negative 46.4 million euro in 2011. The worsening relates almost entirely to investment activities in Italy.

\* \* \*

In 2012, real estate sales <sup>(32)</sup> amount to 657.1 <sup>(33)</sup> million euro (192.5 million euro on a pro-rata basis) compared to 1,790.3 million euro <sup>(34)</sup> in 2011 (463.5 million euro on a pro-rata basis). The Company carried out its real estate transactions at values essentially in line with the book value (in the same period in 2011, the average margin with respect to the book value was 5%).

Total rents <sup>(35)</sup> amount to 395.8 million euro in 2012, compared with 531.5 million in 2011: the reduction is mainly attributable to the sale of rental properties; the Prelios share of rents is 102.1 million euro (148.2 million euro in 2011).

More details of the results by geographical area for fund and investment company activities and the Management Platform, inclusive of general and administrative expenses, can be found in the relevant section.

Writedowns of investments and real estate properties in 2012 contributed a total of 86 million euro, of which 65.1 million euro came from the real estate portfolio in Italy, and 20.9 million euro from the real estate portfolio in Germany.

(30) Management Platform results means the contribution generated by the Company through fund and asset management activities and specialised real estate services (property and project management and agency) and from services associated with NPL (credit servicing), as well as general and administrative expenses.

(31) Investment activities mean the contribution generated by Prelios through its investment in funds and companies that hold real estate and Non-Performing Loans.

(32) This is the sum of real estate sales by consolidated companies, plus 100% of real estate sales by associates, joint ventures, and funds in which the Group has at least a 5% interest.

(33) Of which 130 million euro relating to the sale of the building on Via del Tritone in Rome.

(34) Of which 472 million euro relating to the sale of the La Rinascente building in Piazza Duomo in Milan.

(35) The value is the sum of rents earned by consolidated companies plus 100% of the rents earned by associates, joint ventures, and funds in which the Group has at least a 5% interest as at December 31, 2012.

The diagram below shows the impact of real estate writedowns by country and by period.



## 4.2 Review of the financial position

(million euro)	DECEMBER 2012	DECEMBER 2011
<b>Fixed assets</b>	<b>611.7</b>	<b>820.4</b>
<i>of which investments in real estate funds and investment companies and shareholders' loans granted <sup>(1)</sup></i>	<i>455.2</i>	<i>651.6</i>
<i>of which goodwill</i>	<i>144.8</i>	<i>148.1</i>
<b>Net working capital</b>	<b>55.1</b>	<b>70.4</b>
<b>Net invested capital</b>	<b>666.8</b>	<b>890.8</b>
<b>Equity</b>	<b>80.4</b>	<b>326.2</b>
<i>of which Group equity</i>	<i>74.2</i>	<i>318.8</i>
<b>Provisions</b>	<b>65.9</b>	<b>76.6</b>
<b>Net financial position</b>	<b>520.5</b>	<b>488.0</b>
<b>Total net invested capital</b>	<b>666.8</b>	<b>890.8</b>

(1) The figure includes investments in associates, joint ventures and others (237.8 million euro), shareholders' loans granted (208.1 million euro), investments in real estate funds (11.9 million euro, reported in "Other financial assets" in the consolidated balance sheet) and junior notes (0.2 million euro, reported in "Other financial assets" in the balance sheet). The figures in December 2012 and December 2011 include provisions for risks on investments of 2.8 million euro and 7.1 million euro respectively.

Fixed assets amount to 611.7 million euro as at December 31, 2012 compared with 820.4 million euro as at December 31, 2011. The decrease is due to the aforementioned writedowns of investments in Real Estate and NPL and to repayments and the waiving of shareholders' loans.

Net working capital is 55.1 million euro as at December 31, 2012, marking a decrease of 15.3 million euro compared to 70.4 million euro as at December 31, 2011. The decrease in current assets is mainly due to the fall in trade receivables brought about by collections and value adjustments, the increase in tax payables (with a subsequent decrease in the associated risk provisions) and the reduction in other receivables which more than offset the fall in trade payables.

Equity is 80.4 million euro, while the Group equity to Prelios amounts to 74.2 million euro, compared to 318.8 million euro as at December 31, 2011. The change is mainly due to the negative result in the year of 241.7 million euro.

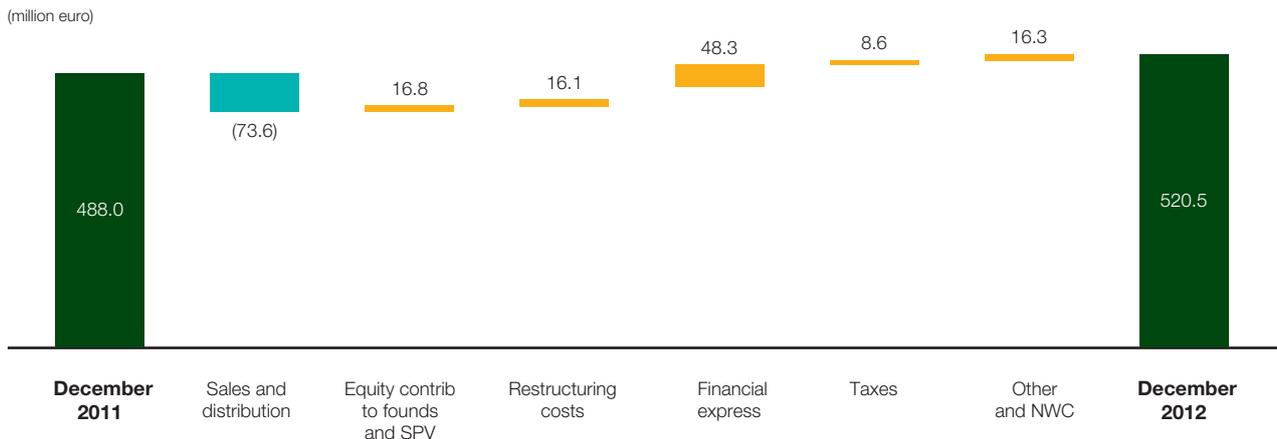
The Net Financial Position reports a debt of 520.5 million euro as at December 31, 2012 compared with 488 million euro as at December 31, 2011.

It should be noted that, as at December 31, 2012, Prelios has 539 million euro in committed credit lines (20 million expiring in June 2013, usable under certain conditions and currently unused), of which 379 million euro is in bank credit facilities and 160 million euro in facilities provided by Pirelli & C. S.p.A..

The following diagram details the combined effect of the events that had an impact on the change in the Net Financial Position in 2012.

The negative change with respect to December 31, 2011, totalling 32.5 million euro, is attributable to the combined effect of a decrease of 73.6 million euro deriving from cash flows generated by sales and distribution by investment companies/funds and an increase attributable to the accrual of interest expenses and other financial charges linked to existing loans (48.3 million euro), to the contribution of equity to investment companies/funds (16.8 million euro), to the payment of restructuring costs (16.1 million euro), to the payment of taxes (8.6 million euro) and other events partly connected with the changes in net working capital (16.3 million euro).

## Net Financial Position



The following table presents the main changes in the Net Financial Position during the period.

(million euro)	December 2012	December 2011
<b>Net financial position (A) at the start of the period</b>	<b>488.0</b>	<b>424.0</b>
<b>EBIT net of restructuring costs and property writedowns/revaluations</b>	<b>(10.7)</b>	<b>(5.3)</b>
Amortisation and depreciation	2.4	3.2
Change in investments and shareholders' loans granted	41.4	(17.5)
Change in other fixed assets	1.1	0.8
Change in net working capital and provisions and other changes	(15.4)	(17.5)
<b>Net cash flow from operating activities</b>	<b>18.8</b>	<b>(36.3)</b>
Other changes	(16.1)	0.0
Financial and tax expenses/income	(35.6)	(26.4)
<b>Net cash flow before dividends</b>	<b>(32.9)</b>	<b>(62.7)</b>
Capital increase/dividends <sup>(*)</sup>	0.4	(1.3)
<b>Total net cash flow (B)</b>	<b>(32.5)</b>	<b>(64.0)</b>
<b>Net financial position at the end of the period (A-B)</b>	<b>520.5</b>	<b>488.0</b>

(\*) third party share - share capital increase, Prelios Credit Servicing (+0.6 million euro) and dividends equal to 10% SGR-Banca Intesa for -2.0 million euro.

### 4.3 Net bank debt of funds and investment companies

Compared to a market value on a 100% basis of the real estate component of funds and investment companies, amounting to 6.7 billion euro, the net debt totals 4.6 <sup>(36)</sup> billion euro: the Prelios loan to value on the real estate component amounts to 64% (Prelios pro-rata) of the market value of the assets, generally providing margins of safety in relation to existing covenants.

The main characteristics of the net real estate debt of the investment companies and funds are:

- a limited amount of recourse guarantees of Prelios S.p.A. (39.4 million euro, of which 2.5 million euro in the release phase following the resolution of the underlying issue);
- a high level of interest rate hedging (80%) and an average maturity of about 1.4 years (values at 100%).

More details can be found in Appendix B to this report.

As regards the NPL sector, the book value of receivables based on 100% values amounts to around 1.05 billion euro, against net bank debt of 1.02 billion euro.

(36) This does not include 0.4 billion euro relating to the Cloe, Armilla, and Fedora funds classified as third-party funds, as Prelios' interest is less than 5%.

## 5. REVIEW OF THE CONSOLIDATED INCOME STATEMENT

An income statement format is presented below (accounting layouts)

(million euro)	December 2012	December 2011
Revenues from sales and services	131.0	177.8
Changes in inventories of work in progress, semi-finished and finished products	0.1	(5.7)
Other income	20.0	14.1
<b>TOTAL OPERATING REVENUES</b>	<b>151.1</b>	<b>186.2</b>
Raw and consumable materials used (net of change in inventories)	(4.7)	(28.4)
Personnel costs	(77.1)	(74.5)
Depreciation, amortisation and impairment	(7.7)	(5.3)
Other costs	(99.4)	(152.7)
<b>TOTAL OPERATING COSTS</b>	<b>(188.9)</b>	<b>(260.9)</b>
<b>EARNINGS BEFORE INTEREST AND TAX (EBIT)</b>	<b>(37.8)</b>	<b>(74.7)</b>
Net income from investments	(149.2)	(193.0)
– net profit share from investments in associates and joint ventures	(135.8)	(90.9)
– dividends	2.4	6.6
– gains on investments	5.0	1.1
– losses on investments	(20.8)	(109.8)
Financial income	16.1	29.8
Financial expenses	(60.6)	(35.7)
<b>INCOME (LOSS) BEFORE TAXES</b>	<b>(231.5)</b>	<b>(273.6)</b>
Taxes	(9.5)	(17.9)
<b>NET INCOME (LOSS) FOR THE YEAR</b>	<b>(241.0)</b>	<b>(291.5)</b>
attributable to minority interests	0.7	(1.9)
<b>GROUP NET INCOME (LOSS) FOR THE YEAR</b>	<b>(241.7)</b>	<b>(289.6)</b>

Revenues from sales and services amount to 131 million euro in 2012, of which 70.3 million euro in Italy and 60.7 million euro abroad, compared with 177.8 million euro in 2011. The decrease, better described in paragraph 7 “divisional performance”, is mainly due to consolidated revenues in Italy: -31.2 million euro, of which -26.8 million euro relating to the Management Platform and -4.4 million euro to Investment Activities.

Other income totals 20 million euro in 2012, compared to 14.1 million euro in 2011. The item not only includes income linked to the positive outcomes of disputes, but the chargeback to tenants of the management costs of the Group's own properties or properties managed on behalf of third parties, the latter mostly in connection with property management activities.

Purchases of raw and consumable materials used (net of change in inventories) amount to 4.7 million euro, compared to 28.4 million euro in 2011, including the acquisition of a real estate development portfolio from the joint venture Mistral Real Estate B.V..

Personnel costs total 77.1 million euro in 2012, compared to 74.5 million euro in 2011. The item includes around 2.7 million euro related to the conclusion of a specific contract plus 8.6 million euro linked to voluntary redundancy incentives, compared to 5.5 million euro in 2011. Net of said components, a decrease is recorded in personnel costs, due mainly to the reduction of the average headcount in the year (923 employees compared to 1,026 in the previous year).

Other costs total 99.4 million euro in 2012, compared to 152.7 million euro in 2011. The item includes costs for maintenance services, commissions, consultancy and professional fees, office rental costs, provisions for risks and writedowns of receivables and other operating expenses. In particular, a marked reduction was recorded in service costs, especially maintenance costs, commissions and consultancy fees paid to third parties and provisions for the writedowns of receivables, set aside to ensure that investee companies continue as going concerns as part of financial restructuring plans already formalised or at an advanced stage of negotiation with financial backers or partners.

EBIT is a negative 37.8 million euro in 2012, compared with a negative 74.7 million euro in 2011. The decrease in costs of 72 million euro more than offset the fall in consolidated revenues of 35.1 million euro.

Net income from investments in 2012 is a negative 149.2 million euro, compared to a negative figure of 193 million euro in 2011, despite the previous year benefitting from the positive contribution from the Retail & Entertainment Fund (in which Prelios S.p.A. holds an indirect minority interest) as a result of the sale of the historic building fully leased to La Rinascente and located in Piazza Duomo in Milan. The item includes, among other things, the negative effect of writedowns of real estate interests and investments of 78.2 million euro and the loss from the valuation of the NPL portfolio, totalling 61.6 million euro, compared to negative values in 2011 of 160.7 million euro and 60.9 million euro respectively.

Financial income amounts to 16.1 million euro at December 31, 2012, compared to 29.8 million euro in 2011, which benefited from a positive non-recurring contribution of 9.9 million euro. Net of this item, financial income registers a decrease of 3.8 million euro, compared to a reduction in interest accrued on financial receivables due from joint ventures.

The increase in financial expenses is mainly attributable to the effect of an increase in interest paid to banks and Pirelli & C. S.p.A.. as a result of the refinancing completed in December 2011.

## 6. PORTFOLIO MANAGED - ASSETS UNDER MANAGEMENT AND REAL ESTATE NET ASSET VALUE AT DECEMBER 31, 2012

The following analyses relate to the portfolio managed and in many case owned by the Group (Assets Under Management) through investment companies or real estate funds (values indicated on a 100% basis and for the Prelios stake). The Asset under Management corresponds to the value of assets managed and is recognised, excluding non-performing loans which are reported at book value <sup>(37)</sup>, at the values appraised by independent experts at period end <sup>(38)</sup>.

This measure, when specifically referring to the Prelios stake, expresses the Group's interest in the market value of the assets and in the book value of non-performing loans owned by the Group.

### 6.1 REAL ESTATE ASSETS UNDER MANAGEMENT

The information reported below, relating to portfolios managed by the Group at December 31, 2012, is taken from valuations performed by CB Richard Ellis for the entire portfolio, with the exception of:

- the Armilla Fund, Manifatture Milano and Mistral Real Estate, valued by Reag;
- the assets of DGAG, valued by Jones Lang La Salle;
- the Immobiliare Pubblico Regione Siciliana-FIPRS Fund, Olinda Fund, and Diomira Fund, valued by Scenari Immobiliari;
- the Enasarco, Monteverdi, Anastasia and Tecla Funds, valued by Patrigest;
- the Cloe, Hospitality & Leisure, Vivaldi, Fedora and Clarice Funds, valued by K2Real;
- The Raissa, Spazio Industriale and Eridano Funds, valued by Patrigest
- Resident Sachsen, Resident Berlin, Resident Baltic and Resident West, valued by NAI Apollo
- Highstreet, valued by Cushman & Wakefield.

The valuations are performed on individual properties using different methods.

The Discounted Cash Flow method, which discounts cash flow from leases using a discount factor reflecting the specific risks associated with the investment (where the terminal value at the end of the letting period is obtained by capitalising market rents for the business and/or service industry properties), is the most widely used for the commercial and residential sector in Germany; instead, the terminal value of residential property in Italy is obtained using the comparative method. As regards the development of projects and lands the transformation method is used, by discounting the costs and revenues of the development based on the current stage of advancement of the project and therefore not considering the gains generated in relation to the theoretical finished product value.

Assets under management <sup>(39)</sup> amount to 9.7 billion euro at December 31, 2012 (12.4 billion euro at December 31, 2011), of which the Prelios share is 2.1 billion euro (compared to 2.5 billion euro at December 31, 2011). The assets under management comprise 8.7 billion euro in real estate (11.2 billion euro at December 31, 2011) and 1 billion euro in non-performing loans (1.2 billion euro at December 31, 2011). In terms of asset allocation by geographical area, of the 8.7 billion euro in real estate, 55.8% is managed in Italy, 43.7% in Germany, and 0.5% in Poland.

The portion of non-investee real estate, representing 22% of the total value of real estate assets under management, fell from 3.4 billion euro <sup>(40)</sup> in December 2011 to 2 billion euro in December 2012, as a result of the exclusion of the BauBeCon real estate portfolio from the perimeter, a contract coming to its conclusion. In fact, on October 31, German services companies in which Prelios Deutschland GmbH holds investments signed an agreement to discontinue the service mandates in place with companies in the BauBeCon Group, currently owned by Deutsche Wohnen that purchased the Group from Barclays Capital. The expiry of the mandates, initially set for May 31, 2013, was brought forward, effective as of November 1, 2012 for some contracts, and effective as of February 1, 2013 for others.

(37) Figures expressed at purchase cost, net of any writedowns.

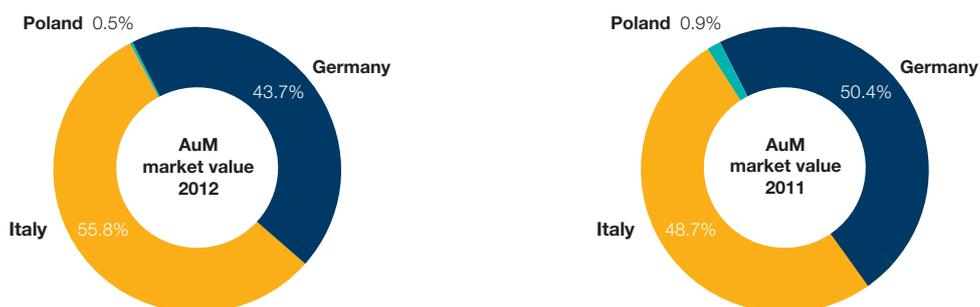
(38) The amounts thus determined exclude the deduction of any discounts arising under sales mandates aimed at accelerating real estate portfolio divestment.

(39) Assets under management, with the exception of non-performing loans stated at book value, are stated at market value on the basis of appraisals by independent experts. The market values established by the independent experts do not take account of possible acceleration of sales plans on normally reasonable times needed for such sales activity, for that type of asset in its current market, or of any discounts for block sales or discounts arising under sales mandates.

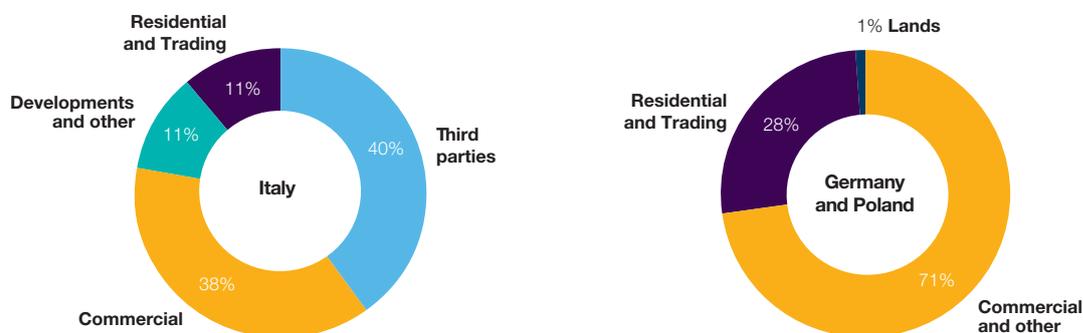
(40) This includes the Cloe, Armilla and Fedora Funds (in which Prelios holds an interest of less than 5%), and the BauBeCon real estate portfolio.

Based on independent appraisals and net of any discounted sale mandates given to intermediaries, like-for-like market values of invested assets have been written down by an average of 4.5% in the period. More specifically, the Italy real estate portfolio was written down by an average of 6.6%, while in Germany the average writedown was around 3%.

As reported in the tables below, the breakdown of asset allocation expressed at market value by geographic area at December 31, 2012 shows an increase in the percentage weight of Italy and a reduction in the percentage weight of Germany as a result of the aforementioned exclusion of the BauBeCon real estate portfolio from the perimeter.



The following tables show the Assets Under Management breakdown by product at market value at December 31, 2012 (100% amounts):



### Development projects and lands

Development projects and lands under management are valued at 583 million euro in December 2012, of which 459 million euro refers to lands and 124 million euro to development. The Prelios share is approximately 41%, corresponding to roughly 240 million euro.

Development projects and lands therefore represent around 14% of Prelios' Real Estate Assets Under Management, relating to investment companies and funds (1.8 billion euro pro-rata).

The Group generally takes part in lands and development projects by investing with sizeable minority stakes in joint ventures with major national and international partners, providing asset management, Property & Project Management and Agency services.

The development projects and lands of the various joint ventures in which Prelios has invested are provided with financial resources from their inception, of which 50-70% from major national and international banks and the remainder from shareholders in the form of equity and shareholders' loans.

Bank lending, solely of the non-recourse kind, is usually structured in two lines with secured guarantees: the first to purchase the site and the second for drawdown as the work progresses (capex line).

The main projects currently in progress are:

- **Manifatture Milano (Prelios 50%):** land near to the Bicocca area (North Milan). A total of 68,000 square metres will be developed for the following purposes: Residential, Hotel, Commercial. The land has a market value of 93.7 million euro. Development activity is being managed under a joint venture with Fintecna Immobiliare.
- **Trixia (Prelios 36%):** lands earmarked for property development activities, and partially already developed, located in the neighbouring areas of the Municipality of Milan. The company's real estate portfolio comprises the following assets:
  - Area e Cascina Zibido (Zibido Site and Farmhouse) – real estate complex comprised of sites and farmhouses to be renovated;
  - Malaspina Espansione (Malaspina Expansion) – semi-urbanised area, predominantly for residential use
  - Cusago Espansione (Cusago Expansion) – non-urbanised area, predominantly for tertiary use
  - Castello di Tolcinasco (Castle of Tolcinasco) – portion of the Castle of Tolcinasco
  - Residenze Malaspina (Malaspina Residences) – residential complex located in the Municipality of Pioltello, composed of three lots and a commercial building; development works started in 2004 were completed and the initiative is still at the marketing phase.

The market value at December 31, 2012 of total real estate assets is 101.6 million euro.

- **Inim 2 (Prelios 25%):** in the section dedicated to RCS, the investment company is left with a partially built area of around 40,000 square metres in gross floor space for manufacturing, service industry and commercial use. The market value at December 31, 2012 is 34.8 million euro.
- The ex-Lucchini area in Warsaw, Poland, has a market value of 50 million euro (Prelios interest is 40%). At the moment, approval of the master plan is being awaited, which is estimated will lead to a potential developable area of approximately 419,000 square metres.

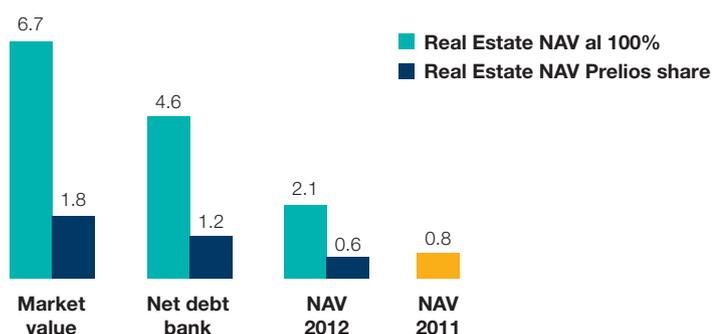
## 6.2 Real estate net asset value as per independent appraisals

The pro-rata Net Asset Value of Prelios' investments at December 31, 2012 has been valued at around 0.6 billion euro, excluding non-performing loans that are instead stated at book value, a reduction of around 0.2 billion euro on the figure at December 31, 2011. This value is calculated as the difference between Prelios' share of asset value appraised by independent experts (1.8 billion euro) and Prelios' share of net bank debt of the investment companies and funds in which the Group has invested, equal to 1.2 billion euro.

Of the total book value of 6.4 billion euro relating to investee funds and investment companies, (of which the Prelios share is 1.7 billion euro), approximately 2.3 billion euro (Prelios share of 0.8 billion euro) refers to investment property carried at fair value (IAS 40).

At December 31, 2012, Prelios has a Net Asset Value of approximately 0.6 billion euro.

**Investee real estate portfolio**



The following table reports Real Estate Net Asset Value at December 2012 and December 2011.

(billion euro)	DECEMBER 2012 100%				DECEMBER 2011 100%			
	Market value	Book value	Net bank debt	Net Asset Value	Market value	Book value	Net bank debt	Net Asset Value
Investee real estate investment companies and funds	6.7	6.4	4.6	2.1	7.8	7.5	5.2	2.6
Non-investee real estate investment companies and funds	2.0	1.9			3.4	3.2		
<b>TOTAL REAL ESTATE</b>	<b>8.7</b>	<b>8.3</b>	<b>4.6</b>		<b>11.2</b>	<b>10.7</b>	<b>5.2</b>	
<i>NPL (*)</i>	1.0	1.0	1.0		1.2	1.2	1.0	
<b>TOTAL ASSETS UNDER MANAGEMENT</b>	<b>9.7</b>	<b>9.3</b>	<b>5.6</b>		<b>12.4</b>	<b>11.9</b>	<b>6.2</b>	

(billion euro)	DECEMBER 2012 PRO RATA				DECEMBER 2011 PRO RATA			
	Market value	Book value	Net bank debt	Net Asset Value (**)	Market value	Book value	Net bank debt	Net Asset Value (**)
Investee real estate investment companies and funds	1.8	1.7	1.2	0.6	2.1	2.0	1.3	0.8
Non-investee real estate investment companies and funds	0.0	0.0			0.0	0.0		
<b>TOTAL REAL ESTATE</b>	<b>1.8</b>	<b>1.7</b>	<b>1.2</b>		<b>2.1</b>	<b>2.0</b>	<b>1.3</b>	
<i>NPL (*)</i>	0.3	0.3	0.3		0.4	0.4	0.4	
<b>TOTAL ASSETS UNDER MANAGEMENT</b>	<b>2.1</b>	<b>2.0</b>	<b>1.5</b>		<b>2.5</b>	<b>2.4</b>	<b>1.6</b>	

(\*) The value of non-performing loans included in the "market value" columns corresponds to the purchase cost net of writetowns

(\*\*) For calculation purposes, consolidated assets have been treated as entirely own resources.

### 6.3 Representation of the real estate portfolio

The following tables include information on profitability by cluster on a 100% basis and for the Prelios share: in particular, they provide details on rental income and the related vacancy rates. "Passing rent" is rent annualised on the basis of contracts existing at the end of the period for assets belonging to the fund/company. "Passing yield" is determined as the ratio of passing rent to the net book value of fund/company assets. The "vacancy" rate is calculated as the ratio of vacant square meters to total company/fund assets.

## Profitability of AUM of investee funds and investment companies 100% (thousand euro)

	Share PRE	Passing Rent	Passing Yield	Vacancy	Book value	Market value	Net bank debt
Fondo Tecla	44.8%	26,340	6.4%	15.7%	409,328	410,032	273,798
Fondo FIPRS	22.0%	20,337	7.6%	–	269,080	269,030	168,298
Fondo Raissa	35.0%	17,662	8.1%	0.3%	216,938	221,264	44,064
Fondo Olinda	10.6%	28,483	8.5%	14.9%	336,391	482,290	229,624
Dolcetto Tre S.r.l.	33.0%	1,000	7.7%	–	12,966	16,000	10,754
Fondo Monteverdi	48.8%	5,421	7.6%	68.0%	70,967	74,388	23,298
Fondo Spazio Industriale	22.1%	19,222	6.7%	20.8%	285,477	289,236	161,394
Fondo Hospitality & Leisure	35.0%	3,650	6.0%	22.1%	61,000	61,000	65,742
<b>Commercial Italy</b>		<b>122,115</b>	<b>7.3%</b>	<b>18.8%</b>	<b>1,662,147</b>	<b>1,823,290</b>	<b>976,972</b>
Mistral Properties	40.6%	4,255	5.7%	11.7%	74,792	76,159	36,891
DGAG - Special Properties	100.0%	–	–	–	18,638	18,638	–
<b>Commercial Germany</b>		<b>4,255</b>	<b>5.7%</b>	<b>11.7%</b>	<b>93,430</b>	<b>94,797</b>	<b>36,891</b>
Highstreet	12.1%	159,903	6.2%	1.2%	2,588,085	2,588,085	2,119,844
<b>Highstreet</b>		<b>159,903</b>	<b>6.2%</b>	<b>1.2%</b>	<b>2,588,085</b>	<b>2,588,085</b>	<b>2,119,844</b>
SIG (West, Baltic, Sachsen)	50.0%	7,644	6.6%	8.0%	114,953	116,929	83,500
<b>Residenza Small Deals</b>		<b>7,644</b>	<b>6.6%</b>	<b>8.0%</b>	<b>114,953</b>	<b>116,929</b>	<b>83,500</b>
DGAG - Residential	40.0%	67,440	7.2%	2.0%	942,444	945,183	688,441
<b>Residential Germany</b>		<b>67,440</b>	<b>7.2%</b>	<b>2.0%</b>	<b>942,444</b>	<b>945,183</b>	<b>688,441</b>
<b>TOTAL PORTFOLIO "YIELDING"</b>		<b>361,358</b>	<b>6.7%</b>	<b>11.3%</b>	<b>5,401,059</b>	<b>5,568,284</b>	<b>3,905,648</b>
Trading Italy		7,256	n.m. (*)	n.m.	476,495	541,345	415,097
Development Italy		–	n.m.	n.m.	117,327	124,144	66,840
Lands Italy		342	n.m.	n.m.	374,802	408,820	221,145
Other Germany		1,619	n.m.	n.m.	41,517	47,444	12,267
Development Poland		251	n.m.	n.m.	28,327	50,319	(105)
<b>TOTAL PORTFOLIO "OTHER"</b>		<b>9,468</b>			<b>1,038,469</b>	<b>1,172,072</b>	<b>715,243</b>
<b>TOTAL PORTFOLIO REAL ESTATE</b>		<b>370,825</b>	<b>5.8%</b>		<b>6,439,528</b>	<b>6,740,356</b>	<b>4,620,891</b>

(\*) n.m. = not material

### Profitability of AUM of investee funds and investment companies (thousand euro)

	Share PRE	Passing Rent	Passing Yield	Vacancy	Book value pro quota	Market value pro quota	Net bank debt pro quota
Fondo Tecla	44.8%	11,800	6.4%	15.7%	183,379	183,694	126,828
Fondo FIPRS	22.0%	4,466	7.6%		59,090	59,090	43,547
Fondo Raissa	35.0%	6,182	8.1%	0.3%	75,928	77,442	15,423
Fondo Olinda	10.6%	3,017	8.5%	14.9%	35,630	51,084	25,952
Dolcetto Tre S.r.l.	33.0%	330	7.7%		4,279	5,280	3,549
Fondo Monteverdi	48.8%	2,645	7.6%	68.0%	34,632	36,301	11,369
Fondo Spazio Industriale	22.1%	4,252	6.7%	20.8%	63,148	63,979	35,695
Fondo Hospitality & Leisure	35.0%	1,278	6.0%	22.1%	21,350	21,350	23,010
<b>Commercial Italy</b>		<b>33,970</b>	<b>7.1%</b>	<b>23.4%</b>	<b>477,436</b>	<b>498,221</b>	<b>285,373</b>
Mistral Properties	40.6%	1,695	5.6%	13.5%	30,445	30,923	16,571
DGAG - Special Properties	100.0%				18,638	18,638	–
<b>Commercial Germany</b>		<b>1,695</b>	<b>5.6%</b>	<b>13.5%</b>	<b>49,083</b>	<b>49,561</b>	<b>16,571</b>
Highstreet	12.1%	19,348	6.2%	1.2%	313,158	313,158	256,098
<b>Highstreet</b>		<b>19,348</b>	<b>6.2%</b>	<b>1.2%</b>	<b>313,158</b>	<b>313,158</b>	<b>256,098</b>
SIG (West, Baltic, Sachsen)	50.0%	3,818	6.7%	8.0%	57,414	58,402	42,054
<b>Residential Small Deals</b>		<b>3,818</b>	<b>6.7%</b>	<b>8.0%</b>	<b>57,414</b>	<b>58,402</b>	<b>42,054</b>
DGAG - Residential (DGAG & Solaia)	40.0%	26,976	7.2%	2.0%	376,978	378,073	275,376
<b>Residential Germany</b>		<b>26,976</b>	<b>7.2%</b>	<b>2.0%</b>	<b>376,978</b>	<b>378,073</b>	<b>275,376</b>
<b>TOTAL PORTFOLIO "YIELDING"</b>		<b>85,808</b>	<b>6.7%</b>	<b>17.4%</b>	<b>1,274,069</b>	<b>1,297,416</b>	<b>875,472</b>
<b>Trading Italy</b>		<b>2,558</b>	<b>n.m (*)</b>	<b>n.m</b>	<b>175,300</b>	<b>199,119</b>	<b>139,426</b>
<b>Development ITA</b>		<b>–</b>	<b>n.m</b>	<b>n.m</b>	<b>55,094</b>	<b>57,607</b>	<b>33,372</b>
<b>Lands Italy</b>		<b>–</b>	<b>n.m</b>	<b>n.m</b>	<b>145,903</b>	<b>161,917</b>	<b>78,594</b>
<b>Other Germany</b>		<b>725</b>	<b>n.m</b>	<b>n.m</b>	<b>17,807</b>	<b>19,843</b>	<b>4,964</b>
<b>Lands Poland</b>		<b>139</b>	<b>n.m</b>	<b>n.m</b>	<b>11,356</b>	<b>20,128</b>	<b>(330)</b>
<b>TOTAL PORTFOLIO "OTHER"</b>		<b>3,423</b>			<b>405,460</b>	<b>458,614</b>	<b>256,026</b>
<b>TOTAL PORTFOLIO REAL ESTATE</b>		<b>89,231</b>	<b>5.3%</b>		<b>1,679,529</b>	<b>1,756,030</b>	<b>1,131,498</b>

(\*) n.m. = not material

The Prelios Group's real estate yielding portfolio has a market value of 5.6 billion euro (of which the Prelios share is 1.3 billion euro) and a book value of 5.4 billion euro (of which the Prelios share is 1.3 billion euro), and generates annual rental income of 86 million euro (361 million euro on a 100% aggregate basis). The portfolio's ten principal tenants, accounting for 49% of rents attributable to Prelios are: Karstadt (Highstreet), Telecom, Regione Sicilia (Sicilian Region), Valtur, Conforama Italia, Eni, Uci Italia, Vodafone, Virgin Active Italia and Alstom Power.

The following table shows AUM by country, divided in accordance with accounting standards IAS 2 and IAS 40.

	Book value 100%	Market value 100%	Book value pro-rata	Market value pro-rata
IAS 2	483,103	637,707	96,284	114,907
IAS 40	1,179,044	1,185,583	381,151	383,315
<b>Commercial Italy</b>	<b>1,662,147</b>	<b>1,823,290</b>	<b>477,436</b>	<b>498,221</b>
IAS 2	93,430	94,797	49,083	49,561
IAS 40	–	–	–	–
<b>Commercial Germany</b>	<b>93,430</b>	<b>94,797</b>	<b>49,083</b>	<b>49,561</b>
IAS 2	2,588,085	2,588,085	313,158	313,158
IAS 40	–	–	–	–
<b>Highstreet</b>	<b>2,588,085 <sup>(*)</sup></b>	<b>2,588,085</b>	<b>313,158 <sup>(*)</sup></b>	<b>313,158</b>
IAS 2	6,141	8,118	3,067	4,055
IAS 40	108,811	108,811	54,347	54,347
<b>Residential Small Deals</b>	<b>114,953</b>	<b>116,929</b>	<b>57,414</b>	<b>58,402</b>
IAS 2	13,600	16,447	5,440	6,579
IAS 40	928,844	928,736	371,538	371,494
<b>Residential Germany</b>	<b>942,444</b>	<b>945,183</b>	<b>376,978</b>	<b>378,073</b>
IAS 2	401,270	454,965	153,891	174,536
IAS 40	75,226	86,380	21,409	24,584
<b>Trading Italy</b>	<b>476,495</b>	<b>541,345</b>	<b>175,300</b>	<b>199,119</b>
IAS 2	117,327	124,144	55,094	57,607
IAS 40	–	–	–	–
<b>Development Italy</b>	<b>117,327</b>	<b>124,144</b>	<b>55,094</b>	<b>57,607</b>
IAS 2	374,802	408,820	145,903	161,917
IAS 40	–	–	–	–
<b>Lands Italy</b>	<b>374,802</b>	<b>408,820</b>	<b>145,903</b>	<b>161,917</b>
IAS 2	41,517	47,444	17,807	19,843
IAS 40	–	–	–	–
<b>Other Germany</b>	<b>41,517</b>	<b>47,444</b>	<b>17,807</b>	<b>19,843</b>
IAS 2	28,327	50,319	11,356	20,128
IAS 40	–	–	–	–
<b>Development Poland</b>	<b>28,327</b>	<b>50,319</b>	<b>11,356</b>	<b>20,128</b>
<b>Total investee portfolio</b>	<b>6,439,528</b>	<b>6,740,356</b>	<b>1,679,529</b>	<b>1,756,030</b>

(\*) In relation to the Highstreet real estate portfolio, the net invested is now limited solely to financial receivables, whose recoverability is evaluated through an analysis of expected cash flows from the closure of the joint venture, which can be carried out on completion of the disposal of said assets.

## 7. DIVISIONAL PERFORMANCE

This section outlines the economic performance of both the Real Estate component (by geographical area) and NPLs, distinguishing between income/costs from the Management Platform and income/costs from Investment Activities <sup>(41)</sup>. The operating result included and commented on in the following tables correspond to the definitions in section 4 of this report.

Unless otherwise stated, the amounts reported in the following tables are presented in millions of euro.

The following table breaks down the operating result by geographic area.

(million euro)	Italy		Germany		Poland		NPL		G&A		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Management Platform	11.5	24.4	10.9	9.2	0.0	(1.5)	0.1	(2.4)	(9.5)	(9.4)	13.0	20.3
Impairment of Management Platform goodwill			(1.1)				(3.4)				(4.5)	
Investment Activities	(22.6)	0.6	2.0	3.9	(0.5)	(4.7)	2.1	14.6			(19.0)	14.4
Loss from NPL portfolio valuation							(61.6)	(60.9)			(61.6)	(60.9)
Operating result	(11.1)	25.0	11.7	13.1	(0.5)	(6.2)	(62.7)	(48.6)	(9.5)	(9.4)	(72.1)	(26.1)

When reading the figures in the subsequent tables by country, please note that the revenue figures refer solely to management platform companies consolidated line-by-line, and so do not include the consolidated revenues of other investment initiatives.

### 7.1 Italia Real Estate

The Italy Real Estate (Management Platform and Investment Activities) operating result is a negative 11.1 million euro in 2012, compared with a positive 25 million euro in 2011.

#### Management Platform

Operating result amounts to 11.5 million euro in 2012, compared with 24.4 million euro in 2011, which included the contribution of 3.6 million euro from the sale of the historic building entirely leased to La Rinascente located in Piazza Duomo in Milan.

With regard to the performance of the Management Platform, these are the main events that affected the individual Cash Generating Units.

Fund Management	2012	2011
Revenues (million euro)	23.3	29.1
Operating result (million euro)	8.5	16.1
Ros	37%	55%
Number of funds managed	23	22
AUM (*)	4.3	4.8
Number of employees	62	59

(\*) Market value in billions of euro, expressed at 100% and including Excelsia 9 Srl portfolio

Prelios Società di Gestione del Risparmio S.p.A. ("Prelios SGR"), 90% owned by Prelios S.p.A. and 10% owned by Intesa Sanpaolo S.p.A., is specialised in the establishment and management of closed-end real estate investment funds.

(41) Results from investment activities mean the net income generated by Prelios from its investments in funds and companies which own real estate portfolios; results from the Management Platform mean the net income generated from the company's fund and asset management activities and specialised real estate services (property & project, agency and facility management in Germany), and from credit servicing for NPLs, inclusive of general and administrative expenses.

At December 31, 2012, the Company managed a total of 23 funds, of which 10 ordinary (2 of these listed) and 13 speculative, in addition to a contract to manage the process of divesting a real estate portfolio.

It should be noted that, on June 26, 2012, the Bank of Italy notified the company of the removal of the provision which inhibited the setting up of new mutual investment funds, confirming that the initiatives launched by the company were succeeding in overcoming the alleged organisational deficiencies, that the company has started to correct the financial imbalances of the funds managed or has laid the foundations for a methodical closing of the initiatives for which no other solutions could be found.

In respect of the return to regular operations, the company participated in tenders called in the second half of the year for the setting up and management of real estate funds. In particular, the public tenders called by Cassa Forense, which should be awarded in the first few months of 2013, AMA and Province of Cremona, as well as the tender organised by Poste Vita.

The revenues, mainly represented by fixed management fees, totalled 23.3 million euro in 2012, a decrease in comparison to the same period in 2011 due to the effect of the gradual decline in Assets Under Management which the company, due to the restrictive measure referred to above, could not offset in the current year with fees relating to the establishment of new funds.

However, on November 12, 2012, the company was awarded the public tender called by the Province of Cremona targeted at increasing the value of the operating real estate assets not owned by said entity; the Fund, known as Eridano, was set up on December 28, 2012 and is 100% owned by the Province of Cremona.

The costs, net of extraordinary items, (reorganisation, bonus plans, credit assessment), fell when compared to the previous year, mainly as a result of the reduction of specialist consultancy and redefinition relating to the funds of certain administrative service contracts.

The company's operating result stands at 8.5 million euro in 2012, down when compared with 16.1 million euro in the previous period, primarily due to the aforementioned fall in revenues.

Agency	2012	2011
Revenues (million euro)	10.2	23.4
Operating result (million euro)	-2.9	2.6
Ros	-28%	11%
Number of funds managed	227	828
Agencies in franchising	108	217
Number of employees	43	58

Prelios Agency S.p.A. is a Prelios Group company specialising in consultancy for the trading and letting of industrial, commercial and residential properties. The company also offers a series of services ranging from the analysis of customers' needs to monitoring of the market, to the management of negotiations and contractual assistance.

The year 2012 continued the process of transformation, to move the company from one mainly concerned with "captive" customers to a Broker & Advisor format, able to provide third party customers with highly specialised services, serving as a strategic partner for public or private investors, as well as for real estate funds and institutional operators. From this viewpoint, activities no longer considered core were transferred.

More specifically, the sale to third parties of 80% of Prelios Finance S.p.A. shares was completed on April 2, with no significant impact on the economic result, and June 27, 2012 saw the completion of the sale to the company Brand for Agency Services S.r.l. (formerly Newco Re 1 S.r.l., a subsidiary of the Parent Company Prelios S.p.A.) of the "franchising" business unit, comprising a structured group of legal relationships involving dedicated personnel and assets used in the performance of activities and provision of management services, in the specific segment of the management of real estate agencies that operate nationwide. The transfer of the business unit took effect on July 1, 2012 and the franchising company now operates on the market under the "La Casa" brand.

Brokerage activities in 2012 felt the effects of the negative trend in the real estate market; however, the sale of the property on Via Del Tritone in Rome, on behalf of the Retail & Entertainment Fund, took place in the third quarter of the year. In the corresponding period in the previous year, the company had benefitted from fees from brokerage activities relating to the sale of the Rinascente-Duomo property, also on behalf of the Retail & Entertainment Fund, managed by Prelios Sgr S.p.A..

The portfolio of sales contracts from third party customers amounts to 1,626 million euro <sup>(42)</sup>, 298 million euro of which were acquired during the year.

The negative Agency result in 2012 is essentially due to the persistence of the crisis in the Italian real estate market, which led to a significant decrease in the number and size of transactions. In this context, nonetheless, Agency retained a leading position, with a market share of 20%.

Property	2012	2011
Revenues (million euro)	15.6	20.1
Operating results (million euro)	5.8	5.6
Ros	38%	28%
Value of assets managed (billion euro)	4.9	6.4 (*)
Square metres managed (millions)	4.1	4.8 (*)
Rental units managed	more than 28,000	more than 28,000 (*)
Rental contracts managed	more than 3,000	more than 3,100 (*)
Passing Rent (million euro)	more than 267	more than 280 (*)
Number of employees	75	70
Value of project management assets managed (billion euro) (**)	0.5	
Capex at December 31, 2012 (million euro) (***)	15.6	
Pipeline Capex over entire life (million euro) (****)	356.4	

(\*) Values refer to December 2011 stated net of the Telecom contract concluded on June 30

(\*\*) Value of project management assets managed already largely subject to property management

(\*\*\*) Project management activities realised as at December 31

(\*\*\*\*) Project management activities potentially realisable based on existing mandates

Prelios Property & Project Management S.p.A. is a Prelios Group company that offers integrated technical and administrative services for the management and development of real estate assets. It is the result of a combination of two already established entities: Prelios Property Management and Prelios' Development & Project Management department. In the context of property management activities, it offers administrative and document management services, real estate asset due diligence services, sales support, and specialised services such as the development and valorisation of shopping centres.

As part of development and project management activities, it offers assistance during the concept development and execution stages, town planning and construction feasibility assistance, and support for all aspects related to the energy efficiency of buildings.

All the services listed above are aimed at both Group companies and third parties.

The company is currently committed on the following fronts:

- relations with the construction industry (architectural firms and offices) for project management activities targeted at the participation in private and public tenders;
- relations with purchasing centres in the real estate sector (I Faber and Bravosolutions);
- cross-selling with other Property and Project Management companies.

(42) List value.

On May 31, 2012, the "RTI" (Temporary Association of Companies) – formed by Prelios Property & Project Management S.p.A. (32%), that is also the lead agent company, Abaco Servizi (Gabetti Group, making up 18%), EXITone (STI Group, making up 20%) and Siram S.p.A., (Veolia Group, listed on the Paris Stock Exchange, accounting for 30%) – was provisionally awarded the tender called by INPS (Italian social security and welfare institute) for the provision of property management services. Communication of the definitive award also followed on June 14, 2012, whose effectiveness is, however, subject to the social security and welfare institute's verification of the requirements set out by the Temporary Association of Companies during the tender participation. Therefore, this contract did not generate any revenue in 2012.

The real estate portfolio of the social security and welfare institute, the target of the management contract, has mixed office, shop and residential use, and includes around 13,000 property units. The contract will have a 3-year term, with the possibility of a 6-month renewal, plus a further six months. The Temporary Association of Companies was established on June 15 for the management of the INPS contract.

Pitecna, the new commercial partnership signed by Prelios Property and Project Management and Impresa Percassi, won the contract from Autogrill for the execution of completion works at the Autogrill "Villoresi Est" sales point on the "A8 Milano-Laghi" motorway, close to the Rho fair and the Expo.

Total area of twenty-three thousand square metres and two thousand four hundred square metres of buildings, that represent the future for service areas throughout Italy.

The company also took part, on its own behalf, or as part of a Temporary Association of Companies, in the tenders called by: Regione Molise (Molise Region), Enel Servizi S.r.l., AREA – Azienda Regionale per l'Edilizia Abitativa (Regional Body responsible for Housebuilding) (Regione Sardegna – Sardinia Region) and INARCASSA – Cassa Nazionale di Previdenza ed Assistenza per gli Ingegneri ed Architetti Liberi Professionisti (National Welfare and Assistance Fund for Engineering and Architecture Professionals), relating to due diligence services, building management, land register updating and property registrations. The outcomes of all the Regione Molise (Molise Region), Inarcassa and Regione Sardegna – (Sardinia Region) tenders have still not been made known.

In December, the Monteverdi Fund managed by Prelios SGR invited the company to take part in the Global Services tender for the Scarmagno area.

As at December 31, 2012, the company manages a real estate portfolio divided into more than 3,000 leasing contracts. The main non-investee customers of the Group were: INPS Lots 1 and 3, Duemme SGR (Aries Fund), Prisma SGR, RCS, Lactalis, Stam Europe, Foppolo Risorse (CIR Group), Al Rajhi Group (Excelsia nove) and Siemens.

The company acquired the following new contracts in 2012: Aeroporti di Roma, KGAL, ING Real Estate, Autogrill, Miroglio Group, Omnia Service, Siemens, Manifattura Tabacchi and Excelsia 9.

In 2012, operating result benefitted, in particular, from 3.7 million euro deriving from the favourable outcome to the arbitration proceedings concerning a previous development contract in the public sector in the field of project financing.

### Investment Activities

Operating result in 2012 is a negative 22.6 million euro, compared with a positive 0.6 million euro in the previous year, which included, as already indicated, the positive results of some significant transactions.

The reduction in the volume and size of the transactions had an adverse impact on results, which did not allow the remuneration of the operating and financial costs of the investment companies and funds.

Property sales realised in 2012 (considering, on a 100% basis the properties of associates, joint ventures and funds the Group invests in) totalled 303.4 million euro (841.5 million euro in 2011, which included, among other things, the already mentioned sale of the building in Piazza Duomo, leased to La Rinascente for 472 million euro). The gross sales margin <sup>(43)</sup> realised in 2012 is -1.4% (7.8% in 2011). Rents <sup>(44)</sup> total 132.9 million euro (163.7 million euro in 2011).

(43) This expresses the related gross capital gains as a percentage of sales. Capital gains are realised by subsidiaries, associates, joint ventures, and funds in which the Group has an interest of at least 5%.

(44) This is the sum of rents earned by consolidated companies, and rents earned by associates, joint ventures, and funds in which the Group has interests.

## 7.2 Germany Real Estate

The Germany Real Estate (Management Platform and Investment Activities) operating result is a positive 11.7 million euro in 2012, compared with a positive figure of 13.1 million euro in 2011, a value that included, among other things, a positive effect of 9.9 million euro due to the contribution from retail initiatives; net of this effect, the 2012 result is up around 8.5 million euro, due mainly to Investment Activities.

### Management Platform

Germany	2012	2011
Revenues (million euro)	59.3	56.2
Operating result (million euro)	9.8	9.2
Ros	17%	16%
Square metres managed (millions) (*)	5.6	6.3
Number of rental units managed (*) (**)	more than 45,000	more than 70,000
AUM (***)	3.8	5.6
Numer of employees	404	422

(\*) Not including units / areas relating to car parks

(\*\*) Value at December 31, 2012 not including the BauBeCon real estate portfolio as a result of exclusion from the perimeter

(\*\*\*) Market value in billions of euro, expressed at 100%

In 2012, operating result is 9.8 million euro (10.9 million euro if we exclude impairment), up compared with 9.2 million euro in the previous period.

Revenues in December 2012 amounting to 59.3 million euro are up around 3 million euro compared to 2011, thanks to a general improvement in portfolio performances and the retention of the management contracts of the BauBeCon portfolio after the disinvestment by the Prelios Group at the end of 2011.

### Investment Activities

In 2012, operating result is a positive 2 million euro, compared to 3.9 million in the same period in the previous year. The 2011 result included, as already mentioned, a positive effect of 9.9 million euro, attributable to the contribution from retail initiatives, but felt the effects of the losses derived from the BauBeCon portfolio, excluded from the perimeter at the end of 2011.

Resident Berlin 1 P&K GmbH, a joint venture invested in by Prelios, finalised the contract for the sale of 1,503 residential units to a German institutional investor. The properties are located in Berlin and have a vacancy rate of under 2%. The transaction, which had no impact on operating result, was concluded at a price of 93 million euro, and had a positive impact on Prelios' Net Financial Position of roughly 10 million euro.

Property sales realised in 2012 (considering, at 100% value, the properties of associates, joint ventures and funds the Group invests in) totalled 353.2 million euro, compared to 905.6 million euro in 2011, which included, among other things, the transfer of a major urban development initiative in Hamburg known as "Blankenese". Furthermore, the decrease is a result of lower volumes tied to disposals of the Highstreet portfolio.

The gross sales margin <sup>(45)</sup> realised in 2012 is around 0.5% (2.2% in 2011). Rents <sup>(46)</sup> total 262.7 million euro (367.6 million euro in 2011).

(45) This expresses the related gross capital gains as a percentage of sales. Capital gains are realised by subsidiaries, associates, joint ventures, and funds in which the Group has interests.

(46) The value is the sum of rents earned by consolidated companies, and rents earned by associates, and joint venture in which the Group has interests.

### 7.3 Poland Real Estate

The Poland real estate operating result (Management Platform and Investment Activities) in 2012 is a negative 0.5 million euro, compared to a negative 6.2 million euro in 2011.

#### Management Platform

Poland	2012	2011
Revenues (million euro)	1.1	1.7
Operating result (million euro)	0.0	-1.5
Ros	-3%	-90%
Square metres managed (millions)	0.7	0.8
AUM (*)	0.1	0.1
Numer of employees	22	25

(\*) Market value in billions of euro, expressed at 100%

The Management Platform shows a break-even operating result, compared to a negative 1.5 million euro in the previous period.

The above results reflect the essential conclusion of property development sales, while the process of urban planning for certain areas still in the portfolio is still under way.

Break-even was also reached as a result of the redefinition of the investment strategy implemented last year, which involved a considerable reduction in the operating costs of the Polish management platform, for which the acquisition of management contracts from third parties is being encouraged.

#### Investment Activities

Operating result is a negative 0.5 million euro, compared with the positive figure of 4.7 million euro in the previous year. The 2011 result felt the effects of the losses on initiatives that were subsequently transferred or excluded from the management perimeter.

Property sales registered in 2012 (considering, on a 100% basis, the properties of associates, joint ventures and funds the Group invests in) total 0.5 million euro, compared to 43.2 million euro in the same period of 2011, which included the transfer of the Ostrobramska (Warsaw) area.

### 7.4 Non-Performing Loans

The operating result for non-performing loans (Management Platform and Investment Activities) is a negative 62.7 million euro in 2012, compared with a negative 48.6 million euro in 2011. Operating result in 2012 includes the impact of the impairment test on the services platform for 3.4 million euro and the loss from NPL portfolio valuation for 61.6 million euro (60.9 million euro in 2011).

#### Management Platform

	2012	2011
Revenues (million euro)	14.0	14.3
Operating result before impairment	0.1	-2.4
Management Platform impairment	-3.4	
Operating result (million euro)	-3.3	-2.4
Ros	-24%	-17%
Amounts collected (million euro)	178	200
Gross book value (billion euro)	8.7	7.9
No. of non-performing loans managed	more than 74,000 (*)	more than 35,000
Number of employees	120	170

(\*) of which around 54.000 positions relating to the agreement signed with Zeus Finance S.r.l. for Master and Corporate Servicer activities

The Management Platform operating result in 2012 is a positive 0.1 million euro (negative 2.4 million euro in 2011): considering the negative impact of 3.4 million, relating to the impairment of the platform, operating result is a negative 3.3 million euro. The result, net of the negative impact relating to impairment, is gradually improving, compared to the negative figures from previous years, due mainly to the intense restructuring activities implemented by the company in a macroeconomic context characterised by a deep recession which has adversely impacted volumes.

Revenues stand at 14 million euro in 2012, compared to 14.3 million euro in 2011. It should be pointed out that 2011 benefited from revenues related to due diligence activities, which were absent in 2012, and a success fee received by two shareholders for reaching the targets set out in the "Relaunch Plan". Net of these positive income components, revenues register growth of more than 20%, an increase attributable to both the review of the fee structure, brought more into line with market standards on the basis of agreements with the main investors in the portfolios managed, and to revenues generated by the new contracts won over the course of 2012.

Prelios Credit Servicing received confirmation of the "above average" rating from ratings agency Standard & Poor's and an upgrade of the outlook to "stable", as special servicer of residential and commercial mortgages. The rating from Standard & Poor's reflects the appreciation for the optimisation of the structure achieved in the last year and the effective restructuring of the business, as well as investments in training and in strengthening the proprietary IT system. The report also underlines how the increase in competitiveness has led to a sharp rise in business, with the assignment of four new contracts from third parties, split into special activities and master servicing.

Fitch confirmed the ratings of Prelios Credit Servicing at Rss2 and Css2. The rating reflects the efforts that have been made to improve the position of Prelios Credit Servicing, especially in terms of company restructuring. Fitch rewarded Prelios Credit Servicing for the significant restructuring launched in 2011, which enabled the company to strengthen and return to a break-even position, after more than three years of recording a loss.

In 2012, the value of NPL amounts collected <sup>(47)</sup> is 178 million euro, compared to collections of 200 million euro in 2011.

The growth in non-performing loans managed over the previous year is mainly due to an agreement signed with the company Zeus Finance S.r.l. for Master and Corporate Servicer activities, for the management of around 54,000 positions for a nominal value of 939 million euro, and for Special Servicing activities on a portion of these positions, comprised of 7,800 non-performing loans.

#### Investment Activities

	2012	2011
Return on Securities	5.0	14.6
Capital losses on portfolio sales	(2.9)	
Operating result before loss from NPL portfolio valuation	2.1	14.6
Loss from NPL portfolio valuation	(61.6)	(60.9)
<b>Operating result</b>	<b>(59.5)</b>	<b>(46.2)</b>

Operating result, net of the loss from NPL portfolio valuation is a positive 2.1 million euro, compared to a positive value of 14.6 million euro in the previous year. Considering the negative impact of 61.6 million for 2012 and 60.9 million euro for 2011, relating to the loss from NPL portfolio valuation, Operating result in 2012 is a negative 59.5 million euro, compared with a negative 46.2 million euro in 2011.

The negative result is partly influenced (approximately 19.2 million euro) by the write-down of the loan portfolio of the securitisation vehicle ICR8, held under a *joint venture* with Morgan Stanley, following the restructuring of collection forecasts and of the risk profile. The third quarter of 2012 saw the completion of the new securitisation of the portfolio which allowed an increase in financial leverage (hence diluting the Group investment in line with the targets to reduce invested capital), and which will allow the simplification of the corporate structure.

(47) This is the sum of NPLs collected by consolidated companies plus 100% of those collected by associates and joint ventures in which the Group has an interest.

The loan portfolio held under a *joint venture* with Credit Agricole CIB was also written down during the year (42.4 million euro). The write-down takes account, among other things, of the adjustment of the book value in respect of the contractual provisions defined by the "head of terms" signed by the Parent Company with the potential buyer. The "collection" of receivables through the main channels used, in-court and out-of-court, gradually slowed in the last half. In-court recovery was marked by an increasingly greater number of auctions attracting no bids, while out-of-court recovery slowed considerably due to the credit crunch, which prevents debtors having the liquidity needed to close their positions or did not allow potential investors to obtain the necessary funds to invest in the NPL sector. The result was the review of recovery prospects, with a subsequent extension of Business Plans, in line with the trends in the domestic reference market and taken from the financial statements of the major operators in the sector; as well as an upward revision of direct recovery costs (relating to recovery actions, legal and procedural costs).

The capital loss from the portfolio transfer derives from the block disposal of certain mortgages and unsecured loans held by subsidiary CFT.

## 8. RISKS AND UNCERTAINTIES

Despite the difficult macroeconomic situation, with particularly severe impacts on the real estate sector, at the current state of play, also based on what has been communicated in regards to relations with the Industrial Investor and the development of the Transaction, the directors have adopted the going concern principle in drafting the financial statements, on the basis of the assumptions and checks outlined in section 6.2 of the explanatory notes to the consolidated financial statements.

### 8.1 Liquidity risk

The main instruments used by the Group to manage the risk of insufficient financial resources available to meet financial and commercial obligations in accordance with pre-established terms and maturities come in the form of annual and four-yearly financial plans and treasury plans, to allow a comprehensive and accurate recognition and measurement of incoming and outgoing cash flows. These plans are shaped heavily by the implementation of sales plans in the timescales and for the amounts consistent with the forecasts made, in connection with the repayment plans for borrowings raised to support investments. The variances between the plans and final figures are constantly monitored, for the purpose of adopting all necessary and prompt remedies, where required.

The prudent management of risk described above requires the maintenance of an adequate level of cash and cash equivalents and/or short-term securities that can be easily disposed of and/or the availability of funds in the form of a suitable amount of credit facilities. Owing to the dynamic nature of the businesses in which it operates, the Group prefers flexibility in raising funds through recourse to credit lines.

The Group implemented a centralised system for the management of payment and collection flows in respect of the various currency and local tax regulations. Banking transactions are negotiated and managed centrally, in order to ensure short- and medium-term financial needs are met at the lowest cost possible. The raising of medium/long-term funding on the capital market is also optimised through centralised management. The Group also implemented a system for monitoring risks linked to the already mentioned recourse guarantees issued to investee companies/funds, which allows the Management to acquire the necessary information to undertake the necessary actions.

The current competitive and financial context, characterised by persistent tension over the values of real estate assets, the credit crunch and the trading slowdown determines, for the Group, a significant increase in risks connected with maintaining adequate cash flows, needed to cover its financial requirements.

Liquidity risk, monitored constantly, is also closely related to the company's requirements and is also assessed in relation to the initiatives aimed at strengthening the company's equity and financial structure, illustrated in paragraph 3.2.

It should be noted that the current financial structure and the forecasts made as of the current state of play, highlight an inability to generate, through ordinary operations and sales of assets set out in the plan, also in view of the current market scenario, cash flows able to meet the commitments to the Lending Banks, in the absence of a review of the financial structure and the restructuring of the associated debt with the agreement of all financial backers. Therefore, on December 28, 2012, Prelios and the Lending Banks reached an agreement relating to the deferment of the maturities set out in the Club Deal Loan Agreement. Based on said agreement, the Lending Banks granted Prelios another deferment of the payment obligations to earlier date between (a) March 31, 2013 and (b) the date on which the extraordinary transaction is carried out or on which negotiations between Feidos and Prelios are ended, in order to allow said entity to fulfil its commitments in consideration of the expected completion of the Transaction.

A similar deferment arrangement was also established in relation to the P&C Loan Agreement, postponing the maturities envisaged therein to June 30, 2013.

However, as shown in chapter 3 above, "*Prelios in 2012*", this deferment is not, nonetheless, sufficient to bring the Group's financial structure back within the sustainable limits compatible with the cash flows which may be generated by operations, while, owing to the current forecasts, implementation of the Transaction may re-establish the necessary conditions of financial equilibrium and debt sustainability.

## 8.2 Financial risks

The Group is exposed to financial risks, primarily associated with the raising of financial resources on the market, the sustainability of financial debt in terms of costs and observance of commitments related to the repayment of instalments and agreed covenants, interest rate fluctuations, the ability of its customers to meet their obligations to the Group and the possibility of having the necessary resources available for financing business development.

The management of financial risks is an essential part of the Group's activity and is carried out centrally on the basis of guidelines defined by the management, aimed at ensuring that financial risk (identification, assessment and management) through appropriate policies and procedures, in line with the Group's attitude towards risk.

## 8.3 Currency risk

The Group operates in Europe and has a minimal exposure to transaction currency risk arising from positions in currencies other than the euro, mainly the Polish zloty. This risk is managed by the Group Treasury and relates solely to receivables for shareholders' loans to joint ventures for real estate projects in Poland.

## 8.4 Interest rate risk

The Group's policy is to seek to maintain a correct ratio between fixed-rate and floating-rate debt by using hedging instruments.

The Group manages interest rate risk related to its floating-rate corporate debt also by offsetting it through natural hedging with floating-rate financial receivables (i.e. shareholders' loans granted to investee initiatives), and, for the remaining exposure, with recourse to derivative contracts.

The percentage exposure to interest rate variability at December 31, 2012 stands at 32.6%, if the natural hedging provided by floating-rate financial receivables and derivative contracts on corporate debt is taken into account, with a notional value of 170 million euro.

In particular, the exposure to variability in corporate debt interest rates was calculated by taking into consideration the hedging provided by derivative contracts on a notional 170 million euro. However, it should be noted that, effective from January 1, 2013, as part of the prospective effectiveness test, assuming the effects and contractual conditions expected by the new debt structure that will ensue from the previously described financial restructuring, said hedging relationship is no longer effective.

It should be noted that 73% (Prelios pro-rata) of the total debt (bank and non-bank) of investee vehicles is protected from interest rate fluctuations above a certain level or through fixed-rate loans or via recourse to hedging derivative instruments.

## 8.5 Price risk

The Group's investment activities are exposed to price risk based on the real estate market price trends, and service activities are exposed in relation to the competitive context.

## 8.6 Credit risk

The Group's exposure to credit risk is represented by its exposure to potential losses arising from the failure of both trade and financial counterparties to discharge their obligations.

In order to limit this risk, the company constantly monitors the positions of individual customers, analysing expected and actual cash flows in order to take timely recovery action when necessary.

As for financial counterparties used for managing temporarily surplus cash or for negotiating derivatives, the Group only uses the services of high credit-rated institutions.

The Group does not have significant concentrations of credit risk with respect to customers (investment companies and funds) in the real estate sector.

## 8.7 Risks associated with human resources

The Group is exposed to the risk of losing key resources that could have a negative impact on future results. In order to counter this risk the Group adopts incentive policies that are periodically reviewed, also depending on the general macroeconomic context.

In addition, the effectiveness of any restructuring measures involving a reduction in the headcount could be limited by existing legal and union restrictions in the countries where the Group operates.

## 8.8 Tax risks

As at the date of approval of this Annual Financial Report, tax litigation involving the Italian Tax Authorities and Prelios S.p.A. and some of its subsidiaries, and still pending, amounts to around 3 million euro in taxes (excluding penalties and interest), compared to 16 million euro as at December 31, 2011. The reduction is mainly due to the closure, through a tax settlement, of the dispute involving subsidiary Prelios Netherlands B.V..

The company, backed by the judgments of its consultants, all professionals of recognised standing, and information in its possession on today's date, believes that the positions challenged can be settled without a significant impact on the financial statements for the entities involved in said disputes.

\* \* \*

For the sake of completeness of information, it should be noted that, as regards companies in which Prelios S.p.A. or its subsidiaries have invested a minority stake with third party investors (associates and joint ventures), the total amount involved in the disputes raised by the Italian tax authorities comes to roughly 313 million euro in taxes (excluding penalties and interest), of which around 82% relates to a single company in liquidation.

With respect to the information communicated to the market in the Annual Financial Report as at December 31, 2011, tax disputes registered a decrease of 139 million euro in terms of taxes, as a result the tax settlements reached, involving amounts significantly lower than those contested, and owing to the favourable judgments that became final.

\* \* \*

On January 24, 2013, the inspection launched by Guardia di Finanza (Italian Financial Police) in May 2012 was definitively concluded, against the funds already the recipients of tax code allocation provisions from the Agenzia delle Entrate (Italian Inland Revenue) in the past, more specifically, Retail & Entertainment Fund, Progetti Residenza Fund, Portafogli Misti Fund, Social & Public Initiatives Fund, Hospitality&Leisure Fund, Immobiliare Pubblico Regione Siciliana Fund, Immobiliare Raissa Fund, Patrimonio Uffici Fund, Diomira Fund, hereinafter the "Funds".

We are talking about Funds in which Prelios S.p.A. has invested minority stakes with third party investors.

In the closing remarks in the Reports on Findings, drafted on conclusion of the inspection activities, Guardia di Finanza deemed that:

- from the date they were set up until at least 2011, the Funds had concealed an investment company activity;
- the establishment and management of the Funds would have been realised in the absence of valid economic reasons and, therefore, exclusively or primarily for tax reasons;
- the establishment of the Funds, therefore, would have an elusive nature, given essentially turned into a mere instrument for the replacement of pre-existing real estate companies, which did not modify any equity and income structure, solely ensuring a tax benefit;

subsequently, the tax benefit obtained would be unlawful.

In respect of the Funds, the following amounts were contested (i) an IRES and IRAP taxable base of 484 million euro and (ii) higher indirect taxes of 187 million euro.

Prelios SGR (the "Company"), against whom no objection was raised, received the aforementioned deeds as manager of the aforementioned Funds.

On the basis of the specific communication received by the Company, said entity holds that, supported in these evaluations by its expert, authoritative consultants, the objections raised by Guardia di Finanza are the result of an incorrect reconstruction/interpretation of the facts and essentially appear to be unjustified, taking into consideration that:

- establishment of the Funds rests on solid and proven technical-economic reasons;
- the Fund regulations were approved by the Bank of Italy, during both the set-up phase, and at the time of subsequent amendments;
- the legal status of the Funds was never discussed by the control authorities.

In addition, it should be noted that the assertion according to which the Funds would constitute vehicles replacing pre-existing real estate companies is based on unsuitable elements, in consideration of the completely different economic-legal substance of the two institutions it is claimed are considered similar.

Therefore, the findings appear to be unfounded in both fact and law, also on the basis of the foregoing, which shows how the reasons are constructed on incorrect representations in relation to applicable industry regulations, to said facts deduced, and to the interpretation of the new regulations introduced by art. 32 of Decree Law 78/2010.

\* \* \*

As already indicated, said Funds were the recipients, in October 2011, of tax code allocation provisions from the Italian Inland Revenue. In order to protect the Fund's interests, the Company, in due course, filed an appeal before the Tax Commission, the Regional Administrative Court of Lazio and the Council of State. The associated disputes are still pending and no judgment on the merits of the case has been issued by the presiding judges. The last judgment was filed on February 19, 2013 by the Council of State which, without discussing the merits of the dispute, upheld the company's appeal, confirming the competence of the Regional Administrative Court of Lazio. Consequently, the Regional Administrative Court of Lazio was confirmed as having jurisdiction for expressing a judgment on the merits of the dispute.

## 8.9 Tenants risk

With regard to the valuation of the property portfolio, rental income is mainly earned by equity-accounted companies and predominantly in relation to properties classified as investment property; given the existence of long-term binding contracts, the risk of a significant increase in vacancy rates in the near future is limited (tenants risk), except in specific cases associated with a tenant's financial difficulties.

In addition, these properties are located in central or semi-central areas; given their location as well as their nature, their income from potential top-quality tenants is potentially even higher than at present.

## 8.10 Risks connected to the competitive environment

As regards the competitive environment, in general the Group is not exposed to risks different from those of its competitors or of the other organisations operating in the same market. The downturn in demand led to a decrease in the market prices of properties, which was reflected in the writedowns of properties also on the basis of the appraisals and analyses of independent experts at December 31, 2012 for the entire portfolio. The writedowns of assets under management make it possible to express the most appropriate market prices at the moment, but a considerably difficult situation persists, also in relation to the significant decrease in financing of possible transactions by credit institutions.

## 8.11 Risks connected to trends in demand

The credit crunch and the possible worsening of the general economic situation constitute an additional risk for activities and operations in the real estate sector, with a possible decrease in volumes of assets under management or a lack of acquisition of new contracts.

## 8.12 Legal risks

The situations in which Prelios Group companies are involved in legal proceedings (civil or administrative) mainly concern:

- disputes related to the sale of properties (e.g. lack of respect for pre-emption rights);
- disputes related to management services provided, generally of an ordinary nature, with tenants, purchasers, or suppliers.

In terms of risk control strategies, it is important to note (i) the management and monitoring of disputes, including with the assistance of external legal consultants, and (ii) the evaluation of the degree of risk and determination of provisions made through internal analysis, with the assistance of the opinions of external legal consultants that assist the company. The provisions for risk established at December 31, 2012 are deemed adequate and it is not believed that the existing proceedings could have a significant negative impact on the economic results and financial position of the Group.

### Claims

The legal risks the Group is exposed to include the following: in February 2005, Prelios and the Group companies, more specifically Prelios Property & Project Management, Prelios Agency and Prelios Credit Servicing signed a contract with Capitalia (now Unicredit) and other companies of the same Group, pursuant to which Prelios – on its own behalf and through Group companies – undertook to provide Capitalia with some services related to the purchase, management and disposal of given properties, subject to enforcement procedures for the recovery of receivables owned by Capitalia, in order to help the latter with credit protection, through the safeguarding and realisation of real estate values.

In January 2011, Unicredit withdrew from the Contract, requesting the handover of all the documents in Prelios Group's possession. The other Unicredit Group companies subsequently communicated their withdrawal.

In 2011, following the end of the validity period of the contract, Unicredit sent Prelios three communications contesting the work performed by said party and the Group companies (especially Prelios Property & Project Management), in relation to asset management activities. In September 2011, the delivery of the documentation regarding the properties involved in the contract was recorded.

On December 14, 2012, Unicredit quantified the alleged damages at 82 million euro, with the formal request for compensation. The Company responded by fully rejecting the claims for compensation submitted by Unicredit and, at the same time, requested the payment of 560 thousand euro for services provided by Prelios Property & Project Management and still unpaid. It should be noted that the general total for services rendered by the Prelios Group amounts to around 770 thousand euro.

Prelios responded to the communications by challenging the request for compensation, not just in regards to the amount, deemed groundless, but also based on the fact that this claim was received late, when the contract had ceased to be valid following withdrawal. Therefore, also on the basis of authoritative judgments, no provision was set aside for risks, given the unlikelihood of a liability arising.

The Prelios Group appointed a leading professional firm to help the company with the case.

## 8.13 Risks related to legislative developments - Decree Law 95/2012 ("spending review") and Law 27/2012

July 6, 2012 saw the publication – effective from July 7, 2012 – of Decree Law 95/2012 (also known as the "spending review"), which, under art. 3 "Rationalisation of public property and the reduction of costs for passive leases", ordered that, in consideration of the temporary crisis, (i) for the years 2012, 2013 and 2014, the update in relation to the variation in ISTAT indicators, envisaged by the applicable legislation, does not apply to rent due from administrative departments inserted in the consolidated income statement of the public administration for properties used for institutional purposes, (ii) for contracts in progress, the Regions and Local Authorities have the right to withdraw from the contract before December 31, 2012, notwithstanding the notice terms established by the contract and (iii) rent for passive leases, regarding properties for institutional use stipulated by central Administrations, as well as by independent Authorities, including Consob, are reduced, effective from January 1, 2015 to the extent of 15% of the amount currently paid.

However, these provisions do not apply (i) directly to the independent regions and provinces and to national health authorities for which they constitute principles for the purpose of coordination of public finance and (ii) to mutual real estate investment

funds already set up in accordance with art. 4 of Decree Law no. 351 of September 25, 2001, converted, with amendments, from Law no. 410 of November 23, 2001 (funds established for the disposal of public property).

Based on an initial analysis of the Decree Law and in consideration of the fact that the conversion law of the decree should be issued which could bring changes to the same, the Group's exposure to lease contracts with tenants that could fall under the lists set out in the above provisions is limited, for which no significant impact is forecast.

With regard to the Regione Siciliana (Sicilian Region), sole tenant of the FIPRS Fund properties, on September 4, 2012, the Council issued resolution no. 317 "Reduction and rationalisation of regional public spending – implementation method" (hereinafter the "Resolution").

Based on this decision, the Council conferred the mandate to the Regional Councillor for the Economy, in agreement with other relevant competent Regional Councillors, for putting in place measures to cut public spending, in implementation of national legislation regarding the spending review, as indicated in the text of the resolution.

Paragraph 1.2 of the Resolution not only indicates that the provisions of art. 3, par. 1 of National Decree Law are set forth without prejudice and, therefore directly applicable, regarding the ISTAT restriction for the years 2012, 2013 and 2014, but specifies that the Regional Administration will reduce rents on properties let by said entity for institutional use by 20% in respect of the amount currently paid, based on prior renegotiation between the parties. In the event of refusal or silence on the part of the lessor, the Resolution allows the Regional Administration to cancel the lease – based on prior identification of more beneficial allocation solutions for the Region – effective from the expiry date of the lease (in the case of the Fund of March 6, 2016), or withdraw from the same before December 31, 2012 (also in derogation of the notice terms established in the contract), pursuant to the provisions of art. 3, par. 3 of the National Decree Law.

On November 8, 2012, Regione Siciliana (Sicilian Region) formally notified the SGR (asset management company) of the non-application of the spending review law and the above Resolution to the FIPRS Fund, even if said Regional Administration has expressed its interest in a joint identification of measures targeted at reducing the costs connected to passive leases for the Regione Siciliana in relation to the Fund's portfolio.

Decree Law no. 1 of January 24, 2012, also known as the "Cresci Italia" Decree, converted to Law no. 27/2012, in force from October 20, 2012, makes provision for some significant changes. These include the repeal of regulated professional tariffs: the fee for professional services is agreed, according to the forms set forth by the legislation, at the time of the professional appointment. The professional must inform the customer of the degree of difficulty of the assignment, providing all useful information regarding the costs envisaged, from the moment the appointment is made until its conclusion, and must also indicate the details of the insurance policy for damages caused during the carrying out of professional activities. Where the size of the fee is communicated to the customer in advance with a provisional estimate, it must be adjusted into line with the significance of the work and is agreed upon with an indication of all cost items for the individual services, including expenses, charges and contributions.

In addition, instruments for protecting smaller companies were strengthened, with the measures currently set forth in the Consumers' Code solely for natural persons extended to micro-companies (with less than 10 employees and an annual turnover of less than 2 million euro). In relation to the latter, art. 37-bis of the Decree provides additional administrative protection against vexatious clauses inserted in contracts between professionals and consumers; in this regard, articles 5 and 62 make provision for greater powers for the Antitrust Authority; furthermore, the amendments made to art. 140-bis of the Consumers' Code remove certain subjective and procedural limits in bringing a class action.

Lastly, it should be noted that art. 2 of the Decree requires all existing specialised sections concerning industrial and intellectual property currently present in certain courts and appeal courts to be replaced with new specialised business sections. These specialised sections will also be established in all remaining judicial offices with headquarters in the capital city of each region, with the exception of Valle d'Aosta.

In terms of the impact on the Prelios Group, although on one hand, there may be advantages in terms of the ability to make forecasts and the negotiation of professional consultancy, on the other, relations with the micro-suppliers the Group uses must be better monitored.

## 9. SUBSEQUENT EVENTS

In order to complete the Transaction involving the equity strengthening and redefinition of the financial and debt structure of the Prelios Group, it also extended into the first few months of 2013.

In particular, on February 27, 2013, Prelios sent the Lending Banks a request for the formalisation of the extension of the Standstill until June 30, 2013, in the event in which – despite an agreement being reached on the structure, terms and conditions of the transaction, on the basis of the term sheet shared and formally approved – said transaction was not completed by March 31, 2013, and negotiations were still in progress to pursue its completion, in order to allow the signing of definitive agreements. This request, in fact, was replaced by the communication on March 26, 2013 from the Agent Bank, with which the Lending Banks formally confirmed their approval of the term sheet forming the basis of the Transaction and, therefore, their intention to continue with the associated activities in order to complete the Transaction. In said context, on March 26, 2013, the agent bank also confirmed that, with reference to the extension of the standstill, some banks have already finished the associated decision-making process, in view of the upcoming formalisation of the extension, pending the completion of the other institutions' process.

On March 27, 2013, Prelios' Board of Directors, after approving the guidelines of the Group's 2013-2016 plan on November 13, relating to the operating items (on a so-called unlevered basis), approved the overall Strategic Plan, also in relation to the equity and financial items (on a so-called levered basis), also in light of the development and expected outcomes of the proposed Transaction.

On March 26, 2013, Prelios received formal communication regarding the commitments of the Lenders, Feidos 11 and the current shareholders of the Prelios Agreement, to subscribe and/or guarantee the subscription of the share capital increase (in accordance with the terms and conditions set out in the term sheet recently shared with the Lenders in regards to definitive restructuring agreements), which will be presented to the Shareholders' Meeting for approval.

Lastly, it should be noted that, on March 27, 2013, Prelios approved a "Head of Terms" with Credit Agricole (CA) which makes provision, among other things, for (i) the exit of CA from the Prelios Credit Servicing shareholder structure, (ii) the exit of Prelios from joint NPL investments held under a joint venture with CA and (iii) the transfer of the management of special servicing for co-invested portfolios to another servicer. This agreement involved a reduction in value of around 11 million euro in the financial statements, in order to align the book value of the portfolios with the sale price.

## 10. BUSINESS OUTLOOK

The macroeconomic scenario is still characterised by signs of uncertainty over the timescales and methods of a general economic recovery and, in particular, the domestic real estate market is still weak, registering a decrease in the number and size of transactions, adversely impacted by still high financial costs.

The Board of Directors believes, despite uncertainties in the context highlighted, that the actions put in place and those in the course of being implemented, will allow the Prelios Group to continue to operate as a going concern, thanks to the expected equity strengthening of the Company, injection of new financial resources and expected restructuring of the terms on existing loans (as amply detailed in chapter 3 above, "Prelios in 2012"), also providing said entity, within an evolving economic and market context, with new growth and development prospects, within the terms set out in the Framework Agreement of December 21, 2012 (and in subsequent understandings), communicated to the market on the same date as the term sheet relating to the definitive restructuring agreements, recently approved by the Lenders, who confirmed the conclusion of their decision-making process, as per communication dated March 26, 2013, which makes provision for:

- the recapitalisation of the Company through a share capital increase of 185 million euro; and
- the restructuring of existing debt on the basis of the new company plan, according to which:
  - 250 million euro will remain in the form of a loan (super-senior and senior); and
  - up to 269 million euro will be converted to convertible debt investment instruments, with cash option for the redemption exercisable by the Company.

Therefore, these assumptions represent the cornerstone of the company's adoption of the going concern principle for drafting this Annual Financial Report.

From an operational point of view, in line with the strategy of becoming a pure management company, given 2013 is the year of transition involving the closure of the restructuring transaction and definition of the reorganisation project, the Group has set the following targets for 2014:

- Management Platform operating result
  - o 14/19 million euro in 2014
  - o 19/24 million euro in 2015
  - o 24/28 million euro in 2016
- Net Financial Position
  - o Below 400 million euro in 2014
  - o Below 350 million euro in 2015
  - o Below 200 million euro in 2016

## **11. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES**

For the report on corporate governance and ownership structures please refer to Section C.

## 12. OTHER INFORMATION

### 12.1 Extraordinary Shareholders' Meeting

On April 17, 2012, the Extraordinary Shareholders' Meeting resolved the amendment to the Articles of Association, pursuant to art. 2446 of the Italian Civil Code, eliminating the par value of shares, originally equal to 0.50 euro, and approving the reduction in share capital from 420,585,888.50 euro to 218,877,613.14 euro. The change in share capital was recorded at the competent Companies Register on May 11, 2012. The Shareholders' Meeting also resolved the full use of available equity reserves as at December 31, 2011 to cover the loss recorded in the year.

### 12.2 Treasury shares

At December 31, 2012, the Group held a total of 1,189,662 treasury shares, corresponding to about 0.141% of subscribed and paid-up share capital.

In compliance with the IASs/IFRSs, the book value of treasury shares has been accounted as a reduction in equity in both the consolidated and separate financial statements of Prelios S.p.A; the Company's economic results have therefore not been affected by fluctuations in the stock price.

### 12.3 Group tax consolidation

As from financial year 2010 the Company, as the consolidating company has elected to file for tax on a group basis under art. 117 et seq. of the Italian Income Tax Code. Participants in the consolidation are required to adopt a specific set of "Regulations", involving common procedures for applying tax rules and regulations.

The adoption of a group tax filing will allow the group parent Prelios S.p.A. to offset its own taxable profits or losses against those of its Italian resident subsidiaries which have made the group tax election.

The Italian group tax election applies to the three years 2010-2011-2012, unless terminated early due to loss of control of the subsidiary or if the subsidiary's financial year is no longer the same as that of the consolidating company.

### 12.4 Publication of information documents

Pursuant to the provisions of art. 70, par. 8, and art. 71, par. 1-bis, of the Regulations for Issuers issued by Consob, the Board of Directors resolved to avail itself of the right to waive the obligation to publish the information documents required at the time of significant transactions including mergers, splits, share capital increases through contributions of fixed asset, acquisitions and transfers.

### 13. PRELIOS SPA, THE PARENT COMPANY

Prelios S.p.A. reported a net loss of 214 million euro at December 31, 2012, compared with a net loss of 311.5 million euro in the previous year.

The following table reports the Company's income statement highlights in the year in question together with prior year comparisons:

(million euro)	01.01.2012 12.31.2012	01.01.2011 12.31.2011
Total operating revenues	17.6	27.4
EBIT including net income from investments	(186.9)	(306.9)
Net income (loss)	(214.0)	(311.5)

Operating revenues amount to 17.6 million euro, compared to 27.4 million euro in the previous year, and are mainly due to staff services provided centrally by the parent company to the subsidiaries and to cost recovery from the offices, the use of trademarks, and personnel costs.

The decrease compared to the previous year is partly attributable to the fees reduction as a result of the branch contribution, effective from January 1, 2012, of the "Project" business unit, with which Prelios S.p.A. transferred the project management contracts to subsidiary Prelios Property & Project Management S.p.A.. Lower recovery of office costs from subsidiaries also contributed to the decrease in operating revenues, down from a total of 4.2 million euro in 2011 to a total of 3 million in 2012.

EBIT, including income from investments, is a negative 186.9 million euro, compared with a negative figure of 306.9 million euro in 2011. The difference is primarily a result of the impairment of investments (down from 337.0 million euro in 2011 to 199.8 million in 2012), while a reduction was recorded in dividends paid by investees, down from 58.5 million in 2011 to 40.2 million in 2012.

Financial result is a negative 33.1 million euro, compared with a negative figure of 9.4 million euro in 2011. The decrease recorded by this item is due to the increase in financial expenses incurred by the Company, relating to the higher interest rate on the loans signed at the end of 2011 with the Club Deal pool of banks and with Pirelli & C. S.p.A..

The following table presents a condensed version of the company's reclassified balance sheet, together with prior year comparisons:

(million euro)	12.31.2012	12.31.2011
Fixed Asset	568.0	752.5
<i>of which investments</i>	305.9	398.2
Net working capital	(8.9)	(5.1)
<b>Net invested capital</b>	<b>559.1</b>	<b>747.4</b>
Equity	4.6	218.7
Provisions	12.3	7.8
Net financial position	542.2	520.9
<b>Total covering net invested capital</b>	<b>559.1</b>	<b>747.4</b>

Net invested capital amounts to 559.1 million euro at December 31, 2012, compared with 747.4 million euro at December 31, 2011. The decrease is mainly due to the fall in the value of investments (approximately 92.3 million euro) and the impairment of the loans granted to Group companies (88.7 million euro). In addition, property, plant and equipment record a decrease, due to the sale of furniture and improvements to Pirelli Tyre S.p.A. relating to the Milan HQ2 office, whose residual value at December 31, 2011 was around 3.3 million euro.

Net working capital is down, from a negative 5.1 million euro as at December 31, 2011 to a negative 8.9 million euro as at

December 31, 2012; the negative effect on net working capital is a result of the decrease in trade receivables, due to both collections received in the period (in particular, the receivable due from the subsidiary Lambda S.r.l. for the recovery of costs relating to Hangar Bicocca) and the write-down of some trade receivables due from third parties and joint ventures; this effect is partially offset by the reduction in trade payables, down from a total of 25.2 million euro at December 31, 2011 to a total of 14.5 million at December 31, 2012.

Equity amounts to 4.6 million euro, compared to 218.7 million euro as at December 31, 2011; this change is due essentially to the loss recorded during the period.

The increase in financial statements provisions is mainly due to the amount set aside for future expenses that the company will incur as a result of the early termination of the rental contract with the Cloe Fund for the Milan – HQ2 office, and the adjustment of the restructuring provisions for voluntary redundancy payments still to be made.

The Net Financial Position reports a net debt of 542.2 million euro at December 31, 2012 compared with debt of 520.9 million euro at the end of 2011. It should be noted that, as at December 31, 2012, both the loan granted by the Club Deal pool of banks, for 359 million euro, and the credit facility granted by Pirelli & C. S.p.A. for 160 million euro, were used in full; by contrast, the loan of 20 million euro granted by Banca IntesaSanpaolo, expiring in June, 2013 and usable under given conditions, was not utilised in 2012.

Effective from January 1, 2012, the Company conferred the “Project” business unit to the subsidiary Prelios Property & Project Management S.p.A., including 12 employees, of which 4 senior managers, 4 middle managers and 4 clerical staff. The transfer of the business unit is part of a plan to rationalise and optimise the activities performed by Group companies, and makes it possible to create better synergies and opportunities for mutual development between property and project management activities, now both carried out by the transferee.

On April 17, 2012, the Extraordinary Shareholders' Meeting resolved the amendment to the Articles of Association, pursuant to art. 2446 of the Italian Civil Code, eliminating the par value of shares, originally equal to 0.50 euro, and approving the reduction in share capital from 420,585,888.50 euro to 218,877,613.14 euro. The change in share capital was recorded at the competent Companies Register on May 11, 2012. The Shareholders' Meeting also resolved the full use of available equity reserves as at December 31, 2011 to cover the loss recorded in the year.

On December 18, 2012 the Shareholders' Meeting approved the Company's financial position as at September 30, 2012, which posted reduced equity of 57.6 million euro, representing a decrease in share capital of more than one-third, pursuant to art. 2446, par. 1 of the Italian Civil Code; the Shareholders' Meeting put back the measures required by art. 2446 of the Italian Civil Code to a date to be proposed by the Board of Directors, also in relation to the development and implementation of the proposed extraordinary transactions.

Prelios' balance sheet and income statement as at December 31, 2012 report a loss for the year of 214.0 million euro, with the share capital decrease of more than one-third pursuant to art. 2446 of the Civil Code also confirmed at the end of 2012. The Board of Directors, also taking into account the resolution from the already mentioned Shareholders' Meeting on December 18, 2012, intends to submit to the Shareholders' Meeting a proposal for the full coverage of total losses reported in the balance sheet and income statement as at December 31, 2012 through a reduction in the share capital.

## Human resources

Prelios S.p.A. had 105 employees at December 31, 2012, compared with 117 at December 31, 2011. Staff consisted of 28 senior managers, 37 middle managers, 39 clerical staff and 1 worker.

## 14. APPENDICES

### APPENDIX A

#### No-GAAP Measures

The Non-GAAP Measures used are as follows:

- **Operating result** (-72.1 million euro): it is determined as EBIT for -37.8 million euro, plus net income from investments for -149.2 million euro (values reported in "EBIT" and "Net income from investments" respectively in the consolidated income statement), plus income from shareholder loans for 12.1 million euro (included in financial income). These amounts are adjusted for restructuring costs (21.4 million euro) and property writedowns/revaluations (81.4 million).
- **Profit (loss) before property tax, property writedowns/revaluations and tax expenses** (-124.2 million euro): this amount is obtained by adding financial expenses (-52 million euro) to the above Operating result (-72.1 million euro).
- **Income from shareholders' loans** (12.1 million euro): this measure comprises the interest income on financial receivables from associates and joint ventures and income from securities, both of which reported in "Financial income" in the financial statements; it is stated net of the impairment of junior notes, classified in "Financial expenses" in the financial statements.
- **Financial expenses** (-52 million euro): this measure includes the financial statement item "Financial expenses" (adjusted for impairment of junior notes or financial receivables) and the financial statement item "Financial income" (net of income from shareholder loans).
- **Investments in real estate funds and investment companies:** this measure reports investments in associates and joint ventures, in closed-end real estate funds and investments in other companies and junior notes (reported in "Other financial assets" in the financial statements).
- **Net working capital:** this represents the amount of resources comprising a business's net operating assets. This indicator is used to verify its short-term financial equilibrium. This measure comprises all the short-term assets and liabilities of a non-financial nature and is stated net of junior notes included in the item "investments in real estate funds and investment companies".
- **Provisions:** this measure, representing the sum of "Provisions for future risks and expenses (current and non-current), "Employee benefit obligations" and "Deferred tax provisions," is stated net of provisions for future risks on equity-accounted investments classified in "Investments in real estate funds and investment companies."
- **Net Financial Position:** this measure is a valid indicator of the ability to meet obligations of a financial nature. Net financial position is represented by gross financial debt less cash and other cash equivalents and other financial receivables.
- **Gross bank debt:** this represents the total payables of each company/fund due to the banking system.
- **Net bank debt:** this represents gross bank payables of each company/fund, less cash and other cash equivalents.
- **Return on Equity (ROE):** this is an indicator of the results for the period relative to the capital invested by shareholders and is determined as the ratio between net income (loss) for the period and the average of opening and closing equity.
- **Return on Sale (ROS):** it is determined by the impact of the operating results on revenues
- **Gearing:** this measure indicates the Group's ability to satisfy the needs of its business with its own resources rather than with third party financial debt. Gearing is calculated as the ratio between the net financial position and equity.
- **Basic earnings (loss) per share:** this is an indicator of the remuneration per share from results in the period and is calculated as the ratio between net income (loss) for the period and the number of shares issued and outstanding at the end of the period.

The table below reconciles, by grouping/reclassification of the accounting measures in the context of the IFRSs, the main measures defined as non-GAAP measures for the consolidated financial statement tables.

Operating result	December 31, 2012	December 31, 2011
EBIT	(37.8)	74.7
Net income from investments	(149.2)	(193.0)
Income from shareholders' loans <sup>(1)</sup>	12.1	23.8
Property tax (portion included in net income from investments)		6.3
Restructuring costs	21.4	48.7
Property writedown/revaluations <sup>(2)</sup>	81.4	194.6
Rinascente/Upim capital gain net of directly related costs		(31.8)
<b>Total</b>	<b>(72.1)</b>	<b>(26.1)</b>

Profit (loss) before property tax, restructuring costs, property writedown/revaluations and income taxes	December 31, 2012	December 31, 2011
Operating result	(72.1)	(26.1)
Rinascente/Upim capital gain of directly related costs		31.8
Financial expenses	(52.0)	(29.8)
<b>Total</b>	<b>(124.2)</b>	<b>(24.1)</b>

Income from shareholders' loans	December 31, 2012	December 31, 2011
Interest income on financial receivables due from associates (1)		
Interest income on financial receivables due from joint ventures (1)	12.1	24.8
Impairment of securities		(1.0)
<b>Total</b>	<b>12.1</b>	<b>23.8</b>

Financial expenses	December 31, 2012	December 31, 2011
Financial expenses	(60.6)	(35.7)
Financial income	16.1	29.8
Income from loan writebacks		
Income from shareholder loans	(12.1)	(23.8)
Property writedowns/revaluations (2)	4.6	
<b>Total</b>	<b>(52.0)</b>	<b>(29.8)</b>

**NOTE**

- (1) Interest income on financial receivables due from joint ventures included in the item financial income
- (2) Property writedowns/revaluations total 86 million euro (pro-rata Group): of which 3.2 million euro included in EBIT of companies consolidated on a line-by-line basis, 4.6 million euro recorded under financial expenses and 78.2 million euro recorded under net income from investments in companies value at equity

## APPENDIX B

***Information on the real estate debt of investment companies and funds***

	Net financial position	Net bank debt	Maturity (years) (*)
Commercial Italy	1,033,836	976,972	1,2
Commercial Germany	58,212	36,891	1,0
Commercial Germany - Highstreet -	2,329,670	2,119,844	1,6
Commercial Germany - Small Deals -	102,446	83,500	4,6
Commercial Germany - DGAG -	799,658	688,441	0,9
<b>TOTAL PORTFOLIO "YIELDING"</b>	<b>4,323,822</b>	<b>3,905,648</b>	
Trading Italy	519,775	415,097	1,5
Lands Italy	314,182	221,145	0,7
Development Italy	89,754	66,840	2,9
Other Germany	30,905	12,267	5,9
Development Poland	55,119	(105)	
<b>TOTAL PORTFOLIO "OTHER"</b>	<b>1,009,735</b>	<b>715,243</b>	
<b>TOTAL REAL ESTATE</b>	<b>5,333,557</b>	<b>4,620,891</b>	<b>1,4</b>

(\*) The average of maturity is calculated considering the Gross Bank Debt of every initiative excluding subsidized debt.

**Principal contractual clauses relating to the debt**

The covenants applying to all the loans to funds and investment companies invested in by Prelios are monitored on a quarterly basis at the time of preparing the quarterly financial statements regardless of any periodic reporting required by the associated loan agreements.

The main financial covenants applying to the funds and investment companies are as follows:

- LTV (Loan To Value): ratio between (i) bank debt and (ii) appraised value of the portfolio
- LTC (Loan To Cost): ratio between (i) bank debt and (ii) book value of the portfolio
- ISCR (Interest Service Cover Ratio): ratio between (i) rental income net of operating costs and (ii) financial expenses
- DSCR (Debt Service Cover Ratio): ratio between (i) rental and sale income net of operating costs and (ii) financial expenses and repayments of principal
- MOA (Maximum Outstanding Amount): maximum amount of bank exposure permitted.

At December 31, 2012, some funds and investment companies invested in by Prelios S.p.A. had covenants that were not in line with those envisaged in the contract. In particular, with regard to the LTV and ISCR covenants: Trinacria Capital S.à.r.l and Sicily Investments S.à.r.l (as a co-debtor); as regards the Maximum Outstanding Amount. Patrimonio Uffici and Diomira Funds. Resident West GmbH is the only company with a covenant present, aimed at measuring unlet real estate units in the company's portfolio, that is not in line with one envisaged in the contract.

In this regard, it should be noted that negotiations have started with the various financial counterparties in respect of all the above positions in order to formalise and finalise solutions.

Lastly, worthy of note are certain positions relating to Solaris and Aree Urbane (both in liquidation), Monteverdi Fund, Vivaldi Fund and Golfo Aranci (the latter three expired on December 31, 2012), for which new agreements are being negotiated with financial counterparties in respect of the expired debt.

## APPENDIX C

## Glossary

- **Assets Under Management (AUM):** Property assets and non-performing loans managed, whose value is stated at the market value at the close of the year; property asset values are based on the appraisals of independent experts, and non-performing loans are stated at book value. The pro-rata share of these values (market or book, depending on the case) expresses the Group's interest in the market value of the assets and in the book value of non-performing loans managed.
- **Investment Activities:** these refer to Prelios Group's activities carried out through its investments in funds and companies holding real estate portfolios.
- **BauBeCon:** sole real estate portfolio managed consisting of about 26,000 apartments (located in the areas of Berlin, Hanover, Magdeburg, Braunschweig, Kiel, Lübeck), acquired in a joint venture with the subsidiary Prelios Netherland B.V. (40%) together with the RREEF funds (60%) and for which Barclays Bank, which financed the investment, took advantage of its option rights in 2011, under the loan contracts, to acquire Group companies at a symbolic price of 1 euro.
- **Net working capital:** this represents the amount of resources comprising a business's net operating assets. This indicator is used to verify its short-term financial equilibrium. This measure comprises all the short-term assets and liabilities of a non-financial nature and is stated net of junior notes included in the item "investments in real estate funds and investment companies".
- **Cash Generating Unit:** this is the smallest identifiable group of assets that generates incoming cash flows which are largely independent of incoming cash flows generated by other assets or groups of assets in accordance with the provisions of the international accounting standards.
- **Corporate Governance:** a set of rules, systems and company management and control bodies.
- **Credit servicing:** in-court and out-of-court management of non-performing loans, secured mainly by property mortgages, through valuation activities, monitoring of the trend in-court and out-of-court legal actions and management of the flow of data and information on securitised portfolios.
- **Gearing:** this measure indicates the Group's ability to satisfy the needs of its business with its own resources rather than with third party financial debt. Gearing before shareholder loans is calculated as the ratio between the net financial position and equity.
- **G&A:** this refers to general expenses and holding costs and more specifically includes costs related to the Board of Directors and Central Staff Functions.
- **Highstreet:** investment initiative developed in a consortium with the RREEF funds, Generali, and Borletti in 2008, relating to the acquisition of 49% of a real estate portfolio, located throughout Germany and rented to the Karstadt department stores.
- **Impairment test:** test to check for impairment of assets through which the company determines the recoverable value of its financial statement assets. The recoverable amount of an asset or cash generating unit is the higher of its fair value, less costs to sell, and its value in use. If the book value of an asset is higher than its recoverable value, this asset has been impaired and is written down accordingly to its recoverable value.
- **Joint venture:** joint ventures are contractual or statutory arrangements whereby two or more parties undertake an economic activity that is subject to joint control.
- **LTI (Long-Term Incentive):** medium-long term incentive.
- **MBO (Management By Objective):** indicates the variable annual component of remuneration which can be obtained by meeting pre-set company targets.
- **Net Asset Value (NAV):** this measure makes it possible to quantify the unrealised implicit capital gain in the real estate managed and invested in by the Group. The pro-rata Net Asset Value is calculated as the difference between Prelios' share of the market value of the assets and the associated value of debt including the shareholder loans of investees with minority stakes. In calculating the Net Asset Value, account is not taken of the effect of taxes relating to the implicit capital gain of the assets invested in, as they are not considered significant for the Group.
- **Non-Performing Loan (NPL):** portfolio of mortgage-backed non-performing loans coming from banks or from mortgage-backed loans for real estate involved in legal disputes.
- **Passing Rent:** this indicator corresponds to rents annualised on the basis of contracts existing at the end of the period in question for assets belonging to a specific fund/company and represents a useful indicator of the annual volume of rents.
- **Passing Yield:** this is an indicator of the profitability of rent from assets belonging to a certain company/fund. It is calculated at the ratio between the book value of the company/fund assets and the corresponding amount of passing rent.
- **Management Platform:** this refers to the activities that the Prelios Group carries out through its fund and asset management businesses and specialised real estate services (property & project, agency, and facility management in Germany), and from credit servicing for NPLs, inclusive of general and administrative expenses.
- **Return on Equity (ROE):** this is an indicator of the results for the period relative to the capital invested by shareholders and is determined as the ratio between net income (loss) for the period and the average of opening and closing equity.
- **Tracking Shares:** shares numbered and assigned so as to create a direct correlation between them and certain investee companies both in terms of contribution to the results and as a control exercise.
- **Vacancy:** indicates the portion of real estate that does not generate revenues in the form of rent; it is calculated based on the ratio of un-rented square metres to total square metres.

**APPENDIX D****Parent Company Reconciliation**

Pursuant to Consob Communication dated July 28, 2006, the reconciliation between the net income (loss) for the year 2012 and Group equity as at December 31, 2012, with the corresponding values of the parent company Prelios S.p.A. is shown below.

(in thousands of euro)	Net income (loss)	Equity
<b>Separate financial statements of Prelios S.p.A.</b>	<b>(213,996)</b>	<b>4,552</b>
Consolidation adjustments:		
– contribution from subsidiaries	(34,869)	(305,211)
– net income from investments	(150,668)	(61,343)
– elimination of writedowns/dividends and goodwill recorded in the Parent Company's financial statements	156,714	444,549
– other consolidation adjustments	1,085	(8,369)
<b>Consolidated financial statements of the Prelios Group (Group share)</b>	<b>(241,734)</b>	<b>74,178</b>

**B. THE PRELIOS GROUP - CONSOLIDATED FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2012**

## 1. CONSOLIDATED BALANCE SHEET

Note	ASSETS	12.31.2012	12.31.2011
<b>NON-CURRENT ASSETS</b>			
1	Property, plant and equipment	1,615	4,804
2	Intangible assets	151,402	157,411
3	Investments	236,770	327,036
	<i>of which available-for-sale</i>	3,371	7,165
4	Other financial assets	16,577	24,706
5	Deferred tax assets	24,325	26,407
7	Other receivables	213,579	319,359
	<i>of which with related parties</i>	208,105	313,491
	<b>TOTAL NON-CURRENT ASSETS</b>	<b>644,268</b>	<b>859,723</b>
<b>CURRENT ASSETS</b>			
9	Inventories	54,379	55,301
6	Trade receivables	63,891	78,074
	<i>of which with related parties</i>	46,745	45,520
7	Other receivables	35,917	45,988
	<i>of which with related parties</i>	5,603	6,287
10	Cash and cash equivalents	45,090	37,684
8	Tax receivables	8,465	11,048
	<b>TOTAL CURRENT ASSETS</b>	<b>207,742</b>	<b>228,095</b>
	<b>TOTAL ASSETS</b>	<b>852,010</b>	<b>1,087,818</b>

<b>EQUITY</b>		<b>12.31.2012</b>	<b>12.31.2011</b>
<b>GROUP EQUITY</b>			
11	Share capital	218,283	419,991
12	Other reserves	(18,258)	94,223
13	Retained earnings	115,887	94,261
	Net income (loss) for the year	(241,734)	(289,641)
<b>TOTAL GROUP EQUITY</b>		<b>74,178</b>	<b>318,834</b>
14	<b>MINORITY INTERESTS</b>	<b>6,213</b>	<b>7,348</b>
<b>TOTAL EQUITY</b>		<b>80,391</b>	<b>326,182</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
15	Bank borrowings and payables to other financial institutions	420,993	488,802
	<i>of which with related parties</i>	<i>157,389</i>	<i>160,038</i>
17	Other payables	976	3,849
	<i>of which with related parties</i>	<i>–</i>	<i>2,608</i>
18	Provisions for future risks and expenses	24,905	35,814
5	Deferred tax provision	2,495	2,243
19	Employee benefit obligations	12,568	11,125
20	Tax payables	7,376	–
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>469,313</b>	<b>541,833</b>
<b>CURRENT LIABILITIES</b>			
15	Bank borrowings and payables to other financial institutions	144,739	36,958
	<i>of which with related parties</i>	<i>17,993</i>	<i>1,102</i>
16	Trade payables	49,375	74,852
	<i>of which with related parties</i>	<i>3,702</i>	<i>8,185</i>
17	Other payables	64,060	62,144
	<i>of which with related parties</i>	<i>20,639</i>	<i>18,618</i>
18	Provisions for future risks and expenses	28,777	34,569
	<i>of which with related parties</i>	<i>2,808</i>	<i>7,131</i>
20	Tax payables	12,829	11,280
	<i>of which with related parties</i>	<i>1,324</i>	<i>1,080</i>
21	Derivative financial instruments	2,526	–
<b>TOTAL CURRENT LIABILITIES</b>		<b>302,306</b>	<b>219,803</b>
<b>TOTAL LIABILITIES</b>		<b>771,619</b>	<b>761,636</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>852,010</b>	<b>1,087,818</b>

Financial statement items relating to transactions with related parties are described in Section 6.10, to which reference should be made

## 2. CONSOLIDATED INCOME STATEMENT

Note		01.01.2012- 12.31.2012	01.01.2011 12.31.2011
22	Revenues from sales and services	130,961	177,801
23	Changes in inventories of work in progress, semi-finished and finished products	94	(5,697)
24	Other income	20,049	14,049
	<b>TOTAL OPERATING REVENUES</b>	<b>151,104</b>	<b>186,153</b>
	<i>of which with related parties</i>	71,183	97,942
	<i>of which non-recurring events</i>	1,939	(300)
	Raw and consumable materials used (net of change in inventories)	(4,687)	(28,380)
	Personnel costs	(77,145)	(74,551)
	Depreciation, amortisation and impairment	(7,724)	(5,242)
	Other costs	(99,381)	(152,716)
25	<b>TOTAL OPERATING COSTS</b>	<b>(188,937)</b>	<b>(260,889)</b>
	<i>of which with related parties</i>	(11,407)	(13,550)
	<i>of which non-recurring events</i>	(22,584)	(35,233)
	<b>EARNINGS BEFORE INTEREST AND TAX (EBIT)</b>	<b>(37,833)</b>	<b>(74,736)</b>
26	Net income from investments of which:	(149,170)	(192,984)
	<i>of which with related parties</i>	(149,922)	(184,241)
	<i>of which non-recurring events</i>	(746)	12,373
	– net profit share from investments in associates and joint ventures	(135,782)	(90,899)
	– dividends	2,354	6,658
	– gains on investments	5,038	1,098
	– losses on investments	(20,780)	(109,841)
27	Financial income	16,071	29,797
	<i>of which with related parties</i>	13,332	27,404
28	Financial expenses	(60,604)	(35,727)
	<i>of which with related parties</i>	(20,811)	(9,161)
	<b>INCOME (LOSS) BEFORE TAXES</b>	<b>(231,536)</b>	<b>(273,650)</b>
29	Taxes	(9,489)	(17,882)
	<i>of which non-recurring events</i>	–	(2,566)
	<b>NET INCOME (LOSS) FOR THE YEAR</b>	<b>(241,025)</b>	<b>(291,532)</b>
	attributable to minority interests	709	(1,891)
	<b>GROUP NET INCOME (LOSS) FOR THE YEAR</b>	<b>(241,734)</b>	<b>(289,641)</b>
30	<b>EARNINGS/(LOSS) PER SHARE (euro)</b>		
	<b>Basic</b>		
	Basic earnings/(loss) per share	(0,29)	(0,34)

Financial statement items relating to transactions with related parties are described in Section 6.10, to which reference should be made

### 3. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

#### Note 12

(in thousands of euro)	01.01.2012/12.31.2012			attributable to:	
	gross	tax	net	Group	Minority interest
<b>A Net income (loss) for the year</b>			<b>(241,025)</b>	<b>(241,734)</b>	<b>709</b>
<b>Other components of income recognised in equity:</b>					
Exchange differences on translating foreign financial statements	394	–	394	394	–
Total cash flow hedge	–	–	–	–	–
– Fair value adjustment of derivatives designated as cash flow hedge	(2,526)	695	(1,831)	(1,831)	–
– (Profits)/ losses relating to cash flow hedges, previously recognized directly in equity now transferred to the income statement	2,526	(695)	1,831	1,831	–
Total available-for-sale financial assets	(3,827)	1,052	(2,775)	(2,497)	(278)
– Fair value adjustment of available-for-sale financial asset	(3,827)	1,052	(2,775)	(2,497)	(278)
Net actuarial gains / (losses) on employee benefits	(2,150)	693	(1,457)	(1,429)	(28)
Prelios share of other components of income recognised in equity by associates and joint ventures	1,908	(330)	1,578	1,578	–
– Prelios share of (gains) / losses previously recognised directly in equity now transferred to the income statement	912	–	912	912	–
– Prelios share of (gains) / losses recognised in equity	996	(330)	666	666	–
<b>B Total other components of income recognised in equity</b>	<b>(3,675)</b>	<b>1,415</b>	<b>(2,260)</b>	<b>(1,954)</b>	<b>(306)</b>
<b>A+B Total comprehensive income (losses) for the year</b>			<b>(243,285)</b>	<b>(243,688)</b>	<b>403</b>

(in thousands of euro)	01.01.2011/12.31.2011			attributable to:	
	gross	tax	net	Group	Minority interest
<b>A Net income (loss) for the year</b>			<b>(291,532)</b>	<b>(289,641)</b>	<b>(1,891)</b>
<b>Other components of income recognised in equity:</b>					
Exchange differences on translating foreign financial statements	(714)	–	(714)	(535)	(179)
Total available-for-sale financial assets	(3,526)	629	(2,897)	(2,731)	(166)
– Fair value adjustment of available-for-sale financial assets	253	(586)	(333)	(167)	(166)
– (Profits) losses relating to available-for-sale financial assets, previously recognised directly in equity now transferred to the income statement	(3,779)	1,215	(2,564)	(2,564)	–
Net actuarial gains / (losses) on employee benefits	(121)	30	(91)	(84)	(7)
Prelios share of other components of income recognised in equity by associates and joint ventures	31,850	(286)	31,564	31,564	–
– Prelios share of (gains) / losses previously recognised directly in equity now transferred to the income statement	23,147	–	23,147	23,147	–
– Prelios share of (gains) / losses recognised in equity	8,703	(286)	8,417	8,417	–
<b>B Total other components of income recognised in equity</b>	<b>27,489</b>	<b>373</b>	<b>27,862</b>	<b>28,214</b>	<b>(352)</b>
<b>A+B Total comprehensive income (losses) for the year</b>			<b>(263,670)</b>	<b>(261,427)</b>	<b>(2,243)</b>

## 4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euro)	Share capital	Share premium reserve	Reval. reserve	Legal reserve	Currency translation reserve	Reserve for fair value measurement of available-for-sale financial assets	Cash flow hedge reserve	Reserve for actuarial gains/losses	Reserve for equity-settled stock options	Reserve for tax on items credited/debited to equity	Other reserves	Retained earnings/(losses)	Net income/(loss) for the year	Group equity	Minority interests in equity	Total
Equity at December 31, 2011	419,991	104,649	15	4,265	(1,844)	(2,755)	(12,104)	353	5,156	3,373	(6,885)	94,261	(289,641)	318,834	7,348	326,182
<b>Total other components of income recognised in equity</b>	-	-	-	-	394	(3,444)	1,871	(2,075)	-	1,300	-	-	-	(1,954)	(306)	(2,260)
Allocation of 2011 results	(201,708)	(104,649)	(15)	(4,265)	-	-	-	-	(5,156)	(1,596)	5,877	21,871	289,641	-	-	-
Cost of equity transactions	-	-	-	-	-	-	-	-	-	-	9	-	-	9	-	9
Other changes	-	-	-	-	(614)	(12)	-	(96)	-	(10)	-	(245)	-	(977)	(1,538)	(2,515)
Net income (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	(241,734)	(241,734)	709	(241,025)
Equity at December 31, 2012	218,283	0	0	0	(2,064)	(6,211)	(10,233)	(1,818)	0	3,067	(999)	115,887	(241,734)	74,178	6,213	80,391

	Share capital	Share premium reserve	Reval. reserve	Legal reserve	Currency translation reserve	Reserve for fair value measurement of available-for-sale financial assets	Cash flow hedge reserve	Reserve for actuarial gains/losses	Reserve for equity-settled stock options	Reserve for tax on items credited/debited to equity	Other reserves	Retained earnings/(losses)	Net income/(loss) for the year	Group equity	Minority interests in equity	Total
Equity at December 31, 2010	419,991	158,336	15	4,265	(1,309)	556	(43,754)	(62)	5,503	2,894	12,151	116,491	(95,312)	579,765	9,828	589,593
<b>Total other components of income recognised in equity</b>	-	-	-	-	(535)	(3,297)	31,762	(24)	-	308	-	-	-	28,214	(352)	27,862
Allocation of 2010 results	-	(53,687)	-	-	-	-	-	-	-	-	(19,069)	(22,556)	95,312	-	-	-
Cost of equity transactions	-	-	-	-	-	-	-	-	-	3	33	-	-	36	-	36
Other changes	-	-	-	-	-	(14)	(112)	439	(347)	168	-	326	-	460	(237)	223
Net income (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	(289,641)	(289,641)	(1,891)	(291,532)
Equity at December 31, 2011	419,991	104,649	15	4,265	(1,844)	(2,755)	(12,104)	353	5,156	3,373	(6,885)	94,261	(289,641)	318,834	7,348	326,182

## 5. CONSOLIDATED CASH FLOW STATEMENT

(in thousands of euro)	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Result before income taxes and minority interests	(231,536)	(273,650)
Depreciation, amortisation and impairment/impairment reversal intangible assets & property, plant & equipment	7,724	5,242
Impairment of receivables	10,592	55,552
Gains/Losses on sale of property, plant and equipment and investment property	239	112
Net income from investments net of dividends	160,115	239,722
Financial expenses	60,604	35,727
Financial income	(16,071)	(29,797)
Change in inventories	922	15,620
Change in trade receivables/payables	(21,140)	4,813
Change in other receivables/payables	20,307	(52,728)
Change in employee benefit obligations and other provisions	(13,085)	15,214
Taxes	(5,394)	(19,534)
Other changes	(16)	(75)
<b>Net cash flow generated / (absorbed) by operating activities (A)</b>	<b>(26,739)</b>	<b>(3,782)</b>
Purchase of property, plant and equipment	(893)	(398)
Disposal of property, plant and equipment	2,927	25
Purchase of intangible assets	(799)	(902)
Disposal of intangible assets	–	11
Net cash flow generated by disposal of investments in subsidiaries	(10,955)	(3,634)
Purchase of investments in associates and joint ventures	(5,905)	(23,398)
Disposal of investments in associates and joint ventures and other movements	7,333	1,012
Dividends received	2,354	6,658
Purchase of other financial assets	(1,000)	(7,590)
Disposal of other financial assets	4,171	902
Net cash flow generated by non-current assets held for sale	(593)	1,195
<b>Net cash flow generated / (absorbed) by investing activities (B)</b>	<b>(3,360)</b>	<b>(26,119)</b>
Other changes in equity	(2,121)	(491)
Change in financial receivables	56,395	9,948
Change in financial payables	(15,467)	62,256
Cash flow generated by financial income	1,337	1,243
Cash flow absorbed by financial expenses	(2,559)	(22,419)
<b>Net cash flow generated / (absorbed) by financing activities (C)</b>	<b>37,585</b>	<b>50,537</b>
<b>Total net cash flow generated / (absorbed) in the period (D=A+B+C)</b>	<b>7,486</b>	<b>20,636</b>
<b>Cash and cash equivalents + bank overdrafts at the beginning of the period (E)</b>	<b>37,604</b>	<b>16,968</b>
<b>Cash and cash equivalents + bank overdrafts at the end of the period (D+E)</b>	<b>45,090</b>	<b>37,604</b>
of which:		
– cash and cash equivalents	45,090	37,684
– bank overdrafts	–	(80)

Cash flows relating to transactions with related parties are described in Section 6.10 to which reference should be made.

## 6. CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2012 EXPLANATORY NOTES

### 6.1. General information

Prelios S.p.A. is a legal entity organised in accordance with the legislation of the Italian Republic.

The company has been listed on the Italian Stock Exchange since 2002 and is one of the leading players in the real estate sector in both Italy and Europe; it is active in Italy, Germany and Poland.

In the past, Prelios acquired minority interests in the investment initiatives it managed, with the aim of grasping revaluation opportunities; now the Group is consolidating its position as “pure manager”: a change of model and strategy which forms the basis of the Prelios relaunch plan and which includes, among other things, the decisive equity strengthening, aimed at structurally guaranteeing its financial stability, and the entry of an industrial partner with recognised international experience to the shareholding structure.

It should be noted that, in 2012, the Group did not carry out atypical or unusual transactions.

The company's registered office is in Milan, Italy.

In accordance with the provisions of Art. 5, paragraph 2 of Italian Legislative Decree no. 38 of February 28, 2005, these financial statements were prepared using the euro as the reporting currency, and all values have been rounded to the nearest thousand euro where not indicated otherwise.

The separate financial statements and the consolidated financial statements have been audited by Reconta Ernst & Young S.p.A., under the terms of Art. 14 of Italian Legislative Decree no. 39 of January 27, 2010 and taking account of the CONSOB recommendation of February 20, 1997, in execution of the resolution of the shareholders' meeting of April 14, 2008 which appointed the said company for the nine years 2008-2016.

The consolidated financial statements were approved by the Board of Directors on March 27, 2013.

### 6.2. Basis of preparation - going concern assumption in preparing the financial statements

As already described in more detail in the director's report on operations, 2012 was characterised by persistent weakness in the market context, especially in Italy, which affected the economic results in terms of a deterioration in the profile of expected cash flows from real estate assets and non-performing loans, and by a slowdown in purchases/sales (also due to the decrease in available funds in the banking system for financing transactions), and a reduction in the values at which real estate transactions can be agreed, with a subsequent adverse impact on the property values of some Group assets. Consequently, as a result of impairment, the Group suffered significant economic losses.

Only a few of the transactions set out to reduce indebtedness in 2012 were actually completed, while the majority, despite the implementation of various structured processes for their conclusion, were not carried out, initially owing to the market difficulties, and then the interest shown by major third party operators in becoming Prelios shareholders, in a wider context of a review and reinforcement of the company's capital and finances, provided that the current business structure did not change considerably.

Within said changed scenario, the company communicated, during the drafting of the 2012 half-yearly report, the existence of uncertainties over the prospect of continuing to operate as a going concern, in the absence of extraordinary transactions that modified the current financial structure or that were able to generate additional cash flows with respect to those that can be generated by ordinary operations, as well as financial risks related primarily to the sustainability of existing financial debt. Consequently, the company promptly put into effect all the necessary initiatives, also involving lenders, for the definition of an extraordinary transaction targeted at achieving the redevelopment objective, whose expectations for success formed the basis of the uninterrupted preparation of the half-yearly report.

As already pointed out in the chapters “subsequent events” and “business outlook” in the report on operations, the directors believe that the Framework Agreement with Feidos 11, the Term Sheet formalised and approved by lenders and the subscription commitments formalised by lenders and Agreement Shareholders, through which the aforementioned transaction will be completed, within the terms indicated in the report on operations, will help the Group achieve its redevelopment objectives and will allow the Prelios Group to continue to operate as a going concern, thanks to the envisaged capital strengthening of the company, injection of new financial resources and the expected restructuring of the repayment terms on existing loans. Therefore, these factors provide the basis for adopting the assumption of the company as a going concern for the preparation of the financial statements for the year ended as at December 31, 2012.

The directors highlight that the prompt fulfilment of the agreements signed with new investors, the banking system, Pirelli & C. S.p.A. and Agreement Shareholders within the terms described – and, therefore, the successful conclusion of the proposed transaction – may permit the financial rebalancing and capital reinforcement in timescales in keeping with company's current situation, and, within an evolving general and industry situation, the relaunch of Group's growth prospects and industrial development, also thanks to the contribution of skills and expected new business opportunities from the industrial investor.

However, the directors highlight the uncertainties naturally linked to the completion of the transaction, also taking into account the development of the reference market context. The results forecast by the plan assume the completion of the aforementioned transaction, with the relative impact on the restructuring of debt taking effect from January 1, 2013, and the assessment of the feasibility of said plan was performed on the basis of forecast elements that may reasonably be envisaged, taking into account the difficulties of making forecasts in the current economic and financial context, such as the exclusion of further crises that should hit the financial markets or a worsening in the factors that led to the current deterioration in the general reference scenario and the real estate market, in particular which, at the current state of play and according to the path deemed foreseeable at present, is expected to recover in the second half of 2014. In addition, it is believed that the market scenario outlined will make it possible to realise property sales at values and in accordance with timescales in line with the net capital invested in the initiatives and with available Prelios cash flows at the date of the realisation of said sales. The feasibility of the plan represents, at the current state of play and according to the path deemed foreseeable at present, the condition for allowing the Group to maintain its long-term capital and financial equilibrium, and for deeming the adoption of the assumption of the company as a going concern appropriate, as regards the drafting of the financial statements for the year ended as at December 31, 2012.

### 6.3. Accounting standards and policies

Under the terms of Regulation No. 1606 issued by the European Parliament and the European Council in July 2002, the consolidated financial statements of the Prelios Group were prepared on the basis of the current International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union on December 31, 2012, and of the orders issued in implementation of Art. 9 of Italian Legislative Decree 38/2005. The IFRSs also include all the revised international accounting standards ("IASs") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously named the Standing Interpretations Committee ("SIC").

The consolidated financial statements were prepared on the basis of the criterion of historical cost with the exception of real estate investments held by associates and joint ventures, of derivative financial instruments and available-for-sale financial assets, which are carried at fair value, and of equity investments held for sale which are carried at the lower of the carrying amount and fair value net of costs to sell.

The accounting policies and principles adopted are consistent with those used in the preparation of the financial statements at December 31, 2011. The exceptions are in respect of the new standards/interpretations adopted by the Group starting from January 1, 2012. These new standards/interpretations had no impact on the present annual financial report.

#### 6.3.1. Accounting standards and interpretations endorsed and in force from January 1, 2012

- Amendments to IFRS 7 – Financial Instruments: Disclosures – Transfers of Financial Assets

These amendments seek to improve financial statement disclosure and consequently improve the transparency and comparability of transactions involving the transfer of financial assets (e.g. securitisations), including the possible effects of risks for which the transferor remains liable. Application of these amendments has no significant impact on the Group's consolidated financial statements.

#### 6.3.2. International accounting standards and/or interpretations issued but not yet in force and/or not yet endorsed

As required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", new Standards or Interpretations already issued, but which have not yet come into force or been endorsed by the European Union, and which are therefore not applicable, are listed below.

The Group has adopted none of these standards or interpretations in advance of their effective date.

- Amendments to IAS 1 – Presentation of Financial Statements – Presentation of Other Components Recognised in Equity

The main amendments to IAS 1 concern a new way to present other components recognised in equity in the Statement of Other Comprehensive Income – (OCI).

The standard does not change the option of presenting all revenue and cost items recognised in a financial year in a single statement of comprehensive income, or in two statements: a statement displaying components of profit or loss (separate income statement), and a second statement beginning with profit or loss and displaying the components of OCI. The Standard requires, instead, the OCI items to be grouped together in two categories, according to whether they can be reclassified, or not, in the income statement in a future period.

The following are examples of reclassification on the Income Statement: translation exchange differences, fair value adjustment of cash flow hedge derivatives, gains or losses on financial assets classified as available-for-sale in accordance with IAS 39.

The actuarial gains/losses for defined benefit pension plans are, instead, an example of items not subject to reclassification in the Income Statement.

These amendments were endorsed by the European Union in June 2012 (EU Regulation no. 475/2012), and are applicable from January 1, 2013. Future application of these amendments will have no significant impact on the consolidated financial statements.

- Amendments to IAS 19 – Employee Benefits

The amendment of IAS 19 is focused on the procedures used to account for defined benefit plans and termination benefits.

The principal changes from the current standard concern:

- defined benefit plans: actuarial gains/losses (renamed remeasurements) must be immediately and fully recognised in the Statement of Comprehensive Income. The option that allowed not recognising actuarial gains/losses if they fell within a certain corridor (“corridor approach”) will no longer be allowed;
- elimination of the “expected return on plan assets” and “interest cost”, which will be replaced by a new quantity called “net interest”, calculated by applying the discount rate now used only for the gross liability to the net liability (i.e. the gross liability net of the assets servicing the plan);
- request for supplemental information to be included in the explanatory notes to the financial statements for improved illustration of the risks stemming from defined benefit plans;
- termination benefits: based on the new standard, the factor that determines the timing for recognition in the financial statements is the fact that the entity may not withdraw the offered benefit, i.e. it is irrevocable. Accordingly, termination benefits can essentially be of two types:
  - benefits connected with a broader restructuring plan, where the entity may not withdraw the offer and the employee has no alternative but to accepting it: in this case, the offer is considered irrevocable when the layoff plan is notified to the affected persons;
  - individual benefits that the business may theoretically withdraw at its discretion until acceptance by the employee: in this case, the offer becomes irrevocable when the employee accepts it.

These amendments were endorsed by the European Union in June 2012 (EU Regulation no. 475/2012), and are applicable from January 1, 2013. As regards the forecast impacts on the consolidated financial statements, it should be underlined that the elimination of the corridor approach will not have any effect given that the Group does not use this option. The other impacts are currently under analysis.

- Amendments to the revised IFRS 1 – First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendments introduced concern:

- guidelines for preparing the financial statements on the basis of the IFRSs after a period in which IFRS application was suspended due to hyperinflation;
- elimination of fixed dates upon first-time adoption of the IFRSs. Entities which adopt the IFRSs are no longer obligated to reconstruct transactions that occurred before the date of transition to IFRSs.

These amendments were endorsed by the European Union in December 2012 (EU Regulation no. 1255/2012), and are applicable from January 1, 2013. Future application of these amendments will have no significant impact on the consolidated financial statements.

- Amendments to IAS 12 – Income Taxes – Deferred Tax: Recovery of Underlying Assets

IAS 12 requires an entity to measure the deferred tax relating to an asset or liability depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in “IAS 40 – Investment Property”. These amendments provide a practical solution to the problem by introducing a presumption that property investments will be entirely recovered through sale. As a result of the amendments, SIC 21 “Income taxes – recovery of revalued non-depreciable assets” no longer applies to property investments carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which will accordingly be withdrawn.

These amendments were endorsed by the European Union in December 2012 (EU Regulation no. 1255/2012), and are applicable from January 1, 2013. At present no impacts are expected on the consolidated financial statements deriving from future application of the above amendments.

- Amendments to IFRS 7 – Financial Instruments: Disclosures – First-time Application of IFRS 9.

These amendments introduce the obligation of providing additional quantitative information upon the transition to IFRS 9, to clarify the effects of the first-time application of IFRS 9 on the classification and measurement of financial instruments.

These amendments, which will come into force on January 1, 2015, have not yet been endorsed by the European Union. The impact of future application of these amendments cannot be quantified at this time.

- IFRS 9 – Financial Instruments

IFRS 9 represents the completion of the first of three stages of the planned replacement of IAS 39 “Financial Instruments: Recognition and Measurement”, with the main aim of reducing its complexity. In the version published by the IASB in November 2009, the scope of IFRS 9 was restricted to just financial assets. In October 2010 the IASB added to IFRS 9 requirements for the classification and measurement of financial liabilities, thus completing the first stage of the project. In November 2012, the IASB published for public comment proposals for limited changes to the classification and measurement requirements for financial instruments under IFRS 9, to clarify a narrow range of application questions and to take into account the repetition with other projects, including convergence with US accounting standards.

The second stage of the project, which concerns the impairment of financial instruments and the third stage, which concerns hedge accounting, resulted in issuing two Exposure Drafts in November 2009 and December 2010 respectively. The respective final standards, which were initially expected to be issued in the third quarter of 2011, have still not been issued; however, a new Exposure Draft is expected to be issued in the first quarter of 2013 as regards the impairment of financial instruments and a new standard for hedge accounting.

The main changes introduced by IFRS 9 can be summarised as follows:

- financial assets can be classified in only two categories – at fair value or at their amortised cost. The categories of loans and receivables, available-for-sale financial assets and financial assets held to maturity are therefore superseded. Classification within the two categories is made on the basis of the entity’s business model and on the basis of the features of the cash flows generated by the assets themselves. Financial assets are measured at their amortised cost if both the following prerequisites are met: the entity’s business model envisages that financial assets are held to collect their cash flows (thus, substantially, not to make trading profits) and the characteristics of the cash flows of the assets correspond only to payment of principal and interest. Otherwise financial assets must be measured at fair value;
- the accounting rules for derivatives embedded in contracts or in other financial instruments have been simplified: separate accounting for the embedded derivative and the “host” financial asset is no longer required;
- all equity instruments – both listed and unlisted – must be measured at fair value. IAS 39 stated instead that, if fair value could not be determined reliably, unlisted equity instruments had to be measured at cost;
- the entity has the option of presenting in equity any changes in the fair value of equity instruments not held for trading, while instead for those held for trading this option is not available. This designation is permitted at the moment of initial recognition, may be adopted for a single security and is irrevocable. If this option is taken, the fair value changes of such instruments can never be reclassified from equity to profit or loss (neither in the event of impairment nor in the event of disposal). Dividends instead continue to be recognised through profit or loss;
- IFRS 9 does not allow reclassifications between the two categories of financial assets except in rare cases in which there

is a change in the entity's business model. In this case the effects of the reclassification are applied prospectively;

- the disclosure required in the notes was adapted to the classification and to the measurement rules introduced by IFRS 9;
- it is possible not to implement the principle in the comparative period retrospectively to the date of first adoption of IFRS 9, except in the case in which a series of specific additional information is provided.

As regards financial liabilities, the IASB substantially confirmed the provisions of IAS 39, with the exception of requirements relating to the fair value option. If the fair value option is adopted for financial liabilities, the fair value change attributable to a change in the issuer's credit risk must be recognised in the statement of comprehensive income and not in the income statement.

The process of endorsement of IFRS 9, which was due to come into force on January 1, 2013, has been suspended for the time being. In December 2011, the IASB published the "Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)" postponing the date of mandatory application of IFRS 9 to the financial years starting from January 1, 2015 (the previous date of mandatory application was January 1, 2013), keeping the possibility of early application unchanged.

At the moment the effects on the consolidated financial statements deriving from future application of the standard are not quantifiable as regards the classification and measurement of financial assets; the amendments relating to financial liabilities are not applicable to the Group.

- IFRS 10 – Consolidated Financial Statements

IFRS 10, together with IFRS 11 and 12, represents completion of the first of the two stages in the Consolidation project relating to consolidated financial statements and associated disclosures.

In keeping with the existing standards, IFRS 10 identifies the concept of control as the key factor in establishing whether or not an entity needs to be included in the consolidated financial statements. To this end, the standard provides useful guidance on assessing whether control exists in more complex circumstances. In particular the new standard indicates a control model applicable to all types of entity, replacing the current principles. IFRS 10, in fact, supersedes the part of IAS 27 "Consolidated and Separate Financial Statements" that addresses consolidated financial statements and supersedes SIC 12 "Consolidation – Special Purpose Entities" in its entirety. After the new standard was issued, IAS 27 was renamed "Separate Financial Statements" and the relevant application framework has consequently been limited to the separate financial statements.

The standard, issued in May 2011, was endorsed by the European Union in December 2012 (EU Regulation no. 1254/2012), and will come into force on January 1, 2014. The impact on the consolidated financial statements in the year of first-time adoption of the new standard cannot be determined at this time.

- IFRS 11 – Joint Arrangements

IFRS 11 supersedes IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers" and sets out rules for financial reporting by all parties to a joint arrangement, establishing a principle-based approach under which the reporting entity recognises in its financial statements the rights and obligations arising from the arrangement.

In particular to establish to which category a joint arrangement belongs to, it is necessary to consider the substance of the arrangement on the basis of the rights and obligations defined in it and not be limited to the formal aspect of the legal form, as currently happens.

The new standard no longer permits the use of proportionate consolidation for joint ventures.

The standard, issued in May 2011, was endorsed by the European Union in December 2012 (EU Regulation no. 1254/2012), and will come into force on January 1, 2014. With reference to the consolidation method, no significant effects are expected on the consolidated financial statements from the future application of this new standard, as the accounting treatment already applied today by the Group is in line with the changes introduced. By contrast, the potential effects of the introduction of the distinction between joint ventures and joint arrangements are being analysed.

- IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 is a new standard that brings together the disclosure requirements applying to all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The new standard supersedes the previous disclosures required by "IAS 27 – Consolidated and Separate Financial Statements", "IAS 31 – Interests in Joint Ventures" and "IAS 28 – Investments in Associates". The purpose of the standard is to allow users of financial statements to assess the presence and nature of the risks associated with an interest in another entity, as well as the effect of such interest on the reporting entity's cash flows.

The standard, issued in May 2011, was endorsed by the European Union in December 2012 (EU Regulation no. 1254/2012), and will come into force on January 1, 2014. The impact on the consolidated financial statements in the year of first-time adoption of the new standard cannot be determined at this time.

- IFRS 13 – Fair Value Measurement

The objectives of the new standard are: to clarify the definition of fair value; to set out a single framework for measuring fair value applicable to all IASs/IFRSs that require fair value to be used for measurement purposes; to provide clarifications and guidance on how to determine fair value (including in illiquid or inactive markets). The new standard does not extend the use of the controversial fair value principle, whose application is required or permitted by other standards, but provides complete and practical instructions on how to measure fair value and on the disclosures that must be made particularly in the financial statements of listed companies.

The standard, issued in May 2011, was endorsed by the European Union in December 2012 (EU Regulation no. 1255/2012), and are applicable from January 1, 2013. The impact on the consolidated financial statements in the year of first-time adoption of the new standard cannot be determined at this time.

- IAS 27 – Separate Financial Statements

As a result of new IFRS 10 and 12, what remains of IAS 27 is limited to the accounting of subsidiaries, jointly controlled companies and associates in the separate financial statements.

The standard was endorsed by the European Union in December 2012 (EU Regulation no. 1255/2012), and will come into force on January 1, 2014. No significant impacts are expected from its future application.

- IAS 28 – Investments in Associates and Joint Ventures

Following to the issue of IFRS 10 and IFRS 11, IASB published IAS 28 "Investments in Associates and Joint Ventures", which regulates the accounting of investments in associated companies and joint ventures, and sets the criteria for the application of the equity method. The pre-existing principle has been only partially amended; the main changes refer to the reduction of the investment, meaning the investment in an associated company or in a joint venture which does not imply the cessation for the application of the equity method. In such circumstance the entity drafting the financial statements proportionately reclassifies the share of profits or losses recognised in the Other Comprehensive Income ("OCI") under income statement, while only the transferred quota is subject to the application of IFRS 5. The same rule applies to an investment in a joint venture which, following to partial transfer, becomes an associated company.

The standard was endorsed by the European Union in December 2012 (EU Regulation no. 1255/2012), and will come into force on January 1, 2014. No significant impacts are expected on the consolidated financial statements from its future application.

- Amendments to IFRS 7 – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments introduce the obligation of providing full disclosure in the notes of financial assets and liabilities offset on the basis of a statutory right to offsetting (e.g. net and gross amounts, guarantees granted and held).

These amendments were endorsed by the European Union in December 2012 (EU Regulation no. 1256/2012), and are applicable from January 1, 2013. No significant impacts are expected on the consolidated financial statements from future application of the above amendments.

- Amendments to IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

These amendments better clarify the requirements for offsetting financial assets and liabilities, already present in this standard, i.e.:

- the significance of currently enjoying a statutory right to offsetting financial assets and liabilities;
- the fact that, in certain cases, the realisation of the asset and extinguishment of the liability at the same time may be considered de facto extinguishment of a net amount.

These amendments were endorsed by the European Union in December 2012 (EU Regulation no. 1256/2012), and will come into force on January 1, 2014. No significant impacts are expected on the consolidated financial statements from future application of the above amendments.

In addition to the above, the following new standards and interpretations were issued in 2012:

- Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards – Government Loans

The amendments provide, during the phase of first-time adoption of IFRSs, for the possibility of not adopting the retrospective application of the provisions of IAS 20 – Accounting of government grants and disclosure of government assistance in relation to government loans received at a below market rate of interest. These amendments make provision, during the phase of first-time application of IFRSs, for the adoption of the same accounting method envisaged for existing preparers of IFRS financial statements. These amendments, which are due to come into force on January 1, 2013, have not yet been endorsed by the European Union and are not applicable to the Group.

- *“Improvements” to the IFRSs (issued by the IASB in May 2012)*

As part of the project begun in 2009, the IASB has issued a series of amendments to 5 standards in force. The following table summarises the standards and issues dealt with by these amendments:

IFRS	Subject of the amendment
Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards	<ul style="list-style-type: none"> <li>• Reiterated adoption of IFRS 1</li> <li>• Financial expenses</li> </ul>
IAS 1 – Presentation of Financial Statements	Clarifications relating to comparative data that must be presented
IAS 16 – Property, Plant and Equipment	Classification of servicing equipment
IAS 32 – Financial Instruments: Presentation	Tax effect of distribution to holders of equity instruments
IAS 34 – Interim Financial Reporting	Interim Financial Reporting and segment information for total assets and liabilities

These amendments, which are applicable from January 1, 2013, have not yet been endorsed by the European Union and are not expected to have a significant impact on the consolidated financial statements.

- Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition guide

These amendments clarify the transitory rules for application of IFRS 10, which have been found too burdensome. They also limit the obligation to provide restated comparative data to only the comparative period preceding first-time application of IFRS 10, 11 and 12. In regard to the disclosures required by IFRS 12 in regard to interests held in other entities, these amendments eliminate the obligation of providing comparative information for periods prior to application of IFRS 12. These amendments, which are due to come into force on January 1, 2014, have not yet been endorsed by the European Union. The impacts of these amendments on the consolidated financial statements are under analysis.

- Amendments to IFRS 10, IFRS 12 and IFRS 27 – Investment Entities

The amendments provide an exception to IFRS 10, requiring investment entities to account for subsidiaries at fair value through profit or loss instead of consolidating them.

The IASB uses the term ‘investment entity’ to refer to an entity that has no other significant assets aside from investments in multiple interests and is committed specifically to investors whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both.

These amendments, which will come into force on January 1, 2014, have not yet been endorsed by the European Union and are not expected to have significant impacts on the consolidated financial statements.

### 6.3.3. Reporting formats

The Prelios Group has complied with the requirements of CONSOB Resolution 15519 of July 27, 2006 concerning financial reporting formats and CONSOB Communication 6064293 of July 28, 2006 concerning disclosure.

The consolidated financial statements at December 31, 2012 comprise a balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and explanatory notes, and are accompanied by the directors' report on operations.

The format adopted for the balance sheet entails the separation of the assets and liabilities into current and non-current.

The income statement format adopted entails the classification of costs by nature. The Group opted for a separate income statement instead of a single statement of comprehensive income.

The "statement of comprehensive income" includes the net income for the period and, for homogeneous categories, the income and expenses which, on the basis of the IFRSs, are accounted for directly in equity. The Group opted for presentation of the tax effects of the income/losses recognised directly in equity and of reclassifications to the income statement of income/losses recognised directly in equity in previous periods directly in the statement of comprehensive income and not in the explanatory notes.

The "statement of changes in equity" includes the amounts of transactions with the equity holders and movements that occurred during the period in the reserves.

In the cash flow statement, cash flows from operating activities are presented using the indirect method, by which net income or loss for the period is adjusted for the effects of non-monetary transactions, of any deferral or provision of prior or future operating receipts or payments, and of revenues or costs relating to cash flows from investing or financing activities.

### 6.3.4. Consolidation area

The consolidation area includes the subsidiaries and associates, and equity investments in jointly-controlled companies (joint ventures).

Subsidiaries are defined as all companies and other entities whose financial and operating policies the Group has the power to control. This circumstance normally exists when the Group holds more than half of the voting rights. The financial statements of subsidiaries are included in the consolidated financial statements starting from the date on which control is assumed up to the moment in which such control ceases to exist. The shares of equity and results attributable to minority shareholders are reported separately in the consolidated balance sheet and income statement.

An associate is a company over which the Group has significant influence, as defined by IAS 28 – Investments in Associates. Such influence is normally presumed to exist when the Group holds between 20% and 50% of the voting rights or, even if less voting rights are held, when it has the power to participate in financial or operating policy decisions by virtue of particular legal arrangements, such as participation in a shareholders' agreement combined with other forms of significant exercise of governance rights.

Joint ventures are contractual or statutory arrangements whereby two or more parties undertake an economic activity that is subject to joint control, as defined by IAS 31.

Companies included in the consolidation are listed in Appendix 1 "Consolidation area", whose accompanying notes discuss the related changes

In particular, the following should be noted:

- on March 7, 2012, Prelios S.p.A. acquired the German company Vindusvisker Vermögensverwaltungsgesellschaft GmbH, which is still not operational, from third parties, which then changed its company name to Prelios Investments Deutschland GmbH;
- on April 2, 2012, Prelios Agency S.p.A. transferred the 80% stake held in Prelios Finance S.p.A. to third parties. Therefore, following said transfer, considering the agreements relating to the transfer that determine the existence of a significant influence, the transfer was valued using the equity method as at December 31, 2012;
- effective as of August 29, 2012, the company Prelios Residential Investments GmbH transferred to third parties its stake held in the companies Tizian Wohnen 1 GmbH and Tizian Wohnen 2 GmbH, of 39.9991% and 40.0058% respectively;
- in November 2012, Prelios Netherlands B.V. transferred to third parties its stake in the company WoWi Media GmbH KG, equal to 18.85%;

- on November 15, 2012, Prelios S.p.A. purchased the residual 25% of the share capital of Prelios Polska Sp.zo.o. from the minority shareholder, becoming the sole shareholder;
- effective as of December 21, 2012, Prelios S.p.A. transferred to third parties its stake held in the company Dixia S.r.l. (30%);
- effective as of December 20, 2012, Prelios S.p.A. transferred to third parties its 40% stake held in the company Polish Real Estate Investments Holding B.V..

Companies for which the Group has not taken an active role in managing or effectively controlling and so has not assumed any associated capital liability are not included in the consolidation area.

### 6.3.5. Consolidation methods

The consolidation is based on the financial statements of consolidated companies as at the reporting date, which have been adjusted, where necessary, to reflect the IASs/IFRSs as applied by the Group.

Financial statements expressed in currencies other than the euro are translated at the period-end exchange rate for balance sheet items and at the average exchange rate for items in the income statement.

Differences arising on the translation of opening equity at period-end exchange rates are booked to the currency translation reserve, along with the difference arising on the translation of net income (loss) for the period at the period-end exchange rate rather than the average rate. The currency translation reserve is released to profit or loss when the company that originated it is sold or wound up.

The consolidation criteria can be summarised as follows:

- subsidiaries are consolidated on a line-by-line basis, whereby:
  - the assets, liabilities, costs and revenues shown in the subsidiaries' financial statements are aggregated in full, irrespective of the interest held;
  - the carrying amount of investments is eliminated against the corresponding shares of equity;
  - inter-company receivables and payables, as well as inter-company expenses and income are eliminated, including dividends distributed within the Group;
  - minority interests in equity are shown in a specific equity account, while minority interests in the net income or loss are reported separately in the income statement;
- investments in associates and joint ventures are accounted for using the equity method, under which the carrying amount of such investments is adjusted to take account of:
  - the investor's share of the results achieved by the investee after the acquisition date;
  - changes ensuing from variations in the investee's equity that have not been recognised in the income statement in accordance with the accounting policies;
  - dividends paid by the investee;
  - if the Group's share of losses of an associate/joint venture exceeds the carrying amount of the investment in the financial statements, the additional losses are allocated against any financial receivables owed by the associate/joint venture. After reducing the carrying amount and any financial receivables to zero, the share of any additional losses is recognised in "Provisions for future risks and expenses", if and to the extent that the Group has a legal or constructive obligation;
- profits from sales by subsidiaries to joint ventures or associates are eliminated according to the Group's interest in the purchasing company;
- profits from property sales by joint ventures to other joint ventures or associates are recognised up to the difference between the Group's interest in the purchasing company and its interest in the seller, in other words only the portion realised with third parties is recognised;
- only the portion of profits realised with third parties is recognised for gains from property sales by associates to other associates;
- subsidiaries, associates and joint ventures are recognised upon acquisition using the "acquisition method", which entails:
  - determination of the purchase price in compliance with IFRS 3;
  - determination of the fair value of the assets and liabilities acquired (both actual and contingent);
  - allocation of the price paid to the fair value of the assets and liabilities acquired;
  - recognition on a residual basis of goodwill, defined as the positive difference between the purchase price and the interest in the net fair value of the assets and liabilities identified/acquired;
  - immediately recognising negative goodwill as income in the income statement, if the fair value of the interest acquired exceeds the purchase price.

### 6.3.6. Accounting policies

#### **ASSETS AND LIABILITIES**

##### **Intangible assets**

Intangible assets with finite useful lives are recognised at cost, net of accumulated amortisation and impairment.

Amortisation is recognised from the time the asset becomes available for use, i.e. when it is operating in the manner intended by management, and ceases from the date the asset is classified as held for sale or derecognised. Capital gains and losses from the retirement or disposal of intangible assets are determined as the difference between the asset's net sale proceeds and carrying amount.

Intangible assets include the following:

- *Goodwill*

Goodwill represents the portion at the acquisition date of the consideration paid for an investment that exceeds the Group's interest in the fair value of the identifiable assets and liabilities acquired.

Based on IAS 27 "Consolidated and Separate Financial Statements", if further ownership interests are acquired in a company that is already controlled, but not 100% owned, the difference between the ownership interest acquired and the purchase price must be recognised as an increase/decrease in equity in the period (previously it was recognised as goodwill or as a bargain purchase through profit or loss).

Goodwill is tested for impairment at least on an annual basis, or whenever there is an indication that it might be impaired; it is allocated to cash-generating units for the purpose of such impairment testing.

- *Concessions, licenses and trademarks*

Concessions, licenses and trademarks are recognised at historical cost, net of accumulated amortisation and impairment. Amortisation is charged over the length of the contract or the asset's estimated useful life, whichever is shorter.

- *Software*

Software licenses are recorded on the basis of the costs incurred for the purchase and installation of the specific software, net of accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over the useful life of these assets.

##### **Separately acquired property, plant and equipment**

Property, plant and equipment are recognised at purchase or production cost, including directly attributable expenses for the asset's purchase and placement in service, net of accumulated depreciation and impairment.

Depreciation starts when the asset is available for use, or when it is potentially able to provide the economic benefits with which it is associated.

Depreciation is charged on a straight-line basis at rates deemed to represent the assets' useful lives, or, in the event of divestment, until they are retired from use.

Land and works of art are not subject to systematic depreciation.

The depreciation rates are as follows:

Buildings	3%
Plant and machinery	20%
Equipment	20%
Other assets:	
– vehicles	25%
– office equipment	20%-50%
– furniture and fittings	12%

Government grants relating to property, plant and equipment are posted as deferred revenues and credited to income over the period in which the related assets are depreciated.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (defined as an asset that necessarily takes a substantial period of time to get ready for its intended use) are capitalised as part of the cost of that asset. Borrowing costs cease to be capitalised when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

Extraordinary maintenance expenses are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the expected future economic benefits attributable to the asset will be realised by the company and if the cost can be reliably measured. Costs for repairs, routine maintenance or other work to ensure the proper functioning of assets are recognised in profit or loss in the year incurred.

Leasehold improvements are classified in property, plant and equipment, according to the nature of the cost incurred. They are depreciated over the asset's residual useful life or the remainder of the lease, whichever is shorter.

Corporate assets acquired under finance leases, under which all the risks and rewards incidental to ownership are substantially transferred to the Group, are recognised as property, plant and equipment at their fair value or, if lower, the present value of the minimum lease payments, which are classified in financial payables. Lease payments are split into two components, with financial expenses posted to the income statement and repayment of principal treated as a reduction of the financial payable.

Leases in which the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Property, plant and equipment are eliminated from the balance sheet when disposed of or permanently retired from service, hence when no future economic benefits are expected from their sale or use. Capital gains and losses from the retirement or disposal of property, plant and equipment are determined as the difference between the asset's net sale proceeds and carrying amount.

### **Investment property (held by equity-accounted companies)**

Investment property is real estate held in order to earn rent or for capital appreciation or both.

Investment property is initially measured at cost including transaction expenses, and is subsequently reported at fair value, with the effects of changes in fair value reflected in profit or loss.

The fair value of investment property reflects market conditions at the reporting date and is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Each investment property is valued separately, taking account of future net rental income and (where relevant) the associated costs, discounted at a rate reflecting the specific risks related to the cash flows generated by the property.

A gain or loss arising from changes in the fair value of investment property is recognised in profit or loss in the period in which it arises.

Gains or losses arising from the disposal of investment property are determined as the difference between the net disposal proceeds and the carrying amount of the assets, and are recognised in profit or loss in the period of disposal.

If a property is transferred from inventories to investment property carried at fair value, the difference between the fair value at that date and the previous carrying amount is recognised in profit or loss.

If an investment property carried at fair value is transferred to property held as a corporate asset, the property's deemed cost for subsequent accounting is its fair value at the transfer date.

The effects of changes in fair value are reported as part of net income from equity-accounted investments.

### **Impairment of assets**

#### Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets must be tested for impairment in the presence of specific indications of reduced value, and at least once a year in the case of intangible assets with indefinite useful lives, including goodwill.

This test involves estimating the recoverable amount of an asset and comparing this with its carrying amount.

The recoverable amount of an asset is the higher of its fair value, less costs to sell, and its value in use. Value in use is the present value of expected cash flows expected to be derived from the asset and from its sale at the end of its useful life, net of tax, obtained by applying a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The value in use of the cash generating units was estimated by an independent external expert. The expert recorded that the main assumptions on which the 2013-2016 Plan of the domestic CGUs <sup>(1)</sup> is based concern the recovery of the real estate market and related services from the second half of 2014. In order to limit the risks implicit in using a four-year plan, the estimate of the recoverable value for all domestic entities and for Poland is based solely on the first three years of the 2013-2015 Plan, also for the purpose of consistency with the impairment analysis conducted as at December 31, 2011, by using the Group's WACC as the discount rate.

If the recoverable amount of an asset is less than its carrying amount, the latter is reduced to the recoverable amount. This reduction constitutes an impairment loss, which is recognised in the income statement.

In order to assess impairment losses, assets are aggregated by cash-generating units, i.e. the lowest level for which independent cash flows can be separately identified. With specific reference to goodwill, this must be allocated to a cash-generating unit or groups of units of a size that cannot exceed that of an operating segment.

If there are indications that an impairment loss, recognised in prior years relating to property, plant and equipment or to intangible assets other than goodwill, may no longer exist or may have decreased, the asset's recoverable amount is reassessed, and if this is higher than its carrying amount, the carrying amount is increased to the recoverable amount. The reinstated value cannot exceed the carrying amount that the asset would have had (net of amortisation or depreciation) had no impairment been recognised for that asset in prior years.

Reversals of impairment losses for assets other than goodwill are recognised in profit or loss.

Impairment losses recognised for goodwill cannot be reversed in a subsequent period.

#### Investments

The carrying amount of investments in associates and joint ventures, accounted for using the equity method, is compared with the recoverable amount for impairment testing purposes. The recoverable amount is the higher of fair value less costs to sell, and value in use. In order to verify the absence of impairment, it is sufficient for one of these two values to be higher than the carrying amount.

For impairment testing purposes, the fair value of an investment in an associate or joint venture with shares listed in an active market is always equal to its market value, irrespective of the size of shareholding.

The value in use of an equity-accounted associate or joint venture is determined by estimating either:

- a) the share of the present value of expected future cash flows that are estimated will be generated by the associate or joint venture, through the proceeds from the investment's ultimate sale, also taking account of higher implicit values relating to the property portfolios held (Discounted Cash Flow – asset side approach), as reported in independent appraisals or such lower values at which company management is prepared to sell under sales mandates bestowed with the prior approval of the respective Boards of Directors;
- b) the present value of expected future cash flows from dividends to be received and from the investment's ultimate sale (the Dividend Discount model – equity side approach).

If there is an indication that an impairment loss recognised in prior years may no longer exist or may have decreased, the recoverable amount of the investment must be reassessed; if this is higher than the carrying amount of the investment, the latter is increased to its recoverable amount.

The reinstated value cannot be higher than the value the investment would have had (net of impairment) if no impairment loss had been recognised in prior years.

Reinstatement of the value of investments in associates and joint ventures is recognised in the income statement.

Equity investments for which the Group believes it can recover their carrying amount essentially through a sale transaction instead of by keeping them in the portfolio are classified as investments held for sale and are measured at their carrying amount or fair value net of costs to sell, whichever is lower.

<sup>1</sup> In the case of Prelios Credit Servicing S.p.A., it was deemed appropriate to further shorten the forecast to 2014.

## Other financial assets

### Available-for-sale financial assets

Investments in other companies that do not qualify as subsidiaries, joint ventures or associates, and other debt securities held (excluding notes issued as part of loan securitisations) that are recognised as non-current assets are classified as available-for-sale financial assets.

Available-for-sale financial assets are measured at fair value. Only shares whose fair value cannot be reliably estimated are recognised at cost net of any impairment.

Gains and losses arising from fair value adjustments are recognised in a specific equity reserve, net of the tax effect, until the assets are sold or suffer impairment.

When an asset is sold, the cumulative gains or losses, including those previously recognised in equity, are recognised in profit or loss for the period. If an impairment loss is recognised for an asset, the cumulative losses are recognised in the income statement for the period.

For listed shares, impairment is recognised when the fair value of the available-for-sale asset is lower than cost by a significant percentage or for an extended period of time.

For unlisted shares, impairment is recognised when impairment indicators show that the recoverable amount, determined through valuation techniques, or through comparison with similar securities or transactions, is lower than cost.

Debt securities are written down, only in the presence of impairment indicators, when their recoverable amount is lower than their theoretical amortised cost at the reporting date.

Purchases and sales of available-for-sale financial assets are accounted for on the settlement date.

Impairment losses recognised through profit or loss in prior years on equity investments classified as available-for-sale financial assets cannot be reversed through profit or loss.

### Tied deposits

Tied deposits are measured at their face value and relate to cash and cash equivalents not freely usable by the Group in the short term.

## Inventories

Inventories consist of land for development, properties for renovation, properties under construction/renovation, finished properties for sale, trading properties, and consumables.

Land for development is recognised at the lower of cost and estimated realisable value, net of direct costs to sell. Cost includes incremental expenses and capitalisable borrowing costs, on the same basis as for property, plant and equipment.

Properties under construction and/or renovation are valued at the lower of cost, including incremental expenses and capitalisable borrowing costs, and estimated realisable value net of direct costs to sell.

Trading properties are recognised at the lower of cost and estimated realisable value, which is normally taken as market value, inferred from sales of comparable properties in terms of location and type. The purchase cost is increased by any incremental expenses incurred up to the moment of sale.

Estimated realisable value and market value are determined on the basis of independent appraisals or such lower values at which company management is prepared to sell under sales mandates bestowed with the prior approval of the respective Boards of Directors.

### **Classification of real estate portfolio: Inventories (IAS 2) – Investment Property (IAS 40)**

Of the Group's real estate portfolio held by consolidated companies, around a third of the consolidated carrying amount refers to property investments carried at fair value (IAS 40). In particular these are residential properties in Germany and selected prime assets in Italy – held by associates and joint ventures – which have been valued in accordance with IAS 40. This allows fair value, as determined by independent experts, to be used as the basis for measuring property that is not going to be

sold in the near term, but is to be held to earn rentals or for capital appreciation.

## Contracts

These refer to contracts specifically arranged for the construction of an asset, at the instruction of a customer, who establishes the basic design and technical characteristics.

Revenues from contracts include the fees initially agreed with the customer, in addition to the income from job variants and price changes provided for in the contract that can be reliably determined.

Contract costs comprise costs that relate directly to the specific contract, costs that are attributable to contract activity in general, costs charged to the customer under the terms of the contract, as well as borrowing costs that can be capitalized under the conditions described for property, plant and equipment.

When the outcome of a contract can be reliably determined, its revenues and costs are recognized as sales and expenses using the percentage of completion method. The state of progress is assessed on the basis of the contract costs incurred up to the reporting date as a percentage of the total estimated cost of the contract.

Contract costs incurred for future activities relating to the contract are excluded from the costs of the contract when calculating the state of progress, and are recognised as inventories.

When it is likely that the contract costs will be higher than the total revenues deriving from the contract, the estimated loss is immediately recognised as a cost.

The gross amount owed by customers for all contracts in progress where the costs incurred – plus recognised profits, or less recognised losses – exceed the amount invoiced on a percentage of completion basis is presented as a receivable in “trade receivables”.

For all contracts in progress where the amount invoiced on a percentage of completion basis exceeds the costs incurred plus recognised profits (or less recognised losses), the amount of advances invoiced in excess of the invoicing on a stage of completion basis is presented as a payable in “trade payables”.

## Receivables

Receivables are initially recognised at their fair value, usually represented by the agreed consideration or the present value of the amount that will be collected.

They are subsequently recognised at amortised cost, as reduced for any impairment.

Amortised cost is calculated using the effective interest rate method, whereby the effective interest rate exactly discounts future cash flows to the initial fair value.

Impairment losses on receivables are calculated on the basis of counterparty default risk, determined using available information on the counterparty's solvency and track record. The carrying amount of receivables is indirectly reduced by recognising provisions for doubtful accounts.

Individually significant transactions, for which there is objective evidence of partial or total irrecoverability, are written down on an individual basis. The amount of such write-downs takes account of estimated future recoverable amounts and the related collection date, the costs of recovery and the fair value of any guarantees.

Positions not written down individually are included in a group with similar characteristics in terms of credit risk and written down collectively using progressively higher percentages according to past due date. The collective write-down procedure also applies to receivables that are not past due.

The write-down percentages are determined on the basis of past experience and statistics.

If the reasons for writing down receivables cease to apply, the impairment losses recognised in prior periods are reversed by crediting the income statement but this reversal must not result in a carrying amount that is higher than what the amortised cost would have been had the impairment not been recognised.

Receivables in currencies other than the individual entity's functional currency are translated at year-end exchange rates with a matching entry to the income statement.

Receivables are cancelled if the right to receive the cash flows is eliminated, when all of the risks and rewards associated with the receivable have been substantially transferred, or when the receivable is deemed to be permanently irrecoverable once all credit recovery measures have been exhausted. At the same time as cancelling the receivable, any associated allowance relating to previously recognised impairment is also reversed.

#### Junior securities and non-performing loans

Junior notes issued as part of the securitisation of non-performing loans and deep discount receivables fall into the category of "loans and receivables" and are initially recognised at fair value, normally represented by the price paid.

They are subsequently carried at amortised cost. Amortised cost is calculated using the effective interest method, whereby the discount rate used in the initial business plan prepared after acquisition, exactly discounts future cash flows to the purchase cost inclusive of any incidental expenses.

Whenever there is a change in cash flow forecasts, the carrying amount of junior notes and non-performing loans is adjusted to reflect the present value of future cash flows obtained using the original effective interest rate. Any positive or negative differences are recognised in the income statement.

In the event of impairment, the carrying amount is written down by recognising a specific allowance.

Some customers are requested to provide guarantees; these mostly consist of secured or unsecured bank guarantees issued by major institutions.

#### Shareholders' loans to associates and joint ventures

Financial receivables represented by loans to associates and joint ventures are initially recognised at fair value, represented by the present value of future cash flows.

In particular shareholders' loans granted under non-market terms and conditions are discounted over their expected duration at a rate that would be applied to a loan with similar characteristics.

Any difference between the face value of the loan and its fair value, calculated as above, is recognised by the lender as an increase in the carrying amount of its equity investment, net of any related tax. In the borrower's financial statements prepared for the purposes of the Group's consolidation under the Group's accounting policies, the borrower treats this same difference as a reduction in its financial payables and an increase, net of any related tax, in equity.

After initial recognition, shareholders' loans are measured at amortised cost.

For the purposes of assessing impairment, shareholders' loans granted are assessed together with the capital invested in the specific company, by analysing the cash flows generated by the related underlying real estate projects.

## **Payables**

Payables are initially recognised at their fair value, usually represented by the agreed consideration or the present value of the amount to be paid.

They are subsequently measured at amortised cost.

Amortised cost is calculated using the effective interest rate method, whereby the effective interest rate exactly discounts future cash flows to the initial fair value.

Payables in currencies other than the individual entity's functional currency are translated at year-end exchange rates with a matching entry to the income statement.

Payables are derecognised from the financial statements when the specific obligation is settled.

## **Cash and cash equivalents**

Cash and cash equivalents are recognised at face value and represent short-term and highly-liquid financial commitments which are readily convertible into cash instruments known and subject to an insignificant risk of a change in their value, whose original maturity at the moment of purchase is no more than three months.

They consist of bank deposits, post office deposits and cash and valuables on hand.

### Provisions for future risks and expenses

Provisions for future risks and expenses derive from present legal or constructive obligations as a result of a past event, the settlement of which is likely to involve an outflow of an amount that can be reliably estimated.

Changes in estimates are reflected in the income statement in the year in which the change occurs.

Where the effect of the time value of money is material, the amount of the provision must be the present value of the expenditures expected to be required to settle the obligation.

### Employee benefits

Post-employment benefits, such as defined benefit plans (mainly employee leaving indemnity) and other long-term benefits must undergo actuarial assessment. The liability recorded in the financial statements represents the present value of the Group's obligation, less the fair value of any plan assets.

With reference to defined benefit plans, the Prelios Group has adopted the option permitted by IAS 19 of recognising all actuarial gains and losses in equity in the year in which they occur.

Actuarial gains and losses on other long-term benefits are immediately recognised in profit or loss.

The interest cost and the expected return on any plan assets are classified in personnel costs.

Costs relating to defined contribution plans are recognised in the income statement when incurred.

The provision for employee leaving indemnity recognised by Italian companies was treated as a defined benefit plan up until December 31, 2006. The rules relating to this provision were amended by Law 296 dated December 27, 2006 ("2007 Budget Act") and subsequent decrees and regulations issued early in 2007. As a result of these changes, Group companies with at least 50 employees must now treat provisions for employee leaving indemnity made before January 1, 2007 (and not yet paid at the reporting date) as defined benefit plans, and amounts set aside thereafter as defined contribution plans.

### Stock option plans

Stock options fall into two categories, which are treated differently according to the nature of the plan:

- equity settled: these are stock option plans in which the beneficiary is granted the right to buy shares of the company at a predetermined price providing certain conditions are fulfilled. In such cases, the fair value of the option, determined when it is granted, is recognised as a cost over the entire duration of the plan, with a matching increase posted to the equity reserves;
- cash settled: these are plans that give put options to beneficiaries and call options to the issuer, or plans in which the beneficiary directly receives the monetary value of the benefit deriving from theoretical exercise of the stock option. The fair value of the option, which is redetermined at every reporting date, is recognised as a cost over the plan's vesting period, with a matching liability recognised in the balance sheet. Changes in the fair value of the liability after the vesting date are recognised in profit or loss.

### Derivative financial instruments

#### *Derivatives qualifying as effective cash flow hedges*

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value.

As from the inception of the hedge, the Group must formally document the hedging relationship between the instrument and the hedged item, the risk management objectives, and the strategy pursued in entering into the hedge.

For the purpose of cash flow hedge accounting, the Group has adopted dynamic hedging relationships between the derivatives portfolio and existing loans principally relating to associates and joint ventures; this approach makes it possible to review and redefine the hedging strategy on a quarterly basis, according to forecast loan repayments based on the progress of the business plans of the various projects.

The Group must also document its assessment of how effective the hedging instrument is in offsetting cash flow fluctuations attributable to the risk being hedged. This assessment is carried out at the inception of the hedge and on a continuous basis throughout its duration.

The effective portion of the fair value adjustment of a derivative that has been designated and qualifies as a hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts recognised directly in equity are reclassified to the income statement in the same period during which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting, or the Group revokes the designation, the related cumulative fair value adjustments recognised in equity are recognised in profit or loss. Only in specific cases, if the hedged element produces its effects in the future on the income statement, a part of the cumulative fair value adjustments in equity remain suspended and are subsequently reclassified to the income statement in the periods in which the financial asset acquired or financial liability assumed has its impact on the income statement.

Purchases and sales of these derivative financial instruments, taken out for hedging purposes, are accounted for on their settlement date.

#### *Derivatives not qualifying as hedges*

Fair value adjustments of derivatives not qualifying as hedges are recognised immediately in the income statement.

#### **Determination of the fair value of financial instruments**

The fair value of financial instruments listed on an active market is based on market prices as of the reporting date. The market price used for derivatives is the bid price, while for financial liabilities the ask price is employed. The fair value of instruments not listed on an active market is determined using valuation techniques based on a series of methods and assumptions relating to market conditions at the reporting date.

The fair value of interest rate swaps is calculated on the basis of the present value of forecast future cash flows.

The fair value of currency forward agreements is determined using the forward exchange rate at the reporting date.

#### **Taxes**

Current taxes are calculated on the basis of a realistic estimate of the amount due under the tax legislation in each country.

Deferred income taxes are calculated by applying the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the reporting date, to the temporary differences between the book and tax values of assets and liabilities (known as the "liability method"). No deferred income taxes can be recognised on non-deductible goodwill and on differences associated with investments in subsidiaries which are not expected to reverse in the foreseeable future.

Deferred taxes are not discounted to present value and are classified as non-current assets/liabilities.

Deferred tax assets for retained tax losses and temporary differences are recognised only to the extent that they are likely to be recovered in the future.

Current and deferred tax assets and liabilities are offset only if they relate to income taxes levied by the same taxation authority and if there is a legally enforceable right to set off such taxes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply, in the various jurisdictions in which the Group operates, to the period when the temporary differences are realised or extinguished.

Deferred tax assets and liabilities are credited or debited to equity if they refer to items that are recognised in equity in the same or in previous periods.

As from financial year 2010 the group parent Prelios S.p.A., as the consolidator, has elected to file for tax on a group basis under Art. 117 et seq. of the Italian Income Tax Code. Participants in the consolidation are required to adopt a specific set of "Regulations", involving common procedures for applying tax rules and regulations.

The adoption of a group tax filing will allow the group parent Prelios S.p.A. to offset its own taxable profits or losses against those of its Italian resident subsidiaries which have made the group tax election.

Costs and revenues from tax consolidation are calculated on the basis of the provisions of the Prelios Tax Consolidation Regulations. In particular, under the terms of Article 16 of the Regulations the consolidating company remunerates consolidated companies which have tax losses for an amount equal to the IRES tax rate and within the limits of the tax loss remuneration expectations in the financial year.

The Italian group tax election applies to the three years 2010-2011-2012, unless terminated early due to loss of control of the subsidiary or if the subsidiary's financial year is no longer the same as the group parent's.

## **EQUITY**

### **Treasury shares**

Treasury shares are classified as a reduction in equity.

Gains or losses resulting from the sale or cancellation of treasury shares are recognised in equity.

### **Capital transaction costs**

Costs directly attributable to capital transactions are treated as a direct reduction of equity.

## **INCOME STATEMENT**

### **Revenues and expenses**

Revenues and expenses are recognised using the accrual basis of accounting.

### **Revenue recognition**

Revenues are recognised at the fair value of the payment received or due, in accordance with the principles set out below.

### **Sale of assets**

Revenues from the sale of assets are recognised only when all of the following conditions are satisfied:

- the significant risks and rewards associated with ownership of the assets have been transferred to the buyer;
- effective control over the assets involved in the transaction and the normal continual level of activities associated with ownership have ceased;
- the amount of revenue can be reliably determined;
- it is likely that the economic benefits deriving from the sale will be enjoyed by the entity;
- the costs incurred or to be incurred can be reliably determined.

In the case of property sales, revenues are normally recognised when ownership changes hands, i.e. when the property is deeded to the buyer. If the nature and extent of the seller's involvement are such that there is no *de facto* transfer of the risks and rewards of ownership, revenue recognition is postponed until such transfer is deemed to have occurred.

### **Provision of services**

Revenues from providing services are recognised only when the outcome of the transaction can be reliably estimated, with reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be reliably estimated when all of the following conditions are met:

- the amount of revenue can be reliably estimated;
- it is likely that the entity will receive the economic benefits deriving from the transaction;
- the degree of completion of the transaction at the reporting date can be reliably assessed; and
- the costs incurred for the transaction, or those still to be incurred to complete it, can be reliably measured.

### Interest

Interest is recognised on an accrual basis considering the effective yield of the asset or liability.

### Dividends

Dividends are recognised when the shareholders are entitled to receive payment, which normally corresponds to the date of the shareholders' meeting that approves the dividend distribution.

Dividends received from equity-accounted companies (associates and joint ventures) are recognised as a reduction in the value of the investment.

### Earnings per share

Basic earnings per share are calculated by dividing consolidated net income (loss) by the weighted average number of ordinary shares outstanding during the year. For the purposes of calculating diluted earnings per share, the weighted average number of outstanding shares is adjusted for the effects of all potentially dilutive shares.

## 6.4. Financial risk management policies and additional disclosures on financial instruments

Aside from the elements already stated in the director's report regarding the restructuring of debt, the Group's principal non-derivative financial liabilities are bank loans, trade payables and other payables.

The main purpose of these liabilities is to fund the Group's operating and investing activities.

The Group has financial receivables, trade receivables and other receivables, cash and cash equivalents and short-term deposits which originate directly from its operating and investing activities. The Group also holds available-for-sale financial assets and enters into derivative agreements for hedging purposes.

Financial risk management is an essential part of the activity of the Prelios Group.

The Group's financial risk management policies aim for the partial hedging of currency risk and mitigation of exposure to interest rates, also implemented through the use of selected derivative financial instruments.

In particular, the management of said financial risks is carried out centrally on the basis of guidelines established by the Finance department, which aim to assure Group management that activities entailing financial risk are governed by appropriate policies and procedures and that financial risks are identified, evaluated and managed in compliance with the Group's attitude towards risk. Under these guidelines, the Group uses derivatives to hedge underlying financial assets or liabilities or future transactions.

Financial risks are managed centrally by the Finance & Treasury Unit, which has the task of assessing risks and proposing any hedging strategies and arranging hedges shared with Group management.

The Finance & Treasury Unit operates directly on the market and coordinates the activities of subsidiaries and monitors those of associates and joint ventures on a quarterly basis, in order to propose to the board of directors managed initiatives and instruments for the appropriate decisions.

In particular:

- it defines the level of hedging of floating-rate debt (with derivatives) on preparing the management plan and/or when significant changes occur (i.e. changes in the macroeconomic situation, significant changes in interest rates) which determine a review;
- it negotiates corporate loan facilities with banks on the basis of the indications laid down by the management.

### Types of financial risks

In carrying out its normal operating activities, the Group is exposed to the following financial risks:

- currency risk: deriving from the variation in exchange rates related to financial assets originated and financial liabilities assumed;
- interest rate risk: deriving from the variation in interest rates related to financial assets originated and financial liabilities assumed;
- price risk associated to financial assets: deriving from the variation in market prices related to financial assets originated and financial liabilities assumed;
- credit risk: represented by the risk of non-fulfilment of obligations assumed by the counterparty in relation to uses of Group liquidity;
- liquidity risk: related to the need to meet short-term financial commitments.

Exposure to the various market risks is measured, as set out in IFRS 7, using sensitivity analysis, which highlight the effects of a variation in the significant variables in the different markets on income and expenses from financial operations and directly on equity.

The sensitivity analysis was conducted on the basis of the following hypotheses and assumptions:

- the sensitivity analyses were carried out by applying variations that are reasonably likely in the relevant risk variables to financial statement figures as at December 31, 2012, assuming that said values are representatives of the entire year;
- the changes in the value of the financial instruments designated in a cash flow hedge relationship, brought about by changes in interest rates, have an impact on the level of debt and on equity and, therefore, are taken into consideration in the present analysis;
- the changes in value, brought about by changes in interest rates, floating rate financial instruments, other than derivatives, which are not part of a cash flow hedge relationship, have an impact on financial income and expenses in the year; therefore, these are taken into consideration in the present analysis;

The management policies and sensitivity analysis regarding the aforementioned financial risks for the Prelios Group are described below.

### Currency risk

Currency risk is the risk that the fair value or the future cash flows of a financial asset or liability change following fluctuations of exchange rates. The Group's exposure to the risk of interest rate fluctuations mainly concerns its operating activities (*transaction currency risk*) and its net investments in foreign subsidiaries (*translation currency risk*).

#### *a) transaction currency risk*

The Group is active internationally in Europe and has a minimal exposure to transaction currency risk arising from positions in currencies other than the euro, mainly the Polish zloty. Changes in exchange rates thus produce no significant effects on the income statement.

This risk relates exclusively to shareholders' loans given to joint ventures for real estate projects in Poland. It is managed by the Group Finance & Treasury Unit, which is responsible for assessing and managing the net currency position in accordance with established guidelines and policies, by entering into derivative hedging contracts, usually of the forward rate kind.

At December 31, 2012 the Group had around 20.6 million euro in forward agreements relating to loans to shareholders in Polish joint ventures and about 3.7 million euro in forward agreements relating to a loan to Prelios S.p.A. from Prelios Polska S.p.zo.o.. Although these forwards had been taken out for hedging purposes, they did not qualify for hedge accounting under IAS 39.

The net impact of currency items on the income statement as at December 31, 2012 was a negative one of around 0.4 million euro, including costs recorded on currency hedges in place as at December 31, 2012.

The Group's exposure to exchange rate fluctuation for all other currencies is immaterial and, therefore, is not subject to sensitivity analysis.

*b) translation currency risk*

The Prelios Group has only one controlling interest in a company which prepares its financial statements in a currency other than the euro (zloty), the Group's reporting currency. This exposes the Group to a limited translation currency risk, generated by fluctuations in zloty exchange rates against the consolidating currency (euro) which produce changes in the value of consolidated equity.

The main exposures to translation currency risk are carefully monitored and up until now the Group has decided not to hedge this exposure.

Total consolidated equity is mainly expressed in euro, meaning that a hypothetical appreciation/depreciation of these currencies against the euro would not have a significant impact on total consolidated equity.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market interest rates. The Group's exposure to the risk of fluctuations in market interest rates is primarily on its long-term floating-rate debt.

The Finance & Treasury Unit receives from an external consultant of recognised professionalism an estimate of the impact produced by changes in the interest rate curve on the value of derivatives (Mark to Market).

As the parent company's and the subsidiaries' debt is almost entirely at floating rate, the Finance & Treasury Unit manages the risk of interest rate rises first by offsetting it against floating-rate financial assets and then, for the remainder, by possible hedging with derivatives.

As regards associates and joint ventures the floating-rate debt hedging policy is defined during negotiations in agreement with partners in investment initiatives and lending institutions.

The Finance & Treasury Unit monitors these hedging instruments regularly in accordance with the guidelines of the existing management mandate and, if necessary, proposes possible corrective actions to the decision-making bodies.

Although such derivatives are solely for hedging purposes, their designation as hedging instruments for the purposes of IAS 39 is decided by the Finance & Treasury Unit according to whether or not they meet the IAS 39 requirements.

To determine the amount of unhedged debt, the Finance & Treasury Unit uses the information made available by the Administration and Financial Statements Unit on net financial position and on the debts of investee companies.

The impact on net income and total equity of a 0.10% simulated increase or decrease for a year in the interest rates to which the Prelios Group is exposed is as follows, assuming all other conditions remain equal:

in thousands of euro	0,10%		-0,10%	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Impact on net income				
- companies consolidated line-by-line	112	(103)	(112)	103
- companies accounted for using the equity method	(819)	(783)	843	799
<b>Total impact on net income</b>	<b>(707)</b>	<b>(885)</b>	<b>731</b>	<b>902</b>
Impact on equity				
- companies consolidated line-by-line	112	(103)	(112)	103
- companies accounted for using the equity method	(456)	(212)	547	374
<b>Total impact on equity</b>	<b>(344)</b>	<b>(315)</b>	<b>435</b>	<b>477</b>

For the purpose of the sensitivity analysis, it should be noted that the exposure to the variability in corporate debt rates was calculated by taking into consideration the hedging provided by derivative contracts on a notional value of 170 million euro.

As regards the analysis of corporate debt, it should be pointed out, however, that since the current financial structure and the forecasts developed up until today show an inability to generate, through ordinary operations, cash flows sufficient to cover commitments to the lending banks, in the absence of a review of the financial structure and a restructuring of the associated debt with the agreement of all lenders, on December 28, 2012, Prelios and the lending banks reached an agreement for the deferment of the maturities set forth in the Club Deal Loan Agreement, as comprehensively detailed in the director's report on operations.

This simulation is performed, for the subsequent financial year, taking into consideration the fixing of the first reference quarter and the first reference half (after checking with the Administration and Financial Statements Unit) with simulations for the subsequent three quarters and subsequent half of the financial year.

The simulation includes the effect on (i) financial income/expenses of floating-rate payables and receivables, (ii) expenses/income from interest rate derivatives, (iii) changes in the fair value of interest rate derivatives; they are calculated in terms of net income both for subsidiaries and for the results of investments in associates and joint ventures.

These effects refer not only to companies consolidated line-by-line but also those accounted for using the equity method, on the basis of the Prelios Group's interest therein.

The direct impact on equity is linked to changes in the fair value of derivatives in cash flow hedges, by virtue of the application of international accounting standards that govern hedge accounting, which require the fair value valuation (mark to market) of said instruments to be allocated to a special equity reserve.

#### *Price risk associated with financial assets*

Price risk consists of the possibility that the value of a financial asset or liability will change following fluctuations in market prices (other than those related to exchange rates and interest rates), either when such changes arise from specific features of the financial asset or liability or of the issuer of the financial liability, or when such changes arise from market factors.

Specifically, the Prelios Group is exposed to credit risk owing only to the volatility of the real estate funds in which it invests listed on the Milan Stock Exchange and on unlisted closed-end real estate funds classified in the consolidated financial statements as "available-for-sale financial assets" or "equity investments held for sale", whose change in fair value is recognised respectively in equity or in profit or loss. All other conditions being equal, a hypothetical 5% increase or decrease in the above parameters would not have a material impact on Group equity.

#### *Credit risk*

The Group's exposure to credit risk is represented by its exposure to potential losses arising from the failure of both trade and financial counterparties to discharge their obligations. This risk derives mainly from economic-financial factors, i.e. the possibility of counterparty default.

The Group is exposed to credit risk from its operating activities (especially for trade receivables, credit notes and non-performing loans) and from its financing activities.

For the purpose of limiting this risk where trade counterparties are concerned, the Group has procedures for evaluating customer potential and financial solidity, as well as for monitoring by the Group Credit Manager of expected receipts and credit recovery actions. The Credit Manager analyses past-due and due receivables which are written down according to the Group's policies. Receivables written down include both significant single positions subject to individual impairment based on particular risk elements, and positions with characteristics similar from the point of view of credit risk grouped together and written down on a collective basis, in relation to the estimated average non-collectability.

These procedures have the goal of establishing customer credit limits, which once exceeded usually result in a suspension of further sales.

As for financial counterparties used for managing temporarily surplus cash or for negotiating derivatives, the Group only uses the services of high credit-rated institutions.

The Group does not have significant concentrations of credit risk with respect to customers (investment companies and funds) in the real estate sector.

Information on the maximum exposure to credit risk, represented by the gross value of receivables, is contained in the following explanatory notes relating to trade receivables and other receivables respectively.

### Liquidity risk

Liquidity risk is strictly related and constantly monitored in relation to the demands of the Group, as regards the initiatives targeted at strengthening the Group's equity and financial structure.

Since the current financial structure and the forecasts developed up until today show an inability to generate, through ordinary operations, cash flows sufficient to cover commitments to the lending banks, in the absence of a review of the financial structure and a restructuring of the associated debt with the agreement of all lenders, on December 28, 2012, Prelios and the lending banks reached an agreement for the deferment of the maturities set forth in the Club Deal Loan Agreement. Based on said agreement, the lending banks granted Prelios a further deferment of the payment obligations to the earliest date between (a) March 31, 2013 and (b) the date on which the transaction is carried out or on which negotiations between Feidos and Prelios are terminated, in order to allow said entity to fulfil its commitments in consideration of the expected completion of the transaction.

In said scenario, therefore, it is reasonably expected that the debt restructuring transaction will be implemented as well as the recapitalisation as indicated in paragraph 6.2.

In ordinary operations, liquidity risk is the risk that available financial resources will be insufficient for meeting financial and trade obligations in the agreed manner on the agreed due date. Failure to observe the deadlines of financial schedules may entail infringement of certain banking covenants, consequently giving counterparties the right to demand early repayment of the debt.

The principal instruments used by the Group for managing liquidity risk are multi-year and annual financial plans and short-term treasury plans, which allow incoming and outgoing cash flows to be fully and properly identified and measured. Any differences between actual and plan figures are constantly analysed.

This risk is managed by the Finance & Treasury Unit which maintains an adequate level of cash and/or easily cashable short-term instruments and/or available funds obtainable through an adequate amount of credit facilities.

Bank relationships are negotiated centrally in order to ensure that short and medium-term financial needs are satisfied at the lowest possible cost.

Financial resources, in particular receipt and payment flows, are instead managed in the individual countries so as to limit liquidity risk and non-compliance with the various local currency and tax regulations.

Excluding the credit line granted by Banca Intesa, usable under certain conditions, as at December 31, 2012, 100% of existing credit facilities in cash were drawn down.

On the basis of the accounting data, the Finance & Treasury Unit prepares a statement showing the due dates of financial liabilities, limited to the exposures of companies consolidated line-by-line (within 1 year, between 1 and 2 years, between 2 and 5 years, over 5 years), estimating the interest to be paid with reference to outstanding nominal debts.

The due dates of financial liabilities, relating to exposures of companies consolidated line-by-line, are as follows at December 31, 2012:

	Carrying amount	Contractual cash flows	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings and payables to other financial institutions	565,732	660,382	179,890	287,757	190,535	2,200
Trade payables	49,375	49,375	49,375	–	–	–
Other payables	65,036	65,036	64,060	64	153	759
<b>Total</b>	<b>680,143</b>	<b>774,793</b>	<b>293,325</b>	<b>287,821</b>	<b>190,688</b>	<b>2,959</b>

Financial liabilities at December 31, 2011 are analysed by due date as follows:

	Carrying amount	Contractual cash flows	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings and payables to other financial institutions	525,760	681,425	80,907	107,659	324,538	168,321
Trade payables	74,852	74,852	74,852	–	–	–
Other payables	65,993	65,993	62,144	75	353	3,421
<b>Total</b>	<b>666,605</b>	<b>822,270</b>	<b>217,903</b>	<b>107,734</b>	<b>324,891</b>	<b>171,742</b>

Trade payables include the portion of payables to third parties past due for more than 90 days for an amount at December 31, 2012 of approximately 1.1 million euro.

#### Additional disclosures on financial instruments

#### Classes of financial assets and liabilities

In order to complete the analyses required by IFRS 7, the following table presents the carrying amount of every class of financial asset and liability identified by the IFRSs, with an indication of the accounting policies applied:

	Note	12.31.2012			12.31.2011		
		Total	Non-current	Current	Total	Non-current	Current
<b>Financial assets at amortised cost</b>							
Other financial assets	4	193	193	–	193	193	–
<b>Loans and receivables</b>							
Trade receivables	6	63,891	–	63,891	78,074	–	78,074
Other receivables	7	249,496	213,579	35,917	365,347	319,359	45,988
Cash and cash equivalents	10	45,090	–	45,090	37,684	–	37,684
<b>Available-for-sale financial assets</b>							
Other financial assets	4	12,931	12,931	–	17,933	17,933	–
<b>Tied deposits</b>							
Other financial assets	4	3,453	3,453	–	6,580	6,580	–
<b>TOTAL FINANCIAL ASSETS</b>		<b>375,054</b>	<b>230,156</b>	<b>144,898</b>	<b>505,811</b>	<b>344,065</b>	<b>161,746</b>

	Note	12.31.2012			12.31.2011		
		Total	Non-current	Current	Total	Non-current	Current
<b>Financial assets at amortised cost</b>							
Bank borrowings and payables to other financial institut	15	565,732	420,993	144,739	525,760	488,802	36,958
Trae payables	16	49,375	–	49,375	74,852	–	74,852
Other payables	17	65,036	976	64,060	65,993	3,849	62,144
<b>Hedging instruments</b>							
Derivative financial instruments	21	2,526	–	2,526	–	–	–
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>682,669</b>	<b>421,969</b>	<b>260,700</b>	<b>666,605</b>	<b>492,651</b>	<b>173,954</b>

### Fair value hierarchy

IFRS 7 requires financial instruments measured at fair value to be classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - determination of the fair value based on prices quoted on active markets for identical assets or liabilities;
- Level 2 - determination of the fair value based on inputs other than quoted prices included within Level 1 that are directly (i.e. as prices) or indirectly (i.e. derived from prices) observable;
- Level 3 - determination of the fair value based on valuation models whose inputs are not based on observable market data.

The following table shows assets and liabilities carried at fair value at December 31, 2012, divided into the three levels defined above:

	Note	Carrying amount at 12.31.2012	LEVEL 1	LEVEL 2	LEVEL 3
<b>FINANCIAL ASSETS</b>					
<b>Available-for-sale financial assets</b>	<b>2</b>	<b>12,931</b>	<b>2,055</b>	<b>9,866</b>	<b>1,010</b>
– investments in other companies	2	1,010	–	–	1,010
– closed-end real estate funds	2	11,921	2,055	9,866	–
<b>FINANCIAL LIABILITIES</b>					
<b>Hedging instruments</b>					
Derivative financial instruments	21	–	–	2,526	–

During 2012, as in the comparative period, there were no transfers between fair value hierarchical levels, or changes in the allocation of financial assets entailing a different classification of the said assets.

The table below shows the changes that occurred in level 3 during 2012:

<b>Opening balance 01.01.2012</b>	<b>2,661</b>
Decreases	(509)
Write-downs	(1,142)
<b>Closing balance 12.31.2012</b>	<b>1,010</b>

During the year there were no transfers from Level 3 to other levels or vice versa.

## 6.5. Capital management policy

As detailed in the director's report on operations, in order to boost industrial development prospects, strengthen equity and rebalance the general financial structure, in 2012, the company implemented initiatives targeted at attracting, also by means of competitive processes, third party investors and potential industrial partners. In said context, the main indicators used by the Group in the past to manage capital (ROE, Gearing and Net Financial Position) will reassume significance only on completion of the aforementioned extraordinary transaction.

## 6.6. Accounting estimates and assumptions

Preparation of the consolidated financial statements requires management to make estimates and assumptions which, in some cases, are based on difficult, subjective judgements and past experience, and assumptions thought to be reasonable and realistic according to the circumstances, with particular reference to forecasts regarding timing and the values of the transfers set forth in company plans.

The reliability of such estimates has an effect on adoption of the going concern assumption in preparing the financial statements, on the values of balance-sheet assets and liabilities and on the disclosure of contingent assets and liabilities at the reporting date, as well as on the amount of revenues and costs in the reference period. Actual results could therefore differ from such estimates. The estimates and assumptions are regularly reviewed and the effects of any change are reflected in the income statement of the period of the change if the change affects that period only, or also in future periods if the change affects both the current and future periods.

On this point it must be noted that the situation caused by the current economic and financial crisis has made it necessary to make assumptions regarding a highly uncertain future, in which actual results in the next year may differ from the estimates, thus involving adjustments, even significant ones, to the carrying amount of the items concerned and which cannot be currently estimated or predicted.

The estimates and assumptions required of the management mainly regard:

- assessment of the recoverability of intangible assets and defining their useful lives;
- valuation of the investments in associates and joint ventures, and assessment of the recoverability of financial receivables that such companies might owe;
- determination of the fair value of properties and the realisable value of inventories;
- estimation of the potential liabilities for outstanding legal and tax disputes as described in more detail in paragraphs 8.8 and 8.12 of the report on operations;
- quantification of the impairment of receivables (particularly with reference to determining the amortised cost of non-performing receivables), financial assets and the estimation of the liabilities deemed likely and recorded under provisions for future risks and expenses;
- estimates and assumptions on the recoverability of deferred tax assets.

Estimates and assumptions involving a significant risk of variation in the carrying amount of assets and liabilities mainly relate to goodwill, the valuation of the property portfolio and the valuation of non-performing loans in relation to the effects this can have on the value of investments in associates and joint ventures. In accordance with the accounting standards, the Group must test its goodwill for impairment at least once a year, or whenever there are specific indications of impairment. The value of the property portfolio is verified at least half-yearly on the basis of independent appraisals and the value of non-performing loans is based on the periodic updating of estimated expected cash flows.

The values of assets relating to real estate portfolios and to non-performing loans, or to the value of the investments of proprietary corporate vehicles, are measured on the basis of the respective appraisals or valuation models, in the assumption of a process of development and sale on the market as part of a normal company cycle, only possible on completion of the debt restructuring operation and ongoing capital strengthening, which will allow the Group to operate on the market in accordance with the objectives of maximising values in the medium-term, consistent with its plan and without, therefore, acting as a forced seller with the goal of generating short-term cash flows.

The approval of the company's strategic plan, also in view of extraordinary transactions, involved the need to verify, as at September 30, 2012, the determination of the estimate of the values in use of goodwill booked to the financial statements.

The results of the analysis conducted by management with the support of an independent expert determined an impairment loss limited to around 2.5 million euro, relating solely to the Credit Servicing Cash Generating Unit, augmented by a further 0.9 million euro aligning the consolidated value of goodwill with the statutory one. Recoverable amounts are defined as the higher of an asset's fair value, less costs to sell, and its "value in use", with the exception of asset items which are expected to be sold in the near future and the carrying amount of which has been aligned to the estimated selling price, if less.

At the close of the financial year as at December 31, 2012, management conducted an internal analysis on the deviation of the short-term results with respect to the results forecast in the four-year plan, and asked the aforementioned independent expert for support, also in terms of macro-analyses on the main external variables and on the structure of the cost of capital. In line with the reference plans used, forming the basis of the valuation process developed by the independent expert, which were approved at consolidated level by the Parent Company's Board of Directors, as well as the different companies representing the main CGUs, the exclusion of indicators as such to make it necessary to update the impairment test conducted on the situation as at September 30, 2012 came to light.

With regard to the Highstreet investment, it should be recalled that it was involved in a major restructuring process from 2010 as part of the agreements reached with the tenant which entailed redefining investment management strategies, as well as making new agreements with the banks that financed the venture. These agreements have, essentially, established a preferential claim over other creditors in the share-out of residual financial resources to shareholders, making it possible to foresee a greater recovery of financial assets than with a pro-rata allocation of residual equity. The changed investment management scenario, from an ongoing operating strategy to a strategy of exiting the initiative, therefore led, in accounting for it, starting from financial year 2010, to ceasing to measure it with the equity method aimed at recognising pro-rata operating results, which become, substantially, irrelevant for the purposes of measuring the net invested capital now limited only to the financial receivable. This makes a measurement of the recoverability of the remaining financial receivable by analysing the cash flows expected from termination of the joint venture, possible on completion of disposal of the Highstreet assets, more consistent with the nature of the accounting item. This measurement of recoverability is based on estimated cash flows deriving from future portfolio sales, which will depend on the actual realisation of sales within the prescribed terms; any different sales conditions are capable of significantly affecting the value of the receivable recorded in the financial statements.

## 6.7. Seasonal trends

Revenues are not particularly influenced by seasonal trends.

## 6.8. Information on the Consolidated Balance Sheet and Consolidated Income Statement

All figures are presented in thousands of euro, unless otherwise specified.

The following explanatory notes refer to the consolidated balance sheet and consolidated income statement found in sections 1 and 2.

### ASSETS

#### Note 1. PROPERTY, PLANT AND EQUIPMENT

These amount to 1,615 thousand euro, a net decrease of 3,189 thousand euro since December 31, 2011, and are made up as follows:

	12.31.2012			12.31.2011		
	Historical cost	Accumulated depreciation/impairment	Net value	Historical cost	Accumulated depreciation/impairment	Net value
Buildings	1,000	(898)	102	6,290	(3,705)	2,585
Plant and machinery	1,716	(1,531)	185	2,277	(1,976)	301
Production and commercial equipment	282	(123)	159	115	(104)	11
Other assets, of which:	14,232	(13,063)	1,169	15,802	(13,895)	1,907
– vehicles	173	(173)	–	336	(336)	–
– furniture, office equipment and other	14,036	(12,890)	1,146	15,443	(13,559)	1,884
– works of art	23	–	23	23	–	23
<b>Total</b>	<b>17,230</b>	<b>(15,615)</b>	<b>1,615</b>	<b>24,484</b>	<b>(19,680)</b>	<b>4,804</b>

The following table shows movements in historical costs and accumulated depreciation as at December 31, 2012:

Historical cost	12.31.2011	Change in consol. area/other	Increases	Decreases	12.31.2012
Buildings	6,290	–	99	(5,389)	1,000
Plant and machinery	2,277	–	148	(709)	1,716
Production and commercial equipment	115	(7)	174	–	282
Other assets, of which:	15,802	(264)	471	(1,777)	14,232
– vehicles	336	–	–	(163)	173
– furniture, office equipment and other	15,443	(264)	471	(1,614)	14,036
– works of art	23	–	–	–	23
<b>Total</b>	<b>24,484</b>	<b>(271)</b>	<b>892</b>	<b>(7,875)</b>	<b>17,230</b>

Accumulated depreciation/impairment	12.31.2011	Change in consol. area/other	Depreciation/ impairment	Utilisations	12.31.2012
Buildings	(3,705)	–	(294)	3,101	(898)
Plant and machinery	(1,976)	–	(80)	525	(1,531)
Production and commercial equipment	(104)	7	(26)	–	(123)
Other assets, of which:	(13,895)	265	(516)	1,083	(13,063)
– vehicles	(336)	–	–	163	(173)
– furniture, office equipment and other	(13,559)	265	(516)	920	(12,890)
<b>Total</b>	<b>(19,680)</b>	<b>272</b>	<b>(916)</b>	<b>4,709</b>	<b>(15,615)</b>

The significant decrease in 2012 is due essentially to the disposal of improvements and furniture relating to the Milan – HQ2 and Rome offices, and subsequent office move. It should also be noted that the furniture in the HQ2 building, as well as the improvements made to said property, were transferred to Pirelli Tyre S.p.A. in November, for a consideration of 2,750 thousand euro.

Furthermore, in June, a building used as a garage in Milan, owned by the Parent Company, was sold to third parties.

## Note 2. INTANGIBLE ASSETS

These amount to 151,402 thousand euro, a net decrease of 6,009 thousand euro over December 31, 2011.

The changes which occurred during 2012 are as follows:

	12.31.2011	Increases	Write-downs	Amortisation	12.31.2012
Concessions, licenses, trademarks and similar rights	7,750	15	(2,000)	(381)	5,384
Applications software	1,532	784	–	(1,066)	1,250
Goodwill	148,129	–	(3,361)	–	144,768
<b>Total</b>	<b>157,411</b>	<b>799</b>	<b>(5,361)</b>	<b>(1,447)</b>	<b>151,402</b>

The impairment of 2,000 thousand euro refers to the concession granted by the Municipality of Milan to the subsidiary Parcheggi Bicocca S.r.l. for managing car parks in the Bicocca area until 2032.

This value was supported by the valuation conducted by an independent expert, which determined the value of the concessions in a range defined using the “fair value scenario” approach, through the discounting of future cash flows that presumably will be generated by using the latter, taking into consideration ongoing disputes with the Municipality of Milan concerning

concessions for the management of parking areas: the assumptions forming the basis of the valuations therefore make provision for the cancellation of revenues from the management of street parking.

## Goodwill

Goodwill amounts to 144,768 thousand euro as at December 31, 2012, a reduction of 3,361 thousand euro compared to December 31, 2011, in relation to the impairment loss of part of the goodwill recorded in the Credit Servicing CGU.

For the purposes of impairment testing, goodwill is allocated to the cash-generating units shown in the table below, all belonging to the services platform:

	12.31.2012	12.31.2011
<b>ITALY</b>	<b>46,327</b>	<b>49,688</b>
Agency	5,815	5,815
Credit Servicing	1,017	4,378
Property	13,356	13,356
Fund management	26,139	26,139
<b>GERMANY</b>	<b>95,184</b>	<b>95,184</b>
<b>POLAND</b>	<b>3,257</b>	<b>3,257</b>
<b>Total</b>	<b>144,768</b>	<b>148,129</b>

The recoverable amount is the greater of the value in use and the fair value less costs to sell. IAS 36 does not require both values to be estimated (both value in use and fair value less costs to sell). It is sufficient instead to ascertain that one of the two values is higher than the carrying amount of the unit or group of units to which the goodwill is allocated, provided that a reduction in value is not to be recognised. If there are corporate costs which cannot be re-allocated to the individual CGUs, under the terms of IAS 36, the impairment test on goodwill must be carried out on two levels:

1. the first level test ascertains the recoverability of the goodwill values allocated to the individual CGUs to which goodwill is allocated, where CGUs are defined as the smallest reporting unit that presents largely independent flows;
2. the second level test ascertains the recoverability of the total goodwill recognised in the Group's consolidated financial statements, considering also corporate costs not allocated to the individual CGUs.

The first level impairment test was carried out by comparing the value in use of the CGUs with their respective carrying amounts. The value in use is calculated as the present value of projections of reasonable and sustainable results capable of representing the best estimate of which top management is capable. In particular the value is the sum of the present value of unlevered free cash flows expected over the period of the plan and the closing value, calculated projecting in perpetuity the cash flow expected at the end of the plan.

In plans used, forming the basis of the valuation process developed by the independent expert, which were approved at consolidated level by the Parent Company's Board of Directors, as well as the different companies representing the main CGUs.

IAS 36 permits realisation risks to be considered in the plan both adjusting downwards the expected average flows, and adjusting upwards the discount rate.

The value in use of the cash generating units was estimated by an independent external expert as at September 30, 2012, in relation to the approval of the new 2013-2016 Plan. The expert recorded that the main assumptions on which the 2013-2016 Plan of the domestic CGUs is based <sup>(2)</sup> concern the recovery of the real estate market and related services from the second half of 2014. In order to limit the risks implicit in using a four-year plan, the estimate of the recoverable value for all domestic entities and for Poland is based solely on the first three years of the 2013-2015 Plan, also for the purpose of consistency with the impairment analysis conducted as at December 31, 2011, by using the Group's WACC as the discount rate.

The key variables, on which the cash flows used in estimating the value in use are based, are illustrated in the following table:

<sup>2</sup> In the case of Prelios Credit Servicing S.p.A., it was deemed appropriate to further shorten the forecast to 2014.

Cash Generating Unit	Key variables	Exogenous variables
<b>ITALY</b>		Recovery of real estate market in the second half of 2014
Agency	Intermediary volumes - non-captive - market fee dynamics - incl/volumes linked to the disbursement of loans	
Credit Servicing	Collection volumes - loan management fee dynamic - new business development	
Property	Development of business with clients outside of the Group	
Fund management	Disposal of public assets - Assets Under Management volumes - market fees	
<b>GERMANY</b>	Realisation of growth through third-party channels - maintenance of services on the existing portfolio	
<b>POLAND</b>	Realisation of development of third party channel	

The capital cost configuration used is the weighted average cost of capital (WACC) of the Prelios Group, calculated on the basis of the most recent market information. The cost of capital was estimated for domestic entities and for Poland at 9.84% post-tax, while for the German CGU the lower country risk of Germany was taken into account (WACC = 8.04%).

The estimate of the cost of own resources is based on the CAPM, assuming the following parameters:

- risk free rate = 5.78% Italy and Poland; 1.91% Germany;
- beta = 1.372
- market risk premium = 5%.

The cost of borrowing before tax was assumed to be 10.22% (= 7.41% post-tax). The normal financial structure was set at 54% for the debt component and 46% for the equity component.

The growth rate  $g$  was taken as 0 for all CGUs except for:

- the German CGU where a growth rate  $g$  of 1% was assumed, in relation to the growth expectations of the country;
- the Credit Servicing CGU for which a negative growth rate of 1% was assumed, in keeping with the long-term prospects of the business.

The post-tax discount rates adopted for each CGU are detailed in the table below:

Cash Generating Unit	Discount rate post-tax		Growth rate $g$
	2011	2012	
<b>ITALY</b>			
Agency	9,21%	9,84%	0,00%
Credit Servicing	9,21%	9,84%	-1,00%
Property	9,21%	9,84%	0,00%
Fund management	9,21%	9,84%	0,00%
<b>GERMANY</b>	7,98%	8,04%	1,00%
<b>POLAND</b>	9,21%	9,84%	0,00%

The following table shows the respective pre-tax discount rates:

Cash Generating Unit	Discount rate pre-tax
<b>ITALY</b>	
Agency	14,10%
Credit Servicing	18,95%
Property	14,61%
Fund management	14,92%
<b>GERMANY</b>	10,85%
<b>POLAND</b>	11,81%

For the Credit Servicing CGU, the recoverable value is 2,450 thousand euro below the carrying amount, augmented by 911 thousand euro due to the result of the sensitivity analysis conducted at the end of the reporting period, as better detailed below. For the remaining CGUs the recoverable value is more than the associated carrying amount.

The table below presents a sensitivity analysis which indicates the increase in the discount rate (or the reduction in the growth rate g) which would cause each CGU to have a recoverable value equal to the carrying amount.

Cash Generating Unit	Increases discount rate post-tax	Decreases growth rate g
<b>ITALY</b>		
Agency	8,01%	>10%
Credit Servicing	n.s.	n.s.
Property	>10%	>10%
Fund management	3,13%	4,72%
<b>GERMANY</b>	0,46%	0,62%
<b>POLAND</b>	0,37%	0,50%

The second level impairment test was performed on the equity side, checking that the recoverable value of the equity (the Group's share) was more than the consolidated equity (the Group's share). The equity value was calculated with the sum of the parts (SOTP) method adding together:

- (+) The enterprise value of the CGUs relating to the services business, each assessed separately;
- (+) the other assets to which goodwill is not allocated;
- (-) present value of the holding's costs;
- (-) net financial debt;
- (-) funds assimilable to debt;
- (-) present value of minorities.

The Company's management also assessed the results of the impairment test carried out on September 30, 2012, and reconsidered the assumptions as at December 31, 2012 on the basis of the terms, highlighted in the agreements signed with new investors, banks and parties in the agreement, under which the financial restructuring and ongoing recapitalisation will be carried out. In particular, this analysis took into consideration the following events after the date of the last impairment test carried out by the independent assessor:

- interest rate changes: the independent expert formally confirmed the absence of elements capable of modifying the WACC used in the test as at September 30;
- the valuations performed by the new investor used a pre-money equity value of 50 million euro as a reference, an amount resulting from a bargaining process that involved several factors aside from solely the market valuation of the assets and, therefore, cannot be considered as an indicator of potential impairment. However, the contents of the transaction formalised at present are essentially consistent with the elements already noted at the time the test was carried out on September 30, 2012; in addition, the stock market reacted positively to the communication of said elements included in the Framework Agreement with the investor in December 2012;
- subsidiaries reported final results as at December 31, 2012 in line with the plans used for the impairment testing as at September 30, 2012, with the exception of the Agency CGU, which, however, confirmed its plan, attributing the failure to reach 2012 objectives to temporary situations;
- management saw fit to confirm the plan of subsidiary Prelios Credit Servicing S.p.A., even in light of the "Head of Terms" with partner Credit Agricole highlighted in the report on operations which envisaged the gradual loss of some important special servicing mandates, assuming the replacement of the associated economic components with other assignments to be acquired from banks that will become Prelios shareholders. At consolidated level, however, a sensitivity analysis was prudentially carried out which, given the same cash flows approved by the CGU, assumed a new higher risk factor related to the lower degree of certainty regarding new revenues with respect to the mandates already in force and, consequently, an adjustment to the associated goodwill was accounted for, as already detailed, amounting to 911 thousand euro.

### Note 3. INVESTMENTS

Equity investments in associates and joint ventures are accounted for using the equity method and amount to 236,770 thousand euro, a net decrease of 90,266 thousand euro since December 31, 2011.

Movements during the year are as follows:

	01.01.2012/12.31.2012				01.01.2011/12.31.2011			
	Total	Associates	Joint ventures	Held for sale	Total	Associates	Joint ventures	Held for sale
<b>Opening balance</b>	<b>327,036</b>	<b>65,713</b>	<b>254,158</b>	<b>7,165</b>	<b>409,274</b>	<b>106,056</b>	<b>303,218</b>	<b>0</b>
Acquisitions, changes in share capital and reserves/other	17,348	73	17,275	–	23,398	28	23,370	–
Share of other components recognised in equity	1,587	179	1,408	–	31,607	239	31,368	–
Reclassifications/Other movements	–	–	–	–	7,949	(19,730)	7,949	19,730
Distribution of dividends and reserves	(10,945)	(1,329)	(9,023)	(593)	(51,091)	(10,306)	(40,785)	–
Disposals and liquidations	(7,333)	(3,713)	(3,620)	–	(2,207)	–	(1,012)	(1,195)
Net profit share/impairment	(147,186)	(7,286)	(139,900)	–	(173,335)	(10,584)	(162,751)	–
Fair value adjustment	(3,201)	–	–	(3,201)	(11,370)	–	–	(11,370)
Net (increase)/decrease in financial receivables	63,787	(10)	63,797	–	94,366	1	94,365	–
Changes in provision for future risks and expenses	(4,323)	(2)	(4,321)	–	(1,555)	9	(1,564)	–
<b>Closing balance</b>	<b>236,770</b>	<b>53,625</b>	<b>179,774</b>	<b>3,371</b>	<b>327,036</b>	<b>65,713</b>	<b>254,158</b>	<b>7,165</b>

The changes in the item under discussion are attributable mainly to the final result of the investees, a negative total of 147,186 thousand euro, distributions of dividends and reserves and changes occurring in other components recognised directly in equity, in particular in the cash flow hedging reserve. The final result of the investees also includes a pro-rata net negative effect for the Prelios Group of 78.2 million euro deriving from property write-downs.

The item “Net (increase)/decrease in financial receivables” includes in the period under discussion the decrease in net financial receivables owed by associates and joint ventures in relation to the portions of losses made by the same exceeding the carrying amounts of the investments.

Changes in provisions for future risks and expenses include, where there is a legal or constructive obligation, provisions for making good the losses of associates and joint ventures in excess of their carrying amounts plus any financial receivables owed by such companies.

It should be noted that investments “held for sale” refer exclusively to the portion of the Olinda fund held by Prelios Netherlands B.V., because the Group believes it can recover the related carrying amount essentially through a sale operation, which is expected to be completed in the near future, in line with market conditions. As such the same was measured at the lower of carrying amount and fair value less costs to sell, represented by stock market prices.

The locked-up portion of the Olinda fund held by Prelios Società di Gestione del Risparmio S.p.A., instead, is still recognised in equity investments in associates and measured with the equity method in virtue of the significant influence exercised over the fund.

In accordance with the disclosure requirements of IAS 28 (associates) and IAS 31 (joint ventures), the financial and economic data included at 100% in the consolidated financial statements of associates and joint ventures are summarised below.

	Associates	joint ventures
Non-current assets	289,023	2,344,687
Current assets	607,020	4,695,887
Non-current liabilities	471,598	4,745,754
Current liabilities	34,794	1,870,445
Revenues from sales and services	52,778	665,302
Operating costs	(78,610)	(916,896)
Net income (loss)	(38,179)	(382,040)

It should be noted, finally, that there is a lien for 68,634 thousand euro over shares in associates and joint ventures.

#### Note 4. OTHER FINANCIAL ASSETS

These amount to 16,577 thousand euro, a net decrease of 8,129 thousand euro over December 31, 2011. They are composed as follows:

	12.31.2012	12.31.2011
Available-for-sale financial assets at fair value through equity	<b>12,931</b>	<b>17,933</b>
Closed-end real estate funds	11,921	15,272
Investments in other companies	1,010	2,661
Other financial assets at amortised cost	<b>193</b>	<b>193</b>
Junior notes	193	193
Tied deposits	<b>3,453</b>	<b>6,580</b>
<b>Total</b>	<b>16,577</b>	<b>24,706</b>

#### 4.1 Closed-end real estate funds

These show the following movements at December 31, 2012:

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
<b>Opening balance</b>	<b>15,272</b>	<b>16,855</b>
Increases	1,000	1,010
Decreases/Equity distribution	(535)	(304)
Fair value adjustment	(3,827)	(2,289)
Profits on disposal	11	–
<b>Closing balance</b>	<b>11,921</b>	<b>15,272</b>
<i>of which:</i>		
<i>Cloe Fondo Uffici</i>	7,469	9,398
<i>Tecla Fondo Uffici</i>	2,055	3,957
<i>Fondo Enasarco Uno</i>	1,460	749
<i>Fondo Federale Immobiliare di Lombardia</i>	937	943
<i>Fedora</i>	–	225

The item was adjusted downwards by 3,827 thousand euro to account for changes in the fair value of real estate fund units.

This reduction was recognised in equity, because it was considered insignificant or temporary, both for the portion in the period and the accumulated total as at December 31, 2012.

During the year under review, Prelios Netherlands B.V. sold its stake in the Fedora Fund, generating a capital gain of 11 thousand euro.

#### 4.2 Investments in other companies

The item amounts to 1,010 thousand euro, marking a decrease of 1,651 thousand euro compared to the previous year, attributable to the fair value adjustment of the investment held in AVW Assekuranzvermittlung der Wohnungswirtschaft GmbH & Co KG (1,142 thousand euro) and the sale of stakes held in the company WoWi Media GmbH & Co. KG by Prelios Netherland B.V. (414 thousand euro).

#### 4.3 Other financial assets at amortised cost

The item "Junior notes", recognised for a total of 193 thousand euro at December 31, 2012, consists entirely of a deferred redemption amount relating to the securitisation of a non-performing loan portfolio of the company Cairoli Finance S.r.l..

#### 4.4 Tied deposits

This item comprises cash and cash equivalents not freely usable by the Group in the short term.

In particular 2,653 thousand euro relates to amounts tied by the parent company following guarantees granted to the purchaser of the operating company Rinascente S.r.l..

As at December 31, 2011 the item also included 3,721 thousand euro to cash received following distribution of capital amounts of the associate Spazio Investment N.V., tied to deal with the possible need to recapitalise the company. The restriction ended in the first quarter of 2012.

### Note 5. DEFERRED TAX ASSETS AND DEFERRED TAX PROVISION

They are composed as follows:

	12.31.2012	12.31.2011
Deferred tax assets	24,325	26,407
Deferred tax provision	(2,495)	(2,243)
<b>Total</b>	<b>21,830</b>	<b>24,164</b>

Deferred tax assets and liabilities are accounted for, when the conditions are met, taking into account offsetting between legal entities; the breakdown of the same including offsets made is as follows:

	12.31.2012	12.31.2011
Deferred tax assets	27,108	29,074
Deferred tax provision	(5,278)	(4,910)
<b>Total</b>	<b>21,830</b>	<b>24,164</b>

Deferred tax assets, measured in the assumption of a likely sale and tax recoverability, also taking into account the Group's four-year plan, relate mainly to recognition of tax effects associated with allocations to the provisions for risks and inventory write-downs, the consolidated accounts, and to tax losses that can be carried forward and, lastly, to further temporary tax rebates. This valuation takes into consideration the intention of consolidating company Prelios S.p.A., in view of a continuation of said tax system, to renew the tax consolidation system of the Prelios Group also for the 2013-2015 three-year period with its subsidiaries that meet the legal requirements.

The statement presented below details the movements that occurred during financial year 2012 in the balance of deferred tax assets:

Description	12.31.2011	Additions	Utilisations	Other movements	12.31.2012
Provision for future risks and expenses	7,370	1,188	(1,320)	(12)	7,226
Inventories write-down	5,276	–	(305)	–	4,971
Recoverable tax losses	6,366	59	(2,543)	–	3,882
Amortisation and depreciation	1,908	121	(92)	–	1,937
Fair value adjustment of fund units held and derivative instruments	202	695	–	933	1,830
Completion costs	1,673	1,534	(1,675)	1	1,533
Actuarial adjustment employee benefit obligations	87	19	(10)	1,118	1,214
Intragroup transactions	2,107	–	(802)	(563)	742
Invoices receivable	741	242	(702)	20	301
Allowance for doubtful accounts	525	–	(264)	3	264
Other*	2,819	2,473	(2,081)	(3)	3,208
<b>Total</b>	<b>29,074</b>	<b>6,331</b>	<b>(9,794)</b>	<b>1,497</b>	<b>27,108</b>

(\*) includes deferred tax assets on legal costs, directors' fee, statutory auditors' fees, IAS adjustments etc:

The "Other movements" column mainly includes deferred tax assets recorded as a contra-item in equity relating, in particular, to fair value adjustments accumulated in previous years on valuations of the shares held in the real estate funds described above (522 thousand euro), as well as the recognition of actuarial gains/losses on employee benefit obligations (548 thousand euro).

The temporary differences giving rise to the deferred tax liabilities at December 31, 2012 are detailed in the table below:

Description	12.31.2011	Additions	Utilisations	Other movements	12.31.2012
Amortisation of goodwill	4,174	406	–	–	4,580
Actuarial adjustment employee benefit obligations	392	5	(3)	(145)	249
Other	344	270	(46)	(119)	449
<b>TOTAL</b>	<b>4,910</b>	<b>681</b>	<b>(49)</b>	<b>(264)</b>	<b>5,278</b>

During 2012 a total of 145 thousand euro in deferred taxes were reversed through equity in relation to the recognition of actuarial gains/losses on employee benefit obligations, while 530 thousand euro in deferred taxes were recognised through equity for fair value adjustments to available-for-sale financial assets.

Retained tax losses for which no deferred tax assets have been recognised are analysed by expiry date as follows:

Description	12.31.2012
Unlimited losses - partially repayable *	70,810
Unlimited losses **	19
Unlimited Losses Prelios Deutschland GmbH	41,055
Group Tax Losses - 2010*	6,344
Group Tax Losses - 2011*	13,479
Group Tax Losses - 2012*	28,684
<b>Total</b>	<b>160,391</b>

(\*) This refers to losses, can be declared and used without limits up to 80% of income.

(\*\*) This refers to losses seen in the first three periods and which can be declares and used without limits up to 100% of income.

The decision was taken not to recognise deferred tax assets on most of the tax losses that can be carried forward, in part relating to periods prior to tax consolidation under the parent company Prelios S.p.A. and, therefore, recoverable by the respective legal entities that had generated them.

The unrecognised deferred tax assets for the above tax losses would amount to 39,313 thousand euro (33,797 thousand euro at December 31, 2011).

## Note 6. TRADE RECEIVABLES

Trade receivables amount to 63,891 thousand, a decrease of 14,183 thousand euro compared with December 31, 2011.

	12.31.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Trade receivables from associates	1,970	–	1,970	1,835	–	1,835
Trade receivables from joint ventures and other Prelios Group companies	62,434	–	62,434	64,667	–	64,667
Trade receivables from other related parties	563	–	563	547	–	547
Trade receivables from third parties	23,924	–	23,924	55,760	–	55,760
Receivables for contracts	40	–	40	–	–	–
<b>Total gross trade receivables</b>	<b>88,931</b>	<b>–</b>	<b>88,931</b>	<b>122,809</b>	<b>–</b>	<b>122,809</b>
Allowance for doubtful accounts	(25,040)	–	(25,040)	(44,735)	–	(44,735)
<b>Total</b>	<b>63,891</b>	<b>0</b>	<b>63,891</b>	<b>78,074</b>	<b>0</b>	<b>78,074</b>

Trade receivables mainly refer to contracts for the provision of fund & asset management services (real estate and non-performing loans) and technical and commercial services.

Services provided to *Prelios Group companies* were supplied under the same terms and conditions as those applied to third parties.

*Trade receivables from other related parties* mainly refer to recovery of various kinds of costs.

Out of total gross trade receivables of 88,931 thousand euro (122,809 thousand at December 31, 2011), 57,882 thousand euro are past due (88,405 thousand euro at December 31, 2011), of which 40,584 thousand euro for more than a year, mainly relating to investment companies and funds in which the Group invests with qualified minority shares.

Past due receivables registered, as at December 31, 2012, a lower incidence on the total with respect to the close of the previous year (65% compared to 72%), and in particular, the weight of receivables past due by more than one year fell.

Against gross other receivables, there are provisions for impairment of 25,040 thousand euro (44,735 thousand euro at December 31, 2011), which adjust their face value to their presumed realisable value.

Receivables past due and falling due have been written down using the Group's policies described in the earlier paragraph on credit risk management included in "Financial risk management policies".

Receivables written down include both significant single positions subject to individual impairment based on particular risk elements, and positions with characteristics similar from the point of view of credit risk grouped together and written down on a collective basis.

Allocations to the allowance for doubtful accounts are made specifically on credit positions that present particular risk elements. By contrast, on credit positions that do not present these characteristics, allocations are made on the basis of the estimated average non-collectability.

Movements in the allowance for doubtful accounts are shown below:

	12.31.2012	12.31.2011
<b>Opening balance</b>	<b>44,735</b>	<b>15,229</b>
Additions	2,893	35,047
Provisions for reduced revenues	1,351	–
Utilisations	(18,005)	(4,012)
Release of excess allowance	(103)	(454)
Change in cons. area/reclass./other	(5,831)	(1,075)
<b>Closing balance</b>	<b>25,040</b>	<b>44,735</b>

Following the difficult property market scenario already noted in the previous year and which worsened further in 2012, liquidity tensions deriving from the substantial contraction of loans disbursed and to the general slowdown in sales in relation to a number of initiatives in which the Group has taken part, it was considered appropriate, on the basis of the information received from customers themselves, to write down certain positions, also with investee entities and real estate funds, with a view to supporting investees in their efforts to continue as going concerns in the context of financial restructuring plans already formalised or at an advanced stage of negotiation with lending institutions and partners.

In particular, impairment of trade receivables amounts to 9,846 thousand euro, recognised in the income statement under the item "Other Costs" (note 25) which also includes impairments and losses on sundry receivables amounting to 746 thousand euro.

Details of the total effect recognised in the income statement following impairment of receivables are presented below.

	12.31.2012	12.31.2011
additions allowance for trade doubtful accounts	2,893	35,047
losses on trade receivables	6,953	798
<b>total impairment of trade receivables</b>	<b>9,846</b>	<b>35,845</b>
additions allowance for trade doubtful accounts	496	19,704
losses on trade receivables	250	3
<b>total impairment of other receivables</b>	<b>746</b>	<b>19,707</b>
<b>total impairment of receivables</b>	<b>10,592</b>	<b>55,552</b>

The variation with respect to the previous year is essentially due to the fact that, within the general context of liquidity tension which affected the property market, certain significant positions were already written down in 2011. In addition, the impairment of receivables as at December 31, 2011 related to the write-down of receivables due to German service companies that managed the Baubecon portfolio (around 19 million euro).

At the reporting date, the fair value of receivables approximates their related carrying amount.

## Note 7. OTHER RECEIVABLES

These are broken down as follows:

	12.31.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Other receivables from associates	10	–	10	107	–	107
Other receivables from joint ventures	4,671	10	4,661	5,224	5	5,219
Other receivables from other related parties	663	–	663	99	–	99
Sundry receivables	44,044	5,252	38,792	82,686	5,496	77,217
Accrued income and prepaid expenses of which:	946	166	790	1,918	272	1,646
– other related parties	68	–	68	–	–	–
– joint ventures	25	–	25	830	–	830
– third parties	853	166	687	1,088	272	816
Financial receivables	208,327	208,151	176	313,676	313,613	63
<b>Total gross other receivables</b>	<b>258,661</b>	<b>213,579</b>	<b>45,082</b>	<b>403,710</b>	<b>319,359</b>	<b>84,351</b>
Allowance for other doubtful accounts	(9,165)	–	(9,165)	(38,363)	–	(38,363)
<b>Total</b>	<b>249,496</b>	<b>213,579</b>	<b>35,917</b>	<b>365,347</b>	<b>319,359</b>	<b>45,988</b>

In order to realign the face value to the presumed realisable value, against gross other receivables of 258,661 thousand euro (403,710 thousand euro at December 31, 2011), there are provisions for impairment of 9,165 thousand euro (38,363 thousand euro at December 31, 2011), attributable mainly to receivables for the NPL portfolio which were written down in respect of reviews of the reference business plans carried out in previous years.

Movements in provisions for the impairment of other receivables are shown below:

	12.31.2012 current	12.31.2011 current
<b>Opening balance</b>	<b>38,363</b>	<b>18,445</b>
Additions	496	19,704
Utilisations	(28,187)	–
Reclassification/Other movements	(1,507)	214
<b>Closing balance</b>	<b>9,165</b>	<b>38,363</b>

The impairment of other receivables, totalling 746 thousand euro, is recorded in the income statement under the item “Other costs” (note 25), essentially due to the impairment of a number of positions, within the general context of liquidity tension which affected the property market, as described in more detail in the section on “Trade receivables” to which the reader is referred.

The provision was reduced by utilisations totalling 28,187 thousand euro, of which 20,058 thousand euro in relation to the bulk transfer of certain portfolios of non-performing loans completed in the first half of 2012.

For other current and non-current receivables, the carrying amount is considered approximate to the fair value. In particular, as illustrated in the description of the reference accounting standards and policies, non-performing loans are measured at their amortised cost using the effective interest criterion. The carrying amount is equal to the present value of future cash flows resulting from the last available business plan at the original effective interest rate. The carrying amount of these receivables, calculated as described above, is considered approximate to the fair value of the same at the date of December 31, 2012, because the original effective interest rate, used to determine the present value, is still today representative of a market rate that would be applied by third parties for measurement of the portfolio; this rate was in fact determined considering the specific features (riskiness, reference market, etc.) of the portfolio being measured, elements that the management responsible for these assessments considers still substantially valid today.

A brief comment will now follow on the more significant items included in “Other receivables”.

### Other receivables from joint ventures

These amount to 4,671 thousand euro (5,224 thousand euro at December 31, 2011) and mainly include receivables for dividends declared by and due from Inimm Due S.à.r.l (834 thousand euro), and the remaining receivable owed to the parent company by Polish Investments Real Estate Holding II B.V. for the sale of 85% of the share capital of the Polish companies Coimpex Sp.z.o.o. and Relco Sp.z.o.o. (2,418 thousand euro), and the receivable due to Prelios Società di Gestione del Risparmio S.p.A. for VAT paid in advance on behalf of the Hospitality & Leisure Fund (1,228 thousand euro).

### Other receivables from other related parties

The item refers mostly to the guarantee deposit paid to Pirelli & C. S.p.A. for the rental of the R&D building located in the Bicocca zone, to which the Group transferred its Milan offices.

### Sundry receivables

These amount to 44,044 thousand euro compared with 82,686 thousand euro at December 31, 2011.

	12.31.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
NPL portfolio	7,157	–	7,157	35,027	–	35,027
Other tax receivables	5,944	221	5,723	5,404	221	5,183
Advances	5,489	4,987	502	5,493	4,987	506
Social security receivables	1,588	–	1,588	1,600	–	1,600
Sundry other receivables	23,866	44	23,822	35,162	261	34,901
<b>Total</b>	<b>44,044</b>	<b>5,252</b>	<b>38,792</b>	<b>82,686</b>	<b>5,469</b>	<b>77,217</b>

*Receivables for NPL portfolio* relate to the acquisitions of loan portfolios by the Group in previous years. In particular the item comprises mortgage-backed and unsecured loans purchased by CFT Finanziaria S.p.A. (which incorporated Vindex S.r.l.) in previous years, mostly from Banca Popolare di Intra and Banca Antonveneta.

In relation to non-performing loans, provisions of 4,075 thousand euro have been set aside for impairment. The net value at December 31, 2012 was therefore 3,082 thousand euro. The reduction in the value of non-performing loans is attributable to the bulk transfer of certain portfolios.

*Other tax receivables* relate to the positions of companies consolidated line-by-line which do not file for VAT on a group basis, and to receivables for other indirect taxes.

In this regard, it should be noted that, Prelios S.p.A., acting as Parent Company, and its subsidiaries, have elected to make an independent group VAT tax settlement for the 2012 tax year, in accordance with the Ministerial Decree dated December 13, 1979.

*Advances* refer to sums paid by certain allottees (4,987 thousand euro), for the realisation of urbanisation works in the ex Besta-Ansaldo area.

*Sundry other receivables* include among other things 8,696 thousand euro for the indemnity payable to Parent Company Prelios S.p.A. in relation to certain legal disputes primarily concerning maintenance and services provided to buildings managed on behalf of Inpdap, against which 7,354 thousand euro in liabilities have been recognised, as better described in note 17 "Other payables", to which the reader is referred.

Sundry other receivables also include 2,040 thousand euro, owed to the Group by certain directors and employees for CON-SOB penalties applied by the Issuers Division and the Intermediaries Division following an investigation into and proceedings against Prelios S.p.A. and its subsidiary Prelios Società di Gestione del Risparmio S.p.A. in relation to the tender offer made in 2007 by Gamma RE B.V., a company 49% owned by the Prelios Group and 51% by Morgan Stanley, for units in the Tecla and Berenice funds, both managed by Prelios Società di Gestione del Risparmio S.p.A.

After the outcome of the appeal presented to the Appeals Court, which in any case cancelled some of the penalties applied, the case has been taken to the Supreme Court.

On April 5, 2012, as a result of the investigations performed, the Bank of Italy notified the members of the then Board of Directors, Board of Statutory Auditors and former General Manager of Prelios Società di Gestione del Risparmio S.p.A. of administrative and pecuniary penalties totalling 150 thousand euro that the company paid with the obligation of exercising recourse against the sanctioned parties. As at December 31, 2012, the Group is due a residual receivable of 30 thousand euro from said parties.

### Financial receivables

At December 31, 2012 non-current financial receivables amount to 208,151 thousand euro, marking a net decrease of 105,462 thousand euro since December 31, 2011, while current financial receivables amount to 176 thousand euro. These are broken down as follows:

	12.31.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Financial receivables from associates	578	578	–	1,900	1,900	–
Financial receivables from joint ventures	207,693	207,517	176	311,649	311,586	63
Financial receivables from others	56	56	–	127	127	–
<b>Total</b>	<b>208,327</b>	<b>208,151</b>	<b>176</b>	<b>313,676</b>	<b>313,613</b>	<b>63</b>

Non-current receivables, mostly relating to shareholders' loans, are classified by collection date, according to the divestment plans carried out over a medium-term timeframe for properties held directly or indirectly by associates and joint ventures. These loans are given at rates that are in line with those applied by the market's principal participants, except in the case of certain companies which have been granted non-interest bearing loans.

Movements over 2012 in non-current receivables are as follows:

	12.31.2011	Increases	Decreases	Offset against provision for equity-accounted investments	12.31.2012
Financial receivables from associates	1,900	299	(1,631)	10	578
Financial receivables from joint venture	311,586	22,714	(62,978)	(63,805)	207,517
Financial receivables from others	127	–	(71)	–	56
<b>Total</b>	<b>313,613</b>	<b>23,013</b>	<b>(64,680)</b>	<b>(63,795)</b>	<b>208,151</b>

The increase in financial receivables from joint ventures, 7,174 thousand euro, is due to new loans, provided in particular to the companies Austin S.àr.l, Dallas S.àr.l and Nashville S.àr.l totalling 1,500 thousand euro, Aree Urbane S.r.l. (1,500 thousand euro), Delamain S.àr.l (1,473 thousand euro), Manifatture Milano S.p.A. (1,450 thousand euro), and Polish Investments Real Estate Holding II B.V. (992 thousand euro), to the capitalisation of interest accrued in the period and to the effect of discounting interest-free shareholders' loans to present value.

In particular, during the year under review, the discounting to present value of interest-free shareholders' loans, involved an increase in receivables by 2,720 thousand euro.

The decrease in *financial receivables from joint ventures* primarily reflects 47,323 thousand euro in repayments of existing shareholder loans (of which, in particular, 24,588 thousand euro from Delamain S.àr.l, 11,064 thousand euro from Espelha – Serviços de Consultadoria L.d.a., 6,271 thousand euro from the joint venture Resident Berlin 1 P&K GmbH and 3,781 thousand euro from the German companies Tizian Wohnen 1 GmbH and Tizian Wohnen 2 GmbH), as well as 11,345 thousand euro in loan cancellations by the lending companies, in order to recapitalise the investee companies (of which 3,600 thousand euro in favour of Trixia S.r.l., 2,219 thousand euro in favour of Polish Investments Real Estate Holding B.V. and 4,184 thousand euro in favour of Polish Investments Real Estate Holding II B.V.).

*Non-current financial receivables from others* amount to 56 thousand euro and consisted of senior Class A notes relating to the loan portfolio of the ICR8 securitisation vehicle.

The column "offset against provisions for equity-accounted investments" reports reductions in financial receivables from associates and joint ventures to absorb losses in excess of the carrying amount of the related investments.

## Note 8. TAX RECEIVABLES

These amount to a total of 8,465 thousand euro, compared with 11,048 thousand euro at December 31, 2011.

These comprise:

	12.31.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Other tax receivables	6,973	–	6,973	9,556	–	9,556
Other receivables from third parties for group tax election	1,492	–	1,492	1,492	–	1,492
<b>Total</b>	<b>8,465</b>	<b>–</b>	<b>8,465</b>	<b>11,048</b>	<b>–</b>	<b>11,048</b>

### Other tax receivables

These relate to income taxes of companies consolidated on a line-by-line basis that have not opted to file for income tax on a group basis or to taxes of companies in the tax group that arose before joining the tax group.

### Other receivables from third parties for group tax election

This item refers to the receivable owed to Prelios Credit Servicing S.p.A. by its previous parent company Fonspa S.p.A. for electing tax consolidation.

## Note 9. INVENTORIES

	12.31.2012	12.31.2011
Trading properties held for sale	24,050	25,072
Land for development	23,044	22,986
Properties under construction/renovation	7,285	7,243
<b>Total</b>	<b>54,379</b>	<b>55,301</b>

### Trading properties held for sale

These amount to 24,050 thousand euro, a net decrease of 1,022 thousand euro compared with December 31, 2011, 2,147 thousand euro of which attributable to impairment recognised for the lower presumed realisable value, determined on the basis of independent valuations as at December 31, 2012 or owing to lower values at which the individual subsidiaries are willing to sell on the basis of sales mandates granted after approval by their respective Board of Directors, and to sales made in the period, primarily by Centrale Immobiliare S.p.A. and Orione Immobiliare Prima S.p.A.. It should be noted that, during the year, the latter completed the purchase of a series of properties from the Aedes Group, for a total of 3,300 thousand euro.

### Land for development

This item totals 23,044 thousand euro, essentially in line with the final figure as at December 31, 2011.

### Properties under construction/renovation

This item totals 7,285 thousand euro, essentially in line with the final figure as at December 31, 2011. In the period under review, said properties were written down for a total of 15 thousand euro, in respect of the lower presumed realisable value.

The inventories mainly refer to properties under renovation in the Bicocca area of Milan (3,169 thousand euro) and to a property located in Magdeburg in Germany (2,544 thousand euro).

### Note 10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank deposits, post office deposits and cash and valuables on hand, fully available to the holder.

They are broken down as follows:

	12.31.2012	12.31.2011
Bank and postal deposits	43,872	37,474
Cheques	710	145
Cash and valuables on hand	508	65
<b>Total</b>	<b>45,090</b>	<b>37,684</b>

Current accounts are held with leading banks and financial institutions of high credit standing.

Cash held in bank current accounts accrues interest at the rates agreed, from time to time, with the banking system.

## EQUITY

### GROUP EQUITY

#### Note 11. SHARE CAPITAL

In compliance with the resolution of the extraordinary shareholders' meeting of Prelios S.p.A. on April 17, 2012, pursuant to articles 2328 and 2346 of the Italian Civil Code, the face value of the shares was eliminated.

At December 31, 2012, subscribed and paid-up share capital (including treasury shares in the portfolio held for investment and not trading purposes and which, therefore, under the format prescribed by art. 2424 of the Italian Civil Code, would have been classified as "Financial fixed assets") consists of 841,171,777 ordinary shares with no face value, making a total of 218,877,613.14 euro.

At December 31, 2012, share capital, stated net of the 1,189,662 treasury shares in the portfolio as required by IAS 32, amounts to 218,282,782 euro, compared to 419,991,057.50 euro as at December 31, 2011.

As a result of the loss recorded in 2012, amounting to 241,734 thousand euro, Group equity at December 31, 2012, is down 74,178 thousand euro, compared to 318,834 thousand euro as at December 31, 2011. Please refer to the directors' report on operations in relation to the provisions of art. 2446 of the Italian Civil Code.

As shown in the directors' report on operations, the shareholders' meeting of the parent company, held on December 18, 2012, postpone the measures required by art. 2446 of the Italian Civil Code to a date to be proposed by the Board of Directors, also in relation to the development and implementation of the proposed extraordinary transactions.

The Board of Directors intends to submit to the shareholders' meeting a proposal for the full coverage of total losses reported in the balance sheet and income statement as at December 31, 2012 through a reduction in the share capital, which would remain, however, above the legal limit established for joint-stock companies in accordance with art. 2327 of the Italian Civil Code.

## LTI/Stock Option Plans

The Group does not have any active LTI/Stock option plans as at December 31, 2012.

## Note 12. OTHER RESERVES

Information is provided below on the changes that occurred during the course of 2012 with regards to other components recognised in equity.

	Currency translation reserve	Reserve for fair value measurement of available-for-sale financial assets	Cash flow hedge reserve	Reserve for actuarial gains/losses	Reserve for tax on items credited/debited to equity	Group entity	Minority interests in equity	Total
fair value measurement of available-for-sale financial assets	-	(3,444)	-	-	947	(2,497)	(278)	(2,275)
cash flow hedges	-	-	(2,526)	-	695	(1,831)	-	(1,831)
(profits)/losses relating to cash flow hedges, previously recognized directly in equity now transferred to the income statement	-	-	2,526	-	(695)	1,831	-	1,831
recognition of actuarial gains/(losses)	-	-	-	(2,112)	683	(1,429)	(28)	(1,457)
Prelios share of other components of comprehensive income relating to associates and joint ventures	-	-	1,871	37	(330)	1,578	-	1,578
currency translation reserve	394	-	-	-	-	394	-	394
<b>Total other components of income recognised in equity</b>	<b>394</b>	<b>(3,444)</b>	<b>1,871</b>	<b>(2,075)</b>	<b>1,300</b>	<b>(1,954)</b>	<b>(306)</b>	<b>(2,260)</b>

### Share premium reserve

This item was used in full to cover the 2011 losses, in conformance with the resolution of the shareholders' meeting of Prelios S.p.A., held on April 17, 2012.

### Legal reserve

The legal reserve in place at December 31, 2011, totalling 4,265 thousand euro, was eliminated in full as a result of the coverage of the parent company's loss, resolved during the above-mentioned extraordinary shareholders' meeting.

### Reserve for fair value measurement of available-for-sale financial assets

This item includes a negative reserve of 6,211 thousand euro, before tax, classified in a separate reserve, recognised for the fair value measurement of available-for-sale assets, which mainly comprise units held in real estate investment funds.

Impairment was recorded for these units in 2012, reflected in a decrease in the reserve of 3,444 thousand euro.

### Cash flow hedge reserve

This reserve, a negative 10,233 thousand euro, includes the effective portion of profits and losses deriving from the fair value adjustment of derivative instruments designated to hedge exposure to variability in the cash flows from assets or liabilities recorded in the financial statements ("cash flow hedge").

During the course of 2012, this reserve recorded an increase of 1,871 thousand euro for the fair value measurement of existing cash flow hedges held by associates and joint ventures.

It should be noted that, as part of the prospective effectiveness test performed in relation to the financial instruments subscribed by the parent company in 2012, and considered hedges for IAS 39 purposes, and by virtue of the effects on expected cash flows based on the new contractual conditions envisaged by the new corporate debt structure, that will ensue from the previously described financial restructuring, said hedging relationship is no longer effective. Therefore, the entire amount previously booked to a negative equity reserve, amounting to 2,526 thousand euro, was recognised in the income statement.

#### **Reserve for actuarial gains/ (losses)**

This reserve shows a negative balance of 1,818 thousand euro and includes the net actuarial losses on post-employment defined benefits under IAS 19, before taxes.

#### **Reserve for equity-settled stock options**

This item, totalling 5,156 thousand euro as at December 31, 2011, was used in full to cover the losses for the year 2011, in conformance with the resolution of the extraordinary shareholders' meeting of Prelios S.p.A..

#### **Reserve for tax on items credited/debited to equity**

This reserve amounts to a positive 3,067 thousand euro and reflects the tax effect of items credited/debited directly to equity. In addition, the reserve was reduced by 1,596 thousand euro, as a result of the coverage of the parent company's loss, resolved by the extraordinary shareholders' meeting.

#### **Other reserves**

The decrease recorded as at December 31, 2012 is attributable to the coverage of the reserve established in relation to costs linked to the increase in share capital finalised in 2009 (6,187 thousand euro), as well as to the full use of the merger surplus reserve recorded for a positive 312 thousand euro, as set out in the resolution of the extraordinary shareholders' meeting of Prelios S.p.A..

#### **Note 13. RETAINED EARNINGS / (LOSSES)**

Retained losses amount to 115,887 thousand euro, a net increase of 21,626 thousand euro over December 31, 2011, essentially due to the allocation of the result for 2011.

#### **Note 14. MINORITY INTERESTS**

These consist of interests in share capital and reserves, as well as in the result for the period of the companies consolidated on a line-by-line basis.

Equity pertaining to minority interests is down 1,060 thousand euro compared to December 31, 2011, due primarily to the distribution of the dividends of Prelios Società di Gestione del Risparmio S.p.A. (1,146 thousand euro), as well as to the purchase, by the parent company, of 25% of Prelios Polska S.p.zo.o., already 75% owned, elements only partially offset by the capital transactions of the company Prelios Credit Servicing S.p.A. amounting to 600 thousand euro, and the net income for the year, totalling a positive 709 thousand euro.

## LIABILITIES

### Note 15. BANK BORROWINGS AND PAYABLES TO OTHER FINANCIAL INSTITUTIONS

Bank borrowings and payables to other financial institutions are analysed as follows:

	12.31.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Bank borrowings	387,568	262,977	124,591	358,977	328,122	30,855
Other financial payables	2,684	627	2,057	3,303	642	2,661
Payables to other financial institutions	98	–	98	2,340	–	2,340
Financial payables to joint venture	4,519	32	4,487	1,102	–	1,102
Financial payables to other related parties	170,863	157,357	13,506	160,038	160,038	–
<b>Total</b>	<b>565,732</b>	<b>420,993</b>	<b>144,739</b>	<b>525,760</b>	<b>488,802</b>	<b>36,958</b>

At December 31, 2012 and December 31, 2011, the breakdown of payables by interest rate and original currency is as follows:

Original currency: euro	12.31.2012				
	Total		Fixed rate		Floating rate
Current payables	144,739	5,593	3,9%	139,146	96,1%
Non-current payables	420,993	170,627	40,5%	250,366	59,5%
<b>Total</b>	<b>565,732</b>	<b>176,220</b>	<b>31,1%</b>	<b>389,512</b>	<b>68,9%</b>

Original currency: euro	12.31.2011				
	Total		Fixed rate		Floating rate
Current payables	36,958	5,001	13,5%	31,957	86,5%
Non-current payables	488,802	642	0,1%	488,160	99,9%
<b>Total</b>	<b>525,760</b>	<b>5,643</b>	<b>1,1%</b>	<b>520,117</b>	<b>98,9%</b>

The value of fixed-rate payables indicated above includes those contractually established as fixed-rate payables and those contractually established as floating-rate payables against which hedging derivatives have been put in place.

The percentage exposure to interest rate variability at December 31, 2012 comes down to 32.6%, if the natural hedging provided by floating-rate financial receivables (corresponding to 205,228 thousand euro, before offsetting carried out against losses realised by associates and joint ventures exceeding the carrying amount of investments) and the derivative contracts on corporate debt, with a notional value of 170,000 thousand euro, are taken into account.

In particular, the exposure to variability in corporate debt interest rates was calculated by taking into consideration the hedging provided by derivative contracts on a notional 170 million euro. However, it should be noted that, effective from January 1, 2013, assuming, as part of the prospective effectiveness test, the effects and contractual conditions expected by the new debt structure, that will ensue from the previously described financial restructuring, said hedging relationship is no longer effective.

It should be noted that 73% (Prelios pro-quota) of the total borrowings (bank and non-bank) of investee vehicles is protected from interest rate fluctuations above a certain level or through fixed-rate loans or via recourse to hedging derivative instruments.

## Bank borrowings

Bank borrowings amount to 387,568 thousand euro at December 31, 2012, marking an increase of 28,591 thousand euro compared to December 31, 2011.

The item is broken down as follows:

	12.31.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Non-recourse loans	5,874	5,180	694	6,557	5,890	667
Fixed-term credit facilities	353,102	257,797	95,305	352,232	322,232	30,000
Interests on fixed-term credit facilities	28,592	–	28,592	108	–	108
Current accounts	–	–	–	80	–	80
<b>Total</b>	<b>387,568</b>	<b>262,977</b>	<b>124,591</b>	<b>358,977</b>	<b>328,122</b>	<b>30,855</b>

### Non-recourse loans

The item refers to the loan granted by Banca Intesa Mediocredito S.p.A. to Parcheggi Bicocca S.p.A..

### Fixed-term credit facilities and current accounts

These refer to credit facilities granted to the parent company Prelios S.p.A. by eight leading Italian banks.

As regards the Club Deal loan, totalling 359,000 thousand euro, expiring in December 2014, Prelios S.p.A. is committed to maintain a maximum level of consolidated net debt, decreasing over time, and a minimum level of consolidated equity.

On December 28, 2011, Prelios S.p.A. stipulated a new revolving credit facility with Banca Intesa for a maximum amount of 20 million euro, usable under given conditions, expiring on June 26, 2013. Said line was not utilised during the year.

In relation to the suspension of financial covenants and deferment of the payment of interests accrued as at December 31, 2012, please refer to the report on operations.

## Other financial payables

“Other non-current financial payables” mainly refer to security deposits held by consolidated companies.

“Other current financial payables” include 2,057 thousand euro attributable mainly to the management of real estate and NPL contracts carried out for third parties, almost entirely offset by dedicated current accounts included under the item “Cash and cash equivalents”.

The decrease compared to the previous year is attributable, for 1,500 thousand euro, to the return of a down payment received from Iniziative Immobiliari 3 S.r.l. for a preliminary sale contract of the Corsico area, the terms of which have lapsed as the change of use of the area in question to residential was not achieved

## Financial payables to joint ventures

The item, amounting to 4,519 thousand euro, not only includes residual negative intercompany current account balances, but certain financial payables due to the parent company in respect of the obligation to be subscribed, via the investments Afrodite S.à.r.l. and Artemide S.à.r.l., units of the Fondo Residenziale Diomira and, with respect to the subsidiary Prelios Netherlands B.V., to subscribe units of the Fondo Vivaldi.

## Payables to other financial institutions

The reduction compared to the previous year is attributable, for 2,250 thousand euro, to the repayment of the loan granted by a third party shareholder to the company Prelios Credit Servicing S.p.A..

### Financial payables to other related parties

These amount to 170,863 thousand euro and refer to the use of a floating rate credit line granted to Prelios S.p.A. by Pirelli & C. S.p.A. to Prelios S.p.A., expiring on July 31, 2017.

In relation to the suspension of financial covenants and deferment of the payment of interests accrued as at December 31, 2012, please refer to the report on operations.

### Note 16. TRADE PAYABLES

These comprise:

	12.31.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Trade payables to associates	1,091	–	1,091	926	–	926
Trade payables to joint ventures and other Prelios Group companies	2,481	–	2,481	5,000	–	5,000
Trade payables to other related parties	130	–	130	2,259	–	2,259
Trade payables to third parties	45,673	–	45,673	66,667	–	66,667
<b>Total</b>	<b>49,375</b>	<b>0</b>	<b>49,375</b>	<b>74,852</b>	<b>0</b>	<b>74,852</b>

At December 31, 2012, the fair value of the item in question approximates its carrying amount.

#### Trade payables to associates

These amount to 1,091 thousand euro and are almost entirely attributable to payables to Progetto Corsico S.r.l. and Olinda Fondo Shops, as the allottees, for urbanisation charges and the relative accessory costs, for an area located in the Municipality of Corsico and an area in the Bicocca zone, respectively.

#### Trade payables to joint ventures and other Prelios Group companies

These mainly refer to chargebacks of various types by joint ventures and other companies in the Prelios Group.

They amount to 2,481 thousand euro, a decrease of 2,519 thousand euro over December 2011, essentially due to the payment of the payable due to Fondo Cloe, owner of the HQ2 building, related to the rent of the Milan office.

#### Trade payables to other related parties

These amount to 130 thousand euro, a decrease of 2,129 thousand euro over the figure recorded as at December 31, 2011. The change with respect to the previous period is due to the offsetting of trade receivables and payables existing between Prelios S.p.A. and its subsidiaries and the Pirelli & C. Group, as a result of the agreement reached by the parties in November 2012.

The residual payables mainly refer to amounts due for health services, information technology services and for certain site remediation services provided by companies in the Pirelli & C Group.

#### Trade payables to third parties

These amount to 45,673 thousand euro, marking a decrease of 20,994 thousand euro since December 31, 2011, largely as a result of lower SAL (work progress) volumes and the retention of contracts managed by the Group.

The item includes 2,544 thousand euro in *trade payables to customers for contracts* (2,606 thousand euro as at December 31, 2011), generated by advances above the percentage completion relating to contracts with Lambda S.r.l. for urbanisation initiatives in Bicocca and Pioltello.

In particular, the costs incurred and the related margins on these contracts amount to 16,672 thousand euro at December 31, 2012 (16,489 thousand euro at December 31, 2011), while amounts invoiced for percentage completion total 19,216 thousand euro (19,093 thousand euro at December 31, 2011).

## Note 17. OTHER PAYABLES

These comprise:

	12.31.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Other payables to associates	2,163	–	2,163	2,111	–	2,111
Other payables to joint ventures and other Prelios Group companies	18,476	–	18,476	19,115	2,608	16,507
Other payables to other related parties	–	–	–	–	–	–
Other payables to third parties of which:	39,773	528	39,245	41,570	744	40,826
– <i>damages payable</i>	7,354	–	7,354	7,771	–	7,771
– <i>payables to employees</i>	5,605	–	5,605	6,288	–	6,288
– <i>other tax employees</i>	7,331	–	7,331	6,516	–	6,516
– <i>social security payables</i>	2,430	–	2,430	2,691	–	2,691
– <i>sundry other payables</i>	17,053	528	16,525	18,304	744	17,560
Accrued liabilities and deferred income	4,624	448	4,176	3,197	497	2,700
<b>Total</b>	<b>65,036</b>	<b>976</b>	<b>64,060</b>	<b>65,993</b>	<b>3,849</b>	<b>62,144</b>

### Other payables to associates

The payable, due entirely to Olinda Fondo Shops (as allottee of the Bicocca area), refers to the amount collected from Iniziative Immobiliari 3 S.r.l., as provided for in the contract, for urbanisation works in the area owned by said allottee.

### Other payables to joint ventures and other Prelios Group companies

These refer mainly to a payable due to a German company originating from a “profit & loss agreement” active up until 2007, on the basis of which the associating party had the right to receive income generated by the associated party and, on the other hand, the obligation of covering any losses deriving from it, as well as a payable for expenses relating to the sale of investment units made in the past. Based on the agreements and shareholder agreements with the majority shareholder in the real estate joint venture involved, the receivables concerning the items in question also relate exclusively to Prelios. The increase of 1,987 thousand euro relates to the amount still to be paid to Espelha – Serviços de Consultadoria Lda for the purchase of Class C junior notes in September and already transferred to third parties in the third quarter of 2012.

### Other payables to third parties

*Damages payable* includes the residual liability of Edilnord Gestioni S.r.l. (in liquidation) for damages payable to Inpdap in relation to legal action over management of certain contracts (7,354 thousand euro). These expenses are subject to guarantee by the previous company shareholder and are, therefore, essentially offset by receivables classified in the item “Other receivables”.

*Payables to employees* mostly refer to provisions for unused holiday entitlement and deferred salaries. It also includes contractualised liabilities for the restructuring plans being implemented.

*Other tax payables* relate to the VAT positions of companies consolidated line-by-line which do not file for this tax on a Group basis, and to payables for other indirect taxes.

*Social security payables* relate to the amount owned by the Group to social security institutions. The item includes 1,858 thousand euro owed to the Italian social security authorities (INPS), 572 thousand euro to Italy's industrial accident agency (INAIL) and other welfare agencies, in relation to contributions accrued that will be paid on the respective maturity dates.

*Payables to Directors and the Supervisory Board* included under sundry other payables amount to 614 thousand euro (in comparison to 746 thousand euro at December 31, 2011), while payables to Statutory Auditors total 586 thousand euro (811 thousand euro at December 31, 2011).

The item "*sundry other payables*" includes, among other things, 9,975 thousand euro of Prelios S.p.A. (amount unchanged with respect to the previous year) deriving from deferred contractual charges in relation to the transfer of investment units which occurred in the past.

### Accrued liabilities and deferred income

Deferred income includes 1,283 thousand euro in consolidation adjustments to defer the portion of capital gains on property sales that have not yet been realised outside the Group (1,889 thousand euro at December 31, 2011).

### Note 18. PROVISIONS FOR FUTURE RISKS AND EXPENSES

These provisions total 53,682 thousand euro (of which the non-current portion is 24,905 thousand euro) compared with 70,383 thousand euro at December 31, 2011 (of which the non-current portion was 35,814 thousand euro).

	12.31.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Provision for future expenses for contractual commitments	21,968	16,633	5,335	23,261	12,590	10,671
Provision for arbitration, lawsuits and outstanding disputes	10,466	6,560	3,906	24,061	21,369	2,692
Warranties provision	355	30	325	314	–	314
Provision for other risks	5,150	567	4,583	7,039	1,191	5,848
Restructuring provision	12,935	1,115	11,820	8,577	664	7,913
Provision for future risks on equity-accounted investments	2,808	–	2,808	7,131	–	7,131
<b>Total</b>	<b>53,682</b>	<b>24,905</b>	<b>28,777</b>	<b>70,383</b>	<b>35,814</b>	<b>34,569</b>

The changes which occurred in 2012 are as follows:

	12.31.2011	Movements		12.31.2012
		Increases	Decreases	
Provision for future expenses for contractual commitments	23,261	1,822	(3,115)	21,968
Provision for arbitration, lawsuits and outstanding disputes	24,061	6,525	(20,316)	10,466
Warranties provision	314	41	–	355
Provision for other risks	7,039	169	(1,862)	5,150
Restructuring provision	8,577	9,557	(5,199)	12,935
Provision for future risks on equity-accounted investments	7,131	–	(4,323)	2,808
<b>TOTAL</b>	<b>70,383</b>	<b>18,114</b>	<b>(34,815)</b>	<b>53,682</b>

### Provision for future expenses for contractual commitments

This provision includes, among other things, 8,490 thousand euro concerning the provision for expenses set aside by subsidiary Geolidro S.p.A. in relation to contractual commitments to perform extraordinary maintenance works on properties sold, as well as 1,820 thousand euro for future expenses in relation to the transfer of the Milan office and early termination of the rental contract for the HQ2 building.

The item also includes 7,865 thousand euro for the estimated costs that subsidiary Lambda S.r.l. could incur for certain ur-

banisation work commitments. In particular, the item refers (2,437 thousand euro) to liabilities estimated by the company for the construction of the crèche/nursery school. The provision was used in respect of the advancement of works performed in 2012, amounting to 236 thousand euro. A total of 4,129 thousand euro refers to the valuation proposal made to the Municipality of Milan, in replacement of the realisation of some car parks in the Bicocca area. The provision also includes 1,099 thousand euro for the prudential estimate of some urbanization commitments assumed by the company in the past concerning the areas transferred in previous years, and expenses linked to the rebranding of franchising.

#### Provision for arbitration, lawsuits and outstanding disputes

This provision reflects the best estimate of probable risks from a number of ongoing disputes with customers, as well as provisions against specific risks relating to litigation with employees.

This provision also includes, where the conditions are met, the best estimate of probable charges deriving from assessment notices received by Prelios Group companies after tax inspections.

The reduction in the period is attributable, for around 15 million euro, to the reclassification under tax liabilities of the amount allocated at December 31, 2011 in relation to assessment notices, which were subject to a settlement proposal.

#### Provisions for guarantees

This amount is mainly attributable to provisions for risks connected to guarantees issued to Iniziative Retail S.r.l. for the real estate placed by them in the "Olinda – Fondo Shops – Fondo comune di investimento immobiliare di tipo chiuso" (closed-end real estate investment fund) managed by Prelios Società di Gestione del Risparmio S.p.A. for the indemnity given in the face of any claims in terms of construction, town planning, systems, or environmental issues.

#### Provisions for other risks

This item mainly includes a potential tax risk as a result of changes to the legislation regarding the sales of investments in German companies in the "Mistral" Group, and provisions in relation to risks of payments to be made, in application of the tax consolidation regulations (previously held by Pirelli & C. S.p.A.) due to changes in the scope of reference.

#### Restructuring provision

This refers to restructuring costs, in relation to internal reorganisation plans, already resolved and put in place by a number of Group companies to tackle the new scenario in the real estate sector, with the aim of simplifying organisational levels and reducing operating costs by downsizing the workforce and simplifying corporate structures. The provision also includes costs of onerous contracts relating to the Group's offices.

#### Provision for future risks on equity-accounted investments

The provision for future risks on equity-accounted investments reflects provisions against legal or constructive obligations to cover losses of associates or joint ventures that exceed their carrying amount plus the amount of any financial receivables owed by them.

### Note 19. EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations amount to 12,568 thousand euro, a net increase of 1,443 thousand euro with respect to December 31, 2011. The item is broken down as follows:

	12.31.2012	12.31.2011
Provision for employee leaving indemnity	3,932	3,892
Pension funds	7,800	6,100
Other employee benefits	836	1,133
<b>Total</b>	<b>12,568</b>	<b>11,125</b>

### Provision for employee leaving indemnity

The provision for employee leaving indemnity refers only to Italian companies in the Group and essentially includes the employee leaving indemnity accrued by staff in service at December 31, less any advances granted to employees.

In accordance with the provisions of national regulations, the amount due to each employee accrues on the basis of the time worked and is disbursed when the employee leaves the company. The amount due at the conclusion of the employment relationship is calculated on the basis of its duration and the taxable remuneration of each employee. This liability is revalued on an annual basis using the official cost of life index and the legal interest rate. As it is not connected to any condition or maturity period, nor are there any obligations for financial funds, there are no assets that serve the fund.

The regulations were supplemented by Legislative Decree no. 252/2005 and Law no. 296/2006 (2007 Finance Bill) which, for companies with at least 50 employees, established that, as regards amounts accrued from 2007, employees have the option of allocating these to either the INPS Treasury Fund or to forms of supplementary pension, therefore assuming the nature of “defined contribution plans”.

In application of IAS 19, the employee leaving indemnity is revised using actuarial evaluation methods, with the assistance of an external appraiser, and adapted in relation to events occurring which require said adaptation.

The date of the last actuarial valuation is December 31, 2012: the value of the liability due to employees was calculated on the basis of a full evaluation as at September 30, 2012, adjusted on the basis of the actual payments made from said date until December 31, 2012. The calculation method used is the Projected Unit Credit Method, on the basis of which the current value of the obligation is determined in relation to the post-employment benefits.

Movements in the provision for employee leaving indemnity as at December 31, 2012 and the previous year are set out below:

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
<b>Opening balance</b>	<b>3,892</b>	<b>4,313</b>
Amount maturing and charged to income	208	134
Amount maturing and charged to income: curtailment	(29)	160
Change due to personnel transferred from other related parties	–	593
Equity adjustment for actuarial gains/losses	596	111
Advances on leaving indemnity	(60)	(107)
Indemnities paid	(618)	(1,289)
Other changes	(57)	(23)
<b>Closing balance</b>	<b>3,932</b>	<b>3,892</b>

The provision for employee leaving indemnity (TFR) changed mainly as a result of uses in the year for payments to personnel that have left and for advances, elements essentially offset by the actuarial adjustment.

The actuarial adjustment involved an increase in the provision as a result of the use of a lower discount rate for the actuarial calculation, when compared to December 31, 2011, (3.35% as at December 31, 2012 – 4.60% as at December 31, 2011).

The amounts recognised in the income statement are included in the item “Personnel costs” (Note 25).

### Pension funds

These are defined benefit plans, mainly relating to German service companies.

Movements in pension funds at December 31, 2012 and in the previous year are set out below:

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
<b>Opening balance</b>	<b>6,100</b>	<b>6,434</b>
Amount maturing and charged to income	296	221
Equity adjustment for actuarial gains/losses	1,553	10
Indemnities paid	(310)	(785)
Other changes	161	220
<b>Closing balance</b>	<b>7,800</b>	<b>6,100</b>

The actuarial adjustment involved an increase in the provision of 1,553 thousand euro as a result of the use of a lower discount rate compared to the previous year.

The amounts recognised in the income statement are included in the item "Personnel costs" (Note 25).

### Other employee benefits

"Other employee benefits" include 234 thousand euro relating to the "Altersteilzeit fund", a mechanism commonly adopted in Germany to agree early retirement for employees who have reached the age of 55.

Other employee benefits also include length-of-service bonuses and loyalty bonuses totalling 602 thousand euro.

The amounts recognised in the income statement are included in the item "Personnel costs" (Note 25).

### Employees

The total number of employees, including auxiliary staff working in buildings, was 878 at December 31, 2012 (884 including temporary staff), compared with 974 at December 31, 2011 (999 including temporary staff).

The following table provides a breakdown:

	Headcount at period end		Average headcount in period	
	12.31.2012	12.31.2011	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Executives	75	87	78	87
Junior managers	140	148	145	164
White collar	582	657	618	692
Workmen/Auxiliary staff (*)	81	82	82	83
<b>Total</b>	<b>878</b>	<b>974</b>	<b>923</b>	<b>1,026</b>

(\*) Variable staff according to contracts under management

### Other information

The main actuarial assumptions used at the date of the last reference valuation of December 31, 2012 are as follows:

	Italy	Germany	Netherland
Discount rate	3,35%	3,35%	3,35%
Inflation rate	2,00%	2,00%	2,00%
Expected rate of salary increase	n/a	n/a	n/a

**Note 20. TAX PAYABLES**

These comprise:

	12.31.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Other tax payables	18,881	7,376	11,505	10,200	–	10,200
Payables for Group tax election	244	–	244	–	–	–
Other payables to joint ventures under tax transparency regime	1,080	–	1,080	1,080	–	1,080
<b>Total</b>	<b>20,205</b>	<b>7,376</b>	<b>12,829</b>	<b>11,280</b>	<b>0</b>	<b>11,280</b>

**Other tax payables**

Other tax payables include, among other things, the amounts owned for current income taxes by companies which are not in the tax group headed by Prelios S.p.A., as well as tax owed by foreign companies and amounts owed by companies with respect to periods before joining the tax group or relative to IRAP amounts.

The increase recorded in the period is primarily due to the reclassification from the provision for risks of the amount that must be paid to the tax authorities as a result of the completion of the tax settlement for which a payment in 12 quarterly instalments was established.

**Other payables to joint ventures under tax transparency regime**

From 2006 to 2008 the joint venture company Trixia S.r.l. adopted the tax transparency option allowed by art. 115 of the Italian Income Tax Code, under which all consequent relationships are governed by a special agreement ensuring that statutory and regulatory rules are applied on a common basis.

**Note 21. DERIVATIVE FINANCIAL INSTRUMENTS**

The item refers to the fair value measurement of certain derivative financial instruments hedging the interest rate risk on borrowings subscribed by the parent company in 2012.

The table below shows the details of the financial instruments in place as at December 31, 2012:

Type of instrument	<i>Interest rate swap</i>	<i>Interest rate swap</i>	<i>Interest rate swap</i>	<i>Interest rate swap</i>
Counterparty	Intesa SanPaolo	Montepaschi	Banca Popolare di Sondrio	Banca Popolare di Milano
Notional (euro)	50,000,000	50,000,000	20,000,000	50,000,000
Differential paid in the year	72,972	96,097	28,161	60,125
Stipulation date	08.03.2012	02.04.2012	18.04.2012	18.04.2012
Termination date	31.12.2014	31.12.2014	31.12.2014	31.12.2013
Strike	1,21%	1,30%	1,20%	1,16%
Fair value as at December 31, 2012 (euro)	(839,883)	(930,751)	(331,915)	(423,512)

The strike price refers to the 6-month EURIBOR.

Throughout 2012, these derivative contracts were considered hedges, as the requirements set out under IAS 39 for the assessment of hedge effectiveness were met.

However, as at December 31, 2012, assuming, as part of the prospective effectiveness test, effective from January 1, 2013, the effects on expected cash flows on the basis of the new contractual conditions envisaged in the new corporate debt structure, that will ensue from the previously described financial restructuring, said hedging relationship is no longer effective.

Therefore, the entire amount previously booked to a negative equity reserve, amounting to 2,526 thousand euro, was recognised in the income statement.

## **COMMITMENTS AND GUARANTEES**

### **Personal guarantees**

#### **Guarantees**

Banks and insurance companies have issued a total of 132,946 thousand euro in guarantees to third parties and in the interest of companies in the Prelios Group, mostly for contractual obligations.

The Prelios Group has also issued 45,858 thousand euro in guarantees and letters of patronage in the interests of associates and joint ventures, broken down as follows:

- insurance co-obligations of various kinds to third parties for a total of 4,895 thousand euro;
- guarantees of 13,992 thousand euro against possible future charges and loans granted by banks to associates and joint ventures;
- guarantees given to Hypo Real Estate, the bank which funded the acquisition of the DGAG Group, for the coverage of any tax liabilities arising over the duration of the loan. These guarantees involve a net exposure for the Group of 25,000 thousand euro;
- guarantees of 1,971 thousand euro against fulfilment of the payment obligation by International Credit Recovery 8 S.r.l. for a portfolio of non-performing loans acquired.

#### **Liens on shares**

There are liens totalling 68,634 thousand euro on shares in associates and joint ventures. The item mainly includes the lien took out on shares by the subsidiary Prelios Netherlands B.V. in favour of Morgan Stanley Real Estate Special Situation Fund III, L.P. to secure the loan granted by the latter to the company Gamma RE B.V..

#### **Commitments to purchase investments/fund units/securities/loans**

These amount to 12,278 thousand euro and refer to the following commitments given by:

- Prelios S.p.A., through its subsidiary Prelios Netherlands B.V. to make payments for a total maximum amount of 2,562 thousand euro to the company Gamma RE B.V.;
- Prelios S.p.A. to pay up to 513 thousand euro to International Credit Recovery (5) S.r.l., International Credit Recovery (6) S.r.l., International Credit Recovery (123) S.r.l., and up to 2,000 thousand euro to the subsidiary Prelios Credit Servicing S.p.A., to cover contingent liabilities prior to the sale of non-performing loan portfolios;
- Prelios S.p.A. to pay up to 2,009 thousand euro as a guarantee against future requests for return of the amounts granted for securitisation vehicles in the context of the requests for early payment held by the courts;
- Prelios S.p.A. to subscribe a total of 1,500 thousand euro for the initial units in the Donizetti fund;
- Prelios Società di Gestione del Risparmio S.p.A. to subscribe 1,403 thousand euro for units in “Fondo Federale Immobiliare di Lombardia” (formerly Fondo Abitare Sociale 1 – Fondo Comune Chiuso di Investimento Immobiliare Etico Riservato ad Investitori Qualificati), a closed-end ethical real estate fund, reserved for accredited investors;
- Prelios S.p.A. to subscribe, through the investments Afrodite S.à.r.l. and Artemide S.à.r.l., up to 1,311 thousand euro in units in the “Fondo Residenziale Diomira – Fondo comune di investimento immobiliare speculativo di tipo chiuso non quotato riservato,” a closed-end unlisted speculative real estate investment fund;
- Prelios S.p.A., to pay up to 980 thousand euro to Espelha Serviços de Consultadoria L.d.A., to cover contingent liabilities.

#### **Property purchase commitments**

Commitments for the purchase of property refer to the undertakings given by parent company Prelios S.p.A. to purchase certain properties owned by Imser 60 S.r.l., which might end up being unsold, for a maximum amount of 292,980 thousand euro. The purchase price of these properties is contractually defined as a certain fraction of their market value. This option may be exercised by the counterparty from November 12, 2021 to May 31, 2022.

**NET FINANCIAL POSITION****(alternative performance indicator not required by IFRS)**

In keeping with the information provided in previous financial statements, the breakdown of the net financial position is provided below:

(in thousands of euro)	12.31.2012	12.31.2011
<b>CURRENT ASSETS</b>		
<b>Other receivables</b>	<b>176</b>	<b>63</b>
– of which receivable from related parties	176	63
Financial receivables	176	63
– joint venture and other Prelios Group companies	176	63
<b>Cash and cash equivalents</b>	<b>45,090</b>	<b>37,684</b>
<b>TOTAL CURRENT ASSETS - A</b>	<b>45,266</b>	<b>37,747</b>
<b>CURRENT LIABILITIES</b>		
<b>Bank borrowings and payables to other financial institutions</b>	<b>(144,739)</b>	<b>(36,958)</b>
– of which payables to related parties	(17,993)	(1,102)
– joint ventures and other Prelios Group companies	(4,487)	(1,102)
– other related parties	(13,506)	–
– other financial payables	(2,057)	(2,661)
– Bank borrowings	(124,591)	(30,855)
– Payables to other financial institutions	(98)	(2,340)
<b>TOTAL CURRENT LIABILITIES - B</b>	<b>(144,739)</b>	<b>(36,958)</b>
<b>NON-CURRENT LIABILITIES</b>		
<b>Bank borrowings and payables to other financial institutions</b>	<b>(420,993)</b>	<b>(488,802)</b>
– of which payable to related parties	(157,389)	(160,038)
– joint ventures and other Prelios Group companies	(32)	–
– other related parties	(157,357)	(160,038)
– other financial payables	(627)	(642)
– Bank borrowings	(262,977)	(328,122)
<b>TOTAL NON-CURRENT LIABILITIES - C</b>	<b>(420,993)</b>	<b>(488,802)</b>
<b>NET FINANCIAL POSITION (*) = D = (A+B+C)</b>	<b>(520,466)</b>	<b>(488,013)</b>

(\*) Pursuant to the CONSOB Communication dated July 28th, 2006 and in compliance with the CESR Recommendation of February 10th, 2005 ("Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses")

## INCOME STATEMENT

### Note 22. REVENUES FROM SALES AND SERVICES

Revenues from sales and services amount to 130,961 thousand euro, compared with 177,801 thousand euro at December 31, 2011 and are composed as follows:

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Revenues from contracts	224	1,098
Revenues from sales	2,782	21,520
– sales of land for development	440	756
– sales of residential property	2,342	3,564
– sales of commercial property	–	17,200
Revenues from services	127,955	155,183
<b>Total</b>	<b>130,961</b>	<b>177,801</b>

#### Revenues from contracts

The item amounts to 224 thousand euro, compared with 1,098 thousand euro in the previous year. In 2012 the item mainly includes the revenues earned by Lambda S.r.l. for the performance of works on the “Hangar Bicocca” building.

#### Revenues from sales

Sales completed in 2012 mainly refer to property units sold by Centrale Immobiliare S.p.A. and Orione Immobiliare Prima S.p.A..

#### Revenues from services

Revenues deriving from the rendering of services can be broken down as follows:

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Revenues from services to third parties	58,888	58,593
Revenues from services to associates	10,360	13,799
Revenues from services to joint ventures and other Prelios Group companies	58,582	82,489
Revenues from services to other related parties	125	302
<b>Total</b>	<b>127,955</b>	<b>155,183</b>

### Note 23. CHANGE IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS

The item inventories as at December 31, 2012 increased by 94 thousand euro, compared with a decrease of 5,697 thousand euro as at December 31, 2011, a period that recorded an increase in inventories as a result of the entry into the consolidation area of certain property development companies owned by Mistral Real Estate B.V..

The change is attributable to the events described in the items “revenues from sales” and “assets purchased” to which the reader is referred.

**Note 24. OTHER INCOME**

The item in question can be broken down as follows:

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Recoveries, reimbursements and other income	18,373	13,453
Other income from associates, joint ventures and other Prelios Group companies	788	289
Other income from other related parties	888	307
<b>Total</b>	<b>20,049</b>	<b>14,049</b>

*Recoveries, reimbursements and other income* relate mainly to income resulting from successful outcomes to disputes, as well as chargebacks to tenants of the management costs of company-owned properties or properties managed for third parties; in this latter case the chargebacks relate mainly to activities carried out by the property management unit.

*Other income from other related parties* relates mainly to the chargeback to Pirelli & C. S.p.A. by Lambda S.r.l. of site remediation costs for the area located in the Bicocca zone set aside to house the crèche/nursery school.

The item includes non-recurring items of 1,939 thousand euro, accounting for approximately 9.7% of the total item.

**Note 25. OPERATING COSTS**

Operating costs amount to 188,937 thousand euro, compared with 260,889 thousand euro as at December 31, 2011 and consist of:

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Raw and consumable materials used of which:	4,687	28,380
a) <i>Assets purchased</i>	3,665	18,652
b) <i>Change in inventories of trading properties, raw and miscellaneous materials</i>	1,022	9,728
Personnel costs	77,145	74,551
Depreciation, amortisation and impairment	7,724	5,242
Other costs	99,381	152,716
<b>Total</b>	<b>188,937</b>	<b>260,889</b>

Raw and consumable materials used (net of change in inventories)

The item "*Assets purchased*" totals 3,665 thousand euro as at December 31, 2012, and refers to the purchase of certain property units by Orione Immobiliare Prima S.p.A from the Aedes Group (3,300 thousand euro) and the purchase of various consumable materials (365 thousand euro). As at December 31, 2011, the item included 18,159 thousand euro as a result of entry into the consolidation area of certain property development companies owned by Mistral Real Estate B.V..

In 2012, the item "*Change in inventories of trading properties, raw and miscellaneous materials*" amounts to a negative 1,022 thousand euro, compared with another negative amount of 9,728 thousand euro in 2011 as a result of the events described in the sections "Revenues from sales" and "Assets purchased" to which the reader is referred.

**Personnel costs**

Personnel costs amount to 77,145 thousand euro, compared with 74,551 thousand euro as at December 31, 2011.

The item is broken down as follows:

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Wages and salaries	52,734	52,203
Voluntary redundancy costs	8,606	5,544
Stock options	–	(988)
Social security contributions	11,349	12,443
Employee leaving indemnity	179	294
Costs for defined contribution pension funds/Other costs	4,277	5,055
<b>Total</b>	<b>77,145</b>	<b>74,551</b>

The item “Wages and salaries” includes around 2.7 million euro relating to the conclusion of a specific contract.

Net of said component, a decrease is recorded in personnel costs, due mainly to the reduction of the average headcount (923 employees compared to 1,026 in the previous year).

For the number of employees see the comments on employee benefit obligations (note 19).

The item includes costs for non-recurring events of 8,606 thousand euro, accounting for around 11.2% of the total item.

#### Depreciation, amortisation and impairment

Details of depreciation, amortisation and impairment can be found in the tables accompanying the notes on property, plant and equipment and intangible assets (notes 1 and 2).

#### Other costs

As at December 31, 2012 these amount to 99,381 thousand euro, compared with 152,716 thousand euro in 2011.

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Other costs charged by associates	138	351
Other costs charged by joint ventures and other Prelios Group companies	4,718	5,516
Other costs charged by other related parties	921	3,088
Other costs charged by third parties	93,604	143,761
<b>Total</b>	<b>99,381</b>	<b>152,716</b>

The item can be broken down by type as follows:

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Services	56,311	66,450
Lease and rental costs	14,329	15,399
Impairment of receivables	10,592	55,552
Provisions for risks	4,740	4,270
Other operating expenses	13,409	11,045
<b>Total</b>	<b>99,381</b>	<b>152,716</b>

### Costs for services

Costs for services amount to a total of 56,311 thousand euro, compared with 66,450 thousand euro in 2011.

Costs for services consist mostly of construction and maintenance costs, costs for managing third-party assets, commission payable and consultancy and professional fees.

The item fell considerably, owing mostly to lower volumes of construction and maintenance contracts managed by the Group, and a decrease in consultancy concerning the operating Group's business.

Emoluments paid to Directors and the Supervisory Board amount to 3,576 thousand euro, compared with 3,572 thousand euro at December 31, 2011, and fees paid to statutory auditors of consolidated companies amount to 570 thousand euro, compared with 682 thousand euro in 2011.

The item includes costs for non-recurring events of 551 thousand euro, accounting for approximately 1% of the total item.

### Lease and rental costs

These costs amount to 14,329 thousand euro, compared with a total of 15,399 thousand euro accounted for at December 31, 2011, and refer almost entirely to the rental of head office buildings, and to the lease and hire of motor vehicles.

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Lease and rental costs charged by other related parties	426	211
Lease and rental costs charged by joint ventures and other Prelios Group companies	4,309	4,853
Lease and rental costs charged by third parties	9,594	10,335
<b>Total</b>	<b>14,329</b>	<b>15,399</b>

The item includes costs for non-recurring events of 163 thousand euro accounting for approximately 1% of the total item.

### Impairment of receivables

Impairment of receivables (10,592 thousand euro, compared with 55,552 thousand euro at December 31, 2011) was recognised for potential risks of debtor default and for bad debts incurred in the period in question.

The variation with respect to the previous year is essentially due to the fact that, within the general context of liquidity tension which affected the property market, certain significant positions were already written down in 2011. In addition, the impairment of receivables as at December 31, 2011 related to the write-down of receivables due to German service companies that managed the Baubekon portfolio (around 19 million euro).

The item includes costs for non-recurring events of 9,710 thousand euro, accounting for 92% of the total item, due to the write-down of certain significant positions, to ensure that certain investee companies continue as going concerns, as part of the financial restructuring plans already formalised or at an advanced stage of negotiation, as described in more detail under the items "Trade receivables" and "Other receivables" to which the reader is referred.

### Provisions for risks and expenses

At December 31, 2012 provisions were set aside for a total of 4,740 thousand euro, compared with 4,270 thousand euro in 2011.

Details of these provisions can be found in the notes on liabilities in the section "provisions for future risks and expenses".

The item includes costs for non-recurring events of 2,150 thousand euro, accounting for 45% of the total item, mostly attributable to future expenses and compensation relating to the transfer of the Milan office in November 2012.

### Other operating expenses

These amount to 13,409 thousand euro, compared with 11,045 thousand euro in 2011.

The item includes, among other things, 1,863 thousand euro in costs for duties and other taxes, mostly involving IMU (municipal property tax), registration tax and non-recoverable VAT on financial transactions.

The item includes costs for non-recurring events of 1,404 thousand euro, accounting for 10.5% of the total item.

### Note 26. NET INCOME FROM INVESTMENTS

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Net profit share from investments in associates and joint ventures	(135,782)	(90,899)
Dividends	2,354	6,658
Gains on investments	5,038	1,098
Losses on investments	(20,780)	(109,841)
<b>Total</b>	<b>(149,170)</b>	<b>(192,984)</b>

The item includes a pro-rata net negative effect for the Prelios Group of 78.2 million euro deriving from property write-downs.

The item in question also includes a negative effect of 3,201 thousand euro (11,370 thousand euro as at December 31, 2011) from the fair value adjustment of the interests held by Prelios Netherlands B.V. in the Olinda fund as a result of the company management's desire to recover its carrying amount through selling instead of by keeping it in the portfolio.

Losses on investments include, among other things, the adjustment to the carrying amount of European NPL S.A. in respect of contractual forecasts defined by the "head of terms" signed by the parent company with the potential purchaser.

In 2011, the significant expenses recorded under losses on investments resulted mainly from value adjustments made to investments and financial receivables relating to Aida RE B.V., Nabucco RE B.V. and Theta RE B.V., amounting to 81,670 thousand euro, thus bringing them down to zero, in keeping with the exercising by Barclays Bank of the purchase option on companies belonging to the BauBeCon portfolio, previously consolidated using the equity method, at a symbolic price of 1 euro.

The item in question also included 13,635 thousand euro deriving from the recalculation of deferred contractual expenses relating to the sale of the Facility Management Unit and of the minority interest in what was then Pirelli RE Società di Gestione del Risparmio S.p.A.

These effects were partially offset by the result achieved following the sale of the operating company Rinascente S.r.l. by the holding Rinascente Upim S.r.l.; this transaction enabled the Group to increase the value of its investment in a business no longer considered strategic, realising a capital gain of approximately 28 million euro, net of closing costs of 4.4 million euro.

Finally, during the year in question, dividends were distributed to the Group by the Tecla (349 thousand euro) and Cloe (118 thousand euro) funds, and by companies in which minority interests are held (1,887 thousand euro).

The item includes costs for non-recurring events of 746 thousand euro, accounting for approximately 0.5% of the total item.

### Note 27. FINANCIAL INCOME

Financial income amounts to 16,071 thousand euro, compared with 29,797 thousand euro in the previous year and can be broken down as follows:

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
<b>Interest income</b>		
<b>a) Interest income from non-current assets:</b>		
– Interest income on financial receivables due from associates	38	33
– Interest income on financial receivables due from joint ventures	12,047	24,778
<b>Total interest income from non-current assets</b>	<b>12,085</b>	<b>24,811</b>
<b>b) Interest income from current assets:</b>		
– Interest income from joint venture	1,204	2,597
– Other interest	443	515
<b>Total interest income from current assets</b>	<b>1,647</b>	<b>3,112</b>
<b>Other financial income</b>		
<b>c) Other financial income from non-current assets:</b>		
– Income from securities	2	50
<b>Total other financial income from non-current assets:</b>	<b>2</b>	<b>50</b>
<b>d) Other financial income from current assets:</b>		
– Other income from joint ventures	42	–
<b>Total other financial income from current assets</b>	<b>42</b>	<b>–</b>
<b>Other/miscellaneous</b>	<b>491</b>	<b>299</b>
<b>Exchange gains</b>	<b>1,804</b>	<b>1,525</b>
<b>Total</b>	<b>16,071</b>	<b>29,797</b>

The changes in interest income are related both to financial receivables from Group companies and to intra-group current accounts in place with associates or joint ventures, and to the interest rates.

Exchange gains, totalling 1,804 thousand euro, relate essentially to loans in Polish currency disbursed to the joint ventures Polish Investments Real Estate Holding B.V. and Polish Investments Real Estate Holding II B.V., and are offset by costs recorded on currency hedges in place.

## Note 28. FINANCIAL EXPENSES

These amount to 60,604 thousand euro, compared with an amount of 35,727 thousand euro recorded at December 31, 2011.

They are broken down as follows:

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Interest due to banks	32,471	21,009
Interest due to joint ventures	1,375	1,851
Interest due to other related parties	14,824	7,276
Interest due to others	233	476
Other financial expenses	2,085	2,762
Other financial expenses due to other related parties	–	16
Other financial expenses due to joint ventures	4,612	18
Exchange losses	2,221	2,319
Measurement of derivatives	2,783	–
<b>Total</b>	<b>60,604</b>	<b>35,727</b>

*Interest due to banks* refers to loans obtained from banks for normal management of the business, and the share of upfront commission paid for said loans.

*Interest due to other related parties* concerns the loan granted by Pirelli & C. S.p.A. to Prelios S.p.A., and the share of upfront commission paid for said loan.

*Other financial expenses due to joint ventures* refer to the write-down of the Highstreet investment (4,576 thousand euro).

*Exchange losses* amount to 2,221 thousand euro, compared with 2,319 thousand euro in the previous year, and mostly refer to the valuation of outstanding shareholders' loans in Polish currency at year-end exchange rates at December 31, 2012, and to the net exchange losses realised on currency hedges (euro/zloty).

The *measurement of derivatives* includes 2,526 thousand euro in losses previously recognised in equity in relation to derivative financial instruments hedging the interest rate risk on borrowings subscribed by the parent company in 2012, and recorded in the income statement as at December 31, 2012, as a result of the ineffectiveness of the hedging relationship highlighted by the prospective effectiveness test.

## Note 29. TAXES

	01.01.2012/ 12.31.2012	01.01.2011/ 12.31.2011
Current taxes	5,394	19,534
Deferred tax assets	3,463	(238)
Deferred tax liabilities	632	(1,414)
<b>Total</b>	<b>9,489</b>	<b>17,882</b>

The item "Taxes" relates to current taxes, deferred tax assets and deferred tax liabilities, calculated on the basis of applicable tax rates, and amount to 9,489 thousand euro, compared to 17,882 thousand euro in 2011.

In particular, the total amount comprises:

- IRES and other taxes on foreign income amounting to 7,583 thousand euro (of which 3,538 thousand euro in current taxes), compared to 13,004 thousand euro in 2011, which instead benefited from 5,950 thousand euro in contingent assets relating to the recognition of higher deductibility of costs on foreign income concerning previous years;
- IRAP totalling 1,906 thousand euro (of which 1,856 thousand euro in current taxes), compared with 2,312 thousand euro in 2011;
- substitute income tax; the item, only present at December 31, 2011 for 2,566 thousand euro, referred to the 5% tax on the Net Asset Value of directly held provisions.

The reconciliation between the income taxes reported in the financial statements and the theoretical charge (income taxes/IRAP – regional business tax) is presented below:

<b>INCOME TAXES</b>	<b>12.31.2012</b>
<b>INCOME (LOSS) BEFORE TAXES</b>	<b>(231,536)</b>
Reversal of net income (loss) from investments	(161,174)
Taxed dividends	2,007
Other taxable/disallowable changes	2,067
<b>Taxable base</b>	<b>(388,636)</b>
<b>Theoretical tax</b>	<b>17,994</b>
Difference in prior year tax	(1,762)
<b>Adjusted theoretical tax</b>	<b>16,232</b>
<b>Reports tax</b>	<b>(7,583)</b>
<b>Difference due to:</b>	<b>(23,815)</b>
– Disallowable interest expense (art. 96 Italian Income Tax Code)	(8,858)
– Tax not deductible against negative tax base	(7,915)
– Disallowable costs and out-of-period expenses	(3,181)
– Impairment of receivables	(2,050)
– Non-deductible tax	(936)
– Other changes	(875)
<b>IRAP (regional business tax)</b>	<b>12.31.2012</b>
<b>ITALIAN INCOME (LOSS) BEFORE TAXES</b>	<b>(42,921)</b>
Personnel costs	46,187
Net financial result from financial companies	(33,056)
<b>Taxable base</b>	<b>(29,790)</b>
<b>Theoretical tax (3,9%)</b>	<b>1,162</b>
Difference in prior year tax	50
<b>Adjusted theoretical tax</b>	<b>1,212</b>
<b>Report tax</b>	<b>(1,906)</b>
<b>Difference due to:</b>	<b>(3,118)</b>
– Tax not deductible against negative tax base	(1,953)
– Difference between theoretical/effective rate	47
– Disallowable costs and out-of-period expenses	(302)
– Impairment of receivables	(261)
– Personal loans / CO.CO.PRO. / Directors	(107)
– Interest expense	(83)
– Allocation to provision for risks / Utilisation	(79)
– Other changes	(380)

The nominal tax rates in countries where the Group's companies operate are as follows:

Europe:	12.31.2012
Italy	31,40%
Germany	31,83%
Netherlands	25,50%
Poland	19,00%

### Note 30. EARNINGS/(LOSS) PER SHARE

	12.31.2012	12.31.2011
Weighted average number of shares outstanding for the calculation of earnings (loss) per share:		
- basic (A)	839,982,115	839,982,115
Consolidates net income (loss) (B)	(241,734)	(289,641)
Earnings (loss) per share (in euro):		
- basic (B/A)	(0,29)	(0,34)

Diluted earnings per share are not reported for 2012 because there are no instruments in circulation that might involve dilutive effects.

## 6.9. Segment information

The Group has applied IFRS 8 for its segment reporting; this standard focuses on the reporting used internally by company management and requires companies to base their segment information on components used by management to make operational decisions.

Operating segments are therefore components of an entity for which discrete financial information is available and whose operating results are regularly reviewed by top management for the purposes of deciding how to allocate resources and for performance assessment.

As discussed in the directors' report on operations, the Group's organisational structure is, in fact, based on three geographical areas: Italy, Germany and Poland.

The geographical areas have been identified on the basis of the country in which the businesses are located.

The results by segment at December 31, 2012 are as follows:

	Italy	Germany	Poland	NPL	Holding	Total	Intragroup eliminations	Consolidated total
Consolidated revenues	53,752	59,282	1,429	15,185	1,708	131,356	(395)	130,961
<i>of which from third parties</i>	<i>53,752</i>	<i>59,282</i>	<i>1,429</i>	<i>15,185</i>	<i>1,313</i>	<i>130,961</i>	–	<i>130,961</i>
<i>of which from the Group</i>	–	–	–	–	395	395	(395)	–
EBIT	(25,930)	(3,965)	(963)	(5,374)	(9,531)	(37,833)	–	(37,833)
Net income from investments	(73,590)	(14,946)	(1,707)	(58,927)	–	(149,170)	–	(149,170)
<b>EBIT including net income from investments</b>	<b>(99,520)</b>	<b>(10,981)</b>	<b>(2,670)</b>	<b>(64,301)</b>	<b>(9,531)</b>	<b>(187,003)</b>	–	<b>(187,003)</b>
Financial income from investments	3,430	3,772	2,120	2,765	–	12,087	–	12,087
<b>EBIT including net income and financial income from investments (a)</b>	<b>(96,090)</b>	<b>(7,209)</b>	<b>(550)</b>	<b>(61,536)</b>	<b>(9,531)</b>	<b>(174,916)</b>	–	<b>(174,916)</b>
Other financial income/expenses						–	–	(56,620)
<b>Profit (loss) before taxes</b>						<b>(174,916)</b>	–	<b>(231,536)</b>
Income taxes						–	–	(9,489)
<b>Net income (loss) for the year</b>						<b>(174,916)</b>	–	<b>(241,025)</b>
Attributable to minority interests						–	–	709
<b>Consolidated net income (loss) for the year</b>						<b>(174,916)</b>	–	<b>(241,734)</b>
Notes:								
Property write-downs/revaluations (b)	(65,023)	(20,929)	–	–	–	(85,952)	–	(85,952)
Restructuring costs (c)	(19,978)	(2,595)	–	1,182	–	(21,391)	–	(21,391)
<b>EBIT including net income and financial income from investments before restructuring costs and property write-downs/revaluations and property tax (d) = (a) - (b) - (c)</b>	<b>(11,089)</b>	<b>16,315</b>	<b>(550)</b>	<b>(62,718)</b>	<b>(9,531)</b>	<b>(67,573)</b>	<b>0</b>	<b>(67,573)</b>

The results by segment at December 31, 2011 are as follows:

	Italy	Germany	Poland	NPL	Holding	Total	Intragroup eliminations	Consolidated total
Consolidated revenues	78,822	74,149	2,363	18,250	7,499	181,083	(3,282)	177,801
<i>of which from third parties</i>	78,822	74,149	2,363	18,250	4,217	177,801	–	177,801
<i>of which from the Group</i>	–	–	–	–	3,282	3,282	(3,282)	–
EBIT	(35,630)	(17,436)	(2,529)	(9,780)	(9,361)	(74,736)	–	(74,736)
Net income from investments	(64,589)	(78,580)	(8,545)	(41,270)	–	(192,984)	–	(192,984)
<b>EBIT including net income from investments</b>	<b>(100,219)</b>	<b>(96,016)</b>	<b>(11,074)</b>	<b>(51,050)</b>	<b>(9,361)</b>	<b>(267,720)</b>	–	<b>(267,720)</b>
Financial income from investments	4,094	15,677	1,694	2,381	–	23,846	–	23,846
<b>EBIT including net income and financial income from investments</b>	<b>(96,125)</b>	<b>(80,339)</b>	<b>(9,380)</b>	<b>(48,669)</b>	<b>(9,361)</b>	<b>(243,874)</b>	–	<b>(243,874)</b>
Other financial income/expenses						–	–	(29,776)
<b>Profit (loss) before taxes</b>						<b>(243,874)</b>	–	<b>(273,650)</b>
Income taxes						–	–	(17,882)
<b>Net income (loss) for the year</b>						<b>(243,874)</b>	–	<b>(291,532)</b>
Attributable to minority interests						–	–	(1,891)
<b>Consolidated net income (loss) for the year</b>						<b>(243,874)</b>	–	<b>(289,641)</b>
Notes:								
Property write-downs/revaluations	(99,166)	(93,096)	(2,320)	–	–	(194,582)	–	(194,582)
Restructuring costs	(47,430)	(377)	(861)	–	–	(48,668)	–	(48,668)
Property tax	(6,295)	–	–	–	–	(6,295)	–	(6,295)
<b>EBIT including net income and financial income from investments before restructuring costs and property write-downs/revaluations and property tax</b>	<b>54,766</b>	<b>13,134</b>	<b>(6,199)</b>	<b>(48,669)</b>	<b>(9,361)</b>	<b>5,671</b>	–	<b>5,671</b>

Intra-segment sales took place under the same terms and conditions as third-party sales.

The significant assets and liabilities for management accounting purposes are obtained by aggregating or reclassifying the IFRS accounting balances and can therefore be reconciled back indirectly to the IFRS financial statement formats, as shown in the notes at the foot of the tables.

Assets and liabilities by geographical area are as follows at December 31, 2012:

	Italy	Germany	Poland	NPL	Total	Intragroup eliminations	Consolidated total
<b>Fixed assets:</b>	<b>254,673</b>	<b>143,970</b>	<b>3,336</b>	<b>2,488</b>	<b>404,467</b>	–	<b>404,467</b>
Property, plant and equipment	817	670	79	49	1,615	–	1,615
Intangible assets, of which:	51,407	95,409	3,257	2,240	152,313	–	152,313
<i>Goodwill</i>	<i>45,310</i>	<i>95,184</i>	<i>3,257</i>	<i>1,928</i>	<i>145,679</i>	–	<i>145,679</i>
Investments in real estate funds and investment companies and other financial assets	202,449	47,891	–	199	250,539	–	250,539 <sup>(1)</sup>
<b>Net working capital</b>	<b>56,092</b>	<b>(13,522)</b>	<b>268</b>	<b>12,429</b>	<b>55,465</b>	–	<b>55,465</b>
Inventories	51,793	2,545	41	–	54,379	–	54,379
Other components of net working capital	4,299	(16,067)	227	12,429	708	–	708 <sup>(2)</sup>
<b>Net invested capital</b>	<b>310,765</b>	<b>130,448</b>	<b>3,604</b>	<b>14,737</b>	<b>459,554</b>	–	<b>459,554</b>

The balances indicated by notes 1) and 2) have been obtained as follows:

Notes	CONSOLIDATED TOTAL not included in PFN	TOTAL as per financial statements	of which included in NFP
1) Investments in associates	53,625	53,625	–
Investments in joint ventures	183,145	183,145	–
Other financial assets	16,577	16,577	–
Provision for future risks on equity-accounted investments reclassified from "Current provisions for future risks and expenses"	(2,808)	(2,808)	–
<b>Total investments in real estate funds and investment companies</b>	<b>250,539</b>	<b>250,539</b>	<b>–</b>
2) Deferred tax assets	24,325	24,325	–
Other non-current receivables	5,428	213,579	208,151
Current trade receivables	63,891	63,891	–
Other current receivables	35,741	35,917	176
Current tax receivables	8,465	8,465	–
Other non-current payables	(976)	(976)	–
Non-current tax payables	(7,376)	(7,376)	–
Current trade payables	(49,375)	(49,375)	–
Other current payables	(64,060)	(64,060)	–
Current tax payables	(12,829)	(12,829)	–
Derivative financial instruments	(2,526)	(2,526)	–
<b>Other components of net working capital</b>	<b>708</b>	<b>209,035</b>	<b>208,327</b>

Assets and liabilities by geographical area are as follows at December 31, 2011:

	Italy	Germany	Poland	NPL	Total	Intragroup eliminations	Consolidated total
<b>Fixed assets:</b>	<b>328,314</b>	<b>168,418</b>	<b>2,352</b>	<b>7,742</b>	<b>506,826</b>	–	<b>506,826</b>
Property, plant and equipment	3,757	835	130	82	4,804	–	4,804
Intangible assets, of which:	53,507	95,405	3,257	5,242	157,411	–	157,411
<i>Goodwill</i>	<i>45,310</i>	<i>95,184</i>	<i>3,257</i>	<i>4,378</i>	<i>148,129</i>	–	<i>148,129</i>
Investments in real estate funds and investment companies and other financial assets	271,050	72,178	(1,035)	2,418	344,611	–	344,611 <sup>(1)</sup>
<b>Net working capital</b>	<b>61,369</b>	<b>(11,302)</b>	<b>(334)</b>	<b>20,643</b>	<b>70,376</b>	–	<b>70,376</b>
Inventories	52,692	2,545	64	–	55,301	–	55,301
Other components of net working capital	8,677	(13,847)	(398)	20,643	15,075	–	15,075 <sup>(2)</sup>
<b>Net invested capital</b>	<b>389,683</b>	<b>157,116</b>	<b>2,018</b>	<b>28,385</b>	<b>577,202</b>	–	<b>577,202</b>

The balances indicated by notes 1) and 2) have been obtained as follows:

Notes	CONSOLIDATED TOTAL not included in PFN	TOTAL as per financial statements	of which included in NFP
1) Investments in associates	65,713	65,713	–
Investments in joint ventures	261,323	261,323	–
Other financial assets	24,706	24,706	–
Provision for future risks on equity-accounted investments reclassified from "Current provisions for future risks and expenses"	(7,131)	(7,131)	–
<b>Total investments in real estate funds and investment companies</b>	<b>344,611</b>	<b>344,611</b>	–
2) Deferred tax assets	26,407	26,407	–
Other non-current receivables	5,746	319,359	313,613
Current trade receivables	78,074	78,074	–
Other current receivables	45,925	45,988	63
Current tax receivables	11,048	11,048	–
Other non-current payables	(3,849)	(3,849)	–
Current trade payables	(74,852)	(74,852)	–
Other current payables	(62,144)	(62,144)	–
Current tax payables	(11,280)	(11,280)	–
<b>Other components of net working capital</b>	<b>15,075</b>	<b>328,751</b>	<b>313,676</b>

## 6.10. Related party transactions

The following tables show transactions and balances with related parties:

	01.01.2012/ 12.31.2012	Incidence % (*)	01.01.2011/ 12.31.2011	Incidence % (*)
Operating revenues	71,183	47,1%	97,942	52,6%
Operating costs	(11,407)	6,0%	(13,550)	5,2%
Net income from investments	(149,922)	100,5%	(184,241)	95,5%
Financial income	13,332	83,0%	27,404	92,0%
Financial expenses	(20,811)	34,3%	(9,161)	25,6%

(\*) The percentage incidence is calculated with reference to total financial statement items

	12.31.2012				12.31.2011			
	Total	Incidence % (*)	Non- current	Current	Total	Incidence % (*)	Non- current	Current
Trade receivables	46,745	73,2%	–	46,745	45,520	58,3%	–	45,520
Other receivables of which:	213,708	85,7%	208,105	5,603	319,778	87,5%	313,491	6,287
– <i>financial receivables</i>	208,271	100,0%	208,095	176	313,549	100,0%	313,486	63
Trade payables	(3,702)	7,5%	–	(3,702)	(8,185)	10,9%	–	(8,185)
Other payables	(20,639)	31,7%	–	(20,639)	(21,226)	32,2%	(2,608)	(18,618)
Tax payables	(1,324)	6,6%	–	(1,324)	(1,080)	9,6%	–	(1,080)
Bank borrowings and payables to other financial institutions	(175,382)	31,0%	(157,389)	(17,993)	(161,140)	30,6%	(160,038)	(1,102)
Provisions for future risks and expenses	(2,808)	5,2%	–	(2,808)	(7,131)	10,1%	–	(7,131)

(\*) The percentage incidence is calculated with reference to total financial statement items

Transactions and balances between the Prelios Group and associates, joint ventures and other companies in the Prelios Group are detailed as follows:

<b>Transactions and balances with associates/joint ventures and other Prelios Group companies</b>		
Operating revenues	70,170	These refer to contracts with Group companies for fund and asset management services (real estate and non performing loans) and technical and commercial services.
Operating costs	(4,856)	These refer to recharges of various kinds.
Net income from investments	(149,922)	This item mainly consists of the results of investments accounted for using the equity method, value adjustments made to certain investments held by the Group and dividends distributed by real estate funds and companies in which a minority interest is held.
Financial income	13,332	This mostly refers to interest earned on financial receivables held by Group companies.
Financial expenses	(5,987)	The item mainly relates to the discounting of receivables due to Group companies not consolidated on a line-by-line basis.
Current trade receivables	46,182	This balance includes the receivables relating to "operating revenues".
Other non-current receivables	208,105	
– of which financial receivables	208,095	This reflects the loans given to finance real estate projects being managed by the Group. These loans are classified as non-current assets by virtue of their terms of repayment, which match the medium-term disposal programmes of the real estate portfolios owned directly or indirectly by these companies. These loans carry interest rates that are in line with those applied by the principal market participants except for some companies which have been given non-interest bearing loans.
Other current receivables	4,872	The item includes, among other things, receivables for dividends resolved, but still to be collected and residual sundry receivables.
– of which financial receivables	176	
Current trade payables	(3,572)	They refer to recharges of various types, mainly attributable to rent, urbanisation charges and accessory costs.
Other current payables	(20,639)	These refer to different kinds of recharge.
Current tax payables	(1,324)	The amount relates mainly amounts owing to Trixia S.r.l. under its adoption of the "tax transparency" regime allowed by art. 115 of the Italian Income Tax Code, whereby a company's positive or negative taxable amounts are attributed to its shareholders.
Non-current bank borrowings and payables to other financial institutions	(32)	
Current bank borrowings and payables to other financial institutions	(4,487)	The item, amounting to 4,487 thousand euro includes not only residual intercompany current account balances due, but certain financial payables due to the parent company in respect of the obligation to be subscribed, via the investments Afrodite S.à.r.l. and Artemide S.à.r.l., shares of the Fondo Residenziale Diomira and due to the subsidiary Prelios Netherlands B.V. to subscribe shares of the Fondo Vivaldi.
Provisions for future risks and expenses	(2,808)	This refers to the provision for making good the losses of associates and joint ventures in excess of their carrying amounts.

For the sake of completeness, details will now be provided of the transactions and balances at December 31, 2012 between the Prelios Group and other parties that are indirectly related through the directors.

The following table provides details of transactions and balances with these related parties:

<b>Transactions and balances with Pirelli &amp; C. other Pirelli &amp; C. Group companies</b>		
Operating revenues	1,013	These relate mainly to the recovery of costs for the rental of some spaces in the Milan - HQ2 office, the chargeback by Lambda S.r.l. of site remediation costs for the area located in the Bicocca zone set aside to house the crèche/nursery school, as well as the recovery of costs for various services.
Operating costs	(921)	The item includes the costs of the health service provided by the company Poliambulatorio Bicocca S.r.l., the cost of IT support from Pirelli Sistemi Informativi S.r.l., costs charged back by Pirelli & C. S.p.A. for the rental of the R&D building and the use of some spaces in the HQ1 building, as well as the impact deriving from the sale of furniture to Pirelli Tyre S.p.A. and improvements to the Milan - HQ2 office.
Financial expenses	(14,824)	These relate to interest accrued on the loan granted by Pirelli & C. S.p.A., and the share of upfront commission paid for said loan.
Current trade receivables	562	These mainly refer to the recharge of various services reported in "Operating revenues".
Other current receivables	731	The item refers mostly to the guarantee deposit paid to Pirelli & C. S.p.A. for the rental of the R&D building.
Current trade payables	(130)	These refer mainly to payables for health services, information technology services and for certain site remediation services provided by companies in the Pirelli & C Group.
Non-current bank borrowings and payables to other financial institutions	(157,357)	They refer to the use of the floating rate credit facility granted by Pirelli & C. S.p.A. to Prelios S.p.A..
Current bank borrowings and payables to other financial institutions	(13,506)	These refer to interest payable on the credit facility granted by Pirelli & C. S.p.A..

### Cash flows

At December 31, 2012 there are no material cash flows relating to related party transactions that are not directly evidenced in the financial statements or in the accompanying notes.

### Key management personnel

At December 31, 2012, the remuneration of the 19 key managers (of whom 17 are in office as at December 31, 2012), meaning those persons, including the directors (whether executive or otherwise), with the authority and responsibility, directly or indirectly, for planning, managing and controlling the activities of Prelios S.p.A., amounts to 5,630 thousand euro (4,546 thousand euro at December 31, 2011), of which 3,412 thousand euro (1,799 thousand euro in 2011) classified in the income statement as "Personnel costs" and 2,218 thousand euro (2,747 thousand euro at December 31, 2011) recognised in the income statement as "Other costs".

The long-term portion is zero as at December 31, 2011.

## 6.11. Other information

### Independent auditor fees

The following table, prepared in accordance with art. 149-duodecies of the CONSOB Issuer Regulations, reports the fees paid in 2012 for auditing and other services provided by Reconta Ernst & Young S.p.A. and members of its network.

Description of appointment	Partial fees (Euro/000)	Total Fees (Euro/000)
<b>Auditing services:</b>		<b>1,921</b>
Prelios S.p.A.	1,118	
Subsidiaries	803	
<b>Certification services:</b>		<b>8</b>
Prelios S.p.A.	-	
Subsidiaries	8	
<b>Services other than auditing:</b>		<b>555</b>
Prelios S.p.A.	100	
Subsidiaries	455	
<b>Grand Total:</b>		<b>2,484</b>
Prelios S.p.A.		1,218
Subsidiaries		1,266

Milan, March 27, 2013

The Board of Directors

## 7. SUPPLEMENTARY TABLES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7.1. Appendix 1: Consolidation area

<i>Companies consolidated on a line-by-line basis</i>	Business sector at 12.31.2012	Registered office City/State	Share capital	Held at 12.31.2012 by	12.31.2012 % interest & voting rights (*)	12.31.2011 % interest & voting rights (*)
BauBeCon Treuhand GmbH	Real Estate	Hannover/Germany	€ 530,000	Prelios Immobilien Management GmbH	100,00%	100,00
Brand for Agency Services S.r.l. (formerly NewCo RE 1 S.r.l.) (1)	Real Estate	Milan/Italy	€ 30,000	Prelios S.p.A.	100,00%	100,00%
Centrale Immobiliare S.p.A.	Real Estate	Milan/Italy	€ 5,200,000	Prelios S.p.A.	100,00%	100,00%
CFT Finanziaria S.p.A.	NPL	Milan/Italy	€ 20,110,324	Prelios S.p.A.	100,00%	100,00%
DGAG Beteiligung GmbH & Co. KG	Real Estate	Hamburg/Germany	€ 42,118,455	Mistral Real Estate B.V.	94,90%	94,90%
DGAG Nordpartner GmbH & Co. KG	Real Estate	Hamburg/Germany	€ 2,760,976	Mistral Real Estate B.V.	94,00%	94,00%
Edinord Gestioni S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 100,000	Prelios S.p.A.	100,00%	100,00%
Einkaufszentrum Münzstrasse GmbH & Co. KG	Real Estate	Hamburg/Germany	DM 10,000,000	DGAG Beteiligung GmbH & Co. KG	74,80%	74,80%
				Prelios Deutschland GmbH	25,20%	25,20%
Erste DGAG Grundstücksgesellschaft mbH & Co. KG	Real Estate	Hamburg/Germany	DM+€ 970,000+31,700	DGAG Beteiligung GmbH & Co. KG	94,00%	94,00%
				Verwaltung Erste DGAG Grundstücksgesellschaft mbH	6,00%	6,00%
Geolidro S.p.A.	Real Estate	Naples/Italy	€ 3,099,096	Centrale Immobiliare S.p.A.	100,00%	100,00%
Iniziativa Immobiliari 3 S.r.l.	Real Estate	Milan/Italy	€ 10,000	Prelios S.p.A.	100,00%	100,00%
Lambda S.r.l.	Real Estate	Milan/Italy	€ 578,760	Prelios S.p.A.	100,00%	100,00%
Mistral Real Estate B.V. (Tracking Share) (**)	Real Estate	Amsterdam/Netherlands	€ 18,000	Prelios S.p.A.	35,02%	35,02%
Mistral Real Estate B.V. (Tracking Shares Goßlers Park) (**)	Real Estate	Amsterdam/Netherlands	€ 18,000	Prelios S.p.A.	35,02%	35,02%
Mistral Real Estate B.V. (Tracking Shares Osnabruck) (**)	Real Estate	Amsterdam/Netherlands	€ 18,000	Prelios S.p.A.	35,02%	35,02%
Mistral Real Estate B.V. (Tracking Shares Dresden) (**)	Real Estate	Amsterdam/Netherlands	€ 18,000	Prelios S.p.A.	35,02%	35,02%
Orione Immobiliare Prima S.p.A.	Real Estate	Milan/Italy	€ 104,000	Prelios S.p.A.	100,00%	100,00%
Parcheggi Bicocca S.r.l.	Real Estate	Milan/Italy	€ 1,500,000	Prelios S.p.A.	100,00%	100,00%
P.B.S. Società consortile a r.l. (in liquidation) (2)	Real Estate	Milan/Italy	€ 100,000	Prelios Property Management S.p.A.	60,00%	60,00%
Prelios Bulgaria AD in liquidation (3)	Real Estate	Sofia/Bulgaria	BGN –	Prelios Netherlands B.V.	–	75,00%
Prelios Agency S.p.A.	Real Estate	Milan/Italy	€ 1,000,000	Prelios S.p.A.	100,00%	100,00%
Prelios Agency Deutschland GmbH	Real Estate	Hamburg/Germany	€ 25,000	Prelios Deutschland GmbH	100,00%	100,00%
Prelios Asset Management Deutschland GmbH	Real Estate	Hamburg/Germany	€ 25,000	Prelios Deutschland GmbH	100,00%	100,00%
Prelios Credit Servicing S.p.A. (4)	NPL	Milan/Italy	€ 14,250,000	Prelios S.p.A.	80,00%	80,00%
Prelios Deutschland GmbH	Real Estate	Hamburg/Germany	€ 5,000,000	Prelios S.p.A.	100,00%	100,00%
Prelios Facility Management Deutschland GmbH	Real Estate	Hamburg/Germany	€ 25,600	Prelios Deutschland GmbH	100,00%	100,00%
Prelios Finance S.p.A. (5)	Real Estate	Milan/Italy	€ –	Prelios Agency S.p.A.	–	100,00%
Prelios Hausmeister Service Deutschland GmbH	Real Estate	Kiel/Germany	€ 25,000	Prelios Facility Management Deutschland GmbH	100,00%	100,00%
Prelios Immobilien Management GmbH	Real Estate	Hamburg/Germany	€ 25,000	Prelios Deutschland GmbH	100,00%	100,00%
Prelios Investments Deutschland GmbH (6)	Real Estate	Hamburg/Germany	€ 25,000	Prelios S.p.A.	100,00%	0,00%
Prelios Management Services Deutschland GmbH	Real Estate	Hamburg/Germany	€ 25,000	Prelios Deutschland GmbH	100,00%	100,00%
Prelios Netherlands B.V.	Real Estate	Amsterdam/Netherlands	€ 21,000	Prelios S.p.A.	100,00%	100,00%
Prelios Polska Sp.z.o.o. (formerly Prelli Pekao Real Estate Sp.z.o.o.) (7)	Real Estate	Warsaw/Poland	PLN 35,430,000	Prelios S.p.A.	100,00%	75,00%
Prelios Property & Project Management S.p.A.	Real Estate	Milan/Italy	€ 124,400	Prelios S.p.A.	100,00%	100,00%
Prelios Residential Investments GmbH	Real Estate	Hamburg/Germany	€ 570,000	Prelios S.p.A.	100,00%	100,00%
Prelios Società di Gestione del Risparmio S.p.A.	Real Estate	Milan/Italy	€ 24,558,763	Prelios S.p.A.	90,00%	90,00%
Prelios Valuations & e-Services S.p.A.	Real Estate	Milan/Italy	€ 298,999	Prelios Agency S.p.A.	100,00%	100,00%

<b>Companies consolidated on a line-by-line basis</b>	<b>Business sector at 12.31.2012</b>	<b>Registered office City/State</b>	<b>Share capital</b>	<b>Held at 12.31.2012 by</b>	<b>12.31.2012 % interest &amp; voting rights (%)</b>	<b>12.31.2011 % interest &amp; voting rights (%)</b>
<b>Subsidiaries</b>						
Progetto Vallata S.r.l. (in liquidation) (8)	Real Estate	Milan/Italy	€ 1,500,000	Prelios S.p.A.	80,00%	80,00%
Projekt Bahnhof Hamburg-Altona Verwaltungs GmbH	Real Estate	Hamburg/Germany	€ 25,000	Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG	100,00%	100,00%
Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG	Real Estate	Hamburg/Germany	€ 8,000,000	Prelios Deutschland GmbH	74,90%	74,90%
Servizi Amministrativi Real Estate S.p.A.	Other	Milan/Italy	€ 520,000	Prelios S.p.A.	100,00%	100,00%
SIB S.r.l.	Real Estate	Milan/Italy	€ 10,100	Prelios Credit Servicing S.p.A.	100,00%	100,00%
Sustainable Energy S.r.l.	Real Estate	Milan/Italy	€ 10,000	Prelios S.p.A.	100,00%	100,00%
Tau S.r.l. (in liquidation) (9)	Real Estate	Milan/Italy	€ -	Orione Immobiliare Prima S.p.A.	-	100,00%
Verwaltung Einkaufszentrum Münzstrasse GmbH	Real Estate	Hamburg/Germany	DM 50,000	DGAG Beteiligung GmbH & Co. KG	74,80%	74,80%
				Prelios Deutschland GmbH	25,20%	25,20%
Verwaltung Erste DGAG Grundstücksgesellschaft mbH	Real Estate	Hamburg/Germany	€ 25,000	DGAG Beteiligung GmbH & Co. KG	100,00%	100,00%
Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau mbH	Real Estate	Hamburg/Germany	€ 26,100	DGAG Beteiligung GmbH & Co. KG	100,00%	100,00%
<b>Companies accounted for using the equity method</b>						
<b>Associates</b>						
Cairoli Finance S.r.l. (in liquidation)	NPL	Milan/Italy	€ 10,000	Prelios S.p.A.	35,00%	35,00%
Dixia S.r.l. (10)	Real Estate	Milan/Italy	€ -	Prelios S.p.A.	-	30,00%
Monteverdi - closed-end speculative real estate investment fund	Real Estate	Milan/Italy	€ 62,000,000	Iniziativa Immobiliari 3 S.r.l.	29,84%	29,84%
				Prelios Società di Gestione del Risparmio S.p.A.	4,03%	4,03%
				Tiglio I S.r.l.	66,13%	66,13%
Olinda Fondo Shops - Listed private contribution fund (*)	Real Estate	Milan/Italy	€ NA	Prelios Società di Gestione del Risparmio S.p.A.	5,18%	5,18%
				Prelios Netherlands B.V.	6,64%	6,64%
Progetto Corsico S.r.l.	Real Estate	Milan/Italy	€ 100,000	Prelios S.p.A.	49,00%	49,00%
Progetto Fontana S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 10,000	Prelios S.p.A.	23,00%	23,00%
Sci Roey Texas Partners L.P.	Real Estate	Dallas/USA	\$ 12,000,000	Prelios S.p.A.	10,00%	10,00%
S.J. Acquisition L.P.	Real Estate	New York/USA	\$ 1,243,465	Prelios S.p.A.	10,00%	10,00%
Spazio Investment N.V. (*)	Real Estate	Amsterdam/Netherlands	€ 4,589,189	Prelios Netherlands B.V.	22,07%	22,07%
				Spazio Investment N.V.	0,23%	0,23%
<b>Joint venture</b>						
Afrodite S.à.r.l.	Real Estate	Luxembourg	€ 4,129,475	Prelios S.p.A.	40,00%	40,00%
Aida RE B.V.	Real Estate	Amsterdam/Netherlands	€ 18,000	Prelios Netherlands B.V.	40,00%	40,00%
Alceo B.V.	Real Estate	Amsterdam/Netherlands	€ 18,000	Prelios S.p.A.	33,00%	33,00%
Alimede Luxembourg S.à.r.l.	Real Estate	Luxembourg	€ 12,955	Prelios S.p.A.	35,05%	35,00%
Alnitak S.à.r.l.	Real Estate	Luxembourg	€ 4,452,500	Prelios S.p.A.	35,00%	35,00%
Aree Urbane S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 100,000	Prelios S.p.A.	34,60%	34,60%
Artemide S.à.r.l.	Real Estate	Luxembourg	€ 2,857,050	Prelios S.p.A.	35,00%	35,00%
Austin S.à.r.l.	Real Estate	Luxembourg	€ 125,000	Prelios S.p.A.	28,46%	28,46%
Beteiligungsgesellschaft Einkaufszentrum Mülheim mbH	Real Estate	Hamburg/Germany	DM 60,000	Prelios Deutschland GmbH	41,17%	41,17%
Biococa S.à.r.l.	Real Estate	Luxembourg	€ 12,520	Prelios S.p.A.	35,00%	35,00%
Castello S.r.l. (in liquidation) (11)	Real Estate	Milan/Italy	€ -	Prelios S.p.A.	-	49,10%
City Center Mülheim Grundstücksgesellschaft mbH & Co. KG	Real Estate	Hamburg/Germany	€ 47,805,791	Prelios Deutschland GmbH	41,18%	41,18%
Colombo S.à.r.l.	Real Estate	Luxembourg	€ 960,150	Prelios S.p.A.	35,00%	35,00%
Consorzio G6 Advisor	Real Estate	Milan/Italy	€ 50,000	Prelios Agency S.p.A.	42,30%	42,30%
Continuum S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 500,000	Prelios S.p.A.	40,00%	40,00%

<b>Companies consolidated on a line-by-line basis</b>	<b>Business sector at 12.31.2012</b>	<b>Registered office City/State</b>	<b>Share capital</b>	<b>Held at 12.31.2012 by</b>	<b>12.31.2012 % interest &amp; voting rights (%)</b>	<b>12.31.2011 % interest &amp; voting rights (%)</b>
Dallas S.à.r.l.	Real Estate	Luxembourg	€ 125,000	Prelios S.p.A.	28,46%	28,46%
Delamain S.à.r.l.	Real Estate	Luxembourg	€ 12,500	Prelios S.p.A.	49,00%	49,00%
Doria S.à.r.l.	Real Estate	Luxembourg	€ 992,850	Prelios S.p.A.	35,00%	35,00%
Einkaufszentrum Mülheim GmbH & Co. KG	Real Estate	Hamburg/Germany	€ 26,075,886	Prelios Deutschland GmbH	41,18%	41,18%
Espelha Serviços de Consultadoria L.d.A.	NPL	Funchal/Madeira	€ 5,000	Prelios S.p.A.	49,00%	49,00%
European NPL S.A.	NPL	Luxembourg	€ 2,538,953	Prelios S.p.A.	33,00%	33,00%
Fondo Città di Torino - closed-end speculative real estate investment fund	Real Estate	Milan/Italy	€ 34,500,000	Prelios Netherlands B.V.	36,23%	36,23%
Gamma RE B.V.	Real Estate	Amsterdam/Netherlands	€ 18,000	Prelios Netherlands B.V.	49,00%	49,00%
Gemeinnützige Wohnungsgesellschaft für den Kreis Herzogtum Lauenburg mbH	Real Estate	Lübeck/Germany	€ 816,900	Prelios S.p.A.	2,05%	2,05%
				Solaia Real Estate B.V.	94,87%	94,87%
Gesellschaft für Wohnungsbau Lübeck mbH	Real Estate	Lübeck/Germany	€ 900,000	Prelios S.p.A.	2,04%	2,04%
				Prelios DGAG Deutsche Grundvermögen GmbH	94,90%	94,90%
Golfo Aranci S.p.A. - Urban transformation company	Real Estate	Golfo Aranci (OT)/Italy	€ 1,000,000	Prelios S.p.A.	43,80%	43,80%
				Centrale Immobiliare S.p.A.	5,00%	5,00%
Grundstücksgesellschaft Königstraße mbH & Co. KG	Real Estate	Hamburg/Germany	€ 1,024,629	DGAG Beteiligung GmbH & Co. KG	44,90%	44,90%
				Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau mbH	5,10%	5,10%
Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG	Real Estate	Hamburg/Germany	€ 22,905,876	Prelios Deutschland GmbH	33,75%	33,75%
GWL Wohnungsbetreuungsgesellschaft mbH	Real Estate	Lübeck/Germany	€ 26,000	Prelios S.p.A.	1,99%	1,99%
				Gesellschaft für Wohnungsbau Lübeck mbH	94,80%	94,80%
GWK Braunschweig GmbH	Real Estate	Braunschweig/Germany	€ 1,050,000	Prelios S.p.A.	2,99%	2,99%
				Prelios DGAG Deutsche Grundvermögen GmbH	92,50%	92,50%
Heimstätten Lübeck GmbH	Real Estate	Lübeck/Germany	€ 3,000,000	Prelios S.p.A.	2,04%	2,04%
				Solaia Real Estate B.V.	94,90%	94,90%
Kurpromenade 12 Timmendorfer Strand GG KG	Real Estate	Hamburg/Germany	€ 6,237,761	Prelios Deutschland GmbH	50,00%	50,00%
IN Holdings I S.à.r.l.	Real Estate	Luxembourg	€ 2,595,725	Prelios S.p.A.	20,50%	20,50%
Induxia S.r.l. (in liquidation) (12)	Real Estate	Milan/Italy	€ 40,000	Prelios S.p.A.	24,75%	24,75%
Inimm Due S.à.r.l.	Real Estate	Luxembourg	€ 240,950	Prelios S.p.A.	25,01%	25,01%
Iniziativa Immobiliari S.r.l. (in liquidation) (13)	Real Estate	Milan/Italy	€ 5,000,000	Prelios S.p.A.	49,46%	49,46%
Manifatture Milano S.p.A.	Real Estate	Rome/Italy	€ 11,230,000	Prelios S.p.A.	50,00%	50,00%
Maro S.r.l. (in liquidation)	NPL	Milan/Italy	€ 20,000	Prelios S.p.A.	25,00%	25,00%
Masseto I B.V.	Real Estate	Amsterdam/Netherlands	€ 19,000	Prelios S.p.A.	33,00%	33,00%
Mistral Real Estate B.V.	Real Estate	Amsterdam/Netherlands	€ 18,000	Prelios S.p.A.	35,02%	35,02%
M.S.M.C. Italy Holding B.V.	Real Estate	Amsterdam/Netherlands	€ 20,053	Prelios S.p.A.	25,00%	25,00%
Nashville S.à.r.l.	Real Estate	Luxembourg	€ 125,000	Prelios S.p.A.	28,46%	28,46%
Polish Investments Real Estate Holding B.V. (14)	Real Estate	Amsterdam/Netherlands	€ -	Prelios S.p.A.	-	40,00%
Polish Investments Real Estate Holding II B.V.	Real Estate	Amsterdam/Netherlands	€ 18,000	Prelios S.p.A.	40,00%	40,00%
Popoy Holding B.V.	Real Estate	Rotterdam/Netherlands	€ 26,550	Prelios S.p.A.	25,00%	25,00%
Prelios Finance S.p.A. (5)	Real Estate	Milan/Italy	€ 120,000	Prelios Agency S.p.A.	20,00%	0,00%
Progetto Bicocca La Piazza S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 3,151,800	Prelios S.p.A.	26,00%	26,00%
Progetto Bicocca Università S.r.l. (in liquidation)	Real Estate	Cinisello Balsamo/Italy	€ 50,360	Prelios S.p.A.	50,50%	50,50%
Progetto Gioberti S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 100,000	Prelios S.p.A.	50,00%	50,00%

<i>Companies consolidated on a line-by-line basis</i>	<i>Business sector at 12.31.2012</i>	<i>Registered office City/State</i>	<i>Share capital</i>	<i>Held at 12.31.2012 by</i>	<i>12.31.2012 % interest &amp; voting rights (*)</i>	<i>12.31.2011 % interest &amp; voting rights (*)</i>
<i>Subsidiaries</i>						
Resident Baltic GmbH	Real Estate	Berlin/Germany	€ 25,000	Prelios Netherlands B.V. S.I.G. RE B.V.	5,20% 94,80%	5,20% 94,80%
Resident Berlin 1 P&K GmbH	Real Estate	Berlin/Germany	€ 125,000	Prelios Residential Investments GmbH	40,00%	40,00%
Resident Sachsen P&K GmbH	Real Estate	Berlin/Germany	€ 25,000	Prelios Netherlands B.V. S.I.G. RE B.V.	5,20% 94,80%	5,20% 94,80%
Resident West GmbH	Real Estate	Hamburg/Germany	€ 25,000	Prelios Netherlands B.V. S.I.G. RE B.V.	5,20% 94,80%	5,20% 94,80%
Riva dei Ronchi S.r.l.	Real Estate	Milan/Italy	€ 100,000	Prelios S.p.A.	50,00%	50,00%
Roca S.r.l. (in liquidation)	NPL	Milan/Italy	€ 20,000	Prelios S.p.A.	25,00%	25,00%
Sicity Investments S.à.r.l.	Real Estate	Luxembourg	€ 12,500	Prelios S.p.A.	40,00%	40,00%
Sigma RE B.V.	Real Estate	Amsterdam/Netherlands	€ 18,000	Prelios Netherlands B.V.	24,66%	24,66%
S.I.G. RE B.V.	Real Estate	Amsterdam/Netherlands	€ 18,000	Prelios Netherlands B.V.	47,20%	47,20%
SI Real Estate Holding B.V. (in liquidation)	Real Estate	Amsterdam/Netherlands	€ 763,077	Prelios S.p.A.	25,00%	25,00%
Solaia RE S.à.r.l.	Real Estate	Luxembourg	€ 13,000	Prelios S.p.A.	40,00%	40,00%
Solaris S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 20,000	Prelios S.p.A.	40,00%	40,00%
Tamerice Immobiliare S.r.l. (in liquidation) (15)	Real Estate	Milan/Italy	€ 500,000	Prelios S.p.A.	20,00%	20,00%
Theta RE B.V.	Real Estate	Amsterdam/Netherlands	€ 18,005	Prelios Netherlands B.V.	40,00%	40,00%
Tizian Wohnen 1 GmbH (16)	Real Estate	Berlin/Germany	€ -	Prelios Residential Investments GmbH	-	40,00%
Tizian Wohnen 2 GmbH (17)	Real Estate	Berlin/Germany	€ -	Prelios Residential Investments GmbH	-	40,00%
Trinacria Capital S.à.r.l.	Real Estate	Luxembourg	€ 12,500	Prelios S.p.A.	40,00%	40,00%
Trixia S.r.l.	Real Estate	Milan/Italy	€ 1,209,700	Prelios S.p.A.	36,00%	36,00%
Verwaltung Büro- und Lichtspielhaus Hansaallee GmbH	Real Estate	Hamburg/Germany	DM 50,000	Prelios Deutschland GmbH Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG	27,00% 20,00%	27,00% 20,00%
Verwaltung City Center Mülheim Grundstücksges. GmbH	Real Estate	Hamburg/Germany	DM 60,000	Prelios Deutschland GmbH	41,17%	41,17%
Verwaltung Kurpromenade 12 Timmendorfer Strand GG mbH	Real Estate	Hamburg/Germany	DM 50,000	Prelios Deutschland GmbH	50,00%	50,00%
Verwaltung Mercado Ottensen Grundstücksgesellschaft mbH	Real Estate	Hamburg/Germany	DM 50,000	Prelios Netherlands B.V. Mistral Real Estate B.V.	44,00% 50,00%	44,00% 50,00%
Vespucci S.à.r.l.	Real Estate	Luxembourg	€ 960,150	Prelios S.p.A.	35,00%	35,00%
Vesta Finance S.r.l.	NPL	Milan/Italy	€ 10,000	Prelios S.p.A.	35,00%	35,00%
Vivaldi - closed-end speculative real estate investment fund (18)	Real Estate	Milan/Italy	€ 20,400,000	Prelios Netherlands B.V.	50,00%	50,00%
<b>Other significant investments, as defined by CONSOB Resolution 11971 of May 14, 1999</b>						
AWW Assekuranzvermittlung der Wohnungs wirts chaft GmbH & Co KG	Real Estate	Hamburg/Germany	€ 260,000	Prelios Netherlands B.V. Prelios Deutschland GmbH	10,50% 0,20%	10,50% 0,20%
Tecnocittà S.r.l. (in liquidation)	Non operative	Milan/Italy	€ 547,612	Prelios S.p.A.	12,00%	12,00%
WoWi Media GmbH & Co. KG (19)	Real Estate	Hamburg/Germany	€ -	Prelios Netherlands B.V.	-	18,85%

(\*) Percentages refer to the direct interest held by the company concerned, including any treasury shares held.

(\*\*) With reference to the Mistral Real Estate B.V. joint venture, the situation of joint control involving both shareholders was relinquished under agreement, in relation to certain development initiatives, through the creation of new classes of shares ("Tracker Shares") in the share capital of Mistral Real Estate B.V., concerning a different breakdown of costs, benefits and rights between the two partners. In fact, ownership of Tracker Shares determined, upon activation of the put and call rights mechanism, the right of de facto control by Prelios S.p.A. over certain companies in the Mistral Real Estate Group related to development initiatives, despite not holding the majority stake in said companies. This situation involved the inclusion of said investments in the area of consolidation in the Prelios S.p.A. financial statements, in application of the accounting standards, given that all the risk, benefits and rights relating to said development initiatives are attributable to Prelios S.p.A.. Despite the above, the Tracker Shares mechanism does not affect, however, the control of Mistral Real Estate B.V., which remains a company not controlled by Prelios S.p.A..

(1) On June 25, 2012, the change of company name to "Brand for Agency Services S.r.l." took effect.

(2) On May 24, 2012, the shareholders' meeting resolution was recorded, under which the meeting of the consortium members of the company P.B.S. S.c.a r.l. resolved,

among other things, the early winding up of the company, which therefore assumes the new company name: P.B.S. S.c.a.r.l. (in liquidation).

(3) On December 13, 2012, the company Prelios Bulgaria AD in liquidation was struck off the Registry held at the competent Chamber of Commerce of Sofia.

(4) On February 7, 2012, the certification of the subscription of the second and final tranches of the share capital increase resolved by the Extraordinary Shareholders' Meeting of Prelios Credit Servicing S.p.A. on June 7, 2011 was registered at the Milan Companies Register. Therefore, the share capital of the company is 14,250,000.00 euro, fully paid up.

(5) On April 2, 2012, Prelios Agency S.p.A. transferred the 80% stake held in Prelios Finance S.p.A. to third parties. Following the aforementioned transaction, the Prelios Group holds 20% of the share capital of Prelios Finance S.p.A.. In addition, on December 20, 2012, the company resolved to change its company name to "24 Finance Mediazione Creditizia S.p.A." "This change became effective on January 3, 2013."

(6) on March 7, 2012, Prelios S.p.A. acquired the German company Vindusvisker Vermögensverwaltungsgesellschaft GmbH from third parties, which then changed its company name to Prelios Investments Deutschland GmbH.

(7) On November 15, 2012, Prelios S.p.A. purchased a 25% stake in Pirelli Pekao Real Estate Sp.z.o.o. from third parties. Following the aforementioned transaction, Prelios S.p.A. owns all the share capital of Pirelli Pekao Real Estate S.p.z.o.o.. Furthermore, effective as of December 31, 2012, the company changed its company name to "Prelios Polska Sp.z.o.o."

(8) On September 14, 2012, the early winding up of the company Progetto Vallata S.r.l. took effect, and the subsequent change of company name to Progetto Vallata S.r.l. (in liquidation).

(9) On June 12, 2012 the company Tau S.r.l. (in liquidation) was struck off the Companies Register in Milan.

(10) On December 21, 2012 – date of registration of the transfer of shares on December 14, 2012 – Prelios S.p.A. transferred to third parties its stake of a nominal 750,000 euro (30%) held in the company Dixia S.r.l.. Following the aforementioned transfer, the company is wholly owned by third parties.

(11) On April 11, 2012 the company Castello S.r.l. (in liquidation) was struck off the Companies Register in Milan.

(12) On August 8, 2012, the assignment of investments subscribed by SI Real Estate Holding B.V. became effective, involving a 27% stake in the company "Induxia S.r.l. (in liquidation)", as described below: a share of 6.75% was assigned to Prelios S.p.A. and a share of 20.25% to a third party.

(13) On October 25, 2012, the date of registration of the resolution of the shareholders' meeting held on October 17, among other things, the early winding up of the company Iniziative Immobiliari took effect, and the subsequent change of company name to Iniziative Immobiliari S.r.l. – in liquidation.

(14) December 20, 2012 saw the sale of shares held by Prelios S.p.A. in the company Polish Investments Real Estate Holding B.V. which, therefore, as at December 31, 2012, is no longer valued using the equity method.

(15) On April 20, 2012, the resolution relating to the early winding up of the company Tamerice Immobiliare S.r.l. took effect, which therefore assumes the new company name Tamerice Immobiliare S.r.l. (in liquidation).

(16) Effective as of August 29, 2012, the company Prelios Residential Investments GmbH transferred to third parties its stake held in the company Tizian Wohnen 1 GmbH, equal to 39.9991%. Following the aforementioned transfer, the company Tizian Wohnen 1 GmbH is wholly owned by third parties.

(17) Effective as of August 29, 2012, the company Prelios Residential Investments GmbH transferred to third parties its stake held in the company Tizian Wohnen 2 GmbH, equal to 40.0058% of the share capital. Following the aforementioned transfer, the company Tizian Wohnen 2 GmbH is wholly owned by third parties.

(18) On September 26, 2012, the company Prelios Netherlands B.V. subscribed a new share in the Vivaldi Fund of 200,000 euro. The investment share remained unchanged.

(19) Effective as of December 31, 2012, the company Prelios Netherlands B.V. transferred its stake held in WoWi Media GmbH & Co. KG, equal to 18.85%; therefore, at the date of these financial statements, the company is not included in the Group perimeter.

## 8. CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Certification of the consolidated financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments and additions

1. The undersigned Sergio Iasi, in his capacity as Chief Executive Officer, and Angelo Cattaneo, in his capacity as Manager Responsible for Corporate Financial Reporting of Prelios S.p.A., certify, also taking into account the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for formation of the consolidated financial statements, during the period January 1, 2012 – December 31, 2012.

2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for formation of the consolidated financial statements for the year ended December 31, 2012 was evaluated on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the “Internal Control – Integrated Framework” guidelines issued by the “Committee of Sponsoring Organisations of the Treadway Commission” (COSO) which is a reference framework generally accepted at international level.

3. We also certify that:

3.1 The consolidated financial statements:

- a) were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) No. 1606/2002 of the European Parliament and Council, of July 19, 2002;
- b) correspond to the information in the accounting books and documents;
- c) are capable of providing a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the group of companies included in the consolidation.

3.2 The report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity and of the group of companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

March 27, 2013

The Chief Executive Officer

(Sergio Iasi)



The Manager Responsible  
for Corporate Financial Reporting

(Angelo Cattaneo)



## 9. INDEPENDENT AUDITORS' REPORT



Reconta Ernst & Young S.p.A.  
Via della Chiesa, 2  
20123 Milano  
Tel. (+39) 02 722121  
Fax (+39) 02 72212037  
www.ey.com

**Independent auditors' report  
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010  
(Translation from the original Italian text)**

To the Shareholders  
of Prelios S.p.A.

1. We have audited the consolidated financial statements of Prelios S.p.A. and its subsidiaries, (the "Prelios Group") as of and for the year ended December 31, 2012, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Prelios S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 26, 2012.

3. In our opinion, the consolidated financial statements of the Prelios Group at December 31, 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Prelios Group for the year then ended.
4. As a matter of emphasis, we refer to the disclosure included in the directors' report on operations and in the explanatory note "6.2 - Basis for preparation - going concern assumption in preparing the financial statements" with reference to the status of the recapitalization and debt restructuring project of the Parent Company and to the introduction of a new shareholder, with management responsibilities, the industrial investor Feidos S.p.A.; the Directors prepared the consolidated financial statements at December 31, 2012 on a going concern basis, considering the announced availability to participate into and execute such project from the new investor, the lenders of the Parent Company and some of the shareholders bound in the current shareholders' agreement of Prelios.

Reconta Ernst & Young S.p.A.  
Sede Legale: 00198 Roma - Via Pio, 32  
Capitale Sociale € 2.402.500,00 i.v.  
Inscritta alla S.C. del Registro delle Imprese presso la C.C.I.A.A. di Roma  
Codice fiscale e numero di iscrizione 00434000584  
P.I. 00891231003  
Iscritta all'Albo Revisori Contabili al n. 70945, Pubblicato sulla G.U.  
Suppl. 13 - IV Serie Speciale del 17/2/1998  
Iscritta all'Albo Speciale delle società di revisione  
Consolo al progressivo n. 2 dell'Albo n. 10831 del 18/7/1997

A member firm of Ernst & Young Global Limited



5. The Directors of Prelios S.p.A. are responsible for the preparation of the directors' report on operations and of the annual report on corporate governance and ownership assets in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the consolidated financial statements of the directors' report on operations and of the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on corporate governance and ownership assets, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the directors' report on operations and the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on corporate governance and ownership assets, are consistent with the consolidated financial statements of the Prelios Group as of December 31, 2012.

Milan, March 28, 2013

Reconta Ernst & Young S.p.A.

Signed by: Alberto Romeo, Partner

This report has been translated into the English language solely for the convenience of international readers.



## C. ANNUAL REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES

### CONTENTS

GLOSSARY .....	156
1. PROFILE OF THE ISSUER .....	157
2. INFORMATION ON OWNERSHIP STRUCTURES (PURSUANT TO ART. 123-BIS, PARAGRAPH 1, OF THE CFA) .....	158
• Structure of the share capital .....	158
• Significant interests in the capital .....	158
• Agreements among shareholders .....	159
• Change of control clauses and provisions established by the Articles of Association on the takeover bid (pursuant to Art. 104, paragraph 1-ter, and 104-bis, paragraph 1, CFA) .....	160
• Delegated powers to increase the share capital and authorisations to purchase treasury shares .....	160
• Management and co-ordination activities (pursuant to Art. 2497 et seq. of the Italian Civil Code) .....	161
3. COMPLIANCE (pursuant to Art. 123-bis, paragraph 2, letter A) CFA) .....	161
4. BOARD OF DIRECTORS .....	162
4.1. Appointment and replacement (pursuant to Art. 123-bis, paragraph 1, letter l, CFA) .....	162
4.2. Composition (pursuant to Art. 123-bis, paragraph 2, letter d) CFA) .....	163
4.3. Role of the board of directors (pursuant to Art. 123-bis, paragraph 2, letter d), CFA) .....	164
4.4. Delegated bodies .....	166
4.5. Other executive directors .....	168
4.6. Independent directors .....	168
4.7. Lead independent director .....	169
5. HANDLING OF CORPORATE INFORMATION .....	169
6. INTERNAL BOARD COMMITTEES (pursuant to Art. 123-bis, paragraph 2, letter D), CFA) .....	170
7. APPOINTMENT COMMITTEE .....	170
8. REMUNERATION COMMITTEE .....	170
9. DIRECTORS' REMUNERATION .....	171
10. INTERNAL CONTROL, RISK AND CORPORATE GOVERNANCE COMMITTEE .....	174
11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM .....	177
11.1. Executive director in charge of the internal control and risk management system .....	178
11.2. Head of internal audit .....	178
11.3. Organisational model pursuant to Italian Legislative Decree 231/2001 .....	179
11.4. Independent auditors .....	181
11.5. Manager responsible for corporate financial reporting and other company roles and positions .....	181
11.6. Coordination between the parties involved in the internal control and risk management system .....	182
12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES .....	182
13. APPOINTMENT OF STATUTORY AUDITORS .....	183
14. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (pursuant to Art. 123-bis, paragraph 2, letter D) CFA) .....	185
15. RELATIONS WITH SHAREHOLDERS .....	186
16. SHAREHOLDERS' MEETINGS (pursuant to Art. 123-bis, paragraph 2, letter A) CFA) .....	187
17. FURTHER CORPORATE GOVERNANCE PRACTICES (pursuant to Art. 123-bis, paragraph 2, letter A) CFA) .....	187
18. CHANGES SINCE THE END OF THE REFERENCE FINANCIAL YEAR .....	188
ANNEX 1: .....	188
"Main characteristics of the risk management and internal control systems existing in relation to the financial reporting process" pursuant to Art. 123-bis, paragraph 2, let. B), CFA .....	188
TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES .....	189
TABLE 2: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS .....	190
ANNEX 2: LIST OF DIRECTORS' MAIN OFFICES .....	191

**GLOSSARY**

<b>Code/Code of Conduct:</b>	the Code of Conduct for listed companies approved in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A. The Code is available to the public on the Borsa Italiana S.p.A. website <a href="http://www.borsaitaliana.it">www.borsaitaliana.it</a> .
<b>Civil Code/C.C.:</b>	the Italian Civil Code.
<b>Board of Statutory Auditors:</b>	the Board of Statutory Auditors of PRELIOS S.p.A.
<b>Board of Directors:</b>	the Board of Directors of PRELIOS S.p.A.
<b>Date of the Report:</b>	the meeting of March 27, 2013 of the Board of Directors that approved this Report
<b>Manager Responsible for Corporate Financial Reporting:</b>	the Manager responsible for preparing the corporate accounting documents provided for by Art. 154-bis of the CFA.
<b>Issuer:</b>	PRELIOS S.p.A. or PRELIOS or the Company.
<b>Financial year:</b>	the financial year to which the Report relates.
<b>PRELIOS Group or Group:</b>	the Issuer and the companies controlled by it pursuant to Art. 93 of the CFA.
<b>Extraordinary Transaction:</b>	the extraordinary transaction aimed at equity strengthening through the recapitalisation of the company and the rebalancing of the financial structure, as well as the revival of the industrial development prospects of the Group, announced to the market several times.
<b>RPT Procedure:</b>	the Procedure for related party transactions, approved by the Board of Directors on November 3, 2010 (and subsequently amended on November 11, 2011), prepared under the terms and for the purposes of Art. 2391-bis of the Italian Civil Code and the "Regulation on Transactions with Related Parties" adopted with Consob Resolution no. 17221 of March 12, 2010 (as amended by Consob Resolution no. 17389 of June 23, 2010) taking into account the instructions and explanations provided by Consob with Notice no. DEM/10078683 of September 24, 2010.
<b>Issuers' Regulation:</b>	the Regulations concerning the provisions on issuers, adopted by Consob with Resolution no. 11971 of May 14, 1999 as subsequently amended and supplemented.
<b>Market Regulations:</b>	the Regulations on markets adopted by Consob with Resolution no. 16191 of October 29, 2007 as subsequently amended and supplemented.
<b>Report:</b>	the Report on Corporate Governance and Ownership Structures that the companies are required to prepare pursuant to the CFA and the Issuers' Regulation.
<b>Website:</b>	the Company's website <a href="http://www.prelios.com">www.prelios.com</a> .
<b>Articles of Association:</b>	the Issuer's Articles of Association.
<b>Consolidated External Audit Act:</b>	Italian Legislative Decree no. 39 of January 27, 2010, which transposes Directive 2006/43/EC on the external auditing of annual accounts and consolidated accounts.
<b>CFA/Consolidated Finance Act:</b>	Italian Legislative Decree no. 58 of February 24, 1998 as subsequently amended and supplemented.

## 1. PROFILE OF THE ISSUER

The Company's corporate governance structure is organised according to a so-called traditional administration and control system in which management is the exclusive responsibility of the **Board of Directors**, the supervisory duties of the Board of Statutory Auditors and the external audit of the independent auditors entered in the special register kept by Consob.

In accordance with the recommendations of the Code of Conduct and the principles of corporate governance observed internationally and recommended at the European Union level, the Board has also set up internal committees with propositional and advisory functions.

The Shareholders' Meeting of PRELIOS, held on April 21, 2011, appointed the Company's Board of Directors, who would remain in office for three financial years, and mainly, until the approval of the financial statements as at December 31, 2013.

The appointment of one-fifth of the directors to be elected is reserved for a qualified minority of shareholders submitting a list of candidates <sup>(1)</sup>, in accordance with the provisions of the law and of the articles of association.

The Board currently in office was appointed on the basis of a single list presented by the shareholders Camfin S.p.A., Mediobanca S.p.A., Edizione S.r.l., Assicurazioni Generali S.p.A., Intesa SanPaolo S.p.A. and Massimo Moratti, signatories of the shareholders' agreement on Prelios shares signed on October 25, 2010 for a period of 18 months and renewed, on March 25, 2012, for a further 18 months, from April 25, 2012 to October 25, 2013.

As pointed out later, following the final approval by the Board of the Extraordinary Transaction, all the Directors of Prelios decided to resign on March 27, 2013, effective as from the end of the next Shareholders' Meeting called, among other things, to approve the financial statements as at December 31, 2012.

The Board is the body granted the widest powers for ordinary and extraordinary administration <sup>(2)</sup> and performs all the duties provided for in Art. 1.C.1. of the Code.

The **Board of Statutory Auditors** is the body appointed to supervise observance of the law and the Articles of Association, compliance with the principles of correct administration, adequacy of the internal control system and of the organisational, administrative and accounting structure and its reliability.

It is also called upon to supervise correct implementation of the corporate governance rules adopted by the Company and to submit a reasoned proposal to the Shareholders' Meeting on assignment of the external auditing task, ensuring the independence of the independent auditors. In particular, following the coming into force of the Consolidated External Audit Act, the Board of Statutory Auditors must carry out further and/or reinforced supervisory tasks as "Internal Control and Audit Committee", as better described below.

Pursuant to the Articles of Association, the Board of Statutory Auditors is composed of three standing auditors and two alternate auditors, appointed for a period of three financial years and they can be re-elected. The appointment of one standing auditor and one alternate auditor is reserved for a qualified minority of shareholders submitting a list of candidates, in accordance with the provisions of the law and of the articles of association, and the Auditor appointed by the minority chairs the Board of Statutory Auditors <sup>(3)</sup>.

The Board of Statutory Auditors currently in office was appointed without the submission of minority lists.

The **Shareholders' Meeting** is the body representing all the shareholders whose task is to resolve (i) in ordinary meetings, on approving the annual financial statements, appointing and dismissing members of the Board of Directors, appointing members of the Board of Statutory Auditors and their Chairman, determining the fees of Directors and Auditors, appointing independent auditors, on the responsibility of Directors and Auditors and on any further matters over which it has powers; (ii) in extraordinary meetings, on amendments to the Articles of Association and extraordinary transactions such as increases in capital, and mergers and demergers, unless the Board of Directors have such powers under the articles of association and pursuant to the law.

**Independent auditors**, entered in the special register kept by Consob, carried out the independent auditing activities, pursuant to the law. The independent auditors are appointed by the Shareholders' Meeting, on the reasoned proposal of the Board of Statutory Auditors <sup>(4)</sup>.

(1) Pursuant to the Articles of Association (art. 12), the Company is managed by a Board of Directors composed of from 5 to 19 members who remain in office for three financial years (unless a shorter period is established by the Shareholders' Meeting at the time of appointment) and may be re-elected. The Shareholders' Meeting determines the number of members of the Board of Directors, a number that remains fixed until resolved otherwise. The Board of Directors is appointed by list vote and the Directors are subject to the causes for ineligibility for election and forfeiture laid down by law.

(2) See Art. 18 of the Articles of Association for the responsibilities they assign to the Board.

(3) See article 22 of the Articles of Association.

(4) On the reasoned proposal of the Board of Statutory Auditors, the Shareholders' Meeting of April 14, 2008 appointed Reconta Ernst & Young S.p.A. to carry out independent audits for the nine-year period 2008-2016.

## 2. INFORMATION on OWNERSHIP STRUCTURES (pursuant to Art. 123-bis, paragraph 1, of the CFA) [on the Date of Report]

### • Structure of the share capital

Amount of **share capital**, subscribed and paid-up: 218,877,613.14 euro <sup>(5)</sup>.

Categories of shares forming the share capital: ordinary, registered and freely transferable without a face value. There are no other categories of shares.

No financial instruments attributing the right to subscribe newly issued shares have been issued. At the date of the Report, the Company has in being no financial-instrument-based incentive plans.

	N° of shares	% of share capital	Listed	Rights and obligations
Ordinary shares	841,171,777	100%	Italian Stock Exchange MTA	=

There are no restrictions on the transfer of shares.

\*

At its meeting on March 27, 2013 the Board of Directors, among other things, resolved, in relation to the Extraordinary Transaction, to propose to the Shareholders' Meeting approving the 2012 financial statements:

- the reduction, by grouping, in the number of ordinary shares in the ratio of 1 new ordinary share each 10 ordinary shares owned, subject to the cancellation of ordinary shares owned by the Company to allow the overall balancing of the operation, without reducing the share capital;
- the reduction of the share capital due to losses pursuant to Art. 2446 of the Italian Civil Code;
- a capital increase of up to a maximum of approximately 185 million euro according to the following terms: (i) the first tranche of 70,005,789.37 euro, by payment, without splitting shares, reserved for a special purpose vehicle ("NewCo") – invested in by Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. – by issuing 117,597,496 category B shares convertible in ordinary shares; (ii) the second tranche of maximum 115,009,511.53 euro, through splitting shares, offered under option to the shareholders, by issuing maximum 193,195,887 ordinary shares, bearing regular dividend and with the same characteristics as those outstanding at the time of their issue;
- assigning the Board of Directors, pursuant to Art. 2420-ter, paragraph 2, of the Italian Civil Code, the right to issue, up to a maximum of 269 million euro, mandatory convertible bonds into ordinary shares and/or category B shares, resulting in share capital increase, through splitting shares, for a maximum amount of 269 million euro in addition to the amount of capitalised interests (to maximum maturity) to service exclusively the conversion of bonds, subject to set conditions and in accordance with specific terms;
- the consequent amendments to the Articles of Association under Articles 5 and 6 and the addition of a new art. 6-bis in the Articles of Association.

It should be noted in this regard that: (i) category B shares deriving from the said reserved capital increase are special shares without voting rights and are not intended initially to the price, convertible in ordinary shares, as may be required by the new Articles of Association of Prelios, in case of transfers to third parties (which do not already own directly category B shares) or the launch by third parties of a takeover bid and public swap offer (TOB and/or PSO) on Prelios shares; (ii) the newly issued ordinary shares deriving from the said reserved capital increase offered under option to the shareholders will bear regular dividend and ensure their holders equal rights compared to the Prelios ordinary shares already outstanding at the time of issue.

On this point, the reader is referred to the directors' explanatory report available on the Company's website in the corporate governance section.

### • Significant interests in the capital

Based on the notices received pursuant to Article 120 of the CFA and the information howsoever available, at the date of the Report, the shareholders holding interests in excess of 2% of the share capital of PRELIOS are as follows:

(5) The Extraordinary Shareholders' Meeting on April 17, 2012, resolved to change the Articles of Association, among other things, by eliminating the face value of the shares, originally 0.5 euro, and by approving the proposal of reduction of the share capital from 420,585,888.50 euro to 218,877,613.14 euro pursuant to art. 2446 of the Italian Civil Code;

Declarant	Direct shareholder	% interest in ordinary share capital	% interest in voting share capital
Tronchetti Provera Marco	Cam Partecipazioni S.p.A. (Ownership)	0.013	0.013
	Camfin S.p.A. (Ownership)	14.801	14.801
	<b>Total</b>	<b>14.814</b>	<b>14.814</b>
Assicurazioni Generali S.p.A.	Alleanza Toro S.p.A. (Ownership)	0.133	0.133
	INA Assitalia S.p.A. (Ownership)	1.134	1.134
	Generali Vie SA (Ownership)	0.621	0.621
	Generali Iard SA (Ownership)	0.003	0.003
	Assicurazioni Generali S.p.A. (Ownership)	1.231	1.231
	<b>Total</b>	<b>3.122</b>	<b>3.122</b>
Invesco LTD	Invesco Fund Managers Ltd	1.676	1.676
	Invesco Advisers Inc.	0.298	0.298
	Invesco Global Asset Management Ltd	1.991	1.991
	Invesco Asset Management S.A.	0.679	0.679
	Invesco Asset Management Limited	0.445	0.445
	<b>Total</b>	<b>5.089</b>	<b>5.089</b>
Edizione S.r.l.	Edizione S.r.l. (Ownership)	<b>2.699</b>	<b>2.699</b>
Mediobanca S.p.A.	Mediobanca S.p.A. (Ownership)	<b>2.606</b>	<b>2.606</b>

There are no securities that confer special rights of control or special powers nor restrictions on voting rights. Moreover, as a result of the carrying-out of the Extraordinary Transaction, category B shares are expected to be issued, without voting rights, as well as the issue of mandatory convertible bonds into ordinary shares and/or category B shares mentioned in the previous paragraph (Share capital structure).

In the case of shares held by employees, there are no mechanisms for exercising votes if they are not exercised directly by the latter.

It should also be noted, moreover, that, pursuant to Art. 2428, paragraph 3, numbers 3) and 4), of the Italian Civil Code:

- there are no controlling companies with reference to which it is necessary to provide disclosure on any shares held at December 31, 2012 and/or their purchases/sales during the 2012 financial year by the Company;
- at December 31, 2012, the Company holds a total of 1,189,662 treasury shares, with no change compared with December 31, 2011 owing to purchase/sale transactions during 2012.

#### • Agreements among shareholders

Following the demerger of PRELIOS from the Pirelli Group, a number of shareholders signed a “Shareholders’ Agreement” aimed at ensuring the stability of the PRELIOS shareholding structure. An extract of this agreement can be obtained on the Company’s website in the Investor Relations section.

The list of subjects participating in the “Shareholders’ Agreement” and the relevant proportion of each are shown in the table below:

Shareholder	No. of shares	% of share capital
Assicurazioni Generali S.p.A. (*)	20,977,269	2,49%
CAMFIN S.p.A.	100,940,614	12%
Edizione S.r.l.	21,921,364	2,61%
Intesa Sanpaolo S.p.A.	7,683,568	0,91%
Massimo Moratti (**)	5,673,392	0,67%
Mediobanca – Banca di Credito Finanziario S.p.A.	21,922,205	2,61%
<b>Total</b>	<b>179,118,412</b>	<b>21,29%</b>

(\*) of which 5,218,181 shares through Generali Vie S.A. and 7,525,388 shares through Ina Assitalia S.p.A.

(\*\*) of which 3,401,850 shares through CMC S.p.A. and 1,221,413 shares held in trust by Istifid S.p.A.

Note that, as part of the agreements reached between the subjects involved in the mentioned Extraordinary Transaction, Prelios received formal notifications by Camfin S.p.A., Assicurazioni Generali S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A. and Intesa Sanpaolo S.p.A., which confirmed their commitment to sign, in case of approval by the Extraordinary Shareholders' Meeting, the aforementioned capital increase offered under option for a total amount of approximately 25 million euro.

On March 27, 2013, Feidos 11 S.p.A., Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Pirelli & C. S.p.A. informed the Company that they signed a term sheet with which they acknowledged the essential conditions to be negotiated in good faith in order to enter into a subsequent agreement in relation to the establishment and capitalisation of NewCo and to their subsequent participation in the Extraordinary Transaction and, in particular, in case of approval by the Extraordinary Shareholders' Meeting, for what concerns the subscription of the reserved capital increase for a share of a total of approximately 70 million euro, of which 20 million euro by Feidos 11 S.p.A. and the remaining 50 million euro by UniCredit S.p.A. (approximately 19 million euro), Intesa Sanpaolo S.p.A. (approximately 8 million euro) and Pirelli & C S.p.A. (approximately 23 million euro), respectively.

The extract of the aforementioned term sheet is available on the Company's website, in the Investor Relations section.

- **Change of control clauses and provisions established by the Articles of Association on the takeover bid (pursuant to Art. 104, paragraph 1-ter, and 104-bis, paragraph 1, CFA)**

There is no subject that may, directly or indirectly, even under shareholders' agreements, alone or jointly with other subjects signing agreements, exercise control over PRELIOS.

Consequently, at present, neither the Company nor its subsidiaries have significant agreements in existence that would become effective, be amended or extinguished in the event of a change of control, intended in the technical sense. It is noted, however, that with reference to the loan contract for a total maximum of 359 million euro granted to the Company by a pool of banks (hereinafter the "Club Deal"<sup>(6)</sup>) a new change of control (rather than "change in shareholdings") clause was defined which, although it could not refer to a situation of control, had nevertheless established that this circumstance would apply in the event that, without the prior written consent of the Club Deal (which may not be unreasonably denied or delayed), Camfin S.p.A. had ceased to hold, directly or indirectly, an interest in the share capital of the Company of at least 12% thereof, with the consequent obligation for the Company to repay the existing loan in full and to make payment of any other amount owed pursuant to the relevant contract.

In this regard, on the basis of the debt restructuring agreements with the financial backers of the Company, which will be defined within the Extraordinary Transaction already mentioned before, there are specific agreements on the subject and, therefore, the above mentioned provision is already out-dated.

\*

On the subject of takeover bids, the Articles of the Association do not provide for: (i) rules making exception to the passivity rules provided for by Art. 104, paragraphs 1 and 2, of the CFA; (ii) application of the neutralisation rules laid down by Art. 104, paragraphs 2 and 3, of the CFA.

- **Delegated powers to increase the share capital and authorisations to purchase treasury shares**

There are no powers delegated to the directors to increase the share capital, by payment, in one or more separate instalments, nor is the right granted to issue shares.

As previously mentioned, within what is provided by the Extraordinary Transaction, the Extraordinary Shareholders' Meeting will be asked to grant the Board of Directors, pursuant to Art. 2420-ter, paragraph 2, Italian Civil Code, the right to issue up to a maximum nominal amount of 269,000,000.00 euro mandatory convertible bonds into ordinary shares and/or category B shares, with the exclusion of the right of option pursuant to Art. 2441, paragraph 5, Italian Civil Code, resulting in share capital increase, through splitting shares, for a maximum amount of 297,644,375.01 euro, which may be carried out within a maximum period of seven years, except for the extension for further three years from the bond issue (the so-called "Convertendo").

This right, in case of approval of the Extraordinary Shareholders' Meeting, may be exercised after carrying out the already mentioned reserved capital increase offered under option, and any way, within a maximum period of one year from the date of the resolution, with the further right of the Board of Directors to fix the rate and the duration of the instrument, as well as all other terms and conditions thereof, and of the share capital increase needed for the conversion, on the basis of the agreements that will be defined with the financial backers of the Company to which such instruments will be offered, with the exclusion of the right of option.

On this point, the reader is referred to the directors' explanatory report available on the Company's website, in the Corporate Governance section.

\*

(6) Club Deal lending banks: Banca IMI S.p.A. (in its capacity as "Agent Bank"), Intesa Sanpaolo S.p.A., Unicredit S.p.A., Banca Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano Soc. Coop. a r.l., Banca Popolare di Sondrio Soc. Coop. p.a., Banca Popolare dell'Emilia Romagna Soc. Coop., Banca Carige S.p.A. – Cassa di Risparmio di Genova e Imperia, Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A., (all in their capacities as "Original Lending Banks").

As indicated above, the Company currently holds 1,189,662 treasury shares, equal to around 0.141% of the share capital.

Note that with the Shareholders' Meeting of April 17, 2012 that approved the 2011 Financial Statements, the authorisation to purchase – and the relevant method of allocation – of (ordinary) treasury shares up to the limit of 10% of the *pro tempore* share capital, taking into account the treasury shares already held by the Company and any share held by the subsidiaries. The mentioned authorisation was not carried out. The authorisation was not renewed.

- **Management and co-ordination activities (pursuant to Art. 2497 et seq. of the Italian Civil Code)**

There is no subject that may, directly or indirectly, even under shareholders' agreements, alone or jointly with other subjects signing agreements, exercise control over PRELIOS. Nor is the Company subject, pursuant to Article 2497 Italian Civil Code, to management and coordination by other companies or entities.

Instead, PRELIOS itself carries out management and coordination activities pursuant to the provisions of the Italian Civil Code over several subsidiaries, having provided the disclosure required by Art. 2497-bis of the Italian Civil Code.

\*

The information required by Art. 123-bis, paragraph 1, letter i), of CFA on "*agreements between the company and directors ...which provide for indemnities in the event of resignation or dismissal without just cause or if the employer-employee relationship is terminated as the result of a takeover bid*", is contained in the Remuneration Report published pursuant to Art. 123-ter of the CFA.

The information required by Art. 123-bis, paragraph 1, letter l), of the CFA on the "*rules applicable to the appointment and replacement of directors ...and to the amendment of the Articles of Association, if different from the legislative and regulatory rules applicable in a supplementary manner*", are illustrated in the section of the present Report for the Board.

### 3. COMPLIANCE (pursuant to Art. 123-bis, paragraph 2, letter a) CFA)

Since its establishment, PRELIOS has had a corporate governance system designed to monitor the management and control of the Company, in line with the market best practice, specifically defining the distribution of roles and rights among the various corporate bodies in order to guarantee the observance of laws, regulations, codes of conduct, procedures and company rules.

On May 3, 2002, the Company informed the market that it had fully complied with the Code of Conduct for listed companies of Borsa Italiana (Italian Stock Exchange), and it has since adopted subsequent revised versions, giving notice of implementation of adjustments necessary each time.

In accordance with the applicable laws and regulations in force, this Report also aims to illustrate fully the corporate governance model adopted by the Company at the date of its publication, also making it possible to check specifically the actual state of adaptation to the provisions of the Code.

In this regard, it should be noted that – periodically and at least once a year at the Board of Directors' meeting called to examine the draft annual financial statements just ended – a suitable document is submitted to the Board of Directors, prior to approval of the Report, which, analytically and for each individual provision of the Code, verifies the state of compliance therewith, indicating any action in progress or planned.

It should also be noted that PRELIOS or its subsidiaries of strategic significance are not subject to non-Italian law provisions that would affect the Company's corporate governance structure. It is noted, however, that the subsidiaries, Prelios SGR S.p.A. (asset management company) and Prelios Credit Servicing S.p.A. (financial intermediary enrolled in the list set forth in Art. 107 of the Consolidated Banking Law) are supervised by the Bank of Italy and as such apply the specific regulations in force – also on governance – for such companies.

With specific reference to the new Code of Conduct for listed companies issued by Borsa Italiana S.p.A. in December 2011, the issuers were invited to apply the amendments made to the Code by the end of the 2012 financial year, informing the market in the corporate governance report to be published during the subsequent financial year.

An exception is the amendments affecting the composition of the board of directors or of the relevant committees, for which the Code envisages a longer transition period.

In this regard, at the meeting of March 2, 2012, the Board of Directors – noting the already prevailing and substantial compliance of the corporate governance model applied with the new provisions – resolved to adopt the new Code by approving, during the financial year, adjustments to the governance for a full compliance to the innovations introduced by the Code itself.

PRELIOS' key corporate governance documents include the following:

- the Articles of Association;
- the Rules of the Shareholders' Meeting;
- the Code of Ethics and Lines of Conduct, which form an integral part of the Organisational Model adopted pursuant to Italian Legislative Decree 231/01;
- the Procedure on transactions with related parties;

- the Procedure for information flows to directors and auditors;
- the Code of conduct on property transactions;
- the Procedure for handling and notifying the public of inside information and the relevant register of persons having access to inside information;
- the Memorandum on Internal dealing.

In order to facilitate the broadest possible knowledge of the corporate governance model adopted by the Company, the documents indicated above are all available on the Company's website, in the Corporate Governance section.

Finally, in the interim financial report the company – voluntarily – provides information on the updates and additions to its corporate governance system with respect to the contents of the annual report.

#### 4. BOARD OF DIRECTORS

##### 4.1. APPOINTMENT AND REPLACEMENT (PURSUANT TO ART. 123-BIS, PARAGRAPH 1, LETTER L, CFA)

For the appointment of members of the Board of Directors, since 2004 the Articles of Association have provided for the so-called “list voting mechanism” – according to a transparent procedure compliant with the provisions of Art. 147-ter of the CFA – for the purpose of facilitating an ever-increasing participation of persons indicated by the so-called minority in corporate life, reserving for the latter, in fact, one fifth of directors.

It should be noted that following entry into force of Law 120 of July 12, 2011 (which modified Art. 147-ter of the CFA), from August 2012 onwards, the division of directors to be elected in listed companies must be done on the basis of a criterion that ensures observance of the gender balance.<sup>(7)</sup>

In this regard, the Extraordinary Shareholders' Meeting of April 17, 2012 approved amendments to the articles of association in order to ensure compliance with this principle. In particular, in order to ensure gender balance in compliance with the pro tempore regulations in force, each list presenting a number of candidates equal to or greater than three, at least one third (rounding up, if necessary, to the higher integer) of such candidates is expected to belong to the least represented gender. It should be noted that the Company applied in advance the minimum percentage required by the current regulations.

The lists may be presented by shareholders who, alone or together with others, hold a total number of shares representing at least 2% of the share capital with voting rights at the ordinary Shareholders' Meeting or the lower amount required by the regulations issued by Consob<sup>(8)</sup> and must be filed at the registered office at least 25 days prior to the date fixed for the Shareholders' Meeting on single call.

At the time of submission of the list, besides the candidacy acceptance declarations, the CVs of the individual candidates must be submitted, certifying the non-existence of causes for ineligibility for election or incompatibility, and the existence of the requirements laid down for the position, and the possible indication of their suitability to be classified as independent directors.

The Board of Directors is elected as follows:

- a) four-fifths of the directors to be elected will be taken from the list obtaining the majority of votes cast by the shareholders, in the order in which they appear in the list itself, rounded down in the event of a fraction;
- b) the remaining Directors will be taken from the other lists, to which end the votes obtained by the said lists will be subsequently divided by whole progressive numbers from one up to the number of Directors still to be elected.

The Directors referred to in letter b) above are elected by making a specific calculation by quotients and those obtaining the highest quotients are elected.

If several candidates have obtained the same quotient, the candidate on the list from which no Director has yet been elected, or from which the lowest number of Directors has been elected, will be elected.

If none of these lists has elected a director or if all of them have elected the same number of directors, within the scope of such lists, the candidate obtaining the highest number of votes will be elected.

In the event of a tie in the number of list votes and in the event of an equal quotient, the full Shareholders' Meeting will vote again and the candidate obtaining the simple majority of votes will be elected.

If the application of the list voting mechanism does not ensure the minimum number of directors belonging to the least represented gender

(7) With Resolution No. 18098 of February 8, 2012, Consob issued the related implementing regulation amending the Issuers' Regulation.

(8) Pursuant to art. 144-quarter of the Issuers' Regulation, Consob - with Resolution no. 18452 of January 30, 2013 - set at 4.5% the equity interest applicable to the company.

laid down by law and/or regulations, the candidate belonging to the most represented gender elected with the highest progressive number in the list obtaining the highest number of votes will be replaced by the candidate belonging to the least represented gender not elected from the same list in the order of presentation and so on, list by list, until the minimum number of directors belonging to the least represented gender is complete.

If the application of the list voting mechanism does not ensure the minimum number of independent directors laid down by law and/or regulations, the non-independent candidate elected with the highest progressive number in the list obtaining the highest number of votes will be replaced by the independent candidate not elected from the same list according to the order of submission and so on, list by list, until the minimum number of independent directors is complete, without prejudice in any case to the observance of the gender balance laid down by pro tempore law and/or regulations in force.

Loss of the requirements of independence of a director does not constitute a reason for termination of the office if the minimum number of members, laid down by law or by regulation and satisfying the requirements of independence, remains on the Board of Directors.

Finally, note that the Company is not subject to special field regulations with a special reference to the representation of minorities or to the number and characteristics of the independent directors.

- **Succession plans**

During the 2012 financial year, the Board – subject to the examination of the “Internal Control, Risk and Corporate Governance Committee” – decided not to adopt a succession plan for executive directors, as requested by the Code of Conduct (Art. 5.C.2) considering the importance of the Extraordinary Transaction and of the consequent effects that may be expected on the current shareholdings of the Company and, in general, on the company organisation also with reference to management.

#### 4.2. COMPOSITION (PURSUANT TO ART. 123-BIS, PARAGRAPH 2, LETTER D) CFA)

The Board of Directors in office – appointed by the Shareholders’ Meeting on April 21, 2011 and the expression of a single list presented by the shareholders Camfin S.p.A., Mediobanca S.p.A., Edizione S.r.l., Assicurazioni Generali S.p.A., Intesa SanPaolo S.p.A. and Massimo Moratti, signatories of the shareholders’ agreement on Prelios shares signed on October 25, 2010 and subsequently renewed until October 25, 2013 – is currently composed of 13 members.

All the Directors holding office were appointed for the first time by the Shareholders’ Meeting of April 21, 2011 except for the Chairman, Marco Tronchetti Provera, (appointed for the first time on May 16, 1991), of the Deputy Chairman, Enrico Parazzini, (appointed for the first time on May 28, 2010), of the Chief Executive Officer, Sergio Iasi, (appointed for the first time on November 13, 2012), of the Independent Directors, Carlo Emilio Croce, Valter Lazzari and Dario Trevisan (appointed for the first time on January 25, 2006, March 5, 2009 and May 6, 2003, respectively) and of the non-executive Director, Jacopo Franzan (appointed for the first time on April 14, 2008).

Following the resignation on November 11, 2011, of Giulio Malfatto, the Shareholders’ Meeting of April 17, 2012 resolved to reduce from 15 to 14 the number of members of the Board of Directors.

Then, following the subsequent resignation on October 11, 2012, of Davide Malacalza and on November 13, 2012, of Paolo Massimiliano Bottelli, the Board of Directors – pursuant to Art. 2386, paragraph 1, of the Italian Civil Code – appointed on November 13, 2012, Sergio Iasi as Director of the Company referring any decision on the further vacant position within the Board to the Shareholders’ Meeting convened on December 18, 2012.

Therefore, the Board, on December 3, 2012, assigned new company positions entrusting Enrico Parazzini (former Chief Managing Director Finance) with the office of Deputy Chairman and Sergio Iasi with the office of Chief Executive Officer.

The Shareholders’ Meeting of December 18, 2012 resolved to further reduce to 13 the number of members of the Board of Directors confirming the appointment of Sergio Iasi. On the same date, the latter was also confirmed Chief Executive Officer by the Board of Directors.

The composition of the Board is shown in Table 1 attached to the Report, which also indicates, among other things, the office of each member (executive, non-executive, independent) and the position held within the Board.

For the personal and professional characteristics of each director, see the respective CVs published on the website.

Following the final approval by the Board of the Extraordinary Transaction, all the Directors of Prelios decided to resign on March 27, 2013, effective as from the end of the next Shareholders’ Meeting called, among other things, to approve the financial statements as at December 31, 2012.

This decision ensued from the circumstance for which the carrying out of the said Extraordinary Transaction would result in a change of the current company structure of Prelios and, therefore, the Directors considered that it was in the best interest of the Company to allow its shareholders to appoint the members of the administrative body without waiting for the natural expiry of the mandate that would have occurred with the approval of the financial statements for the year ending December 31, 2013.

Note that – in order to facilitate the shareholders when presenting the lists and for the subsequent appointment of the directors – the Directors' Report on the specific item on the agenda of the next Shareholders' Meeting (published on the website, corporate governance sector) expresses, among other things, the opinion of the resigning Directors on the ideal Composition of the Board and the professional characteristics that the candidates should have in relation to the business model of the Company, the complexity and specificity of the sector in which it operates, taking into account the conditions set for completion of the Extraordinary Transaction, including the appointment of Sergio Iasi and Massimo Caputi, as Chief Executive Officer and Deputy Chairman (with responsibility for development), respectively, in compliance in any case with the regulation of the gender balance.

### Maximum accumulation of positions held in other companies

In relation to the provisions laid down in Art. 1.C.3. of the Code, on November 7, 2007, the PRELIOS Board defined (and subsequently confirmed) the general criteria on the maximum number of positions that may be held by directors, considering in principle that the position of Company Director is not compatible with the position of director or auditor in more than five companies, apart from those subject to PRELIOS's management and coordination or controlled by it or associated with it, in the case of companies:

- (i) listed and included in the FTSE MIB index (or also in equivalent foreign indices);
- (ii) mainly operating in the financial sector in respect of the public (entered in the Sole Register of Financial Intermediaries pursuant to Article 106 of Italian Legislative Decree no. 385 of September 1, 1993), including asset management companies;
- (iii) carrying out banking or insurance activities.

The Board of Directors also considered the same Director holding more than 3 executive positions in companies referred to in points (i), (ii) and (iii) to be incompatible with the position of Company Director.

Positions held in several companies belonging to the same group are considered to be just one position, an executive position taking precedence over a non-executive position.

In any event, the Board of Directors is entitled to make a different assessment, which is published in the annual report on corporate governance and ownership structures; to that end, positions of director or auditor in companies, including foreign companies, may be taken into consideration, or positions not having the aforesaid characteristics, taking into account the size, organisation and shareholding relationships existing between the various companies and the participation of directors in the committees set up within the Board of Directors.

According to the information provided by the interested parties, all the Directors in office comply with the criteria adopted.

On the occasion of renewal of the Board of Directors by Shareholders' Meeting on April 21, 2011, the Shareholders (if they intend to present lists for appointment of Directors under the terms of the Articles of Association) have been opportunely invited to read the aforementioned orientation.

This invitation was also renewed in anticipation of the next Shareholders' Meeting of May 8, 2013, called upon to express itself on the appointment of the members forming the new Board of Directors of the Company.

The main positions held by the Directors in companies other than those belonging to the PRELIOS Group are indicated in the attachment to the Report (Art. 1.C.2. of the Code).

### Induction Program

Within the scope of the provisions of the application principle 2.C.2. of the Code, specific meetings were held between the Directors in office, after their appointment, and the PRELIOS Group's management, with the aim of providing adequate knowledge of the business segment in which the Group operates, the business trends and their development and the legislative framework of reference. In particular, the high frequency of the number of meetings and committees held in 2012 (all-in-all 13 board meetings, 5 meetings of the Remuneration Committee, 9 meetings of the Internal Control, Risk and Corporate Governance Committee as well as 3 meetings of the Risk Committee), allowed the Directors to continue and deepen, during their mandate, this knowledge, with a special reference to the business trend and to applicable regulations.

### 4.3. ROLE OF THE BOARD OF DIRECTORS (pursuant to Art. 123-bis, paragraph 2, letter d), CFA)

The Board of Directors plays a central and strategic guiding role in managing the Company and therefore performs all the tasks laid down for it by Article 1.C.1. of the Code.

In particular, the Board of Directors:

- examines and approves the strategic, industrial and financial plans of the issuer and of the group it heads, monitoring its implementation on a regular basis, as a rule, when examining the accounting data for the period; defines the corporate governance system of the issuer and the structure of the group. In this regard, the Board approved the 2013-2016 Strategic Plan and, during the 2012 financial year, examined and took each time the consequent decisions with reference to the Extraordinary Transaction;

- defines the nature and level of risk that is compatible with the strategic objectives of the issuer. In 2012 and until the Date of the Report, this activity was carried out with the support of the Risk Committee (until it was abandoned on August 28, 2012 indicated below) and of the Internal Control, Risk and Corporate Governance Committee, during the frequent board meetings held. It should be noted that, with the start of the Extraordinary Transaction, the activity focused on the development of this transaction, considering the key importance with reference to the main risk areas, relating to the necessity of equity strengthening of the Prelios Group and redressing the overall financial structure;
- assesses the adequacy of the organisational, administrative and accounting structure of the issuer and of the subsidiaries of strategic significance, with particular reference to the internal control and risk management system; the subsidiaries of strategic significance are Prelios SGR, Prelios Credit Servicing, Prelios Property & Project Management and Prelios Agency. With reference to the 2012 financial year and until the Date of the Report, this activity is carried out and is still being implemented and refined, taking into account the Extraordinary Transaction and its effects;
- examines on a regular basis, as a rule, at least on a quarterly basis, the activity carried out by the executive directors when exercising the powers conferred on them. In 2012, this activity was carried out on average on a monthly basis during the board meetings (during 2012, 13 meetings were held, indicated below). Finally, note that the Board has long defined a special internal Procedure in order to promote, in general, an orderly organisation of the information flows to the Directors and Auditors. (In this regard, refer to par. 4 of the Report);
- evaluates the general performance, taking into account, in particular, the information received by the delegated bodies, as well as comparing the results achieved with those planned on a regular basis. Before examining the 2012 draft financial statements, the Board, during the meeting held on March 27, 2013, has also examined the Impairment of goodwill and of intangibles – based on the *ad hoc* procedure adopted, if necessary, and taking into account the activity already carried out during the approval of the results as at September 30, 2012, when the Impairment Test has been carried out on the basis of the assumptions of the guidelines of the 2013-2016 Strategic Plan – subject to the prior favourable opinion of the Internal Control, Risk and Corporate Governance Committee. For more details, refer to the explanatory notes to the financial statements;
- resolves on the operations of the issuer and of its subsidiaries, when such operations have a significant strategic, economic, equity or financial importance for the issuer; to this end, it established general criteria for identifying significant transactions, as defined in the Procedure on information flows to directors and auditors;
- expresses to the shareholders, before the appointment of the new board, guidelines on the professional figures whose presence in the board is deemed appropriate. Within the annual Board Performance Review for 2012, the Directors were explicitly requested to express their guidelines on the professional figures whose presence is considered appropriate within the Board, which showed that the composition of the Board is considered balanced for what concerns the skill profiles currently present, pointing out only the advisability of a greater gender balance;
- provides information in the Report: (i) on its own composition, by indicating the qualification of each member (executive, non-executive, independent), position held within the Board (for example, chairman or chief executive officer), the main professional characteristics as well as the length of office from the first appointment; (ii) on the number and average duration of the meetings of the board and of the executive committee, if any, held during the financial year as well as on the relevant proportion of each director; (iii) on the methods of execution of the evaluation process of the Board Performance Evaluation;
- in order to ensure the proper management of corporate information, it adopts, upon proposal by the Chief Executive Officer or by the Chairman of the Board of Directors, a procedure for the internal management and the external notification of documents and information concerning the issuer, with a special reference to privileged information. (Refer for further details to par. 5 of the Report);
- carries out, at least once a year, an evaluation on the performance of the Board and of its committees as well as on their size and composition, also considering the elements such as professional characteristics, experience, managerial or otherwise, and gender of its members, as well as their length of office (Board Performance Evaluation). With regard to this last point, the Board commenced the relevant activity for the 2012 financial year, the results of which were evaluated by the Internal Control, Risk and Corporate Governance Committee and, on March 27, 2013, by the Board of Directors itself. In this regard, note that for 2012 the Internal Control, Risk and Corporate Governance Committee carried out directly the Board Performance Evaluation. The activity was carried out by (i) preparing a questionnaire, focusing on important issues resulting from previous self-assessments; (ii) collecting the questionnaires filled in by the Directors ensuring that their answers will remain anonymous; (iii) preparing an analysis report by the Internal Audit Department, also by comparing the results of the previous self-assessments. Therefore, the results were submitted as usual during the meeting of the Board of Directors that examined the 2012 draft financial statements subject to the evaluation of the Internal Control, Risk and Corporate Governance Committee, which showed very briefly: (i) the composition of the Board was considered balanced in general, by pointing out, however, the need to increase the share of the least represented gender<sup>(9)</sup>; (ii) a very positive opinion on the performance of the Board; (iii) a more than positive evaluation of the effectiveness of the discussion of strategic issues; (iv) a broad satisfaction with regard to the compliance with the Code and with the methods for handling and managing Corporate Governance issues; (v) a more than positive opinion on the activity of the Committees.

(9) As shown previously, the Extraordinary Shareholders' Meeting of April 17, 2012, approved the amendments to the Articles of Association necessary to ensure the observance of the gender balance principle, envisaging that each list presenting a number of candidates for the position of Statutory Auditor equal to or greater than three of such candidates (rounding up, if necessary, to the higher integer) must belong to the least represented gender, thereby applying in advance the minimum percentage required by the current regulations.

\* \* \*

The Articles of Association (Articles 14, 15, 16 and 17) lay down the rules on the operation and organisation of Board meetings <sup>(10)</sup>. Although a minimum number of meetings is not contemplated, according to normal practice the Board is called in compliance with the provisions of Borsa Italiana (Italian Stock Exchange) <sup>(11)</sup> and at least 4 times a year, for the approval of the accounting statements for the period. The Directors are also convened, on the initiative of the Chairman or at the request of the Directors themselves, for informal meetings dealing with specific topics that make it appropriate to hold specific meetings for a more in-depth examination, also in order to improve the Directors' knowledge of the Company's business, changes in scenarios and markets of reference and specific business trends.

Notice of Board meetings is given by registered letter, telegram, fax or e-mail sent at least 5 days in advance (or in cases of urgency, at least 6 hours in advance), to each Director and Standing Auditor.

The meetings of the Board may be held by means of telecommunication, except in cases in which – for reasons of confidentiality – the Chairman makes use of the right to hold the meetings only in person, by notifying it beforehand. In this case, the following must be ensured: (i) participation in the discussion and (ii) equality of information among all participants. The meeting is deemed to be held in the place where the Chairman and the Secretary are present at the same time. For the Board's resolutions to be valid, a majority of Directors in office must be present and the favourable vote of the majority of votes cast is required. In the event of an equal number of votes, the Chairman will have the casting vote.

The Directors – together with the Board of Statutory Auditors – normally receive, in good time and sufficiently in advance, the documents and information necessary to enable them to express themselves knowledgeably on the matters submitted for them to examine. Usually, the documents are sent when the board meeting is convened <sup>(12)</sup>, with the sole exception of documents that – owing to the particular confidentiality of the relevant matters for the fact that they refer to activities still in progress or for other extraordinary reasons – cannot be made available by that date.

In this regard, exhaustive and clear information is in any case always ensured on the matters to be discussed (including in summary notes when the documents made available are voluminous or complex) to ensure that informed decisions can be taken.

Board meetings are attended, on invitation, by managers of the Company and/or of the main subsidiaries of strategic significance (usually Chief Executive Officers, General Managers and other Managers) or third parties (normally Company advisers) whose participation is necessary or appropriate each time with regard to the items on the agenda, in order to provide the Board with any information or details requested for resolutions falling within the powers of the Board of Directors.

It is established by practice that all meetings are attended by the Manager responsible for Corporate Financial Reporting of the Company.

The Board's resolutions, even if taken during meetings held by means of telecommunication, are entered in the appropriate register; each minute is signed by the Chairman and by the Secretary of the meeting. Any relevant copy and extract not authenticated by a notary are certified as true copy by the Chairman.

In the year 2012, a total of 13 meetings of the Board of Directors were held. The overall relevant proportion of Directors at the meetings was equal to approximately 94.64%. The average duration of the meetings was around 1 hour and a half.

During 2013, at least 4 board meetings are planned as per the calendar published through the press release of January 30, 2013.

\* \* \*

With regard to the performance of possible competing activities by the Directors, bearing in mind that Art. 12.16 of PRELIOS's current Articles of Association state that "*unless resolved otherwise by the shareholders' meeting, the directors are not bound by the prohibition laid down by Art. 2390 of the Italian Civil Code*", it has been established that each Director will inform the Board, at the time of acceptance of the appointment, of any activities carried out in competition with the Company and, subsequently, of any significant change, for the resulting assessments and initiatives.

During 2012, no cases falling under this provision were reported or noted.

#### 4.4. DELEGATED BODIES

##### Chief Executive Officers

As indicated above, following the resignation on November 13, 2012 of Paolo Massimiliano Bottelli from the office of Director, Chief Executive Officer and General Manager of the Company, the Board of Directors identified the Director, Sergio Iasi, as the new Chief Executive Officer of the Company.

(10) The Chairman calls the Board of Directors and regulates the development of its work, ensuring that the Directors are provided with reasonable notice, if possible and not when cases of necessity and urgency arise, with the necessary documents and information to enable them to give their opinion with knowledge of the items placed on the agenda, and also, making use of the competent internal departments, to inform the Directors and, where appropriate, discuss the main legislative and regulatory changes concerning the Company and the corporate bodies. In particular, the Board meets on the initiative of the Chairman or the person acting in his or her place in the Company's registered office or in any other place fixed by the letter of invitation (provided it is in Italy or in Countries of the European Union), whenever he or she considers it to be in the company's interests, or when so requested by one of the Chief Executive Officers or by one-fifth of the Directors in office or by at least two statutory auditors. However, the Board may take valid decisions even in the absence of a formal notice, if all its members and all the statutory auditors in office are present.)

(11) See Article 2.6.2, paragraph 1, letter c), of the Stock Exchange Regulations.

(12) Pursuant to the Articles of Association (art 14.4), the Board is convened at least 5 days before (or, in case of emergency, at least six hours before) the meeting.

In accordance with the provisions of the Code and in line with best practice, the Board of Directors resolved to:

- delegate all the powers of ordinary and extraordinary administration to the Chief Executive Officer, Sergio Iasi (with the sole exception of (i) matters for which authority may not be delegated pursuant to Art. 2381, paragraph 4, of the Italian Civil Code and (ii) those indicated under Art. 18, paragraph 2, of the Articles of Association), by setting – only for internal purposes in relation with the Board of Directors, and therefore, with no importance in relations with third parties – some maximum limits (according to the type of operation), which, if exceeded, will require the responsibility of the Board of Directors of the Company or the joint signature with the Deputy Chairman, if appointed (in short, with reference to sale and purchase of financial instruments and investments in companies; purchase and sale of real estate; mortgages, loans and credit lines; funding, payments and capital increase operations in favour of investee companies; issue of collateral securities and/or personal guarantees; in general, with a maximum limit of 30 million euro);
- identify Sergio Iasi, in his capacity as Chief Executive Officer, as “*Director in charge of the Internal control and risk management system*”, with the tasks of the relevant responsibilities contemplated by the Code of Conduct (Art. 7.C.4.).

The structure of powers defined above, in guaranteeing the centrality of the role of the Board of Directors, is aimed at implementing an appropriate system of powers in line with the Company’s business model, with a suitable distribution of responsibilities and able to ensure operational efficacy in a reference market where speed of action is a necessary requirement to be able to make the most of the best business opportunities.

The Chief Executive Officer Sergio Iasi was also:

- identified as the Employer of the Company’s subordinate employees, with the associated responsibilities deriving from the Consolidated Law on Safety (both as regards subordinate employees and with reference to construction sites);
- identified as the delegate on environmental and town planning matters (both for work done by the Company at all property units owned or used by it and for property assets of third parties or used by third parties for which the company has acquired mandates);
- designated as the legal representative on the subject of privacy (both with respect to personal data of which the Company is the controller and for those which have been entrusted to the Company by third-party controllers),

with full and unlimited management and spending autonomy. The relating functions were delegated – in compliance with the applicable regulations – to the persons in charge of specific operational areas, with the necessary requirements.

Finally, in line with the recommendations of the Code (Art. 2.C.5), note that the Chief Executive Officer holding office is not a director of another issuing company whose Chief Executive Officer is a Director of the Company (the so-called interlocking directorate).

## Chairman

A Chairman is appointed within the Board, if he or she has not already been appointed by the Shareholders’ Meeting, together with one or more Deputy Chairmen. In the absence of the Chairman, meetings are chaired, in order, by the Deputy Chairman and Chief Executive Officer, if appointed, by a Deputy Chairman or by a Chief Executive Officer; if there are two or more Deputy Chairmen or Chief Executive Officers, meetings are chaired by the most senior member. The Board appoints a Secretary who need not be one of its members.

The current Chairman, Marco Tronchetti Provera – in line with international and community best practice, adopted also by the Code (Art. 2.P.4.) – has not been assigned managerial powers and is therefore classified as a “non-executive director”, pursuant to Article 2 of the Code, but “non-independent” (pursuant to Art. 3 of the Code) in view of the office of Chairman, with operational powers, held in Camfin S.p.A. and the interest held in the said Camfin S.p.A., the Company’s first reference shareholder.

## Deputy Chairman

The Board of Directors, on December 3, 2012, also resolved to appoint Enrico Parazzini (subject to the removal of the office of the Managing Director Finance and of the powers conferred) Deputy Chairman of the Board of Directors, entrusting him with the task of following the development of the Extraordinary Transaction.

## Disclosure to the Board

As provided for in Art. 18 of the Articles of Association (which includes, in the wording, the provisions of Art. 150, paragraph 1, of the CFA), the Board of Directors and the Board of Statutory Auditors, without prejudice to cases in which some transactions or activities are initially submitted for approval to the Board of Directors, are recipients of an ongoing and timely information flow, at least once a quarter, on the activities carried out, the general business performance, its foreseeable development and transactions of greatest economic and financial significance carried out by the Company and by subsidiaries, and of atypical, unusual transactions with related parties, or any with a potential conflict of interest, providing all necessary information for an assessment of the transactions themselves.

In order to facilitate ordered organisation of the information flow, since 2002 the Company has adopted a suitable Procedure (*"Procedure for fulfilment of obligations referred to in Art. 150, paragraph one, Italian Legislative Decree no. 58 of 1998"*) which defines the rules to be followed for the quarterly fulfilment of the disclosure obligations referred to in the aforesaid Art. 150 of the CFA, on the activities carried out by the Executive Directors, both exercising the powers conferred on them and within the scope of execution of transactions resolved by the Board itself, and more generally on the activities carried out.

In this connection, on March 4, 2011, following a favourable opinion of the Internal Control and Corporate Governance Committee, the Board of Directors duly adapted the Procedure (now renamed *"Procedure on information flows to directors and auditors"*), to take into account the adoption (on November 3, 2010) of the independent procedure on transactions with related parties described below.

The full wording of the Procedure on information flows to directors and auditors is available on the Company's website, in the Corporate Governance section.

#### 4.5. OTHER EXECUTIVE DIRECTORS

In Article 2.C.1. the Code defines cases in which a director should be classified as an "executive director".

In the light of the aforesaid definition, the Board considered that, in addition to the Chief Executive Officer, Sergio Iasi, the Deputy Chairman, Enrico Parazzini, must also be considered as executive in relation to the activity carried out as Managing Director Finance and currently as Deputy Chairman, by virtue of the specific mandate assigned.

#### 4.6. INDEPENDENT DIRECTORS

In Article 3.C.1., the Code defines cases in which a director should be classified as an "independent director".

In the light of the aforesaid definition, on the occasion of appointment of each director concerned, the Board considered that 8 Non-Executive Directors (Giuseppe Angiolini, Marina Brogi, Carlo Emilio Croce, Giovanni Fiori, Valter Lazzari, Dario Trevisan, Giorgio Valerio and Giovanni Jody Vender) are classifiable as Independent Directors.

It follows that Independent Directors represent the majority of Directors in office (8 out of a total of 13 members of the Board).

The Board of Directors, at the meeting immediately following its appointment, verified existence of the independence requirements provided for in the Code for the aforementioned Independent Directors, and considered also the further requirements pursuant to Art. 147-ter, paragraph 4, of the CFA. The result of these assessments was disclosed to the market. <sup>(13)</sup>

In compliance with the 3.P.2 principle of the Code, the said verification is carried out every year by the Board of Directors, the result of which is disclosed as part of the annual Report. The last verification was carried out by the Board on March 27, 2013.

Note that, with reference to the Director Dario Trevisan, the evaluation to confirm the qualification of independent, despite being the Director of the Company for more than 9 years, was carried out considering: (i) the professional and personal characteristics of the Director in relation to his specific activity, (ii) his actual behaviour during the different mandates and (iii) the self-assessment made in this sense by the person concerned, considering also the benefit to the works of the Board and of the Committees in virtue of the considerable experience gained with reference to the activities of the Company and to the business trends. Moreover, the change in the management represented an element of discontinuity liable to strengthen further, in substance, the absence of possible conditions of influence of the autonomy of judgement.

With regard to the procedure adopted, it is noted that (i) the verification took place based on the information howsoever notified to the Board and the specific written declarations made by the interested parties – who undertook to inform the Company immediately in the event of any change compared to what was declared – and that (ii) the Board of Statutory Auditors verified correct application of the assessment criteria and procedures for evaluating independence, providing specific feedback at that said Board meeting.

The Company has always considered fundamental the function of Independent Directors, in order to ensure that the top management and supervisory duties typical of the Board of Directors are carried out effectively.

Owing to their number and respective skills, the independent directors are considered to be adequate in relation to the size of the Board of Directors and the activities carried out by the Company and such as to allow the formation of Committees within the Board of Directors, as indicated by the Code.

It is noted in this connection that the Internal Control, Risk and Corporate Governance Committee and the Remuneration Committee are both made up of independent directors only.

(13) Cf. Press Release of April 21, 2011.

Note that, in line with the recommendations of the Code (Art. 3.C.6.), a meeting of the Independent Directors was held during the financial year, on February 2, 2012, in which the main innovations of the new Code of Conduct and the most important aspects of governance of the Company have been dealt with, in particular.

#### 4.7. LEAD INDEPENDENT DIRECTOR

In order to take full advantage of the role of the Independent Directors, on March 9, 2006 the Board resolved to introduce the figure of Lead Independent Director.

Although the conditions provided for in the Code had not been fulfilled <sup>(14)</sup>, it was considered appropriate to appoint this figure – identified as the Chairman of the Internal Control, Risk and Corporate Governance Committee, Dario Trevisan – as a contact person and coordinator of the requests and contributions of the independent directors.

The Lead Independent Director may also convene – autonomously or at the request of other Directors – specific meetings of only Independent Directors (the so-called Independent Directors' executive sessions) to discuss matters considered to be of interest each time with regard to performance of the Board or management of the company.

#### 5. HANDLING OF CORPORATE INFORMATION

Confidential information, with particular reference to inside (i.e. "price-sensitive") information, is handled directly by the Chief Executive Officer and with the support of the competent company departments.

External notification of documents and information relating to the Company and its subsidiaries is carried out, again in agreement with the Chief Executive Officer, by the Secretary of the Board of Directors and by Corporate Affairs and Company Secretary (for notifications to the Authorities and to the shareholders), by the Communication Department (for press releases) and by the Investor Relations Department (for notifications addressed to institutional investors and financial analysts).

The Chief Executive Officer and the managers of the aforesaid departments are constantly able to link together in order to deal with any urgent external communication requirement.

For external notification of documents and information, constant reference is made to the laws and regulations in force on corporate disclosure and press releases are drawn up in accordance with the prescriptions of Borsa Italiana (Italian Stock Exchange), which has set the criteria for defining the structure and the minimum content thereof.

Moreover, taking into account the provisions resulting from transposition in Italy of the Community Directives on market abuse, on March 9, 2006 the Board adopted a specific "Procedure for management and disclosure to the public of inside information", whose wording is available on the Company's website, Corporate Governance section.

This Procedure, subsequently updated by the Board of Directors also in the light of the application experience gained, defines:

- requirements and responsibilities for the classification of inside information;
- procedures for tracing access to inside information;
- instruments and rules on the protection of confidentiality of inside information;
- operating provisions on communication to the market of inside information and on the times of communication to the public and/or to analysts/investors. Pursuant to Article 115-bis of the CFA, the aforesaid Procedure provides for the keeping of a specific "Register of persons having access to inside information", fixing the relevant criteria for keeping it and the method of processing and searching for data, which is handled electronically.

With specific reference to the legal provisions on Internal dealing, it is noted that the Company has:

- (i) identified in the Company's so-called Key Managers the relevant persons bound by the disclosure obligations, being deemed to mean key managers such as the General Managers or other persons specifically identified, each time, by the Board of Directors based on the position held;
- (ii) introduced, in the absence of legal or regulatory requirements, the provision for a so-called black-out period, which involves for the relevant persons referred to in point i) above refraining from performing transactions on shares issued by the Company, or other financial instruments connected with them, and on other listed financial instruments issued within the scope of the PRELIOS Group, during the 20 days preceding the circulation of periodic accounting figures.

(14) The Application principle 2.C.3 states that: *The Board of Directors appoints an independent director as lead independent director, in the following cases: (i) if the chairman of the board of directors is the chief executive officer of the company; (ii) if the office of the chairman is held by the person that controls the issuer.*

Finally, the Company has sent specific notification to the aforesaid relevant persons, bound by the disclosure obligations, to provide all necessary information to fulfil such obligations, also drawing up a suitable “*Memorandum on Internal dealing*”, and has identified the Corporate Affairs and Company Secretary as the contact for the “relevant persons” for any need on the matter and as the recipients of notices relating to transactions to be subsequently reported to the market.

## 6. INTERNAL BOARD COMMITTEES (pursuant to Art. 123-bis, paragraph 2, letter d), CFA)

Implementing the provisions of the Code (Art. 4) and making use of the right provided for in Art. 19.3 of the Articles of Association, the Company has set up the following Committees within the Board itself:

- Remuneration Committee;
- Internal Control, Risk and Corporate Governance Committee,

having proposing and advisory functions whose composition and operating procedures comply with the provisions laid down by the Code (Art. 4.C.1.).

Note that, on August 28, 2012, the Board redefined the activities and tasks of the “Internal Control and Corporate Governance Committee” (now called “Internal Control, Risk and Corporate Governance Committee”) by assigning it the functions granted to the Risk Committee that, as a result, has been outdated.

For the Committees, rules of procedure and formalities similar to those provided for the Board of Directors have been defined, particularly with regard to the procedure for providing information on matters to be discussed, on operations (formation, resolutions and relevant minutes) and on participation of external persons, always reporting to the Board at its first meeting following the meeting of the Committee itself.

The Committees’ resolutions, even if taken at meetings held by means of telecommunications, are entered in the relevant register; each minute is signed by the Chairman and by the Secretary of the meeting.

## 7. APPOINTMENT COMMITTEE

The Board has so far not considered it necessary to set up an Appointment Committee within it, considering that – as provided by the 4.C.2 principle <sup>(15)</sup> of the Code – the Independent Directors represent the majority of the Board of Directors holding office and in view of the ownership structure and the capacity of the list vote to ensure a transparent procedure for the selection and appointment of candidates. Therefore, the relevant functions were reserved for the entire Board that can make use of the support of the “Internal Control, Risk and Corporate Governance Committee”.

## 8. REMUNERATION COMMITTEE

In full compliance and indeed reinforcing the recommendations of Art. 6.P.3. of the Code, the Remuneration Committee is composed of 3 Directors, all independent:

- **Giovanni Jody Vender** (Chairman);
- **Carlo Emilio Croce**;
- **Giorgio Valerio**.

in possession of adequate knowledge and experience of accounting and finance or of remuneration policies.

The Board has identified the tasks assigned to the Remuneration Committee in order to make them fully compliant with the provisions of the Code, stating in particular that:

- it will assist the Board in defining a Group Remuneration Policy and the related criteria for its implementation, if adopted;
- it will regularly assess the adequacy, overall consistency and concrete application of the Remuneration Policy and of the related criteria for its implementation, if adopted;
- with reference to directors entrusted with special duties, general managers and key managers, it will formulate proposals to the Board:
  - for their remuneration, in keeping with the Remuneration Policy and the related criteria for its implementation, if adopted;
  - for setting performance targets related to the variable component of such remunerations;
  - for defining any non-competition agreement;

(15) The Application principle 4.C.2 states that: “*The establishment of one or more committees may be avoided reserving the relevant duties to the entire board, coordinated by the chairman and provided that: (i) the independent directors represent at least half the board of directors, rounding down to the nearest unit if the board is made up of an odd number of people; (ii) adequate room is given, at board meetings, to performance of the duties that the Code assigns to the said committees and an account of this is provided in the report on corporate governance; (iii) limited to the control and risks committee, the issuer is not controlled by another listed company, or subject to management and coordination. The board of directors illustrates in detail in the report on corporate governance the reasons behind the decision not to establish one or more committees; in particular, it will provide adequate reasons for the decision not to establish the control and risks committee in relation to the issuer’s degree of complexity and to the industry in which it works. The board will also proceed regularly to reassess the decision taken*”.

- for defining any agreement for termination of the relationship also on the basis of the principles laid down in the Remuneration Policy and in the related criteria for its implementation, if adopted;
- it will assist the Board in examining proposals to the Shareholders' Meeting on the adoption of any share-based payment scheme;
- it will monitor application of the decisions adopted by the Board checking that the performance targets set have effectively been achieved;
- it will examine and submit to the Board an annual remuneration report that, by name, for members of administration and auditing bodies, for general managers and in an aggregate form for key managers:
  - provides an adequate picture of each of the items making up the remuneration in keeping with the Remuneration Policy;
  - illustrates in detail the fees paid during the financial year for any reason and in any form by the company and its subsidiaries and/or associates.

The Board of Directors has also assigned the Remuneration Committee a specific duty to give its opinion on remuneration matters pertaining to transactions with parties related to the Company in accordance with the specific procedure adopted by PRELIOS indicated below.

As regards the work of the Remuneration Committee, it is envisaged that it will meet every time its Chairman considers it appropriate, or when a request is made by at least one member, by the Chairman of the Board of Directors or, if appointed, by the Chief Executive Officer and in any case as often as is adequate for the correct performance of its duties.

The Secretary of the Board of Directors acts as Secretary of the Committee.

Normally, meetings of the Committee are convened with a notice sent, also by the Secretary, on the instructions of the Chairman of the Committee.

The documents and information available (and in any case, that necessary) will be transmitted to all members of the Committee sufficiently in advance for them to express an opinion at the meeting, usually at the same time as the notice of convocation.

For Committee meetings to be valid, the majority of members in office must be in attendance and decisions shall be taken by the absolute majority of the members in attendance.

The Board of Statutory Auditors always attends the Committee meetings, along with other Company representatives, if considered advisable, invited each time if useful or necessary for the matters to be discussed.

Pursuant to the recommendations of Art. 6.C.6 of the Code, no Director takes part in Committee meetings at which proposals are made to the Board regarding their own remuneration.

The Committee is provided with adequate financial resources to carry out its duties, with full spending autonomy.

In carrying out its duties, it may avail itself of external consultants after checking that there are no situations such as might compromise the independence of their judgements.

The Committee has the right to access the Company information and departments necessary to perform its duties, making use to this end of the Secretary's support.

In 2012, five meetings were held, attended also by the Board of Statutory Auditors. They lasted an average of around one hour each.

For the relevant proportion of the members of the Committee at the meetings, reference is made to Table 1.

During these meetings, the following main subjects were examined and assessed, submitting the relevant proposals to the Board:

- the Remuneration Report, prepared in compliance with the provisions laid down by law and/or regulations and broken down as follows: (i) Remuneration Policy subsequently approved by the Board and submitted to the advisory vote of the Meeting of April 17, 2012 that approved the 2011 Financial Statements; (ii) Statement of remuneration for the 2011 financial year of members of administrative and auditing bodies, general managers and key managers. The said Report is published on the Company's website;
- variable, annual and multi-annual incentive criteria, for management and the reasons for which they were not adopted;
- the remuneration package relating to the Chairman and Chief Executive Officer on the occasion of their respective appointments as well as the agreements reached with Paolo Massimiliano Bottelli (former Chief Executive Officer and General Manager of the Company) following the resignation on November 13, 2012, also on the basis of a special benchmark and opinion prepared by specialised independent consultants/professionals in this field.

In 2013 and until the Date of the Report, the Remuneration Committee held one meeting.

## 9. DIRECTORS' REMUNERATION

In the last few years – also following the financial crisis on the markets – the subject of the remuneration of Directors of listed companies (especially those with executive functions) has been under more and more scrutiny on the part of regulators, both at the national level and in terms of international coordination, with a view to extending shareholder involvement in defining remuneration policies and strengthening the transparency of the contents of such policies and their actual implementation.

There have been several Community initiatives at European level, in particular through the issue of Recommendations over the years, which have been transposed for the most part, first through self-regulation and secondly through the initiation of a legislative process on the matter.

As already indicated in the Report for the 2011 financial year, in compliance with the provisions of Art. 123-ter of CFA, the Board of Directors: on March 2, 2012, following a favourable opinion of the Remuneration Committee, approved the Remuneration Report, inclusive of the Remuneration Policy submitted later to the advisory vote of the Shareholders' Meeting of April 17, 2012, which approved the 2011 Financial Statements as well.

Moreover, it should also be noted that the Company – in accordance with the provisions of the Code as well – had already, at the Board meeting held on November 11, 2011, approved a General remuneration policy compliant with the requirements of the Code. This was subsequently revised and integrated into the wider Remuneration Report now required by provisions of the law and regulations.

With specific reference to the 2012 financial year, the Board of Directors on March 27, 2013, following a favourable opinion of the Remuneration Committee, approved the Remuneration Report broken down in two sections, and mainly shows:

- a) the Company's Policy for the remuneration of the members of the administrative bodies, general managers and key managers, in addition to the procedures used to adopt and implement said policy. The Policy, pointing out the changes compared to the one approved in the previous financial year, will be submitted to the advisory vote of the Shareholders' Meeting for the approval of the 2012 Financial Statements;
- b) the Statement of remuneration for the 2012 financial year of the members of the administrative and auditing bodies, general managers and key managers, providing a suitable representation of each of the items that make up the remuneration, by showing their consistency with the Policy approved in the previous financial year and providing a detailed breakdown of the fees paid for any reason and in any form by the Company and by its subsidiaries and/or associates.

The aforementioned Remuneration Report is published on the Company's website in the corporate governance section.

#### **General remuneration policy.**

CAs mentioned above, the Board of Directors on March 27, 2013, following the favourable opinion of the Remuneration Committee, approved the Remuneration Report to be submitted to the Shareholders' Meeting for the approval of the 2012 financial statements.

In referring readers for all further details to the said Report published on the website, it should be noted that the Remuneration Policy it contains is aimed at attracting, motivating and retaining resources in possession of the professional qualities required to pursue effectively the PRELIOS Group's objectives.

The Policy has been defined in order to align the management's interests with those of the shareholders pursuing the primary objective of sustainable value creation in the medium-long term, through a link between individuals' and the Group's remuneration and performance. In particular, it defines the guidelines in keeping with the criteria indicated below:

- a. the fixed component and the variable component are adequately balanced in accordance with the Company's strategic objectives and risk management policy, taking into account also the business segment in which it works and the features of the business activities actually carried on;
- b. maximum limits are envisaged for the variable components;
- c. the fixed component is sufficient to remunerate the director's services if the variable component is not paid owing to failure to achieve the performance targets;
- d. the performance targets are pre-set, measurable and linked to value creation for shareholders over a medium/long-term horizon;
- e. payment of a significant portion of the variable component of the remuneration (if multi-annual incentive systems are in place) is deferred by an adequate time lapse with respect to the moment of accrual; the amount of this portion and the duration of deferment are in keeping with the features of the business activities carried on and with the associated risk profiles;
- f. any indemnity envisaged for early termination of the administration or employment relationship, or owing to its non-renewal, is defined following the provisions of case laws on the matter and in line with the reference benchmarks and best practices on the matter and, therefore, also in such a way that its total does not exceed a certain amount or a certain number of years of remuneration.

#### **Share-based remuneration schemes.**

At the Date of the Report, no Share-based remuneration schemes are in being.

#### **Remuneration of Executive Directors.**

As specified in the Remuneration Report, to which the reader is referred, the remuneration of directors vested with special duties may be made up of the following elements:

- a Fixed Component (gross fixed annual fee);
- an Annual Variable Component (annual variable incentive, the so-called MBO);
- a Multi-annual Variable Component (multi-annual variable incentive, the so-called LTI);
- Company benefits generally provided for Managers, in accordance with the policies adopted.

In determining the remuneration of its individual members, the Board of Directors takes into account whether the director entrusted with special duties has also been given specific management powers (executive directors).

In general, the total remuneration provides for a balance between fixed and variable elements, which take into consideration the Company's strategic objectives and risk profile, with respect to the industry in which Prelios operates and with the features of the business carried on. As a general rule, it is the Group's policy to set the fixed component of remuneration not to exceed 50% of total target remuneration.

If directors entrusted with special duties are not vested with specific powers, their remuneration will not include a variable component, but only a fixed component.

### Remuneration of key managers

At least once a year, the Board of Directors, with the assistance of the Internal Control, Risk and Corporate Governance Committee, checks whether other "key managers" meet the requirements to be classified as such and whether such requirements continue to be met by those already classified as such, within the Company and/or the Group. In general, those appointed to the position of General Manager are always considered key managers.

Generally speaking, the remuneration of key managers consists of the following components:

- a Fixed Component (gross annual fixed remuneration, the so-called GAR);
- an Annual Variable Component (annual variable incentive, the so-called MBO);
- a Multi-annual Variable Component (multi-annual variable incentive, the so-called LTI);
- Company benefits, according to the policies adopted.

In general, as for directors vested with special duties, also for key managers total remuneration involves a balance between fixed and variable elements, which take into consideration the Company's strategic objectives and risk profile, with respect to the industry in which Prelios operates and with the features of the business carried on. As a general rule, it is the Group's policy to set the fixed component of remuneration not to exceed 50% of total target remuneration.

### Incentive mechanisms for the Head of Internal Audit and the Manager Responsible for Corporate Financial Reporting

In keeping with the provisions of the Remuneration Policy, the incentive mechanisms for the Head of Internal Audit and the Manager Responsible for Corporate Financial Reporting are consistent with the tasks assigned to them.

The remuneration structure of the Head of Internal Audit was defined, in keeping with the Remuneration Policy, by the Board of Directors on the proposal of the director in charge of the internal control and risk management system and after hearing the favourable opinion both of the Internal Control, Risk and Corporate Governance Committee and of the Board of Statutory Auditors. (Art. 7.C.1 of the Code).

With particular reference to variable incentives, it should be specified that these do not depend on economic and financial indicators, but instead on determination and calculation mechanisms based on qualitative rather than quantitative criteria.

The remuneration structure of the Manager Responsible for Corporate Financial Reporting is in keeping with the tasks assigned to him.

### Remuneration of non-executive directors.

In line with the Remuneration Policy, the fees of non-executive Directors are made up only of a gross annual fixed component as no variable component is provided for.

Non-executive directors are not rewarded with financial-instrument-based incentive plans.

\*

In accordance with the provisions of the Code, the aforesaid Directors' remuneration is considered suitable – and in line with that applied by the market in similar situations – as well as sufficient to attract, keep and motivate directors equipped with the professional qualities required to manage the Company successfully.

**Directors' indemnity in the event of resignations, dismissal or termination of employment following a takeover bid (pursuant to Art. 123-bis, paragraph 1, letter i, CFA).**

The Chief Executive Officer, Sergio Iasi, is entitled, in the event of early termination of the office at the Company's initiative – without prejudice to the cases of removal from the office due to just cause governed by the law – or in case of non-renewal upon termination, early or otherwise, a gross all-inclusive indemnity equal to: (i) a fixed or variable annual fee, until 4 months after appointment as Chief Executive Officer, and (ii) two fixed and variable annual fees, after such period. Moreover, this indemnity pertains to the Chief Executive Officer also if the latter resigns due to just cause.

The variable fee would be calculated with reference to the amount received in the previous year on the effective date of termination, upon the occurrence of the related assumptions and without prejudice to the cases of removal from the office due to just cause governed by the law

The above was evaluated, also on the basis of a special "Remuneration benchmark for the position of Chief Executive Officer" prepared by Hay Group, company specialised on remuneration.

It is specified that the acknowledgement of an agreement that pays the salary in advance in case of termination of the employment is in compliance with the "Remuneration Policy" approved, pursuant to the law, by the Company. In fact, Sergio Iasi has the professional requirements and solid experience gained also in business turnaround processes and in the property sector

For more details, see in this regard the "Remuneration Report" for the 2012 financial year published on the Company's website in the corporate governance section.

No specific agreements contemplating fees for non-competition commitments, the maintenance of non-monetary benefits or the signing of consultancy contracts for a period following the termination of the employment relationship are expected.

## 10. INTERNAL CONTROL, RISK AND CORPORATE GOVERNANCE COMMITTEE

The Internal Control, Risk and Corporate Governance Committee – with a reinforcing provision compared to what is recommended by Art. 8.P.4. of the Code – is currently made up of 4 Directors, all independent:

- **Dario Trevisan** (Chairman);
- **Marina Brogi**
- **Giovanni Fiori**
- **Valter Lazzari**

three of whom having adequate experience in accounting and financial matters.

As indicated above, on August 28, 2012, the Board redefined the activities and tasks of the "Internal Control and Corporate Governance Committee" (now called "Internal Control, Risk and Corporate Governance Committee") by assigning it the functions granted to the Risk Committee that, as a result, has been outdated.

On this occasion, the "governance" model on risk management was specified and strengthened as well; this model contemplates – in addition to the Board of Directors and the Internal Control, Risk and Corporate Governance Committee – the activity of the "Managerial Risk Committee" that assists and supports the "*Director in charge of the Internal control and risk management system*", and the Risk Officer, who coordinates the assessment process and the actual implementation of the adopted business plans

The Board determined the tasks and related operating rules of the Committee, in full compliance with the provisions of the Code, envisaging that it has the mission to guarantee, with an appropriate investigation on the system of governance of risks, the efficiency, effectiveness and correctness, on the one hand, of the internal control system and, on the other, of the corporate governance structure in general.

Regarding internal control and risk management, the Committee:

- a. expresses its own opinion and/or sets forth its proposals to the Board of Directors when the latter:
  - defines the guidelines of the internal control and risk management system;
  - evaluates, at least every year, the adequacy and efficiency of the internal control system in compliance with the assumed risk profile;
  - approves, at least every year, the work plan prepared by the Head of Internal Audit, after hearing the board of statutory auditors and the Director/s in charge of the Internal control and risk management system;
  - describes, in the corporate governance report, the main characteristics of the internal control and risk management system, evaluating its adequacy;
  - evaluates, after hearing the board of statutory auditors, the results reported by the external auditors in the suggestion letter, if any, and in the report on basic issues emerged during the external audit;

- appoints and removes – on the proposal of the Director/s in charge of the Internal control and risk management system and after hearing the board of statutory auditors – the Head of Internal Audit, making sure that he has the adequate resources to carry out his responsibilities, and defines his remuneration in compliance with the remuneration policy adopted by the Company.

If the Director/s in charge of the Internal control and risk management system is/are vested with the operational powers, the proposals related to the appointment, removal or remuneration of the Head of Internal Audit must be shared with the Chairman of the Board of Directors, in that he is not in turn vested with the operational powers;

b. when supporting the Board of Directors:

- evaluates, assesses, together with the Manager Responsible for Corporate Financial Reporting after hearing the external auditor and the board of statutory auditors, the adequacy of the accounting principles used and their homogeneity for the purposes of preparing the consolidated financial statements;
- expresses its own evaluation:
  - a) in regularly identifying and assessing, at least once a year, the most significant risks affecting the company and its subsidiaries so as to ensure that they are correctly monitored (annual risk assessment);
  - b) in defining and, at least once a year, regularly updating the mitigation plans and in general the “risk governance” (annual risk management plan) in order to maintain the levels of exposure to total risk below the threshold assessed by the Board of Directors, on the proposal of the Committee itself, as “acceptable” (the so-called risk appetite);
- examines the regular reports covering the evaluation of the internal control and risk management system, and those of particular relevance prepared by the internal audit department;
- monitors the independence, adequacy, effectiveness and efficiency of the internal audit department;
- it can ask the internal audit department to carry out inspections on specific operational areas, by informing at the same time the Chairman of the Board of Statutory Auditors;
- refers to the Board of Directors, at least on a half-yearly basis, upon approval of the annual and half-yearly financial statements, on the activities carried out and on the adequacy of the internal control and risk management system.

The Committee is informed:

- by the “*Director in charge of the Internal control and risk management system*”, of issues and problems in the carrying-out of its work or of which he was informed, so that the Committee can take appropriate actions;
- by the Manager Responsible for Corporate Financial Reporting on the work done at least on a yearly basis.

\*

Regarding corporate governance, the Committee:

- monitors observance and periodic updating of the corporate governance rules and observance of any principle of conduct adopted by the Company and by its subsidiaries;
- proposes methods and timings for carrying out the annual self-assessment of the Board of Directors;
- proposes applicants to the Board for co-opting if an Independent Director is replaced;
- carries out an investigation in order to prepare a succession plan for executive directors, if adopted by the Board of Directors.

The Committee, finally, has been assigned the responsibilities of the “*Committee for Related Party Transactions*” – within the limits set by the current legislative and regulatory provisions and by the Procedure for Related Party Transactions adopted by the company as described below – with reference to related party transactions, of the Company or its subsidiaries, with the sole exception of questions concerning remuneration of directors and key managers that are the responsibility of the Remuneration Committee.

In this regard, the Committee:

- assesses regularly (and in any case at least every three years) any change to the Procedure for Related Party Transactions, providing opinions on the subject to the Board of Directors;
- for Transactions of Greater Significance, has the right to request information and formulate observations to the persons appointed to conduct negotiations or arrange transactions;
- in the case of related party transactions of Greater or Lesser Significance, formulates reasoned opinions on the Company’s interest in performing the transaction and on the convenience and substantial correctness of their conditions, on the proposal to adopt “Framework Resolutions of Greater Significance” and of “Framework Resolutions of Lesser Significance”.

As regards the work of the Committee, it is envisaged that it will meet every time its Chairman considers it appropriate, or when a request is made by at least one member, by the Chairman of the Board of Directors or, if appointed, by the Chief Executive Officer and in any case as often as is adequate for the correct performance of its duties.

The Secretary of the Board of Directors acts as Secretary of the Committee.

Normally, meetings of the Committee are convened with a notice sent, also by the Secretary, on the instructions of the Chairman of the Committee.

The documents and information available (and in any case, that necessary) will be transmitted to all members of the Committee sufficiently in advance for them to express an opinion at the meeting, usually at the same time as the notice of convocation.

For Committee meetings to be valid, the majority of members in office must be present and decisions are taken with an absolute majority of the members present.

Committee meetings are attended as a rule by the Board of Statutory Auditors and, if it is considered advisable, by other Company representatives invited each time if useful or necessary for the matters to be discussed, including the Head of Internal Audit and the Manager Responsible for Corporate Financial Reporting.

In this connection, with the entry into force of the Consolidated External Audit Act, in order to enable the Company's Board of Statutory Auditors to best perform its supervisory role based on the new responsibilities provided by the said regulation, the Board of Statutory Auditors and the Internal Control, Risk and Corporate Governance Committee also deal with the following specific matters, at the respective Committee meetings and observing the responsibilities and tasks assigned to them:

- the financial disclosure process;
- effectiveness of the internal control, internal audit and risk management systems;
- the external audit of the annual accounts and consolidated accounts;
- independence of the independent auditors.

The Committee – which in performing its duties may make use of external advice – is provided with adequate financial resources to fulfil its tasks, with full spending autonomy.

The Committee has the right to access the information and company departments necessary to perform its duties, making use to this end of the Secretary's support.

In 2012, 9 meetings – attended also by the Board of Statutory Auditors – were held, lasting on average for approximately one hour and a half. For the relevant proportion of the members of the Committee at the meetings, reference is made to Table 1. During such meetings, the following matters, among others, were examined and assessed:

- the impairment test in relation to the 2011 draft financial statements and their compliance with the prescriptions of the IAS 36 accounting standard;
- the interim impairment test, carried out voluntarily and out of prudence, as at September 30, 2012;
- the guidelines of the new 2013 – 2016 Strategic Plan;
- updates of the Organisational Model pursuant to Italian Legislative Decree 231/2001 as a consequence of the recent laws with particular reference to environmental crimes, and of further improvements and refinements deriving from the experience gained in the practical application of the Model, in order to ensure that it was capable of fulfilling with ever-increasing effectiveness the purposes for which it was designed with specific reference to mapping and identifying areas of risk and the associated monitoring procedures;
- the proposed amendments to the Articles of Association following regulatory provisions;
- the new regulations introduced by the so-called "Salva Italia" Law Decree, carrying out the required inspections on the so-called interlocking – which contemplates a system of incompatibility of offices among competing companies or groups of companies working in the credit, insurance and financial market – by excluding, also on the basis of opinions acquired, the possibility to apply the regulations to PRELIOS;
- the state of compliance with respect to the Code of Conduct for listed companies of Borsa Italiana (Italian Stock Exchange) (2006 edition) and the amendments made to it by the new Code considering the proposed adjustment measures to be implemented within the 2012 financial year;
- the results of the work done in 2011 by the *Key2People* company in the area of Board Performance Evaluation and the evaluation methods for the 2012 financial year;
- the possibility of not adopting a succession plan for executive directors, considering the importance of the Extraordinary Transaction and of the consequent effects that may be expected on the current shareholdings of the Company and, in general, on the company organisation also with reference to management;

- the investigation concerning the annual verification of the existence of the independence requirements of the Directors;
- the variable remuneration for 2011 of the Head of Internal Audit, based on the remuneration structure defined by the Board;
- the inspections carried out by the Bank of Italy at the subsidiary Prelios SGR and consequent developments on the basis of the communications received regularly from the said subsidiary, which began to introduce the improvements indicated by the Supervisory Board. In this regard, the Committee supports PRELIOS's Board in the work of continuously monitoring implementation of the measures communicated to the Bank of Italy by the subsidiary;
- the main risks and tax subjects of PRELIOS and of its subsidiaries and investees.

As part of its work, the Committee examined and assessed the reports:

- of the Head of Internal Audit on the 2011 financial year and the 2012 Audit Plan, as well as periodic reports on the operations and development of activities;
- of the Manager Responsible for Corporate Financial Reporting on the work done;
- of the independent auditors sent to the Board of Statutory Auditors under the terms of Art. 19 of the Consolidated External Audit Act;
- on Corporate Governance and Ownership Structures for the 2011 financial year and for the first half of 2012;
- on the work done, every six months, by the Committee itself,

The Committee also examined the audit plan for the PRELIOS Group prepared by the independent auditors Reconta Ernst & Young for the 2012 financial year.

The Committee, finally, in its capacity as “*Committee for Related Party Transactions*” examined and assessed related party transactions including, in particular: (i) the signing of a lease agreement with Pirelli & C. S.p.A. (a related party of the Company) of a property called “R&D” that will become the new premises of the Company; (ii) the development of the Extraordinary Transaction, in relation to the involvement of the financial backers of Prelios – and therefore of Pirelli & C. S.p.A. – in anticipation of a review of the financial structure – and relating terms and conditions – of the corporate debt of Prelios, which completes the requirements for a related party transaction of “Greater Significance”.

Moreover, note that the “*Committee for Related Party Transactions*” was the recipient of an ongoing and timely information flow on the Extraordinary Transaction, in relation to the involvement of the financial backers of Prelios – and therefore of Pirelli & C. S.p.A. as well – in anticipation of a review of the financial structure – and relating terms and conditions – of the corporate debt of Prelios.

Since, with reference to Pirelli & C. S.p.A., the debt restructuring agreement of the loan granted by it completes the requirements for a related party transaction of “Greater Significance”, pursuant to the Procedure on the matter adopted by the Company, the “*Committee for Related Party Transactions*” examined the mentioned transaction in several meetings in which the relevant updates were provided by the persons appointed to conduct negotiations in order to allow the “*Committee for Related Party Transactions*” itself to express its own binding opinion on the convenience and substantial correctness of their conditions, issued, without abstentions or unfavourable votes, on March 14, 2013 and further confirmed on March 27, 2013.

For further details, refer to the Prospectus <sup>(16)</sup> published on the website.

In 2013 until the Date of the Report, the Internal Control, Risk and Corporate Governance Committee held 4 meetings.

Finally, note that the Risk Committee, before being eliminated, held 3 meetings – attended also by the Board of Statutory Auditors – during which the Committee followed the risk assessment activity, by examining, considering the scenario of reference, the main business risks in order to manage them in terms of prevention and mitigation with respect to the achievement of company objectives. Subsequently, also considering (i) the absorption of the Risk Committee in the Internal Control, Risk and Corporate Governance Committee; (ii) the concentration of the importance of risks within the development of the Extraordinary Transaction and (iii) the considerable frequency of the board meetings, averaging more than one per month, the monitoring, analysis and management of risks was carried out at the level of the Board of Directors, as well.

## 11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Oltre a quanto sopra osservato con riferimento al concreto funzionamento del Comitato per il Controllo Interno, i Rischi e la *Corporate Governance*, il sistema di controllo interno della Società è strutturato per assicurare una corretta informativa ed una adeguata “copertura” di controllo su tutte le attività del Gruppo PRELIOS, con particolare attenzione alle aree ritenute potenzialmente a rischio. In addition to

(16) Prospectus drawn up pursuant to the “Regulations on Related Party Transactions” adopted with Consob Resolution no. 17221 of March 12, 2010, as subsequently modified by Consob Resolution no. 17389 of June 23, 2010 and of the RPT Procedure.

the information provided above with regard to the specific operation of the Internal Control, Risk and Corporate Governance Committee, the Company's internal control system is structured to ensure correct information and adequate "coverage" of control over all the activities of the PRELIOS Group, with special emphasis on the areas considered to be potentially at risk.

Responsibility for the internal control system falls upon the Board, which fixes the guidelines and periodically checks the adequacy and effective operation thereof, so that the main risks relating to the Company and its subsidiaries are correctly identified and adequately measured, managed and monitored, (as indicated in the related Annexe 1, with a special reference to the risk management and internal control system relating to the financial reporting process) by also determining the degree of compatibility of such risks with the management of the company in line with the identified strategic objectives. In 2012, this activity has been carried out and monitored with a special attention to the overall financial structure and the level of sustainable debt.

To this end, the Board has chosen one of its members as "*Director in charge of the Internal control and risk management system*" and avails itself of the Internal Control, Risk and Corporate Governance Committee.

The Board also set up an Internal Audit Department and chose its manager charged with checking the operation and adequacy of the system.

The Committees and the Head of Internal Audit interact with the Board of Statutory Auditors and the appointed independent auditors, exchanging information on the respective activities carried out, for the purposes of more efficient operation of the internal control system.

The Board evaluates, after hearing the Board of Statutory Auditors, the results reported by the external auditor in the suggestion letter, if any, and in the report on issues emerged during the external audit pursuant to Art. 19 of the Consolidated External Audit Act.

With specific reference to evaluation of the internal control system, within the scope of its activities providing effective protection from the typical risks of the main activities exercised by the Company and its subsidiaries, as well as monitoring the economic and financial situation of the Company and of the PRELIOS Group, it is considered by the Internal Control, Risk and Corporate Governance Committee, also based on the information received from the Board of Statutory Auditors, to be largely adequate and therefore capable of protecting the company's interests and fulfilling the purposes for which it was set up.

### 11.1. EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In accordance with the guidelines contained in Art. 7.P.3., let. a), of the Code, the Board appointed the pro tempore Chief Executive Officer holding office as "*Director in charge of the Internal control and risk management system*", and assigned him the tasks described in detail in point 7.C.4. of the said Code – which he carried out, supported by the work of the Internal Control, Risk and Corporate Governance Committee, by the Head of Internal Audit and by the Risk Committee, before it was eliminated – as well as the resulting appropriate/required powers, also for implementing further initiatives and measures necessary for full compliance with the provisions on self-regulation of listed companies.

### 11.2. HEAD OF INTERNAL AUDIT

The Chief Executive Officer, in agreement with the Board of Directors, performed his duties of implementation, management and monitoring of the internal control system. He also set up a specific "internal audit department" and appointed as its manager Sergio Romiti, Head of Internal Audit of PRELIOS, who is not responsible for any operating area and reports directly to the Board of Directors.

In particular, on May 4, 2011 – on the proposal of the Director in charge of the Internal control and risk management system and after hearing the favourable opinion of the then Internal Control and Corporate Governance Committee – the Board of Directors appointed the Head of Internal Audit currently in office Sergio Romiti, also defining his remuneration in keeping with the relevant Policy adopted by the Company.

The Head of Internal Audit is assisted by an independent structure with specific experience in the field, as well as adequate financial resources to fulfil its tasks made available, if necessary, without specific limits.

The Head of Internal Audit prepares the "work plan" for the auditing, checks the internal control and risk management system and verifies the reliability of the information systems including the accounting systems. In particular, he checks the observance and efficacy of all the rules, procedures and structures adopted by the Company to achieve the objectives set, liaising with the Corporate Affairs and Company Secretary for appropriate coordination and collaboration within his purview and reporting periodically on his work to the Chief Executive Officer for decisions within his purview, as well as to the Internal Control, Risk and Corporate Governance Committee and the Auditors.

During 2012, the Head of Internal Audit – who has free access to all useful information for the performance of his task and powers to access and request with regard to all company departments – reported periodically on his work to the Director in charge of the Internal control and risk management system and four times to the Internal Control, Risk and Corporate Governance Committee, which has always been attended by the Board of Statutory Auditors and the Manager responsible for Corporate Financial Reporting.

The auditing on the Internal Control System for 2012 was carried out by controlling and evaluating the policies, systems and processes required for the purposes of the above-mentioned position entrusted to the Internal Audit Department.

Based on the results of the verifications carried out and the information made available by the competent company departments, the Head of Internal Audit reported to the Internal Control, Risk and Corporate Governance Committee, in the mentioned meetings, that he has not identified shortcomings that could affect significantly the level of adequacy of the Internal Control and Risk Management System of the Group.

This opinion is also based on the results of the verifications carried out on the subsidiaries submitted to the supervision of the Bank of Italy (i.e. Prelios Società di Gestione del Risparmio S.p.A. and Prelios Credit Servicing S.p.A.) by the independent and autonomous Internal Audit departments, with which the Internal Audit Department of Prelios interacts, without prejudice to the full autonomy of the mentioned departments, in compliance with the regulations in force.

During the work done in 2012, what was determined on a regular basis and the suggestions for measures deemed necessary to the improvement of the Internal Control System were shown in specific auditing reports (sent to the Chairmen of the Board of Statutory Auditors, of the Internal Control, Risk and Corporate Governance Committee, of the Board of Directors as well as to the Director in charge of the Internal control and risk management system).

Such measures were shared by the management with specific action plans that were the subject-matter of follow-ups to make sure that the shared actions were actually implemented, and the subsequent improvement of the Internal control and risk management system, in order to pursue the objectives of effectiveness and efficiency of operations, information reliability, safeguard of corporate assets and compliance with current legislation.

Among the other activities carried out in 2012, the support activity that the Internal Audit Department provides to the Supervisory Board of Prelios as part of the Organisational Model adopted by the Company pursuant to Italian Legislative Decree 231/2001 (indicated below) is pointed out, in particular and among other things, as a preparation in order to guarantee its constant and efficient implementation also in relation to its updates as required, in accordance with, among other things, the most recent regulatory innovations.

The Head of Internal Audit prepared immediately the reports on particularly important events and carried out the required audits not contemplated by the 2012 inspection plan. In this regard, the following is pointed out, in particular:

- the audit carried out with the purpose of analysing the level of adequacy of the infrastructure of internal controls, in relation to the process of managing information flows to Directors and Auditors with reference to figures and information concerning the Interim Financial Report as at June 30, 2012, without finding any element that may compromise the correct management of information flows;
- the audit carried out following the improper publication of confidential information on the Internet, without finding problems on the control systems concerning the internal management processes of information and the internal processes relating to the IT security system monitoring the phenomena of improper intrusion into the systems of the Prelios Group. In particular, no problems were reported on the internal control infrastructure in force to prevent computer crimes.

The mentioned audits were shown to the Board of Statutory Auditors, to the Internal Control, Risk and Corporate Governance Committee, to the Supervisory Board and reported to the Board of Directors of the Company.

During 2012, the Head of Internal Audit submitted the audit plan scheduled for 2012 to the Internal Control, Risk and Corporate Governance Committee, which was then approved by Board of Directors at the meeting held on March 2, 2012. During the financial year, the state of progress of the audit plan was reported each quarter.

On February 1, 2013, the Head of Internal Audit submitted the audit plan scheduled for 2013 to the Internal Control, Risk and Corporate Governance Committee, which was then approved by the Board of Directors at the meeting held on March 27, 2013 [Art. 7.C.1, letter c), of the Code].

### 11.3. ORGANISATIONAL MODEL pursuant to Italian Legislative Decree 231/2001

The internal control system is, among other things, reinforced by adoption of a specific organisational model (hereinafter also the "Organisational Model" or "Model"), approved by the Board on July 29, 2003 and subsequently updated several times on March 9, 2007, November 7, 2007, March 6, 2008, November 5, 2008, March 5, 2009, November 4, 2009, March 4, 2011 and March 2, 2012. The Organisational Model is published on the Company's website, in the Corporate Governance section.

This Organisational Model, which aims to ensure the development of a system modulated on specific requirements determined by the entry into force of Italian Legislative Decree no. 231/2001 concerning the administrative liability of companies for offences committed by senior or subordinate persons in the interest or for the benefit thereof, takes the form of a complex pyramidal system of principles and procedures that, starting from the base, can be defined as follows:

- Group Code of Ethics, which contains the general principles (transparency, correctness, loyalty) inspiring the development and conduct of business as part of a more general process of sustainable growth ensuring, at the same time, the efficiency and effectiveness of the Internal Control System;
- Internal Control System, i.e. all the processes aimed at providing a reasonable guarantee of achievement of the objectives of efficiency and operational effectiveness, reliability of the financial and operating information, observance of the laws and regulations, and protection

of the corporate assets also against possible fraud. The internal control system is based on and classified according to several general principles, specifically defined within the scope of the Organisational Model whose field of application extends across all the different organisational levels (Business Units, Central Departments and Company);

- Lines of conduct, which introduce specific rules in order to avoid the occurrence of environmental situations conducive to the commission of offences in general, including in particular offences pursuant to Italian Legislative Decree 231/2001. Some rules are also specific for managing relationships with representatives of the Public Administration and with third parties in general, and for corporate formalities and activities and communication to the market;
- Internal control plans, which have been prepared for all high- and medium-risk operating processes and instrumental processes. These plans present a similar structure, which is based on a set of rules aimed at identifying the main stages of each process, the specific control activities to prevent reasonably the related offence risks, and specific information flows to the Supervisory Board in order to highlight any situation of non-observance of the procedures laid down in the organisational models. The internal control plans have been prepared in the light of three cardinal rules and more specifically:
  - separation of roles in carrying out activities relating to the processes;
  - the so-called traceability of choices, i.e. constant visibility thereof (e.g. by suitable documentary evidence) to allow identification of specific points of responsibility and reasoning for the choices made;
  - making the decision-making processes more objective, in the sense of envisaging that, in taking decisions, any merely subjective evaluations are disregarded and pre-established criteria are referred to.

The Company has also appointed a Supervisory Board, with independent powers of initiative and control, responsible for monitoring the effectiveness, adequacy, operation and observance of the Model itself, ensuring that it is constantly updated. This Board is currently made up of Dario Trevisan, Independent Director and Chairman of the Internal Control and Corporate Governance Committee; Lelio Fornabaio, Standing Auditor; Sergio Beretta, university lecturer and expert on the subject of corporate controls, and Sergio Romiti, Head of Internal Audit for the Prelios Group. As things stand, the functions of the Supervisory Board were not assigned to the Board of Statutory Auditors, considering it better for its tasks to be carried out by a body working exclusively for these activities and taking into account that the presence among its members of an Auditor ensures the effectiveness of the action and an appropriate coordination with the Board of Statutory Auditors.

The Organisational Model is completed by a section dedicated to transactions carried out directly by the Company's "senior personnel", a section dedicated to the disciplinary system introduced in order to sanction the non-observance of the measures laid down in the Organisational Model, and a section on disclosure of the Model and the relevant training.

Finally, two annexes are provided: (i) the first on offences pursuant to Italian Legislative Decree 231/2001, providing a brief description of offences that may be of significance to the Company, and some possible means of committing them; (ii) the second contains an illustrative description of Public Administration.

Art. 6 paragraph 2, let. d) of Italian Legislative Decree 231/2001, identifies specific disclosure obligations on the body appointed to supervise operation and observance of the models. This operation is facilitated by systematic and structured reporting on subjects/events at risk, whose significance and analysis constitute the so-called red flag giving rise to checks and investigations by the Body of any irregular situation and/or offence.

The main types of offences that the Model aims to prevent are as follows:

- a. Crimes against the Public Administration:
  - i. Unlawful collection of sums allotted, fraud against the State or a public entity or to obtain public money and computer fraud against the State or a public entity (Art. 24 of Italian Legislative Decree 231/2001);
  - ii. Extortion and corruption (Art. 25 of Italian Legislative Decree 231/2001);
- b. Computer crimes and unlawful processing of data (Art. 24-bis of Italian Legislative Decree 231/2001);
- c. Corporate crimes; (Art. 25-ter of Italian Legislative Decree 231/2001);
- d. Market abuse (Art. 25-sexies of Italian Legislative Decree 231/2001);
- e. Offences of manslaughter or serious or very serious injury committed through infringements of the rules on the protection of health and safety at work (Art. 25-septies of Italian Legislative Decree 231/2001);
- f. Offences of handling, laundering and use of stolen goods, money or benefits of unlawful origin (Art. 25-octies of Italian Legislative Decree 231/2001);
- g. Environmental offences (Art. 25-undecies of Italian Legislative Decree 231/2001).

The Company, in agreement with the Supervisory Board, at the beginning of 2013 started, through appropriate internal structures and with the support of external professionals, a risk mapping activity compared to the new regulation set forth in Art. 25-duodecies (Employment of third-country nationals with unlawful residence permit) and related monitoring, as well as compared to the new predicate offences of Legislative Decree 231/2001 introduced by Law 190/2012 (Provisions for the prevention and repression of corruption and wrongdoing in Public Administration) in order to check the advisability of updating the Organisational Model in keeping with the Company's specific activities.

The Italian subsidiaries of strategic significance all have their own organisational model and supervisory board; for each one, the Supervisory Board was identified by looking for the technical and operational solution that, while observing the mandate and powers reserved for it by the regulations, is adequate for the size and organisational context of each company.

Finally, for the sake of completeness, it is important to note that the Company has also adopted an internal operating rule known as Whistleblowing that regulates a procedure for reporting infringements, suspected infringements and inducement to infringements of laws and regulations, principles laid down in the Code of Ethics, internal control principles, rules and company procedures.

In particular, this rule, being supplemented and coordinated with the provisions of the Organisational Model pursuant to Legislative Decree 231/2001 adopted by the Company, provides that employees who become aware of potential or real situations of infringement are encouraged to report them immediately, with the guarantee of being fully protected by the utmost confidentiality and of not suffering retaliation of any kind.

The reports may concern directors, auditors, management or employees of the Prelios Group and, in general, all subjects operating in Italy and abroad for the Prelios Group or maintaining business relations with the Group, including auditing firms, partners, customers, suppliers, advisers, collaborators, institutions and public entities.

The analysis and verification of these reports is assigned to the Internal Audit Department, which carries out the relevant activities through a function specifically set up and reporting quarterly to the Internal Control, Risk and Corporate Governance Committee.

#### 11.4. INDEPENDENT AUDITORS

On the reasoned proposal of the Board of Statutory Auditors, the Shareholders' Meeting of April 14, 2008 appointed *Reconta Ernst & Young S.p.A.* to carry out independent audits for the 2008-2016 nine-year period.

*Reconta Ernst&Young S.p.A.* is the Italian organisation of the *Ernst&Young network* that was also appointed, through the organisations present in the various countries in which the Group operates, to audit the financial statements of the major PRELIOS Group companies.

In order to safeguard the independence requirements of firms appointed to audit the accounts, the Company adopted a specific Procedure that governs the matter coherently in relation to:

- the methods of assigning the external auditing appointment to the independent auditors appointed under the terms of the CFA by PRELIOS;
- the methods of assigning the external auditing appointment by companies controlled by PRELIOS;
- the methods of conferring on the external auditor, or on subjects that are part of its network, any other appointment (Other Audit Services, Audit Related Services and Non-Audit Services) by PRELIOS and its subsidiaries.

For each category of services, conferment powers and limits are set together with procedural methods for approval and obligations to disclose the final data.

It should be noted, finally, that with reference to the subsidiary Prelios SGR, in view of the specific rules to which the same is subject, it has been decided that the Procedure will be applied within the limits of compatibility with the said special rules.

#### 11.5. MANAGER RESPONSIBLE FOR CORPORATE FINANCIAL REPORTING AND OTHER COMPANY ROLES AND POSITIONS

In compliance with the provisions of Art. 154-bis of the CFA and pursuant to Art. 19.4 of the Articles of Association, on November 11, 2011, after hearing the opinion of the Board of Statutory Auditors, the Board appointed Riccardo Taranto (the company's Chief Financial Officer) as the Manager Responsible for Corporate Financial Reporting, who has the integrity requirements laid down for Directors and is an expert in administration, finance and control, identifying him also as "Key manager" as defined by the *pro tempore* current legislation and regulations and by the Procedures adopted by the Company.

Following the resignation of Riccardo Taranto, on March 27, 2013 the Board appointed, after hearing the opinion of the Board of Statutory Auditors, Angelo Cattaneo – former Administration and Financial reporting Manager – as Manager Responsible for Corporate Financial Reporting, who also has the above-mentioned requirements and expert in administration, finance and control.

The Manager Responsible for Corporate Financial Reporting is assigned certain specific duties and responsibilities by law, summarised below, with regard to specific application to the Company:

- a. to accompany any Company acts and notices disseminated to the market, concerning accounting information, including interim information, on the Company itself, with a written declaration made by him certifying that the information corresponds to the documentary results, books and accounting entries;
- b. to prepare suitable administrative and accounting procedures for preparation of the annual financial statements and the consolidated financial statements and any other financial notice;
- c. to certify, together with the Chief Executive Officer, by means of a suitable report attached to the annual financial statements, the condensed interim financial statements and the consolidated financial statements, (i) the suitability and effective application of the procedures referred to in letter b. above during the course of the period to which the documents relate; (ii) that the documents are prepared in accordance with the applicable international accounting standards recognised in the European Community; (iii) that they correspond with the results in the books and accounting entries; (iv) their suitability for providing a true and fair view of the capital, economic and financial situation of the Company and all the companies included in the consolidation; (v) that the reports on the annual financial statements, the consolidated financial statements and the condensed interim financial statements include the information required by law for such documents;
- d. in performing the duty and tasks assigned, application of the provisions governing the responsibility of the Directors is extended to the Manager Responsible for Corporate Financial Reporting, apart from those measures that may be exercised based on employment with the Company.

The Board of Directors checks that the Manager Responsible for Corporate Financial Reporting has adequate powers and resources for performing the tasks assigned, and actual observance of the administrative and accounting procedures adopted.

During the meeting of the Internal Control, Risk and Corporate Governance Committee held on February 1, 2013, Riccardo Taranto as Manager Responsible for Corporate Financial Reporting reported to the Committee members on (i) suitability of the powers conferred; (ii) suitability and use of the means and resources made available; (iii) declarations and certifications pursuant to Art. 154-bis of the CFA; (iv) adoption, implementation and use of the administrative/accounting procedures; (v) mapping of the company and its processes; (vi) System 262 – 2012 Activity; and (vii) a summary of any critical issue emerging and of the actions taken to overcome the respective problems.

No critical points or issues worthy of in-depth study emerged from the report, demonstrating that the controls overall reflected proper application of administrative/accounting procedures, with improvement and adherence thereto also by subsidiaries operating abroad, as also confirmed by Angelo Cattaneo, appointed new Manager Responsible for Corporate Financial Reporting, for the work done after Taranto left the Company. The Chairman of the Committee then reported to the Board to that effect.

## 11.6. COORDINATION BETWEEN THE PARTIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Internal Control and Risk Management System provides an organisational structure consistent in size, nature and complexity of the work done both in terms of definition of roles and assigning responsibilities.

The said System is based on: (i) separation of roles in carrying out the main activities relating to each operating process; (ii) traceability and constant visibility of choices; (iii) the management of decision-making processes based on objective criteria.

The Company contemplated methods of coordination among the different subjects involved in the internal control and risk management system that interact with each other within their respective competences, with a special reference to their attendance to the meetings of the different bodies and to the existing information flow system.

As shown in this Report, the Board has chosen one of its members as “Director in charge of the Internal control and risk management system” and avails itself of the Internal Control, Risk and Corporate Governance Committee, whose meetings are attended, as a rule, also by the Board of Statutory Auditors and the outcome of which the Committee will report to the immediately following board meeting.

The Committees and the Head of Internal Audit interact with the Board of Statutory Auditors and the appointed independent auditors, exchanging information on the respective activities carried out, for the purposes of a more efficient operation of the internal control system.

As a rule, the meetings of the Board and of the Committee are attended also by the Manager Responsible for Corporate Financial Reporting.

## 12. DIRECTORS' INTERESTS AND

### TRANSACTIONS WITH RELATED PARTIES

Significant transactions and transactions with related parties, including intra-group transactions and property transactions, are governed by

internal procedures that the Company has adopted in order to guarantee effective correctness and substantial and procedural transparency in order to facilitate, if necessary, full and joint responsibility of the Board of Directors for the relevant decisions.

In particular, it is noted that – following the favourable assessment of the “Internal Control, Risk and Corporate Governance Committee” (in its capacity as “Committee for Related Party Transactions”) – the Board of Directors approved the procedure (including its updates) for transactions with related parties (the “RPT Procedure”) following entry into force of the relevant provisions issued by Consob.<sup>(17)</sup>

In this regard, the choices adopted by the Company are more stringent compared to the mentioned regulations requiring that, in particular and among other things, the opinion of the “Committee for Related Party Transactions” is binding also in the case of “Transactions of Lesser Significance”. Moreover, the Company – in reiterating the importance given to the role of the Independent Directors – provided that the Committee asked to express itself on related party transactions must always be composed entirely of Independent Directors.

The Board considered that the established Committees have the responsibilities and requirements provided by the regulations issued by Consob and acknowledged by the RPT Procedure and therefore assigned the responsibilities of the “Committee for Related Party Transactions” to the “Internal Control, Risk and Corporate Governance Committee”, with the exception of responsibilities concerning remuneration of directors and key managers entrusted to the “Remuneration Committee”.

For a more effective and easy identification and subsequent management of situations in which a director – and, in general, a related party – has an interest, on his/her own behalf or on behalf of third parties, the parties concerned are requested, every quarterly, to notify the related parties to the Company through them, which feed a reserved “data bank”, to which reference must be made according to the RPT Procedure before concluding a transaction, in order to check the possible existence of a correlation with the Company, regardless of the notifications by the parties directly involved.

Finally, note that – in accordance with the provisions of the regulations in force – the RPT Procedure is expected to be reviewed at least every three years.

The RPT Procedure is published on the Company’s website, in the Corporate Governance section.

Following entry into force of the aforesaid RPT Procedure, the appropriate and necessary amendments were made to the provisions of the current “*Procedure for fulfilment of the obligations laid down in Art. 150, paragraph one, of Italian Legislative Decree no. 58 of 1998*” (now renamed “*Procedure on information flows to directors and auditors*”) and of the “*Principles of conduct for carrying out transactions with related parties. Principles of conduct concerning property transactions*” (the latter now renamed “*Code of conduct concerning property transactions*”), for which the RPT Procedure already provides suitable rules on coordination.

The aforesaid amendments were approved by the Board of Directors on March 4, 2011, following the favourable assessment of the then Internal Control and Corporate Governance Committee.

Both the aforesaid documents (“*Procedure on information flows to directors and auditors*” and “*Code of conduct concerning property transactions*”) are published on the Company’s website, in the Corporate Governance section.

### 13. APPOINTMENT OF STATUTORY AUDITORS

The appointment of members of the Board of Statutory Auditors is based on criteria of procedural transparency in accordance with the provisions of Art. 8.P.1. of the Code and provides for the presentation of lists of candidates, in accordance with the provisions of the laws and regulations in force. These principles were incorporated into Art. 22 of the Articles of Association.

The Shareholders’ Meeting elects the Board of Statutory Auditors and determines their fees. Under the terms laid down below, the minority is entitled to elect one Standing Auditor and one Alternate Auditor.

As stated, the Board of Statutory Auditors is appointed on the basis of lists presented by the shareholders in which the candidates are listed by progressive number. Shareholders who, along or together with other shareholders, represent at least 1.5% of the shares with voting rights at the Ordinary Shareholders’ Meeting or any lower percentage required by the regulatory provisions issued by Consob<sup>(18)</sup> are entitled to present a list.

It should be noted that following entry into force of Law 120 of July 12, 2011 (which modified Art. 147-ter of the CFA), from August 2012 onwards, the division of the members of the Board of Statutory Auditors to be elected in listed companies must be done on the basis of a criterion that ensures observance of the gender balance.<sup>(19)</sup>

(17) Procedure adopted pursuant to and for the purposes of Article 2391-bis of the Italian Civil Code and the “Regulation on transactions with related parties” adopted by Consob with Resolution no. 17221 of March 12, 2010 as amended by Consob Resolution no. 17389 of June 23, 2010 taking into account the instructions and explanations provided by Consob in Notice no. DEM/10078683 of September 24, 2010.

(18) Pursuant to art. 144-quarter of the Issuers’ Regulation, Consob - with Resolution no. 18452 of January 30, 2013 - set at 4.5% the equity interest applicable to the Company.

(19) With Resolution no. 18098 of February 8, 2012 Consob issued the related implementing regulation amending the Issuers’ Regulation.

In this regard, the Extraordinary Shareholders' Meeting of April 17, 2012 approved amendments to the articles of association in order to ensure compliance with this principle.

Note that, in order to enable the compliance with the regulations in force on gender balance, both during the appointment of the Statutory Auditors and in case they are replaced during their mandate, by adopting more flexible criteria in the formation of the lists, further amendments to Art. 22 (board of statutory auditors) of the Articles of Association will be proposed at the next Shareholders' Meeting, compared to what was already resolved on April 17, 2012. On this occasion, considering that Art. 126-bis of the CFA introduced the right of the shareholders who represent at least one fortieth of the share capital to submit further draft resolutions on points already on the agenda (in addition to the right already indicated in the aforesaid article to request, in the cases and within the limits established by law, the inclusion in the list of issues to be discussed at the Meeting), the relevant amendments to article 7 of the Articles of Association will be proposed for an appropriate alignment with the provision.

In this regard, the reader is referred to the Directors' report available on the Company's website, in the Corporate Governance section.

The lists of candidates, signed by the persons presenting them, must be filed at the Company's registered office, available to anyone so requesting, at least 25 days prior to the day fixed for the Shareholders' Meeting in single call.

In addition to the lists, CVs must be provided relating to the personal and professional characteristics of the persons designated, indicating the administration and control offices held in other companies and, without prejudice to any further documents required by the applicable provisions, including any regulatory provisions, declarations in which the individual candidates:

- accept the application;
- certify, under their own responsibility, that there are no causes for ineligibility for election or incompatibility and that the requirements laid down by the applicable provisions, including regulatory provisions, and by the Articles of Association for the position are satisfied.

Any changes occurring up to the day on which the General Meeting is actually held must be duly reported to the Company.

Any list presented without observing the foregoing instructions will be deemed to be not submitted.

Each candidate may be included in one list only on pain of ineligibility. The lists are divided into two sections: one for candidates for the position of Standing Auditor and the other for candidates for the position of Alternate Auditor. The first of the candidates in each section must be appointed from those entered in the Register of Statutory Auditors who have carried out the statutory auditing on accounts for a period of not less than three years.

In order to ensure gender balance in compliance with the pro tempore regulations in force, each list presenting a number of candidates for the position of Standing Auditor equal to or greater than three, must indicate, in the first section, the candidate of the least represented gender at the second progressive number and also, in the second section, a candidate of the least represented gender in the same first section.

Any party entitled to vote may vote on one list only.

The members of the Board of Statutory Auditors are elected as follows:

- a) two standing auditors and one alternate auditor are appointed from the list obtaining the highest number of votes (so-called majority list), in the order in which they are listed in the list itself;
- b) the remaining standing auditor and the other alternate auditor are appointed from the list obtaining the highest number of votes at the Shareholders' Meeting after the first (so-called minority list), in the order in which they are listed in the list itself; if several lists obtain the same number of votes, a further ballot is held among such lists by all shareholders present at the Shareholders' Meeting, the candidates on the list obtaining the simple majority of votes being elected.

The Board of Statutory Auditors is chaired by the standing auditor indicated as the first candidate in the list referred to in letter b) of the foregoing section. In the event of the death, relinquishment or forfeiture of an Auditor, the alternate auditor belonging to the same list as the former Auditor takes over, in the order that ensures in any case the observance of the gender balance laid down by pro tempore law and/or regulations in force.

If the Chairman of the Board of Statutory Auditors is replaced, however, his or her position is taken by the candidate elected from the list to which the former Chairman belonged, in the order of the list itself; if it is not possible to make the replacements according to the aforesaid criteria, a Shareholders' Meeting is called to complete the Board of Statutory Auditors resolving by a relative majority.

When, pursuant to the Articles of Association or pursuant to the law, the Shareholders' Meeting has to appoint the Standing Auditors and/or Alternate Auditors necessary to complete the Board of Statutory Auditors, it acts as follows: if the Auditors elected from the majority list have to be replaced, the appointment is made with a relative majority vote without any list limitation, without prejudice in any case to the observance of the gender balance laid down by pro tempore law and/or regulations in force.

If the Auditors elected from the minority list have to be replaced, instead, the Shareholders' Meeting replaces them with a relative majority vote, where possible selecting candidates from the list to which the Auditor to be replaced belonged.

If only one list has been submitted, the Shareholders' Meeting votes thereon; if the list obtains a relative majority, the candidates indicated in the respective section of the list are elected Standing Auditors and Alternate Auditors; the Board of Statutory Auditors is chaired by the person indicated first in the aforesaid list.

For the appointment of Auditors not nominated according to the procedure laid down herein for any reason, the Shareholders' Meeting resolves with the legal majorities, without prejudice in any case to the observance of the gender balance laid down by pro tempore law and/or regulations in force.

#### 14. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (pursuant to Art. 123-bis, paragraph 2, letter d) CFA)

The Company's Board of Statutory Auditors is composed of three Standing Auditors and two Alternate Auditors who must satisfy the requirements laid down by the current rules, including regulatory provisions. <sup>(20)</sup> In accordance with the law, members of the Board remain in office for 3 years and may be re-elected.

Pursuant to Art. 149 of the CFA, the Board of Statutory Auditors has the task of monitoring:

- observance of the law and of the Articles of Association;
- observance of the principles of correct administration;
- adequacy of the Company's organisational structure for aspects falling within its purview, of the internal control system and of the administrative and accounting system and the reliability of the latter in correctly representing the operating events;
- methods for specific implementation of the rules on corporate governance laid down by the Code, which the Company has adopted;
- adequacy of the instructions given by the Company to its subsidiaries with regard to the obligations to report inside information.

Among other things, the Board's tasks include further supervision, including over correct application of the assessment criteria and procedures adopted by the Board to assess the independence of its members (Art. 3.C.5. of the Code).

Finally, it should be noted that the Consolidated External Audit Act further specified and extended the duties of the Board of Statutory Auditors, assigning it the task of supervising the following in its capacity as "*Internal Control and Audit Committee*":

- (i) the financial disclosure process;
- (ii) effectiveness of the internal control, internal audit, if applicable, and risk management systems;
- (iii) the external audit of the annual accounts and consolidated accounts;
- (iv) independence of the external auditor or of the auditing firm, particularly with regard to the provision of non-auditing services.

It is also required to make a reasoned proposal to the Shareholders' Meeting on appointment of the auditing firm, also defining the criteria for possible increases in fees during the course of the mandate.

The Board of Statutory Auditors performs its task exercising all powers conferred on it by law and relying on a constant and detailed information flow from the Company, even outside the periodic meetings of the Board of Directors, and in the context of relations with other entities or subjects with control functions.

In particular, this aspect is specifically implemented, for example, during:

- (i) quarterly checks carried out by the Board of Statutory Auditors, at meetings to which Company representatives are invited to report on specific aspects falling within their purview;
- (ii) meetings of the Committees generally attended by the whole Board of Statutory Auditors and at which it also receives the regular reports of the Head of Internal Audit;
- (iii) meetings with the representatives of the appointed independent auditors (at least when the annual audit plan is presented and in view of approval of the draft financial statements) from whom it also receives the envisaged report (pursuant to Art. 19 of the Consolidated External Audit Act) on the key issues arising from the external audit;
- (iv) periodic meetings that the Company organises whenever it is advisable to inform the Board of Statutory Auditors.

<sup>(20)</sup> Pursuant to art. 22 of the Articles of Association for matters and sectors closely related to those of the Company, to which reference is made in the choice of members of the Board of Statutory Auditors, those indicated in the Company purpose will be deemed to apply (Article 4 of the Articles of Association), with particular reference to companies or entities operating in the financial, industrial, banking, insurance, property and services field in general.

In the light of the “Rules of conduct of the Board of Statutory Auditors” issued by the National Council of Chartered Accountants and Accounting Experts, which underline the importance of the relations with the Supervisory Board, the information flows with the Board of Statutory Auditors will also be subject to further scrutiny, although the current composition of the Supervisory Board – one member of which is an Auditor – is already adequate for communication.

In any event, a further strengthening of such relations will be evaluated, possibly by also arranging specific meetings between the two bodies, in particular, with the purpose of (i) more effectively verifying aspects relating to the autonomy, independence and professionalism required in order to efficiently perform the activity of the Supervisory Board; (ii) acquiring from it information pertaining to the Organisational Model adopted and its operation and (iii) assessing the operations of the Supervisory Board and the congruity of assessments and adequacy of guidelines adopted by the latter and, in any event, (iv) ensuring a constant and more effective exchange of information between the two bodies.

The period of office of the current Board of Statutory Auditors – whose members were appointed following proposals submitted by Pirelli & C. S.p.A., the controlling shareholder at the time, since, at the moment of its appointment, which was at the Shareholders’ Meeting of April 19, 2010, no minority lists were submitted, and whose CVs are published on the Company’s website, in the Corporate Governance section – expires at the Shareholders’ Meeting called to approve the financial statements for the year ended December 31, 2012.

The current composition is shown in Table 2 attached to the Report.

During 2012, 13 meetings of the Board of Statutory Auditors were held, lasting for an average of approximately 2 hours. The Auditors’ attendance at meetings of the Board of Statutory Auditors during 2012 totalled 100% and at meetings of the Board of Directors amounted to 92.30% for all auditors.

The Board of Statutory Auditors reported to the Shareholders’ Meeting of April 17, 2012 on the activity carried out and expressed, for all that is within its purview, its own opinion on the proposals made at the Meeting by the Board of Directors.

Moreover, the Board of Statutory Auditors formulated its own observations on the directors’ report on the financial situation of the Company as at September 30, 2012, approved by the Shareholder’s Meeting of December 18, 2012 convened pursuant to Art. 2446 of the Italian Civil Code.

Furthermore, during 2012, the Board of Statutory Auditors issued opinions pursuant to Art. 2389 of the Italian Civil Code.

The Board of Statutory Auditors, together with the Board of Directors, based on the information known and the written declarations expressly made by the interested parties, assessed the independence of its members on the first useful opportunity following their appointment and subsequently every year, prior to approval of the draft financial statements, with regard to all the criteria laid down by the Code with reference to the independence of directors. Moreover, in the light of the provisions laid down in Consob Notice no. 8067632 <sup>(21)</sup> of July 17, 2008, the members of the Board of Statutory Auditors confirmed to the Company that the requirements of independence existed, also in the light of the content of that notice.

The Board of Statutory Auditors assessed the independence of its members for the last time during the meeting held on February 7, 2013.

Within the scope of the provisions of the application principle 2.C.2. of the Code, specific meetings were held between the Board of Statutory Auditors in office, after its appointment, and the PRELIOS Group’s management, with the aim of providing adequate knowledge of the business segment in which the Group operates, the business trends and their development and the legislative framework of reference. The high frequency of the number of board and committee meetings, attended as a rule by the Board of Statutory Auditors, held during 2012, allowed, among other things, the members of the Board to continue and deepen, also during their mandate, this knowledge.

With regard to the further provisions of the Code concerning Auditors, reference is made to the information provided above, in the specific parts in which the relevant subjects have been dealt with, with particular reference to: transactions with related parties; supervision over the independence of the independent auditors and coordination with the Internal Audit Department, with the Internal Control, Risk and Corporate Governance Committee and the Risk Committee (before being eliminated).

Finally, it is considered advisable to point out that, at the Date of the Report, no members of the Board of Statutory Auditors informed the Company that they exceeded the limits of accumulation of administration and control offices laid down by Article 144-terdecies of the Issuers’ Regulation. The list of the position is published by Consob on its own website.

## 15. RELATIONS WITH SHAREHOLDERS

The Company endeavours to establish an ongoing dialogue with shareholders and institutional investors, based on an understanding of their reciprocal roles, not failing to promote periodically meetings with representatives of not just the Italian financial community, fully observing the provisions in force on the matter and concerning the handling of inside information. In this connection, the Company has appointed an Investor relations manager, and set up a suitable company structure (reporting directly to the Chairman) to which an appropriate section of the website is dedicated, the Investor Relations section.

(21) CONSOB Notice no. DEM/DCL/DSG/8067632 of July 17, 2008 concerning “Situations of incompatibility of members of the governing bodies pursuant to art. 148, paragraph 3, let. c) of the CFA”

On the website, investors can find all useful documents published by the Company, whether accounting (such as financial statements, half-yearly reports, quarterly reports/interim management reports), or corporate (minutes of shareholders' meetings, information documents, extraordinary transactions, etc.) in nature, and on its corporate governance system (such as the Code of Ethics and the Lines of Conduct; the Procedure concerning transactions with related parties, the Procedure on information flows to directors and auditors, the Code of conduct on property transactions, the Procedure for management and disclosure to the public of inside information and the relevant register of persons having access to inside information).

In the same section, investors can also access the documents made available to analysts and/or financial investors during Company presentations and/or meetings with them and find all useful information on the composition of the share capital and on the shareholders. The investor relations department may be contacted by shareholders and investors at the following addresses:

Viale Piero e Alberto Pirelli, 27 – 20126 Milan;  
Tel: +39 02.6281.4057  
Fax: +39.02.6281.4387  
E-mail: vincenzo.mangiaracina@prelios.com

## 16. SHAREHOLDERS' MEETINGS (pursuant to Art. 123-bis, paragraph 2, letter a) CFA)

Without prejudice to the constant flow of information that the Company provides to the market, the Shareholders' Meeting is considered to be the place in which to establish a profitable and effective relationship with shareholders.

It is here, in fact, that it is easiest to hold real time discussions, being able to respond fully to requests for information from the shareholders themselves, always in compliance with the regulations on inside information.

In this sense, the Board of Directors encourages and facilitates the fullest possible attendance of shareholders at Shareholders' Meetings, taking care to select a place, date and time in order to facilitate such attendance and exercise of shareholders' rights; moreover, as far as possible, all Directors and Auditors are generally present at the Shareholders' Meetings, particularly Directors who, owing to the positions they hold, may provide a useful contribution to discussions at the meeting.

It should be noted that during 2012, two Shareholders' Meetings were held on April 17, and December 18, respectively, attended by the majority of Directors. On the occasion of the Meeting of April 17, 2012, during which the Remuneration Report was submitted to the shareholders, the Chairman informed that the Report indicated the ways in which the functions of the Remuneration Committee were carried out.

The place of convocation, which can be anywhere in Italy, even outside the registered office, participation rights and representation at Shareholders' Meetings are governed by law and by the Articles of Association.

Regular constitution of the Shareholders' Meeting and validity of the resolutions are governed by law.

The organisation of Shareholders' Meetings is regulated by law and the Articles of Association and by the Regulations on Shareholders' Meetings (whose wording is published on the Company's website), approved by a resolution of the Company's Ordinary Shareholders' Meeting in order to regulate the orderly and functional running of Ordinary and Extraordinary Shareholders' Meetings and in order to guarantee the right of each shareholder to speak on matters discussed.

The Shareholders' Meeting is chaired, in order, by the Chairman of the Board of Directors, by the Deputy Chairman and Chief Executive Officer, by a Deputy Chairman or by a Chief Executive Officer; if there are two or more Deputy Chairmen or Chief Executive Officers, the Meeting is chaired by the most senior member. In the event of absence of the aforesaid persons, the Meeting will be chaired by another person selected by the Shareholders' Meeting with the vote of the majority of capital represented at the Shareholders' Meeting.

The Chairman is assisted by a Secretary appointed by the Shareholders' Meeting, who need not be a shareholder; attendance of the Secretary is not necessary when a notary is appointed to take the relevant minutes.

The Chairman of the Shareholders' Meeting is responsible for checking whether it is regularly constituted; checking the identity of those present and their right to take part, even by proxy; checking the quorum for passing resolutions; managing discussions, even establishing a different order of discussion of the matters included in the notice of calling; taking the relevant measures to ensure that discussions and voting are held in an orderly manner, defining the procedures and establishing the results thereof.

Resolutions of the Shareholders' Meeting are recorded in minutes signed by the Chairman and by the Secretary of the Shareholders' Meeting or by the notary. The minutes of the Extraordinary Shareholders' Meeting must be drawn up by a notary appointed by the Chairman. The Shareholders' Meeting resolves on the matters on the agenda, taking into account those matters reserved for it by law.

## 17. FURTHER CORPORATE GOVERNANCE PRACTICES (pursuant to Art. 123-bis, paragraph 2, letter a) CFA)

There are corporate governance practices – in addition to those already mentioned in the previous paragraphs – applied by the Company, beyond the obligations established by laws and regulations.

## 18. CHANGES SINCE THE END OF THE REFERENCE FINANCIAL YEAR

The Report takes into account changes since the end of the reference year up to the Date of the Report itself.

In this connection, there have been no substantial changes to the Company's corporate governance structure.

### **ANNEX 1: "MAIN CHARACTERISTICS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS EXISTING IN RELATION TO THE FINANCIAL REPORTING PROCESS" PURSUANT TO ART. 123-BIS, PARAGRAPH 2, LET. B), CFA**

The Company has implemented a structured risk management and internal control system – supported by a dedicated computer application – in relation to the process of preparing financial reporting (interim/annual).

As a rule, the internal control system set up by the Company is aimed at guaranteeing protection of the corporate assets, observance of laws and regulations, efficiency and effectiveness of the Company transactions and operations in addition to reliability, accuracy and timing of the financial reporting.

In particular, the process of preparing the financial reporting takes place by means of suitable administrative and accounting procedures drawn up in accordance with criteria laid down by the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Tradedway Commission.

The administrative/accounting procedures for preparing the financial statements and any other financial disclosure are drawn up under the responsibility of the Manager Responsible for Corporate Financial Reporting who, together with the Chief Executive Officer, certifies the adequacy and effective application thereof at the time of preparing the annual/consolidated financial statements and the half-yearly financial report.

In order to allow certification by the Manager responsible for corporate financial reporting, the significant companies/processes that feed and generate the economic/capital or financial information have been mapped. The significant companies and processes are identified annually based on quantitative and qualitative criteria; the quantitative criteria consist of identifying those companies in the PRELIOS Group that, with regard to the processes selected, represent an aggregate value above a certain tangible threshold. The qualitative criteria consist of examining those processes and those companies that, according to the evaluation of the Chief Executive Officers/Chief Financial Officers of the business sectors, may present potential areas of risk, while not falling within the quantitative parameters described above.

For each process, the risks/control objectives connected with the preparation of the financial statements and the effectiveness/efficiency of the internal control system in general have been identified.

For each control objective, specific checks have been provided for and specific responsibilities have been assigned.

A system of supervising controls carried out has been implemented by means of a chain certification mechanism; any critical aspects emerging in the evaluation process form the subject of action plans whose implementation is checked on subsequent closures.

Finally, every six months, it is planned that the Chief Executive Officers and the Chief Financial Officers of joint-stock subsidiary companies and selected significant companies will submit a declaration of reliability and accuracy of the data sent for the purposes of preparing the Group's consolidated financial statements.

Shortly before the dates of the Board of Directors' meetings approving the consolidated figures at June 30 and at December 31, the results of the checks are discussed with the Manager responsible for corporate financial reporting.

In short, a continuing and systematic control system has been adopted that is able to provide reasonable certainty as to the reliability of the information and economic and financial reporting.

The Internal Audit Department carries out periodic audits with the aim of verifying the adequacy of the design and operation of the controls on companies and processes using samples selected on the basis of their importance.

Based on periodic reporting, the Manager responsible for corporate financial reporting reported on the effectiveness of the System, through the Internal Control, Risk and Corporate Governance Committee, to the Board of Directors. The same Manager responsible for corporate financial reporting, together with the Chief Executive Officers, also provided the certification laid down in section 5 of article 154-bis of the CFA.

**TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES**

Board of Directors										Internal control Committee		Remuneration Committee		Rks Committee <sup>22</sup> (until August 28, 2012)		
Position	Members	In office from	In office to	List (M/m) (*)	Esec.	Non-exec.	Indep. as per Code	Indep. as per CFA	(%) of other positions (**)	Number of other positions (***)	(****)	(**)	(****)	(**)	(****)	(**)
Chairman	Tronchetti Provera Marco	04/21/11	Appr. 2013 Financial Statements	M		X			100%	6						
Deputy Chairman	Parazzini Enrico <sup>23</sup>	04/21/11	Appr. 2013 Financial Statements	M	X				100%	1					X	100%
Chief Executive Officer	Sergio Iasi <sup>24</sup>	12/18/12	Appr. 2013 Financial Statements	n/a	X				100%	2						
Director	Angiolini Giuseppe	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	76,92%	3						
Director	Broggi Marina	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	92,30%	3	X	88,88%			X	100%
Director	Croce Carlo Emilio	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	84,61%	-			X		100%	
Director	Fiori Giovanni	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	100%	-	X	100%				
Director	Franzan Jacopo	04/21/11	Appr. 2013 Financial Statements	M		X			100%	-						
Director	Lazzari Valter	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	92,30%	2	X	88,88%				
Director	Nodari Amedeo	04/21/11	Appr. 2013 Financial Statements	M		X			92,30%	-						
Director Lead Independent	Trevisan Dario	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	92,30%	-	X	100%			X	100%
Director	Valerio Giorgio	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	100%	-			X		100%	
Director	Vender Giovanni Jody	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	100%	-			X		100%	
<b>DIRECTORS TERMINATED DURING THE FINANCIAL YEAR OF REFERENCE</b>																
Director	Davide Malacanza <sup>25</sup>	04/21/11	11/10/12	M		X			88,88%							
Chief Executive Officer	Paolo Massimiliano Bottelli <sup>26</sup>	04/21/11	13/11/12	M	X				100%						X	66,66%

Indicate the quorum required for the presentation of the lists at the time of the last appointment: 2%

No. meeting held during the Financial Year of reference: **BoD 13** **ICRCG: 9** **RC: 5** **Risk: 3**

**NOTES**

(\*) This column indicates M/m depending on whether the member was elected from the list voted in by the majority (M) or by a minority (m).

(\*\*) This column indicates the relevant proportion of directors at Board of Directors and committee meetings, respectively (no. of attendances/no. of meetings held during the actual period in office of the individual involved).

(\*\*\*) This column indicates the number of director or auditor positions held by the individual in question in other companies listed on regulated markets, including foreign ones, financial, banking, insurance or large-sized companies. Attached to the Report is a list of such companies with reference to each director, specifying whether the company in which the position is held is or is not part of the Prelios Group.

(\*\*\*\*) This column indicates with an "X" a Board member's committee membership.

(22) On August 28, 2012, the activities and tasks of the "Internal Control and Corporate Governance Committee" were redefined by assigning it the functions granted to the "Risk Committee" that, as a result, has been outdated.

(23) Appointed Deputy Chairman by the Board of Directors held on December 3, 2012.

(24) On December 18, 2012, the Shareholders' Meeting confirmed the appointment of Mr. Sergio Iasi as Director, resolved, pursuant to Art. 2386 of the Italian Civil Code, by the Board of Directors on November 13, 2012. At the end of the Shareholders' Meeting, the Board of Directors appointed Mr. Sergio Iasi as Chief Executive Officer, confirming the appointment and the powers already vested in him on December 3, 2012.

(25) Davide Malacanza resigned from his office of Director of the Company effective as from November 11, 2012.

(26) Paolo Massimiliano Bottelli resigned from his office of Director, Chief Executive Officer and General Manager of the Company effective as from November 13, 2012.

**TABLE 2: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS**

BOARD OF STATUTORY AUDITORS							
Position	Members	In office from	In office to	List (M/m) (*)	Independence as per Code	(**) (%)	Number of other positions (***)
Chairman	Laghi Enrico	04/19/2010	Approval 2012 Financial Statements	M	X	100%	10
Standing Auditor	Bracchetti Roberto	04/19/2010	Approval 2012 Financial Statements	M	X	100%	20
Standing Auditor	Fornabaio Lelio	04/19/2010	Approval 2012 Financial Statements	M	X	100%	14
Alternate Auditor	Ghiringhelli Franco	04/19/2010	Approval 2012 Financial Statements	M	X	//	19
Alternate Auditor	Giudici Paola	04/19/2010	Approval 2012 Financial Statements	M	X	//	10

**AUDITORS TERMINATED DURING THE YEAR OF REFERENCE**

Indicate the quorum required for the presentation of the lists at the time of the last appointment: 1,5%

No. meetings held during the Financial Year of reference: 13

(\*) This column indicates M/m depending on whether the member was elected from the list voted in by the majority (M) or by a minority (m).

(\*\*) This column indicates percentage of attendance by statutory auditors at the meetings of the B.o.A. (no. of attendances/no. of meetings held during the actual period in office of the individual involved).

(\*\*\*) This column is to indicate the number of relevant director or auditor positions held by the individual pursuant to Art. 148-bis CFA. The complete list of positions is published by Consob on its website under the terms of Art. 144-quinquiesdecies of the Consob Issuers' Regulation.

**ANNEX 2: LIST OF DIRECTORS' MAIN OFFICES**

Name	Position	In office from	Other positions
Tronchetti Provera Marco	Chairman	04/21/2011	<ul style="list-style-type: none"> <li>• Marco Tronchetti Provera &amp; C. S.p.A., Chairman</li> <li>• Camfin S.p.A., Chairman</li> <li>• Gruppo Partecipazioni Industriali S.p.A., Chairman</li> <li>• Pirelli &amp; C. S.p.A., Chairman and Chief Executive Officer</li> <li>• Mediobanca S.p.A., Deputy Chairman</li> <li>• F.C. Internazionale Milano S.p.A., Director</li> </ul>
Parazzini Enrico	Deputy Chairman	04/21/2011	<ul style="list-style-type: none"> <li>• Pininfarina S.p.A., Director</li> </ul>
Iasi Sergio	Chief Executive Officer		<ul style="list-style-type: none"> <li>• Prelios Credit Servicing S.p.A., Director (*)</li> <li>• Gemina S.p.A., Director</li> </ul>
Angiolini Giuseppe	Director	04/21/2011	<ul style="list-style-type: none"> <li>• Fondiaria – SAI S.p.A., Chairman of the Board of Statutory Auditors;</li> <li>• Milano Assicurazioni S.p.A. (Gruppo Fondiaria – SAI S.p.A.), Chairman of the Board of Statutory Auditors;</li> <li>• Gemina S.p.A., Independent Director</li> </ul>
Broggi Marina	Director	04/21/2011	<ul style="list-style-type: none"> <li>• A2A, Supervisory Director</li> <li>• Banco Desio e della Brianza, Director</li> <li>• Impregilo S.p.A., Director</li> </ul>
Croce Carlo Emilio	Director	04/21/2011	–
Fiori Giovanni	Director	04/21/2011	–
Franzan Jacopo	Director	04/21/2011	–
Lazzari Valter	Director	04/21/2011	<ul style="list-style-type: none"> <li>• Prelios Società di Gestione del Risparmio S.p.A. (*), Deputy Chairman</li> <li>• Banco Popolare Società Cooperativa, Director</li> </ul>
Nodari Amedeo	Director	04/21/2011	–
Trevisan Dario	Director	04/21/2011	–
Valerio Giorgio	Director	04/21/2011	–
Vender Giovanni Jody	Director	04/21/2011	–

(\*) Companies belonging to the Prelios Group



## D. SHAREHOLDERS' MEETING CALL NOTICE

### PRELIOS S.P.A.

Registered office in Milan, Italy at Viale Piero e Alberto Pirelli no. 25  
Fully paid-up share capital Euro 218,877,613.14  
Milan Register of Companies no. 02473170153  
Tax Code and VAT reg. no. 02473170153

### CALLING OF SHAREHOLDERS' MEETING

Those with voting rights in the shareholders' meeting of PRELIOS S.p.A. are called on **8 May 2013, 3.00 pm, in Milan, Viale Sarca no. 214**, in combined ordinary and extraordinary call to discuss and resolve on the following

#### AGENDA

##### Ordinary items

1. Financial Statements as of 31 December 2012. Related and consequent resolutions.
2. Appointment of the Board of Directors:
  - determining the number of members of the Board of Directors;
  - determining the term of office of the Board of Directors;
  - appointment of the Board Members;
  - determining the annual fee of the members of the Board of Directors.
3. Appointment of the Board of Statutory Auditors:
  - appointment of the statutory and alternate auditors;
  - appointment of the Chairman;
  - determination of the fees of the members of the Board of Statutory Auditors.
4. Remuneration Report: consultation on the Remuneration Policy.

##### Extraordinary items

1. Capital increase pursuant to Article 2441, par. 1 and 5 of the Italian Civil Code, subject to a reduction in the number of ordinary shares through grouping and share capital reduction for losses pursuant to Article 2446 of the Italian Civil Code, and delegation to the Board of Directors to issue convertible bonds pursuant to Article 2420-ter, par. 2 of the Italian Civil Code, particularly through the following resolutions:
  - 1.a) reduction, through grouping, of the number of ordinary shares with a ratio of 1 new ordinary share every 10 ordinary shares held, subject to the cancellation of the ordinary shares held by the Company to allow the overall balancing of the transaction without reducing the share capital. Related and consequent resolutions. Conferment of powers;
  - 1.b) reduction of the share capital for losses pursuant to Article 2446 of the Italian Civil Code. Related and consequent resolutions. Conferment of powers;
  - 1.c) paid capital increase, indivisible, reserved for a special purpose vehicle – an investee of Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. – and thus, excluding the option right pursuant to Article 2441, par. 5 of the Italian Civil Code, through the issue of 117,597,496 category B shares, convertible into ordinary shares, at an issue price of Euro 0.5953 per share, for an overall amount of Euro 70,005,789.37. Related and consequent resolutions. Conferment of powers;
  - 1.d) paid capital increase, indivisible, to be offered as option to all the shareholders of the Company, pursuant to Article 2441, par. 1 of Italian Civil Code, through the issue of maximum 193,195,887 ordinary shares at an issue price per share of Euro 0.5953, with regular dividend and identical characteristic to the Prelios outstanding shares at the time of their issue, for a total maximum amount of Euro 115,009,511.53. Related and consequent resolutions. Conferment of powers;
  - 1.e) conferment upon the Board of Directors, pursuant to Article 2420-ter, par. 2 of the Italian Civil Code of the right to issue, for a total amount of nominal Euro 269,000,000.00, mandatory convertible bonds into ordinary shares and/or category B shares, excluding the option right pursuant to Article 2441, par. 5 of the Italian Civil Code and consequent share capital increase to exclusively serve the conversion, indivisible, for maximum Euro 297,644,375.01 through the issue of maximum 499,990,551 ordinary shares and maximum 144,678,117 category B shares. This right is to be exercised after performing the capital increase under points 1.c) and 1.d) in the agenda and in any case within maximum one year from the date of the resolution, with the additional power to set the rate and duration of the instrument as well as all the related terms and conditions, as for the capital increase to serve the conversion, based on the agreement reached with the company lenders these instruments will be offered to, excluding the option right. Related and consequent resolutions. Conferment of powers;
  - 1.f) consequent amendments to articles 5 and 6 and introduction of a new article 6-bis in the Articles of Association. Related and consequent resolutions. Conferment of powers.
2. Amendment to articles 7 and 22 of the Articles of Association. Related and consequent resolutions. Conferment of powers.

**DOCUMENTATION**

The Directors' reports and the proposed resolutions relating to the items on the agenda will be made available to the public at the registered office of the Company and of Borsa Italiana S.p.A. and will also be published on the company's website [www.prelios.com](http://www.prelios.com) (under the corporate governance section) according to the law and as specified below:

- at the same time as the publication of this notice of calling, the following documents are also made available:
  - the Directors' report on the second item on the agenda in the ordinary part, regarding the appointment of the Board of Directors;
  - the Directors' report on the third item on the agenda in the ordinary part, regarding the appointment of the Board of Statutory Auditors;
- by 16 April 2013, the following will be made available:
  - the Annual Financial Report – comprising the draft annual financial statements, the consolidated financial statements, the report on operations and the certification under Article 154-*bis*, par. 5 of Italian Legislative Decree no. 58 of 24 February 1998, and subsequent amendments and additions (the "CFA") – together with the reports of the Board of Statutory Auditors and the external auditing firm as well as the annual report on corporate governance and ownership structures;
  - the Directors' report on the fourth item on the agenda in the ordinary part, regarding the consultation on the Remuneration Policy;– the documentation relating to the items on the agenda for the extraordinary part, and namely: (i) the Directors' report on the share capital increase pursuant to Article 2441, par. 1 and 5 of the Italian Civil Code, subject to a reduction in the number of ordinary shares through grouping and share capital reduction for losses pursuant to Article 2446 of the Italian Civil Code and the delegation to the Board of Directors to issue convertible bonds pursuant to Article 2420-*ter*, par. 2 of the Italian Civil Code, together with the consequent proposals to amend the articles of association and the opinion on the fairness of the issue price of the shares under Article 2441 of the Italian Civil Code; (ii) the Directors' report on the additional proposals to amend the company's articles of association.

The documentation relating to the financial statements of subsidiaries and associates made available to the public at the registered office by 23 April 2013.

**QUESTIONS ON THE ITEMS ON THE AGENDA**

Pursuant to the law, before the Meeting the Shareholders may ask questions regarding the items on the agenda. Questions must be posted to the address of the Company's registered office or faxed to +39 02.6281.4460 or alternatively by connecting to the website [www.prelios.com](http://www.prelios.com) and following the specific instructions given in the section devoted to the shareholders' meeting, where additional information on the issues can also be found.

Any question must be received by 5 May 2013.

**INTEGRATION OF THE AGENDA AND PRESENTATION OF NEW PROPOSED RESOLUTIONS**

In accordance with the law, any Shareholder who, individually or jointly with other Shareholders, represents at least one fortieth of the ordinary share capital, may request, within ten days from the publication of this notice, and thus by 8 April 2013, the Agenda of items for discussion be integrated, specifying the further items proposed for discussion, or presenting proposed resolutions on items that are already on the agenda.

The request must be made in writing and filed, also via post, at the company's registered office or sent to the certified email address [assemblea@pec.prelios.it](mailto:assemblea@pec.prelios.it), together with the documentation certifying the title of said share, issued by the intermediaries keeping the accounts in which the shares are registered.

Within the deadline set to submit the integration request and under the same conditions, any proposing Shareholder must also present a report stating the reasons for the proposed resolutions on the new items proposed for discussion or alternatively the reasons for the additional proposed resolutions presented on items that are already on the agenda.

The Company shall provide notice of any such integrations of the agenda for discussion by the meeting or additional resolution proposals on the items already in the agenda, in the same form established for the publication of this notice of calling, at least fifteen days before the day set for the Meeting in single call, and thus by 23 April 2013.

At the same time as publishing the notice of integration or presentation of additional resolution proposals, these proposals, as well as the reports prepared by the Shareholders, assembled with any assessment by the Board of Directors, shall be made available to the public by the Company in compliance with the law.

Please note that integration of the agenda is not permitted for matters on which the Shareholders' Meeting resolves, by provision of law, upon proposal by the Directors, or on the basis of a project or report prepared by the Directors, other than those pursuant to article 125-*ter*, paragraph 1 of the Consolidated Law on Finance.

Finally, any subject with the right to vote may submit individual resolution proposals directly during the Meeting.

**LEGITIMATE RIGHT TO ATTEND THE MEETING - VOTING BY PROXY**

The legitimate right to attend the Shareholders' Meeting and exercise the voting rights is certified by a communication made to the Company through the intermediary authorised in compliance with the accounts in favour of the party with voting rights as of 26 April 2013 (record date). Therefore, those confirmed as shareholders only after this date will not have the right to attend and vote in the meeting.

All parties entitled to attend the meeting and exercise voting rights may organise their representation by proxy in accordance with the law and current provisions.

A facsimile proxy form can be downloaded from the Company website [www.prelios.com](http://www.prelios.com) (corporate governance section) or obtained from the registered office.

The proxy may be preventatively notified to the Company at the certified e-mail address [assemblea@pec.prelios.it](mailto:assemblea@pec.prelios.it) or to the company's registered office by means of ordinary post. Preventative notice does not, however, relieve the proxy, at the time of ensuring authorisation to access the meeting, from the obligation to certify compliance with the original of the copy notified.

#### Designated representative

The Company has appointed Servizio Titoli S.p.A. as the party Shareholders may confer a specific proxy to free of charge (the "Designated Representative").

Proxy with voting instructions must be conferred using the form available on the website [www.prelios.com](http://www.prelios.com), in the specific section devoted to the Designated representative, or as a hard copy at the office of Servizio Titoli S.p.A. or that of the Company.

The original copy of the proxy must be sent to the registered office of Servizio Titoli S.p.A., Via Lorenzo Mascheroni no 19 – 20145 Milan, Italy, potentially faxing a copy ahead with a declaration of compliance with the original to +39 024677.6850 or attaching it to an e-mail to be sent to [ufficiomilano@pecserviziotitoli.it](mailto:ufficiomilano@pecserviziotitoli.it) no later than 6 May 2013. Proxy thus conferred shall only be valid for the proposals in relation to which voting instructions have been given. The proxy and voting instructions may be revoked within these same terms.

Further information in relation to the conferral of the proxy to the Designated Representative is available from the Company website [www.prelios.com](http://www.prelios.com).

#### **LIST VOTING FOR THE APPOINTMENT OF THE BOARD OF DIRECTORS**

In accordance with Article 12 of the Articles of Association and the applicable provisions, including regulatory provisions, directors shall be appointed on the basis of lists in which candidates must be stated in progressive order.

The lists presented by the shareholders, signed by those presenting them, with indication of their identity and relevant portion of the ordinary capital of the Company, must be filed at the Company's registered office at least twenty-five days prior to the date set for the meeting in single call and thus by 13 April 2013. Shareholders may file the lists of candidates by sending them and the relevant supporting documentation to the following certified email address: [assemblea@pec.prelios.it](mailto:assemblea@pec.prelios.it).

Shareholders who, individually or jointly with other shareholders, own shareholdings accounting for at least 2% of the share with voting right in the ordinary shareholders meeting as of the date when the list is presented, have the right to present lists, and the obligation to prove ownership of the number of shares required to present lists, within the terms envisaged for their publication by the Company and thus by 17 April 2013.

Each shareholder may present or participate in the presentation of a single list and each candidate may only be presented in a single list, under penalty of ineligibility.

The lists will be made available to the public at the registered office of the Company, on the company's website [www.prelios.com](http://www.prelios.com) (under the corporate governance section) and with the other methods established by Consob, at least twenty-one days before the day set for the single call and thus 17 April 2013.

Filed with each list must be the candidacy acceptances by the individual candidates and the declarations whereby the candidates certify, under their own responsibility, that there are no causes for ineligibility for election and incompatibility, and that they meet the criteria prescribed for the respective office.

With these declarations, a *curriculum vitae* for each candidate must also be filed, describing their personal and professional characteristics and specifying any administrative and control office they may hold in other companies and, where required, their meeting of the independence requirements as laid down by the criteria of law and the Code of Conduct of listed companies issued by Borsa Italiana S.p.A. (the "Code of Conduct") to which the Company has adhered.

Candidates are also reminded to authorise the publication of their *curriculum vitae* on the Company's website.

Any changes occurring up to the day on which the Meeting is actually held must be duly reported to the Company.

Finally, in order to ensure a balance between genders in compliance with applicable pro-tempore legislation, in each list presented that con-

tains a number of candidates that is equal to or higher than three, at least one third (rounded up to the higher unit in case of no integer) of these candidates must be of the least represented gender.

Any lists submitted without the observance of the instructions above shall be deemed to be not submitted. If the list voting mechanism does not ensure the minimum number of directors from the least represented gender requested, the Articles of Association provide for the application of a corrective system that ensures the appointment of the Board of Directors in compliance with the applicable pro-tempore provisions on the balance between genders.

For information it is important to note that – in compliance with the provisions of the Code of Conduct – the Board of Directors has defined the general criteria to determine the maximum number of offices for its members. On this point, reference is made to the special document containing the relevant details, published on the website of the company [www.prelios.com](http://www.prelios.com) (under the corporate governance section).

Finally, any Shareholder wishing to present lists for the appointment of the members of the Board of Directors is kindly asked to read the specific documentation published on the Company's website at [www.prelios.com](http://www.prelios.com) (corporate governance section).

#### LIST VOTING FOR THE APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS

In accordance with Article 22 of the Articles of Association and the applicable provisions, including regulatory provisions, statutory auditors and alternate auditors shall be appointed on the basis of lists in which candidates must be stated in progressive order.

The lists presented by the shareholders, signed by those presenting them, with indication of their identity and relevant portion of the ordinary capital of the Company, must be filed at the Company's registered office at least twenty-five days prior to the date set for the meeting in single call and thus by 13 April 2013. Shareholders may file the lists of candidates by sending them and the relevant supporting documentation to the following certified email address: [assemblea@pec.prelios.it](mailto:assemblea@pec.prelios.it).

Shareholders who, individually or jointly with other shareholders, own shareholdings accounting for at least 1.5% of the shares with voting right in the ordinary shareholders' meeting, have the right to present lists, and the obligation to prove ownership of the number of shares required to present lists, within the terms envisaged for their publication by the Company and thus by 17 April 2013.

Each shareholder may present or participate in the presentation of a single list and each candidate may only be presented in a single list, under penalty of ineligibility.

The lists will be made available to the public at the registered office of the Company, on the company's website [www.prelios.com](http://www.prelios.com) (under the corporate governance section) and with the other methods established by Consob, at least twenty-one days before the day set for the single call and thus 17 April 2013.

In case one single list is submitted by the term stated above or only lists are submitted that are connected with each other in accordance with applicable regulations, including regulatory regulations, additional lists may be presented until the third day following this date; in this case, the 1.5% threshold stated previously for the presentation of the lists is lowered to 0.75%.

Filed with each list must be the (i) documentation required by Article 144-sexies of the Regulations adopted by Consob with Decision no. 11971 of 14 May 1999 and subsequent amendments and additions (the "Issuers Regulations") and (ii) the candidacy acceptances by the individual candidates and the declarations whereby the candidates certify, under their own responsibility, that there is no cause for ineligibility for election and incompatibility, and that they meet the criteria prescribed by applicable regulations, including regulatory regulations and the Articles of Association for the office.

Each candidate must also declare his/her suitability to qualify as independent also based on the criteria set by the Code of Conduct with reference to the directors.

With the declarations, a curriculum vitae for each candidate must also be filed, containing exhaustive information on their personal and professional characteristics. Candidates are also reminded to authorise the publication of their *curriculum vitae* on the Company's website.

Taking into account that, pursuant to Article 2400, last par. of the Italian Civil Code, at the time of the appointment and before accepting the office, the meeting must be informed of the administration and control offices held at other companies and in consideration of the provisions of Article 148-bis of the CFA, a declaration should be provided in the *curriculum vitae* in this respect.

Any changes occurring up to the day on which the Meeting is actually held must be duly reported to the Company.

The lists of candidates must be arranged into two separate sections: one with indication of the candidates (marked by a progressive number) for the office of Statutory Auditor and the other with indication of the candidates (marked by a progressive number) for the office of Alternate Auditor. The first of the candidates in each section shall be identified among those entered in the Register of Statutory Auditors who have carried out statutory auditing for a period of not less than three years.

In order to ensure a balance between genders in compliance with applicable pro-tempore legislation, in each list at least one third of these candidates must be of the least represented gender.

In consideration of the above, each list containing a number of candidates for the office of auditor not lower than three must state, in the first section, the candidate of the gender that is least represented in the second progressive number and, also in the second section, a candidate of the gender that is least represented in the same first section.

Any lists submitted without the observance of the instructions above shall be deemed to be not submitted.

Any Shareholder wishing to present lists for the appointment of the members of the Board of Statutory Auditors is kindly asked to read the specific documentation published on the Company's website at [www.prelios.com](http://www.prelios.com).

#### **INFORMATION RELATING TO THE SHARE CAPITAL AND THE SHARES WITH VOTING RIGHTS**

The share capital of Prelios S.p.A., subscribed and paid-up, amounts to Euro 218,877,613.14, divided up into 841,171,777 no-par-value shares. As of today's date the Company holds 1,189,662 treasury shares for which voting rights are suspended.

\*

Please note that on 1 April 2013 the Company's registered office was moved to Viale Piero e Alberto Pirelli no. 27, Milan.

Milan, 29 March 2013

for the Board of Directors  
the Chairman  
(Marco Tronchetti Provera)

## E. PROPOSED RESOLUTION

### ORDINARY PART

#### Point 1)

#### Financial statements for the year ended as at December 31, 2012. Inherent and consequent resolutions.

Dear Shareholders,

the year ended as at December 31, 2012 closes with a Group loss of 241,734,000 euro at consolidated level and 213,995,991 euro at financial statement level, figures that, therefore, confirm a loss of more than one third of share capital pursuant to Art. 2446 of the Italian Civil Code, as already reported at the last Shareholders' Meeting.

In this regard, it should be noted, in fact, that on December 18, 2012, the Shareholders' Meeting, having acknowledged (i) the company's balance sheet and income statement as at September 30, 2012, (ii) the Directors' Report drafted in accordance with Art. 2446, par. 1, of the Italian Civil Code and pursuant to Art. 74, par. 1 of the Issuers' Regulations and (iii) the remarks of the Board of Statutory Auditors, resolved to approve the company's balance sheet as at September 30, 2012 and to postpone the adoption of provisions pursuant to Art. 2446 of the Italian Civil Code to a date to be proposed by the Board of Directors, also in relation to the development and implementation of the proposed extraordinary transactions – targeted, it should be pointed out, at rebalancing the company's overall financial and equity structure – and, nonetheless, in compliance with the provisions of par. 2 of said Art. 2446 of the Italian Civil Code.

Also in light of the above and having acknowledged the proposed resolutions as per the Extraordinary Shareholders' Meeting, we therefore propose the approval of the financial statements for the year ended as at December 31, 2012 and the Directors' Report on Operations, without prejudice to the matters that shall be resolved at the Extraordinary Shareholders' Meeting which also supplements, among other things, the adoption of the necessary measures to be adopted in accordance with Art. 2446 of the Italian Civil Code, in relation to the total loss identified.

\* \* \*

If you agree with our proposal, we therefore invite you to approve the following

### RESOLUTION

"The Ordinary Shareholders' Meeting:

- having examined the Directors' Report on Operations;
- having acknowledged the reports of the Board of Statutory Auditors and the Independent Auditors;
- having reviewed the financial statements and the consolidated financial statements for the year ended as at December 31, 2012, which close with a statutory loss of 213,995,991 euro and a consolidated Group loss of 241,734,000 euro respectively;
- having taken note of the proposed resolutions set out in the separate Directors' Report in relation to the Extraordinary Shareholders' Meeting;

### RESOLVES

- 1) to approve:
  - a) a) the Directors' Report on Operations;
  - b) the financial statements for the year January 1 – December 31, 2012, comprised of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the explanatory notes to the financial statements, which report a loss of 213,995,991 euro, as presented by the Board of Directors as a whole, in their individual items, with the proposed allocations, without prejudice to the matters that shall be resolved at the Extraordinary Shareholders' Meeting;
- 2) to postpone the adoption of the necessary measures pursuant to Art. 2446 of the Italian Civil Code to the Extraordinary Shareholders' Meeting."

Explanatory report drawn up by the Directors pursuant to Art. 125-ter of Italian Legislative Decree no. 58 of 24 February 1998 and subsequent amendments and supplements.

\* \* \*

Point 2)

**Appointment of the Board of Directors:**

- **determining the number of members of the Board of Directors;**
- **determining the term of office of the Board of Directors;**
- **appointment of the Board Members;**
- **determining the annual fee of the members of the Board of Directors;**

Shareholders,

Following the Board of the Directors' final approval of the transaction set out in the Framework Agreement signed by Prelios S.p.A. ("**Prelios**" or "**Company**") and Feidos 11 S.p.A. (special purpose vehicle controlled by Feidos S.p.A.) as industrial investor whose purpose, as everyone knows, is to strengthen the capital by recapitalising the Company and to redress the financial structure and provide it with new growth and development prospects (the "**Transaction**"), all Directors of Prelios decided to resign on 27 March 2013. Their resignation will take effect starting from the end of the next Shareholders' Meeting called to, among other things, approve the financial statements for the year ended 31 December 2012.

This decision was taken because executing the aforesaid extraordinary transaction will lead to a change in the current shareholding structure of Prelios. The Directors therefore thought that letting the Company's shareholders appoint the board of directors members without waiting for the natural expiry of the mandate upon approval of the financial statements for the year ending 31 December 2013 to be in the best interests of the Company.

Following the resignation of all Directors pursuant to Art. 12 of the Articles of Association (provided in full at the end of this report), the entire Board of Directors is to be considered fallen from office from the moment it is reformed. The Shareholders' Meeting is therefore called pursuant to the law and regulations in force at this time and to Art. 12 of the Articles of Association to:

- decide on the number of members of the Board of Directors;
- decide on the term of office of the Board of Directors;
- appoint the Board Members;
- decide on the annual fee of the members of the Board of Directors.

To this regard, please note that the basic strategic position of the Company and Prelios Group – aimed at consolidating its repositioning as a pure management company by appreciating and managing real estate portfolios also on behalf of third-party investors using a distinctive model based on both specialised real estate services (Agency, Property & Project Management) and management activities (Fund & Asset Management), in addition to services tied to managing Non Performing Loans (Credit Servicing) – requires that the Board of Directors be made up of members possessing a wide range of general and specialised experience, particularly with regard to the real estate, financial and professional sectors.

The size of the Company and Group, as well as the complexity and specificity of the sector in which they do business, indeed require an appropriate mixture of expertise and professional skills. This is an essential prerequisite for the Board of Directors, i.e., having adequate experience and capabilities so that board discussion is more incisive and is therefore able to best express itself as a body, and address Prelios' business more effectively.

In determining the number and in selecting the members, the new Board of Directors therefore believes it has to take into account both the afore-mentioned focusing of the Company's business model and the conditions established for completing the Transaction, including the appointment of Mr Sergio Iasi and Mr Massimo Caputi to the offices of Chief Executive Officer and Deputy Chairperson with Responsibility for Development, respectively.

Having independent directors on the board is an essential element that guarantees the interests of all shareholders and third parties. The contribution given by directors having these characteristics is also necessary for the formation and functioning of the Committees whose duties are to make proposals and give advice to the Board of Directors.

To this regard, Art. 12 of the Articles of Association establishes that the Board of Directors of the Company be made up of a number of members ranging between 5 (five) and 19 (nineteen), and also establishes that their term of office is three financial years (unless the Shareholders' Meeting sets a shorter term at the time of appointment). They can be re-elected.

The Board of Directors is appointed on the basis of lists submitted by the shareholders, in which the candidates are listed by progressive number.

With reference to the requisites the shareholders planning to present lists for the election of the Board of Directors must have, and to those the candidates must have in order to be appointed the office of director, attention is called to observance of the provisions of Consob Regulation 11971 of 14 May 1999 (Articles 144-*quater* and 144-*undecies*.1) implementing the provisions of Art. 147-*ter* of Italian Legislative Decree 58 of 24 February 1998 (the "**Consolidated Finance Act**").

To this regard, it is particularly pointed out that in compliance with the provisions of Art. 147-*ter*, paragraph 3 of the Consolidated Finance Act and pursuant to Art. 12 of the Articles of Association, one-fifth of the members of the Board of Directors must from the names on the minority lists, and are in no way, not even indirectly, connected with the shareholders that presented or voted the list first elected by number of votes.

Shareholders that alone, or together with other shareholders, represent at least 2% of the share capital with voting rights at the Ordinary Shareholders' Meeting (threshold established in the Articles of Association and a percentage lower than that set by Consob Resolution 18452 of 30 January 2013) are entitled to present the lists in accordance with procedures and terms specified in above-mentioned Art. 12 of the Articles of Association and also referred to in the Shareholders' Meeting notice of call.

The lists of candidates listed by progressive number – endorsed by the shareholders presenting them with their identity and relevant proportion of the ordinary share capital of the Company – must be filed with the registered office of the Company at least twenty-five days before the date set for the Shareholders' Meeting.

Shareholders can file the lists of candidates by sending them and the relevant supporting documentation to the following certified e-mail address: [assemblea@pec.prelios.it](mailto:assemblea@pec.prelios.it).

Each list must be complete with the documents required by Art. 12 of the Articles of Association and applicable legislation and regulations.

More specifically, the declarations with which the individual candidates accept their candidacy and certify, under their responsibility, that there are no reasons for ineligibility for election or incompatibility, and that they have the requisites, if any, laid down for the respective offices, must be filed together with each list.

A *curriculum vitae* of each candidate containing personal and professional information must also be filed with the declarations. The administration and control offices held at other companies and eligibility to qualify as an independent director based on the criteria laid down in Art. 3.C.1 of the Code of Conduct of listed companies issued by Borsa Italiana S.p.A. (also provided at the end of this report) to which Prelios has adhered and/or pursuant to the law must be indicated.

To this regard, please note the provisions of Art. 147-*ter*, paragraph 4, of the Consolidated Finance Act with reference to at least one of the members of the board of directors, or at least two if there are more than seven members, having the independence requirements established for statutory auditors by Art. 148, paragraph 3 of the Consolidated Finance Act.

It is also pointed out that the Extraordinary Shareholders' Meeting of 17 April 2012 resolved to amend Articles 12 and 22 of the Articles of Association regulating the mechanisms for appointing Directors and members of the Board of Statutory Auditors in order to implement the principles provided for by Italian Law 120 of 12 July 2011 that amended the articles of the Consolidated Finance Act concerning the composition of boards of directors (Art. 147-*ter*) and internal control bodies (Art. 148), requiring that at least one-third of the least represented gender is in the company bodies.

Every shareholder may present or take part in presenting a single list, and every candidate may appear on a single list, under penalty of ineligibility for election.

Lists presented without abiding by the provisions set out in Art. 12 of the Articles of Association shall be considered not presented.

The company shall make the lists of candidates presented available to the public together with the information required by applicable regulations at its registered office, at Borsa Italiana S.p.A., and published on the website [www.prelios.com](http://www.prelios.com).

Those shareholders planning to present lists to nominate members of the Board of Directors are asked to review the relevant documents published on the Company's website [www.prelios.com](http://www.prelios.com) and, more specifically, the criteria established by the Board of Directors for determining the maximum number of offices of its members and the recommendations given in Consob Communication DEM/9017893 of 26 February 2009.

The Shareholders' Meeting must also decide on the term of office of the Board of Directors and the fee due to the new Directors, presently set at a gross total of Euro 650,000.00 per year.

All that being stated, pursuant to the provisions of the Articles of Association, and the applicable law and regulations on the subject, the Board of Directors asks you to present lists of candidates for appointing members of the Board of Directors and proposals concerning the term of office and determination of their fees, and to resolve on:

- the appointment of the members of the Board of Director by voting on the lists of candidates presented after determining their number and term of office;
- the determination of the fee due to the members of the Board of Directors.

\* \* \*

Article 12 of the Articles of Association, application criterion 3.C.1 of the Code of Conduct of listed companies and Articles 147-ter and 148, paragraph 3 of the Consolidated Finance Act are provided below.

Article 12 of the Articles of Association – Management

12.1 *The Company is managed by a Board of Directors composed of from 5 to 19 members who remain in office for three financial years (unless a shorter period is established by the Shareholders' Meeting at the time of appointment) and may be re-elected.*

12.2 *The Shareholders' Meeting determines the number of members of the Board of Directors, a number which remains fixed until resolved otherwise.*

12.3 *The Board of Directors is appointed on the basis of lists submitted by the shareholders, pursuant to the following paragraphs, in which the candidates must be listed by progressive number.*

12.4 *The lists submitted by the shareholders, signed by the persons submitting them, must be filed at the registered office of the company so they are at the disposal of whoever requests them; they must be filed at least twenty-five days before the date set for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors. They are made available to the public at the registered office, on the website and with the other procedures provided for by Consob regulations at least twenty-one days before the date of the Shareholders' Meeting.*

12.5 *Every shareholder may present or take part in presenting a single list, and every candidate may appear on a single list, under penalty of ineligibility for election.*

12.6 *The lists may be submitted by only those shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 2 percent of the share capital with voting rights at the ordinary Shareholders' Meeting or the lower amount required by the regulations issued by Consob, with the obligation to demonstrate ownership of the number of shares necessary for submitting the lists by the deadline set for the Company to publish them.*

12.7 *Each list must be submitted together with the acceptances of candidacy by the individual candidates and the declarations with which they certify, under their responsibility, that there are no reasons for ineligibility for election or incompatibility, and that they have the requisites, if any, laid down for the respective offices. The declarations must be filed together with a curriculum vitae for each candidate that contains personal and professional information, with the administration and control offices held at other companies and possession of the independence requisites required for directors of listed companies indicated, pursuant to the law or by the code of conduct adopted by the Company. So that a balance between genders is ensured in conformity with the regulations currently in force, at least one-third (rounded off to the highest figure if there is no whole number) of said candidates must belong to the least represented gender on each list submitted bearing a number of candidates equal to or greater than three.*

*Any changes occurring up to the day on which the General Meeting is actually held must be duly reported to the Company.*

12.8 *Any lists submitted without observing the foregoing provisions shall be deemed to be not submitted.*

12.9 *Any party entitled to vote may vote on one list only.*

12.10 *The Board of Directors is elected as follows:*

a) *four-fifths of the directors to be elected will be taken from the list obtaining the majority of votes cast by the eligible shareholders, in the order in which they appear in the list itself, rounded down in the event of a fraction;*

b) *the remaining Directors are taken from the other lists, to which end the votes obtained by the said lists are subsequently divided by whole progressive numbers from one up to the number of Directors still to be elected.*

*The quotients obtained in this way are progressively assigned to the candidates of each of said lists, in the order they respectively foresee.*

*The quotients assigned to the candidates of the various lists following this procedure are arranged in a single descending classification. Those who obtain the highest quotients are elected.*

*If several candidates have obtained the same quotient, the candidate on the list from which no Director has yet been elected, or from which the lowest number of Directors has been elected, is elected. If none of these lists has elected a director or if all of them have elected the same*

number of directors, within the scope of such lists, the candidate obtaining the highest number of votes is elected. In the event of a tie in the number of list votes and in the event of an equal quotient, the full Shareholders' Meeting votes again and the candidate obtaining the simple majority of votes will be elected.

12.11 The Board of Directors must be appointed in conformity with the regulations currently in force on balance between genders. If application of the list vote system does not ensure the minimum number of directors belonging to the least represented gender laid down by law and/or regulations, the candidate belonging to the least represented gender elected with the highest progressive number on the list obtaining the highest number of votes will be replaced by the candidate belonging to the least represented gender not elected from the same list according to the progressive order of submission and so on, list by list, until the minimum number of independent directors is complete.

12.12 If application of the list vote system does not ensure the minimum number of independent directors laid down by law and/or regulations, the non-independent candidate elected with the highest progressive number on the list obtaining the highest number of votes will be replaced by the independent candidate not elected from the same list according to the progressive order of submission and so on, list by list, until the minimum number of independent directors is complete. without prejudice in any case to observance of the balance between genders laid down by law and/or regulations currently in effect.

12.13 For appointing directors for any reason not appointed pursuant to the procedure described herein, the Shareholders' Meeting resolves with the legal majorities, without prejudice in any case to observing the balance between genders laid down by law and/or regulations currently in effect.

12.14 If during the financial year one or more directors should leave office, they shall be replaced pursuant to Art. 2386 of the Italian Civil Code, without prejudice in any case to observing the balance between genders provided for by the law and/or regulations currently in effect.

12.15 Loss of the requirements of independence of a director does not constitute a reason for forfeiture of the position if the minimum number of members, laid down by law or by regulation and satisfying the requirements of independence, remains on the Board of Directors.

12.16 If because of renunciation or for any other reason more than half of the directors leave office, the entire Board of Directors is considered fallen from office with effect from the moment it is reformed.

12.17 The directors are not bound by the prohibition pursuant to Article 2390 of the Italian Civil Code unless otherwise resolved by the Shareholders' Meeting.

\*

#### Code of Conduct

#### Art. 3 - Independent directors

##### Application criterion 3.C.1

The board of directors assesses the independence of its non-executive members by focussing more on substance than on form, and bearing in mind that a director usually does not seem to be independent in the following cases, to be considered non-binding:

a) if he or she controls the issuer or is able to exert considerable influence on it or takes part in a shareholders' agreement through which one or more parties may exert control or considerable influence on the issuer either directly or indirectly, even through subsidiaries, fiduciaries or third parties;

b) if he or she holds, or has held during the last three financial years, a prominent position with the issuer, with one of its subsidiaries having strategic importance or with a company subject to joint control with the issuer, or a company or body that controls the issuer or is able to exert considerable influence on it, even together with others through a shareholders' agreement;

c) if he or she has, or has had during the previous financial year, a significant commercial, financial or professional relationship either directly or indirectly (through subsidiaries or in which he or she holds a prominent position, or as a partner of a professional firm or of a consulting firm) with:

- the issuer, one of its subsidiaries, or with any of the relevant people holding prominent positions;

- a party that, even together with others through a shareholders' agreement, controls the issuer or – as it is a company or body – with the relevant people holding prominent positions;

or is, or has been during the previous three financial years, an employee of one of the aforesaid parties;

d) if he or she receives, or has received during the previous three financial years, a significant additional remuneration from the issuer, a subsidiary or a parent company (over and above the "fixed" fee of non-executive director of the issuer and the fee for participating in committees recommended by this Code), also in the form of participating in incentive plans linked to company performance, even share-based;

e) if he or she has been a director of the issuer for more than nine out of the last twelve years;

- f) if he or she holds the office of executive director in another company in which an executive director of the issuer holds an office of director;
- g) if he or she is shareholder or director of a company or body belonging to the network of the company appointed to perform the regulatory audit of the issuer;
- h) if he or she is a close family member of a person in one of the situations listed under the foregoing paragraphs.

\*

## CONSOLIDATED FINANCE ACT

### PART IV - TITLE III - ITEM II

#### SECTION IV-bis

#### Boards of directors

##### Art. 147-ter

(Election and composition of the board of directors)

1. 1. The articles of association establish that the members of the board of directors are to be elected based on lists of candidates and determines the minimum relevant proportion required for submitting them, to be no greater than one-fortieth of the share capital or another measure established by a Consob regulation, bearing the capitalisation, floating capital and ownership structures of the listed companies in mind. The lists specify which directors are in possession of the independence requisites established by law and the articles of association. The Articles of Association may require that lists that have not attained a percentage of votes at least half of that required by the Articles of Association for their presentation not be taken into account for dividing the directors to be elected; for cooperatives, the measure is established by the Articles of Association, also in departure from Article 135.

1-bis. The lists are filed with the issuer, also by remote medium, in observance of the requirements (if any) strictly necessary for identifying company-indicated applicants by and no later than the twenty-fifth day before the date of the shareholders' meeting called to resolve the appointment of the members of the board of directors and are made available to the public at the registered office of the company, on the website and with other procedures provided for by Consob regulations at least twenty-one days before the date of the shareholders' meeting. Ownership of the minimum relevant proportion required by paragraph 1 is determined considering the shares registered to the shareholder on the day on which the lists are filed with the issuer. The relevant certification may also be produced after filing, provided that it is done by and no later than the deadline set for the issuer to publish the lists.

1-ter. The Articles of Association also require that directors to be elected be divided up based on a criterion that ensures balance between genders. The least represented gender must make up at least one-third of the elected directors. This distribution criterion applies for three consecutive mandates. If the composition of the board of directors resulting from the election not abide by the distribution criterion set forth in this paragraph, Consob warns the company concerned to come into line no later than the maximum deadline of four months from the warning. Should the company disregard the warning, Consob applies an administrative financial penalty ranging from Euro 100,000 to Euro 1,000,000, according to criteria and procedures established in its regulations, and sets a new three-month deadline to meet. Should the warning go unheeded, the elected members fall from office. The Articles of Association governs the methods for compiling lists and the cases of replacement during the mandate in order to guarantee that the distribution criterion this paragraph provides for is observed. Consob rules on the violation, application and observance of the gender portion provisions, also with reference to the investigation phase and the procedures to adopt, based on its regulations, to adopt no later than six months from the date the provisions set forth in this paragraph go into force. The provisions of this paragraph also apply to the companies set up according to the monistic system.

2. ...omitted...

3. Except for what Article 2409-septiesdecies of the Italian Civil Code provides for, at least one of the members of the board of directors is elected from minority list obtaining the highest number of votes and not connected in any way whatsoever, not even indirectly, with the shareholders that submitted or voted the list with the highest number of votes. In companies set up according to the monistic system, the member elected from the minority list must have the requisites of reputation, professional competence and independence defined in Article 148, paragraphs 3 and 4. Lack of said requisites causes the member to fall from office.

4. In addition to the provisions of paragraph 3, at least one of the members of the board of directors, or two if the board of directors is made up of more than members, must possess the independence requisites established for statutory auditors by Article 148, paragraph 3, and, if the Articles of Association so require, the additional requisites listed in the codes of conduct drawn up by management companies of regulated markets or by trade associations. This paragraph does not apply to the board of directors of companies set up according to the monistic system, for which the provisions set forth in Article 2409-septiesdecies, paragraph 2 of the Italian Civil Code remain firm. The independent director who loses the independence requisites after appointment must immediately report the fact to the board of the directors and, in any case, falls from office.

SECTION V

*Internal control bodies*

Art. 148

*(Composition)*

*...Omitted...*

3. *The following cannot be elected statutory auditors and if elected, they fall from office:*

*a) those who meet the conditions set forth in Article 2382 of the Italian Civil Code;*

*b) the spouse, relatives and like within the fourth degree of kinship of the directors of the company, the directors, spouse, relatives and like within the fourth degree of kinship of directors of the company's subsidiaries, companies that control the company and those subject to joint control;*

*c) those tied to the company, to the subsidiaries, to the companies that control it or to those subject to joint control, or to the directors of the company and to the parties listed under letter b) by non-subordinate or subordinate employment, or by other relations financial or professional in nature that compromise his or her independence.*

**Explanatory report drawn up by the Directors pursuant to Art. 125-ter of Italian Legislative Decree no. 58 of 24 February 1998 and subsequent amendments and supplements.**

\* \* \*

**Point 3)**

**Appointment of the Board of Statutory Auditors:**

- **appointment of the statutory and alternate auditors;**
- **appointment of the Chairman of the Board of Statutory Auditors;**
- **determination of the fees of the members of the Board of Statutory Auditors.**

Shareholders,

The three-year mandate of the Board of Statutory Auditors the Shareholders' Meeting of 19 April 2010 granted expires with the Shareholders' Meeting called to approve the financial statements for the year ending 31 December 2012.

The Shareholders' Meeting is therefore called pursuant to the law and regulations in force at this time and to Art. 22 of the Articles of Association (provided in full at the end of this report) to:

- appoint the statutory and alternate auditors;
- appoint the Chairman of the Board of Statutory Auditors if it is impossible to do so by applying the list vote system;
- determine the fees of the members of the Board of Statutory Auditors.

The statutory and alternate auditors will be appointed by list vote; the candidates are listed by progressive number.

With reference to the requisites the shareholders planning to present lists for the election of the Board of Statutory Auditors must have, and to those the candidates must have in order to be appointed the office of statutory auditor, attention is called to observance of the provisions of Consob Regulation 11971 of 14 May 1999 (Articles 144-quinquies et seq) implementing the provisions of Articles 148 and 148-bis of Italian Legislative Decree 58 of 24 February 1998 (the "**Consolidated Finance Act**").

Please note that pursuant to the current Code of Conduct of listed companies of Borsa Italiana S.p.A. (the "**Code of Conduct**") to which the Company has adhered the statutory auditors must be selected from people who can be qualified as independent, also on the basis of the criteria set forth in the Code of Conduct with reference to the directors. Therefore, those entitled and that plan to submit the lists are asked to bear this in mind when selecting candidates to propose.

Shareholders that alone, or together with other shareholders, represent at least 1.5% of the share capital with voting rights at the Ordinary Shareholders' Meeting (threshold established in the Articles of Association and a percentage lower than that set by Consob Resolution 18452 of 30 January 2013) are entitled to present the lists in accordance with procedures and terms specified in above-mentioned Art. 22 of the Articles of Association and also referred to in the Shareholders' Meeting notice of call.

The lists of candidates listed by progressive number – endorsed by the shareholders presenting them with their identity and relevant proportion of the ordinary share capital of the Company – must be filed with the registered office of the Company at least twenty-five days before the date set for the Shareholders' Meeting.

Shareholders can file the lists of candidates by sending them and the relevant supporting documentation to the following certified e-mail address: *assemblea@pec.prelios.it*.

If a single list or only lists connected to each other according to applicable law and regulations are submitted by the above-mentioned deadline, additional lists can be submitted up until the third day following said date; in this case, the threshold of 1.5% previously specified for submitting lists is reduced to 0.75%.

Each list must be complete with the documents required by Art. 22 of the Articles of Association and applicable legislation and regulations.

More specifically, each list must be submitted together with the acceptances of candidacy by the individual candidates and the declarations with which they certify, under their responsibility, that there are no reasons for ineligibility for election or incompatibility, and that they have the requisites laid down for taking office.

The declarations must be filed together with a curriculum vitae for each candidate that contains full personal and professional information, with the administration and control offices held at other companies indicated.

The lists of candidates must be broken down into two distinct sections: one lists the candidates (marked by a progressive number) for the

office of statutory auditor, and the other lists the candidates (marked by a progressive number) for the office of alternate auditor. The first of the candidates in each section shall be appointed from those entered in the Register of Statutory Auditors who have carried out auditing activities on accounts for a period of not less than three years.

It is also pointed out that the Extraordinary Shareholders' Meeting of 17 April 2012 resolved to amend Articles 12 and 22 of the Articles of Association regulating the mechanisms for appointing Directors and members of the Board of Statutory Auditors in order to implement the principles provided for by Italian Law 120 of 12 July 2011 that amended the articles of the Consolidated Finance Act concerning the composition of boards of directors (Art. 147-ter) and internal control bodies (Art. 148), requiring that at least one-third of the least represented gender is in the company bodies.

Because of what is set out above, each list bearing no fewer than three candidates for the office of statutory auditor must indicate the candidate of the least represented gender in the first section under the second progressive number and also a candidate of the least represented gender in the first section in the second section.

Every shareholder may present or take part in presenting a single list, and every candidate may appear on a single list, under penalty of ineligibility for election.

Lists presented without abiding by the provisions set out in Art. 22 of the Articles of Association shall be considered not presented.

The company shall make the lists of candidates presented available to the public together with the information required by applicable regulations at its registered office, at Borsa Italiana S.p.A., and published on the website [www.prelios.com](http://www.prelios.com).

Those shareholders planning to present lists to nominate members of the Board of Statutory Auditors are asked to review the relevant documents published on the Company's website [www.prelios.com](http://www.prelios.com) and, more specifically, the recommendations given in Consob Communication DEM/9017893 of 26 February 2009.

In addition to appointing the Board of Statutory Auditors, it is also necessary to resolve allocation of the annual fee of the members of the Board of Statutory Auditors currently set at the gross amounts of Euro 55.5 thousand a year for the Chairman of the Board of Statutory Auditors and Euro 37 thousand a year for each of the statutory auditors (an additional gross fee of Euro 15 thousand is presently set for the member of the Board of Statutory Auditors called upon to sit on the Company's Oversight Committee).

In determining the fee to allocate to the members of the Board of Statutory Auditors, we ask that you also consider the additional duties that Italian Legislative Decree 39 of 27 January 2010, "Implementation of Directive 2006/43/EC regarding regulatory audits of the annual and consolidated accounts, which amends Directives 78/660/EEC and 83/349/EEC and repeals Directive 84/253/EEC", assigns to this body and the circumstance that the Board of Statutory Auditors may be assigned the functions of Oversight Committee set out in amended Art. 6, paragraph 4-bis of Italian Legislative Decree 231 of 8 June 2011, "Provisions on administrative liability of legal personalities in accordance with Article 11 of Italian Law 300 of 29 September 2000".

All that being stated, pursuant to the provisions of the Articles of Association, and the applicable law and regulations on the subject, the Board of Directors asks you to present lists of candidates for appointing members of the Board of Statutory Auditors and proposals concerning determination of their fees, and to resolve on:

- the appointment of the members of the Board of Statutory Auditors (three Statutory Auditors and two Alternate Auditors) by voting the lists of candidates submitted, if any;
- the appointment of the Chairman of the Board of Statutory Auditors unless he or she can be appointed following the procedures set out in the Articles of Association;
- the determination of the fee due to the members of the Board of Statutory Auditors.

\* \* \*

Article 22 of the Articles of Association currently in force and application criteria 8.C.1 and 8.C.2 of the Code of Conduct are provided below.

Articles of Association

Board of Statutory Auditors

Art. 22

*22.1 The Board of Statutory Auditors is made up of three statutory auditors and two alternate auditors having the requisites required by current law and regulations; for this purpose, it will be taken into consideration that subjects and sectors of activity strictly pertaining to those of the company are those specified in the corporate purpose, with particular reference to companies or entities operating in the financial, industrial, banking, insurance, real estate and general services field.*

*22.2 The Ordinary Shareholders' Meeting elects the Board of Statutory Auditors and determines their fees. The minority is entitled to elect one statutory auditor and one alternate auditor.*

*22.3 The provisions of paragraph 17 of Article 22 hereof excepted, the Board of Statutory Auditors is appointed in observance of the law and*

regulations on the basis of lists submitted by the shareholders, on which the candidates are listed by progressive number.

22.4 Each list contains a number of candidates no higher than the number of members to be elected.

22.5 A list can be submitted by shareholders who, alone or together with other shareholders, represent at least 1.5 percent of the shares with voting rights at the Ordinary Shareholders' Meeting or the lower amount required by the regulations issued by Consob for submitting lists of candidates for appointment to the Board of Directors, with the obligation to demonstrate ownership of the number of shares necessary submitting the lists of statutory auditor candidates within the terms set by law and/or regulations.

22.6 Each shareholder may present or take part in presenting a single list.

22.7 The lists of candidates, signed by the persons submitting them, must be filed at the registered office of the company so they are at the disposal of whoever requests them; they must be filed at least twenty-five days before the date set for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Statutory Auditors, unless extended in those cases provided for by law and/or regulations.

They are made available to the public at the registered office, on the website and with the other procedures provided for by Consob regulations at least twenty-one days before the date of the Shareholders' Meeting.

However without prejudice to any additional documentation required by the law and/or regulations, the lists must be complete with a curriculum vitae containing the personal and professional information of the parties designated, indicating the administration and control offices held at other companies, and the declarations with which the individual candidates:

- accept their candidacy, and
- certify, under their own responsibility, that there are no cases of ineligibility or incompatibility and that the requirements laid down by the applicable provisions, including regulatory provisions, and by the Articles of Association for the position are satisfied.

Any changes occurring up to the day on which the General Meeting is actually held must be duly reported to the Company.

22.8 Any lists submitted without observing the foregoing provisions shall be deemed to be not submitted.

22.9 Each candidate may be included in one list only on pain of ineligibility.

22.10 The lists will be divided into two sections: one for candidates for the position of Statutory Auditor and the other for candidates for the position of Alternate Auditor. The first of the candidates in each section shall be appointed from those entered in the Register of Statutory Auditors who have carried out statutory auditing activities on accounts for a period of not less than three years. In order to ensure a balance between genders in conformity with the regulations currently in force, each list bearing a number of candidates for the office of statutory auditor equal to or greater than three must indicate the candidate of the least represented gender in the first section under the second progressive number and also a candidate of the least represented gender in the first section in the second section.

22.11 Any party entitled to vote may vote on one list only.

22.12 The members of the Board of Auditors are elected as follows:

- a) two statutory members and one alternate member are appointed from the list obtaining the highest number of votes (so-called majority list), in the order in which they are listed in the list itself;
- b) the remaining regular member and the other alternate member are appointed from the list obtaining the highest number of votes at the Shareholders' Meeting after the first (so-called minority list), in the order in which they are listed in the list itself; if several lists obtain the same number of votes, a further ballot is held among such lists by all shareholders entitled to vote present at the Shareholders' Meeting, the candidates on the list obtaining the simple majority of votes being elected.

22.13 The Board of Statutory Auditors is chaired by the statutory member indicated as first candidate on the minority list.

22.14 In the case of an auditor's death, renunciation or falling from office, the alternate auditor belonging to the same list as the one who has left following the progressive order succeeds him or her, in any case ensuring that the balance between genders required by the law and/or regulations currently in force is observed. However, should the chairman of the Board of Statutory Auditors be replaced, the candidate listed on the list to which the chairman who has left belonged takes the chair, following the order of the list. If it is impossible to make the replacements following the criteria above, a Shareholders' Meeting will be called to complete the Board of Statutory Auditors and it will resolve with relative majority.

22.15 When, pursuant to the foregoing paragraph or the law the Shareholders' Meeting has to appoint the Statutory Auditors and/or Alternate Auditors necessary to complete the Board of Auditors, it acts as follows: if statutory auditors on the majority list have to be replaced, the appointment is by relative majority vote without list limitation, in any case without prejudice to observing the balance between genders provided for by the law and/or regulations currently in force. If, on the other hand, it is necessary to replace the statutory auditors on the minority list, the Shareholders' Meeting replaces them with relative majority, if possible selecting them from the candidates indicated on the list to which the auditor to be replaced belonged and however in observance of the principle of necessary representation of minorities, whose right to participate in the appointment of the Board of Statutory Auditors is ensured by these Articles of Association, in any case without prejudice to ob-

*...serving the balance between genders provided for by the law and/or regulations currently in force. The principle of necessary representation of minorities is considered observed if auditors who were previously on the minority list or on lists other than the list that received the highest number of votes at the time the Board of Statutory Auditors was appointed are appointed.*

*22.16 If only one list has been submitted, the Shareholders' Meeting votes thereon; if the list obtains a relative majority, the candidates indicated in the respective section of the list are elected Regular Auditors and Alternate Auditors; the Board of Auditors is chaired by the person indicated first in the aforesaid list.*

*22.17 For appointing auditors for any reason not appointed pursuant to the procedure described herein, the Shareholders' Meeting resolves with the legal majorities, without prejudice in any case to observing the balance between genders laid down by law and/or regulations currently in effect.*

*22.18 The outgoing auditors can be re-elected.*

*22.19 Should the Chairman or whoever else is in his or her stead ascertains the need for it, the Board of Statutory Auditors meetings may be attended using telecommunication media that permit taking part in discussions and equal information given to all attendees.*

\*

#### Code of Conduct

##### Auditors

##### Application criteria 8.C.1 and 8.C.2

*8.C.1. The auditors are selected from people who qualify as independent, also on the basis of the criteria set forth herein with reference to the directors. The Board verifies observance of said criteria following appointment and afterwards once a year, and presents the result of said verification in its report on corporate governance with methods compliant with those required for the directors.*

*8.C.2. The auditors accept their office when they believe they are able to devote the time necessary for diligently performing their duties.*

Report prepared by the Directors pursuant to Art. 123-ter of Legislative Decree no. 58 of February 24, 1998 as subsequently amended and supplemented.

\* \* \*

Point 4)

**Remuneration Report: Consultation on the Remuneration Policy.**

Dear Shareholders,

Italian Legislative Decree no. 58 of February 24, 1998 (the “**Consolidated Finance Act**” or “**CFA**”) requires the publication by listed companies, at least 21 days prior to the annual ordinary shareholders’ meeting, of a “*Remuneration Report*”, approved by the Board of Directors and consisting of two sections, presenting:

- a) the Company’s Policy for the remuneration of the members of the administrative bodies, general managers and key managers, in addition to the procedures used to adopt and implement said policy (the “**Policy**”);
- b) the Statement of remuneration of the members of the administrative and auditing bodies, general managers and key managers for the financial year of reference, providing a suitable representation of each of the items that make up the remuneration, by showing their consistency with the Policy approved in the previous financial year and providing a detailed breakdown of the fees paid for any reason and in any form by the Company and by its subsidiaries or associates.

The Remuneration Policy is also prepared in compliance with the recommendations set forth in the self-regulatory Code of Conduct for the listed companies of Borsa Italiana S.p.A. (the “**Code of Conduct**”) – which the Company has adopted in full – which generally provides rules on the remuneration of directors and key managers.

Lastly, the Remuneration Policy is adopted pursuant to Art. 14 of the “*Related Party Transaction Procedure*” (the “**RPT Procedure**”) approved by the Company on November 3, 2010 (published on the Company’s website [www.prelios.com](http://www.prelios.com), in the corporate governance section), which allows exemption from enforcement of the RPT Procedure provided that:

- the Company “...has adopted a remuneration policy, including policies relating to agreements for the mutual termination of the contract...”;
- in its definition “...a committee has been involved, comprising exclusively non-executive directors, the majority of whom are independent...”;
- “...a report has been submitted for the approval and consultancy of the shareholders’ meeting presenting the remuneration policy...”;
- “...the assigned remuneration is consistent with said policy”.

Therefore, in compliance with the laws and regulations currently in force, the Board of Directors hereby submits for your consultation the Company’s Policy on the remuneration of directors, general managers and key managers, the qualifying elements of which are highlighted in the attached Remuneration Report drawn up in accordance with Article 123-ter of the Consolidated Finance Act.

The Remuneration Report is also available from the Company’s website [www.prelios.com](http://www.prelios.com) under the corporate governance section.

\* \* \*

If you are in agreement with our proposal, we therefore invite you to approve the following

RESOLUTION

“The Ordinary Shareholders’ Meeting:

- having acknowledged the Remuneration Report and, in particular, the Company’s policy for the remuneration of directors, general managers and key managers;
- having considered the provisions pursuant to Art. 123-ter of Italian Legislative Decree no. 58 of February 24, 1998 as subsequently amended and supplemented and Art. 84-quater of the Consob Issuers’ Regulation no. 11971 of May 14, 1999 as subsequently amended and supplemented;

RESOLVED

in favour of the Company’s Policy on the remuneration of directors, general managers and key managers and on the procedures used to adopt and implement said Policy.”

## REMUNERATION REPORT (DRAWN UP IN ACCORDANCE WITH ARTICLE 123-TER OF ITALIAN LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998)

### CONTENTS

GLOSSARY .....	211
Introduction and reference regulatory framework .....	212
SECTION I – Policy for the remuneration of members of the administrative bodies, general managers and key managers .....	212
1. Principles and objectives .....	212
2. Governance of remuneration .....	213
2.1 The role of the shareholders' meeting .....	213
2.2 Role of the Board of Directors .....	213
2.3 Role of the Remuneration Committee .....	213
3. Policy definition and approval .....	214
4. Policy contents: remuneration criteria and major components .....	214
4.1 Remuneration criteria .....	214
4.2 Major components .....	214
5. Directors' remuneration .....	215
6. Remuneration of directors vested with special duties .....	216
7. Key managers .....	217
8. Annual variable component (MBO) .....	218
9. Multi-annual variable component (LTI) .....	218
10. Other stipulations related to remuneration .....	220
10.1 Indemnity in the event of resignation, termination or termination of employment .....	220
10.2 Non-competition and non-solicitation agreements .....	220
TABLE SUMMARISING THE INFORMATION REQUIRED BY SCHEME NO. 7-BIS - SECTION I OF ANNEX 3A TO THE ISSUERS' REGULATION AND THE REMUNERATION REPORT .....	221
SECTION II – Compensation of the members of the administrative and auditing bodies, of general managers and other key managers .....	222
a) PART ONE .....	222
11 Compensation of the members of the administrative and auditing bodies in office .....	222
11.1 The Board of Directors .....	222
11.2 The Board of Statutory Auditors in office .....	223
12. Remuneration of directors vested with special duties and general managers in office .....	224
12.1 The Chairman of the Board of Directors .....	224
12.2 The Deputy Chairman .....	224
12.3 The Chief Executive Officer .....	225
13. Remuneration of other key managers .....	225
14. Remuneration of parties who served as members of the administrative and auditing bodies, general managers or key managers for a fraction of 2012 .....	226
14.1 Non-executive Directors .....	226
14.2 The Chief Executive Officer .....	226
b) PART TWO .....	227
TABLE: COMPENSATION OF THE MEMBERS OF THE ADMINISTRATIVE AND AUDITING BODIES, OF GENERAL MANAGERS AND OTHER KEY MANAGERS .....	227
TABLE: COMPENSATION OF THE MEMBERS OF THE ADMINISTRATIVE AND AUDITING BODIES AND OF GENERAL MANAGERS .....	230

**GLOSSARY**

<b>Shareholders' Meeting:</b>	the Ordinary Meeting of the shareholders of Prelios S.p.A.
<b>Code of Conduct:</b>	the Code of Conduct for listed companies drawn up by Borsa Italiana S.p.A. (latest edition of December 2011).
<b>Board of Statutory Auditors:</b>	the Board of Statutory Auditors of Prelios S.p.A.
<b>Board of Directors:</b>	the Board of Directors of Prelios S.p.A.
<b>General Managers:</b>	Parties appointed as such by the Board of Directors in relation to the organisational structure of the Company and the Group.
<b>Managers:</b>	Group employees classed as managers, in accordance with the Italian National Collective Employment Agreement in force (Managers of companies producing goods and services).
<b>Key Managers:</b>	Managers, identified by the Company's Board of Directors, with the power or responsibility for planning and controlling the Company's business or the power to make decisions that may affect its evolution or future prospects.
<b>EBIT (o PBIT):</b>	Earnings Before Interest and Taxes, a measure of a firm's profit that excludes tax expenses and financial expenses. It represents the operating income deriving from the Company's core business before deducting financial expenses and tax.
<b>Executives:</b>	Employees of the Prelios Group meeting specific requirements, considering the office held within the organisational structure in terms of independence, hierarchical level, decision-making authority and contribution toward achieving corporate objectives.
<b>Group or Prelios Group:</b>	all companies included under the scope of consolidation of Prelios S.p.A.
<b>Management:</b>	all General Managers, Key Managers, Top Managers, Senior Managers and Executives.
<b>MBO:</b>	the variable component in remuneration which can be obtained by meeting predetermined company objectives.
<b>NFP:</b>	Net Financial Position, providing the measure of net financial debt, i.e. the amount of financial debt contracted by the company from which available funds are deducted.
<b>Policy:</b>	the Remuneration Policy adopted by the Company to apply the provisions of the Consolidated Finance Act, the Consob Issuers' Regulation and the Code of Conduct adopted in full by the Company.
<b>LTI Plan:</b>	the multi-year variable component of remuneration (Long Term Incentive) related to the achievement of the objectives set out in the Company's Strategic Plan.
<b>Prelios:</b>	Prelios S.p.A.
<b>RPT Procedure:</b>	the procedure adopted by the Company on related party transactions and drawn up in accordance with Article 2391-bis of the Italian Civil Code and the Regulations on transactions with related parties adopted by Consob Resolution no. 17221 of March 12, 2010, later amended by Resolution no. 17389 of June 23, 2010, taking into account the instructions and explanations provided by Consob with Notice no. DEM/10078683 of September 24, 2010.
<b>GAR:</b>	Gross Annual Remuneration, i.e. the fixed annual part of the remuneration for those employed by one of the Group companies.
<b>Issuers' Regulation:</b>	the Regulations concerning the provisions on issuers, adopted by Consob with Resolution no. 11971 of May 14, 1999 as subsequently amended and supplemented.
<b>Report:</b>	the Remuneration Report which listed companies are required to prepare pursuant to the CFA and the Issuers' Regulation.
<b>Company:</b>	Prelios S.p.A.
<b>CFA/Consolidated Finance Act:</b>	Italian Legislative Decree no. 58 of February 24, 1998 as subsequently amended and supplemented.

## Introduction and reference regulatory framework

Matters pertaining to remuneration have become increasingly important in discussions on the definition of an effective corporate governance structure and have consequently been the subject of increasing regulatory and legislative attention, both at a national and international level. In this context, Italian Legislative Decree no. 259 of December 30, 2010 amended the Consolidated Finance Act by introducing Art. 123-ter, which requires listed companies to publish, at least 21 days prior to the annual ordinary shareholders' meeting, a "Remuneration Report", approved by the Board of Directors and consisting of two sections, presenting:

- a) the Company's policy for the remuneration of the members of the administrative bodies, general managers and key managers, in addition to the procedures used to adopt and implement said policy;
- b) the Statement of remuneration of the members of the administrative and auditing bodies, general managers and key managers for the financial year of reference, providing a suitable representation of each of the items that make up the remuneration, by showing their consistency with the Policy approved in the previous financial year and providing a detailed breakdown of the fees paid for any reason and in any form by the Company and by its subsidiaries or associates.

The provisions of Art. 123-ter of the Consolidated Finance Act came into force following the issue of the relevant implementing regulatory provisions by Consob with resolution no. 18049 of December 23, 2011, which – amongst other aspects – introduced Art. 84-quater (*Remuneration Report*) of the Issuers' Regulation.

The Policy is also prepared in compliance with the recommendations set forth in the Code of Conduct – adopted by the Company – which, generally, sets out self-regulatory rules on the remuneration of directors and key managers.

Lastly, the Policy is adopted in accordance with Art. 14 of the RPT Procedure approved by the Company on November 3, 2010, which allows exemption from the RPT Procedure, provided that:

- the Company "...has adopted a remuneration policy, including policies relating to agreements for the mutual termination of the contract...";
- in its definition "...a committee has been involved, comprising exclusively non-executive directors, the majority of whom are independent...";
- "...a report has been submitted for the approval and consultancy of the shareholders' meeting presenting the remuneration policy...";
- "...the assigned remuneration is consistent with said policy".

\* \* \*

## SECTION I – Policy for the remuneration of members of the administrative bodies, general managers and key managers.

### 1. Principles and objectives

This Policy, as an integral part of the governance system adopted by the Group, establishes principles and guidelines with which the Group complies in order to define remuneration systems (including the variable incentive component) and to supervise and verify their enforcement, with specific reference to directors vested with specific powers or otherwise entrusted with special duties and to key managers.

An essential basis of the Policy is the identification of remuneration systems that are consistent with medium/long-term strategies and objectives, that have their variable component tied to company results and that are suitably designed to prevent the incentive mechanisms from promoting ill-advised behaviours, with a general orientation towards concreteness and flexibility, considering the specific and current market environment.

The Company defines and enforces a Remuneration Policy that is guided by the following principles and objectives:

- to attract, retain and motivate resources with the professional skills necessary for the attainment of the Group's objectives, in particular for key roles and positions, applying a logic of external competitiveness that takes into account market practices defined through specific benchmarks established by firms specialised in executive compensation;
- to assure that remuneration systems are consistent with Group strategies and the alignment of the Management's interests with those of the shareholders, with a view to ensuring prudent management and sustainable costs and results in the medium/long-term;
- to promote recognition of the contribution made and responsibilities assigned to each, in a context of fair internal and external remuneration;
- to value individual performance, also creating a strong tie between remuneration, overall company performance and correct control of company risks.

In consideration of the current stage in the Company's evolution and of the necessary consolidation of the 2013-2016 Strategic Plan, approved by the Company according to the objectives identified therein and aimed at sustaining the Group's business model, with respect to the

Policy defined and approved last year, some changes were made; they are described in the remainder of this Report and they specifically pertain to: (i) the Remuneration of directors vested with specific powers (Paragraph 6) and key managers (Paragraph 7); (ii) Annual Variable Component (Paragraph 8); (iii) Multi-annual Variable Component (Paragraph 9).

## 2. Governance of remuneration

### 2.1 *The role of the shareholders' meeting*

The shareholders' meeting shall:

- set the fixed compensation of the Board of Directors for each individual financial year, at the time of appointment and throughout the term of office; this amount shall be divided up between the individual members in accordance with the resolutions of the Board of Directors itself;
- approve any compensation plans based on financial instruments, proposed in favour of Group directors and employees, and assess the Remuneration Policy adopted by the Company.

### 2.2 *Role of the Board of Directors*

The Board of Directors shall:

- allocate amongst its members the fixed compensation set by the Shareholders' Meeting for the Board of Directors as a whole;
- annually approve the Remuneration Policy and, if applicable, the compensation plans based on financial instruments, to be submitted to the Shareholders' Meeting;
- set the remuneration due to directors vested with special duties and to directors vested with specific authority, with the advice of the Board of Auditors.

### 2.3 *Role of the Remuneration Committee*

The Remuneration Committee serves an advisory and investigative function and, specifically, it shall:

- periodically evaluate the suitability, the overall consistency and concrete enforcement of the Remuneration Policy, making proposals in this regard;
- submit proposals to the Board of Directors for the remuneration of directors vested with special duties, executive directors, general managers and key managers;
- monitor the implementation of decisions made on remuneration, with specific reference to the achievement of performance objectives.

In addition to the above functions, the Board of Directors has also assigned the Remuneration Committee the duties of the Committee for Related Party Transactions, limited to decisions concerning the remuneration of directors vested with special duties and key managers.

The members of the Remuneration Committee, appointed by the Board of Directors in the meeting held on April 21, 2011, are all independent directors (recognised as such by the Company in accordance with Art. 147-ter of Italian Legislative Decree no. 58 of February 24, 1998 and the principles and criteria of application of the Code of Conduct).

As of the date of this report, the members of the Remuneration Committee are:

- Giovanni Jody Vender – Chairman
- Carlo Emilio Croce
- Giorgio Valerio.

Directors Giovanni Jody Vender and Giorgio Valerio meet the requirements of suitable experience and knowledge of financial and remuneration matters, in accordance with the Code of Conduct. Director Carlo Emilio Croce has also accumulated suitable experience on remuneration matters, since he is currently serving his second term in this specific role.

The Committee meets each time its Chairman deems it appropriate or when requested by at least one member, by the Chairman of the Board of Directors or, if appointed, by the Chief Executive Officer and, in any case, at least as frequently as is required to assure the correct performance of its duties.

Available documentation and information (and in any case all as may be necessary) is sent to all members of the Committee sufficiently ahead of time to allow them to express an opinion at the meeting.

For Committee meetings to be valid, the majority of the members in office must be in attendance and decisions shall be taken by the absolute majority of the members in attendance. Committee meetings may also be held by telecommunication means; minutes shall be duly taken and filed in a dedicated minutes book.

The Committee – which in the performance its duties may make use of outside advisors – has sufficient financial resources to perform its tasks, with full spending authority.

The Committee has the right to access information and company divisions as may be relevant for the performance of its duties.

### 3. Policy definition and approval

In defining the Policy, the Company's Board of Directors and the Remuneration Committee play a key role in terms of guidance, debate and evaluation, with the support of the relevant company departments.

More specifically, the Remuneration Committee shall submit the Policy to the Board of Directors for approval on a yearly basis.

After reviewing and approving the Policy, the Board of Directors shall put it to the advisory vote of the Shareholders' Meeting.

The Remuneration Committee is responsible for ensuring that the definition of the Policy is based on a thorough examination of the applicable market benchmarks, in view of the specific and unique characteristics of the Group, and for overseeing the effective enforcement of the Policy.

Any deviations from to the criteria defined in the Policy, with reference to directors vested with special duties and key managers, shall require the approval of the Board of Directors, after the review of the Remuneration Committee.

In preparing this Policy, no independent experts were involved and no remuneration policies of other companies were used, although general reference was made to known market practices.

### 4. Policy contents: remuneration criteria and major components

The purpose of the Policy is to establish the remuneration criteria and major components for the definition of the remuneration structure:

- of Directors;
- of Key Managers (including General Managers).

The same criteria shall be applied, with any appropriate adjustments, for the definition of the remuneration of the Group's Managers and Executives.

#### 4.1 Remuneration criteria

The criteria used to define the remuneration of directors and key managers are:

- market remuneration levels and practices and internal remuneration levels, in order to provide consistent and fair remuneration both externally and internally;
- company performance, in order to assure the alignment of sustainable remuneration and sustainable performance;
- personal contribution and individual performance in the achievement of the objectives assigned and in the performance of individual duties.

#### 4.2 Major components

The main remuneration instruments used by the Group are: fixed component, short-term incentives, long-term incentives and benefits, with an approach to total remuneration that assures a balanced remuneration of fixed and variable components. In particular:

- *Fixed Component:*
  - It remunerates the position, responsibilities and connected skills, and therefore it is related to an individual's role and his/her fulfilment of its requirements;
  - it is defined in accordance with the criteria and methods mentioned above.
- *Annual Variable Component (so called Management By Objectives – MBO):*
  - It rewards performance, tying recognition of the bonus to the achievement of the predefined objectives;
  - It is paid out once a year, in cash, and it is related to fixed compensation (i.e., it is calculated as a percentage of the gross annual compensation/salary), with a cap;

- It is tied to the Group's economic-financial targets and may contain specific department/individual targets.
- *Multi-annual Variable Component (so called Long-Term Incentive - LTI):*
  - As for the management by objectives bonus, it rewards performance, but with a medium/long term reference time frame;
  - It is connected with the Group's economic-financial targets;
  - It steers the approach to remuneration tied to performance that is sustainable over time and to the creation of shareholder value;
  - Its payment is deferred, mainly at the end of the vesting period, in cash, and it is related to fixed compensation (i.e., it is calculated as a percentage of the gross annual compensation/salary), with a cap;
  - It pays out more than the target amount only if the results achieved are significantly better than the target.
- *Benefits:*

These complete the overall remuneration, aligning internal fairness with external competitiveness; the main benefits offered are:

- Company car;
- Company health insurance policy, in line with the provisions of the Italian National Collective Employment Agreement in force (Managers of companies producing goods and services);
- Company pension plan, in line with the provisions of the Italian National Collective Employment Agreement in force (Managers of companies producing goods and services).

The Board of Directors may also establish, on approval by the shareholders' meeting in accordance with the law, the adoption of incentive schemes entailing the assignment of financial instruments or options on financial instruments or otherwise based on financial instruments, disclosed in accordance with transparency obligations established by applicable legislation. Currently, no such schemes have been adopted and implemented.

Use of variable remuneration components – which is the rule when a proper balance between fixed and variable remuneration components is sought – may require exceptions, suitably justified by the Board of Directors on the basis of the proposals of the Remuneration Committee, in consideration of well-defined, specific and exceptional situation that make it impossible or inappropriate to employ one or more of the aforementioned variable incentive instruments.

In particular, with regard to short and long term variable incentive systems, taking into account the reference environment and the current specific stage in the Group's evolution, the Company intends to avail itself of appropriate schemes, aimed at supporting the new business model once the new Strategic Plan approved by the Company is consolidated and consistently with the objectives it defines.

## 5. Directors' remuneration

As explained above, the members of the Board of Directors are:

- directors entrusted with special duties, who may be vested with specific managerial powers (executive directors);
- directors without specific assigned duties.

At December 31, 2012 <sup>(1)</sup>, they are:

- directors vested with special duties, the Chairman of the Board of Directors Marco Tronchetti Provera, the Deputy Chairman Enrico Parazzini and the Chief Executive Officer Sergio Iasi. The Deputy Chairman and the Chief Executive Officer, in particular, are executive directors. The Chairman has not been vested with any specific powers and is classed as a non-executive director;

(1) The shareholders' meeting of April 21, 2011, appointed the Board of Directors, setting the number of its members to 15 and setting their term of office until the date of approval of the financial statements for the year ending December 31, 2013. On April 17, 2012, the Shareholders' Meeting resolved to reduce the number of directors from 15 to 14, without replacing Mr. Giulio Malfatto who had resigned as Director and Deputy Chairman of the Company on November 11, 2011. On December 3, 2012, Mr. Enrico Parazzini, formerly Managing Director Finance, was appointed Deputy Chairman of the Board of Directors, and Mr. Sergio Iasi was appointed Chief Executive Officer. On December 18, 2012, the Shareholders' Meeting – following the resignation of Mr. Davide Malacalza from the office of Director, tendered on October 11, 2012, and of Mr. Paolo Massimiliano Bottelli from the office of Director, Chief Executive Officer and General Manager, tendered on November 13, 2012 - resolved to reduce the number of directors from 14 to 13 and confirmed the appointment of Mr. Sergio Iasi as Company Director, which was resolved by the Board of Directors on November 13, 2012, in accordance with Article 2386 of the Italian Civil Code. At the end of the Shareholders' Meeting, the Board of Directors appointed Mr. Sergio Iasi as Chief Executive Officer, confirming the powers already vested in him on December 3, 2012.

- directors not vested with special duties, Directors Giuseppe Angiolini, Marina Brogi, Carlo Emilio Croce, Giovanni Fiori, Jacopo Franzan, Valter Lazzari, Amedeo Nodari, Dario Trevisan, Giorgio Valerio and Giovanni Jody Vender.

The Shareholders' Meeting held on April 21, 2011, when appointing the Board of Directors that had expired with the approval of the financial statements as of December 31, 2010, had defined compensation pursuant to Art. 2389, paragraph 1 of the Italian Civil Code in the form of total remuneration for directors, assigning the Board of Directors the task of defining its allocation.

More specifically, the shareholders' meeting had resolved total annual gross compensation of € 650,000; following examination and evaluation by the Remuneration Committee, the Board of Directors then allocated said remuneration as follows:

- 30,000 euro per annum for each of the members of the Board of Directors;
- 20,000 euro per annum for each of the independent directors who are members of the Internal Control and Corporate Governance Committee <sup>(2)</sup>;
- 15,000 euro per annum for each of the independent directors who are members of the Remuneration Committee;
- 15,000 euro per annum for each of the independent directors who are members of the Risk Committee <sup>(3)</sup>.

In line with best practices, no variable component of compensation is provided for directors not vested with special duties.

For independent directors, no form of additional remuneration is provided over and above the fixed amount resolved by the Shareholders' Meeting, as allocated by the Board of Directors, without prejudice to the recognition of the specific fixed compensation assigned for participation in any board committees.

Annual compensation of 15,000 euro was then assigned to the Director who is a member of the Supervisory Board pursuant to Italian Legislative Decree no. 231/2001.

Directors shall also be entitled to the reimbursement of costs incurred for reasons connected with their office.

In line with best market practices, an insurance policy is also provided for D&O (Directors & Officers) Liability to cover the third party civil liability of the corporate bodies, also extended to key managers and, in general, to Managers and Executives in the performance of their duties.

The purpose of the insurance coverage is to protect the Group from expenses deriving from any indemnification connected with third party claims and is in line with the provisions of the Italian national collective employment contract in force (Managers of companies producing goods and services) and with agency rules, excluding cases of negligence or wilful misconduct.

## 6. Remuneration of directors vested with special duties

At the time of appointment or during the next meeting, the Remuneration Committee shall submit to the Board of Directors a proposed remuneration structure for directors vested with special duties.

The remuneration of directors vested with special duties may consist of the following components:

- a Fixed Component (gross fixed annual fee);
- an Annual Variable Component (annual variable incentive, the so-called MBO);
- a Multi-annual Variable Component (multi-annual variable incentive, the so-called LTI);
- Company benefits generally provided for Managers, in accordance with the policies adopted.

In determining the remuneration of its individual members, the Board of Directors takes into account whether the director entrusted with special duties has also been given specific management powers (executive directors).

In general, the total remuneration provides for a balance between fixed and variable elements, which take into consideration the Company's strategic objectives and risk profile, with respect to the industry in which Prelios operates and with the features of the business carried on.

As a general rule, it is the Group's policy to set the fixed component of remuneration not to exceed 50% of total target remuneration.

If directors entrusted with special duties are not vested with specific powers, their remuneration will not include a variable component, but only a fixed component.

(2) Now called Internal Control, Risk and Corporate Governance Committee.

(3) On August 28, 2012, the Board of Directors redefined the activities and duties of the "Internal Control and Corporate Governance Committee" (now called "Internal Control, Risk and Corporate Governance Committee") assigning it the functions formerly performed by the Risk Committee, which, consequently, was superseded.

For directors vested with special duties, the Board of Directors may also establish, as provided by law and/or by the Italian National Collective Employment Contract in force (Industrial Managers):

- accident insurance for any injuries suffered in the performance of their duties and non-occupational injuries with premiums paid by the Company; the premium shall be charged to the Company for social security contributions and tax purposes;
- a self-insurance policy for permanent disability and death due to illness.

A Directors' Severance Indemnity (TFM), in accordance with Article 17, paragraph 1, letter c) of the Italian Income Tax Code, is no longer assigned.

No discretionary bonuses may be awarded to directors vested with special duties. However, they may be recognised bonuses connected with specific operations of an extraordinary nature in terms of recurrence, strategic relevance and effects on the performance of the Company and/or of the Group.

It is the Group's policy not to establish any additional compensation for Company directors vested with special duties, who are members of the boards of directors of subsidiaries and associates. If the competent bodies of said companies should resolve to assign emoluments, they shall be paid directly to Prelios. Any exceptions must be examined in advance by the Remuneration Committee and approved by the Board of Directors.

In analysing the positioning, the composition and, more in general, the competitiveness of the remuneration of directors vested with special duties, the Company may use the methodological support of major companies specialised in executive compensation, which shall consider, in assessing the role played in relation to the responsibilities assigned, the complexity of the organisational context in which they operate and the impact on the Company's results.

## 7. Key managers

The Board of Directors has considered the following persons as key managers:

- Paolo Massimiliano Bottelli (as General Manager), until the date of his resignation, tendered on November 13, 2012;
- Riccardo Taranto (as Chief Financial Officer and Manager Responsible for Corporate Financial Reporting).

At least once a year, the Board of Directors, with the assistance of the Internal Control, Risk and Corporate Governance Committee, checks whether other "key managers" meet the requirements to be classified as such and whether such requirements continue to be met by those already classified as such, within the Company and/or the Group. In general, those appointed to the position of General Manager are always considered key managers.

Generally speaking, the remuneration of key managers consists of the following components:

- a Fixed Component (gross annual fixed remuneration, the GAR);
- an Annual Variable Component (annual variable incentive, the so-called MBO);
- a Multi-annual Variable Component (multi-annual variable incentive, the so-called LTI);
- Company benefits, in accordance with the policies adopted.

In general, as for directors vested with special duties, also for key managers total remuneration involves a balance between fixed and variable elements, which take into consideration the Company's strategic objectives and risk profile, with respect to the industry in which Prelios operates and with the features of the business carried on.

As a general rule, it is the Group's policy to set the fixed component of remuneration not to exceed 50% of total target remuneration.

No discretionary bonuses may be awarded to key managers. However, they may be recognised bonuses connected with specific operations of an extraordinary nature in terms of recurrence, strategic relevance and effects on the performance of the Company and/or of the Group. Additionally, as part of the process for the recruitment of new resources and with the aim of attracting specific professionals with critical know-how, an entry bonus may be recognised.

It is the Group's policy not to establish any additional compensation for Company key managers who are members of the boards of directors of subsidiaries and associates. If the competent bodies of said companies should resolve to assign emoluments, they shall be paid directly to Prelios. Any exceptions must be examined in advance by the Remuneration Committee and approved by the Board of Directors.

For key managers too, the consistency of the remuneration assigned with the Policy is evaluated also with the benchmark of the reference market for the individual positions.

## 8. Annual Variable Component (MBO)

The Annual Variable Component (the so called Management By Objectives - MBO), as mentioned, aims to remunerate the annual performance of the beneficiary, evaluated in relation to the achievement of specific economic-financial objectives and/or objectives with strategic value for the Group.

MBO objectives for directors vested with special duties to whom specific managerial powers of attorney are assigned and for key managers, are established by the Board of Directors on the proposal of the Remuneration Committee.

Accrual of the Management By Objectives bonus is correlated to the achievement of economic or financial objectives (e.g. EBIT and NFP) and it is commensurate to one or more quantitative measures of annual performance connected to the assigned duties and responsibilities.

The MBOs of Managers and Executives are defined by the Chief Executive Officer with the support of the Human Resource and Administration, Finance and Auditing Departments.

The structure of the MBOs shall be the same for all Group participants, with the exception of the resources of the subsidiaries Prelios SGR S.p.A. and Prelios Credit Servicing S.p.A. These resources may possibly participate in an MBO plan developed specifically by its competent corporate bodies, which will consider the specific nature and special supervisory legislation applicable to asset management companies and to financial intermediaries.

The maximum amount of the incentive that may be disbursed for each position is defined as a percentage of the fixed annual remuneration. In particular:

- for directors vested with special duties, the bonus may not exceed the fixed annual gross remuneration for one year. The 2/3 limit prescribed by the previous Policy was thus changed to increase the weight of variable remuneration relative to the fixed component;
- for key managers, the bonus may not exceed 60% of fixed annual gross remuneration for one year. The 50% limit prescribed by the previous Policy was thus changed to increase the weight of variable remuneration relative to the fixed component.

For the Head of Internal Audit, although he is the beneficiary of annual incentives, the above schemes shall not apply, as they correlate the bonus to economic-financial parameters of the Group. The potential bonuses for this individual shall be defined in accordance with his/her assigned duties and, therefore, they shall be associated with indicators that are qualitative in nature and specific for the function.

With respect to the Policy approved the previous year, in consideration of the current stage in the Company's evolution and of the necessary consolidation of the 2013-2016 Strategic Plan, approved by the Company according to the objectives identified therein and aimed at sustaining the Group's business model, the different performance levels previously defined, to be associated with reference parameters in order to accrued, upon achieving them, a determined percentage of the total potential bonus, have been superseded.

For 2012, in view of the particular stage in the Company's evolution, no variable annual incentive system has been adopted.

## 9. Multi-annual Variable Component (LTI)

In consideration of the current specific stage in the Group's evolution, and in order to support the implementation of the new business model and with a view to medium-long term value creation, the Group intends to evaluate the adoption of a long-term incentives system. This system (LTI Plan) requires the consolidation of the Strategic Plan approved by the Board of Directors.

In general, potential beneficiaries of the new LTI plan, in addition to directors vested with special duties (with the exclusion of the Chairman), and key managers, are the Managers deemed significant for the achievement of the Group's objectives.

The structure of the LTI Plan shall be the same for all Group participants, with the exception of the resources of the subsidiaries Prelios SGR S.p.A. and Prelios Credit Servicing S.p.A. These resources may possibly participate in a LTI plan developed specifically by its competent corporate bodies, which will consider the specific nature and special supervisory legislation applicable to asset management companies and to financial intermediaries.

With regard to the structure, the maximum bonus that may be awarded for each position is defined as a percentage of the fixed annual remuneration. In particular:

- for directors vested with special duties, the bonus shall not exceed 4.5 times the annual gross remuneration for one year;
- for key managers and managers deemed significant for the achievement of the Group's objectives, the bonus may not exceed 3 times the annual gross remuneration for one year.

The percentage remuneration actually awarded, up to the above-specified maximum amounts, depends on the extent to which the assigned economic-financial objectives were achieved.

A threshold value is also established for each objective; if it is not reached, the right to be awarded the corresponding portion associated with the objective shall not be accrued.

Achievement of the objectives and the consequent payment of the bonus take place at the end of the vesting period; however, at the end of the first two years of the LTI Plan, the beneficiary may be awarded the early payment of a part of the bonus referred to the “objectives” component, provided that the “threshold” results of the previous years are achieved and that the Board of Directors reasonably expects that at least the threshold of the three-year objectives of the LTI Plan will be attained. Additionally, the cost of the LTI plan shall be “self-financed” by the achievement of the objectives.

As the LTI plan is a tool to motivate and retain key resources, in the event of termination of employment, for any reason, during the period of validity of the LTI Plan, the beneficiary shall cease to participate in the Plan and consequently the final bonus shall not be paid out, whilst he may retain the share of the bonus that may have been accrued and paid out early.

For the sake of full disclosure, it should be recalled that in 2011 the Group had already approved the scheme and operating mechanisms of a medium/long-term incentives system, related to the achieving of objectives set out in the “2011 plan and 2012-2013 Targets” approved by the Board of Directors on March 4, 2011. However, in view of the changed reference environment, said LTI Plan is superseded.

Therefore – with respect to the Policy approved in the previous year – the following are superseded: (i) reference to the performance of the indicators set out therein (EBIT of the services platforms, Sales and corporate NFP) and (ii) the mechanisms defined, for each corporate role, for the determination of the total potential bonuses.

## 10. Other stipulations related to remuneration

### 10.1 *Indemnity in the event of resignation, termination or termination of employment*

For key managers, in the event of termination of contract for reasons other than just cause, the Group's policy is to seek – upon the occurrence of the event – ways by which to dissolve the contract by mutual agreement. These agreements are stipulated according to the provisions of case law on the matter and in line with the reference benchmarks and applicable best practices.

For directors vested with special duties, entrusted with specific powers and not bound by managerial employment contracts, Group's policy is not to pay extraordinary compensation at the end of the appointment.

To attract or retain specific professionals with critical know-how, the Company may evaluate – also with the aid of appropriate benchmarks – whether to stipulate with Directors, key managers and, more in general, with Managers, agreements preventively regulating any early termination of the employment at the initiative of the Company or of the individual (“parachutes”).

Such agreements shall always be reviewed by the Remuneration Committee and, in the case of Directors and Key Managers, also approved by the Board of Directors.

### 10.2 *Non-competition and non-solicitation agreements*

In order to protect the interests and critical professional skills of the Group, non-competition and non-solicitation agreements may be stipulated with critical Key Managers and Managers, establishing the payment of an amount in relation to the GAR according to the duration and extent of the restriction deriving from the agreement.

In the event of non-competition agreements, the restriction relates to the product category in which the Group operates at the time the agreement is stipulated and the related territorial extension. In specific cases, a list of the name of competitors to which the agreement refers may be provided.

In the event of non-solicitation agreements, the restriction mainly relates to the time frame.

\* \* \*

*Continued table summarising the information required by Schedule no. 7-bis - Section I of Annex 3A to the Issuers' Regulation and the Remuneration Report.*

**TABLE SUMMARISING THE INFORMATION REQUIRED BY SCHEME NO. 7-BIS - SECTION I OF ANNEX 3A TO THE ISSUERS' REGULATION AND THE REMUNERATION REPORT**

Elements indicated in Schedule 7-bis of Annex 3A to the Issuers' Regulation	References to the paragraphs of this Remuneration Report
a) The bodies or parties involved in preparing and approving the remuneration policy, specifying the respective roles and the bodies or parties responsible for the correct implementation of this policy.	Paragraphs 2 and 3.
b) Any intervention of a Remuneration Committee or other committee competent on the matter, describing its members (distinguishing between non-executive and independent directors), tasks and operating methods.	Paragraphs 2.3 and 3.
c) The name of any independent experts who may have been involved in preparing the remuneration policies.	Paragraph 3.
d) The purposes pursued with the remuneration policy, the principles underlying it and any changes to the remuneration policy with respect to the previous financial year.	Paragraphs 1, 6, 7, 8 and 9.
e) The description of policies with respect to fixed and variable components of remuneration, with specific regards to the indication of their relative weight within total compensation and distinguishing between short and medium/long-term variable components.	Paragraphs 4, 5, 6, 7, 8 and 9.
f) The policy applied with respect to non-monetary benefits.	Paragraphs 4, 6 and 7.
g) With reference to the variable components, a description of the performance objectives according to which they are awarded, distinguishing between short and medium/long-term components and information on the connection between the change in results and the change in remuneration.	Paragraphs 8 and 9.
h) The criteria used to evaluate the performance objectives underlying the assignment of shares, options, other financial instruments or other variable remuneration components.	Paragraphs 8 and 9.
i) Information aimed at highlighting the consistency of the remuneration policy with the pursuit of the Company's long-term interests and with the risk management policy, if formalised.	Paragraphs 1 and 4.
j) The terms for the accrual of rights (vesting period), any deferred payment systems, specifying the deferral periods and the criteria used to determine such periods and, if applicable, ex post correction mechanisms.	Paragraph 9.
k) Information on any clauses for maintaining financial instruments in the portfolio after their acquisition, specifying retention periods and the criteria used to determine such periods.	N/A
l) The policy pertaining to indemnities in the event of cessation of office or termination of employment, specifying the circumstances that determine the onset of the entitlement and any connection between these indemnities and the company's performance.	Paragraph 10.
m) Information about the presence of any insurance, social security or pension schemes, other than compulsory ones.	Paragraphs 4.2, 5, 6 and 7.
n) Any remuneration policy applied with reference: (i) to independent directors, (ii) to participation in committees and (iii) to the assignment of special duties (Chairman, Deputy Chairman, etc.).	Paragraphs 5 and 6.
o) Whether the remuneration policy has been defined using the remuneration policies of other companies as reference and, if so, the criteria used for the choice of companies.	Paragraph 3.

## SECTION II – Compensation of the members of the administrative and auditing bodies, of general managers and other key managers.

This section presents (i) the names of the members of the administrative and auditing bodies, the general managers and key managers <sup>(4)</sup> (as identified by the Board of Directors) and (ii) separately, in relation to the different categories of beneficiaries:

- a) the items comprising overall remuneration, including, where applicable, indemnities in the event of cessation of office or termination of employment, and their consistency with the Policy approved the previous year;
- b) compensation paid in financial year 2012 for any reason and in any way by the Company and by subsidiaries or associates.

Information is also provided on remuneration received by all parties who served, even for only a fraction of financial year 2012, as members of the administrative and auditing bodies, as general managers or as key managers.

### a) Part One

#### 11 Compensation of the members of the administrative and auditing bodies in office.

##### 11.1 The Board of Directors

With regards to the remuneration of directors, the information already summarised in Paragraph 5 of this Report is provided in detail below.

Members of the Board of Directors can be distinguished between:

- directors entrusted with special duties, who may be vested with specific managerial powers (executive directors);
- directors not vested with special duties.

At December 31, 2012 <sup>(5)</sup>, they are:

- directors vested with special duties, the Chairman of the Board of Directors Marco Tronchetti Provera, the Deputy Chairman Enrico Parazzini and the Chief Executive Officer Sergio Iasi. The Deputy Chairman and the Chief Executive Officer, in particular, are executive directors. The Chairman has not been vested with any specific powers and is classed as a non-executive director;
- directors not vested with special duties, Directors Giuseppe Angiolini, Marina Brogi, Carlo Emilio Croce, Giovanni Fiori, Jacopo Franzan, Valter Lazzari, Amedeo Nodari, Dario Trevisan, Giorgio Valerio and Giovanni Jody Vender.

The shareholders' meeting held on April 21, 2011, when appointing the Board of Directors, had defined compensation pursuant to Art. 2389, paragraph 1 of the Italian Civil Code in the form of total remuneration for directors, assigning the Board of Directors the task of allocating it among the directors.

More specifically, the shareholders' meeting had resolved total annual gross compensation of € 650,000; following examination and evaluation by the Remuneration Committee, the Board of Directors then allocated said remuneration as follows:

- 30,000 euro per annum for each of the members of the Board of Directors;
- 20,000 euro per annum for each of the independent directors who are members of the Internal Control and Corporate Governance Committee (Marina Brogi, Giovanni Fiori, Valter Lazzari, Dario Trevisan);
- 15,000 euro per annum for each of the independent directors comprising the Remuneration Committee (Carlo Emilio Croce, Giorgio Valerio and Giovanni Jody Vender);
- 15,000 euro per annum for each of the independent directors numbering the Risk Committee (Marina Brogi and Dario Trevisan).

In line with best practices, no variable component of compensation is provided for directors not vested with special duties.

(4) During 2012, no key manager received higher total compensation than the highest total compensation received by directors, statutory auditors or general managers.

(5) The shareholders' meeting of April 21, 2011, appointed the Board of Directors, setting the number of its members to 15 and setting their term of office until the date of approval of the financial statements for the year ending December 31, 2013. On April 17, 2012, the Shareholders' Meeting resolved to reduce the number of directors from 15 to 14, without replacing Mr. Giulio Malfatto who had resigned as Director and Deputy Chairman of the Company on November 11, 2011. On December 3, 2012, Mr. Enrico Parazzini was appointed Deputy Chairman of the Board of Directors, after resigning from his previously held office of Managing Director Finance, and Mr. Sergio Iasi was appointed Chief Executive Officer. On December 18, 2012, the Shareholders' Meeting - following the resignation of Mr. Davide Malacalza from the office of Director, tendered on October 11, 2012, and of Mr. Paolo Massimiliano Bottelli from the office of Director, Chief Executive Officer and General Manager, tendered on November 13, 2012 - resolved to reduce the number of directors from 14 to 13 and confirmed the appointment of Mr. Sergio Iasi as Company Director, which was resolved by the Board of Directors on November 13, 2012, in accordance with Article 2386 of the Italian Civil Code. At the end of the Shareholders' Meeting, the Board of Directors appointed Mr. Sergio Iasi as Chief Executive Officer, confirming the powers already vested in him on December 3, 2012.

Annual compensation of 15,000 euro was also assigned to the independent director Dario Trevisan, member of the Supervisory Board pursuant to Italian Legislative Decree no. 231/2001.

Directors shall also be entitled to the reimbursement of costs incurred for reasons connected with their office.

In line with the best market practices, an insurance policy is also in place for D&O (Directors & Officers) Liability to cover civil liability incurred with regards to third parties of the corporate bodies, also extended to key managers and, in general to Managers and executives in the performance of their duties.

The purpose of the insurance coverage is to protect the Group from expenses deriving from any indemnification connected with third party claims and is in line with the provisions of the Italian national collective employment contract in force (Managers of companies producing goods and services) and with agency rules, excluding cases of negligence or wilful misconduct.

In view of the above, for financial year 2012, directors not vested with special duties – currently in office – received the following compensation:

- Giuseppe Angiolini received gross fixed emoluments of 30,000 euro for the office of Director;
- Marina Brogi received gross fixed emoluments of 30,000 euro for the office of Director and 20,000 euro as member of the Internal Control and Corporate Governance Committee and 9,879 euro as member of the Risk Committee (superseded on August 28, 2012);
- Carlo Emilio Croce received gross fixed emoluments of 30,000 euro for the office of Director and 15,000 euro as member of the Remuneration Committee;
- Giovanni Fiori received gross fixed emoluments of 30,000 euro for the office of Director and 20,000 euro as member of the Internal Control, Risk and Corporate Governance Committee;
- Jacopo Franzan received gross fixed emoluments of 30,000 euro for the office of Director;
- Valter Lazzari received gross fixed emoluments of 30,000 euro for the office of Director and 20,000 euro as member of the Internal Control, Risk and Corporate Governance Committee; Mr. Lazzari also serves as Director in the subsidiary Prelios SGR S.p.A., where, for financial year 2012, he received compensation of 100,000 euro as member of the Board of Directors and 19,219 euro as member of the Internal Control Committee;
- Davide Malacalza received gross fixed emoluments of 23,387 euro for the office of Director, held until October 11, 2012;
- Amedeo Nodari received gross fixed emoluments of 30,000 euro for the office of Director;
- Dario Trevisan received gross fixed emoluments of 30,000 euro for the office of Director and € 20,000 as member of the Internal Control, Risk and Corporate Governance Committee, 9,879 euro as member of the Risk Committee (superseded on August 28, 2012) and 15,000 euro as member of the Supervisory Board;
- Giorgio Valerio received gross fixed emoluments of 30,000 euro for the office of Director and 15,000 euro as member of the Remuneration Committee;
- Giovanni Jody Vender received gross fixed emoluments of 30,000 euro for the office of Director and 15,000 euro as member of the Remuneration Committee.

The compensation paid, for each of the above individual items, is consistent with the Policy approved the previous year.

The compensation received by directors vested with special duties currently in office are described in Paragraph 13 herein.

## **11.2 The Board of Statutory Auditors in office**

When appointing the Board of Statutory Auditors, the Shareholders' Meeting of April 19, 2010 had defined compensation of 37,000 euro per annum for each of the standing auditors Messrs. Roberto Bracchetti and Lelio Fornabaio, in addition to compensation of 55,500 euro for the Chairman of the Board of Statutory Auditors Mr. Enrico Laghi; therefore, said amounts were paid to them with reference to 2012.

Annual compensation of 15,000 euro was also assigned to Standing Auditor Mr. Lelio Fornabaio, who is a member of Supervisory Board pursuant to Italian Legislative Decree no. 231/2001.

The Standing Auditor Mr. Roberto Bracchetti, as member of the Board of Statutory Auditors in subsidiaries and/or associates of Prelios S.p.A., received – with reference to financial year 2012 – additional compensation for offices held therein, totalling 19,182 euro.

The Board of Statutory Auditors currently in office shall expire with the Shareholders' Meeting convened to approve the financial statements as at and for the year ended December 31, 2012.

## 12. Remuneration of directors vested with special duties and General Managers in office.

On May 4, 2011, the Board of Directors appointed by the Shareholders' Meeting on April 21, 2011, upon examination and evaluation by the Remuneration Committee, established the remuneration of directors vested with special duties.

In 2012, the Board of Directors established, upon examination and evaluation by the Remuneration Committee, the remuneration assigned to the new Chief Executive Officer Mr. Sergio Iasi: the first time on December 3, 2012 (after his co-optation on November 13, 2012) and again on December 18, 2012 after confirmation as Director by the Shareholders' Meeting and as Chief Executive Officer by the Board of Directors. On December 3, 2012, the Board of Directors confirmed the remuneration components of the Deputy Chairman Mr. Enrico Parazzini, formerly the Company's Managing Director Finance.

### 12.1 The Chairman of the Board of Directors

In line with the Policy described above, remuneration of the Chairman of the Board of Directors, Mr. Marco Tronchetti Provera (non-executive director), consists solely of a gross annual fixed component, i.e. : (i) 30,000 euro for the office of Director and (ii) 390,000 euro for the office of Chairman, without variable components.

For financial year 2012, the Chairman received gross annual fixed emoluments of 420,000 euro, of which 30,000 euro for the office of Director and 390,000 euro for the office of Chairman.

Moreover, the Chairman of the Board of Directors is entitled to severance indemnity pursuant to Art. 17, paragraph 1, letter c) of the Italian Income Tax Code, Law no. 917/1986, with similar characteristics as typical employee severance indemnity pursuant to Art. 2120 of the Italian Civil Code, recognised in accordance with the law to Italian Managers of the Group and inclusive of the contributions to be paid by the employer to social security funds and institutes as a result of a manager's employment contract.

There are no specific agreements establishing indemnity in the event of the early termination of the contract, compensation for non-competition clauses, the retention of non-monetary benefits or the stipulation of consulting agreements for a period subsequent to the termination of the contract.

The compensation paid, for each of the above individual items, is consistent with the Policy approved the previous year.

### 12.2 The Deputy Chairman <sup>(6)</sup>

In continuity with his previous entitlements as Managing Director Finance and consistently with the Policy described above, the salary package of the Deputy Chairman Mr. Enrico Parazzini consists of:

- a gross annual fixed component of: (i) euro 30,000 for the office of Director; (ii) 650,000 euro for the office of Deputy Chairman;
- an annual variable component bonus that can be achieved if certain pre-defined company objectives are achieved (MBO);
- benefits.

For financial year 2012, Mr. Enrico Parazzini, first as Managing Director Finance and then as Deputy Chairman, received the following total compensation:

- a gross annual fixed component of: (i) 30,000 euro for the office of Director; (ii) 650,000 euro for the office of Managing Director Finance.

With regard to the MBO component, as mentioned previously, no incentive system has been approved for 2012.

It is further disclosed that Mr. Enrico Parazzini is entitled to the following additional benefits:

- Professional and non-professional accident policy – Life insurance policy and policy for permanent disability caused by illness for euro 12,970;
- Company car in accordance with company policies, for a conventional value of 3,889 euro.

There are no specific agreements establishing indemnity in the event of the early termination of the contract, compensation for non-competition clauses, the retention of non-monetary benefits or the stipulation of consulting agreements for a period subsequent to the termination of the contract.

The compensation paid, for each of the above individual items, is consistent with the Policy approved the previous year.

(6) On December 3, 2012, Mr. Enrico Parazzini was appointed Deputy Chairman of the Board of Directors, after resigning from his previously held office of Managing Director Finance.

### 12.3 The Chief Executive Officer

In line with the Policy described above, the salary package of the Chief Executive Officer <sup>(7)</sup> Mr. Sergio Iasi consists of:

- a gross annual fixed component of: (i) 30,000 euro for the office of Director; (ii) 650,000 euro for the office of Chief Executive Officer;
- an annual variable component that can be achieved if certain pre-defined company objectives are achieved (MBO) and a medium/long term variable component (LTI), which to date have not yet been defined and implemented;
- benefits

For the financial year 2012, the Chief Executive Officer Mr. Sergio Iasi received:

- a gross annual pro rata fixed component of: (i) 4,000 euro for the office of Director; (ii) 54,167 euro for the office of Chief Executive Officer.

Moreover, the Chief Executive Officer Mr. Sergio Iasi is entitled to the following additional benefits:

- accident insurance for any injuries suffered in the performance of his duties and non-occupational injuries with premiums paid by the Company; the premium shall be charged to the Company for social security contributions and tax purposes;
- an insurance policy for permanent disability and death due to illness;
- health care (personal and family) provisions similar to those for Group Managers.

The compensation paid, for each of the above individual items, is consistent with the Policy approved the previous year.

Additionally, the Chief Executive Officer Mr. Sergio Iasi is entitled to an indemnity for early termination of the office at the Company's initiative, with the exception of the cases of termination for just cause regulated by the law, or in case of non-renewal of the appointment upon expiration, including early expiration. In such cases, the Company shall pay to Mr. Sergio Iasi a gross comprehensive indemnity amounting to (i) one annuity of the fixed and variable annual compensation assigned, up to 4 (four) months from appointment to Chief Executive Officer, and (ii) two annuities of the fixed and variable annual compensation assigned, after this term. The variable compensation shall be calculated with reference to the amount received in the previous year as of the date of actual termination.

Additionally, the indemnity would be paid by the Company to Mr. Sergio Iasi even if he tenders his resignation for just cause, a case that would occur whenever there is (i) a revocation or pejorative, not mutually agreed change to the powers vested for the office; or (ii) the appointment of another director with vested powers without the express agreement of Mr. Sergio Iasi or (ii) the reduction of the fixed compensation and/or the failure to define or the reduction of the variable compensation assigned.

There are no specific agreements establishing compensation for non-competition clauses, the retention of non-monetary benefits or the stipulation of consulting agreements for a period subsequent to the termination of the contract.

### 13. Remuneration of other key managers.

As at December 31, 2012, Mr. Riccardo Taranto (Chief Financial Officer) is a "key manager", as Manager Responsible for Corporate Financial Reporting.

In line with the Policy, the salary package of Mr. Riccardo Taranto consists of:

- a gross annual fixed component of 370,000 euro;
- an annual variable component that can be achieved if certain pre-defined company objectives are achieved (MBO);
- a medium/long-term variable component (LTI);
- benefits.

In 2012, the total compensation of Mr. Riccardo Taranto amounted to:

- 370,000 euro by way of gross fixed annual retribution, plus 255 euro for travel in Italy and abroad;
- 90,000 euro by way of minimum guaranteed MBO, which will be paid out by May 2013.

As mentioned above, no variable incentive systems were adopted and implemented for 2012.

Moreover, Mr. Riccardo Taranto is entitled to the following additional benefits:

- Health care (personal and family) as provided for Group Managers, in accordance with the provisions of the National Contract in force;
- Company car in accordance with company policies, for a conventional value of 3,576 euro.

The compensation paid, for each of the above individual items, is consistent with the Policy approved the previous year.

<sup>(7)</sup> Appointment to the office by the Board of Directors the first time on December 3, 2012 with subsequent confirmation on December 18, 2012.

## 14. Remuneration of parties who served as members of the administrative and auditing bodies, general managers or key managers for a fraction of 2012.

### 14.1 Non-executive Directors

As mentioned above, the Director Mr. Davide Malacalza resigned from the office on October 11, 2012 and, therefore, taking into account that he held only this position and was not a member of any Committee, in 2012 he received solely the relevant portion of the gross annual fixed compensation for the office of Director, i.e. 23,387 euro.

### 14.2 The Chief Executive Officer

On November 13, 2012, the Company reached an agreement with Mr. Paolo Massimiliano Bottelli for the early termination of all existing contracts with the Company. Said termination was executed with the resignation from the office of Chief Executive Officer on November 13, 2012 and the mutual termination of the managerial employment contract, as General Manager, effective from December 31, 2012.

Until November 13, 2012, the remuneration of Mr. Paolo Massimiliano Bottelli comprised:

- gross fixed annual retribution for the office of General Manager of 750,000 euro;
- gross annual fixed compensation amounting to: (i) 30,000 euro for the office of Director; (ii) 200,000 euro for the office of Chief Executive Officer;
- benefits pertaining to: (i) Health care (personal and family) as provided for Group Managers, in accordance with the provisions of the National Contract in force; (ii) payment of the tuition for his children's schools from August 1, 2010 for a period of 3 years; (iii) company car in accordance with company policies;
- payment of an annual variable incentive that can be achieved if certain pre-defined company objectives are achieved (MBO) and of a medium/long term variable incentive (LTI), in accordance with the plans that could have been adopted by the Company, for which however – as is well known – no MBO incentive system has been approved, while the LTI plan has not been implemented.

Additionally, for the Chief Executive Officer and General Manager Mr Paolo Massimiliano Bottelli, a gross indemnity of 2,700,000 euro is provided, in case of termination of managerial employment at the request of the interested party, before approval of the 2013 Financial Statements, if a change occurs in the company's controlling shareholders and/or if the company or a part thereof is sold.

For financial year 2012, Mr. Paolo Massimiliano Bottelli received:

- a gross annual fixed component of: 199,972 euro, of which 173,889 euro for the office of Chief Executive Officer and 26,083 euro for the office of Director;
- gross fixed annual retribution as a Company manager, in the capacity of General Manager, of 750,000 euro, in addition to 3,400 euro for travel in Italy and abroad;
- Payment of his children's school tuition for a pro-rata yearly period, amounting to 38,960 euro;
- Company car in accordance with company policies, for a conventional value of 3,866 euro;
- A gross amount of 100,000 euro by way of general settlement for the termination of all contracts with the Company;
- a gross incentive for voluntary termination of 1,915,000 euro, whose quantity and contractual form are fully in accordance with current laws and regulations and with consolidated practice in similar cases, as attested by a specific opinion obtained by the Company;
- 30,000 euro lump sum contribution to court costs;
- 183,678 euro for holidays accrued and not taken;
- a project related fixed term contract for strategic assistance to Top Management with particular reference to the activity carried out by the Prelios Group in Germany and in Poland, with a period of validity of 6 months through June 30, 2013 and for gross compensation of 90,000 euro, with related acceptance of a non-competition clause.

The compensation paid, for each of the above individual items, is consistent with the Policy approved the previous year.

## b) PART TWO

TABLE: COMPENSATION OF THE MEMBERS OF THE ADMINISTRATIVE AND AUDITING, BODIES, OF GENERAL MANAGERS AND OTHER KEY MANAGERS.

First name and surname	Office	Period when office was held	Expiration of the term of office	Fixed compensation	Compens. for committee membership	Variable non equity compensation		Non monetary benefits	Other compens.	Total	Fair value of equity compens.	Indemnity for leaving office or for termination of the employment
						Bonuses and other incentives	Profit sharing					
<b>Marco Tronchetti Provera</b>	Chairman	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				420.000 <sup>(1)</sup>	-	-	-	-	-	420.000	-	-
Compensation from Subsidiaries and Associates				-	-	-	-	-	-	-	-	-
<b>Total</b>				<b>420.000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>420.000</b>	<b>-</b>	<b>-</b>
<b>Enrico Parazzini (a)</b>	Deputy Chairman	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				680.000 <sup>(2)</sup>	-	-	-	16.859 <sup>(3)</sup>	-	696.859	-	-
Compensation from Subsidiaries and Associates				-	-	-	-	-	-	-	-	-
<b>Total</b>				<b>680.000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16.859</b>	<b>-</b>	<b>696.859</b>	<b>-</b>	<b>-</b>
<b>Sergio Iasi (b)</b>	Chief Executive Officer	from 13.11.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				58.167 <sup>(4)</sup>	-	-	-	-	-	58.167	-	-
Compensation from Subsidiaries and Associates				-	-	-	-	-	-	-	-	-
<b>Total</b>				<b>58.167</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58.167</b>	<b>-</b>	<b>-</b>
<b>Giuseppe Angiolini</b>	Director (independent)	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				30.000 <sup>(5)</sup>	-	-	-	-	-	30.000	-	-
Compensation from Subsidiaries and Associates				-	-	-	-	-	-	-	-	-
<b>Total</b>				<b>30.000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30.000</b>	<b>-</b>	<b>-</b>
<b>Marina Brogi (c)</b>	Director (independent)	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				30.000 <sup>(6)</sup>	29.879 <sup>(6)</sup>	-	-	-	-	59.879	-	-
Compensation from Subsidiaries and Associates				-	-	-	-	-	-	-	-	-
<b>Total</b>				<b>30.000</b>	<b>29.879</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59.879</b>	<b>-</b>	<b>-</b>
<b>Carlo Emilio Croce</b>	Director (independent)	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				30.000 <sup>(6)</sup>	15.000 <sup>(7)</sup>	-	-	-	-	45.000	-	-
Compensation from Subsidiaries and Associates				-	-	-	-	-	-	-	-	-
<b>Total</b>				<b>30.000</b>	<b>15.000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45.000</b>	<b>-</b>	<b>-</b>
<b>Giovanni Fiori</b>	Director (independent)	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				30.000 <sup>(5)</sup>	20.000 <sup>(8)</sup>	-	-	-	-	50.000	-	-
Compensation from Subsidiaries and Associates				-	-	-	-	-	-	-	-	-
<b>Total</b>				<b>30.000</b>	<b>20.000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50.000</b>	<b>-</b>	<b>-</b>
<b>Jacopo Franzan</b>	Director	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				30.000 <sup>(5)</sup>	-	-	-	-	-	30.000	-	-
Compensation from Subsidiaries and Associates				-	-	-	-	-	-	-	-	-
<b>Total</b>				<b>30.000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30.000</b>	<b>-</b>	<b>-</b>

First name and surname	Office	Period when office was held	Expiration of the term of office	Fixed compensation	Compens. for committee membership	Variable non equity compensation		Non monetary benefits	Other compens.	Total	Fair value of equity compens.	Indemnity for leaving office or for termination of the
						Bonuses and other incentives	Profit sharing					
<b>Valter Lazzari</b>	Director (independent)	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				30.000 <sup>(6)</sup>	20.000 <sup>(6)</sup>	-	-	-	-	50.000	-	-
Compensation from Subsidiaries and Associates									119.219 <sup>(9)</sup>	119.219	-	-
<b>Total</b>				<b>30.000</b>	<b>20.000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>119.219</b>	<b>169.219</b>	<b>-</b>	<b>-</b>
<b>Amedeo Nodari</b>	Director	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				30.000 <sup>(6)</sup>	-	-	-	-	-	30.000	-	-
Compensation from Subsidiaries and Associates									-	-	-	-
<b>Total</b>				<b>30.000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30.000</b>	<b>-</b>	<b>-</b>
<b>Dario Trevisan (c)</b>	Director (independent)	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				30.000 <sup>(6)</sup>	29.879 <sup>(6)</sup>	-	-	-	15.000 <sup>(10)</sup>	74.879	-	-
Compensation from Subsidiaries and Associates									-	-	-	-
<b>Total</b>				<b>30.000</b>	<b>29.879</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15.000</b>	<b>74.879</b>	<b>-</b>	<b>-</b>
<b>Giorgio Valerio</b>	Director (independent)	from 01.01.12 to 12.31.12	Approval of financial bilancio 31.12.13									
Compensation in the Company preparing the financial statements				30.000 <sup>(6)</sup>	15.000 <sup>(7)</sup>	-	-	-	-	45.000	-	-
Compensation from Subsidiaries and Associates									-	-	-	-
<b>Total</b>				<b>30.000</b>	<b>15.000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45.000</b>	<b>-</b>	<b>-</b>
<b>Giovanni Jody Vender</b>	Director (independent)	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				30.000 <sup>(6)</sup>	15.000 <sup>(7)</sup>	-	-	-	-	45.000	-	-
Compensation from Subsidiaries and Associates									-	-	-	-
<b>Total</b>				<b>30.000</b>	<b>15.000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45.000</b>	<b>-</b>	<b>-</b>
<b>Paolo Bottelli (d)</b>	Chief Executive Officer	from 01.01.12 to 12.31.12										
Compensation in the Company preparing the financial statements				953.372 <sup>(11)</sup>	-	-	-	42.826 <sup>(12)</sup>	303.678 <sup>(13)</sup>	1.299.876	-	2.015.000 <sup>(14)</sup>
Compensation from Subsidiaries and Associates									-	-	-	-
<b>Total</b>				<b>953.372</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42.826</b>	<b>303.678</b>	<b>1.299.876</b>	<b>-</b>	<b>2.015.000</b>
<b>Davide Malacalza (e)</b>	Director	from 01.01.12 to 12.31.12										
Compensation in the Company preparing the financial statements				23.387 <sup>(15)</sup>	-	-	-	-	-	23.387	-	-
Compensation from Subsidiaries and Associates									-	-	-	-
<b>Total</b>				<b>23.387</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23.387</b>	<b>-</b>	<b>-</b>
<b>Riccardo Taranto</b>	Key Manager	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				370.255 <sup>(16)</sup>	-	90.000 <sup>(17)</sup>	-	3.576 <sup>(18)</sup>	-	463.831	-	-
Compensation from Subsidiaries and Associates									-	-	-	-
<b>Total</b>				<b>370.255</b>	<b>-</b>	<b>90.000</b>	<b>-</b>	<b>3.576</b>	<b>-</b>	<b>463.831</b>	<b>-</b>	<b>-</b>
<b>Enrico Laghi</b>	Chairman of the Board of Statutory Auditors	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				55.500 <sup>(19)</sup>	-	-	-	-	-	55.500	-	-
Compensation from Subsidiaries and Associates									-	-	-	-
<b>Totalei</b>				<b>55.500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55.500</b>	<b>-</b>	<b>-</b>

First name and surname	Office	Period when office was held	Expiration of the term of office	Fixed compensation	Compens. for committee membership	Variable non equity compensation		Non monetary benefits	Other compens.	Total	Fair value of equity compens.	Indemnity for leaving office or for termination of the
						Bonuses and other incentives	Profit sharing					
<b>Roberto Bracchetti</b>	Standing Auditor	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				37.000 <sup>(20)</sup>	-	-	-	-	-	37.000	-	-
Compensation from Subsidiaries and Associates					-	-	-	-	19.182 <sup>(21)</sup>	19.182	-	-
<b>Total</b>				<b>37.000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19.182</b>	<b>56.182</b>	<b>-</b>	<b>-</b>
<b>Lelio Fornabaio</b>	Sindaco effettivo	from 01.01.12 to 12.31.12	Approval of financial Statements as at 12.31.13									
Compensation in the Company preparing the financial statements				37.000 <sup>(20)</sup>	-	-	-	-	15.000 <sup>(10)</sup>	52.000	-	-
Compensation from Subsidiaries and Associates					-	-	-	-	-	-	-	-
<b>Total</b>				<b>37.000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15.000</b>	<b>52.000</b>	<b>-</b>	<b>-</b>

- (a) Left the office of Managing Director Finance and appointed Deputy Chairman by the Board of Directors on December 3, 2012.
- (b) Co-opted as Director by the Board of Directors on November 13, 2013. Appointed Chief Executive Officer by the Directors on December 3, 2012. Confirmed as Director and Chief Executive Officer, respectively, by the Shareholders' Meeting and by the Board of Directors on December 18, 2012.
- (c) Ceased as a member of the Risk Committee as a result of the dissolution of said Committee on August 28, 2012. On the same date, the Risk Committee was incorporated in the internal Control, Risk and Corporate Governance Committee.
- (d) Resigned from the office of Chief Executive Officer and General Manager on November 13, 2012.
- (e) Resigned from the office of Director on October 11, 2012.
- (1) Includes € 390,000 as Chairman and € 30,000 as member of the Board of Directors.
- (2) Includes € 650,000 as Deputy Chairman and € 30,000 as Board of Directors.
- (3) Includes and insurance policy amounting to € 12,970 and company car with a conventional annual value of € 3,889.
- (4) Includes € 54,167 as Chief Executive Officer and € 4,000 as member of the Board of Directors.
- (5) Includes € 30,000 as member of the Board of Directors.
- (6) Includes € 20,000 as member of the Internal Control, Risk and Corporate Governance Committee and € 9,879 as member of the Risk Committee superseded on August 28, 2012.
- (7) Includes € 15,000 as member of the Remuneration Committee.
- (8) Includes € 20,000 as member of the Internal Control, Risk and Corporate Governance Committee.
- (9) Includes € 100,000 as Directors and € 19,219 as member of the Internal Control Committee in Prelios Società di Gestione del Risparmio S.p.A..
- (10) Includes € 15,000 as member of the Supervisory Board.
- (11) Includes € 173,000 as Chief Executive Officer, € 750,000 as General Manager, € 26,083 as member of the Board of Directors and € 3,400 for indemnities for travel in Italy and abroad.
- (12) Includes children's school tuition amounting to € 38,980 and company car with a conventional annual value of € 3,866.
- (13) Includes € 30,000 as lump sum contribution to court costs, consultation contract starting from January 1, 2013 through June 30, 2013 with a total value of € 90,000 and € 183,678 in holidays accrued and not taken.
- (14) Includes € 2,015,000 as severance indemnity.
- (15) Includes € 23,387 as member of the Board of Directors.
- (16) Includes € 370,000 as Chief Financial Officer and Manager Responsible for Corporate Financial Reporting and € 255 for indemnities for travel abroad.
- (17) Includes € 90,000 for guaranteed MBO.
- (18) Includes company car with a conventional annual value of € 3,576.
- (19) Includes € 55,500 as Chairman of the Board of Statutory Auditors.
- (20) Includes € 37,000 as Standing Auditor.
- (21) Includes € 19,182 as member of the Board of Statutory Auditors of other Prelios Group companies.

**TABLE: COMPENSATION OF THE MEMBERS OF THE ADMINISTRATIVE AND AUDITING BODIES AND OF GENERAL MANAGERS**

First name and surname	Investee company	Number of shares held at 12.31.2011	Number of shares held at in 2012	Number of shares held at in 2012	Number of shares held at 12.31.2012
Marco Tronchetti Provera Chairman	Prelios S.p.A.	124,612,324	=	=	124,612,324
Enrico Parazzini Deputy Chairman	Prelios S.p.A.	=	=	=	=
Sergio Iasi (Chief Executive Officer) (2)	Prelios S.p.A.	=	=	=	=
Giuseppe Angiolini	Prelios S.p.A.	=	=	=	=
Marina Brogi	Prelios S.p.A.	=	=	=	=
Carlo Croce	Prelios S.p.A.	31,438	=	=	31,438
Giovanni Fiori	Prelios S.p.A.	=	=	=	=
Jacopo Franzan	Prelios S.p.A.	=	=	=	=
Valter Lazzari	Prelios S.p.A.	30,000	=	=	30,000
Amedeo Nodari	Prelios S.p.A.	=	=	=	=
Dario Trevisan	Prelios S.p.A.	=	=	=	=
Giorgio Valerio	Prelios S.p.A.	=	=	=	=
Giovanni Jody Vender	Prelios S.p.A.	=	=	=	=
Davide Malacalza (3)	Prelios S.p.A.	=	=	=	=
Paolo Massimiliano Bottelli (4) Chief Executive Officer	Prelios S.p.A.	363,095	=	=	363,095
Enrico Laghi Chairman of the Board of Statutory Auditors	Prelios S.p.A.	=	=	=	=
Roberto Bracchetti Standing Auditor	Prelios S.p.A.	=	=	=	=
Lelio Fornabaio Standing Auditor	Prelios S.p.A.	=	=	=	=
Franco Ghiringhelli Auditor	Prelios S.p.A.	=	=	=	=
Paola Giudici Alternate Auditor	Prelios S.p.A.	=	=	=	=

(1) Of which, 1,251 held directly; 124,500,400 held indirectly through Camfin S.p.A. and 110,673 held indirectly through Cam Partecipazioni S.p.A.

(2) On December 18, 2012, the Shareholders' Meeting confirmed the appointment of Mr. Sergio Iasi as Director, resolved, pursuant to Article 2386 of the Italian Civil Code, by the Board of Directors on November 13, 2012. At the end of the Shareholders' Meeting, the Board of Directors appointed Mr. Sergio Iasi as Chief Executive Officer, confirming the appointment and the powers already vested in him on December 3, 2012. The number of shares purchased and sold and/or held in 2012 refers to the period from November 13, 2012.

(3) Mr. Davide Malacalza tendered his resignation as a Director of the Company effective November 11, 2012; therefore, the number of shares purchased and sold in 2012 refers to the period through to October 11, 2012.

(4) Mr. Paolo Massimiliano Bottelli tendered his resignation as a Director of the Company, Chief Executive Officer and General Manager of the Company effective November 13, 2012; therefore, the number of shares purchased and sold in 2012 refers to the period through to November 13, 2012.

## EQUITY INVESTMENTS HELD BY KEY MANAGERS (AGGREGATE FIGURES)

aggregate data	investee company	Number of shares held at 12.31.12	Number of shares purchased in 2012	Number of shares sold in 2012	Number of shares held at 12.31.2012
n. 1 Key manager	Prelios S.p.A.	=	=	=	=

## EXTRAORDINARY PART

Report prepared by the Directors pursuant to Art. 125-ter of Italian Legislative Decree no. 58 of February 24, 1998 and Art. 72, par. 1 and Art. 74, par. 1 of the Regulation adopted by CONSOB by means of resolution no. 11971 of May 14, 1999, and subsequent amendments and additions.

\* \* \*

## Point 1)

1. Increase in share capital, pursuant to Art. 2441, paragraphs 1 and 5 of the Italian Civil Code, subject to reduction of the number of ordinary shares through a reverse share split and upon reduction of share capital due to losses in accordance with Art. 2446 of the Italian Civil Code, and power granted to the Board of Directors to issue convertible bonds as per Art. 2420-ter, par. 2 of the Italian Civil Code, in particular through the following resolutions:
  - 1.a) reduction, through a reverse share split, of the number of ordinary shares according to a ratio of 1 new ordinary share to every 10 ordinary shares held, subject to cancellation of ordinary shares held by the company to allow the overall balancing of the transaction, without the reduction in share capital. Inherent and consequent resolutions. Conferment of powers;
  - 1.b) reduction of share capital due to losses pursuant to Art. 2446 of the Italian Civil Code. Inherent and consequent resolutions. Conferment of powers;
  - 1.c) indivisible share capital increase, against payment, reserved to a special purpose vehicle – in which Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. have an interest – and, therefore, with the exclusion of the option right pursuant to Art. 2441, par. 5 of the Italian Civil Code, through the issue of 117,597,496 category B shares, convertible to ordinary shares, at a subscription price of 0.5953 per share, for a total amount of 70,005,789.37 euro. Inherent and consequent resolutions. Conferment of powers;
  - 1.c) divisible share capital increase, against payment, to be offered under option to all company shareholders, pursuant to Art. 2441, par. 1 of the Italian Civil Code, through the issue of up to 193,195,887 ordinary shares, at an issue price of 0.5953 euro per share, with regular dividends and identical characteristics to Prelios shares in circulation at the time of their issue, for a total maximum amount of 115,009,511.53 euro. Inherent and consequent resolutions. Conferment of powers;
  - 1.e) assignment to the Board of Directors, pursuant to Art. 2420-ter, par. 2 of the Italian Civil Code, of the right to issue a maximum of a nominal 269,000,000.00 euro, in bonds subject to mandatory conversion (mandatory convertible bonds) to ordinary and/or category B shares, with the exclusion of the option right pursuant to Art. 2441, par. 5 of the Italian Civil Code, with the subsequent divisible increase in share capital, for the exclusive service of the conversion, for a maximum of 297,644,375.01 euro, to be carried out through the issue of up to 499,990,551 ordinary shares and up to 144,678,117 category B shares; the right is to be exercised once the share capital increase referred to in items 1.c) and 1.d) of the agenda has been performed and, nonetheless, within a maximum of one year from the resolution date, with the additional right to establish the rate and duration of the instrument, as well as all other terms and conditions of the same, as with the share capital increase in service of the conversion, on the basis of agreements that shall be defined with the lenders of the company whose instruments shall be offered, excluding the option right. Inherent and consequent resolutions. Conferment of powers;
  - 1.f) subsequent amendments to articles 5 and 6 and introduction of a new article 6-bis to the Articles of Association. Inherent and consequent resolutions. Conferment of powers.

\* \* \* \* \*

Dear Shareholders,

this report (the “**Report**”) is prepared by the Directors of Prelios S.p.A. pursuant to Art. 125-ter of Italian Legislative Decree no. 58 of February 24, 1998 and Art. 72, par. 1 and Art. 74, par. 1 of the Regulation adopted by CONSOB by means of resolution no. 11971 of May 14, 1999, and subsequent amendments and additions (the “**Issuers’ Regulation**”), and in compliance with the provisions of schemes nos. 2, 3 and 5 of Annex 3A of said Issuers’ Regulation.

The Report aims to illustrate the subjects set out in item 1 and the corresponding sub-items on the agenda of the Extraordinary part of the Shareholders’ Meeting called for May 8, 2013 and, in particular, aims to outline the proposed resolutions – all inter-related and jointly geared towards reaching the objective of the turnaround and relaunch of the company’s development prospects referred to below, regarding:

1. Reduction, through a reverse share split, of the number of ordinary shares according to a ratio of 1 new ordinary share to every 10 ordinary shares held, subject to the prior cancellation of ordinary shares held by the company to allow the overall balancing of the transaction, without the reduction in share capital.
2. Reduction of share capital due to losses pursuant to Art. 2446 of the Italian Civil Code.
3. Indivisible share capital increase, against payment, reserved to a special purpose vehicle – in which Feidos 11 S.p.A., Pirelli & C. S.p.A.,

Intesa Sanpaolo S.p.A. and UniCredit S.p.A. ("**NewCo**") have a direct and/or indirect interest – and, therefore, with the exclusion of the option right pursuant to Art. 2441, par. 5 of the Italian Civil Code, as amended by Italian Legislative Decree no. 184 of October 11, 2012, through the issue of 117,597,496 category B shares, convertible to ordinary shares (according to a ratio of one ordinary share per category B share), at a subscription price of 0.5953 per share, for a total amount of 70,005,789.37 ("**Reserved Increase**"), to be subscribed in cash.

4. Divisible share capital increase, against payment, to be offered under option to all company shareholders, pursuant to Art. 2441, par. 1 of the Italian Civil Code, through the issue of up to 193,195,887 ordinary shares, at an issue price of 0.5953 euro per share, with regular dividends and identical characteristics to the shares in circulation at the time of their issue, for a total maximum amount of 115,009,511.53 euro ("**Increase under Option**"), to be subscribed in cash or also through the offsetting or waiving of receivables due to the company, as specified below.
5. Assignment to the Board of Directors, pursuant to Art. 2420-ter, par. 2 of the Italian Civil Code, of the right to issue a maximum of a nominal 269,000,000.00 euro, in bonds subject to mandatory conversion to ordinary and/or category B shares, with the exclusion of the option right pursuant to Art. 2441, par. 5 of the Italian Civil Code, with the subsequent divisible increase in share capital, for the exclusive service of the conversion, for a maximum of 297,644,375.01 euro, to be performed within a maximum term of 7 (seven) years, except in the event of an extension for a further 3 (three) years, from the issue of the bonds (the "**Mandatory Convertible Bond**"). The right is to be exercised once the share capital increase referred to in previous points 3. and 4. has been performed and, nonetheless, within a maximum of one year from the resolution date, with the additional right, for the Board of Directors, to establish the rate and duration of the instrument, as well as all other terms and conditions of the same, as with the share capital increase in service of the conversion, on the basis of agreements that shall be defined with the lenders of the company whose instruments shall be offered, excluding the option right, and signed by the same in execution of the Restructuring Agreements (as defined below) pertaining to the company's overall debt. At the current state of play, provision is made for the mandatory convertible bond to be divided into two tranches destined, respectively (a) for the lending banks of the company <sup>(1)</sup> and to Pirelli & C. S.p.A. (tranche A) and (b) to Pirelli & C. S.p.A. (tranche B), according to the provisions pursuant to the Restructuring Agreements (as defined below), whose conversion can be implemented through the issue of up to 499,990,551 ordinary shares in accordance with tranche A of the mandatory convertible bond (including therein the case in which tranche B is converted to ordinary shares) and a maximum of 144,678,117 category B shares pertaining exclusively to tranche B of the mandatory convertible bond. The mandatory convertible bond can be subscribed in cash or also through the offsetting or waiving of receivables due to the company, as specified below.
6. Subsequent amendments to articles 5 and 6 and introduction of a new article 6-bis to the Articles of Association.

\* \* \*

## I. INTRODUCTORY NOTE

Prelios S.p.A. ("**Prelios**" or the "**Company**") found itself in a financial and liquidity crisis which made it necessary to implement certain extraordinary measures to re-establish the company's equity and financial equilibrium, compromised in particular, by the especially critical market situation due, initially, to the financial crisis and, later, to the subsequent negative macroeconomic effects that have hit Italy and Europe in recent years.

It should be briefly pointed out that – on approval of the consolidated half-year financial report as at June 30, 2012 – the company's Board of Directors (hereinafter also the "**Board of Directors**" or the "**Board**") also examined and approved Prelios' balance sheet and income statement as at June 30, 2012, which showed a loss exceeding one-third of share capital, pursuant to Art. 2446, par. 1, of the Italian Civil Code, making it necessary to call the Shareholders' Meeting (hereinafter the "**Shareholders' Meeting**") to put in place the necessary measures in accordance with the law.

The Board of Directors subsequently resolved to call the Shareholders' Meeting, conferring the relevant power in this regard; the Shareholders' Meeting was subsequently called on December 18, 2012.

On November 13, 2012, the Board of Directors – on approval of the consolidated interim report on operations as at September 30, 2012 – examined and approved Prelios' balance sheet and income statement as at September 30, 2012, which confirmed a decrease of more than one-third of share capital.

On December 18, 2012, the Shareholders' Meeting, having acknowledged (i) the company's balance sheet and income statement as at September 30, 2012, (ii) the Directors' Report drafted in accordance with Art. 2446 of the Italian Civil Code and pursuant to Art. 74, par. 1 of the Issuers' Regulations and (iii) the remarks of the Board of Statutory Auditors, resolved to approve the company's balance sheet and income statement as at September 30, 2012 and to postpone the adoption of provisions pursuant to Art. 2446 of the Italian Civil Code to a date to be proposed by the Board of Directors, also in relation to the development and implementation of the proposed extraordinary transactions – targeted, it should be pointed out, at rebalancing the company's overall financial and equity structure – and, nonetheless, in compliance

(1) *Intesa Sanpaolo S.p.A., UniCredit S.p.A., Banca Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano Soc. Coop. a r.l., Banca Popolare di Sondrio Soc. Coop. p.a., Banca Popolare dell'Emilia Romagna Soc. Coop., Banca Carige S.p.A.-Cassa di Risparmio di Genova e Imperia, Centrobanca-Banca di Credito Finanziario e Mobiliare S.p.A., (all acting as "Lending Banks"). Banca IMI S.p.A. performs the role of "Agent Bank".*

with the provisions of par. 2 of said Art. 2446 of the Italian Civil Code. For more information, please refer to the associated documentation published in accordance with law and available on the Company's website [www.prelios.com](http://www.prelios.com).

Prelios' balance sheet and income statement as at December 31, 2012 – included in the draft financial statements as at December 31, 2012 approved by the company's Board of Directors on March 27, 2013 report an operating loss of 213,995,990.64 euro, with the decrease of more than one third of share capital pursuant to Art. 2446 of Italian Civil Code also confirmed at the end of 2012.

Therefore, the contents of this Report concern and also supplement the necessary provisions to be adopted in accordance with the already mentioned Art. 2446 of the Italian Civil Code, already postponed by the Shareholders' Meeting on December 18, 2012 and, in particular, represents the implementation of the subsequent required measures, subject to the reverse split of existing ordinary shares and a reduction of share capital to cover the losses recorded as at December 31, 2012, aimed, in short, at permitting:

- (i) the equity strengthening of the company, also to be carried out through the increase in the current number of shareholders with the entry of a new industrial shareholder; and
- (ii) the general review of the current financial debt structure, in order to restructure the current debt exposure and ensure the rebalancing of the financial position through a turnaround plan and the associated restructuring agreements.

The measures set out in the previous points (i) and (ii), that were punctually defined within the terms illustrated herein, also properly supplement the aforementioned necessary provisions in accordance with Art. 2446 of the Italian Civil Code and are aimed at allowing the equity strengthening of Prelios, and the rebalancing of its overall financial structure, within an evolving economic and market context, and the revival of the industrial development prospects of the company and of the Prelios Group.

#### A. Financial debt

Prelios' current financial debt amounts to a total of 561 million euro at December 31, 2012 (including interest accrued at said date)<sup>(2)</sup> and originates from two loan agreements stipulated on December 28, 2011.

In fact, on said date, Prelios signed a loan agreement for 359 million euro ("**Club Deal Loan Agreement**") with a pool of banks comprised of Intesa Sanpaolo S.p.A., UniCredit S.p.A., Banca Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano Soc. Coop. a r.l., Banca Popolare di Sondrio Soc. Coop. a r.l., Banca Popolare dell'Emilia Romagna Soc. Coop., Banca Carige S.p.A. – Cassa di Risparmio di Genova e Imperia e Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A. (collectively, the "**Lending Banks**") and with Banca IMI S.p.A. acting as agent bank ("**Agent Bank**").

The Club Deal Loan Agreement was formally reviewed on July 20, 2012, with which, among other things, the parties agreed to suspend the financial covenants and the associated communication obligations from June 30, 2012 (included) until June 30, 2013 (excluded) and to defer (initially until December 31, 2012 and, subsequently, until March 31, 2013 pursuant to the Standstill defined below) the payment of the first interest instalment of around 14.8 million euro due from the company as at June 30, 2012 (included). As will be specified later, pending negotiations relating to the Transaction (as defined below), Prelios subsequently sent the Lending Banks a request to formally extend the Standstill until June 30, 2013.

On December 28, 2011, the Company signed a loan agreement for a total of 160 million euro ("**P&C Loan Agreement**") with Pirelli & C. S.p.A. ("**P&C**" and, together with the Lending Banks, the "**Lenders**").

The P&C Loan Agreement was formally reviewed on June 27, 2012, with which, among other things, the parties agreed to suspend the financial covenants and the associated communication obligations from June 30, 2012 (included) until June 30, 2013 (excluded) and to defer to June 30, 2013 the payment of the interest due from the company as at June 30, 2012 (included, amounting to around 7.0 million euro), and as at December 31, 2012 (included respectively, for a cumulative total, including the interest due as at June 30, 2012, of approximately 13.5 million euro).

Despite the willingness shown by Lenders to support the company through the concession of the aforementioned extension of the payment terms for interest instalments and of the measurement of covenants, the failure to carry out the transactions initially set out in the Prelios Group's cash plans – due to the persistence, and in some ways, worsening, in a negative market scenario – meant the company's financial exposure was higher than that envisaged in the industrial plans drawn up previously and, therefore, no longer in line with the financial commitments undertaken by the company.

(2) Gross debt of 561 million euro at December 31, 2012, net of residual up-front fees, is represented, as specified below in this Report, by payables due to lending banks amounting to 359 million euro, plus interest accrued of 28.5 million euro, in addition to the payable due to Pirelli & C. S.p.A. of 160 million euro, plus interest accrued of 13.5 million euro.

This situation involved the need to assess the adoption of the various additional measures, required to allow the company to maintain the conditions to continue to operate as a going concern, also through the implementation of extraordinary transactions that modified the current overall financial structure or which were suitable for producing additional cash flows with respect to those generated by the ordinary operations envisaged.

Therefore, within said scenario, in 2012, the company implemented a number of initiatives targeted at equity strengthening, rebalancing of the financial structure and the industrial revival of the Prelios Group.

## **B. Initiatives targeted at strengthening the company's equity structure and restructuring its financial debt**

The initiatives put in place by the company in 2012, in consideration of the debt position and persistence of the crisis in the reference market, meant the company directors, after having performed the necessary checks and valuations, were reasonably hopeful that the company could, in time to ensure the protection of its equity strength, define a transaction able to strengthen equity through the recapitalisation of the company and the rebalancing of the financial structure, providing the company with new growth and development prospects.

In fact, at the start of 2012, with the help of its advisors, the company launched initiatives aimed at attracting, including through structured and competitive processes, third party investors and initiate industrial partnerships. Thanks to this process, which saw domestic entrepreneurs participate, as well as entities with industrial integration projects, financial investors and private equity funds (Italian and international), the company received expressions of interest from leading Italian (Feidos S.p.A.) and international (Fortress Investment Group UK Ltd) investors, who proposed potential structured extraordinary transactions which would have allowed the recapitalisation of the company thanks to these parties becoming shareholders.

After in-depth negotiations and due diligence, on October 11, 2012, Prelios' Board of Directors examined the definitive offers received from potential investors in relation to the extraordinary transactions to be implemented. Following the assessment of the contents of the proposals received, the Board, as communicated to the market, resolved to grant an exclusivity period to Feidos S.p.A. ("**Feidos**" or "**Industrial Investor**"). In this regard, the Board also acknowledged the willingness shown by the main lenders and shareholders subscribed to the Prelios shareholders' agreement currently in force ("**Prelios Agreement**")<sup>(3)</sup> to support a transaction targeted at achieving equity and financial stability and the relaunch of the Group.

During the aforementioned exclusivity period, the company and Feidos signed a Memorandum of Understanding ("**MoU**") on November 14, 2012, which reflects the agreements in principle reached by the aforementioned parties in relation to the structure of the extraordinary transaction proposed (hereinafter the "**Transaction**"). The MoU makes provision, in particular, for the review of the overall equity and financial structure of the company based on two components:

- (i) a share capital increase for a total of 185 million euro, of which a share (equal to at least 100 million euro) to be subscribed "in cash" and the remainder subscribed through a conversion to capital of part of the company's payables;
- (ii) a restructuring of debt, estimated at around 561 million euro (including financial expenses as at December 31, 2012), to sustainable levels, theoretically up to 250 million euro, and for the remainder, through conversion to investment or quasi-equity instruments.

The MoU, among other things, requires the Prelios Agreement to contribute around 25 million euro to the subscription of the aforementioned share capital increase, while Feidos participates, through an investment vehicle set up on an ad hoc basis, together with other investors, for a total amount of 20 million euro.

### **Framework Agreement**

On December 21, 2012, in compliance with the provisions of the MoU, Prelios and Feidos 11 S.p.A. ("Feidos 11"), a special purpose vehicle controlled by Feidos and in which the Rovati, Diaz della Vittoria Pallavicini and Cornetto Bourlot families hold an interest<sup>(4)</sup> through dedicated vehicles, signed a framework agreement ("Framework Agreement") which makes provision for and governs the activities regarding:

- (i) the recapitalisation of the company through a share capital increase of 185 million euro; and
- (ii) the restructuring of existing debt on the basis of the new company plan, according to which:
  - 250 million euro will remain in the form of a loan (super-senior and senior); and
  - up to 269 million euro will be converted to convertible debt type investment instruments, with cash option for redemption exercisable by the company.

(3) This refers to the shareholders' agreement involving Prelios shares, for a total amount of around 21.3% of share capital, originally subscribed on October 25, 2010 and subsequently renewed up until October 25, 2013, between Camfin S.p.A., Assicurazioni Generali S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A., Intesa Sanpaolo S.p.A., Edizione S.r.l. and Massimo Moratti.

(4) Prelios' Chief Executive Officer, Sergio Iasi, also holds an interest in Feidos 11 S.p.A., with a stake of 4.17% (without holding any offices or particular governance rights).

The Framework Agreement, also as a result of subsequent understandings between the company and Feidos 11, makes provision for a proposed share capital increase of 185 million euro, structured into two tranches through (a) the issue of ordinary shares up to a maximum of around 115 million euro, offered under option to all Prelios shareholders (the “**Shareholders**”) and whose subscription is guaranteed, among other things, by Lenders and (b) the issue of new shares without voting rights (category B shares), for a maximum amount of roughly 70 million euro, reserved for subscription to a newly incorporated company invested in by Feidos 11 and the Lenders.

The recapitalisation transaction, as set out in the Framework Agreement, will see the Prelios Agreement contribute around 25 million euro in cash, to guarantee the subscription of the aforementioned share capital increase up to 115 million euro, in compliance with the provisions of the MoU and as a result of subsequent understandings reached.

This undertaking, combined with the commitment to the cash subscription of category B shares totalling 70 million euro (of which 20 million euro guaranteed by Feidos 11 and 50 million euro guaranteed by the Lenders and, in particular, pursuant to subsequent understandings communicated to the company in relation to the Term Sheet NewCo (as defined below), guaranteed by P&C, Intesa Sanpaolo S.p.A. and UniCredit S.p.A.) and to the subscription guarantee from the Lenders, with respect to the ordinary shares offered under option, totalling 90 million euro (of which 5 million in cash and up to 85 million through the conversion of receivables due, as specified in the sub-paragraph below “*Understandings with respect to the Transaction and Restructuring Agreements*”, to which reference should be made), are targeted at ensuring, for the company, a share capital increase in cash of at least 100 million euro in new financial resources.

Therefore, to summarise, the participation of the various parties involved in the Transaction requires, for the purpose of the finalisation of the agreements, as regards the recapitalisation of the company through a share capital increase of 185 million euro:

- Feidos 11 to subscribe, via the NewCo, 20 million euro (in cash) out of a total of 70 million euro of the Reserved Increase;
- the main Lenders to subscribe, via the NewCo, 50 million euro (in cash) out of a total of 70 million euro of the Reserved Increase;
- the shareholders of the Prelios Agreement to subscribe (in cash) around 25 million euro, out of 115 million euro of the Increase under Option;
- the Lenders to ensure, according to the proportions and amounts defined between them, the subscription of the unopted part of the 115 million euro Increase under Option, totalling 90 million euro (of which, as already mentioned, 5 million euro in cash and up to 85 million euro through the conversion of receivables due);

and, as regards the restructuring of existing debt, requires the Lenders to participate – according to the proportions defined between them – in the following two components:

- 250 million euro, which will remain in the form of a loan (super-senior and senior); and
- up to 269 million euro will be converted to convertible debt type investment instruments, with cash option for redemption exercisable by the company.

The Framework Agreement – also in light of subsequent agreements – also requires the Industrial Investor to assume responsibility for managing Prelios in order to maximise its contribution to the relaunch of the business.

The completion of the activities set out for the execution of the Transaction is subject to certain conditions, including:

- (i) the definition and signing of debt restructuring agreements with the Lenders (the “**Restructuring Agreements**”), which also includes the finalisation of the agreements relating to the NewCo;
- (ii) the certification of the turnaround plan by an independent expert pursuant to Art. 67, par. 3, letter d) of Royal Decree no. 267 of 1942 (the “**Turnaround Plan**”), which already occurred on March 28, 2013;
- (iii) the issue, by CONSOB, of the exemption from the obligation to launch a full take-over bid, for the parties involved in the Transaction; and
- (iv) the approval by the Prelios shareholders’ meeting of share capital increases within the proposed terms and, subsequently, of the new Prelios Articles of Association;
- (v) the appointment of Sergio Iasi and Massimo Caputi as Chief Executive Officer and Deputy Chairman (with development power) of the company respectively.

### **Standstill Agreements**

On December 28, 2012, Prelios and the Lending Banks reached an agreement for the deferment of the maturities set forth in the Club Deal Loan Agreement. Based on said agreement, the Lending Banks granted Prelios a further deferment of the principal and interest payment obligations (the “**Standstill**”) to the earliest date between (a) March 31, 2013 and (b) the date on which the transaction is carried out or on which negotiations between Feidos and Prelios are terminated, in order to allow said entity to fulfil its commitments in consideration of the expected completion of the transaction.

Subsequently, on February 27, 2013, Prelios – in agreement with the Lending Banks – sent a request to formally extend the Standstill until June 30, 2013, in the event in which – despite an agreement having already been reached on the structure, terms and conditions of the Transaction on the basis of the shared term sheet (“**Lenders Term Sheet**”) – the transaction was not completed by March 31, 2013 and negotiations were still in progress to pursue its completion, in order to allow the signing of definitive agreements.

On March 26, 2013, the Agent Bank informed the market that the Lending Banks formally confirmed their approval of the Lenders Term Sheet forming the basis of the Transaction, also transmitting a copy of it signed by all Lending Banks; within said context, and again on March 26,

2013, the Agent Bank also confirmed that, with reference to the extension of the Standstill, four Lending Banks already completed the associated decision-making process, in view of the approaching formalisation of the extension, pending the completion of the processes of the other institutions.

### **Understandings relating to the Transaction and to the Restructuring Agreements**

#### *Commitments of shareholders subscribed to the Prelios Agreement*

As regards the commitments of the current shareholders of the Prelios Agreement, Prelios received formal notices, by March 26, 2013, from Camfin S.p.A., Assicurazioni Generali S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A. and Intesa Sanpaolo S.p.A. who, subject to certain conditions, including the obtainment of the necessary authorisations from the competent authorities, confirmed their commitment to the company in terms of subscribing the Increase under Option for a total amount of around 25 million euro.

#### *Commitments of the future NewCo shareholders*

On March 27, 2013, Feidos 11, Intesa Sanpaolo S.p.A., UniCredit S.p.A. and P&C notified the company of having signed a term sheet (the “**NewCo Term Sheet**”), acknowledging the fundamental conditions that must be negotiated in good faith by said parties for the signing of a later agreement in relation to the incorporation and capitalisation of the NewCo and the subsequent participation of the same in the Transaction and, in particular, as regards the subscription, via said NewCo, of the Reserved Increase for a total of around 70 million euro, of which 20 million euro by Feidos 11 and the remaining 50 million euro by UniCredit S.p.A. (for around 19 million euro), by Intesa Sanpaolo S.p.A. (for approximately 8 million euro) and by P&C (for approximately 23 million euro) <sup>(5)</sup> respectively.

#### *Restructuring Agreements with Lenders*

The debt restructuring agreements with Lenders, based on the above and in particular, on the contents of the Lenders Term Sheet, may be finalised before the end of April and, in any case, before the date of the Shareholders' Meeting called to approve the Transaction.

### **Turnaround Plan**

On December 3, 2012, the company assigned Mario Civetta, as independent expert, with the task of certifying the accuracy of the company data and the feasibility of the Turnaround Plan (the “**Certification**”).

On March 27, 2013, the company's Board of Directors approved the 2013-2016 Strategic Plan (the “**Strategic Plan**”) forming the basis of the Turnaround Plan. The Strategic Plan, composed of an “industrial plan” and a “financial plan”, makes provision for the necessary steps to be taken to rebalance Prelios' debt exposure and the company's financial position.

It should be pointed out that the Strategic Plan was drafted on both a consolidated basis and at individual Prelios level (the latter subject to the Certification), highlighting that the consolidated plan – from an industrial point of view – definitely best represents the Group as a whole. With respect to the consolidated plan, at individual Prelios level, the plan differs because the trend in the individual Business Units cannot be inferred from consolidated costs and revenues, but rather from the joint trends in the valuation of investments, shareholder loans and cash flows connected with dividends, added to the working capital requirements of the Business Units, financed by the Parent Company as part of centralised treasury management relations.

In fact, the Group is composed of a number of companies which, as already stated, are directly or indirectly controlled by Prelios and invest in real estate investment companies and/or mutual real estate investment funds and, therefore, for Certification purposes, a shared approach was adopted, according to which the companies in the different business units were aggregated into a sort of consolidated plan by Business Unit.

In this regard, it should be noted that the business model that the Group will gradually lean towards requires a sharp focus on the real estate services offer, with the necessary conditions for this, on one hand, being the reduction of existing financial debt and, on the other, the progressive disposal of interests in real estate investment companies and funds that the Group currently holds, together with growth in the volumes and margins of the management platform.

In particular, the Strategic Plan makes provision for the relaunch of the management platform (structured into the following 5 Business Units: Prelios SGR, Prelios Property & Project Management, Prelios Agency & Valuation, Prelios Credit Servicing, Germany and Poland), with strong development in the services business (with forecast growth more than double normalised EBIT <sup>(6)</sup> in 2016 with respect to 2012) and the creation of synergies between the various business areas, also thanks to the contribution of new skills and opportunities that may be made by the Industrial Investor.

(5) The NewCo Term Sheet was published in *Il Sole 24 Ore* on March 30, 2013, and is available on the Company's website, [www.prelios.com](http://www.prelios.com).

(6) This refers solely to EBIT from current operations.

As regards investment activities, provision is made for a selective disposal of assets over the term of the Strategic Plan, with significant cash generation, accompanied by the optimisation of asset management, geared towards a gradual reduction in current losses.

A key element for the realisation of the business plan is the financial plan connected to the restructuring of debt which, as briefly outlined in the previous sub-paragraph, "Framework Agreement", makes provision – subject to the finalisation of the Restructuring Agreements, effective from the subsequent restructuring of the debt and, in any case, from January 1, 2013 – for the maintenance of 250 million euro in borrowings to be repaid in cash, divided into a super senior part (50 million euro) and a senior part (200 million euro).

The super senior loan will have the following main terms and conditions:

- maturity of 5 years, bullet repayments;
- half-year financial expenses (in cash) at an all-in rate of 4.0%;
- elimination of financial covenants.

The senior loan will have the following main terms and conditions:

- maturity of 6 years, bullet repayments;
- capitalised financial expenses at an all-in rate of 3.0% for the first 4 years and, subsequently, at the market step-up rate;
- elimination of financial covenants.

The senior loan will be used for the realisation of real estate assets; in particular, provision is made for:

- early repayments equal to 65% of the cash flows generated by the realisation of real estate assets;
- the remaining 35% will form a cash fund (the "**Fondo Esigenze di Cassa 1**") of up to 145 million euro, to cover pre-established expenses and/or commitments relating to projects and/or investments identified specifically and any other liabilities;
- if, in the event other liabilities arise, and the Fondo Esigenze di Cassa 1, taking account of the requirements for which it was set up, is insufficient, 100% of the cash flows generated by real estate assets can be used to supplement the Fondo Esigenze di Cassa 1 up to an amount of 20 million euro.

Furthermore, up to 269 million euro will acquire the nature of a bond subject to mandatory conversion ("*Convertendo*" – mandatory convertible bond) to ordinary shares and category B shares of the company, with cash option for the redemption exercisable by the company. Based on the Lenders Term Sheet, this instrument is expected to have the following main terms and conditions, on the basis of which the Board of Directors can therefore enforce the proposed power set forth in point 1.e) of the agenda of the Shareholders' Meeting:

- term of 7 years;
- capitalised financial expenses at an all-in rate of 1.00%;
- conversion price per share: equal to the higher of (i) the share capital increase subscription price (equal to 0.5953 per share) and (ii) the average of the stock market prices of Prelios shares in the month prior to the date of the conversion;
- redemption (at maturity or early) through the automatic conversion to: (i) ordinary shares for an amount equal to 71.1% of its total value which will be divided between P&C and all Lending Banks (also known as "Tranche A"); and (ii) category B shares for an amount equal to 28.9% of its total value which will only be subscribed by P&C (so-called "Tranche B"). In any case, this will be without prejudice to the exercise, wholly or partially, of an optional and discretionary option by the company to redeem the mandatory convertible bond in cash, subject to verification of the company's financial stability (also known as the "cash option");
- Trigger Event: among other things, (i) in the event of the recapitalisation of the company carried out in compliance with the provisions set out in articles 2446 and 2447 of the Italian Civil Code, limited to the portion needed to restore statutory shareholders' equity to at least the amount recorded after the Share Capital Increases (as defined below) or which shall be determined in the Restructuring Agreements; or (ii) at the moment of maturity of the mandatory convertible bond, after a period of at least 7 (seven) years from the issue date and except in the event of an extension for a further 3 (three) years, when the conditions established in the Restructuring Agreements are met;
- elimination of financial covenants.

As anticipated, the mandatory convertible bond will provide a cash option for the redemption exercisable by the company:

- if the senior loan has been repaid and 145 million euro has been allocated to the Fondo Esigenze di Cassa 1, the cash flows generated by the realisation of real estate assets will be allocated to a new fund for cash requirements (the "**Fondo Esigenze di Cassa 2**");
- on the date of maturity of the mandatory convertible bond, the cash available in the Fondo Esigenze di Cassa 1 and Fondo Esigenze di Cassa 2 can be reserved, until it is used up, for the redemption of the mandatory convertible bond, without prejudice to verification of the Group's financial stability;

subsequently, where additional cash remains following the exercise of the cash option and the mandatory convertible bond is subject to early conversion, as a result of the aforementioned Trigger Events for the cases set forth under articles 2446 and 2447 of the Italian Civil Code, a mechanism will be introduced for Lenders that makes it possible to achieve the same effects that would have been achieved had the conversion not taken place.

On March 28, 2013, Mr. Mario Civetta issued the Certification relating to the Turnaround Plan, which was subsequently filed at the Milan Register of Companies on March 29, 2013.

### C. **Going concern**

Despite the uncertainties in the context highlighted, also during the preparation of the half-year financial report as at June 30, 2012, the interim report as at September 30, 2012 and the draft financial statements as at December 31, 2012, the Board of Directors believes that the actions put in place and those in the course of being implemented, will allow the Prelios Group to continue to operate as a going concern.

In particular, it should be noted that 2012 was characterised by a persistently weak market context, especially in Italy, which affected economic results in terms of deterioration in the profiles of expected cash flows from real estate assets and NPL (non-performing loans), and a slow-down in purchases/sales (also due to less willingness on the part of the banking system to finance transactions) and a reduction in the values at which real estate transactions can be performed, with a subsequent adverse impact on the equity values of certain Group assets, which involved – also as a result of impairment – the recording of significant economic losses.

As already highlighted, only a few of the transactions set out to reduce indebtedness in 2012 were actually completed, while the majority, despite the implementation of various structured processes for their conclusion, were not carried out, initially owing to the market difficulties, and then the interest shown by some major third party operators in becoming Prelios shareholders, in a wider context of a review and reinforcement of the company's equity and finances, provided that the current business structure did not change considerably.

Within said changed scenario, the company promptly put into effect all the necessary initiatives, also involving Lenders, for the identification and definition of an extraordinary transaction targeted at achieving the turnaround objective, as previously detailed analytically.

In this regard, the Directors believe that the actions taken and those in the process of being implemented, through the finalisation of the aforementioned Transaction, as proposed on the basis of the agreements signed and the commitments undertaken by all parties involved, as also outlined in this Report, will help achieve the Group's turnaround objectives, and will allow the Prelios Group to continue to operate as a going concern, thanks to the actions envisaged as part of the equity strengthening of the company, injection of new financial resources and the restructuring of the repayment terms for existing loans, correlated to the Transaction.

Therefore, the Directors are reasonably hopeful that this may lead, in timescales in keeping with company's current situation, to the successful conclusion of the planned Transaction, and to the revival of the Group's growth and industrial development prospects, also thanks to the contribution of skills and expected new business opportunities from the Industrial Investor.

The Directors, however, highlight the uncertainties naturally linked to the completion of the Transaction, also taking into consideration the development of the reference market context. The results envisaged in the Strategic Plan assume the completion of the Transaction described, with the impact on the restructuring of debt taking effect as of January 1, 2013, and the plan's feasibility was evaluated on the basis of reasonably forecastable elements, taking account of the difficulty in making forecasts in the current economic and financial context, such as the exclusion of further crises that should hit the financial markets or a worsening in the factors that led to the current deterioration in the general reference scenario and the real estate market, in particular which, at the current state of play and according to the path deemed foreseeable at present, is expected to recover in the second half of 2014.

In addition, it is believed that the market scenario outlined will make it possible to realise property sales at values and in accordance with timescales in line with the net capital invested in the initiatives and with available Prelios cash flows at the date of the realisation of said sales. The feasibility of the Strategic Plan represents, at present and according to the path deemed foreseeable at present, the condition for allowing the Group to maintain its long-term equity and financial equilibrium, and for deeming the adoption of the assumption of the company as a going concern appropriate, as regards the drafting of the financial statements for the year ended as at December 31, 2012.

## II. **REVERSE SPLIT OF ORDINARY SHARES**

Within the general context of the transaction to strengthen the company's equity submitted to the Extraordinary Shareholders' Meeting, and in order to simplify the management of general operations, the preliminary reverse split of existing Prelios S.p.A. ordinary shares has been proposed.

The reverse share split, with the consequent reduction in the number of ordinary shares in circulation, in fact makes it possible to simplify the administrative management of said shares in the interest of current and future shareholders and could support, also in view of the execution of the proposed share capital increases, the liquidity of trading in the stock market, making the unit value of the share clearer.

It should be pointed out that a reverse share split, in itself, has no effect on the value of the investment held; in fact, in the event of approval of the proposal, shareholders would, on one hand, see a decrease in the number of shares held and, on the other, a simultaneous increase in the relative unit value of the shares with no impact, therefore, on the total value of the investment.

Hence, it is proposed that the Shareholders' Meeting authorise the reverse split of ordinary Prelios S.p.A. shares, according to a ratio of 1 new ordinary share to every 10 ordinary shares held.

Consistent with the need to proceed without delay, upon obtainment of all the prescribed authorisations, with the launch of the offer under

option of ordinary shares, in execution of the Increase under Option – referred to in point 1.d) of the agenda of the Extraordinary Shareholders' Meeting – the reverse share split is expected to be carried out in a way that is essentially consistent with the reduction in share capital due to losses as per point 1.b) of the agenda and, in any case, before the launch of the Increase under Option, according to the deadlines and methods that will be agreed with the competent authorities and, with Borsa Italiana S.p.A. in particular.

Reverse share split operations will be performed in accordance with the applicable legislation by authorised intermediaries subscribed to the centralised management system managed by Monte Titoli S.p.A., with no expenses incurred by shareholders. In addition, to make the transactions easier for individual shareholders and facilitate the management of the remainders these transactions may result in, the company will provide shareholders with a service for handling any fractions of ordinary shares that cannot be grouped, on the basis of official market prices and, in any case, without any increase in expenses, stamp duty or commissions.

In order to also allow the overall balancing of the reverse share split, a total of 1,171,777 ordinary shares will be cancelled. To this end, Prelios will use the treasury shares held at the date of this Report, thus allowing the cancellation of 1,171,777 ordinary shares, without the need, in the absence of the face value of said shares, for the reduction of share capital.

In light of the above, the Articles of Association will consequently be amended, as indicated in paragraph XV of this Report below.

It should be pointed out that the Board of Directors also took account of the reverse share split, in accordance with the above terms, for the purpose of determining the terms and conditions of the share capital increases set out in items 1.c), 1.d) and 1.e) on the agenda of the Extraordinary Shareholders' Meeting.

### III. REDUCTION OF SHARE CAPITAL

Within the general context of the overall transaction presented to the Extraordinary Shareholders' Meeting, for the purpose of the assumption of the provisions set forth in art. 2446 of the Italian Civil Code – taking into account and partially terminating the deferment resolved by the Shareholders' Meeting on December 18, 2012, as highlighted in paragraph I of this Report – the preliminary reduction of share capital has also been proposed, to cover the losses reported in the draft financial statements as at December 31, 2012, approved by the Board of Directors on March 27, 2013.

The Board of Directors acknowledged that, based on the company's balance sheet and income statement as at December 31, 2012 – whose tables are shown below in paragraph V of this Report, to which reference should be made – the company's financial statements report a loss of 213,995,990.64 euro, which involves a reduction in equity to 4,552,089 euro, with respect to the amount of share capital, equal to 218,877,613.14 euro <sup>(7)</sup>.

Therefore, as it was confirmed that the particular case set out in art. 2446 of the Italian Civil Code occurred, the Board of Directors, also taking into account the resolution by the aforementioned Shareholders' Meeting on December 18, 2012, intends to present the Shareholders' Meeting with the proposal for the full coverage of total losses recorded in the balance sheet and income statement as at December 31, 2012, through the reduction in share capital, to be carried out in a way that is essentially consistent with the execution of the reverse share split (as per previous paragraph I in this Report), with the subsequent amendment to the company's Articles of Association.

Share capital – which would fall from 218,877,613.14 euro to 4,881,622.50 euro – would, however, remain above the legal limit established for joint-stock companies by art. 2327 of the Italian Civil Code.

As regards the methods of implementing the proposed share capital reduction, it should be noted that – given the company's shares are without face value – the transaction will not involve the cancellation of company shares, instead determining a decrease solely in their implied book value. On completion of the proposed overall transaction, the implied book value must, in any case, be calculated by taking into consideration the share capital and the number of new shares to be issued, following the reserved increase in share capital (for around 70 million euro) and increase under option (for roughly 115 million euro), where approved, referred to respectively in items 1.c) and 1.d) of the agenda of the Extraordinary Shareholders' Meeting.

In light of the above, the Articles of Association will consequently be amended, as indicated in paragraph XV of this Report below.

### IV. REASONS AND GOAL OF THE SHARE CAPITAL INCREASE

In the context described above and for the purposes of the implementation of the Transaction, including therein the effects of the proposed reverse share split, the Board of Directors also called the Extraordinary Shareholders' Meeting of Prelios to resolve on the proposed increase in share capital, as follows.

<sup>(7)</sup> Accounting share capital as at December 31, 2012 - with respect to company share capital, as already mentioned, equal to 218,877,613.14 euro - stands at 218,282,782.14 euro, as calculated net of treasury shares held by the company, totalling 1,189,662 and valued at 594,831.00 euro. In fact, treasury shares, in compliance with international accounting standards, are recognised directly as a reduction of accounting share capital.

- (a) An indivisible share capital increase, against payment, for a total amount of 70 million euro reserved to the NewCo, therefore with the exclusion of the option right pursuant to art. 2441, par. 5 of the Italian Civil Code, as amended by Italian Legislative Decree no. 184 of October 11, 2012, through the issue of 117,597,496 category B shares, convertible to ordinary shares, at a unit subscription price of 0.5953 (so-called Reserved Increase).

As opposed to the company's ordinary shares, these category B shares do not entitle holders to voting rights and are not intended for listing on any regulated market; these shares, according to the provisions of the new Articles of Association of Prelios, are converted to ordinary shares (destined for listing), according to the ratio of one new ordinary share for every category B share, in the event of the transfer of category B shares to third parties (who are not already directly holders of category B shares) or the launch of a take-over bid and/or take-over bid with share swap involving Prelios shares.

The unit subscription price of the category B shares deriving from the Reserved Increase, equal to 0.5953 euro per share, was determined by the Board of Directors, for the purposes of this proposal to the Extraordinary Shareholders' Meeting, taking account of the general characteristics of said Transaction, targeted at the equity strengthening and rebalancing of the overall financial structure of Prelios, within the general context of the Restructuring Agreements and taking into consideration the characteristics of said category B shares, both with reference to the absence of voting rights, and in terms of the dilutive effect (exclusively economic, since we are talking about non-voting shares, within the conversion term) for current shareholders, as better detailed in paragraph IX below in this Report.

The Reserved Increase must be performed within one year of the resolution date.

- (b) A divisible share capital increase, against payment, for a total maximum amount of around 115 million euro, to be offered under option to the company's shareholders, pursuant to art. 2441, par. 1 of the Italian Civil Code, through the issue of up to 193,195,887 ordinary shares, at an issue price of 0.5953 euro per share, that will have regular dividends and identical characteristics to ordinary Prelios shares in circulation at the time of their issue (so-called Increase under Option).

The Increase under Option must be performed within one year of the resolution date.

The issue price of the shares involved in the Increase under Option is set, as already stated, at 0.5953 euro per new ordinary share, therefore equal to the subscription price of the Reserved Increase, as better detailed in paragraph IX below in this Report.

An appropriate prospectus must be drafted for the Increase under Option, in compliance with the provisions set forth in articles 94 and 113 of Italian Legislative Decree no. 58 of February 24, 1998 and articles 51 et seq. of the Issuers' Regulation, to be filed at CONSOB.

The shares involved in the Increase under Option, offered under option and not subscribed by the company's shareholders, shall be offered to the market in accordance with the provisions of art. 2441, par. 3 of the Italian Civil Code. It is envisaged, however, that the subscription of the Increase under Option is guaranteed, according to the methods and terms indicated in paragraphs VIII and X below in this Report.

- (c) The assignment to the Board of Directors, pursuant to art. 2420-ter, par. 2 of the Italian Civil Code, of the right to issue a maximum of a nominal 269,000,000.00 euro, in bonds subject to mandatory conversion to ordinary and/or category B shares, with the exclusion of the option right pursuant to art. 2441, par. 5 of the Italian Civil Code, with the subsequent divisible increase in share capital, for a maximum of 297,644,375.01 euro, for the service of the conversion of the bonds, which may be performed within a maximum term of 7 (seven) years, except in the event of an extension for a further 3 (three) years, from the issue of the mandatory convertible bond. This right is to be exercised once the share capital increase referred to in previous letters (a) and (b) has been performed and, nonetheless, within a maximum of one year from the resolution date, with the additional right, for the Board of Directors, to establish the rate and duration of the instrument, as well as all other terms and conditions of the same, on the basis of Restructuring Agreements with the Lenders of the company whose instruments shall be offered, as stated, with the exclusion of the option right.

At the current state of play, provision is made for the mandatory convertible bond to be divided into two tranches destined, respectively (a) to the Lending Banks of the company and to P&C (tranche A) and (b) to P&C (tranche B), divided in accordance with the Restructuring Agreements, with a share capital increase in service of the conversion, to be carried out through the issue of: (i) a maximum of 499,990,551 ordinary shares pertaining to tranche A of the mandatory convertible bond (including therein the ordinary shares that should also be issued in relation to the amount of Tranche B, if the mandatory convertible bond is converted solely to ordinary shares according to the terms and conditions defined on the basis of the Restructuring Agreements) and (ii) a maximum of 144,678,117 category B shares pertaining exclusively to tranche B of the mandatory convertible bond (except in the case of the previous clarification).

Also for the purposes of exercise of the power conferred, the Board of Directors shall consider, on the basis of the Lenders Term Sheet, that the total amount of the mandatory convertible bond will vary between a maximum nominal amount of around 269 million euro (approximately 298 million euro including capitalised interest) and a minimum nominal amount of 226 million euro (approximately 251 million euro including capitalised interest), based on the eventual subscription of the Increase under Option by shareholders, or through the enforcement of the subscription guarantee by the Lenders for a conversion amount of up to 85 million euro. In fact, in relation to the effective portion of any conversion during the Increase under Option by Lenders, based on the Lenders Term Sheet, provision is made for gross financial debt (as stated, amounting to 561 million euro, including expenses accrued as at December 31, 2012) to be restructured in the following manner:

- (i) in the event in which the aforementioned 85 million euro (guarantee through conversion by the Lenders) is fully subscribed by the market, around 42 million euro will be used for the repayment of part of the debt, while the remaining total debt as at December 31, 2012 (equal to around 519 million euro) will be divided between the super senior loan (50 million euro), the senior loan (200 million euro) and the mandatory convertible bond (equal, based on said assumption, to a nominal 269 million euro); or
- (ii) in the event in which the aforementioned 85 million euro is instead subscribed through conversion by the Lenders, the remaining overall debt as at December 31, 2012 (equal to 476 million euro) will be divided between the super senior loan (50 million euro), the senior loan (200 million euro) and the mandatory convertible bond (instead equal, based on said assumption, to a nominal 226 million euro).

In the case of a partial conversion of the aforementioned 85 million euro during the Increase under Option, the debt would be restructured in line with the aforementioned terms, notwithstanding that 50% of the released part in cash of the aforementioned 85 million euro will be set aside for the repayment of the overall debt at December 31, 2012 and without prejudice to a level of super senior and senior debt amounting to 250 million euro (with the subsequent variation in the portion destined for the mandatory convertible bond).

In particular, notwithstanding that the precise terms will be defined by the Board of Directors during the execution of the power to issue the mandatory convertible bond, it is envisaged that, based on the Lenders Term Sheet, the two tranches of the mandatory convertible bond will be split, tranche A making up 71.1% and Tranche B around 28.9% of the total amount of the mandatory convertible bond.

The mandatory convertible bond can be converted within a period of 7 (seven) years, except where extended for a further 3 (three) years, and, therefore with a maximum term of 10 (ten) years, from the issue traditionally agreed with effect from January 1, 2013, according to the terms and conditions established by the Regulations of the mandatory convertible bond, as shall be defined by the Board of Directors in execution of the power delegated by the Restructuring Agreements.

For the purposes of definition of the Regulations of the mandatory convertible bond, the Board of Directors shall consider the conversion price per share to be equal to the higher of (i) the share capital increase subscription price (equal to 0.5953 per share) and (ii) the average of the stock market prices of Prelios shares in the month prior to the date of the conversion, as agreed in the Restructuring Agreements.

The conversion, as already anticipated, shall take place, among other things: (i) in the event of the recapitalisation of the company carried out in compliance with the provisions set out in articles 2446 and 2447 of the Italian Civil Code, limited to the portion needed to restore statutory equity to at least the amount recorded after the Share Capital Increases (as defined below) or which shall be determined in the Restructuring Agreements; or (ii) at the moment of maturity of the mandatory convertible bond, after a period of at least 7 (seven) years from the issue date and except in the event of an extension for a further 3 (three) years.

The share capital increases, as described in letters (a) and (b) above (jointly, the “**Share Capital Increases**”), are to be carried out – as with the issue of the mandatory convertible bond – in the context of and for the purposes of completion of the Transaction, as described in this document (see previous paragraph I of this Report), according to the provisions of the relative agreements between the company and Feidos 11, and the provisions of the Lenders Term Sheet and NewCo Term Sheet.

Income deriving from the Transaction is earmarked to support the activities set out in the Turnaround Plan, which is based on the recapitalisation and restructuring project the company intends to implement through the Share Capital Increases and the mandatory convertible bond (all essential elements for the execution of the single Turnaround Plan), approved by the Board of Directors on March 27, 2013 and certified on March 28, 2013 by the independent expert Mario Civetta, pursuant to art. 67, par. 3, letter d) of the Royal Decree no. 267 of March 16, 1942 (as subsequently amended).

In light of the above, the Directors – as, however, already reported at the Shareholders’ Meeting held on December 18, 2012 and reaffirmed in paragraph I.C above in this Report – believe that the finalisation of the Transaction and the subsequent implementation of the activities set out in the Transaction will make the turnaround of operations possible, and will allow the company to continue to operate as a going concern, also thanks to the improvements in the conditions of equilibrium and economic-financial stability, as well as the equity strengthening of the company, which will facilitate the revival of the industrial development prospects.

However, the Directors deem it appropriate to highlight certain sensitivity and risk profiles which could impact the assumptions forming the basis of the company’s objectives as regards achieving the aforementioned turnaround, essentially attributable to further crises that should hit the markets in general, or a worsening in the factors that led to the deterioration of the general reference scenario and the real estate market in particular, as indicated in paragraph I.C above in this Report.

\* \* \*

As regards the observations of the Board of Statutory Auditors (pursuant to art. 2446 of the Italian Civil Code and art. 74, par. 1 of the Issuers’ Regulation), please refer to the details already shown in the document issued by the control body attached to the Directors’ Report (drafted in accordance with art. 125-ter of Italian Legislative Decree no. 58 of February 24, 1998, art. 2446 of the Italian Civil Code and art. 74, par. 1, of the Issuers’ Regulation) on the proposed resolutions relating to item 1 on the agenda of the Shareholders’ Meeting, held on December 18, 2012 and to the matters reconfirmed in the observations of the Board of Statutory Auditors (drafted pursuant to the abovementioned legal provisions) attached to this Report.

**V. BALANCE SHEET AND INCOME STATEMENT AS AT DECEMBER 31, 2012**

The balance sheet and the income statement of Prelios for the year ended as at December 31, 2012 is shown below, which correspond to the those in the draft financial statements for the year ended as at December 31, 2012 approved by the company's Board of Directors on March 27, 2013 (the "**Draft Financial Statements**") and also supplement the information already required relating to the balance sheet and income statement as per art. 2446 of the Italian Civil Code and, therefore, for more details please refer to said Draft Financial Statements, published in accordance with methods and terms of law.

*[continued on next page]*

**Prelios S.p.A.****Balance sheet as at December 31, 2012**

(amounts in euro)

ASSETS	12.31.2012	12.31.2011
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	274.076	3.604.248
Intangible assets	763.290	923.296
Investments in associates	247.524.213	322.478.070
Investments in associates and joint venture	55.633.185	77.493.596
Other financial assets	6.550.580	6.541.948
Deferred tax assets	2.911.064	1.538.680
Other receivables	258.168.660	346.880.984
- of which with related parties	258.112.740	346.754.320
<b>TOTAL NON-CURRENT ASSETS</b>	<b>571.825.068</b>	<b>759.460.822</b>
<b>CURRENT ASSETS</b>		
Trade receivables	18.408.365	30.186.292
- of which with related parties	17.014.170	23.538.932
Other receivables	68.683.408	70.714.435
- of which with related parties	56.988.569	58.405.803
Cash and cash equivalents	27.895.543	26.225.543
Tax receivables	7.436.302	9.009.953
- of which with related parties	3.684.344	4.776.784
<b>TOTAL CURRENT ASSETS</b>	<b>122.423.618</b>	<b>136.136.223</b>
<b>TOTAL ASSETS</b>	<b>694.248.686</b>	<b>895.597.045</b>

<b>EQUITY</b>	<b>12.31.2012</b>	<b>12.31.2011</b>
<b>EQUITY</b>		
Share capital	218.282.782	419.991.058
Other reserves	265.298	110.188.814
Retained earnings	–	–
Net income (loss) for the year	(213.995.991)	(311.513.824)
<b>TOTAL EQUITY</b>	<b>4.552.089</b>	<b>218.666.048</b>
<b>LIABILITIES</b>		
<b>NON-CURRENT LIABILITY</b>		
Bank borrowings and payables to other financial institutions	415.154.379	482.270.848
– of which with related parties	157.357.048	160.038.400
Other payables	963.156	1.014.219
Provisions for future risks and expenses	8.192.879	10.557.168
Employee benefit obligations	1.321.485	1.315.580
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>425.631.899</b>	<b>495.157.815</b>
<b>CURRENT LIABILITIES</b>		
Bank borrowings and payables to other financial institutions	207.383.364	119.593.016
– of which with related parties	83.486.777	89.485.269
Trade payables	14.543.864	25.176.854
– of which with related parties	3.239.114	7.197.000
Other payables	32.915.394	30.871.791
– of which with related parties	16.764.983	14.945.159
Provisions for future risks and expenses	3.711.731	1.393.610
Tax payables	2.984.284	4.737.911
– of which with related parties	2.984.284	4.737.911
Derivative financial instruments	2.526.061	–
<b>TOTAL CURRENT LIABILITIES</b>	<b>264.064.698</b>	<b>181.773.182</b>
<b>TOTAL LIABILITIES</b>	<b>689.696.597</b>	<b>676.930.997</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>694.248.686</b>	<b>895.597.045</b>

[continued on next page]

**Prelios S.p.A.**  
**Income Statement January 1, 2012 – December 31, 2012**  
**(amounts in euro)**

	01.01.2012 12.31.2012	01.01.2011 12.31.2011
Revenues from sales and services	10.721.422	16.976.609
Other income	6.917.552	10.449.756
<b>TOTAL OPERATING REVENUES</b>	<b>17.638.974</b>	<b>27.426.365</b>
<i>– of which with related parties</i>	<i>15.720.201</i>	<i>23.771.009</i>
<i>– of which non-recurring events</i>	<i>–</i>	<i>(300.000)</i>
Raw and consumable materials used	(34.738)	(75.580)
Personnel costs	(15.991.138)	(13.070.757)
Depreciation, amortisation and impairment	(842.536)	(1.008.100)
Other costs	(32.459.832)	(36.222.525)
<b>TOTAL OPERATING COSTS</b>	<b>(49.328.244)</b>	<b>(50.376.962)</b>
<i>– of which with related parties</i>	<i>(12.420.605)</i>	<i>(13.751.553)</i>
<i>– of which non-recurring events</i>	<i>(12.829.979)</i>	<i>(7.974.594)</i>
<b>EARNINGS BEFORE INTEREST AND TAX (EBIT)</b>	<b>(31.689.270)</b>	<b>(22.950.597)</b>
Net income from investments, of which	(155.161.148)	(283.919.995)
– dividends	40.153.817	58.481.921
– gains on investments	5.857.557	8.241.778
– losses on investments	(201.172.522)	(350.643.694)
<i>– of which with related parties</i>	<i>40.153.817</i>	<i>58.482.960</i>
<i>– of which non-recurring events</i>	<i>1.234.568</i>	<i>22.380.634</i>
Financial income	22.482.616	23.976.572
<i>– of which with related parties</i>	<i>20.521.600</i>	<i>22.217.225</i>
Financial expenses	(55.539.441)	(33.411.214)
<i>– of which with related parties</i>	<i>(17.349.866)</i>	<i>(8.774.239)</i>
<i>– of which non-recurring events</i>	<i>–</i>	<i>(89.236)</i>
<b>INCOME (LOSS) BEFORE TAXES</b>	<b>(219.906.243)</b>	<b>(316.305.234)</b>
Taxes	5.910.252	4.791.410
<i>– of which with related parties</i>	<i>4.591.659</i>	<i>4.474.327</i>
<b>(LOSS) DERIVING FROM CONTINUING OPERATIONS</b>	<b>(213.995.991)</b>	<b>(311.513.824)</b>
<b>(LOSS) FOR THE YEAR</b>	<b>(213.995.991)</b>	<b>(311.513.824)</b>

[continued on next page]

## VI. ANALYSIS OF THE COMPOSITION OF NET FINANCIAL DEBT

The tables below show the composition of the short-, medium- and long-term consolidated net financial debt of the company and of the Prelios Group respectively, as at December 31, 2012 (as shown in the Draft Financial Statements for 2012) <sup>(8)</sup>.

### Net financial position of Prelios S.p.A.

	12.31.2012	12.31.2011
<b>CURRENT ASSETS</b>		
<b>Other receivables</b>	<b>52.460</b>	<b>54.769</b>
– <i>of which receivables from related parties</i>	52.460	54.769
Financial receivables	52.460	54.769
– <i>subsidiaries</i>	52.460	54.769
<b>Cash and cash equivalents</b>	<b>27.896</b>	<b>26.226</b>
<b>TOTAL CURRENT ASSETS – A</b>	<b>80.356</b>	<b>80.995</b>
<b>CURRENT LIABILITIES</b>		
<b>Bank borrowings and payables to other financial institutions</b>	<b>(207.384)</b>	<b>(119.593)</b>
– <i>of which payables to related parties</i>	(83.487)	(89.485)
– <i>subsidiaries</i>	(68.543)	(88.663)
– <i>joint venture</i>	(1.438)	(822)
– <i>other related parties</i>	(13.506)	–
– <i>bank borrowings</i>	(123.897)	(30.108)
<b>TOTAL CURRENT LIABILITIES – B</b>	<b>(207.384)</b>	<b>(119.593)</b>
<b>NON-CURRENT LIABILITIES</b>		
<b>Bank borrowings and payables to other financial institutions</b>	<b>(415.154)</b>	<b>(482.270)</b>
– <i>of which payable to related parties</i>	(157.357)	(160.038)
– <i>other related parties</i>	(157.357)	(160.038)
– <i>bank borrowings</i>	(257.797)	(322.232)
<b>TOTAL NON-CURRENT LIABILITIES – C</b>	<b>(415.154)</b>	<b>(482.270)</b>
<b>NET FINANCIAL POSITION (*) D = (A+B+C)</b>	<b>(542.182)</b>	<b>(520.868)</b>

<sup>(1)</sup> Pursuant to the CONSOB Communication dated July 28, 2006 and in compliance with the CESR Recommendation of February 10, 2005. ("Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses")

<sup>(8)</sup> Also worthy of note is the information published by the company on March 29, 2013 relating to the data updated on February 28, 2013, pursuant to Art. 114, par. 5, of Italian Legislative Decree no. 58 of February 24, 1998.

## CONSOLIDATED NET FINANCIAL POSITION OF THE PRELIOS GROUP

(in thousands of euro)	12.31.2012	12.31.2011
<b>CURRENT ASSETS</b>		
<b>Other receivables</b>	<b>176</b>	<b>63</b>
– of which receivables from related parties	176	63
Financial receivables	176	63
– joint venture and other Prelios Group companies	176	63
<b>Cash and cash equivalents</b>	<b>45.090</b>	<b>37.684</b>
<b>TOTAL CURRENT ASSETS – A</b>	<b>45.266</b>	<b>37.747</b>
<b>CURRENT LIABILITIES</b>		
<b>Bank borrowings and payables to other financial institutions</b>	<b>(144.739)</b>	<b>(36.958)</b>
– of which receivables from related parties	(17.993)	(1.102)
– joint ventures and other Prelios Group companies	(4.487)	(1.102)
– other related parties	(13.506)	–
– Other financial payables	(2.057)	(2.661)
– Bank borrowings	(124.591)	(30.855)
– Payables to other financial institutions	(98)	(2.340)
<b>TOTAL CURRENT LIABILITIES – B</b>	<b>(144.739)</b>	<b>(36.958)</b>
<b>NON-CURRENT LIABILITIES</b>		
<b>Bank borrowings and payables to other financial institutions</b>	<b>(420.993)</b>	<b>(488.802)</b>
– of which receivables from related parties	(157.389)	(160.038)
– joint ventures and other Prelios Group companies	(32)	–
– other related parties	(157.357)	(160.038)
– Other financial payables	(627)	(642)
– Bank borrowings	(262.977)	(328.122)
<b>TOTAL NON-CURRENT LIABILITIES – C</b>	<b>(420.993)</b>	<b>(488.802)</b>
<b>NET FINANCIAL POSITION (*) D = (A+B+C)</b>	<b>(520.466)</b>	<b>(488.013)</b>

<sup>(\*)</sup> Pursuant to the CONSOB Communication dated July 28th, 2006 and in compliance with the CESR Recommendation of February 10th, 2005. ("Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses")

## VII. GENERAL DETAILS ON THE TREND IN OPERATIONS IN THE CURRENT YEAR

The macroeconomic scenario is still characterised by signs of uncertainty regarding the times and methods of a general economic recovery and, in particular, the domestic real estate market continues to show weakness, with a decrease in the number and size of transactions, adversely impacted by financial expenses that remain high.

The Board of Directors believe that – as mentioned previously – the actions taken and those in the process of being implemented, through the finalisation of the Transaction, as proposed on the basis of the agreements signed and the commitments undertaken by all parties involved, as also outlined in this Report, will allow the Prelios Group to continue to operate as a going concern, thanks to the envisaged equity strengthening of the company, injection of new financial resources and the restructuring of the repayment terms for existing loans, also providing – within an evolving economic and market context – new growth and development prospects. To summarise, the Transaction makes provision for:

- the recapitalisation of the company through a share capital increase of 185 million euro; and
- the restructuring of existing debt on the basis of the new company plan, according to which:
  - 250 million euro will remain in the form of a loan (super-senior and senior); and
  - up to 269 million euro will be converted to convertible debt type investment instruments, with cash option for the redemption exercisable by the company.

Therefore, these assumptions provide the basis for the adoption of the going concern principle in drafting the Annual Financial Report.

From an operational point of view, it is believed that the company will be able to continue to achieve positive operating results from the services platform in 2013, while the Group's net income could be affected by external factors, with particular regard to the valuations of independent experts in relation to real estate investment companies and funds invested in.

From an operational standpoint, consistent with the strategy of transformation into a pure management company, effective from 2014, given 2013 represents the year of transition relating to the completion of the restructuring operation and the definition of the reorganisation project, the Group proposes the following objectives:

- EBIT of the Management Platform
  - 14/19 million euro for the year 2014
  - 19/24 million euro for the year 2015
  - 24/28 million euro for the year 2016
- Net Financial Position
  - Less than 400 million euro for the year 2014
  - Less than 350 million euro for the year 2015
  - Less than 200 million euro for the year 2016

## VIII. EXISTENCE OF GUARANTEE AND/OR PLACEMENT CONSORTIA

### (a) Reserved Increase

Given we are talking about a share capital increase reserved to the NewCo and given the category B shares are not to be listed, no guarantee and/or placement consortia are envisaged, nor any forms of placement.

It should be noted that, on the basis of the information communicated to the company on March 27, 2013 by future NewCo shareholders (specifically Feidos 11, P&C, Intesa Sanpaolo S.p.A. and UniCredit S.p.A.) relating to the NewCo Term Sheet (as per previous paragraph I.B of this Report, to which reference should be made), provision is made for the incorporation and capitalisation of a NewCo for the purposes of the full subscription of the Reserved Increase (equal to around 70 million euro) by said NewCo, on the basis of the agreements reached with the company as part of the Transaction in accordance with the Lenders Term Sheet, as well as the NewCo Term Sheet and under the conditions of the respective understandings defined between said shareholders of the NewCo.

### (b) Increase under Option

Despite no provision being made for the incorporation of guarantee and/or placement consortia, by means of separate communications received by March 26, 2013, Camfin S.p.A., Assicurazioni Generali S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A. and Intesa Sanpaolo S.p.A., as subscribers to the Prelios Agreement, confirmed their commitment to the company, subject to certain conditions, including the obtainment of the necessary authorisations from the competent authorities, in terms of subscribing the Increase under Option for a total amount of around 25 million euro.

On the basis of the information communicated to the company in relation to both the Lenders Term Sheet and the NewCo Term Sheet, the

Lenders are, at present, required to guarantee their subscription of the shares offered under option that eventually remain unopted, for a total maximum amount of 90 million euro, of which 5 million euro through the payment in cash (by P&C, Intesa Sanpaolo S.p.A. and UniCredit S.p.A.) and 85 million euro through offsetting of a portion of receivables due from Lenders (on a pro-rata basis from all Lenders), pursuant to the Club Deal Loan Agreement and the P&C Loan Agreement, according to the terms and conditions set out in the relative understandings which will be reflected in the definitive agreements of the Transaction.

**(c) Mandatory convertible bond and share capital increase in service of the conversion**

Although the terms and conditions of the mandatory convertible bond will be subject to a separate resolution by the Board of Directors, as with the terms and conditions of the share capital increase in service of the conversion, as a result of the conferral of the relative power to issue mandatory convertible bonds, it is envisaged that, on the basis of the Lenders Term Sheet, the mandatory convertible bond will be earmarked for subscription by the company's lenders in line with the terms indicated in paragraph IV. (c) above in this Report.

**IX. CRITERIA FOR DETERMINING THE PRICE OF THE NEW SHARES AND ALLOCATION RATIO**

As already reported, it should be pointed out that the Board of Directors also took account of the effects of the execution of the reverse share split, subject to the cancellation of the ordinary shares held by the company, also to allow the overall balancing of the transaction without the reduction in share capital, in accordance with terms of paragraph I above in this Report, for the purpose of determining the terms and conditions of the share capital increases set out in points (a), (b) and (c) below.

**(a) Reserved Increase**

The Board of Directors, which met on March 27, 2013, approved the subscription price of 0.5953 euro per category B share (the "Subscription Price").

The Subscription Price was determined at the end of negotiations with potential investor Feidos 11, which started with an initial expression of interest by Feidos at the end of August 2012, and led to the signing of the Framework Agreement in December 2012. In fact, the aforementioned expression of interest contained a proposed structure of the corporate transaction, targeted at the recovery and rebalancing of the financial structure, equity strengthening and industrial relaunch of the Prelios Group, as part of which a pre-money equity value of 50 million euro was assumed as a term of reference for subsequent valuations <sup>(9)</sup>.

In this regard, the Board of Directors took account of the general characteristics and terms of the Transaction, in the particular market context and specific company situation, as part of the Restructuring Agreements and taking into consideration the characteristics of said category B shares, both with reference to the absence of voting rights, and in terms of the dilutive effect (exclusively economic within the term for conversion to ordinary shares) for current shareholders.

In particular, as regards the valuations of the Subscription Price, the Board of Directors took account of the following contextual aspects and considerations:

1. the pre-money equity value proposed by the Industrial Investor represented a hypothetical term of reference, assumed to facilitate the transaction, by proceeding with the negotiation of additional and equally significant elements in respect of which it was necessary to define a mutually beneficial agreement, in order to ensure the structure of the transaction met the overall needs of Prelios and was in line with the proposed objectives. This original assumption was also confirmed after the communication of the data on September 30, 2012 and also remains unchanged following the close of the year at December 31, 2012. In addition, said value was, in any case, higher than the expression of interest presented by the other operator who participated in the aforementioned competitive procedure as per paragraph I.B of this Report;
2. the difficult situation faced by the company as a result of the ongoing negative scenario in Italy and persistent weakness in the real estate market, which – aside from the negative results in the year for the company – led to a situation of insufficient liquidity to meet the commitments undertaken to Lenders and, therefore, the need to acquire new financial resources. In the absence of financial equilibrium and equity strengthening, crucial elements in the negotiations with the Industrial Investor, Prelios would not be in a position to optimise the value of its assets in the medium/long-term, as the market dictates, but could find itself having to act as a forced seller in the short-term, favouring cash generation to the detriment of the actual market values of its assets;
3. the projects and extraordinary transactions identified and implemented in 2012 to generate cash at a time of crisis for the sector confirmed the market's current inability to allow the adequate development of sales of individual assets, reasserting the need for extensive strengthening which also involved the recapitalisation of the company;
4. the subsequent need to research and quickly implement – in view of the persistent market crisis and related problems in generating additional cash flows through ordinary operations and/or the disposal of assets – a general long-term solution, which permitted the company to cope with a higher financial exposure than the one envisaged in the industrial plans drafted previously and, therefore, no longer in line with the financial commitments undertaken, due to the impossibility of realising, at suitable values, the extraordinary transactions initially set out in the cash plans, and therefore allowed the development of operating activities and the gradual and full development of property assets;

<sup>(9)</sup> Valuations that, without considering the proposed reverse share split, therefore represent a pre-money value per share of around 0.059 euro.

5. the identification of said solution (referred to in point 4 above) in the form of an extraordinary transaction – whose terms were defined with the help of the company's advisors – that was targeted at the industrial revival of the Group and made provision for: (i) the entry of new shareholders to the shareholding structure who contributed not only new financial resources, but also industrial skills and the prospects of development of new business, in order to pursue a more extensive Group relaunch project and also establish the conditions for improving the ability to generate new cash flows; (ii) the equity strengthening of the company; (iii) a significant liquidity injection; and (iv) the financial rebalancing through a review of the Group's overall debt;
6. the results of the competitive process started by the company with the support of its advisors, through a structured search for parties potentially interested in the extraordinary transaction outlined, which led to contacts being established with various operators, broken down into three categories: (i) networks managed by national entrepreneurs; (i) entities with industrial integration projects; and (iii) financial investors/Italian and international private equity funds. In particular, upon the conclusion of said process, an analysis was conducted of potential transactions suitable for the achievement of the aforementioned objective and which resulted in the receipt of two offers that met the requirements, not limited solely to the valuation of company capital.

These offers were assessed on the basis of the following main elements: (i) the contribution of industrial skills from the new shareholder, augmenting those already possessed by the Group (the Feidos Group and the related management, in this sense, represent an expert real estate company and a recognised name in the Italian market, with proven experience in business development, capable of creating synergies and further developing the current structures and level of professionalism present in the Prelios Group); (ii) the proposed capital structure, including the review of debt to bring it down to a sustainable level; (iii) the amount of the total recapitalisation offered; (iv) the contribution of new financial resources for the company; (v) less difficulty in implementing the proposed transaction with respect to another offer which also made provision for industrial integration with other companies, as well as the recapitalisation and restructuring of debt; (vi) the degree of completeness of the proposal and the number of items to be discussed; (vii) the deadlines for reaching agreement on the review of the debt structure and for completion of the transaction; and (viii) the preliminary evaluations to emerge from a meeting with the main Lenders, in terms of greater willingness to support the overall structure of the transaction and, in particular, as regards the restructuring of debt, as proposed by one bidder over another;

7. the most general valuations by the Lenders and the shareholders in the Prelios Agreement, involved in the development of the various activities and negotiations within the limits of their respective responsibility, that clearly have interests (in line with those of the shareholders) in maximising the company value over the medium/long-term and which, therefore, participate directly in said objective of financial rebalancing and equity strengthening, within a framework of reasonable consistency between said elements, together with an aforementioned economic valuation, with respect to the stated objectives;
8. the overall assessment of the proposed transaction (in the particular market and specific Prelios context) by taking into account – as already mentioned – the outcome of the competitive process carried out and the fact that, at the current state of play, alternative transactions are not possible, with respect to those realisable with Feidos within the necessary timescales for the company, for which the Transaction referred to in this Report, where realised according to the envisaged terms and conditions, appears to be, on the whole, functional for the achievement of Prelios' turnaround objectives, providing said entity – within an evolving economic and market context – with new growth and development prospects. In fact, alternative transactions to those proposed could not have overlooked the satisfaction of immediate and stringent cash requirements through a process of valorisation of assets in the short-term which, in operating as a forced seller, would have heavily penalised the actual values of sustainable assets solely in the medium-term, hence limiting the existing skills and professionalism at Prelios, and making the prospect of an industrial revival of the Group extremely difficult;
9. the fact that the Subscription Price (despite supporting of the Industrial Investor's offer) did not constitute a fundamental factor for the purposes of the decision to proceed with the proposed extraordinary transaction. In this regard, it should be noted that for the purposes of the definition of the distinguishing elements of the proposed share capital increase (of which a part is reserved) and in respect of an offer based on a pre-money equity value of around 50 million euro, the reasons for partial exclusion from the option right and price determination retain their consistency, given the general context of the Transaction and all the above details, also with regards to the company's balance sheet as at the reference date of December 31, 2012, which reports statutory equity of around 4.6 million euro and consolidated equity of roughly 80.4 million euro. In fact, as already mentioned, the proposed pre-money equity value – and which the Subscription Price is aligned with – is only partially linked to an actual appreciation in the values of the Group's assets, and is considered unitarily and strictly related to the other structural elements that qualify the Transaction that, in consideration of the current state of financial rigidity and company crisis, represent a significant criterion which must be observed, in terms of the Transaction's approach and in view of the Group's ability to operate as a going concern, although which cannot be fully estimated using economic valuation models;
10. with reference to the trend in prices in the last half (one-month average of 0.0786 euro per share and six-month average of 0.0825 euro per share)<sup>(10)</sup>, but in particular with regards to the trend-based performance of Prelios' share in the last three months following the notification of the uncertainties over the company's ability to operate as a going concern and prior to the announcement of the signing of the Framework Agreement (-27.6%), the Subscription Price appears to be consistent with recent share capital increases, representing a discount of 18% with respect to the price on the day the Framework Agreement was signed and communicated to the market (0.072 euro). Subsequently, it is reasonable to consider that the stock market had recorded increases which could be interpreted as appreciation, also of the financial markets, with respect to the value of the Transaction targeted at the proposed turnaround.

(10) Averages calculated using prices on closing of the stock market on March 22, 2013 as a reference, as reported in the meeting of the Board of Directors on March 27, 2013, which approved the Transaction.

In conclusion of the foregoing, taking into account all elements assessed previously, given no potential alternative transactions are realisable at present, it is believed that the Transaction proposed by Feidos, carried out according to the terms and conditions described previously, appears to be suitable for the achievement of the objectives of restoration and rebalancing of the debt exposure and of the Group's balance sheet position. Therefore, the Subscription Price calculated, also taking into consideration the reverse share split, at 0.5953 euro per share, is deemed to be suited to the circumstances and the current position and value of the Prelios Group.

The company appointed to carry out Prelios' audit, Reconta Ernst & Young S.p.A., shall express its observations in a report to be drafted in accordance with the provisions of art. 2441, par. 6, of the Italian Civil Code and art. 158 of Italian Legislative Decree no. 58 of February 24, 1998.

**(b) Increase under Option**

The Board of Directors, which met on March 27, 2013, resolved to propose to the shareholders' meeting an issue price of 0.5953 euro per share for the new ordinary shares (the "**Issue Price**").

In determining the Issue Price, which is equal to the Subscription Price, the Board of Directors took account of not only the elements and observations described in paragraph IX. (a) above, but also of recent events which affected the company's economic-equity situation, the trend in the market value of Prelios' shares in the second half, and the fact that shares deriving from the Increase under Option are to be offered to all current company shareholders.

It should be pointed out that the Issue Price calculated for Ordinary Shares is equal to the Subscription Price of the category B shares offered for the reserved share capital increase, despite the latter not entitling holders to voting rights and not being destined for listing, in order to grant all shareholders, on an indiscriminate basis, the possibility of participating in the Transaction, avoiding significant dilutive effects and thus able to benefit from the contribution of the above-mentioned non-economic values, at the same time achieving the objective of maintaining the value of one's investment through the implementation of the turnaround and restructuring plan.

The share allocation ratio deriving from the Increase under Option is, at the date of this Report, equal to 2.3 for each ordinary company share already in circulation, also taking into account the fact that the 1,788 treasury shares held by the company – as a result of the proposed reverse share split, subject to the cancellation of 1,171,777 shares out of a total of 1,189,662 current treasury shares, also to allow the overall balancing of the reverse share split, except in the case of the use of the remaining 17,885 treasury shares (prior to the reverse share split) to facilitate the management of remainders – do not provide any option right and, therefore, the determination of the option ratio must take account of the relative increase.

**(c) Mandatory convertible bond and share capital increase in service of the conversion**

Although the determination of the conversion price of the mandatory convertible bond will be subject to a separate resolution by the Board of Directors following the conferral of the associated issuing power, it is envisaged that, on the basis of the Lenders Term Sheet and in execution of Restructuring Agreements, the conversion price of the mandatory convertible bond will be equal to the higher of (i) the Issue Price (equal to the Subscription Price and the Issue Price) and (ii) the average of stock market prices of Prelios shares in the month prior to the conversion date.

Where, as presumed, said criterion is confirmed during the execution of the power conferred to the Board, it is deemed that said subscription price at the time of the conversion is, therefore, consistent on the basis of the above observations made in relation to the Subscription Price and the Issue Price respectively in previous paragraphs IX.(a) and IX.(b). In this regard and in addition to the observations already made, it should also be noted that the early conversion mechanisms are a guarantee for the amount of company equity and, furthermore, that the mandatory conversion (except for the cash option) allows the company to reduce its debt exposure without negative cash effects (in line with the current financial rigidity), however, in respect of a low return on said instrument during its term.

The company appointed to carry out Prelios' audit, Reconta Ernst & Young S.p.A., shall express its observations in a report to be drafted in accordance with the provisions of Art. 2441, par. 6, of the Italian Civil Code and Art. 158 of Italian Legislative Decree no. 58 of February 24, 1998.

**X. SHAREHOLDERS WHO EXPRESSED WILLINGNESS TO SUBSCRIBE THE NEWLY ISSUED SHARES AND ANY UNEXERCISED OPTION RIGHTS**

**(a) Reserved Increase**

Please refer to paragraph VIII.(a) of this Report.

**(b) Increase under Option**

Please refer to paragraph VIII.(b) of this Report.

**XI. EXPECTED TERM FOR EXECUTION OF THE TRANSACTION**

**(a) Reserved Increase**

In consideration of the fact the shareholders' meeting was called to approve the Transaction on May 8, 2013, the Reserved Increase is expected to commence around June/July 2013 or, in any case, within the deadline of one year from the resolution date, subject to the conditions set out in the definitive agreements signed by the Transaction participants being met.

Any conversion of category B shares involved in the Reserved Increase to ordinary shares shall occur on satisfaction of the conditions agreed by the parties for the conversion and reflected in Prelios' new Articles of Association, or in the event of the transfer to third parties (who are not already directly holders of category B shares) or the launch of a take-over bid and/or take-over bid with share swap involving Prelios shares.

**(b) Increase under Option**

The Increase under Option is, at present, expected to be completed, consistent with the obtainment of the necessary authorisations from the regulatory authorities, between June and August 2013 or, in any case, within the deadline of one year from the resolution date. It should be noted that the launch of the offer under option of new shares can only take place after the publication of the corresponding prospectus, subject to the certificate of no impediment issued by the competent authorities.

**(c) Mandatory convertible bond and share capital increase in service of the conversion**

Based on the power which is proposed to be assigned to the Board of Directors, the mandatory convertible bond is expected to be issued on the basis of Restructuring Agreements, subject to the resolution of the Board of Directors, following the execution of the Share Capital Increases referred to in previous paragraphs XI.(a) and XI.(b), and the subsequent share capital increase in service of the conversion shall be implemented according to the terms, conditions and methods better defined by the Board of Directors, in any case, according to the contents of paragraph IV. (c) in this Report, within a maximum of 10 (ten) years from the date of issue of the bonds traditionally agreed, effective as of January 1, 2013.

**XII. DIVIDEND RIGHTS OF SHARES**

Newly issued ordinary shares deriving from the Increase under Option will offer regular dividends and guarantee holders with equal rights with respect to ordinary Prelios shares already in circulation at the time of issue.

Category B shares deriving from the Reserved Increase are special category shares with no voting rights and not destined for listing; they are converted to ordinary shares (destined for listing), according to the provisions of Prelios' new Articles of Association, in the event of the transfer to third parties or the launch of a take-over bid and/or take-over bid with share swap involving Prelios shares.

**XIII. PRO-FORMA ECONOMIC-EQUITY AND FINANCIAL EFFECTS**

Also taking into consideration that, on the basis of the Lenders Term Sheet which will be reflected in the Restructuring Agreements, the overall review of the company's financial debt structure and of the subsequent restructuring of the debt exposure is expected to take effect on January 1, 2013, a pro-rata representation, compared to 2012, of the economic-equity and financial effects of the overall turnaround operation and of proposed share capital increases set out in this Report, which are currently expected to be completed by the end of the current year, is not deemed to be significant.

**XIV. EFFECTS ON THE UNIT VALUE OF THE SHARES**

The execution of the Transaction and, in particular, the Share Capital Increases, will involve the following effects on the unit value of the shares and on the implied book value.

	Number of shares issued	Share capital (€)	Prelios S.p.A. equity	Implied book value (€ per share)	Prelios S.p.A. equity (€ per share)
December 31, 2012	841.171.777	218.877.613	4.552.089	0,2602	0,0054
Reduction in share capital due to losses	841.171.777	4.881.623	4.552.089	0,0058	0,0054
Cancellation of ordinary shares	840.000.000	4.881.623	4.552.089	0,0058	0,0054
Reduction through 1:10 reverse share split	840.000.000	4.881.623	4.552.089	0,0581	0,0542
Post share capital increase under option	277.195.887	119.891.134	119.561.601	0,4325	0,4313
Post reserved share capital increase	394.793.383	189.896.223	189.567.390	0,4810	0,4802

As shown in the previous table, due to the transaction as a whole, the unit value of the shares would move from an implied book value of 0.2602 euro as at the reference date of December 31, 2012 (compared to a statutory equity value of 0.0054 euro per share and a consolidated equity value of 0.0956 euro per share as at said reference date) to an implied book value, post-execution of the Share Capital Increases, of 0.4810 euro (compared to a statutory equity value of 0.4802 euro per share and a consolidated equity value of 0.6723 euro per share). The tables below describe, merely for illustrative purposes, the possible dilutive effects of the Transaction, in relation to both economic capital and solely voting capital, deriving from the implementation of the Share Capital Increases, on the basis of the main assumptions and hypotheses indicated below.

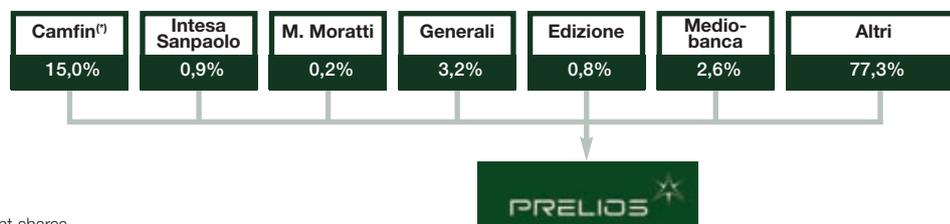
It should also be noted that, as a result of the exercise of the power by the Board of Directors (pursuant to item 1.e) of the agenda of the Shareholders' Meeting) for the actual issue of the mandatory convertible bond for an amount that will be determined and the subsequent conversion (on maturity of said mandatory convertible bond or early), the dilutive effects of the conversion will vary, on the basis of, among other things, not only the timescales and the actual measurement used to attain the conversion (also taking into account the cash option for redemption exercisable by the company), but also the conversion price at the relevant date.

*[continued on next page]*

(a) TOTAL SUBSCRIBED BY THE MARKET <sup>(11)</sup>

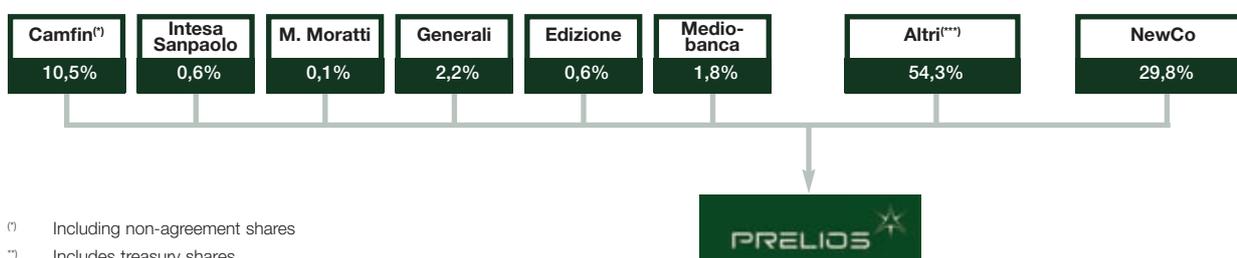
- Shareholder structure post share capital increase:

*Voting capital:*



<sup>(1)</sup> Including non-agreement shares

*Economic capital:*



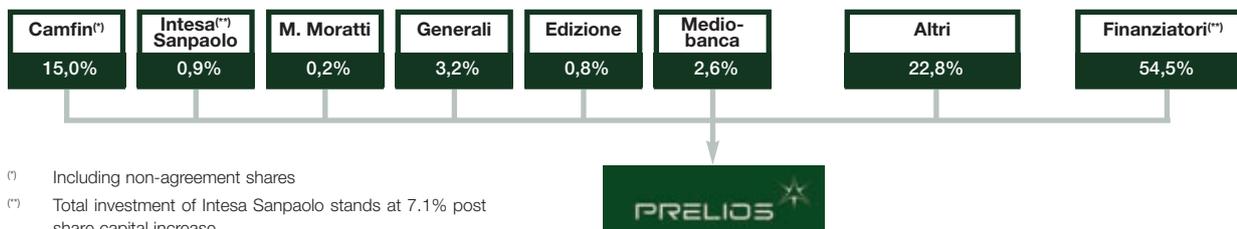
<sup>(1)</sup> Including non-agreement shares

<sup>(2)</sup> Includes treasury shares

(b) NON-SUBSCRIPTION BY THE MARKET <sup>(12)</sup>

- Shareholder structure post share capital increase:

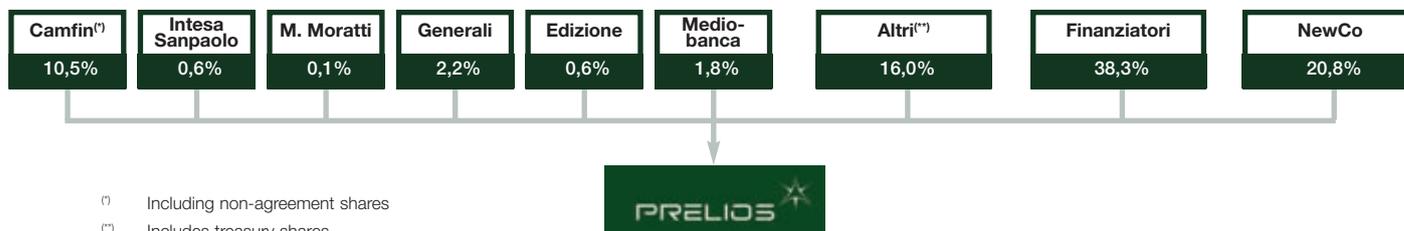
*Voting capital:*



<sup>(1)</sup> Including non-agreement shares

<sup>(2)</sup> Total investment of Intesa Sanpaolo stands at 7.1% post share capital increase

*Economic capital:*



<sup>(1)</sup> Including non-agreement shares

<sup>(2)</sup> Includes treasury shares

(11) Assuming the full subscription of the Increase under Option by the market and certain shareholders of the current Prelios Agreement (totalling around 25 million euro).

(12) Assuming, in any case, the subscription of the Increase under Option by certain shareholders of the current Prelios Agreement (totalling around 25 million euro).

## XV. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In the event the shareholders approve the proposals concerning the reverse share split, the reduction of share capital and the Share Capital Increases pursuant to this Report, for the reasons already reported, it will subsequently be necessary to amend articles 5 and 6, as well as introduce a new article 6-bis to the company's Articles of Association.

Furthermore, in consideration of the legislative amendments made to art. 158 of Italian Legislative Decree no. 58 of February 24, 1998 by Italian Legislative Decree no. 184 of October 11, 2012, it is proposed that art. 5.2 of the Articles of Association be reviewed, to bring it into line with the new legislative arrangement.

A comparison is shown below of the text of articles 5 and 6 of the current Articles of Association and the text of the new Articles of Association, including the text of new article 6-bis, which is proposed for adoption. Entries in italics and crossed out outline the current text of the Articles of Association which is to be eliminated or amended, and entries in bold in the proposed text highlight the changes to be made and, subsequently, the text of the new Articles of Association that shall be adopted by the company following the resolution of the shareholders' meeting.

It should be noted that category B shares that will be issued in execution of the Reserved Increase will have the same characteristics as ordinary shares, but do not entitle holders to any voting rights. These category B shares are converted to ordinary shares, according to a ratio of one ordinary share for every category B share, in accordance with the terms and conditions indicated in this Report. In addition, no category B shares will need to be admitted for listing, while at the time of the conversion of these shares to ordinary shares, the latter will be listed, similar to the ordinary shares currently in issue, as envisaged by the agreements in relation to the Transaction.

### CURRENT TEXT

#### SHARE CAPITAL AND SHARES

##### Article 5

5.1 The paid-in and subscribed share capital totals euro ~~218,877,613.14 (two hundred and eighteen million, eight hundred and seventy seven thousand, six hundred and thirteen, point fourteen)~~ divided into ~~841,171,777 (eight hundred and forty one million, one hundred and seventy one thousand, seven hundred and seventy seven)~~ shares without face value.

### PROPOSED TEXT

#### SHARE CAPITAL AND SHARES

##### Article 5

5.1 The paid-in and subscribed share capital totals euro **[•] ([•]) divided into [•] ordinary shares** without face value.

**The extraordinary shareholders' meeting of [•] resolved to approve:**

(i) an indivisible share capital increase against payment, for a total amount of 70,005,789.37 euro (seventy million, five thousand, seven hundred and eighty nine point thirty seven), with the exclusion of the option right pursuant to Art. 2441, par. 5 of the Italian Civil Code, as amended by Italian Legislative Decree no. 184 of October 11, 2012, through the issue of 117,597,496 (one hundred and seventeen million, five hundred and ninety seven thousand, four hundred and ninety six) category B shares ("Category B Shares"), convertible to ordinary shares, at a subscription price of 0.5953 euro (zero point five thousand nine hundred and fifty three) per share, to be performed by **[•]**

(ii) a divisible share capital increase against payment for a maximum total amount of 115,009,511.53 euro (one hundred and fifteen million, nine thousand, five hundred and eleven point fifty three), through the issue of up to 193,195,887 (one hundred and ninety three million, one hundred and ninety five thousand, eight hundred and eighty seven) ordinary shares, at a subscription price of 0.5953 euro (zero point five thousand nine hundred and fifty three) per share, with the same characteristics as those in circulation to be offered under option to entitled parties. This increase is to be effected by **[•]**; and

(iii) pursuant to Art. 2420-ter, par. 2 of the Italian Civil Code, the assignment to the Board of Directors of the right to issue a maximum of a nominal 269,000,000.00 euro (two hundred and sixty nine million point zero), in bonds subject to mandatory conversion (mandatory convertible bonds) to ordinary and/or Category B Shares, with the exclusion of the option right pursuant to Art. 2441, par. 5 of the Italian Civil Code, with the subsequent divisible increase in share capital for a maximum of 297,644,375.01 euro (two hundred and ninety seven million, six hundred and forty four thousand, three hundred and seventy five point zero one), in service of the conversion of the financial instrument, to be carried out through the issue of up to 499,990,551 (four hundred and ninety nine million, nine hundred and ninety thousand, five hundred and fifty one) ordinary shares and up to 144,678,117 (one hundred and forty four mil-

5.2 In resolutions to increase share capital against payment, the option right can be excluded for the maximum amount of ten percent of the pre-existing share capital, as long as the issue price equates to the market value of the shares and this is confirmed in a specific report ~~prepared by an auditing company.~~

Article 6

6.1 The shares ~~are ordinary and registered.~~

6.2 The company may increase the share capital also by means of conferrals other than in cash. The company may also issue categories of shares which provide specific rights, within the limits permitted by current pro-tempore legislation.

6.3 Any introduction or removal of constraints concerning the circulation of shares does not attribute the right to withdraw to any shareholders who did not participate in the approval of the relevant resolution.

lion, six hundred and seventy eight thousand, one hundred and seventeen) Category B Shares, shares with no face value, with regular dividends, with the same characteristics, respectively, as ordinary shares and Category B Shares in circulation at the issue date, to be used exclusively for the mandatory conversion, the right to be exercised once the share capital increase referred to in points (i) and (ii) has been performed and, nonetheless, within a maximum of one year from the resolution date, with the additional right of the Board of Directors to establish all terms and conditions of the mandatory convertible bond, as with the share capital increase in service of the mandatory conversion.

Following the execution of the share capital increases set forth in previous points (i) and (ii), as well as the exercise of the power pursuant to point (iii), the Board of Directors is authorised to proceed with all subsequent formalities, including therein, the updating of the Articles of Association and subsequent filing at the Register of Companies.

5.2 In resolutions to increase share capital against payment, the option right can be excluded for the maximum amount of ten percent of the pre-existing share capital, as long as the issue price equates to the market value of the shares and that this is confirmed in a specific report **prepared by an external auditor or external auditing company.**

Article 6

6.1 **Shares are registered and indivisible. The shares are without face value and are issued in dematerialised form.**

6.2 **The ordinary shares enjoy all rights expressly recognised by law and these Articles of Association. Category B Shares have the same characteristics as ordinary shares but do not entitle holders to any voting rights. These Category B Shares are converted to ordinary shares, according to a ratio of one ordinary share for every Category B Share, in the event of the transfer referred to Art. 6-bis below, or the launch of a take-over bid and/or take-over bid with share swap involving company shares.**

6.3 The company may increase the share capital also by means of conferrals other than in cash. The company may also issue categories of shares which provide specific rights, within the limits permitted by current pro-tempore legislation.

6.4 Any introduction or removal of constraints concerning the circulation of shares does not attribute the right to withdraw to any shareholders who did not participate in the approval of the relevant resolution.

Article 6-bis

6-bis.1 **Ordinary shares and Category B Shares are freely transferable, except as provided for in this Art. 6-bis.**

6-bis.2 **In the event of transfer of Category B Shares to parties that are not already directly holders of Category B Shares, the transfer will involve the automatic conversion of said Category B Shares involved in the transfer to ordinary company shares, as envisaged by paragraph 6.2 above. By contrast, said conversion shall not be carried out in the event of the transfer to parties directly or indirectly controlled by parties that are already holders of Category B Shares.**

6-bis.3 **Transfer means any act carried out on a voluntary or forced basis, both against payment and free of charge, during a person's lifetime or upon death, realised in any form and/or any event which, directly or indirectly, results in the transfer, establishment and/or transfer of the right to own ordinary shares and/or Category B Shares, including therein any instruments convertible to ordinary shares and Category B Shares, option rights and/or rights to purchase and/or subscribe ordinary shares and/or Category B Shares and instruments con-**

vertible to ordinary shares and Category B Shares to which the holders of the same are entitled.

6-bis.4 As a result of the conversion of Category B Shares to ordinary shares, the Board of Directors is authorised to proceed with all subsequent formalities, including therein, the updating of the Articles of Association and subsequent filing at the Register of Companies.

The Board of Directors does not believe that the above-mentioned amendments to the Articles of Association involve, for Prelios shareholders, the right of withdrawal pursuant to Art. 2437 of the Italian Civil Code.

\* \* \* \*

**PROPOSED RESOLUTION ON THE MATTER  
INCLUDED IN ITEM 1 ON THE AGENDA OF THE EXTRAORDINARY PART  
OF THE SHAREHOLDERS' MEETING CALLED FOR MAY 8, 2013**

Dear Shareholders,

in consideration of the information reported in this Report, if you are in agreement with the above, we invite you to assume the following resolution, as regards its individual items, which shall be put to a vote on an individual basis according to following order:

RESOLVES

1. to carry out a reverse share split, according to a ratio of 1 new ordinary share, with no face value and regular dividends, to every 10 ordinary Prelios S.p.A. shares held, subject to prior cancellation, to allow the overall balancing of the reverse share split transaction, of the 1,171,777 ordinary shares held by the Prelios S.p.A., without a reduction in share capital;
2. to proceed with the coverage of the loss of 213,995,990.64 reported in the financial statements of Prelios S.p.A. for the year ended as at December 31, 2012, through the reduction for a corresponding amount of share capital, which therefore decreases from 218,877,613.14 euro to 4,881,622.50 euro, with no cancellation of shares;
3. to increase share capital, against payment, in indivisible form, for a total amount of 70,005,789.37, reserved to a special purpose vehicle – in which Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. have an interest – and, therefore, with the exclusion of the option right pursuant to Art. 2441, par. 5 of the Italian Civil Code, through the issue of 117,597,496 category B shares, convertible to ordinary shares, at a subscription price of 0.5953 per share, to be subscribed in cash and to be performed within the deadline of one year from the resolution date. The category B shares do not entitle holders to voting rights and are not destined for listing;
4. to increase share capital increase, against payment, in divisible form, for a total maximum amount of 115,009,511.53 euro, to be offered under option to all company shareholders, pursuant to Art. 2441, par. 1 of the Italian Civil Code, through the issue of up to 193,195,887 ordinary shares, at a subscription price of 0.5953 euro per share, with regular dividends and identical characteristics to Prelios shares in circulation at the time of their issue. This increase under option, to be subscribed in cash or also through the offsetting or waiving of receivables due to the company, must be performed within the deadline of one year from the resolution date;
5. to assign the Board of Directors, pursuant to Art. 2420-ter, par. 2 of the Italian Civil Code, the right to issue a maximum of a nominal 269,000,000.00 euro (two hundred and sixty nine million point zero), in bonds subject to mandatory conversion (mandatory convertible bonds) to ordinary and/or category B shares, with the exclusion of the option right pursuant to Art. 2441, par. 5 of the Italian Civil Code, with the subsequent divisible increase in share capital for a maximum of 297,644,375.01 euro, to be carried out through the issue of up to 499,990,551 ordinary shares and a maximum of 144,678,117 category B shares, shares with no face value, with regular dividends, with the same characteristics as those in circulation at the issue date, the right to be exercised once the share capital increase referred to in points (i) and (ii) has been performed and, nonetheless, within a maximum of one year from the resolution date, with the additional right of the Board of Directors to establish all terms and conditions of the mandatory convertible bond, as with the share capital increase in service of the mandatory conversion;
6. to subsequently amend articles 5 and 6 and introduce a new article 6-bis to the Articles of Association as follows:

CURRENT TEXTSHARE CAPITAL AND SHARESArticle 5

5.1 The paid-in and subscribed share capital totals euro ~~218,877,613.14 (two hundred and eighteen million, eight hundred and seventy seven thousand, six hundred and thirteen, point fourteen)~~ divided into ~~841,171,777 (eight hundred and forty one million, one hundred and seventy one thousand, seven hundred and seventy seven)~~ shares without face value.

5.2 In resolutions to increase share capital against payment, the option right can be excluded for the maximum amount of ten percent of the pre-existing share capital, as long as the

PROPOSED TEXTSHARE CAPITAL AND SHARESArticle 5

5.1 The paid-in and subscribed share capital totals euro **[•] ([•])** divided into **[•] ordinary shares** without face value.

The extraordinary shareholders' meeting of **[•]** resolved to approve:

(i) an indivisible share capital increase against payment, for a total amount of 70,005,789.37 euro (seventy million, five thousand, seven hundred and eighty nine point thirty seven), with the exclusion of the option right pursuant to Art. 2441, par. 5 of the Italian Civil Code, as amended by Italian Legislative Decree no. 184 of October 11, 2012, through the issue of 117,597,496 (one hundred and seventeen million, five hundred and ninety seven thousand, four hundred and ninety six) category B shares ("Category B Shares"), convertible to ordinary shares, at a subscription price of 0.5953 euro (zero point five thousand nine hundred and fifty three) per share, to be performed by **[•]**;

(ii) a divisible share capital increase against payment for a maximum total amount of 115,009,511.53 euro (one hundred and fifteen million, nine thousand, five hundred and eleven point fifty three), through the issue of up to 193,195,887 (one hundred and ninety three million, one hundred and ninety five thousand, eight hundred and eighty seven) ordinary shares, at a subscription price of 0.5953 euro (zero point five thousand nine hundred and fifty three) per share, with the same characteristics as those in circulation to be offered under option to entitled parties. This increase is to be effected by **[•]**; and

(iii) pursuant to Art. 2420-ter, par. 2 of the Italian Civil Code, the assignment to the Board of Directors of the right to issue a maximum of a nominal 269,000,000.00 euro (two hundred and sixty nine million point zero), in bonds subject to mandatory conversion (mandatory convertible bonds) to ordinary and/or Category B Shares, with the exclusion of the option right pursuant to Art. 2441, par. 5 of the Italian Civil Code, with the subsequent divisible increase in share capital for a maximum of 297,644,375.01 euro (two hundred and ninety seven million, six hundred and forty four thousand, three hundred and seventy five point zero one), in service of the conversion of the financial instrument, to be carried out through the issue of up to 499,990,551 (four hundred and ninety nine million, nine hundred and ninety thousand, five hundred and fifty one) ordinary shares and up to 144,678,117 (one hundred and forty four million, six hundred and seventy eight thousand, one hundred and seventeen) Category B Shares, shares with no face value, with regular dividends, with the same characteristics, respectively, as ordinary shares and Category B Shares in circulation at the issue date, to be used exclusively for the mandatory conversion, the right to be exercised once the share capital increase referred to in points (i) and (ii) has been performed and, nonetheless, within a maximum of one year from the resolution date, with the additional right of the Board of Directors to establish all terms and conditions of the mandatory convertible bond, as with the share capital increase in service of the mandatory conversion.

Following the execution of the share capital increases set forth in previous points (i) and (ii), as well as the exercise of the power pursuant to point (iii), the Board of Directors is authorised to proceed with all subsequent formalities, including therein, the updating of the Articles of Association and subsequent filing at the Register of Companies.

5.2 In resolutions to increase share capital against payment, the option right can be excluded for the maximum amount of ten percent of the pre-existing share capital, as long as the issue price equates

issue price equates to the market value of the shares and this is confirmed in a specific report ~~prepared by an auditing company.~~

Article 6

**6.1** The shares are ordinary and registered.

**6.2** The company may increase the share capital also by means of conferrals other than in cash. The company may also issue categories of shares which provide specific rights, within the limits permitted by current pro-tempore legislation.

**6.3** Any introduction or removal of constraints concerning the circulation of shares does not attribute the right to withdraw to any shareholders who did not participate in the approval of the relevant resolution.

to the market value of the shares and **that** this is confirmed in a specific report **prepared by an external auditor or external auditing company.**

Article 6

**6.1 Shares are registered and indivisible.** The shares **are without face value and are issued in dematerialised form.**

**6.2 The ordinary shares enjoy all rights expressly recognised by law and these Articles of Association. Category B Shares have the same characteristics as ordinary shares but do not entitle holders to any voting rights. These Category B Shares are converted to ordinary shares, according to a ratio of one ordinary share per each Category B share, in the event of the transfer referred to Art. 6-bis below, or the launch of a take-over bid and/or take-over bid with share swap involving company shares.**

**6.3** The company may increase the share capital also by means of conferrals other than in cash. The company may also issue categories of shares which provide specific rights, within the limits permitted by current pro-tempore legislation.

**6.4** Any introduction or removal of constraints concerning the circulation of shares does not attribute the right to withdraw to any shareholders who did not participate in the approval of the relevant resolution.

**Article 6-bis**

**6-bis.1** Ordinary shares and Category B Shares are freely transferable, except as provided for in this Art. 6-bis.

**6-bis.2** In the event of transfer of Category B Shares to parties that are not already directly holders of Category B Shares, the transfer will involve the automatic conversion of said Category B Shares involved in the transfer to ordinary company shares, as envisaged by paragraph 6.2 above. By contrast, said conversion shall not be carried out in the event of the transfer to parties directly or indirectly controlled by parties that are already holders of Category B Shares.

**6-bis.3** Transfer means any act carried out on a voluntary or forced basis, both against payment and free of charge, during a person's lifetime or upon death, realised in any form and/or any event which, directly or indirectly, results in the transfer, establishment and/or transfer of the right to own ordinary shares and/or Category B Shares, including therein any instruments convertible to ordinary shares and Category B Shares, option rights and/or rights to purchase and/or subscribe ordinary shares and/or Category B Shares and instruments convertible to ordinary shares and Category B Shares to which the holders of the same are entitled.

**6-bis.4** As a result of the conversion of Category B Shares to ordinary shares, the Board of Directors is authorised to proceed with all subsequent formalities, including therein, the updating of the Articles of Association and subsequent filing at the Register of Companies.

7. to assign the Board of Directors all the widest powers to establish the methods, terms and conditions of the issue of the mandatory convertible bond and the subsequent share capital increase (pursuant to previous point 5) including therein, among other things, the power to determine, also on the basis of agreements with the company's Lenders, the conversion price, the events and the methods of conversion, including early conversion, to ordinary and/or category B shares (or solely to ordinary shares if, before the conversion date, the category B shares have been converted to ordinary shares), the methods of adjustment of the conversion price, if any, and any other aspect, term and condition of the issue and of said mandatory convertible bonds and the subsequent increase in share capital in service of the conversion;
8. to confer the Board of Directors and, on its behalf, the Chairman and the Chief Executive Officer temporarily in office, also separately, all powers and faculties for implementing the above resolutions and to carry out any act and/or formality needed for these to be recorded in the Register of Companies and, in particular (i) to execute the reverse share split transactions, subject to cancellation of part of the current treasury shares, also to allow the overall balancing of the transaction and sale of the remaining treasury shares, in order to facilitate the management of remainders, without the reduction in share capital, establishing, also in agreement with the competent authorities, the associated timescales and methods, (ii) to implement the reduction in share capital to cover losses (where possible, in a way that is essentially consistent with the execution of the reverse share split transactions) and (iii) to execute the resolved share capital increases, also taking into account the increase resulting from the non-entitlement to option rights on treasury shares still held following the reverse share splits and according to the characteristics defined pursuant to points 3 and 4 above (as well as, when the conditions are met, the increase in share capital in service of the conversion set forth in previous point 5), with all necessary powers to carry out any necessary or incumbent act and with the express authority, among other things, to take any due steps to implement the same, according to the legal terms and on the basis of the agreements signed by the company, and in particular, to establish the terms for the offer on the stock market of unopted rights, and for the placement with third parties of shares that remain unsubscribed after the stock market offering and drafting and preparing all documents needed for the purpose of the resolved transaction, including therein, by way of an example, offer documentation, information documents and the prospectus or authorisation or exemption requests and/or applications to the competent authorities;
9. to authorise the Chairman and the Chief Executive Officer temporarily in office, also separately, to file and publish, pursuant to law, when necessary, the text of amended articles in the Articles of Association, updated with the changes made by means of this resolution and following the relative execution of the same;
10. to authorise the Chairman and the Chief Executive Officer temporarily in office, to carry out all necessary and appropriate acts to obtain legal approval of the aforementioned resolutions, with the right to accept and introduce to said resolutions any formal and non-essential amendment and/or addition deemed necessary during the registration phase or, in any case, requested by the authorities.

\* \* \* \*

\* \*

#### MANAGER RESPONSIBLE FOR CORPORATE FINANCIAL REPORTING

The Manager responsible for corporate financial reporting of Prelios S.p.A.

Mr. Angelo Cattaneo, hereby declares – pursuant to Art. 154-bis, par. 2 of Italian Legislative Decree no. 58 of February 24, 1998 – that the accounting information in this Directors' Report corresponds to the documentary results, books and accounting entries of the company;

Signed  
Mr. Angelo Cattaneo  
(*Manager responsible for  
corporate financial reporting*)

## ANNEXES

- A. Opinion of the independent auditors on the fairness of the share issue price for the share capital increase with exclusion of the option right (art. 158, Italian legislative decree No. 58 of February 24, 1998).



### **Prelios S.p.A.**

Parere della società di revisione  
sulla congruità del prezzo di emissione delle azioni  
per l'aumento di capitale sociale con esclusione del diritto di opzione  
(Art. 158 D. Lgs. 24 febbraio 1998, n. 58)



Reconta Ernst & Young S.p.A.  
Via della Chiusa, 2  
20123 Milano  
Tel. (+39) 02 722121  
Fax (+39) 02 72212037  
www.ey.com

**Parere della società' di revisione  
sulla congruità del prezzo di emissione delle azioni  
per l'aumento di capitale sociale con esclusione del diritto di opzione  
(Art. 158 D. Lgs. 24 febbraio 1998, n. 58)**

Al Consiglio di Amministrazione di  
Prelios S.p.A.

#### 1. Motivo, oggetto e natura dell'incarico

Al sensi dell'art. 158, primo comma del D. Lgs. 24 febbraio 1998, n. 58, abbiamo ricevuto da Prelios S.p.A. ("Prelios", la "Società" o la "Capogruppo") comunicazione dell'avvenuta delibera da parte del Consiglio di Amministrazione del 27 marzo 2013 della proposta di più operazioni di aumento di capitale sociale, di cui una ai sensi dell'art. 2441, quinto comma, del Codice Civile, accompagnata dall'apposita relazione degli Amministratori approvata nell'ambito della medesima riunione consiliare (la "Relazione degli Amministratori"), che:

- i) illustra e giustifica l'esclusione del diritto d'opzione indicando i criteri adottati dagli Amministratori per la determinazione del prezzo di emissione delle azioni;
- ii) si colloca nell'ambito di un'operazione ("Operazione"), finalizzata al raggiungimento del riequilibrio finanziario della Società e del gruppo (il "Gruppo" o il "Gruppo Prelios"), tramite il complessivo rafforzamento patrimoniale della Società e la ristrutturazione del debito della Capogruppo nei confronti del pool di banche finanziatrici (le "Banche") e di Pirelli & C. S.p.A. ("Pirelli") (congiuntamente, i "Finanziatori");
- iii) prevede al suo interno una operazione di aumento di capitale sociale, con esclusione del diritto di opzione ai sensi dell'art. 2441, quinto comma, del Codice Civile, che dovrà essere sottoposta all'approvazione dell'Assemblea Straordinaria degli Azionisti convocata per il giorno 8 maggio 2013.

La proposta inclusa nella Relazione degli Amministratori comprende un'operazione di aumento di capitale sociale a pagamento, in via inscindibile, riservato a una società veicolo ("Newco"), partecipata da Feidos 11 S.p.A. ("Feidos"), Pirelli, Intesa Sanpaolo S.p.A. e UniCredit S.p.A., con esclusione del diritto di opzione ai sensi dell'art. 2441, quinto comma, del Codice Civile, mediante emissione di n. 117.597.496 azioni di categoria B, convertibili in azioni ordinarie, a un prezzo di emissione di Euro 0,5953 per azione, per un importo complessivo di Euro 70.005.789,37 ("Aumento Riservato").

Quale società di revisione contabile, peraltro già incaricati della revisione legale dei conti della Società, siamo stati incaricati, in considerazione delle caratteristiche della suddetta operazione di aumento di capitale, di esprimere, ai sensi dell'art. 158 del D.Lgs. 24 febbraio 1998, n. 58, il nostro parere sulla congruità del prezzo di emissione delle azioni.

Al fine di fornire agli Azionisti informazioni sulle modalità di determinazione del prezzo effettivo di emissione delle azioni, la presente relazione riporta i criteri utilizzati per la determinazione del

Reconta Ernst & Young S.p.A.  
Sede Legale: 00198 Roma - Via Pio, 32  
Capitale Sociale € 1.402.500,00 i.v.  
Iscritta alla S.O. del Registro delle imprese presso la C.C.I.A.A. di Roma  
Codice fiscale e numero di iscrizione 00434000584  
R.I. 00891231003  
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicata sulla G.U.  
Suppl. 13 - IV Serie Speciale del 17/2/1998  
Iscritta all'Albo Speciale delle società di revisione  
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited



prezzo stesso ed una valutazione sull'adeguatezza dei metodi utilizzati sotto il profilo della ragionevolezza e non arbitrarietà.

Nell'esaminare i criteri adottati dagli Amministratori per la determinazione del prezzo di emissione delle azioni, non abbiamo effettuato una valutazione economica della Società.

## 2. Sintesi dell'Operazione

L'Operazione, come meglio descritta nella Relazione degli Amministratori, prevede un complessivo rafforzamento patrimoniale della Società da realizzarsi attraverso quanto segue:

- (a) l'Aumento Riservato di capitale, sopra descritto, da realizzare, mediante sottoscrizione in denaro, di azioni di categoria B per circa Euro 70 milioni da parte di Newco, veicolo societario partecipato da Pirelli, Intesa Sanpaolo S.p.A. e UniCredit S.p.A., già finanziatori della Società, e da Feidos, identificato quale investitore industriale (l'"Investitore Industriale"), al termine del processo di selezione nel seguito descritto. Rispetto alle azioni ordinarie della Società, le azioni di categoria B sono prive dei diritti di voto e non sono destinate alla quotazione su alcun mercato regolamentato; inoltre, tali azioni, secondo quanto sarà previsto dal nuovo Statuto Sociale di Prelios, si potranno convertire in azioni ordinarie (destinate alla quotazione), nel rapporto di una nuova azione ordinaria per ciascuna azione di categoria B, in caso di trasferimento delle azioni di categoria B a terzi (che non siano già direttamente titolari di azioni di categoria B) ovvero in caso di lancio di un'offerta pubblica di acquisto e/o scambio (OPA e/o OPAS) sulle azioni Prelios (le "Azioni di Categoria B");
- (b) un aumento di capitale a pagamento (l'"Aumento in Opzione"), scindibile, dell'importo complessivo massimo di circa Euro 115 milioni da offrirsi in opzione agli azionisti della Società, ai sensi dell'art. 2441, primo comma, del Codice Civile, mediante emissione di massime n. 193.195.887 azioni ordinarie, ad un prezzo di emissione per azione di Euro 0,5953, che avranno godimento regolare e caratteristiche identiche a quelle delle azioni ordinarie in circolazione al momento della loro emissione; tale aumento è garantito come descritto nel seguito;
- (c) l'attribuzione al Consiglio di Amministrazione ai sensi dell'art. 2420-ter, secondo comma, del Codice Civile della facoltà di emettere per un ammontare massimo pari a nominali Euro 269 milioni, obbligazioni a conversione obbligatoria (il "Convertendo") in azioni ordinarie e/o in Azioni di Categoria B, con esclusione del diritto di opzione ai sensi dell'art. 2441, quinto comma, del Codice Civile, con conseguente aumento del capitale sociale, in via scindibile, per massimi Euro 297,6 milioni circa, per effetto dei maturandi interessi, da porre a servizio della conversione delle obbligazioni e che potrà essere eseguito entro un periodo massimo di sette anni, salva estensione di ulteriori tre anni, dall'emissione del Convertendo. Tale facoltà potrà essere esercitata una volta eseguiti gli aumenti di capitale di cui ai punti precedenti e comunque entro un periodo massimo di un anno dalla data della deliberazione, con facoltà ulteriore per il Consiglio di Amministrazione di stabilire il tasso e la durata dello strumento, nonché tutte le altre condizioni dello stesso sulla base degli accordi di ristrutturazione con i finanziatori della Società (gli "Accordi di Ristrutturazione") cui tali strumenti saranno offerti, come detto, in esclusione del diritto di opzione.



Con riferimento all'Aumento in Opzione, con separate comunicazioni pervenute entro la data del 26 marzo 2013, Camfin S.p.A., Assicurazioni Generali S.p.A., Mediobanca - Banca di Credito Finanziario S.p.A. e Intesa Sanpaolo S.p.A., quali aderenti al patto di sindacato relativo a Prelios attualmente vigente (il "Patto Prelios"), hanno confermato il proprio impegno nei confronti della Società, subordinatamente ad alcune condizioni, tra cui l'ottenimento delle necessarie autorizzazioni da parte delle Autorità competenti, a sottoscrivere l'Aumento in Opzione per un importo complessivo di circa Euro 25 milioni.

Sulla base di quanto comunicato alla Società, è previsto che i Finanziatori garantiscano la sottoscrizione di azioni offerte in opzione ed eventualmente rimaste inoprate, per un importo complessivo massimo di Euro 90 milioni, dei quali Euro 5 milioni mediante versamento in denaro (da parte di Pirelli, Intesa Sanpaolo S.p.A. e UniCredit S.p.A.) e Euro 85 milioni mediante compensazione di una quota dei crediti vantati dagli stessi Finanziatori (pro-quota da parte di tutti i Finanziatori).

Nel caso di conversione parziale od anche in caso di nessuna conversione in presenza di un'integrale sottoscrizione dell'Aumento in Opzione da parte del mercato, una quota del 50% della parte liberata in denaro dei predetti Euro 85 milioni di Aumento in Opzione sarà destinato al rimborso del debito finanziario complessivo al 31 dicembre 2012, fermo restando un livello di indebitamento *super senior* e *senior* pari a complessivi Euro 250 milioni come di seguito descritto, con conseguente variazione della quota destinata al Convertendo.

Oltre alla ricapitalizzazione, l'Operazione include anche una rimodulazione del debito finanziario della Capogruppo secondo gli accordi formalizzati in un *term sheet* sottoscritto dalla Società e dai Finanziatori (il "Term Sheet Finanziatori") che prevede, a decorrere da 1° gennaio 2013, il mantenimento di Euro 250 milioni di debito finanziario da rimborsare per cassa, suddiviso tra una parte *super senior* (Euro 50 milioni) e una parte *senior* (Euro 200 milioni).

Il finanziamento *super senior* presenterà i seguenti principali termini e condizioni:

- scadenza a 5 anni, *bullet*;
- oneri finanziari semestrali *cash* ad un tasso *all-in* pari al 4,0%;
- eliminazione dei *covenant* finanziari.

Il finanziamento *senior* presenterà i seguenti principali termini e condizioni:

- scadenza a 6 anni, *bullet*;
- oneri finanziari capitalizzati ad un tasso *all-in* pari al 3,0% per i primi 4 anni e, successivamente, *step-up* a mercato;
- eliminazione dei *covenant* finanziari.

Il finanziamento *senior* sarà servito dalla realizzazione degli attivi immobiliari; in particolare, si prevedono:

- rimborsi anticipati pari al 65% dei flussi generati dalla realizzazione degli attivi immobiliari;
- il restante 35% costituirà un fondo cassa (il "Fondo Esigenze di Cassa 1") fino a Euro 145 milioni, per far fronte a predeterminati oneri e/o impegni relativi ad iniziative e/o investimenti specificatamente individuati ed eventuali altre passività;
- qualora nel caso in cui dovessero sorgere altre passività e il Fondo Esigenze di Cassa 1, tenuto conto delle esigenze per cui è stato costituito, non fosse capiente, il 100% dei flussi generati dagli attivi immobiliari sarà utilizzabile per l'integrazione del Fondo Esigenze di Cassa 1 sino a concorrenza di Euro 20 milioni.

Inoltre, fino ad Euro 269 milioni, il debito finanziario esistente acquisirà la natura di Convertendo in azioni ordinarie e in azioni di classe B della Società, con *cash option* per il



rimborso esercitabile da parte della Società. Si prevede, sulla base del Term Sheet Finanziatori, che tale strumento presenterà i seguenti principali termini e condizioni, sulla base dei quali il Consiglio di Amministrazione potrà dare quindi esecuzione alla proposta delega:

- durata di 7 anni;
- oneri finanziari capitalizzati ad un tasso *all-in* pari al 1,00%;
- prezzo della conversione per azione: pari al maggiore tra (i) il prezzo di sottoscrizione dell'aumento di capitale (pari ad Euro 0,5953 per azione) e (ii) la media dei prezzi di borsa delle azioni Prelios nel mese precedente la data di conversione;
- rimborso (alla scadenza o in via anticipata) mediante conversione automatica in: (i) azioni ordinarie per una quota pari al 71,1% del suo controvalore complessivo che sarà ripartita tra Pirelli e tutte le Banche ; e (ii) in Azioni di Categoria B per una quota pari al 28,9% del suo controvalore complessivo che sarà sottoscritta soltanto da Pirelli. In ogni caso, sarà fatto salvo l'eventuale esercizio, in tutto o in parte, di un'opzione facoltativa e discrezionale da parte della Società di rimborsare il Convertendo in denaro previa verifica della stabilità finanziaria della Società ( "*cash option*");
- *Trigger Event*: tra l'altro (i) in caso di ricapitalizzazione della Società effettuata in conformità con le disposizioni di cui agli artt. 2446 e 2447 del Codice Civile, limitatamente alla porzione necessaria a ripristinare un patrimonio netto civilistico almeno pari a quello risultante all'esito degli aumenti di capitale in precedenza descritti o a quello che sarà determinato negli Accordi di Ristrutturazione; ovvero (ii) al momento della scadenza del Convertendo, dopo un periodo di almeno 7 (sette) anni dalla data di emissione e salva l'estensione per ulteriori 3 (tre) anni, al verificarsi delle condizioni stabilite negli Accordi di Ristrutturazione;
- eliminazione *covenant* finanziari.

I termini concordati nel Term Sheet Finanziatori dovranno essere recepiti e formalizzati in accordi di ristrutturazione del debito da eseguirsi in conformità alla procedura prevista dall'art. 67, terzo comma, lettera D), del Regio Decreto n. 267/1942, ai sensi del quale il piano di risanamento predisposto dalla Società è stato attestato in data 28 marzo 2013 da parte di un esperto indipendente.

In sintesi, l'Operazione consentirà di conseguire i seguenti obiettivi di ripatrimonializzazione e ristrutturazione del debito:

- aumenti di capitale, per i quali sussistono già impegni di sottoscrizione o garanzie, per complessivi Euro 185 milioni, di cui almeno Euro 100 milioni da liberarsi in denaro e, fino ad Euro 85 milioni da liberarsi attraverso rinuncia da parte dei Finanziatori di parte del debito finanziario della Società, in caso di mancata sottoscrizione in denaro da parte del mercato;
- il debito verso i Finanziatori è atteso ridursi ad Euro 250 milioni, da rimborsarsi per cassa, remunerato a condizioni significativamente migliorative rispetto alle attuali, oltre ad un debito Convertendo variabile tra Euro 226 ed Euro 269 milioni, in funzione dell'importo dell'Aumento in Opzione che sarà sottoscritto dal mercato.



Nell'ambito della struttura complessiva dell'Operazione e delle intese intercorse tra i vari soggetti coinvolti, il perfezionamento delle attività previste ai fini dell'esecuzione dell'Operazione è soggetta alle seguenti principali condizioni, solo in parte già realizzate:

- la definizione e sottoscrizione degli accordi di rimodulazione del debito con i Finanziatori;
- l'attestazione del piano di risanamento da parte di un esperto indipendente ai sensi dell'art. 67, terzo comma, lettera d), del Regio Decreto n. 267/1942, già avvenuta in data 28 marzo 2013;
- l'impegno da parte degli attuali soci del Patto Prelios, dei Finanziatori e di Feidos a sottoscrivere e/o a garantire la sottoscrizione dell'aumento di capitale, come sarà approvato dall'Assemblea della Società, nei termini in precedenza illustrati;
- il rilascio da parte della Consob dell'esenzione da obblighi di lancio di OPA totalitaria in capo ai soggetti coinvolti nell'Operazione;
- l'approvazione da parte dell'Assemblea di Prelios degli aumenti di capitale nei termini prospettati e, conseguentemente, del nuovo Statuto Sociale di Prelios;
- la nomina di Sergio Iasi, quale Amministratore Delegato, già avvenuta nel mese di dicembre 2012, e di Massimo Caputi quale Vice presidente con delega allo sviluppo della Società.

Gli Amministratori, anche sulla base delle considerazioni ricevute dai loro consulenti, in considerazione del periodo di crisi finanziaria e di liquidità che la Società sta attraversando, e non essendo a conoscenza allo stato attuale di possibili operazioni alternative, ritengono che sia necessaria ed imprescindibile la realizzazione dell'Operazione, secondo i termini e le condizioni sopra indicati, ai fini di risanamento e riequilibrio dell'esposizione debitoria e della situazione patrimoniale del Gruppo.

### 3. Criteri utilizzati dagli Amministratori per la determinazione del Prezzo di Emissione

L'Operazione trae origine dal piano di azione posto in essere dagli Amministratori, a partire dal secondo trimestre del 2012, al fine di fronteggiare la situazione di crisi economica, patrimoniale e finanziaria in cui il Gruppo si è venuto a trovare, anche a causa di un contesto del mercato immobiliare da qualche anno significativamente deteriorato.

Infatti, il Gruppo ha conseguito, negli ultimi cinque esercizi, significative perdite economiche, in conseguenza della crisi del settore immobiliare, indotta dalla crisi finanziaria internazionale, che ha prodotto una riduzione delle transazioni immobiliari connessa ad una sempre maggiore carenza di liquidità dei potenziali acquirenti, determinando, di conseguenza, importanti svalutazioni degli attivi ed una contrazione del mercato dei servizi immobiliari.

In tale contesto di difficoltà economica e finanziaria, la Società si è trovata a negoziare il rifinanziamento del debito Corporate, in scadenza nel luglio 2012, riuscendo a concordare, anticipatamente nel dicembre 2011, la concessione di un nuovo debito, a condizioni significativamente più onerose, in coerenza con le mutate dinamiche dei mercati finanziari.

Di conseguenza, era stato elaborato un piano finanziario che prevedeva, tra altri, la realizzazione di flussi di cassa attraverso la cessione di alcune attività, secondo tempistiche ed



importi finalizzati al rispetto dei *covenant* e delle scadenze previste dal piano di rimborso, di capitale ed interessi, del nuovo debito.

Nel corso del primo semestre del 2012, inoltre, delle attese cessioni significative non sono state concluse nei tempi ipotizzati, anche a causa di insoddisfacenti condizioni delle offerte ricevute connesse al continuo deterioramento del mercato. La mancata realizzazione delle transazioni su cui era basato il piano di cassa ha comportato per Prelios la mancata produzione dei flussi finanziari necessari a far fronte agli impegni contrattuali con i finanziatori, portando il Gruppo, nel giugno 2012, in una situazione di significativa incertezza alla capacità di operare in continuità.

Gli Amministratori hanno, pertanto, reagito all'inattesa insostenibilità del proprio debito finanziario, sospendendo le trattative di cessione degli attivi che erano ancora in corso, al fine di favorire una più strutturata operazione di rafforzamento patrimoniale e finanziario e l'ingresso di partner industriali che potessero facilitare il rilancio del Gruppo, attraverso l'integrazione delle reciproche competenze. Con il supporto del proprio *advisor* finanziario, Lazard S.r.l. ("Lazard"), ed avendo ottenuto *waivers* dai Finanziatori per il differimento delle scadenze di breve termine, gli Amministratori hanno avviato un processo di ricerca di *partnership* e di ristrutturazione del debito finanziario.

A partire dalla fine del secondo trimestre 2012, sono state intraprese iniziative finalizzate ad attrarre, anche tramite processi competitivi, investitori terzi e possibili *partnership* industriali, mediante un'attività strutturata di ricerca di soggetti potenzialmente interessati ad un'operazione straordinaria con gli obiettivi sopra delineati, che ha condotto ad instaurare contatti con diversi operatori riconducibili a tre categorie: (i) cordate guidate da imprenditori nazionali; (ii) soggetti con progetti di integrazione industriale; e (iii) investitori finanziari/fondi di *private equity* italiani ed internazionali. A seguito di tale processo sono pervenute alla Società due manifestazioni di interesse da parte di un investitore italiano (Feidos) ed uno estero (Fortress Investment Group UK Ltd) che prospettavano possibili articolate operazioni straordinarie che avrebbero consentito la ricapitalizzazione della Società mediante l'ingresso di tali soggetti nella compagine sociale con il necessario coinvolgimento dei Finanziatori, cui è stato richiesto, fin dall'inizio, il proprio contributo a supportare il progetto di risanamento. Il Consiglio di Amministrazione di Prelios, nel mese di ottobre 2012, ha esaminato le offerte definitive ricevute dai due potenziali investitori, il cui interesse è stato confermato anche al termine dell'articolata attività negoziale e di *due diligence*, protrattasi per diversi mesi. A seguito della valutazione dei contenuti delle proposte pervenute, il Consiglio di Amministrazione, con il supporto di Lazard, ha deliberato di concedere un periodo di negoziato in esclusiva a Feidos, confortato dalla disponibilità anticipatamente manifestata dai principali Finanziatori e dai soci aderenti al Patto Prelios a supportare la prospettata operazione di ristrutturazione patrimoniale, finanziaria ed industriale.

Durante il predetto periodo di esclusiva, come in precedenza già evidenziato, la Società e Feidos hanno sottoscritto, in data 14 novembre 2012, un Memorandum of Understanding ("MoU"), che ha recepito le intese di principio raggiunte tra le parti in relazione all'impostazione dell'ipotizzata operazione straordinaria.

In data 21 dicembre 2012, in conformità con quanto previsto dal MoU, Prelios e Feidos 11 S.p.A., società veicolo controllata da Feidos e partecipata anche dalle famiglie Rovati, Diaz della Vittoria Pallavicini e Cornetto Burlot attraverso i veicoli dedicati, hanno sottoscritto un accordo quadro ("Accordo Quadro") che prevede e regola le attività inerenti alla ricapitalizzazione della



Società ed alla rimodulazione del debito esistente, in termini poi sostanzialmente confermati nella struttura finale dell'Operazione sopra descritta.

Sulla base dell'Accordo Quadro e delle successive intese, è inoltre prevista l'assunzione da parte dell'Investitore Industriale di responsabilità nella gestione di Prelios al fine di massimizzare il suo contributo al rilancio del business.

Il Consiglio di Amministrazione tenutosi in data 27 marzo 2013 ha, quindi, approvato, con riferimento all'Aumento Riservato, il prezzo di emissione pari ad Euro 0,5953 per ciascuna azione di categoria B (il "Prezzo di Emissione").

Il Prezzo di Emissione è in linea con le condizioni di esecuzione dell'Operazione già oggetto di negoziazione con l'Investitore Industriale, poi riflesse nell'Accordo Quadro. Infatti, anche nella precedente manifestazione di interesse, era formulata una proposta di struttura dell'operazione societaria, nell'ambito della quale era ipotizzato, quale termine di riferimento per le successive valutazioni, un *equity value pre-money* di Euro 50 milioni, che comporta un valore per azione di Euro 0,5953, tenuto conto del raggruppamento di azioni deliberato dal medesimo Consiglio di Amministrazione.

Al riguardo, il Consiglio di Amministrazione ha tenuto conto delle caratteristiche e dei termini complessivi dell'Operazione, nel particolare contesto di mercato e della specifica situazione della Società, nell'ambito dei complessivi accordi di ristrutturazione e considerate le caratteristiche delle Azioni di Categoria B, sia con riferimento all'assenza del diritto di voto, sia in termini di effetto diluitivo fino al termine della conversione in azioni ordinarie, nei confronti degli attuali azionisti.

In particolare, quanto alle valutazioni circa il Prezzo di Emissione, il Consiglio di Amministrazione, senza indicare particolari difficoltà e limiti incontrati nella propria valutazione, ha tenuto conto dei seguenti elementi di contesto e considerazioni:

1. il valore dell'*equity pre-money* proposto dall'Investitore Industriale ha rappresentato un termine di riferimento ipotetico, assunto nell'ambito della transazione al fine di agevolare la stessa, procedendo con la negoziazione degli ulteriori, e parimenti rilevanti, elementi sui quali era necessario definire un accordo di reciproca soddisfazione per determinare una struttura dell'operazione che rispondesse complessivamente alle esigenze di Prelios ed alle finalità prospettate. Infatti, tale originaria ipotesi è rimasta invariata, nella struttura finale dell'Operazione, anche dopo la comunicazione dei dati di bilancio al 30 settembre 2012 ed al 31 dicembre 2012. Inoltre, tale valore era comunque risultato più elevato rispetto alla manifestazione di interesse presentata da altro operatore che ha partecipato al ricordato processo competitivo;
2. la situazione di difficoltà della Società che ha fatto emergere una situazione di insufficiente liquidità per fronteggiare gli impegni assunti nei confronti dei Finanziatori e l'esigenza quindi di acquisire nuove risorse finanziarie. In assenza del riequilibrio finanziario e del rafforzamento patrimoniale, elementi imprescindibili nell'ambito della negoziazione con l'Investitore Industriale, Prelios non sarebbe nella condizione di valorizzare al meglio i propri *asset* in una prospettiva di medio-lungo termine, come la congiuntura di mercato impone, ma si potrebbe trovare a dover agire come *forced seller* nel breve termine, privilegiando la generazione di cassa a scapito degli effettivi valori di mercato dei propri *asset*;



3. i progetti e le operazioni straordinarie, individuati e intrapresi nel corso del 2012 per la generazione di cassa in un momento di crisi del settore hanno confermato l'attuale incapacità del mercato di consentire un'adeguata valorizzazione nelle operazioni di cessione di singoli *asset*, confermando la necessità di un'operazione di rafforzamento di più ampio respiro che coinvolgesse anche la ricapitalizzazione della Società;
4. la conseguente necessità di ricercare e implementare in tempi rapidi - visto il protrarsi della situazione di crisi del mercato e la correlata difficoltà a generare flussi di cassa aggiuntivi attraverso la gestione caratteristica e/o la dismissione di *asset* - una soluzione complessiva e di lungo periodo, che permettesse di far fronte ad un'esposizione finanziaria diventata superiore a quella ipotizzata nei piani industriali elaborati in precedenza e, quindi, non più in linea con gli impegni finanziari assunti, dovuta alla sopravvenuta impossibilità di realizzare a valori adeguati le operazioni straordinarie inizialmente previste nei piani di cassa, e consentisse quindi lo sviluppo delle attività di gestione e la graduale e piena valorizzazione degli attivi immobiliari;
5. l'individuazione di tale soluzione (riferita al punto 4, che precede) in un'operazione straordinaria - i cui termini sono stati definiti con il supporto degli *advisor* della Società - che fosse volta al rilancio industriale del Gruppo e prevedesse: (i) l'ingresso nel capitale di nuovi soci che apportassero oltre a nuove risorse finanziarie, anche competenze industriali e prospettive di sviluppo di nuovo *business*, per perseguire un più ampio progetto di rilancio del Gruppo e creare altresì le condizioni per un miglioramento nella capacità di generazione di nuovi flussi di cassa; (ii) il rafforzamento patrimoniale della Società; (iii) una significativa iniezione di liquidità; e (iv) il riequilibrio finanziario attraverso una rivisitazione dell'indebitamento complessivo di Gruppo;
6. le risultanze del processo competitivo attivato dalla Società con il supporto dei propri *advisor*, mediante un'attività strutturata di ricerca di soggetti potenzialmente interessati all'operazione straordinaria delineata, che ha condotto ad instaurare contatti con diversi operatori. In particolare, in esito a tale processo, sono state analizzate le possibili operazioni che si sono rivelate idonee allo scopo sopra descritto e concretizzatesi nella ricezione di due offerte aventi i requisiti richiesti, non limitati alla sola valutazione del capitale aziendale.  
Tali offerte sono state valutate sulla base dei seguenti principali elementi: (i) l'apporto di competenze industriali da parte del nuovo socio, aggiuntive rispetto a quelle già presenti nel Gruppo (in questo senso, il gruppo Feidos ed il *management* ad esso riferibile, rappresenta un operatore del settore immobiliare esperto e riconosciuto nel mercato italiano, con una dimostrata esperienza nello sviluppo del *business*, in grado di creare sinergie e ulteriormente valorizzare le attuali strutture e professionalità presenti nel Gruppo Prelios); (ii) la struttura del capitale proposta, inclusa la revisione dell'indebitamento ai fini di ricondurlo ad un livello sostenibile; (iii) l'ammontare della ricapitalizzazione complessiva offerta; (iv) l'apporto di nuove risorse finanziarie per la Società; (v) la minore difficoltà di realizzazione dell'operazione prospettata, rispetto all'altra offerta che prevedeva anche l'integrazione industriale con altre società, oltre alla ricapitalizzazione e ristrutturazione del debito; (vi) il grado di completezza della proposta ed il numero di elementi da discutere; (vii) le tempistiche per il raggiungimento dell'accordo di rivisitazione della struttura del debito e per il completamento dell'Operazione; e (viii) le preliminari valutazioni emerse dal confronto con i principali Finanziatori, in termini di maggiore disponibilità a supportare la struttura complessiva dell'Operazione e, in particolare, in termini di rimodulazione del debito, così come prospettati da un offerente rispetto all'altro;



7. le più generali valutazioni da parte dei Finanziatori e dei soci del Patto Prelios, coinvolti nello sviluppo delle varie attività e trattative nei limiti di quanto di rispettiva competenza, che hanno evidentemente interessi (allineati a quelli degli Azionisti) di massimizzazione del valore aziendale nel medio-lungo termine e che partecipano, quindi, direttamente al medesimo obiettivo di riequilibrio finanziario e rafforzamento patrimoniale, in una quadro di ragionevole coerenza di tali elementi, unitamente alla predetta valutazione economica, rispetto ai citati obiettivi;
8. la valutazione complessiva dell'operazione prospettata (nel particolare contesto di mercato e specifico di Prelios) tenendo conto - come detto - dell'esito del processo competitivo effettuato e del fatto che non sono risultate possibili, allo stato, operazioni alternative a quelle con Feidos realizzabili nei tempi necessari alla Società, per cui l'Operazione di cui alla Relazione degli Amministratori, ove realizzata secondo i termini e le condizioni previsti, appare complessivamente funzionale agli obiettivi di risanamento di Prelios, fornendo alla stessa - in una prospettiva evolutiva del contesto economico e di mercato - nuove prospettive di crescita e sviluppo. Infatti, operazioni alternative a quella prospettata non avrebbero potuto prescindere dalla soddisfazione delle immediate e stringenti esigenze di cassa attraverso un processo di valorizzazione degli asset nel breve termine, che agendo come *forced seller* avrebbe fortemente penalizzato gli effettivi valori degli attivi sostenibili solo nel medio termine, limitando così le competenze e le professionalità esistenti in Prelios e rendendo difficoltosa la prospettiva di un rilancio industriale del Gruppo;
9. il fatto che il Prezzo di Emissione (pur essendo un elemento a supporto dell'offerta dell'Investitore Industriale) non ha costituito fattore fondamentale ai fini della decisione di procedere con l'operazione straordinaria prospettata. In proposito, si evidenzia che - ai fini della definizione degli elementi caratterizzanti del proposto aumento di capitale (di cui una parte riservato) e a fronte di un'offerta basata su un *equity value pre-money* pari a circa Euro 50 milioni, le ragioni dell'esclusione parziale dal diritto di opzione e della determinazione del prezzo mantengono una loro coerenza, dato il contesto generale dell'Operazione e tutto quanto sopra esplicitato, anche avuto riguardo ai valori patrimoniali della Società alla data di riferimento del 31 dicembre 2012 da cui risulta un patrimonio netto civilistico pari a circa Euro 4,6 milioni ed un patrimonio netto consolidato pari a circa Euro 80,4 milioni. Infatti, come detto, l'*equity value pre-money* proposto - ed al quale il Prezzo di Emissione risulta allineato - è solo parzialmente collegabile ad un effettivo apprezzamento dei valori dell'attivo del Gruppo, ma è da considerare unitariamente e strettamente correlato agli altri elementi strutturali e qualificanti dell'Operazione che, in considerazione dell'attuale stato di rigidità finanziaria e crisi aziendale, rappresentano un criterio rilevante e da cui non è possibile prescindere, nella logica dell'Operazione e per la continuità aziendale del Gruppo, benché non pienamente stimabile con modelli di valutazione economica predisposti in coerenza con l'obiettivo di determinazione di un prezzo di emissione di nuove azioni;
10. con riferimento all'andamento delle quotazioni nell'ultimo semestre (media a un mese pari a Euro 0,0786 per azione e media a sei mesi pari a Euro 0,0825 per azione)<sup>(1)</sup>, ma soprattutto avuto riguardo all'andamento tendenziale della quotazione del titolo Prelios negli ultimi tre mesi successivi all'annuncio delle incertezze sulla continuità aziendale e precedenti all'annuncio della sottoscrizione dell'Accordo Quadro (-27,6%), il Prezzo di

(1) Medie calcolate avendo come riferimento la chiusura di Borsa di venerdì 22 marzo 2013, come riportato nella riunione del Consiglio di Amministrazione in data 27 marzo 2013, che ha approvato l'Operazione.



Emissione appare coerente rispetto ai casi recenti di aumento di capitale, rappresentando uno sconto del 18% rispetto alla quotazione del giorno di sottoscrizione e comunicazione al mercato dell'Accordo Quadro (pari a Euro 0,072). Successivamente, è ragionevole stimare che il mercato borsistico abbia registrato rialzi interpretabili come un gradimento, anche da parte dei mercati finanziari, rispetto al valore dell'Operazione finalizzata al risanamento prospettato.

A conclusione di quanto sopra, tenendo conto di tutti gli elementi precedentemente valutati, non considerando realizzabili allo stato attuale possibili operazioni alternative, gli Amministratori hanno ritenuto che l'Operazione proposta da Feidos, realizzata secondo i termini e le condizioni in precedenza descritti, appaia funzionale con gli obiettivi di risanamento e riequilibrio dell'esposizione debitoria e della situazione patrimoniale del Gruppo. Pertanto, il Prezzo di Emissione determinato, tenendo in considerazione anche l'operazione di raggruppamento, in Euro 0,5953 per azione è stato ritenuto dagli Amministratori adeguato alle circostanze e all'attuale situazione e valore del Gruppo Prelios.

#### 4. Natura e portata del presente parere

Il presente parere di congruità, emesso ai sensi dell'articolo 2441, sesto comma, del Codice Civile e dell'articolo 158, primo comma, TUF, ha la finalità di rafforzare l'informativa a favore degli azionisti esclusi dal diritto di opzione, ai sensi dell'articolo 2441, quinto comma, del Codice Civile in ordine all'adeguatezza dei criteri adottati, sotto il profilo della ragionevolezza e non arbitrarietà, dal Consiglio di Amministrazione ai fini della determinazione del prezzo di emissione delle nuove azioni di Prelios nell'ambito dell'Aumento di Capitale Riservato.

Il presente parere indica pertanto, come illustrato al precedente paragrafo 3., i criteri e le circostanze alla base della determinazione da parte del Consiglio di Amministrazione del prezzo puntuale di emissione delle nuove Azioni di Categoria B di Prelios, pari a Euro 0,5953 per azione. Il parere è altresì costituito dalle nostre considerazioni sull'adeguatezza, sotto il profilo della loro ragionevolezza e non arbitrarietà, nelle circostanze, di tali metodi, nonché sulla loro corretta applicazione.

Non abbiamo quindi effettuato una valutazione economica della Società. Il parere non contiene neppure alcun giudizio in merito né agli accordi di ristrutturazione del debito né alla strutturazione dell'Operazione nel suo complesso, la cui valutazione di adeguatezza della stessa alle dichiarate finalità di risanamento, riequilibrio patrimoniale e finanziario e di rilancio industriale del Gruppo Prelios resta di esclusiva responsabilità del Consiglio di Amministrazione anche sulla base del lavoro svolto dai suoi *advisors*.

#### 5. Documentazione utilizzata e lavoro svolto

Nello svolgimento del nostro lavoro abbiamo ottenuto dalla Società i documenti e le informazioni ritenute utili nella fattispecie. A tal fine abbiamo analizzato la documentazione ottenuta, ed in particolare:

- a) la Relazione degli Amministratori approvata nel corso del Consiglio riunito in data 27 marzo 2013 che illustra e giustifica le operazioni di aumento di capitale sociale, inclusa quella con esclusione del diritto d'opzione, ai sensi dell'art. 2441, quinto comma del Codice Civile,



indicando i criteri adottati dagli Amministratori per la determinazione del prezzo di emissione, trasmessaci nella versione definitiva in data 28 marzo 2013;

- b) il bilancio d'esercizio e consolidato di Prelios al 31 dicembre 2012, approvati dal Consiglio di Amministrazione in data 27 marzo 2013, e da noi assoggettati a revisione contabile;
- c) la documentazione di supporto all'Operazione, tra cui, in particolare:
  - i) il MOU e l'Accordo Quadro, sottoscritti con l'Investitore Industriale, rispettivamente sottoscritti con Feidos S.p.A. e con Feidos 11 S.p.A.;
  - ii) il Term Sheet sottoscritto con i Finanziatori;
  - iii) le lettere di impegno alla sottoscrizione di alcuni soci del Patto Prelios (Camfin S.p.A., Assicurazioni Generali S.p.A., Intesa SanPaolo S.p.A., Mediobanca - Banca di Credito Finanziario S.p.A.) e di Pirelli;
  - iv) la lettera della banca agente del pool di banche finanziatrici di Prelios di conferma dell'impegno di Intesa Sanpaolo S.p.A. e UniCredit S.p.A. alla capitalizzazione di Newco e di garanzia per cassa alla sottoscrizione di una quota dell'Aumento in Opzione;
  - v) i documenti predisposti da Lazard, *advisor* finanziario incaricato dal Consiglio di Amministrazione nell'ambito della definizione dell'intera Operazione, inclusi di elementi utili alla valutazione dei termini della stessa da parte degli Amministratori;
  - vi) altre evidenze documentali dei processi competitivi e delle attività negoziali condotte nel corso dei processi competitivi per la ricerca di un partner industriale, nonché di condivisione dei termini dell'Operazione con i Finanziatori e con i soci del Patto Prelios;
- d) il piano strategico 2013 - 2016, approvato dal Consiglio di Amministrazione della Società in data 27 marzo 2013 (il "Piano Industriale"), che è stato sottoposto alla valutazione ed attestazione di fattibilità di un professionista, nominato dalla Società ai sensi e per gli effetti di cui all'art. 67, terzo comma, lettera d) del Regio Decreto n. 267/1942, come successivamente modificato ed integrato, ed all'analisi da parte di KPMG Advisory S.p.A., incaricato su richiesta dei Finanziatori bancari;
- e) le relazioni conclusive degli esperti di cui al punto precedente;
- f) lo statuto vigente della Società;
- g) ulteriori informazioni contabili ed extracontabili ritenute utili ai fini della presente relazione ed ulteriori evidenze del processo competitivo posto in essere dagli Amministratori, con il supporto di Lazard;
- h) la comparazione predisposta dalla Società del prezzo di emissione, rispetto alle condizioni proposte in recenti diverse operazioni di aumento di capitale, in termini di sconto del prezzo di emissione rispetto al patrimonio netto contabile.

Il nostro lavoro ha comportato tra l'altro:

- a) la raccolta, anche attraverso discussione con la Direzione della Società, di informazioni circa gli eventi avvenuti dopo la chiusura del bilancio consolidato al 31 dicembre 2012, che possano avere un effetto significativo sulla determinazione dei valori oggetto del presente esame;



- b) la lettura dei verbali delle riunioni del Consiglio di Amministrazione della Società dell'esercizio 2012 e delle bozze dei verbali delle riunioni tenutesi sino alla data della presente relazione;
- c) l'esame critico dei metodi di valutazione adottati dagli Amministratori;
- d) la discussione con i consulenti legali e finanziari nominati dalla Società per l'Operazione sui contenuti e la documentazione della stessa;
- e) l'osservazione dell'andamento delle quotazioni di Borsa delle azioni di Prelios per intervalli temporali significativi.

Le sopradescritte attività sono state svolte nella misura necessaria per il raggiungimento delle finalità dell'incarico, indicate nel precedente paragrafo 1.

Abbiamo inoltre ottenuto attestazione che, per quanto a conoscenza della Direzione della Società, non sono intervenute modifiche significative ai dati ed alle informazioni utilizzate nello svolgimento delle nostre analisi, o altri fatti e circostanze che possano avere un effetto sui criteri di determinazione del prezzo di emissione delle azioni indicati nella Relazione degli Amministratori che, come tali, potrebbero essere rilevanti per le finalità della presente relazione.

#### **6. Considerazioni sull'adeguatezza dei criteri adottati e sulla congruità del prezzo di emissione determinato**

Nell'ipotesi di esclusione del diritto di opzione, la norma dell'art. 2441, sesto comma del Codice Civile, stabilisce che il prezzo di emissione delle azioni deve essere determinato "in base al valore del patrimonio netto, tenendo conto, per le azioni quotate in Borsa, anche dell'andamento delle quotazioni nell'ultimo semestre". Secondo accreditata dottrina, tale disposizione va interpretata nel senso che il prezzo di emissione delle azioni non deve essere necessariamente uguale al valore patrimoniale, dal momento che la sua determinazione deve essere fatta "in base" a tale valore; ciò lascia un margine di discrezionalità agli Amministratori, che potrebbero emettere le nuove azioni ad un prezzo non coincidente con il valore del patrimonio netto. Analogamente, si ritiene che il riferimento della norma all'andamento delle quotazioni nell'ultimo semestre lasci agli Amministratori libertà di scelta nell'individuazione del valore dell'azione che possa ritenersi maggiormente rappresentativo della tendenza del mercato nel periodo di osservazione.

Come descritto nei precedenti paragrafi, con riferimento al prezzo di emissione delle azioni, il Consiglio di Amministrazione, tenuto conto della situazione patrimoniale, economico e finanziaria della Società e del Gruppo, e del loro stato di crisi finanziaria e di liquidità, della proposta ricevuta dall'Investitore Industriale e degli impegni dai Finanziatori e dai Soci del patto Prelios, nonché del Term Sheet Finanziatori che condurrà agli Accordi di Ristrutturazione del debito finanziario, ha deliberato di proporre all'Assemblea degli azionisti che il prezzo di emissione delle nuove Azioni di Categoria B di Prelios S.p.A. sia pari ad Euro 0,5953 per azione.

Come descritto in precedenza, gli Amministratori, anche sulla base delle considerazioni ricevute dai loro consulenti, tenuto conto del periodo di crisi finanziaria e di liquidità che la Società sta attraversando, e non essendo a conoscenza allo stato attuale di possibili operazioni alternative, hanno ritenuto necessaria ed imprescindibile la realizzazione dell'Operazione, secondo i termini



e le condizioni sopra indicati, ai fini del risanamento e del riequilibrio dell'esposizione debitoria e della situazione patrimoniale del Gruppo.

Da parte nostra non possiamo non tenere in considerazione l'attuale assenza di possibili operazioni alternative evidenziata dagli Amministratori e dal loro *advisor* finanziario, in relazione all'Operazione ed alla conseguente definizione del Prezzo di Emissione.

In relazione ai criteri per la determinazione del prezzo di emissione delle azioni stabiliti dal sesto comma dell'articolo 2441 del Codice Civile, il prezzo di emissione delle azioni deve essere determinato in base al valore del patrimonio netto della Società, tenendo conto anche dell'andamento della quotazione del titolo nell'ultimo semestre.

In considerazione delle circostanze, descritte dagli Amministratori, nell'ambito delle quali il Prezzo di Emissione è stato determinato, le grandezze del patrimonio netto contabile e della quotazione del titolo nell'ultimo semestre sono state considerate dagli Amministratori solo ai fini di una valutazione complessiva di ragionevolezza del valore aziendale implicito nel Prezzo di Emissione, che era già stato definito come uno dei punti di riferimento nell'ambito del processo negoziale con l'Investitore Industriale, piuttosto che come variabili significative per l'applicazione di modelli valutativi generalmente adottati dalla prassi in queste fattispecie.

Con riferimento al valore del patrimonio netto, occorre evidenziare che il patrimonio netto consolidato risultante dal progetto di bilancio consolidato della Società al 31 dicembre 2012, approvato dal Consiglio di Amministrazione nella stessa riunione del 27 marzo 2013, risulta essere pari a circa Euro 80,4 milioni, corrispondente ad un valore di circa Euro 0,96 per azione, tenuto conto del proposto raggruppamento. Il minor valore del Prezzo di Emissione rispetto al patrimonio netto consolidato contabile deriva, come descritto dagli Amministratori, dalla originaria proposta di *equity pre-money* presentata nel settembre 2012 dall'Investitore Industriale quale termine di riferimento ipotetico, da assumere nell'ambito della transazione al fine di agevolare la stessa, consentendo di procedere con la negoziazione degli ulteriori, e parimenti rilevanti, elementi sui quali era necessario definire un accordo di reciproca soddisfazione per determinare una struttura dell'Operazione che rispondesse complessivamente alle esigenze di Prelios ed alle finalità prospettate. Infatti, tale originaria ipotesi è rimasta invariata, nella struttura finale dell'Operazione, anche dopo la comunicazione dei dati di bilancio al 30 settembre 2012 ed al 31 dicembre 2012, che hanno riflesso ulteriori e non prevedibili svalutazioni degli attivi, in conseguenza del perdurare della crisi del settore. D'altronde, in assenza dell'Operazione, la necessità di soddisfare le immediate e stringenti esigenze di cassa attraverso un processo di valorizzazione degli asset nel breve termine, obbligherebbero la Società ad agire come *forced seller*; tale circostanza non consentirebbe, comunque, a Prelios di valorizzare le proprie attività in linea con i valori contabili e, nel contempo, disperderebbe, in un'ottica sostanzialmente liquidatoria, le competenze e le professionalità presenti nel Gruppo e non consentirebbe al Gruppo di beneficiare delle sinergie con l'Investitore Industriale attese dall'Operazione a supporto del rilancio industriale.

Infatti, tenuto conto che la situazione di crisi finanziaria e di liquidità in cui si trova la Società rende necessaria ed imprescindibile la realizzazione dell'Operazione, secondo i termini e le condizioni sopra indicati, gli Amministratori hanno dovuto valutare, durante il processo negoziale, la congruità del Prezzo di Emissione dell'Aumento Riservato congiuntamente a diversi altri elementi rilevanti alla strutturazione dell'Operazione nel suo complesso, non necessariamente connessi al valore del capitale economico aziendale.



Con riferimento, invece, al valore di Borsa, il Prezzo di Emissione pari ad Euro 0,5953 per ciascuna delle nuove Azioni di Categoria B relative all'Aumento di Capitale Riservato risulta a sconto del 26% rispetto alla media del semestre precedente la delibera del Consiglio di Amministrazione del 27 marzo 2013. E' da tenere in considerazione che l'Operazione era stata, nei suoi termini sostanziali, precedentemente comunicata al mercato in data 22 dicembre 2012, in occasione dell'annuncio della sottoscrizione dell'Accordo Quadro. In tale data lo sconto risultava pari al 18 % rispetto al prezzo di Borsa. Il prezzo di Borsa in prossimità del 22 dicembre 2012, peraltro, è risultato uno dei livelli più bassi di una continua discesa del valore registrata nel secondo semestre 2012 in reazione alla comunicazione delle significative incertezze alla continuità aziendale avvenuta nell'estate 2012.

Sulla base di tale analisi, si evidenzia il positivo effetto dell'Operazione sui corsi di Borsa successivi all'annuncio dell'Accordo Quadro quale evidenza che l'importanza percepita dal mercato appare prescindere da una valutazione esclusivamente quantitativa dell'*equity pre-money* comunicato, e appare valorizzare l'importanza dell'Operazione in termini di risanamento dalla crisi finanziaria in cui il Gruppo si è venuto a trovare.

Inoltre, sulla base di ulteriori analisi svolte dagli Amministratori, il Prezzo di Emissione, pur essendo a sconto rispetto ai valori di Borsa del titolo Prelios, è migliorativo rispetto alle condizioni registrate per operazioni similari di aumento di capitale a pagamento effettuate in Italia negli ultimi anni.

Sulla base del lavoro svolto, sono inoltre emerse le seguenti considerazioni:

- l'Aumento di Capitale Riservato è finalizzato, nella sostanza, a favorire l'ingresso nell'azionariato dell'Investitore Industriale selezionato al termine di uno strutturato processo di selezione competitiva, gestito con il supporto di qualificati *advisors*;
- l'Aumento di Capitale Riservato appare influenzare i diritti di tutti gli attuali azionisti in modo omogeneo ed in misura uniforme, senza avvantaggiare particolari categorie in grado di determinare una preconstituita maggioranza assembleare;
- il Prezzo di Emissione deve essere valutato congiuntamente agli ulteriori elementi che l'Operazione apporta a beneficio della Società e degli Azionisti, in termini di sinergie con l'Investitore Industriale e di riequilibrio patrimoniale e finanziario, in assenza del quale la continuità aziendale potrebbe risultare pregiudicata;
- il Prezzo di Emissione risulta definito nell'ambito di un processo negoziale che ha coinvolto una pluralità di parti, tutte interessate alla massimizzazione del valore aziendale, sia nel breve che nel medio-lungo termine, quali sono i Finanziatori e gli Azionisti aderenti al Patto Prelios, che peraltro hanno manifestato la disponibilità a sostenere direttamente l'Operazione anche nelle sue ulteriori componenti (garanzia degli aumenti di capitale, rinuncia a crediti e rimodulazione delle condizioni di remunerazione del debito a livelli inferiori al mercato);
- il Prezzo di Emissione dell'Aumento Riservato è uguale al prezzo di emissione dell'Aumento in Opzione, nonostante le Azioni di Categoria B dell'Aumento Riservato godano, almeno inizialmente, di minori diritti rispetto alle azioni ordinarie emesse a servizio dell'Aumento in Opzione rivolto indistintamente a tutti gli Azionisti.



## 7. Limiti specifici ed altri aspetti di rilievo emersi nell'espletamento del presente incarico

Come in precedenza evidenziato, nell'esecuzione del nostro incarico abbiamo utilizzato dati, documenti ed informazioni forniti dalla Società, assumendone la veridicità, correttezza e completezza, senza svolgere verifiche al riguardo. Parimenti non abbiamo effettuato una valutazione economica della Società. Allo stesso modo, non sono state eseguite, sempre perché estranee all'ambito del nostro incarico, verifiche e/o valutazioni della validità e/o efficacia delle operazioni effettuate e dei negozi stipulati dalla Società con l'Investitore Industriale e con i Finanziatori.

Inoltre, le sinergie e le opportunità di sviluppo industriale che gli Amministratori attendono di conseguire dall'integrazione con l'Investitore Industriale, non sono identificate ad un livello di dettaglio tale da consentire di effettuare, in questa fase di esecuzione dell'Operazione, una specifica valutazione economica.

Il periodo di crisi finanziaria e di liquidità che sta attraversando la Società è tale da rendere necessaria ed imprescindibile, secondo gli Amministratori ed i loro *advisors*, la realizzazione dell'Operazione, che, come sopra descritta, è stata proposta in un quadro di assenza, allo stato attuale, di possibili operazioni alternative, dopo aver, senza successo, tentato di porre in essere una diversa strategia finalizzata al perseguimento del solo obiettivo di generazione della cassa necessaria a fronteggiare gli impegni finanziari.

L'insieme degli aumenti di capitale sociale in esame, risultano alla data attuale ancora condizionati alla firma definitiva degli accordi con i finanziatori ed alla concessione dell'esonero dall'applicabile normativa sull'OPA. Non si può quindi escludere che, se tali condizioni non vengano soddisfatte ovvero se la versione finale degli accordi con i Finanziatori, che peraltro includono la definizione dei termini e delle condizioni del Convertendo sulla base delle facoltà attribuite al Consiglio di Amministrazione, differisca dal Term Sheet Finanziatori attualmente in nostro possesso, anche le considerazioni contenute nella presente relazione in ordine alla congruità del prezzo di emissione delle azioni relative all'aumenti di capitale sociale con esclusione del diritto di opzione, potrebbero non essere più valide o applicabili.

La determinazione del Prezzo di Emissione è avvenuta nell'ambito del descritto processo negoziale, i cui risultati finali tengono conto del particolare contesto in cui tale processo è stato condotto e non è basata su modelli di valutazione aziendale comunemente applicati nella prassi professionale, che possano essere oggetto di nostra valutazione di adeguatezza e di corretta applicazione.

Si richiama inoltre l'attenzione sui seguenti aspetti di rilievo:

- come illustrato nella Relazione degli Amministratori, l'Aumento di Capitale si inquadra nell'ambito del più complesso piano di risanamento finalizzato al riequilibrio della situazione economico-patrimoniale della Società e alla ristrutturazione della posizione debitoria. Esula ovviamente dall'oggetto della presente relazione qualsivoglia considerazione in ordine a tale piano ed alla sua fattibilità e ragionevolezza, che sono state oggetto dell'Attestazione del Piano emessa in data 28 marzo 2013 da parte del professionista incaricato ai sensi dell'art. 67, terzo comma, lettera d), della Legge Fallimentare;



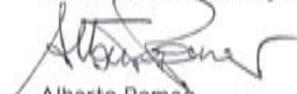
- la crisi finanziaria internazionale in atto ha manifestato e continua a manifestare impatti significativi sullo scenario macroeconomico e sul sistema finanziario in particolare. Non si può escludere che il perdurare della crisi e la sua evoluzione ad oggi non prevedibile possano avere un impatto, anche significativo, sui valori economici considerati ai fini dell'operazione;
- si rammenta che, nei bilanci d'esercizio e consolidato al 31 dicembre 2012 di Prelios, gli Amministratori hanno assunto il presupposto della continuità aziendale in connessione all'esecuzione dell'Operazione, la cui finalizzazione, in tutte le sue componenti ed articolazioni, è condizionata anche all'esecuzione dell'Aumento Riservato nei termini proposti dal Consiglio di Amministrazione.

#### **8. Conclusioni**

Tutto ciò premesso, sulla base della documentazione esaminata e delle procedure sopra descritte, tenuto conto della natura, portata e limiti del nostro lavoro come indicati nella presente relazione e assumendo il verificarsi delle fattispecie e delle condizioni evidenziate al precedente paragrafo , riteniamo che i criteri adottati dagli Amministratori per la determinazione del prezzo di emissione delle azioni ai fini degli aumenti del capitale sociale con esclusione del diritto di opzione ai sensi dell'art. 2441, sesto comma del Codice Civile previsti dall'Operazione, siano adeguati, in quanto nella circostanza ragionevoli e non arbitrari, ed esprimiamo parere favorevole sulla congruità dei relativi prezzi di emissione.

Milano, 15 aprile 2013

Reconta Ernst & Young S.p.A.

  
 Alberto Romeo  
 (Socio)

B. *Comments by the board of statutory auditors*

*(in accordance with Article 2446 of the Italian Civil Code and Article 74, first paragraph of the Regulation adopted by Consob with resolution no. 11971 of May 14, 1999, as amended)*

Dear Shareholders,

As you will recall, the Shareholders' Meeting of December 18, 2012 acknowledged the following (i) balance sheet and income statement of Prelios S.p.A. as at September 30, 2012, (ii) the Directors' Report drawn up in accordance with Article 2446 of the Italian Civil Code and in accordance with Article 74, first paragraph of the Regulation adopted by Consob with resolution no. 11971 of May 14, 1999, as amended (hereinafter the "Issuers' Regulation") and (iii) the Comments by the Board of Statutory Auditors, and decided to approve the balance sheet of the Company as at September 30, 2012 and postpone adoption of the provisions pursuant to Article 2446 of the Italian Civil Code to a date to be proposed by the Board of Directors, including in relation to the development and implementation of the planned extraordinary transactions aimed at restructuring the overall financial and capital structure of the Company in accordance with the provisions of paragraph 2 of Article 2446 of the Italian Civil Code. To this end, please refer to the considerations and assessments reported in the Comments by the Board of Statutory Auditors made and published within the terms set out by law.

On March 27, 2013, the Board of Directors of Prelios S.p.A. (hereinafter "**Prelios**" or the "**Company**") approved:

- (i) the Transaction, mentioned herein, aimed at strengthening the capital position (including recapitalization of the Company, aimed also at admitting new industrial partners), readjusting the overall financial structure and the resulting restructuring and the launch of the prospects for industrial development of the Company and the Group;
- (ii) the draft financial statements for the year ended as at December 31, 2012 (hereinafter the "**Draft Financial Statements**"), showing a loss for the financial year of 213,995,990.64 euro, confirming the reduction of over a third of the share capital at the end of 2012 in accordance with Art. 2446 of the Italian Civil Code;
- (iii) the Directors' Report, drafted in accordance with Art. 125-ter of Italian Legislative Decree no. 58/1998 and Articles 72, first paragraph and 74, first paragraph, of the Issuers' Regulation, and in compliance with the provisions of schedules nos. 2, 3 and 5 of Annex 3A of the Issuers' Regulation regarding the topics in point (iv) below (hereinafter the "**Report**");
- (iv) the calling of a Shareholders' Meeting for May 8, 2013 in order to approve the financial statements for the financial year 2012 among other matters, in the Ordinary section, and the following in the Extraordinary section:
  - the reduction, by the reverse split of the number of ordinary shares at a ratio of 1 ordinary share to every 10 ordinary shares held, subject to cancellation of the ordinary shares held by the Company to permit the overall balancing of the transaction without reducing the share capital;
  - the reduction of share capital for losses in accordance with Article 2446 of the Italian Civil Code;
  - the indivisible share capital increase, against payment, reserved, and therefore with exclusion of the option right, in accordance with Art. 2441, fifth paragraph of the Italian Civil Code, by issue of 117,597,496 category B shares which can be converted into ordinary shares (at a ratio of one ordinary share for each category B share) at a subscription price of 0.5953 euro per share, for a total amount of 70,005,789.37 euro, to be subscribed to in cash;
  - the divisible share capital increase, against payment, to be offered in option to all the Company shareholders in accordance with Art. 2441, paragraph 1 of the Italian Civil Code, by issue of 193,195,887 ordinary shares at an issue price of 0.5953 euro per share, with standard entitlements and the same properties as the outstanding Prelios shares when issued, for a total maximum amount of 115,009,511.53 euro, to be subscribed to in cash or if necessary by payment or waiver of the loans with the Company;
  - assignment to the Board of Directors - in accordance with Art. 2420-ter, paragraph 2 of the Italian Civil Code, of the power to issue mandatory conversion bonds for a maximum nominal amount of 269,000,000.00 euro in ordinary shares and/or category B shares, with exclusion of the option right in accordance with Art. 2441, paragraph 5 of the Italian Civil Code, with resulting divisible share capital increase to serve the bond conversion exclusively, for a maximum of 297,644,375.01 euro, which may be carried out within a maximum period of 7 (seven) years, subject to extension of a further 3 (three) years, from the issue of the bonds (hereinafter the "**Convertible bond**"). This power may be exercised once the capital increase mentioned above has been carried out, and in any case within a maximum period of one year from the decision date, with the further option of the Board of Directors to establish the rate and duration of the instrument, and all the other terms and conditions, just as with the capital increase serving the conversion.

To that end, the provisions of the Report (which should be referred to in its entirety) regard and add to the provisions that must be adopted in accordance with the above-mentioned Art. 2446 of the Italian Civil Code, already postponed - as noted - by the aforementioned Shareholders' Meeting of December 18, 2012, and more specifically, represents the implementation of the necessary measures, that, subject to the reverse split of the existing ordinary shares and the reduction of the capital to pay off the losses as at December 31, 2012, provide for the following:

- (i) the equity strengthening of the Company, also to be carried out through the increase in the current shareholder structure with the entry of a new industrial shareholder; and

- (ii) the complete review of the present financial debt structure in order to restructure the current debt exposure and ensure the rebalancing of the financial position through a redevelopment plan and the associated restructuring agreements

The measures set out under points (i) and (ii) above were considered by the Board of Directors to be suitable for re-launching the prospects for industrial development and strengthening the Prelios capital structure, in addition to readjusting the overall financial structure of the Company and the Prelios Group.

More specifically, the Directors' Report sets out the initiatives undertaken during 2012, with the help of their advisors, to pursue the capital strengthening through the introduction of new financial resources, readjustment of the overall financial structure and the resulting restructuring, and the launch of the prospects for industrial development of the Company and the Group - including on the basis of the willingness of the main lenders of Prelios and the members of the Prelios shareholders' to give their support - which took shape in the definition of the planned transaction (hereinafter the "**Transaction**").

On the basis of the agreements reached, we note the following in particular:

- that debt restructuring agreements have been established with the lenders of the Company in accordance with a term sheet that has been agreed upon;
- the commitment by the main lenders of the Company and shareholders who are members of the Prelios shareholders' agreement, and the new industrial partner, to sign and/or guarantee the subscription to the share capital increase if approved by the Shareholders' Meeting;
- that the Transaction will be put in place in implementation of the Strategic Plan for 2013-2016, approved by the Board of Directors on March 27, 2013, and confirmed, on March 28, 2013, in accordance with Art. 67, paragraph 3, letter d), Royal Decree no. 267/1942, by the independent expert, Mr Mario Civetta (hereinafter the "**Plan**"), who confirmed the truthfulness of the company figures and the feasibility of the Plan and its suitability to pursue the restructuring and readjustment objectives with respect to the financial position of the company;
- that in summary, the Transaction provides for the (i) recapitalization of the Company by a capital increase for a total of 185 million euro and restructuring of the existing debt in accordance with the Plan, on the basis of which 250 million euro will continue to be loans (super-senior and senior) and up to 269 million euro will be converted into convertible debt instruments (known as "Convertible bonds") with cash options for the repayment that can be exercised by the Company.

The Directors consider that in today's market scenario, the shares issued and being issued, aimed at finalising the aforementioned Transaction - as planned on the basis of the agreements signed and the undertakings made by all the parties involved, as also indicated in the Report - are aimed at restructuring the Company and launching the prospects for industrial development of the Prelios Group in order to allow it to continue to operate as an ongoing concern, thanks to strengthening the capital and readjusting the economic-financial position of the Company through the introduction of new financial resources and restructuring the existing debt.

In addition, the Directors note the uncertainties that may be related to implementation of the Transaction, considering also developments in the reference market context, which represents - as things stand and in accordance with what can be reasonably expected for the future - the condition for the Group to maintain its capital and financial equilibrium on a long-term basis.

The Directors' Report also presented the prospects regarding the following:

- the balance sheet and income statement of the Company for the financial year closed as at December 31, 2012;
- the net financial position of the Company as at December 31, 2012;

corresponding to those of the Draft Financial Statements drawn up on the basis of the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, in effect as at December 31, 2012, and in compliance with the provisions issued to implement Article 9 of Italian Legislative Decree. no. 38/2005.

As noted above, the Directors report that the Draft Financial Statements recorded a loss for the year of 213,995,990.64 euro, which led to a reduction of equity to 4,552,089 euro, with respect to the amount of share capital of 218,877,613.14 euro and accounting share capital of 218,282,782.14 euro, as calculated net of the 1,189,662 treasury shares held by the Company and valued at 594,831.00 euro, which - in accordance with the international accounting standards - are recorded as a direct reduction of the accounting share capital.

Therefore, since the situation provided under Article 2446 of the Italian Civil Code was confirmed, the Board of Directors, considering also the resolutions passed by the aforesaid Shareholders' Meeting on December 18, 2012, intends to submit to the Shareholders' Meeting - among other items - a proposal for the full cover of the total losses emerging from the balance sheet and the income statement as at December 31, 2012, through reduction of the share capital, to be implemented at substantially the same time as implementation of the reverse split transaction, with resulting amendment of the Articles of Association.

The share capital – which will fall from 218,877,613.14 euro to 4,881,622.50 euro – will in any case be higher than the legal limit established for joint-stock companies under Article 2327 of the Italian Civil Code.

The Board of Statutory Auditors has no findings to make, also acknowledging that the auditing firm Reconta Ernst & Young S.p.A. issued, among other things, its report containing its opinion on the compliance of the financial statements with the regulations and the applicable accounting standards and its opinion on the fairness of the share issue price, in accordance with Article 2441, sixth paragraph of the Italian Civil Code and Article 158 of Italian Legislative Decree no. 58/1998.

To this end, Reconta Ernst & Young S.p.A. stated that “... *the criteria adopted by the Directors to calculate the share issue price in order to increase the share capital with exclusion of the option right, in accordance with Article 2441, sixth paragraph of the Italian Civil Code provided by the Transaction, are adequate, with respect to reasonableness and consistency*” and therefore stating “*we agree with the fairness of the issue prices...*”. The Board of Statutory Auditors has no comments to make to that end.

In addition, the Board of Statutory Auditors notes that the Directors consider it reasonable to assume that the company would continue as an ongoing concern in accordance with the terms provided when the Transaction is concluded, suitable - in accordance with the current situation and in the expectation that the economic and market situation will develop - to pursue the objectives to restructure and launch the prospects for growth and industrial development of the Prelios Group, maintaining the equity and financial balance over the long term.

To that end, the Board of Statutory Auditors agrees with the proposal made by the Directors, and believes that it complies with the provisions of prevailing law, and also with regard to the current situation of the Company and the initiatives taken to restructure operations and maintain the company as an ongoing concern.

\*

In conclusion, the Board of Statutory Auditors, having found that:

- the Report, drawn up also in accordance with Article 2446 of the Italian Civil Code, was drafted in accordance with Annex 3A, schedule 5, referred to by Article 74, first paragraph of the Issuers' Regulation;
- the Balance Sheet, pursuant to Article 2446 of the Italian Civil Code, corresponds to the Draft Financial Statements, subject to auditing by Reconta Ernst & Young S.p.A., which expressed an opinion without any findings;
- The Report and the Draft Financial Statements exhaustively illustrate both the reasons behind the losses and the other negative effects on equity and the initiatives that Prelios S.p.A. has undertaken and is pursuing to restructure operations and continue as an ongoing concern;
- the Directors propose to the Shareholders, after approval of the Draft Financial Statements at the Ordinary Shareholders' Meeting called for May 8, 2013, to decide the following on an Extraordinary basis at the same Shareholders' Meeting:
  - the reduction, by the reverse split of the number of ordinary shares at a ratio of 1 ordinary share to every 10 ordinary shares held, subject to cancellation of the ordinary shares held by the Company to permit the overall balancing of the transaction without reducing the share capital;
  - the reduction of share capital for losses in accordance with Article 2446 of the Italian Civil Code;
  - the indivisible share capital increase, against payment, reserved, and therefore with exclusion of the option right, for a total amount of 70,005,789.37 euro, to be subscribed to in cash against the issue of category B shares in the detailed terms set out in the Report;
  - the divisible share capital increase, against payment, to be offered in option to all the Company shareholders for a total maximum amount of 115,009,511.53 euro, to be subscribed to in cash or if necessary by payment or waiver of the loans with the Company against the issue of ordinary shares in accordance with the detailed terms set out in the Report;
  - assignment to the Board of Directors of the power to issue mandatory conversion bonds for a maximum nominal amount of 269,000,000.00 euro as ordinary shares and/or category B shares, with exclusion of the option right, with resulting divisible share capital increase to serve the conversion of the bonds exclusively, for a maximum of 297,644,375.01 euro, in accordance with the detailed terms set out in the Report,

consider that the Report and the proposals made therein provide the necessary elements to give an opinion, and appear to be consistent with the provisions of the aforementioned Article 2446 of the Italian Civil Code to decide on the correct provisions pursuant to the law, and therefore express our agreement to the proposals made by the Directors.

April 15, 2013

*signed* Mr. Enrico Laghi

*signed* Mr. Roberto Bracchetti

*signed* Mr. Lelio Fornabaio

Report prepared by the Directors pursuant to Art. 125-ter of Italian Legislative Decree no. 58 of February 24, 1998 and Art. 72, par. 1 of the Regulation adopted by CONSOB by means of resolution no. 11971 of May 14, 1999, and subsequent amendments and additions.

\* \* \* \* \*

Point 2)

**Amendment to articles 7 (Shareholders' Meeting) and 22 (Board of Statutory Auditors) of the Articles of Association. Inherent and consequent resolutions. Conferment of powers**

**1) Reasons for the proposed amendments to the Articles of Association.**

Dear Shareholders,

We have called you to the Extraordinary Shareholders' Meeting to present you with a proposal to resolve some amendments to the company's Articles of Association (the "**Articles of Association**") concerning: (i) the regulations governing the gender balance in the management and control bodies of listed companies and (ii) some improvements to take into account the amendments introduced by the Legislator to Art. 126-bis of Italian Legislative Decree no. 58 of February 24, 1998 and subsequent amendments (the "**Consolidated Finance Act**"), which entitle shareholders holding at least one fortieth of share capital to present additional proposed resolutions on items already on the agenda of the shareholders' meeting, in addition to the ability to request additions to said agenda, for which provision has already been made.

**a) Gender balance.**

With the entry into force of Law no. 120 of July 12, 2011, the Legislator has attempted to promote access to corporate offices for the "least represented gender", requiring listed companies to make provision, within the respective management and control bodies, for criteria for the allocation of gender quotas, which ensure gender balance, in accordance with the minimum legal requirement.

With the amendment to Art. 147-ter, par. I-ter, and Art. 148, par. I-bis, of the Consolidated Finance Act, the Legislator also conferred CONSOB with a regulatory power regarding the "*breach, application and observance of provisions governing gender quotas, also with reference to the preliminary phase and the procedures to be adopted*", assigning said body with the power to sanction any conduct in breach of the law.

In implementation of the aforementioned power, CONSOB issued resolution no. 18098 of February 8, 2012, which introduced the subsequent provisions to the Issuers' Regulation <sup>(1)</sup> and, in line with the legislative requirement, provides listed companies with extensive statutory autonomy as regards identifying the necessary technical methods for compliance with the allocation criteria. In particular:

- As regards appointment, the articles of association must set out the methods for coordinating gender quota compliance with the list voting mechanism, providing additional criteria for identifying the individual components that ensure compliance with gender balance;
- the articles of association cannot impose compliance with gender balance criteria to lists that contain less than three candidates, in order to avoid making it extremely difficult for shareholders to select minority candidates;
- the articles of association must also regulate the mechanisms for ensuring compliance with gender quotas in the event of replacement during the course of office.

In this regard, it should be noted that the Extraordinary Shareholders' Meeting of April 17, 2012 already incorporated the requirements of the new legislation into the Articles of Association, approving the associated amendments to articles 12 and 22 which govern the mechanisms for the appointment of Directors and members of the Board of Statutory Auditors and, applying in advance, the minimum percentage of one-third required by the regulations when in full force.

In order to allow compliance with the applicable legislation governing gender balance, both during the appointment of auditors and in the event they are replaced during the course of office, however, by adopting criteria offering greater flexibility as regards the formation of lists, the following additional proposed amendments to Art. 22 (Board of Statutory Auditors) of the Articles of Association have been set out, with respect to those already resolved on April 17, 2012.

(1) In the Issuers' Regulation issued by CONSOB, approved by means of resolution no. 11971 of May 14, 1999 and subsequent amendments, "Chapter I-bis - Gender balance in the composition of management and control bodies" was inserted after Chapter I, Title V-bis, Part III, and Art. 144-undecies. 1 was introduced (Gender balance).

Specifically, a proposal has been made to amend Art. 22, par. 1, by increasing the number of standing auditors provided for therein from two to three, thus to organise mechanisms for replacement suitable for ensuring compliance with gender balance, specifying that said new provision and subsequent ones shall apply from the first renewal of the Board of Statutory Auditors following the entry into force of the associated amendment to the Articles of Association; until this time, the Board of Statutory Auditors is composed of three standing auditors and two alternate auditors.

Under Art. 22, par. 10, a proposal has been made to replace the previous provision, introduced with the amendments to the Articles of Association approved on April 17, 2012, with the following “new” provision “*in compliance with the provisions of the applicable pro-tempore legislation governing gender balance, the lists which, considering both sections, present a number of candidates equal to or higher than three, must include as many candidates belonging to a different gender in the section of the list relating to standing auditors as in the section relating to alternate auditors*”.

In Art. 22, par. 12, on the basis of the above-mentioned proposal to increase the number of alternate auditors from two to three, it is proposed that two alternate auditors are taken from the list which obtained the highest number of votes.

It is also proposed that a “new” Art. 22, par. 14 be introduced (with a subsequent new numbering of later paragraphs), in order to provide the necessary additional criteria to guarantee compliance with gender balance within the Board of Statutory Auditors.

In fact, if the application of the list voting mechanism does not ensure the minimum required number of standing auditors or alternate auditors belonging to the least represented gender, a mechanism is established for the gradual automatic replacement. In particular, it is set forth that the “*candidate belonging to the most represented gender and elected, indicated with the highest sequential number in each section of the list that received the highest number of votes, shall be replaced by the candidate belonging to the least represented gender and not elected, taken from the same section of said list in accordance with the order of appearance on said list*”.

The renumbered Art. 22, par. 15, which regulates the alternate auditor replacement mechanism, is partially reworded with the provision which requires this replacement to be made in accordance with the order of appearance on the list, in such a way as to ensure compliance with gender balance, replacing the previous provision introduced with the amendments to the Articles of Association approved on April 17, 2012.

In particular, if it is necessary to replace one of the standing auditors taken from the list that received the highest number of votes, it is proposed that said auditor be replaced by the first of the alternate auditors taken from said list. However, in the event in which the composition of the Board was not compliant with the relevant pro-tempore legislation governing gender balance, provision is made for replacement by the second of the alternate auditors taken from said list. If it is subsequently necessary to replace the other standing auditor taken from the list that received the highest number of votes, the other alternate auditor taken from said list, in any case, takes over.

The replacement mechanism is better detailed in said Art. 22, par. 15, with reference to the replacement of the Chairman of the Board of Statutory Auditors. Said article indicates that the successor is the statutory auditor belonging to the same list to which the outgoing Chairman belonged, notwithstanding possession of the legal and/or statutory requirements to hold office and compliance with gender balance.

#### **b) Additional amendments proposed for adoption.**

Hence, taking into account that Art. 126-bis of the Consolidated Finance Act introduced the right for shareholders holding at least one fortieth of share capital to present additional proposed resolutions on items already on the agenda of the shareholders' meeting (in addition to the right already indicated in the aforementioned article, in the cases and terms of law, to request additions to the items on the agenda), the relative amendments are proposed to Art. 7, paragraphs 7, 8 and 9 of the Articles of Association for the necessary alignment with the legislative requirements.

\* \*

#### **2) Comparative presentation of the Articles of the Association for which an amendment is proposed**

A comparison of the current text of the Articles of Association for which an amendment is proposed with the text presented for your approval is contained in the proposed resolution below.

\* \*

#### **3) Evaluations of the Board of Directors regarding the existence of the right of withdrawal.**

The Board of Directors does not believe that the above-mentioned statutory amendments involve, for shareholders, the right of withdrawal pursuant to Art. 2437 of the Italian Civil Code.

\* \*

#### **4) Proposed resolution.**

On the basis of the foregoing, the Board of Directors presents the following proposed resolutions for your approval:

“the Extraordinary Meeting of the shareholders of Prelios S.p.A.,

- having examined the Directors’ Report which sets out the proposed amendments to articles 7 (Shareholders’ Meeting) and 22 (Board of Statutory Auditors) of the Articles of Association

#### RESOLVES

- 1) to amend Articles 7 (Shareholders’ Meeting) and 22 (Board of Statutory Auditors) of the Articles of Association of Prelios S.p.A. as follows:

#### CURRENT TEXT

##### SHAREHOLDERS’ MEETING

###### Article 7

**7.1** The shareholders’ meeting can be called in Italy, in the registered office or anywhere else. The right to attend the meeting and be represented therein is governed by the law and the Articles of Association.

**7.2** Ordinary and Extraordinary Shareholders’ Meetings are held on single call. The corresponding resolutions are adopted by a legal majority.

**7.3** Those who are entitled to vote may be represented by proxy issued pursuant to the methods set forth by the law and current regulations.

The proxy may be notified to the company also in electronic format through alternative use of one of the following methods:

- appropriate section of the Company’s website, indicated by the company in the notice of call;
- certified e-mail to the address indicated by the company in the notice of call. The notice of call may also be limited to one of the aforementioned methods, i.e. the one actually available at the time of the single shareholders’ meeting to which the notice itself is referred.

The Company shall appoint, for each shareholders’ meeting, one or more parties to whom the holder of rights to vote at shareholders’ meeting may grant a proxy with voting instructions for all or some of the proposals on the agenda. This proxy does not apply to proposals for which no voting instructions have been granted. The parties appointed and the methods and terms for conferral of the proxies shall be included in the notice of call of the shareholders’ meeting.

**7.4** The ordinary shareholders’ meeting must be called within 180 days of the company year-end pursuant to the law.

**7.5** Directors shall call a shareholders’ meeting without delay, in the cases and under the conditions provided for by law, when requested by shareholders representing at least one twentieth of share capital.

**7.6** Shareholders requesting that a meeting be called shall prepare a report on proposals concerning the items to be discussed. The Board of Directors shall make the report prepared by the shareholders available to the public, together with its own evaluations, if any, simultaneously with the publication of the notice of call of the shareholders’ meeting and under the conditions provided for by law.

**7.7** Shareholders who, including jointly, represent at least one fortieth of the share capital, may send, in accordance with the cases and terms prescribed by law, a request detailing items they wish to be added to the meeting agenda.

**7.8** Additions to the agenda presented pursuant to par. 7 of Art. 7 of these Articles of Association are published, in accordance with the legal terms, with the same methods required for the publication of the notice of call of the shareholders’ meeting.

#### PROPOSED TEXT

##### SHAREHOLDERS’ MEETING

###### Article 7

**7.1** The shareholders’ meeting can be called in Italy, in the registered office or anywhere else. The right to attend the meeting and be represented therein is governed by the law and the Articles of Association.

**7.2** Ordinary and Extraordinary Shareholders’ Meetings are held on single call. The corresponding resolutions are adopted by a legal majority.

**7.3** Those who are entitled to vote may be represented by proxy issued pursuant to the methods set forth by the law and current regulations.

The proxy may be notified to the company also in electronic format through alternative use of one of the following methods:

- appropriate section of the Company’s website, indicated by the company in the notice of call;
- certified e-mail to the address indicated by the company in the notice of call. The notice of call may also be limited to one of the aforementioned methods, i.e. the one actually available at the time of the single shareholders’ meeting to which the notice itself is referred.

The Company shall appoint, for each shareholders’ meeting, one or more parties to whom the holder of rights to vote at shareholders’ meeting may grant a proxy with voting instructions for all or some of the proposals on the agenda. This proxy does not apply to proposals for which no voting instructions have been granted. The parties appointed and the methods and terms for conferral of the proxies shall be included in the notice of call of the shareholders’ meeting.

**7.4** The ordinary shareholders’ meeting must be called within 180 days of the company year-end pursuant to the law.

**7.5** Directors shall call a shareholders’ meeting without delay, in the cases and under the conditions provided for by law, when requested by shareholders representing at least one twentieth of share capital.

**7.6** Shareholders requesting that a meeting be called shall prepare a report on proposals concerning the items to be discussed. The Board of Directors shall make the report prepared by the shareholders available to the public, together with its own evaluations, if any, simultaneously with the publication of the notice of call of the shareholders’ meeting and under the conditions provided for by law.

**7.7** Shareholders who, including jointly, represent at least one fortieth of share capital, **in accordance with the cases, methods and terms prescribed by law**, may send ~~in accordance with the cases and terms prescribed by law~~, a request detailing items they wish to be added to the meeting agenda, **or present proposed resolutions on items already on the agenda.**

**7.8** Additions to the agenda **or the presentation of proposed resolutions on items already on the agenda**, presented pursuant to par. 7, of Art. 7 of these Articles of Association are published, in accordance with the legal terms, with the same methods required for

**7.9** Shareholders requesting additions to the agenda shall prepare and send a report to the Board of Directors, to be filed at the company's registered office, within the relevant deadline for presenting the requested addition, on the items that they propose for discussion. The Board of Directors shall make the report prepared by the shareholders available to the public, together with its own evaluations, if any, simultaneously with the publication of the notice of supplementation of the agenda under the conditions provided for by law.

## BOARD OF STATUTORY AUDITORS

### Article 22

**22.1** The Board of Statutory Auditors is composed of three standing auditors and two alternate auditors who meet the requirements specified by current legislation and regulations; to this end, it will be considered that matters and sectors of activity strictly related to those of the business, are those specified in the company purpose, with specific reference to companies or entities operating in the field of finance, industry, banking, insurance, real estate and services in general.

**22.2** The Ordinary Shareholders' Meeting elects the Board of Statutory Auditors and determines its fees. The minority is entitled to elect one standing auditor and one alternate auditor.

**22.3** The Board of Statutory Auditors is appointed, except where provided for by par. 17 of Art. 22 of these Articles of Association – in compliance with the legislation, laws and regulatory provisions – on the basis of lists submitted by the shareholders in which the candidates are listed using a progressive numbering system.

**22.4** Each list contains a higher number of candidates than the number of members to be elected.

**22.5** All shareholders who alone, or jointly with other shareholders, represent at least 1.5% of the share capital with voting rights in the ordinary shareholders' meeting, or the lesser amount required by the regulatory provisions issued by the National Commission for Companies and the Stock Exchange (CONSOB) for the presentation of lists of candidates to be appointed to the Board of Directors, will be entitled to present a list. They shall be obliged to prove ownership of the number of shares necessary to present lists of auditor candidates within the terms specified by legislation, the law and/or regulations.

**22.6** All shareholders may present, or jointly present, just one list.

**22.7** Lists presented by candidates, signed by those presenting them, must be filed at the company's registered office and available to anyone that requests them, at least twenty-five days before the date scheduled for the shareholders' meeting called to resolve on the appointment of the members of the Board of Statutory Auditors, without prejudice to an extension in the cases permitted by the provisions of law and/or regulations.

These lists shall be made available to the public at the company's registered office, on the Company's website or via another method provided for by CONSOB regulations at least twenty-one days prior to the date of the shareholders' meeting.

In any case, without prejudice to any further documentation that may be required by legislation, the law and/or regulations, a curriculum vitae containing the personal and professional characteristics of the parties appointed, specifying any administration and control offices held in other companies, along with the declarations made by candidates to the following effect, must accompany the lists:

- accepting their candidacy, and
- certifying, under their own responsibility, the lack of any existence of causes for ineligibility for election or incompatibility, in addition to the existence of the requirements prescribed by legislation and re-

the publication of the notice of call of the shareholders' meeting.

**7.9** Shareholders requesting additions ~~to the agenda pursuant to par. 7 of Art. 7,~~ shall prepare and send a report to the Board of Directors, ~~to be filed at the company's registered office~~ within the relevant deadline for presenting the requested addition, **explaining the reasons for their proposed resolutions on new** ~~on the~~ items that they propose for discussion **or relating to additional proposed resolutions on items already on the agenda.** The Board of Directors shall make the report prepared by the shareholders available to the public, together with its own evaluations, if any, simultaneously with the publication of the notice of supplementation of the agenda **or of the presentation of new proposed resolutions,** under the conditions provided for by law.

## BOARD OF STATUTORY AUDITORS

### Article 22

**22.1** The Board of Statutory Auditors is composed of three standing auditors and ~~two~~ **three** alternate auditors who meet the requirements specified by current legislation and regulations; to this end, it will be considered that matters and sectors of activity strictly related to those of the business, are those specified in the company purpose, with specific reference to companies or entities operating in the field of finance, industry, banking, insurance, real estate and services in general.

**22.2** The Ordinary Shareholders' Meeting elects the Board of Statutory Auditors and determines its fees. The minority is entitled to elect one standing auditor and one alternate auditor.

**22.3** The Board of Statutory Auditors is appointed, except where provided for by par. 17 of Art. 22 of these Articles of Association – in compliance with the legislation, laws and regulatory provisions – on the basis of lists submitted by the shareholders in which the candidates are listed using a progressive numbering system.

**22.4** Each list contains a higher number of candidates than the number of members to be elected.

**22.5** All shareholders who alone, or jointly with other shareholders, represent at least 1.5% of the share capital with voting rights in the ordinary shareholders' meeting, or the lesser amount required by the regulatory provisions issued by the National Commission for Companies and the Stock Exchange (CONSOB) for the presentation of lists of candidates to be appointed to the Board of Directors, will be entitled to present a list. They shall be obliged to prove ownership of the number of shares necessary to present lists of auditor candidates within the terms specified by legislation, the law and/or regulations.

**22.6** All shareholders may present, or jointly present, just one list.

**22.7** Lists presented by candidates, signed by those presenting them, must be filed at the company's registered office and available to anyone that requests them, at least twenty-five days before the date scheduled for the shareholders' meeting called to resolve on the appointment of the members of the Board of Statutory Auditors, without prejudice to an extension in the cases permitted by the provisions of law and/or regulations.

These lists shall be made available to the public at the company's registered office, on the Company's website or via another method provided for by CONSOB regulations at least twenty-one days prior to the date of the shareholders' meeting.

In any case, without prejudice to any further documentation that may be required by legislation, the law and/or regulations, a curriculum vitae containing the personal and professional characteristics of the parties appointed, specifying any administration and control offices held in other companies, along with the declarations made by candidates to the following effect, must accompany the lists:

- accepting their candidacy, and
- certifying, under their own responsibility, the lack of any existence of causes for ineligibility for election or incompatibility, in addition to the existence of the requirements prescribed by legislation and re-

gulations applicable and by the Articles of Association for the office.

Any changes that may occur until the day in which the Shareholders' Meeting is actually held shall be promptly notified to the company.

**22.8** Any lists not presented in observance of the instructions shall be considered as not having been presented.

**22.9** Each candidate may be included in one list only on pain of ineligibility.

**22.10** The lists are divided into two sections: one for candidates for the position of standing auditor and the other for candidates for the position of alternate auditor. The first of the candidates in each section shall be appointed from those entered in the Register of Statutory Auditors carrying out statutory auditing activities on accounts for a period of no less than three years. In order to ensure gender balance in compliance with the pro-tempore regulations in force, each list containing a number of candidates for the position of statutory auditor equal to or higher than three must indicate, in the first section, the candidate belonging to the less represented gender that received the second highest number of votes and also, in the second section, one candidate belonging to the least represented gender in said first section.

**22.11** All those with voting rights may vote for only one list.

**22.12** The members of the Board of Statutory Auditors are elected as follows:

- a) two standing auditors and one alternate auditor are appointed from the list obtaining the highest number of votes (so-called majority list), in the order in which they are presented in the list itself;
- b) the remaining standing auditor and the other alternate auditor shall be appointed from the list obtaining the highest number of votes at the Shareholders' Meeting after the first (so-called minority list), in the order in which they are listed in the list itself; if several lists obtain the same number of votes, a further ballot shall be held among such lists by all those parties entitled to vote present at the Shareholders' Meeting, with the candidates on the list obtaining the simple majority of votes elected.

**22.13** The Board of Statutory Auditors will be chaired by the standing auditor specified as the first candidate on the minority list.

**22.14** In the event of death, waiver or forfeiture of a standing auditor, the alternate auditor belonging to the same list as the former auditor takes over, according to the sequential order that ensures, in any case, gender balance compliance required by the pro-tempore legal and/or regulatory provisions in force. However, in the case of replacement of the Chairman of the Board of Statutory Auditors, the chair is taken by the candidate listed in the same list to which the outgoing Chairman belonged, according to the order of said list. If it is not possible to proceed with the replacements in accordance with said criteria, a shareholders' meeting will be called to supplement the Board of Statutory Auditors, which will resolve by relative majority.

**22.15** When, pursuant to the paragraph above or in accordance with the law, the Shareholders' Meeting is required to appoint the standing auditors and/or alternate auditors necessary to complete the Board of Statutory Auditors, it shall act in the following manner: if the shareholders' meeting has to replace auditors elected from the majority list, they are appointed by relative majority vote with no list restriction, without prejudice, in any case, to the observance of gender balance required by the pro-tempore legal and/or regulatory provisions in force. If the Auditors elected from the minority list have to be replaced, however, the Shareholders' Meeting shall re-

gulations applicable and by the Articles of Association for the office.

Any changes that may occur until the day in which the Shareholders' Meeting is actually held shall be promptly notified to the company.

**22.8** Any lists not presented in observance of the instructions shall be considered as not having been presented.

**22.9** Each candidate may be included in one list only on pain of ineligibility.

**22.10** The lists are divided into two sections: one for candidates for the position of standing auditor and the other for candidates for the position of alternate auditor. The first of the candidates in each section shall be appointed from those entered in the Register of Statutory Auditors who have carried out statutory auditing activities on accounts for a period of no less than three years. ~~In order to ensure gender balance in compliance with the pro-tempore regulations in force, each list containing a number of candidates for the position of statutory auditor equal to or higher than three must indicate, in the first section, the candidate belonging to the less represented gender that received the second highest number of votes and also, in the second section, one candidate belonging to the least represented gender in said first section.~~

**In compliance with the provisions of the applicable pro-tempore legislation governing gender balance, the lists which, considering both sections, present a number of candidates equal to or higher than three, must include as many candidates belonging to a different gender in the section of the list relating to standing auditors as in the section relating to alternate auditors.**

**22.11** All those with voting rights may vote for only one list.

**22.12** The members of the Board of Statutory Auditors are elected as follows:

- a) two standing auditors and ~~one~~ **two** alternate auditors are appointed from the list obtaining the highest number of votes (so-called majority list), in the order in which they are presented in the list itself;
- b) the remaining standing auditor and the other alternate auditor shall be appointed from the list obtaining the highest number of votes at the Shareholders' Meeting after the first (so-called minority list), in the order in which they are listed in the list itself; if several lists obtain the same number of votes, a further ballot shall be held among such lists by all those parties entitled to vote present at the Shareholders' Meeting, with the candidates on the list obtaining the simple majority of votes elected.

**22.13** The Board of Statutory Auditors will be chaired by the standing auditor specified as the first candidate on the minority list.

**22.14 If the application of the list voting mechanism does not ensure, considering standing and alternate auditors separately, the minimum number of statutory auditors belonging to the least represented gender set forth by the pro-tempore legal and/or regulatory provisions in force, the candidate belonging to the most represented gender and elected, indicated with the highest sequential number in each section of the list that received the highest number of votes, shall be replaced by the candidate belonging to the least represented gender and not elected, taken from the same section of said list in accordance with the order of appearance on said list.**

**22.15** In the event of the death, waiver or forfeiture of a standing auditor, the **first** alternate auditor belonging to the same list as the former auditor takes over, ~~according to the sequential order that ensures, in any case, gender balance compliance required by the pro-tempore legal and/or regulatory provisions in force.~~ **In the event the replacement does not make it possible to appoint members of the Board of Statutory Auditors in conformance with the applicable legislation governing gender balance, the second alternate auditor taken from said list takes over. If it is subsequently necessary to replace another statutory auditor**

place them with a relative majority vote, where possible selecting candidates from the list on which the Auditor to be replaced appeared, and in any case in compliance with the need to represent minorities, to whom these Articles of Association ensure the right to participate in appointing the Board of Statutory Auditors, without prejudice in any case to the respect of gender balance as established by the provisions of law and/or regulations as applicable and in force. The principle of necessary minority representation shall be considered as met in the event of the appointment of auditors, put forward in due course, from the minority list or other lists different from the list that, at the time of appointment of the Board of Statutory Auditors, had obtained the highest number of votes.

**22.16** If only one list has been submitted, the Shareholders' Meeting shall vote thereon; if the list obtains a relative majority, the candidates indicated in the respective section of the list shall be elected standing auditors and alternate auditors; the Board of Statutory Auditors shall be chaired by the person indicated first in the aforesaid list.

**22.17** For the appointment of auditors not nominated according to the procedure laid down herein for any reason, the Shareholders' Meeting resolves with the legal majorities, without prejudice, in any case, to observance of the gender balance required by the pro-tempore legal and/or regulatory provisions in force.

**22.18** The outgoing auditors may be re-elected.

**22.19** Meetings of the Board of Statutory Auditors may, if the Chairman or his representative deems it necessary, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

**taken from the list that received the highest number of votes, the other alternate auditor taken from said list, in any case, takes over. However, in the case of replacement of the Chairman of the Board of Statutory Auditors, the chair is taken by the candidate listed auditor in the same list to which of the outgoing Chairman belonged, according to the order of said list, without prejudice, nonetheless, to possession of the legal and/or statutory requirements to hold office and compliance with gender balance, required by the pro-tempore legal and/or regulatory provisions in force.** If it is not possible to proceed with the replacements in accordance with said criteria, a shareholders' meeting will be called to supplement the Board of Statutory Auditors, which will resolve by relative majority.

**22.1516** When, pursuant to the previous paragraph or in accordance with the law, the Shareholders' Meeting is required to appoint the standing auditors and/or alternate auditors necessary to complete the Board of Statutory Auditors, it shall act in the following manner: if the shareholders' meeting has to replace auditors elected from the majority list, they are appointed by relative majority vote with no list restriction, without prejudice, in any case, to the observance of gender balance required by the pro-tempore legal and/or regulatory provisions in force. If the Auditors elected from the minority list have to be replaced, however, the Shareholders' Meeting shall replace them with a relative majority vote, where possible selecting candidates from the list on which the Auditor to be replaced appeared, and in any case in compliance with the need to represent minorities, to whom these Articles of Association ensure the right to participate in appointing the Board of Statutory Auditors, without prejudice in any case to the respect of gender balance as established by the provisions of law and/or regulations as applicable and in force. The principle of necessary minority representation shall be considered as met in the event of the appointment of auditors, put forward in due course, from the minority list or other lists different from the list that, at the time of appointment of the Board of Statutory Auditors, had obtained the highest number of votes.

**22.1617** If only one list has been submitted, the Shareholders' Meeting shall vote thereon; if the list obtains a relative majority, the candidates indicated in the respective section of the list shall be elected standing auditors and alternate auditors; the Board of Statutory Auditors shall be chaired by the person indicated first in the aforesaid list.

**22.1718** For the appointment of auditors not nominated according to the procedure laid down herein for any reason, the Shareholders' Meeting resolves with the legal majorities, without prejudice, in any case, to observance of the gender balance required by the pro-tempore legal and/or regulatory provisions in force.

**22.1819** The outgoing auditors may be re-elected.

**22.1920** Meetings of the Board of Statutory Auditors may, if the Chairman or his representative deems it necessary, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

- 2) to confer the Board of Directors – and on its behalf, the Chairman, Deputy Chairman and Managing Director temporarily in office, separately – all the widest powers and all necessary rights for the implementation of the aforementioned resolutions and for carrying out any act and/or formality needed for recording these in the Register of Companies, by accepting and introducing the amendments, additions or cancellations, formal and non-essential, requested by the competent Authorities”.

The Board of Directors

Milan, March 27, 2013

\* \* \*

The full text of the Articles of Association is shown below, with a comparison between the current and proposed texts, which also takes into account the amendments to the items in the Company's Articles of Association resulting from the proposed amendments referred to in item 1 of the agenda in the Extraordinary Shareholders' Meeting.

## ARTICLES OF ASSOCIATION

### NAME – REGISTERED OFFICE – DURATION – OBJECT

#### Article 1

1.1 The company's name is "Prelios S.p.A."

#### Article 2

2.1 The company's registered office is in Milan.o.

2.2 It can establish and close secondary offices, agencies, branches and representative offices anywhere in Italy and abroad..

#### Article 3

3.1 The company duration is fixed as until December 2100 (twenty-one hundred), 31 (thirty-first).).

3.2 The extension of the duration does not grant any shareholders not participating in the related resolution the right to withdraw.

#### Article 4

4.1 The company's object is:

- to promote and participate in real estate investments and transactions;
- to coordinate and manage real estate investments and transactions;
- to assume equity investments in other companies or entities both in Italy and abroad;
- to loan, technically and financially coordinate the company orentities in which it has an interest.

4.2 More specifically, the company purpose includes: the purchase, sale, exchange and lease of all types and areas of real estate; the design, construction, demolition and maintenance of buildings and construction works in general; the design and development of reclamation works and urbanisation works; the execution of tenders for said activities, the provision of real estate services.

4.3 The company may also carry out all commercial, industrial, equity and real estate transactions necessary or useful for the achievement of the company purpose (including the issue of personal guarantees or collateral also in the interests of third parties and the taking out of loans and mortgages) with the specific exclusion of financial activities in the public regard and all other activities reserved in accordance with current legislation.

## SHARE CAPITAL AND SHARES

#### Article 5

5.1 The paid-in and subscribed share capital totals euro o • [•] ~~divided~~ **divided** into • [•] **ordinary** shares without face value.

The extraordinary shareholders' meeting of May 8, 2013 resolved to approve:

(i) **an indivisible share capital increase against payment, for a total amount of 70,005,789.37 euro (seventy million, five thousand, seven hundred and eighty nine point thirty seven), with the exclusion of the option right pursuant to Art. 2441, par. 5 of the Italian Civil Code, as amended by Italian Legislative Decree no. 184 of October 11, 2012, through the issue of 117,597,496 (one hundred and seventeen million, five hundred and ninety seven thousand, four hundred and ninety six) category B shares ("Category B Shares"), convertible to ordinary shares, at a subscription price of 0.5953 (zero point five thousand nine hundred and fifty three) per share, to be performed by [•];**

(ii) **a divisible share capital increase against payment for a maximum total amount of 115,009,511.53 euro (one hundred and fifteen million, nine thousand, five hundred and eleven point fifty three), through the issue of up to 193,195,887 (one hundred and ninety three million, one hundred and ninety five thousand, eight hundred and eighty seven) ordinary shares, at a subscription price of**

0.5953 euro (zero point five thousand nine hundred and fifty three) per share, with the same characteristics as those in circulation to be offered under option to entitled parties. This increase is to be effected by [•]; and

(iii) pursuant to Art. 2420-ter, par. 2 of the Italian Civil Code, the assignment to the Board of Directors of the right to issue a maximum of a nominal 269,000,000.00 euro (two hundred and sixty nine million point zero), in bonds subject to mandatory conversion (convertible bonds) to ordinary and/or Category B Shares, with the exclusion of the option right pursuant to Art. 2441, par. 5 of the Italian Civil Code, with the subsequent divisible increase in share capital for a maximum of 297,644,375.01 euro (two hundred and ninety seven million, six hundred and forty four thousand, three hundred and seventy five point zero one), in service of the conversion of the financial instrument, to be carried out through the issue of up to 499,990,551 (four hundred and ninety nine million, nine hundred and ninety thousand, five hundred and fifty one) ordinary shares and up to 144,678,117 (one hundred and forty four million, six hundred and seventy eight thousand, one hundred and seventeen) Category B Shares, shares with no face value, with regular dividends, with the same characteristics, respectively, as ordinary shares and Category B Shares in circulation at the issue date, to be used exclusively for the mandatory conversion, of the right to be exercised once the share capital increase referred to in points (i) and (ii) has been performed and, nonetheless, within a maximum of one year from the resolution date, with the additional right of the Board of Directors to establish all terms and conditions of the convertible bond, as with the share capital increase in service of the mandatory conversion.

Following the execution of the share capital increases set forth in previous points (i) and (ii), as well as the exercise of the power pursuant to point (iii), the Board of Directors is authorised to proceed with all subsequent formalities, including therein, the updating of the Articles of Association and subsequent filing at the Register of Companies.

5.2 In resolutions to increase share capital against payment, the option right can be excluded for the maximum amount of ten percent of the pre-existing share capital, as long as the issue price equates to the market value of the shares and that this is confirmed in a specific report prepared by an external auditor or external auditing company.

#### Article 6

6.1 Shares are registered and indivisible. The shares are without face value and are issued in dematerialised form.

6.2 The ordinary shares enjoy all rights expressly recognised by law and these Articles of Association. Category B Shares have the same characteristics as ordinary shares but do not entitle holders to any voting rights. These Category B Shares are converted to ordinary shares, according to a ratio of one ordinary share for every Category B share, in the event of the transfer referred to Art. 6-bis below, or the launch of a take-over bid and/or take-over bid with share swap involving company shares.

6.3 The company may increase the share capital also by means of conferrals other than in cash. The company may also issue categories of shares which provide specific rights, within the limits permitted by current pro-tempore legislation.

6.4 Any introduction or removal of constraints concerning the circulation of shares does not attribute the right to withdraw to any shareholders who did not participate in the approval of the relevant resolution.

#### Article 6-bis

6-bis.1 Ordinary shares and Category B Shares are freely transferable, except as provided for in this Art. 6-bis.

6-bis.2 In the event of transfer of Category B Shares to parties that are not already directly holders of Category B Shares, the transfer will involve the automatic conversion of said Category B Shares involved in the transfer to ordinary company shares, as envisaged by paragraph 6.2 above. By contrast, said conversion shall not be carried out in the event of the transfer to parties directly or indirectly controlled by parties that are already holders of Category B shares..

6-bis.3 Transfer means any act carried out on a voluntary or forced basis, both against payment and free of charge, during a person's lifetime or upon death, realised in any form and/or any event which, directly or indirectly, results in the transfer, establishment and/or transfer of the right to own ordinary shares and/or Category B Shares, including therein any instruments convertible to ordinary shares and Category B Shares, option rights and/or rights to purchase and/or subscribe ordinary shares and/or Category B Shares and instruments convertible to ordinary shares and Category B shares to which the holders of the same are entitled.

6-bis.4 As a result of the conversion of Category B Shares to ordinary shares, the Board of Directors is authorised to proceed with all subsequent formalities, including therein, the updating of the Articles of Association and subsequent filing at the Register of Companies.

### SHAREHOLDERS' MEETING

#### Article 7

7.1 The shareholders' meeting can be called in Italy, in the registered office or anywhere else. The right to attend the meeting and be represented therein is governed by the law and the Articles of Association.

**7.2** Ordinary and Extraordinary Shareholders' Meetings are held on single call. The corresponding resolutions are adopted by a legal majority.

**7.3** Those who are entitled to vote may be represented by proxy issued pursuant to the methods set forth by the law and current regulations.

The proxy may be notified to the company also in electronic format through alternative use of one of the following methods:

- a) appropriate section of the Company's website, indicated by the company in the notice of call;
- b) certified e-mail to the address indicated by the company in the notice of call. The notice of call may also be limited to one of the aforementioned methods, i.e. the one actually available at the time of the single shareholders' meeting to which the notice itself is referred.

The Company shall appoint, for each shareholders' meeting, one or more parties to whom the holder of rights to vote at shareholders' meeting may grant a proxy with voting instructions for all or some of the proposals on the agenda. This proxy does not apply to proposals for which no voting instructions have been granted. The parties designated and the methods and terms for conferral of the proxies shall be included in the notice of call of the shareholders' meeting.

**7.4** The ordinary shareholders' meeting must be called within 180 days of the company year-end pursuant to the law.

**7.5** Directors shall call a shareholders' meeting without delay, in the cases and under the conditions provided for by law, when so requested by shareholders representing at least one twentieth of share capital.

**7.6** Shareholders requesting that a meeting be called shall prepare a report on proposals concerning the items to be discussed. The Board of Directors shall make the report prepared by the shareholders available to the public, together with its own evaluations, if any, simultaneously with the publication of the notice of call of the shareholders' meeting and under the conditions provided for by law.

**7.7** Shareholders who, including jointly, represent at least one fortieth of share capital, **in accordance with the cases, methods and terms prescribed by law**, may send ~~in accordance with the cases and terms prescribed by law~~, a request detailing items they wish to be added to the meeting agenda, **or present proposed resolutions on items already on the agenda**.

**7.8** Additions to the agenda or the **presentation of proposed resolutions on items already on the agenda**, presented pursuant to par. 7, of Art. 7 of these Articles of Association are published, in accordance with the legal terms, with the same methods required for the publication of the notice of call of the shareholders' meeting.

**7.9** Shareholders requesting additions ~~to the agenda pursuant to par. 7 of Art. 7~~, shall ~~prepare and~~ send a report to the Board of Directors, ~~to be filed at the company's registered office~~ within the relevant deadline for presenting the requested addition, **explaining the reasons for their proposed resolutions on new or on the items that they propose for discussion or relating to additional proposed resolutions on items already on the agenda**. The Board of Directors shall make the report prepared by the shareholders available to the public, together with its own evaluations, if any, simultaneously with the publication of the notice of supplementation of the agenda **or of the presentation of new proposed resolutions**, under the conditions provided for by law.

## **Article 8**

**8.1** The legitimate right to attend the Shareholders' Meeting and the exercise of voting rights is disciplined by the current legal provisions on the matter.

**8.2** The legitimate right to attend the Shareholders' Meeting and the exercise of voting rights is certified by a communication sent to the company through the authorised intermediary, in compliance with its accounting records, in favour of the party with voting rights.

**8.3** The disclosure established under par. 2 of ar. 8 of these Articles of Association is made by the intermediary on the basis of the evidence in relation to the end of the accounting day of the seventh trading day prior to the date scheduled for the shareholders' meeting. Credit and debit entries posted to the accounts after such time shall not be relevant for the purposes of the legitimate entitlement to exercise voting rights at the shareholders' meeting.

**8.4** The disclosure established under par. 2 of Art. 8 of these Articles of Association must reach the company by the end of the third trading day prior to the date scheduled for the calling of the shareholders' meeting, or other terms established by applicable regulatory provisions. This is notwithstanding the legitimate entitlement to attend and vote when the notification referred to in par. 2 of Art. 8 of these Articles of Association is received by the company after the deadlines indicated in this paragraph, provided that it is before the start of the shareholders' meeting.

## **Article 9**

**9.1** The regular constitution of the Shareholders' Meeting and the validity of the resolutions are governed by law.

**9.2** Shareholders' Meetings will be governed by the law and the Articles of Association as well as by the Shareholders' Meeting Regulations, approved by resolution of the company's ordinary shareholders' meeting.

**Article 10**

**10.1** The Shareholders' Meeting is chaired, in order, by the Chairman of the Board of Directors, by the Deputy Chairman and Chief Executive Officer, where appointed, by a Deputy Chairman or by a Chief Executive Officer; if there are two or more Deputy Chairmen or Chief Executive Officers, the Meeting is chaired by the most senior member.

**10.2** In the event of the absence of the aforesaid persons, the Shareholders' Meeting shall be chaired by another person selected by the Shareholders' Meeting with the vote of the majority of capital represented at the Shareholders' Meeting.

**10.3** The Chairman of the shareholders' meeting is assisted by a Secretary appointed by the Shareholders' Meeting by means of the majority vote of the capital represented in the meeting, who need not be a shareholder; the attendance of the Secretary is not necessary when a notary is appointed to draw up the relevant minutes.

**10.4** The Meeting is chaired by the Chairman and, in accordance with the law and these Articles of Association, governs its events. To this end, and amongst other duties, the Chairman verifies the validity of the calling of the meeting; he ascertains the identity of those in attendance and their right to attend, also by proxy; ascertains the quorum for passing resolutions; directs works, also establishing an alternative order of discussion of the items on the agenda. The Chairman also takes all necessary measures to ensure structured debate and voting, defining methods and ascertaining results.

**Article 11**

**11.1** Resolutions of the Shareholders' Meeting are recorded in minutes signed by the Chairman and by the Secretary of the Shareholders' Meeting or by the notary.

**11.2** The minutes of the Extraordinary Shareholders' Meeting must be drawn up by a notary appointed by the Chairman.

**11.3** Any relevant copies and extracts not authenticated by a notary are certified true by the Chairman of the Board of Directors..

**BOARD OF DIRECTORS****Article 12**

**12.1** The company is managed by a Board of Directors composed of between 5 and 19 members who remain in office for three financial years (unless a shorter period is established by the Shareholders' Meeting at the time of appointment) and may be re-elected.i.

**12.2** The Shareholders' Meeting determines the number of members of the Board of Directors, a number which remains fixed until resolved otherwise.

**12.3** Pursuant to the paragraphs below, the Board of Statutory Auditors is appointed on the basis of lists submitted by the shareholders in which the candidates are listed by progressive number.

**12.4** Lists presented by shareholders, signed by those presenting them, must be filed at the company's registered office and be available to any party that requests them, at least twenty-five days prior to the date scheduled for the meeting called to resolve on the appointment of the members of the Board of Directors. These shall be made available to the public at the company's registered office, on the company's website or via another method provided for by CONSOB regulations at least twenty-one days before the date of the shareholders' meeting.

**12.5** Each member may submit or contribute to the presentation of a single list and each candidate may be presented on a single list under penalty of ineligibility.

**12.6** Lists may be submitted only by shareholders who, by themselves or together with other members, are the overall owners of shares representing at least 2 per cent of the share capital with voting rights at the ordinary shareholders' meeting or the lesser number required by the regulations issued by the National Commission for Companies and the Stock Exchange (CONSOB), with the obligation to provide proof of ownership of the number of shares needed to submit the lists within the time limit specified for the publication thereof by the company.

**12.7** Together with each list it is necessary to file the acceptances of the candidature of each individual candidate and the declarations whereby they confirm, under their own responsibility, that there are no grounds for ineligibility for election or incompatibility and that the requirements prescribed for the respective duties exist. Together with the declarations, a curriculum vitae must be filed for each candidate concerning his/her personal and professional details, specifying any administration and control offices held in other companies and possession of the independence requirements envisaged, as required for the directors of listed companies, in accordance with the law or the company's Code of Conduct. In order to ensure gender balance, in compliance with pro-tempore regulations in force, in each list presented numbering at least three candidates, at least one third (rounded up to the nearest unit if the result is not a whole number) of these candidates must be of the least represented gender.

Any changes that may occur until the day in which the Shareholders' Meeting is actually held shall be promptly notified to the company.

**12.8** Any lists presented not in observance of the instructions shall be considered as not having been presented..

**12.9** All those with voting rights may vote for only one list.

**12.10** The Board of Directors shall be elected as follows:

- a) four fifths of the Directors to be elected shall be taken from the list which has obtained the majority of votes cast by those entitled to vote, in the sequential order in which they are listed on the said list, with rounding down, in the event of a fractional number, to the lower figure;
- b) the remaining Directors shall be drawn from the other lists, to which end the votes obtained by said lists shall be subsequently divided by whole progressive numbers from one up to the number of Directors still to be elected.

The quotients thus obtained shall be assigned progressively to the candidates in each of these lists, according to the order specified by them respectively.

The quotients thus allocated to the candidates in the various lists shall be ranked in a single descending order. Those obtaining the highest quotients shall be elected.

If several candidates have obtained the same quotient, the candidate on the list from which no Director has yet been elected, or from which the lowest number of Directors has been elected, shall be elected. If no Director has yet been elected from these lists or the same number of directors has been elected from all these lists, the candidate who has obtained the highest number of votes from these lists shall be elected. In the event of a tied vote on the list and a tied quotient, the entire meeting shall take a new vote and the candidate who obtains a simple majority shall be elected.

**12.11** The Board of Directors must be appointed in compliance with the pro-tempore gender balance regulations in force. If the application of the list voting mechanism does not ensure the minimum number of directors belonging to the least represented gender laid down by law and/or the regulations, the candidate belonging to the most represented gender elected, indicated with the highest progressive number in the list obtaining the highest number of votes, will be replaced by the candidate belonging to the least represented gender not elected from the same list according to the progressive order of submission and so on, list by list, until the minimum number of directors belonging to the least represented gender is complete.

**12.12** If the application of the list voting mechanism does not guarantee the minimum number of independent Directors set forth by the law and/or the regulations, the non-independent candidate elected with the highest progressive number on the list which has received the highest number of votes shall be replaced by the independent candidate not elected on said list according to the progressive order of submission and so on, list by list, until the minimum number of independent Directors is reached, without prejudice, in any case, to compliance with the gender balance established by the pro-tempore legal and/or regulatory provisions in force.

**12.13** For the appointment of directors, who for any reason are not appointed in accordance with the procedure stipulated herein, the meeting shall resolve on the basis of the majority required by law, without prejudice, in any case, to compliance with the gender balance established by the pro-tempore legal and/or regulatory provisions in force.

**12.14** If, during the year, one or more directors cease office, pursuant to Art. 2386 of the Italian Civil Code, without prejudice, in any case, to the gender balance established by the pro-tempore legal and/or regulatory provisions in force.

**12.15** The loss of the independence requirements on the part of a Director shall not constitute grounds for resignation from the post if the Board of Directors continues to have the minimum number of members – stipulated by the provisions of law and/or regulations – who meet the independence requirements.

**12.16** If, as the result of the relinquishment of office or for any other reason, more than half of the Directors are not present, the term of office of the entire Board of Directors ends when the new board is appointed.

**12.17** Until such time as resolved otherwise by the shareholders' meeting, the Directors shall not be bound by the restriction contained in Art. 2390 of the Italian Civil Code.

### **Article 13**

**13.1** If the meeting has not yet done so, the Board of Directors appoints a Chairman and, if applicable, one or more Deputy Chairmen.

**13.2** In the absence of the Chairman, meetings are chaired, in order, by the Deputy Chairman and Chief Executive Officer, if appointed, by a Deputy Chairman or by a Chief Executive Officer; if there are two or more Deputy Chairmen or Chief Executive Officers, meetings are chaired by the most senior member.

**13.3** The Board of Directors appoints a Secretary who does not need to be a board member.

### **Article 14**

**14.1** The Board of Directors is called by the Chairman or the acting Chairman. It may be called to the company's registered office or anywhe-

re else, as established in the letter of invitation. The Board may be called to meet any time it is deemed to be in the company's interests, or where a written request is submitted by one of the Chief Executive Officers or by one fifth of the Directors in office.

**14.2** The Board of Directors may also be convened by the Board of Statutory Auditors or by each standing auditor, upon communication to the Chairman of the Board of Directors.

**14.3** The Chairman shall communicate the items on the agenda of the board meeting in advance and shall ensure that sufficient information on the items to be discussed is provided to all directors, considering the circumstances at hand.

**14.4** Notice of Board meetings is given by registered letter, telegram, fax or e-mail sent at least five days in advance (or in cases of urgency, at least six hours in advance), to each Director or standing auditor.

**14.5** However, the Board of Directors may take valid decisions even in the absence of a formal notice, if all its members and all the standing auditors in office are present.

**14.6** Participation in board meetings and meetings of the Executive Committee, where appointed, is permitted – should the Chairman or acting Chairman see the need – by means of telecommunication systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

**14.7** Meetings of the Board of Directors – or Executive Committee, if appointed – are considered as held in the place where both the Chairman and Secretary must be.

#### **Article 15**

**15.1** Meetings of the Board of Directors may also be held outside the company's registered office, as long as they are held in Italy or countries of the European Union.

#### **Article 16**

**16.1** Meetings of the Board of Directors are validly constituted where the majority of the Directors in office are in attendance and resolutions are taken by majority of votes cast. In the event of an equal number of votes, the Chairman shall have the casting vote.

#### **Article 17**

**17.1** The Board of Directors' resolutions, even if taken during meetings held by telecommunications equipment, shall be entered in the appropriate register; all minutes are signed by the Chairman and by the Secretary of the meeting.

**17.2** Any relevant copies and extracts not authenticated by a notary are certified true by the Chairman.

#### **Article 18**

**18.1** The Board of Directors shall be vested with all powers of ordinary and extraordinary company management. It shall have the faculty to carry out all acts deemed appropriate to implementing and attaining the company's business purpose, with no exceptions save those tasks that the law and the Articles of Association reserve to the shareholders' meeting.

**18.2** Within the terms of law, the Board of Directors shall be assigned the power to determine mergers and spin-offs, to reduce share capital in the event of shareholder withdrawal, to adapt the Articles of Association to provisions of law, to transfer the company's registered office to another location within the Italy, and to set up or close secondary offices.

**18.3** In case of urgency, related party transactions of greater or lesser significance, as defined in the procedure for related party transactions adopted by the Board of Directors of the Company, which are not the responsibility of the shareholders' meeting and need not be authorised by it, may also be completed as an exception to the respective authorisation methods provided for in the procedure, as long as it is under the conditions provided for therein.

**18.4** The Board of Directors and the Board of Statutory Auditors are informed, also by the appointed organisations, on the activities carried out, on the general trend in operations, on the outlook and the most important economic, financial and equity transactions carried out by the company or by subsidiaries. More specifically, the appointed organisations shall report on the operations in which they are involved on their own behalf or on behalf of third parties, or that are affected by the party exercising the management and coordination, where applicable.

**18.5** Information is provided in a timely manner and in any case at least once a quarter, during meetings or in writing.

#### **Article 19**

**19.1** For the management of company business, the Board of Directors is authorised to delegate the powers it deems appropriate to one or

more of its members, potentially qualifying such as Chief Executive Officers and assigning them individual or joint company signature, as deemed most appropriate.

**19.2** It may also delegate its attributes to an Executive Committee consisting of some of its members, whose fees will be established by the shareholders' meeting.

**19.3** It also has the authority to appoint one or more Committees with advisory or proposing functions, in order to adapt the corporate governance structure to the recommendations issued by the competent authorities from time to time..

**19.4** The Board of Directors appoints a Manager responsible for corporate financial reporting, having heard the opinion of the Board of Statutory Auditors. Without prejudice to revocation for just cause, having consulted with the Board of Statutory Auditors, the office of the Manager responsible for corporate financial reporting shall expire with that of the Board of Directors that appointed him.

**19.5** The Manager responsible for corporate financial reporting must be an expert in administrative, finance and auditing matters and must meet the requirements established for directors. The loss of these requirements will entail forfeiture of office, which must be declared by the Board of Directors within thirty days of its becoming aware of the fault.

**19.6** Finally, the Board of Directors may also appoint General Managers, Deputy General Managers, Managers, Deputy Managers and representatives for individual deeds or categories of deeds, determining powers and duties. The appointment of Managers, Deputy Managers and representatives for individual deeds or categories of deeds may also be deferred by the Board of Directors to Chief Executive Officers and General Managers.

#### **Article 20**

**20.1** The Chairman of the Board of Directors and, if appointed, the Deputy Chairmen and Chief Executive Officers shall all separately represent the company before third parties and in court, up to the limits of the powers assigned to them by the Board of Directors..

**20.2** Each of the aforementioned parties shall, in any case, be fully entitled to launch legal action and appeals in court and at any level of jurisdiction, including at revocation and cassation proceedings, to file petitions and legal action in criminal proceedings, to as appear as a civil party for the company in criminal proceedings, to bring legal action and file appeals before all administrative courts, to intervene and resist legal action and appeals involving the company, to this end awarding all necessary powers of attorney and mandates for the disputes.

**20.3** Up to the limits of the powers assigned them by the Board of Directors, the Chairman and, if appointed, the Deputy Chairmen and Chief Executive Officers, as well as the Board of Directors itself, are authorised to grant the representation of the company before third parties and in legal proceedings to Managers and, more generally, to employees or third parties.

#### **Articolo 21**

**21.1** In addition to the reimbursement of expenses incurred for reasons of office, members of the Board of Directors receive an annual fee determined by the Shareholders' Meeting.

**21.2** The remuneration of directors vested with particular offices is established by the Board of Directors, having consulted the Board of Statutory Auditors.

### **BOARD OF STATUTORY AUDITORS**

#### **Article 22**

**22.1** The Board of Statutory Auditors is composed of two three standing auditors and two alternate auditors who meet the requirements specified by current legislation and regulations; to this end, it will be considered that matters and sectors of activity strictly related to those of the business, are those specified in the company purpose, with specific reference to companies or entities operating in the field of finance, industry, banking, insurance, real estate and services in general.

**22.2** The Ordinary Shareholders' Meeting elects the Board of Statutory Auditors and determines its fees. The minority is entitled to elect one standing auditor and one alternate auditor.

**22.3** The Board of Statutory Auditors is appointed, except where provided for by par. 17 of Art. 22 of these Articles of Association – in compliance with the legislation, laws and regulatory provisions – on the basis of lists submitted by the shareholders in which the candidates are listed using a progressive numbering system.

**22.4** Each list contains a higher number of candidates than the number of members to be elected.

**22.5** All shareholders who alone, or jointly with other shareholders, represent at least 1.5% of the share capital with voting rights in the ordi-

nary shareholders' meeting, or the lesser amount required by the regulatory provisions issued by the National Commission for Companies and the Stock Exchange (CONSOB) for the presentation of lists of candidates to be appointed to the Board of Directors, will be entitled to present a list. They shall be obliged to prove ownership of the number of shares necessary to present lists of auditor candidates within the terms specified by legislation, the law and/or regulations.

**22.6** All shareholders may present, or jointly present, just one list.

**22.7** Lists presented by candidates, signed by those presenting them, must be filed at the company's registered office and available to anyone that requests them, at least twenty-five days before the date scheduled for the shareholders' meeting called to resolve on the appointment of the members of the Board of Statutory Auditors, without prejudice to an extension in the cases permitted by the provisions of law and/or regulations.

These lists shall be made available to the public at the company's registered office, on the Company's website or via another method provided for by CONSOB regulations at least twenty-one days prior to the date of the shareholders' meeting.

In any case, without prejudice to any further documentation that may be required by legislation, the law and/or regulations, a curriculum vitae containing the personal and professional characteristics of the parties appointed, specifying any administration and control offices held in other companies, along with the declarations made by candidates to the following effect, must accompany the lists:

- accepting their candidacy, and
- certifying, under their own responsibility, the lack of any existence of causes for ineligibility for election or incompatibility, in addition to the existence of the requirements prescribed by legislation and regulations applicable and by the Articles of Association for the office.

Any changes that may occur until the day in which the Shareholders' Meeting is actually held shall be promptly notified to the company.

**22.8** Any lists not presented in observance of the instructions shall be considered as not having been presented.

**22.9** Each candidate may be included in one list only on pain of ineligibility.

**22.10** The lists are divided into two sections: one for candidates for the position of standing auditor and the other for candidates for the position of alternate auditor. The first of the candidates in each section shall be appointed from those entered in the Register of Statutory Auditors carrying out statutory auditing activities on accounts for a period of no less than three years. ~~In order to ensure gender balance in compliance with the pro-tempore regulations in force, each list containing a number of candidates for the position of statutory auditor equal to or higher than three must indicate, in the first section, the candidate belonging to the less represented gender that received the second highest number of votes and also, in the second section, one candidate belonging to the least represented gender in said first section.~~

**In compliance with the provisions of the applicable pro-tempore legislation governing gender balance, the lists which, considering both sections, present a number of candidates equal to or higher than three, must include as many candidates belonging to a different gender in the section of the list relating to standing auditors as in the section relating to alternate auditors.**

**22.11** All those with voting rights may vote for only one list.

**22.12** The members of the Board of Statutory Auditors are elected as follows:

- a) two standing auditors and one two alternate auditors are appointed from the list obtaining the highest number of votes (so-called majority list), in the order in which they are presented in the list itself;
- b) the remaining standing auditor and the other alternate auditor shall be appointed from the list obtaining the highest number of votes at the Shareholders' Meeting after the first (so-called minority list), in the order in which they are listed in the list itself; if several lists obtain the same number of votes, a further ballot shall be held among such lists by all those parties entitled to vote present at the Shareholders' Meeting, with the candidates on the list obtaining the simple majority of votes being elected.

**22.13** The Board of Statutory Auditors will be chaired by the standing auditor specified as the first candidate on the minority list.

**22.14** ~~If the application of the list voting mechanism does not ensure, considering standing and alternate auditors separately, the minimum number of statutory auditors belonging to the least represented gender set forth by the pro-tempore legal and/or regulatory provisions in force, the candidate belonging to the most represented gender and elected, indicated with the highest sequential number in each section of the list that received the highest number of votes, shall be replaced by the candidate belonging to the least represented gender and not elected, taken from the same section of said list in accordance with the order of appearance on said list.~~

**22.14-15** In the event of the death, waiver or forfeiture of a standing auditor, the first alternate auditor belonging to the same list as the former auditor takes over, ~~according to the sequential order that ensures, in any case, gender balance compliance required by the pro-tempore legal and/or regulatory provisions in force.~~ **In the event the replacement does not make it possible to appoint members of the Board of Statutory Auditors in conformance with the applicable legislation governing gender balance, the second alternate auditor taken from said list takes over. If it is subsequently necessary to replace another standing auditor taken from the list that received the hi-**

**ghest number of votes, the other alternate auditor taken from said list, in any case, takes over. However,** in the case of replacement of the Chairman of the Board of Statutory Auditors, the chair is taken by the ~~candidate listed~~ **auditor** in the same list ~~to which~~ of the outgoing Chairman ~~belonged~~, according to the order of said list, **without prejudice, nonetheless, to possession of the legal and/or statutory requirements to hold office and compliance with gender balance, required by the pro-tempore legal and/or regulatory provisions in force.** If it is not possible to proceed with the replacements in accordance with said criteria, a shareholders' meeting will be called to supplement the Board of Statutory Auditors, which will resolve by relative majority.

~~22.15.~~**16** When, pursuant to the previous paragraph or in accordance with the law, the Shareholders' Meeting is required to appoint the standing auditors and/or alternate auditors necessary to complete the Board of Statutory Auditors, it shall act in the following manner: if the shareholders' meeting has to replace auditors elected from the majority list, they are appointed by relative majority vote with no list restriction, without prejudice, in any case, to the observance of gender balance required by the pro-tempore legal and/or regulatory provisions in force. If the Auditors elected from the minority list have to be replaced, however, the Shareholders' Meeting shall replace them with a relative majority vote, where possible selecting candidates from the list on which the Auditor to be replaced appeared, and in any case in compliance with the need to represent minorities, to whom these Articles of Association ensure the right to participate in appointing the Board of Statutory Auditors, without prejudice in any case to the respect of gender balance as established by the provisions of law and/or regulations as applicable and in force. The principle of necessary minority representation shall be considered as met in the event of the appointment of auditors, put forward in due course, from the minority list or other lists different from the list that, at the time of appointment of the Board of Statutory Auditors, had obtained the highest number of votes.

~~22.16.~~**17** If only one list has been submitted, the Shareholders' Meeting shall vote thereon; if the list obtains a relative majority, the candidates indicated in the respective section of the list shall be elected standing auditors and alternate auditors; the Board of Statutory Auditors shall be chaired by the person indicated first in the aforesaid list.

~~22.17.~~**18** For the appointment of auditors not nominated according to the procedure laid down herein for any reason, the Shareholders' Meeting resolves with the legal majorities, without prejudice, in any case, to observance of the gender balance required by the pro-tempore legal and/or regulatory provisions in force

~~22.18.~~**19** The outgoing auditors may be re-elected.

~~22.19.~~**20** Meetings of the Board of Statutory Auditors may, if the Chairman or his representative deems necessary, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.uti.

## FINANCIAL STATEMENTS - ALLOCATION OF PROFITS

### Article 23

**23.1** The company's year ends on December 31, of each year.

### Article 24

**24.1** The year's profits will be allocated as follows: 5% (five percent) allocated to the legal reserve fund until this has reached one fifth of share capital and the remainder, unless resolved otherwise by the shareholders' meeting, divided up between the shareholders, in proportion to the shares held by each shareholder.

**24.2** Any dividends not cashed within five years of the date on which they become payable, are prescribed in the company's favour.

**24.3** Where legal conditions are met, the company may distribute advances on dividends.

## GENERAL PROVISIONS

### Article 25

**25.1** Shareholders' domiciles, as regards all their relations with the company, are, to all intents and purposes, those recorded in the register of shareholders.

### Article 26

**26.1** Matters not provided for by these Articles of Association shall be governed by legal provisions.

## **Prelios SpA**

viale Piero e Alberto Pirelli, 27  
20126 Milano - Italy  
T +39.02.6281.1  
[communication@prelios.com](mailto:communication@prelios.com)

[prelios.com](http://prelios.com) [preliosgr.com](http://preliosgr.com) [preliosproperty.com](http://preliosproperty.com) [preliosagency.com](http://preliosagency.com) [preliosvaluations.com](http://preliosvaluations.com) [prelioscredit.com](http://prelioscredit.com) [prelios.de](http://prelios.de) [prelios.pl](http://prelios.pl)

On cover the asset owned by Anastasia fund, managed by Prelios SGR, located in via C. Colombo, Rome