A. DIRECTORS' REPORT ON OPERATIONS

1. CORPORATE REVIEW

1.1. Reference market scenario

1.1.1. Macroeconomic environment in Europe

In the fourth quarter of 2014, economic activity in the Eurozone is estimated to have increased by 0.2%, the same rate recorded in the third quarter[1].

In light of that figure, growth will continue in the first few months of this year: GDP is expected to increase by 0.3% in both the first and second quarters of 2015, driven primarily by domestic demand, in turn stimulated by low energy prices.

Consumer prices fell in the Eurozone in December. The decline in oil prices will contribute to sustaining consumption.

The labour market will improve gradually in 2015 and private consumption will be sustained by the moderate increase in disposable income.

Investments will resume growth at a moderate pace in 2015, stimulated by the increased momentum of domestic and foreign demand and the improvement of financing conditions.

1.1.2. Macroeconomic environment in Italy

According to the Bank of Italy studies, in the last few quarters consumption began to rise moderately again, in line with the performance of disposable income, which was buoyed by the measures adopted by the Italian government. Their contribution to economic growth was offset by the decline in investments, which were held back by considerable unused capacity, extreme uncertainty concerning demand prospects and the challenges faced by the construction sector.

In 2014 contribution to GDP growth by domestic demand, net of inventories, was 0.3 percentage points, whereas foreign demand showed an increase of 0.1 percentage points. In 2015, domestic demand, net of inventories, is expected to support GDP growth (+0.5 percentage points), whereas the contribution from net foreign demand will be limited (+0.1 percentage points). In 2016, the contribution of domestic demand, net of inventories, is expected to rise further, with estimated GDP growth of 1.0%.

Consumer price performance remains weak: in December it was -0.2% in the Eurozone and -0.1% in Italy. It may continue to fall due to the decline of energy product prices. On the basis of the recent Bank of Italy-*Il Sole 24 Ore* survey, companies expect that the prices of sale of their products will remain essentially stable in 2015.

Investments declined further during the current year (-2.3)[2] despite a slight improvement in credit access conditions and the cost of capital. The capital

[1] ISTAT, Eurozone economic outlook, Monday, January 12, 2015.

accumulation process is expected to resume gradually in 2015 (+1.3%) and gain momentum in 2016 (+1.9%), in line with the strengthening of demand.

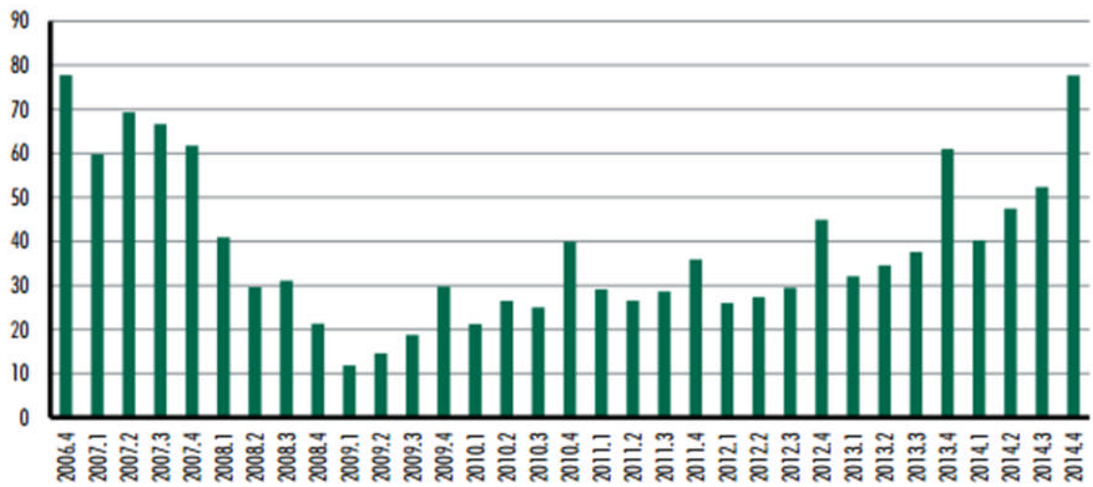
The unemployment rate reached 12.5% in 2014 as employment declined (-0.2% in terms of work units). The stabilisation of labour market conditions expected in the coming months will be reflected in 2015, when the unemployment rate will fall slightly to 12.4% and work units will rise moderately (+0.2%). The labour market will continue to improve more robustly in 2016, with the unemployment rate falling to 12.1% and an increase in work units of 0.7%.

The downgrading of Italy's sovereign debt by Standard & Poor's in December due to uncertain growth prospects did not have a significant effect on government bond yields.

1.1.3. Real Estate Market – Europe

In 2014 fund-raising in Europe far exceeded the amount raised per year since 2007, with Euro 52 billion[3] of capital ready to be invested in European real estate markets (source: Preqin). This contributed to keeping transaction levels high in the final months of the year and in the first few months of 2015, both for European markets overall and for the United Kingdom and Germany in particular, which are characterised by strong fundamentals and a greater risk appetite. These markets are well on their way to reaching their highest real estate investment volumes of the post-crisis era. Nonetheless, the lack of products and, in some cases, pricing, will tend to impede an increase in investment volumes in 2015. In light of the above considerations, transactions are expected to remain more or less at this year's levels in those markets in 2015, whereas certain peripheral nations will see more significant increases.

Figure 1: European CRE Investment Turnover (€ billion)



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[2] ISTAT, *Le prospettive per l'economia italiana nel 2014-2016* ("Prospects for the Italian economy in 2014-2016").

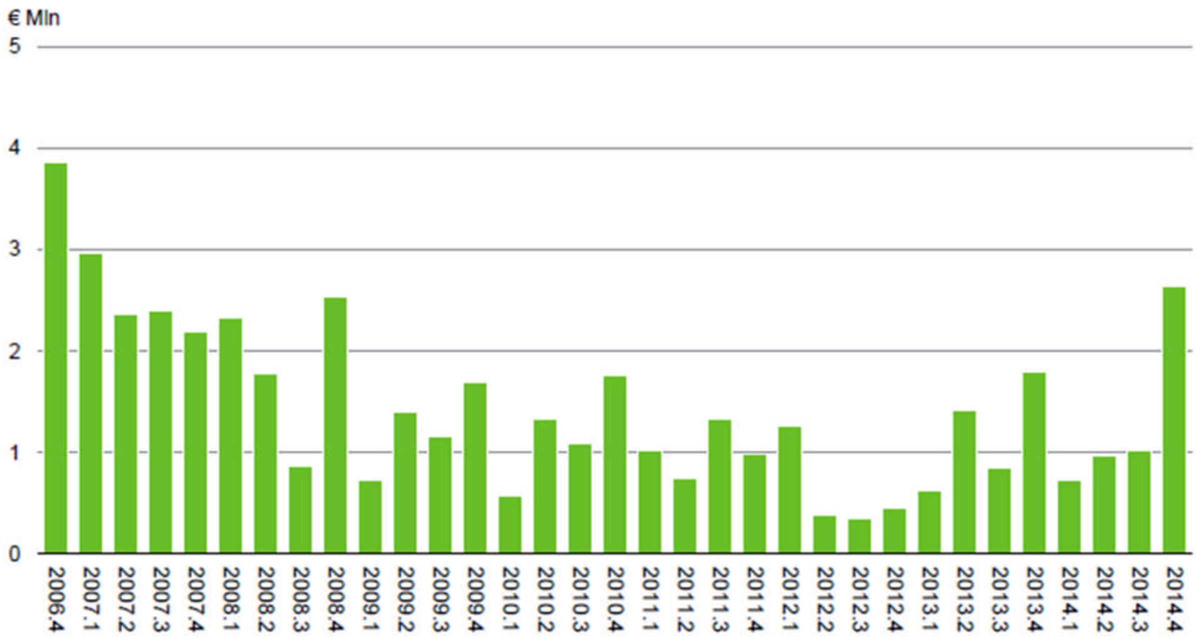
[3] Colliers, EMEA Predictions for 2015, December 2014

1.1.4. Real Estate Market – Italy

The volume of real estate investments in Italy in 2014 was approximately Euro 5.3 billion[4], up by more than 10% on 2013, considering transactions involving both individual properties and portfolios, in all commercial sectors (offices, retail, logistics and hotels). The data indicate more than 20% growth on the previous year, and this trend is expected to continue in 2015, in line with the European market, which is estimated to show an increase in volumes of 20% in the coming year, to reach a total of approximately Euro 250 billion of total investments. The total volume invested in Italy in the fourth quarter of 2014 was Euro 2.6 billion[5], up by more than 50% compared to the previous quarter.

Foreign investors remain the most active players, continuing to show increasing interest in the Italian market and focusing on core assets or properties that offer added value opportunities. U.S. opportunistic funds and Middle Eastern sovereign funds remained the most active investors in 2014. Most domestic investments were undertaken by investment funds linked to pension funds.

Chart 1: Italian quarterly investment volume evolution



Source: CBRE Research, Q4 2014.

Investment volume climbed back above the quarterly average for the previous three years, and portfolio transactions continued to represent the bulk of total investment volume at slightly more than half. In addition to the available liquidity, real estate investments in Italy are attracting an increasing number of investors, who are looking towards Europe and are gradually moving into the non-core markets that offer greater opportunities.

[4] Cushman & Wakefield, *Investimenti immobiliari in Italia, 2014* ("Real estate investments in Italy, 2014")

[5] CBRE, Italia Investimenti MarketView Q4 2014 ("Italy Investments MarketView Q4 2014")

Retail remains the preferred investment market, in both the high street and shopping centre sectors, accounting for approximately 45% of total volume, followed by the executive and hotel sectors. Floor space used for logistics in Italy reached 228,335 square metres[6] in the fourth quarter, up by 20% on the previous quarter. Growth resumed at the annual total level, increasing by 31% on the previous year. In 2014 the volume of investments in the logistics sector reached Euro 382 million.

On the Italian real estate market, prices continued to fall. From 2008 to the present, the cumulative decline in prices has been significant, especially for the 13 major markets, coming to 19.2% for new homes, 21% for offices and 17.7% for stores[7]. In the second half of 2014, prices decreased by 1.7% for new homes, 1.7% for offices and 1.7% for stores compared to the first half of the year. The repricing process, which lagged slightly behind the fall in transactions, is expected to continue in the coming year, albeit to a lesser degree, until the repricing trend reverses direction in 2016.

At the level of yields, the strong competition for certain products, particularly those located in prime areas of Milan and Rome, resulted in a decrease in prime yields of 15-25 basis points, resulting in a return to the levels of 2012.

1.1.5. Non-performing loans (NPLs)

In June 2014, non-performing loans were up by 8% on 2013, although the growth rate was lower than in the past[8]. This trend was primarily due to the increase in gross NPLs, which were up by nearly 9% compared to the end of 2013, reaching a peak of Euro 170.3 billion in June 2014. The average coverage ratio for the Italian banking industry improved compared to the end of 2013, with certain banks significantly increasing their provisioning, in part due to the results of the AQR.

Investors approaching the Italian market from a long-term perspective are willing to establish ongoing collaboration with local servicers to develop their platforms, thereby leveraging their experience in other countries along with the expertise offered by local players. Investors remain primarily focused on unsecured loans.

In conclusion, there is increasing interest in Italy from international investors, who are taking a long-term approach to investing, especially in asset classes ranging from consumer credit to SMEs, mortgages and leasing. In this general scenario, as mentioned above, investors are seeking possible acquisitions and partnerships with local servicers. This will foster further consolidation of the independent servicing market and could create opportunities for local players.

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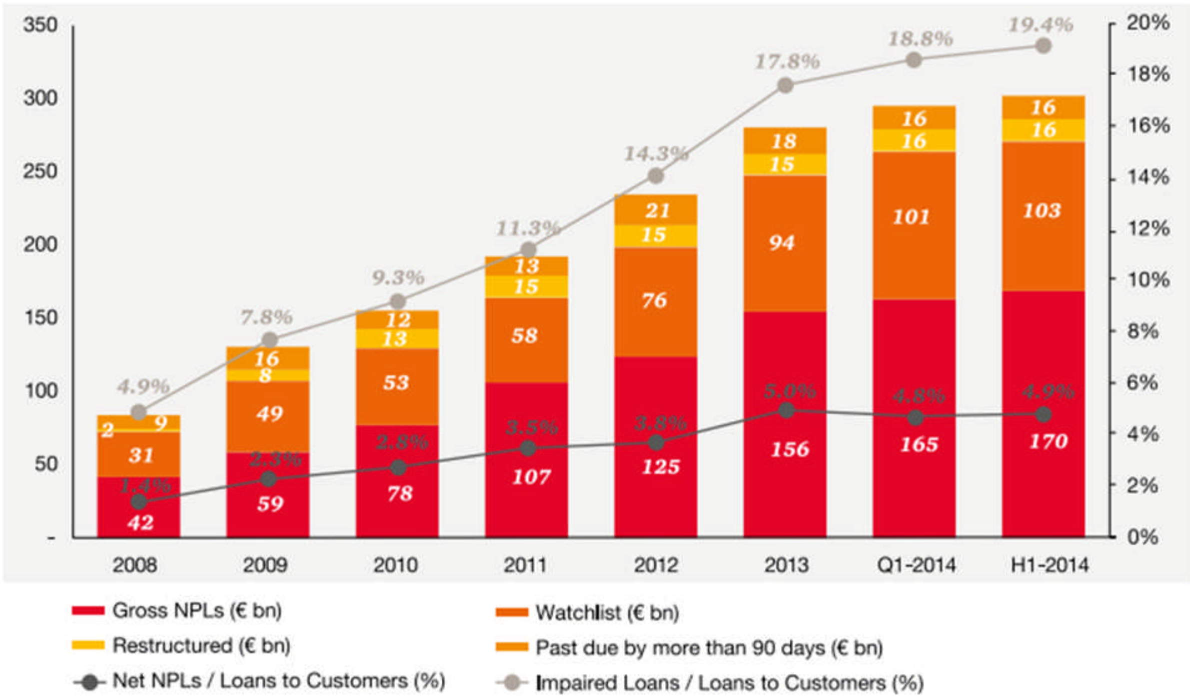
[6] CBRE, Italia Logistica MarketView Q4 2014 ("Italy Logistics MarketView Q4 2014")

[7] Nomisma, III Rapporto sul Mercato Immobiliare 2014 ("III Report on the Real Estate Market 2014")

[8] PwC, The Italian NPL market, Time for deleveraging, January 2015

Impaired exposures, NPLs and the NPL ratio in Italy



Source: PwC analysis, Bank of Italy Bollettino Statistico and ABI monthly outlook

1.1.6. Real estate funds

Italian real-estate funds continued to divest themselves of their portfolios in the second half of 2014. The "Competitiveness" Decree (Decree Law 91/2014, enacted as Law 116/2014) was approved at the end of August, introducing an option for the extraordinary extension of the lives of retail real estate funds of a maximum of two years, to be applied by December 31, 2014, resulting in extension of up to December 31, 2017 for funds set to expire on December 31, 2015.

With an estimated approximately Euro 55 billion of assets under management, Italian real estate funds increased their assets by over 5% (compared to the average for European countries of less than 2.5%)[9], although an outright recovery of the real estate sector did not occur in 2014.

The first half-yearly report for 2014 on real estate funds by Assogestioni indicates that in the first half of the year 16 new funds were established, six of which were of a speculative nature, and all of which, except for one, were reserved for qualified or institutional investors.

In Italy, listed real estate investment companies are still little developed, but the scenario may change following the legal changes contained in the *Sblocca Italia* ("Free Italy") package. The new legislation is expected to result in significantly greater

[9] Scenari Immobiliari, *Nota semestrale* ("Six-monthly note"), December 2014

attractiveness of the listed real estate sector for institutional investors and to allow listed real estate investment companies to compete on a par with their foreign equivalents, particularly those incorporated in France and England.

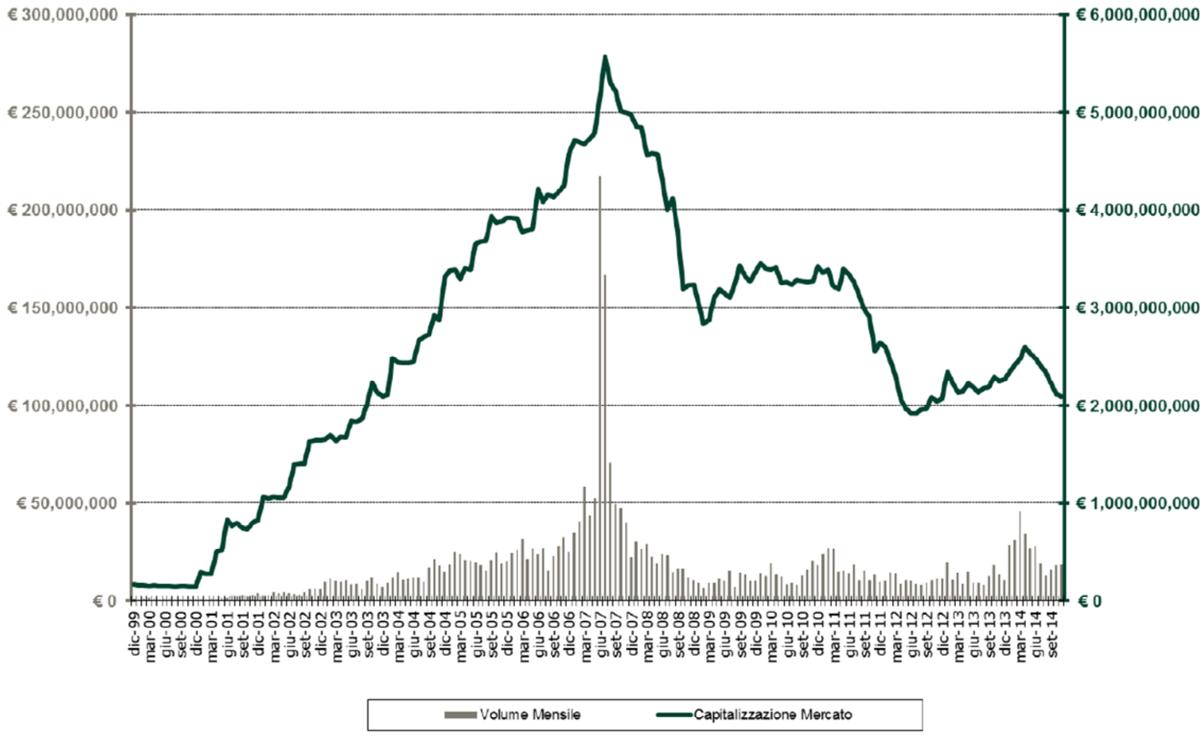
Italy – Changes in the value of assets of retail real estate funds by maturity date

Maturity date	31/12/2012		31/12/2013		30/06/2014	
	Number of funds reaching maturity	Real estate & property rights (€million)	Number of funds reaching maturity	Real estate & property rights (€million)	Number of funds reaching maturity	Real estate & property rights (€million)
2013	3	1,169	-	-	-	-
2014	7	1,965	3	1,105	1	292
2015	6	1,362	4	815	3	639
2016	3	535	6	1,415	7	1,616
2017	2	239	5	770	7	1,203
2018	2	166	1	549	2	482
2019	1	407	2	489	2	457
2020	1	350	2	337	1	324
2021	1	306	1	298	1	292
Total	**26**	**6,498**	**24**	**5,777**	**24**	**5,304**

Notes: the calculations take into consideration both the extensions that were already approved, as well as any grace periods (three additional years). The maturity date of the Alpha fund (2019) is referred to in the Business Plan as reported in the balance statement of 30/06/2012. Extensions of the Tecla and Beta funds were taken into consideration, even though they have not yet been approved.

Source: Nomisma elaborations based on balance statements of the funds

Market Capitalization and trading volume (entire market)



BNPREIM Real Estate Funds Index

1.1.7. Macroeconomic environment in Germany

Germany is the largest economy in the EU, with its GDP accounting for 29% of the Eurozone total. The backbone of its economy remains the manufacturing sector (25.5% of GDP), whereas services account for 69%. The German economy continues to be characterised by a high level of internationalisation.

In 2014 gross domestic product increased by 1.5%[10], a much higher figure than recorded in the previous two years (+0.4% in 2012 and +0.1% in 2013).

In the public finance arena, 2014 concluded with the second-largest budget surplus since reunification, nearly Euro 12 billion.

The labour market continues to show signs of health and represents a stabilising factor for the economic scenario. The number of job-holders reached its highest level of the past eight years at 42.7 million units (+0.9% compared to 2013), with an unemployment rate of 6.4% (December 2014).

Nonetheless, the overall economic slowdown in the Eurozone and Germany's main trading partners is preventing a full recovery. The growth rate will remain relatively weak in 2015, although higher than for the other European economies.

[10] Joint Embassy/Consulate/ENIT Report 2015

The federal government's forecasts for 2015 indicate real growth of +1.3%, a figure that does not diverge greatly from other official projections (+1.1% according to the European Commission and OECD) and the major German research institutions. Additional growth factors for the German economy are expected to derive from a general recovery of global trade, especially in Latin America, Africa and the Middle East.

1.1.8. Real estate market – Germany

Due to the escalation of the Russian crisis, investors' interest in Germany continues to increase. Investments in commercial properties in Germany amounted to Euro 39.8 billion in 2014[11]: the highest level of investment since 2007, and almost a third again as invested in 2013.

Investments by international operators nearly doubled compared to the previous year. At present, foreign investors account for approximately 46% of the total investment market. Investors from the U.S., United Kingdom and France are especially active. The number of Asian investors also increased to approximately 5% of total investment volume.

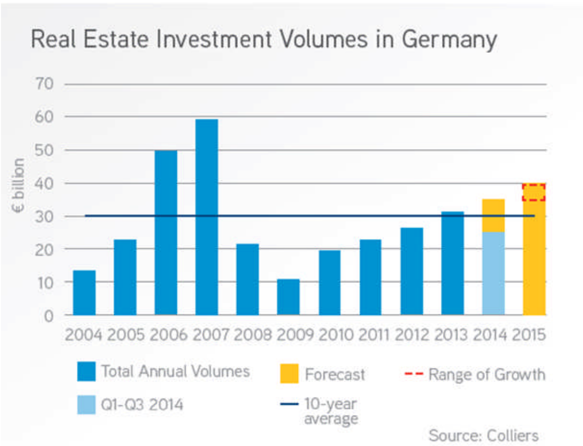
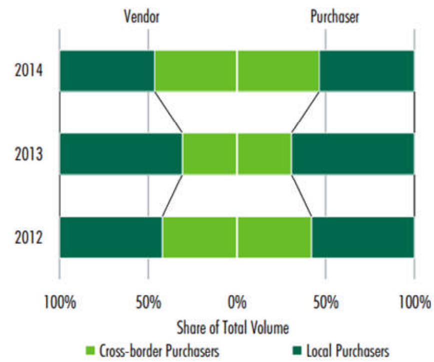


Figure 4: Investment turnover by investor's nationality

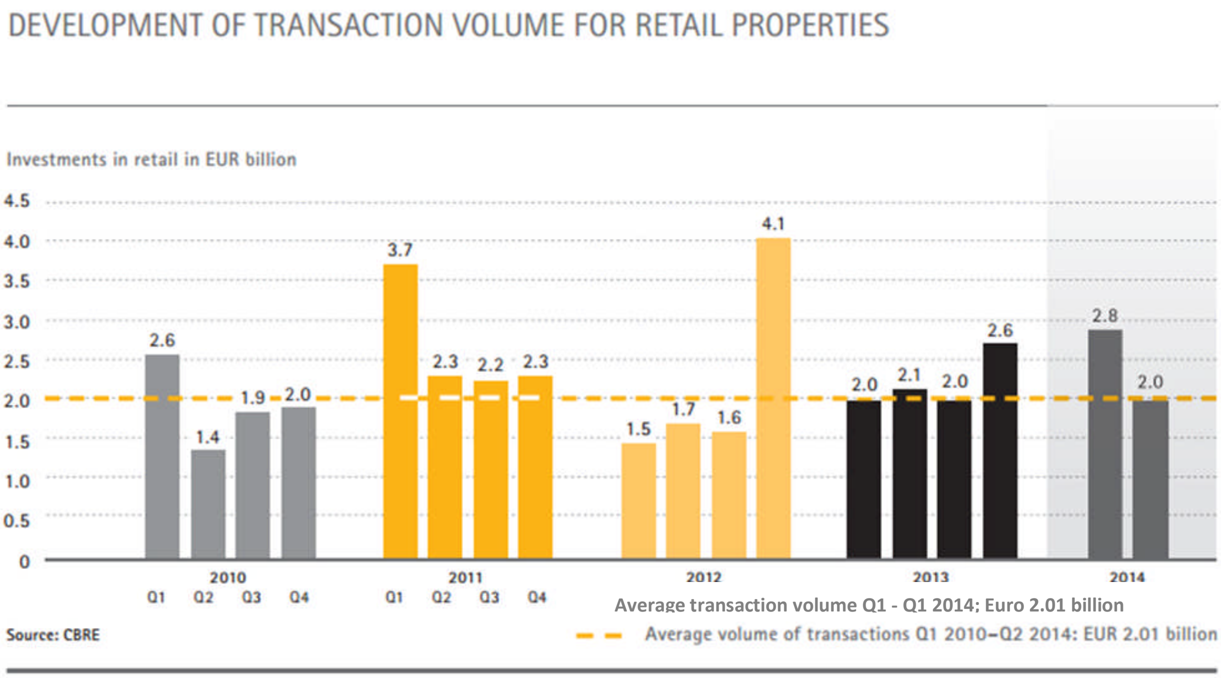


Source: CBRE GmbH, Q4 2014.

The German investment market's enthusiasm for the logistics and industry sector in 2014 continued until year-end, resulting in total investment volume of Euro 3.3 billion[12]. An especially robust fourth quarter contributed Euro 1 billion to this excellent result. After a first quarter of 2014 of Euro 1.3 billion, the result for the fourth quarter was the second-best quarterly result of the past four years.

In Germany, demand for retail properties remained strong in 2013, as witnessed by the Euro 8.7 billion[13] invested. Investment volume decline marginally on the previous year, falling 2% (Euro 166 million), due to permanent scarcity of real estate products, particularly in key segments. In the first six months of 2014, transaction volume in the retail sector climbed to Euro 4.8 billion, up by approximately one-fifth compared to the same period of the previous year, owing in part to large-scale portfolio sales.

[11] CBRE, Germany Commercial Investment, H2 2014
[12] CBRE, Logistics Investment Market Germany - The New Hotspot For Global Investors
[13] Hahn Group, Retail Real Estate Report - Germany



The investment boom in the German hotel market continued in 2014. Investments in this market recorded annual growth of 82%[14] (Euro 3.1 billion). International investors were once more the most active investors on the German hotel market. They accounted for 64% (Euro 2.0 billion) of total transaction volume.

1.1.9. Growth trends

Real-estate markets generally outperformed economies at large, although with large gaps between various countries and market areas. In the United States, the real estate market entered a decisive recovery, in terms of both turnover and prices, and forecasts call for further improvement in the coming year. The residential market saw all parameters strengthen: demand, at both the local and international levels, absorption, construction and prices. Although the recovery of the residential market was triggered by the improved economic scenario, the outlook for the next two years is clearly more positive than for the economy at large.

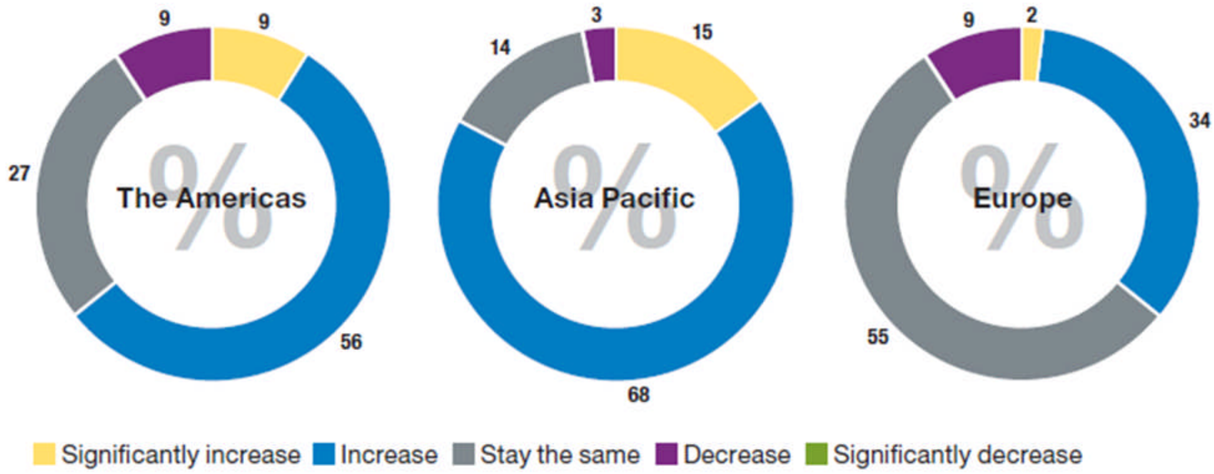
Despite the impact of the recession, in recent years Asian real estate markets generally grew due to favourable monetary policies, which kept interest rates at extremely low levels for an extended period. This fact, combined with financial market volatility, resulted in the influx of considerable capital to the residential market, with the resulting increase in prices, despite the attempts by government to calm the market. The prospects for 2015 are tied to the inevitable tightening of monetary policy, entailing higher interest rates, with significant effects on residential markets.

The worst seems to be behind us for most European markets as well, with the first signs of improvement, albeit at a slow, gradual pace, in southern Europe. Investors

[14] Colliers, Germany - Hotel - 2014/2015 - Market Report

are showing increasing liquidity and access to credit is beginning to ease, albeit as limited to certain areas and product types. Many investors, and particularly those from America and Asia, are willing to accept a higher risk profile as they allocate resources to markets that until recently were cut out of the investment circuit, such as Spain and Italy.

Cross-border capital in European real estate in 2015



Source: *Emerging Trends Europe* survey 2015

Despite less rosy economic projections than previously forecast, Germany will remain one of the preferred targets of real estate investment in Europe and will continue to attract capital as a "safe haven". Investment volumes are expected to amount to Euro 35-40 billion in 2015.

The main economic indicators are weak and demand levels are near stagnation for the office leasing market in 2015. Many companies are renewing their leases, but are reluctant to make long-term commitments. After a modest rise in 2014, office rents will probably stabilise during the coming year.

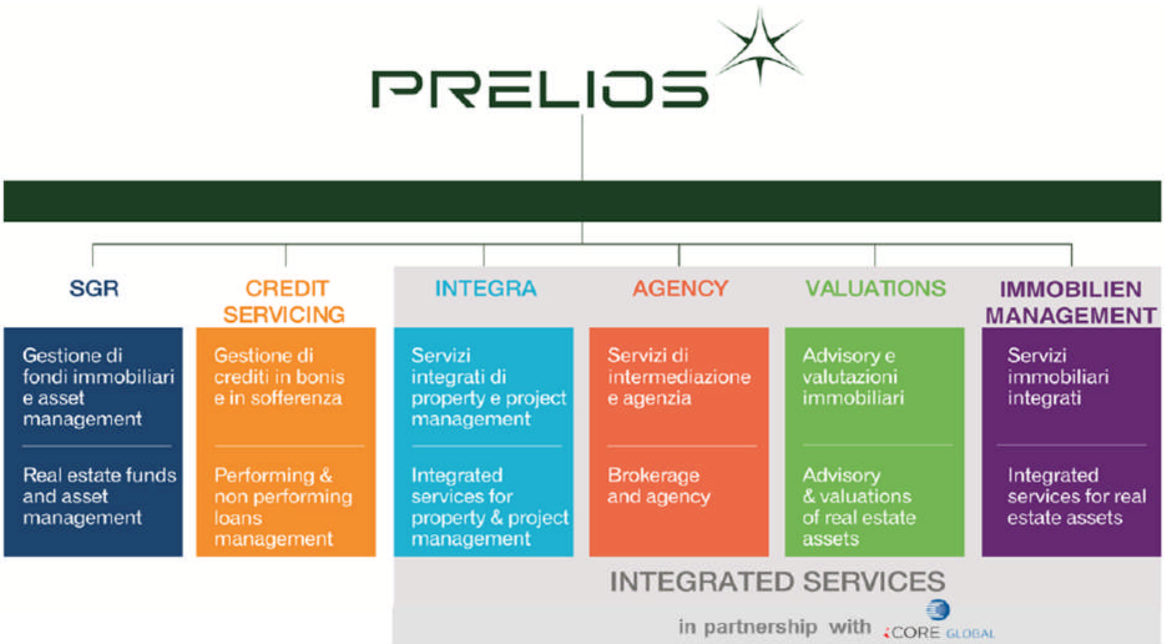
The increasing weight of the real estate sector in the economy is borne out by the ever-greater role of asset management instruments, which overall appear better suited to meeting the needs of private and institutional investors to identify products capable of offering a high level of safety and competitive returns. The main obstacles to the development of funds and REITs are represented by legislative deficiencies, especially in terms of taxation, which most governments are seeking to remedy by approving frequent amendments of the law.

1.2. Group profile

The mission of Prelios is the creation of value through active management.

Prelios is one of Europe's foremost asset management groups, offering a full range of real estate and financial services: the market value of its co-investments and third-party assets under management is Euro 5.4 billion. The Group has a qualified staff of approximately 500 professionals with significant professional expertise and a track record of excellence in their endeavours over the years within a competitive international scenario.

Listed on the Italian Stock Exchange since 2002, the holding company Prelios S.p.A. coordinates six operating companies that together form a full-service, multi-award winning real estate network renowned for its quality, efficiency and reliability:



By contrast, co-investments, which will be divested in the medium term, are managed by Prelios through its investments in funds and companies that hold real estate and non-performing loan portfolios.

At December 31, 2014, co-investments and third-party assets under management of Euro 5.4 billion[15] include real estate assets of Euro 5.2 billion (market value) and non-performing loans (NPLs) of Euro 0.2 billion (at book value).

In terms of the geographical distribution of real estate assets, Italy accounts for Euro 4.1 billion, primarily in 26 real estate funds managed by the subsidiary Prelios SGR, one of the leading players in the Italian real estate market.

The remainder of the portfolio is located in Germany (Euro 1.1 billion) and Poland (Euro 0.1 billion).

[15] Co-investments and third-party assets under management, excluding NPLs at book value, are stated at market value at December 31, 2014, based on appraisals and analysis by independent experts.

1.3. Activities and services

ITALY

The Italian management platform of Prelios offers, through independent companies, the full range of services for the management and development of third-party real estate portfolios.

Prelios SGR – Real estate fund management

The Group manages real estate funds through its subsidiary Prelios SGR (90% Prelios, 10% Intesa Sanpaolo), which, with its 26 funds and approximately Euro 3.5 billion[16] of assets managed, is among Italy's foremost asset management companies.

Prelios SGR today relies on a management team with vast professional expertise and knowledge of the real estate market and an operational structure delivering the highest standards in terms of transparency, governance and risk management.

Prelios SGR is active in the promotion and management of investment funds and separate accounts and in advisory services for leading institutional investors, both domestic and international, which as partners help to define the real estate investment strategies.

The funds managed include a retail real estate fund listed on the MIV segment of the Italian Stock Exchange: Tecla, Italy's first private equity fund, placed in 2004.

In over ten years of trading, Prelios SGR has made a name for itself owing to its excellent performance track record, earning numerous accolades and winning the prestigious IPD European Property Investment Awards for three years running (with Cloe in 2010, Clarice in 2011 and FIPRS in 2012). In 2013, the Company received ISO 9001:2008 Quality Management certification from IMQ, confirming its ongoing commitment towards international best practice.

Integrated Services is the Group's business unit that offers a full range of services covering the entire real estate asset life cycle through its operating companies.

It provides asset and portfolio management, property management, project management, specialist services, agency services and appraisals.

Prelios Integra – Integrated property management services

In Italy, integrated property management services are provided by Prelios Integra, a wholly owned subsidiary of Prelios.

Prelios Integra is one of Italy's leading integrated property management and project development companies, with approximately Euro 5 billion of properties under management, representing 5.4 million square metres.

[16] Market value stated at 100%, including the portfolio of Excelsia 9 S.r.l.

Prelios Integra offers active, dynamic integrated management service (asset & portfolio management, property & facility management) aimed at adding value for public and private clients: from administrative and accounting management of properties, to dealings with tenants, technical and maintenance services and research and sales support.

As part of its development and project management services, Prelios Integra handles all stages of planning and construction of a building or property development, from designing the concept to turnkey delivery of the finished product. In particular, Prelios Integra boasts distinctive expertise in the field of sustainability: from the development of new environmentally friendly buildings to green retrofitting, energy certification and renewable energy. This is testified by the numerous accolades garnered over the years, including the 2011 Mipim Awards in the "Green Building" category for the headquarters of 3M Italy, one of the leading examples of contemporary eco-architecture.

In the retail sector, the company has a highly specialised division that deals with the construction and development of shopping centres across Italy – from operation and administration to liaising with *retailers and strategic optimisation of the tenant mix.*

Prelios Agency – Real estate brokerage and valuations

In Italy, the subsidiaries Prelios Agency and Prelios Valuations are responsible for providing real estate brokerage and valuation services.

Prelios Agency, one of Italy's foremost real estate agents, provides professional advisory services for the purchase and sale or lease of individual units and entire properties for office, residential, industrial, and retail use.

Thanks to its team of qualified professionals of over 400 loyal agents throughout Italy, Prelios Agency can provide a full range of services to various types of clients, from the corporate world to public and private investors, real estate funds and institutional players. Prelios Agency is a leading player in the capital markets, an area in which it has worked with all the major national and international investors.

Prelios Agency takes a professional approach to assisting its clients throughout the process of adding value, from putting together an investment strategy or selling an asset, to structuring the deal, finding tenants, optimising the profitability of a property, providing highly specialised services such as data room and due diligence support, and preparing marketing plans.

Prelios Valuations – Valuations

Prelios Valuations is one of Italy's foremost independent providers of valuations for individual properties and real estate portfolios in the service and residential segments. With over 20,000 appraisals in 2014, it specialises in valuation services for banks ("Loan Service").

The company employs a team of professionals of about 1,250 qualified surveyors enrolled in approved professional bodies, acting in accordance with the highest international standards as well as with the ABI guidelines and the RICS Red Book. It is also a founding member of Assovib, an association for the promotion of quality and a professional culture within the bank valuations sector.

The organisational structure is divided into three areas of activity: Mass Appraisals, i.e. valuation of large real estate portfolios according to statistical methods, using the proprietary technology Magister; Full Appraisals, i.e., valuation of real estate and real estate portfolios through economic and financial analysis; and Loan Services, i.e., support services for lending by banking groups, leasing companies and private banks.

Prelios Credit Servicing – Management of non-performing/sub-performing loans

Prelios Credit Servicing S.p.A. (PRECS) is a service company specialised in management and recovery of non-performing loans (i.e., loans the collection of which is uncertain in terms of both timing and amount) with many years of experience in servicing portfolios of secured and unsecured non-performing loans.

The company also values portfolios of NPLs and has participated in many rounds of due diligence prior to the acquisition of significant loan portfolios by leading Italian and international financial institutions, with which it has developed commercial partnerships.

Through a subsidiary (SIB S.r.l.), the company also provides consulting and coordination services in the divestment of property portfolios by major financial institutions. Such consulting and coordination services are also provided to banks, for the recovery of mortgage loans out of court, through the disposal of the borrowers' real estate assets.

The company also provides master servicing, back-up servicing and calculation agent services for securitisation vehicles pursuant to Law 130/99 (it is registered in the special list of financial intermediaries pursuant to Art. 107 of the Consolidated Banking Act and is subject to supervision by the Bank of Italy) - in addition to corporate servicing and junior noteholders' representative services.

Finally, the company acts as advisor in the securitisation of NPL portfolios and disposals of packages of loans on behalf of the financial institutions that own the loans.

Prelios Credit Servicing stands apart from the rest of the market due to various competitive strengths:

- specific expertise in valuing and managing loans;
- the ability to take a objective-based approach;
- the ability to exploit the synergies offered by belonging to the Prelios Group, with its solid real estate experience;
- the existence of a strong internal control structure, founded on audits involving independent parties with three levels of review, ensuring total supervision of processes, procedures, rules and behaviour;
- the use of a cutting-edge proprietary IT system.

With its Euro 8.7 billion[17] of loans under management, the company is among the main Italian servicers, with a strong reputation among major Italian and international financial institutions and ratings from the major ratings agencies.

GERMANY

Prelios Immobilien Management is one of the leading real estate service companies in Germany, with approximately Euro 1.1[18] billion of captive assets under management.

The company provides management, technical, administrative and commercial services.

With a management boasting over 20 years of experience in the industry, it has become the key partner for high net worth clients and investors.

In the residential sector, from which Prelios Immobilien Management recently exited following the DGAG deal, as described in ample detail below, it managed over 49,000 units for leading operators through an integrated profitability optimisation system (PMPLUS), offering specialised leasing, administration and management services for multiple occupancy buildings, as well as doorman services.

With a large base of loyal customers and investors with long-term mandates, the commercial division, which manages around 1 million square metres, is recognised for its excellence. In addition to the properties in the Highstreet retail portfolio, which includes 44 units mainly occupied by the German chain Karstadt, it manages shopping centres, multi-tenant retail spaces, offices and mixed-use buildings.

Among the many accolades received by the German company, it recently took the prize for "Lago di Costanza", voted best shopping centre in Germany for two years in a row, in 2012 and 2013[19].

The company coordinates Prelios Polska, the Group's Polish platform, which provides a full range of real estate services, from technical consulting to urban planning, the preparation of master plans, construction and turnkey delivery.

[17] Gross Book Value.
[18] Excluding DGAG.
[19] Ecostra, Shopping Center Performance Report 2012-2013.

1.4. Economic and financial highlights

The net loss attributable to the Group was Euro 61.1 million, compared with a loss in 2013 of Euro 332.8 million. The net loss was largely influenced by items that are outside the scope of ordinary operations, and in particular:

- impairment losses and property write-downs, which amounted to a negative Euro 45.4 million (a negative Euro 111.1 million in 2013);
- restructuring costs, which had a negative impact of Euro 13.6 million, compared to Euro 42.6 million in 2013. This figure primarily consists of expenses relating to the rationalisation of the Group, losses on receivables, waivers as part of the restructuring of certain equity investments and voluntary redundancy schemes;
- the net income from discontinued operations was Euro 8.1 million and related to the sale of the German residential portfolio known as DGAG, sold to Buwog (fully owned by the Austrian group Immofinanz), along with the related residential management platform of Prelios Deutschland.

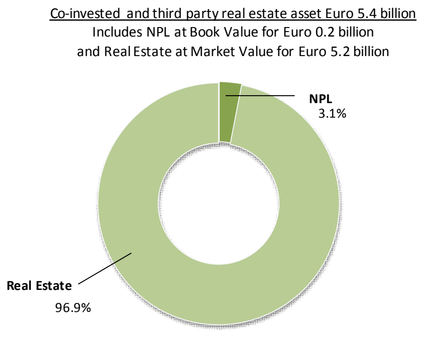
At December 31, 2014, the equity attributable to the Group was Euro 104.8 million, compared to a negative Euro 69.1 million at December 31, 2013. In this regard, it should be recalled that on April 14, 2014 the capital increase in service of the conversion of the convertible bond of Euro 236.5 million was automatically executed.

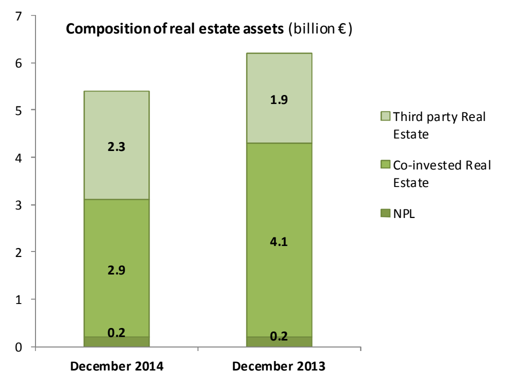
Income statement data		**December 2014**	**December 2013**
Consolidated revenue		**72.1**	**73.1**
	of which services	*70.1*	*68.6*
	of which other	*2.0*	*4.5*
Operating profit/(loss)		**8.7**	**(55.2)**
of which Management Platform & Holding		*0.6*	*(15.5)*
of which Investment Activities		*8.1*	*(39.7)*
Restructuring costs		(13.9)	(42.6)
Property (write-downs)/revaluations		(39.1)	(84.0)
Group net income/(loss) before discontinued operations		**(69.2)**	**(190.2)**
Net income (loss) from discontinued operations		8.1	(142.6)
Group net income/(loss) for the period		**(61.1)**	**(332.8)**

Balance sheet data		**December 2014**	**December 2013**
Equity		107.3	(66.3)
	of which Group equity	*104.8*	*(69.1)*
Net financial position		187.6	388.4

Indexes	**December 2014**	**December 2013**
Employees (*)	468	790
Co-Invested and Third Party Real Estate Assets (billion)	5.2	6.0
Pro-rata NAV (billion)	0.4	0.4

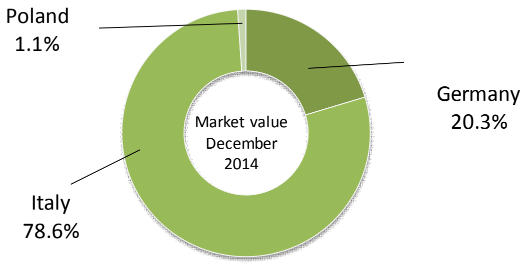
(*) At December, 2013 the Group had 790 employees (of which 290 leaved following the signing of agreements with BUWOG for the sale of the residential services platform), including four resources with temporary contracts.

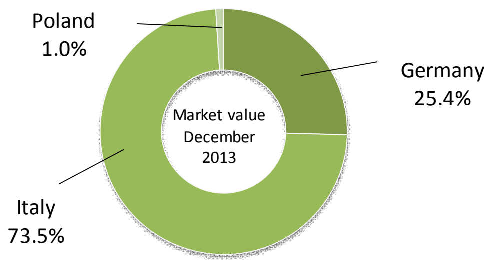




The following charts illustrate the real estate portfolio (co-investments and third-party) in December 2014, broken down by geographical area, compared with the figure for 2013:

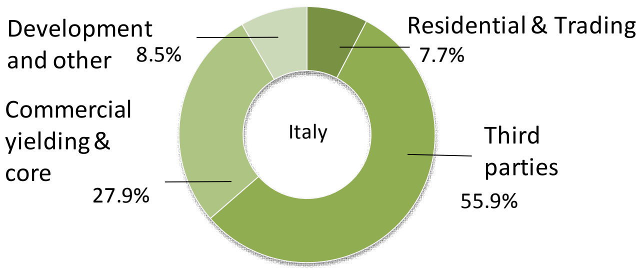
Breakdown by geographical area



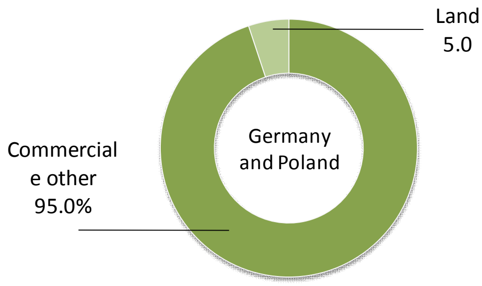


The following is a breakdown of the real estate portfolio by use at December 31, 2014:

designated use Italy



designated use



1.5. Ownership at December 31, 2014

The convertible bond "Prestito Convertendo Prelios 2013-2019" was redeemed on April 14, 2014, since the extent of the operating loss recorded by Prelios S.p.A. for the year ended December 31, 2013 represented one of the trigger events provided for in article 8 of the bond's regulations for compulsory early redemption of the bond by automatic conversion into Prelios conversion shares (ordinary and Category B)[20].

Due to the mandatory early redemption of the bond "Prestito Convertendo Prelios 2013-2019" and the related conversion of the convertible notes, the company concurrently executed the capital increase for the exclusive service of the conversion through the issue - in accordance with the Regulations - of 229,757,292 ordinary shares and 93,390,705 Category B shares, for a total of Euro 236,544,333.80, according to the terms and conditions set forth in the regulations for the bond and based on the decisions taken by the conversion and calculation agent (BNP Paribas Securities Service), which were binding, in accordance with the regulations, on both the Company and the bondholders.

On April 14, 2014 confirmation of the execution of the capital increase solely to service the conversion, together with the updated Articles of Association, was also filed and recorded, pursuant to the law, in the Companies' Register of Milan.

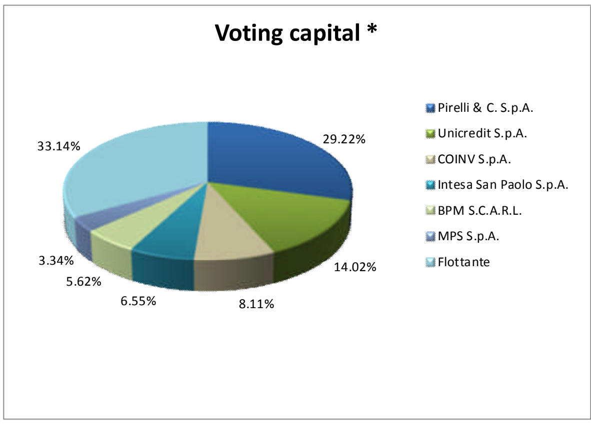
As a result, the share capital of Prelios S.p.A. at December 31, 2014 was Euro 426,441,257.20 (fully subscribed and paid up), represented by a total of 717,941,380 shares (without par value), consisting of 506,953,179 ordinary shares and 210,988,201 Category B shares.

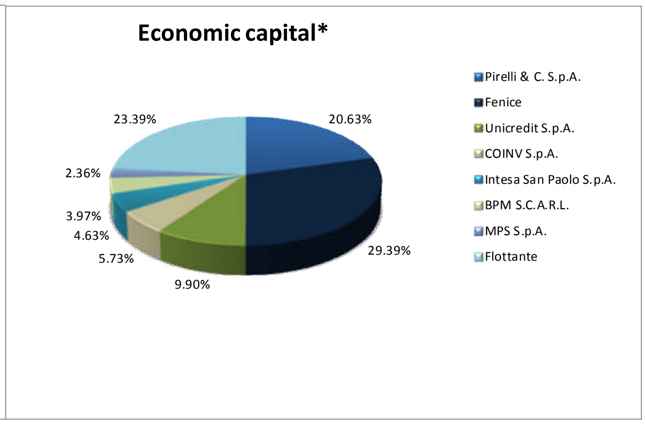
At December 31, 2014, Fenice S.r.l. - owned by Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. - held all 210,988,201 category B shares, without par value and not listed on a regulated market.

The following is a breakdown of voting share capital and economic capital at December 31, 2014 held by shareholders with interests in excess of 2%, considering the notices received pursuant to Art. 120 of the Consolidated Law on Finance and the published information available from CONSOB[21]:

20 For a comprehensive, detailed examination of the characteristics of the bond and the capital increase to service the conversion, please see the bond's regulations, available from the website www.prelios.com.

21 The percentages disclosed to the public, as drawn from CONSOB's website, relating to Prelios' voting capital, derive from notices from shareholders pursuant to Art. 120 of the Consolidated Law on Finance. Accordingly, the percentages indicated therein might not be in line with the figures prepared and disclosed to the public by various sources, if the change in an investment did not entail an obligation for the shareholder to give notice under the laws and regulations in effect at the time.





* as at January 15, 2015

Among the provisions relevant to Prelios pursuant to Art. 122 of the Consolidated Law on Finance, attention should also be drawn noted to the transaction undertaken in the context of the agreements reached between the parties aimed at enhancing the Company's financial position through recapitalisation and rebalancing of its financial structure, approved by the extraordinary shareholders' meeting on May 8, 2013 and completed in the previous year:

a) Feidos 11 S.p.A., Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Pirelli & C. S.p.A. signed and entered into a shareholders' agreement (the "Fenice Agreement") applicable to Fenice S.r.l. (which Fenice itself has signed). The Fenice Agreement governs the rights and obligations of the parties in relation to: (i) the governance and transferability of the investments in Fenice S.r.l.; (ii) the disposal of the investment that Fenice S.r.l. acquired in Prelios and (iii) the transferability of some shares issued by Prelios that are or will be held by the parties. The final update of the Fenice Agreement was published on February 3, 2015;

b) Fenice S.r.l. entered into separate co-sale agreements relating to Prelios (the "Co-Sale Agreements") with Camfin S.p.A., Massimo Moratti, Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano S.c.a.r.l., Banca Popolare di Sondrio S.c.a.r.l., Banca Popolare dell'Emilia Romagna Soc. Coop., Banca Carige S.p.A. and UBI Banca Soc. Coop. p.A. (formerly Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A.) governing the terms and conditions under which Fenice S.r.l. granted each of these holders rights of co-sale on all Prelios securities held by them when the corresponding rights were exercised. With effect from February 18, 2014, the co-sale agreement between Fenice and Massimo Moratti was terminated by mutual consent. The final update of the Co-Sale Agreements was published on January 5, 2015.

Moreover, May 24, 2014 marked the early termination of the shareholders' agreement between Marco Tronchetti Provera & C. S.p.A., Marco Tronchetti Provera Partecipazioni S.p.A., Gruppo Partecipazioni Industriali S.p.A., Nuove Partecipazioni S.p.A., Lauro Cinquantaquattro S.r.l., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. concerning, inter alia, the Prelios ordinary shares held at the time by Camfin S.p.A., according to a specific provision relating to the governance of Prelios.

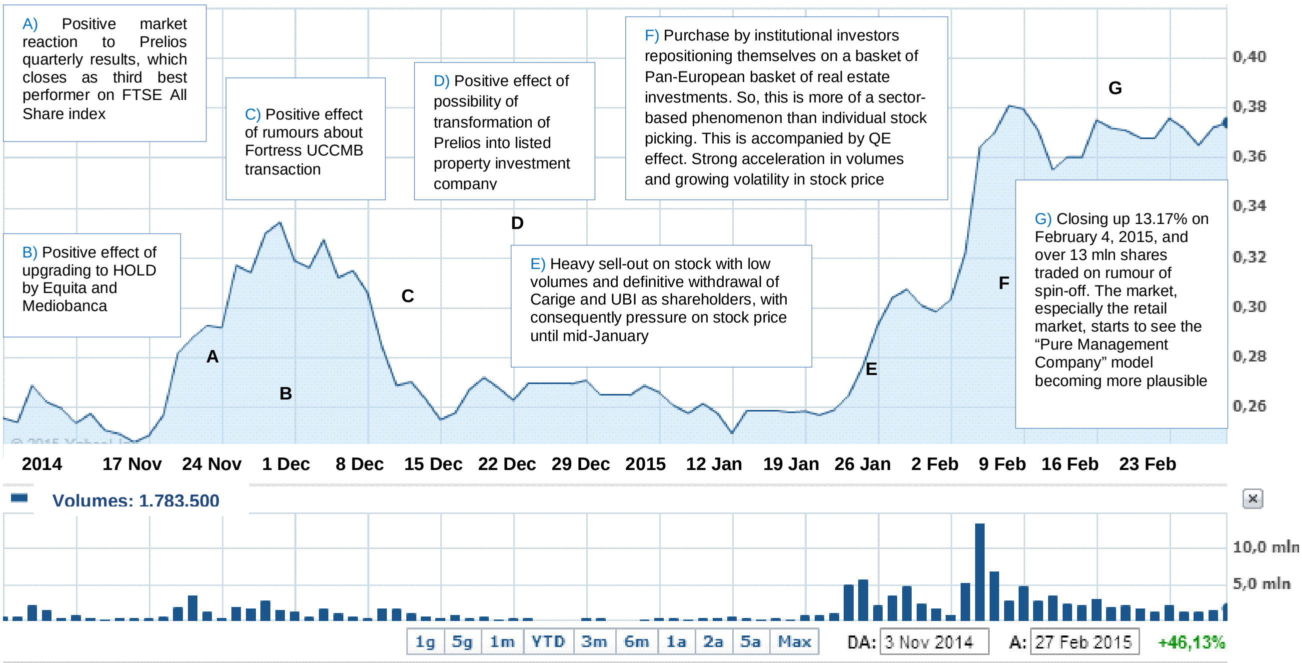
On that same date, within the broader framework of agreements concerning the strategic development and corporate reorganisation project for Pirelli & C. and Camfin, Nuove Partecipazioni S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. entered into a shareholders' agreement concerning, inter alia, the management of the Prelios ordinary shares currently held by Coinv S.p.A.

The final update of the aforementioned shareholders' agreement was published on December 23, 2014, to take account of: (i) the entry into force of the shareholders' agreement between UniCredit S.p.A., Intesa Sanpaolo S.p.A. and Nuove Partecipazioni S.p.A.; (ii) the completion and entry into force of the merger of Lauro Sessantuno S.p.A. into Camfin S.p.A.; (iii) the completion and entry into force of the non-proportional spin-off to the newly incorporated company Coinv S.p.A. of the assets and liabilities of Camfin S.p.A. other than the equity investment in Pirelli & C. S.p.A., i.e., the equity investment in Prelios S.p.A. and other minor equity investments; and (iv) the completion and entry into force of the contribution to Coinv S.p.A. by UniCredit S.p.A., Intesa Sanpaolo S.p.A. and Nuove Partecipazioni S.p.A. of their respective equity investments in Camfin following the aforementioned merger and spin-off[22].

1.6. Prelios share performance

In 2014, Prelios shares dropped from Euro 0.5775 to Euro 0.2651, a decline of 54.1%, with a high of Euro 0.78 in March and a low of Euro 0.2415 in November.
During the period of reference, the FTSE Italia All Share lost 0.3% and the FTSE Italia Small Cap 1.4%, whereas the FTSE Italia Beni Immobili industry index gained 1.7%.
Prelios' volumes and prices rose until April, i.e. until the dilution following the exercise of the conversion option. The trend was then sharply reversed, owing in part to overhang risk. Monthly average trading volumes for the January-April period were 46.5 million shares, compared to 15.6 million shares (-66.4%) in the May-December period. Two investors disposed of their shares during the year following the exercise of the aforementioned conversion option for the convertible bond.

22 All notices containing excerpts of the aforementioned agreements are available, among other sources, from Consob's website, and have also been published on the website www.prelios.com.

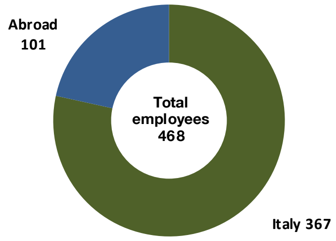


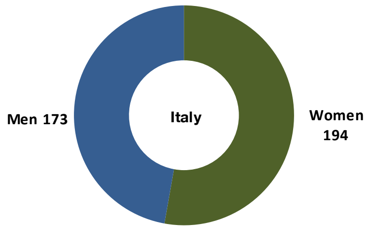
Performance at 3 months	**+18.39%**
Performance at 6 months	**-15%**
Performance at 12 months	**-42.89%**
Performance from exercise of convertible loan April 14, 2014 to February 27, 2015	**-39.95%**
Equity at December 31, 2014	**109 € mln**
Capitalisation at December 31, 2014 (cat A+B)	**190.3 € mln**
Capitalisation at February 27, 2015 (cat A+B)	**267.1 € mln**

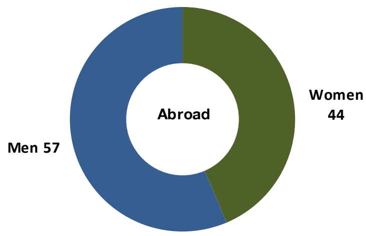
The positive reception among brokers following the publication of quarterly results (November 5) did not prevent Prelios shares from reaching an all-time low of Euro 0.2415 on November 14. Subsequent market sessions saw a dramatic reaction, supported by high volume, which drove the shares up to a relative high of Euro 0.3429, a gain of over 40 percentage points. The shares went rapidly from being severely oversold to nearly overbought. The two values (0.2415 and 0.3429) established a very broad technical range, within which a couple of significant disposals took place (low of Euro 0.2476 on December 16) and quantitative easing was launched by the ECB (high of Euro 0.324 on January 28).

A break-out occurred on February 4, following indiscretions concerning the spin-off of the Investments division, with volumes that currently represent an all-time record. Nearly 90 million shares were traded from January 20 to early March.

1.7. Headcount[23]

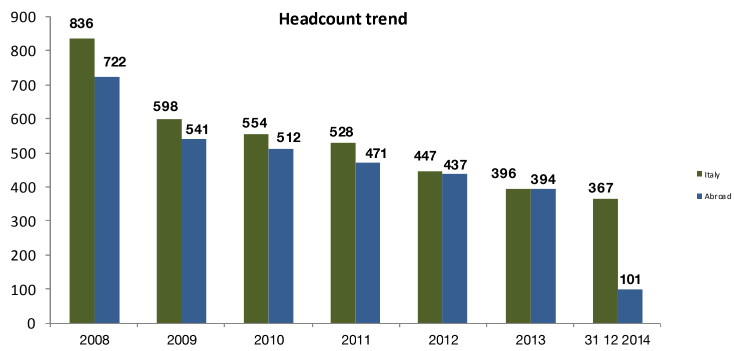






Average age

Italy	Abroad
42.2	42.8



The total headcount after the DGAG disposal, including resources on temporary contracts, fell to 468.

[23] Including resources on temporary contracts.

2. CORPORATE BODIES

Board of Directors [24]

Giorgio Luca Bruno	Chairman
Massimo Caputi	Vice Chairman
Sergio Iasi	Chief Executive Officer (CEO)
Marina Brogi	Independent Director
Claudia Bugno	Independent Director
Mirja Cartia d'Asero [25]	Independent Director
Francesco Umile Chiappetta	Director
Rosa Cipriotti	Independent Director
Carlo Emilio Croce	Independent Director
Moroello Diaz della Vittoria Pallavicini	Director
Andrea Mangoni	Independent Director
Davide Mereghetti	Director
Alessandra Patera	Director
Massimo Tezzon	Independent Director
Giovanni Jody Vender	Independent Director
Massimo Marinelli	Board Secretary

Internal Control, Risk and Corporate Governance Committee[26]

Massimo Tezzon	Lead Independent Director – Chairman
Marina Brogi	Independent Director

[24] On May 8, 2013 the shareholders' meeting appointed the members of the Board of Directors and set their term of office at three years, and thus until the approval of the financial statements for the year ending December 31, 2015. At the end of the meeting, the Board of Directors appointed the executive officers, established the Board Committees and appointed the members of the Supervisory Board. On February 18, 2014, the lawyer Anna Chiara Svelto resigned from the post of Director.
[25] Appointed director by the shareholders' meeting on June 19, 2014.
[26] On February 18, 2014 the lawyer Anna Chiara Svelto resigned as member of the Internal Control, Risk and Corporate Governance Committee.

Andrea Mangoni	Independent Director
Mirja Cartia d'Asero[27]	Independent Director

Remuneration Committee

Giovanni Jody Vender	Independent Director – Chairman
Rosa Cipriotti	Independent Director
Carlo Emilio Croce	Independent Director
Davide Mereghetti	Director

Board of Statutory Auditors [28]

Enrico Laghi	Chairman
Michela Zeme	Standing Auditor
Marco de Ruvo	Standing Auditor
Luca Aurelio Guarna	Alternate Auditor
Flavia Daunia Minutillo	Alternate Auditor

Supervisory Board

Massimo Tezzon	Chairman
Sergio Beretta	Member
Michela Zeme	Standing Auditor
Sergio Romiti	Member

Manager charged with preparing the Company's financial documents

Marco Andreasi [29]

[27] Appointed member of the Internal Control, Risks and Corporate Governance Committee by the Board of Directors on July 30, 2014.
[28] The shareholders' meeting on May 8, 2013 appointed the members of the Board of Statutory Auditors until the approval of the financial statements at December 31, 2015.
[29] On February 24, 2014 the Board of Directors of Prelios S.p.A. appointed Marco Andreasi the Company's new Chief Financial Officer and manager charged with preparing the Company's financial documents pursuant to Art. 154-*bis* of the Consolidated Law on Finance.

Independent Auditors

Reconta Ernst & Young S.p.A.[30]

Via della Chiusa, 2

20123 Milan

[30] Appointment conferred by the shareholders' meeting on April 14, 2008.

3. PRELIOS IN 2014

In 2014, as in the previous year, the macroeconomic situation continued to be marked by uncertainties surrounding the overall growth prospects of the Italian economy. The duration of the crisis was reflected in the real estate sector, which featured a persistently weak market and further difficulty in access to credit. However, there are some signs of a possible recovery, driven mainly by the recent renewed interest in Italy's real estate sector from opportunistic foreign investors, prompted by the effects of the repricing and the resulting upturn in gross yields. Investments are expected to resume moderate growth in 2015, stimulated by the upturn of domestic and foreign demand and the improvement of financing conditions.

On April 9, 2014, the Board of Directors, convened to approve the draft financial statements for the year ended December 31, 2013, first approved the Group's Guidelines for the period 2014-2016 (the "2014-2016 Guidelines" or the "Guidelines"). The Guidelines have been developed on a stand-alone basis, i.e., without considering the effects of any extraordinary corporate or commercial agreements, and lay down the main strategies for the growth of the Prelios Group, on the basis of a thorough analysis of its market of operation and positioning.

However, the 2014-2016 Guidelines indicate (i) further losses (estimated by the Group without considering any additional property write-downs caused by the market) and (ii) negative cash flow that, in the absence of corrective action, would have resulted in an unsustainable level of equity and a cash deficit for the Group.

Accordingly, discussions were held with the Company's major lenders and shareholders with the aim of implementing initiatives ("mitigating actions") involving the reduction and/or deferral of certain short-term financial commitments, so as to keep cash needs within sustainable limits for the time needed to identify, with the Company's lenders and shareholders, the best way of bringing the Company's short- and medium-term financial structure into line with the needs indicated in the Guidelines.

In fact, achieving the goals of restoring financial balance and returning to profitability will require an adequate period of consolidation of the Group's industrial management, necessitating specific measures aimed at meeting cash needs in the three-year forecasting period.

On April 14, 2014, the operating loss recorded for the year ended December 31, 2013 triggered automatic mandatory early redemption of the "Prestito Convertendo Prelios 2013-2019" convertible bond, involving the full conversion of:

- 166,042 bonds (71.1% of the total issue) representing tranche A, convertible into ordinary shares; and
- 67,492 bonds (28.9% of the total issue) representing tranche B, convertible into Category B shares.

The aforementioned conversion also resulted in the automatic execution of the share capital increase intended exclusively to service the conversion, as approved by the Company's Board of Directors on June 10, 2013, exercising the power granted to it by the shareholders' meeting on May 8, 2013, through the issue of 229,757,292 ordinary shares and 93,390,705 Category B shares, for a total value of Euro 236,544,333.80.

Following the share capital increase in exclusive service of the conversion, total share capital of Euro 426,441,257.20, fully subscribed and paid-up, may now be broken down as follows:

- 506,953,179 ordinary shares with no par value and regular dividends;
- 210,988,201 Category B shares, convertible into ordinary shares, with no par value and voting rights, unlisted.

Also on April 14, 2014 the confirmation of the execution of the capital increase solely to service the conversion, together with the updated Articles of Association, was filed and recorded, pursuant to the law, in the Companies' Register of Milan.

It should be noted that as early as April 9, 2014 the Company's Directors, on the basis of the initiatives identified by the management (relating to mitigating actions for the projected negative cash flow and improvement of margins, through cost-cutting and revenue growth, with respect to those projected in the Guidelines) and the express willingness of the Company's major lenders and shareholders to support the Company in meeting its cash needs for the time necessary to reach an agreement on more general financial restructuring measures, had decided to consider those actions as a reasonable basis for believing that it was probable that financial equilibrium would be achieved in a manner consistent with the needs identified in the Guidelines, so as to allow the Group to continue as a going concern. Accordingly, the financial statements for the year ended December 31, 2013 were drafted on a going concern basis.

The Directors' assessments regarding the measures necessary to meet funding needs and to take account of the aforementioned willingness to support the Company by its main lenders and shareholders, were based, first and foremost, on an analysis of the main events that result in cash outflows, namely:

- equity injections to investees so as to permit them to fulfil their contractual obligations to their own lenders, which largely coincide with the Company's major lenders;
- obligations borne by the Company towards its major lenders, which are among the shareholders of Prelios S.p.A.

In particular, the Directors based their reasonable assumptions on:

- specific mitigating actions for financial commitments (subsequently pursued and achieved) aimed at meeting related cash needs, with the planned development of measures to reduce, eliminate or defer projected short- and medium-term financial commitments, so as to ensure that such commitments are sustainable for the Group in a manner consistent with the expected improvement in its ability to generate cash and restructuring of its financial situation;
- additional lines of action relating to cost efficiency and business development.

On June 12, 2014, the Board of Directors approved the new Group's 2014-2016 Business Plan (the "Plan"), drafted on the basis of the 2014-2016 Guidelines drawn up previously, on April 9, and including the effects of the financial commitment mitigation actions (as further developed and refined) and of the additional lines of action identified with the aim of reducing costs and growing the business to a greater degree than estimated in the previous Fenice Plan and the 2014-2016 Guidelines.

On June 19, 2014 the Company held its shareholders' meeting to approve the 2013 financial statements, which showed losses in excess of one-third of share capital, as reported in the Company's balance sheet at December 31, 2013, restated to reflect the effects of the subsequent capital increase in exclusive service of the mandatory conversion of the "Prestito Convertendo Prelios 2013-2019" convertible bond. That same shareholders' meeting decided not to adopt measures pursuant to Art. 2446 of the Italian Civil Code, but to defer the adoption thereof (where required) to a date to be proposed by the Board of Directors, in accordance with Art. 2446, paragraph 2, of the Italian Civil Code, while also considering the planned and executed initiatives outlined and illustrated in the Directors' Report on Operations drawn up in accordance with the law and submitted to the shareholders' meeting.

The following measures aimed at developing the service business were then taken during the year:

- On October 7, 2014, Prelios signed a strategic agreement with iCORE Global, a global real estate services giant based in the USA, governing worldwide cooperation between the two companies. Thanks to this agreement, Prelios Integrated Services, the Group's strategic business unit that offers a range of real estate services (property and project management, valuations, brokerage, agency and administrative management) through its operating companies, will have direct access to over 63 countries around the world and will be able to offer its corporate clients the services provided by iCORE Global, a U.S. company offering worldwide real estate services such as brokerage, landlord and tenant representation.
- On October 29, 2014, Prelios entered into a preliminary agreement for the acquisition of 80% of Negentropy Capital Partners LLP, a London-based asset manager that operates under the supervision and regulation of the FCA. This transaction will allow the creation of Prelios Europe, and thus, in very short order, a European AIFMD-compliant platform capable of raising funds from foreign investors interested in investing in Italy. In addition, through this platform Prelios will also be able to structure products aimed at facilitating international investment by Italian institutional investors.
- In mid-December 2014, a consortium of international investors led by U.S.-based Starwood Capital Group and Spanish Melià Hotels International, along with Prelios as Italian asset manager, made a global offer for ownership and operation of the hospitality facilities owned by Una Hotels & Resorts, the Italian chain controlled by a group of banks including UniCredit and Monte dei Paschi di Siena. A response to the offer is still forthcoming, whereupon exclusive negotiations may be launched.

In addition, two important sales were closed, soon to result in a significant influx of cash to the Parent Company:

- on February 12, 2014, Solaia RE S.à.r.l., a joint venture 60% owned by a fund managed by Deutsche Asset & Wealth Management Real Estate (Deutsche Bank Group) and 40% by Prelios S.p.A., reached an agreement with BUWOG, a wholly owned subsidiary of the Austrian Immofinanz Group, for the sale of shares in the real estate companies holding the German residential portfolio better known as "DGAG". The transaction is part of the process of implementing the new business model launched in 2013, which sees Prelios as pure provider of integrated real estate services, focusing its human and financial resources on higher value-added segments of the European real estate market. Nonetheless, the transaction, promoted and arranged by the majority partner Deutsche Asset & Wealth Management Real Estate (Deutsche Bank Group) is connected to the transfer of the Prelios Deutschland (a fully-owned subsidiary of Prelios S.p.A.), which provides technical and administrative services to the aforementioned residential portfolio, since it was not possible to ensure that the subsidiary would be able to replace the contracts in place on the portfolio subject to sale if those contracts were not to confirmed by the acquirer. The transaction closed on June 27 for the real estate companies and on July 4 for the service company. The estimated effects of the transaction, already under negotiation at the end of the previous year, were reflected in the 2013 financial statements as discontinued operations. A similar classification was adopted in the 2014 financial statements, including the effects of the determination of certain price components previously subject to provisional estimation.
- During the year, the joint venture Polish II, in which Prelios has a 40% stake, sold an area of approximately 55,000 square metres in Warsaw, intended primarily for retail use, with buildable potential of approximately 67,000 square metres, resulting in a positive impact on book value.

2014 - 2016 BUSINESS PLAN

On June 12, 2014, as mentioned above, the Board of Directors approved the new Group's 2014-2016 Business Plan. The Plan takes account of both the positive interactions with the Company's main shareholders and lenders and market changes, and includes revised financial projections and an account of strategic objectives. The Plan, which was developed on a stand-alone basis, does not contemplate the effects of possible extraordinary corporate or commercial agreements.

The Company confirms its pure management company business model, with the aim of completing its repositioning in the three-year period to become the asset manager of reference for international and institutional investors. The Prelios Group will focus on its Service Platform and consolidation on the market in the two areas of (i) management, under Prelios SGR, its asset manager, and Prelios Credit Servicing, its NPL portfolio manager, and (ii) real estate services, under the Prelios Integrated Services hub, which offers property and technical services in Italy and Germany. Following the gradual reduction of its dependence on the captive market due to the strategy of disposing of the co-investments, the Service Platform is to reposition itself by acquiring service contracts on the non-captive market. At the same time, it was decided to pursue the objective of increasing the presence of the operating companies in the premium segment of the markets served, i.e. segment with higher margins and multiple year contractual terms. In addition to the intensive ongoing business development activity, the targets for the service company, in terms of assets managed and non-captive revenue, were set by assuming operational and business synergies with the major shareholder banks.

Real-estate co-investments are still planned to undergo an intensive disinvestment programme aimed at substantially exiting this line of business by 2018. In this context, the company may also assess whether to proceed with a possible project aimed at overall optimisation of the value of equity investments so as to expedite achievement of this objective.

To return to the goal of improving economic and financial performance already identified in the 2014-2016 Guidelines, in addition to the aforementioned new business development initiatives, the Prelios Group has planned the following lines of action:

- adopting a set of measures of a financial nature aimed at balancing cash outflows and inflows, while meeting the cash needs initially estimated in the Guidelines;
- cost efficiency measures, aimed at further rationalising the Group's cost structure, without penalising the development and retention of human resources.

More specifically, the measures identified in the 2014-2016 Business Plan to meet cash flow needs include actions to mitigate financial commitments, by reducing and/or deferring them, in both the short and medium term, so that they are sustainable for the Group as it completes its financial restructuring.

In measures to increase revenue, pending the expected expansion and revitalisation of the real estate services and management business primarily for third party customers – following the organisational repositioning of the various management and service companies and their commercial expansion in the previous financial year – the Group has embarked on numerous business development initiatives to secure new mandates and/or increase the assets under management.

STRATEGIC ACTIVITIES FOR THE GROUP IN 2014 - 2015 BUDGET AND 2016-2017 OUTLOOK

In 2014 Prelios' management primarily dedicated themselves to two strategic activities for the Group:

- reconstructing its identity and reputation on its market of operation, including through participation in the most important sales procedures on the real estate and non-performing loan markets;
- continuing with the complex turnaround process for the Group at both the organisational and financial level, while achieving the mitigating actions identified in the 2014-2016 Business Plan, as described below.
- The process of disposing of co-investments continued, involving the DGAG and Poland sales, as described above. These sales resulted in significant inflows of cash (although of a lesser amount than indicated in the Fenice Plan targets), currently held by the investment vehicles that completed the sales, and expected to be able to be transferred to the Parent Company, Prelios S.p.A., in the near term.

On March 10, 2015, the Company's Board of Directors approved the 2015 Budget and 2016-2017 Outlook, which forecast that possible extraordinary transactions involving the Group's investment portfolio currently being studied may result in a considerable boost, the significant effects of which will begin to become visible in 2016, due to the following market conditions, which to date have severely limited the Groups' business activity:

- substantial break-even and financial stability, in keeping with the turnaround objectives being pursued;
- renewed access to credit for the launch of new investment vehicles and pro-active collaboration with the banking system.

From the management standpoint, 2015 is taking form as the year of definitive transition of the company to the pure management company model. In order to pursue this model, with regard to the redefinition of the scope of the business in particular, as disclosed to the market on June 12, 2014, the Board of Directors has authorised the competent bodies to verify the effective feasibility of the initiative.

On the basis of the indications provided in the 2015 Budget and the 2016-2017 Outlook, individual Group companies will primarily be guided by two main directives:

- growing the asset management business by acquiring new assets, to be used to package new products for distribution to Italian and international investors and/or existing funds, through either the direct acquisition of products from other management companies or mergers with such companies offering (i) a range of complementary products, (ii) a complementary ownership structure and (iii) relationships with leading investors;

- consolidating the open-market strategy pursued by Prelios Credit Servicing to ensure sustainable growth, developing extraordinary transactions with upfront fees to finance growth and developing soft equity co-investment in partnership with other investors in small-/medium-size portfolios to seize important opportunities deriving from the real estate market cycle;
- expanding the non-captive client basis of the Integrated Services Business Unit, improving margins and consolidating leadership in Italy in a wide range of services, with the aim of being perceived as the only full-service player on the Italian market;
- repositioning the German platform as a national player focusing on higher added value services for international investors, responsible for unified management in Germany and Poland.

The Group has also launched a series of new strategic projects (some of which have already been completed, whereas others are still ongoing), which could further improve the Group's performance in the plan period, the main objectives of which are:

- rationalising and containing holding costs;
- streamlining the operations of Group companies and continuing to dispose of the investment portfolio;
- increasing revenues by implementing the projects in the business development pipeline;
- assessing the possible disposal of assets in portfolio;
- expanding into new asset management markets (Prelios Europe): in keeping with current market trends, and considering asset management legislation ("AIFMD"), it is finalising the acquisition of a controlling interest in an asset management company authorised by the FCA (Negentropy Capital Partners), with the aim of attracting leading international investors with instruments alternative to real estate funds;
- launching new indirect investment vehicles (the Listed Real Estate Investment Company Project): exploiting recent changes of the law, and with the aim of attracting new foreign capital on Italian regulated markets, Prelios intends to promote the launch of a joint stock company in the form of a listed real estate investment company (SIIQ);
- expanding into innovative new sectors related to real estate: Prelios is assessing whether to diversify into innovative sectors related to real estate, and in particular (i) the energy efficiency sector, through a potential investment in a specialised company, and (ii) the creation of a strategic partnership to incorporate a company focused on exploiting Italy's cultural heritage, including in terms of its real estate ("Culture Magnet");
- transforming the German company's mission from a local operating company resulting from previous co-investments into the Prelios Group's second "hub" (after Italy), with responsibility for developing business in central and southern Europe.

By implementing all or part of these projects, Prelios could substantially improve the Group's performance in terms of revenue and EBIT, in return for limited investments to be made in 2015.

Although significant disinvestments are expected as early as 2015, the 2015 Budget and 2016 - 2017 Outlook continue to project operating losses of sufficient amounts to result in a significant decrease in equity and negative cash flow that, while not resulting in a deficit during the plan period, will continue to cause financial tension that will need to be closely and constantly monitored.

INITIATIVES ADOPTED TO ENSURE THE RECOVERY OF THE BUSINESS AND ITS CONTINUING OPERATION AS A GOING CONCERN AND THE RESULTS ACHIEVED.

During the meeting of its Board of Directors held on June 12, 2014, the Company approved its 2014-2016 Business Plan, based on realistic assumptions and taking into account the difficulty of making predictions in the current financial environment, in which it is not possible to rule out future financial market crises or the worsening of the factors that led to the current deterioration of the general economic scenario and in the real estate market in particular.

In the Company's view, the 2014-2016 Business Plan, despite forecasting continuing losses for the three-year period, with the resulting decline in equity, was challenging, yet practical and feasible, since it was based on a series of reasonable assumptions. The Plan was characterised by three main related, mutually dependent components:

- a series of mitigating and financial restructuring measures, representing the conditions necessary to ensure the continuing operation of the Company and Group and the sustainability of the Plan, in addition to being necessary to meet the cash needs estimated in the Guidelines before the expected effects of the aforementioned mitigating measures;
- organic growth and estimated profitability essentially in line with percent revenue growth targets, compared to a 2013 basis that fell short of projections;
- a constant, gradual reduction of the Company's general costs to both bring its structure into line with top market benchmarks and to take account of the expected reduction of the volumes of administrative activity resulting from the disposal of the investments portfolio.

In the Directors' view, the actions identified with the aim of ensuring operating continuity during the plan period were a suitable response to the significant uncertainty regarding the Company's ability to operate as a going concern. They also believed that, on the basis of the negotiations already in the advanced stages, in particular with the Company's lenders, relating in part to the express willingness to support the financial turnaround indicated in the 2014-2016 Business Plan, it would be possible to finalise the identified mitigating measures in a reasonably brief period compatible with the Company's needs, allowing the Company to continue to operate as a going concern, with the liquidity necessary to cover short- and medium-term cash requirements within limits sustainable for the Group.

In view of the expected general acceptance by the lenders of the 2014-2016 Business Plan, and with the aim of contributing positively to the implementation and execution of the Plan, Prelios considered that the requests made - including the inversion from 65% to 35% of the mechanism for determining the amount of the net proceeds to be put towards early repayment of the senior loan - might result, given the advanced state of the negotiations, in the completion by the lenders of their decision-making processes and the ensuing formalisation of the related agreements in reasonably short order (considering the complexity of the related processes in the context of the pertinent organisational structures of the banks involved), in a manner compatible with the Company's needs.

In November and December 2014, most of the banks in the pool of lenders, as assumed, had already approved the inversion of the aforementioned repayment mechanism. However, thanks to the increased liquidity and general agreement between the other banks in the pool:

- an agreement was then signed, contingent upon the pool's approval, for full repayment of the debt attributable to UBI Banca;
- the other banks in the pool resumed their approval processes to finalise the inversion of the mechanism, considering the foregoing;
- at the date of the current meeting of the Board of Directors, all banks involved had given their approval, and it was therefore possible to enter into the agreement amending the aforementioned repayment mechanism, with the ensuing exit from the pool by UBI Banca.

The following results have been achieved with respect to the other corrective measures mentioned above, as identified in detail in the 2014-2016 Business Plan, with various degrees of expected likelihood of success: (i) deferral until after 2016 of the payment of contractual charges relating to previous sales of equity investments; (ii) obtainment of a waiver of the obligation to contribute to an investee in liquidation; (iii) continuing discussion between the parties aimed at verifying the possible settlement of a legal claim for a total charge in line with expectations and payment after 2016; and (iv) standstill on major equity injections to companies in which qualified minority interests are held, to be individually negotiated with each partner and the respective Lending Banks. These measures were pursued and essentially completed to a degree and according to a schedule suited to allowing the Group to meet all of its estimated cash flow needs, and thus to continue as a going concern. In addition, cash at hand improved significantly, with a real component estimated at approximately Euro 10 million and a temporary component of approximately Euro 19 million, due to the short-term deferral of certain financial commitments. When assessing total cash at hand at year-end (Euro 77 million), which significantly exceeded projections (Euro 14 million), account must also be taken of a portion of such cash (Euro 29 million) held by the investees that completed the DGAG sale, which it is expected may be made available to the Parent Company once the processes applicable to the vehicles concerned have been concluded, and cash held by Prelios SGR and Prelios Credit Servicing, in accordance with the regulations applicable to these companies, not available for use for the Group's other needs. In addition to this cash, account must also be taken of the proceeds of the aforementioned disposals of the investment operations in Poland, the cash generated by which (Prelios share of Euro 20 million) continues to be held by the vehicle that completed the sale, in which Prelios only holds a minority interest. This cash will only flow to Prelios following the joint venture's decision-making processes. The real improvement is primarily attributable to revision of collections relating to the estimates of social-security obligations in Germany for the VBL programme in the context of the sale of the DGAG real estate services platform, along with commissions referring to agency and sales support services rendered by Prelios Agency and Prelios Integra in conjunction with the sale of the properties held by Olinda-Fondo Shop. The residual improvement in cash compared to the Business Plan forecasts was primarily due to temporary deferrals of planned payments, which allowed cash inflows and outflows to be balanced for both the service platform (primarily attributable to the cash flows of the German platform, subject to sale) and the investment platform.

As discussed in the previous chapter, the 2015 Budget and 2016-2017 Outlook continue to project losses for the three-year period, with the resulting decline in equity and use of cash, which, while not sufficient to cause a deficit during the plan period, indicate a continuing situation of financial tension, with financial equilibrium to depend on the possibility of completing the planned transactions at the prices and according to the schedule indicated therein. Accordingly, despite the significant improvement compared to the previous year, these circumstances indicate that there continues to be significant uncertainty regarding the Group's ability to operate on a going concern basis, and the need to pursue additional initiatives allowing the Group to complete its restructuring processes aimed at achieving the long-term financial solidity necessary to focus its organisation on its strategic business objectives. Considering the results of the 2015 Budget and 2016-2017 Outlook in terms of both financial performance and the sustainability of the Parent Company's debt, in the light of the aforementioned significant improvement of the cash profile, willingness of bank lenders and major shareholders, as shown by the recent agreements regarding the 65%/35% mechanism, to support the company's plans and the state of progress of the work reflected in the 2015 Budget, Prelios' Directors believe, on the basis of a series of realistic assumptions that naturally will require constant, thorough verification - it to be reasonable to conclude that the Group may meet its estimated cash flow needs and thus continue as a going concern.

4. NOTES ON MAIN GROUP ECONOMIC AND FINANCIAL POSITION DATA

This section contains an analysis of the income statement, balance sheet and financial position of the Group at and for the year ended December 31, 2014. For the purposes of the balance sheet management analysis in paragraph 4.1, non-accounting indicators (non-GAAP measures) have been used, generally adopted by the management to monitor and evaluate the Group's performance. The aim is to present the Group's results from operations, net of transactions which, by their nature or amount, are unusual, and changes in value of the real estate portfolio, thereby ensuring a greater degree of comparability of the results and the information over time with other leading operators which apply similar non-GAAP measures.

These measures are obtained through the aggregation or reclassification of accounting data, according to the reconciliation statement in Appendix A to this report on operations, and are used to disaggregate earnings results according to how these were generated. Refer to the analysis presented in paragraph 5 for a more direct reference to income statement figures as presented in the income statement prepared in accordance with IFRSs. The analysis of the balance sheet and financial position presented in paragraph 4.2 also includes non-GAAP measures, the criteria for preparing which are also indicated in Appendix A to this report on operations. Since these are, in the case of balance sheet items, measures that are widely used in financial reporting, directly attributable to the accounting data contained in the main financial statements, it was not necessary to supplement the management analysis with a specific note concerning these.

Specifically, for the determination of the non-GAAP measures listed below, of which a detailed reconciliation with the accounting measures is given in Appendix A, the following items are analysed separately: "Restructuring costs" and "Property write-downs/revaluations", as illustrated more fully in the paragraph below.

The measure that best reflects the business performance of the Management Platform and Investment Activities of the Group is "Operating profit/(loss)", consisting of EBIT including net income from investments and income from shareholder loans before restructuring costs and property write-downs/revaluations.

Following the agreement reached by the joint venture Solaia RE S.à.r.l. for the sale of equity interests in the real estate companies that own the German residential portfolio known as DGAG (Deutsche Grundvermögen AG) and for the transfer of a portion of the Prelios Deutschland GmbH platform (100% subsidiary of Prelios S.p.A.), which provides technical and administrative services to the above residential portfolio, in the interest of consistency of treatment, some items of the previous balance sheet and income statement have been restated so as to present the effects of the transaction separately in accordance with IFRS 5. In particular, the income statement and balance sheet figures for 2014 presented and commented upon below do not include the figures relating to the portion of the German business unit disposed of in 2014 at the end of a process of negotiations that began at the end of 2013, which in accordance with IFRS 5 have been classified to a specific line concerning discontinued operations. Similarly, the income statement data for 2013 have been classified to that same line.

4.1. Income statement

(Euro/milion)	DECEMBER 2014	DECEMBER 2013
Consolidated revenues:	72.1	73.1
of which services	*70.1*	*68.6*
of which others	*2.0*	*4.5*
Management platform: operating result before restructuring costs, impairment and property writedowns/revaluations	0.6	(5.1)
Management platform: net income from equity investments before restructuring costs and property writedowns/revaluations	0.0	(0.3)
Management platform: impairment	0.0	(10.1)
Total Management Platform: Operating result	**0.6**	**(15.5)**
Investment activities: operating result before restructuring costs, loss from NPL portfolio valuation and property writedowns/revaluations	(8.8)	(24.8)
Investment activities: net income from equity investments before restructuring costs, loss from NPL portfolio valuation and property writedowns/revaluations	18.7	(6.7)
Investment activities: income from shareholder loans (1)	4.5	8.8
Investment activities: loss from NPL portfolio valuation	(6.3)	(17.0)
Total Investment Activities: Operating result	**8.1**	**(39.7)**
Operating result	**8.7**	**(55.2)**
Financial expenses	(22.5)	6.6
Profit (loss) before restructuring costs, property writedowns/revaluations and income taxes	**(13.8)**	**(48.6)**
Restructuring costs	(13.9)	(42.6)
Property writedowns/revaluations	(39.1)	(84.0)
Result before taxes	**(66.8)**	**(175.2)**
Taxes	(2.8)	(16.0)
Net income (loss) from continuing operations	**(69.6)**	**(191.2)**
Minority interests	0.4	1.0
Consolidated net income/(loss) before discontinued operations	**(69.2)**	**(190.2)**
Net income (loss) from discontinued operations	8.1	(142.6)
Consolidated net income/(loss)	**(61.1)**	**(332.8)**

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

Consolidated revenue amounted to Euro 72.1 million for the year ended December 31, 2014, compared to Euro 73.1 million in 2013. In particular, Management Platform revenue, in Italy and internationally, was Euro 70.1 million, up from Euro 68.6 million in 2013 due to the strong performance of integrated services in Italy.

Operating profit was Euro 8.7 million, up sharply from the operating loss of Euro 55.2 million recorded for the year ended December 31, 2013. The improvement may be attributed to both the Management Platform, essentially in Italy, which went from a loss of Euro 15.5 million in 2013 (including a negative impact of Euro 10.1 million due to an impairment test) to a profit of Euro 0.6 million in 2014, and to investment activity. The strong performance of investment activity was due not only to the reduction of losses on activities in Italy and the NPL portfolio (Euro 6.3 million in 2014, compared to a loss of Euro 17.0 million in 2013), but also to the positive impact of the sale of a considerable plot of land by the Polish investee, as indicated in further detail in the section containing comments on performance by business division.

Net of the impairment loss on the NPL portfolio, operating profit was Euro 15 million, compared to a loss of Euro 38.2 million in 2013.

Financial expenses were Euro 22.5 million, compared to financial income of Euro 6.6 million during the year ended December 31, 2013, which benefited from the effects of the debt restructuring, particularly with respect to the net positive impact of recognition of the new lines at their fair value of Euro 39.9 million. Financial expenses also decreased, mainly in the second half of the year, due to the aforementioned mandatory early redemption of the convertible bond and the concurrent execution of the share capital increase in exclusive service of the conversion of the bond.

Restructuring costs amounted to Euro 13.9 million, compared to Euro 42.6 million in 2013, and primarily included expenses related to the rationalisation of the Group, write-downs of receivables in support of the operating continuity of investees as part of financial restructuring plans that have already been formalised or are in the advanced stages of negotiation, and incentive costs.

Property write-downs/revaluations stood at Euro 39.1 million for the year ended December 31, 2014, compared to Euro 84.0 million in 2013, and reflect adjustments to the value of assets (essentially in Italy) due to the updates of appraisals by independent experts (relating in particular to the shares held indirectly in the Tecla fund) and the finalisation of preliminary sales agreements (such as the shares held in the Olinda fund).

Taxes, which totalled Euro 2.8 million compared with Euro 16.0 million in 2013, mostly relate to companies in Italy. The figure primarily consists of IRAP and the decrease in deferred taxes of Euro 0.5 million, compared to a decrease in deferred taxes of Euro 14.2 million in 2013.

The net loss attributable to the Group was Euro 61.1 million in the year ended December 31, 2014, compared to a net loss of Euro 332.8 million recorded in 2013.

Management Platform [31]

Management activities (fund and asset management), specialist property and project management and agency services and non-performing loan management services (credit servicing) yielded a profit of Euro 0.6 million for the year ended December 31, 2014, compared to a loss of Euro 15.5 million in 2013. The improvement was mainly due to the service companies in Italy, and in particular to the Integrated Services business unit.

The Management Platform, the Group's core business, continued to recoup turnover, reversing the trend of previous periods, when it had posted a sharp decline. That improvement may also be attributed to the results of the intensive business development activity carried out during the year, which began to yield results for the Group above all in the second half of 2014 as the various initiatives finalised became fully operational.

General and administrative expenses were Euro 11.8 million in 2014, unchanged compared to 2013. Overall, operating profit from management activity, including general and administrative expenses, was Euro 0.6 million, compared to an operating loss of Euro 15.5 million in 2013.

[31] Net income from the Management Platform means earnings generated by the Group through fund and asset management activities, specialised real estate services (property and project management, agency and property valuation), NPL management services (credit servicing) and general and administrative expenses.

Investment Activities[32]

In 2014 investment activity yielded an EBIT before the loss on the valuation of the NPL portfolio of Euro 14.4 million, compared to a loss of Euro 22.7 million in 2013. Considering the negative impact of the impairment loss on the non-performing loan portfolio, Euro 6.3 million for the year ended December 31, 2014 and Euro 17.0 million for the year ended December 31, 2013, operating profit was Euro 8.1 million compared to a loss of Euro 39.7 million in 2013.

***

In 2014 sales[33] of properties amounted to Euro 877.7 million (Euro 164.3 million on a pro-rata basis), compared to Euro 2,239.9 million for the year ended December 31, 2013, of which Euro 917.0 million attributable to the sale of the DGAG German residential portfolio to BUWOG, Immofinanz Group (Euro 539.3 million on a pro-rata basis, of which Euro 367.0 million attributable to DGAG). With the exception of the sale of the plot of land in Poland, which had a positive impact compared to book values, the Group completed its property transactions at values essentially in line with their book values, as had been the case in 2013. As a consequence of the above-mentioned disposals, the pro-rata net debt of co-investment activities was reduced to Euro 0.5 billion (from Euro 0.8 billion in 2013), compared to pro-rata assets of Euro 0.9 billion (Euro 1.2 billion in 2013).

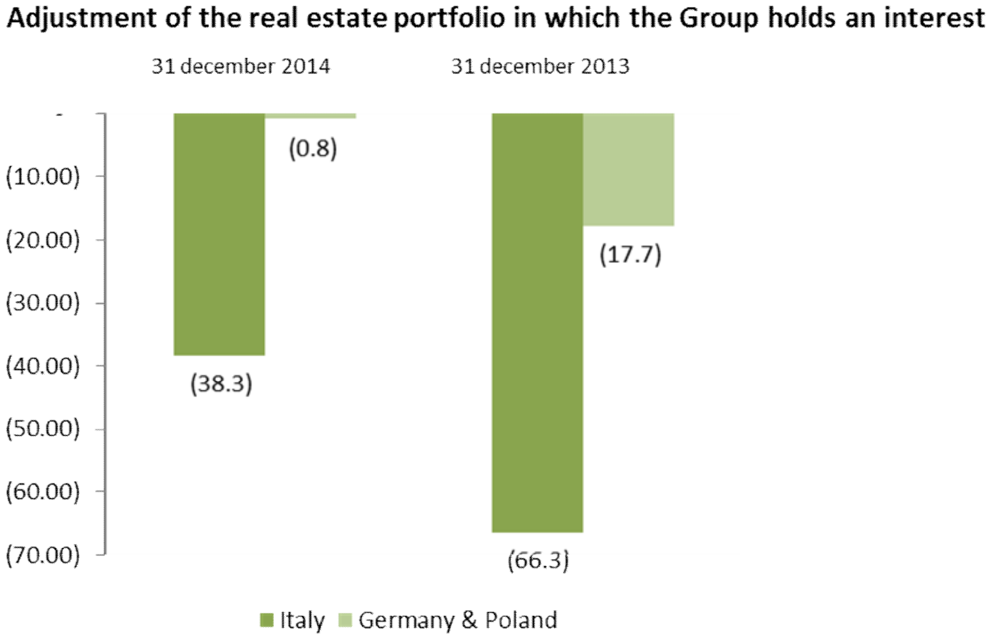
Total rents[34] were Euro 207.4 million in 2014 compared to Euro 292.1 million for the year ended December 31, 2013. Prelios' pro-rata share of rents was Euro 48.3 million (Euro 65.1 million in 2013).

For a more detailed analysis of the results of the various components by geographical area, both for the funds and investment companies and the Management Platform, including general and administrative expenses, please see the relevant section.

Write-downs of equity investments and real estate investments in 2014 represented a total of Euro 39.1 million, of which Euro 38.3 million related to the real estate portfolio in Italy and Euro 0.8 million to the real estate portfolio outside of Italy.

The graph illustrates the impact of adjustments to the real estate portfolio by country and reference period.

[32] Investment Activities include income generated by Prelios from its investments in funds and companies that hold real estate and non-performing loan portfolios.
[33] The value was determined by adding property sales made by consolidated companies to 100% of the property sales of associates, joint ventures and funds in which the Group held at least a 5% stake at December 31, 2014.
[34] The value is determined by adding the rents collected by consolidated companies to 100% of the rents of associates, joint ventures and funds in which the Group held a stake of at least 5% at December 31, 2014.



4.2. Balance sheet and financial analysis

The following table presents a management view of the balance sheet at December 31, 2014, compared with December 31, 2013.

(Euro/milion)	DECEMBER 2014	DECEMBER 2013
Property, plant and equipment and intangible asses	**334.2**	**353.2**
of which investments in real estate funds and investment companies and shareholder loans granted (1)	*273.6*	*290.5*
of which goodwill	*56.4*	*56.4*
Net working capital	**17.0**	**14.7**
Discontinued operations	**12.2**	**26.4**
Net invested capital	**363.4**	**394.3**
Consolidated Equity	**107.3**	**(66.3)**
of which Group equity	104.8	(69.1)
Provisions	**68.5**	**71.2**
Net financial position from operating activities	**187.6**	**388.4**
Liabilities relating to discontinued operations	**0.0**	**1.0**
Total covering net invested capital	**363.4**	**394.3**

(1) The item includes equity investments in associates, joint ventures and other equity investments (150.8 million euro), receivables for shareholder loans (108.4 million euro), investments in real estate funds (10 million euro, recognised among "Other financial assets" in the consolidated balance sheet) and junior notes (4.8 million euro, recognised among "Other financial assets" in the consolidated balance sheet). The figures for December 2014 and December 2013 include provisions for equity investment writedowns of 0.4 million euro and 12.6 million euro respectively.

Property, plant and equipment and intangible asses amounted to Euro 334.2 million as at December 31, 2014, compared to Euro 353.2 million as at December 31, 2013. The decrease is primarily attributable to joint ventures, which included a negative net pro-rata effect on the Prelios Group of Euro 33.6 million due to property write-downs.

Net working capital was Euro 17.0 million as at December 31, 2014, compared to Euro 14.7 million as at December 31, 2013.

Discontinued operations refer to assets held for sale pursuant to IFRS 5, according to the estimates of expected cash distributions from the sale of the DGAG Group.

Consolidated Equity was a positive Euro 107.3 million, and equity attributable to the Group was a positive Euro 104.8 million, an increase of Euro 173.9 million on the previous year, essentially due to the capital increase of Euro 236.5 million resulting from the automatic execution of the mandatory early redemption of the "Prestito Convertendo Prelios 2013-2019" convertible bond, partially offset by the loss for the period of Euro 61.1 million.

Net financial position amounted to net debt of Euro 187.6 million at December 31, 2014. The sharp improvement from the net debt of Euro 388.4 million recorded at December 31, 2013 was due to the benefit deriving from the capital increase following the conversion of the convertible bond, partially offset by the net cash used during the period.

The graph illustrates the combined effect of events that had an impact on the change in net financial position in 2014.

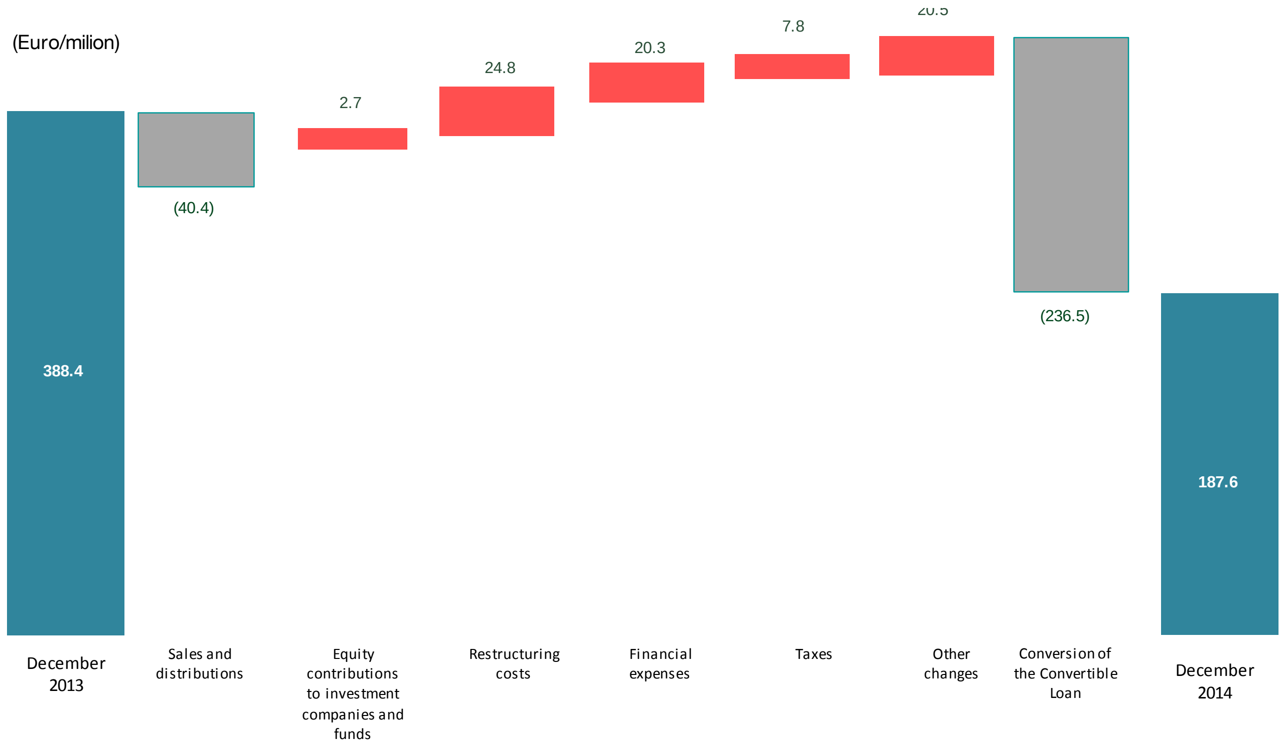
The increase from December 31, 2013 of Euro 200.8 million was mainly due to the following:

- the capital increase resulting from the automatic execution of the mandatory early redemption of the "Prestito Convertendo Prelios 2013-2019" convertible bond (Euro 236.5 million);
- cash flows generated from sales and distribution by the investment company (Euro 40.4 million).

Conversely, the following events had a negative impact on net financial position:

- equity contribution to investment companies and funds (Euro 2.7 million);
- restructuring costs (Euro 24.8 million, of which Euro 10.1 million without monetary impact);
- financial expenses (Euro 20.3 million, of which Euro 18.3 million without monetary impact);
- taxes for Euro 7.8 million;
- other events partly linked to changes in net working capital (Euro 20.5 million).

The following table illustrates the main changes in net financial position for the period.



4.3. Net bank debt of investment companies and funds

The net bank debt on the real estate component of investment companies and funds with a market value on a 100% basis of Euro 2.9 billion was Euro 1.3 billion[35]: Prelios' average bank leverage on its real estate component was 53% (Prelios pro-rata share of 61%) on the market value of the assets.

The main features of the net financial debt of the real estate component of investment companies and funds are:

- limited recourse guarantees for Prelios S.p.A. (Euro 12.5 million[36]);
- 18% hedging of interest rate risk;
- an average maturity of 1.1 years (of which 1 year in Italy and 1.6 years in Germany).

For further details, please see Appendix B to this report.

With regard to the non-performing loan sector, the book value of loans on a 100% basis is around Euro 0.2 billion[37], against net bank debt of Euro 0.2 billion.

[35] This does not include certain funds classified as third funds in that Prelios' interest is less than 5% (and in particular Euro 0.2 billion attributable to the Cloe fund).
[36] This includes Euro 4.9 million relating to a commitment already recognised among financial payables.
[37] The gross book value of the portfolio is Euro 8.7 billion.

5. CONSOLIDATED INCOME STATEMENT

The net loss attributable to the Group was Euro 61.1 million, compared with a loss of Euro 332.8 million for the year ended December 31, 2013. The net loss was largely determined by items outside the scope of ordinary operations, and in particular:

- the disposal of the German residential portfolio known as DGAG, sold to BUWOG (100% owned by the Austrian Group Immofinanz) together with the related residential management platform of Prelios Deutschland. This transaction, whose effects on the balance sheet and income statement have been treated as discontinued operations, had a positive impact of Euro 8.1 million, including the effects of determining certain price components previously subject to temporary estimates;
- restructuring costs, which had a negative impact of Euro 13.9 million. This figure includes losses on receivables and forbearances in the context of the structuring programme for certain investees;
- impairment losses, the NPL portfolio valuation loss and property write-downs had a negative impact of Euro 45.4 million (Euro 111.1 million in 2013), including the capital loss on Olinda.

Due to the automatic conversion of the entire convertible bond subject to mandatory conversion, carried at Euro 235.9 million at December 31, 2013, and the loss of Euro 61.1 million recorded in 2014, the Group's equity amounted to a positive Euro 104.8 million at December 31, 2014, compared to a negative Euro 69.1 million at December 31, 2013.

An income statement (accounting schedules) is presented below.

(Euro/milion)	DECEMBER 2014	DECEMBER 2013
Revenues from sales and services	72.1	73.1
Changes in inventories of work in progress, semi-finished and finished products	(2.0)	(0.4)
Other income	13.3	8.2
TOTAL OPERATING REVENUES	**83.4**	**80.9**
Purchases of raw and consumable materials used (net of change in inventories)	(3.2)	(5.8)
Personnel costs	(38.8)	(43.5)
Depreciation, amortization and impairment	(2.4)	(12.9)
Other costs	(66.6)	(100.5)
TOTAL OPERATING COSTS	**(111.0)**	**(162.7)**
EBIT	**(27.6)**	**(81.8)**
Net loss from equity investments of which:	(14.8)	(108.8)
- portion of result of associates and joint ventures	*(13.3)*	*(87.8)*
- dividends	-	*0.1*
- gains on investments	*1.0*	*0.4*
- losses on investments	*(2.5)*	*(21.5)*
Financial income	5.6	52.8
Financial expenses	(30.0)	(37.4)
RESULT BEFORE INCOME TAXES	**(66.8)**	**(175.2)**
Taxes	(2.8)	(16.0)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	**(69.6)**	**(191.2)**
of which attributable to minority interests	(0.4)	(1.0)
Net income (loss) from discontinued operations	8.1	(142.6)
CONSOLIDATED RESULT FOR THE PERIOD	**(61.1)**	**(332.8)**

Revenue from sales and services amounted to Euro 72.1 million in 2014, compared to Euro 73.1 million in 2013.

Other income totalled Euro 13.3 million in 2014 compared with Euro 8.2 million in 2013. The item refers to chargebacks to tenants of the management costs of company-owned properties or properties managed for third parties; in the latter case the chargebacks relate mainly to property management activities. It also includes the settlement or successful outcome of disputes that had created risks and uncertainties and the consequent funding of risk provisions.

Purchases of raw and consumable materials used (net of changes in inventories) amounted to Euro 3.2 million, compared with Euro 5.8 million in 2013. The change recorded in 2014 included Euro 2.1 million of net write-downs recognised on lower presumed realisable value, determined on the basis of independent appraisals as at December 31, 2014 or on the basis of the lower values at which the individual subsidiaries are willing to sell according to sales mandates granted after approval by their respective Boards of Directors, and to sales made in the period, primarily by Orione Immobiliare Prima S.p.A. and Centrale Immobiliare S.r.l.

In 2014 personnel costs were Euro 38.8 million, compared with Euro 43.5 million in 2013, down primarily as a result of the smaller average headcount for the year. The 2014 figure includes approximately Euro 1.4 million of restructuring costs, compared to the Euro 3.9 million recorded in 2013.

Other costs amounted to Euro 66.6 million for the year ended December 31, 2014, compared with the Euro 100.5 million recorded in 2013. This item includes costs for maintenance services, commissions, consultancy and professional fees, rental costs of corporate sites, other operating expenses, provisions for risks and write-downs of receivables. The item decreased significantly compared to 2013, mostly as a result of lower write-downs of receivables and provisions for risks.

EBIT amounted to a negative Euro 27.6 million for the year ended December 31, 2014, compared with a negative Euro 81.8 million in 2013.

The net loss from equity investments was Euro 14.8 million in 2014, compared with a loss of Euro 108.8 million for the year ended December 31, 2013. The item includes the negative effect of write-downs on equity investments and properties of Euro 33.6 million, compared to a negative value of Euro 78.2 million recorded in 2013.

Financial income amounted to Euro 5.6 million for the year ended December 31, 2014, compared with Euro 52.8 million in 2013, which included the positive effect of the Restructuring Agreement, entailing the transformation of corporate financing into the new super senior, senior and convertible credit facilities, initially recognised at fair value, calculated in accordance with the valuation methods deemed appropriate with respect to the characteristics of each component of the new debt.

Financial expenses were Euro 30.0 million for the year ended December 31, 2014, compared with Euro 37.4 million in 2013. The decrease in financial expenses compared with the previous year may also be attributed to the reduction of debt due to the extraordinary capital increase and the debt restructuring completed in 2013.

6. CO-INVESTED AND THIRD-PARTY REAL ESTATE PORTFOLIO AND REAL ESTATE NET ASSET VALUE AT DECEMBER 31, 2014

The following analyses refer to the Group's co-investments (values on a 100% basis and values relative to the Group's interest) through investment companies or real estate funds and the third-party assets under management. With the exception of non-performing loans, which are stated at book value[38], the value of co-investments and third-party real estate assets is represented by the values determined by appraisals by independent experts at the reporting date[39].

This item, where clearly indicated as *pro rata*, expresses the Group's interest in the fair value of the assets and the book value of its non-performing loans.

6.1. Co-invested real estate portfolio

The information presented below concerning the Group's real estate co-investments at December 31, 2014 is based on appraisals by:

- Cushman & Wakefield for 34% of the portfolio;
- CBRE for 27% of the portfolio;
- Patrigest for 23% of the portfolio;
- REAG for 13% of the portfolio;
- other appraisers for the residual 3% of the portfolio.

The valuations are performed based on standard valuation criteria, i.e. valuations are conducted for individual real estate properties according to the various methodological criteria defined by the independent valuer.

The discounted cash flow method, which discounts the cash flows resulting from leases to present value by applying a discount factor which reflects the specific risks associated with the investment (at the end of the rental period, the terminal value obtained by capitalising the market rent for commercial and/or tertiary real estate is taken into consideration) is the one most used for the commercial sector in Germany; for residential properties in Italy, the terminal value is obtained by applying the comparative method. As far as initiatives in progress and development lands are concerned, the transformation method is used, discounting the costs and revenue resulting from the development operation to present value, taking into account the progress of the project.

With regard to the CONSOB Recommendation of July 18, 2013, it is reported that in recent years the appraisal of the Group's real estate assets has been entrusted to the aforementioned appraisers, which offer specialised property appraisal services in the capacity of independent experts. This alternation (note the average term of office is approximately four years) is sought both in accordance with the relevant industry legislation, and to ensure a more objective and independent assessment of the real estate assets. The

[38] Figures stated at cost net of any write-downs.
[39] The values thus determined exclude the deduction of any discounts resulting from sales mandates aimed at expediting the disposal of real estate portfolios.

Group, in selecting and renewing the appointment of experts, follows the rules of maximum transparency, assessing the adequacy of the selected supplier in relation to the specifications of the real estate portfolio subjected to the valuation. In particular, independent appraisers are selected according to an analysis of their professional specifications and the nature of the assignment, taking the following into account in the specific case of real estate funds: years of experience in appraising real estate, enrolment in the professional register kept by an Italian court, having appraised assets with a total value of more than Euro 25 million attributable to a single owner at least once, possession of suitable process quality certification, adequate technical and organisational standards and an absence of conflicts of interest.

It should be noted that the real estate portfolio managed by Prelios SGR, in accordance with the joint communication of the Bank of Italy and CONSOB of July 29, 2010, is subject to an audit of the assumptions used by the independent experts to prepare their estimates, in accordance with internal procedures governing the guidelines, roles and responsibilities of the various departments involved, as well as discussions with independent experts. The Group has extended these procedures to its other operations subject to the appropriate terms and conditions, in response to the aforementioned CONSOB Recommendation of July 18, 2013.

Co-invested[40] and third-party assets under management amounted to Euro 5.4 billion at December 31, 2014 (Euro 6.2 billion at December 31, 2013), with an investment interest for Prelios of Euro 0.9 billion (Euro 1.2 billion at December 31, 2013). Assets consist of Euro 5.2 billion in real estate (Euro 6 billion at December 31, 2013) and Euro 0.2 billion in non-performing loans (Euro 0.2 billion at December 31, 2013). In terms of asset allocation by geographical area, of the Euro 5.2 billion in real estate assets, 78.6% are located in Italy, 20.3% in Germany and 1.1% in Poland.

The portion of real estate assets in which the Group does not have an interest amounted to Euro 2.3[41] billion in December 2014, up from Euro 1.9 billion in December 2013, and accounted for approximately 44% of the total value of the real estate portfolio.

Based on the valuations of independent experts, which the Prelios Group normally requires for its entire portfolio every six months and net of any discounted sales mandates granted to intermediaries, on a like-for-like basis, the market values of assets in which the Group holds an interest were written down by around 4% on average during the period. In 2014, the write-downs recorded on some funds and portfolios in Italy in which the Group holds an interest indicated a slight worsening of the sector risk attached to the real estate investments. As shown in the following tables, the asset allocation at market values by geographical area at December 31, 2014 indicates that Italy's percent weight increased compared to December 31, 2013. There was a slight reduction in the weight of the portfolio of assets in which the Group holds an interest in Italy, while the percent weight of the portfolio of assets under management in Italy increased.

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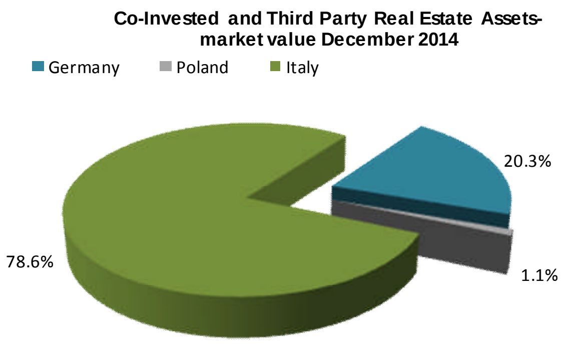
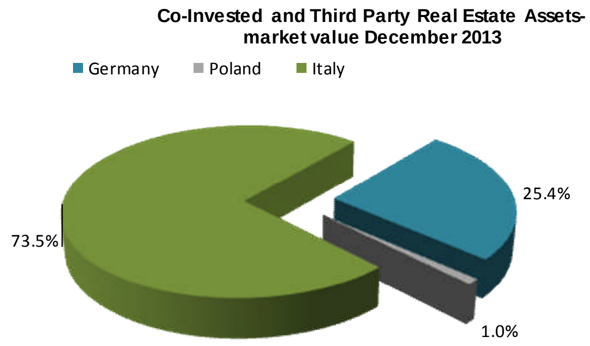
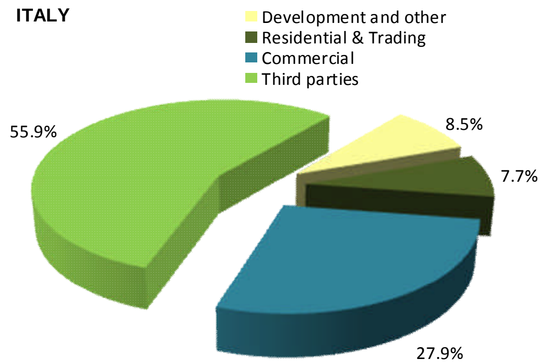
40 Assets under management, excluding NPL valued at book value, are expressed at market value based on appraisals and analyses by independent experts. The market values determined by independent experts do not take into account a possible acceleration of the sales plan beyond the reasonable period of time needed for such sales, considering the specific type of asset in its current market, and any discounts for block sales or discounts arising under sales mandates.

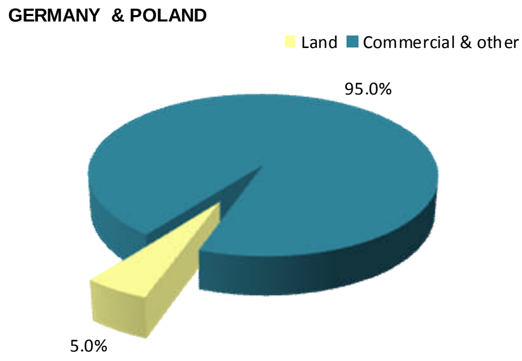
41 Includes, *inter alia,* initiatives in which the Group holds an interest of less than 5%.





The following tables give an overview by product of the real estate portfolio expressed at market values at December 31, 2014 (100% values).





Land and development activities

Co-investments in assets as part of land and development activities were valued at Euro 406.9 million in December 2014, of which Euro 275 million relates to land and Euro 131.9 million relates to development. Prelios has a stake of 43% equal to Euro 175.7 million.

As a percentage of the total real estate portfolio which the Group holds a pro-rata interest (Euro 907.3 million pro-rata), land and development activities are therefore approximately 20%.

For land and development activities, the Group generally participates in initiatives with qualified minority interests in joint ventures with prime national and international partners providing asset management, property and project management and agency services.

The land and development activities of the various joint ventures in which Prelios holds an interest are initially 50%-70% funded by leading national and international credit institutions, and the remainder by shareholder funds in the form of equity and shareholder loans.

Non-recourse bank financing is generally structured into two lines with mortgages: one for the purchase of the land and the other disbursed as the work progresses (capitalisation line).

The main projects currently in progress are:

- Manifatture Milano (Prelios 50%): an area adjacent to Bicocca University (northern part of Milan). Around 72,000 square metres of land will be developed for the following purposes: unrestricted and restricted housing units, university accommodation, commercial units, social housing and compatible uses. The land has a market value of about Euro 104.6 million. Development activity is managed through a joint venture with CdP Immobiliare and renovation of one of the existing residential buildings (building no. 2) is currently nearing completion.
- Trixia (Prelios 36%): land designated for real estate development, and already partly developed, situated on the outskirts of the Municipality of Milan. The real estate assets of the company consist of the following:
  - Area e Cascina Zibido – a property comprising land and derelict farm buildings;
  - Malaspina Espansione – semi-urban site, predominantly residential;
  - Cusago Espansione – non-urban site for commercial development;
  - Castello di Tolcinasco – part of the Castello di Tolcinasco estate;
  - Malaspina Residences – a residential complex located in the Municipality of Pioltello, consisting of three lots and a retail complex: development work, which began in 2004, has been completed, and the property is still being marketed.

  The market value of all real estate assets at December 31, 2014 was Euro 78.6 million.
- Inim 2 (Prelios 25%): in the section dedicated to RCS, the investment initiative owns a site where around 44,500 square metres of gross floor area has been partially developed for manufacturing, tertiary and commercial use. The market value at December 31, 2014 was Euro 26.8 million.

- The former Lucchini site, approximately 85 hectares located in the northern suburbs of Warsaw with a development potential, once urban planning procedures have been completed, now estimated at more than 300,000 square metres, has a market value of approximately Euro 57 million (Prelios has a 40% stake).

6.2. Real estate net asset value estimated by independent third-party experts

The pro-rata net asset value of Prelios' investments was Euro 0.4 billion at December 31, 2014 (net of non-performing loans, which are stated at book value), in line with the figure reported at December 31, 2013. This value corresponds to the balance of the value determined by pro-rata appraisals by the independent experts of the assets in which the Group has an interest (Euro 0.8 billion) and the pro-rata net bank debt of the investment companies and funds in which Prelios has an interest (Euro 0.4 billion).

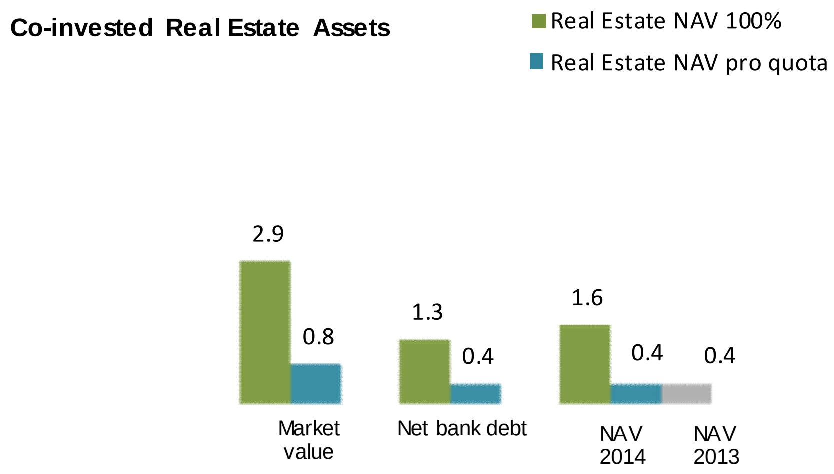
Of the total value of the real estate portfolio for investment companies and funds in which the Group invests, which has a book value of Euro 2.8 billion (Euro 0.8 billion pro rata), around Euro 1.1 billion (Euro 0.3 billion pro rata) relates to investment property measured at fair value (IAS 40).

The following tables show the net asset value of the Company at December 31, 2014.

(in billions of euro)	DECEMBER 2014 - 100% -				DECEMBER 2013 - 100% -			
	Market value	Book value	Net Bank Debt	Net Asset Value	Market value	Book value	Net Bank Debt	Net Asset Value
Real estate investment companies and funds in which the Group holds an interest	2.9	2.8	1.3	**1.6**	4.1	3.9	2.4	**1.7**
Real estate investment companies and funds in which the Group does not hold an interest (*)	2.3	2.3			1.9	1.9		
TOTAL REAL ESTATE	**5.2**	**5.1**	**1.3**		**6.0**	**5.8**	**2.4**	
NPL (**)	*0.2*	*0.2*	*0.2*		*0.2*	*0.2*	*0.2*	
CO-INVESTED AND THIRD PARTY REAL ESTATE ASSETS (***)	**5.4**	**5.3**	**1.5**		**6.2**	**6.0**	**2.6**	

	DECEMBER 2014 - PRO QUOTA				DECEMBER 2013 - PRO QUOTA			
	Market value	Book value	Net Bank Debt	Net Asset Value**	Market value	Book value	Net Bank Debt	Net Asset Value**
Real estate investment companies and funds in which the Group holds an interest	0.8	0.8	0.4	**0.4**	1.1	1.0	0.7	**0.4**
Real estate investment companies and funds in which the Group does not hold an interest (*)	0.0	0.0			0.0	0.0		
TOTAL REAL ESTATE	**0.8**	**0.8**	**0.4**		**1.1**	**1.0**	**0.7**	
NPL (**)	*0.1*	*0.1*	*0.1*		*0.1*	*0.1*	*0.1*	
CO-INVESTED AND THIRD PARTY REAL ESTATE ASSETS (***)	**0.9**	**0.9**	**0.5**		**1.2**	**1.1**	**0.8**	

(*) This includes, inter alia, initiatives in which the Group holds an interest of less than 5%.
(**) For non-performing loans, the value included in the "market value" columns corresponds to the acquisition cost less any write-downs.
(***) For calculation purposes, consolidated assets were considered to be entirely financed by own resources.



Net bank debt does not include the borrowings of several initiatives in liquidation, for which net invested capital is zero because no further significant capital injections are planned, considering the absence of legal obligations to support them (Portafogli Misti fund, Riva dei Ronchi, Induxia, Lupicaia, Maro and Roca, Tamerice, Golfo Aranci and Aree Urbane for a par value at December 31, 2014 of around Euro 286 million on a 100% basis and around Euro 101 million on a pro-rata basis). The tables above do not show the asset values of these initiatives.

6.3. Representation of the real estate portfolio

The following tables provide information concerning profitability by cluster on both a 100% and pro-rata basis: in particular, a breakdown is provided of rental income, with an indication of the related vacancy rates. Note that passing rent corresponds to annualised rent based on existing contracts at the end of the reporting period for assets belonging to the initiative; passing yield is calculated by dividing passing rent by the book value of the initiative's assets; and the vacancy rate is calculated as the ratio of vacant floor space to total floor space of the asset.

Profitability of investment companies and funds in which the Group holds an interest on a 100% basis (thousands of euro)

	% PRE	Passing Rent	Passing Yield	Vacancy	Book value	Market value	Net debt
Fondo Tecla	44.8%	23,009	6.9%	15.5%	331,884	348,470	270,268
Fondo FIPRS	22.0%	20,337	8.6%	-	236,700	236,700	152,173
Fondo Raissa	35.0%	12,483	6.3%	1.5%	197,334	204,168	15,903
Fondo Olinda	10.6%	-	-	-	-	-	(73,564)
Gromis S.r.l.	33.0%	1,014	8.3%	-	12,216	12,020	10,161
Fondo Monteverdi	48.8%	3,722	7.6%	66.4%	48,928	58,200	15,356
Fondo Spazio Industriale	22.1%	19,024	7.6%	20.9%	251,264	283,226	167,333
COMMERCIAL ITALY		**79,588**	**7.4%**	**18.9%**	**1,078,326**	**1,142,784**	**557,631**
Commercial Germany		**2,588**	**7.6%**	**4.1%**	**34,054**	**36,720**	**(1,478)**
Mistral Properties	40.6%	2,588	7.6%	4.1%	34,054	36,720	(1,478)
Highstreet (Commercial)		**72,901**	**7.3%**	**-**	**1,002,950**	**1,002,950**	**240,761**
Residential Small Deals		**-**	**-**	**-**	**-**	**-**	**(3)**
TOTAL GERMANY		**75,489**	**7.3%**	**0.1%**	**1,037,004**	**1,039,670**	**239,281**
TOTAL PORTFOLIO YIELDING		**155,077**	**7.3%**	**13.3%**	**2,115,330**	**2,182,454**	**796,912**
Trading Italy		**4,310**	**n.m.**	**n.m.**	**309,403**	**315,737**	**362,550**
Development Italy		**-**	**n.m.**	**n.m.**	**127,816**	**129,548**	**87,773**
Land Italy		**342**	**n.m.**	**n.m.**	**207,286**	**217,885**	**124,225**
Other Germany		**1,284**	**n.m.**	**n.m.**	**18,587**	**20,530**	**5,270**
Other Polonia (*)		**11**	**n.m.**	**n.m.**	**11,490**	**56,339**	**(50,583)**
TOTAL OTHER		**5,947**			**674,582**	**740,039**	**529,235**
TOTAL CO-INVESTED REAL ESTATE ASSETS		**161,024**	**5.8%**		**2,789,912**	**2,922,493**	**1,326,147**

Profitability of investment companies and funds in which the Group holds an interest on a pro-rata basis (thousands of euro)

	% PRE	Passing Rent	Passing Yield	Vacancy	Book value	Market value	Net debt
Fondo Tecla	44.8%	10,310	6.9%	15.5%	148,708	156,140	125,727
Fondo FIPRS	22.0%	4,466	8.6%		51,979	51,979	40,629
Fondo Raissa	35.0%	4,369	6.3%	1.5%	69,067	71,459	5,566
Fondo Olinda	10.6%	-			-	-	(7,792)
Gromis S.r.l.	33.0%	334	8.3%		4,031	3,967	3,353
Fondo Monteverdi	48.8%	1,816	7.6%	66.4%	23,870	28,394	7,492
Fondo Spazio Industriale	22.1%	4,208	7.6%	20.9%	55,580	62,650	37,014
COMMERCIAL ITALY		**25,503**	**7.2%**	**23.4%**	**353,236**	**374,588**	**211,989**
Commercial Germany		**1,936**	**11.6%**	**9.9%**	**16,622**	**17,762**	**2,787**
Mistral Properties	40.6%	1,936	11.6%	9.9%	16,622	17,762	2,787
Highstreet (Commercial)		**8,809**	**7.3%**	**-**	**121,191**	**121,190**	**28,947**
Residential Small Deals		**-**	**-**	**-**	**-**	**-**	**(1)**
TOTAL GERMANY		**10,745**	**7.8%**	**1.3%**	**137,813**	**138,953**	**31,734**
TOTAL PORTFOLIO YIELDING		**36,248**	**7.4%**	**20.0%**	**491,048**	**513,541**	**243,723**
Trading Italy		**1,518**	**n.m**	**n.m**	**114,412**	**118,167**	**122,964**
Development Italy		**-**	**n.m**	**n.m**	**60,478**	**61,288**	**40,358**
Land Italy		**-**	**n.m**	**n.m**	**84,666**	**89,151**	**42,315**
Other Germany		**687**	**n.m.**	**n.m.**	**10,005**	**10,718**	**2,620**
Other Polonia (*)		**5**	**n.m**	**n.m**	**4,596**	**22,536**	**(20,230)**
TOTAL OTHER		**2,209**			**274,157**	**301,859**	**188,028**
TOTAL CO-INVESTED REAL ESTATE ASSETS		**38,457**	**5.0%**		**765,205**	**815,400**	**431,750**

(*) The Poland area refers to the sole investment held directly and indirectly by the Company through the investee Polish II and represents the property component underlying that investment only (a plot of land located in the Bielany district of Warsaw). Please note that, with regard to the cash held by the investee Polish II, the total carrying value for the period (equity investment plus shareholders' loan) would be approximately Euro 42 million at market value.

The Prelios Group's real estate yielding portfolio, with a market value of Euro 2.2 billion (Euro 0.5 billion on a pro-rata basis) and a book value of Euro 2.1 billion (Euro 0.5 billion on a pro-rata basis) generates pro-rata turnover from rentals of approximately Euro 36.2 million annually (approximately Euro 155.1 million on a 100% basis). The portfolio's ten principal tenants, representing approximately 84% of rents attributable to Prelios, are: Telecom Italia, Karstadt (Highstreet), the Region of Sicily, Valtur, Vodafone, Eni-Sofid, Alstom Power, Wind, CNR and Manutencoop Facility Management.

The following table gives a representation by country of the portfolio in which the Group holds an interest, divided according to the accounting policies defined in IAS 2 and IAS 40.

	Book value 100%	Market value 100%	Book value pro rata	Market value pro rata
IAS 2	64,678	73,863	28,683	33,166
IAS 40	1,013,648	1,068,921	324,552	341,422
Commercial Italy	**1,078,326**	**1,142,784**	**353,236**	**374,588**
IAS 2	34,054	36,720	16,622	17,762
IAS 40	-	-	-	-
Commercial Germany	**34,054**	**36,720**	**16,622**	**17,762**
IAS 2	1,002,950	1,002,950	121,191	121,190
IAS 40	-	-	-	-
Highstreet	**1,002,950**	**1,002,950**	**121,191**	**121,190**
IAS 2	266,416	272,750	102,178	105,933
IAS 40	42,987	42,987	12,234	12,234
Trading Italy	**309,403**	**315,737**	**114,412**	**118,167**
IAS 2	127,816	129,548	60,478	61,288
IAS 40	-	-	-	-
Development Italy	**127,816**	**129,548**	**60,478**	**61,288**
IAS 2	207,286	217,885	84,666	89,151
IAS 40	-	-	-	-
Land Italy	**207,286**	**217,885**	**84,666**	**89,151**
IAS 2	18,587	20,530	10,005	10,718
IAS 40	-	-	-	-
Other Germany	**18,587**	**20,530**	**10,005**	**10,718**
IAS 2	11,490	56,339	4,596	22,536
IAS 40	-	-	-	-
Land Poland	**11,490**	**56,339**	**4,596**	**22,536**
TOTAL CO-INVESTED REAL ESTATE ASSETS	**2,789,912**	**2,922,493**	**765,205**	**815,400**

(*) With regard to the Highstreet real estate portfolio, the net invested capital is now limited to one financial receivable, for which the recoverability is assessed by analysing the expected cash flows from the unwinding of the joint venture, feasible on completion of the divestment of the portfolio.

7. PERFORMANCE OF THE BUSINESS DIVISIONS

This section provides an account of the financial performance of the Real Estate division (by geographical area) and the NPL division, broken down into the income and expenses generated by the Management Platform and the income and expenses generated by Investment Activity[42]. The operating profit/(loss) included and discussed in the following tables corresponds to that set out in paragraph 4 of this report.

Unless otherwise specified, all amounts are in millions of euro.

The table below gives an overview of operating profit/(loss) by geographical area.

	Italy		Germany		Poland		NPL		G&A		Total			
	December 2014	December 2013	December 2014	December 2013	December 2014	December 2013	December 2014	December 2013	December 2014	December 2013	December 2014		December 2013	
Management platform	10.9	4.7	3.3	5.3	(0.4)	(0.5)	(1.4)	(3.2)	(11.8)	(11.8)	**0.6**	**0.6**	**(5.4)**	**(15.5)**
Management platform goodwill impairment	0.0	(5.8)	0.0	0.0	0.0	(3.3)	0.0	(1.0)	0.0	0.0	**0.0**		**(10.1)**	
Investment activities	(6.9)	(26.5)	2.6	0.6	18.4	(1.5)	0.3	4.7	0.0	0.0	**14.4**	**8.1**	**(22.7)**	**(39.7)**
Loss on NPL portfolio valuation	0.0	0.0	0.0	0.0	0.0	0.0	(6.3)	(17.0)	0.0	0.0	**(6.3)**		**(17.0)**	
Operating profit/(loss)	**4.0**	**(27.6)**	**5.9**	**5.9**	**18.0**	**(5.3)**	**(7.4)**	**(16.5)**	**(11.8)**	**(11.8)**	**8.7**		**(55.2)**	

For the interpretation of the data contained in the following tables by country, it should be noted that the amount of revenue refers to fully consolidated service companies, but does not include the consolidated revenue of investment initiatives.

7.1. Real Estate Italy

The Italy Real Estate business (Management Platform and Investment Activities) reported an operating profit in 2014 of Euro 4.0 million, compared with a loss of Euro 27.6 million in 2013.

<u>Management Platform</u>

Operating profit was Euro 10.9 million for the year ended December 31, 2014, up from a loss of Euro 1.1 million in 2013, an amount that included the negative effect of the impairment test on Prelios Agency of Euro 5.8 million.

Regarding the performance of the Management Platform, the major events that affected the individual Cash-Generating Units are highlighted.

[42] Net income from Investment Activities means income generated by Prelios from its investments in funds and companies that own real estate portfolios; net income for the Management Platform refers to income generated through fund and asset management and specialised real estate services (property and project, agency and facility) and services related to the management of NPL (credit servicing), including general and administrative expenses.

Fund Management	December 31, 2014	December 31, 2013
Revenue (millions of euro)	20.5	21.0
Operating profit/(loss) (millions of euro)	7.3	7.6
ROS	36%	36%
Number of funds managed	26	22
Co-Invested and Third-party Real Estate Assets (*)	3.5	3.7
Number of employees (**)	73	67

(*) Market value in billions of euros, expressed on a 100% basis, including the portfolio of Excelsia 9 S.r.l.
(**) Including seconded staff from other Group companies

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

At December 31, 2014, Prelios SGR managed a total of 26 funds, of which nine are ordinary (one of them listed) and 13 speculative, as well as a management contract for the divestment of a real estate portfolio.

Revenue, essentially represented by fixed management fees, was Euro 20.5 million, down slightly compared to the figure for 2013, primarily due to the adjustment of fees for certain funds in the process of restructuring their finances, which had a total impact of Euro 0.8 million.

In development of new initiatives, in 2014 the Company established new ordinary real estate funds (the PAI–Parchi Agroalimentari Italiani fund, IGEA fund and Primo RE fund) and began to manage the ASCI fund, increasing the number of funds under management at December 31, 2014 to 26:

- the PAI–Parco Agroalimentare Italiano fund, promoted to complete the project known as F.I.CO. (Italian Farm District), which will result in the creation within the Bologna Food Market of a complex housing representatives of Italian food and wine products of excellence. The fund was established through the contribution by CAAB of the land on which to develop the project and the signing of commitments by a number of qualified investors to subscribe for shares to be paid up in cash. A second sub-fund (Sub-fund B) was then opened, primarily focusing on functions, services, activities and companies tied to the logistics sector, with a particular focus on logistics for the food sector. Sub-fund B was also established through the contribution of an area on which to develop the project and the subscription by qualified investors of shares to be paid up in cash. The total amount of the areas contributed and the funds raised was Euro 120 million.
- the Igea fund, dedicated to investments in initiatives with a significant property development and renovation component. The transaction mainly involves the fund acquiring ownership (through contribution and/or purchase) of land destined for real estate development or buildings suitable for conversion/renovation. The fund will involve both institutional investors with a financial investment profile, who will participate in the fund with cash contributions, and other qualified investors who will participate through contributions in kind (land or buildings). The management company has already raised subscription commitments of Euro 40 million, intended for the development of two residential initiatives.

- the Primo RE fund, to which CNPADC initially contributed Euro 100 million, with the option of increasing its contribution to a total of Euro 300 million, to be invested to an extent of no less than 90% in real property and real property rights in Italy, primarily for commercial, service or office use, and thus not for residential use. At present, the fund has already acquired two important property assets in Milan and Florence, for office and hospitality/tourism use.
- on July 31, 2014 management of the Asci–Abitare Sostenibile Centro Italia fund was transferred by Focus Gestioni SGR S.p.A. to Prelios SGR. The fund's purpose is to contribute to increasing access to social housing aimed at reducing housing scarcity and implementing socially oriented investment policies in the field of social housing. At December 31, 2014, the fund's assets, Euro 8 million, were invested in buildable land on which the first project will be developed. Shares to be paid up in cash of over Euro 30 million have already been subscribed for this first project by qualified investors including the F.I.A. (Fondo Investire per l'Abitare) fund managed by CDP Investimenti SGR.

The Aurora fund - a closed-ended real estate investment fund is reserved for the Pension Fund for Banca di Roma Employees - was established in January 2015, following the tender held by the Banca di Roma, resulting in the award of the contract to the Company in November 2014. The fund is dedicated to managing and maximising the value of the pension fund's real estate assets.

Intense scouting for new projects then continued, involving the study and promotion of a number of other initiatives currently being negotiated and/or finalised, including an increase in the assets under management of the funds already managed, which in 2014 contributed more than Euro 200 million through new acquisitions and/or capital expenditures.

On July 10, 2014 a preliminary purchase and sale agreement was signed for the entire residual portfolio of Olinda-Fondo Shops, a listed real estate investment fund (of which the Prelios Group held a total of 11.1% of shares). Accordingly, by the date of expiry of the fund, Prelios SGR completed the process of disposing of the investments held by Olinda-Fondo Shops, which was then liquidated, in accordance with the management rules, in the following 60 days.

Then, in view of the publication in Italy's *Official Journal* on August 20, 2014 (Law 116/2014, enacting Law Decree 91/2014) of the statute allowing management companies to amend, by December 31, 2014, the rules for listed real estate funds, with an option for extraordinary extension of the lives of such funds by a maximum of two or three years, the Tecla Fund's shareholders' meeting approved such an extension at its meeting of December 11, 2014. On December 18, 2014 the Company's Board of Directors exercised the option for a three-year extension of the life of the fund to December 31, 2017 (included). The financing contracts were extended accordingly. In view of the invested capital freed up by the sales, considering the extension of the fund's life and the financing contract, the Board of Directors of Prelios SGR also resolved in favour of a partial redemption of shares for a total of approximately Euro 8 million.

Finally, mention should be made of the important agreement signed by the management company and Secondcap Ltd. - a firm authorised by the FCA of London that manages a platform of transactions on the secondary market of closed-ended funds - in order to increase the liquidity of investments in the reserved real estate funds managed by the management company. Thanks to this agreement, Secondcap will make its platform of international investors and supporting services available to investors of the reserved funds managed by the management company, which may therefore increase the liquidity of their shares and add value to their investments even before the natural end of the fund's life.

In Italy, the real estate brokerage and valuation services are carried out by the subsidiaries Prelios Agency S.p.A. and Prelios Valuations E-Services S.p.A..

Agency	December 31, 2014	December 31, 2013
Revenue (millions of euro)	5.0	1.6
EBIT before impairment	0.8	(3.4)
Management platform impairment	0.0	(5.8)
Operating profit/(loss) (millions of euro)	0.8	(9.2)
Volume of business (millions of euro)	353.8	43.8
Number of employees	19	21

Within the Prelios Group, Prelios Agency S.p.A. is the company that specialises in professional advisory services for the purchase and sale or lease of individual units and entire properties for office, residential, industrial, logistics and retail use. The Company offers a range of brokerage and advisory services for purchases, sales and leases, ranging from the analysis of the customer's needs to monitoring the market, handling negotiations and providing contractual assistance.

The year saw the continuation of the process of transformation from a company primarily dedicated to captive customers to a broker and advisor capable of providing third party customers highly specialised services and a strategic partner in real estate brokerage for investors of a public or private nature, as well as for real estate funds and institutional operators, activities that resulted in the award of new contracts to market underlying real estate assets of approximately Euro 243 million.

In particular, in 2014 the company was awarded new contracts to renegotiate rent for third party customers such as Holding dei Giochi, King Jouet, Sisal, MPS, BPM and Wind.

During the year the company was also awarded important marketing contracts by leading institutional operators. These new contracts were awarded by clients of high standing (such as BNP Paribas SGR, Generali Immobiliare Italia SGR, Intesa San Paolo, Beni Stabili, Fabrica Immobiliare SGR and Italease) for office, retail and residential portfolios.

The company was also awarded (in come cases following a tender procedure) sale and lease contracts for funds managed by Prelios SGR including the Tecla fund, Monteverdi fund, Clarice fund, Anastasia fund and Città di Torino fund.

Revenue increased from Euro 1.6 million in December 2013 to Euro 5.0 million in December 2014. The improvement is primarily attributable to commissions on agency services relating to the sale of an entire residual property portfolio of Olinda-Fondo Shops to an international investor, and to the effects of the services rendered under the new rent renegotiation contracts. In 2014 the Company leased approximately 77,000 square metres, compared to approximately 45,000 square metres in the previous year, for brokered rent of approximately Euro 9.6 million, compared to approximately Euro 4.3 million in 2013. The Company's brokered volumes amounted to Euro 353.8 million, compared to Euro 43.8 million in 2013.

Operating profit was Euro 0.8 million in 2014, a significant improvement on 2013 (a loss of Euro 9.2 million, including the negative impact of the impairment testing of the platform of

Euro 5.8 million), due to the process of restructuring and strategic repositioning of its commercial offerings, which led to Company to focus exclusively on brokerage for institutional clients and institutional capital market operators.

At December 31, 2014, the portfolio of sales mandates from third party customers amounted to Euro 1.46 billion[43].

Valuations	December 31, 2014	December 31, 2013
Revenue (millions of euro)	4.0	3.4
Operating profit/(loss) (millions of euro)	0.3	0.4
ROS	8%	12%
Number of Loan Service valuations	approx. 20,000	approx. 13,000
Number of employees	13	11

The subsidiary Prelios Valuations & e-Services S.p.A. is one of Italy's foremost independent providers of valuations for individual properties and real estate portfolios in the service and residential segments. With over 20,000 appraisals in 2014, it is also a leading provider in Italy of valuation services for banks (loan services).

Revenue was Euro 4.0 million for the year ended December 31, 2014, compared to Euro 3.4 million in 2013. The increase was primarily attributable to full appraisal business.

Specifically, the performance of the loan service segment showed a slight increase in volumes compared to 2013. This growth becomes more considerable if viewed in the light of the volume of full assignments under contracts awarded to the Company by institutions in the second half of 2014.

The Company is currently under contract to conduct approximately 30,000 appraisals per year, considering the recent confirmation by UniCredit of the award of the tender for appraisal of the properties underlying applications for corporate mortgage loans, the contract signed with BNL for the retail and small business and corporate areas, and the new appraisal business from Banca Popolare dell'Emilia Romagna (BPER).

The Ing Direct and Deutsche Bank - Banco Poste contracts continued to yield consistent volumes, with the promise of growth for the latter over the next two to three years.

In business other than appraisals for new mortgage loans, attention should be drawn to the Company's services in the field of appraisals in support of property leases and repossessions.

In full appraisal business, services continued to be rendered to management companies, real estate funds and custodian banks, on an underlying portfolio of a total of approximately Euro 2.5 billion.

Services are also provided to investors, large companies and banks, for both institutional assets and private banking holdings. The Company also provides ongoing appraisal service to market players of high standing, including Credit Suisse, UBS, Barclays, Fondo Previdenza Cassa di Risparmio Firenze, and Fiat Chrysler Automobiles (FCA).

The mass appraisals segment, in which very large real estate portfolios are appraised using statistical methods, also showed slight growth compared to 2013.

[43] List price.

Integra	December 31, 2014	December 31, 2013
Revenue (millions of euro)	19.1	15.2
Operating profit/(loss) (millions of euro)	2.5	0.8
ROS	13%	5%
Value of assets under management (billions of euro)	4.9	4.9
Floor area managed (in millions of m^2)	5.4	4.9
Rental units managed	approx. 33,000	approx. 29,000
Leases managed	approx. 6,000	over 2,800
Passing Rent (millions of euro)	approx. 225	over 242
Value of project management assets under management (billions of euro) (*)	0.4	0.4
Capex at December 31 (millions of euro) (**)	11.6	29.2
Number of employees	81	89

(*) Value of assets under project management, most of which are already under property management.
(**) Project management activities carried out in 2014.

In Italy, integrated property management services are carried out by Prelios Integra S.p.A., a wholly owned subsidiary of Prelios.

Prelios Integra is one of Italy's leading operators in integrated property management and project development services, with Euro 5.0 billion in assets under management, representing over 5.4 million square metres.

Prelios Integra offers integrated, active and dynamic asset management service (asset, property, project and facility management) aimed at increasing value for public and private clients, from administrative and accounting management of properties, to relationships with tenants, technical and maintenance services and sales search and support.

As part of its development and project management activities, Prelios Integra takes care of all the planning and construction phases of a building or property development, from designing the concept to turnkey delivery of the finished product. Prelios Integra has distinctive expertise in the field of sustainability: from development of new environmentally friendly buildings to green retrofitting, energy certification and renewable energy.

In 2014 the Company continued the process begun in previous years of transforming itself from a business unit with primarily captive clients to a service provider capable of competing on the market independently from the Group, acquiring and developing third party customers with strategic external growth objectives.

The main fronts on which the Company is currently involved are:

- expanding the various fronts opened with shareholder banks;
- enhancing corporate real estate services, not just for the owners, but also for the tenants of properties (with particular regard to local networks of banks and retailers);
- strengthening its presence as service provider to real estate asset management companies;
- strengthening relationships with major industrial and non-financial service groups (Eni, Enel, Telecom and Vodafone).

More generally, in 2014 the Company managed real estate assets equivalent to approximately 6,000 lease contracts. The main third party customers were: INPS, Telecom Italia, Sisal, Gruppo UBI banca, Excelsia Nove, Prisma SGR, Gruppo Unicredit, ICIS Italia, Namira SGR, A2A, Gruppo Gianni, Novartis Farma, UBISS, Gruppo Ruscalla, D'Amico Shipping, Cordea Savills, IdeAFIMIT SGR, Fortress, AXA Reim SGR and Eni Servizi.

Revenue was Euro 19.1 million for the year ended December 31, 2014, up from Euro 15.2 million in 2013. The increase was chiefly due to the global service new contracts for the real estate complexes in Scarmagno (TO) and Ivrea, property compliance work and project management activity.

Operating profit was Euro 2.5 million, up from Euro 0.8 million in 2013.

In 2014 the Company signed new long-term contracts with clients such as A2A (in a temporary consortium with Reag), Enel Energia, Eniservizi and the Unicredit Group.

During the year it also assisted various clients with the process of disposing of and/or maximising the values of their properties (e.g., D'Amico Group, Ruscalla Group and Novartis).

The Company also participated, directly or in consortia with other companies, in the following tenders, the outcomes of which have yet to be announced:

- Modena Area Autogrill Tender;
- Hypo Alpe Adria Bank Tender;
- tender concerning the management of restricted properties in the municipality of Rome.

In this latter tender, the temporary consortium (51% share for the Company and 49% for Gestione Integrata, a member of the STI Group) came in first place in the rankings. The services requested relate to surveying and providing administrative and accounting management for approximately 45,000 public residential assets, of which 28,000 homes and 17,000 appurtenances (garages, parking spaces, cellars, attics, etc.) under a two-year contract.

In 2014 Prelios Integra was also awarded the contract to provide property management services to the PAI fund and Primo RE fund, both managed by Prelios SGR.

Finally, on December 11, 2014 the Competition and Market Supervisory Authority ("AGCM") assigned the Company a "Legality Rating" with a score of two stars++. This score may be considered an excellent result, given that the rating ranges from a minimum of 1 to a maximum of 3 stars, and is in addition to previous certification, such as SOA certification, renewal of the ISO9001:2008 Quality certification, BS OHSAS 18001 certification of the workplace health and safety management system, ISO 14001 certification for the environmental management system and SA 8000 certification for social responsibility.

Investment Activities

Net income from Investment Activities, geared towards disposal, continued to be affected by the stagnation of the Italian real estate market. The investments held by Prelios through its investments in funds and companies holding portfolios of real estate and non-performing loans are also often subject to the determinations of the majority partners.

The operating loss in 2014 was Euro 6.9 million, compared with a loss of Euro 26.5 million in 2013.

The market environment remains fragile, with few transactions and falling prices, preventing coverage of operating and financial costs by investment companies. Therefore, despite lower costs than in 2013, net income from Investment Activities remains negative.

Property sales in 2014 (considering the properties of associates, joint ventures and funds in which the Group has an interest on a 100% basis) amounted to Euro 375.6 million[44] (Euro 44.0 million[45] in 2013), of which Euro 291.5 million was associated with the sale of the residual portfolio of Olinda - Fondo Shops, a listed real estate investment fund.

On the whole, property transactions were undertaken at levels essentially in line with their book value, on a par with 2013.

Total rents[46] were Euro 112.0 million (Euro 124.2 million for the year ended December 31, 2013).

7.2. Real Estate Germany

The Germany Real Estate business (Management Platform and Investment Activities) reported an EBIT of Euro 5.9 million in 2014, unchanged compared to 2013.

Management Platform

Germany	December 31, 2014	December 31, 2013
Revenue (millions of euro)	15.1	17.9
Operating profit/(loss) (millions of euro)	3.3	5.3
ROS	22%	30%
Floor area managed (in millions of m^2) (*)	approx. 1.0	approx. 1.0
Number of rental units managed (*)	72	83
Co-Invested and Third-Party Real Estate Assets (**)	1.1	1.4
Number of employees	83	82

(*) Not including units/floor areas relating to car parks.
(**) Market value in billions of euro on a 100% basis.

Revenue fell from Euro 17.9 million in 2013 to Euro 15.1 million in 2014. The decrease was primarily due to the reduction of management fees for the Highstreet portfolio due to the sales primarily transacted in 2013, entailing a reduction of the volumes managed and thus of the fees generated in 2014.

Operating profit for the service platform only was Euro 3.3 million for the year ended December 31, 2014, down from Euro 5.3 million in 2013, primarily due to the reduction in revenue mentioned above.

Investment Activities

EBIT was Euro 2.6 million during the year ended December 31, 2014, up from Euro 0.6 million in 2013.

[44] Including Euro 74.6 million attributable to funds or vehicles declared to be in stop loss.
[45] Including Euro 16.4 million attributable to funds or vehicles declared to be in stop loss.
[46] The value is determined by adding the rents collected by consolidated investment companies to the rents of associates, joint ventures and funds in which the Group holds an interest.

The property sales completed in 2014 (considering the properties of associates, joint ventures and funds in which the Group holds an interest on a 100% basis) amounted to Euro 448.9 million, compared to Euro 2,195.9 million in 2013, of which Euro 917.0 million related to the aforementioned sale of the DGAG German residential portfolio to BUWOG, part of the Immofinanz Group. Sales in 2014 included the disposal of the German residential portfolio known as *Small Deal*, the sale of land in Düsseldorf, and the sale of a property complex known as Harburg Carrée in Hamburg, housing retail space, offices and residential units. The Prelios Deutschland Group signed a property management contract for this complex with its new owner, Erste Immobilien, and thus continued to manage rental services and the internal parking area.

For the Highstreet portfolio, in which Prelios holds a 12.08% interest indirectly, through Sigma RE B.V., sales amounted to approximately Euro 302.6 million, with the most significant relating to two commercial-use buildings located in Bremen and Düsseldorf.

In 2014 property transactions took place at values slightly above book value.

Total rents were Euro 95.4 million, compared with Euro 167.7 million in 2013.

7.3. Real Estate Poland

The Poland Real Estate business (Management Platform and Investment Activities) reported a positive EBIT of Euro 17.3 million for the year ended December 31, 2014, compared with a negative value of Euro 5.3 million in 2013.

<u>Management Platform</u>

Poland	**December 31, 2014**	**December 31, 2013**
Revenue (millions of euro)	0.3	0.5
EBIT before impairment	(0.4)	(0.5)
Management platform impairment	-	(3.3)
Operating profit/(loss) (millions of euro)	(0.4)	(3.8)
Floor area managed (in millions of m^2) (*)	0.3	0.4
Co-Invested and Third-Party Real Estate Assets (**)	56.0	approx. 60
Number of employees	8	13

(*) The figure refers to the Lucchini site managed by the company Bielany Project Management, 40% owned by Prelios S.p.A.

(**) Market value expressed in billions of euro on a 100% basis. The Poland area refers to the sole investment held directly and indirectly by the Company through the investee Polish II and represents the property component underlying that investment only (a plot of land located in the Bielany district of Warsaw). Please note that, with regard to the cash held by the investee Polish II, the total carrying value for the period (equity investment plus shareholders' loan) would be approximately Euro 42 million at market value.

The Management Platform's EBIT was a negative Euro 0.4 million, up slightly compared to 2013.

<u>Investment Activities</u>

Operating profit was Euro 18.4 million, compared to a loss of Euro 1.5 million in 2013.

Property sales in 2014 (considering the properties of associates, joint ventures and funds in which the Group holds an interest on a 100% basis) amounted to Euro 53.2 million, attributable to the sale of a significant plot of land by the Polish investee. On October 30, 2014, the Polish company Investment Real Estate Holding II BV, 40% owned by Prelios and 60% by RGI Resipol BV, sold its interest in Berea Sp.Zoo., owner of a plot of land in Warsaw of approximately 55,000 square metres zoned for primarily retail use, with buildable potential of approximately 67,000 square metres, with a positive impact on book values.

7.4. Non-performing loans

The non-performing loan business (Management Platform and Investment Activities) reported an operating loss of Euro 7.4 million during the year ended December 31, 2014, compared with a loss of Euro 16.5 million in 2013. The operating loss includes the negative effect of the impairment of the NPL portfolio of Euro 6.3 million (a negative effect of Euro 17.0 million in 2013).

Management Platform

NPL	December 31, 2014	December 31, 2013
Revenue (millions of euro)	7.7	8.5
EBIT before impairment	(1.4)	(3.2)
Management platform impairment	-	(1.0)
Operating profit/(loss) (millions of euro)	(1.4)	(4.2)
Receipts (millions of euro)	44.4	94.0
Gross book value (billions of euro)	8.7	8.5
Number of NPL managed	over 75,000	over 75,000
Number of employees	60	75

Prelios Credit Servicing (PRECS) is one of the main players in the field of managing and optimising non-performing loans and operates as a financial intermediary pursuant to Art. 107 of the Consolidated Banking Act.

PRECS currently manages a portfolio of non-performing loans with a gross book value of Euro 8.7 billion.

The Company appraises portfolios of NPLs and has participated in many rounds of due diligence on the purchase of significant loan portfolios by Italian and international investors of high standing, with which it has formed commercial partnerships.

In particular, in 2014 PRECS participated in two sales on the Italian market: one was withdrawn by the seller, and the other was won by the company along with the investor Fortress, with which a cooperation agreement was signed for a long-term partnership.

The Company also acts as advisor for the securitisation of NPL portfolios and the sale of packages of loans on behalf of the financial institutions that own the loans.

Through a subsidiary, PRECS also provides consultancy and coordination services for the disposal of properties owned by leading financial institutions. Such consulting and coordination services are also provided to banks, for the recovery of mortgage loans out of court, through the disposal of the borrowers' real estate assets.

In offering the services described above, the Company acts through a highly specialised organisation that combines financial, real estate and legal skills and guarantees coverage of all of Italy through external networks of lawyers and real estate professionals.

Since, as mentioned above, the company is registered in the special list of financial intermediaries pursuant to Art. 107 of the Consolidated Banking Act, it provides master servicing services, such as collection and payment management, review of transaction compliance with the law and securitisation contracts, monitoring and periodic reporting for investors and the Bank of Italy and reports to the Risks Database.

Generally, when the Company acts as master servicer, it also assumes responsibility for managing administrative, tax and corporate matters for the securitisation vehicle (corporate servicing).

Finally, Prelios Credit Servicing can act as calculation agent, note holder representative and portfolio manager.

Revenue was Euro 7.7 million in 2014, down slightly from Euro 8.5 million in the previous year. However, this reduction is not significant in light of the consensual signing of special servicing contracts for significant portfolios (AUM of approximately Euro 4 billion) in 2013 and 2014 following the disposal of its interest in PRECS by DGAD International S.à.r.l., the main investor in the vehicles that are parties to the contracts.

Turnover for the period, during which the component generated by the existing portfolios declined, benefited from certain components of non-recurring revenue and the acquisition of new contracts.

The operating loss was Euro 1.4 million in 2014, compared to an operating loss of Euro 4.2 million in 2013, a figure that included the effect of the impairment of the Management Platform of Euro 1.0 million.

The improvement may also be attributed to containment of costs through the restructuring plan completed at the end of the previous year, which entailed a savings of approximately Euro 2.4 million on personnel costs alone, in addition to a reduction of structure costs.

Debt recovery activity, in the primary channels used - in court, out of court and sales of small and medium size packages - showed a slight reversal of the previous trend during the period. In this particular context, the Company's results outperformed its expectations on the revenue side, with a concurrent significant improvement in cost management compared to projections. Collections during the reporting period on behalf of clients amounted to approximately Euro 44 million compared to Euro 94.0 million in 2013: the difference essentially reflects the different number of portfolios managed.

As master servicer, the Company is rated by two agencies, Standard & Poor's and Fitch, which in 2014 continued to express positive judgements, namely above average and RSS2/CSS2, respectively.

In its future development, the Company will continue its policy of developing extra-captive business while focusing on the following main areas:

- maximising management of the existing portfolio to consolidate commercial relationships with current clients and investors and work together to seize new business opportunities;

- fully implementing the extraordinary transaction, currently in the conclusive phase, that is to allow PRECS to provide special servicing, advisory and real estate services to the company that manages the NPLs and one of Italy's foremost banks;
- scouting for new opportunities to collaborate with the Italian banking market, which on several occasions has shown an interest in outsourcing management of NPLs and identifying sub-portfolios of NPLs to be sold or securitised;
- developing partnerships with local and international investors to propose purchases of portfolios and working together to identify the best transaction structure (securitisation, real estate funds, REoCO, etc.);
- providing advice concerning complex transactions (e.g., large corporate NPLs, bankruptcies, and compositions with creditors) in which the skills offered by PRECS are fundamental to identifying the best resolution strategy in the shortest possible time;
- expansion of master servicing, corporate, portfolio management, calculation and computation agent services.

On the cost side, the Company will finalise the containment policy launched in 2014, and in particular it will continue to aim for an improvement of its mix of variable and fixed costs through:

- limited growth of its organisation, despite the strong development of the business, through recourse to external partners and the assumption of only resources to be dedicated to coordinating such individuals;
- efficiency gains through resource to Group companies focused on specific activities (e.g., IT, technical consulting, etc.);
- new IT investments to bring the Company's core system into line with the development of the open market strategy and new legislation.

<u>Investment Activities</u>

The loss on the valuation of the NPL portfolio refers to the impairment of a junior security held by the parent company, related to a loan portfolio in a joint venture with Morgan Stanley, attributable to the modification of the estimate of expected cash flows, which generated an adjustment of the value resulting from the discounting of future cash flows of Euro 6.3 million.

8. RISKS AND UNCERTAINTY

Despite the difficult macroeconomic scenario and the expectation of additional losses and negative cash flow in the three-year period, the directors prepared the financial statements on a going concern basis due to the assumptions and findings discussed in the paragraph "Measures taken to revitalise operations, ensure the company can continue as a going concern and results achieved" and in the paragraph of the notes "Adoption of the going concern assumption in preparing the financial statements".

In 2014 the Board of Directors decided to revise its risk management according to an enterprise risk management (ERM) model in order to bring it into line with recent Italian and international best practices. The project was developed in accordance with the recommendations of the Borsa Italia Governance Code for Listed Companies, which the Group has adopted.

The new approach views risk management as a top-down process led by the board of directors and top management, and provides the board of directors with an organic tool on which to rely in understanding and assessing the risk profile assumed in pursuing the strategy identified and provides management with a tool for expressing and assessing the risk factors inherent in company decisions in support of the enhancement of the Group's decision-making processes and forecasting ability.

The new risk management model was set up and implemented in the following stages:

- design of the new risk governance model, with the introduction of the figure of the risk officer, charged with acting as facilitator and providing methodological support, coordination and reporting of the ERM process. identification of methods of coordination with other existing control functions. introduction of the Managerial Risks Committee, consisting of the Group's top management, tasked with: (i) supporting the director in charge in the performance of his or her duties to design, implement and manage the risk system; (ii) promoting a structured process to identify and measure risks; (iii) examining information about risks to which the Group is exposed; (iv) discussing and corroborating strategies to respond to risk as a function of overall exposure and assigning the related responsibilities for doing so; and (v) monitoring the actual implementation of strategies to respond to and overall manage risk;
- developing the ERM method in terms of identifying areas of risk (Group risk model) and evaluation scales. The Group has identified five main areas of risk:
    - external context risks: these derive from external situations that may have an impact on the Group's performance and its ability to achieve its objectives, such as macroeconomic performance, the situation of the financial markets, business sector and competitive environment and legal and regulatory developments;
    - strategic risks: these depend on internal and external factors that have an impact on strategic investment or disinvestment decisions, the business portfolio, dealings with partners and key clients and the organisational and governance structure;

  - financial risks: these are tied to the company's ability to manage its financial needs and the related costs, typically interest and exchange rates, liquidity and loan covenant risks, credit risks and the level of equity;
  - legal and compliance risks: these are tied to the company's ability to apply rules and procedures, for example risks of non-compliance with laws and regulations, codes of ethics and internal procedures, risks of external and internal fraud, legal and tax disputes;
  - operating risks: these are tied to the ability to manage internal processes effectively and efficiently. These risks relate to prices, suppliers, quality, information technology, personnel, management reporting, budget and planning processes, environmental risks and workplace safety.
- analysis of the assumptions, targets and initiatives envisaged in the 2014-2016 strategic plan, broken down by Management Platform and Investment Activities;
- working with the company's management to identify the main risks that may influence the achievement of plan targets;
- measuring the impacts of major risks on key plan metrics, cash flow, equity and EBIT, and determining the degree of variability of the expected results;
- identifying the risk management strategies for the major risks and developing specific mitigation plans to reduce risk levels in terms of both impact and probability.

The risk management process has identified a series of risks, classified below according to the Group Risk Model described above.

8.1. EXTERNAL CONTEXT RISKS

8.1.1. Risks related to the concentration of business activities in Italy, Germany and Poland

The Prelios Group mainly carries out its business activities on the Italian and German markets, and to a lesser extent, the Polish market. In this respect, the activities mainly involve initiatives with income-producing real estate assets held by real estate funds and special purpose vehicles in which Prelios and Group companies hold qualified minority interests, and investments in assets which are primarily trading assets. Profits from these initiatives could be negatively influenced by a worsening of the economic cycles of those countries.

8.1.2. Risks associated with write-downs of the Group's real estate assets

Despite the property write-downs previously made by the Group, it is possible that the real estate market may continue to show signs of weakness or other negative events which would affect the real estate portfolios held by the Prelios Group (such as a fall in sale prices, a slowdown in sales, further deterioration of the reference market conditions or a reduction in rental income), leading to a reduction in the market value of the Group's real estate assets, with resulting negative effects on the balance sheet, income statement and financial position of the Group.

Furthermore, since the Prelios investment strategy is based on holding qualified minority interests – so it does not have exclusive control over the various investment strategies – the strategies chosen and operating decisions made could have a negative impact on the balance sheet, income statement and financial position of the Group since they are influenced by the partners.

In addition, the conditions of sale of real estate investments may be affected by the strategic objectives expressed in the 2014-2016 Plan, as described above, which involves other variables, along with and in addition to maximising economic variables.

In addition to the above, it must be noted that the value of the real estate assets owned by the companies in which the Group holds qualified minority interests is relevant for the purposes of the financial covenants in the loan agreements to which said companies are party. Failure to comply with these financial covenants could entitle the Lending Banks to demand early repayment of the debt by the companies, which may not have sufficient liquidity, and then proceed to the liquidation of their real estate assets quickly and at below-market values.

There may also be further write-downs on residual investments in non-performing loan portfolios, mainly due to further extensions in the time it takes to recover the receivables; this refers both to judicial recovery – where there is an increase in the number of auctions with no bidders – and cases of non-judicial recovery – where the lack of cash prevents amicable agreements from being reached, partly due to the difficulty in arranging new loans.

8.1.3. Tenant insolvency risks

The market crisis in general could have an impact on the ability of tenants to afford lease costs or could result in an increase in property vacancies. Tenants could in fact, due to the contraction of their activities, request a reduction in rent or decide – or be forced – to withdraw from their lease agreements. In addition to the foregoing, the current contingent scenario could lead to difficulties in paying rents, leading to late payments and/or outstanding payments, resulting in burdens for the property. Lastly, it should be noted that the macroeconomic scenario could constitute a deterrent for potential customers interested in leasing new spaces, thereby increasing the time it takes to find new tenants for vacant properties or to enter into new contracts.

8.2. STRATEGIC RISKS

8.2.1. Risk related to the negative performance of the Group's results

The ongoing financial crisis on financial markets in general, and the real estate sector in particular, has also had a negative influence on the results of Prelios over the past few years and supports the expectation of continuing losses during the plan period.

In response to this market scenario, Prelios has optimised the components of its business model and is currently implementing the measures envisaged in its 2014-2016 Business Plan. In the context of its 2015 Budget and its 2016-2017 Outlook it also identified and launched a series of new strategic projects that could further improve the Group's performance. If the industry crisis continues, it could also result in uncertainty in the coming years regarding the achievement of objectives, thereby weakening the Group's financial performance and financial position. The Company is also taking action to cover the expected losses during the plan period, which will entail a reduction of equity in the medium term.

8.2.2. Risks associated with the failure to implement the 2014-2016 Business Plan

The Company approved its 2014-2016 Business Plan on June 12, 2014. The plan will be updated in the coming months in light of the 2015 Budget and 2016-2017 Outlook approved on March 10, 2015. The Company applied realistic assumptions, taking into account the difficulty of making predictions in the current economic and financial climate, for example by ruling out future crises affecting the financial markets or an accumulation of the factors that led to the current deterioration in the general reference scenario and the real estate market in particular.

With respect to the Management Platform (asset and fund management, property and project management, agency, valuations and credit servicing), full implementation of the new market-oriented business model, which requires new skills and know-how, remains the fundamental prerequisite for achieving the strategy laid down in the Three-Year Plan of gradually reducing captive business and increasing turnover from third party customers.

The Investment division has planned a gradual disposal of its property portfolio. Implementation of the disinvestment plan may be compromised by the quality of the properties to be sold, the inadequacy of offering prices, or the lack of access to credit by potential buyers.

The Company believes that the planning laid down in the 2014-2016 Business Plan and then the 2015 Budget and the 2016-2017 Outlook, while continuing to project losses over the three-year period, with the resulting decline in equity and negative cash flow that will not result in a deficit during the plan period but will nonetheless contribute to a continuing situation of financial tension, is challenging, yet practical and feasible, on the basis of a series of realistic assumptions that will naturally require constant, thorough review.

The Directors believe that the measures identified are an adequate response to the potential significant going concern uncertainty and that the Group may continue as a going concern, with access to the cash required to meet its short- and medium-term cash needs, within limits sustainable for the Group.

8.2.3. Tenant concentration risk

Any default by tenants would have an adverse effect on the income statement, balance sheet and financial position of the initiatives in which Prelios holds an interest, and therefore the results of the Prelios Group, particularly in view of the fact that rental income is (i) the main source of cash to pay the interest payable under the various loan agreements and (ii) one of the main guarantees issued in favour of the Lending Banks of the real estate funds and the initiatives in which the Group holds an interest.

With regard to the valuation of the real estate portfolio, with particular reference to the rental income in large part received from companies accounted for by the equity method (mainly for real estate classified as investment property), given the existence of binding long-term agreements, there is, except in special cases where a tenant has financial difficulties, a limited risk of a significant rise in the vacancy rate in the near future.

Karstadt, historical tenant in the Highstreet portfolio (Prelios share of 12%), is currently experiencing a situation of financial tension: in the second half of 2014, the crisis resulted in a change of ownership of the operating company, from Berggrün to Benko/Signa. This financial tension could lead to non-payment of rentals and/or vacant buildings, with an impact on the selling price of these and on the timing of the disposal plan provided for in the Business Plan. In the worst case scenario of a default by Karstadt, Highstreet would need to seek new tenants. As a consequence, the assets in the portfolio could become impaired. In addition, since Prelios Deutschland provides real estate services to Highstreet, any liquidity issues could also lead to non-payment of services by Karstadt.

8.2.4. Risks related to governance issues associated with participation in investment initiatives with qualified minority interests

Corporate vehicles in which Prelios holds minority interests could experience governance issues in the event of mismatching objectives and/or disputes among their investors. Possible disputes could entail limitations, including to a significant degree, for investment vehicles in performing activities and for the Company in pursuing its objectives, with negative repercussions for its income statement, balance sheet and financial position.

The Company has entered into shareholders' agreements with the other shareholders of special purpose vehicles used to make the various investments in order to control their corporate governance. Although mechanisms are in place (such as reciprocal put and/or call options) for resolving possible disputes between parties to such shareholders' agreements, including disputes relating to management or situations of decision-making impasse, it is still possible that (i) the occurrence of such events may entail limitations, including limitations of a significant degree, for investment vehicles in conducting their businesses and for the Company in pursuing its investment objectives and (ii) existing shareholders' agreements may not govern all possible disputes that may arise between partners in the context of the various initiatives, with the consequence that a failure by the investors to reach an agreement may result in complex disputes of an international nature, the outcome of which is uncertain, due to the very nature of a dispute.

The assessment will take account of the large number of the company's minority investments and the effects of the deterioration of relationships with investors due in part to the challenging economic scenario: compromise of financial support for ongoing initiatives and the implementation of the Group's strategies, with repercussions for its income statement, balance sheet, financial position and reputation.

In addition, some companies belonging to the Prelios Group provide a series of services to the initiatives in which the investments are made (asset management, property and project management, agency, etc.).

As a result, negative events affecting such initiatives would have adverse effects on the Group's balance sheet, income statement and financial position, essentially with regard to: (i) its own interest in the initiative in question; (ii) the value of the same; (iii) the possibility of obtaining repayment of receivables from shareholder loans plus interest; (iv) payment of the trade receivables accrued for services rendered (which in some cases were the object of subordination to the fulfilment of other liabilities of the customer companies); (v) income from investments; and (vi) possible reductions in revenue from special real estate services, particularly following the failure to renew management mandates following the investment exit strategy.

8.2.5. Risks of additional costs during the unwinding of investment vehicles

The strategy of disposing of real estate assets is to involve the dissolution of the remaining corporate structures, now without content, in order to reduce the administrative expenses associated with such vehicles.

The unwinding and liquidation process could entail addition costs for possible advice and/or unforeseen matters (relating to taxes, legal issues or contracts with third parties), considering the large number of transactions in which such vehicles have been involved over the years.

The most complex investment structures currently being unwound are DGAG and Mistral.

Valuation is conducted on a qualitative basis and takes account of the large number of companies being liquidated and the complexity of the matters to be handled, owing in part to locations in multiple countries.

These factors could have negative repercussions on the balance sheet, income statement and financial position of the Group.

8.3. FINANCIAL RISKS

8.3.1. Risks related to the Group's financial structure

The Group is exposed to certain financial risks, mainly related to raising the necessary finance, the sustainability of borrowing in terms of honouring repayment commitments, the ability of its customers to meet their obligations towards the Group and the possibility of having the necessary resources available to finance the development of the business.

Financial risk management is an essential part of the activity of the Prelios Group. The Group's financial risk management policies are aimed at the mitigation of exposure to interest rates of vehicles and funds in which the Group holds an interest, also implemented through the use of selected derivative instruments.

As described above, according to management's projections, it has been deemed reasonable to assume in the 2015 Budget and 2016-2017 Outlook that the Group will maintain financial equilibrium and a sustainable level of debt (despite net cash outflows), since the transactions reflected in company plans are regarded as feasible, given the current state of implementation, and such transactions are essential to achieving the established cash-generating objectives.

The guidelines for managing said financial risks are defined by the Administration, Finance and Control department. The risk management policies are aimed at confirming to 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 could use derivatives in relation to the underlying financial assets or liabilities or future transactions.

Financial risks are managed centrally by the Administration, Finance and Control department, which has the task of assessing risks and proposing any hedging strategies and arranging hedges shared with Group management. The Administration, Finance and Control department operates directly on the market, coordinates the activities of subsidiaries and monitors those of associates and joint ventures on a quarterly basis, in order to propose the appropriate decision-making tools to the boards of directors of managed initiatives.

8.3.2. Risks related to financial debt

The 2014-2016 Business Plan envisages cash needs for the Group that were not sustainable without the planned initiatives and corrective measures to established commitments, which required the willingness of the Company's main lenders and shareholders to support it.

In particular, during the period the Company obtained (i) a waiver of some aspects of the financing agreements, i.e., aspects relating to the timing/conditions of payment of the cash flows that derive from the sale of the co-investment operations (inversion of the 65%-35% repayment mechanism for the senior debt) and, as mentioned above, (ii) the other corrective measures indicated, as identified in detail in the 2014-2016 Business Plan, sufficient to ensure that the Group's ability to generate cash flows from its overall operations is adequate in terms of amounts and timing.

In consideration of the findings of the 2015 Budget and 2016-2017 Outlook at the level of the income statement and balance sheet and the sustainability of the Parent Company's debt, in light of the aforementioned significant improvement of its cash profile, the real component of which is estimated at approximately Euro 10 million, and the temporary component of which at approximately Euro 19 million, the Directors of Prelios consider it reasonable to believe that the Group will be able to meet its estimated cash needs and thus to continue as a going concern.

8.3.3. Risks related to interest rate fluctuations

The Group's policy is to seek to maintain a correct ratio between fixed-rate and floating-rate debt through the use of hedging instruments.

In addition, there is no substantial likelihood of the risk of interest rate fluctuations on the financial debt which is the subject of the Restructuring Agreement.

This stems from the fact that the Restructuring Agreement provides for the conversion of the debt from floating rate to fixed rate. The risk of interest rate fluctuations is therefore limited to the share of the Senior Loan to which, from January 1, 2017 and until the expiry date (December 31, 2018), an interest rate will be applied equal to the Euribor plus a spread on a yearly basis, to be defined in good faith between the parent company and the Lending Banks.

It should be noted that a pro-rata share of approximately 32% of the total debt (bank and non-bank) of vehicles in which Prelios holds an interest is protected from interest rate fluctuations above a certain level either through fixed-rate loans or through recourse to hedging derivatives.

8.3.4. 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 multi-year financial plans and treasury plans, to allow for the comprehensive and accurate recognition and measurement of cash inflows and outflows. These plans are heavily influenced by the implementation of sales plans in accordance with the timescales and amounts contained in the forecasts made, in correlation with the repayment plans for borrowing raised to support investments. The differences between the plans and final figures are constantly monitored for the purpose of adopting all necessary remedies as soon as these may be required.

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

For years the Group has had a centralised system for the management of payment and collection flows in accordance with the various local currency and tax regulations. Banking transactions are negotiated and managed centrally in order to ensure that short- and medium-term financial needs are met as cheaply as possible. The raising of medium-/long-term funding on the capital market is also optimised through centralised management.

Similarly, the Group has implemented a system to monitor risks linked to the recourse guarantees issued to initiatives in which an interest is held, which allows the management to acquire the necessary information to undertake the actions required.

For the Group, the current competitive and financial context, characterised by continuous pressure on the values of real estate assets, the credit crunch and the slowdown in purchases/sales, means a significant increase in the risks connected with maintaining adequate cash flows, needed to cover its financial requirements.

Liquidity risk, which is monitored constantly, is also closely related to the Company's requirements and is assessed partly in relation to the aforementioned initiatives, designed to bring about the Company's recovery and to enable it to continue as a going concern. Please refer to the foregoing sections concerning estimated cash needs and the corrective measures being taken to meet those needs.

8.3.5. Credit risk

The credit risk is the Group's exposure to potential losses deriving from the failure to fulfil the commercial and financial obligations taken on by the counterparties.

The service companies claim accounts receivable from funds and vehicles experiencing financial tension due to the sharp decline in transactions on the Italian real estate market. If the situation of financial tension of the funds and vehicles were to persist, such accounts receivable would risk becoming uncollectible, at least in part, and thus becoming impaired.

In order to limit such a risk, the Group constantly monitors the positions of individual customers and analyses projected and actual cash flows in order to take immediate recovery actions where necessary.

With regard to the financial counterparties for the management of resources that are temporarily in excess or for negotiating derivative instruments, the Group only uses brokers with high credit standings.

8.4. LEGAL AND COMPLIANCE RISKS

8.4.1. Legal risks linked to civil and administrative disputes

The situations in which Prelios Group companies are parties in legal proceedings (civil and administrative), some of which emerged only in the last few months, mainly concern:

- disputes relating to the purchase and sale of properties (e.g. non-compliance with pre-emptive rights, breaches of contract and/or defects affecting properties sold);
- disputes in connection with the management services provided to tenants, customers and suppliers.

In terms of the risk management strategy, it is important to note (i) the continuous management and monitoring of litigation, with the assistance of external legal advisors, and (ii) the assessment of the level of risk and possible determination of provisions made through internal analysis, conducted according to advice from the Company's external legal counsel. It is believed that the existing disputes may be settled in the Group's favour, and in any case, in accordance with the evaluations made and within the range of the estimates covered by the risk provision mentioned above for the parties involved in these disputes.

That said, considering the uncertainty of legal proceedings and disputes, there may be a risk that the disputes will be resolved differently to what has been hypothesised, with possible negative consequences on the economic and financial position of the Prelios Group.

The legal risks to which the Group is exposed include the following:

- Polish Investment Real Estate Holding II B.V., a Dutch company in which Prelios S.p.A. holds a qualified minority interest as a joint venture with investment funds belonging to Grove, and which holds the entire share capital of Coimpex Sp.Zo.o. directly and Berea, which in turn owns land currently undergoing development in Warsaw, directly and through vehicles. In 2009 Relco was merged into Coimpex. As part of the merger, land subject to perpetual usufruct in favour of Relco was transferred to Coimpex. However, some of this land was designated to forestry and agricultural use at the time and the transfer needed the consent of the Polish Ministry of the Interior.

  This consent was not applied for; in the meantime the land has been developed and is now used for offices. Coimpex is preparing a motion to be presented to the competent ministry to request ex-post consent for the transfer. The risk consists of the possible withdrawal of the perpetual usufruct currently belonging to Coimpex. Grove, which is a partner in the initiative alongside Prelios, could find that the absence of an application for consent was caused by negligence on the part of the subsidiary Prelios Polska Sp.Zo.o., which at the time of the events provided asset management services to the companies involved in the merger.
- By writ of summons served in 2010, Pieffe Re One S.r.l. sued Orione Immobiliare Prima S.p.A. before the Court of Naples, seeking damages in connection with alleged partial non-compliance of a property in Naples that Pieffe Re One S.r.l. had purchased from Orione Immobiliare Prima S.p.A. in 2006 for Euro 21 million. The claim was assessed by Prelios' legal counsel as possible with respect to the damages of Euro 6

million by way of reduction of the price of sale and possible/remote in connection with the damages of Euro 8 million due to lost profits and Euro 1.7 million for consequential damages. The recovery action against the SAIM shareholders (the predecessors in title of Orione Immobiliare Prima S.p.A.) seeking Euro 0.6 million was also deemed possible.

- By writ of summons served in 2008 Solido Trading S.r.l. sued Centrale Immobiliare S.r.l. seeking recognition of its right to a reduction of the price of sale of Palazzo Leonetti in Caserta and compensation for damages of Euro 5 million, in addition to interest and adjustment for inflation, due to the failure by Centrale Immobiliare to give notice of encumbrances on Palazzo Leonetti in Caserta purchased from Solido in 2005. The claim was assessed as possible by Prelios' legal counsel. Recovery action against UniCredit (the predecessor in title of Centrale Immobilare S.r.l.) and the notary that notarised the deed of purchase was also deemed possible.

In addition to the ongoing or potential disputes described above, it will be appropriate to disclose other disputes that they Group believes present lesser risk, given the impact or likelihood of occurrence of the negative event.

- The first such dispute relates to the initiative concerning the consortium G6 Advisor, which carries out management activities in relation to the divestment of certain securitised real estate portfolios, in which the subsidiary Prelios Agency S.p.A. has a 42.3% stake. The legal status of the consortium effectively involves a joint liability for all consortium members; if the consortium should lose the proceedings, the consortium members could be held directly liable on behalf of the consortium if the consortium fund is not sufficient to meet the obligations of the consortium itself. The total claim of the disputes in which the consortium is a party is Euro 25 million.
- Arbitration has also been initiated by the company CILE S.p.A. against Prelios S.p.A. for an alleged breach by the latter of procurement contracts. Although the litigation is at a preliminary stage, the claim is for approximately Euro 1.5 million. In this context Prelios S.p.A., not considering the risk of liabilities probable, plans to challenge the claims made by the other party in the arbitration.
- In February 2005, Prelios and Group companies, namely Prelios Property & Project Management, Prelios Agency and Prelios Credit Servicing, signed a contract with Capitalia (now UniCredit) and several companies belonging to the group of the same name under which Prelios – either directly or through Group companies – committed to providing Capitalia with certain services relating to the purchase, management and sale of certain properties, the subject of enforcement proceedings for the recovery of debts owed to Capitalia, in order to assist the latter with credit protection by safeguarding and realising real estate assets.
- In January 2011, UniCredit withdrew from the contract, demanding the return of all documents in the possession of the Prelios Group. This was followed by the withdrawal of other companies in the UniCredit Group.

  In 2011, after the contract was terminated, UniCredit sent Prelios three letters in which it challenged the work done by the Company and other Group companies (in this case

Prelios Property & Project Management) as part of the asset management activities. In September 2011, the documents regarding the properties covered by the contract were returned.

On December 14, 2012, UniCredit quantified the alleged damages as Euro 82 million with a formal claim for compensation.

The Company denied outright the claims for compensation made by UniCredit, at the same time seeking payment of Euro 560 thousand for services rendered by Prelios Property & Project Management and not paid for.

Prelios contested the claim for compensation, not only in relation to this amount, deemed unfounded, but also on the grounds that the claim was received late, when the contract had ceased to be effective as a result of the termination.

In 2014, the meetings between the parties that began in 2013 continued to be held to examine their respective arguments and study possible amicable solutions to the dispute; the possibility emerged that the claim was only partially late, although this is yet to be verified, particularly in terms of calculating any related compensation. In any event, at December 31, 2014 it was deemed prudent to revise the provision for risks recognised following ongoing contact with the counterparty.

In the case of Prelios Deutschland ("Prelios DE"), a fully-owned subsidiary of Prelios, following possible breach of property management contracts dating back to 2008, it was deemed prudent to recognise a suitable provision for risks in the financial statements for the year ended December 31, 2014.

8.4.2. Tax risks

At the date of approval of this interim financial report, the tax litigation between the Italian tax authorities and Prelios S.p.A. (the "Company") and some of its subsidiaries was still pending, representing a total of around Euro 2.2 million in taxes (excluding penalties and interest).

The tax litigation mainly refers to the following aspects subject to litigation before the Tax Commissions:

- charge of higher income and non-recognition of costs for IRES and IRAP purposes;
- application of the arm's length principle on property purchases and sales;
- other disputes relating to register and other local taxes.

The Company, based on advice from its advisors, all recognised leading professionals, and from the information currently in its possession, believes that the positions challenged can be settled without a significant impact on the financial statements for the entities involved in these disputes.

* * *

In the interests of completeness, it is pointed out that, in terms of the companies in which Prelios S.p.A. or its subsidiaries have invested with qualified minority interests with third-party investors (associates and joint ventures), the total amount disputed by the Italian tax authorities amounts to approximately Euro 30 million in taxes (excluding penalties and interest).

The most significant situations are as follows:

(a) Iniziative Immobiliari S.r.l. in liquidation, in which Prelios holds 49.46% of the share capital.

In 2008, the company underwent a tax inspection for the 2004-2008 tax years, which resulted in a notice of assessment being issued whereby the Guardia di Finanza criticised the merger transaction involving Iniziative Immobiliari S.r.l. in 2003 for tax evasion.

The irregularity alleged by the Guardia di Finanza was reflected in four notices of assessment, imposing greater taxes (IRES and IRAP) for the years 2004 to 2006 of Euro 17.2 million (in addition to penalties equal to 100% of taxes and interest).

Both the Provincial Tax Commission and the Regional Tax Commission found in the company's favour in the disputes relating to the 2004-2006 notices of assessment (joined in first instance). The Italian Revenue Agency appealed against this decision before the Supreme Court. In April 2013 the company filed its counter appeal. At present, a date has not been set for the hearing for the dispute at the Supreme Court.

(b) Social & Public Initiatives fund (managed by Prelios SGR), in which Prelios S.p.A. indirectly holds a 35% stake.

On May 10, 2013 the Italian Revenue Agency served Prelios SGR with a payment notice for tax relating to several contributions to the real estate investment fun Social & Public Initiatives undertaken in 2008. The foregoing transactions were reclassified as property sales and as such were subject to proportional registration tax (in addition to proportional mortgage and land registry tax).

On this basis, the Italian Revenue Agency requested the payment of additional tax of approximately Euro 5.2 million (plus penalties equal to 120% of the taxes, plus interest).

On June 12, 2013, the Italian Revenue Agency sent Prelios SGR a payment notice for a further contribution to the same real estate fund. Additional taxes have been paid of approximately Euro 2 million (plus penalties equal to 120% of the taxes, plus interest).

The amount of the aforementioned payment notices is Euro 7.2 million (plus penalties equal to 120% of the taxes, plus interest).

Following these notices, Prelios SGR, for and on behalf of the fund, filed an appeal with the Provincial Tax Commission, which found in favour of Prelios SGR. The Italian Revenue Agency has appealed.

On March 21, 2014, Prelios SGR was sent a payment slip for Euro 20.1 million relating to the aforementioned payment notices. Prelios SGR appealed the payment slip and won.

* * *

In addition to the above, on January 24, 2013, an inspection was concluded which had been initiated by the Guardia di Finanza in May 2012 of several real estate investment funds managed by Prelios SGR and already the recipients of a tax code from the Italian Revenue Agency (namely 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 and Diomira fund, hereinafter referred to as the "Funds"). At the end of the inspection process, the Guardia di Finanza served nine inspection reports (hereinafter the "inspection reports").

In response to the inspection reports, Prelios SGR, acting as the manager of the funds, filed a review petition with the competent offices of the Italian Revenue Agency in 2013, seeking a waiver of all taxation of the aforementioned funds.

At the end of the above procedure, the Italian Revenue Agency notified Prelios SGR that it did not intend to proceed with formal notice of the tax claims resulting from the irregularities presented in the inspection reports.

* * *

In October 2011, the same Funds received notice of the allocation of a tax code by the Italian Revenue Agency. To protect the interests of the Funds, Prelios SGR has appealed in turn before the Tax Commission, the Supreme Court, the Lazio Regional Administrative Court and the Council of State. At a public hearing on July 11, 2013, the Regional Tax Commission disposed of the merits of the dispute, granting all pleas of Prelios SGR and ordering the annulment of the notice of allocation of a tax code to the nine Funds.

On March 17, 2014, appeals were filed with the Supreme Court by the Attorney General's Office on behalf of the Italian Revenue Agency against the decisions with which the Lombardy Regional Tax Commission had annulled the notice of allocation of a tax code to the Funds. Prelios SGR entered an appearance and lodged a specific counter-appeal with the Attorney General's Office within the allotted terms.
With the support of its advisors, Prelios GR believes that regardless of the outcome, the dispute pending before the Court of Cassation will not affect the decisions reached by the Italian Revenue Agency in response to the petitions for the internal review procedure.

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In relation to the Group's German companies, and in particular the joint ventures belonging to the Solaia Group, tax inspections are in progress on specific issues, most of which were analysed on acquisition of the portfolio, and are therefore covered by guarantees, relating in various capacities to the solvency of the original sellers.

8.5. OPERATING RISKS

8.5.1. Risks related to human resources

The Group is exposed to the risk of losing key resources, which could lead to greater difficulties in pursuing its objectives, resulting in a negative impact on future results. Such a risk is more significant, given the type of business of the Prelios Group – predominantly and increasingly centred on the management and provision of services according to the pure management company model – which bases a large part of its prospects for success on the quality, expertise and abilities of its human resources. In a scenario in which there are signs of a recovery in the labour market in the Group's segments of operation (due above all to the entry of several banking groups) and internal compensation levels vulnerable to competitors, the risk of losing key resources or resources with critical know-how is especially significant with respect to the following positions: portfolio managers, loan managers, asset managers and specialised technical experts.

In order to manage this risk, the Group adopts incentive systems consistent with the Company's remuneration policy and implements specific training procedures for individual development, with the resulting creation of back-up staff members for resources with critical know-how.

9. SUBSEQUENT EVENTS

- In February 2015, following agreements reached beginning in July 2014, Unicredit signed a long-term strategic agreement with the Fortress-Prelios consortium calling for:
  - the sale to affiliates of Fortress of the entire investment held by UniCredit in UniCredit Credit Management Bank S.p.A. ("UCCMB"), including the portfolio of non-performing loans with a gross value of approximately Euro 2.4 billion;
  - the main terms and conditions of a long-term strategic contract governing management of present and future small and medium-size non-performing loans.

  Fortress and Prelios agreed to collaborate as industrial partners in managing certain non-performing loans.

  The transaction, which is subject to regulatory authorisations and the standard conditions for this type of transaction, is expected to be completed in the second quarter of 2015.

  This agreement will contribute to rendering the Italian debt recovery servicing market more independent and represents a step forwards in the development of the industry, in line with other European countries.
- The investor London & Regional Properties, along with Prelios as the Italian asset manager, has formulated an offer to purchase the former Unicredit complex on Piazza Cordusio in Milan. A response to the offer is being awaited in order to undertake possible exclusive negotiations.

On March 10, 2015 the Board of Directors preliminarily examined the conditions for the development and implementation of a project to reorganise the Group's operations involving the possible spin-off and de-consolidation of Prelios' Investments and Services divisions. The project is aimed at speeding the transition to a pure management company model, while also shoring up both divisions' balance sheets and financial positions. The spin-off procedure, which would make Prelios a pure management company, is strategic and of significant interest to the Company, which could thus overcome several obstacles that have heretofore prevented the full growth of the Management Platform, in addition, it is hoped, to increased synergy with present and future major shareholders.

The Board of Directors therefore authorised the management to move forward, hold negotiations with the parties currently involved and/or to be involved in the project and identify the structure, terms and conditions of the possible transaction. Complete implementation of the project, contingent upon consent from the shareholders and lenders, would result in achievement of the objectives identified in the turnaround procedure one year in advance of the 2014-2016 Business Plan, thereby ensuring the Company greater, better access to capital markets with a business model unique in Italy and competitive in Europe.

10. BUSINESS OUTLOOK

Most of the results reported in 2014 were due to the acceleration of the processes of increasing efficiency and rationalising costs, along with the repositioning of the service company market towards areas with greater added value, which yielded significantly higher margins. In light of these results, and in consideration of improving market conditions, Prelios confirms its strategic objective of repositioning itself as a pure management company. In this connection, it has identified and is implementing a series of initiatives aimed at restructuring its operations and maintaining the conditions for continuing as a going concern.

In the meantime, a series of already identified measures and initiatives continues to proceed positively, in implementation of the guidelines of the plan established by the Group's individual business units:

- focus of services on the markets of reference (Italy, Germany and Poland);
- NPL and securities management;
- focus on southern Europe (Italy and adjacent countries) and central northern Europe (Germany, Poland and adjacent countries);
- entry into businesses adjacent and related to real estate (energy efficiency, etc.) with institutional partners;
- non-organic growth, through exploitation of opportunities, particularly in asset management.

From the management standpoint, 2015 will therefore be dedicating to launching Prelios as a major European real estate and financial services centre. The Group has set the following financial performance targets according to the unlevered guidelines:

- Service Platform turnover: Euro 75 to 80 million in 2015, Euro 100 to 105 million in 2016 and Euro 120 to 125 million in 2017;
- positive EBIT for the Service Platform, gross of G&A, of Euro 6 to 8 million in 2015, Euro 10 to 12 million in 2016 and Euro 18 to 20 million in 2017.
- the Company has set itself the goal of reducing the Euro 12 million of central costs recorded in 2014 by up to 50% by 2017, in light of the possible change of the scope of its operations.

Considering the findings of the 2015 Budget and 2016-2017 Outlook in terms of both the income statement and balance sheet and the sustainability of the debt carried by the Parent Company, which despite continuing to report losses over the three-year period, with the resulting decline in equity and negative cash flow that will not result in a deficit during the plan period but will still cause a situation of financial tension that will need to be constantly and thoroughly monitored, Prelios' Directors believe it to be reasonable to conclude that the Group will be able to meet its estimated cash needs and thus to continue as a going concern.

11. ANNUAL REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

For the report on corporate governance and ownership structure, please see section C.

12. OTHER INFORMATION

12.1. Extraordinary shareholders' meeting

The ordinary shareholders' meeting (the "shareholders' meeting") held on single call on June 19, 2014 approved the financial statements for the year ended December 31, 2013, which presented a loss of Euro 299,772,019.

Accordingly, the shareholders' meeting acknowledged:

- that the loss for the year resulted automatically and directly in the execution of the mandatory early redemption of the convertible bond subject to mandatory conversion designated "Prestito Convertendo Prelios 2013-2019" and thus in the capital increase in exclusive service of the conversion;

- the Company's balance sheet at December 31, 2013, as restated following the aforementioned conversion and the capital increase in exclusive service of the conversion, and thus the restated balance sheet, which takes account of the aforementioned conversion into equity of the "Prestito Convertendo Prelios 2013-2019";

- the Directors' Report prepared pursuant to Article 2446 of the Italian Civil Code and to Article 74, paragraph 1 of the Consob Issuer Regulations;

- the Board of Statutory Auditors' observations;

resolved, pursuant to Article 2446 of the Italian Civil Code, to postpone the adoption of the pertinent measures (where due) until a date to be proposed by the Board of Directors, and, in any event, in accordance with paragraph 2 of Article 2446 of the Italian Civil Code.

Following the resignation of Anna Chiara Svelto from the position of Director, the shareholders' meeting appointed Mirja Cartia D'Asero, on the basis of the proposal presented to this end by the shareholder Camfin S.p.A., as new declaredly independent Director of the Company, to remain in office until the end of the current Board of Directors' term, and therefore confirmed the number of members of the Board of Directors at 15.

Finally, in light of the provisions of Art. 123-*ter* of the Consolidated Law on Finance and Art. 84-*quater* of the CONSOB Issuers Regulation, the shareholders' meeting voted in favour of the Company's remuneration policy for its directors, general managers and key managers and the procedures used to adopt and implement that same policy.

12.2. Treasury shares

At December 31, 2014, the Company held a total of 1,788 treasury shares in portfolio, of a total of 506,953,179 ordinary shares.

The book value of the treasury shares, in compliance with IAS/IFRS, was recognised in the consolidated financial statements and in the Prelios separate financial statements as a deduction from equity; the Company's income statement is therefore not affected by fluctuations in the share price.

12.3. Tax consolidation

From financial year 2010, the Company opted for the tax consolidation regime under the consolidating company Prelios S.p.A. in accordance with Article 117 et seq. of the Italian Income Tax Act. Participants in the consolidation are required to adopt a specific set of "rules", involving common procedures for applying legislative and regulatory provisions.

The adoption of a Group tax filing will allow the Parent Company 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.

Considering that the three-year tax consolidation option for 2010-2012 had ended, and with a view to continuing this tax mechanism in the future, on June 14, 2013 the consolidator, Prelios S.p.A., and its subsidiaries meeting the legal requirements renewed the tax consolidation for the three-year period 2013-2015.

The effects of renewal of the option apply to the three-year period 2013, 2014 and 2015, unless suspended in advance due, for example, to a loss of control of a subsidiary or a difference between the reporting periods of the subsidiary and the consolidator.

Costs and revenue from tax consolidation are calculated on the basis of the provisions of the Prelios Tax Consolidation Regulations. More specifically, where applicable under Article 16 of the Rules, the consolidating company remunerates consolidated companies which have tax losses for an amount equal to the IRES tax rate, within the limits of the expected remuneration of tax losses in the financial year.

12.4. Group VAT settlement

For the 2014 tax period, Prelios S.p.A., as the parent company, and its subsidiaries within the meaning of the Ministerial Decree of December 13, 1979, have elected to make an independent Group VAT tax settlement.

12.5. Publication of disclosure documents

Pursuant to the provisions of Article 70, paragraph 8 and Article 71, paragraph 1-bis of the Issuers' Regulations issued by CONSOB, the Company has exercised its right of exemption from the obligations to publish the prescribed disclosure documents during significant mergers, demergers, capital increase through contributions in kind, acquisitions and disposals.

13. PARENT COMPANY PRELIOS S.P.A.

At December 31, 2014, Prelios S.p.A. reported a net loss of Euro 74.1 million, compared with a net loss of Euro 299.8 million in the previous year.

The following table shows the most significant economic data for the period under review, compared with those of last year.

(in millions of euro)	DECEMBER 2014	DECEMBER 2013
Total operating revenue	14.5	13.0
EBIT including net income from equity investments	(67.6)	(202.5)
Financial operations	(16.7)	21.1
Net income (loss) from discontinued operations	9.6	(115.8)
Net profit	(74.1)	(299.8)

Following the sale to third parties of the shares of real estate companies owning the German residential portfolio DGAG (Deutsche Grundvermögen GmbH), and the transfer of the Prelios Deutschland GmbH platform that provides technical and administrative services to the aforementioned residential portfolio, in accordance with International Financial Reporting Standards (IFRS 5), a distinction has been made between income and expenses arising from assets and liabilities of discontinued operations and the results of operations related to ordinary activities, as already done in the previous year.

Such income and expenses, which came to net income of Euro 9.6 million for the year ended December 31, 2014, have been presented under the item "Net income (loss) from discontinued operations" and include the adjustment of the value of the interest in Solaia RE Sàrl and the loans disbursed on behalf of the subsidiary Prelios Netherland B.V. to the companies responsible for the investment in the DGAG portfolio, on the basis of the adjustment of the estimated expected cash flow, and the capital gain of Euro 1.2 million, realised on the sale of the minority interests held directly by Prelios S.p.A. in the German companies owned by the DGAG Group. These amounts also include the Euro 0.7 million of financial income on the loan to the subsidiary Prelios Netherlands B.V. used to finance the DGAG Group.

The net expenses of Euro 115.8 million for the year ended December 31, 2013 were essentially due to (i) impairment losses on investments in the companies that held the investment in the DGAG portfolio, (ii) the decrease in the value of the portfolio of the service platform dedicated to DGAG and (iii) and the decrease in the value of the finance arranged on behalf of the subsidiary Prelios Netherland B.V. in respect of such companies.

Operating revenue was Euro 14.5 million, compared to Euro 13.0 million in the previous year, and refers primarily to staff services provided centrally by the Parent Company to the subsidiaries and to the recovery of various costs (in particular recoveries of office costs), the use of the brand name and asset management fees. The item also includes the release of certain risk provisions and allocations to the allowance for doubtful accounts in previous years, as well as the income recognised from the subsidiary Edilnord Gestioni S.r.l. (in liquidation) following the settlement of disputes relating to projects managed in the past on behalf of INPDAP. This income was more than sufficient to offset by the reduction in revenue on staff services provided to subsidiaries compared to the previous year.

The operating loss, including the net income from equity investments, was Euro 67.6 million, compared to a loss of Euro 202.5 million in 2013. The improvement was primarily due to the reduction of the net decreases in the value of equity investments, which (net of the assessments included in the item "Net income (loss) from discontinued operations"), fell from Euro 173.6 million in 2013 to Euro 64.9 million in 2014. Other positive effects included the improvement at the level of operating loss (Euro 18.2 million for the year ended December 31, 2014, compared to Euro 28.4 million in 2013) and the change in dividends received, which amounted to Euro 15.9 million in 2014, compared to an essentially nil value in the previous year.

Financial operations, net of financial income included in "Net income (loss) from discontinued operations", generated expenses of Euro 16.7 million, compared to income of Euro 21.1 million in the previous year, when the item benefited from the positive effect of the restructuring of the debt of Prelios S.p.A., and in particular from the initial recognition of new lines of debt at fair value, calculated according to the measurement methods deemed appropriate in light of the characteristics of each component of the new debt, which was lower than the nominal amount of that debt by Euro 39.9 million.

The following table contains a brief summary of the reclassified balance sheet, compared with that for the previous year.

(in millions of euro)	DECEMBER 2014	DECEMBER 2013	DECEMBER 2013 PRO-FORMA *
Property, plant and equipment and intangible assets	290.8	306.1	306.1
of which investments	*147.7*	*109.8*	*109.8*
Net working capital	(5.8)	(16.3)	(16.3)
Discontinued operations	32.6	26.0	26.0
Net invested capital	**317.6**	**315.8**	**315.8**
Equity	49.4	(113.0)	122.9
Provisions	11.3	11.1	11.1
Net financial position	256.9	417.7	181.8
Total covering Net Invested Capital	**317.6**	**315.8**	**315.8**

* The pro-forma data as at December 31, 2013 already takes into account the entire use of the Convertible Loan, including interest accrued at December 31, 2013, for the equity increase.

Property, plant and equipment and intangible assets showed a net decline of Euro 15.3 million compared to December 2013. The increase in the value of equity investments, primarily due to the recapitalisations undertaken during the year, was more than offset by the reduction of non-current financial receivables (by Euro 46.2 million). In addition, the junior securities carried among non-current assets were written down as a result of the modification of estimated cash flows, resulting in an adjustment of the value resulting from the discounting of future cash flows of Euro 6.3 million.

Net invested capital amounted to Euro 317.6 million, compared to Euro 315.8 million for the year ended December 31, 2013.

Discontinued operations include assets relating to the German residential portfolio DGAG, and more specifically: (i) the portion of the loan granted to the subsidiary Prelios Netherlands B.V. and used by the latter to finance the joint venture that holds the DGAG portfolio (Euro 30.4 million) and (ii) the value of the investment held in the joint venture Solaia RE S.à r.l. (Euro 2.2 million).

Net working capital increased from a negative value of Euro 16.3 million at December 31, 2013 to a negative value of Euro 5.8 million at December 31, 2014. The change was primarily due to the recognition among financial payables of the debt to Intesa Sanpaolo as a result of deferred contractual charges relating to previous sales of equity interests of Euro 10 million. At December, 31, 2013 that debt was included among other non-financial payables. The reclassification was due to the restructuring of the agreements between the parties in July 2014, extending the maturity of the debt to June 30, 2017 and requiring the payment of interest.

Equity was Euro 49.4 million at December 31, 2014, compared to a negative Euro 113 million at December 31, 2013. This change was primarily due to the conversion into share capital of the convertible bond, which was executed on April 14, 2014, in the amount of Euro 236.5 million, and the net loss for the year of Euro 74.1 million.

According to the pro-forma position at December 31, 2013, equity, which already includes the conversion of the convertible bond issue, amounted to Euro 122.9 million.

Net financial position was net debt of Euro 256.9 million at December 31, 2014, compared to net debt of Euro 417.7 million at the end of 2013. The change was due to the positive effect of the aforementioned conversion of the convertible bond, partially offset by the reduction of cash and cash equivalents (which fell from Euro 69 million at December 31, 2013 to Euro 31.3 million at December 31, 2014), and by the increase in amounts due to banks as a result of interest expenses accrued but not yet paid, and the notional charges recognised.

Human resources

At December 31, 2014, Prelios S.p.A. had 59 employees, compared to 63 at December 31, 2013. The workforce was made up of 16 managers, 16 corporate workers, 26 office workers and one manual worker.

14. ANNEXES

APPENDIX A – Non-GAAP measures

The non-GAAP measures used are as follows:

- **Operating profit** (Euro 8.7 million): EBIT of Euro -27.3 million plus net loss from equity investments of Euro -14.9 million (values reported in "EBIT" and "Net income (loss) from equity investments" respectively in the consolidated income statement), plus income from shareholder loans of Euro -1.8 million (included in financial income at Euro 4.5 million, adjusted for the impairment of the NPL portfolio, included among financial expenses at Euro 6.3 million), adjusted for restructuring costs (Euro 13.6 million) and property write-downs/revaluations (Euro 39.1 million).
- **Profit/(loss) before restructuring costs, property write-downs/revaluations and taxes** (Euro -13.8 million)**:** value obtained by adding operating profit/(loss) (Euro 8.7 million) to financial expenses (Euro -22.5 million).
- **Income from shareholder loans** (Euro 4.5 million): this figure consists of the value of interest income on loans to associates and joint ventures and the value, if any, of income on securities classified as "financial income".
- **Loss on valuation of the NPL portfolio** (Euro -6.3 million): this figure refers to the decrease in the value of the junior securities included among "financial expenses".
- **Financial income (financial expenses)** (Euro -22.5 million): this includes the item "financial expenses" (adjusted for impairment of junior notes or financial receivables) and the item "financial income", net of income from shareholder loans.
- **Investments in real estate investment companies and funds**: this includes investments in associates and joint ventures, in closed-end real estate funds, investments in other companies and junior notes (as per the item "Other financial assets").
- **Net working capital**: the amount of resources comprising a business's operating assets. This measure is used to verify the short-term financial balance of the Company. It consists of all short-term assets and liabilities that are not financial in nature and is presented net of junior notes included in investments in real estate investment companies and funds.
- **Provisions**: this measure consists of the sum of the items "Provisions for risks and expenses (current and non-current)", "Employee benefit obligations" and "Deferred tax provisions" and is stated net of provisions for risks on equity-accounted investments that are included in "Investments in real estate investment companies and funds".
- **Net financial position**: this measure represents a valid indicator of the ability to meet financial commitments. Net financial position is represented by the gross financial debt less cash and other cash equivalents and other current financial receivables.
- **Gross bank debt**: represented by the total debts of each initiative towards the banking system.

- **Net bank debt**: represented by the gross bank debt of each initiative less cash and cash equivalents.
- **Return on sales (ROS)**: determined by the impact of EBIT on revenue.
- **Basic net earnings (loss) per share:** an indicator of the earnings per share based on the results for the period and calculated as the ratio between net profit for the period and the number of shares issued and certified at the end of the period.

The following table reconciles, by aggregation/reclassification of accounting measures under IFRS, the main non-GAAP measures with the consolidated financial statements.

Operating profit/(loss)	**December 2014**	**December 2013**
EBIT	(27.6)	(81.8)
Net income from equity investments	(14.9)	(108.8)
Income from shareholder loans (1)	4.5	8.8
Loss from NPL portfolio valuation (2)	(6.3)	-
Restructuring costs	13.9	42.6
Property (write-downs)/revaluations (3)	39.1	84.0
Total	**8.7**	**(55.2)**

Profit/(loss) before restructuring costs, property write-downs/revaluations and taxes	**December 2014**	**December 2013**
Operating profit/(loss)	8.7	(55.2)
Financial expenses	(22.5)	6.6
Total	**(13.8)**	**(48.6)**

Financial income (expenses)	**December 2014**	**December 2013**
Financial expenses	(29.9)	(37.4)
Financial income	5.6	12.9
Financial income due to fair value adjustment of new Super Senior and Senior facilities	-	39.9
Financial expenses	(4.5)	(8.8)
Loss from NPL portfolio valuation	6.3	-
Total	**(22.5)**	**6.6**

NOTE

(1) Interest income on financial receivables due from associates and joint ventures included in financial income for Euro 4.5 million.

(2) Loss from NPL portfolio valuation included in financial expenses for Euro 6.3 million.

(2) Property (write-downs)/revaluations in 2014 totalled Euro 39.1 million (pro-rata share attributable to the Group): of which Euro 5.5 million included in EBIT of fully consolidated companies and Euro 33.6 million recorded in net income from investments in companies accounted for using the equity method.

APPENDIX B

Detail of real estate debt of investment companies and funds

	Net financial position	Net bank debt	Maturity (years)*
Commercial Italy	591,715	557,631	1.6
Commercial Germany	36,010	(1,478)	0.2
Commercial Germany - Highstreet -	606,702	240,761	1.6
Residential Germany - Small Deals -	(3)	(3)	-
TOTAL PORTFOLIO YIELDING	**1,234,424**	**796,912**	
Trading Italy	460,400	362,550	0.4
Development Italy	91,162	87,773	0.9
Land Italy	125,730	124,225	- 0.3
Other Germany	5,277	5,270	7.3
Land Poland	17,461	(50,583)	-
TOTAL OTHER PORTFOLIO	**700,030**	**529,235**	
TOTAL REAL ESTATE	**1,934,455**	**1,326,147**	**0.7**

(*) the average maturity is calculated considering the Gross Bank Debt of each initiative.

Main contractual clauses concerning debt[47]

It should be noted that the covenants of all outstanding loans on investment companies and funds in which Prelios holds an interest are monitored on a half-yearly basis, at each reporting date, regardless of the actual periodic reporting obligation required by the relevant loan agreement.

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

- LTV (loan to value): ratio of (i) bank debt to (ii) the appraised value of the portfolio;

- LTC (loan to cost) ratio of (i) bank debt to (ii) the book value of the portfolio;

- ISCR (interest service cover ratio): ratio of (i) revenue from rentals net of management costs to (ii) financial expenses;

- DSCR (debt service cover ratio): ratio of (i) revenue from rentals and sales net of management costs to (ii) financial expenses and principal repayments;

- maximum outstanding amount: maximum amount of bank exposure allowed.

At December 31, 2014, certain investment companies and funds in which Prelios holds an interest have covenants which are not in line with those provided for in the agreement. In particular, these were:

- LTV for the Città di Torino fund;
- maximum outstanding amount for the Patrimonio Uffici fund.

[47] The analysis does not include the figures relating to funds classified as third-party funds since Prelios holds an interest of less than 5%.

The Città di Torino fund is not in line with some contractual provisions pertaining to payment obligations to the financial counterparties.

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

Finally, mention should be made of some positions relating to Solaris (in liquidation), Trinacria Capital and Sicily Investments, Vivaldi fund, Social&Public Initiatives fund, Diomira fund and Raissa fund (the latter three came due in December 2014). Now that the debt has come due, new agreements are being with negotiated with the lenders.

APPENDIX C

Glossary

- **Restructuring Agreement**: the restructuring agreement regarding the financial debt of the Company with Pirelli & C. S.p.A. and the Lending Banks, executed on May 7, 2013 and redefining the terms and conditions of the overall debt existing at the date of execution of the agreement, consisting of two components: (i) one of Euro 250 million, which will remain in the form of a loan (Super Senior and Senior); and (ii) one of up to Euro 269 million, which will be converted into participating financial instruments having the nature of a convertible bond, with a cash option to be exercised by the Company at maturity and the option to convert it into another Super Senior Loan.

- **Investment Activities:** refers to the activities of the Prelios Group carried out through its investments in funds and companies that own real estate portfolios.

- **Lending Banks:** 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 dell'Emilia Romagna Soc. Coop., Banca Carige S.p.A. – Cassa di Risparmio di Genova e Imperia and UBI Banca Soc. Coop. p.A. (formerly Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A.).

- **2015 Budget:** planning of the income statement, financial position and balance sheet for 2015, approved by the Board of Directors on March 10, 2015.

- **Net Working Capital:** the amount of resources comprising a business's net operating assets. This measure is used to verify the short-term financial balance of the Company. It consists of all short-term assets and liabilities that are not financial in nature and is presented net of junior notes included in Investments in real estate investment companies and funds.

- **Cash-Generating Unit:** defined as the smallest identifiable group of assets that generates cash inflows which are largely independent of the cash inflows from other assets or groups of assets in accordance with IAS.

- **Convertible Loan**: mandatory convertible bonds to be converted into ordinary shares of the Company and/or Category B shares.

- **Corporate Governance:** the management and supervisory bodies, rules and systems of the Company.

- **Credit Servicing:** judicial and extrajudicial management of non-performing loans primarily secured by a mortgage on real estate, through valuation activities, monitoring the progress of lawsuits and out-of-court settlements and managing the flow of data and information on securitised portfolios.

- **Lenders:** the Company's lenders (Pirelli & C. S.p.A. and the Lending Banks).

- **Senior Loan:** share of Euro 200 million of the Company's debt under the Restructuring Agreement. The main terms and conditions of the loan are: bullet repayment by December 31, 2018; capitalised interest at an all-in rate of 3.0% from January 1, 2013 to December 31, 2016, and thereafter at a rate equal to the Euribor plus a spread and elimination of financial covenants. The Senior Loan is destined to be repaid only by liquidating real estate assets.

- **Super Senior Loan:** share of Euro 50 million of the Company's debt under the Restructuring Agreement. The main terms and conditions of the loan are: bullet repayment by December 31, 2017; half-yearly all-in interest rate of 4.0%, effective from January 1, 2013; elimination of financial covenants and no mandatory early repayments, except for the acceleration clause, following the occurrence of a "significant event", as provided by the Club Deal Loan Agreement (as amended).

- **G&A**: this term refers to general expenses and holding costs and includes costs related to the Board of Directors and Central Staff Functions.

- **Group or Prelios Group**: the Company and the companies controlled by it pursuant to Article 93 of the Consolidated Law on Finance.

- **2014-2016 Guidelines**: strategic guidelines and growth targets for the Group's assets, income and financial position for the period concerned, as approved by the Board of Directors on April 9, 2014.

- **Highstreet**: an investment initiative set up as a consortium with the RREEF, Generali and Borletti funds in 2008 for the acquisition of 49% of a portfolio of properties located throughout Germany and leased to the Karstadt department store group.

- **Impairment Test:** test to check for the impairment of assets through which the Company determines the recoverable value of its assets contained in the financial statements. The recoverable amount of an asset or Cash-Generating Unit is the higher of its value less costs to sell and its value in use. If the book value of an asset is higher than its recoverable value, the asset has been impaired and is written down accordingly to its recoverable value.

- **Joint Ventures:** companies through which – based on contractual or statutory arrangements – two or more parties undertake an economic activity that is subject to joint control.

- **LTI**: long-term incentive.

- **MBO** (management by objective): the annual variable component of remuneration obtainable from achieving predefined business objectives.

- **Net Asset Value (NAV):** measure used to quantify the unrealised implicit capital gain in the real estate assets managed and invested in by the Group. The pro-rata Net Asset Value is calculated as the difference between the share of assets' market value and the related value of the debt, including shareholder loans granted to companies in which minority interests are held. In calculating the Net Asset Value, the tax effect relating to the implicit capital gain of the assets invested in is not taken into account, since these are not considered significant for the Group.

- **Non-Performing Loans (NPLs)**: portfolios of non-performing mortgage loans originated by banks, i.e. arising from disputed loans secured by mortgages on real estate.

- **2016-2017 Outlook:** strategic guidelines and growth targets for the Group's income statement, balance sheet and financial position for the period concerned, as approved by the Board of Directors on March 10, 2015.

- **Passing Rent:** indicator corresponding to annualised rents based on contracts existing at the end of the period in question for assets belonging to a specific initiative. This represents a useful measure of the annual volume of rents.

- **Passing Yield:** indicator of profitability expressed in terms of rent from assets belonging to a certain initiative. It is calculated as the ratio between the book value of the initiative's assets and the corresponding amount of passing rent.

- **Third-party Assets Under Management:** real estate assets under management, at period-end market value, based on appraisals by independent experts. Includes, *inter alia,* initiatives in which the Group holds an interest of less than 5%.

- **Co-Investments:** real estate assets and non-performing loans in which an interest is held through investment companies and funds for which the value is stated at the market value at the reporting date; real estate asset values are based on appraisals by independent experts and non-performing loans are stated at book value. The pro-rata share of these values (market or book, respectively) expresses the Group's interest in the market value of the assets and in the book value of the non-performing loans managed.
- **Business Plan:** the Group's plan for the period 2014-2016, approved on June 12, 2014 on the basis of the 2014-2016 Guidelines, previously approved by the Board of Directors on April 9, 2014.

- **Management Platform**: refers to the activity of the Prelios Group carried out through its fund and asset management and specialised real estate services (property and project management, real estate agency and facility management in Germany) and services related to the management of NPL (credit servicing), including the related general and administrative expenses.

- **Company:** Prelios S.p.A.

- **Tracking Shares:** numbered shares assigned to achieve a direct correlation between these and certain investee companies, both in terms of contribution to results and exercising control.

- **Vacancy:** indicates the percentage of properties that do not generate income in the form of rents; this is calculated by dividing the vacant floor space in square metres by the total floor space.

APPENDIX D

Parent company reconciliation

Pursuant to the CONSOB Communication of July 28, 2006, below is a reconciliation of the results for financial year 2014 and Group's equity at December 31, 2014 with the corresponding figures for the parent company Prelios S.p.A..

(in thousands of euro)	Net profit	Equity
Prelios S.p.A. separate financial statements	**(74,130)**	**49,385**
Consolidation adjustments:		
- net income (loss) from discontinued operations	(1,528)	(21,928)
- contribution to subsidiaries	(28,121)	(462,319)
- net income from equity investments	(13,391)	(92,873)
- elimination of writedowns/dividends and goodwill recorded in the financial statements of the parent company	49,626	633,395
- other consolidation adjustments	6,395	(856)
Prelios Group consolidated financial statements (attributable to the Group)	**(61,149)**	**104,804**

B. THE PRELIOS GROUP – CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2014

1. CONSOLIDATED BALANCE SHEET

(in thousands of euro)

	ASSETS	12.31.2014	12.31.2013
	NON-CURRENT ASSETS		
1	Property, plant and equipment	853	1,031
2	Intangible assets	59,082	60,714
3	Equity investments	150,104	169,180
	of which investments held for sale	*3,849*	*3,294*
4	Other financial assets	16,254	24,189
5	Deferred tax assets	8,310	11,070
7	Other receivables	113,596	115,980
	of which from related parties	*108,355*	*110,675*
	TOTAL NON-CURRENT ASSETS	**348,199**	**382,164**
	CURRENT ASSETS		
9	Inventories	43,472	48,406
6	Trade receivables	35,074	35,055
	of which from related parties	*18,758*	*22,230*
7	Other receivables	17,773	23,560
	of which from related parties	*8,834*	*7,516*
10	Cash and cash equivalents	77,192	85,609
8	Tax receivables	3,013	6,453
	TOTAL CURRENT ASSETS	**176,524**	**199,083**
29	**DISCONTINUED OPERATIONS**	**12,164**	**27,781**
	of which from related parties	*9,964*	*18,800*
	TOTAL ASSETS	**536,887**	**609,028**

	EQUITY	12.31.2014	12.31.2013
	GROUP EQUITY		
11	Share capital	426,432	189,888
12	Other reserves	(15,940)	(14,529)
13	Retained earnings (losses)	(244,539)	88,366
	Net profit (loss) for the period	(61,149)	(332,838)
	TOTAL GROUP EQUITY	**104,804**	**(69,113)**
14	**MINORITY INTERESTS**	**2,488**	**2,778**
	TOTAL EQUITY	**107,292**	**(66,335)**

	LIABILITIES	12.31.2014	12.31.2013
	NON-CURRENT LIABILITIES		
15	Bank borrowings and payables to other lenders	256,434	465,101
	of which to related parties	-	*149,876*
17	Other payables	524	915
18	Provisions for future risks and expenses	40,187	39,269
5	Deferred tax provision	2,156	1,723
19	Employee benefit obligations	12,080	10,255
20	Tax payables	122	1,464
	TOTAL NON-CURRENT LIABILITIES	**311,503**	**518,727**
	CURRENT LIABILITIES		
15	Bank borrowings and payables to other lenders	8,490	8,988
	of which to related parties	*6,576*	*6,576*
16	Trade payables	4,736	48,116
	of which to related parties	*3,063*	*3,720*
17	Other payables	40,917	52,529
	of which to related parties	*19,039*	*18,746*
18	Provisions for future risks and expenses	14,510	32,615
	of which to related parties	*418*	*12,623*
20	Tax payables	6,859	11,983
	of which to related parties	*1,080*	*1,080*
	TOTAL CURRENT LIABILITIES	**118,092**	**154,231**
29	**LIABILITIES RELATED TO DISCONTINUED OPERATIONS**	**0**	**2,405**
	TOTAL LIABILITIES	**429,595**	**675,363**
	TOTAL LIABILITIES AND EQUITY	**536,887**	**609,028**

See section 6.11 for a description of financial statement entries regarding related-party transactions.

2. CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

		01.01.2014-12.31.2014	01.01.2013-12.31.2013
21	Revenue from sales and services	72,124	73,055
22	Changes in inventories of work in progress, semi-finished and finished products	(2,002)	(377)
23	Other income	13,233	8,227
	TOTAL OPERATING REVENUE	**83,355**	**80,905**
	of which from related parties	*29,927*	*39,241*
	of which non-recurring events	*1,869*	*479*
	Raw and consumable materials used (net of change in inventories)	(3,224)	(5,802)
	of which non-recurring events	*60*	-
	Personnel costs	(38,828)	(43,512)
	Depreciation, amortisation and impairment	(2,373)	(12,904)
	Other costs	(66,583)	(100,481)
24	**TOTAL OPERATING COSTS**	**(111,008)**	**(162,699)**
	of which to related parties	*(7,228)*	*(7,346)*
	of which non-recurring events	*(15,825)*	*(33,425)*
	EBIT	**(27,653)**	**(81,794)**
25	Net loss from equity investments:	(14,769)	(108,812)
	of which from related parties	*(14,861)*	*(108,939)*
	of which non-recurring events	*125*	*(9,634)*
	- portion of result of associates and joint ventures	*(13,323)*	*(87,824)*
	- dividends	-	*53*
	- gains on investments	*1,009*	445
	- losses on investments	*(2,455)*	*(21,486)*
26	Financial income	5,564	52,832
	of which from related parties	*4,556*	*11,833*
	of which non-recurring events	-	*39,862*
27	Financial expenses	(29,958)	*(37,382)*
	of which to related parties	*(721)*	*(4,389)*
	PROFIT (LOSS) BEFORE TAXES	**(66,816)**	**(175,156)**
28	Taxes	(2,831)	(16,088)
	of which to related parties	-	*600*
	NET INCOME FROM CONTINUING OPERATIONS	**(69,647)**	**(191,244)**
	attributable to minority interests	(391)	(1,031)
29	**NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS**	**8,107**	**(142,625)**
	of which from related parties	*8,760*	*13,457*
	GROUP NET INCOME/(LOSS)	**(61,149)**	**(332,838)**
30	**PROFIT (LOSS) PER SHARE (in euro):**		
	basic earnings	(0.10)	(0.76)
	basic earnings		

See section 6.8 for a description of financial statement entries regarding related-party transactions.

3. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euro)

		01.01.2014-12.31.2014			of which attributable	
		gross	taxes	net	Group	Minority interests
A	**Net profit (loss) for the period**			**(61,540)**	**(61,149)**	**(391)**
	Other components recorded under equity that can be reclassified in the income statement in a future period:	**1,599**	**(366)**	**1,233**	**1,137**	**96**
	Exchange differences from the translation of foreign financial statements	(44)	-	(44)	(44)	-
	Total available-for-sale financial assets	1,328	(366)	962	866	96
	- Adjustment of available-for-sale financial assets to fair value	(816)	224	(592)	(533)	(59)
	- portion of (profit)/losses transferred to the income statement that were previously recorded directly under equity	2,144	(590)	1,544	1,399	155
	Share of other equity components related to associates and joint ventures	146	-	315	315	-
	- portion of profit/(losses) recorded directly under equity	146	-	315	315	-
	Other components recorded under equity that could not be reclassified in the income statement in a future period:	**(2,134)**	**(423)**	**(2,557)**	**(2,553)**	**(4)**
	Balance of actuarial gains/(losses) on employee benefits	(2,134)	(423)	(2,557)	(2,553)	(4)
B	**Total other components recorded under equity**	**(535)**	**(789)**	**(1,324)**	**(1,416)**	**92**
A+B	**Total comprehensive income/(losses) for the period**			**(62,864)**	**(62,565)**	**(299)**

		01.01.2013-12.31.2013			of which attributable	
		gross	taxes	net	Group	Minority interests
A	**Net profit (loss) for the period**			**(333,869)**	**(332,838)**	**(1,031)**
	Other components recorded under equity that can be reclassified in the income statement in a future period:	**5,741**	**(288)**	**5,453**	**5,516**	**(63)**
	Exchange differences from the translation of foreign financial statements	(94)	-	(228)	(228)	-
	Total available-for-sale financial assets	(867)	28	(73)	(66)	(7)
	- Adjustment of available-for-sale financial assets to fair value	(867)	28	(73)	(66)	(7)
	Share of other equity components related to associates and joint ventures	6,702	(527)	6,175	6,175	-
	- portion of (profit)/losses transferred to the income statement that were previously recorded directly under equity	3,541	-	3,541	3,541	-
	- portion of profit/(losses) recorded directly under equity	3,161	(527)	2,634	2,634	-
	Other components recorded under equity that could not be reclassified in the income statement in a future period:	**718**	**(158)**	**560**	**560**	**-**
	Balance of actuarial gains/(losses) on employee benefits	527	(158)	369	369	-
	Share of equity components related to associates and joint ventures	191	-	191	191	-
	- portion of profit/(losses) recorded directly under equity	191	-	191	191	-
B	**Total other components recorded under equity**	**6,459**	**(446)**	**6,013**	**6,076**	**(63)**
A+B	**Total comprehensive income/(losses) for the period**			**(327,856)**	**(326,762)**	**(1,094)**

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euro)

	Share capital	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	Other reserves	Retained earnings (losses)	Net income (loss) for the period	**Group Equity**	**Minority interests in equity**	**Total**
Equity at 12.31.2013	**189,888**	**(5,712)**	**(5,191)**	**(168)**	**(1,111)**	**4,223**	**(6,570)**	**88,366**	**(332,838)**	**(69,113)**	**2,778**	**(66,335)**
Total other components recorded under equity	**-**	**103**	**1,195**	**168**	**(2,128)**	**(754)**	**-**	**-**	**-**	**(1,416)**	**92**	**(1,324)**
Allocation of 2013 results	-	-	-	-	-	-	-	(332,838)	332,838	-	-	-
Share capital increase	236,544	-	-	-	-	-	-	-	-	236,544	-	236,544
Other changes	-	-	1	-	-	(2)	1	(62)	-	(62)	9	(53)
Net profit (loss) for the perio	-	-	-	-	-	-	-	-	(61,149)	(61,149)	(391)	(61,540)
Equity at 12.31.2014	**426,432**	**(5,609)**	**(3,995)**	**0**	**(3,239)**	**3,467**	**(6,569)**	**(244,534)**	**(61,149)**	**104,804**	**2,488**	**107,292**

	Share capital	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	Other reserves	Retained earnings (losses)	Net income (loss) for the period	**Group equity**	**Minority interests in equity**	**Total**
Equity at 12.31.2012	**218,283**	**(2,064)**	**(6,211)**	**(10,233)**	**(1,818)**	**3,067**	**(999)**	**115,887**	**(241,734)**	**74,178**	**6,213**	**80,391**
Total other components recorded under equity	**-**	**(3,648)**	**(780)**	**10,065**	**718**	**(470)**	**-**	**-**	**-**	**5,885**	**(63)**	**5,822**
Cancellation of own shares	586	-	-	-	-	-	(586)	-	-		-	-
Allocation of 2012 results	(213,996)	-	-	-	-	-	-	(27,738)	241,734	-	-	-
Share capital increase	185,015	-	-	-	-	-	3,004	-	-	188,019	-	188,019
Cost of equity transactions	-	-	-		-	2,197	(7,989)	-	-	(5,792)	-	(5,792)
Other changes	-	-	1,800	-	(11)	(571)	-	217	-	1,435	(2,341)	(906)
Net profit (loss) for the period	-	-	-	-	-	-	-	-	(332,838)	(332,838)	(1,031)	(333,869)
Equity at 12.31.2013	**189,888**	**(5,712)**	**(5,191)**	**(168)**	**(1,111)**	**4,223**	**(6,570)**	**88,366**	**(332,838)**	**(69,113)**	**2,778**	**(66,335)**

5. CONSOLIDATED CASH FLOW STATEMENT

(in thousands of euro)

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Profit (loss) before taxes	(66,816)	(175,156)
Profit/(loss) from businesses sold	8,107	(142,625)
Amortisation, depreciation, write-downs and write-backs on intangible assets and prope	2,373	12,904
Impairment of receivables	5,807	29,724
Capital gains/losses on sale of property, plant and equipment	(44)	14
Net income from investments net of dividends	17,621	108,812
Financial expenses	29,958	37,382
Financial income	(5,564)	(52,832)
Change in inventories	4,934	5,973
Change in trade receivables/payables	(6,905)	(6,095)
Change in other receivables/payables	(10,531)	(8,733)
Change in employee benefit obligations and other provisions	(6,215)	7,608
Taxes	(1,003)	(1,853)
Net cash flow generated from discontinued operations	22,285	142,625
Other changes	576	526
Net cash flow generated/(absorbed) by operating activities (A)	**(5,417)**	**(41,726)**
Investments in property, plant and equipment	(54)	(215)
Disposal of property, plant and equipment	364	145
Investments in intangible assets	(487)	(342)
Disposal of intangible assets	58	72
Net cash flow generated by disposal of interests in subsidiaries	92	74
Acquisition of interests in associates and joint ventures	(13,095)	(54,201)
Disposal of interests in associates and joint ventures and other changes	110	63
Dividends received	-	53
Purchase of other financial assets	(200)	(11,323)
Disposal/reimbursements of other financial assets	995	2,625
Net cash flow generated/(absorbed) by investing activities (B)	**(12,217)**	**(63,049)**
Change in share capital and other reserves	-	115,427
Other changes in equity	(53)	(1,000)
Change in financial receivables	4,979	39,783
Change in financial payables	6,203	(7,499)
Cash flow generated by financial income	547	2,129
Cash flow absorbed by financial expenses	(2,459)	(3,546)
Net cash flow generated/(absorbed) by financing activities (C)	**9,217**	**145,294**
Total net cash flow generated/(absorbed) in the period (D=A+B+C)	**(8,417)**	**40,519**
Cash and cash equivalents + bank current account overdrafts at the beginning of t	**85,609**	**45,090**
Cash and cash equivalents + bank current account overdrafts at the end of the pe	**77,192**	**85,609**
of which:		
- cash and cash equivalents	77,192	85,609
- bank current account overdrafts	-	-

See section 6.11 for a description of cash flows regarding related-party transactions.

(1) Equal to the change in share capital (Euro 185,015 thousand, of which Euro 108,591 thousand was subscribed by related parties) net of the portion of the loan waived by Pirelli & C. S.p.A. (Euro 21,523 thousand) and lending banks (Euro 48,065 thousand).

6. CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2014 - 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 that it managed, with the aim of grasping revaluation opportunities; now the Group is consolidating its position as a “pure manager”.

It should be noted that in 2014 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 Article 5, paragraph 2 of Legislative Decree 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 and the consolidated financial statements have been audited by Reconta Ernst & Young S.p.A., pursuant to Article 14 of Legislative Decree 39 of January 27, 2010 and considering the CONSOB recommendation of February 20, 1997, in accordance with the resolution of the shareholders’ meeting of April 14, 2008 which appointed the said company for the nine-year period 2008-2016.

The consolidated financial statements were approved by the Board of Directors on March 10, 2015.

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

As already described previously in more detail in the directors' report on operations with particular reference to the paragraphs “Prelios in 2014”, “Industrial Plan 2014 – 2016” and “Strategic businesses for the Group 2014 – Budget 2015 and Outlook 2016-2017”, on June 12, 2014 the Company's Board of Directors approved the Industrial Plan 2014-2016, based on fairly realistic assumptions and in any case taking into account the difficulty of making predictions in the current economic and financial environment, which does not rule out future crises affecting the financial markets or an accumulation of the factors that led to the current deterioration in the general reference scenario and the real estate market in particular.

The Company deemed that the Industrial Plan 2014-2016, though still reporting a loss in the three-year period, with a consequent erosion of the equity, as well as a cash outflow in an amount to cause an overall deficit in the plan's timeframe, not sustainable by the Group, was challenging, though sound and achievable, based on a series of realistic assumptions. The Plan featured three main components which are interconnected and interdependent:

- a series of financial mitigation and restructuring measures, which represent the conditions required to ensure the continuity of the Companies and the Group and the sustainability of the Plan, in addition to tackling the funding required and estimated in the Guidelines prior to the expected effects of the above-mentioned mitigation actions;
- an overall growth and an estimated profitability substantially in line with the objectives of percentage growth of the revenues, compared to a 2013 base lower than the forecasts;
- a progressive and considerable reduction in the Company's general costs both to align its structure to the top market benchmarks and to consider the expected reduction in the volumes of administrative activities as a consequence of the disposal of the investment portfolio.

The Directors deemed that the actions identified to ensure the company's continuity in the Plan's timeframe are adequate to face the identified uncertainties and that, based on negotiations, already at an advanced stage particularly with the lenders, it is possible, in a reasonably short time and in any case compatibly with the needs of the Company, to finalize the mitigation actions identified, allowing the continuation of operations as a going concern, having the liquidity required to cover the short/medium-term cash requirements within the limits that are sustainable for the Group.

Relating to the mentioned corrective actions, listed in detail in the Industrial Plan 2014-2016 - with various degrees of expected probability of success - it is worth remembering that the same actions were pursued and substantially completed for the amounts and in the time required to fully allow the Group to tackle the then estimated cash requirement and therefore to continue to operate as a going concern, obtaining, among others, a significant improvement of the cash profile with a real component estimated at about Euro 10 million and a temporary component at about Euro 19 million, against the short-term deferment of some financial commitments; compared to the overall cash availability at year end (Euro 77 million), significantly higher than the forecasts (Euro 14 million), it is necessary to also consider a liquidity component (Euro 29 million) available in subsidiaries, which realized the sale of DGAG, and which is expected to become available to the Parent Company, once the processes applicable to these vehicles have been carried, and liquidity is available in Prelios SGR and Prelios Credit Servicing, in compliance with the regulations applicable to them, but which is not usable for other Group requirements. In addition to this liquidity, it is then worth remembering the liquidity coming from the described sale of investments in Poland, for which the liquidity created (Prelios' share is 20 million) is still at the transferring vehicle, only held as a minority, and may reach Prelios according to the decision-making processes of the joint venture. The real improvement is mainly due to the reviewed collections relating to the estimated social security charges in Germany for the VBL programme as part of the sale of the DGAG real estate services platform together with the commissions that refer to the agency and sales support activities provided by Prelios Agency and Prelios Integra during the transaction for the sale of the properties held by Olinda-Fondo Shop. The remainder of the cash improvement compared to the forecasts of the Industrial Plan is mainly due to the temporary deferment of the scheduled payments, which allowed a balancing of cash in and cash out relating to both the component of the service platform (mainly attributable to the flows of the German platform subject to sale) and the investment platform.

As discussed in depth in the Report on Operations, the Budget 2015 and Outlook 2016-2017 show negative results still in the three-year period, with a consequent erosion of the equity and a cash outflow that, though not causing an overall deficit in the plan's timeframe, confirm the persisting situation of financial distress, with the financial balance that will depend on the possibility to perform the transactions planned at the set price and in the set time; as a consequence, these circumstances outline, despite a significantly improved context compared to the previous year, the persistence of significant uncertainties of the Group's ability to operate as a going concern, as well as the need to pursue additional initiatives that may allow the Group to complete its restructuring process aiming to reach the long-term financial and capital solidity, required to focus the structures on the strategic business objectives. In consideration of the results of the Budget 2015 and the Outlook 2016-2017 in terms of income statement and balance sheet and in relation to the sustainability of the Parent Company's financial debt, also in light of the above-mentioned significant improvement of the cash profile, the availability of the banking sector and the reference shareholders, also shown by the recent agreements on the 65%/35% mechanism, to support the corporate plans as well as on the progress of the transactions reflected in the Budget 2015, the Directors of Prelios deem it reasonable that the Group may tackle the estimated funding requirement and therefore continues as a going concern.

6.3. Accounting standards and policies

In accordance with Regulation (EC) No 1606 of the European Parliament and of the Council of July 2002, the consolidated financial statements of the Prelios Group were prepared on the basis of the current International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union on December 31, 2014, and of the measures implementing Article 9 of Legislative Decree 38/2005. The IFRS also include all the revised international accounting standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as 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, 2013. The exceptions are in respect of the new standards/interpretations adopted by the Group starting from January 1, 2014. The nature and impact of these changes are described below.

6.3.1. Accounting standards and interpretations endorsed and in force from January 1, 2014

Please note that starting from January 1, 2014 the following new Standards and Interpretations came into force:

- IFRS 10 – Consolidated Financial Statements

IFRS 10, together with IFRS 11 and 12, represents the completion of the first of the two stages in the Consolidation project relating to consolidated financial statements and related 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 entities, replacing the previous 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 introduction of the new standard did not lead to significant impacts on the consolidated financial statements.

- 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 contractual obligations arising from the arrangement.

In particular, to establish 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 previously happened.

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

The application of this new principle did not affect the consolidated financial statements since the consolidation method applied by the Group was already in line with the changes introduced.

- 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 entities and other off-balance sheet entities. 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 financial position.

The introduction of the new standard did not lead to significant impacts on the consolidated financial statements.

- 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 application of this new standard did not lead to impacts on the consolidated financial statements

- IAS 28 – Investments in Associates and Joint Ventures

Following to the issue of IFRS 10 and IFRS 11, the 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 interest, meaning an investment interest in an associated company or in a joint venture which does not imply the cessation of 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") in the income statement, while only the transferred equity interest is subject to the application of IFRS 5. The same rule applies to an investment in a joint venture which, following a partial transfer, becomes an associated company.

The application of this new standard did not lead to significant impacts on the consolidated financial statements.

- 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 sale of the asset and extinguishment of the liability at the same time may be considered de facto extinguishment of a net amount.

The application of the above-mentioned changes did not lead to significant impacts on the consolidated financial statements.

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

These amendments clarify the temporary provisions for the application of IFRS 10.

In addition, they limit the requirement to provide restated comparative data only for the comparison period preceding the first-time application of IFRS 10, 11 and 12. With regard to the additional disclosures required by IFRS 12 concerning interests held in other entities, these amendments eliminate the requirement to provide comparative information for periods preceding the application of IFRS 12. The application of the above-mentioned changes did not lead to significant impacts on the consolidated financial statements.

- 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 certain 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 equity interests and that is committed specifically to investors to limit its sole business purpose to investing funds to obtain returns from capital appreciation, investment income or both.

The application of the above-mentioned changes did not lead to significant impacts on the consolidated financial statements.

- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets

The amendment clarifies that the disclosures to be provided on the recoverable amount of assets that have dropped in value apply only to those assets for which the recoverable amount is based on fair value net of sales costs.

The application of the above-mentioned changes did not lead to significant impacts on the consolidated financial statements.

- Amendments to IAS 39 – Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting

These amendments make it possible to continue hedge accounting in a situation in which a derivative designated as a hedging instrument is novated to carry out an offset with a central counterparty as a result of laws or regulations if certain conditions are met.

In this context a novation indicates that the parties to an agreement undertake to replace their original counterparty with a new one. This amendment was introduced in response to statutory amendments affecting many jurisdictions that will lead to the widespread novation of derivative contracts.

The application of the above-mentioned changes did not lead to significant impacts on the consolidated financial statements.

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

As required by IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, new Standards or Interpretations already issued, but which have not come into force yet 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 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.

The European Union has not endorsed these amendments yet. The impact of the future application of these amendments cannot be quantified at this time.

- IFRS 9 – Financial Instruments

On July 24, 2014 the IASB published the final version of the IFRS 9 “Financial Instruments”.

This document replaced the previous versions published in 2009 and 2010 for the phase “classification and measurement” and in 2013 for the phase “hedge accounting”. This publication completes the process of reformation of IAS 39, aiming to make it less complex, which is subdivided into the three phases of "classification and measurement", "impairment " and "hedge accounting"; the review of the macro hedge accounting rules is still be to completed, managed via a project separate from IFRS 9.

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

- hedge accounting: the provisions of IAS 39 considered too strict were amended with the aim of ensuring a greater alignment between the accounting presentation of the hedge accounting and the managerial logics (risk management). In particular amendments were introduced for the types of transactions eligible for hedge accounting, by broadening the risks of non-financial assets/liabilities eligible to be managed under hedge accounting;
- the effectiveness test envisaged by IAS 39 was replaced by the principle of the "economic relationship" between the item hedged and the hedging instrument; in addition, an assessment of the retrospective effectiveness of the hedging relationship is no longer be required.
- the classification and measurement of financial assets: financial assets can be classified only in the category "Fair value through other comprehensive income (FVOCI)" or at their amortised cost. The category "Fair value through profit or loss" is also envisaged, which however has a residual nature. 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;
- impairment: a single impairment model is envisaged, which is based on a concept of forward-looking expected loss, in order to ensure a more immediate recognition of the losses with respect to the IAS 39 model of "incurred loss", based on which the losses may only be recognised against objective evidence of a loss in value taking place after the initial recording of the assets;
- financial liabilities: the IASB substantially confirmed the provisions of IAS 39, maintaining the possibility to opt, in the presence of certain conditions, for the assessment of the financial liabilities based on the criterion of "Fair value through profit or loss". If the fair value option is adopted for financial liabilities, according to the new standard, the fair value change attributable to a change in the issuer's credit risk (so-called "own credit") must be recognised in the statement of comprehensive income and not in the income statement, thus eliminating a source of volatility for the economic results, which became particularly clear in the periods of economic-financial crisis.

This standard has not been endorsed by the European Union yet. The mandatory application of the standard is set from January 1, 2018, with the possibility of early application of the whole standard or only of the amendments related to the accounting treatment of the own credit for the financial liabilities designated at fair value.

The impacts on the consolidated financial statements deriving from the future application of this standard cannot be currently quantified.

- Amendments to IAS 1 – Disclosure initiative

These amendments aim to:

- clarify the provisions concerning the significance of the information;
- clarify which specific items of the statement of income, the statement of comprehensive income and the capital-financial position may be disaggregated;

- introduce guidelines on how an entity should present the subtotals in the statement of income, the statement of comprehensive income and the capital-financial position;
- clarify that the entities have flexibility with reference to the order with which the notes are presented, by underlining that the intelligibility and the comparability should be considered when deciding on the order of presentation;
- eliminate the guidelines to identify the relevant accounting policy.

These changes have not been endorsed by the European Union yet and will be effective from January 1, 2016. Early application is in any case allowed.

Significant changes are not expected on the method of presenting the consolidated financial statements deriving from the application of the above-mentioned amendments.

- Amendments to IFRS 10, IFRS 12 and IFRS 28 - Investment Entities*:* Applying the Consolidation Exception

The amendments aim to clarify three issues linked to the consolidation of an investment entity. Specifically:

- it amends IFRS 10 to confirm the exemption from preparing the consolidated financial statements for an intermediate parent (which is not an investment entity) that is controlled by an investment entity;
- it amends IFRS 10 to clarify that the rule according to which an investment entity must consolidate a subsidiary, instead of valuing it at fair value, is only applied to those subsidiaries which:
  i) act as an extension of the operations of the investment entity parent and
  ii) are not investment entities*;*
- it amends IAS 28 on the application of the equity method by a non-investment entity investor with stakes in associate or joint venture investment entities

These changes have not been endorsed by the European Union yet and will be effective starting from January 1, 2016. Early application is in any case allowed.

The impact of the future application of these amendments cannot be quantified at this time.

- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or JointVenture

These amendments aim to clarify the accounting treatment, both in the case of loss of control of a subsidiary (regulated by IFRS 10) and of downstream transactions regulated by IAS 28, depending on whether the subject of the transaction is or is not a business, as defined by IFRS 3. If the subject of the transaction is a business, the profit must be recognised in full in both cases (loss of the control and downstream transactions), while if the subject of the transaction is not a business, the profit must be recognised, in both cases, only for the portion relating to the interests of the third parties.

These changes have not been endorsed by the European Union yet and will be effective from January 1, 2016. Early application is in any case allowed.

The impact of future application of these amendments cannot be quantified at this time.

- Amendments to IAS 27 – Equity Method in Separate Financial Statements

The amendments to IAS 27 aim to allow the entities to use the equity method to account for the investments in subsidiaries, joint ventures and associates in the separate financial statements.

These changes have not been endorsed by the European Union yet and will be effective from January 1, 2016. Early application is in any case allowed.

The impact of future application of these amendments cannot be quantified at this time.

- IFRS 14 – Regulatory Deferral Accounts

On January 30, 2014 the IASB published IFRS 14 – Regulatory Deferral Accounts. IFRS 14 allows only those who adopt IFRS for the first time to continue recognising amounts related to rate regulation according to previous accounting standards adopted. In order to improve comparisons with entities that already apply IFRS and do not recognise these amounts, the standard requires that the effect of the rate regulation must be presented separately from other items. The standard, which has not been endorsed by the European Union yet, applies starting January 1, 2016, but early application is also allowed. This standard does not apply to the Group.

- IFRS 15 - Revenue from Contracts with Customers

On May 28, 2014 the IASB published IFRS 15 Revenue from Contracts with Customers. One of the main purposes of the project is that of defining a regulation that is in line with US accounting standards (US GAAP). This convergence should improve the intelligibility of the financial statements for the financial community.

The policy replaces IAS 18 Revenue, IAS 11 Construction Contracts and a series of interpretations connected to them.

The new standard is applied to all the contracts with customers, except for the contracts that are within the scope of application of IAS 17 “Leasing”, for the insurance agreements and financial instruments.

The standard establishes a five-phase model which is applied (with a few exceptions) to all the sales contracts regardless of the type of transaction or the pertinent sector and also provides a model for the recognition and measurement of the related revenue in the presence of some non-financial assets which are not a product of the entity's ordinary business (for example, sale of property, plant and equipment, and intangible assets). Specifically the standard defines the following five phases:

1. identify the contract with the customer, defined as a (written or verbal) agreement with a commercial substance between two or more parties, which creates rights and obligations with the customer that can be protected in court;
2. identify the performance obligations (obligations that can be identified separately) contained in the contract: a key factor is to determine whether an asset/service is severable, i.e. if the customer can benefit from it alone or together with others. Each separate good or service will be subject to a separate performance obligation;
3. determine the price of the transaction, as the fee that the company expects to receive from the transfer of the assets or the provision of the services to the customer, in line with the techniques set by the standard and depending on the possible presence of financial components, such as, for example the time value of money and the fair value of any non-cash payment;
4. allocate the price of the transaction to each “performance obligation”; if this is not possible, the entity must use estimates via an approach which maximizes the use of the observable input data;
5. recognise the revenue when the obligation is regulated, i.e. when the control of the good or service has been transferred, taking into consideration the fact that the services may not be rendered at a specific moment, but also during a time period. The

control of an asset is defined as the ability to manage its use and be able to substantially benefit from all of the remaining benefits deriving from the asset, meant as the potential cash flows which may be obtained directly or indirectly from using the same asset. On this point, new guidelines are in place depending on whether the revenue must be recognised at a certain moment in time or over time, replacing the previous distinction between goods and services.

The standard, which has not been endorsed by the European Union yet, will be applied starting January 1, 2017, but early application is also allowed. The impacts from the introduction of the new standard on the consolidated financial statements in the first year of application cannot currently be estimated.

- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation

These amendments, published on May 12, 2014, establish the basic principle of the depreciation as consumption of the expected future economic benefits embodied in the asset.

The IASB clarified that a depreciation criterion based on the revenues generated by the asset (so-called revenue-based method) is not deemed appropriate, since it only reflects the revenue flow generated by this asset and not, instead, the consumption of the expected future economic benefits embodied in the asset.

This presumption may not be applied to limited cases in the presence of intangible assets.

The approach taken by both standards explains that future reductions in the sales prices could suggest a high rate of consumption of the future economic benefits embodied in an asset.

These amendments, which have not been endorsed by the European Union yet, will be applied starting January 1, 2016, but early application is also allowed. No significant impacts are expected on the consolidated financial statements from the application of the above amendments.

- Amendments to IFRS 11- Accounting for acquisitions of interests in joint operations

These amendments, published on May 6, 2014, specify that the acquisition of an investment in a joint operation which constitutes a business must be recognised in compliance with IFRS 3 - Business Combinations, i.e. based on the purchase price allocation criterion.

These amendments have not been endorsed by the European Union yet and will be applied starting January 1, 2016, even if early application is also allowed. No significant impacts on the consolidated financial statements are expected.

- Amendments to IAS 19 – Employee Benefits – Defined-Benefit Plans: Employee Contributions

The aim of the amendments is to simplify the accounting of contributions of employees or third parties for defined-benefit plans that are independent of the years of service, such as contributions that are calculated as a fixed percentage of salaries.

These amendments were endorsed by the European Union on December 17, 2014 (EU regulation no. 29/2015) and will become effective starting the accounting periods which started after February 1, 2015. No significant impacts on the consolidated financial statements are expected to derive from the introduction of these changes.

- "Improvements" to IFRS (2012-2014 issued by the IASB in September 2014)

The IASB issued a number of amendments to several standards in effect in response to questions that arose during the 2012-2014 cycle of annual improvements to IFRS.

The following table summarises the standards and issues dealt with by these amendments:

IFRS	Subject of the amendment
IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations	Changes in the disposal methodologies.
IFRS 7 – Financial Instruments Disclosures	• Servicing contracts • Applicability of the amendments to IFRS 7 to Interim Financial Reporting
IAS 19 – Employee Benefits	Discount rate: problems connected to the reference markets
IAS 34 – Interim Financial Reporting	Requirements in case the information is presented in the interim financial report, though off the interim financial statements

These changes have not been endorsed by the European Union yet and will be effective from January 1, 2016. No significant impacts on the consolidated financial statements are expected to derive from the introduction of these changes.

- "Improvements" to IFRS (2010-2012, issued by the IASB in December 2013)

The IASB issued a number of amendments to several standards in effect in response to problems that arose during the 2010-2012 cycle of annual improvements to IFRS.

The following table summarises the standards and issues dealt with by these amendments:

IFRS	Subject of the amendment
IFRS 2 – Share-based Payments	Definition of vesting condition
IFRS 3 – Business Combinations	Accounting for business combination cost adjustments that are subject to future events
IFRS 8 – Operating Segments	• Aggregation of operating segments • Reconciliation of total assets of segments covered by disclosure compared to the entity's assets
IFRS 13 – Fair Value Measurement	Short-term receivables and payables
IAS 16 – Property, Plant and	Revaluations – Proportional

Equipment	redetermination of accumulated depreciation
IAS 24 – Related Party Disclosures	Key Managers
IAS 38 – Intangible Assets	Revaluations – Proportional redetermination of accumulated depreciation

These amendments were endorsed by the European Union on December 17, 2014 (EU regulation no. 28/2015) and will become effective starting the accounting periods which started after February 1, 2015. No significant impacts on the consolidated financial statements are expected to derive from the introduction of these changes.

- "Improvements" to IFRS (2011-2013, issued by the IASB in December 2013)

The IASB issued a number of amendments to several standards in effect in response to problems that arose during the 2011-2013 cycle of annual improvements to IFRS.

The following table summarises the standards and issues dealt with by these amendments:

IFRS	Subject of the amendment
IFRS 1 – First-time Adoption of International Financial Reporting Standards	Meaning of "IFRS in effect"
IFRS 3 – Business Combinations	Scope of application for joint ventures
IFRS 13 – Fair Value Measurement	Scope of application of section 52 (portfolio exception)
IAS 40 – Investment Property	Clarify the interrelations between IFRS and IAS 40 in classifying a property as an investment property or as a property to be used by the owner

These amendments were endorsed by the European Union on December 18, 2014 (EU regulation no. 1361/2014) and will become effective starting from January 1, 2015. No significant impacts on the consolidated financial statements are expected to derive from the introduction of these changes.

- IFRIC Interpretation 21 – Levies

This interpretation, published on May 20, 2013, deals with the accounting of a liability relating to the payment of levies in case this liability is included in the field of application of IAS 37 as well as the accounting of a liability relating to the payment of a levy of uncertain timing or amount. The interpretation was endorsed by the European Union (EU regulation no. 634/2014) and will become effective starting the accounting periods which started after June 17, 2014. No significant impacts on the consolidated financial statements are expected to derive from the introduction of this interpretation.

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, 2014 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 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 IFRS, are accounted for directly in equity. The Group opted for presentation of the tax effects of the profit/losses recognised directly in equity and of reclassifications to the income statement of profit/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 changes in the reserves that occurred during the period.

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

6.3.4. Consolidation area

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

Subsidiaries are all those companies and entities for which the Group is exposed or has the right to variable returns, deriving from its relation with the entity invested in and, at the same time, has the ability to affect these returns by exercising its power over this entity.

Specifically, an investee is a subsidiary if, and only if, at the same time, the Group has:

- power over the entity invested in (or holds valid rights that give it the current ability to manage the significant assets of the entity invested in);
- exposure or rights to variable returns deriving from the relationship with the entity invested in;
- the ability to exercise its power over the entity invested in to affect the amount of its returns.

It is generally presumed that the majority of voting rights implies the control.

If the facts and circumstances suggest that changes have occurred to one or more of the three significant elements for defining control, the Group shall reconsider whether there is control over a subsidiary or not.

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 assets, liabilities, revenues and costs of the subsidiary bought or sold during the year are therefore included in the consolidated financial statements from the date when the Group obtained the control until the date when the Group no longer exercises the control over the company.

The ownership interest, the profit (loss) for the year and each of the other components of the statement of comprehensive income attributable to the minority shareholders are shown separately in the balance sheet, income statement and consolidated statement of comprehensive income.

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 of the subsidiary by virtue of particular legal arrangements, such as participation in a shareholders' agreement combined with other forms of significant exercise of governance rights.

As defined by the new IFRS 11, a joint venture is a joint arrangement in which the parties which hold the joint control have rights on the net assets of the arrangement. A joint venture implies the establishment of a legal entity which controls the assets, assumes the liabilities and signs the contracts in its name.

Companies included in the consolidation area are listed in Appendix 1 “Consolidation area”, in which the accompanying notes discuss the related changes.

It should be noted that, with effect from June 27, 2014 the companies attributable to the DGAG residential portfolio left the consolidation area after the sale of the same to BUWOG Immobilien Management GmbH. The result of this sale was recognised in compliance with IFRS 5 since December 2013.

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 area is based on the financial statements of consolidated companies as at the reporting date, which have been adjusted, where necessary, to reflect the IAS/IFRS 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 profit (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 revenue shown in the subsidiaries' financial statements are aggregated in full, irrespective of the investment 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 profit or loss are reported separately in the income statement as well as in the consolidated statement of comprehensive income;
- 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 any goodwill, defined as the positive difference between the purchase price and the interest in the net fair value of the net assets and liabilities identified/acquired;
  - immediately recognising any difference as income in the income statement, if the fair value of the interest acquired exceeds the purchase price;
- the changes in the shareholdings in a subsidiary that do not imply the loss of control are recognised under equity;
- in case of loss of control of a subsidiary, the related assets (including goodwill), liabilities, minority shareholdings and the other equity components are eliminated, while any profit or loss is recognised in the income statement. Any retained shareholding must be recognised at fair value.

Investments in associates and joint ventures are accounted for using the equity method, under which the carrying amount of such investments (initially equal to the cost) is adjusted to take account of:

  - the investor's share of the operating results achieved by the investee after the acquisition date;
  - each change in the other components of the statement of comprehensive income of the subsidiary as well as 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 investment 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;

When losing the significant influence over an associated company or the joint control over a joint venture, the Group assesses and reports the residual investment at fair value. The difference between the carrying amount of the investment at the date of losing the significant influence or the joint control and the fair value of the residual investment.

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 that the asset becomes available for use, i.e. when it is operating in the manner intended by management, and ceases from the date that 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.

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, licences and trademarks*

Concessions, licences 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 licences 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%
Oter assets:	
- vehicles	25%
- office equipment	20%-50%
- furiniture and fittings	12%

Government grants relating to property, plant and equipment are posted as deferred revenue and credited to the income statement over the depreciation period of the related assets.

Financial expenses 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 prepare for its intended use) are capitalised as part of the cost of that asset. Financial expenses 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. Expenses 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 shorter of the residual useful life of the asset and the lease term.

Capital 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, at the present value of the minimum lease payments, as a balancing entry to the related debt. 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 net proceeds received and carrying amount.

Investment property (held by equity-accounted companies)

Investment property is real estate held in order to earn rental income 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 estimated amount for which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Each investment property is valued separately on the basis of appraisals prepared by independent experts, 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 asset, 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

<u>Property, plant and equipment and intangible assets</u>

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 of disposal, and its value in use. Value in use is the present value of the future cash flows expected to arise 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.

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 net carrying amount, the net carrying amount is increased to the recoverable amount. The reinstated value cannot exceed the carrying amount that the asset would have had (net of write-downs and 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.

<u>Investments</u>

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 to 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 that 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.

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 for which the 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.

Any 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.

Restricted deposits

Restricted deposits are measured at their par 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 financial expenses, 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 financial expenses, 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 properties held by associates and joint ventures that 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.

Revenue from contracts includes 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 financial expenses that can be capitalised under the conditions described for property, plant and equipment.

When the outcome of a contract can be reliably determined, its revenue and costs are recognised 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 revenue 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 percentage 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 of 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 securities from the securitisation of non-performing loans (NPL) as well as non-performing loans acquired at prices significantly lower than par value (deep discount receivables) represent the right to receive residual cash flows produced by the securitisation vehicle. These securities are initially recognised and later measured at their fair value. On the acquisition date, fair value is normally represented by the price paid.

Any positive or negative differences are recognised in the income statement.

Shareholder 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 shareholder 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 par 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 in accordance with the Group's accounting policies and used for the recognition of the investment using the equity method, 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, shareholder loans are measured at amortised cost.

For the purposes of assessing impairment, shareholder 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 contractual obligation is settled.

Cash and cash equivalents

Cash and cash equivalents are recognised at par 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, for which the original maturity at the moment of purchase is no more than three months.

They consist of short-term bank and post office deposits and cash and valuables in hand.

Provisions for risks and expenses

Provisions for risks and expenses originating 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 discounting is material, the amount of the provision must be the present value of the expenses expected to be required to settle the obligation.

Employee benefits

Post-employment benefits: defined benefit plans and other long term benefits are subject to actuarial valuations. The liability recorded in the financial statements represents the present value of the Group's obligation, less the fair value of any plan assets.

For defined-benefit plans, the Prelios Group fully recognises actuarial gains and losses in equity in the year that 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 severance 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 of December 27, 2006 ("2007 Finance Act") and subsequent decrees and regulations issued in early 2007. As a result of these changes, Group companies with at least 50 employees must now treat provisions for employee severance 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.

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 hedging instrument and the hedged item, the risk management objectives and the strategy pursued in entering into the hedge.

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.

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.

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 used. 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 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 carrying amount of assets and liabilities (the "liability method"). No deferred taxes can be recognised on non-deductible goodwill and on differences associated with investments in subsidiaries for which it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets of losses carried forward and temporary differences are recognised only to the extent that is probable that future taxable profits will be available.

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 periods 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 period or in previous periods.

As from financial year 2010 the parent company Prelios S.p.A., as the consolidator, has elected to file for tax on a Group basis in accordance with Article 117 et seq. of the Italian Income Tax Act.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 parent company 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 revenue from tax consolidation are calculated on the basis of the provisions of the Prelios Tax Consolidation Regulations. In particular, in accordance with Article 16 of the Regulations, when applicable, 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.

On June 14, 2013 the consolidator, Prelios S.p.A., and its subsidiaries meeting the legal requirements, renewed the tax consolidation for the three-year period 2013-2015 unless there is an early interruption due to a loss of control of the subsidiary, or a financial year that does not coincide with that of the consolidator.

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

Revenue and costs

Revenue and costs are recognised using the accrual basis of accounting.

Revenue recognition

Revenue is recognised at the fair value of the payment received or due, in accordance with the principles set out below.

Sale of assets

Revenue from the sale of assets is recognised only when all of the following conditions are met:

- 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 measured;
- it is probable that the economic benefits associated with the sale will flow to the entity;
- the costs incurred or to be incurred can be reliably measured.

In particular, in the case of property sales, revenue is normally recognised when ownership changes hands, i.e. when the property is transferred 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.

Rendering of services

When the outcome of a transaction involving the rendering of services can be reliably estimated, revenue associated with the transaction shall be recognised by 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 satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;

- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete it can be measured reliably.

Interest

Interest is recognised on an accrual basis considering the effective yield of the asset or liability.

Dividends

Dividends are recognised when the shareholders’ right to receive payment is established, 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 profit (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

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 may enter 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 are aimed at the mitigation of exposure to currency risk and interest rates, also implemented through the use of selected derivative 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 may use derivatives in relation to the underlying financial assets or liabilities or future transactions.

The Treasury unit operates directly on the market, coordinates the activities of subsidiaries and monitors those of associates and joint ventures on a quarterly basis, in order to propose instruments for appropriate decisions to the boards of directors of the initiatives managed.

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) that lead to a review;
- it negotiates corporate credit facilities with banks.

<u>Types of financial risks</u>

In carrying out its ordinary business 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 with 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 highlights the effects of a variation in the significant variables in the different reference markets on income and expenses from financial operations and directly on equity.

The sensitivity analysis was conducted on the basis of the hypotheses and assumptions below:

• 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, 2014, assuming that said values are representative 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 the value of the financial instruments brought about by changes in interest rates have an impact on the level of debt and on financial income and expenses in the year; therefore, these are taken into consideration in the present analysis;

• the changes in value, brought about by changes in interest rates, of 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 the euro, mainly the Polish zloty. Changes in exchange rates thus produce no significant effects on the income statement.

This risk relates exclusively to shareholder loans given to joint ventures for real estate projects in Poland. It is managed by the Group 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.

From December 31, 2013 the Group, based in part on exchange rate projections provided by major analysts that point to a future strengthening of the euro against the zloty, decided not to further renew forward contracts for hedging purposes, even if they are not designated as such pursuant to IAS 39, in relation to shareholder loans made to the Polish joint venture Polish Investments Real Estate Holding II B.V. and the loan made to parent company Prelios S.p.A. by Prelios Polska S.p.zo.o..

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 of the fair value or future cash flows of a financial asset or liability changing on account of fluctuations in market interest rates. The Group's exposure to the risk of fluctuations in market interest rates is first and foremost linked to long-term floating-rate debt. However, in consideration of fact that the portion of long-term floating-rate debt as at December 31, 2014 is not significant, a possible change in interest rates would not have considerable effects on the total consolidated equity.

The Treasury unit receives an estimate of the impact produced by changes in the interest rate curve on the value of derivatives (mark to market) from an external consultant of recognised professional standing.

As regards associates and joint ventures, the floating-rate debt hedging policy is defined during negotiations in concert with partners in investment initiatives and lenders.

The Treasury unit periodically monitors these hedging instruments in accordance with the guidelines of the existing management mandate and, where 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 Treasury unit according to whether or not they meet the IAS 39 requirements.

The impact on net profit and total equity arising from a simulated 0.10% increase or 0.05% decrease for one year in the interest rates to which Prelios Group is exposed, assuming all other conditions remain equal, is set out in the following table:

in thousands of euro	**0.10%**	**0.10%**	**-0.05%**	**-0.10%**
	12.31.2014	**12.31.2013**	**12.31.2014**	**12.31.2013**
Impact on net income				
- fully consolidated companies	30	109	(15)	(109)
- equity-accounted companies	(318)	(683)	159	704
Total impact on net income	**(287)**	**(574)**	**144**	**596**
Impact on equity				
- fully consolidated companies	30	109	(15)	(109)
- equity-accounted companies	(318)	(610)	159	631
Total impact on equity	**(287)**	**(501)**	**144**	**522**

In consideration of the projected trends in interest rates in the next 12 months, recorded at the end of December 2014, for the purposes of the simulation, a hypothetical 0.10% increase or 0.05% decrease was deemed appropriate, for the year 2014 only.

This simulation is performed, for the subsequent financial year, taking into consideration the fixing of the first reference quarter and the first reference half year 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; and (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.

Such impacts relate to both companies consolidated line by line but also to companies accounted for using the equity method, considered on the basis of the interest held by the Prelios Group.

The direct impact on equity is linked to changes in the fair value of cash flow hedge derivatives, by virtue of the application of the international accounting standards that govern hedge accounting, which require the fair value measurement (mark to market) of these 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 price risk owing only to the volatility of the real estate funds in which it invests that are 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", for which the 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 the Group's equity.

Credit risk

The credit risk is the Group's exposure to potential losses deriving from the failure to fulfil the commercial and financial obligations taken on by the counterparties. 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, and to a lesser extent for 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 expected receipts and credit recovery actions. An analysis is then performed of past-due receivables and those falling due 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 similar characteristics from the point of view of credit risk that are grouped together and written down on a collective basis, in relation to the estimated average irrecoverability.

These procedures aim to establish customer credit limits, which once exceeded usually result in a suspension of further sales.

With regard to the financial counterparties for the management of resources that are temporarily in excess or for negotiating derivative instruments, the Group only uses brokers with high credit standings.

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 closely connected and constantly monitored in relation to Group requirements, as regards initiatives that aim to strengthen the Group's equity and financial structure.

In ordinary operations, liquidity risk is the risk that available financial resources will be insufficient to meet financial and trade obligations in the agreed manner on the agreed due date.

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 projected 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 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, at the level of the country the Group operates in, 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.

On the basis of financial statement data, the 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, 2014:

	Carrying amount	Contractual cash flows	within 1 year	1 - 2 years	2 - 5 years	over 5 years
Bank borrowings and payables to other lenders	264,924	308,277	10,633	3,000	294,196	448
Trade payables	47,316	47,316	47,316	-	-	-
Other payables	41,441	41,441	40,917	-	-	524
Total	**353,681**	**397,034**	**98,866**	**3,000**	**294,196**	**972**

Financial liabilities at December 31, 2013 are analysed by due date as follows:

	Carrying amount	Contractual cash flows	within 1 year	1 - 2 years	2 - 5 years	over 5 years
Bank borrowings and payables to other lenders	474,089	526,986	11,003	2,830	261,202	251,951
Trade payables	48,116	48,116	48,116	-	-	-
Other payables	53,444	53,444	52,529	-	-	915
Total	**575,649**	**628,546**	**111,648**	**2,830**	**261,202**	**252,866**

Trade payables include the portion of payables more than 90 days past due in an amount of approximately Euro 3.9 million at December 31, 2014 (Euro 3.2 million at December 31, 2013).

6.5. Fair value measurement

The Group measures financial instruments, such as derivatives and junior securities issued by non-performing loan vehicles, available-for-sale financial assets and non-financial assets, such as investment properties, at fair value on each reporting date.

Fair value is the price that would be received from the sale of an asset or that would be paid to transfer a liability in a normal transaction between market operators on the measurement date. Fair value measurement assumes that a transaction to sell an asset or transfer a liability takes place:

(a) in the main market for the asset or liability; or

(b) in the absence of a main market, in the most advantageous market for the asset or liability. The main market or most advantageous market must be accessible for the Group.

The fair value of an asset or liability is measured using assumptions that market operators would use to determine the price of the asset or liability assuming that they are acting to satisfy their economic interest in the best way possible.

A fair value measurement of a non-financial asset takes account of a market operator's ability to generate economic benefits by employing the asset at its maximum and best use or selling it to another market operator who would use it to its maximum and best use.

The Group uses measurement techniques suitable for the circumstances, and for which there is sufficient data available to measure the fair value by maximising the use of major observable inputs and minimising the use of unobservable inputs.

IFRS 13 requires that all assets and liabilities measured at fair value or reported in the financial statements must be classified on the basis of a hierarchy of levels reflecting the significance of inputs used in determining fair value. These levels are as follows:

- Level 1 – determination of fair value on the basis of prices quoted in active markets for identical assets or liabilities that the entity is able to access on the measurement date;
- 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 for which the inputs are not based on observable market data.

In certain cases, the data used to measure the fair value of an asset or liability could be classified in several levels of the fair value hierarchy. In these cases, the fair value measurement is classified entirely in the same hierarchy level in which the lowest level input is classified, taking account of its importance for the measurement.

For assets and liabilities recognised in financial statements on a recurring basis, the Group determines whether there have been any transfers between hierarchy levels by reviewing the categorisation (based on the lowest level input that is significant for the purposes of the fair value measurement in its entirety) at each reporting date.

Classes of financial assets and liabilities

In order to complete the analyses required by IFRS 13, the following table presents the carrying amount of every class of financial asset and liability identified by IFRS, with an indication of the accounting policies applied:

	Note	12.31.2014			12.31.2013		
		Total	non-current	current	Total	non-current	current
Financial assets measured at amortised cost							
Other financial assets	4	-	-	-	193	193	-
Financial assets measured at fair value							
Other financial assets	4	4,800	4,800	-	11,123	11,123	-
Loans and receivables							
Trade receivables	6	35,074	-	35,074	35,055	-	35,055
Other receivables	7	131,369	113,596	17,773	139,540	115,980	23,560
Cash and cash equivalents	10	77,192	-	77,192	85,609	-	85,609
Available-for-sale financial assets							
Other financial assets	4	10,712	10,712	-	11,994	11,994	-
Restricted deposits							
Other financial assets	4	742	742	-	879	879	-
TOTAL FINANCIAL ASSETS		**259,889**	**129,850**	**130,039**	**284,393**	**140,169**	**144,224**
Financial liabilities measured at amortised cost							
Bank borrowings and payables to other lenders	15	264,924	256,434	8,490	474,659	465,671	8,988
Trade payables	16	47,316	-	47,316	48,116	-	48,116
Other payables	17	41,441	524	40,917	53,444	915	52,529
TOTAL FINANCIAL LIABILITIES		**353,681**	**256,958**	**96,723**	**576,219**	**466,586**	**109,633**

Fair value hierarchy

The following table shows assets carried at fair value at December 31, 2014, divided into the three levels defined above:

	Note	Carrying amount at 12.31.2014	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS					
Available-for-sale financial assets	**2**	**10,712**	**1,623**	**8,340**	**749**
- investments in other companies	*2*	*749*	*-*	*-*	*749*
- closed-end real estate funds	*2*	*9,963*	*1,623*	*8,340*	*-*
Other financial assets measured at fair value	**2**	**4,800**	**-**	**-**	**4,800**
Bonds - junior notes	*2*	*4,800*	*-*	*-*	*4,800*

During 2014, 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 fair value measurement of instruments in Level 2, consisting of units held in unlisted real estate funds, is carried out using the latest NAV available for such funds (discounted by an amount that takes account of the fund's future results, if negative, and the estimated sales prices of properties determined on the basis of data stated in the latest business plans available).

During the year 2014 there were no changes in level 3 or transfers from level 3 to other levels and vice versa.

6.6. Capital management policy

As fully described in the directors' report on operations, in order to relaunch business development prospects, in 2014 the Company intensified business development measures while constantly monitoring the cash situation, which, as compared to the Strategic Plan 2014-2016:

- highlights positive "permanent" and "temporary" deviations, the latter being mainly attributable to some early collections and the deferment of some cash outflows to ensure financial support to the initiatives in the portfolio;
- includes the effect of an effective management of the working capital.

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 turnaround.

6.7. 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 the 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 revenue 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 elaboration of estimates and evaluations by the management mainly regard:

- assessment of the recoverability of intangible assets and definition of their useful lives;
- valuation of the interest in associates and joint ventures, and assessment of the recoverability of financial receivables that such companies might owe;
- determination of the fair value of real estate properties and the realisable value of inventories;
- estimation of contingent liabilities for outstanding legal and tax litigation as described in more detail in paragraph 8.4 of the report on operations;
- quantification of the impairment of receivables (partly with reference to determining the value of securities linked to non-performing loans), financial

assets and the estimate of the liabilities deemed likely and recorded under provisions for risks and expenses;

- estimates and assumptions on the recoverability of prepaid taxes.

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 loans in relation to the effects that 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 also based on the periodic updating of estimated expected cash flows.

Asset values related to real estate portfolios and non-performing loans, or to the value of investments of proprietary vehicle companies, are measured on the basis of the respective appraisals or valuation models on the assumption of a development process or sale on the market as a part of a normal company cycle. In addition, with regard to valuations of the real estate portfolio, taking account of the provisions of current laws, for valuations of real estate assets and real estate rights the Group uses experts (who meet the requirements of Article 17 of Ministerial Decree 228/1999), but also subjects the results of their valuations to validation processes.

A review and check are performed in order to verify:

- whether the data and information contained in appraisal reports are adequate, complete and accurate;
- the experts' proper application of asset valuation criteria.

The Investment Portfolio Management unit is the party responsible for the updated reporting of useful data and information (property inventories, intended uses, employment situation, lease agreements, etc.) for valuations of real estate assets in the portfolio near the reporting date.

The mandate given to the experts hired for periodic (half-yearly and annual) valuations of real estate assets has a term, subject to substantiated exceptions, of up to four years. It cannot be renewed or reassigned unless at least three years have passed since the termination of the previous assignment.

The Group undertakes to ensure a periodic rotation of experts in the area of real estate assets, and to guarantee that each individual valuer does not certify more than 50% of the overall value of the real estate portfolio.

When selecting experts, the existence of any conflicts of interest is assessed to ascertain whether their independence may have waned.

The experts are third parties that are independent from the Group. Their valuations must be based on current laws and best international standards in order to determine the proper value of the properties.

The Risk Management unit, with the professional support of third parties specialising in real estate valuations as necessary, must verify that the asset valuation criteria used by the expert are consistent and have been properly applied. The latter verification process, which is performed on a sampling basis, must specify that a methodology consistent with commonly accepted practice has been applied for the appraisal. If there are large disagreements that could significantly alter the valuation, all checks must be performed, including those that contradict the experts, with the involvement of the appropriate Investment Portfolio Management.

With regard to the High street investment, note that this investment is periodically assessed with respect to the recoverability of the remaining financial receivable through the analysis of expected cash flows from closing the joint venture, which is possible when the disposal of the real estate assets has been completed. 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.

6.8. Seasonality

Revenue is not particularly influenced by seasonal trends.

6.9. 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 Euro 853 thousand, a net decrease of Euro 178 thousand since December 31, 2013, and are made up as follows:

	12.31.2014			12.31.2013		
	Historical cost	Accumulated depreciation/ write-downs	Net value	Historical cost	Accumulated depreciation/ write-downs	Net value
Buildings	985	(876)	109	970	(848)	122
Plant and machinery	1,434	(1,265)	169	1,428	(1,210)	218
Industrial and commercial equipment	116	(108)	8	116	(105)	11
Other assets, of which:	11,332	(10,765)	567	13,051	(12,371)	680
- vehicles	86	(79)	*7*	78	(78)	-
- furniture, office equipment and other	11,223	(10,686)	*537*	12,950	(12,293)	*657*
- works of art	23	-	*23*	23	-	*23*
Total	**13,867**	**(13,014)**	**853**	**15,565**	**(14,534)**	**1,031**

The following table shows changes in historical costs and accumulated depreciation during 2014:

Historical cost	12.31.2013	Changes in consol. area/Other	Increases	Decreases	12.31.2014
Buildings	970	-	15	-	985
Plant and machinery	1,428	-	6	-	1,434
Industrial and commercial equipment	116	-	-	-	116
Other assets, of which:	13,051	1,044	16	(2,796)	11,332
- vehicles	78	-	8	-	86
- furniture, office equipment and other	12,950	1,044	25	(2,796)	*11,223*
- works of art	23	-	-	-	*23*
Total	**15,565**	**1,044**	**54**	**(2,796)**	**13,867**

Accumulated depreciation/write-downs	12.31.2013	Changes in consol. area/Other	Depreciation/ Write-downs	Uses	12.31.2014
Buildings	(848)	-	(28)	-	(876)
Plant and machinery	(1,210)	-	(55)	-	(1,265)
Industrial and commercial equipment	(105)	-	(3)	-	(108)
Other assets, of which:	(12,371)	(1,044)	(167)	2,817	(10,765)
- vehicles	(78)	-	*(1)*	-	*(79)*
- furniture, office equipment and other	(12,293)	(1,044)	*(166)*	*2,817*	*(10,686)*
Total	**(14,534)**	**(1,044)**	**(253)**	**2,817**	**(13,014)**

Note 2. INTANGIBLE ASSETS

These amount to Euro 59,082 thousand, a net decrease of Euro 1,632 thousand over December 31, 2013.

	12.31.2013	Increases	Decreases	Amortisation/ Write-downs	12.31.2014
Concessions, licences and trademarl	3,577	-	-	(1,503)	2,074
Software	752	601	(58)	(672)	623
Goodwill	56,385	-	-	-	56,385
Total	**60,714**	**601**	**(58)**	**(2,175)**	**59,082**

Concessions

The amount recorded in the accounts mainly refers to the concession granted by the Municipality of Milan to the subsidiary Parcheggi Bicocca S.r.l. for the management of parking facilities in the Bicocca area until 2032.

This value was supported by the valuation conducted by an independent expert, who determined the value of the concessions through the discounting of future cash flows that presumably will be generated by using the latter. This appraisal led to an impairment of the concession for Euro 1,417 thousand.

Goodwill

It amounts to Euro 56,385 thousand, unchanged compared to December 31, 2013.

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:

	12.31.2014	12.31.2013
ITALY	**39,495**	**39,495**
Property	13,356	13,356
Fund management	26,139	26,139
GERMANY	**16,890**	**16,890**
Total	**56,385**	**56,385**

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 reallocated 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 identifiable 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 that top management is capable of making. In particular the value is the sum of the present value of unlevered free cash flows expected over the three-year planning period and the closing value, calculated projecting in perpetuity the cash flow expected at the end of three years.

The Budget 2015 and the Outlook 2016-2017 used as a basis for the valuation process were approved at the consolidated level by the parent company's Board of Directors and by the boards of directors of the various CGUs/legal entities.

The value in use of the cash-generating units related to the goodwill was estimated by an independent external expert.

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 expert found that the final results for 2014 were higher than those in the guidelines considered for the previous impairment test on all CGUs, except for the Fund Management CGU for which a negative deviation was recorded.

The Budget 2015 and the Outlook 2016-2017 predict rising flows for all CGUs, except for the Fund Management, for which a decrease in the result was predicted by management.

The key variables, on which the cash flows used in estimating the value in use are based, are illustrated in the following table:

Cash-Generating Unit	Key variables	Exogenous variables
ITALY		Recovery of real estate market and opportunity of business from the disposal of stranded credits from bank institutions in the next 24 months; Italian market seen as opportunity of investment by foreign investors.
Agency	Acquisition of large valuation contracts – recovery of volume of mortgage-related operations	
Credit Servicing	New business development – collection volume – changes in loan management fees	
Property	Success in participating in government bidding processes; renewal of existing agreements; development of business with third-party customers (volume and fees)	
Fund management	Volume of assets under management; market fees	
GERMANY	Reduction of exposure towards single customers – Achievement of growth with new customers	

The three-year projected flows were translated into average flows expected after eliminating future restructuring effects and improvements in efficiency that the accounting standard requires to exclude.

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 at 7.18% post-tax, while for the German CGU the lower country risk of Germany was taken into account (WACC = 6.26%).

The estimate of the cost of own resources is based on the CAPM, assuming the following parameters:

- risk-free rate = 2.85% for Italy and 1.22% for Germany;
- beta = 1.298;
- market risk premium = 5%.

The cost of borrowing pre-tax was assumed to be 5.97% (= 4.33% post-tax). The normal financial structure for the purpose of calculating the cost of borrowing and the weighted average cost of capital (WACC) was set at 43% for the debt component and 57% for the equity component.

The post-tax discount rates and growth rates (g) adopted for each CGU are detailed in the table below:

Cash-Generating Unit	Post-tax discount rate		Growth rate g	
	12.31.2014	12.31.2013	12.31.2014	12.31.2013
ITALY				
Agency	7.18%	8.52%	0.00%	0.00%
Credit Servicing	7.18%	8.52%	-1.00%	-1.00%
Property	7.18%	8.52%	0.00%	0.00%
Fund management	7.18%	8.52%	1.50%	0.00%
GERMANY	6.26%	7.29%	0.00%	0.00%

The growth rate (g) was assumed to be 0% for all CGUs except for the Credit Servicing CGU, for which a growth rate of negative 1% was assumed, and for the Fund Management CGU, for which a 1.5% growth rate was assumed, lower than the expected inflation of 1.9%, which was in keeping with the long-term outlook for the business.

The following table shows the respective pre-tax discount rates:

Cash-Generating Unit	**Pre-tax discount rate**
ITALY	
Agency	11.40%
Credit Servicing	9.65%
Integra	10.36%
Fund management	10.14%
GERMANY	8.83%

For all 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 and the relevant flows) which would cause each CGU to have a recoverable value equal to the carrying amount.

Cash-Generating Unit	**Increase in post-tax discount rate**	**Decrease in growth rate g**	**Decrease in EBIT in plan**
ITALY			
Integra	>5%	>5%	-57.23%
Fund management (SGR)	0.96%	1.39%	-11.95%
GERMANY	>5%	>5%	-57.51%

The asset-side, second-level impairment test was done by verifying that the recoverable value of assets of the Group was greater than their carrying amount. The overall enterprise value (services + investment) 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 current value of other assets to which goodwill is not allocated (this value is supported by appraisals of independent experts);
- (-) the present value of holding costs;
- (-) the carrying amount of non operating funds similar to debt.

The comparison carrying amount is derived (for the sake of consistency) on the basis of:

- (+) the Group's equity;
- (+) net financial position determined using the carrying amount at December 31, 2014;
- (+) the current value of minorities determined in accordance with the estimate of the legal entities' equity value.

Note 3. EQUITY INVESTMENTS

Equity investments in associates and joint ventures are accounted for using the equity method and amount to Euro 150,104 thousand, a net decrease of Euro 19,076 thousand since December 31, 2013.

Changes during the year are as follows:

	01.01.2014-12.31.2014				01.01.2013-12.31.2013			
	Total	**associates**	**joint ventures**	**held for sale**	**Total**	**associates**	**joint ventures**	**held for sale**
Opening balance	**169,180**	**42,961**	**122,925**	**3,294**	**236,770**	**53,625**	**179,774**	**3,371**
Acquisitions/contributions of capital and reserves/other	58,914	(9)	58,923	-	48,675	(33)	48,708	-
Portions of other components recorded under equity	315	-	315	-	6,175	66	6,109	-
Reclassification/Other changes	(158)	-	(158)	-	-	-	-	-
Distributions of dividends and reserves	(2,852)	-	(2,852)	-	-	-	-	-
Disposals and liquidations	(110)	-	(110)	-	(63)	(63)	-	-
Share of income/losses on investments	(13,271)	(5,156)	(8,115)	-	(112,463)	(10,536)	(101,927)	-
Assets held for sale	-	-	-	-	(43,835)	-	(43,835)	-
Fair value adjustment	555	-	-	555	(77)	-	-	(77)
Net (increase)/decrease in financial receivables	(50,264)	1	(50,265)	-	24,175	(56)	24,231	-
Change in provisions for risks and expenses	(12,205)	-	(12,205)	-	9,823	(42)	9,865	-
Closing balance	**150,104**	**37,797**	**108,458**	**3,849**	**169,180**	**42,961**	**122,925**	**3,294**

The changes in the item under discussion are attributable mainly to the final result of the investees, a negative total of Euro 13,271 thousand, which was partially offset by capital contributions during the period. The final result of the investees includes a pro-rata net negative effect for the Prelios Group of Euro 33.6 million, 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 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.

Note that the equity investments “held for sale” refer exclusively to the portion of the Olinda fund held by Prelios Netherlands B.V., since the Group believed that it will recover the related carrying amount, largely through a sales transaction. In December the sale of the residual portfolio of the Olinda fund to “Reitaly”, a real estate fund managed by AXA REIM S.G.R. S.p.A., was agreed, in execution of the agreement signed on July 10. The finalisation of the sales completes the process of disposal of the investments of Olinda – Fondo Shops by the date of expiry of the same fund scheduled for December 31, 2014.

The share held in the Olinda fund, together with that under lock up held by Prelios Società di Gestione del Risparmio S.p.A., which had been kept under investments in investees and valued with the equity method by virtue of the considerable influence exercised on the fund, was subject to impairment due to the alignment of the values that will be paid after the sale of the real estate portfolio.

Finally, it should be noted that there is a lien totalling Euro 34,267 thousand over shares in associates and joint ventures.

Note 4. OTHER FINANCIAL ASSETS

These amount to Euro 16,254 thousand, a net decrease of Euro 7,935 thousand over December 31, 2013. These are composed as follows:

	12.31.2014	12.31.2013
Available-for-sale financial assets measured at fair value in equity	**10,712**	**11,994**
Closed-end real estate funds	9,963	11,245
Investments in other companies	749	749
Other financial assets measured at fair value	**4,800**	**11,123**
Bonds – junior notes	4,800	11,123
Other financial assets measured at amortised cost	**-**	**193**
Bonds – junior notes	-	193
Restricted deposits	**742**	**879**
Total	**16,254**	**24,189**

Fair value hierarchy

During 2014, 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.

4.1 Closed-end real estate funds

These show the following changes at December 31, 2014:

	01.01.2014 - 12.31.2014	01.01.2012 - 12.31.2013
Opening balance	**11,245**	**11,921**
Increases	200	200
Decreases/Repayment of capital	(665)	(9)
Fair value adjustment	(817)	(867)
Closing balance	**9,963**	**11,245**
of which:		
Cloe Office Fund	5,749	6,783
Tecla Office Fund	1,623	2,053
Enasarco One Fund	1,498	1,460
Federale Immobiliare di Lombardia Fund	946	949
Parchi Agroalimentari Italiani Fund	147	-

The item was adjusted downwards by a total of Euro 817 thousand to account for changes in the fair value of real estate fund units. During 2014 the losses from the fair value measurement of the units held in Tecla Fondo Uffici and accumulated at December 31, 2014 were transferred to the income statement for Euro 2,145 thousand, as deemed significant and prologued based on the parameters set by the subsidiary Prelios Società di Gestione del Risparmio S.p.A..

4.2 Investments in other companies

The item amounts to Euro 749 thousand, unchanged compared to the previous year.

4.3 Other financial assets measured at fair value

At December 31, 2014 the item under review totalled Euro 4,800 thousand due to the Class D junior notes that the joint venture Espelha – Serviços de Consultadoria Lda assigned to its shareholders on December 23, 2013. The value is posted net of the impairment at December 31, 2014 for Euro 6,323 thousand, attributable to the change in the estimate of expected cash flows, which generated an adjustment of the value from discounting future cash flows. This adjustment was booked to the income statement under financial expenses.

Prelios S.p.A. also holds Class B junior notes related to the securitisation of a portfolio of non-performing loans of Vesta Finance S.r.l., the value of which has been eliminated from the financial statements since financial year 2011 following the change in the estimated cash flows of the portfolio.

4.4 Other financial assets measured at amortised cost

The deferred redemption amount regarding the securitisation of a portfolio of non-performing loans of the company Cairoli Finance S.r.l. was settled in the year under review for Euro 193 thousand, following the conclusion of the process of liquidation of the company.

4.5 Restricted deposits

This item comprises cash and cash equivalents not freely usable by the Group in the short term.

Note 5. DEFERRED TAX ASSETS AND DEFERRED TAX PROVISION

These are composed as follows:

	12.31.2014	12.31.2013
Deferred tax assets	8,310	11,070
Deferred tax provision	(2,156)	(1,723)
Total	**6,154**	**9,347**

Deferred and prepaid taxes are accounted for, when the conditions are met, taking into account offsetting between legal entities. The breakdown of the same before offsets are made is as follows:

	12.31.2014	12.31.2013
Deferred tax assets	10,072	16,089
Deferred tax provision	(3,918)	(6,742)
Total	**6,154**	**9,347**

The statement presented below details the change that occurred during financial year 2014 in the balance of deferred tax assets:

Description	12.31.2013	Provisions	Uses	Other changes	12.31.2014
Recoverable tax losses	4,308	131	(636)	(3)	3,800
Amortisation and depreciation	1,961	35	(308)	(291)	1,397
Closing cost of capital increase	1,757	-	(439)	-	1,318
Provision for future risks and expenses	2,499	231	(1,635)	-	1,095
Adjustment of fund units in portfolio and derivatives to fair value	1,202	-	-	(364)	838
One-off incentives + LTI + Layoffs	1,002	349	(700)	-	651
Invoices to be received	485	368	(416)	(1)	436
Actuarial adjustment of staff funds	1,074	4	(408)	(509)	161
Legal expenses	224	153	(255)	-	122
Elimination of intra-group margins	603	-	(502)	-	101
Allowance for doubtful accounts	276	-	-	(276)	-
Other	698	163	(708)	-	153
Total	**16,089**	**1,434**	**(6,007)**	**(1,444)**	**10,072**

The column entitled “other changes” mainly includes prepaid taxes recognised as a balancing entry to equity amounts, related to the actuarial adjustment of the employee benefit obligations and the fair value adjustments of the portions of the funds in the portfolio.

Retained tax losses for which no prepaid taxes have been recognised are analysed by expiry date as follows:

	12.31.2014
Unlimited losses – partially offsettable*	58,519
Unlimited losses **	14
Unlimited losses Pre Deutschland GmbH	24,387
Tax consolidation losses – 2010/2011/2012/2013*	65,608
Tax consolidation losses – 2014*	21,649
Total	**170,177**

* These refer to losses with no limit on being carried forward that are offsettable only up to 80% of income for each year.

** These refer to losses produced in the first three years with no limit on being carried forward and usable up to 100% of income.

The decision was taken not to recognise prepaid taxes 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 prepaid taxes for the above tax losses would amount to Euro 44,009 thousand (Euro 39,998 thousand at December 31, 2013).

The temporary differences giving rise to the deferred tax liabilities at December 31, 2014 are detailed in the table below:

Description	12.31.2013	Provisions	Uses	Other changes	12.31.2014
Amortisation of goodwill	3,646	-	-	-	3,646
Actuarial adjustment of staff funds	252	-	-	(79)	173
Fund units in portfolio	2,382	-	(2,292)	-	90
Other	462	-	(453)	-	9
TOTAL	**6,742**	**-**	**(2,745)**	**(79)**	**3,918**

In particular, in 2014 deferred taxes of Euro 80 thousand were absorbed with a balancing entry in equity in relation to aligning available-for-sale financial assets to fair value.

Note 6. TRADE RECEIVABLES

Trade receivables totalled Euro 35,074 thousand, essentially in line with the final figure reported at December 31, 2013.

	12.31.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Trade receivables from associates	6,258	-	6,258	2,375	-	2,375
Trade receivables from joint ventures and other Prelios Group companies	53,484	-	53,484	56,188	-	56,188
Trade receivables from other related parties	16	-	16	176	-	176
Trade receivables from third parties	22,974	-	22,974	20,432	-	20,432
Receivables for contracts	109	-	109	62	-	62
Total gross trade receivables	**82,841**	**-**	**82,841**	**79,233**	**-**	**79,233**
Allowance for doubtful accounts	(47,767)	-	(47,767)	(44,178)	-	(44,178)
Total	**35,074**	**0**	**35,074**	**35,055**	**0**	**35,055**

Trade receivables mainly refer to contracts for the provision of fund and asset management services and technical and commercial services.

Trade receivables from other related parties (Euro 16 thousand) mainly include the receivables from the Pirelli Group for the recovery of costs related to the HQ2 building and the contract for the subscription of the parking facilities in the Bicocca area.

Out of total gross trade receivables of Euro 82,841 thousand (Euro 79,233 thousand at December 31, 2013), Euro 54,179 thousand are past due (Euro 54,427 thousand at December 31, 2013), of which Euro 44,162 thousand for more than a year, mainly relating to investment companies and funds in which the Group invests with qualified minority shares.

Against gross trade receivables, there are provisions for impairment of Euro 47,767 thousand (Euro 44,178 thousand at December 31, 2013), which adjust their par value to their presumed realisable value.

Receivables written down include both significant single positions subject to individual impairment based on particular risk elements, and positions with similar characteristics 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 irrecoverability.

Changes in the allowance for doubtful accounts are shown below:

	12.31.2014	12.31.2013
Opening balance	**44,178**	**25,040**
Provisions	5,142	22,869
Provisions as a reduction to revenue	2,842	2,951
Uses	(3,909)	(4,188)
Release of excess allowance	(354)	(173)
Changes in consolidation area/reclassifications/other	(132)	(2,321)
Closing balance	**47,767**	**44,178**

Following the difficult property market scenario already noted in previous years, liquidity tensions deriving from the substantial contraction of lending and the general slowdown in sales in relation to a number of initiatives in which the Group has taken part, it was considered appropriate, partly on the basis of the information received at times from customers, to write down certain positions, including those relating to 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 lenders and partners.

In particular, impairment of trade receivables amounted to Euro 5,343 thousand, recognised in the income statement under the item "Other Costs" (Note 24) which also includes the impairment of other receivables amounting to Euro 490 thousand.

Details of the total effect recognised in the income statement as a result of the impairment of receivables are presented below.

	12.31.2014	12.31.2013
provisions for doubtful trade receivables	5,142	22,869
losses on trade receivables	201	2,419
total impairment of trade receivables	**5,343**	**25,288**
provisions for other doubtful receivables	490	5,631
total impairment of other receivables	**490**	**5,631**
Net income (loss) from discontinued operations	**(26)**	**-**
Total impairment of receivables	**5,807**	**30,919**

At the reporting date, the fair value of receivables approximates their related carrying amount.

Note 7. OTHER RECEIVABLES

These are broken down as follows:

	06.30.2014			12.31.2013		
	Total	**non-current**	**current**	**Total**	**non-current**	**current**
Other receivables from associates	41	-	41	26	-	26
Other receivables from joint ventures	10,210	-	10,210	7,413	10	7,403
Other receivables from other related parties	1,650	-	1,650	2,250	-	2,250
Sundry receivables	18,432	5,241	13,191	25,326	5,244	20,082
Accrued income and prepaid expenses, of which:	1,252	-	1,252	1,140	61	1,079
- in relation to other related parties	69	-	69	69	-	69
- in relation to joint ventures	56	-	56	72	-	72
- in relation to third parties	1,127	-	1,127	999	61	938
Financial receivables	108,468	108,355	113	110,779	110,665	114
Total other gross receivables	**140,053**	**113,596**	**26,457**	**146,934**	**115,980**	**30,954**
Allowance for doubtful accounts for other receivables, of which:	**(8,684)**	**-**	**(8,684)**	**(7,394)**	**-**	**(7,394)**
- from joint ventures	(3,305)	-	(3,305)	(2,418)	-	(2,418)
- from third parties	(5,379)	-	(5,379)	(4,976)	-	(4,976)
Total	**131,369**	**113,596**	**17,773**	**139,540**	**115,980**	**23,560**

In order to realign the par value to the presumed realisable value of other gross receivables of Euro 140,053 thousand (Euro 146,934 thousand at December 31, 2013), there were provisions for impairment of Euro 8,684 thousand (Euro 7,394 thousand at December 31, 2013), attributable mainly to receivables for the NPL portfolio which were subject to impairment in respect of reviews of the business plans concerned.

Changes in the allowance for doubtful accounts for other current receivables are shown below:

	12.31.2014	12.31.2013
Opening balance	**7,394**	**9,165**
Provisions	490	5,631
Uses	(13)	(7,466)
Reclassifications/other changes	813	64
Closing balance	**8,684**	**7,394**

The impairment of other receivables, totalling Euro 490 thousand, is recorded in the income statement under the item "Other costs" (Note 24).

For other current and non-current receivables, the carrying amount is considered to be approximate to the fair value.

A brief comment will now follow on the more significant items included in "Other receivables".

Other receivables from joint ventures

This item has a net amount of Euro 6,905 thousand (Euro 4,995 thousand at December 31, 2013); against a gross value of Euro 10,210 thousand, there were provisions for impairment of 3,305 regarding in particular the receivables for dividends declared by and due from Inimm Due S.à.r.l. (Euro 834 thousand), 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. (Euro 2,418 thousand).

Other receivables from other related parties

This item mainly includes the security deposit provided to Pirelli & C. S.p.A. for the lease of the R&D building.

Sundry receivables

These amount to Euro 18,432 thousand compared with Euro 25,326 thousand at December 31, 2013.

	12.31.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Sundry receivables, of which:						
- Advances	5,495	4,987	508	5,338	4,987	351
- Receivables for the NPL portfolio	4,156	-	4,156	4,168	-	4,168
- Other tax receivables	1,762	221	1,541	1,869	221	1,648
- Receivables from social security institutions	1,463	-	1,463	1,525	-	1,525
- Other sundry receivables	5,556	33	5,523	12,426	36	12,390
Total	**18,432**	**5,241**	**13,191**	**25,326**	**5,244**	**20,082**

Advances include Euro 4,987 thousand for suspended costs connected with the completion of site development works assigned to third parties in the former Besta-Ansaldo area. These will be paid by allottees pursuant to the mandates signed.

Receivables for the NPL portfolio relate to the acquisitions of loan portfolios by the Group in previous years. The item was already zeroed at December 31, 2013, having set up an allowance for doubtful accounts totalling Euro 4,156 thousand. The item includes in particular mortgage-backed and unsecured loans purchased by CFT Finanziaria S.p.A. (which incorporated Vindex S.r.l.) mostly from Banca Popolare di Intra and Banca Antonveneta.

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 for tax year 2014, Prelios S.p.A., acting as parent company, and its subsidiaries, have elected to make an independent Group VAT tax settlement, in accordance with the Ministerial Decree of December 13, 1979.

Other sundry receivables decreased considerably after the conclusion of certain legal disputes primarily concerning maintenance and services provided to buildings managed on behalf of Inpdap.

Other sundry receivables also include Euro 1,267 thousand owed to the Group by certain directors and employees for CONSOB penalties applied by the Issuers Division and the Intermediaries Division following an investigation and related 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 opposition proceedings before the Appeals Court of Milan, 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 Euro 150 thousand that the company paid with the obligation of exercising recourse against the sanctioned parties. As at December 31, 2014, the Group is due a residual receivable of Euro 15 thousand from said parties.

The item includes 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 (Euro 1,147 thousand).

Financial receivables

At December 31, 2014 non-current financial receivables amounted to Euro 108,355 thousand, marking a net decrease of Euro 2,310 thousand since December 31, 2013, while current financial receivables amounted to Euro 113 thousand. These are broken down as follows:

	12.31.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Receivables from associates	631	631	-	631	631	-
Receivables from joint ventures	107,837	107,724	113	110,148	110,034	114
Total	**108,468**	**108,355**	**113**	**110,779**	**110,665**	**114**

Non-current receivables, mostly relating to shareholder loan agreements, 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 to which interest-free loans were made.

Changes in non-current receivables in 2014 are as follows:

	12.31.2013	Increases	Decreases	Offset against provisions for equity-accounted investments	12.31.2014
Financial receivables from associates	631	1	-	(1)	631
Financial receivables from joint ventures	110,034	6,736	(59,311)	50,265	107,724
Total	**110,665**	**6,737**	**(59,311)**	**50,264**	**108,355**

The increase in receivables from joint ventures included Euro 969 thousand for new loans, and the capitalisation of interest accrued during the period (Euro 4,779 thousand) as well as the impact of discounting interest-free shareholder loans (Euro 170 thousand).

The decrease in *receivables from joint ventures* was largely due to the waiver of shareholder loans totalling Euro 38,894 thousand, and specifically those to Aida RE B.V. (Euro 18,521 thousand), Manifatture Milano S.p.A. (Euro 7,250 thousand), Alceo B.V. (Euro 5,393 thousand) and Trixia S.r.l. (Euro 5,292 thousand), as well as Euro 7,871 thousand due to the repayment of shareholder loans due in particular to the completion of the sale of the company SIG RE B.V. and its subsidiaries (Euro 4,800 thousand).

The column entitled "*Offset against provisions for equity-accounted investments*" reports the change in financial receivables from associates and joint ventures in excess of the carrying amount of the investments related to the same companies from which the financial receivables are claimed.

Note 8. TAX RECEIVABLES

These amount to a total of Euro 3,013 thousand, compared with Euro 6,453 thousand at December 31, 2013. The change is largely due to the collection of the receivable owed to Prelios Credit Servicing S.p.A. by the previous parent company Fonspa S.p.A. for electing tax consolidation in July (Euro 1,492 thousand as at December 31, 2013).

Residual receivables 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.

Note 9. INVENTORIES

	12.31.2014	12.31.2013
Trading properties held for sale	15,688	18,620
Land for development	20,422	22,551
Properties under construction/renovation	7,362	7,235
Total	**43,472**	**48,406**

Trading properties held for sale

These amount to Euro 15,688 thousand, a net decrease of Euro 2,932 thousand compared with December 31, 2013, Euro 2,093 thousand of which is attributable to net write-downs recognised for the lower presumed realisable value, determined on the basis of independent appraisals as at December 31, 2014 or such lower values at which the individual subsidiaries are willing to sell on the basis of sales mandates granted after approval by their respective Boards of Directors, and to sales made in the period, primarily by Centrale Immobiliare S.r.l., Geolidro S.p.A. and Orione Immobiliare Prima S.p.A..

Land for development

These amount to Euro 20,422 thousand. The change compared to the value as at December 31, 2013 is mainly attributable to net write-downs totalling Euro 2,034, based on the lower presumed realisable value determined on the basis of independent appraisals performed at December 31, 2014, or due to the lower prices at which individual subsidiaries were willing to sell pursuant to sales mandates assigned, subject to the approval of their respective boards of directors.

Properties under construction/renovation

These totalled Euro 7,362 thousand, essentially in line with the final figure reported at December 31, 2013. The item includes write-downs for Euro 35 thousand.

The inventories mainly refer to properties under renovation in the Bicocca area of Milan (Euro 4,105 thousand) and to a property located in Magdeburg in Germany (Euro 2,450 thousand).

Note 10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank deposits, post office deposits and cash and valuables in hand that are fully available to the holder. A portion of the cash and cash equivalents is allocated to the bank current accounts of several subsidiaries and does not form a part of the cash pooling system, but is instead used directly by the latter to cover their financial requirements.

They are broken down as follows:

	12.31.2014	12.31.2013
Bank and post office current accounts	77,119	85,534
Cheques	3	-
Cash and cash equivalents in hand	70	75
Total	**77,192**	**85,609**

Current bank and post office accounts include current accounts held with leading banks and lenders with a high credit rating. Cash held in bank current accounts accrues interest at the rates agreed, from time to time, with the banking system.

EQUITY

	Share capital	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	Other reserves	Retained earnings (losses)	Net income (loss) for the period	**Group Equity**	**Minority interests in equity**	**Total**
Equity at 12.31.2013	**189,888**	**(5,712)**	**(5,191)**	**(168)**	**(1,111)**	**4,223**	**(6,570)**	**88,366**	**(332,838)**	**(69,113)**	**2,778**	**(66,335)**
Total other components recorded under equity	**-**	**103**	**1,195**	**168**	**(2,128)**	**(754)**	**-**	**-**	**-**	**(1,416)**	**92**	**(1,324)**
Allocation of 2013 results	-	-	-	-	-	-	-	(332,838)	332,838	-	-	-
Share capital increase	236,544	-	-	-	-	-	-	-	-	236,544	-	236,544
Other changes	-	-	1	-	-	(2)	1	(62)	-	(62)	9	(53)
Net profit (loss) for the perio	-	-	-	-	-	-	-	-	(61,149)	(61,149)	(391)	(61,540)
Equity at 12.31.2014	**426,432**	**(5,609)**	**(3,995)**	**0**	**(3,239)**	**3,467**	**(6,569)**	**(244,534)**	**(61,149)**	**104,804**	**2,488**	**107,292**

Note 11. SHARE CAPITAL

On April 14, 2014 the mandatory early repayment of the “Prelios Convertible Loan 2013-2019” was executed automatically through the full conversion of:

- 166,042 bonds (71.1% of the total issue), representing tranche A, convertible into ordinary shares; and
- 67,492 bonds (28.9% of the total issue), representing tranche B, convertible into category B shares.

In relation to the mentioned conversion, also the capital increase dedicated exclusively to the conversion was consequently automatically executed, as resolved by the Board of Directors of the Company on June 10, 2013, exercising the power awarded to it by the Meeting on May 8, 2013 – through the issue of 229,757,292 ordinary shares and 93,390,705 category B shares, for a total of Euro 236,544,333.80.

Following the capital increase dedicated exclusively to the conversion, the new composition of the share capital, fully subscribed and paid-up, totals Euro 426,441,257.20 divided into:

- 506,953,179 ordinary shares with no par value and regular dividends;
- 210,988,201 category B shares, convertible into ordinary shares, with no par value and voting rights, not intended for listing.

At December 31, 2014, share capital was reported net of 1,788 treasury shares in the Group's portfolio, as required by IAS 32, and totalled Euro 426,432 thousand.

Following the loss recorded during 2014 and equalling Euro 61,149 thousand, the Group's equity as at December 31, 2014 was positive and equalled Euro 104,804 thousand compared to a negative value of Euro 69,113 thousand as at December 31, 2013, as shown in the table.

LTI/Stock option plans

The Group does not have any active LTI/Stock option plans as at December 31.

Note 12. OTHER RESERVES

Other reserves had an overall negative total of Euro 15,945 thousand compared to a negative figure of Euro 14,529 thousand at December 31, 2013.

Information is provided below on the changes that occurred during the course of 2014 with regards to other components recognised in equity.

	Currency translation reserve	Reserve for fair value measurement of available-for-sale financial assets	Cash flow hedges reserve	Reserve for actuarial gains/losses	Reserve for tax on items credited/debited to equity	**Group equity**	**Minority interests in equity**	**Total**
- Fair value measurement of available-for-sale financial assets	-	(735)	-	-	202	(533)	(59)	(592)
- portion of (profit)/losses transferred to the income statement that were previously recorded directly under equity related to the fair value measurement of available-for-sale financial assets	-	1,930	-	-	(531)	1,399	155	1,554
- actuarial (profit)/losses	-	-	-	(2,128)	(425)	(2,553)	(4)	(2,557)
- Prelios share of items of other comprehensive income relating to associates and joint ventures	147	-	168	-	-	315	-	315
- currency translation reserve	(44)	-	-	-	-	(44)	-	(44)
Total other components recorded under equity	**103**	**1,195**	**168**	**(2,128)**	**(754)**	**(1,416)**	**92**	**(1,324)**

Reserve for fair value measurement of available-for-sale financial assets

This negative amount of Euro 3,995 thousand, before tax, classified in a separate reserve, was recognised for the fair value measurement of available-for-sale financial assets, which mainly compromise units held in real estate investment funds.

During 2014 a recovery was recorded in the value of these shares, which was reflected in a positive change of the reserve for Euro 1,195 thousand, of which Euro 1,930 thousand pro-rata, relating to the losses transferred to the income statement regarding the valuation of the shares held by Prelios Società di Gestione del Risparmio S.p.A. in the Tecla fund.

Cash flow hedge reserve

The reserve, which includes the effective portion of the profits or the losses deriving from the adjustment to the fair value of the 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 2014 recorded an increase in value of Euro 168 thousand, emerging from the measurement of existing cash flows in associates and joint ventures. As a consequence, as at December 31, 2014 the reserve was equal to zero, as the Group no longer held any hedge derivative.

Reserve for actuarial gains/(losses)

This reserve shows a negative balance of Euro 3,239 thousand and includes the net actuarial losses on post-employment defined benefits under IAS 19, before related taxes.

The actuarial losses equal to Euro 2,128 thousand recorded in the year are mainly attributable to the effects from the change in the financial assumptions used, and in particular from the decrease in the reference discount rate (2% as at December 31, 2014; 3.5% as at December 31, 2015).

Reserve for tax on items credited/debited to equity

This reserve amounts to a positive Euro 3,467 thousand and reflects the tax effect of items credited/debited directly to equity.

Note 13. RETAINED EARNINGS (LOSSES)

This item totalled a negative value equalling Euro 244,534 thousand, a net decrease of Euro 332,905 thousand compared to December 31, 2013, essentially due to the allocation of the result for 2013.

Note 14. MINORITY INTERESTS

Minority interests totalled Euro 2,488 thousand and consist of interests in share capital and reserves, and in the result for the period of the companies consolidated on a line-by-line basis.

The equity attributable to minority shareholders is down Euro 290 thousand compared to December 31, 2013 mainly due to the net result of the period totalling a negative value of Euro 391 thousand.

LIABILITIES

Note 15. BANK BORROWINGS AND PAYABLES TO OTHER LENDERS

Bank borrowings and payables to other lenders are analysed as follows:

	12.31.2014			12.31.2013			
	Total	**non-current**	**current**	**Total**	**non-current**	**current**	**liabilities related to discontinued operations**
Bank borrowings	246,965	246,210	755	229,989	229,141	848	-
Convertible bond	-	-	-	235,902	235,902	-	-
Other financial payables	1,147	86	1,061	1,524	628	1,466	(570)
Payables to other lenders	10,236	10,138	98	98	-	98	-
Financial payables to joint ventures	6,576	-	6,576	6,576	-	6,576	-
Total	**264,924**	**256,434**	**8,490**	**474,089**	**465,671**	**8,988**	**(570)**

At December 31, 2014 and December 31, 2013, the breakdown of payables by interest rate and original currency is as follows:

12.31.2014	Total	Fixed rate		Floating rate	
Original currency: euro					
Current payables	8,490	1,159	13.7%	7,331	86.3%
Non-current payables	256,434	252,727	98.6%	3,707	1.4%
Total	**264,924**	**253,886**	**95.8%**	**11,038**	**4.2%**

12.31.2013	Total	Fixed rate		Floating rate	
Original currency: euro					
Current payables	8,988	1,674	18.6%	7,314	81.4%
Non-current payables	465,101	460,661	99.0%	4,440	1.0%
Total	**474,089**	**462,335**	**97.5%**	**11,754**	**2.5%**

There was no exposure to interest rate fluctuations at December 31, 2014 in view of the natural hedge provided by floating-rate financial receivables.

It should be noted that 31.7% (Prelios pro-rata share) of the total borrowings (bank and non-bank) of vehicles in which an interest is held 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 amounted to Euro 246,965 thousand at December 31, 2014, marking a decrease of Euro 16,976 thousand compared to December 31, 2013, due to the interest effect.

The item is broken down as follows:

	12.31.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Non-recourse loans	4,462	3,707	755	5,178	4,440	738
Fixed-term credit facilities – Senior and Super Senior loans and current accounts	242,503	242,503	-	224,811	224,701	110
Total	**246,965**	**246,210**	**755**	**229,989**	**229,141**	**848**

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 – Senior and Super Senior loans and current accounts

This item refers to the balance at December 31, 2014 of Senior and Super Senior loans provided to Prelios S.p.A. by leading Italian banks forming a part of the "Club Deal", as part of the debt restructuring agreement entered into on May 7, 2013.

The new Senior and Super Senior credit facilities were recognised at fair value calculated using the measurement procedures deemed appropriate based on the features of each component of the new debt. At December 31, 2014 the carrying amount of financial liabilities was recognised at amortised cost.

Both credit facilities are non-current in nature: the Senior loan matures on December 31, 2018, and requires the prepayment of 65% of the funds received from the sale of real estate assets, while the Super Senior loan matures on December 31, 2017.

Note that the interest accrued on the Senior loan in the half year in question was classified under non-current payables since the Senior loan specifies that interest must be capitalised with repayment after the loan's maturity. On the other hand, interest on the Super Senior loan is paid semi-annually; the interest accrued during the year (Euro 2,028 thousand) was paid with maturities of June 30, and December 31, 2014.

Both of these loans do not have financial covenants.

Convertible bond

This item referred to the balance at December 31, 2013 of the bond with mandatory conversion subscribed by Pirelli & C. S.p.A. and lending banks following the capital increase finalised in 2013, for a total of Euro 233,534 thousand.

On April 14, 2014 the mandatory early repayment of the "Prelios Convertible Loan 2013-2019" was carried out automatically through the full conversion to share capital, as better specified under note 11 "Share capital".

Other financial payables

"Other current financial payables" include Euro 1,062 thousand attributable to the management of real estate service contracts carried out for third parties, almost entirely offset by dedicated current accounts included under the item "Cash and cash equivalents".

Payables to other lenders

The item includes a payable of Euro 10,138 thousand for Prelios S.p.A. relating to a financial loan posted on July 17, 2014 against deferred contractual charges in relation to the sales of investments occurred in the past.

On the par value of the debt, equal to Euro 10,000 thousand, interest accrues at a fixed rate of 3%. The debt, together with the interest accrued, is payable upon the expiry date of June 30, 2017, notwithstanding some contractual provisions that provide for the advance payment upon the occurrence of certain conditions.

Financial payables to joint ventures

This item, unchanged compared to the previous year, includes remaining debit balances in intercompany current accounts and several financial payables of the parent company for obligations to make capital contributions to the investee companies Aree Urbane S.r.l. (in liquidation) in the amount of Euro 4,892 thousand, and Solaia RE S.à.r.l. in the amount of Euro 634 thousand.

Note 16. TRADE PAYABLES

These comprise:

	12.31.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Trade payables to associates	1,206	-	1,206	1,182	-	1,182
Trade payables to joint ventures and other Prelios Group companies	1,556	-	1,556	1,991	-	1,991
Trade payables to other related parties	301	-	301	547	-	547
Trade payables to third parties	44,253	-	44,253	44,396	-	44,396
Total	**47,316**	**0**	**47,316**	**48,116**	**0**	**48,116**

At December 31, 2014, the fair value of the item in question approximates its carrying amount.

Trade payables include the portion of payables more than 90 days past due in an amount of approximately Euro 3.9 million at December 31, 2014 (Euro 3.2 million at December 31, 2013).

Trade payables to associates

These amount to Euro 1,206 thousand and are entirely attributable to payables to Progetto Corsico S.r.l., as the allottee, for site development charges, and the relative accessory costs, for an area located in the Municipality of Corsico.

Trade payables to joint ventures and other Prelios Group companies

These largely refer to chargebacks of various types made by joint ventures and other Prelios Group companies, mainly in relation to lease payments, site development charges and ancillary costs.

This item totalled Euro 1,556 thousand, reflecting a decrease of Euro 435 thousand.

Trade payables to other related parties

These amount to Euro 301 thousand, a decrease of Euro 246 thousand over the final figure reported at December 31, 2013.

These mainly refer to the payable to Pirelli Tyre for the chargeback for utilities and expenses of the R&D building. They also include payables for sanitary services provided by Poliambulatorio Bicocca S.r.l..

Trade payables to third parties

These totalled Euro 44,253 thousand, essentially in line with the final figure reported at December 31, 2013.

The item includes Euro 3,216 thousand in *trade payables to customers for contracts* (Euro 3,305 thousand as at December 31, 2013), generated by advances above the percentage completion relating to contracts with Lambda S.r.l. for site development initiatives in Bicocca and Pioltello.

In particular, the costs incurred and the margins related to these contracts amounted to Euro 16,690 thousand at December 31, 2014 (Euro 16,601 thousand at December 31, 2013), while advances received against invoices for percentage completion totalled 19,906 thousand as at December 31, 2013.

Note 17. OTHER PAYABLES

These comprise:

	12.31.2014			12.31.2013			
	Total	non-current	current	Total	non-current	current	liabilities related to discontinued operations
Other payables to associates	2,162	-	2,444	2,159	-	2,159	-
Other payables to joint ventures and other Prelios Group companies	16,595	-	16,595	16,587	-	16,587	-
Other payables to third parties, of which:	21,656	521	21,135	33,001	523	33,306	(828)
- damages payable	*-*	*-*	*-*	*5,906*	*-*	*5,906*	*-*
- payables to employees	*4,352*	*-*	*4,352*	*4,198*	*-*	*4,861*	*(663)*
- other tax payables	*2,201*	*-*	*2,201*	*3,362*	*-*	*3,527*	*(165)*
- payables for down payments and advances	*2,695*	*-*	*2,695*	*227*	*-*	*227*	*-*
- social security payables	*1,865*	*-*	*1,865*	*2,011*	*-*	*2,011*	*-*
- other sundry payables	*10,543*	*521*	*10,022*	*17,297*	*523*	*16,774*	*-*
Accrued liabilities and deferred income	746	*3*	*743*	1,697	*392*	*1,305*	-
Total	**41,441**	**524**	**40,917**	**53,444**	**915**	**53,357**	**(828)**

Other payables to associates

The payable, due entirely to Olinda Fondo Shops (as the allottee of the Bicocca area), refers to the amount collected from Iniziative Immobiliari 3 S.r.l., as provided for in the contract, for site development 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 subsidiary originating from a "profit and 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 ventures involved, the receivables concerning the items in question also relate exclusively to Prelios.

Other payables to third parties

As at December 31, 2013 the item *damages payable* referred to the residual liability of Edilnord Gestioni S.r.l. (in liquidation) for damages payable to Inpdap in relation to legal actions over the management of certain contracts. During the year disputes were settled between the parties and the debt was paid for the amount still due.

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 on a line-by-line basis which do not file for this tax on a Group basis, and to payables for other indirect taxes.

Payables for down payments and advances refer to advances on the price recognised by the customers of residential properties with regard to contracts to be finalised, in addition to a down payment received from third parties for a preliminary contract signed for the sale of a property located in Magdburg, Germany.

Social security payables relate to the amount owed by the Group to social security institutions. The item includes Euro 1,471 thousand owed to the Italian social security authorities (INPS) and Euro 394 thousand 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 *other current sundry payables* amount to Euro 1,535 thousand (in comparison to Euro 1,780 thousand at December 31, 2013), while payables to Statutory Auditors total Euro 646 thousand (Euro 542 thousand at December 31, 2013).

The item includes Euro 3,184 thousand of net payable to the Municipality of Milan due by the company Lambda S.r.l. as monetisation, for the creation of some underground parking facilities originally planned in the Bicocca area.

Other non-current sundry payables for Euro 520 thousand refer to the payables for the tenths that remain to be paid to the company INPS Gestione Immobiliare – IGEI S.p.A. (in liquidation), 9.6% owned by Prelios S.p.A.; this payable was classified as non-current as an outlay is not planned during next year;

As at December 31, 2013 the item included Euro 9,975 thousand deriving from deferred contractual charges in relation to the sales of investments which occurred in the past; after a change in the contractual conditions between the parties, this payable was classified under borrowings and payables to other lenders as at December 31, 2014, as already shown in note 15.

Accrued liabilities and deferred income

Deferred income includes Euro 643 thousand in consolidation adjustments to defer the portion of capital gains on property sales that have not been realised outside of the Group yet.

Note 18. PROVISIONS FOR FUTURE RISKS AND EXPENSES

These provisions total Euro 54,697 thousand (of which the non-current portion was Euro 40,187 thousand) compared with Euro 71,884 thousand at December 31, 2013 (of which the non-current portion was Euro 39,269 thousand).

	12.31.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Provision for future expenses for contractual commitments	27,975	26,050	1,925	33,062	28,184	4,878
Provision for arbitration, lawsuits and outstanding disputes	19,375	13,021	6,354	14,475	7,538	6,937
Provision for guarantees	741	587	154	2,154	1,748	406
Provisions for other risks	2,323	529	1,794	2,485	559	1,926
Restructuring provision	3,865	-	3,865	7,085	1,240	5,845
Provision for future risks on equity-accounted investments	418	-	418	12,623	-	12,623
Total	**54,697**	**40,187**	**14,510**	**71,884**	**39,269**	**32,615**

The changes which occurred in 2014 are as follows:

	12.31.2013	Decrease in financial receivables	Change in consol. area/other	Changes		12.31.2014
				Increase	Decrease	
Provision for future expenses for contractual commitments	33,062	-	1,727	1,677	(8,491)	27,975
Provision for arbitration, lawsuits and outstanding disputes	14,475	-	(1,525)	8,215	(1,790)	19,375
Provision for guarantees	2,154	-	(122)	-	(1,291)	741
Provisions for other risks	2,485	-	(80)	-	(82)	2,323
Restructuring provision	7,085	-	-	2,067	(5,287)	3,865
Provision for future risks on equity-accounted investments	12,623	50,264	-	2,956	(65,425)	418
Total	**71,884**	**50,264**	**0**	**14,915**	**(82,366)**	**54,697**

Provision for future expenses for contractual commitments

This item includes Euro 10,794 thousand 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 Euro 2,254 thousand for future expenses in relation to the transfer of the Milan office and early termination of the rental contract for the HQ2 building. This provision was used to cover the supplementary fees paid during 2014, amounting to Euro 563 thousand.

The item also includes Euro 13,359 thousand for the estimated costs that subsidiary Lambda S.r.l. could incur for certain site development work commitments. In particular:

- the item includes Euro 2,998 thousand in liabilities estimated by the company for the construction of the crèche/nursery school. During 2014 the provision was used for the percentage completion of work in the period, amounting to Euro 43 thousand;

- Euro 9,062 thousand was in relation to expenses incurred to cover commitments undertaken with the Municipality of Milan to build several parking facilities in the Bicocca area. On this point it should be noted that during 2014 the company reclassified under payables the provisions for risks set aside during 2013 for Euro 4.2 million by virtue of the agreements reached with the Municipal Board;

- Euro 1,099 thousand for the best estimate of some site development commitments assumed by the Company in the past concerning areas sold in previous years.

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 includes, where the conditions are met, a determination of probable charges deriving from assessment notices received by Prelios Group companies after tax inspections.

The item is attributable for Euro 5,200 thousand to the provisions set aside by Prelios S.p.A. for expenses that the company is likely to incur in relation to an agreement terminated in the past, and for about Euro 2,571 thousand to a specific provision for future risks by Centrale Immobiliare S.r.l. in relation to the outcome of a preliminary technical assessment received with regard to the request for damages from alleged construction defects at certain properties with this amount considered to represent the amount of the probable liability. This dispute involves a real estate development carried out by the Company that acted as the seller of newly built real estate units. The company is carrying out some analyses to verify the liability of the building companies and the subjects it used to develop the property and, where necessary, to take action to obtain reimbursement.

The item includes Euro 3,286 thousand of provisions against probable charges emerging from disputes with customers deriving from the past management of some German portfolios.

Provisions for guarantees

This item also includes the provisions for risks connected to guarantees issued to Iniziative Retail S.r.l. for the real estate contributed by it to 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., and for the Moncalieri entertainment centre that was built and sold to the same Olinda fund, for the indemnity given in the face of any claims in terms of construction, town planning, systems or environmental issues.

Provisions for other risks

The 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.

Restructuring provision

This refers to restructuring costs, in relation to internal reorganisation plans, already approved and being implemented by a number of Group companies to address 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 contracts for consideration relating to the Group's offices.

Provision for risks on equity-accounted investments

The provision for 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 Euro 12,080 thousand, a net increase of Euro 1,825 thousand compared with December 31, 2013. The item is broken down as follows:

	12.31.2014	12.31.2013
Provision for employee severance indemnity	3,347	3,269
Pension funds	8,139	6,372
Other employee benefits	594	614
Total	**12,080**	**10,255**

Provision for employee severance indemnity

The provision for employee severance indemnity refers only to Italian companies in the Group and essentially includes the employee leaving severance 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 living index and the legal interest rate. As it is not connected to any condition or maturity period, and since there are no obligations for financial funds, there are no assets that serve the fund.

The regulations were supplemented by Legislative Decree 252/2005 and Law 296/2006 (2007 Finance Act) which, for companies with at least 50 employees, specified that with regard to amounts accrued starting in 2007 employees have the option of allocating these to either the INPS Treasury Fund or to forms of supplementary pensions, therefore assuming the nature of “defined-contribution plans”.

In application of IAS 19, the employee severance indemnity is revised using actuarial evaluation methods, with the assistance of an external valuer, and adjusted in relation to events occurring which require said adjustment.

The date of the last actuarial valuation was December 31, 2014.

Changes in the provision for employee severance indemnity as at December 31, 2014 and the previous year are set out below:

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Opening balance	**3,269**	**3,932**
Accrued portion allocated to income statement	124	148
Equity adjustment for actuarial gains/losses	454	(60)
Employee severance indemnity advances	(94)	(86)
Benefits paid	(406)	(629)
Other changes	-	(36)
Closing balance	**3,347**	**3,269**

The provision for employee severance indemnity changed mainly due to uses during the year for payments to staff leaving the Company.

The equity adjustment for profit/losses includes an actuarial loss of Euro 519 thousand deriving from the change in the main actuarial assumptions used as at December 31, 2014 compared to the previous valuation as at December 31, 2013, net of an actuarial profit of Euro 65 thousand deriving from the change in the rate of the substitute tax on the employee severance indemnity from 11% to 17% (Finance Act of December 29, 2014 effective from January 1, 2015).

The amounts recognised in the income statement are included in the item “Personnel costs” (Note 24).

Pension funds

These are defined-benefit plans, mainly relating to German service companies.

Changes in pension funds occurred during 2014 and in the previous year are set out below:

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Opening balance	**6,372**	**7,800**
Accrued portion allocated to income statement	(176)	181
Equity adjustment for actuarial gains/losses	1,679	(467)
Benefits paid	(461)	(829)
Liabilities held for sale	-	(956)
Other changes	725	643
Closing balance	**8,139**	**6,372**

The equity adjustment for profit/losses derives from the change in the main actuarial assumptions used as at December 31, 2014 compared to the previous valuation as at December 31, 2013, particularly from the decrease in the reference discount rate (2% as at December 31, 2014; 3.5% at December 31, 2015).

The amounts recognised in the income statement are included in the item “Personnel costs” (Note 24).

Other employee benefits

The item "Other employee benefits" mainly includes length-of-service bonuses and loyalty bonuses totalling Euro 591 thousand.

The amounts recognised in the income statement are included in the item “Personnel costs” (Note 24).

Employees

The total number of employees, including auxiliary staff working in buildings, was 463 at December 31, 2014 (468 including temporary staff), compared with 786 at December 31, 2013 (790 including temporary staff). For comparative purposes, total employees as at December 31, 2013, including temporary staff, after the sale of the German residential platform DGAG with closing formalised during July 2014, equalled 500 people.

The table below shows a breakdown of the staff, net of the mentioned German sale:

	12.31.2014	12.31.2013
managers	59	64
corporate officers	125	127
office workers	265	300
manual worker/auxiliary staff (*)	14	5
temporary staff	5	4
total	**468**	**500**

(*) Staff number varies in relation to operations tied to contracts managed.

Other information

The main actuarial assumptions used as at the date of the latest reference valuation of December 31, 2014 are as follows:

	Italy	Germany
discount rate	2.00%	2.00%
inflation rate	1.75%	1.75%

Note 20. TAX PAYABLES

These comprise:

	12.31.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Other tax payables	5,779	-	5,779	12,367	1,464	10,903
Other payables to joint ventures under tax transparency regime	1,080	-	1,080	1,080	-	1,080
Total	**6,859**	**0**	**6,859**	**13,447**	**1,464**	**11,983**

Other tax payables

Other tax payables include, inter alia, the amounts owed for current income taxes by companies which are not in the tax group headed by Prelios S.p.A., as well as income tax owed by foreign companies and taxes owed by companies with respect to periods before joining the tax group or relative to IRAP amounts.

Other payables to joint ventures under tax transparency regime

From 2006 to 2008 the joint venture company Trixia S.r.l. exercised the tax transparency option allowed by Article 115 of the Italian Income Tax Act, under which all consequent relationships are governed by a special agreement to ensure that statutory and regulatory rules are applied on a common basis.

COMMITMENTS AND GUARANTEES

Personal guarantees

Guarantee bonds

Banks and insurance companies have issued a total of Euro 95,745 thousand in guarantee bonds to third parties and in the interest of companies in the Prelios Group, mostly for contractual obligations.

The Prelios Group has also issued Euro 19,520 thousand in guarantees and comfort letters in the interest of associates and joint ventures, broken down as follows:

- insurance co-obligations of various kinds to third parties for a total of Euro 4,420 thousand;
- guarantees of Euro 7,100 thousand to cover possible future charges and loans granted by banks to associates and joint ventures;
- guarantees issued for a total of Euro 8,000 thousand in favour of partners and purchasers for potential claims as part of the already mentioned sale of the "DGAG" portfolio and related management platform.

Liens on shares

There are liens totalling Euro 34,267 thousand on the shares of associates and joint ventures. Mentioned in particular is the lien taken 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/loss coverage

These amount to Euro 5,750 thousand 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 Euro 2,562 thousand to the company Gamma RE B.V.;
- Prelios Società di Gestione del Risparmio S.p.A. to subscribe Euro 1,403 thousand 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 Società di Gestione del Risparmio S.p.A. to subscribe initial units of the Fondo PAI – Parchi Agroalimentari Italiani for a maximum total amount of Euro 800 thousand;
- Prelios S.p.A., to pay up to Euro 441 thousand to the joint venture Espelha Serviços de Consultadoria Lda, to cover contingent liabilities, settled in December 2014;
- Prelios S.p.A. to pay some commercial liabilities of the joint ventures Manifatture Milano S.p.A., for Euro 439 thousand, and Riva dei Ronchi S.r.l. (in liquidation), for Euro 15 thousand;

- Prelios S.p.A. and Centrale Immobiliare S.r.l. for the financial support of the investee Golfo Aranci S.p.A. (in liquidation), for a total maximum amount of Euro 90 thousand.

The parent company also has committed to cover losses by waiving an outstanding loan and making equity contributions as necessary to Manifatture Milano S.p.A..

Third-party assets at the Group

These comprise notes and drafts stored by the subsidiary Prelios Credit Servicing S.p.A. on the behalf of some securitisation vehicles pursuant to law 130.

The notes, in the name of the subscribers, amount to a par value of Euro 4,483 thousand and a residual value, net of the repayments made in the year, of Euro 3,945 thousand.

The drafts held total Euro 36 thousand.

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:

(thousands euro)

	12.31.2014	12.31.2013
CURRENT ASSETS		
Other receivables	**113**	**114**
- of which receivable from related parties	*113*	*114*
Financial receivables	113	114
- *joint ventures and other Prelios Group companies*	113	114
Cash and cash equivalents	**77,192**	**85,609**
TOTAL CURRENT ASSETS - A	**77,305**	**85,723**
CURRENT LIABILITIES		
Bank borrowings and payables to other lenders	**(8,490)**	**(8,988)**
- of which payable to related parties	*(6,576)*	*(6,576)*
- joint ventures and other Prelios Group companies	(6,576)	(6,576)
- other financial payables	(1,061)	(1,466)
- bank borrowings	(755)	(848)
- payables to other lenders	(98)	(98)
TOTAL CURRENT LIABILITIES - B	**(8,490)**	**(8,988)**
NON-CURRENT LIABILITIES		
Bank borrowings and payables to other lenders	**(256,434)**	**(465,101)**
- of which payable to related parties	-	*(149,876)*
- other financial payables	(10,224)	(58)
- convertible bond (1)	-	(235,902)
- Payables to other lenders	(246,210)	(229,141)
TOTAL NON-CURRENT LIABILITIES - C	**(256,434)**	**(465,101)**
NET FINANCIAL POSITION EXCL. SHAREHOLDER LOANS GRANTED(*)	**(187,619)**	**(388,366)**

(1) On April 14, 2014 the compulsory early repayment of the Convertible Bond was automatically and directly executed through the full conversion of the Convertible Bonds and, therefore, the capital increase for the exclusive service of the conversion was also automatically implemented through the issue of 229,757,292 ordinary shares and 93,390,705 class B shares.

(*) Pursuant to 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 21. REVENUE FROM SALES AND SERVICES

Revenue from sales and services amounts to Euro 72,124 thousand, compared with Euro 73,055 thousand at December 31, 2013, and is composed as follows:

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Revenue from contracts	137	721
Revenue from sales	931	1,949
- sales of land for development	-	*31*
- sales of residential property	*931*	*1,918*
Revenue from services	71,056	70,385
Total	**72,124**	**73,055**

Revenue from contracts

The item amounts to Euro 137 thousand, compared with Euro 721 thousand at December 31, 2013. The item mainly includes revenue generated by Lambda S.r.l. for the completion of certain site development projects under way on behalf of companies involved in the development of the Bicocca and Pioltello areas in Milan.

Revenue from sales

Sales completed in 2014 mainly refer to property units sold by Centrale Immobiliare S.r.l., Geolidro S.p.A. and Orione Immobiliare Prima S.p.A..

Revenue from services

Revenue from the rendering of services can be broken down as follows:

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Revenue from services to third parties	41,380	31,884
Revenue from services to associates	10,807	8,846
Revenue from services to joint ventures and other Prelios Group companies	18,808	29,581
Revenue from services to other related parties	61	74
Total	**71,056**	**70,385**

Note 22. CHANGES IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS

The change in inventories as at December 31, 2014 was an overall decrease of Euro 2,002 thousand compared to a final decrease of Euro 377 thousand recorded during 2013. Of this change, Euro 2,069 thousand was attributed to net write-downs based on the lower presumed realisable value determined on the basis of independent appraisals performed at December 31, 2014, or due to the lower prices at which individual subsidiaries were willing to sell pursuant to sales mandates assigned, subject to the approval of their respective boards of directors.

Note 23. OTHER INCOME

The item in question can be broken down as follows:

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Recoveries, reimbursements and other income	12,982	7,487
Other income from associates, joint ventures and other Prelios Group companies	196	620
Other income from other related parties	55	120
Total	**13,233**	**8,227**

Recoveries, reimbursements and other income are related to chargebacks to tenants of costs to manage owned properties or of costs for properties managed on behalf of third parties related, in particular, to activities performed by property managers. This item also includes proceeds from the resolution or positive development of disputes that had generated risks and uncertainties, and the resulting allocation to provisions for future risks.

As at December 31, 2014 the item also includes income for Euro 2,524 thousand deriving from the release of the residual liability of Prelios S.p.A. regarding certain legal disputes primarily concerning maintenance and services provided to buildings managed on behalf of Inpdap, which were settled between the parties during the year.

Other income from other related parties mainly refers to the recovery of costs related to the HQ2 building in Milan.

The item includes non-recurring items of Euro 1,869 thousand, accounting for approximately 14.1% of the total item. These charges mainly refer to the release of the allowance for doubtful accounts set aside in 2012 by the parent company for the trade receivables from the joint venture Golfo Aranci S.p.A. (in liquidation), for Euro 1,237 thousand, and the release of the provisions for risks in excess.

Note 24. OPERATING COSTS

Operating costs amount to Euro 111,008 thousand, compared with Euro 162,699 thousand as at December 31, 2013, and consist of:

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Raw and consumable materials used of which:	3,224	5,802
a) Assets purchased	*254*	*207*
b) Change in inventories of trading properties, raw and miscellaneous materials	*2,970*	*5,595*
Personnel costs	38,828	43,512
Depreciation, amortisation and impairment	2,373	12,904
Other costs	66,583	100,481
Total	**111,008**	**162,699**

Raw and consumable materials used (net of change in inventories)

The item "*Assets purchased*" totalled Euro 254 thousand at December 31, 2014 and was related to the purchase of various consumables.

In 2014 the item "*Change in inventories of trading properties, raw materials and* *miscellaneous materials*" was a negative figure of Euro 2,970 thousand compared to another negative figure of Euro 5,595 thousand in 2013. The change recorded during 2014 refers to Euro 2,093 thousand of net write-downs recognised for the lower presumed realisable value, determined on the basis of independent appraisals as at December 31, 2014 or such lower values at which the individual subsidiaries are willing to sell on the basis of sales mandates granted after approval by their respective Boards of Directors, and to sales made in the period, primarily by Centrale Immobiliare S.r.l., Geolidro S.p.A. and Orione Immobiliare Prima S.p.A..

Personnel costs

Personnel costs amount to Euro 38,828 thousand, compared with Euro 43,512 thousand as at December 31, 2013.

The item is broken down as follows:

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Wages and salaries	27,662	28,751
Voluntary redundancy costs	1,381	3,871
Social security contributions	6,858	7,637
Employee severance indemnity	124	148
Costs for defined-contribution pension funds/Other costs	2,803	3,105
Total	**38,828**	**43,512**

In the year under review there was a decrease in personnel costs primarily due to the reduction in average staff levels for the period (631 employees compared to 817 in 2013).

For the number of employees, please see the comments on employee benefit obligations (Note 19).

The item includes non-recurring items for a negative amount of Euro 1,381 thousand, accounting for approximately 3.6% of the total item.

Depreciation, amortisation and impairment

Details on depreciation, amortisation and impairment can be found in the tables accompanying the notes on property, plant and equipment and intangible assets (Note 1 and Note 2).

Other costs

As at December 31, 2014 these amounted to Euro 66,583 thousand, compared with Euro 100,481 thousand in 2013.

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Other costs charged by associates	65	87
Other costs charged by joint ventures and other Prelios Group companies	575	449
Other costs charged by other related parties	2,464	2,421
Other costs charged by third parties	63,479	97,524
Total	**66,583**	**100,481**

The item can be broken down by type as follows:

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Cost for services	39,120	36,575
Lease and rental cost	6,331	7,582
Impairment of receivables	5,807	29,724
Provisions for risks and expenses	8,312	21,799
Other operating expenses	7,013	4,801
Total	**66,583**	**100,481**

Costs for services

Costs for services totalled Euro 39,120 thousand, compared with Euro 36,575 thousand recorded in 2013 and mainly include maintenance costs, costs for managing third-party assets, commissions payable and consultancy and professional fees.

The item records an increase largely due to non-recurring items for Euro 2,439 thousand (accounting for approximately 6.2% of the total item), partially offset by the decrease in costs attributable to lower volumes of the contracts managed by the Group for construction and maintenance, as well as a drop in consultancy services connected to the Group's operations.

Remuneration paid to directors and the Supervisory Board amount to Euro 4,078 thousand, compared with Euro 4,735 thousand at December 31, 2013, and fees paid to statutory auditors of consolidated companies amount to Euro 514 thousand, compared with Euro 511 thousand in 2013.

Lease and rental costs

These costs amount to Euro 6,331 thousand compared with Euro 7,582 thousand accounted for at December 31, 2013, and refer almost entirely to the rental of head office buildings, and to the lease and hire of motor vehicles.

The item includes costs for non-recurring events of Euro 802 thousand, accounting for approximately 12.7% of the total item.

Impairment of receivables

At December 31, 2014, impairment of receivables totalled Euro 5,807 thousand and was recognised to cover potential risks of debtor insolvency and bad debts already incurred in the period in question.

The item includes costs for non-recurring events of Euro 4,357 thousand, accounting for 75% 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, 2014 provisions had been set aside for a total of Euro 8,312 thousand, compared with Euro 21,799 thousand in 2013.

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 Euro 5,860 thousand, accounting for about 70.5% of the total item, of which Euro 2,200 thousand for expenses that Prelios S.p.A. is likely to incur in relation to an agreement terminated in the past, and Euro 3,286 thousand of provisions against probable charges emerging from disputes with customers deriving from the past management of some German portfolios.

Other operating expenses

These amount to Euro 7,013 thousand compared with Euro 4,801 thousand recorded as at December 31, 2013.

The item includes, inter alia, Euro 1,446 thousand in costs for duties and other taxes, mostly involving IMU (municipal property tax), registration taxes and irrecoverable VAT on financial transactions.

In 2014, the item in question was affected by costs for non-recurring events of Euro 986 thousand, accounting for approximately 14.6% of the total item.

Note 25. NET LOSS FROM EQUITY INVESTMENTS

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Portion of result of associates and joint ventures	(13,323)	(87,824)
Dividends	-	53
Gains on investments	1,009	445
Losses on investments	(2,455)	(21,486)
Total	**(14,769)**	**(108,812)**

The combined arrangement of the various components characterising the item includes a pro-rata net negative effect for the Prelios Group of Euro 33.6 million, deriving from property write-downs.

After the conclusion of the process of disposal of the investments of Olinda – Fondo Shops that took place by the date of expiry of the same fund, the portion held by Prelios Netherlands B.V. was subject to impairment due to the alignment of the values that will be paid after the sale of the real estate portfolio, recording an overall positive effect equal to Euro 555 thousand.

The losses on investments refer to the reversal to the income statement of the losses of the reserve previously accounted for under equity for Euro 2,145 thousand and relating to the fair value measurement of the portions held by Prelios Società di Gestione del Risparmio S.p.A. in the Tecla fund.

Note 26. FINANCIAL INCOME

Financial income amounts to Euro 5,564 thousand, compared with Euro 52,832 thousand in 2013, which had benefited from the positive effect connected to the Corporate Debt Restructuring Agreement for Euro 39,862 thousand. Net of this component, the other changes are related to the interest income accrued on the financial receivables from Group companies and on intra-group current accounts in place with associates or joint ventures, as well as to interest rates.

The item is broken down as follows:

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Interest income		
a) Interest income from non-current assets:		
- Interest income on financial receivables due from associates	1	1
- Interest income on financial receivables due from joint ventures	4,474	8,800
Total interest income from non-current assets	**4,475**	**8,801**
b) Interest income from current assets:		
- Interest income from joint ventures	81	3,005
- Other interests	502	621
Total interest income from current assets	**583**	**3,626**
Other financial income		
c) Financial income from non-current assets:		
- Income from securities	-	1
Total financial income from non-current assets	**-**	**1**
d) Financial income from current assets:		
- Other income from joint ventures	-	27
Total financial income from current assets	**-**	**27**
Other/miscellaneous	**443**	**40,202**
Exchange gains	**63**	**76**
Fair value measurement of derivatives	**-**	**99**
Total	**5,564**	**52,832**

Note 27. FINANCIAL EXPENSES

These amount to Euro 29,958 thousand, compared with an amount of Euro 37,382 thousand recorded at December 31, 2013. In the previous year the item in question included a negative effect connected to the restructuring of the debt, deriving from the payment of the residual value of the up front commissions relating to the Club Deal loans (for Euro 6,203 thousand) and Pirelli S.p.A. (for Euro 2,643 thousand); an additional improvement on the item is due to the reduction of the loan following the conversion to share capital and the Convertible Bond on April 14, 2014.

They are broken down as follows:

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Interest due to banks	20,460	25,942
Interest due to associates	48	37
Interest due to joint ventures	262	74
Interest due to other related parties	-	2,657
Interest due to third parties on convertible bond	234	863
Interest due to other related parties on convertible bond	408	1,504
Interest due to others	558	266
Other financial expenses	7,245	4,929
Other financial expenses due to joint ventures	3	117
Exchange losses	740	993
Total	**29,958**	**37,382**

Interest due to banks mainly refers to the senior and super senior loans from lenders for the purposes of normal company management.

Other financial expenses include Euro 6,323 thousand of the negative value adjustment of the junior securities*,* resulting from discounting future cash flows, whose estimate was changed compared with the previous year.

Exchange losses amount to Euro 740 thousand compared with Euro 993 thousand in 2013, and mostly refer to the valuation of shareholder loans in Polish currency at year-end exchange rates at December 31, 2014.

Note 28. TAXES

The "Taxes" item, which includes current, deferred and prepaid taxes calculated using applicable tax rates, totalled Euro 2,831 thousand compared to Euro 16,088 thousand in 2013.

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Current taxes	1,003	1,853
Deferred tax assets	4,573	12,661
Deferred tax liabilities	(2,745)	1,574
Total	**2,831**	**16,088**

In particular, the total amount comprises:

- IRES and other taxes on foreign income of Euro 1,720 thousand (of which Euro 80 thousand in current taxes) compared with Euro 13,648 thousand in 2013;

- IRAP totalling Euro 1,111 thousand (of which Euro 1,083 thousand in current taxes), compared with Euro 2,440 thousand in 2013.

Please see Note 5 with comments on the balance sheet for changes in deferred tax assets and liabilities.

The reconciliation between the income taxes reported in the financial statements and the theoretical tax charge (income taxes/IRAP) is presented below:

INCOME TAX	12.31.2014
PROFIT (LOSS) BEFORE TAXES	**(58,709)**
Net income/(loss) from discontinued operations	(8,107)
NET PROFIT (LOSS) BEFORE TAXES ON OPERATING ACTIVITIES	**(66,816)**
Reversal of net income from investments	(4,813)
Taxed dividends	69
Other taxable/non-deductible changes	(761)
Total taxable amount	**(72,321)**
Theoretical tax	**12,617**
Difference in prior year tax	242
Adjusted theoretical tax	**12,859**
Reported taxes	**(1,720)**
Difference due to:	**(14,579)**
- Unrecorded taxes on negative taxable income	(10,300)
- Non-deductible interest pursuant to Article 96 of the Italian Income Tax Act	(2,705)
- Write-down of receivables	(1,679)
- Write-down of inventories	(1,413)
- Non-deductible costs, non-operating losses and other permanent changes	(159)
- Use of past tax losses	1,263
- Taxes on Group tax basis	2,392
- Other changes	(1,978)

IRAP	12.31.2014
PROFIT (LOSS) BEFORE ITALIAN TAXES	**(21,233)**
Labour cost	31,108
Financial income (expenses) of financial companies	(15,428)
Total taxable amount	**(5,553)**
Theoretical IRAP (tax rate of 3.9%)	**217**
Difference in prior year tax	60
Adjusted theoretical IRAP	**277**
Reported IRAP	**(1,111)**
Difference due to:	**(1,388)**
- Tax that cannot be recorded on negative taxable income	(1,037)
- Difference between theoretical and effective tax rate	(287)
- Write-down of receivables	(333)
- Other changes	269

(*) The higher tax rate was mainly due for the following PRE Group companies:
PRE, CFT, SGR, CREDIT SERVICING and PROPERTY

The nominal tax rates in countries where the Group's companies operate are as follows:

Europe:	12.31.2014
Italy	31.40%
Germany	31.83%
Netherlands	25.50%
Poland	19.00%

Note 29. NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

On February 12, 2014, the company Solaia RE S.à.r.l., a joint venture 60% owned by a fund managed by Deutsche Asset & Wealth Management Real Estate (Deutsche Bank Group) and 40% by Prelios S.p.A., reached an agreement with the company BUWOG, a wholly owned subsidiary of the Austrian Immofinanz Group, for the sale of shares in the real estate companies holding the German residential portfolio better known as DGAG. The transaction is part of the process of implementation of the new business model launched in 2013, which sees Prelios as a pure provider of integrated real estate services, focusing its human and financial resources on higher added-value segments of the European real estate market. Despite this, the transaction, promoted and defined by the majority partner Deutsche Asset & Wealth Management Real Estate (Deutsche Bank Group) is connected to the transfer of the platform of Prelios Deutschland (a company wholly owned by Prelios S.p.A.), which provides technical and administrative services to the aforementioned residential portfolio, as, in the absence of confirmation of the current mandates by the buyer, the subsidiary's ability to replace the mandates on the portfolio being sold in the short-term could not be ensured. With this transaction, the Prelios Group is focusing its operational presence in Germany in the high-value-added "premium" segment of shopping centres and highstreet retailing. The transaction relating to the real estate companies was closed on June 27 and that relating to the service platform on July 4; the estimate of the effects of the transaction, already being negotiated at the end of last year, was reflected in the financial statements 2013 as Discontinued Operations*;* a similar classification was adopted in the financial statements 2014, absorbing the effects of determination of some price components previously estimated provisionally.

The "net income (loss) from discontinued operations" includes the net income generated as at December 31, 2014 from the residential portion of the Prelios Deutschland GmbH platform (a 100% Prelios S.p.A. subsidiary) that provides technical and administrative services to the abovementioned residential portfolio, and from investment income for a positive total of Euro 8,107 thousand applicable to the Group.

Net income (loss) from discontinued operations and/or operations destined to be sold is broken down as follows:

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Revenue from sales and services	15,220	29,632
Other income	2,924	2,990
TOTAL OPERATING REVENUE	**18,144**	**32,622**
of which from related parties	*7,273*	*13,233*
Raw and consumable materials used (net of change in inventories)	(102)	(120)
Personnel costs	(9,762)	(19,073)
Depreciation, amortisation and impairment	(55)	(149)
Other costs	(9,536)	(15,268)
TOTAL OPERATING COSTS	**(19,455)**	**(34,610)**
of which to related parties	*(9)*	-
of which non-recurring events	-	*(963)*
EBIT	**(1,311)**	**(1,988)**
Net income/ loss from equity investments:	542	(3,203)
of which from related parties	-	*(3,601)*
- portion of result of associates and joint ventures	-	(3,601)
- dividends	542	398
- gains on investments	-	-
- losses on investments	-	-
Financial income	1,496	3,825
of which from related parties	*1,496*	*3,825*
PROFIT (LOSS) BEFORE TAXES	**727**	**(1,366)**
Realised capital loss	**7,380**	**(141,259)**
NET INCOME/(LOSS) FROM DISCONTINUED OPERATIONS	**8,107**	**(142,625)**

The following tables summarise the operating relationships of the companies being sold with related parties:

	01.01.2014-12.31.2014	01.01.2013-12.31.2013
Operating revenues	7,273	13,233
Operating costs	(9)	-
Net income/loss from equity investments	-	(3,601)
Financial income	1,496	3,825

Revenue from related parties mainly relates to facility and project management activities that offer integrated solutions for residential real estate users. The latter include space-related activities (space planning and space management, specialised management of electronic and paper-based archives and move-in move-out services), building services (energy management; design, installation and maintenance of cogeneration and photovoltaic systems; management and routine and unscheduled property maintenance and related systems), individual services (desktop management, reception and switchboards, guard and security services, postal and environmental health services) and governance and consulting services (coordination and consulting services, feasibility studies and the optimisation of outsourced activities).

Financial income instead refers to income accrued on shareholder loans provided to the joint ventures Solaia Real Estate B.V. and Jamesmail B.V. by Prelios Netherland B.V..

Note 30. EARNINGS/LOSS PER SHARE

	12.31.2014	12.31.2013
Consolidated net profit (loss) (A)	(61,149)	(289,641)
Weighted average number of shares outstanding for the calculation of profit (loss) per share:	638,259,263	436,422,489
Profit (loss) per share (in euro)	(0.10)	(0.76)

6.10. 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 for which operating results are regularly reviewed by top management for the purposes of deciding how to allocate resources and for performance assessment.

As discussed in depth in the Report on Operations, the Group's organisational structure is based on three 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, 2014 are as follows:

DECEMBER 31, 2014

	ITALY	GERMANY	POLAND	NPL	HOLDING COMPANY	TOTAL	ELIMINATIONS	CONSOLIDATED
Consolidated revenue	48,932	15,102	324	7,766	13,167	85,291	(13,167)	724,124
of which from third parties	*47,832*	*15,102*	*324*	*7,766*	*1,100*	*72,124*	-	*72,124*
of which from the Group	*1,100*	-	-	-	*12,067*	*13,167*	*(13,167)*	-
EBIT	(5,425)	(5,070)	(787)	(656)	(15,715)	(27,653)	-	(27,653)
Net income from investments	(33,892)	2,681	16,434	8	-	(14,769)	-	(14,769)
EBIT including net income from investments	**(39,317)**	**(2,389)**	**15,647**	**(648)**	**(15,715)**	**(42,422)**	**-**	**(42,422)**
Financial income from investments	2,356	550	1,569	-	-	4,475	-	4,475
Loss from NPL portfolio valuation	-	-	-	(6,323)	-	(6,323)		(6,323)
EBIT including net income and financial income from investments (a)	**(36,961)**	**(1,839)**	**17,216**	**(6,971)**	**(15,715)**	**(175,858)**	**-**	**(44,270)**
Other financial income/expenses							-	(22,546)
Profit (loss) before taxes							**-**	**(66,816)**
Income taxes							-	(1,491)
Net profit (loss) for the year							**-**	**(68,307)**
attributable to minority interests							-	(391)
Income (loss) from discontinued operations							**-**	**8,107**
Consolidated net profit (loss) for the year							**-**	**(59,809)**

Notes:

Property write-downs/revaluations (b)	(38,271)	(95)	(714)	-	-	(39,080)	-	(39,080)
Restructuring costs (c)	(2,740)	(7,670)	-	395	(3,876)	(13,891)	-	(13,891)
EBIT including net income and financial income from investments before restructuring costs and property write-downs/revaluations and property tax (d) = (a) - (b) - (c)	**4,060**	**5,926**	**17,930**	**(7,366)**	**(11,839)**	**8,701**	**-**	**8,701**

The results by segment at December 31, 2013 are as follows:

DECEMBER 31, 2013

	ITALY	GERMANY	POLAND	NPL	HOLDING COMPANY	TOTAL	ELIMINATIONS	CONSOLIDATED
Consolidated revenue	47,548	17,961	544	8,808	11,212	86,073	(13,018)	73,055
of which from third parties	*45,624*	*17,961*	*544*	*8,808*	*118*	*73,055*	-	*73,055*
of which from the Group	*1,924*	-	-	-	*11,094*	*13,018*	*(13,018)*	-
EBIT	(49,848)	5,714	(7,641)	(10,983)	(19,036)	(81,794)	-	(81,794)
Net income from investments	(78,142)	(13,977)	(6,385)	(10,308)	-	(108,812)	-	(108,812)
EBIT including net income from investments	**(127,990)**	**(8,263)**	**(14,026)**	**(21,291)**	**(19,036)**	**(190,606)**	**-**	**(190,606)**
Financial income from investments	4,120	1,535	1,727	1,420	-	8,802	-	8,802
EBIT including net income and financial income from investments (a)	**(123,870)**	**(6,728)**	**(12,299)**	**(19,871)**	**(19,036)**	**(181,804)**	**-**	**(181,804)**
Other financial income/expenses						-	-	6,648
Profit (loss) before taxes						**(181,804)**	**-**	**(175,156)**
Income taxes						-	-	(16,088)
Net profit (loss) for the year						**(181,804)**	**-**	**(191,244)**
attributable to minority interests						-	-	(1,031)
Income (loss) from discontinued operations						**-**	**-**	**(142,625)**
Consolidated net profit (loss) for the year						**(181,804)**	**-**	**(332,838)**

Notes:

Property write-downs/revaluations (b)	(66,358)	(12,660)	(5,035)	-	-	(84,053)	-	(84,053)
Restructuring costs (c)	(29,835)	-	(2,011)	(3,602)	(7,132)	(42,580)	-	(42,580)
EBIT including net income and financial income from investments before restructuring costs and property write-downs/revaluations (d) = (a) - (b) - (c)	**(27,677)**	**5,932**	**(5,253)**	**(16,269)**	**(11,904)**	**(55,171)**	**-**	**(55,171)**

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 were as follows at December 31, 2014:

DECEMBER 31, 2014	ITALY	GERMANY	POLAND	NPL	TOTAL	ELIMINATIONS	CONSOLIDATED	
Non-current assets:	**192,609**	**28,226**	**28**	**5,012**	**225,875**	**-**	**225,875**	
Property, plant and equipment	641	178	28	6	853	-	853	
Intangible assets, of which	41,980	16,896	-	206	59,082	-	59,082	
Goodwill	*39,495*	*16,890*	-	-	56,385	-	*56,385*	
Investments in real estate funds and investment companies and other financial assets	149,988	11,152	-	4,800	165,940	-	165,940	(1)
Net working capital	**38,325**	**(20,890)**	**(838)**	**435**	**17,032**	**-**	**17,032**	
Inventories	41,021	2,450	1	-	43,472	-	43,472	
Other components of net working capital	(2,696)	(23,340)	(839)	435	(26,440)	-	(26,440)	(2)
NET INVESTED CAPITAL	**230,934**	**7,336**	**(810)**	**5,447**	**242,907**	**-**	**242,907**	

Notes

The balances indicated by notes 1) and 2) have been obtained as follows:

1)	TOTAL CONSOLIDATED not included in NFP	TOTAL from financial statements	of which amounts included in NFP
Investments in associates	37,797	37,797	-
Investments in joint ventures	112,307	112,307	-
Other financial assets	16,254	16,254	-
Provision for future risks on equity-accounted investments reclassified from "Current provisions for future risks and expenses"	(418)	(418)	-
Total investments in real estate funds and investment companies	**165,940**	**165,940**	**-**

2)	TOTAL CONSOLIDATED not included in NFP	TOTAL from financial statements	of which amounts included in NFP
Deferred tax assets	8,310	8,310	-
Other non-current receivables	5,428	113,596	108,355
Current trade receivables	35,074	35,074	-
Other current receivables	17,660	17,773	113
Current tax receivables	3,013	3,013	-
Other non-current payables	(524)	(524)	-
Non-current tax payables	(122)	(122)	-
			-
Current trade payables	(47,316)	(47,316)	-
Other current payables	(40,917)	(40,917)	-
Current tax payables	(6,859)	(6,859)	-
Derivative financial instruments	-	-	
Other components of net working capital	**(26,440)**	**82,028**	**108,468**

Assets and liabilities by geographical area were as follows at December 31, 2013:

DECEMBER 31, 2013

	ITALY	GERMANY	POLAND	NPL	TOTAL	ELIMINATIONS	CONSOLIDATED	
Non-current assets:	**201,513**	**29,378**	**40**	**11,560**	**242,491**	**-**	**242,491**	
Property, plant and equipment	445	535	40	11	1,031	-	1,031	
Intangible assets, of which	43,432	17,067	-	215	60,714	-	60,714	
Goodwill	*39,495*	*16,890*	-	-	56,385	-	*56,385*	
Investments in real estate funds and investment companies and other financial assets	157,636	11,776	-	11,334	180,746	-	180,746	(1)
Net working capital	**25,925**	**(12,621)**	**(949)**	**2,383**	**14,738**	**-**	**14,738**	
Inventories	45,859	2,545	2	-	48,406	-	48,406	
Other components of net working capital	(19,934)	(15,166)	(951)	2,383	(33,668)	-	(33,668)	(2)
NET INVESTED CAPITAL	**227,438**	**16,757**	**(909)**	**13,943**	**257,229**	**-**	**257,229**	

Notes

The balances indicated by notes 1) and 2) have been obtained as follows:

1)	TOTAL CONSOLIDATED not included in NFP	TOTAL from financial statements	of which amounts included in NFP
Investments in associates	42,961	42,961	-
Investments in joint ventures	126,219	126,219	-
Other financial assets	24,189	24,189	-
Provision for future risks on equity-accounted investments reclassified from “Current provisions for future risks and expenses”	(12,623)	(12,623)	-
Total investments in real estate funds and investment companies	**180,746**	**180,746**	**-**

2)	TOTAL CONSOLIDATED not included in NFP	TOTAL from financial statements	of which amounts included in NFP
Deferred tax assets	11,070	11,070	-
Other non-current receivables	5,315	115,980	110,665
Current trade receivables	35,055	35,055	-
Other current receivables	23,446	23,560	114
Current tax receivables	6,453	6,453	-
Other non-current payables	(915)	(915)	-
Non-current tax payables	(1,464)	(1,464)	-
			-
Current trade payables	(48,116)	(48,116)	-
Other current payables	(52,529)	(52,529)	-
Current tax payables	(11,983)	(11,983)	-
Derivative financial instruments	-	-	
Other components of net working capital	**(33,668)**	**77,111**	**110,779**

6.11. Related-party transactions

The following tables show transactions and balances with related parties:

	01.01.2014-12.31.2014	% (*)	01.01.2013-12.31.2013	% (*)
Operating revenue	29,927	35.9%	39,241	48.5%
Operating costs	(7,228)	6.5%	(7,346)	4.5%
Net loss from equity investments	(14,861)	100.6%	(108,939)	100.1%
Financial income	4,556	81.9%	11,833	22.4%
Financial expenses	(721)	2.4%	(4,389)	11.7%
Taxes	-	0.0%	600	-3.7%
Income (loss) from discontinued operations	8,760	108.1%	13,457	-9.4%

(*) The percentage is calculated with reference to the total financial statement item

	12.31.2014				12.31.2013			
	Total	% (*)	non-current	current	Total	% (*)	non-current	current
Trade receivables	18,758	53.5%	-	18,758	22,230	63.4%	-	22,230
Other receivables, of which:	117,189	89.2%	108,355	8,834	118,191	84.7%	110,675	7,516
- financial receivables	*108,468*	*77.7%*	*108,355*	*113*	*110,779*	*100.0%*	*110,665*	*114*
Discontinued operations	9,964	81.9%	9,964	-	18,800	67.7%	18,800	-
- financial receivables	*9,964*	*100.0%*	*9,964*	-	*18,800*	*100.0%*	*18,800*	-
Trade payables	(3,063)	-6.5%	-	(3,063)	(3,720)	-7.7%	-	(3,720)
Other payables	(19,039)	-45.9%	-	(19,039)	(18,746)	-35.1%	-	(18,746)
Tax payables	(1,080)	-15.5%	-	(1,080)	(1,080)	-8.0%	-	(1,080)
Bank borrowings and payables to other lenders	(6,576)	-2.5%	-	(6,576)	(156,452)	-33.0%	(149,876)	(6,576)
Provisions for future risks and expenses	(418)	-0.8%	-	(418)	(12,623)	-17.6%	-	(12,623)

(*) The percentage is calculated with reference to the total financial statement item

Transactions and balances between the Prelios Group and associates, joint ventures and other companies in the Prelios Group are detailed as follows:

Transactions with associates, joint ventures and other companies

Operating revenue	29,811	The item refers to Group company mandates for fund and asset management services and technical and commercial services.
Operating costs	(640)	These refer to recharges of various kinds.
Net loss from equity investments	(14,861)	The item mainly refers to the equity method valuation of Group investments, as well as other investments adjustments.
Financial income	4,556	This mostly refers to interest earned on financial receivables held by Group companies.
Financial expenses	(313)	This item mainly refers to the "discounting" effects on receivables due from Group companies not consolidated line-by-line.
Profit (loss) from discontinued operations	8,760	The item refers to the transactions with related parties reclassified in compliance with International Financial Reporting Standards (IFRS 5).
Current trade receivables	18,742	This balance includes receivables arising from "operating revenue".
Other non-current receivables	108,355	
- of which financial receivables	*108,355*	Loans granted to Group real estate projects. These loans are classified as non-current assets with reference of their terms of repayment, which match the medium-term disposal plans of the real estate portfolios owned directly or indirectly by these companies. These loans are granted at market interest rates except for non-interest bearing loans granted to some companies
Other current receivables	7,115	This includes residual credits of various nature.
- of which financial receivables	113	
Discontinued operations	9,964	
- of which financial receivables	*9,964*	The item refers to the shareholders' loans granted to the joint ventures Solaia RE B.V. and Jamesmail B.V. that, further to the DGAG portfolio sale agreement, will be reimbursed at the closing date. These amounts are shown as "Discontinued operations/asset held for sale" in compliance with International Financial Reporting Standards (IFRS 5).
Current trade payables	(2,762)	They refer to various chargebacks, mainly rent, urbanisation charges and accessory costs.
Other current payables	(19,039)	These refer to various chargebacks.
Current tax payables	(1,080)	Amounts due to Trixia S.r.l. further 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.
Bank borrowings and payables to other lenders	(6,576)	These include negative balances on intercompany current accounts and other financial payables arising from capital contributions in Aree Urbane S.r.l. (in liquidation) for Euro 4,892 thousand and Solaia RE S.à.r.l. for Euro 634 thousand.
Provisions for future risks and expenses	(418)	This refers to the provision accrued to cover the losses of associates and joint ventures in excess of their carrying amounts.

For the sake of completeness, details will also be provided on the transactions and balances at December 31, 2014 between the Prelios Group and other parties, specifically with Pirelli & C. S.p.A. and its subsidiaries that are related through the directors.

The following tables provide details of transactions and balances with these related parties:

Transactions with Pirelli & C. S.p.A., the Pirelli Group and other companies through directors

Operating revenue	116	The item mainly refers to a new agreement with Pirelli Tyres S.p.A. relating to the Bicocca area parking.
Operating costs	(2,464)	The item includes costs for renting and expenses for the R&D building charged by Pirelli Group, and the costs for the services provided by the company Poliambulatorio Bicocca S.r.l..
Financial expenses	(408)	These relate to the interest accrued on the convertible bond subscribed by Pirelli & C. S.p.A. from January 1 to April 8, 2014.
Current trade receivables	16	These mainly refer to receivables from Pirelli Group for the recovery of costs.
Other current receivables	1,719	The item mainly includes the guarantee deposit paid to Pirelli & C. S.p.A. for the rental of the R&D building and prepaid expenses related to the rental of that building.
Current trade payables	(301)	These mainly refer to the payable to Pirelli Tyre S.p.A. for the chargeback of utilities and expenses related to R&D building. They also include payables for health services provided by the company Poliambulatorio Bicocca S.r.l..

Cash flows

As at December 31, 2014 no significant cash flows are reported relating to transactions with related parties and that cannot be directly derived from the financial statements and explanatory notes.

Key management personnel

At December 31, 2014, the remuneration of the 21 key managers (of whom 19 were in office as at December 31, 2014), 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., amounted to Euro 4,124 thousand (Euro 4,389 thousand at December 31, 2013), of which Euro 934 thousand (Euro 393 thousand at December 31, 2013) was classified in the income statement as “Personnel costs” and Euro 3,190 thousand (Euro 3,996 thousand at December 31, 2013) recognised in the income statement as “Other costs”. The long-term portion is zero, as was the case in 2013.

6.12. Other information

Independent auditor fees

The following table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers' Regulations, reports the fees paid in 2014 for auditing and other services provided by Reconta Ernst & Young S.p.A. and members of its network.

Description of appointment	Partial fees	Total fees
Auditing services:		**1,424**
Prelios S.p.A.	718	
Subsidiaries	706	
Certification services:		**22**
Subsidiaries	22	
Miscellaneous auditing services:		**40**
Subsidiaries	40	
Grand total:		**1,486**
Prelios S.p.A.		718
Subsidiaries		768

Milan, March 10, 2015 The Board of Directors

7. SUPPLEMENTARY TABLES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.1 Appendix 1: Consolidation area

						12.31.2014	12.31.2013
	Business at 12.31.2014	Registered office City, Country	Share capital		Held at 12.31.2014 by	% ownership and voting rights (*)	% ownership and voting rights (*)
Fully consolidated companies							
Subsidiaries							
BauBeCon Treuhand GmbH	Real Estate	Hamburg, Germany	€	530,000	Prelios Immobilien Management GmbH	100.00%	100.00%
Centrale Immobiliare S.r.l. (1)	Real Estate	Milan, Italy	€	100,000	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%
Edilnord Gestioni S.r.l. (in liquidazione)	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+€	970000+31.700	DGAG Beteiligung GmbH & Co. KG	94.00%	94.00%
					Verwaltung Erste DGAG Grundstücksgesellschaft mbH	6.00%	6.00%
Geolidro S.p.A. (2)	Real Estate	Naples, Italy	€	120,000	Centrale Immobiliare S.p.A.	100.00%	100.00%
Iniziative 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 liquidazione)	Real Estate	Milan, Italy	€	100,000	Prelios Property Management S.p.A.	60.00%	60.00%
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. (3)	NPL	Milan, Italy	€	4,510,568	Prelios S.p.A.	100.00%	100.00%
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 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 INTEGRA S.p.A.	Real Estate	Milan, Italy	€	124,400	Prelios S.p.A.	100.00%	100.00%
Prelios Investments Deutschland GmbH	Real Estate	Hamburg, Germany	€	25,000	Prelios S.p.A.	100.00%	100.00%
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.	Real Estate	Warsaw, Poland	PLN	35,430,000	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%
Projekt Bahnhof Hamburg-Altona Verwaltungs GmbH (in liquidazione)	Real Estate	Hamburg, Germany	€	25,000	Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG	100.00%	100.00%
Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG (in liquidazione)	Real Estate	Hamburg, Germany	€	8,000,000	Prelios Deutschland GmbH	74.90%	74.90%
Servizi Amministrativi Real Estate S.p.A.	Altro	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%
Verwaltung Einkaufszentrum Münzstrasse GmbH (**)	Real Estate	Hamburg, Germany	DM	50,000	DGAG Beteiligung GmbH & Co. KG	74.80%	74.80%
		Hamburg, Germany			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%

	Settore attività at 12.31.2014	Registered office City, Country		Share capital	Held at 12.31.2014 by	12.31.2014 % ownership and voting rights (*)	12.31.2013 % ownership and voting rights (*)
Equity-accounted companies							
Associates							
Cairoli Finance S.r.l. (in liquidazione) (4)	NPL	Milan, Italy	€	--	Prelios S.p.A.	--	35.00%
Monteverdi - Fondo comune di investimento immobiliare speculativo di tipo chiuso	Real Estate	Milan, Italy	€	62,000,000	Iniziative 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 - Fondo quotato ad apporto privato (*)	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 liquidazione)	Real Estate	Milan, Italy	€	10,000	Prelios S.p.A.	23.00%	23.00%
Sci Roev Texas Partners L.P.	Real Estate	Dallas/USA	$	12,000,000	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%
Joint ventures							
Afrodite S.à.r.l.	Real Estate	Luxembourg	€	4,129,475	Prelios S.p.A.	40.00%	40.00%
Aida RE B.V. (in liquidazione) (5)	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	Lussemburgo	€	12,955	Prelios S.p.A.	35.05%	35.05%
Alnitak S.à.r.l. (6)	Real Estate	Lussemburgo	€	--	Prelios S.p.A.	--	35.00%
Aree Urbane S.r.l. (in liquidazione)	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%
Bicocca S.à.r.l.	Real Estate	Luxembourg	€	12,520	Prelios S.p.A.	35.00%	35.00%
City Center Mülheim Grundstücksgesellschaft mbH & Co. KG	Real Estate	Hamburg, Germany	€	47,805,790	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 liquidazione)	Real Estate	Milan, Italy	€	20,000	Prelios S.p.A.	40.00%	40.00%
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. (7)	NPL	Funchal, Madeira	€	--	Prelios S.p.A.	--	49.00%
Fondo Città di Torino - Fondo comune di investimento immobiliare speculativo di tipo chiuso	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 (8)	Real Estate	Lübeck, Germany	€	--	Prelios S.p.A.	--	2.05%
					Solaia Real Estate B.V.	--	94.87%
Gesellschaft für Wohnungsbau Lübeck mbH (8)	Real Estate	Lübeck, Germany	€	--	Prelios S.p.A.	--	2.04%
					Prelios DGAG Deutsche Grundvermögen GmbH	--	94.90%
Golfo Aranci S.p.A. (in liquidazione) (9)	Real Estate	Golfo Aranci (OT), Italy	€	1,000,000	Prelios S.p.A.	43.80%	43.80%
					Centrale Immobiliare S.p.A	6.21%	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 (8)	Real Estate	Lübeck, Germany	€	--	Prelios S.p.A.	--	1.99%
					Gesellschaft für Wohnungsbau Lübeck mbH	--	94.80%
GWK Braunschweig GmbH (8)	Real Estate	Braunschweig, Germany	€	--	Prelios S.p.A.	--	2.99%
					Prelios DGAG Deutsche Grundvermögen GmbH	--	92.50%
Heimstätten Lübeck GmbH (8)	Real Estate	Lübeck, Germany	€	--	Prelios S.p.A.	--	2.04%
					Solaia Real Estate B.V.	--	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 liquidazione)	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%
Iniziative Immobiliari S.r.l. (in liquidazione)	Real Estate	Milan, Italy	€	5,000,000	Prelios S.p.A.	49.46%	49.46%

	Settore attività at 12.31.2014	Registered office City, Country	Share capital		Held at 12.31.2014 by	12.31.2014 % ownership and voting rights (*)	12.31.2013 % ownership and voting rights (*)
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 liquidazione)	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 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%
Progetto Bicocca La Piazza S.r.l. (in liquidazione)	Real Estate	Milan, Italy	€	3,151,800	Prelios S.p.A.	26.00%	26.00%
Progetto Bicocca Universita' S.r.l. (in liquidazione)	Real Estate	Cinisello Balsamo, Italy	€	50,360	Prelios S.p.A.	50.50%	50.50%
Progetto Gioberti S.r.l. (in liquidazione)	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	50.00%	50.00%
Projekt Northwind GmbH & Co. KG (10)	Real Estate	Hamburg, Germany	€	--	Prelios S.p.A.	--	2.04%
RAMS-Rome Art Mind Society S.r.l. (in liquidazione) (11)	Real Estate	Rome, Italy	€	50,000	Prelios Integra S.p.A.	40.00%	40.00%
Resident Baltic GmbH (12)	Real Estate	Berlin, Germany	€	--	Prelios Netherlands B.V.	--	5.20%
					S.I.G. RE B.V.	94.80%	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 (12)	Real Estate	Berlin, Germany	€	--	Prelios Netherlands B.V.	--	5.20%
					S.I.G. RE B.V.	94.80%	94.80%
Resident West GmbH (13)	Real Estate	Hamburg, Germany	€	--	Prelios Netherlands B.V.	--	5.20%
					S.I.G. RE B.V.	--	94.80%
Riva dei Ronchi S.r.l. (in liquidazione) (14)	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	50.00%	50.00%
Roca S.r.l. (in liquidazione)	NPL	Milan, Italy	€	20,000	Prelios S.p.A.	25.00%	25.00%
Sicily 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. (12)	Real Estate	Amsterdam, Netherlands	€	--	Prelios Netherlands B.V.	--	47.20%
SI Real Estate Holding B.V. (in liquidazione) (15)	Real Estate	Amsterdam, Netherlands	€	--	Prelios S.p.A.	--	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 liquidazione)	Real Estate	Milan, Italy	€	20,000	Prelios S.p.A.	40.00%	40.00%
Tamerice Immobiliare S.r.l. (in liquidazione)	Real Estate	Milan, Italy	€	500,000	Prelios S.p.A.	20.00%	20.00%
Theta RE B.V. (in liquidazione) (16)	Real Estate	Amsterdam, Netherlands	€	18,005	Prelios Netherlands B.V.	40.00%	40.00%
Trinacria Capital S.à.r.l.	Real Estate	Lussemburgo	€	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	27.00%	27.00%
					Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG	20.00%	20.00%
Verwaltung City Center Mülheim Grundstucksges.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 Grundstuecksgesellschaft mbH	Real Estate	Hamburg, Germany	DM	50,000	Prelios Netherlands B.V.	44.00%	44.00%
					Mistral Real Estate B.V.	50.00%	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 - Fondo comune di investimento immobiliare speculativo di tipo chiuso	Real Estate	Milan, Italy	€	22,000,000	Prelios Netherlands B.V.	50.00%	50.00%
Other significant investments pursuant to CONSOB Resolution 11971 of May 14, 1999							
AWW Assekuranzvermittlung der Wohnungs wirts chaft GmbH & Co KG	Real Estate	Hamburg, Germany	€	260,000	Prelios Netherlands B.V.	10.50%	10.50%
					Prelios Deutschland GmbH	0.20%	0.20%

(*) The percentages indicated refer to the direct percentage ownership held by the company indicated taking into account any treasury shares held.

(**) With regard to the joint venture Mistral Real Estate B.V., the joint control of both partners was waived contractually by the parties in relation to certain development projects through the creation of new share classes ("Tracker Shares") in the share capital of Mistral Real Estate B.V., entailing a different division of costs, benefits and rights between the two partners. In fact, based on the activation of a put and call rights mechanism, the ownership of Tracker Shares led to the exercise of de facto control by Prelios S.p.A. over certain companies of the Mistral Real Estate group involved in development projects even though it does not hold a majority interest in them. This situation led to the inclusion of these investments in the consolidation scope in the financial statements of Prelios S.p.A. in accordance with accounting standards, since all risks, benefits and rights related to these development projects rest with Prelios S.p.A. Despite the above, the Tracker Shares mechanism has no effect on the control of Mistral Real Estate B.V., and the latter is still not a subsidiary of Prelios S.p.A..

(1) On February 11, 2014, the date of registration in the Companies Register, took effect the reduction of the share capital of the company Centrale Immobiliare S.r.l. from Euro 2,426,652 to Euro 100,000, as deliberated by shareholders' meeting on October 16, 2013.

(2) On May 26, 2014 took effect the reduction of the share capital of the company Geolidro S.p.A. to Euro 120,000.

(3) On May 14, 2014 took effect the reduction of the share capital of the company Prelios Credit Servicing S.p.A. from Euro 14,250,000 to Euro 4,510,568.

(4) On September 24, 2014 Prelios S.p.A. sold to third parties the 35% interest in the company Cairoli Finance S.r.l. (in liquidation).

(5) On October 20, 2014 Aida RE B.V. was liquidated.

(6) On May 23, 2014 Prelios S.p.A. sold to third parties the entire investment held in the company Alnitak S.à.r.l..

(7) On December 22, 2014 the company Espelha Serviços de Consultadoria L.d.A. was struck off the Companies Register in Madeira. The company was placed in liquidation on July 21, 2014.

(8) On February 12, 2014 Prelios S.p.A. sold to third parties the entire investment held in the following companies: Gemeinnützige Wohnungsgesellschaft für den Kreis Herzogtum Lauenburg mbH, Gesellschaft für Wohnungsbau Lübeck mbH, GWL Wohnungsbetreuungsgesellschaft mbH, GWK Braunschweig GmbH and Heimstätten Lübeck GmbH.

(9) On December 16, 2014, the date of registration of the shareholders' meeting held on November 26, 2014, the early dissolution and the subsequent change of name in Golfo Aranci S.p.A. (in liquidation) took effect. At the reporting date, the Group holds a total of 50% of the company by means of Prelios S.p.A. (43.795%) and Centrale ImmobiliareS.r.l. (6.205%) as a result of a few turns of actions that have occurred between the shareholders on May 13, 2014.

(10) On November 26, 2014 Prelios S.p.A. sold to Prelios Residential Real Estate GmbH the 2,04% interest held in the company Projekt Northwind GmbH & Co. KG. Subsequently, on November 28, 2014 the company Projekt Northwind GmbH & Co. KG has been incorporated into Prelios Residential Real Estate GmbH.

(11) On November 5, 2014 became effective the early dissolution of the company RAMS-Rome Art Mind Society S.r.l. approved by the shareholders' meeting on October 21, Therefore the company changed its name to RAMS-Rome Art Mind Society S.r.l. (in liquidation).

(12) On August 29, 2014 Prelios Netherlands B.V. sold to third parties the 5,2% interest held in the companies Resident Baltic GmbH and Resident Sachsen P&K GmbH.

(13) On February 17, 2014 Prelios Netherlands B.V. sold to third parties the interest held in the companies SIG RE B.V.(47,2%) and Resident West GmbH (5,2%).

(14) On December 24, 2014 became effective the early dissolution of the company Riva dei Ronchi S.r.l. approved by the shareholders' meeting on December 9, 2014. Therefore the company changed its name to Riva dei Ronchi S.r.l. (in liquidation).

(15) With effect from December 30, 2014, the company SI Real Estate Holding BV (In liquidation) was removed from theCompanies Register in Amsterdam.

(16) On October 20, 2014 Thetha RE B.V. was liquidated.

8. CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Certification of the consolidated financial statements pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999 as subsequently amended and updated

1. The undersigned Sergio Iasi, as Chief Executive Officer, and Marco Andreasi, as Manager charged with preparing the company's financial statements, of Prelios S.p.A. affirm, also in light of the provisions of Article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of February 24, 1998:
   - the suitability, in relation to the Company's characteristics, and
   - the effective application

   of the administrative and accounting procedures for the preparation of the consolidated financial statements, during the period from January 1, 2014 to December 31, 2014.

2. On this point, please note that the suitability of the administrative and accounting procedures for the preparation of the consolidated financial statements ended December 31, 2014 was valued on the basis of the valuation of the internal control system. This valuation is based on a specific process defined in line with the criteria set in the "Internal Control – Integrated Framework" model issued by the "Committee of Sponsoring Organizations of Treadway Commission" (COSO), which represents a reference framework generally accepted internationally.

3. Furthermore it is certified that:

3.1 the consolidated financial statements:

a) are prepared in accordance with applicable international accounting standards recognised by the European Union pursuant to (EC) regulation no. 1606/2002 of the European Parliament and of the Council of July 19, 2002;

b) correspond to the accounting books and entries;

c) are suitable to provide a true and accurate picture of the balance sheet, income statement and financial position of the Company and all companies included in the consolidation area.

3.2 The report on operations includes a reliable analysis of the performance and results of operations, as well as the position of the issuer and the set of the companies included in the consolidation area, together with a description of the main risks and uncertainties which they are exposed to.

March 10, 2015

The Chief Executive Officer	The manager charged with preparing the company's financial statements
(Sergio Iasi)	(Marco Andreasi)

9. INDEPENDENT AUDITORS' REPORT

Building a better working world

Reconta Ernst & Young S.p.A.
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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 31 December 2014, 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 30 April 2014.

3. In our opinion, the consolidated financial statements of the Prelios Group at 31 December 2014 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. The Group incurred significant losses which in 2013 had led to the renegotiation of the financial debt, pursuant to Article 67 of Decree 267/1942 (Bankruptcy Legislation). In 2014, the Board of Directors approved the new 2014-2016 Business Plan and continued to implement the actions identified to re-balance the Group's financial position, inclusive of certain actions to mitigate the financial needs needs which have improved the financial position at year end, compared with forecasts.

   In addition, in March 2015, the Board of Directors approved the 2015 Budget and the 2016-2017 Outlook, which include further losses, a significant decrease of net equity and negative cash flows, that continue to expose the Group to financial distress.

   In the Directors' Report on Operations and in the explanatory notes to Financial Statements, the Directors have described the uncertainties that confirm the persistence of significant doubts over the Group's ability to continue to operate as a going concern and the need to implement the short term actions identified in the plan and to pursue the further steps necessary in order for the Group to be able to complete its restructuring process aimed at achieving the long-term financial strength.

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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, 2014.

Milan, April 9, 2015

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 STRUCTURE

CONTENTS

GLOSSARY

Directors: the members of the Board of Directors of PRELIOS S.p.A.

Shareholders' Meeting: the Ordinary or Extraordinary Shareholders' Meeting of Prelios S.p.A., held in accordance with the applicable provisions of law.

Code/Self-Governance Code: the Self-Governance Code of listed companies approved by the Corporate Governance Committee and recommended by Borsa Italiana S.p.A.
The Code is available to the public at the website *http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm.*

Civil Code: the Italian Civil Code.

Board of Statutory Auditors: the Board of Statutory Auditors of PRELIOS S.p.A..

Board of Directors: the Board of Directors of PRELIOS S.p.A.

Report Date: the date of the Board of Directors' meeting which approved this Report, March 10, 2015.

Manager Charged with Preparing the Company's Financial Reports: the manager charged with preparing the Company's financial documents, as provided for by Article 154-bis of the Consolidated Finance Act.

Issuer: Prelios S.p.A. or Prelios or the Company.

Financial Year: the financial year covered by the Report.

Prelios Group or Group: the Issuer and the companies controlled by it in accordance with Article 93 of the Consolidated Finance Act.

Extraordinary Transaction: the transaction designed to continue strengthening the capital and financial position of the Company through recapitalisation and the rebalancing of its financial structure, as well as boosting the Group's prospects for growth and business development, frequently communicated to the market and completed in August 2013.

Prelios Agreement: shareholders' agreement concerning the ordinary shares of Prelios S.p.A. signed on September 20, 2013 by Camfin S.p.A., Intesa Sanpaolo S.p.A., and Massimo Moratti, with the latter also acting in the name and on behalf of C.M.C. S.p.A. and Istifid S.p.A. (jointly referred to as "Massimo Moratti"), and consensually and prematurely terminated effective October 31, 2013. Notice of the premature termination was filed at the Milan Companies Register on November 4, 2013.

Pirelli: Pirelli & C. S.p.A., with registered office at Viale Piero e Alberto Pirelli 25, Milan.

RPT Procedure: the Procedure for Related-Party Transactions 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 17221 of March 12, 2010, as amended by Resolution 17389 of June 23, 2010, taking into account the guidelines and instructions provided by Consob with Notice DEM/10078683 of September 24, 2010.

Regulations of the Convertible Loan: the Regulations of the Mandatory Convertible Loan "Prelios Convertible Loan 2013-2019".

Issuers' Regulations: the Regulations concerning the provisions on issuers, adopted by Consob through Resolution 11971 of May 14, 1999, as amended.

Report: the report on corporate governance and ownership structure, which companies are required to prepare in accordance with the Consolidated Finance Act and the Issuers' Regulations.

Statutory Auditors: the members of the Board of Statutory Auditors of PRELIOS S.p.A.

Website: the Company's website www.prelios.com.

Company: Prelios S.p.A. or Prelios or the Issuer.

Articles of Association: the Articles of Association of the Issuer.

Consolidated Statutory Audit Act: Legislative Decree 39 of January 27, 2010 transposing Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

CFA/Consolidated Finance Act: Legislative Decree 58 of February 24, 1998, as amended.

1. ISSUER PROFILE

The Company's corporate governance structure is organised along the lines of a "traditional" management and control system, in which the management function rests solely with the Board of Directors, the supervisory function with the Board of Statutory Auditors, and the audit function with independent auditors registered in the special register kept by CONSOB.

In accordance with the recommendations of the Self-Governance Code and the principles of corporate governance observed at the international level and advocated within the European Union, the Board of Directors has also set up internal committees with policymaking and advisory functions.

The Ordinary Shareholders' Meeting of Prelios of May 8, 2013 appointed the **Board of Directors** of the Company for a three-year term, namely until the approval of the financial statements for the year ended December 31, 2015.

The appointment of one fifth of the directors to be elected is reserved for a qualified minority of shareholders, which present a list of candidates[1], in compliance with the provisions of law and the Articles of Association.

The current Board was appointed on the basis of a single list of candidates presented by the shareholders Camfin S.p.A., Intesa Sanpaolo S.p.A. and Massimo Moratti, already parties to the Prelios Agreement.

The Board is vested with full powers of ordinary and extraordinary management[2] and performs all tasks provided for by Article 1.C.1 of the Code.

The **Board of Statutory Auditors** is charged with overseeing compliance with the law and the Articles of Association, and the application of the principles of proper administration. It also ensures that the organisational, administrative and accounting structure and internal control system are both appropriate and reliable.

The Board of Statutory Auditors is also called on to oversee the effective implementation of the corporate governance rules adopted by the Company and to submit a reasoned proposal to the Shareholders' Meeting upon the appointment of the external auditors, verifying the independence of the Independent Auditors.

More specifically, following the entry into force of the Consolidated Statutory Audit Act, the Board of Statutory Auditors must perform additional and/or enhanced supervisory functions as *"Internal Control and Audit Committee"*, as described more fully below.

The Board of Statutory Auditors consists of three Standing Statutory Auditors and two Alternate Statutory Auditors, who are appointed for a term of three years and may be re-elected[3].

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[1] Pursuant to Article 12 of the Articles of Association, the Company is managed by a Board of Directors composed of between 5 and 19 members who serve for a term of three financial years (unless the Shareholders' Meeting sets a shorter term when it appoints them) and who may be re-elected. The Shareholders' Meeting sets the number of Board members, and this number shall not change until resolved otherwise. The members of the Board of Directors are elected from the candidates included on voting lists. The Directors are subject to statutory ineligibility and forfeiture provisions.

[2] See Article 18 of the Articles of Association for the responsibilities and prerogatives assigned by it to the Board of Directors.

[3] Following the decisions taken by the Extraordinary Shareholders' Meeting held on May 8, 2013, the number of Alternate Statutory Auditors has been increased from two to three starting with the first renewal of the control body after the entry into force of the related amendment to the Articles of Association. Until that time, the Board of Statutory Auditors will be made up of three Standing Statutory Auditors and two Alternate Statutory Auditors.

The appointment of one Standing Statutory Auditor and one Alternate Statutory Auditor is reserved for a qualified minority of shareholders, who present a list of candidates in accordance with the legal requirements and Articles of Association; the Statutory Auditor appointed by the minority is the Chairman of the Board of Statutory Auditors[4].

The current Board of Statutory Auditors was appointed by the Ordinary Shareholders' Meeting of Prelios of May 8, 2013, on the basis of a single list of candidates presented by the shareholders Camfin S.p.A., Intesa Sanpaolo S.p.A. and Massimo Moratti, already parties to the Prelios Agreement.

The **Shareholders' Meeting** is the body that represents all the shareholders and which is responsible for deliberating (i) during ordinary meetings, on the approval of the annual financial statements, the appointment and removal of members of the Board of Directors, the appointment of members of the Board of Statutory Auditors and their Chairman, the remuneration of directors and Statutory Auditors, the appointment of the external auditors, the responsibilities of directors and Statutory Auditors and other matters placed within its remit; (ii) during extraordinary meetings, on amendments to the Articles of Association and extraordinary transactions such as capital increases, mergers and demergers, except for those delegated by the Articles of Association to the Board of Directors in accordance with the law.

The **Independent Auditors,** registered in the special register kept by CONSOB, are responsible by law for external audits.

The appointment of the Independent Auditors is the responsibility of the Shareholders' Meeting, based on the reasoned proposal of the Board of Statutory Auditors[5].

2. INFORMATION ON THE STRUCTURE OF SHARE OWNERSHIP(pursuant to Article 123-*bis*, paragraph 1, Consolidated Finance Act) at the Date of the Report.

It should be noted that, as illustrated in the previous Report for 2013, on April 9, 2014 the Board of Directors, upon approval of the 2013 draft financial statements, given the extent of the loss for the Financial Year, found that that the conditions set out in Article 8 of the Regulations of the Convertible Loan applied. Those Regulations require mandatory early repayment by converting the "Prelios Convertible Loan 2013-2019", if the Company is in one of the two situations provided for in Articles 2446 and 2447 of the Italian Civil Code.

Accordingly, as announced to the market[6], the mandatory early repayment of the "Prelios Convertible Loan 2013-2019" was made by full conversion of the Convertible Bonds and, therefore, the automatic execution of the capital increase for the exclusive service of the conversion through the issue of 229,757,292 ordinary shares and 93,390,705 Category B shares, for a total of Euro 236,544,333.80, according to the terms and conditions set forth in the Regulations of the Convertible Loan and based on the decisions taken by the Conversion and Calculation Agent (BNP Paribas Securities Service) binding, in accordance with the Regulations, for the Company and the bondholders.

For more information, please see the documents published in accordance with the law and available on the Website.

Following the completion of the foregoing, the following is noted.

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[4] See Article 22 of the Articles of Association.

[5] Based on the reasoned proposal of the Board of Statutory Auditors, the Shareholders' Meeting of April 14, 2008 granted *Reconta Ernst & Young S.p.A.* the audit assignment for the nine-year period 2008-2016.

[6] See the Press Release of April 9, 2014.

a) Structure of the share capital (pursuant to Article 123-bis, paragraph 1, letter a) of the Consolidated Finance Act)

At the Date of the Report, the fully subscribed and paid-up **share capital** totals Euro 426,441,257.20, divided into 506,953,179 ordinary shares and 210,988,201 Category B shares, with no par value and issued in dematerialised form.

At the Date of the Report, Fenice S.r.l. – a company owned by Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. – owned all 210,988,201 Category B shares, without voting rights and not listed on regulated markets.

SHARE CATEGORY	NO OF SHARES	% OF SHARE CAPITAL	LISTED
Ordinary shares (ISIN IT0004923022)	506,953,179	70.612	Listed on the Automated Screen-based Trading System organised and managed by Borsa Italiana S.p.A. – Small Cap Segment
Category B shares (ISIN IT0004923022)	210,988,201	29.388	Not listed

Rights and obligations.

The ordinary shares grant all rights expressly recognised by law and by the Articles of Association.

Category B Shares have the same characteristics as ordinary shares but do not entitle their holders to any voting rights. These Category B shares are converted into ordinary shares based on a ratio of one ordinary share for every Category B share, in the case of a public offer for purchase and/or exchange of the Company's shares or a transfer as specified in the Articles of Association.[7]

In the event of the transfer of Category B shares to entities that do not already directly hold Category B shares, the transfer will involve the automatic conversion of said Category B shares into ordinary shares of the Company. However, such conversion will not take place in the event of the transfer to entities that are directly or indirectly controlled by entities that already hold Category B shares.

At the Date of the Report, the Company has not adopted any share-based incentive plans.

b) Restrictions on the transfer of shares (pursuant to Article 123-bis, paragraph 1, letter b) of the Consolidated Finance Act)

The ordinary shares and Category B shares are freely transferable, except as provided for in Article 6-bis of the Articles of Association.

c) Significant holdings of the share capital (pursuant to Article 123-bis, paragraph 1, letter c) of the Consolidated Finance Act)

At the Date of the Report, based on the notification received pursuant to Article 120 of the Consolidated Finance Act and other information available, as well as that published by

[7] See Article 6-bis of the Articles of Association.

Consob[8], the holders of ordinary shares exceeding 2% of the voting capital of Prelios are as follows:

REPORTING ENTITY	DIRECT SHAREHOLDER	% OF ORDINARY SHARE CAPITAL	% OF VOTING SHARE CAPITAL
Pirelli & C. S.p.A.	**Pirelli & C. S.p.A.**	**29.219**	**29.219**
UniCredit S.p.A.	**UniCredit S.p.A.**	**14.020**	**14.020**
Marco Tronchetti Provera	**Coinv S.p.A.**	*8.104*	*8.104*
	Cam Partecipazioni S.p.A.	*0.007*	*0.007*
	TOTAL	**8.111**	**8.111**
Intesa Sanpaolo S.p.A.	**Intesa Sanpaolo S.p.A.**	*6.550*	*6.550*
	Intesa Sanpaolo Vita S.p.A.	*0.002*	*0.002*
	Intesa Sanpaolo Private Banking S.p.A.	*0.002*	*0.002*
	TOTAL	**6.554**	**6.554**
Banca Popolare di Milano S.c.a.r.l.	**Banca Popolare di Milano S.c.a.r.l.**	**5.617**	**5.617**
Banca Monte dei Paschi di Siena S.p.A.	**Banca Monte dei Paschi di Siena S.p.A.**	**3.337**	**3.337**

It should further be noted, pursuant to Article 2428, paragraph 3, numbers 3) and 4) of the Italian Civil Code, that:

- there are no parent companies in respect of which disclosures must be made concerning any shares held at December 31, 2014 and/or purchases/disposals of these in 2014 by the Company;
- at December 31, 2014, the Company owned a total of 1,788 treasury shares.

d) Shares conferring special rights (pursuant to Article 123-bis, paragraph 1, letter d) of the Consolidated Finance Act)

There are no shares conferring special rights of control or special powers. The Articles of Association do not include provisions concerning multiple voting shares or majority voting shares.

e) Employee shareholdings: mechanism for exercising voting rights (pursuant to Article 123-bis, paragraph 1, letter e) of the Consolidated Finance Act)

In case of employee share ownership, there is no mechanism for voting if they do not vote themselves.

f) Restrictions on voting rights (pursuant to Article 123-bis, paragraph 1, letter f) of the Consolidated Finance Act)

[8] The information published by Consob on its own website, based on the notices made by the entities subject to the obligations provided in Article 120 of the Consolidated Finance Act and the Issuers' Regulations, might be significantly different from the real situation. The reason for such discrepancies stems from the fact that the obligations to notify variations in the percentage of shareholding are triggered not when this percentage simply changes but only when it “exceeds” or “falls below” predetermined thresholds specified in the statute. Only when the those thresholds are passed does the entity have to notify Consob and the Issuer pursuant to Article 120 of the Consolidated Finance Act.

There are no restrictions on voting rights, except regarding Category B shares without voting rights.

g) Shareholder agreements (pursuant to Article 123-bis, paragraph 1, letter g) of the Consolidated Finance Act)

Moreover, in regard to the agreements of relevance to PRELIOS pursuant to Article 122 of the Consolidated Finance Act, it his hereby disclosed that under the agreements made between the parties involved in the transaction to strengthen the capital and financial position of the Company through recapitalisation and rebalancing of its financial structure approved by the Extraordinary Shareholders' Meeting on May 8, 2013 and concluded last year (the Extraordinary Transaction):

a) Feidos 11 S.p.A., Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Pirelli & C. S.p.A. accepted and signed a Shareholders' Agreement (hereinafter, the "**Fenice Agreement**") concerning Fenice S.r.l. (and accepted by Fenice itself).

   The Fenice Agreement governs the rights and obligations of the parties in relation to: (i) the governance and transferability of the investments held in Fenice S.r.l.; (ii) the disposal of the investment that Fenice S.r.l. acquired in Prelios and (iii) the transferability of some shares issued by Prelios that are or will be held by the parties.

   On June 30, 2014, in implementation of the Fenice Agreement, Pirelli & C. S.p.A. contributed to Fenice S.r.l. all the 93,390,705 category B shares that Pirelli & C. S.p.A. previously subscribed following the previously mentioned conversion of the "Prelios Convertible Loan 2013-2019". Since that contribution, Pirelli & C. S.p.A. no longer owns any category B shares.

   The latest amendment to the Fenice Agreement was published on February 3, 2015;

b) Fenice S.r.l. has entered into separate co-sale agreements affecting Prelios (hereinafter, the "**Co-Sale Agreements**") with Camfin S.p.A., Massimo Moratti, Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano S.c.a.r.l., Banca Popolare di Sondrio S.c.a.r.l., Banca Popolare dell'Emilia Romagna Soc. Coop., Banca Carige S.p.A. and UBI Banca Soc. Coop. p.A. (formerly Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A.) which regulate the terms and conditions under which Fenice S.r.l. has granted each of the aforementioned owners co-sale rights covering the securities of Prelios owned by them at the date they exercise said right. With effect from February 18, 2014, the co-sale agreement between Fenice and Massimo Moratti was terminated by mutual consent.

   The latest amendment to the Co-sale Agreements was published on January 5, 2015;

Moreover, the shareholders' agreement between Marco Tronchetti Provera & C. S.p.A., Marco Tronchetti Provera Partecipazioni S.p.A., Gruppo Partecipazioni Industriali S.p.A., Nuove Partecipazioni S.p.A., Lauro Cinquantaquattro S.r.l., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. concerning, inter alia, the Prelios ordinary shares held by Camfin S.p.A., according to a specific provision relating to the governance of Prelios was terminated on May 24, 2014.

On the same date – in the broader context of the agreements concerning the project for strategic development and corporate reorganization of Pirelli & C. and Camfin - Nuove Partecipazioni S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. signed a shareholders' agreement whose purpose is, inter alia, to manage the Prelios ordinary shares owned at the Date of the Report by Coinv S.p.A.

The latest amendment to the aforementioned shareholders' agreement was made on December 22, 2014 to reflect: (i) the entry into force of the shareholders' agreement between UniCredit S.p.A., Intesa Sanpaolo S.p.A. and Nuove Partecipazioni S.p.A.; (ii) the completion and entry into force of the takeover and merger of Lauro Sessantuno S.p.A. with Camfin S.p.A.; (iii) the completion and entry into force of the non-proportionate demerger, in favour of the newly incorporated company Coinv S.p.A., of the assets and liabilities of Camfin S.p.A. except for the investment in Pirelli & C. S.p.A., or the investment in Prelios S.p.A. and other, less significant investments, and (iv) the completion and entry into force of the contributions to Coinv S.p.A. by UniCredit S.p.A., Intesa Sanpaolo S.p.A. and Nuove Partecipazioni S.p.A. of their own shareholdings in Camfin upon conclusion of the aforementioned merger and demerger.

The notices containing the excerpts of the aforementioned agreements and clauses are all available on, inter alia, the website of Consob and published on the Website.

h) Change of control clauses (pursuant to Article 123-bis, paragraph 1, letter h) of the Consolidated Finance Act) and statutory provisions concerning the public tender offer (pursuant to Article 104, paragraph 1-ter and Article 104-bis, paragraph 1 of the Consolidated Finance Act)

There is no party that may, directly or indirectly, by virtue of shareholders' agreements, either alone or jointly with other parties to agreements, exercise control over Prelios.

It follows that, at present, the Company (or its subsidiaries) are not party to any significant agreements that take effect, are amended or are terminated upon a change of control.

*

On the subject of public tender offer, it should be noted that the Articles of Association do not include: (i) provisions that derogate from the passivity rule set forth in Article 104, paragraphs 1 and 2 of the Consolidated Finance Act; and (ii) the implementation of the neutralisation rules provided for in Article 104, paragraphs 2 and 3 of the Consolidated Finance Act.

i) Delegation of authority to increase the share capital and authorisation to purchase treasury shares (pursuant to Article 123-bis, paragraph 1, letter m) of the Consolidated Finance Act)

As at today, no powers have been delegated to the directors to increase the share capital in return for payment on one or more occasions, nor have they been granted the right to issue equity instruments.

*

At the Date of the Report, no resolutions have been adopted by shareholders authorising the Board of Directors to draw up plans to purchase treasury shares.

At the closing date of the Financial Year and at the Date of the Report, the Company owns 1,788 treasury shares.

j) Management and coordination (pursuant to Article 2497 et seq. of the Italian Civil Code)

There is no party that may, directly or indirectly, by virtue of shareholders' agreements, either alone or jointly with other parties to agreements, exercise control over PRELIOS. Likewise, the Company is not subject to management and coordination by another company or entity pursuant to Articles 2497 et seq. Italian Civil Code.

Conversely, PRELIOS is responsible for the management and coordination, in accordance with the Italian Civil Code, of various subsidiaries, having disclosed this as required by Article 2497-bis of the Italian Civil Code.

* *

Finally, the following information is provided as required by:

- Article 123-bis, paragraph 1, letter i) of the Consolidated Finance Act relating to “agreements between the company and directors... which envisage indemnities in the event of resignation or dismissal without just cause or if their employment contract should terminate as the result of a takeover bid” is contained in the Remuneration Report published in accordance with Article 123-ter of the Consolidated Finance Act and made available on the Website by the statutory deadline.

- Article 123-bis, paragraph 1, letter l) of the Consolidated Finance Act relating to “rules applying to the appointment and replacement of directors... and to amendments to the articles of association if different from those applied as a supplementary measure” are is illustrated in the section of this Report on the Board of Directors.

3. COMPLIANCE (pursuant to Article 123-bis, paragraph 2, letter a) of the Consolidated Finance Act)

Since its inception, PRELIOS has had a corporate governance system designed to manage and control the Company in line with market best practice, defining the precise distribution of roles and responsibilities between the various company bodies in order to comply with the laws, regulations, codes of conduct, procedures and Company regulations.

On May 3, 2002, the Company announced to the market that it had fully adopted the Self-Governance Code for Listed Companies published by Borsa Italiana, as well as the subsequent revised versions, implementing the consequent changes required from time to time.

In accordance with the applicable legislation and regulations, the aim of this Report is also to illustrate the corporate governance model adopted by the Company on the date of its publication, providing a snapshot of the current level of compliance with the provisions of the Code.

In this regard, it should be noted that at periodic intervals, and at least once a year, at the Board meeting called to examine the draft financial statements for the previous year, a special document is submitted to the Board of Directors prior to the approval of the Report which verifies the level of compliance with each individual provision of the Code, if necessary describing the actions proposed or under way.

It should be noted that PRELIOS and its strategically important subsidiaries are not subject to any provisions of foreign law that affect the Company’s corporate governance structure.

However, the subsidiaries Prelios SGR S.p.A. (asset management company) and Prelios Credit Servicing S.p.A. (financial intermediary) are subject to supervision by the Banca d’Italia. As such, they apply the specific governance and other rules imposed on those companies.

With specific reference to the new Self-Governance Code for Listed Companies published by Borsa Italiana S.p.A. in December 2011, the Board of Directors, at its meeting of March 2, 2012 – noting the already prevalent and substantial compliance of the corporate governance model with the new provisions – resolved, subject to the approval of the Internal Control, Risk and Corporate Governance Committee, to adopt the new Code.

The adoption of the new Code was most recently confirmed by the Board of Directors on July 30, 2014, after the Internal Control, Risk and Corporate Governance Committee issued its favourable opinion in July 2014 following publication of a new edition of the Code itself by Borsa Italiana.

The key corporate governance documents of PRELIOS include:

- the Articles of Association;
- the Regulations on Shareholders' Meetings;
- the Code of Ethics and Conduct Guidelines, an integral part of the Organisational Model pursuant to Legislative Decree 231/01;
- the Procedure for Related-Party Transactions;
- the Procedure for the flow of information to directors and Statutory Auditors;
- the Code of Conduct for Real Estate Transactions;
- the Procedure for the Management and Public Disclosure of Price-Sensitive Information and the Insider Register;
- the Memorandum on Internal Dealing.

To broadcast the corporate governance model adopted by the Company, the full version of all the above documents are available in the corporate governance section of the Website.

Finally, in the interim financial report, the Company voluntarily reports on updates and additions to its corporate governance system compared with the information contained in the previous annual report.

4. BOARD OF DIRECTORS

4.1. APPOINTMENT AND REPLACEMENT (pursuant to Article 123 bis, paragraph 1, letter l, of the Consolidated Finance Act)

For the appointment of members of the Board of Directors, the Articles of Association have made provision, since 2004, for the "list voting mechanism" – based on a transparent process and in accordance with Article 147-ter of the Consolidated Finance Act – to encourage more active participation of "minorities" in corporate proceedings, allowing them to nominate one fifth of directors.

Following the entry into force of Law 120 of July 12, 2011 (amending Article 147-ter of the Consolidated Finance Act), the appointment of directors in listed companies must be informed by the principles of gender equality.[9]

The Articles of Association uphold this principle by stipulating that in order to maintain gender equality in compliance with the regulations from time to time in force, in each list containing a minimum of three candidates, at least one third (rounded up to the nearest whole number if necessary) of these candidates must belong to the least represented gender. It should be pointed out that the Company was an early adopter of the minimum percentage eventually required under the applicable regulations.

The lists may be submitted by shareholders which, alone or together with other shareholders, hold a total number of shares representing at least 2% of the share capital with voting rights at the Ordinary Shareholders' Meeting, or such lesser amount required by

[9] With Resolution no. 18098 of February 8, 2012, Consob issued the related implementing regulation modifying the Issuers' Regulations.

Consob regulations, [10] and must be filed at the registered office at least 25 days prior to the date set for the Shareholders' Meeting at single call.

When submitting the list, a curriculum vitae for each candidate must also be enclosed, together with declarations of acceptance of the nomination, certification of the non-existence of grounds for ineligibility or incompatibility and fulfilment of the prescribed requirements for holding office, as well as a possible indication of whether they qualify as independent.

The Board of Directors is elected as follows:

a) four fifths of the directors to be elected, rounded down to the nearest whole number if necessary, will be taken from the list that obtains the majority of shareholders' votes, in the order they appear in the list itself;

b) the remaining directors will be taken from the other lists; to that end, votes obtained by the other lists will subsequently be divided by whole numbers, from one up to the number of directors still to be elected.

The directors referred to in letter b) above are elected by applying a quotient; those obtaining the highest quotients are elected.

If several candidates obtain the same quotient, the candidate will be elected from the list that has not yet provided any directors, or from which the lowest number of directors has been elected.

If none of these lists has yet elected a director or if all of them have elected the same number of directors, the candidate obtaining the highest number of votes on such lists will be elected.

In the event of a tie in terms of both list voting and quotient, the entire 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 required by applicable laws and/or regulations, the candidate belonging to the most represented gender elected with the highest progressive number in the list that obtained 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 met.

If the application of the list voting mechanism does not ensure the minimum number of independent directors required by applicable laws and/or regulations, the non-independent candidate elected with the highest progressive number in the list that obtained 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 met, without prejudice, in any case, to the gender balance required by the law and/or regulations currently in force.

The loss of independence of a director does not constitute grounds for removal from office if the Board of Directors maintains the minimum number of members – as provided by the laws and/or regulations – satisfying the independence criteria.

Lastly, it should be noted that the Company is not subject to special industry regulations on the representation of minority shareholders or the number and characteristics of independent directors.

[10] Pursuant to Article 144-quater of the Issuers' Regulations, Consob issued Resolution no. 19109 of January 28, 2015, which set the quota of participation applicable to the Company at 4.5%.

Succession plans

The Board of Directors – subject to the approval of the Internal Control, Risk and Corporate Governance Committee – decided not to adopt a succession plan for executive directors, as required by the Self-Governance Code (Article 5.C.2), taking into account the nature and structure of the current ownership and the related agreements regarding the Extraordinary Transaction.

The Company might consider whether subsequently to adopt – despite having fully completed the streamlining of its organisational structure and alongside the tools and procedures already in place – formal methodologies that permit the monitoring of strategic roles within the Group and the existence of any internal parties capable of assuming positions of greater responsibility so as to ensure continuity in the development of key resources or to define the skills necessary to fill these roles when the need to conduct an external search arises due to “emergency” changes.

4.2. COMPOSITION (pursuant to Article 123-bis, paragraph 2, letter d) of the Consolidated Finance Act)

The Shareholders’ Meeting of May 8, 2013 appointed the current Board of Directors, elected from the single list presented by the shareholders Camfin S.p.A., Intesa Sanpaolo S.p.A. and Massimo Moratti, already parties to the Prelios Agreement, which obtained more than 99% of the votes of those entitled to vote at the Shareholders’ Meeting.

It is pointed out that – in order to assist shareholders with the submission of lists and the subsequent appointment of directors – in the Directors’ Report on the specific item on the agenda of the aforementioned Shareholders’ Meeting (published in the corporate governance section of the Website), the outgoing directors expressed an opinion, inter alia, on the ideal composition of the Board and the professional qualities that candidates should have in view of the Company’s business model and the complexity and specificity of the business sector in which it operates, taking into account the conditions attached to the Extraordinary Transaction, including the appointment of Sergio Iasi and Massimo Caputi, respectively, as Chief Executive Officer and Deputy Chairman (with responsibility for development), in each case in accordance with the principles of gender equality.

Those proposing the list made candidate profiles available, making it possible to become familiar with their personal and professional background in advance, and to determine whether some of them meet the requirements to be qualified as independent.

The list is available in the corporate governance/documents section of the Website.

At the Date of the Report, the Board of Directors is composed of 15 members whose term of office will expire with the approval of the financial statements at December 31, 2015.

In this regard it is noted that – following the resignation of Mrs. Anna Chiara Svelto as Director – on June 19, 2014 the Shareholders' Meeting appointed Mrs. Mirja Cartia d'Asero as the new Director of the Company on the basis of a specific proposal submitted by the shareholder Camfin S.p.A. She will hold this position until the term of the current Board of Directors expires, thereby confirming the number of members of the Board of Directors.

This proposal was published on June 16, 2014, and thus before the vote, together with the candidate's personal profile. This provided the public with advance knowledge of her personal and professional background, as well as her satisfaction of the prerequisites to be qualified as an independent director.

The Shareholders' Meeting approved the proposal made by the shareholder, with 95.4% of the share capital represented at the Shareholders' Meeting voting in favour of the candidate.

The Director newly elected by the Shareholders' Meeting was then granted the portion of remuneration due to her (amounting to Euro 30,000 annually), in accordance with the relevant resolutions approved by the Shareholders' Meeting on May 8, 2013 and the Board of Directors meeting on May 30, 2013.

At the meeting held immediately after her appointment, the Board of Directors verified that this new Director fulfilled the independence criteria set forth in the Code as applicable to independent directors, as well as the additional requirements set forth in Article 147-ter, paragraph 4 of the Consolidated Finance Act. Pursuant to Article 3.C.4 of the Self-Governance Code, the result of this review was published in an announcement made to the market[11].

All directors currently in office were appointed for the first time by the Shareholders' Meeting of May 8, 2013, with the exception of the Chief Executive Officer Sergio Iasi (appointed for the first time on November 13, 2012), as well as the independent directors Carlo Emilio Croce, appointed for the first time on January 25, 2006, Marina Brogi and Giovanni Jody Vender, appointed for the first time on April 21, 2011.

At the close of the Shareholders' Meeting on May 8, 2013, the Board had therefore appointed new corporate officers, with Giorgio Luca Bruno named as Chairman and Massimo Caputi as Deputy Chairman, and Sergio Iasi confirmed as Chief Executive Officer of the Company.

The composition of the Board is shown in Table 1 in the Appendix to the Report, which indicates, inter alia, the status for each member (executive, non-executive, independent) and the role held on the Board and its Committees, as well as his or her participation at their meetings.

For information on the personal and professional background of each director, please see their biographies on the Website.

Maximum number of appointments in other companies

In accordance with Article 1.C.3 of the Code, on November 7, 2007, the PRELIOS Board of Directors defined (and has since confirmed) the general criteria for the maximum number of appointments that can be held by directors. In principle, the office of director or auditor in more than five companies other than those under management and coordination by Prelios or its subsidiaries or associates is deemed incompatible with the role of director of the Company, where such companies:

(i) are listed in the FTSE MIB index (or equivalent foreign indices);

(ii) deal primarily with the public in the financial sector (listed in the Register of Financial Intermediaries referred to in Article 106/107 of Legislative Decree 385 of September 1, 1993), including asset management companies;

(iii) are involved in banking or insurance.

The Board also considers the fact that the same director holds more than three executive appointments in the companies referred to in points (i), (ii) and (iii) to be incompatible with the role of director of the Company.

Appointments held in several companies belonging to the same group are considered a single appointment, with executive positions taking precedence over non-executive positions.

In any event the Board is at liberty to decide differently, as disclosed in the annual report on corporate governance and ownership structure; hence it may include directorships or

[11] See the Press Release of July 30, 2014.

auditorships in foreign companies or in companies other than those described above, taking into account the size, structure and shareholding relations that exist between the various companies and the participation of directors in Board committees.

Note that on re-election of the Board of Directors by the Shareholders' Meeting of May 8, 2013, the Shareholders (if intending to submit lists for the appointment of directors pursuant to the Articles of Association) were duly invited to view the aforementioned policy.

Based on the information provided by the parties concerned, at the Date of the Report it appears that all directors in office satisfy the criteria adopted.

The Report is accompanied by a description of key appointments held by directors, with specific reference to companies outside the PRELIOS Group (Article 1.C.2 of the Code).

Induction Programme

In compliance with application criterion 2.C.2. of the Code, the Company regularly undertakes induction activities, especially before renewal of the Board of Directors. Given the current phase and particular business context and scenario, this activity was carried out during the Financial Year as part of the Board of Directors and its committees' activities, during which the current Directors and Statutory Auditors were also able to confer with PRELIOS Group management. This gave them the opportunity to learn more about the business sector in which the Group operates, corporate dynamics and their evolution, and the applicable regulatory and self-regulatory framework.

The high number of Board meetings and committee meetings held in 2014, normally attended by all members of the Board of Statutory Auditors (a total of 8 Board meetings, 5 meetings of the Remuneration Committee, 10 meetings of the Internal Control, Risk and Corporate Governance Committee and 14 meetings of the Board of Statutory Auditors) allowed the directors and Auditors to continue developing this knowledge during their term of office, particularly with regard to business development and the applicable regulatory and self-regulatory framework. Partly on the basis of the findings of the Board Performance Evaluation, the Company will take all appropriate measures for further improvement of the induction activities.

4.3. ROLE OF THE BOARD OF DIRECTORS (pursuant to Article 123-bis, paragraph 2, letter d) of the Consolidated Finance Act)

The Board of Directors plays a key role in the Company's management and strategic guidance, and therefore performs all the tasks required by Article 1.C.1 of the Code.

Specifically, the Board of Directors:

- examines and approves the strategic, industrial and financial plans of the Issuer and the Group it heads, periodically monitoring their implementation, usually when it examines the financial statements for the period, and defines the corporate governance system of the Issuer and the Group structure. In this regard, on June 12, 2014 the Board of Directors approved the Industrial Plan 2014-2016[12], which was prepared on the basis of the Guidelines 2014-2016[13] approved on April 9, 2014. It then monitored the status of its implementation at each of the subsequent Board of Directors meetings subsequently held during the Financial Year. At the Date of the Report, the Board of Directors

[12] See the Press Release of June 12, 2014.
[13] See the Press Release of April 9, 2014.

approved the budget 2015 and discussed and approved the Group outlook for the period 2015-2017[14];

- defines the nature and level of compatible risk in view of the issuer's strategic objectives. On November 11, 2013, the Board approved the guidelines and structure of the new risk management system (the "Enterprise Risk Management Project", or **"ERM Project"**), considering it suitable – for now – in view of the Company's characteristics and risk profile. The system will undergo constant monitoring to ensure that it remains adequate and to assess its effectiveness. Following assessments carried out by the Internal Control, Risk and Corporate Governance Committee on April 9, July 30 and November 5, 2014, the Board of Directors examined and approved the activities that had been performed, positively evaluating the adopted ERM Project;
- assesses the adequacy of the issuer's organisational, administrative and accounting structure, as well as that of strategically important subsidiaries, with particular reference to the internal control and risk management system; the subsidiaries considered to be strategically important are Prelios SGR, Prelios Credit Servicing, Prelios Integra, Prelios Valuation & e-Services and Prelios Agency. During the Financial Year and after assessment by the Internal Control, Risk and Corporate Governance Committee, the Board of Directors also evaluated the activities carried out as part of the "Process 262" updating process of the Internal Control System following changes to its organisational structure. That process addresses the method used to certify the adequacy and effective application of administrative and accounting procedures during the financial year covered by the financial statements, as well as the consistency of the financial statements with the company books and accounting records;
- periodically examines, at least quarterly, the activities carried out by the executive directors in exercising the powers delegated to them. In 2014, this took place at regular board meetings (eight meetings were held in 2014, as described in more detail below). Lastly, the Board has long had a specific internal procedure in place to promote, in general, the orderly flow of information to directors and Auditors. This procedure can be found in the governance/governance system section of the Website;
- evaluates the general business performance, taking into account the information received from the executive officers, and periodically comparing actual results with forecasts. Prior to the examination of the 2014 draft financial statements, the Board, at its meeting on March 10, 2015, also examined the Impairment Test at December 31, 2014 – based on the ad hoc procedure adopted for this purpose – subject to the favourable opinion of the Internal Control, Risk and Corporate Governance Committee. For further details, see the explanatory notes to the financial statements;
- decides on the transactions of the issuer and its subsidiaries, when such transactions are of material importance for the issuer in terms of its strategy, income, assets and liabilities or financial position; to this end, it has introduced general criteria for identifying material transactions, as defined in the Procedure for the flow of information to directors and Statutory Auditors;
- notifies the shareholders, prior to the appointment of the new Board, of persons whose presence on the Board is deemed advisable. In this regard, as mentioned earlier, the outgoing directors expressed an opinion on the ideal composition of the Board and the professional qualities that candidates should possess. As part of the annual Board Performance Evaluation for 2014, guidance was specifically requested from directors on the persons whose presence on the Board was deemed advisable. The composition of

[14] See the Press Release of March 10, 2014.

the Board was found to be very good in terms of professional expertise, and balanced in terms of the number of executive, non-executive and independent directors;

- provides information in the Report: (i) on its composition, indicating the status of each member (executive, non-executive, independent), the role held on the Board (e.g. chairman or chief executive officer), the principal professional qualities and length of time in office since first appointed; (ii) on the number and average duration of meetings of the board and executive committee, if any, held during the year and on the equity interest of each director; and (iii) on how the Board Performance Evaluation is carried out;
- to ensure that Company information is properly managed, has adopted, on the proposal of the Chief Executive Officer or the Chairman of the Board of Directors, a procedure for the internal management and external communication of documents and information concerning the issuer, with particular reference to insider information; (For more details, reference is made to what is illustrated in Chapter 5 of the Report);
- evaluates, at least once a year, the practices of the Board and its committees, taking into account their size and composition, and aspects such as professionalism, management and other experience of its members and their length of time in office (Board Performance Evaluation). In this latter regard, the Board has conducted the necessary activities for 2014 and the results were assessed by the Internal Control, Risk and Corporate Governance Committee and, on March 10, 2015, by the Board itself. For 2014, the Internal Control, Risk and Corporate Governance Committee carried out the Board Performance Evaluation directly. This was carried out by (i) preparing a questionnaire focusing on the key issues emerging from previous self-assessments; (ii) collecting the questionnaires completed by the Directors while ensuring that answers remained anonymous; and (iii) Internal Audit, which prepared an analysis report, partly based on a comparison with the results of previous self-assessments. As customary, the results were then presented at the Board of Directors' meeting that examined the 2014 draft financial statements, following an evaluation by the Internal Control, Risk and Corporate Governance Committee. Extremely positive evaluations were made in regard to: (i) the size and composition of the Board of Directors and its functioning; (ii) recording of the Board of Directors meetings in minutes; (iii) the adopted corporate government arrangements, and (iv) the activities of Board of Directors committees. The suggestions made by certain directors, which will be analysed as necessary for more effective implementation of additional improvements, specifically concern: (i) the advisability of holding Board of Directors meetings more frequently; (ii) engaging the Board of Directors even more intensively in regard to strategic or otherwise highly important issues.

* * *

The Articles of Association (Articles 14, 15, 16 and 17) set out the operating procedures and rules for Board meetings.[15]. Although a minimum number of meetings is not specified, it is common practice for the Board to be convened in accordance with the recommendations of Borsa Italiana,[16] and at least four times a year for the approval of the financial statements for

[15] The Chairman calls the Board of Directors meetings and moderates their proceedings, assuring that the Directors receive reasonably in advance – when possible and if no need or urgency exists – the documents and information that they need to express informed opinions on the matters listed on the agenda. Personally and with the assistance of the delegated internal functions, the Chairman informs the Directors about and, if appropriate, discusses with them the principal legislative and regulatory changes affecting the Company and corporate bodies. In particular, the Board of Directors meets on initiative by the Chairman or his substitute at the registered office of the Company or at the other site indicated in the letter calling the meeting (provided that it be held in Italy or in European Union countries), whenever he deems it appropriate on behalf of the company, or when asked to do so by one of the Managing Directors or by one fifth of the current Directors or by at least two Standing Statutory Auditors. Nevertheless, the Board of Directors may validly deliberate even if no formal call of meeting is issued, provided that all of its members and all of its current Standing Statutory Auditors are in attendance.

[16] See Article 2.6.2., paragraph 1, letter c) of the Stock Exchange Regulations.

the period. The directors also meet on the initiative of the Chairman or at the request of the Directors themselves, if necessary at informal meetings on specific issues that require a dedicated meeting for more detailed analysis, particularly to improve the Directors' knowledge of the Company's business, changing scenarios and reference markets and of the specific business dynamics.

Notice of Board meetings is given by registered letter, telegram, fax or e-mail sent at least five days in advance (or in an emergency, at least six hours in advance) to each director and Standing Statutory Auditor.

Board meetings may be conducted via telecommunication systems, except in cases where – for reasons of confidentiality – the Chairman has exercised the option of conducting meetings in person, giving advance notice of same. In this case (i) participation in the discussion and (ii) equal information for all participants must be ensured.

The meeting is deemed to be held in the place where the Chairman and the Secretary are simultaneously present.

For the resolutions of the Board to be valid, the majority of directors in office must be present and a majority vote in favour must be obtained.

In the event of a tied vote, the Chairman shall have the deciding vote.

The directors – together with the Board of Statutory Auditors – normally receive in a timely manner and sufficiently in advance the documents and information that they need to express an informed opinion on the matters submitted to them for their examination.

During the Financial Year, the documentation was generally sent together with the notice of meeting,[17] except for those documents that – owing to the particular confidentiality of the issues, the fact that they concerned activities still in progress or for other special reasons – were not available on that date. In those cases, the matters in question were adequately examined during the Board of Directors meetings.

Comprehensive and clear information was always provided in any case on the matters under consideration (if necessary in note form, if the documents were too long or complex) to ensure that informed decisions could be taken.

Board meetings were attended by – on invitation and with the permission of the directors – those executives of the Company and/or its strategically important subsidiaries (as a rule, the Chief Executive Officers, Senior Managers and other executives) or third parties (normally the Company's advisors) whose participation was, from time to time, deemed necessary or even just advisable in view of the items on the agenda, in order to provide the Board with the information or details required for the Board's resolutions.

It is established practice that all meetings are attended by the officer in charge of preparing the Company's accounting documents.

The Board's resolutions, including those adopted at meetings held via telecommunication systems, are recorded in the appropriate book; the minutes are signed by the Chairman and Secretary of the meeting.

The related copies and excerpts, which are not notarised, are certified by the Chairman.

In 2014, a total of eight meetings of the Board of Directors were held with an average duration of about an hour and a half.

For details of attendance at meetings by Board members, please see Table 1.

[17] Pursuant to the Articles of Association (Article 14.4), the Board of Directors is called at least five days before (or in urgent cases, at least six hours before) the meeting.

A Board of Directors meeting was held on the Date of the Report, and at least three other Board of Directors meetings are scheduled to be held in 2015, as previously announced to the market[18].

* * *

Regarding the possible concurrent activities carried out by directors, given that Article 12.16 of the PRELIOS Articles of Association states that "until otherwise resolved by the Shareholders' Meeting, the directors are not bound by the limitation imposed by Article 2390 of the Italian Civil Code", it has been established that each director shall inform the Board, on accepting the appointment, of any activities carried out concurrently with those carried out for the Company and, thereafter, of any significant changes thereto, so that these may be assessed and the necessary action taken.

Situations potentially covered by these rules were reported by the Deputy Chairman Massimo Caputi, the Chief Executive Officer Sergio Iasi and the Director Alessandra Patera, in relation to certain equity investments and roles held in other companies operating in the real estate sector, which however – based on the information and statements made by the parties concerned – did not reveal any current, concrete or material situations that had to be reported pursuant to Article 2390 of the Italian Civil Code. It is expressly understood that, in relation to any specific circumstances causing genuine problems, including those reported by the interested parties themselves, the Board of Directors will examine these carefully so that they may be assessed and the necessary actions taken in compliance with the applicable law.

4.4. EXECUTIVE OFFICERS

Chief Executive Officer

As previously mentioned, at the end of the Shareholders' Meeting of May 8, 2013, the Board of Directors confirmed Sergio Iasi as Chief Executive Officer of the Company.

In accordance with the provisions of the Code and in line with best practice, the Board of Directors has resolved to:

- delegate to the Chief Executive Officer Sergio Iasi all powers of ordinary and extraordinary administration (with the sole exception of (i) matters that cannot be delegated pursuant to Article 2381, paragraph 4 of the Italian Civil Code and (ii) those indicated in Article 18, paragraph 2 of the Articles of Association), setting – solely for internal purposes when dealing with the Board of Directors, and not relevant therefore when dealing with third parties – certain maximum limits (depending on the type of transaction), which, if exceeded, would come within the remit of the Board of Directors of the Company or require joint authorisation with the Chairman (namely relating to the sale and purchase of financial instruments and investments in companies; the purchase and sale of real estate; mortgages, loans and credit facilities; finance, contributions and capital increase transactions for investee companies; the issue of collateral and/or guarantees, generally with a maximum limit of Euro 30 million); transactions above Euro 15 million must be disclosed to the Chairman, while joint authorisation with the Deputy Chairman is required for the appointment and/or removal of senior executives;
- name Sergio Iasi, Chief Executive Officer, as "Director in charge of the internal control and risk management system", with the attendant responsibilities under the Self-Governance Code (Article 7.C.4).

[18] See the Press Release of November 5, 2014.

The structure outlined above, while maintaining a central role for the Board of Directors, ensures that authority is delegated in line with the Company's business model, with the appropriate distribution of power to guarantee operational efficiency in a reference market where swift action is a prerequisite for seizing the best business opportunities.

The Chief Executive Officer Sergio Iasi was also:

- named as the Employer of the Company's personnel, with the associated responsibilities under the Consolidated Safety Act (both for employees and in relation to construction sites);
- delegated environmental and construction/planning responsibility (both for work carried out by the Company on all real estate units owned or used by it and for properties owned or used by third parties and managed by the Company);
- designated as legal representative for data protection purposes (both with regard to personal data held by the Company and data entrusted to the Company by third parties);

with full and unrestricted management and spending authority. The related functions were therefore delegated – in compliance with the applicable legislation – to the persons in charge of specific operational areas, in possession of the necessary requirements.

Lastly, in line with the recommendations of the Code (Article 2.C.5), the Chief Executive Officer has no directorships in any other issuer where the Chief Executive Officer is a director of the Company ("interlocking directorate").

The Chairman of the Board of Directors

Unless the Shareholders' Meeting has already done so, a Chairman, and possibly one or more Deputy Chairmen, will be appointed within the Board. In the absence of the Chairman, meetings are chaired, in order, by the Deputy Chairman and Chief Executive Officer, if appointed, then by a Deputy Chairman or Chief Executive Officer; if there are two or more Deputy Chairmen or Chief Executive Officers, meetings are chaired by the oldest of these. The Board of Directors appoints a Secretary, who need not be one of its members.

In accordance with international and European Union best practice, as also adopted by the Code (Article 2.P.4), the current Chairman of the Board of Directors, Giorgio Luca Bruno – has not been delegated any specific management authority; therefore, he must be qualified as a "non-executive director", pursuant to Article 2 of the Code, but he is "not independent" (pursuant to Article 3 of the Code), considering the position he has assumed at Pirelli & C. S.p.A. and the position he holds at Coinv S.p.A., with both companies being shareholders of PRELIOS.[19]

The Deputy Chairman of the Board of Directors

The Board of Directors, again on May 8, 2013, also resolved to appoint Massimo Caputi as Deputy Chairman of the Board of Directors, assigning him responsibility for the identification and implementation of opportunities and development initiatives in relation to different business sectors.

In this regard, the Board of Directors has resolved to confer on the Deputy Chairman Massimo Caputi all powers of ordinary and extraordinary administration (with the sole exception of (i) matters that cannot be delegated pursuant to Article 2381, paragraph 4 of the Italian Civil Code and (ii) those indicated in Article 18, paragraph 2 of the Articles of Association), setting – solely for internal purposes when dealing with the Board of Directors, and not relevant therefore when dealing with third parties – certain maximum limits

[19] At the Date of the Report, the Chairman is *Chief Corporate Development & Diversified Businesses Officer* of Pirelli & C. S.p.A., holding other positions at Pirelli Group companies, and is also a member of the Board of Directors of Coinv S.p.A., while also holding other positions at companies that directly or indirectly control Coinv S.p.A.

(depending on the type of transaction), which, if exceeded, would come within the remit of the Board of Directors of the Company or require joint authorisation with the Chairman (namely relating to the sale and purchase of financial instruments and investments in companies; the purchase and sale of real estate; mortgages, loans and credit facilities; loans, contributions and capital increase transactions for investee companies; the issue of secured and/or unsecured guarantees, generally with a maximum limit of Euro 30 million); transactions above Euro 15 million must be disclosed to the Chairman, while joint authorisation with the Chief Executive Officer is required for the appointment and/or removal of senior executives.

Reporting to the Board

In accordance with the provisions of Article 18 of the Articles of Association (which incorporates the requirements of Article 150, paragraph 1 of the Consolidated Finance Act), the Board of Directors and the Board of Statutory Auditors – except for cases in which certain transactions or activities are subject to the prior approval of the administrative body – receive a continuous and timely flow of information, in any case at least on a quarterly basis, on the activities carried out, the general performance of the business and its outlook; transactions with a major impact on the income statement, balance sheet and financial position undertaken by the Company and its subsidiaries; and any atypical or unusual transactions with related parties, or at least representing a potential conflict of interest, furnishing all the aspects necessary to assess those transactions.

In order to facilitate the orderly flow of information, since 2002 the Company has had a specific procedure (“Procedure for the fulfilment of obligations pursuant to Article 150, paragraph 1 of Legislative Decree 58/1998”) which defines the rules to be followed to comply – on a quarterly basis – with the disclosure requirements referred to in Article 150 of the Consolidated Finance Act, concerning the activities of executive directors, both in exercising their delegated authority and in carrying out transactions approved by the Board, and in relation to business activities in general.

On March 4, 2011, the Board of Directors, having obtained the favourable opinion of the Internal Control and Corporate Governance Committee, proceeded to adapt the Procedure (now renamed the “Procedure on the flow of information to directors and Statutory Auditors”), partly in response to the adoption (on November 3, 2010) of a separate procedure relating to related-party transactions, described more fully below.

The full text of the Procedure on the flow of information to directors and Statutory Auditors is available in the governance/governance system section of the Website.

4.5. OTHER EXECUTIVE DIRECTORS

In Article 2.C.1 the Code lays down the conditions in which a director should be regarded as an “executive director”.

In light of the aforementioned definition, the Board has determined that, in addition to the Chief Executive Officer Sergio Iasi, the Deputy Chairman Massimo Caputi is also to be considered an executive director in view of the specific mandate assigned to him.

4.6. INDEPENDENT DIRECTORS

In Article 3.C.1 the Code defines the conditions in which a director may be regarded as an “independent director”.

In light of the aforementioned definition, the Board – on the appointment of each person concerned – has concluded that eight non-executive directors (Claudia Bugno, Marina Brogi, Mirja Cartia d'Asero, Rosa Cipriotti, Carlo Emilio Croce, Andrea Mangoni, Massimo Tezzon and Giovanni Jody Vender) may be regarded as independent directors.

The Board of Directors, at the meeting immediately following the appointment, verified the fulfilment of the independence criteria set forth in the Code for the aforementioned independent directors, as well as the additional requirements set forth in Article 147-ter, paragraph 4 of the Consolidated Finance Act.

The results of these assessments were communicated to the market.[20]

According to principle 3.P.2 of the Code, the aforementioned assessment is usually carried out each year by the Board of Directors, and the results disclosed in the Annual Report.

The Board of Directors carried out the last assessment on March 10, 2015.

One Director has been found to meet the qualifications as an independent director, although at the Date of the Report he had been director of the Company for more than nine years over the past twelve years. However, as the Code itself points out, this condition is not mandatory when assessing independence. Such an evaluation must focus more on substance than form.

The foregoing qualification has been defined in light of: (i) the unique professional and personal characteristics of the Director in regard to his specific activity, (ii) his actual conduct during his various terms, and (iii) his own self-evaluation, which led to confirmation that there were no conditions that could effectively impair his independent judgement, partly in light of the advantages that he contributes to the work of the Board of Directors and the Committee to which he belongs, due to the significant experience that he has accumulated in regard to the activities of the Company and corporate dynamics. The changes that have been made to the shareholder structure of Prelios and the changes in its management have also represented instances of discontinuity that further and substantially confirm the absence of any possible conditions for influence on his independent judgement.

In terms of the procedure followed, it is emphasised that (i) the annual assessment is carried out based on the information in the Board's possession and the specific written statements made by those concerned – all of whom have undertaken to notify the Company promptly in the event of any change in their statement – and that (ii) the Board of Statutory Auditors verifies the correct application of the evaluation criteria and procedures for the independence assessment.

The Company has always considered the role of independent directors to be fundamental for ensuring the effective operation of the senior management and oversight functions of the Board of Directors.

The number of independent directors and their respective responsibilities are deemed appropriate in view of the size of the Board of Directors and the Company's business, and sufficient to allow the Board Committees to be formed in accordance with the provisions of the Code.

It is pointed out in this respect that the majority of members sitting on the Board of Directors are independent, and that the Internal Control, Risk and Corporate Governance Committee and the Remuneration Committee are composed of a majority of different independent directors (in particular, the Internal Control, Risk and Corporate Governance Committee is composed only of independent directors).

[20] See the press releases of May 8, 2013 and July 30, 2014.

In line with the recommendations of the Code (Article 3.C.6), a meeting of the independent directors was held on November 5, 2014, which specifically examined corporate governance, internal control and risk management issues.

4.7. *LEAD INDEPENDENT DIRECTOR*

In order to develop the role of independent directors, the Board decided to introduce a Lead Independent Director with effect from March 9, 2006.

Although the conditions required by the Code do not apply,[21] it was considered appropriate to appoint such a person – identified as the Chairman of the Internal Control, Risk and Corporate Governance Committee, Massimo Tezzon – as a point of reference and coordination for the queries and contributions of independent directors.

Moreover, the Lead Independent Director may call – either on his own initiative or on request by other Directors – special meetings open only to the independent Directors ("Independent Directors' executive sessions") to discuss issues that are periodically deemed to be of interest for the functioning of the Board of Directors or management of the company.

5. MANAGEMENT OF COMPANY INFORMATION

In terms of the management of confidential information, with particular reference to "insider" (i.e. "price-sensitive") information, it should be noted that this is handled directly by the Chief Executive Officer, in consultation with the Chairman and with the support of the relevant corporate functions.

The external disclosure of documents and information concerning the Company and its subsidiaries is made – in agreement with the Chief Executive Officer and the Chairman – by the Secretariat of the Board of Directors, by Corporate Affairs and the Company Secretary (for reports to the authorities and shareholders), by the Media Relations (for press releases) and by Investor Relations (for communications intended for institutional investors and financial analysts).

The Chief Executive Officer and the heads of the aforementioned functions can liaise with each other at all times in response to any urgent need for external disclosure.

For the disclosure of documents and information, constant reference is made to the provisions of law and the regulations in force regarding Company information, while press releases are prepared in compliance with the requirements of Borsa Italiana, which has set the criteria for their structure and minimum content.

In addition, taking into account the provisions resulting from the transposition in Italy of EU directives on market abuse, since March 9, 2006, the Board has adopted a specific "Procedure for the management and public disclosure of price-sensitive information", available in the governance/governance system section of the Website.

This Procedure, since updated (most recently on November 4, 2013) by the Board of Directors, subject to the favourable opinion of the Internal Control, Risk and Corporate Governance Committee, partly in light of the practical experience gained, defines:

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[21] Application principle 2.C.3 provides that: *The board of directors designates an independent director to be lead independent director, in the following cases: (i) if the chairman of the board of directors has primary responsibility for management of the company (chief executive officer); (ii) if the chairmanship is held by the person who controls the issuer.*

- the requirements and responsibilities for the classification of price-sensitive information;
- the arrangements for logging access to the price-sensitive information itself;
- the measures and rules in place to protect the confidentiality of price-sensitive information;
- the operational arrangements for disclosure to the market of price-sensitive information and the timing of its release to the public and/or analysts/investors. In connection with the above Procedure, provision has also been made – in accordance with Article 115-bis of the Consolidated Finance Act – to set up a special "Insider Register", defining the relevant criteria for storing, managing and searching electronic data.

With specific reference to the laws on Internal Dealing, the Company has:

(i) identified the Key Managers of the Company as the persons subject to disclosure obligations, meaning key management personnel such as General Managers, where appointed, and other persons from time to time specifically identified by the Board of Directors in view of the role held;
(ii) introduced a "blackout period", which for the aforementioned key persons referred to in paragraph (i) means refraining from dealing in shares issued by the Company – or other related financial instruments, as well as other listed securities issued by the PRELIOS Group – in the 20 days prior to the release of periodic financial results.

Lastly, the Company arranges to send the relevant notification to the aforementioned key persons, bound by disclosure obligations, providing all the information necessary to fulfil these obligations, and even preparing a special "Memorandum on Internal Dealing", as well as identifying Corporate Affairs and the Company Secretary as the point of reference for any requirements that these key persons might have and as the recipient of disclosures relating to transactions to be reported to the market.

6. BOARD COMMITTEES (pursuant to Article 123-bis, paragraph 2, letter d) of the Consolidated Finance Act)

In implementing the provisions of the Code (Article 4) and making use of the option provided for by Article 19.3 of the Articles of Association, the Board has established:

- a Remuneration Committee;
- an Internal Control, Risk and Corporate Governance Committee,

with policymaking and advisory functions, in which the composition and operating procedures are consistent with the provisions of the Code (Article 4.C.1).

A set of procedures and formalities has been defined for the Committees which is similar to those applied to the Board, namely with regard to information on the topics to be discussed, operating procedures (formation, resolutions and minutes) and participation of external parties, reporting to the Board at the first Board meeting following the Committee meeting.

Committee resolutions, including those adopted at meetings held via telecommunication systems, are recorded in the appropriate book; the minutes are signed by the Chairman and Secretary of the meeting.

7. NOMINATION COMMITTEE

The Board has decided not to set up an internal Nomination Committee taking into account – as required by principle 4.C.2[22] of the Code – the number of independent directors in office, the ownership structure and the ability of the list voting system to provide transparency for the candidate selection and nomination procedure.

The relevant functions are therefore reserved for the entire Board – a majority of whose members are independent directors – which may call on the support of the "Internal Control, Risk and Corporate Governance Committee".

8. REMUNERATION COMMITTEE

The Remuneration Committee – in full compliance with the recommendations of Article 6.P.3 of the Code – is currently composed of four non-executive directors, the majority of whom are independent:

- **Giovanni Jody Vender** (Chairman – non-executive, independent director);
- **Rosa Cipriotti** (non-executive, independent director);
- **Carlo Emilio Croce** (non-executive, independent director);
- **Davide Mereghetti** (non-executive director);

who possess adequate knowledge and experience of accounting and financial matters or remuneration policies.

The Board appointed the current Committee on May 8, 2013 and identified and assigned the relevant tasks in order to make them fully compliant with the provisions of the Code, stipulating in particular that:

- it shall assist the Board in defining the Group's remuneration policy and related implementation criteria, where adopted;
- it shall periodically assess the adequacy, overall consistency and practical application of the remuneration policy and the criteria for its implementation, where adopted, by formulating proposals in this regard with specific reference to the directors and key management personnel;
- for directors assigned special roles, executive directors and senior managers (where appointed), it shall submit proposals to the Board for:
  - their remuneration, in line with the remuneration policy and related implementation criteria, where adopted;
  - the setting of performance targets for the variable component of such remuneration;

[22] Application principle 4.C.2 provides that: "*The establishment of one or more committees can be avoided by reserving their functions to the entire board of directors, as coordinated by the chairman and according to the following conditions: (i) at least half of the seats on the board of directors are held by independent directors, rounded down to the next lowest number if the board of directors has an odd number of seats; (ii) performance of the functions assigned by the Code to the committees, and that adequate time be dedicated to them during the board of directors meetings, which shall be accounted for in the report on corporate governance; (iii) limited to the control and risk committee, the issuer is not controlled by another listed company, or subject to management and coordination. In the report on corporate governance, the board of directors analytically illustrates the reasons underlying the decision not to establish one or more committees. In particular, it adequately justifies its decision not to establish the control and risk committee due to the degree of complexity of the issuer and the sector in which it operates. Additionally, the board of directors periodically reassesses its choice.*"

- the definition of any non-compete agreements;
- the definition of any arrangements for termination of the contract, if necessary based on the principles enshrined in the remuneration policy and related implementation criteria, where adopted;

- it shall assist the Board in examining proposals to be submitted to the Shareholders' Meeting on the adoption of any share-based compensation plans;
- it shall monitor the implementation of decisions adopted by the Board, verifying in particular the actual achievement of the performance targets set;
- it shall prepare and submit an annual remuneration report to the Board that, for each individual member of the administrative and supervisory bodies, for senior managers and for all key management personnel:
  - gives an adequate representation of each item of remuneration in line with the remuneration policy;
  - illustrates in detail the remuneration paid during the reference period on any basis and in any form by the Company and its subsidiaries and/or associates.

The Board of Directors has also granted the Remuneration Committee specific authority to comment on remuneration issues pertaining to transactions with related parties of the Company, in compliance with the appropriate procedure adopted by PRELIOS, described in more detail below.

In terms of the functioning of the Remuneration Committee, it is provided for that this shall meet whenever its Chairman sees fit, or if a request to this effect 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 at suitable intervals for the proper performance of its functions. The Secretary of the Board of Directors acts as Committee secretary.

As a rule, Committee meetings are convened by notice, if necessary sent by the Secretary on behalf of the Committee Chairman. The documents and information available (or otherwise necessary) are sent to all members of the Committee sufficiently in advance of the meeting so that they may comment on these, generally together with the notice of call.

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 are always attended by the Board of Statutory Auditors, and – where appropriate – by other representatives of the Company invited from time to time, whenever this is useful or necessary considering the matters to be discussed.

In accordance with the recommendations of Article 6.C.6 of the Code, no Director may participate in meetings of the Committee at which proposals are submitted to the Board regarding his or her own remuneration.

The Committee has adequate financial resources for the performance of its duties, with independent spending authority. When discharging its functions, it may use external consultants after verifying that there are no circumstances that might influence their judgement.

The Committee has the right to access the relevant information and corporate functions when performing its tasks, calling on the support of the Secretary for this purpose.

Five meetings were held in 2014; these lasted for about an hour on average and were attended by the Board of Statutory Auditors. For details of attendance at meetings by Committee members, please see Table 1.

During these meetings, the following main issues were examined and assessed by the Committee in office at the time, making the relevant proposals to the Board:

- the Remuneration Report, prepared in accordance with the provisions set forth in the applicable law and regulations and comprising: (i) the remuneration policy subsequently approved by the Board and submitted to the advisory vote of the Shareholders' Meeting of June 19, 2014, which approved the 2013 financial statements; and (ii) the Remuneration Report for 2013 of members of the administrative and supervisory bodies, general managers and key management personnel. This Report is published on the Website;
- the criteria and guidelines of the variable incentive system and the final report on the variable remuneration system (MBO) 2013 of the Deputy Chairman and Chief Executive Officer and, by definition, for the same parties, of the variable remuneration system (MBO) 2014.

Two meetings of the Remuneration Committee were held in 2015 before and up to the Date of the Report.

9. DIRECTORS' REMUNERATION

In recent years – partly as a result of the financial crisis – there has been growing interest in the topic of remuneration of directors of listed companies (especially those holding executive positions).This has attracted the attention of national and international regulators, with a move towards greater involvement of shareholders in deciding remuneration policies, improving the transparency of those policies and their effective implementation.

There have been various initiatives within the European Union, notably with the release over the years of "Recommendations", widely adopted on a voluntary basis at first and later followed by the launch of a legislative process.

In accordance with the provisions of Article 123-ter of the Consolidated Finance Act, on May 14, 2014 the Board of Directors, after receiving the favourable opinion of the Remuneration Committee, approved the Remuneration Report for 2013, including the remuneration policy later submitted to the advisory vote of the Shareholders' Meeting of June 19, 2014, which also approved the 2013 financial statements; this has since been made available in the governance/corporate documents section of the Website.

After receiving the unanimously favourable opinion of the Remuneration Committee, the Board of Directors approved the Remuneration Report on March 10, 2015. This report is divided into two sections, which specifically illustrate:

a) the Company's Policy for the remuneration of members of the management bodies, General Managers and Key Managers, in addition to the procedures used to adopt and implement said Policy. The Policy, which contain substantial changes from the Policy defined and approved last year, will be submitted to the advisory vote of the Shareholders' Meeting held to approve the 2014 financial statements;
b) the Statement of Remuneration in 2014 of the members of the management and control 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 compensation paid for any reason and in any form by the Company and by its subsidiaries and/or associates.

The Remuneration Report has been published in the governance/corporate documents section of the Website.

General remuneration policy.

As previously mentioned, and after receiving the favourable opinion of the Remuneration Committee, the Board of Directors approved Remuneration Report on March 10, 2015, to be submitted to the Shareholders' Meeting held to approve the 2014 Financial Statements.

While reference is made to the aforementioned Remuneration Report published on the Website for further information, the Remuneration Policy contained in the Remuneration Report, and still in force at the Date of the Report, is designed to attract, motivate and retain resources that have the professional skills necessary to successfully pursue the objectives of the PRELIOS Group.

The Remuneration Policy is designed to align the interests of management and shareholders by pursuing the primary objective of creating sustainable value in the medium to long-term by establishing a link between pay and individual and Group performance. More specifically, it sets out guidelines based on the following criteria:

a. the fixed component and variable component are properly balanced according to the Company's strategic objectives and risk management policy, taking into account the business sector in which it operates and the nature of the business effectively carried out;
b. upper limits apply for the variable components;
c. the fixed component is sufficient to reward the director's performance in the event that the variable component is not paid due to failure to reach performance targets;
d. performance targets are predetermined, measurable and linked to the creation of value for shareholders in the medium to long-term;
e. the payment of a significant portion of the variable remuneration component (when long-term incentive mechanisms are in place) is deferred for an appropriate period of time after vesting; the measurement of that portion and the deferment period shall be consistent with the nature of the business carried out and the associated risk profiles;
f. any compensation agreed for the early termination of the directorship or job, or for the non-renewal of same, must be defined according to the provisions of the relevant case law and in line with the reference benchmarks and best practice in the field and, therefore, in such a way that its total amount does not exceed a certain amount or a certain number of years' remuneration.

The Remuneration Policy does not envisage any mechanisms allowing the Company to request reimbursement of all or part of the variable compensation components paid (or to withhold amounts subject to deferral), as determined on the basis of data that have been subsequently proven to be manifestly incorrect (Article 6.C.1, letter f), of the Code).

In this regard, the Code of Self-Discipline has asked issuers to apply the aforementioned principle starting with the new remuneration policy approved beginning on January 1, 2015. Therefore, considering the absolutely new requirement in the reference context that mandates adoption of these mechanisms and the delicacy of the related legal aspects, it seems appropriate to wait for consolidation of greater experience in this context.

Share-based compensation plans

At the Date of the Report, no share-based compensation plans or financial instruments were in place.

Remuneration of directors assigned special roles and executive directors

As pointed out in the Remuneration Report, to which the reader is referred, the Remuneration Policy requires the Board of Directors to take into account whether a director assigned a particular role has also been vested with specific management powers (executive director).

If the director is assigned a particular role, but is not vested with specific management powers, his or her remuneration will only consist of a fixed component, without any variable component.

By contrast, the remuneration of executive directors is composed of the following elements:

- a Fixed Component (fixed gross annual compensation);
- an Annual Variable Component (variable annual incentive, the "MBO");
- a Multi-year Variable Component (long-term incentive, the "LTI");
- Company benefits generally provided for Managers, in accordance with the policies adopted.

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 the characteristics of its business.

Remuneration of key management personnel

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.

The last assessment was carried out on March 10, 2015.

Anyone holding the position of General Manager is automatically considered one of the Key Managers.

As a general rule, the remuneration of Key Managers consists of the following components:

- a fixed component (annual gross basic remuneration, or "AGR");
- an annual variable component (variable annual incentive, or "MBO");
- a Multi-year Variable Component (long-term incentive, or "LTI");
- company benefits, according to the policies adopted.

In general, as for executive directors, the overall remuneration of Key Managers also ensures a balance between fixed and variable elements, which take into account the Company's strategic objectives and risk profile, in relation to the business sector in which Prelios operates and the nature of its business.

Incentive mechanisms for the Head of Internal Audit and the Manager charged with preparing the Company's financial documents

In accordance with the provisions of the existing Remuneration Policy, the incentive mechanisms for the Head of Internal Audit and the Manager charged with preparing the Company's financial documents are consistent with the duties assigned to them.

The pay structure for the Head of Internal Audit was defined, in accordance with the existing remuneration policy, by the Board of Directors on the proposal of the director in charge of the internal control and risk management system and in consultation with the Committee for Internal Control, Risk and Corporate Governance, as well as the Board of Statutory Auditors. (Article 7.C.1 of the Code).

Variable incentives, when granted, are not linked to economic and financial indicators, but to measurement and calculation mechanisms based on qualitative rather than quantitative criteria.

The pay structure for the Manager charged with preparing the Company's financial documents is consistent with the tasks assigned to him or her.

Remuneration of non-executive directors

In line with the current remuneration policy, the remuneration of non-executive directors consists only of a gross annual fixed component, without any variable component.

Non-executive directors are not beneficiaries of share-based incentive plans.

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In accordance with the provisions of the Code, the Directors' remuneration is considered appropriate – and in line with that applied by the market in similar situations – as well as sufficient to attract, retain and motivate directors who have the professional skills required to successfully manage the Company.

Compensation for directors in the event of their resignation, dismissal or termination of employment following a public tender offer (pursuant to Article 123-bis, paragraph 1, letter i) of the Consolidated Finance Act)

On May 30, 2013, the Board of Directors, with the approval of the Remuneration Committee, resolved to grant the Deputy Chairman Massimo Caputi and the Chief Executive Officer Sergio Iasi:

- in the event of early termination of their employment by the Company (except in cases of dismissal with cause pursuant to law) or the resignation of the Deputy Chairman or the Chief Executive Officer with cause, or if they are not re-appointed upon premature expiration of their term, all-inclusive gross compensation for the outgoing Director equal to the higher of: (i) the fixed and variable annual remuneration due until the end of their tenure; (ii) two years' fixed and variable remuneration;
- in the event of non-renewal at the end of the first three-year term, all-inclusive gross compensation for the outgoing Director equal to two years' fixed and variable remuneration.

This was calculated partly based on special benchmarks prepared by the Hay Group, a company specialising in compensation.

The recognition of such agreements on the financial arrangements that will apply in the event of early termination of the contract is consistent with the "remuneration policy" approved, as provided by law, by the Company and in effect at the Date of the Report.

There are no specific agreements that provide for remuneration for not-to-compete commitments, the maintenance of non-monetary benefits or the signing of consultancy agreements for a period following the termination of the relationship.

No executive directors or general managers were terminated during the Financial Year. Therefore, the premises set out in principle 6.P.5. and application principle 6.C.1., letter f), of the Self-Governance Code applied.

10. INTERNAL CONTROL,
RISK AND CORPORATE GOVERNANCE COMMITTEE

The Internal Control, Risk and Corporate Governance Committee, in full compliance with the recommendations of Article 7.P.4 of the Code, is currently composed of three independent non-executive directors:

- **Massimo Tezzon** (Chairman – non-executive director, independent);
- **Marina Brogi** (non-executive director, independent);
- **Mirja Cartia d'Asero** (non-executive director, independent);
- **Andrea Mangoni** (non-executive director, independent);

who have suitable experience in accounting and finance or risk management.

The Board instituted the Committee on May 8, 2013 and defined its duties and operating procedures in full compliance with the Code, stipulating that the Committee has the task of ensuring, through appropriate preparatory work on the risk management system, the efficiency, effectiveness and fairness, on the one hand, of the internal control system and, on the other, of the corporate governance structure in general.

Moreover, Anna Chiara Svelto (formerly non-executive director) left the Committee during the year. The Board of Directors replaced her on July 30, 2014 with Mirja Cartia d'Asero.

In terms of internal control and risk management, the Committee:

a. expresses its opinion and/or presents its proposals to the Board of Directors when the latter:

   - defines the guidelines for the internal control and risk management system;
   - evaluates, at least once a year, the suitability and effectiveness of the internal control system based on the risk profile assumed;
   - approves, at least once a year, the programme of work prepared by the Head of Internal Audit, in consultation with 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 key features of the internal control and risk management system, expressing its view on the overall suitability of the system;
   - assesses, after consulting the Board of Statutory Auditors, the results presented by the external auditors in any letter of recommendations and in the report on the fundamental issues emerging from the external audit;
   - appointment and removal – on the proposal of the Director(s) in charge of the internal control and risk management system and after consulting the Board of Statutory Auditors – of the Head of Internal Audit, ensuring that he or she is given adequate resources to discharge his or her responsibilities, and setting his or her pay in line with the remuneration policy adopted by the Company.
     Where the Director(s) in charge of the internal control and risk management system is/are vested with operational authority, proposals for the appointment, removal and remuneration of the Head of Internal Audit should be shared with the Chairman of the Board of Directors, unless also vested with operational authority;

b. in assisting the Board of Directors:

   - evaluates, together with the Manager charged with preparing the Company's financial documents and in consultation with the external auditors and the Board of Statutory Auditors, the proper use of accounting standards and their consistency for the purposes of preparing the consolidated financial statements;
   - expresses its own opinion:

     a) on the periodic identification and assessment, at least annually, of the principal risks facing the Company and its subsidiaries so that these are properly monitored (annual risk assessment);

b) on the definition and periodic updating, at least annually, of mitigation plans and "risk management" plans in general (annual risk management plan), in order to keep the overall levels of risk exposure below the risk threshold considered "acceptable" by the Board of Directors, on the recommendation of the Committee; ("risk appetite");

- analyses periodic reports on the evaluation of the internal control and risk management system and significant reports prepared by the internal audit unit;
- monitors the independence, adequacy, effectiveness and efficiency of the internal audit unit;
- may ask the internal audit unit to check specific operating areas, simultaneously notifying the Chairman of the Board of Statutory Auditors;
- reports to the Board of Directors, at least every six months, on the approval of the annual and interim reports, on the work performed and on the suitability of the internal control and risk management system.

The following are referred to the Committee:

- by the "Director in charge of the internal control and risk management system", any issues and critical aspects that emerge in the course of his or her work or reported to him or her so that the Committee can take the appropriate action;
- by the Manager charged with preparing the Company's financial documents, the activities carried out at least once a year.

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In terms of corporate governance, the Committee:

- monitors the compliance and periodic updating of the rules on corporate governance and the upholding of any standards of conduct adopted by the Company and its subsidiaries;
- proposes the methods and timing of the annual self-assessment of the Board of Directors;
- nominates candidates to the Board for co-opting in the event of the replacement of independent directors;
- handles the preparatory work for the succession plan for executive directors, if adopted by the Board of Directors.

The Committee is also assigned the role of "Committee for Related-Party Transactions" – within the limits set by the applicable laws and regulations and the Procedure for Related-Party Transactions adopted by the Company – with regard to transactions with related parties of the Company or its subsidiaries, with the sole exception of matters concerning the remuneration of directors and key management personnel, entrusted to the Remuneration Committee.

Specifically, the Committee:

- periodically (and at least every three years) assesses any changes to the Procedure for Related-Party Transactions, sharing its views with the Board of Directors;
- for transactions of major significance, may request information and make observations to the relevant bodies and individuals tasked with handling the negotiations or investigating the transactions;

- for related-party transactions of major and minor significance, submits reasoned opinions on the benefit to the Company of proceeding with the transaction and on whether the terms are advantageous and substantially fair, and on proposals to adopt "Framework resolutions of major significance" and "Framework resolutions of minor significance".

In terms of the functioning of the Committee, it is required that this shall meet whenever its Chairman sees fit, or if a request to this effect 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 at suitable intervals for the proper performance of its functions.

The Secretary of the Board of Directors acts as Committee secretary.

As a rule, Committee meetings are convened by notice, if necessary sent by the Secretary on behalf of the Committee Chairman.

The documents and information available (or otherwise necessary) are sent to all members of the Committee sufficiently in advance of the meeting so that they may comment on these, generally together with the notice of call.

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 are generally attended by the Board of Statutory Auditors and, if deemed appropriate, other representatives of the Company invited from time to time, whenever this is useful or necessary considering the matters to be discussed, including the Head of Internal Audit and the Manager charged with preparing the Company's financial documents.

In this regard, with the entry into force of the Consolidated Statutory Audit Act, to allow the Board of Statutory Auditors to fulfil its supervisory role in accordance with the new powers defined by law, it is required that the Board of Statutory Auditors and the Internal Control, Risk and Corporate Governance Committee, at the respective committee meetings and in compliance with the responsibilities and roles assigned to it, shall discuss the following specific matters:

- the process of financial reporting;
- the effectiveness of the internal control, internal audit and risk management system;
- the statutory audit of annual and consolidated financial statements;
- the independence of the Independent Auditors.

The Committee – which in the performance of 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 the relevant information and corporate functions when performing its tasks, calling on the support of the Secretary for this purpose.

Ten meetings were held in 2014; these lasted for about two hours and fifteen minutes on average and were attended by the Board of Statutory Auditors.

For details of attendance at meetings by Committee members, please see Table 1.

During these meetings, the Committee examined and assessed, inter alia:

- the impairment test methods and activities, and their satisfaction of the requirements imposed by applicable accounting principles and the relevant procedure adopted by the Company and whose structure and arrangement have been confirmed;
- the preparation process of the statutory and consolidated financial statements 2013, the Half-yearly Financial Report at June 30, 2014, the Interim Management Reports at

March 31 and September 30, 2014, by means of periodic meetings held with the Chief Executive Officer, the Manager charged with preparing the Company's financial documents, the independent auditor, and the Board of Statutory Auditors;
- the preparation process of the Industrial Plan 2014-2016 approved by the Board of Directors on June 12, 2014, prepared on the basis of the Guidelines 2014-2016 approved by the Board of Directors itself on April 9, 2014, and the subsequent progress reports on the implementation process;
- the disclosure request sent to the Company by Consob pursuant to Article 115 of the Consolidated Finance Act and the consequent responses, including documents, that the Company provided by the requested deadlines;
- the level of compliance with the Self-Governance Code;
- the outcome of the activities carried out as part of the Board Performance Evaluation and the evaluation procedures for 2013;
- the preparatory work for the annual assessment of the independence of directors;
- the principal tax risks and issues facing Prelios and its subsidiaries and the companies in which it holds an equity interest;
- activities relating to the definition and implementation of the new Enterprise Risk Management system;
- the activities carried out as part of the "Process 262" updating process of the Internal Control System following changes to its organisational structure. That process addresses the method used to certify the adequacy and effective application of administrative and accounting procedures during the financial year covered by the financial statements, as well as the consistency of the financial statements with the company books and accounting records;
- the operating regulation adopted by the Company in accordance with the "Recommendation on fair value measurement of the real estate owned by listed real estate companies" issued by Consob on 18 July 2013 (Recommendation no. DIE/0061944). This regulation governs the management of relations with independent experts and targets the companies controlled by the Prelios Group, with the sole exception of the subsidiary Prelios SGR. This latter case stemmed from the fact that that subsidiary had already adopted its own, specific internal procedure in compliance with the guidelines issued by the Banca d'Italia applicable to it.

In the course of its work, the Committee has reviewed and assessed reports:

- from the Head of Internal Audit for the 2013 financial year, the 2014 Audit Plan and related progress reports, and periodic reports on work and activities in 2014;
- from the Manager charged with preparing the Company's financial documents concerning the activities carried out;
- from the Independent Auditors, sent to the Board of Statutory Auditors pursuant to Article 19 of the Consolidated Statutory Audit Act;
- on the corporate governance and ownership structure for 2013 and the first half of 2014;
- the activity carried out twice a year by the Committee itself.

The Committee has also reviewed the audit plan of the PRELIOS Group prepared by the Independent Auditors Reconta Ernst & Young for the 2014 Financial Year.

It should further be noted that the members of the Committee were able to examine in more detail, at a series of meetings with the Head of Internal Audit and the Manager charged with preparing the Company's financial documents, the structure, functions, tasks and activities of the respective functions.

This in-depth review was particularly useful in the context of the aforementioned specific initiatives aimed at providing new members of the Board of Directors and Board of Statutory Auditors not only with a detailed analysis of the activity of the two functions, but with adequate knowledge of the business sector in which the Group operates, the dynamics of the business and their outlook in the particular market context, as well as the relevant legal framework.

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Finally, acting as the “Committee for Related-Party Transactions”, the Committee examined and assess the transactions with related parties in accordance with the provisions of applicable laws and regulations and the relevant Procedure adopted by the Company. It also monitored the proper management and updating of the “related parties” of PRELIOS that are included and listed in a special database managed by the Company on the basis of information it possesses and the declarations received from its direct “related parties”.

In this regard, on October 29, 2014 the Committee – supported by a legal opinion issued by an independent expert – expressed its own favourable opinion which considered, inter alia, the changes made to the ownership structure of the Company, in regard to updating the scope of the Company's “related parties”.

The Procedure will continue to be monitored; it may also be subject to further assessment and amended and/or supplemented where necessary and/or appropriate in light of specific evidence, particularly with regard to “related parties”.

Two meetings of the Internal Control, Risk and Corporate Governance Committee were held in 2015 before and up to the Date of the Report.

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Further to what was noted above regarding the specific functioning of the Internal Control, Risk and Corporate Governance Committee, the Company’s internal control system is structured to provide accurate information and sufficient control “coverage” over all the PRELIOS Group’s operations, and especially those areas deemed to be high risk.

The Board of Directors is responsible for the internal audit system. It establishes the guidelines and periodically checks its adequacy and actual operation so that the main risks involving the Company and its subsidiaries are accurately identified and properly measured, managed and monitored (as also indicated in Appendix 1, especially with regard to the risk management and internal control system in relation to the financial reporting process).The Board also determines the degree to which these risks are compatible with Company operations in keeping with the strategic objectives identified.

In addition, during the Financial Year steps were taken to implement the new Enterprise Risk Management model (the **“ERM Project”**) aimed at:

- providing management with an appropriate tool to clarify and assess risk factors and opportunities inherent in Company decisions to support and strengthen decision-making processes and the Group's forecasting capabilities;
- making an internal tool available to directors that they can rely on to: (i) understand and assess the risk profile adopted in pursuing the defined strategy; and (ii) periodically assess the adequacy and effectiveness of the risk management system.

Furthermore, the management and coordination of the Risk Management process assigned to the Company's Risk Officer will be supported by a “Managerial Risk Committee” (headed by the Chief Executive Officer and made up of the Risk Officer and heads of the appropriate Company units) with the duty of:

(i) supporting the Director in charge of the internal control and risk management system in the performance of his or her duties to design, implement and manage the risk system; (ii) promoting a structured process to identify and measure risks; (iii) examining information on risks to which the Group is exposed; (iv) discussing and corroborating strategies to respond to risk as a function of overall exposure and assigning the related responsibilities for doing so; and (v) monitoring the actual implementation of strategies to respond to and overall manage risk.

Following assessments carried out by the Internal Control, Risk and Corporate Governance Committee on April 9, July 30 and November 5, 2014, the Board of Directors examined and approved the activities that had been performed, positively evaluating the adopted ERM Project;

Among its members the Board has identified a “Director in charge of the internal control and risk management system”, and he or she makes use of the Internal Control, Risk and Corporate Governance Committee.

The Board also created the Internal Audit and Risk Management units, and appointed the manager in charge of verifying the functionality and adequacy of the system and the Risk Officer.

The Committees and Heads of Internal Audit and Risk Management interact with the Board of Statutory Auditors and the Independent Auditors hired by exchanging information on the respective activities performed in order to achieve a more efficient internal control system. Likewise, scopes of interaction with the Group companies subject to monitoring are also outlined (i.e. Prelios Società di Gestione del Risparmio S.p.A. and Prelios Credit Servicing S.p.A.) in accordance with their autonomy and independence, as required by applicable law.

After consulting with the Board of Statutory Auditors, the Board assesses the results reported by the external auditors in any suggestion letter produced and in the report on issues that arose during the external audit pursuant to Article 19 of the Consolidated Statutory Audit Act.

With specific reference to the assessment of the internal control system, as a part of its duty to effectively manage risks that are typical of the main operations of the Company and its subsidiaries, and to monitor the operating and financial situation of the Company and the PRELIOS Group, the Internal Control, Risk and Corporate Governance Committee believes that the internal control system is essentially adequate and thus suitable for protecting the Company's interests and for the purposes for which it was created, partly on the basis of information received from the Board of Statutory Auditors.

11.1. EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Pursuant to the guidelines in Article 7.P.3, letter a) of the Code, the Board has appointed the Chief Executive Officer currently in office to the position of “Director in charge of the internal control and risk management system”.

This Director has been assigned the duties described in detail in Article 7.C.4 of the Code, and has properly carried out these duties with the support of the activities of the Internal Control, Risk and Corporate Governance Committee, the Head of Internal Audit and the Head of Risk Management, and has also been assigned the consequently appropriate/necessary powers to implement further initiatives and measures needed for full compliance with the provisions of self-regulation of listed companies.

11.2. HEAD OF INTERNAL AUDIT

In agreement with the Board of Directors, the Chief Executive Officer carried out his duties to implement, manage and monitor the internal control system and established a special specific “internal control unit”, which is the responsibility of the PRELIOS Head of Internal Audit, Sergio Romiti. He is not in charge of any operating area and reports to the Board of Directors.

In particular, as proposed by the director in charge of the internal control and risk management system, and after obtaining the favourable opinion of the then Internal Control and Corporate Governance Committee, the Board of Directors appointed Sergio Romiti as Head of Internal Audit and set his remuneration in accordance with the related Company policy.

The Head of Internal Audit relies on an independent structure with specific applicable experience and on adequate financial resources to perform his duties, available as necessary without specific limitations.

The Head of Internal Audit must prepare the “work plan” for auditing activities and check the internal control and risk management system and the reliability of information systems, including accounting systems.

In particular, he must verify compliance with, and the effectiveness of, all rules, procedures and structures used by the Company to achieve the objectives set and meet with Corporate Affairs and the Company Secretary for the appropriate coordination and collaboration under their responsibility, and periodically report on his activities to the Chief Executive Officer for decisions under the responsibility of the latter, and to the Internal Control, Risk and Corporate Governance Committee and Statutory Auditors.

In 2014 the Head of Internal Audit, who has free access to all information useful for the performance of his duties and powers to access and make requests to all Company units, reported periodically on his activities to the director in charge of the internal control and risk management system, and on four occasions attended meetings of the Internal Control, Risk and Corporate Governance Committee, which were always attended by the Board of Statutory Auditors and the Manager charged with preparing the Company’s financial documents.

Audits of the internal control system for 2014 were performed by conducting checks and assessments of the policies, systems and processes necessary for the aforementioned role assigned to Internal Audit.

Based on the results of audits performed and information made available by the appropriate Company units, the Head of Internal Audit reported to the Internal Control, Risk and Corporate Governance Committee that at the meetings referred to, he had not identified any deficiencies that would have a material impact on the adequacy of the Group's internal control and risk management system.

This opinion was partly based on the results of audits performed on subsidiaries under 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 units with which the Prelios Internal Audit unit interacts subject to the full autonomy of such units pursuant to current laws.

During the activity performed in 2014, specific audit reports (submitted to the chairmen of the Board of Statutory Auditors, the Internal Control, Risk and Corporate Governance Committee and the Board of Directors and to the Director in charge of the internal control and risk management system) periodically highlighted findings and suggestions for measures deemed necessary to improve the internal control system.

These measures were agreed by management with specific action plans that were the subject of follow-up to verify whether the agreed actions were actually implemented, and whether there was a resulting improvement in the internal control and risk management system in order to pursue the objectives of more effective and efficient operations and reliable information, protection of Company assets and compliance with current laws.

Other activities performed in 2014 included, inter alia, the support that Internal Audit provides to the Prelios Supervisory Board as a part of the Organisational Model adopted by the Company pursuant to Legislative Decree 231/2001 (see below) in preparation for ensuring the constant, effective implementation of this model, including the necessary updates and adjustments of the model as a result, inter alia, of the most recent changes in laws.

The Head of Internal Audit promptly prepared reports on particularly significant events and performed the audits required that were not specified in the 2014 audit plan.

In 2014 the Head of Internal Audit submitted to the Internal Control, Risk and Corporate Governance Committee the audit plan scheduled for 2014, which was later approved by the Board of Directors on April 9, 2014. During the year, quarterly reports were submitted on the progress made on the audit plan. Quarterly reports were made during the financial year on the progress of the audit plan.

On March 4, 2015 the Head of Internal Audit submitted to the Internal Control, Risk and Corporate Governance Committee the audit plan scheduled for 2014, which was later approved by the Board on March 10, 2015 pursuant to Article 7.C.1, letter c) of the Code.

11.3. ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001

The internal control system is supported, inter alia, by the adoption of an appropriate organisational model (the “Organisational Model” or “Model”) approved by the Board on July 29, 2003 and updated on several occasions: March 9, 2007, November 7, 2007, March 6, 2008, November 5, 2008, March 5, 2009, November 4, 2009, March 4, 2011, March 2, 2012 and August 28, 2013.

On March 4, 2015, the Internal Control, Risk and Corporate Governance Committee approved the activities planned for possible, specific updates of the Organisational Model and control safeguards consequent to, inter alia, new legislative, case law or theoretical scenarios. The Chairman of the Committee then reported the same to the Board on March 10, 2015.

The Organisational Model is published in the governance/governance system section of the Website.

This Organisational Model, which aims to create a system based on the specific needs resulting from the entry into force of Legislative Decree 231/2001 concerning the administrative liability of companies for offences committed by senior managers or to the advantage or in the interests of the Company, consists of a complex pyramid system of principles and procedures which, starting at the base, can be summarised as follows:

- Group Code of Ethics, representing the general principles (transparency, propriety and loyalty) underlying the performance and management of business activities in a more general context of sustainable growth by ensuring, at the same time, the efficiency and effectiveness of the internal control system;
- internal control system, meaning the collection of processes that aim to provide a reasonable guarantee regarding the achievement of the objectives of operating efficiency and effectiveness, reliability of financial and operational information, compliance with laws and regulations and safeguarding the Company's assets from possible fraud. The internal control system is based on and reflects several general principles that are specifically defined in the Organisational Model, the scope of which

extends across all the various organisational levels (Business Units, Central Functions and Companies);

- Conduct guidelines, which introduce specific rules to prevent the establishment of environmental situations conducive to the commission of criminal offences in general and among these in particular, the offences envisaged in Legislative Decree 231/2001. Certain rules are also specifically conceived for the management of relations with representatives of the Public Administration and with third parties in general, as well as for compliance with regulatory obligations, and corporate and market disclosure activities;
- internal control schemes, which were prepared for all high- and medium-risk operating processes and for support processes. These schemes have a similar structure consisting of a set of rules that aim to identify the main phases of any process, specific control procedures to reasonably prevent related risks of an offence, and appropriate reporting to the Supervisory Board in order to highlight situations involving a potential violation of procedures established in organisational models. Internal control schemes have been prepared on the basis of three cardinal rules, and specifically:
  - the separation of roles in the performance of activities involving processes;
  - the "traceability" of decisions, i.e. their constant visibility (e.g. through appropriate documentation), making it possible to identify precise "areas" of responsibility and the "motivation" for these decisions;
  - the objectification of decision-making processes, in the sense of assuring that when decisions are made, purely subjective assessments are avoided, with reference made instead to established criteria.

In addition, the Company has appointed a Supervisory Board, with a collegial structure and independent powers of initiative and control, in charge of supervising the effectiveness, adequacy and functionality of and compliance with the Model, and also ensuring it is regularly updated.

This Board currently is made up of:

- **Massimo Tezzon**, non-executive and independent director, Chairman of the Internal Control, Risk and Corporate Governance Committee and the Lead Independent Director;
- **Michela Zeme**, Standing Statutory Auditor;
- **Sergio Beretta**, university professor and expert in the area of corporate controls;
- **Sergio Romiti**, Head of Internal Audit.

At present, we do not wish to assign the duties of the Supervisory Board to the Board of Statutory Auditors since we believe it is preferable to have the related duties carried out by a body working exclusively on these activities, and since its members include a Statutory Auditor, there is an assurance of effective work and appropriate coordination with the Board of Statutory Auditors.

The Organisational Model ends with a section dedicated to transactions coming directly from "senior managers" of the Company, a section dedicated to the disciplinary system introduced to sanction violations of measures indicated in the Organisational Model and a section related to disseminating the Model and related training.

In addition, there are two appendices: (i) the first relates to major offences in accordance with Legislative Decree 231/2001 and summarises offences that could be significant for the Company as well as several possible ways in which offences could occur; and (ii) the second relates to the description of the Public Administration.

Article 6, paragraph 2, letter d) of Legislative Decree 231/2001 identifies precise reporting obligations for the body appointed to oversee the operation of and compliance with the models. This operation is facilitated by regular, structured reporting concerning issues/events at risk, the significance and analysis of which constitute “red flags” that can lead to in-depth responses by the Supervisory Board on any anomalous situations and/or offences.

The main types of offences that the Model intends to prevent include:

a. Offences to the detriment of the Public Administration:
    i. Improper receipt of funds, fraud to the detriment of the State or a government agency or to obtain public funds, and IT fraud to the detriment of the State or a government agency (Article 24 of Legislative Decree 231/2001);
    ii. Bribery and corruption (Article 25 of Legislative Decree 231/2001);
b. IT offences and illegal data handling (Article 24-bis of Legislative Decree 231/2001);
c. Corporate offences (Article 25-ter of Legislative Decree 231/2001);
d. Market abuse (Article 25-sexies of Legislative Decree 231/2001);
e. Crimes of manslaughter or serious or extremely serious injuries committed in violation of provisions on the protection of health and safety at work (Article 25-septies of Legislative Decree 231/2001);
f. Offences of receiving stolen goods, money laundering and using money, assets or benefits obtained illegally (Article 25-octies of Legislative Decree 231/2001);
g. Environmental offences (Article 25-undecies of Legislative Decree 231/2001).

In collaboration with the Supervisory Board, the Company performed risk assessment and risk ranking in 2013 in order to update the Organisational Model following the entry into force of Legislative Decree 109/2012 ("Employment of citizens from other countries without proper authorisation for residence") and Law 190/2012 (“Provisions for the prevention and repression of corruption and illegality in the public administration”), which expanded the list of offences envisaged in Legislative Decree 231/2001, with the addition of Article 25-*duodecies*.

In 2015 the Company will undertake risk assessment and risk ranking in response to the new offence of self-laundering pursuant to Article 25-*octies* of Legislative Decree 231/2001, as well as an audit of consistency/compliance with the provisions of the Confindustria 231 Guidelines – March 2014 update.

The Italian subsidiaries with strategic significance have all established their own organisational models and supervisory boards. For each, the Supervisory Board was chosen to seek a technical and operating solution which, while complying with the mandate and powers granted to it by law, is still appropriate to the size and organisational environment of each entity.

Lastly, for the sake of thoroughness, it should be noted that the Company has also adopted an internal whistleblowing policy that governs the procedure for reporting violations, suspected violations and inducements to commit violations of laws, regulations, principles stated in the Code of Ethics, internal control principles and Company rules and procedures.

In particular, this policy, which supplements and is coordinated with the provisions of the Organisational Model pursuant to Legislative Decree 231/2001 adopted by the Company, specifies that employees who are aware of potential or actual violations are encouraged to give notice thereof immediately with the guarantee of full protection in terms of confidentiality and no reprisals of any kind.

Reports may submitted on directors, statutory auditors, management, Prelios Group employees and, in general, anyone working in Italy or abroad for the Prelios Group or who has business relationships with the Group, including the Independent Auditors, partners, customers, suppliers, consultants, contractors, institutions and public bodies.

Internal Audit is responsible for the analysis and verification of these reports, carrying out the related activities through a specially created unit and reporting quarterly to the Internal Control, Risk and Corporate Governance Committee.

11.4. INDEPENDENT AUDITORS

Based on the substantiated proposal by the Board of Statutory Auditors, the Shareholders' Meeting of April 14, 2008 granted Reconta Ernst & Young S.p.A. the audit assignment for the nine-year period 2008-2016.

Reconta Ernst & Young S.p.A. is the Italian organisation in the Ernst & Young network that was also hired, through organisations with a presence in the various countries where the Group operates, to audit the financial statements of the main PRELIOS Group companies..

In order to ensure compliance with the independence requirement of companies hired to audit the financial statements, the Company has adopted an ad hoc procedure that internally governs this matter in relation to:

- the procedures for granting the official audit assignment to Independent Auditors hired by PRELIOS pursuant to the Consolidated Finance Act;
- the procedures for PRELIOS subsidiaries to grant the external audit assignment;
- the procedures for PRELIOS and its subsidiaries to grant the external auditor, or entities forming a part of its network, any other assignments (other audit services, audit-related services and non-audit services).

Assignment award options and limits are set for each category of services, as are approval procedures and the reporting obligations for final data.

Lastly, in light of the particular regulations applying to the subsidiary Prelios SGR,[23] it was decided that the Procedure should apply to the extent compatible with the above special regulations.

11.5. MANAGER CHARGED WITH PREPARING THE COMPANY'S FINANCIAL DOCUMENTS AND OTHER COMPANY POSITIONS AND OFFICES

In accordance with the provisions of Article 154-bis of the Consolidated Finance Act and Article 19.4 of the Articles of Association, and after consulting with the Board of Statutory Auditors, the Board appointed Elena Capra (the Company's Chief Financial Officer) as manager charged with preparing the Company's financial documents on February 24, 2014 (replacing Angelo Cattaneo who temporarily replaced Riccardo Taranto, the Company's previous Chief Financial Officer). She satisfies the integrity prerequisites imposed on directors and is an expert in administration, finance and control. She is also designated as a "Key Manager" pursuant to current legislation and regulations in effect pro tempore and by the Company's procedures.

[23] The shareholders' meeting of the asset management company has retained PricewaterhouseCoopers to audit its accounts, on justified recommendation of the Board of Statutory Auditors.

By law, certain specific authorities and responsibilities are assigned to the Manager charged with preparing the Company’s financial documents; these are summarised below, in particular with regard to how they apply to the Company:

a. to provide a written statement accompanying all the Company's documents and communications to the market and those related to the Company's annual and interim accounting disclosures, attesting that the documents correspond to the accounting documents, books and ledger entries;

b. to set up appropriate administrative and accounting procedures for preparation of the separate and consolidated financial statements and any other financial communications;

c. together with the Chief Executive Officer, to attest, in a special report attached to the separate financial statements, to the condensed half-yearly and consolidated financial statements:(i) the adequacy and effective application of the procedures stated in letter b) above during the reporting period for the documents; (ii) that the documents are prepared in accordance with applicable international accounting standards recognised by the European Union; (iii) the financial statements correspond to the accounting books and ledger entries; (iv) that they are suitable to provide a true and fair view of the balance sheet, income statement and financial position of the Company and all companies included in the scope of consolidation; and (v) that the reports for the separate financial statements, consolidated financial statements and condensed half-yearly financial statements include the information required by law for such documents;

d. in the performance of the assignment and duties allocated, the provisions governing the responsibility of directors shall apply to the Manager charged with preparing the Company’s financial documents, with the exception of those acts carried out based on an employee relationship with the Company.

The Board shall ensure that the Financial Reporting Officer has the appropriate powers and means to exercise the duties assigned and for actual compliance with the administrative and accounting procedures adopted.

At the meeting of the Internal Control, Risk and Corporate Governance Committee on March 4, 2015, Marco Andreasi, the Manager charged with preparing the Company’s financial documents, reported to Committee members on (i) the suitability of powers granted; (ii) the suitability and use of resources made available; (iii) statements and certifications pursuant to Article 154-bis of the Consolidated Finance Act; (iv) the adoption, implementation and use of administrative and accounting procedures; (v) mapping of companies and processes; (vi) the “System 262” adopted by Prelios in compliance with Law 262/2005 and the related activities carried out during the Financial Year; and (vii) a summary of any problems arising and action taken to resolve them.

The report did not indicate any problems requiring in-depth discussion, and it was noted that checks had indicated the proper application of administrative and accounting procedures overall. The Chairman of the Committee then reported the same to the Board on March 10, 2015.

11.6 COORDINATION BETWEEN PARTIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The internal control and risk management system provides an organisational structure that is consistent in scale, nature and complexity with the activities carried out in terms of the determination of tasks and assignment of responsibilities.

This system is based on: (i) the separation of tasks in the performance of the main activities involved in individual operating processes; (ii) the traceability and constant visibility of decisions; and (iii) the management of decision-making processes based on objective criteria.

The Company has established procedures for coordinating between the various parties involved in the internal control and risk management system that interact with each other in their respective duties, especially with respect to their participation in meetings of the various bodies and in the existing reporting system.

As described in this Report, the Board has selected from its membership a "Director in charge of the internal control and risk management system", and it makes use of the Internal Control, Risk and Corporate Governance Committee, the meetings of which are usually also attended by the Board of Statutory Auditors, and the results of these meetings are reported by the Committee at the next Board meeting.

The Committees and Heads of Internal Audit and Risk Management interact with the Board of Statutory Auditors and the Independent Auditors appointed by exchanging information on the respective activities performed in order to achieve a more efficient internal control system.

As a rule, the Manager charged with preparing the Company's financial documents also participates in meetings of the Board and the Internal Control, Risk and Corporate Governance Committee.

12. DIRECTORS' INTERESTS AND RELATED-PARTY TRANSACTIONS

Major transactions and related-party transactions, including intercompany and real estate transactions, are governed by internal procedures which the Company has adopted in order to guarantee effective fairness 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, after the favourable assessment of the Internal Control, Risk and Corporate Governance Committee (in its capacity as the "Committee for Related-Party Transactions") the Board of Directors has approved the procedure (including related updates) for related-party transactions (the "Procedure for Related-Party Transactions") following the entry into force of the related regulations issued by Consob.[24]

The procedural choices adopted by the Company are stricter than the aforementioned regulation providing, in particular and inter alia, that the opinion of the "Committee for Related-Party Transactions" be binding, including in the event of "Transactions of Minor Significance".

The Board found that the established Committees met the qualifications and requirements specified in the regulations issued by CONSOB and incorporated in the Procedure for Related-Party Transactions. Therefore, it assigned the responsibilities of the "Committee for Related-Party Transactions" to the "Internal Control, Risk and Corporate Governance Committee" with the exception of responsibilities relating to the compensation of directors and key managers that were assigned to the "Remuneration Committee".

[24] The Procedure adopted 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, as amended by Resolution no. 17389 of June 23, 2010, taking into account the guidelines and instructions provided by Consob with Notice DEM/10078683 of September 24, 2010.

For an effective and simple way of identifying and subsequently managing situations in which a director – and, in general, a related party – is a stakeholder for his or her own account or for third parties, on a quarterly basis, the parties concerned are required to report related parties to the Company, and this information is entered into a confidential "database" which, according to the Procedure for Related-Party Transactions, must be referred to before completing a transaction in order to ascertain whether there is a relationship with the Company regardless of communications by those directly concerned.

Finally, in keeping with the provisions of current regulations and the Procedure itself, the Procedure for Related-Party Transactions must be revised at least every three years.

Taking account of changes in ownership structure following the Extraordinary Transaction and the effectiveness of this Procedure, this analysis, as previously noted, was carried out on November 4, 2013, and the market was notified of this in a press release distributed on the same date.

The Procedure for Related-Party Transactions is published in the governance/governance system section of the Website.

Following the entry into force of the above Procedure for Related-Party Transactions, the required appropriate changes were made to the current "Procedure for fulfilling the obligations of Article 150, paragraph 1 of Legislative Decree 58/1998" (now known as the "Procedure for the flow of information to Directors and Statutory Auditors") and the "Principles of conduct for completing related-party transactions. Principles of conduct concerning real estate transactions" (now known as the "Code of Conduct for Real Estate Transactions"), for which the Procedure for Related-Party Transactions already provides for appropriate coordination regulations.

The above adjustments were approved by the Board of Directors following the favourable assessment of the then Internal Control and Corporate Governance Committee.

Both documents referenced ("Procedure for the flow of information to directors and Statutory Auditors" and "Code of Conduct for Real Estate Transactions") are published in the governance/governance system section of the Website.

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 Article 8.P.1 of the Code, which call for the submission of candidate lists in accordance with current rules, laws and regulations.

These principles were incorporated in Article 22 of the Articles of Association.

The Shareholders' Meeting appoints the Board of Statutory Auditors and determines the remuneration of its members. The minority is entitled to appoint one Standing Statutory Auditor and one Alternate Statutory Auditor under the terms specified below.

As noted, the Board of Statutory Auditors is appointed on the basis of lists submitted by the shareholders in which the candidates are listed in numbered order.

Shareholders who, alone 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 are entitled to submit a list[25].

[25] Pursuant to Article 144-quater of the Issuers' Regulations, Consob issued Resolution no. 19109 of January 28, 2015, which set the quota of participation applicable to the Company at 4.5%.

Following the entry into force of Law 120 of July 12, 2011 (which amended Article 147-ter of the Consolidated Finance Act), the appointment of members of the Board of Statutory Auditors in listed companies must be done on the basis of criteria that ensure compliance with gender equality.[26]

The Articles of Association ensure compliance with this principle.

In addition, in order to ensure compliance with current laws on gender equality, the Extraordinary Shareholders' Meeting of May 8, 2013 approved several additional amendments to Article 22 (Board of Statutory Auditors) of the Articles of Association for the appointment of Statutory Auditors or their replacement during their term, but used criteria with greater flexibility in the formation of the lists.

In particular, the Shareholders' Meeting approved the amendment of Article 22, paragraph 1 by increasing the number of Alternate Statutory Auditors specified therein from two to three, thereby creating replacement mechanisms suitable for ensuring compliance with gender equality, with the proviso that this new provision and the resulting provisions will apply starting with the first renewal of the control body following the entry into force of the related amendment to the Articles of Association. Until that time, the Board of Statutory Auditors will be made up of three Standing Statutory Auditors and two Alternate Statutory Auditors.

In this regard, please see the related Directors' Report published in the governance/governance system section of the Website.

The lists of candidates, signed by the persons submitting them, must be filed at the Company's registered office, available to anyone who requests them, at least 25 days prior to the day set for the Shareholders' Meeting in a single session.

In addition a curriculum vitae, providing an outline of the personal details and professional experience for each individual appointed, must be submitted together with the lists, indicating the administrative and control positions held in other companies and, along with any further documentation required by applicable laws and/or regulations, declarations in which the individual candidates:

- accept their nomination; and
- affirm, under their own responsibility, that there are no cases of ineligibility or incompatibility and that the requirements for the position set forth by the applicable provisions, regulatory or otherwise, and by the Articles of Association have been satisfied.

Any changes occurring up to the day on which the Shareholders' Meeting takes place must be promptly reported to the Company.

Any lists submitted without observing the foregoing provisions shall be deemed to be not submitted.

Each candidate may be included in one list only, under penalty of ineligibility.

The lists have two sections: one for candidates for the position of Standing Statutory Auditor and the other for candidates for the position of Alternate Statutory Auditor.

The first of the candidates in each section shall be registered with the Register of Statutory Auditors, who have carried out statutory auditing activities of the financial statements for a period of not less than three years.

In compliance with the provisions of the applicable legislation in force governing gender equality, the lists that, in consideration of both sections, present three or more candidates,

[26] With Resolution no. 18098 of February 8, 2012, Consob issued the related implementing regulation modifying the Issuers' Regulations.

must include as many candidates of a different gender in the section relating to Standing Statutory Auditors as in the section relating to Alternate Statutory Auditors.

Any person entitled to vote may vote on one list only.

The members of the Board of Statutory Auditors are appointed as follows:

a) two Standing Statutory Auditors and two Alternate Statutory Auditors are appointed from the list obtaining the highest number of votes ("majority list"), in the order in which they appear in the list;

b) the remaining Standing Statutory Auditor and the other Alternate Statutory Auditor are appointed from the list that obtained the highest number of votes at the Shareholders' Meeting after the first ("minority list"), in the order in which they appear in the list. In the event that several lists obtain the same number of votes, a run-off vote is carried out among such lists by all shareholders present at the Shareholders' Meeting, and the candidates on the list obtaining the simple majority of votes are appointed.

The Board of Statutory Auditors is chaired by the Standing Statutory Auditor indicated as the first candidate in the list referred to in letter b) of the above paragraph.

Considering Standing Statutory Auditors and Alternate Statutory Auditors separately, if the application of the list voting mechanism does not ensure the minimum number of Statutory Auditors belonging to the least represented gender required by the law and/or regulations in force pro tempore, the candidate belonging to the most represented gender elected with the highest progressive number in each section of the list obtaining the highest number of votes will be replaced by the candidate belonging to the least represented gender not elected, taken from the same section of said list according to the progressive order of submission.

In the event of the death, resignation or termination of a Statutory Auditor, such auditor shall be replaced by the first Alternate Statutory Auditor belonging to the same list.

In the event the replacement does not allow a Board of Statutory Auditors to be changed in compliance with the applicable legislation governing gender equality, such auditor shall be replaced by the second Alternate Statutory Auditor taken from said list.

If it is subsequently necessary to replace another Statutory Auditor taken from the list that obtained the highest number of votes, the additional Alternate Statutory Auditor will be taken from such list, in any case.

In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair is taken by the Statutory Auditor listed in the same list from which the terminated Chairman was appointed, in accordance with the progressive order set forth in such list, without prejudice, in any case, to compliance with the requirements of the law and/or Articles of Association for holding office and to compliance with the gender balance required by applicable laws and/or regulations in force pro tempore.

If it is not possible to make the replacements according to the aforementioned criteria, a Shareholders' Meeting shall be called to complete the Board of Statutory Auditors, and shall decide with a majority vote.

When the Shareholders' Meeting has to appoint Standing and/or Alternate Statutory Auditors to fill all seats on the Board of Statutory Auditors pursuant to the Articles of Association or the law, it shall act as follows: if the Statutory Auditors elected from the majority list have to be replaced, they shall be elected through majority voting without any voting list restrictions. However, the gender balance imposed by applicable law and/or regulations must be assured.

If, on the other hand, it is necessary to replace Statutory Auditors appointed on the minority list, the Shareholders' Meeting shall make the replacement by a relative majority of votes and, where possible, select them from candidates indicated in the same list as the Statutory Auditor to be replaced.

If only one list has been submitted, the Shareholders' Meeting votes on this list; if the list obtains a majority vote, the candidates indicated in the respective section of the list are elected Standing Statutory Auditors and Alternate Statutory Auditors. The Board of Statutory Auditors is chaired by the person indicated first in the above-mentioned list.

For the appointment of Statutory Auditors not nominated according to the procedure set forth herein for any reason, the Shareholders' Meeting shall decide by the majorities set forth under applicable law, without prejudice, in any case, to compliance with the gender balance required by the applicable laws and/or regulations in force pro tempore.

14. COMPOSITION AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS (pursuant to Article 123-bis, paragraph 2, letter d), Consolidated Finance Act)

The Company's current Board of Statutory Auditors consists of three Standing Statutory Auditors and two Alternate Statutory Auditors, who must meet the requirements specified by current laws and regulations.[27]

By law, members of the Board of Statutory Auditors remain in office for three financial years, and can be re-elected.

Pursuant to Article 149 of the Consolidated Finance Act, the Board of Statutory Auditors is charged with supervising:

- compliance with the law and the Articles of Association;
- observance of principles of proper administration;
- the suitability of the Company's organisational structure (for those aspects under its authority), internal control system and administrative and accounting system, and the reliability of the latter to report operating events correctly;
- specific methods for implementing the rules of corporate governance specified by the Code, with which the Company has complied;
- the suitability of orders issued by the Company to subsidiaries in relation to reporting and confidential information requirements.

The duties of the Board of Statutory Auditors include, inter alia, other supervisory activities including with respect to the proper application of assessment criteria and procedures adopted by the Board of Directors to assess the independence of its members (Article 3.C.5 of the Code).

Finally, the Consolidated Statutory Audit Act further clarified and strengthened the responsibilities of the Board of Statutory Auditors by assigning it – in its capacity as the "Internal Control and Audit Committee" – the duty of supervising:

(i) the process of financial reporting;

[27] Pursuant to Article 22 of the Articles of Association, "matters and sectors strictly pertaining to those of the Company," which must be referred to in choosing the members of the Board of Statutory Auditors, means those indicated in the corporate purpose (Article 4 of the Articles of Association), particularly in regard to companies or entities operating in the financial, industrial, banking, insurance, real estate and generic service sectors.

(ii) the effectiveness of the internal control, internal audit and, if applicable, risk management systems;

(iii) the statutory audit of annual and consolidated financial statements;

(iv) the independence of external auditors or the Independent Auditors, especially with respect to providing non-audit services.

In addition, it is required to provide a justified proposal to the Shareholders' Meeting for granting the audit assignment, and also establish the criteria for any supplemental compensation to be provided during the assignment.

The Board of Statutory Auditors fulfils its duties by exercising all powers granted to it by law, and it relies on a constant, detailed flow of information from the Company, including information provided outside of periodic meetings of the Board of Directors, and as a part of its relationships with other bodies and individuals with control functions.

In particular, this situation can specifically be carried out on the following occasions:

(i) quarterly audits carried out by the Board of Statutory Auditors at meetings to which Company representatives are invited to report on specific areas under their responsibility;

(ii) Committee meetings which are usually attended by the entire Board of Statutory Auditors, and at which the Head of Internal Audit makes periodic reports;

(iii) meetings with representatives of the Independent Auditors appointed (at the very least on the occasion of the presentation of the annual audit plan and the approval of the draft financial statements), at which it also receives the required report (pursuant to Article 19 of the Consolidated Statutory Audit Act) on key issues that have arisen during the external audit;

(iv) periodic meetings that the Company arranges whenever it is deemed necessary to inform the Board of Statutory Auditors of something.

In addition, in view of the “Rules of Conduct of the Board of Statutory Auditors” issued by the National Board of Business Consultants and Accounting Experts, which stress the importance of relationships with the Supervisory Board, a further assessment of information flows with the Board of Statutory Auditors will be carried out, even though the current composition of the Supervisory Board, which includes one Statutory Auditor, already represents an appropriate communication tool.

In any case, a further enhancement of these relationships will be assessed with the possible arrangement of specific meetings between the two bodies, especially with the aim of more effectively (i) verifying aspects concerning the autonomy, independence and professional characteristics necessary to effectively perform the activities of the Supervisory Board; (ii) obtaining information from the latter regarding the Organisational Model adopted and its operation; (iii) assessing the operations of the Supervisory Board and the appropriateness of assessments and adequacy of guidelines adopted by the latter, and in any case (iv) ensuring a constant and more effective exchange of information between the two bodies.

On May 8, 2013 the Shareholders' Meeting appointed the current Board of Statutory Auditors as a reflection of the only list submitted by the shareholders Camfin S.p.A., Intesa Sanpaolo S.p.A. and Massimo Moratti, already parties to the Prelios Agreement, that obtained more than 99% of votes of shareholders entitled to vote who attended the Shareholders’ Meeting.

Those proposing the list made candidate profiles available, making it possible to become familiar with their personal and professional background in advance, and to determine whether some of them meet the requirements to be qualified as independent.

The list is available in the governance/corporate documents section of the Website.

The term of the Board of Statutory Auditors will expire with the approval of the financial statements at December 31, 2015.

All active members of the Board of Statutory Auditors were appointed for the first time by the above Shareholders' Meeting with the exception of the Chairman Enrico Laghi, who was appointed for the first time on April 19, 2010.

The related curricula vitae are published in the governance/board of directors section of the Website.

The composition of the Board is shown in Table 2 in the Appendix to the Report, which indicates, inter alia, the status for each member, his/her title and participation at the Board of Statutory Auditors meetings. The attendance rate by all members of the Board of Statutory Auditors at Board of Directors meetings was 90%.

During 2014, a total of 14 meetings were held by the Board of Statutory Auditors, which lasted about two hours each on average. One meeting of the Remuneration Committee was held in 2015 before and up to the Date of the Report.

The Board of Statutory Auditors reported to the Shareholders' Meeting of June 19, 2014 on its activities, and, to the extent of its authority, expressed its opinion on the proposals made to the Shareholders' Meeting by the Board of Directors.

In addition, the Board of Statutory Auditors also prepared its comments on the directors' report on the Company's balance sheet at December 31, 2013, which was approved by the Shareholders' Meeting of June 19, 2014 that was also called pursuant to Article 2446 of the Italian Civil Code.

In 2014, the Board of Statutory Auditors also issued the opinions pursuant to Article 2389 of the Italian Civil Code.

Together with the Board of Directors, and on the basis of known information and written statements specifically issued by the interested parties, the Board of Statutory Auditors assessed the independence of its members on the first possible occasion after their appointment, taking account of all criteria specified by the Code with respect to the independence of directors.

Furthermore, in view of the provisions of Consob Communication 8067632[28] of July 17, 2008, members of the Board of Statutory Auditors confirmed to the Company that the requirements for independence had been met, also in light of the content of that communication.

The Board of Statutory Auditors conducted the last review of its members' independence at the meeting held on March 2, 2015, inter alia on the basis of the criteria set out in the Code for Directors (Article 8.C.1. of the Code).

Pursuant to the provisions of application criterion 2.C.2 of the Code, specific meetings were held between the current Board of Statutory Auditors, after its appointment and during its term, with the management of the PRELIOS Group, for the purpose of providing appropriate information on the business sector in which the Group operates, operating trends and their development and the related statutory and self-regulatory framework.

The large number of Board and Committee meetings that the Board of Statutory Auditors generally attended in 2014 allowed, inter alia, members of the Board of Statutory Auditors to continue to gain a more in-depth knowledge of this information during their tenure.

[28] Consob Communication no. DEM/DCL/DSG/8067632 of July 17, 2008, entitled "Situations of incompatibility of the members of the control bodies pursuant to Article 148, paragraph 3, letter c) of the Consolidated Finance Act".

In regard to the additional provisions of the Code concerning the Statutory Auditors, reference is made to what has been previously mentioned, in the specific parts addressing the related topics, and especially in regard to: related-party transactions; monitoring of the independence of the independent auditor and coordination with the Internal Control, Risk and Corporate Governance Committee, the Internal Audit Department, and the Risk Management Department.

Lastly, it should be noted that as at the Date of the Report, no member of the Board of Statutory Auditors has reported to the Company that the limits for accumulating positions on boards of directors and boards of statutory auditors, as specified in Article 144-terdecies of the Issuers' Regulations, have been exceeded.

The list of positions is published by Consob on its website.

15. SHAREHOLDER RELATIONS

The Company endeavours to establish an ongoing dialogue with shareholders and institutional investors based on an understanding of mutual duties, and periodically promotes meetings with representatives of the Italian and foreign financial community in full compliance with current applicable provisions and in relation to the handling of confidential information.

Starting in March 2014, the Company's Investor Relations activities were assigned to Francesca Cocco of Lerxi S.r.l., a company that provides professional Investor Relations services to third parties.

On the Website, investors can obtain all useful accounting documents published by the Company (e.g. financial statements, half-yearly reports, quarterly reports and interim operating reports), of a corporate nature (shareholder meeting minutes, prospectuses, extraordinary transactions, etc.) and of its corporate governance system (e.g. Code of Ethics and Conduct Guidelines; the Procedure for related-party transactions; the Procedure for the flow of information to directors and Statutory Auditors; the Code of Conduct for Real Estate Transactions; the Procedure for the management and public disclosure of price-sensitive information and the related register of individuals who have access to confidential information).

In the same section it is also possible to access documents made available to analysts and/or financial investors during Company presentations and/or meetings with them, and to find useful information regarding the composition of share capital and the shareholder base.

16. SHAREHOLDERS' MEETINGS (pursuant to Article 123-bis, paragraph 2, letter c) of the Consolidated Finance Act)

Based on the constant flow of information that the Company provides to the market, the Shareholders' Meeting is considered the place where a productive and effective relationship can be established with shareholders.

This venue makes it easier to have a real-time discussion, thereby providing a complete response to shareholders' requests for information, which always comply with regulations on confidential information.

In this regard, the Board encourages and facilitates the broadest participation possible of shareholders in Shareholders' Meetings, and it takes care to select a place, date and time for meetings that will facilitate such participation and allow shareholders to exercise their rights. In addition and to the extent possible, all directors and Statutory Auditors are usually present at Shareholders' Meetings, and especially those directors who, based on the positions held, are able to make a useful contribution to shareholder discussions.

Meetings may be convened at the registered office or elsewhere in Italy. The right to participate and represent the Company at Shareholders' Meetings is governed by law and the Articles of Association.

In addition to the date, time and place of the meeting and the list of topics to be covered, the notice of call also provides descriptions of procedures that the parties entitled must follow to participate and exercise voting rights, and usually provides information on: (i) the availability of documentation by the deadlines provided in the applicable regulations; (ii) the right to ask questions before the Shareholders' Meeting; (iii) the deadlines and procedures for exercising the right to supplement the agenda and submit new proposals to be voted on; and (iv) the authority to speak at Shareholders' Meetings and to exercise voting rights, including by proxy through any “Designated Representative”, an individual to whom Shareholders may delegate powers in accordance with the provisions of current laws and the Articles of Association.

The proper composition of Shareholders' Meetings and the validity of resolutions are governed by law.

The business of Shareholders' Meetings is governed by law, the Articles of Association and the Shareholders’ Meeting Regulations, which are approved by resolution of the Company's Ordinary Shareholders' Meeting in order to govern the orderly and functional business of Ordinary and Extraordinary Shareholders' Meetings, and to guarantee the right of each shareholder to take the floor on topics being discussed.

The Shareholders' Meeting Regulation is published in the governance/governance system section of the Website.

The Shareholders’ Meeting is chaired, in this 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 person who is the oldest.

In the event of absence of the above-mentioned individuals, the meeting shall be chaired by another person selected by the Shareholders’ Meeting with a resolution passed by the majority of the share capital represented at the Shareholders’ Meeting.

The Chairman is assisted by a Secretary appointed by the Shareholders' Meeting, who may also be selected from individuals who are not shareholders. The Secretary's assistance is not needed when a notary is designated to prepare the related minutes.

The Chairman of the Shareholders' Meeting is charged with verifying whether such meeting was duly constituted; confirming the identity of attendees and their right to speak, including by proxy; confirming the legal number of attendees required to approve resolutions; conducting business including by establishing a different order for topics to be discussed than that indicated in the notice of call; adopting appropriate measures to ensure orderly discussion and voting; and determining the procedure for discussion and voting and confirming their results.

The resolutions of Shareholders' Meetings are reported in the minutes signed by the Chairman and the Secretary of the Shareholders' Meeting or by a notary. Minutes of Extraordinary Shareholders' Meetings must be prepared by a notary appointed by the Chairman.

The Shareholders' Meeting passes resolutions on topics included in the agenda, taking into account those topics that fall under its authority.

*

Shareholders' Meeting for Financial Year 2014

In 2014 a single session of an Ordinary Shareholders' Meeting was held on June 19, in which the half the members of the Board of Directors and the entire Board of Statutory Auditors took part.

The Shareholders' Meeting resolved to approve the financial statements at December 31, 2013 and to not adopt the measures pursuant to Article 2446 of the Italian Civil Code with reference to the content of the Company's balance sheet at December 31, 2013, as restated following the previously mentioned premature mandatory repayment of the "Prelios Convertible Loan 2013-2019" through full conversion of the Convertible Bonds and automatic execution of the capital increase for the exclusive service of the conversion, and to postpone adoption (where required) to a date to be proposed by the Board of Directors, in accordance with paragraph 2 of said Article 2446 of the Italian Civil Code.

Moreover, the Shareholders' Meeting – following the resignation of Anna Chiara Svelto as Director – elected Mirja Cartia d'Asero as a new Director of the Company, confirming the number of members of the Board of Directors at 15.

In accordance with current law, the Company's remuneration policy was put up for discussion. The main elements of this policy were indicated in the Remuneration Report, prepared pursuant to current rules, laws and regulations, which also indicate the procedures for performing functions carried out by the Remuneration Committee.

In this regard, the Shareholders' Meeting approved the Company's remuneration policy and the procedures used to adopt and implement this Policy.

The following documents, inter alia, are available in the governance/corporate documents section of the Website for each Shareholders' Meeting: (i) notice of call; (ii) documents, reports and proposed items for resolution submitted for the review of the Shareholders' Meeting; (iii) minutes of the Shareholders' Meeting; (iv) summary voting report; and (v) press release distributed by the Company concerning the procedure of the Shareholders' Meeting.

17. OTHER CORPORATE GOVERNANCE PROCEDURES (pursuant to Article 123-bis, paragraph 2, letter a) of the Consolidated Finance Act)

At the Date of the Report, there were no corporate governance procedures in addition to those indicated in the paragraphs above that were applied by the Company, other than the requirements specified by law or the regulations.

18. CHANGES MADE SINCE THE END OF THE CURRENT FINANCIAL YEAR

The Report takes account of changes made since the end of the current Financial Year up to the Date of the Report.

In this regard, there were no substantial changes in the Company's corporate governance structure.

APPENDIX 1: "PRINCIPAL CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN PLACE FOR THE FINANCIAL REPORTING PROCESS" PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 2, LETTER B) OF THE CONSOLIDATED FINANCE ACT

The Company has implemented a complex risk management and internal control system, supported by a dedicated IT application for the preparation of half-yearly/annual financial reports.

In general, the internal control system created by the Company is aimed at ensuring protection of the Company's assets, compliance with laws and regulations, the efficiency and effectiveness of Company transactions and operating activities and the reliability, accuracy and timeliness of financial reporting.

To be specific, the process of preparing financial reports is carried out through appropriate administrative and accounting procedures developed in keeping with criteria set by the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission.

The administrative and accounting procedures for the preparation of the financial statements and all other financial communications are prepared under the responsibility of the manager charged with preparing the Company's financial statements who, together with the Chief Executive Officer, certifies their adequacy and actual application at the time of issue of the separate/consolidated financial statements and interim financial report.

To facilitate the certification by the Manager charged with preparing the Company's financial documents, the key companies/processes that provide input and generate operating, balance sheet or financial information were mapped. The Group Risk Officer supports the Manager charged with preparing the Company's financial documents in identifying the key companies and processes at least once annually on the basis of quantitative and qualitative criteria. The quantitative criteria consist of identifying those companies of the PRELIOS Group, which, in relation to the processes selected, represent a combined value greater than a specific level of significance. Qualitative criteria consist of a review of those processes and companies, which, based on the assessment of the Chief Executive Officers/Chief Financial Officers of the business areas, could represent potential risk areas even though they are not included in the quantitative parameters described above.

For each process, control risks/objectives were identified that are connected to the preparation of the financial statements and the effectiveness/efficiency of the internal control system in general.

Precise control activities were planned and specific responsibilities were assigned for each control objective.

A supervision system was implemented for controls through a linked certification mechanism. Any problems identified during the assessment process are covered in action plans, the implementation of which is checked on future reporting dates.

Lastly, it was decided that a statement on the reliability and accuracy of data sent for the preparation of the Group's consolidated financial statements should be issued semi-annually by the Chief Executive Officers and Chief Financial Officers of subsidiary joint stock companies and selected key companies.

Close to the dates of the meetings of the Boards of Directors that approve consolidated figures at June 30 and December 31, the results of checking activities are discussed with the Financial Reporting Officer.

To summarise, a system of ongoing, systematic controls has been adopted to provide reasonable certainty as to the reliability of operating and financial information and reporting.

Internal Audit performs periodic sample audits aimed at verifying the adequacy of the design and operations of controls over companies and processes selected on the basis of materiality criteria.

Based on periodic reporting, the Manager charged with preparing the Company's financial documents has reported to the Board of Directors on the effectiveness of the System through the Internal Control, Risk and Corporate Governance Committee. In addition, the same Manager charged with preparing the Company's financial documents, together with the Chief Executive Officers, has provided the certification required by Article 154-bis, paragraph 5 of the Consolidated Finance Act.

TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors													Internal Control, Risk and Corporate Governance Committee		Remuneration Committee	
Position	**Members**	**Year of birth**	**Date first appointed ***	**In office since**	**In office until**	**List ****	**Exec.**	**Non-exec.**	**Indep. pursuant to Code**	**Indep. pursuant to Cons. Fin. Act**	**No. of other positions *****	**(*)**	**(*)**	**(**)**	**(*)**	**(**)**
Chairman	Giorgio Luca Bruno	1960	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M		X			1	8/8				
Deputy Chairman	Massimo Caputi	1952	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M	X				/	8/8				
Chief Executive Officer (a)	Sergio Iasi	1958	December 12, 2012	May 8, 2013	Approval Financial Statements 2015	M	X				/	8/8				
Director	Marina Brogi	1967	April 21, 2011	May 8, 2013	Approval Financial Statements 2015	M		X	X	X	2	5/8	9/10	M		
Director	Claudia Bugno	1975	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M		X	X	X	1 (c)	7/8				
Director	Mirja Cartia d'Asero	1969	June 19, 2014	June 19, 2014	Approval Financial Statements 2015	n/a		X	X	X	/	3/3	3/3	M		
Director	Francesco Umile Chiappetta	1960	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M		X			2	8/8				
Director	Rosa Cipriotti	1974	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M		X	X	X	/	8/8			4/5	M
Director	Carlo Emilio Croce	1945	January 25, 2006	May 8, 2013	Approval Financial Statements 2015	M		X	X	X	1	7/8			2/5	M
Director	Moroello Diaz della Vittoria Pallavicini	1970	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M		X			/	7/8				
Director	Andrea Mangoni	1963	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M		X	X	X	4	7/8	10/10	M		
Director	Davide Mereghetti	1966	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M		X			2	8/8			5/5	M
Director	Alessandra Patera	1970	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M		X			/	8/8				
Director (b)	Massimo Tezzon	1946	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M		X	X	X	1 (c)	8/8	10/10	C		
Director	Giovanni Jody Vender	1950	April 21,	May 8,	Approval	M		X	X	X	/	6/8			5/5	C

			2011	2013	Financial Statements 2015											
DIRECTORS WHO VACATED SEAT DURING THE FINANCIAL YEAR																
Director	Anna Chiara Svelto	1969	May 8, 2013	May 8, 2013	February 18, 2014	M		X					1/1	M		
		Quorum required to submit lists for the latest appointment: 2%														
		Number of meetings held during the Financial Year:						Board of Directors: **8**			Internal Control, Risk and Corporate Governance Committee **10**			Remuneration Committee: **5**		

NOTES

(a) Executive Director in charge of the internal control and risk management system.

(b) Lead Independent Director

(c) Position no longer held at the Date of the Report.

* The date of first appointment of each director refers to the date on which the director was elected for the very first time to the Board of Directors.

** This column indicates the list from which each director is drawn (“M”: majority list; “m”: minority list; “BoD”: list submitted by the Board of Directors).

*** This column indicates the number of positions as director or statutory auditor held by the individual concerned in other companies listed in regulated domestic and foreign markets, in financial, banking, insurance or large companies. In Appendix 2 of the Report, the titles and positions are shown in their full form.

(*) This column shows the attendance of the directors at the Board of Directors and committee meetings, respectively (the number of meetings which they attended is shown as opposed to the total number of meetings which they could have attended; e.g. 6/8; 8/8 etc.).

(**) This column shows the title/position of the director on the Committee: “C”: chairman; “M”: member.

TABLE 2: STRUCTURE OF BOARD OF STATUTORY AUDITORS

BOARD OF STATUTORY AUDITORS									
Position	**Members**	**Year of birth**	**Date first appointed** *	**In office since**	**In office until**	**List** **	**Independence from Code**	**Attendance at Board of Statutory Auditors meetings** ***	**No of other positions** ****
Chairman	Enrico Laghi	1969	April 19, 2010	May 8, 2013	Approval Financial Statements 2015	M	X	11/14	9
Standing Statutory Auditor	Marco de Ruvo	1962	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M	X	14/14	33
Standing Statutory Auditor	Michela Zeme	1969	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M	X	13/14	10
Alternate Statutory Auditor	Marco Aurelio Guarna	1972	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M	X	n/a	34
Alternate Statutory Auditor	Flavia Daunia Minutillo	1971	May 8, 2013	May 8, 2013	Approval Financial Statements 2015	M	X	n/a	11
STATUTORY AUDITORS WHO VACATED SEAT DURING THE FINANCIAL YEAR									
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Number of meetings held during the Financial Year: 14									
Quorum required to submit lists for the latest appointment: 1.5%									

NOTES

* The date of first appointment of each statutory auditor refers to the date on which the statutory auditor was elected for the very first time to the Board of Statutory Auditors.

** This column indicates the list from which each statutory auditor is drawn (“M”: majority list; “m”: minority list).

*** This column shows the attendance of the statutory auditors at the Board of Statutory Auditors meetings (the number of meetings which they attended is shown as opposed to the total number of meetings which they could have attended; e.g. 11/14; 12/14 etc.).

**** This column shows the number of director or statutory auditor positions held by the individual in question pursuant to Article 148-bis Consolidated Finance Act and the related implementing provisions set out in the Consob Issuers' Regulations. The complete list of positions is published by Consob on its website pursuant to Article 144-quinquiesdecies of the Consob Issuers' Regulations.

APPENDIX 2: LIST OF DIRECTORS' OTHER PRINCIPAL POSITIONS

Name	Position	In office since	Other positions
Giorgio Luca Bruno	Chairman	May 8, 2013	• Coinv S.p.A.
Massimo Caputi	Deputy Chairman	May 8, 2013	//
Sergio Iasi	Chief Executive Officer	May 8, 2013	//
Marina Brogi	Director	May 8, 2013	• UBI Banca, Oversight Board Member • Salini Impregilo, Director
Claudia Bugno	Director	May 8, 2013	• Banca Popolare dell'Etruria e del Lazio, Director (1)
Mirja Cartia d'Asero	Director	June 19, 2014	//
Francesco Chiappetta	Director	May 8, 2013	• Autogrill S.p.A., Director • Istituto Europeo di Oncologia S.r.l., Director
Rosa Cipriotti	Director	May 8, 2013	//
Carlo Emilio Croce	Director	May 8, 2013	• Carispezia S.p.A., Director
Moroello Diaz della Vittoria Pallavicini	Director	May 8, 2013	//
Andrea Mangoni	Director	May 8, 2013	• Sorgenia S.p.A., Chairman • Amber Capital SGR S.p.A., Director • Fincantieri S.p.A., Director • Telecom Argentina S.A., Director
Davide Mereghetti	Director	May 8, 2013	• F21 SGR S.p.A., Director • Coinv S.p.A.
Alessandra Patera	Director	May 8, 2013	//
Massimo Tezzon	Director	May 8, 2013	• Banca Popolare dell'Etruria, Chairman of the Board of Statutory Auditors (1)
Giovanni Jody Vender	Director	May 8, 2013	//

(1) Position no longer held at the Date of the Report.

D. SHAREHOLDERS' MEETING CALL NOTICE

PRELIOS S.P.A.

Head office in Milan, Viale Piero e Alberto Pirelli, 27
Share capital €426,441,257.20, fully paid in
Milan Companies Register No. 02473170153
Tax code and VAT No. 02473170153

CALL OF SHAREHOLDERS' MEETING

All those entitled to vote at the shareholders' meeting of Prelios S.p.A. are called to meet on **June 24, 2015 at 11:00 a.m., Via Giovanni Battista Pirelli no. 20, Milan, – at the LaGare Hotel Milano Centrale,** for the Ordinary and Extraordinary Shareholders' Meeting on single call to discuss and deliberate on the following

AGENDA

Ordinary Shareholders' Meeting

1. Financial Statements at December 31, 2014. Related and consequent resolutions.
2. Measures pursuant to Article 2364, paragraph 1, no. 2) of the Italian Civil Code. Related and consequent resolutions.
3. Remuneration Report: consultation on the Remuneration Policy.

Extraordinary Shareholders' Meeting

1. Measures pursuant to Article 2446, paragraph 2 (2) of the Italian Civil Code: reduction of share capital. Related and consequent resolutions (including amendment of Article 5 of the Articles of Association). Grant of powers.

DOCUMENTATION

The Directors' Reports and draft resolutions, together with all additional documentation submitted to the Shareholders' Meeting in regard to all agenda items, are available to the public at the Company head office in Milan, Viale Piero e Alberto Pirelli, 27, at Borsa Italiana S.p.A. and the authorized stocking mechanism "1Info" (www.1info.it), and are published on the internet in the corporate governance section of the Company's website, www.prelios.com, in accordance with the law.
In particular:

- on April 10, 2015, the Annual Financial Report – comprising the draft separate financial statements, the consolidated financial statements, the report on operations and the certification pursuant to Article 154-bis, paragraph 5 of Legislative Decree No. 58 of February 24, 1998, as amended (the "Consolidated Law on Finance") – was made available, together with the reports of the Board of Statutory Auditors and the Independent Auditors and the Annual Report on Corporate Governance and Ownership Structure, in relation to item 1 on the agenda for the Ordinary Shareholders' Meeting;
- at the same time as this notice of call was published, will be made available:
  - the Directors' Report on item 2 of the agenda for the Ordinary Shareholders' Meeting was made available. That report details the measures proposed for adoption and the procedures for doing so. However, the voting list procedure does not apply in this specific circumstance;

- the Directors' Report on item 3 of the agenda for the Ordinary Shareholders' Meeting, regarding the consultation on the Remuneration Policy;
- the Directors' Report on the only item of the agenda for the Extraordinary Shareholders' Meeting, concerning the reduction in the share capital pursuant to Article 2446, paragraph 2 of the Italian Civil Code.

Documentation pertaining to the financial statements of subsidiaries and associates will be made available to the public at the head office by June 9th, 2015.

QUESTIONS ABOUT THE AGENDA ITEMS

In accordance with the law, all those entitled to vote may submit questions about the agenda items in advance of the shareholders' meeting. Questions may be sent by post to the address of the Company's head office, by fax to 02.6281.4460, by certified e-mail to *assemblea@pec.prelios.it*, or by visiting *www.prelios.com* and following the instructions under the shareholders' meeting section, which also provides further information about the agenda items.
The Company must receive any questions by June 21th, 2015.

ADDITIONS TO THE AGENDA AND PRESENTATION OF NEW DRAFT RESOLUTIONS

In accordance with the law, shareholders who, either individually or together with other shareholders, represent at least one fortieth of the ordinary share capital may, within 10 days of the publication of this notice (i.e. by 1stJune 2015), request that additions be made to the agenda, stating what their proposed additional agenda items are in their request, or present draft proposals concerning items already on the agenda.
The request – together with appropriate documentation proving ownership of the aforementioned proportion of the share capital, issued by the intermediaries that hold the accounts in which the shares are registered – must be submitted in writing, either by hand or by post, to the Company's head office or sent to the certified e-mail address *assemblea@pec.prelios.it*.
Within the deadline for submitting requests for additions to the agenda and under the same terms, the proposing shareholders must submit a report detailing the reasons for the draft resolutions on the proposed new agenda items, or the reasons for the additional draft resolutions submitted concerning items already on the agenda.
The Company will inform shareholders of any additions to the agenda or additional draft resolutions concerning items already on the agenda, under the same terms applicable to the publication of this notice of call, at least 15 days prior to the date set for the Shareholders' Meeting on single call (i.e. by June 9 th,2015).
At the same time as the notice of additions to the agenda or additional draft resolutions is published, said resolutions, together with the reports prepared by the proposing shareholders and accompanied by any evaluations made by the Board of Directors, will be made available to the public by the Company, in accordance with the law.
Additions to the agenda are not permitted for matters on which the shareholders' meeting passes resolutions, in accordance with the law, at the proposal of the directors or on the basis of a draft or report prepared by them, other than those pursuant to Article 125-ter, paragraph 1 of the Consolidated Law on Finance.
Any person entitled to vote may individually present draft resolutions directly to the shareholders' meeting.

RIGHT TO PARTICIPATE IN THE SHAREHOLDERS' MEETING – VOTING BY PROXY

The right to participate in the shareholders' meeting and to exercise voting rights is certified by a communication to the Company, transmitted by the authorised intermediary, in compliance with its accounting records, in favour of the person entitled to voting rights as at June 15th, 2015 (the record date).
Persons that acquire shares only after that date will therefore not be entitled to participate in and vote at the shareholders' meeting.
Any person entitled to participate in the shareholders' meeting and to exercise voting rights may be represented by means of a proxy issued in accordance with the law and with applicable regulations.
A facsimile of the proxy form can be obtained from the governance section of the Company's website, *www.prelios.com*, or from its head office.
The Company may also be notified of a proxy in advance by correspondence sent to the certified e-mail address *assemblea@pec.prelios.it* or by post to the head office. Prior notification does not exempt the proxy from having to prove that the copy sent is a true copy of the original, in order to be authorised to participate in the shareholders' meeting.

Designated Representative

The Company has designated Computershare S.p.A. as the entity to which shareholders may assign a proxy free of charge (the "Designated Representative").
The proxy and voting instructions must be assigned using the form available on the Designated Representative section of the Company's website, *www.prelios.com*, and at the head of Computershare S.p.A. and the Company.
The original proxy must reach the head office of Computershare S.p.A., Via Lorenzo Mascheroni, 19 – 20145 Milan, by June 22nd 2015. A copy, together with a statement confirming that it is a true copy of the original, may be sent in advance by fax to 02.4677.6850 or as an e-mail attachment to *ufficiomilano@pecserviziotitoli.it.*
Proxies assigned in this way are valid only for the proposals in relation to which voting instructions have been given. Proxies and voting instructions may be revoked within the above deadline.
Further information on the assignment of proxies to the Designated Representative is available on the Company's website www.prelios.com.

INFORMATION ABOUT THE SHARE CAPITAL AND SHARES WITH VOTING RIGHTS

The subscribed and paid-in share capital of Prelios S.p.A. currently stands at €426,441,257.20, comprising 506,953,179 ordinary shares and 210,988,201 category B shares, with no par value. Only holders of ordinary shares are entitled to vote at Ordinary and/or Extraordinary Shareholders' Meetings. The Company currently holds 1,788 ordinary treasury shares with suspended voting rights.

*

Milan, May 22nd 2015.

for the Board of Directors
the Chairman
(Giorgio Luca Bruno)

E. PROPOSED RESOLUTIONS

ORDINARY PART

Item 1)

Financial Statements as at December 31, 2014. Related and consequent resolutions.

Dear Shareholders,

The Financial Year ending December 31, 2014 closed with a Group loss of Euro 61,149 thousand on a consolidated basis and Euro 74,129,720.08 in the separate financial statements.

This loss – added to the loss of the previous year equal to Euro 299,772,019.32 and the pre-existing negative “Other reserves” equal to Euro 5,570,314.65 and minus the additional reserves available equal to total of Euro 2,255,864.80 - means an overall loss of Euro 377,216,189.25, exceeding one third of the share capital; as a consequence, this is covered by art. 2446, paragraph 2 of the Italian Civil Code.

In relation to this it is noted that on June 19, 2014 the Shareholders' Meeting:

- having acknowledged that the Capital Position as at December 31, 2013 revealed a share capital subscribed and paid-up of Euro 426,441,257.20, thus decreased by more than one third as a consequence of the loss for the year, and thus covered by art. 2446 of the Italian Civil Code;

- having examined the Directors’ Report prepared pursuant to Article 2446 of the Italian Civil Code and to Article 74, paragraph 1 of the Consob Regulations adopted by way of Resolution No. 11971 of May 14, 1999, as subsequently amended and updated;

- having examined the observations of the Board of Statutory Auditors;

had resolved not to adopt the measures under Article 2446 of the Italian Civil Code with reference to the results from the Capital Position of the Company at December 31, 2013, and to postpone the adoption (where required) to a date to be proposed by the Board of Directors, in accordance with paragraph 2 of said Article 2446 of the Italian Civil Code.

Thus, we ask you to vote to approve the separate financial statements at December 31, 2014 and the report on operations of the Board of Directors, and to defer the appropriate measures to be taken in relation to the overall loss to the extraordinary shareholders meeting, called also at the ordinary session.

* * *

On the basis of the above, the Board of Directors therefore submits for your approval the following draft resolution

“*The Ordinary Meeting of the shareholders of Prelios S.p.A.*:

- *having reviewed the report on operations of the Board of Directors;*

- *having acknowledged the reports of the Board of Statutory Auditors and the Independent Auditors;*
- *having reviewed the separate financial statements at December 31, 2014 reporting a loss of Euro 74,129,720.08;*

RESOLVES

1) *to approve:*

    a) *the report on operations of the Board of Directors;*

    b) *the separate financial statements for January 1 – December 31, 2014, consisting of the balance sheet, income statement, statement of comprehensive income, statement of changes in net equity, cash flow statement and explanatory notes, that show a loss of Euro 74,129,720.08 as submitted by the Board of Directors in their entirety in their individual entries with the proposed allocations;*

2) *to defer the appropriate measures to be taken pursuant to Article 2446, paragraph 2, of the Italian Civil Code to the Extraordinary Shareholders' Meeting".*

Report prepared by the directors pursuant to Article 125-ter of Legislative Decree No. 58 of February 24, 1998, as subsequently amended and updated.

* * * * *

Item 2)

Measures pursuant to Article 2364, paragraph 1 (2) of the Italian Civil Code. Related and consequent resolutions.

To our shareholders:

As previously announced, the independent non-executive director Claudia Bugno resigned her directorship of the Company on March 31, 2015.

At its meeting on May 14 2015, the Board of Directors resolved not to replace her pursuant to Article 2386, paragraph 1 of the Italian Civil Code, as expressly mentioned in Article 12 of the Articles of Association, in light of the imminent shareholders' meeting, deeming it appropriate to postpone any such decision until said meeting.

As a result of the above, the Board of Directors currently in office comprises 14 members (of whom seven can be classed as independent non-executive directors and four are women), whose term of office is due to expire upon the approval of the financial statements at December 31, 2015, whereas the shareholders' meeting of May 8, 2013 resolved to set the number of Board members at 15.

Article 12 of the Articles of Association stipulates that the Company must have a minimum of five directors and that, in these specific circumstances, the list voting mechanism required by law, as set out in said Article 12, is not applicable.

Article 12 of the Articles of Association also demands that the gender balance required by law or regulations should be respected, and it specifically stipulates that at least a third (rounding up to the next whole number in the case of a fraction) of the directors be women.

In accordance with the above, the aforementioned shareholders' meeting May 8, 2013 resolved to set the number of Board members at 15, nominating 5 women directors.

Each member of the Board of Directors receives gross annual compensation of €30,000 for the position, in addition to any further compensation set by the Board of Directors for participation in internal committees.

In accordance with the above and with applicable law, regulations and the Articles of Association, the Board of Directors invites you to adopt the relevant resolutions to address the matter.

Report prepared by the Directors pursuant to Article 123-ter of Legislative Decree No. 58 of February 24, 1998, as subsequently amended and updated.

* * *

Item 3)

Remuneration Report: consultation on the Remuneration Policy.

To our shareholders:

Legislative Decree No. 58 of February 24, 1998 (the “Consolidated Finance Act” or “TUF”) requires listed companies to publish, at least 21 days prior to their annual ordinary shareholders’ meeting, a “Remuneration Report” approved by the Board of Directors, comprising two sections, that details:

a) the company’s remuneration policy for members of management bodies, senior managers and Key Managers, as well as the procedures used to adopt and implement said policy (the “Policy”);

b) the remuneration for the year in question of members of the management and control bodies, general managers and Key Managers, providing an adequate representation of each of the items that make up said remuneration, proving its consistency with the Policy approved in the previous financial year and analytically describing the compensation paid, for any reason and in any form, by the Company and its subsidiaries or associates.

In addition, the remuneration Policy has been drawn up in accordance with the current guidelines of Borsa Italiana S.p.A's Self-Governance Code for quoted companies (the "Self-Governance Code") - which the Company has adopted in its entirety - and which sets out general self-governance rules for Directors and Key Managers.

The Remuneration Policy is adopted pursuant to Article 14 of the “Procedure for Related-Party Transactions” (the “RPT Procedure”) approved by the Company on November 3, 2010, as subsequently updated and amended (published on the corporate governance section of the Company’s website, *www.prelios.com*), which provides for exemption from the RPT Procedure on condition that:

- the Company “...has adopted a remuneration policy, including policies relating to agreements on the consensual termination of employment...”;
- “...a committee consisting exclusively of Non-Executive Directors, the majority of whom are independent, has been involved...” in drawing up the policy;
- *“...a report illustrating the remuneration policy has been submitted for approval and put to a consultative vote at the shareholders’ meeting...”;*
- “...the remuneration given is consistent with the policy”.

Therefore, in accordance with the applicable legislation and regulations, the Board of Directors submits for your consultation the Company’s Policy concerning the remuneration of the Directors, senior managers and Key Managers, the main points of which are set out in the attached Remuneration Report prepared pursuant to Article 123-ter of the TUF, proposing that you express a favourable opinion of said Policy.

The Remuneration Report is made available to the public, at the Company's registered office and at Borsa Italiana S.p.A., and is published on the internet (i) www.prelios.com, governance section, and (ii) on the Information Portal of the "Regulated Information Centralised Storage Mechanism ("Storage")" named 1Info www.1info.it.

* * *

On the basis of the above, the Board of Directors therefore submits for your approval the following draft resolution:

the Ordinary Meeting of the shareholders of Prelios S.p.A..

- *having examined the Remuneration Report and, in particular, the Company's Policy concerning the remuneration of the Directors, senior managers and Key Managers;*
- *in consideration of the provisions of Article 123-ter of Legislative Decree No. 58 of February 24, 1998, as subsequently amended and updated, as well as Article 84-quater of Consob Issuers' Regulation No. 11971 of May 14, 1999, as subsequently amended and updated;*

HEREBY RESOLVES

in favour of the Company's Policy concerning the remuneration of the Directors, senior managers and Key Managers, as well as the procedures used to adopt and implement said Policy."

REMUNERATION REPORT

(Drawn up in accordance withart. 123 – ter of the Legislative Decree No. 58 of February 24, 1998)

CONTENTS

GLOSSARY

Shareholders' Meeting: denotes the Ordinary Meeting of the shareholders of Prelios S.p.A.

Self-Governance Code: the Self-Governance Code for quoted companies as approved by the Corporated Governance committee of Borsa Italiana S.p.A. (July 2014 edition). The Code is available to the public via the following web link:*http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm*

Board of Statutory Auditors: the Board of Statutory Auditors of Prelios S.p.A.

Board of Directors: the Board of Directors of Prelios S.p.A.

General Managers: parties appointed as such by the Board of Directors in relation to the organisational structure of the Company and the Group.

Managers: Group employees classed as managers, in accordance with the Italian National Collective Employment Agreement in force (Managers of companies producing goods and services).

Key Managers: 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.

EBIT (or PBIT): Earnings Before Interest and Taxes, is a way of expressing operating profit. It represents the operating profit deriving from the day-to-day management of the Company, plus net income from investments and income from shareholder loans before financing costs, restructuring costs, property write-downs/revaluations, and taxes.

Executives: 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 the contribution towards achieving corporate objectives.

Prelios Group or Group: the Company and the companies controlled by it pursuant to Article 93 of the Consolidated Finance Act.

Management: all General Managers, Key Managers, Top Managers, Senior Managers and Executives.

Managers: employees of the Prelios Group (Top Managers and Senior Managers) who hold senior positions with a high degree of decision-making independence and responsibility, on whom the achievement of company targets depends to a great extent.

MBO: the annual variable component of remuneration, achieved by meeting predetermined company objectives.

LTI Plan: the multi-annual variable component of remuneration (Long-Term Incentive) related to the achievement of the objectives set out in the Company's Business Plan.

NFP: indicates the Net Financial Position, which indicates net financialindebtedness, i.e. the total financial debt entered into by the Company less currentfinancial resources.

Policy: the Remuneration Policy adopted by the Company to apply the provisions of the Consolidated Finance Act, the Consob Issuers' Regulations and the Self-Governance Code adopted in full by the Company.

Prelios: Prelios S.p.A.

RPT Procedure: 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 17221 of March 12, 2010, as amended by Resolution 17389 of June 23, 2010, taking into account the guidelines and instructions provided by Consob with Notice DEM/10078683 of September 24, 2010, available on the Website.

GAR: Gross Annual Remuneration, i.e. the fixed gross annual part of the remuneration for those employed by one of the Group companies.

Issuers' Regulations: the Regulations concerning the provisions on issuers, adopted by Consob through Resolution 11971 of May 14, 1999 as amended.

Report: the Remuneration Report which listed companies are required to prepare pursuant to the CFA and the Issuers' Regulations.

Statement: the statement of remuneration provided in the year in question to members of the administrative and control bodies, General Managers and Key Managers.

Website: the Company's website www.prelios.com.

Company: Prelios S.p.A.

CFA/Consolidated Finance Act: Legislative Decree No. 58 of February 24, 1998 as amended.

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, Legislative Decree 259 of December 30, 2010 introduced Article 123-ter into the CFA, 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 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 Article 123-ter of the CFA came into force following the issue of the relevant implementing regulatory provisions by Consob through Resolution 18049 of December 23, 2011, which, inter alia, introduced Article 84-quater (Remuneration Report) of the Issuers' Regulations. The Policy has also been drawn up in compliance with the recommendations set forth in the Self-Governance Code, 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 Article 14 of the RPT Procedure approved by the Company on November 3, 2010, later updated and amended, which allows exemption from the RPT Procedure, provided that:

- the Company "...has adopted a remuneration policy, including policies relating to agreements on the consensual termination of employment...";
- "...a committee consisting exclusively of Non-Executive Directors, the majority of whom are independent, has been involved..." in drawing up the policy;
- "...a report illustrating the remuneration policy has been submitted for approval and put to a consultative vote at the shareholders' meeting...";
- "...the remuneration given is consistent with the 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.

In this regard it should be stressed that the risk management process is integrated into the strategic planning process to ensure that the goals set for the delivery of variable compensation do not expose the Company to management behaviours which are out of line with the Business Plan approved by the Board, and the risk level considered acceptable by the Company.

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 also 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 the correct control of company risks.

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 for the entire 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 The role of the Board of Directors

The Board of Directors shall:

- allocate amongst its members the fixed compensation approved by the Shareholders' Meeting for the Board of Directors;
- 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 Executive Directors and to Directors vested with specific authority, with the advice of the Board of Auditors, as well as General Managers, where appointed.

2.3 The role of the Remuneration Committee

The Remuneration Committee serves an advisory and investigative function and, specifically, it shall:

- periodically evaluate the adequacy, overall coherence and concrete application of the Remuneration Policy, preparing proposals on the subject, with specific reference to Directors and Key Managers;

- submit proposals to the Board of Directors for the remuneration of Executive Directors, executive Directors, as well as General Managers, where appointed;

- 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 Executive Directors and Key Managers, subject to the exemption from the requirements of Article 14 of the RPT Procedure, referred to above.

The members of the Remuneration Committee currently in office were appointed by the Board of Directors at the meeting of May 8, 2013 and are all Non-Executive Directors, the majority of which are independent Directors, recognised as such by the Company in accordance with the provisions of Article 147-ter of the CFA and the main criteria of the Self-Governance Code.

As at the date of this Report, the members of the Remuneration Committee are:

- Giovanni Jody Vender (Chairman – Non-Executive, independent Director);
- Rosa Cipriotti (Non-Executive, independent Director);
- Carlo Emilio Croce (Non-Executive, independent Director);
- Davide Mereghetti (Non-Executive Director);

who possess adequate knowledge and experience of accounting and financial matters or remuneration policies.

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, being aware and informed of the facts.

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 means of telecommunication; minutes shall be duly taken and filed in a dedicated minutes book.

The Committee – which in the performance of 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.

For more details on the above, refer to the “Report on Corporate Governance and Ownership Structure” for 2014 published in the Corporate Governance section of the Website.

2.4 The role of the Board of Statutory Auditors

The Board of Statutory Auditors expresses opinions required by existing regulations on the remuneration proposals of the Executive Directors and those with special mandates. It oversees all concrete measures adopted to implement the corporate governance rules enshrined in the Self-Governance Code adopted by the Company. As a result its role includes the monitoring of remuneration and other benefits.

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 known, 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 Executive Directors 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.

Moreover, the prevailing market trends are constantly monitored both with reference to remunerations levels and with regard to applicable incentive and retention systems.

4. Policy Content: remuneration criteria and major structural 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, where appointed).

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 ensure 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 Principal structural components

The principal structural components of remuneration used by the Group are: fixed component, short-term incentives, and medium- and long-term incentives and benefits, with an overall approach which ensures a balanced mix of fixed and variable elements. In particular:

- *Fixed Component*:
  - remunerates the position, responsibilities and connected skills, and therefore is related to an individual's role and his or her fulfilment of its requirements;
  - is defined in accordance with the criteria and methods mentioned above.
- *Variable Annual Component (MBO)*:
  - rewards performance, tying recognition of the bonus to the achievement of the predefined objectives;
  - is paid out once a year, in cash, and is related to fixed compensation (i.e. calculated as a percentage of the fixed gross annual compensation/salary), with a cap;
  - is usually tied to the Group's economic and financial targets and may contain specific department/individual targets;
  - includes the possibility of deferment of not more than 25% of the total achieved;
  - may pay out more than the target amount only if the results achieved are significantly better than the target.
- *Variable Long-Term Component (LTI)*:
  - rewards performance, as with the annual variable remuneration but with a medium-/long-term reference time frame;
  - is usually connected with the Group's economic and financial targets;
  - steers the approach to remuneration tied to performance that is sustainable over time and to the creation of shareholder value;

- the payment is deferred, mainly at the end of the vesting period, in cash, and is related to fixed compensation (i.e. calculated as a percentage of the fixed gross annual compensation/salary), with a cap;

- may pay 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 National Collective Employment Agreement in force (Managers of companies producing goods and services);

- Company pension plan, in line with the provisions of the National Collective Employment Agreement in force (Managers of companies producing goods and services).

The Board of Directors may also establish, subject to the approval of the Shareholders' Meeting in accordance with the law, the adoption of incentive mechanisms entailing the assignment of financial instruments or options on financial instruments or otherwise based on financial instruments, disclosed in accordance with the transparency obligations established by applicable legislation.

Currently, no such mechanisms have been adopted and implemented.

The use of variable remuneration components – which is the rule when a proper balance between fixed and variable remuneration components is sought, as mentioned – 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 situations that make it impossible or inappropriate to employ one or more of the afore-mentioned variable incentive instruments.

In particular, given the context and the distinct development phase which the Group is currently going through, a Long-Term Incentive Plan (LTI Plan) has not yet been adopted. Despite this, the Group wishes to implement appropriate mechanisms designed to support the business model over the medium to long term, in line with the Company's Plan goals.

The Policy does not include mechanisms allowing the Company partially or fully to claw back variable remuneration components already paid (or to withhold deferred amounts), which were originally calculated on data which have since been manifestly proven to be wrong.

5. Directors' remuneration

As explained above, the members of the Board of Directors include:

- Directors vested with special duties, who may be assigned specific managerial powers (Executive Directors);

- Directors not vested with special duties (Non-Executive Directors).

As at December 31, 2014[1], they are:

- Executive Directors, the Chairman of the Board of Directors Giorgio Luca Bruno, the Deputy-Chairman Massimo Caputi 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 assigned any specific managerial powers[2] and is classed as a Non-Executive Director[3];

- Non-Executive Directors: Marina Brogi, Claudia Bugno, Mirja Cartia d'Asero[4], Francesco Chiappetta, Rosa Cipriotti, Carlo Emilio Croce, Moroello Diaz della Vittoria Pallavicini, Andrea Mangoni, Davide Mereghetti, Alessandra Patera, Massimo Tezzon and Giovanni Jody Vender.

In accordance with article 2364, paragraph 1 of the Italian Civil Code, when it appointed the Board of Directors, the Shareholders' Meeting of May 8, 2013 set out the total annual remuneration for the Directors, to be allocated by the Board of Directors.

More specifically, the Shareholders' Meeting had approved total annual gross compensation of Euro 650,000.00; following examination and evaluation by the Remuneration Committee, the Board of Directors then allocated said compensation as follows:

- Euro 30,000.00 per annum for each member of the Board of Directors;

- Euro 20,000.00 per annum for each Director who is a member of the Internal Control, Risk and Corporate Governance Committee;

- Euro 15,000.00 per annum for each Director who is a member of the Remuneration Committee;

In line with best practice, there are no provisions for a variable component of remuneration for Non-Executive Directors.

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 Euro 15,000.00 was then assigned to the Director who is a member of the Supervisory Board pursuant to Legislative Decree 231/2001.

Directors shall also be entitled to the reimbursement of costs incurred for reasons connected with their office.

In line with market best practice, a D&O (Directors & Officers) Liability policy has been authorised with the purpose of covering the third party liability of company bodies. Such cover has been extended to Key Managers and in general to managers and executives when discharging their responsibilities

[1] *On May 8, 2013, the Ordinary Shareholders' Meeting appointed the Board of Directors, determining that their number should be 15, and stipulating that their mandates should expire when the December 31, 2015 financial statements are approved. At the end of the Meeting, the Board of Directors appointed the corporate officers and the Board sub committees.*

[2] *It should also be noted that, for internal purposes when dealing with the Board of Directors, for certain defined events and when specified thresholds are met, the Chairman must authorise jointly with the Deputy-Chairman or the Chief Executive Officer with regard to the powers vested in them.*

[3] *In the light of the role which the Chief Corporate Development & Diversified Businesses Officer holds in Pirelli & C. S.p.A., (which is a shareholder in the Company), as well as being a member of the Board of Directors of Coinv S.p.A. (which is also a shareholder in the Company), and other posts in companies which directly or indirectly control Coinv S.p.A.*

[4] *Appointed as a member of the Board of Directors by the Shareholders' Meeting of June 19, 2014 to replace Anna Chiara Svelto, who resigned.*

The purpose of the insurance coverage is to protect the Group from expenses arising from any indemnification connected with third-party claims, and is in line with the provisions of the National Collective Employment Agreement in force (Managers of companies producing goods and services) and with agency rules, excluding cases of negligence and wilful misconduct.

6. Remuneration of Executive Directors

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 Executive Directors.

The remuneration of Executive Directors may consist of the following components:

- a Fixed Component (fixed gross annual fee);
- an annual variable component (variable annual incentive, or MBO);
- a long-term variable component (long-term incentive, or 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 vested with a special duty has also been given specific managerial powers (Executive Director).

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 out.

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 Executive Directors are not vested with specific powers, their remuneration will only include a fixed component, and not a variable component.

For Executive Directors, the Board of Directors may also establish, as provided by law and/or by the National Collective Employment Agreement in force (Managers of companies producing goods and services):

- accident insurance policy for any injuries suffered in the performance of their duties and non-occupational injuries with premiums paid by the Company; the premiums 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, and healthcare and temporary life insurance.

In accordance with Article 17, paragraph 1, letter c) of the Italian Income Tax Code 917/1986, a Directors’ severance indemnity (TFM) is not assigned.

No discretionary bonuses may be awarded to Executive Directors. However, they may be awarded 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. In 2014, these assumptions were not verified.

It is the Group’s policy not to establish any additional compensation for Company Executive Directors 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 2014, these assumptions were not verified.

In analysing the positioning, the composition and, more in general, the competitiveness of the remuneration of Executive Directors, 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

During the 2014 financial year, the Board of Directors designated the following as Key Managers: Elena Capra who was the temporary manager charged with preparing the Company's financial documents (Chief Financial Officer), and her replacement, the current Chief Financial Officer Marco Andreasi, who has been in office since February 24, 2014.

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, the General Manager, where appointed, is always considered a "Key Manager".

As a general rule, the remuneration of Key Managers consists of the following components:

- a fixed component (annual gross basic remuneration, or AGR);
- an annual variable component (variable annual incentive, or MBO);
- a long-term variable component (long-term incentive, or LTI);
- Company benefits, in accordance with the policies adopted.

In general, as for Executive Directors, total remuneration for Key Managers also 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 out.

As a general rule, it is the Group's policy to set the fixed component of remuneration not to exceed 60% of total target remuneration in order to ensure a more appropriate balance by reference to the amount stipulated for Executive Directors (50%).

No discretionary bonuses may be awarded to Key Managers. However, they may be awarded 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 awarded. In 2014, these assumptions were not verified.

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. In 2014, these assumptions were not verified.

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 (MBO), as mentioned, aims to remunerate the annual performance of the beneficiary, evaluated in relation to the achievement of specific economic and financial objectives and/or objectives with strategic value for the Group.

MBO objectives for Executive Directors to which specific managerial powers of attorney are assigned as well as the related criteria and guidelines for Key Managers, are established by the Board of Directors on the proposal of the Remuneration Committee.

The accrual of the annual variable component is, as a rule, correlated to the achievement of economic or financial objectives (e.g. EBIT and NFP) and 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 Resources and Administration, Finance and Auditing departments.

The structure of the MBOs is the same for all Group participants, except for resources of the subsidiaries Prelios SGR S.p.A. and Prelios Credit Servicing S.p.A.. These resources may potentially participate in an MBO plan developed ad hoc 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/salary. In particular:

- for Executive Directors, the bonus shall not exceed 1.5 times the annual gross remuneration/salary for one year (limit of 1 times the target);
- for Key Managers, the bonus may not exceed 60% of fixed annual gross remuneration for one year.

For Executive Directors and Key Managers, 25% of the MBO accrued will be deferred to the maturity of the LTI Plan, and will also be recognised depending on the results achieved in the reference period.

For the Head of Internal Audit, although he or she is the beneficiary of annual incentives, the above mechanisms shall not apply, in as far as they correlate the bonus to economic and financial parameters of the Group. The potential bonuses for this individual shall be defined in accordance with his or her assigned duties and, therefore, they shall be associated with indicators that are qualitative in nature and in any case specific for the function.

Taking into consideration the current development stage that the Company is going through, finalisation and consequent allocation of the MBO for 2015 – following evaluation and approval by the competent corporate bodies and in conformity with the present Policy – will also be evaluated in terms of the scope of application and taking into account the specific situation and related prospects, following the approval of the 2013 Financial Statements, by the Shareholders' Meeting and after the definition and consolidation of the Company's new Business Plan, depending on the targets identified and aimed at supporting the Group's business model.

9. Multi-annual Variable Component (LTI)

With a view to creating value in the medium to long term, the Group wishes to evaluate the adoption of a multi-annual incentive system, with regard to the fact that this system (LTI Plan) will be the new Business Plan of the Company referred to.

In general, potential beneficiaries of the new LTI plan, in addition to Executive Directors (with the exclusion of the Chairman), and Key Managers, can be the Managers deemed significant for the achievement of the Group's objectives.

LTI objectives for Executive Directors to which specific managerial powers of attorney are assigned as well as the related criteria and guidelines for Key Managers, are established by the Board of Directors on the proposal of the Remuneration Committee. The LTI targets of Managers and Executives are defined by the Chief Executive Officer with the support of the Human Resources and Administration, Finance and Auditing departments.

The structure of the LTI Plan is the same for all Group participants, with the exception of resources of the subsidiaries Prelios SGR S.p.A. and Prelios Credit Servicing S.p.A.. These resources may potentially participate in an LTI plan developed ad hoc 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/salary. In particular:

- for Executive Directors, the bonus shall not exceed 3.75 times the annual gross remuneration/salary for one year (limit of 2.5 times the target);
- for Key Managers and managers deemed significant for the achievement of the Group's objectives, the bonus may not exceed 2.25 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 and 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.

In the case of particularly significant performance, correlated to the creation of value for the Company in the long term also with reference to the performance of Prelios stock, the above-mentioned limits can be exceeded, through adequate mechanisms that guarantee the consistency of the remuneration system and following evaluation and approval by all competent corporate bodies.

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 or she may retain the share of the bonus that may have been accrued and paid out early.

Taking into account the distinct development phase which the Company is going through, the finalisation and award of the LTI Plan will be subject to: prior evaluation and approval by the competent corporate bodies in accordance with the current Policy; evaluation of its scope in the context of the existing situation and outlook; evaluation in the light of updates to the Business Plan, or taking into account any new Company Business Plan; application of the Business Plan goals and business model also taking into account previous activities undertaken.

10. Other stipulations related to remuneration

10.1 Indemnity in the event of resignation, dismissal or termination of employment

For Key Managers, in the event of the termination of employment 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 Executive Directors, entrusted with specific powers and not bound by managerial employment contracts, the 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 enter into agreements with Directors, Key Managers and, more generally, with Managers, pre-emptively regulating any early termination of 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.

At the date of the Report there are existing agreements in the case of the early termination of employment of the Deputy-Chairman Massimo Caputi and the Chief Executive Officer Sergio Iasi; for details refer to paragraphs 13.2 and 13.3, respectively, of this Report.

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.

11. Changes in the Policy compared with the previous year

There are no material amendments to the Policy compared with those approved in the previous financial year.

* * *

The following table summarises the information required by Schedule 7-bis – Section I – Annex 3A of the Issuers' Regulations and the Remuneration Report.

THE FOLLOWING TABLE SUMMARISES THE INFORMATION REQUIRED BY SCHEDULE 7-BIS – SECTION I – ANNEX 3A OF THE ISSUERS' REGULATIONS AND THE REMUNERATION REPORT.

Elements indicated in Schedule 7-bis of Annex 3A of the Issuers' Regulations	*References are to the paragraph structure of the 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 Policy.	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	Paragraphs 8 and 9.

components and information on the connection between the change in results and the change in remuneration.	
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.	Paragraphs 8 and 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.	Paragraph 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 and other Key Managers.

This section outlines (i) the names of the members of the administrative and auditing bodies and Key Managers (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 in the previous year;
b) compensation paid in financial year 2013 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 2014, as members of the administrative and auditing bodies or as Key Managers.
During 2014, no Key Manager received higher total compensation than the highest total compensation received by Directors or statutory auditors.
The Company has not appointed General Managers.

A) Part One

12 Compensation of the members of the administrative and auditing bodies in office.

12.1 The Board of Directors in office.

With regard to the remuneration of Directors, the information already summarised in paragraph 5 of this Report is provided below.

Members of the Board of Directors can be distinguished between:

- Executive Directors, who may be assigned specific managerial powers;
- Non-Executive Directors.

As at December 31, 2014[5], they are:

- Executive Directors, the Chairman of the Board of Directors Giorgio Luca Bruno, the Deputy-Chairman Massimo Caputi 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 assigned any specific managerial powers[6] and is classed as a Non-Executive Director[7];
- Non-Executive Directors, Directors Marina Brogi, Claudia Bugno, Francesco Umile Chiappetta, Rosa Cipriotti, Carlo Emilio Croce, Moroello Diaz della Vittoria Pallavicini, Andrea

[5] *On May 8, 2013, the Ordinary Shareholders' Meeting appointed the Board of Directors, determining that their number should be 15, and stipulating that their mandates should expire when the December 31, 2015 financial statements are approved. At the end of the Meeting, the Board of Directors appointed the corporate officers and the Board sub committees.*

[6] *It should also be noted that, for internal purposes when dealing with the Board of Directors, for certain defined events and when specified thresholds are met, the Chairman must authorise jointly with the Deputy-Chairman or the Chief Executive Officer with regard to the powers vested in them.*

[7] *In the light of the role which the Chief Corporate Development & Diversified Businesses Officer holds in Pirelli & C. S.p.A., (which is a shareholder in the Company), as well as being a member of the Board of Directors of Coinv S.p.A. (which is also a shareholder in the Company), and other posts in companies which directly or indirectly control Coinv S.p.A.*

Mangoni, Davide Mereghetti, Alessandra Patera, Anna Chiara Svelto , Massimo Tezzon and Giovanni Jody Vender.

In accordance with article 2364, paragraph 1 of the Italian Civil Code, when it appointed the Board of Directors, the Shareholders' Meeting of May 8, 2013 set out - the total annual remuneration for the Directors, to be allocated by the Board of Directors.

More specifically, the Shareholders’ Meeting had approved total annual gross compensation of Euro 650,000.00; following examination and evaluation by the Remuneration Committee, the Board of Directors then allocated said compensation as follows:

- Euro 30,000.00 per annum for each member of the Board of Directors;

- Euro 20,000.00 per annum for each Director who is a member of the Internal Control, Risk and Corporate Governance Committee;

- Euro 15,000.00 per annum for each Director who is a member of the Remuneration Committee;

In line with best practice, there are no provisions for a variable component of remuneration for Non-Executive Directors.

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 Euro 15,000.00 was then assigned to the Director who is a member of the Supervisory Board pursuant to Legislative Decree 231/2001.

Directors shall also be entitled to the reimbursement of costs incurred for reasons connected with their office.

In line with market best practice, a D&O (Directors & Officers) Liability policy has been authorised with the purpose of covering the third party liability of company bodies. Such cover has been extended to managers with strategic responsibilities and in general to managers and executives when discharging their responsibilities

The purpose of the insurance coverage is to protect the Group from expenses arising from any indemnification connected with third-party claims, and is in line with the provisions of the National Collective Employment Agreement in force (Managers of companies producing goods and services) and with agency rules, excluding cases of negligence and wilful misconduct.

*

In view of the above, for financial year 2014, Non-Executive Directors currently in office received the following compensation calculated according to their position:

- Marina Brogi received gross fixed emoluments of Euro 30,000.00 for the office of Director and Euro 20,000.00 as a member of the Internal Control, Risk and Corporate Governance Committee;

- Claudia Bugno received gross fixed emoluments of Euro 30,000.00 for the office of Director;

- Mirja Cartia d'Asero received gross fixed emoluments of Euro 15,916.67 for the office of Director and Euro 8,387.10 as a member of the Internal Control, Risk and Corporate Governance Committee;

- Francesco Chiappetta received gross fixed emoluments of Euro 30,000.00 for the office of Director;

- Rosa Cipriotti received gross fixed emoluments of Euro 30,000.00 for the office of Director and Euro 15,000.00 as a member of the Remuneration Committee;

- Carlo Emilio Croce received gross fixed emoluments of Euro 30,000.00 for the office of Director and Euro 15,000.00 as a member of the Remuneration Committee;

- Moroello Diaz della Vittoria Pallavicini received gross fixed emoluments of Euro 30,000.00 for the office of Director;

- Andrea Mangoni received gross fixed emoluments of Euro 30,000.00 for the office of Director and Euro 20,000.00 as a member of the Internal Control, Risk and Corporate Governance Committee;

- Davide Mereghetti received gross fixed emoluments of Euro 30,000.00 for the office of Director and Euro 15,000.00 as a member of the Remuneration Committee; these amounts are paid directly to UniCredit S.p.A;

- Alessandra Patera received gross fixed emoluments of Euro 30,000.00 for the office of Director;

- Massimo Tezzon received gross fixed emoluments of Euro 30,000.00 for the office of Director and Euro 20,000.00 as a member of the Internal Control, Risk and Corporate Governance Committee and Euro 15,000.00 as a member of the Supervisory Board pursuant to Legislative Decree 231/2001.

- Giovanni Jody Vender received gross fixed emoluments of Euro 30,000.00 for the office of Director and Euro 15,000.00 as a member of the Remuneration Committee.

The compensation paid, for each of the above individual items, is consistent with the Policy approved in the previous year.
The compensation received by Executive Directors currently in office is described in paragraph 13 below.

12.2 The Board of Statutory Auditors in office.

When appointing the Board of Statutory Auditors, the Shareholders' Meeting of May 8, 2013 defined a fixed gross annual fee of Euro 37,000.00 for each of the standing members Marco de Ruvo and Michela Zeme as well as a fixed gross annual compensation of Euro 55,000.00 for the Chairman of the Board of Statutory Auditors Enrico Laghi.
Fixed annual gross compensation of Euro 15,000.00 was also assigned to Standing Auditor Michela Zeme, who is a member of the Supervisory Board pursuant to Legislative Decree 231/2001.

Auditors shall also be entitled to the reimbursement of costs incurred for reasons connected with their office.

In line with market best practice, a D&O (Directors & Officers) Liability policy has been authorised with the purpose of covering the third party liability of company bodies. Such cover has been extended to managers with strategic responsibilities and in general to managers and executives when discharging their responsibilities The purpose of the insurance coverage is to protect the Group from expenses arising from any indemnification connected with third-party claims, and is in line with the provisions of the National Collective Employment Agreement in force (Managers of companies producing goods and services) and with agency rules, excluding cases of negligence and wilful misconduct.

Please note that no standing auditor on the Board of Statutory Auditors in office has received – with reference to 2014 – offices in subsidiaries or associates of Prelios S.p.A..
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, 2015.

*

In view of the above, for financial year 2014, members of the Board of Statutory Auditors currently in office received the following compensation calculated according to their position:

- Enrico Laghi received gross fixed emoluments of Euro 55,000.00 for the office of Chairman of the Board of Statutory Auditors;

- Marco de Ruvo received gross fixed emoluments of Euro 37,000.00 for the office of Standing Auditor;

- Michela Zeme received gross fixed emoluments of Euro 37,000.00 for the office of Standing Auditor and Euro 15,000.00 as a member of the Supervisory Board pursuant to Legislative Decree 231/2001.

13. Remuneration of Executive Directors in office.

Following examination and evaluation by the Remuneration Committee and after the opinion given by the Statutory Board of Auditors, the Board of Directors has determined the remuneration structure for the Executive Directors.

13.1 The Chairman of the Board of Directors

In line with the Policy approved in the previous year, remuneration of the Chairman of the Board of Directors, Giorgio Luca Bruno (Non-Executive Director), consists solely of a fixed gross annual component, equal to: (i) Euro 30,000.00 for the office of Director and (ii) Euro 250,000.00 for the office of Chairman, without any variable components.
For financial year 2014, the Chairman received gross annual fixed emoluments of Euro 280,000.00, of which Euro 30,000.00 was for the office of Director and Euro 250,000.00 was for the office of Chairman.

There are no specific agreements establishing indemnity in the event of the early termination of employment, 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 employment.

The compensation paid, for each of the above individual items, is consistent with the Policy approved in the previous year.

13.2 The Deputy-Chairman of the Board of Directors

In line with the Policy approved in the previous year, the remuneration of the Deputy-Chairman of the Board of Directors, Massimo Caputo, includes:

- a fixed gross annual component equal to: (i) Euro 30,000.00 for the office of Director; (ii) Euro 600,000.00 for the office of Deputy-Chairman;
- an annual variable component bonus that can be achieved if certain predefined company objectives are achieved (MBO) and, where applicable, a medium-long term component (LTI);
- *benefits.*

For 2014, the Deputy-Chairman Massimo Caputi received a fixed gross annual component equal to: (i) Euro 30,000.00 for the office of Director; and (ii) Euro 600,000.00 for the office of Deputy-Chairman.

In addition, the Deputy-Chairman has accrued gross variable annual bonus of Euro 360,00.00, based on reaching a proportion of the following targets set in line with the 2014-2016 Business Plan, and based on the relative weightings which were assigned based on the responsibilities and powers vested in him. Said weightings were set out by the Board of Directors following unanimous prior approval by the Remuneration Committee and having consulted the opinion of the Board of Statutory Auditors:

Target	Relative weighting
1. Property disposals	20%
2. Net Financial Position	20%
3. Profitability of Service Platform	10%
4. Turnover of Service Platform	20%
5. New assets under management	30%

Following unanimous prior opinions from the Remuneration Committee and the Board of Statutory Auditors, the Board of Directors therefore considered the following:

- full delivery of the targets relating to (i) Net Financial Position; (ii) Profitability of Service Platform; (iii) Turnover of Service Platform;
- 50% delivery of the total target on Property Disposals;
- non delivery of the assets under management target.

Furthermore, the Board of Directors took account of: (i) the fact that the value of the incentive is lower than 100% of the fixed annual remuneration for the Deputy-Chairman; and (ii) the proportional calculation of the bonus based on the respective weightings for the achievement of the targets. The accrued bonus has been awarded taking into account the increase in EBIT compared to the 2014-2016 Business Plan targets.

Furthermore, it is disclosed that Massimo Caputi is entitled to the following additional benefits:
- accident insurance policy for any injuries suffered in the performance of his duties and non-occupational injuries with premiums paid by the Company; the premium of Euro 4,559.21 shall be charged to the Company for social security contributions and tax purposes;
- insurance policy for permanent disability and death due to illness, and healthcare and temporary life insurance for Euro 22,620.00;
- Insurance policy covering D&O Liability;
- monthly reimbursement of expenses related to accommodation in Milan (hotel or guest house for a maximum amount of Euro 50,000.00 per year) and expenses incurred in the performance of the office equal to Euro 49,166.72 in 2014;
- Company car in accordance with Company policy for an agreed value equal to Euro 3,962.64 and a car with a driver shared with the Chief Executive Officer;
- usual work tools for the office, in accordance with Company practices and policies.

In the case of the early termination of employment, the Deputy-Chairman Massimo Caputi will also receive:

- in the case of the early termination of office on the initiative of the Company (except in cases of termination for just cause governed by law) or resignation for just cause or non-renewal at the early expiry of the office, a gross all-inclusive allowance equal to the greater amount between: (i) annual fixed compensation and annual variable compensation (the average of the MBOs for the last three-year period or the shorter period applicable) due until the end of the office; (ii) two annuities of the fixed and variable compensation (the average of the MBOs for the last three-year period or the shorter period applicable);
- if the office is not renewed at the end of the first three-year mandate, a gross all-inclusive allowance equal to two annuities of the fixed and variable compensation (the average of the MBOs in the last three-year period or the shorter period applicable).

There are no specific agreements that establish 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 employment.

Lastly, please note that the remuneration structure of the Deputy-Chairman:

a) conforms to the provisions in the Remuneration Policy adopted by the Company, which the Shareholders' Meeting on June 19, 2013 voted in favour of;
b) is in line with the market benchmark for similar positions, as determined on the basis of the analyses and evaluations conducted by Hay Group, a company specialised in compensation.

13.3 Chief Executive Officer

In line with the Policy approved in the previous year, the remuneration of the Chief Executive Officer, Sergio Iasi, includes:
- a fixed gross annual component equal to: (i) Euro 30,000.00 for the office of Director; (ii) Euro 650,000.00 for the office of Chief Executive Officer;
- an annual variable component bonus that can be achieved if certain predefined company objectives are achieved (MBO) and, where applicable, a medium-long term component (LTI);
- *benefits.*

For 2014, the Chief Executive Officer received a fixed gross annual component equal to: (i) Euro 30,000.00 for the office of Director; (ii) Euro 650,000.00 for the office of Chief Executive Officer;
In addition, the Chief Executive Officer has accrued gross variable annual compensation of Euro 487,500.00, based on reaching a proportion of the following targets set in line with the 2014-2016 Business Plan, and based on the relative weightings which were assigned based on the

responsibilities and powers vested in him. Said weightings were set out by the Board of Directors following unanimous prior approval by the Remuneration Committee and having consulted the opinion of the Board of Statutory Auditors:

Target	Relative weighting
1. Property disposals	30%
2. Net Financial Position	30%
3. Profitability of Service Platform	20%
4. Turnover of Service Platform	10%
5. New assets under management	10%

Following unanimous prior opinions from the Remuneration Committee and the Board of Statutory Auditors, the Board of Directors therefore considered the following:

- full delivery of the targets relating to (i) Net Financial Position; (ii) Profitability of Service Platform; (iii) Turnover of Service Platform;
- 50% delivery of the total target on Property Disposals;
- non delivery of the assets under management target.

Furthermore, the Board of Directors took account of: (i) the fact that the value of the incentive is lower than 100% of the fixed annual remuneration for the Chief Executive Officer; and (ii) the proportional calculation of the bonus based on the respective weightings for the achievement of the targets. The accrued bonus has been awarded taking into account the increase in EBIT compared to the 2014-2016 Business Plan targets.

Furthermore, it is disclosed that Sergio Iasi is entitled to the following additional benefits:
- accident insurance policy for any injuries suffered in the performance of his duties and non-occupational injuries with premiums paid by the Company; the premium of Euro 4,952.05 shall be charged to the Company for social security contributions and tax purposes;
- insurance policy for permanent disability and death due to illness, and healthcare and temporary life insurance for Euro 17,960.00;
- Insurance policy covering D&O Liability;
- company car in accordance with Company policy for an agreed value equal to Euro 4,151.76 and car with a driver shared with the Deputy-Chairman;
- usual work tools for the office, in accordance with Company practices and policies.

In the case of early termination of employment, the Chief Executive Officer Sergio Iasi will also receive:

- in the case of the early termination of office on the initiative of the Company (except in cases of termination for just cause governed by law) or resignation for just cause or non-renewal at the early expiry of the office, a gross all-inclusive allowance equal to the greater amount

between: (i) annual fixed compensation and annual variable compensation (the average of the MBOs for the last three-year period or the shorter period applicable) due until the end of the office; (ii) two annuities of the fixed and variable compensation (the average of the MBOs for the last three-year period or the shorter period applicable);
– if the office is not renewed at the end of the first three-year mandate, a gross all-inclusive allowance equal to two annuities of the fixed and variable compensation (the average of the MBOs in the last three-year period or the shorter period applicable).

There are no specific agreements that establish 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 employment.

Lastly, please note that the remuneration structure of the Chief Executive Officer:

a) conforms to the provisions in the Remuneration Policy adopted by the Company, which the Shareholders' Meeting on June 19, 2013 voted in favour of;
b) is in line with the market benchmark for similar positions, as determined on the basis of the analyses and evaluations conducted by Hay Group, a company specialised in compensation.

14. Remuneration of other Key Managers.

As at December 31, 2014, Marco Andreasi (Chief Financial Officer) is a "Key Manager", as the Manager Responsible for Corporate Financial Reporting.

In line with the Policy, the remuneration package for Marco Andreasi includes:

- a fixed gross annual component of Euro 300,000.00;
- an annual variable component bonus that can be achieved if certain predefined Company objectives are achieved MBO);
- a medium-/long-term variable component (LTI);
- benefits.

In 2014, the total compensation of Marco Andreasi amounted to:

- Euro 256,213.00 by way of gross remuneration;
- Euro 132,380.00 by way of gross variable annual compensation accrued in accordance with the MBO incentive arrangement guidelines in place for Prelios managers;
- Agreed value of Euro 6,407.94 by way of non-work related insurance policy and healthcare cover.

Moreover, Marco Andreasi is entitled to the following additional benefits:
- healthcare (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 policy, for an agreed value equal to Euro 2,137.85.

The compensation paid, for each of the above individual items, is consistent with the Policy approved in the previous year.

15. Remuneration of parties who served as members of the administrative and auditing bodies or Key Managers for a part of 2014.

During the 2014 financial year, compensation was paid to Anna Chiara Svelto (formerly Non-Executive Director and member of the Internal Control, Risk and Corporate Governance Committee) following her resignation on February 18, 2014.

Furthermore, Elena Capra (formerly Chief Financial Officer and Manager Responsible for Corporate Financial Reporting) was identified as a "Key Manager" by the Board of Directors under her replacement by Marco Andreasi on February 24, 2014. On June 30, 2014, Elena Capra stopped working for the Company.

The Company has not appointed General Managers.

15.1 Non-Executive Directors

As mentioned above, on appointing the Board of Directors, the Shareholders' Meeting of May 8, 2013 stipulated that it should have total gross annual remuneration of 650,000.00, which, following prior examination and evaluation by the Remuneration Committee, it split into Euro 30,000.00 per Director, Euro 15,000.00 for Directors sitting on the Remuneration Committee, and Euro 20,000.00 for Directors sitting on the Internal Control, Risk and Corporate Governance Committee.

In line with the remuneration Policy described above, the remuneration of Non-Executive Directors consists only of a gross annual fixed component, without any variable component.

Until her resignation, Anna Chiara Svelto received gross fixed emoluments for the 2014 financial year, of Euro 4,107.14 for the office of Director and Euro 2,738.10 as a member of the Internal Control, Risk and Corporate Governance Committee;

The compensation paid, for each of the above individual items, is consistent with the Policy approved in the previous year.

15.2 Key Manager – Chief Financial Officer and Manager Responsible for Corporate Financial Reporting

Until her resignation, which became effective on June 30, 2014, Elena Capra's (formerly Chief Financial Officer and Manager Responsible for Corporate Financial Reporting) remuneration consisted of the following:
- a fixed gross annual component of Euro 200,000.00;
- an annual variable component bonus that can be achieved if certain predefined Company objectives are achieved MBO);
- a medium-/long-term variable component (LTI);
- benefits.

In 2014, the total compensation of Elena Capra amounted to:

- Euro 100,000.03 by way of gross compensation up to the date when she stopped working for the Company, Euro 2,662.72 in accrued holiday pay and Euro 255.00 in travel expenses;
- Agreed value of Euro 3,404.16 by way of non-work related insurance policy and healthcare cover.
- Euro 31,226.05 by way of severance indemnity and Euro 402,000.00 by way of voluntary redundancy.

Moreover, Elena Capra is entitled to the following additional benefits:

- healthcare (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 policy, for an agreed value equal to Euro 1,842.30.

The compensation paid, for each of the above individual items, is consistent with the Policy approved in the previous year.

B) Part Two

TABLE: COMPENSATION OF THE MEMBERS OF THE ADMINISTRATIVE AND AUDITING BODIES AND OTHER KEY MANAGERS.

Name and surname	Position	Period of office	Termination of office	Fixed remuneration	Remuneration for committee membership	Non-equity remuneration		Non-monetary remuneration	Other remuneration	Total	Fair Value of equity remuneration	Severance indemnity
						Bonus and other incentives	Profit share					
Giorgio Luca Bruno	Chairman	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				280,000 (1)	-	-	-	-	-	280,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**280,000**	-	-	-	-	-	**280,000**	-	-
Massimo Caputi	Deputy-Chairman	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				630,000 (2)	-	360,000 (3)	-	80,309 (4)	-	1,070,309	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**630,000**	-	**360,000**	-	**80,309**	-	**1,070,309**	-	-
Sergio Iasi	Chief Executive Officer	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				680,000 (5)	-	487,500 (6)	-	27,064 (7)	-	1,194,564	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**680,000**	-	**487,500**	-	**27,064**	-	**1,194,564**	-	-
Marina Brogi	(Independent) Director	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				30,000 (8)	20,000 (9)	-	-	-	-	50,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**30,000**	**20,000**	-	-	-	-	**50,000**	-	-
Claudia Bugno	(Independent) Director	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				30,000 (8)	-	-	-	-	-	30,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**30,000**	-	-	-	-	-	**30,000**	-	-
Mirja Cartia D'Asero (a)	(Independent) Director	from 06.19.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				15,917 (10)	8,387 (11)	-	-	-	-	24,304	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**15,917**	**8,387**	-	-	-	-	**24,304**	-	-
Francesco Umile Chiappetta	Director	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				30,000 (8)	-	-	-	-	-	30,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**30,000**	-	-	-	-	-	**30,000**	-	-
Rosa Cipriotti	(Independent) Director	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				30,000 (8)	15,000 (12)	-	-	-	-	45,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**30,000**	**15,000**	-	-	-	-	**45,000**	-	-
Carlo Emilio Croce	(Independent) Director	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				30,000 (8)	15,000 (12)	-	-	-	-	45,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**30,000**	**15,000**	-	-	-	-	**45,000**	-	-
Moroello Diaz della Vittoria Pallavicini	Director	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial									
Remuneration from Company producing financial statements				30,000 (8)	-	-	-	-	-	30,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**30,000**	-	-	-	-	-	**30,000**	-	-
Andrea Mangoni	(Independent) Director	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				30,000 (8)	20,000 (9)	-	-	-	-	50,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**30,000**	**20,000**	-	-	-	-	**50,000**	-	-
Davide Mereghetti	Director	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial									
Remuneration from Company producing financial statements				30,000 (8)	15,000 (12)	-	-	-	-	45,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**30,000**	**15,000**	-	-	-	-	**45,000**	-	-
Alessandra Patera	Director	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				30,000 (8)	-	-	-	-	-	30,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**30,000**	-	-	-	-	-	**30,000**	-	-
Anna Chiara Svelto(*)	Director	from 01.01.14 to 02.18.14										
Remuneration from Company producing financial statements				4,107 (13)	2,738 (14)	-	-	-	-	6,845	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**4,107**	**2,738**	-	-	-	-	**6,845**	-	-
Massimo Tezzon	(Independent) Director	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial									
Remuneration from Company producing financial statements				30,000 (8)	20,000 (9)	-	-	-	15,000 (15)	65,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**30,000**	**20,000**	-	-	-	**15,000**	**65,000**	-	-
Giovanni Jody Vender	(Independent) Director	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial									
Remuneration from Company producing financial statements				30,000 (8)	15,000 (12)	-	-	-	-	45,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**30,000**	**15,000**	-	-	-	-	**45,000**	-	-
Enrico Laghi	Chairman of the Board of Statutory Auditors	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				55,000 (16)	-	-	-	-	-	55,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**55,000**	-	-	-	-	-	**55,000**	-	-
Marco De Ruvo	Standing Statutory Auditor	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				37,000 (17)	-	-	-	-	-	37,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**37,000**	-	-	-	-	-	**37,000**	-	-
Michela Zeme	Standing Statutory Auditor	from 01.01.14 to 12.31.14	Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				37,000 (17)	-	-	-	-	15,000 (15)	52,000	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**37,000**	-	-	-	-	**15,000**	**52,000**	-	-
Key Managers (c)	Key Managers		Approval of 12.31.15 financial statements									
Remuneration from Company producing financial statements				359,131 (18)	-	132,380 (19)	-	13,792 (20)	-	505,303	-	433,226 (21)
Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
Total				**359,131**	-	**132,380**	-	**13,792**	-	**505,303**	-	**433,226**

(a) Appointed Director on June 19, 2014 and member of the Internal Control, Risk and Corporate Governance Committee since July 30, 2014.
(b) Resigned as Director and member of the Internal Control, Risk and Corporate Governance Committee on February 18, 2014.
(c) On February 24, 2014, Marco Andreasi was appointed Chief Financial Officer and Manager Responsible for Corporate Financial Reporting to replace Elena Capra.

(1) Includes Euro 250,000 by way of remuneration as Chairman, and Euro 30,000 by way of remuneration as member of the Board of Directors.
(2) Includes Euro 600,000 by way of remuneration as Deputy-Chairman, and Euro 30,000 by way of remuneration as member of the Board of Directors.
(3) Includes MBO of Euro 360,000.
(4) Includes insurance policies, (including healthcare) of Euro 27,179, expenses of Euro 49,167 and company car for an agreed value of Euro 3,963.
(5) Includes Euro 650,000 by way of remuneration as Chief Executive Officer and Euro 30,000 by way of remuneration as member of the Board of Directors.
(6) Includes MBO of Euro 487,500.
(7) Includes insurance policies, (including healthcare) of Euro 22,912, and company car for an agreed value of Euro 4,152.
(8) Includes Euro 30,000 by way of remuneration as member of the Board of Directors.
(9) Includes Euro 20,000 by way of remuneration as member of the Internal Control, Risk and Corporate Governance Committee.
(10) Includes Euro 15,917 by way of remuneration as member of the Board of Directors.
(11) Includes Euro 8,387 by way of remuneration as member of the Internal Control, Risk and Corporate Governance Committee.
(12) Includes Euro 15,000 by way of remuneration as member of the Board of Directors.
(13) Includes Euro 4,107 by way of remuneration as member of the Board of Directors.
(14) Includes Euro 2,738 by way of remuneration as member of the Internal Control, Risk and Corporate Governance Committee.
(15) Includes Euro 15,000 by way of remuneration as member of the Supervisory Board.
(16) Includes Euro 55,000 by way of remuneration as Chairman of the Board of Statutory Auditors.
(17) Includes Euro 37,000 by way of remuneration as Standing Statutory Auditor.
(18) Includes: (i) gross annual remuneration for those employees who held the office of Chief Financial Officer and Manager Responsible for Corporate Financial Reporting during the financial year. (ii) compensation for unused holiday entitlement of Euro 2,663 and (iii) travel expenses of Euro 255.
(19) Includes MBO of Euro 132,380.
(20) Includes healthcare insurance policies, for an agreed value of Euro 9,812, and company car for an agreed value of Euro 3,980.
(21) Includes Euro 402,000 by way of voluntary redundancy and Euro 31,226 by way of severance indemnity.

TABLE: MONETARY INCENTIVE PLANS FOR MEMBERS OF THE ADMINISTRATIVE BODY, GENERAL MANAGERS AND OTHER KEY MANAGERS.

Name and surname	Position	Plan	Bonus for the year			Bonus for prior years			Other bonuses
			(A) Payable/Paid	(B) Deferred	(C) Deferral period	(A) No longer payable	(B) Payable/Paid	(C) Still deferred	
Massimo Caputi	Deputy-Chairman								
Remuneration from Company producing financial statements		Plan approved by the Board of Directors on 07.30.14	360,000	-	-	-	-	-	-
Remuneration from subsidiaries and associates			-	-	-	-	-	-	-
Total			**360,000**	**-**		**-**	**-**	**-**	**-**
Sergio Iasi	Chief Executive Officer								
Remuneration from Company producing financial statements		Plan approved by the Board of Directors on 07.30.14	487,500	-	-	-	-	-	-
Remuneration from subsidiaries and associates			-	-	-	-	-	-	-
Total			**487,500**	**-**		**-**	**-**	**-**	**-**
Key Managers	Key Managers								
Remuneration from Company producing financial statements		Plan approved by the Board of Directors on 07.30.14	132,380	-	-	-	-	-	-
Remuneration from subsidiaries and associates				-	-	-	-	-	-
Total			**132,380**	**-**		**-**	**-**	**-**	**-**

TABLE: COMPENSATION OF THE MEMBERS OF THE ADMINISTRATIVE AND AUDITING BODIES.

Name and surname	Investee company	Number of shares owned at 12.31.2013 (or at the date of appointment)	Number of shares acquired during 2014	Number of shares sold during 2014	Number of shares owned as at 31.12.2014 (or at termination if previous)
BOARD OF DIRECTORS IN OFFICE					
• Giorgio Luca Bruno - Chairman	Prelios S.p.A.	0	0	0	0
• Massimo Caputi - Deputy-Chairman	Prelios S.p.A.	0	0	0	0
• Sergio Iasi - Chief Executive Officer (CEO)	Prelios S.p.A.	0	0	0	0
• Marina Brogi	Prelios S.p.A.	0	0	0	0
• Claudia Bugno	Prelios S.p.A.	0	0	0	0
• Mirja Cartia d'Asero ([1])	Prelios S.p.A.	0	0	0	0
• Francesco Chiappetta	Prelios S.p.A.	13,365	0	0	13,365
• Rosa Cipriotti	Prelios S.p.A.	0	0	0	0
• Carlo Emilio Croce	Prelios S.p.A.	10,365	0	0	10,365
• Moroello Diaz della Vittoria Pallavicini	Prelios S.p.A.	0	0	0	0
• Andrea Mangoni	Prelios S.p.A.	0	0	0	0
• Davide Mereghetti	Prelios S.p.A.	0	0	0	0
• Alessandra Patera	Prelios S.p.A.	0	0	0	0
• Massimo Tezzon	Prelios S.p.A.	0	0	0	0
• Giovanni Jody Vender	Prelios S.p.A.	0	0	0	0
BOARD DIRECTORS WHO LEFT OFFICE DURING 2014					
• Anna Chiara Svelto ([2])	Prelios S.p.A.	0	0	0	0

STATUTORY BOARD OF AUDITORS IN OFFICE					
• Enrico Laghi – Chairman of the Board of Statutory Auditors	Prelios S.p.A.	0	0	0	0
• Marco de Ruvo - Standing Statutory Auditor	Prelios S.p.A.	0	0	0	0
• Michela Zeme, Standing Statutory Auditor	Prelios S.p.A	0	0	0	0
• Luca Aurelio Guarna – Alternate Auditor	Prelios S.p.A.	0	0	0	0
• Flavia Daunia Minutillo - Alternate Auditor	Prelios S.p.A.	0	0	0	0

([1]) *On June 19, 2014, the Ordinary Shareholders' Meeting, inter alia, appointed Mirja Cartia d'Asero as Director of the Company.*

([2]) *On February 18, 2014, Anna Chiara Svelto resigned as Director of the Company.*

TABLE: INVESTMENTS OF OTHER KEY MANAGERS

Number of Key Managers	**Investee company**	**Number of shares owned at 12.31.2013 (or at the date of appointment)**	**Number of shares acquired during 2014**	**Number of shares sold during 2014**	**Number of shares owned at 12.31.2014 (or at the date of termination if prior)**
2	Prelios S.p.A.	0	0	0	0

EXTRAORDINARY PART

Directors' Report pursuant to Article 125-ter of Legislative Decree No. 58 of February 24, 1998, Article 2446 of the Italian Civil Code and Article 74, paragraph 1 of the Consob Regulation adopted with Resolution No. 11971 of May 14, 1999, as amended.

* * * * *

Item 1)

Measures pursuant to Article 2446, paragraph 2 of the Italian Civil Code: reduction of share capital. Related and consequent resolutions (including amendment of Article 5 of the Articles of Association). Grant of powers.

Shareholders:

This report (the "**Report**") was prepared by the Directors of Prelios S.p.A. (**"Prelios**" or the "**Company**") pursuant to Article 2446 of the Italian Civil Code, as well as to Article 74, paragraph 1 of the Consob Regulation adopted with Resolution No. 11971 of May 14, 1999, as amended (the "**Issuers' Regulations**"), and in compliance with Figure 5 of Annex 3A of the Issuers' Regulations.

Notice is hereby given that a proposal is being made to the Prelios Shareholders' Meeting (the "Shareholders' Meeting") to reduce the Company share capital, pursuant to and in accordance with Article 2446, paragraph 2, Italian Civil Code, due to the amount of the loss registered at the end of the 2014 financial year, detailed as follows.

As useful background information, it is observed that on June 19, 2014, the Shareholders' Meeting:

- having taken note that the balance sheet and income statement at December 31, 2013 showed the subscribed and paid-in share capital of Euro 426,441,257.20 had diminished in value by over one third due to the loss for the year, thereby triggering the application of Article 2446 of the Italian Civil Code;
- having taken note of the Directors' Report prepared pursuant to Article 2446 of the Italian Civil Code and Article 74, paragraph 1 of the Consob Regulation adopted with Resolution No. 11971 of May 14, 1999, as amended;
- having taken note of the observations of the Board of Statutory Auditors,

had resolved not to adopt the measures pursuant to Article 2446 of the Italian Civil Code with reference to the content of the Company's balance sheet and income statement at December 31, 2013, and to postpone adoption (where required) to a date to be proposed by the Board of Directors, in accordance with paragraph 2 of said Article 2446 of the Italian Civil Code".

Therefore, the Report illustrates the balance sheet and income statement of Prelios at December 31, 2014, including the draft financial statements for 2014 (the "**Draft Financial Statements**") approved by the Board of Directors on March 10, 2015, to be submitted for approval by the Ordinary Shareholders' Meeting on June 24, 2015.

The Company balance sheet and income statement at December 31, 2014 show a loss for the year of Euro 74,129,720.08 which – when added to the "other reserves" having a pre-existing negative balance of Euro 5,570,314.65 and the loss for the previous financial year totalling Euro 299,772,019.32, and after deducting the additional available reserves, amounting to a total of

Euro 2,255,864.80 – have caused a negative amount totalling Euro 377,216,189.25, exceeding one third of the share capital, subscribed and paid-in for Euro 426,441,257.20, which confirms the case envisaged in Article 2446, paragraph 2, Italian Civil Code.

Together with the observations of the Board of Statutory Auditors on the measures proposed pursuant to Article 2446 of the Italian Civil Code, the Report is made available to the public, in accordance with the law, at the Company's registered office and at Borsa Italiana S.p.A., and is published on the internet: (i) *www.prelios.com*, *governance* section, and (ii) *www.1info.it*, Information Portal of the "Regulated Information Centralised Storage Mechanism ("Storage")" named 1Info of Computershare S.p.A., authorised by Consob pursuant to Article 113-*ter*, paragraph 4, letter b), of Legislative Decree 58 of February 24, 1998, as amended.

* *

1) <u>Balance Sheet and Income Statement at December 31, 2014</u>

The balance sheet and income statement of Prelios for the year at December 31, 2014 are shown as follows, and which trigger application of the provisions of Article 2446 Italian Civil Code.

As previously mentioned, these statements correspond to those of the Draft Financial Statements and satisfy the requirements imposed for the balance sheet and income statement pursuant to Article 2446 of the Italian Civil Code. Therefore, reference is made to the Draft Financial Statements themselves for more details.

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PRELIOS S.P.A.
BALANCE SHEET AT
DECEMBER 31, 2014
(in euro)

ASSETS	**12.31.2014**	**12.31.2013**
NON-CURRENT ASSETS		
Property, plant and equipment	602.263	689.959
Intangible assets	322.317	450.781
Investments in subsidiaries	114.620.555	91.250.811
Investments in associates and joint ventures	36.395.145	43.415.315
Other financial assets	5.583.969	12.256.503
Deferred tax assets	2.166.873	3.389.424
Other receivables	137.423.692	183.669.403
- of which with related parties	*137.423.692*	*183.669.403*
TOTAL NON-CURRENT ASSETS	**297.114.814**	**335.122.196**
CURRENT ASSETS		
Trade receivables	11.681.499	17.593.488
- of which with related parties	*10.418.227*	*16.250.824*
Other receivables	42.295.255	49.602.403
- of which with related parties	*40.044.805*	*39.556.161*
Cash and cash equivalents	31.297.821	69.007.906
Tax receivables	3.144.831	2.377.404
- of which with related parties	*2.858.867*	*489.466*
TOTAL CURRENT ASSETS	**88.419.406**	**138.581.201**
DISCONTINUED OPERATIONS	**32.564.000**	**26.049.597**
- of which with related parties	*30.364.000*	*18.800.000*
TOTAL ASSETS	**418.098.220**	**499.752.994**

EQUITY	**12.31.2014**	**12.31.2013**
EQUITY		
Share capital	426.432.317	189.887.983
Other reserves	(3.145.683)	(3.103.133)
Net (loss) carried forward	(299.772.019)	-
Net (loss) for the year	(74.129.720)	(299.772.019)
TOTAL EQUITY	**49.384.895**	**(112.987.169)**

LIABILITIES	**12.31.2014**	**12.31.2013**
NON-CURRENT LIABILITIES		
Bank borrowings and payables to other financial institutions	252.642.018	460.603.210
- of which with related parties	-	*149.876.327*
Other payables	520.589	912.092
Provisions for future risks and expenses	13.282.460	31.483.868
Employee benefit obligation	690.898	618.530
TOTAL NON-CURRENT LIABILITIES	**267.135.965**	**493.617.700**
CURRENT LIABILITIES		
Bank borrowings and payables to other financial institutions	72.510.341	62.945.842
- of which with related parties	*72.510.341*	*62.835.842*
Trade payables	13.142.003	20.021.726
- of which with related parties	*3.490.982*	*4.202.293*
Other payables	11.027.302	28.447.376
- of which with related parties	*5.721.659*	*13.351.783*
Provisions for future risks and expenses	1.395.833	4.628.927
Tax payables	3.501.881	3.078.592
- of which with related parties	*2.549.923*	*2.126.634*
TOTAL CURRENT LIABILITIES	**101.577.360**	**119.122.463**
TOTAL LIABILITIES	**368.713.325**	**612.740.163**
TOTAL LIABILITIES AND EQUITY	**418.098.220**	**499.752.994**

PRELIOS S.P.A.

INCOME STATEMENT FOR JANUARY 1, 2014 – DECEMBER 31, 2014

(in euro)

	01.01.2014 12.31.2014	01.01.2013 12.31.2013
Revenues from sales and services	3.504.095	8.017.291
Other income	11.012.839	5.014.779
TOTAL OPERATING REVENUES	**14.516.934**	**13.032.070**
- of which with related parties	*10.297.704*	*11.680.955*
of which non-recurring events	*1.814.256*	-
Raw and consumable materials used	(9.835)	(16.440)
Personnel costs	(7.969.008)	(8.417.527)
Depreciation, amortization and impairment	(255.726)	(503.075)
Other costs	(24.462.229)	(32.456.009)
TOTAL OPERATING COSTS	**(32.696.798)**	**(41.393.051)**
- of which with related parties	*(9.308.272)*	*(9.114.909)*
- of which non-recurring events	*(5.809.716)*	*(12.055.314)*
OPERATING RESULTS	**(18.179.864)**	**(28.360.981)**
Net income from equity investments, of which:	(49.458.922)	(174.191.464)
- dividends	15.934.241	53.100
- gains on investments	2.743.050	1.880.466
- losses on investments	(68.136.213)	(176.125.030)
- of which with related parties	*15.934.262*	*53.100*
- of which non-recurring events	*124.800*	*(11.000.000)*
Financial income	12.588.979	57.808.445
- of which with related parties	*12.036.080*	*17.044.153*
- of which non-recurring events	-	*39.861.576*
Financial expenses	(29.252.097)	(36.711.346)
- of which with related parties	*(1.202.601)*	*(5.111.991)*
RESULT BEFORE INCOME TAXES	**(84.301.904)**	**(181.455.346)**
Income taxes	536.405	(2.539.633)
- of which with related parties	*1.775.096*	*348.466*
NET (LOSS) FROM CONTINUING OPERATIONS	**(83.765.499)**	**(183.994.979)**
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**9.635.779**	**(115.777.040)**
- of which with related parties	*683.782*	*968.659*
NET (LOSS) FOR THE YEAR	**(74.129.720)**	**(299.772.019)**

2) Net financial position at december 31, 2014.

The table below shows the breakdown of the Company's short and medium-long term net financial debt, showing the asset and liability components separately, as at December 31, 2014 (as per the Draft Financial Statements)[8].

NET FINANCIAL POSITION

(thousands euro)

	12.31.2014	12.31.2013
CURRENT ASSETS		
Other receivables	**36.958**	**36.848**
- of which receivable from related parties	*36.958*	*36.848*
Financial receivables	36.958	36.848
- *subsidiaries*	*36.958*	*36.848*
Cash and cash equivalents	**31.298**	**69.008**
TOTAL CURRENT ASSETS - A	**68.256**	**105.856**
CURRENT LIABILITIES		
Bank borrowings and payables to other lenders	**(72.510)**	**(62.946)**
- of which payable to related parties	*(72.510)*	*(62.836)*
- subsidiaries	(66.182)	(56.509)
- joint ventures	(6.328)	(6.327)
- Bank borrowings	-	(110)
TOTAL CURRENT LIABILITIES - B	**(72.510)**	**(62.946)**
NON-CURRENT LIABILITIES		
Bank borrowings and payables to other lenders	**(252.642)**	**(460.603)**
- of which payable to related parties	-	*(149.876)*
- Convertible bond (*)	-	(235.902)
- Bank borrowings	(242.504)	(224.701)
- Other financial payables	(10.138)	-
TOTAL NON-CURRENT LIABILITIES - C	**(252.642)**	**(460.603)**
NET FINANCIAL POSITION EXCL. SHAREHOLDER LOANS GRANTED (**) D = (A+B+C)	**(256.896)**	**(417.693)**

(*) On April 14, 2014 the compulsory early repayment of the Convertible Bond was automatically and directly executed through the full conversion of the Convertible Bonds and, therefore, the capital increase for the exclusive service of the conversion was also automatically implemented through the issue of 229,757,292 ordinary shares and 93,390,705 class B shares.

(**) Pursuant to 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").

* *

3) Proposed measures to be taken to cover the losses.

The Board of Directors has taken note that, on the basis of the balance sheet and income statement at December 31, 2014, the separate financial statements of the Company at the same date show a loss of Euro 74,129,720.08 which – when added to the "other reserves" having a pre-existing negative balance of Euro 5,570,314.65 and the loss for the previous financial year totalling Euro 299,772,019.32, and after deducting the additional available reserves, amounting to a total of Euro 2,255,864.80 – have caused a negative amount totalling Euro 377,216,189.25, triggering application of the provisions of Article 2446, paragraph 2, Italian Civil Code.

The highlights of the foregoing information are illustrated in the following statement, which is also found in the Draft Financial Statements.

[8] *Moreover, reference is made to what the Company published on April 30, 2015 in reference to the figures updated at March 31, 2015, pursuant to Article 114, paragraph 5, of Legislative Decree 58 of February 24, 1998, as amended.*

	Amount	Possible use	Available portion	Summary of uses in the past three years (2012-2014)
Share capital [1]	426.432.317,20	-	-	415.704.266,00 [2-3]
Share premium reserve	-	-	-	104.649.637,13 [3]
Fair value reserve	-	-	-	15.615,60 [3]
Legal reserve	-	-	-	4.265.499,30 [3]
Reserve for negative goodwill	-	-	-	312.456,83 [3]
Equity-settled stock option reserve	-	-	-	5.155.717,94 [3]
Reserve for actuarial gains/(losses)	168.766,78	-	-	-
Reserve for tax on items credited/debited to equity	2.255.864,80	B)	2.255.864,80	1.596.210,13 [3]
Other reserves	(5.570.314,65)	-	-	(6.189.588,29) [3]
Losses carried forward	(299.772.019,32)	-	-	-
Loss for the year	(74.129.720,08)	-	-	-
Total	**49.384.894,73**		**2.255.864,80**	

Possible use:
A share capital increase
B to cover losses
C dividends

1 Net of 1,788 treasury shares equal to Euro 8,940.

2 In their meeting of 8 May 2013, the shareholders resolved to cover the 2012 loss (Euro 213,995,990.64) by decreasing share capital.

3 In their extraordinary meeting of 17 April 2012, the shareholders resolved to cover the loss of Euro 311,513,824 and the negative reserves (Euro 6,189,588.29) as follows:
- Euro 1,596,210.13, using the entire *"reserve for tax on items credited/debited to equity"*;
- Euro 5,155,717.94, using the entire *"equity-settled stock option reserve"*;
- Euro 312,456.83, using the entire *"reserve for negative goodwill"*;
- Euro 15,615.60, using the entire *"fair value reserve"*;
- Euro 4,265,499.30, using the entire *"legal reserve"*;
- Euro 104,649,637.13, using the entire *"share premium reserve"*;
- Euro 201,708,275.36, by decreasing *"share capital"*.

Therefore, since the conditions envisaged in Article 2446, paragraph 2, Italian Civil Code apply, the Board of Directors wishes to propose to the Extraordinary Shareholders' Meeting of Prelios that it cover the loss for the year, amounting to Euro 74,129,720.08, the loss for the previous year, amounting to Euro 299,772,019.32, and the "Other reserves" having a pre-existing negative balance of Euro 5,570,314.65 through:

- full use of the Available reserves, in the amount of Euro 2,255,864.80;
- reduction of the share capital by Euro 377,216,189.25, and consequently amending Article 5 of the Articles of Association, but without cancelling the shares, since they have no par value.

The share capital – which is consequently reduced from Euro 426,441,257.20 at par to Euro 49,225,067.95 at par – is still over the legal limit set for "società per azioni" (joint-stock companies) by Article 2327 Italian Civil Code.

If you agree with our proposal, we invite you to approve the following proposed resolution:

"The shareholders' meeting of Prelios S.p.A.,

- *having examined the balance sheet and income statement of Prelios S.p.A. at December 31, 2014, as per the Separate Financial Statements approved today by the Ordinary Shareholders' Meeting, which show an annual loss of Euro 74,129,720.08;*

- *considering that the aforementioned loss for the year – when added to the reserves having a pre-existing negative balance of Euro 5,570,314.65 and the loss for the previous financial year totalling Euro 299,772,019.32, and after deducting the additional available reserves,* *amounting to a total of Euro 2,255,864.80 – have caused a negative amount totalling Euro 377,216,189.25, exceeding one third of the share capital, subscribed and paid-in for Euro 426,441,257.20, which confirms the case envisaged in Article 2446, paragraph 2, Italian Civil Code.*

- *having examined the Directors' Report prepared pursuant to Article 2446 of the Italian Civil Code, Article 74, paragraph 1 of the Consob Regulation adopted with Resolution No. 11971 of May 14, 1999, as amended;*

- *having examined the observations of the Board of Statutory Auditors,*

RESOLVES

1) *to cover the entire loss for the year amounting to Euro 74,129,720.08, the loss for the previous year amounting to Euro 299,772,019.32, and the "other reserves" having a pre-existing negative balance of Euro 5,570,314.65, as reported in the Separate Financial Statements 2014, through:*
- *to use all of the Available reserves, in the amount of Euro 2,255,864.80;*
- *reduction of the share capital by Euro 377,216,189.25, without cancelling the shares, since they have no par value;*

2) *to amend Article 5 (share capital) of the Prelios S.p.A. Articles of Association, as follows:*

CURRENT TEXT	***PROPOSED TEXT***
SHARE CAPITAL AND SHARES	***SHARE CAPITAL AND SHARES***
Article 5	***Article 5***
***5.1** The subscribed and paid-in share capital is Euro 426,441,257.20 (four hundred twenty-six million four hundred forty-one thousand two hundred fifty-seven point twenty) divided into 506,953,179 (five hundred six million nine hundred fifty-three thousand one hundred seventy-nine) ordinary shares and 210,988,201 (two hundred ten million nine hundred eighty-eight thousand two hundred one) category B shares.*	***5.1** The subscribed and paid-in share capital is Euro 49,225,067.95 (forty-nine million two hundred twenty-five thousand sixty-seven point ninety-five) ~~426,441,257,20~~ divided into 506,953,179 (five hundred six million nine hundred fifty-three thousand one hundred seventy-nine) ordinary shares and 210,988,201 (two hundred ten million nine hundred eighty-eight thousand two hundred one) category B shares.*
***5.2** In the resolutions for paid increases in the share capital, the option may be excluded for an amount exceeding at most ten per cent of the pre-existing capital, on condition that the issue price corresponds to the market value of the shares and that this is confirmed in a specific report prepared by an external auditor or by an independent auditing firm.*	***UNCHANGED***

3) *grant to the Board of Directors – and on its behalf, to the Chairman, the Deputy Chairman and the Chief Executive Officer pro tempore in office, severally and separately, and with the right to designate agents with limited authority – full power and all rights as necessary so that this shareholders' meeting resolution may be implemented, including for example but not limited to full powers to execute all acts and/or formalities as necessary for them to be entered in the Companies Register, while accepting and making the formal and non-essential changes and additions thereto or deletions therefrom as might be requested by the delegated authorities, as well as updating the numerical amounts indicated in Article 5 of the Articles of Association resulting from the newly calculated amount of the share capital.*

* *

4) Measures that Prelios S.P.A. intends to take to revitalise operations and ensure it can continue as a going concern.

As described in detail in the Directors' Report on Operations, the Company has approved – at the Board of Directors meeting held on June 12, 2014 – the 2014-2016 Industrial Plan (hereinafter, the "**Plan**") prepared:

- on the basis of the 2014-2016 Guidelines (hereinafter, the "***Guidelines***") drawn up previously, on April 9, and including the effects of the financial commitment mitigation actions (as further developed and refined) and of the additional lines of action identified with the aim of reducing costs and growing the business to a greater degree than estimated in the previous Fenice Plan and the Guidelines themselves.

- on the basis of realistic assumptions and taking into account the difficulty of making predictions in the current financial environment, in which it is not possible to rule out future financial market crises or the worsening of the factors that led to the current deterioration of the general economic scenario and in the real estate market in particular.

The Plan has been developed on a stand-alone basis, not considering the effects resulting from the execution of any unusual corporate or commercial agreements, and has confirmed pursuit of the "pure management company" business model, in view of completing the repositioning of the Company within the three-year period so that it become a key asset manager for international and institutional investors. In this sense, it is expected that the Prelios Group focus on the business of providing property and financial services connected with the real estate sector (hereinafter, the "**Service Platform**") and consolidation on the market in the following two key areas:

(i) management, under Prelios SGR S.p.A., its asset manager, and Prelios Credit Servicing S.p.A., its non-performing loans ("NPL") portfolio manager, and

(ii) real estate services, under the Prelios Integrated Services hub, which offers property and technical services in Italy and Germany.

Following the gradual reduction of its dependence on the captive market due to the strategy of disposing of the co-investments, the Service Platform is to reposition itself more and more and consolidate its position on the market by acquiring a growing number of service agreements on the non-captive market. At the same time, it was decided to pursue the objective of increasing the presence of the operating companies in the premium segment of the markets served, i.e. the segment with higher margins and multiple year contractual terms. In addition to the intensive ongoing business development activity, the targets for the Service Platform, in terms of assets managed and non-captive revenue, were set by assuming operational and business synergies with the major shareholder banks.

Real-estate co-investments are still planned to undergo an intensive disinvestment programme aimed at substantially exiting this line of business by 2018. In this context and consistently with the Plan (which envisages, inter alia, the possibility of also considering a possible project for comprehensive development of the investments in view of accelerating accomplishment of the aforementioned aim), the company - as announced to the market - also started and continued the activities aiming to check the feasibility of separating the investment segment from the services segment, with the purpose of repositioning to a pure management company within the framework of a possible redefinition of the scope of Group activities and strengthening the capital and financial position overall.

Moreover, again in reference to the 2014-2016 Industrial Plan, the Company – although it has found that the Plan still showed net losses for the duration of the three-year period, with consequent erosion of net equity, and absorption of cash to the point of causing an overall deficit over the course of the Plan, and which is not sustainable by the Group – has found that while the Plan poses great challenges, it is still concrete and can be realised on the basis of a series of realistic assumptions. The Plan is characterised by three main interconnected and mutually dependent components:

- a series of mitigating and financial restructuring measures, representing the conditions necessary to ensure the continuing operation of the Company and Group and the sustainability of the Plan, in addition to being necessary to meet the cash needs estimated in the Guidelines before the expected effects of the aforementioned mitigating measures;
- organic growth and estimated profitability essentially in line with percent revenue growth targets, compared to a 2013 basis that fell short of projections;
- a constant, gradual reduction of the Company's general costs both to bring its structure into line with top market benchmarks and to take account of the expected reduction of the volumes of administrative activity resulting from the disposal of the investments portfolio.

In the Directors' view, the actions chosen to ensure operating continuity during the plan period are a suitable response to the identified uncertainties regarding the Company's ability to operate as a going concern. They also believe that, on the basis of the negotiations already in the advanced stages, particularly with the Company's lenders, it would be possible to finalise the identified mitigating measures in a reasonably brief period compatible with the Company's needs, allowing the Company to continue to operate as a going concern, by ensuring that it would enjoy access to the cash required to meet its short and medium-term cash requirements within limits sustainable for the Group.

In regard to the previously mentioned financial mitigation corrective measures, described in detail in the Plan – and whose likelihood of success varies from measure to measure – it is noted that they have been pursued and substantially completed to the extent and at times necessary to allow the Group to meet all of its cash requirements as estimated at the time and, therefore, continue operations. The following specific results that have been achieved are illustrated as follows: (i) postponement, until after 2016, of payment of the contractually agreed costs related to the sale of shares made in the past; (ii) acquisition of a waiver to the commitment to make a contribution to an investee that is being wound up; (iii) continuation of discussions between the interested parties, aimed at determining a possible settlement of a legal claim at a total costs consistent with expectations and payment after 2016; (iv) standstill on the principal equity injections into initiatives where the Company participates with qualified minority shares, to be negotiated individually with each partner and the respective lending banks.

These results have made it possible to realise, inter alia, a significant improvement in the cash profile, whose real component may be estimated in the amount of about Euro 10 million, and the temporary component in the amount of about Euro 19 million, against the short-term deferral of certain financial commitments. In regard to the total cash on hand at December 31, 2014 (Euro 77 million), far higher than forecast (Euro 14 million), we also have to consider (i) a component of cash (Euro 29 million) available in investees that sold the DGAG portfolio, and which is expected will be made available to Prelios, once the contractual and corporate processes applicable to those special purpose vehicles are completed, and (ii) available cash in the subsidiaries SGR S.p.A. and Prelios Credit Servicing S.p.A., pursuant to applicable regulations, but which cannot be used for other Group requirements.

In addition to this cash, account must also be taken of the proceeds of the aforementioned disposals of the investment operations in Poland, the cash generated by which (Prelios share: Euro 20 million) continues to be held by the special purpose vehicle that completed the sale, in which Prelios only holds a minority interest. This cash will only flow to Prelios following the decision-making processes of the joint venture.

The following is pointed out in regard to the foregoing:

- the real improvement in the cash situation stems principally from the revisions of receipts from the estimates of social security obligations in Germany for the associated program (the "VBL"), as part of the sale of the DGAG real estate services platform, together with the commissions that refer to the agency and sales support activity performed by Prelios Agency S.p.A. and Prelios Integra S.p.A. when the settlement was made for the property held by Olinda-Fondo Shop, managed by Prelios SGR S.p.A.;

- the remainder of the improvement in cash as compared with the Industrial Plan forecasts was primarily due to temporary differences in the planned payments, which allowed cash inflows and outflows to be balanced for both the service platform (primarily attributable to the cash flows of the German platform, subject to sale) and the investment platform.

Moreover, as part of a planned general acceptance by the Company lenders of the 2014-2016 Industrial Plan and the aim of making a positive contribution to the implementation and execution of that Plan, the lending banks have been asked to curtail – from 65% to 35% – the mechanism used to determine the amount of net proceeds (effectively received by the Company after sale of the real estate assets) to be applied to early repayment of the Senior Loan. On March 4, 2015, an agreement was made that amends the terms requested by the Company, while simultaneously envisaging the withdrawal of UBI Banca from the pool of lending banks, after execution of an agreement for full repayment and discharge of the amount payable to that bank.

Therefore, on the basis of what is indicated in the Plan and consistently with it, 2014 was largely characterised at the strategic level by the following activities:

- reconstructing its identity and reputation on its target market, including through participation in the most important transactions on the real estate and non-performing loan markets;

- continuing with the complex turnaround process for the Group at both the organisational and financial level, while achieving the mitigating actions identified in the 2014-2016 Industrial Plan, as previously described;

- the process of disposing of co-investments continued. These sales resulted in significant inflows of cash (although of a lesser amount than indicated in the Fenice Plan targets), currently held by the investment vehicles that completed the sales, and expected to be transferred to the Parent Company, Prelios S.p.A., in the near term.

On March 10, 2015, the Company's Board of Directors approved the 2015 Budget and 2016-2017 Outlook, which forecast that possible extraordinary transactions involving the Group's investment portfolio currently being studied may result in a considerable boost, the significant effects of which will begin to become visible in 2016, due to the following market conditions, which to date have severely limited the Group's business activity:

- substantial break-even and financial stability, in keeping with the turnaround objectives being pursued;

- renewed access to credit for the launch of new investment vehicles and pro-active collaboration with the banking system.

In particular, on the basis of what has been forecast in the 2015 Budget and the 2016-2017 Outlook, the individual companies of the Group will mainly act on the following fundamental targets, which are functional to and consistent with the aim of restructuring management and maintaining conditions on a going-concern basis:

▪ growing the business of Prelios SGR S.p.A., by acquiring new assets, to be used to package new products for distribution to Italian and international investors and/or existing funds, through either the direct acquisition of products from other management companies or mergers with such companies offering (i) a range of complementary products, (ii) a complementary ownership structure and (iii) relationships with leading investors;

▪ consolidating the open-market strategy pursued by Prelios Credit Servicing S.p.A. to ensure sustainable growth, developing extraordinary transactions with upfront fees to finance growth and developing soft equity co-investment in partnership with other investors in small-/medium-size portfolios to seize important opportunities deriving from the real estate market cycle;

▪ expanding the non-captive client basis of the Integrated Services Business Unit, improving margins and consolidating leadership in Italy in a wide range of services, with the aim of being perceived as the only full-service player on the Italian market;

▪ repositioning the German platform as a national player focusing on higher added value services for international investors, responsible for unified management in Germany and Poland.

The Group has also launched a series of new strategic projects which could further improve the Group's performance in the plan period, the main objectives of which are:

▪ expanding into new asset management markets (Prelios Europe): in keeping with current market trends, and considering asset management legislation ("AIFMD"), it is finalising the acquisition of a controlling interest in an asset management company authorised by the FCA (Negentropy Capital Partners), with the aim of attracting leading international investors with instruments alternative to real estate funds;

▪ supporting the launch of new indirect investment vehicles (the Listed Real Estate Investment Company Project, or “SIIQ Project”). Exploiting recent changes in the law, and with the aim of attracting new foreign capital on Italian regulated markets, Prelios is supporting a process relating to the launch of a joint stock company in the form of a listed real estate investment company (“SIIQ”) which will maintain complete managerial independence;

▪ expanding into innovative new sectors related to real estate. Prelios is continuing the diversification into innovative sectors related to real estate, and in particular (i) the energy efficiency sector, through the investment in a specialised company («Officinae Verdi »), and (ii) the creation of a strategic partnership to incorporate a company focused on developing Italy's cultural heritage, including in terms of its real estate ("Culture Magnet");

- transforming the German company's mission from a local operating company resulting from previous co-investments into the Prelios Group's second "hub" (after Italy), with responsibility for developing business in central and southern Europe.

By implementing all or part of these projects, Prelios could substantially improve the Group's performance in terms of revenue and EBIT, in return for limited investments to be made in 2015.

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Final assessment from the Board of Directors

In light of the actions spelled out in the 2014-2016 Industrial Plan and already carried out by the Company, as well as the results of the 2015 Budget and the 2016-2017 Outlook, in terms of both financial performance and the sustainability of the Parent Company's debt, in the light of the aforementioned significant improvement of the cash profile, willingness of bank lenders and major shareholders, as shown by the recent agreements regarding the 65%/35% mechanism, to support the Company's plans and the state of progress of the work reflected in the 2015 Budget, the Directors of Prelios believe, on the basis of a series of realistic assumptions that naturally will require constant and thorough verification, that they may reasonably conclude that the Group may meet its estimated cash flow needs and thus continue as a going concern. At this time, they believe that the Company can realise current and planned initiatives to rebalance its financial structure and strengthen its balance sheet and financial position, in view of restructuring its operations and maintaining the Company as a going concern.

Although significant disinvestments are expected as early as 2015, the 2015 Budget and 2016 - 2017 Outlook continue to project operating losses of sufficient amounts to result in a significant decrease in net equity and negative cash flow that, while not resulting in a deficit during the plan period, will continue to cause financial tension requiring close and constant monitoring.

Therefore, these circumstances illustrate, albeit in a significantly improved context from the previous year, the persistence of significant uncertainties over the capacity of the Group to operate as a going concern, as well as the need to continue pursuing additional measures that might allow the Group to complete its own restructuring process by achieving long-term capital and financial stability, which is necessary for focusing its operating units on strategic business objectives.

Finally, the Directors also emphasise that any further crises that might hit the markets in general or a worsening in the factors that caused the general reference scenario and the real estate market to deteriorate might impact the assumptions at the basis of the strategic objectives of the Company for accomplishing the aforementioned restructuring.

* *

5) <u>Debt restructuring plans and foreseeable effects on the Company’s operations.</u>

Please see paragraph 4 (“Measures that Prelios S.p.A. intends to take to revitalise operations and ensure it can continue as a going concern”).

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CERTIFICATION BY THE MANAGER CHARGED WITH PREPARING THE COMPANY'S FINANCIAL DOCUMENTS

The Manager charged with preparing the financial documents of Prelios S.p.A., Marco Andreasi, hereby declares, pursuant to Article 154-*bis*, paragraph 2 of Legislative Decree No. 58 of February 24, 1998, that the accounting information in this Directors' Report is an accurate reflection of the content of the Company's accounting documents, ledgers and records.

_________________*signed*___________________

The Manager charged with preparing the Company's financial documents

(Marco Andreasi)

ANNEXES

A. *Observations of the Board of Statutory Auditors pursuant to Article 2446 of the Italian Civil Code.*

OBSERVATIONS OF THE BOARD OF STATUTORY AUDITORS

(pursuant to Article 2446 of the Italian Civil Code and Article 74, paragraph 1 of the Consob Regulation adopted with Resolution No. 11971 of May 14, 1999, as amended)

Shareholders,

the Board of Directors of Prelios S.p.A. (“**Prelios**” or the “**Company**”) has called you to an Extraordinary Shareholders' Meeting, whose agenda contains as item 1): “*Measures pursuant to Article 2446, paragraph 2 of the Italian Civil Code: reduction of share capital. Related and consequent resolutions (including amendment of Article 5 of the Articles of Association). Grant of powers”.*

The Board of Statutory Auditors makes the following observations in regard to item 1) of the Agenda, in accordance with the provisions of the cited article of the Italian Civil Code, partly reference to the Director's Report (the “**Directors' Report**”) pursuant to Article 2446 of the Italian Civil Code, as well as to Article 74, paragraph 1 of the Consob Regulations adopted by way of Resolution No. 11971 of May 14, 1999, as subsequently amended and updated (the “**Issuers' Regulations**”), and in compliance with Figure 5 of Annex 3A of the Issuers' Regulations.

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On March 10, 2015, the Board of Directors of Prelios approved the draft separate financial statements at December 31, 2014 (the “**Draft Financial Statements**”), which show a loss of Euro 74,129,720.08 that – when added to the “other reserves” having a pre-existing negative balance of Euro 5,570,314.65 and the loss for the previous year, amounting to a total of Euro 299,772,019.32, and after deducting the additional available reserves totalling Euro 2,255,864.80 – has resulted in a negative amount totalling Euro 377,216,189.25.

Since the current subscribed and paid-in share capital of Prelios is Euro 426,441,257.20 – divided into 506,953,179 ordinary shares and 210,988,201 category B shares, without par value – the result confirms, for the second year in a row, a loss exceeding one third of the share capital. This result triggers the provisions of Article 2446, paragraph 2, of the Italian Civil Code, as described in detail and highlighted in the cited Directors' Report.

Therefore, the Board of Directors has called the Ordinary and Extraordinary Shareholders' Meetings to resolve, inter alia, on approval of the Draft Financial Statements and, as previously mentioned, approval of the consequent resolutions pursuant to Article 2446, paragraph 2, of the Italian Civil Code.

The Board of Directors then approved the Directors' Report which contains the financial statements, as required by applicable laws and regulations:

- the balance sheet and income statement for the year at December 31, 2014 (the “**Balance Sheet**”);
- the net financial position of the Company at December 31, 2014 (the “**Net Financial Position**”), which shows net financial debt of Euro 256,896 thousand;

corresponding to those of the Draft Financial Statements prepared in accordance with the IAS/IFRSs issued by the *International Accounting Standards Board* (IASB) and endorsed by the

European Union, in force at December 31, 2014, and in accordance with the measures issued in implementation of Article 9 of Legislative Decree 38/2005.

After confirming that the Directors' Report and the Balance Sheet fully illustrate the reasons for the losses realised by the Company in 2014, the Board of Statutory Auditors issues an unqualified opinion on them, while also acknowledging that the independent auditor, *Reconta Ernst & Young* S.p.A., has issued its own report containing an opinion on the compliance of the separate financial statements with statutory and regulatory provisions and applicable accounting standards. The independent auditor issued an unqualified opinion, to which the Board of Statutory Auditors refers in its entirety. That opinion also contains a disclosure in regard to what has been illustrated by the Directors in regard to acceptance of the assumption that the Company is a going concern.

Therefore, the Board of Directors wishes to submit to the Ordinary Shareholders' Meeting of Prelios its proposal to cover the loss for the year, amounting to Euro 74,129,720.08, the loss for the previous year, amounting to Euro 299,772,019.32, and the “Other reserves” having a pre-existing negative balance, amounting to Euro 5,570,314.65, through:

- use of all the Available reserves, in the amount of Euro 2,255,864.80;
- reduction of the share capital by Euro 377,216,189.25, and consequently amending Article 5 of the Articles of Association, but without cancelling the shares, since they have no par value.

The share capital – which would consequently be reduced from Euro 426,441,257.20 at par to Euro 49,225,067.95 at par – is still over the legal limit set for “società per azioni” (joint-stock companies) by Article 2327 Italian Civil Code.

The foregoing considers the initiatives that have been taken and planned, and mentioned in the Directors' Report (in particular, in paragraph 4 “*Measures that Prelios S.P.A. intends to take to revitalise operations and ensure it can continue as a going concern*”).

In this regard, the Directors' Report illustrates that the fundamental strategic orientation of the Prelios Group outlined in the 2014-2016 Industrial Plan (hereinafter, the “**Plan**”) – approved by the Board of Directors on June 12, 2014 (developed in a stand-alone perspective, without considering the effects resulting from the execution of any extraordinary corporate or commercial agreements) – confirms that the Company pursues the “pure management company” business model, with consequent focus on the real estate and associated financial services business activity in the real estate sector (hereinafter, the “**Services**”) and consequent repositioning of the Company as a major asset manager for international and institutional investors.

In this regard, the disengagement of the Prelios Group from the investment business sector is confirmed, with continuation of a program of activities aimed at disposing of the investments held in various real estate investment and co-investment ventures (hereinafter, the “**Investments**”), aimed at the substantial final withdrawal of the Company from that sector by 2018. This goal is to be realised through a possible project for comprehensive development of the equity investments owned by Prelios in view of accelerating its achieving that objective. In this context, we note that the Company has also conducted a preliminary examination of the conditions of a plan for reorganisation of the Group and continued the activities to check the feasibility, in view of the possible demerger and deconsolidation of the Investments segment from the Services segment of Prelios, aimed at accelerating the repositioning of the Company to a pure management company, in the framework of a possible redefinition of the scope of the Group’s activities and strengthening the capital and financial position overall.

The Directors' Report than exactly describes and illustrates the actions that the Directors have decided are adequate for guaranteeing the Company's ability to continue as a going concern over the duration of the Plan, thereby allowing it to deal with the identified uncertainties and cover the financial requirements of the Group, as well as improve its cash position.

Moreover, the Directors' Report illustrates that 2014 was characterised – at the strategic level – mainly by the following activities:

- reconstruction of the identity and reputation of the Prelios Group on its target market, including through participation in the most important transactions on the real estate and non-performing loan markets;
- continuation of the complex turnaround process, both at the organisational and financial level;
- continuation of the aforementioned process of disposing of investment activities.

In this scenario, the Board of Directors has approved the 2015 Budget and 2016-2017 Outlook, which – although its significant effects will be visible beginning in 2016 – forecast the following on the basis of the assumptions described in the Directors' Report: (i) achievement of substantial break-even and financial stability, in keeping with the turnaround objectives being pursued; (ii) improvement in the conditions for access to credit preparatory to development of new ventures, including pro-active collaboration with the banking system.

Therefore, the Board of Statutory Auditors observes that the Directors – in light of the actions identified in the 2014-2016 Industrial Plan and already realised by the Company, as well as the results of the 2015 Budget and 2016-2017 Outlook – reasonably deem that they may realise the initiatives under way and planned in view of pursuing and consolidating the balance of the financial structure of the Company, necessary for accomplishing its operating turnaround and maintaining it as a going concern.

The Board of Statutory Auditors has no objections to make in regard to the Directors' proposal, finding it to be consistent with current laws and also considering the current situation of the Company, the initiatives that it has taken and intends to take to turn around its operations and maintain it as a going concern.

In conclusion, the Board of Statutory Auditors has found that:

- the Directors' Report has been prepared in compliance with Annex 3A, Figure 5, as cited by Article 74, paragraph 1, of the Issuers' Regulations;

- the Directors' Report, including the Balance Sheet and Net Financial Position, fully illustrates the total losses reported and their effects on net equity, as well as the measures that Prelios intends to take and pursue in turning around its operations and remaining a going-concern;

- the Directors, in light of the initiatives that it has taken and planned, as illustrated in the Directors' Report, propose – pursuant to Article 2446, paragraph 2 of the Italian Civil Code – to continue, on the basis of its existing reserves, reducing its share capital in proportion to the total losses that have been confirmed and reported in the Draft Financial Statements, in accordance with the terms and conditions that have been previously illustrated;

- the Directors' Report provides the necessary elements for forming an opinion and consequently resolving pursuant to Article 2446, paragraph 2 of the Italian Civil Code.

it has decided – inter alia on the basis of the current situation of the Company and the measures it has taken and plans to take in pursuing and consolidating the balance of the financial structure of the Company, and thus turning around its operations and maintaining it as a going concern – to issue its favourable opinion on the proposal made by the Directors.

Milan, May 14, 2015

Prof. Enrico Laghi

Mr. Marco de Ruvo

Ms. Michela Zeme