



ANNUAL FINANCIAL REPORT
2015

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A. DIRECTORS' REPORT ON OPERATIONS

1. CORPORATE REVIEW

1.1. Reference market scenario

1.1.1. Macroeconomic environment in Europe¹

The recovery of the Eurozone is expected to continue at a moderate rate in 2016 after its Gross Domestic Product ("GDP") rose by 1.5% in 2015.

Its GDP is forecast to rise by 0.4% in both the first and second quarters of 2016.

This growth is driven principally by higher consumer spending, which is sustained by lower oil prices and greater employment income.

Public spending is also forecast to rise, being driven by expansionary fiscal policy, especially in Germany. Favourable lending conditions, combined with the higher rate of use of plant capacity, will stimulate a recovery in investments during the first two quarters of 2016.

1.1.2. Macroeconomic environment in Italy²

Bank of Italy studies suggest that more favourable signals of economic performance have appeared in Italy over the last several months, as compared with the same period of the previous year. In the third quarter of 2015 GDP rose by 0.2%. This improvement stems mainly from a spurt in domestic demand, offsetting a slowdown in exports, and a slight recovery in investments. Business and consumer confidence have improved markedly, although the industrial business cycle recovery has yet to strengthen. On the basis of currently available information, GDP is estimated to have risen by 0.2% in the fourth quarter of 2015, as in the previous quarter.

The volume of exports contracted by 0.8% in the third quarter of 2015, due to the decline in assets, while sales of services continued to grow. In particular, exports to China, OPEC countries and Turkey fell, while exports to EU markets decreased only modestly. Notwithstanding the unfavourable international business cycle, sales continued to grow in the mechanical and pharmaceutical sectors, while sales of refined petroleum products and metal products fell.

The net result for the year shows that the 0.5% growth in imports occurred during the first part of the year, while the current account surplus for the first 10 months of 2015 amounted to Euro 24.6 billion.

Consumer spending continued to grow and provided a strong boost to GDP growth. The most recent surveys of consumer confidence and available income point to further expansion in consumer spending.

After growing by 0.9% between summer 2014 and summer 2015, investments fell in the third quarter of 2015 (-0.4%), mainly due to the contraction in the plant and machinery component and in the intangible asset component. In contrast, the decline in the construction sector ended.

Positive signs appear to emerge in the labour market. In the third quarter of 2015 the number of employed people continued growing, especially amongst young people and in the service sector. The unemployment rate fell to its lowest level since the end of 2012.

Consumer price inflation remains very low, amounting to 0.1% in December. During the last months of 2015, the consumer price index remained depressed by the drop in energy prices. Even baseline inflation, which excludes food and energy, remained extremely moderate. Consumer and business confidence indicates a modest recovery in prices during 2016.

Against this backdrop, it is expected that economic growth may continue through 2016 and 2017. The growth and inflation projections published by the Bank of Italy suggest that the Italian economic recovery will strengthen, being sustained mainly by domestic and Eurozone demand. According to these forecasts, GDP grew by 0.7% in 2015, and is expected to rise by 1.5% in 2016 and 2017.

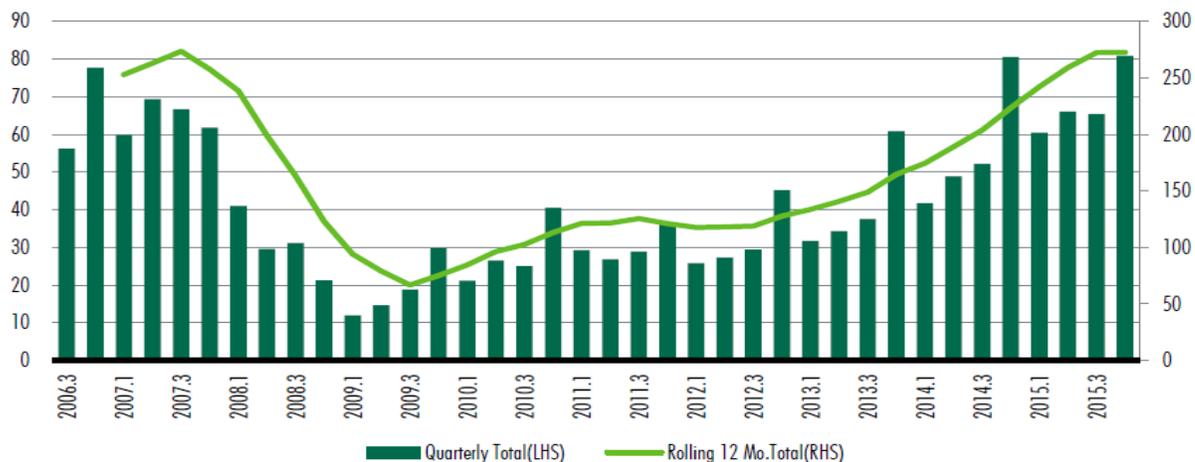
¹ Source: ISTAT, Eurozone economic outlook, Monday, January 12, 2016.

² Source: Bank of Italy: "Bollettino Economico", January 2016.

1.1.3. Real Estate Market – Europe³

In Q4 2015 the aggregate amount of capital invested in the European real estate market reached Euro 80.8 billion. This figure corresponds to the total amount invested during the same quarter of the previous year, while it rose by 23.6% from Q3 2015.

Figure 1: European Investment Turnover (€bn)



Source: CBRE Research, Q4 2015

Interest in real estate investments continues to grow strongly, not only in core markets like the United Kingdom, Germany and France, but also in peripheral countries like Spain, Ireland and Italy.

Capital from outside Europe keeps pouring in: in Q4 2015 investments from the United States fell by 22.6% YoY. However, in spite of that decrease and the sharp increase in capital from Canada and South Korea, the United States remains the top foreign investor. Investments from Asia grew by 35% in Q4 2015 YoY, notwithstanding the economic slowdown in China.

Prospects for 2016 remain positive, albeit in the face of great caution due to factors exogenous to the real estate market. These include political instability in certain European countries, the possible withdrawal of the United Kingdom from the European Union ("Brexit") and financial volatility.

1.1.4. Real Estate Market – Italy⁴

The Italian real estate sector is performing on par with the European real estate market, in spite of major differences both within the individual classes and between different territories. Different factors are having a positive impact on the current real estate market, and especially the growing appetite shown by investors, especially foreign investors, who have consummated various deals in various asset classes. These initially focused on prime locations, and then extended to the secondary markets.

The volume of real estate investments in Italy in 2015 was approximately Euro 8.1 billion, up by more than 55% on 2014 and exceeding expectations, considering transactions involving both individual properties and portfolios, in all commercial sectors (offices, retail, logistics and hotels). The total volume invested in Italy in Q4 2015 was Euro 3.1 billion, more than double compared to the previous quarter. Foreign investors remain the most active players. They continue to show growing interest in the Italian market and focus on core assets or properties that offer added value opportunities. Again in 2015, analysis of the geographic origin of capital reveals the predominance of transactions completed by foreign investors (70.2%⁵ of the total volume invested), mainly from the United States (particularly by

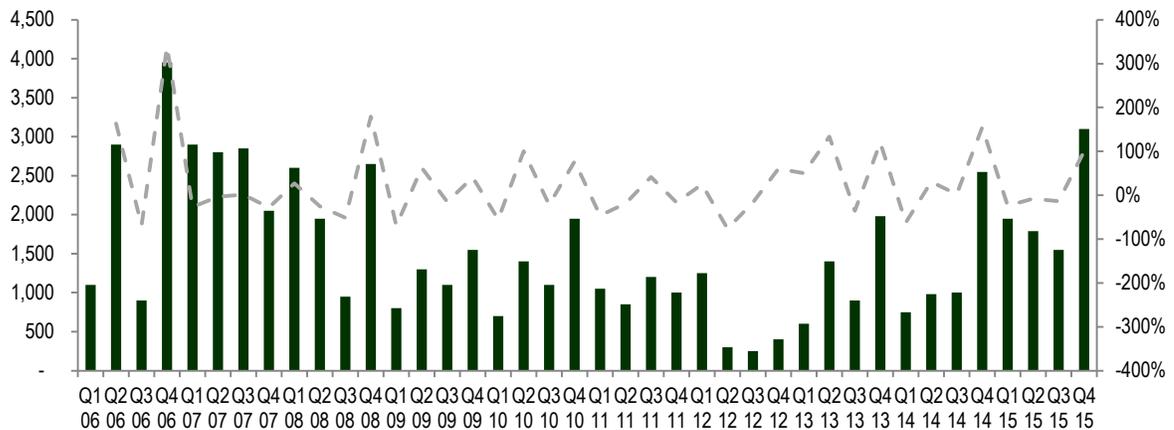
³ Fonte: CBRE, European Capital Markets – Q4 2015.

⁴ Source: CBRE, Italia Investimenti MarketView Q4 2014 ("Italy Investments MarketView Q4 2014").

⁵ Source: Source: Italy Commercial Real Estate - Investment Transactions Q4 & full 2015.

private equity funds) and the Middle East (sovereign funds). However, in contrast with 2014, the share of domestic capital rose in 2015 to 29.8% of the total volume invested (up 71% from 2015).

Property investments in Italy / YoY growth



Source: CBRE Research, Q4 2015

The invested volume has been more than 50% of the quarterly average over the last four years. The trend of investment volume towards alternative, mixed use asset classes accelerated during 2015, with growth rates beating those for 2014. Compared with past years, activity on the Milanese market has improved significantly. This remains the main market in Italy, while the Roman market continues to grow slowly, especially in the office building segment. However, Rome has confirmed its position as the top market for the hotel segment (40% of the total investment volume).

The outlook for 2016 remains positive, although possible risks cannot be ignored in relation to eventual problems in the Eurozone (due to Brexit) and evolution in the global macroeconomic situation.

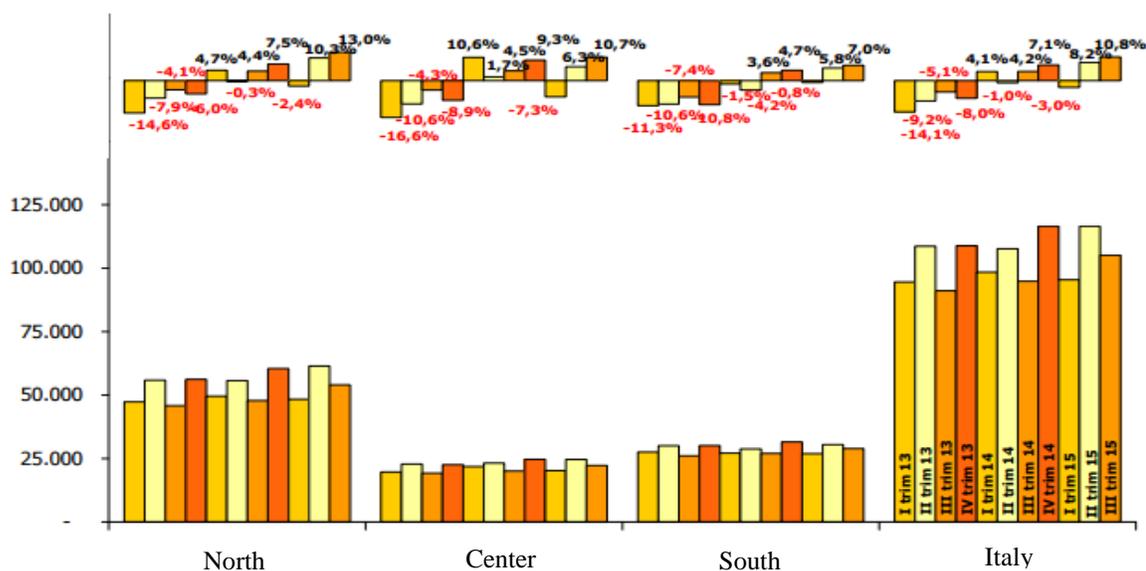
1.1.4.1 Residential market in Italy⁶

In Q3 2015 the number of home purchases and sales in Italy totalled 105,104, up 10.8% YoY.

Observation of the market by geographic macro areas shows that home purchases and sales are growing nationwide. Northern Italy remains the most important area, with 54 thousand transactions and a 13% growth trend. Southern Italy posted an increase of 7%, about half that of northern Italy, while the market expansion in central Italy was close to the national average (+10.7%).

⁶ Source: OMI, Andamento del mercato immobiliare nel III trimestre 2015 (Performance of the real estate market in Q3 2015), December 2015.

Number of residential transactions and annual percentage change by geographic macro area



Source: OMI, Andamento del mercato immobiliare nel III trimestre 2015 (Performance of the real estate market in Q3 2015), December 2015

Comparison of the transactions completed in regional and provincial capitals with those completed in towns and cities that are not capitals shows that the regional and provincial capitals turned in better performance, posting growth of 12.2%, while the latter limited their increase to 10%.

Percentage change in annual trend in the residential sector for capital cities and non-capital cities

Municipalities	% change Q3 12-13	% change Q4 12-13	% change Q1 13-14	% change Q2 13-14	% change Q3 13-14	% change Q4 13-14	% change Q1 14-15	% change Q2 14-15	% change Q3 14-15
Capitals	0.4%	(8.4%)	8.8%	1.9%	6.9%	12.2%	(4.6%)	9.6%	12.2%
Non-capitals	(7.6%)	(7.7%)	1.8%	(2.4%)	2.8%	4.7%	(2.2%)	7.5%	10.0%
Total	(5.1%)	(8.0%)	4.1%	(1.0%)	4.2%	7.1%	(3.0%)	8.2%	10.8%

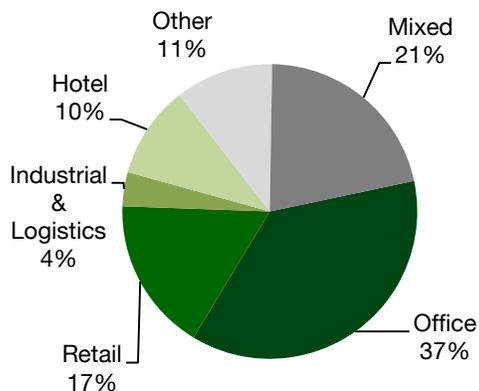
Source: OMI, Andamento del mercato immobiliare nel III trimestre 2015 (Performance of the real estate market in Q3 2015), December 2015

The recovery in the residential market should also be confirmed by analysing 2015 on an annual basis, which should show an increase of about 8% in the number of purchases and sales.

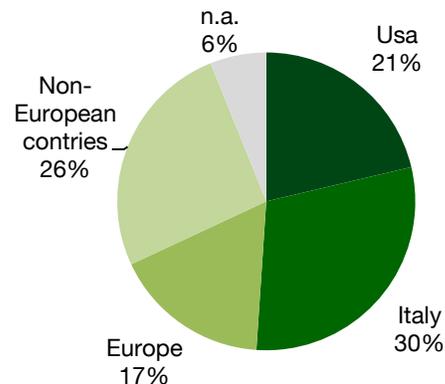
1.1.4.2 Non-residential market in Italy⁷

During 2015 the search for high returns channelled investments towards alternative asset classes (or those different from traditional uses), such as telephone exchanges, barracks, hotels and mixed-use properties (residential, light industrial), accounting for 54% of the total volume invested on a quarterly basis (on the other hand, 17% was invested in the retail sector and 37% in the office sector).

Allocation of volume of non-residential property investments in Italy in 2015



Allocation of volume of non-residential property investments in Italy in 2015 by origin of capital



Source: Italy Commercial Real Estate - Investment Transactions Q4 & full 2015

Office Market⁸

In 2015 the volume of investments in the office segment rose by 55% from the previous year, and represented the favourite asset class of investors, accounting for about 37% of the total volume of investments.

Investors exhibited a marked preference for large cities, and the recovery was limited almost exclusively to several cities, including Milan, Rome, Turin, Florence and Bologna, while assets located in other areas did not generate the same interest for investors. In this latter case, the market languished amidst anaemic demand, and transactions were made almost exclusively for moves of business offices from Category B buildings to class A buildings in view of improving spaces and reducing operating costs.

In Q3 2015⁹ the number of purchases and sales in the office segment rose by 3.8% YoY.

The following highlights are illustrated for the office asset class in 2015, limited to the cities accounting for the lion's share of the market in Italy (Milan and Rome):

Office Market – Milan¹⁰

In 2015 the volume of investments in the office building segment in Milan totalled about Euro 2.5 billion, of which Euro 1.06 billion was posted only in the last quarter. In Q4 2015 foreign investors accounted for the majority of invested capital (60%), although the share of domestic investor capital did rise to 40%.

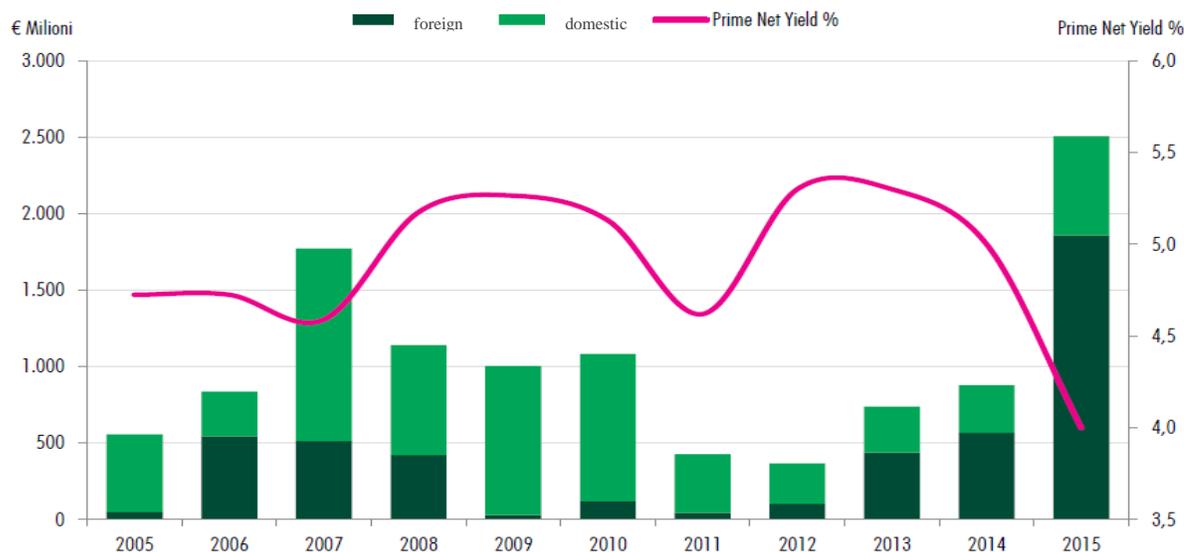
⁷ Source: Italy Commercial Real Estate - Investment Transactions Q4 & full 2015.

⁸ Source: CBRE, Italia Investimenti MarketView Q4 2014 ("Italy Investments MarketView Q4 2014").

⁹ Source: OMI, Andamento del mercato immobiliare nel III trimestre 2015 (Performance of the real estate market in Q3 2015), December 2015.

¹⁰ Source: CBRE, Milano Uffici Q4 2014.

Trend of geographic allocation of invested capital and returns on office space in Milan



Source: CBRE Research, Q4 2015

The take-up of office space in Milan reached 200,000 square metres, representing a 372% increase from Q3 2015 and 167% YoY. FY 2015 ended with over 370,000 square metres leased, posting a record result due to two pre-lets in the CityLife towers and lease of the last tower at Porta Nuova, which account for about 30% of the annual total.

Although falling, the final vacancy rate was 12%, or 1.7 million square metres available. The greatest demand is for small (less than 500 square metres) and medium-small units (500-1,000 square metres), which account for 35% of the units leased out during the quarter. In Q4 2015 suburban areas attracted the greatest demand from lessees, accounting for about 34% of the total amount of office space leased out during the period.

Highlights of the leasing market in Milan

	2014	2015	Q4 2015
Vacancy rate (%)	13.3	12	12
Take-up (thousands of sq.m.)	277	370	200
New stock (thousands of sq.m.)	77.5	62.5	45.7
Prime rent (€/sq.m./year)	490	490	490
Weighted Average rent (€/sq.m./year)	276	268	278
Prime net yield (%)	5	4	4
Secondary net yield (%)	6.25	5.5	5.5
Investments (€ mn)	879	2,507	1,062

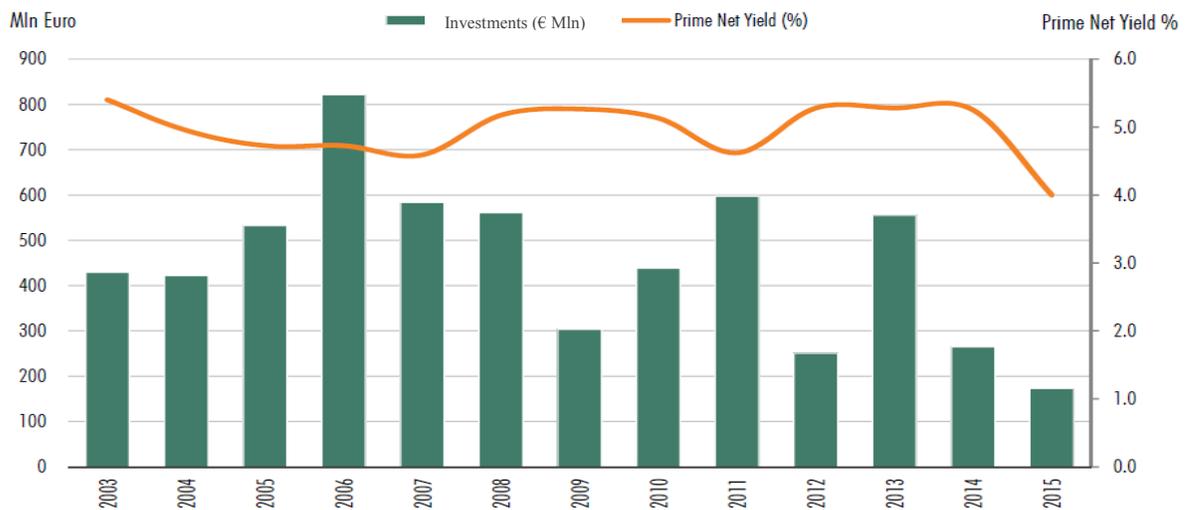
Source: CBRE Research, Q4 2015

Prime rents in the CBD (Central Business District) and in the Porta Nuova district remained stable in 2015, at Euro 490 sq.m./year.

Office Market – Rome¹¹

Investors remained interested in the Roman market, although investment volumes were limited by the dearth of product and the complexity of the sales process of publicly owned real estate being sold off to investors. The most active investors remained institutional investors, both international and domestic. The yields on prime properties fell in Q4 2015 from Q2 2015, with the final net figure being 4%. This reflects high competition for a limited supply of products meeting market demand.

Trend of geographic allocation of invested capital and yields on office space in Rome



Source: CBRE Research, Q4 2015

The take-up of space on the leasing market during 2015 amounted to 136,000 square metres, up 20% from the previous year. The city centre and EUR district, which account for 86% of the leased spaces, are the areas preferred by those seeking offices for lease.

¹¹ Source: CBRE, Roma Uffici Q4 2015.

Highlights of the leasing market in Rome

	2014	2015	Q4 2015
Stock (thousands of sq.m.)	6.9	7	7
Vacancy rate (%)	8.2	9	9
Take-up (thousands of sq.m.)	113.9	136	50.9
Prime rent CBD (€/sq.m./year)	380	380	380
Prime rent EUR (€/sq.m./year)	330	320	320
Prime net yield (%)	5.25	4	4
Investments (€ mn)	265	173	-

Source: CBRE Research, Q4 2015

Prime rents remained stable in the CBD (Central Business District) and in the EUR district, which amount to Euro 380 – Euro 320 sq.m./year, respectively.

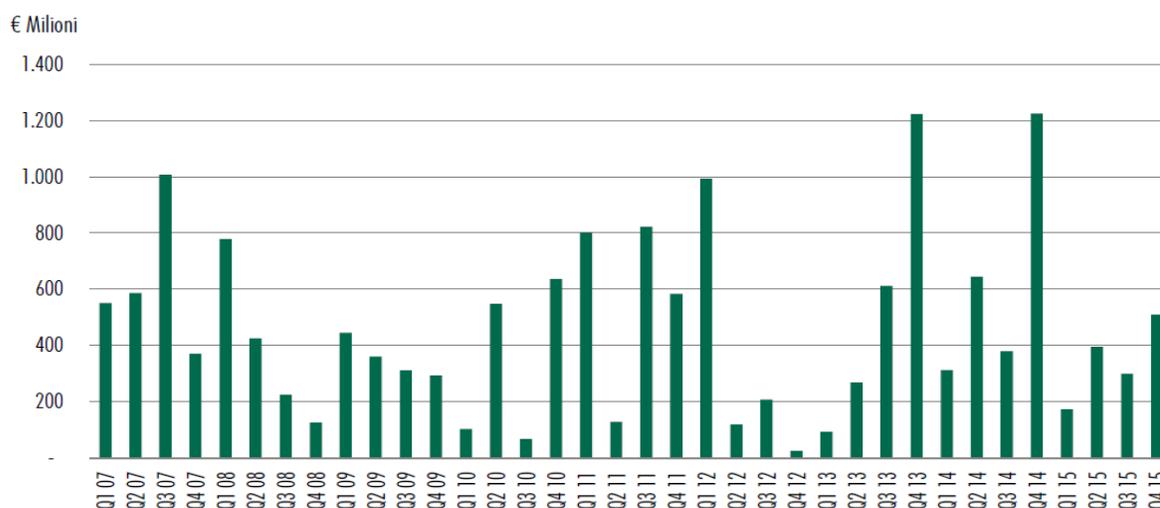
The office segment remained soft in 2015 for property developments, with an annual contraction of 35% from 2014, although signs of improvement were appearing. The volume of space in the pipeline remained high, with about 99,000 square metres under construction and delivery scheduled between 2016 and 2017.

*Retail Market*¹²

The volume of investments in the retail asset class in Q4 2015 rose 70% from Q3 2015, generating a volume of Euro 510 million. This pushed the annual volume to about Euro 1.4 billion, or 47% less than in 2014. The volume of retail space in the pipeline, both for possible new deals resulting from the sale of new portfolios and/or assets, is estimated to be at least Euro 2 billion. This allows us to presume major improvement in 2016.

¹² Source: CBRE – Italia Retail, Q4 2015.

Retail investments, quarterly investments



Source: CBRE Research, Q4 2015

In 2015 about 126,900 square metres of GLA were reported as completed, mainly in the retail park segment (about 80%), reflecting a 10% decrease from 2014.

In Q4 2015, the portion invested in shopping centres represented 77% of the total volume, while the portion invested in the high street segment accounted for 17%. Shopping centres, which accounted for 51% of volume in the retail sector, remained the principal asset class for the retail sector in the annual distribution.

Net retail yields

Yields	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015
High Street Prime	4.80%	4.50%	4.25%	4.00%	4.00%	3.50%
High Street Secondary	7.00%	6.75%	6.50%	5.75%	5.75%	5.00%
Shopping Centre Prime	6.00%	6.00%	5.75%	5.50%	5.50%	5.00%
SC Good Secondary	7.34%	7.00%	7.00%	6.50%	6.50%	6.00%
Retail Park Prime	7.90%	7.75%	7.75%	7.00%	7.00%	6.00%

Source: CBRE Research, Q4 2015

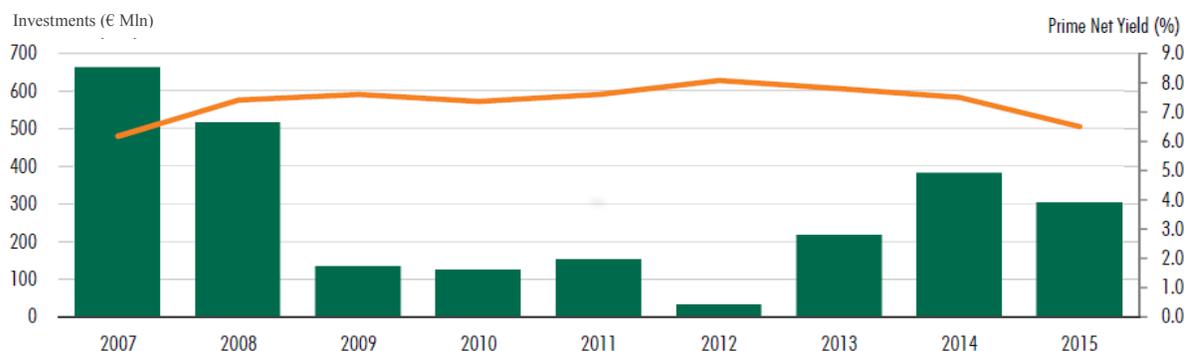
Rents remained stable in Q4 2015, although the demand by retailers is growing not only for prime centres. This might impact the future trend of rents. In 2015 rents for prime locations on the main streets of Milan rose by 16% from the previous year, while the increase in Rome was 18% from 2014. Rents also increased in prime shopping centres, due to the increase in demand linked to the arrival of various international brands. So, the current trend remains positive.

Logistics Segment¹³

The positive trend tracked by the logistic segment in 2014 continued into Q4 2015, when take-up increased by 35.4% from the previous quarter, and the total take-up volume in 2015 amounted to about 760,000 square metres, 6% higher than in 2014.

The total volume invested in the logistic segment in 2015 contracted by 20% from the previous year. In 2015 the volume of investments totalled Euro 305 million, of which Euro 110 million in the last quarter of the year alone, marking a 6.6% increase from Q3 2015. The strong interest in the segment drove yields down by about 50 bps, which reached a net level of 6.5%.

Investments and yields on prime properties in the logistic segment



Source: CBRE Research, Q4 2015

The vacancy rate in 2015 was 6.3%, down 0.2% from 2014. Rents for prime properties remained virtually flat both in Milan and in Rome.

Highlights of the leasing market in the logistic segment

	2014	2015
Vacancy rate (%)	6.5	6.3
Take-up (thousands of sq.m.)	718	760.9
Prime rent Milan (€/sq.m./year)	48	50
Secondary rent Italy (€/sq.m./year)	40	40
Prime rent Rome (€/sq.m./year)	52	52
Prime net yield (%)	7.5	6.5
Logistics Investment (€ M)	382.3	305

Source: CBRE Research, Q4 2015

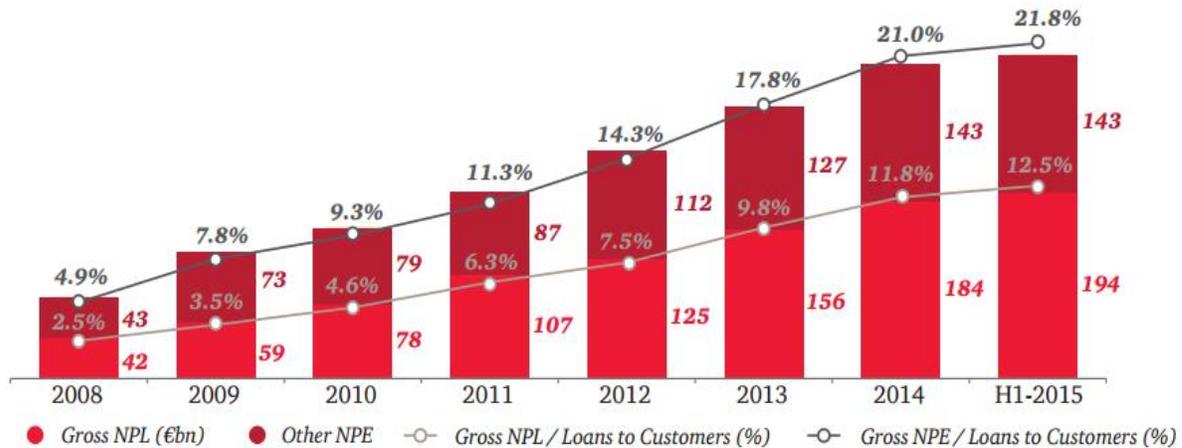
The logistics segment in Italy aligned itself with the rest of Europe in 2015, reaffirming its own importance as an optimal asset class for investment diversification and search for profitability. In fact, it remained highly attractive, especially to foreign investors.

¹³ Source: CBRE, industry & logistic - Q4 2015.

1.1.5. Non-performing loans (NPLs)¹⁴

At the end of H1 2015 the volume of Non Performing Loans (“NPLs”) in Italy totalled Euro 337 billion. The amount of NPLs has nearly quadrupled since the end of 2008 and has been growing steadily over the last seven years. This trend is mainly linked to the growth in gross NPL, which rose by nearly 5.4% from the end of 2014, and always growing, but more slowly than in the past, reaching a peak of Euro 194 billion in June 2015.

Impaired exposures, NPLs and the NPL ratio in Italy



Source: PwC's analysis on Bollettino Statistico Banca d'Italia and ABI Monthly Outlook

After several years with no transactions in the sector, investors began to recover their interest in the NPL market in 2015. The volume of transactions rose, and is destined to rise even more in 2016, partly due to the effect of the reduced price gap between supply and demand resulting from recent changes in the law and the possibility of setting up “bad banks”.

Investors approaching the Italian market from a long-term perspective are willing to establish ongoing collaboration with local servicers to manage and develop their investments, thereby leveraging their experience in other countries along with the expertise offered by local players.

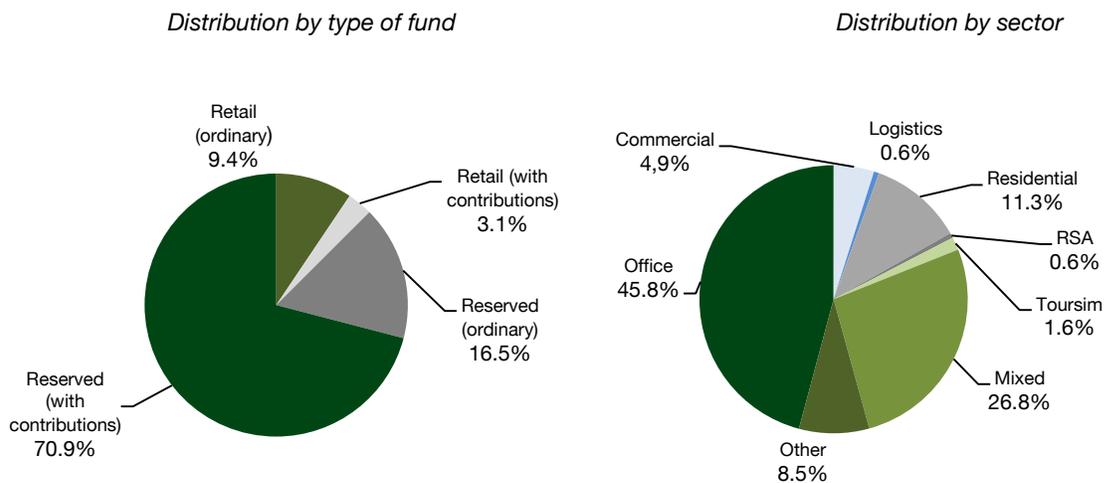
¹⁴ Source: PwC, The Italian NPL market, A sparkling H1 2015 – November 2015

1.1.6. Real estate funds

Just as in other countries of Europe, real estate funds in Italy anticipated the market recovery. In 2015¹⁵, the equity of funds grew by about 10.3% from the previous year, while total real estate assets topped Euro 53 billion.

The first half-yearly report for 2015 on real estate funds by Assogestioni¹⁶ indicates that in the first half of the year, eight new funds were established, all reserved for professional or institutional investors. The average duration of the new funds was 20 years.

In June 2015 real estate funds were composed 91% by reserved funds and 9% by retail funds. The principal component remained the funds reserved to contributing professional and/or institutional investors.



Source: Assogestioni – Rapporto sui fondi immobiliari I semestre 2015 – ottobre 2015 (Report on real estate funds H1 2015 – October 2015)

¹⁵ Source: Scenari Immobiliari, i fondi immobiliari in Italia e all'estero aggiornamento 2015 (Real Estate Scenarios, real estate funds inside and outside Italy 2015 update) – November 2015

¹⁶ Source: Assogestioni – Rapporto sui fondi immobiliari I semestre 2015 – ottobre 2015 (Report on real estate funds H1 2015 – October 2015)

1.1.7. Macroeconomic environment in Germany¹⁷

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 (26% of GDP), whereas services account for 69%.

In 2015 GDP growth was 1.7%, slightly higher than the growth posted in the previous year (+1.6%), but still significantly higher than the average for the last ten years (+1.3%).

In contrast, the contribution made by foreign trade to growth accounted for only 0.2% of the increase in GDP, with substantial balance between the change in exports (+5.7%) and imports (+5.4%).

In the public finance arena, 2015 concluded with the second-largest budget surplus since reunification, nearly Euro 16.4 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 since reunification, at 43 million persons, with an unemployment rate of 6.1% (December 2015).

The federal government's forecasts for 2016 indicate real growth of 1.7%, a figure that does not diverge greatly from other official projections (+1.8% according to the European Commission and OECD) and the major German research institutions. According to government forecasts, exports should increase by 3.2% in 2016, imports by 4.8%, and domestic demand by 2.3%. Other elements that might stimulate growth in the German economy could come from a recovery of global trade, and especially with Latin America, Africa and the Middle East.

1.1.7.1 Real estate market – Germany

Investor interest in Germany continues to grow. The capital invested in the real estate market in 2015 totalled Euro 55.2 billion. This figure marked an increase from the previous year (+39%)¹⁸.

The interest of foreign investors is also increasing, with their investments representing half of the total capital invested during 2015, and grew by 3% from 2014.

Principal figures on the real estate market in Germany

Top 5	Investment Volume Euro/million			Foreign investors		Net Initial yield (office)	
	2014	2015	YoY	2014	2015	Q4 2014	Q4 2015
Berlin	3,553	7,822	120.00%	36.00%	60.00%	4.55%	4.00%
Dusseldorf	1,969	2,819	43.00%	43.00%	44.00%	4.70%	4.55%
Frankfurt	5,093	5,617	10.00%	34.00%	59.00%	4.60%	4.40%
Hamburg	3,634	4,058	12.00%	48.00%	52.00%	4.40%	4.00%
Munich	5,030	5,910	17.00%	28.00%	40.00%	4.30%	3.65%

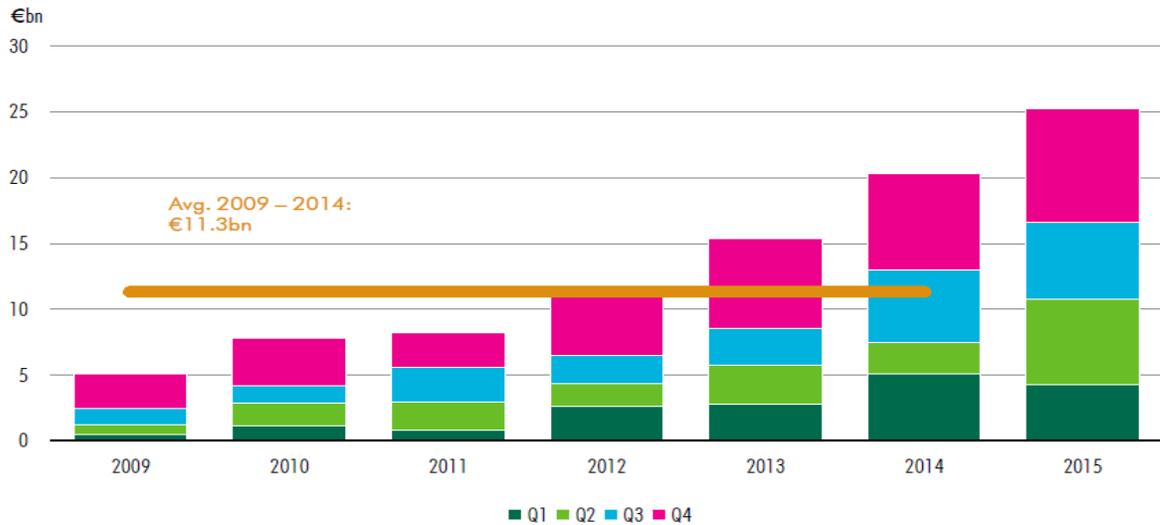
Source: CBRE Research, Q4 2015

¹⁷ Source: FARNESINA, Info Mercati Estero Germania - Febbraio 2016 (Foreign Markets Info Germany – February 2016)

¹⁸ Source: CBRE, Germany market report 4Q 2015.

The office segment¹⁹ continued to generate positive figures, with growing investment volumes. After reaching Euro 20.3 billion in 2014, transactions totalled Euro 25.2 billion in 2015.

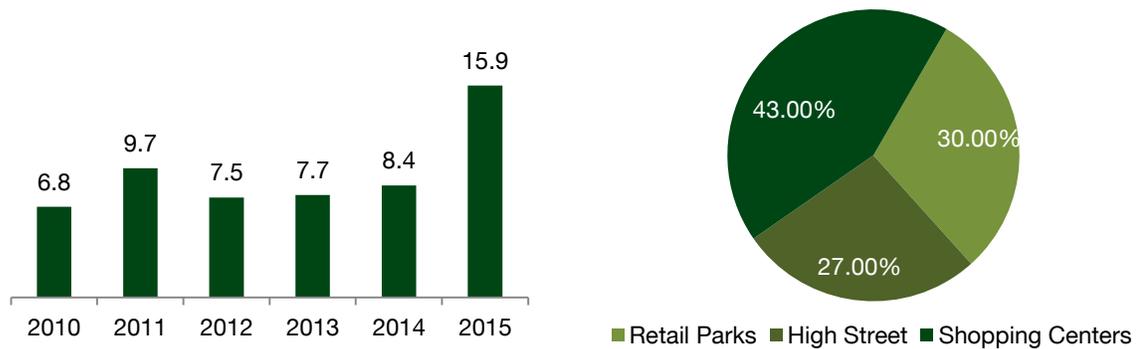
Investments in the office segment:



Source: CBRE Research, Q4 2015

The retail segment²⁰ has enjoyed very strong growth. In particular, during 2015, volumes totalled Euro 15.9 billion, topping the result achieved in 2014 (Euro 8.4 billion), for an increase of about 90%.

Volume of investments in the retail segment in billions of Euro:



Source: Colliers, Retail Investment Market Germany 2015/2016

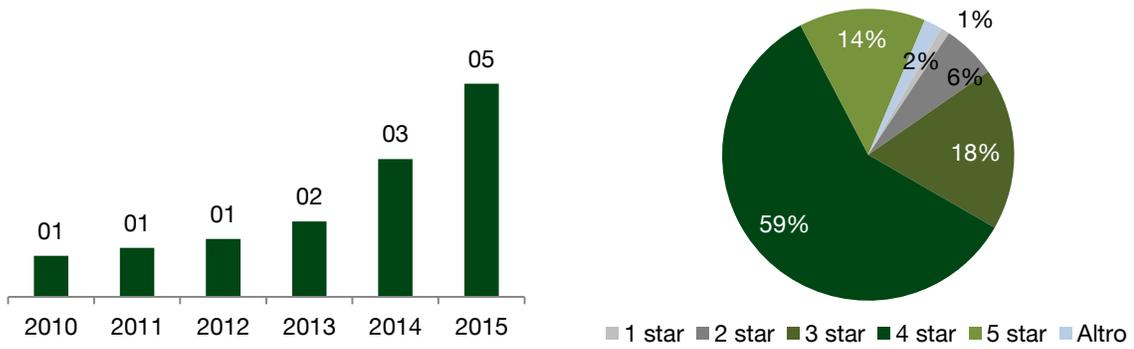
Investors also remained interested in the hotel sector²¹, with invested capital of Euro 4.5 billion in 2015, up 44% from the figure reported for the previous year.

¹⁹ Source: CBRE, Germany Office Investment MarketView Q4 2015.

²⁰ Source: Colliers, Retail Investment Market Germany 2015/2016.

²¹ Source: Colliers, Hotel Investment Market Germany 2015/2016.

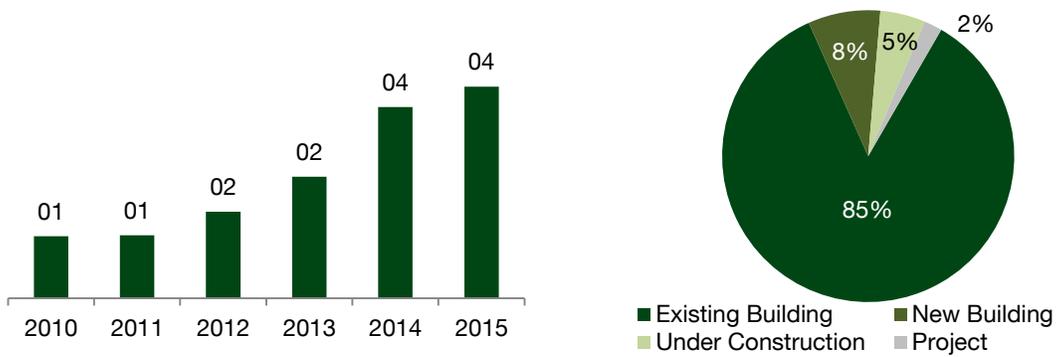
Volume of investments in the hotel segment in billions of Euro:



Source: Colliers, Retail Investment Market Germany 2015/2016

Even the logistics segment²² continued to generate positive results with rising investment volumes. During 2015, these totalled about Euro 4 billion, up 11% from 2014.

Volume of investments in the logistic segment in billions of Euro:



Source: Colliers, Retail Investment Market Germany 2015/2016

²² Source: Colliers, Logistics Investment Market Germany 2015/2016

1.1.8. 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 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 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 were cut out of the investment circuit until recently, such as Italy.

The main economic indicators are weak and demand levels are near stagnation for the office leasing market. Many companies are confirming their leases, but they are reluctant to assume long-term commitments. Therefore, the outlook for the next few years foresees a general stabilisation in rents.

The increasing weight of the real estate sector in the economy is borne out by the ever-greater role of asset management instruments, which appear better suited overall 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 ("SIIQ - Società di Investimento Immobiliare Quotate") are represented by legislative deficiencies, especially in terms of taxation, which most governments are seeking to remedy by approving frequent amendments of the law.

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 55-60 billion in 2016.

1.2. Group profile

The Prelios Group, which is controlled by Prelios S.p.A. – a company listed on the Italian Stock Exchange since 2002 – is a major European player active in property management and services sector, with co-investments and third-party real estate assets under management totalling about Euro 5.2 billion.

Operating in Italy, Germany and Poland, the Group has a qualified staff of about 450 professionals with significant professional expertise and a track record of excellence in their endeavours over the years on a competitive international market.

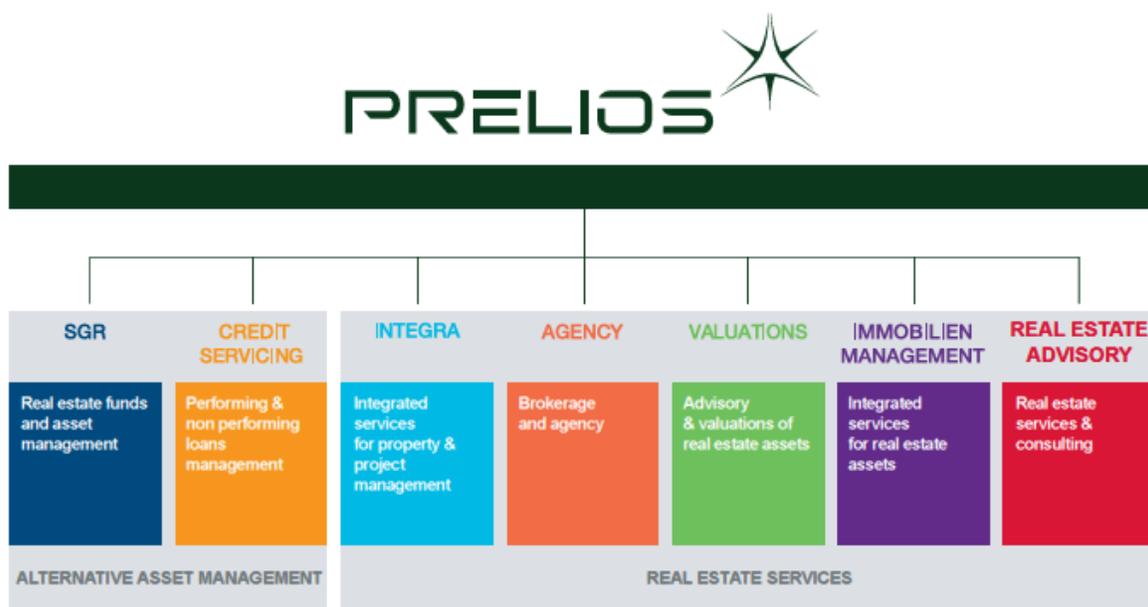
The mission of Prelios is the creation of value through management.

In December 2015, Prelios completed the first phase in the process of repositioning the Group as a “pure management company”, which began in 2013. This has been accomplished by separating the investments business from the real estate services and management business. This operation was carried out by transferring the Investments Business Unit to Focus Investments S.p.A.. At the approval date of this annual report, the latter company was owned by Prelios S.p.A., Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Pirelli & C.. Therefore, in consequence of that Transaction, which was successfully completed in the first few months of 2016 following completion of the agreed process and satisfaction of all conditions precedent still outstanding at December 31, 2015, the Prelios Group has concentrated on the Services sector through independent operating companies. It is a major real estate management and services operator offering a complete and integrated range of services to grow the asset value of third-party investors. In particular, Group activity in the Services sector includes:

- management of real estate funds and asset management (“Funds & asset management”);
- integrated asset services, which include property and project management (“Integra”), real estate agency services (“Agency”) real estate appraisals (“Valuations”) and
- non-performing loans management (credit servicing).

The Group also operates in Germany through highly specialised divisions in the commercial real estate segment. In Poland it is mainly active in the management and improvement of areas under development.

The following graphic presents a description of the Group structure and principal activities in the Services sector.



At December 31, 2015, co-investments and third-party assets under management of Euro 5.2 billion²³ included property assets of Euro 5.0 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 4.4 billion, primarily in 28 real estate funds managed by the subsidiary Prelios SGR, one of the leading players in the Italian real estate market.

The remaining co-investment assets are located in Germany (Euro 0.7 billion) and Poland (approximately Euro 0.1 billion).

1.3. Activities and services

ITALY

Acting through independent companies, the Italian management platform of Prelios offers the full range of services for the management and development of real estate assets.

Prelios SGR – Real estate fund management

The Group manages real estate funds through its subsidiary Prelios SGR²⁴, which, with its 28 funds and approximately Euro 3.8 billion²⁵ 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 in advisory services for leading institutional investors, both domestic and international, which as partners help it define its real estate investment strategies.

The funds managed by Prelios SGR include a broad and diversified base of about 100 domestic and international investors, including insurance companies, pension funds, foundations, financial institutions and sovereign funds. 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 to 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 operates asset and portfolio management, global service (facilities maintenance, services), property management, project management, specialised service, brokerage and agency service and appraisal activities.

²³ Co-investments and third-party assets under management, excluding NPLs at book value, are stated at market value at December 31, 2015, based on appraisals and analysis by independent experts.

²⁴ On March 9 Prelios S.p.A. completed purchase of 10% of the shares of Prelios SGR owned by Intesa Sanpaolo S.p.A. on the basis of its signed commitment to do so as part of the transfer and capital increase, for a consideration of Euro 6.5 million. Pursuant to the Underwriting Agreement, the debt of Prelios S.p.A. for purchase of the shares is extinguished through offsetting with the debt of Intesa for payment of the Prelios S.p.A. shares subscribed for a total of Euro 5.6 million, while the remaining amount has been paid in cash. This buy-back is consistent with the aim of Prelios S.p.A. to reacquire full control of the entire shareholding in Prelios SGR.

²⁵ Market value stated at 100%, including the portfolio of Excelsia 9 S.r.l..

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 operators in integrated property management and project development services, with Euro 5 billion in assets under management, representing over 5.6 million square metres.

Prelios Integra offers active, dynamic integrated asset management service (property, project, building management, HSE – Health & Safety, Environment / Energy, due diligence, urban planning and engineering advisory) aimed at adding value for public and private clients. This ranges from administrative and accounting management of properties, to dealings with tenants, technical and maintenance services and research and sales support.

As part of its 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, and the FICO Eatly World Project that was a finalist for the Mipim Awards 2015.

In regard to its building management activities, Prelios Integra performs integrated ordinary and special management of properties, engineering work supporting all activities inside the buildings it manages, while also guaranteeing compliance with environmental and safety regulations.

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 brokers, specialises in providing professional advisory services for the purchase and sale or lease of individual units and entire properties for office, residential, industrial, logistics and retail use.

Thanks to its team of qualified professionals 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 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.

The company is divided into two business units:

- i) “Capital Market & Institutional Leasing”, which is focused on selling real estate portfolios (handled on a block basis) and big assets, and property leasing,
- ii) “Network Transactions”, which handles the sale of real estate assets scattered across Italian territory (small assets), subdivisions and residential construction sites.

Prelios Valuations – Valuations

The subsidiary Prelios Valuations & e-Services is one of Italy's foremost independent providers of appraisals for individual properties and real estate portfolios in the service and residential segments.

The company is currently engaged to perform over 60,000 appraisals annually and is one of the top companies providing appraisal services to banks in Italy (“Loan Services”). The company employs an established team of over 700 professional surveyors registered with qualifying professional bodies, who operate in compliance 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 appraisals sector.

The organisational structure is divided into three areas of activity:

- *Mass Appraisals*, involving appraisal of the value of big real estate portfolios by using statistical methods employing the Magister proprietary technology;
- *Full Appraisals*, which determine the value of properties and real estate portfolios by using, inter alia, economic and financial analyses;
- *Loan Services*, consisting of support services for lending by bank groups, leasing companies and private banking.

Prelios Valuations quality system is certified with ISO 9001:2008.

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

Prelios Credit Servicing (PRECS) is one of the top players in the field of managing and adding value to impaired loans and particularly non-performing loans (i.e. loans whose collection is uncertain, both in terms of due dates and the amount of exposure), operates as a financial intermediary pursuant to Article 107 of the Italian Consolidated Law on Banking (“Testo Unico Bancario – T.U.B.”) and is subject to supervision by the Bank of Italy.

PRECS offers Special Servicing, or debt management and recovery; Master Servicing, or cash management, payments and reports; Corporate Servicing, or the formation and administration of SPV; Due Diligence for the disposal of loan portfolios; and Advisory, for the disposal and acquisition of portfolios.

The company is registered in the special list of financial intermediaries pursuant to Art. 107 of the Consolidated Banking Act, and 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.

In accordance with the implementing provisions of the reform of Title V of the Consolidated Banking Act, on October 8, 2015 the company applied to the Bank of Italy for entry in the Single Register of Financial Intermediaries envisaged in Article 106 of the Consolidated Banking Act.

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.

The Company appraises portfolios of NPLs and has participated in many rounds of due diligence on the purchase of big loan portfolios by Italian and international investors of high standing.

It 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.

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.

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.

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

- its own independence, which allows the Company to interact with all operators in the sector while guaranteeing realisation of the best strategies for management of the NPLs;
- specific expertise in the securitisation business, allowing the Company to offer a turnkey product;
- 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;
- use of a cutting-edge proprietary information system capable of supporting the various corporate functions.

With its Euro 9.5 billion²⁶ 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.

²⁶ Gross Book Value.

GERMANY

From its three offices in Hamburg, Frankfurt and Warsaw, the Prelios Group operates as a player in the central European real estate services market.

In Germany, it operates under the brand name Prelios Immobilien Management, where it manages a platform of services dedicated to commercial real estate. Its special focus is on the management of shopping centres and retail or mixed use properties for non-captive clients.

Its management was strengthened between the end of 2015 and the beginning of 2016 with the addition of senior managers. Their mission is to develop a second business area dedicated to structuring and managing investment funds for institutional investors (alternative investment management).

As a services platform, the company acts as a full service provider by offering a complete range of integrated services broken down into three business lines:

- ✓ *Shopping Centre Management;*
- ✓ *Development Services;*
- ✓ *Transaction Management.*

The services include buy-side advisory, refurbishments and development, commercial and technical property management, shopping centre management, letting, asset management, portfolio management and transaction management.

With its specific focus and solid experience in repositioning and managing complex properties (shopping centres and department stores) – be they problematic or non-problematic – located in urban contexts, the company operates in a market with less competitive pressure than what is typical for the management of “simpler” properties such as the office segment.

Relying on a management staff with over 20 years of experience in the sector, it manages about Euro 1.7²⁷ billion in assets and Euro 0.8 million square metres of spaces, guaranteeing institutional and private investors with tailor made services.

Numerous awards and accolades confirm its expertise and experience as an active operator of real estate services with high quality standards, such as its top place for three consecutive years (2012, 2013 and 2014) in the *Shopping Centre Performance Report (SCPR)* ranking for the LAGO shopping centre in Constance²⁸.

Prelios Immobilien Management also has ISO 9001 and ISO14001 quality certification.

The Prelios Group has operated in Poland for ten years. From its historic development activity, it has now moved on to property services and investment management for non-captive clients, with the formation of Prelios Real Estate Advisory in 2015.

The principal services provided in Poland include investment advisory, asset management, brokerage and letting. With the opening of its new office in one of the most exclusive districts of Warsaw, the company is positioned on the Polish market with the aim of supporting clients at any time throughout the life cycle of the property, from initial phases until sale.

²⁷ Including the appraisal of property portfolios managed for non-captive clients,

²⁸ Ecostra, Shopping Center Performance Report 2012-2013.

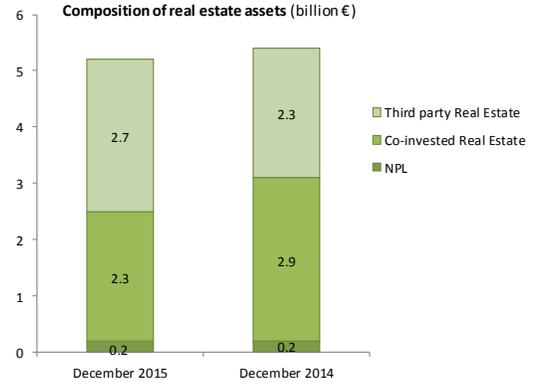
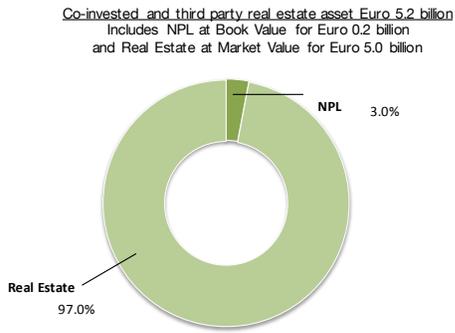
1.4. Economic and financial highlights

In 2015, the Group made an operating loss (as defined exactly in part 4 below) of Euro 11.6 million, compared with an operating profit of Euro 8.7 million in 2014 and a net loss attributable to the Group of Euro 44.5 million, compared with a net loss of Euro 61.1 million in 2014. The net loss was largely influenced by items that are outside the scope of ordinary operations, and in particular:

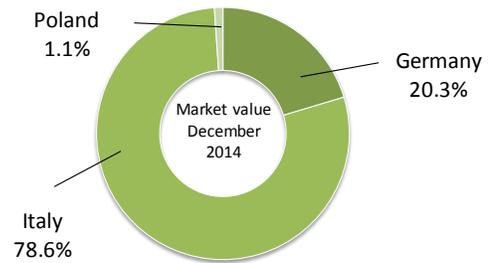
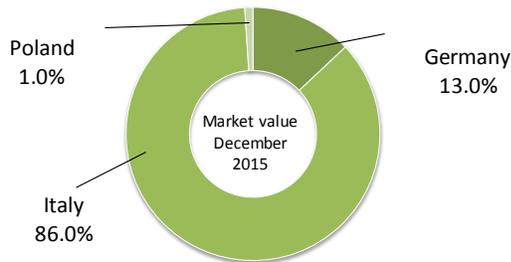
- impairment losses and property revaluations/write-downs, which amounted to a negative Euro 20.1 million (a negative Euro 45.4 million at December 31, 2014);
- restructuring expenses, which had a negative impact of Euro 0.5 million. This item mainly includes expenses connected with streamlining of the Group, loan losses and write-offs recognised as part of the program to restructure certain investees, offset by the partial release of risk provisions following the settlement or positive outcome of disputes that had previously generated accruals;
- The net income from assets and liabilities held for sale, which had a positive impact of Euro 4.3 million resulting from refinement of the estimated cash flows still remaining after disposal of the German residential portfolio known as DGAG, sold in 2014 to Buwog (fully owned by the Austrian group Immofinanz), along with the related residential management platform of Prelios Deutschland.

At December 31, 2015, the equity attributable to the Group was Euro 63.2 million, compared to a positive Euro 104.8 million at December 31, 2014.

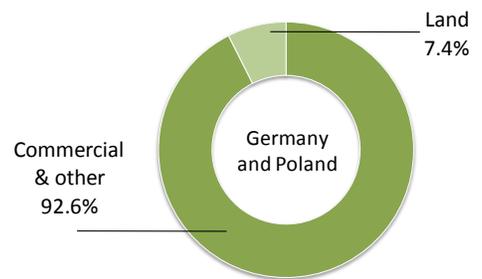
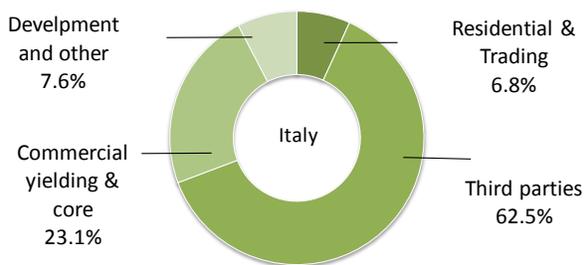
Income statement data	DECEMBER 2015	DECEMBER 2014
Consolidated revenue	70.9	72.1
Operating profit/(loss)	(11.6)	8.7
<i>of which Management Platform</i>	<i>(0.8)</i>	<i>0.6</i>
<i>of which Investment Activities</i>	<i>(10.8)</i>	<i>8.1</i>
Restructuring costs	(0.5)	(13.9)
Property (write-downs)/revaluations	(18.2)	(39.1)
Group net income/(loss) before discontinued operations	(48.8)	(69.2)
Net income (loss) from discontinued operations	4.3	8.1
Group net income/(loss) for the period	(44.5)	(61.1)
Balance sheet data	DECEMBER 2015	DECEMBER 2014
Equity	66.0	107.3
<i>of which Group equity</i>	<i>63.2</i>	<i>104.8</i>
Net financial position	184.9	187.6
Indexes	DECEMBER 2015	DECEMBER 2014
Employees	454	468
Co-Invested and Third Party Real Estate Assets (billion)	5.0	5.2
Pro-rata NAV (billion)	0.3	0.4



The following charts illustrate the real estate portfolio (co-investments and third-party) in December 2015, broken down by geographical area, compared with the figure for 2014:



The following is a breakdown of the real estate portfolio by use at December 31, 2015:



1.5. Ownership at December 31, 2015

On October 16, 2015, the Extraordinary Shareholders' Meeting resolved to grant the Board of Directors, pursuant to Article 2443 Italian Civil Code, the right to exercise the authority to increase the share capital one or more times for a maximum aggregate total of Euro 66,500,000.00 (including any share premium), through the issuance of ordinary shares without par value having regular entitlement to dividends and characteristics identical to those of the Prelios ordinary shares outstanding when they were issued. They were to be issued in the form of a rights offering to existing shareholders pursuant to Article 2441 Italian Civil Code. The directors had full powers to set the terms, conditions and procedures for the capital increase within the limits indicated hereinabove, including the subscription price of the new shares with any share premium (and thus its allocation to capital and any share premium).

In execution of the aforementioned authority, the Company Board of Directors:

- A. resolved on January 12, 2016 formally to execute the aforementioned authority received pursuant to Article 2443 Italian Civil Code and to approve the capital increase on a divisible and paid-up basis for a maximum total (including any share premium) of Euro 66,500,000.00, through the issuance of a number of shares to be issued in the form of a rights offering to existing shareholders who, at the starting date of the subscription period, will be owners of ordinary shares and Category B shares, in proportion to the number of shares owned by each one of them, while deferring calculation of the exact amount of the capital increase, issue price and subscription ratio until a subsequent Board of Directors meeting;
- B. on February 3, 2016, it set the final conditions for the capital increase by resolving to increase the share capital on a divisible and paid-up basis for a maximum par value of Euro 6,461,456.31 plus a total maximum share premium of Euro 60,026,929.12, and thus for a maximum aggregate total of Euro 66,488,385.43 including the share premium, through the issuance of a maximum total of 646,145,631 new shares, without specification of their par value, having the same characteristics as the outstanding shares (to be issued with regular entitlement to dividends), at an issue price per share of Euro 0.1029 (the "Subscription Price"), of which Euro 0.0100 to be allocated to capital and Euro 0.0929 to be allocated to the share premium, to be issued as a rights offering to shareholders (owners of ordinary shares and owners of Category B shares) pursuant to Article 2441, paragraph 1, Italian Civil Code.

After execution of the foregoing, the certification pursuant to Article 2444 Italian Civil Code attesting to full subscription of the aforementioned capital increase was filed and registered at the Milan Companies Register on March 10, 2016, together with the amended Articles of Association of the Company.

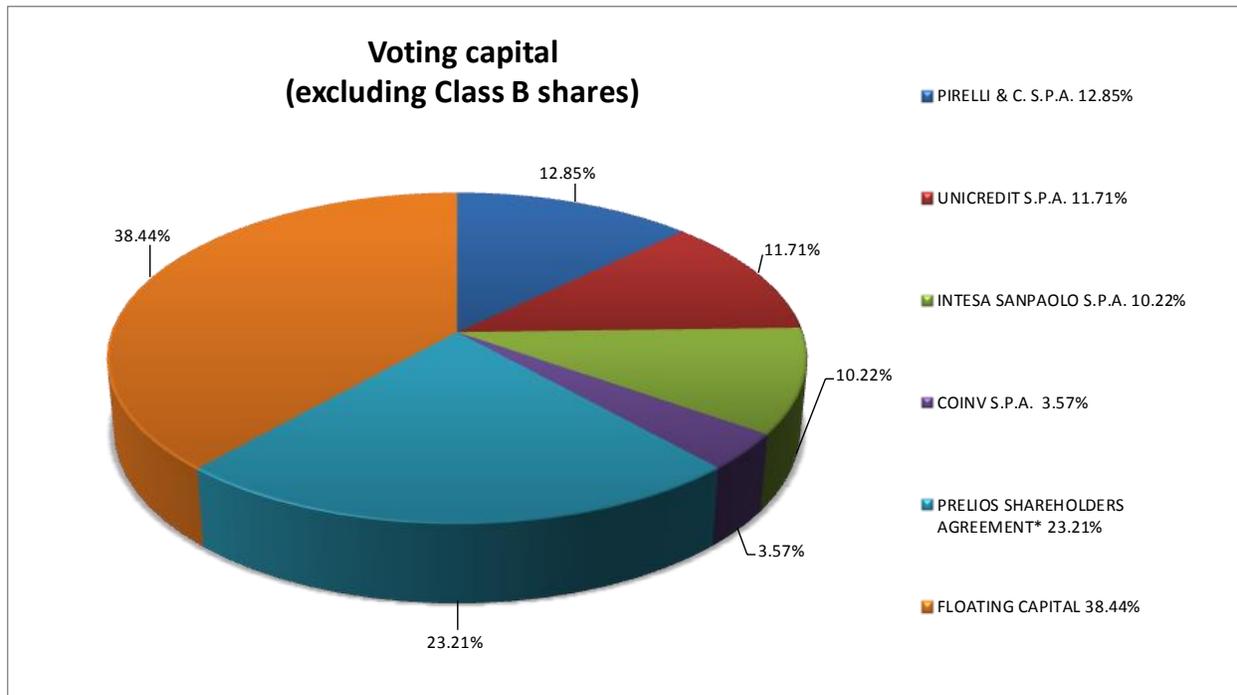
Therefore, upon satisfaction of the statutory obligations, the fully subscribed and paid-up share capital of Prelios S.p.A. now totals Euro 55,686,524.26, divided into:

- 1,153,098,810 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 and unlisted on regulated markets.

Fenice S.r.l. – a company owned by Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. – owns 210,988,201 Category B shares.

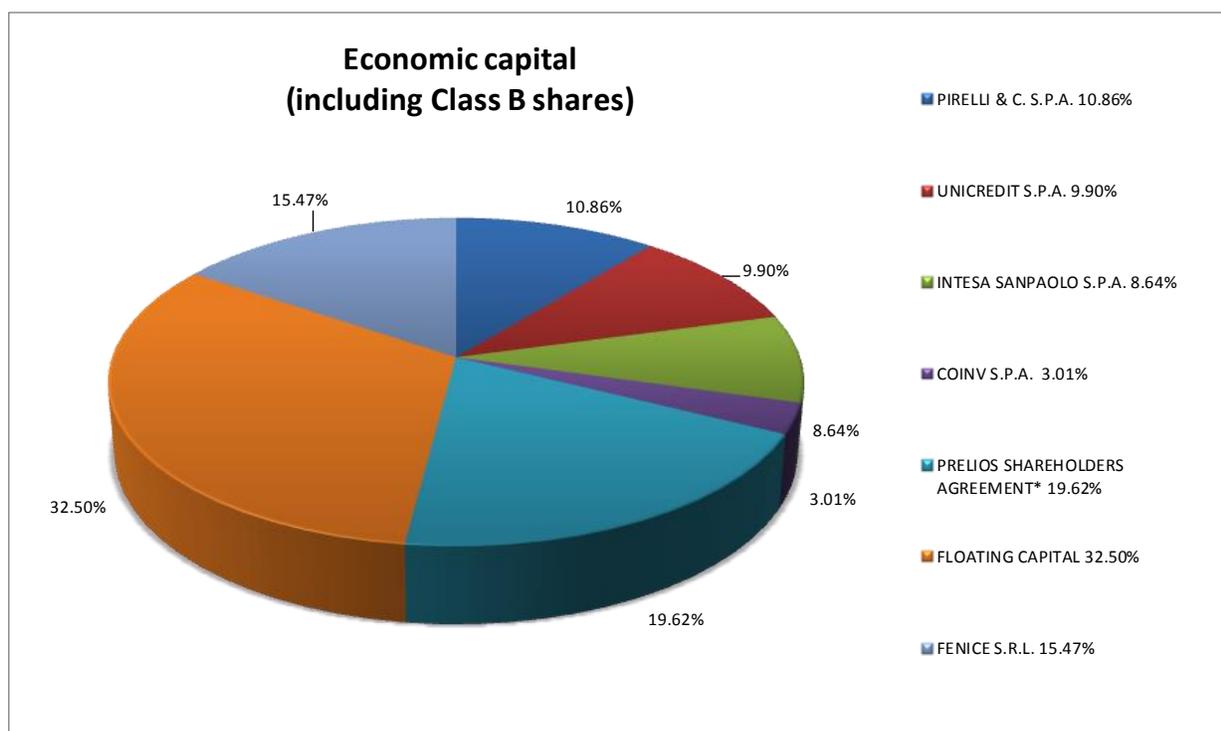
The following is a breakdown of voting share capital and economic capital held by shareholders with interests in excess of 2%, considering the notices received pursuant to Art. 120 of the Consolidated Law on Finance and the published information available from CONSOB²⁹.

²⁹ 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 Law on Finance 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 thresholds are passed does the entity have to notify Consob and the Issuer pursuant to Article 120 of the Consolidated Law on Finance.



*** Prelios shareholders' agreement - participation in the voting capital**

Deb Holding S.r.l.	6.62%
Negentropy Capital Partner LLP	3.31%
Feidos S.p.A.	3.24%
Fondazione Renato Corti	2.07%
Alexis De Dietrich	2.07%
Energia di Famiglia Srl	1.66%
York European Distressed Credit Holding II LLC	1.65%
Lunelli S.p.A.	1.27%
Porto Allegro S.r.l.	0.83%
Fulvio Conti	0.41%
Matteo Bruno Lunelli	0.09%
	23.21%



*** Prelios shareholders' agreement - participation in the economic capital**

Deb Holding S.r.l.	5.60%
Negentropy Capital Partner LLP	2.80%
Feidos S.p.A.	2.74%
Fondazione Renato Corti	1.75%
Alexis De Dietrich	1.75%
Energia di Famiglia S.r.l.	1.40%
York European Distressed Credit Holding II LLC	1.39%
Lunelli S.p.A.	1.07%
Porto Allegro S.r.l.	0.70%
Fulvio Conti	0.35%
Matteo Bruno Lunelli	0.07%
	19.62%

The following is noted in regard to the clauses applicable to Prelios pursuant to Article 122 of the Consolidated Law on Finance.

a) Prelios shareholders' agreement

On February 26, 2016, several owners of Prelios ordinary shares representing 21.852% of the voting shares (the "Shares Covered by the Shareholders' Agreement") approved and signed a Shareholders' Agreement. They promised to contribute the Shares Covered by the Shareholders' Agreement to the Shareholders' Agreement, thereby forming a Prelios shareholders' syndicate (the "Syndicate").

The Shareholders' Agreement regulates the members' rights and obligations in relation to (i) the votes cast at the Shareholders' Meeting on specific matters, (ii) restrictions on the circulation of the Shares Covered by the Shareholders' Agreement and the contribution of additional shares, (iii) the contribution of additional new Shares to the Syndicate, (iv) the bodies of the Shareholders' Agreement, (v) the undertaking not to sign other shareholders' agreements.

The Shareholders' Agreement is effective for three years beginning February 26, 2016, with the members having the option to renew it.

On March 7, 2016, additional shareholders joined the Shareholders' Agreement, bringing the total number of Prelios ordinary shares contributed to the Syndicate to 23.206% of the voting shares.

b) Fenice Agreement – shareholders' agreement between Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A.

The following information is provided in relation to the agreements reached by the parties involved in the transaction to shore up the balance sheet and financial position of the Company through recapitalisation and rebalancing of its financial structure, as approved by the Extraordinary Shareholders' Meeting on May 8, 2013.

- On July 31, 2013, 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 (last amended on September 25, 2015) named the “Fenice Agreement” and concerning Fenice S.r.l. (accepted by Fenice S.r.l. itself), the company that owns all the Category B non-voting shares, which represent 29.388% of the economic capital of Prelios.

In this regard, it is noted that on September 3, 2015, Feidos 11 S.p.A. sold its entire interest in Fenice S.r.l. to Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Pirelli & C. S.p.A. on a proportionate basis amongst each other, as provided by the redemption right envisaged in the articles of association of Fenice S.r.l. and the call option granted under the Fenice Agreement. In consequence of that sale, Feidos 11 S.p.A. lost its status as shareholder of Fenice S.r.l. and member of the Fenice Agreement, which still remains in effect amongst the other members, Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Pirelli & C. S.p.A..

The Fenice Agreement regulates the rights and obligations of the members Intesa Sanpaolo S.p.A., Unicredit S.p.A. e Pirelli & C. S.p.A. in regard to: (i) governance and the transferability of the shares owned by the Members in Fenice S.r.l.; (ii) divestment of the shareholding that Fenice S.r.l. acquired in Prelios; and (iii) the tag-along rights of the Prelios ordinary shares owned by the members Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Pirelli & C. S.p.A. if Fenice S.r.l. sells the Category B Shares (or any other equity investments) owned in Prelios; (iv) the consultation obligations of the members Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Pirelli & C. S.p.A. before the Prelios ordinary and extraordinary shareholders' meetings (without any restriction on participation and voting applying to the members themselves).

In regard to this last aspect, it is also noted that on September 21, 2015 the members Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Pirelli & C. S.p.A. signed an agreement separate and independent from the Fenice Agreement, concerning filing of the joint List of candidates for appointment of the Board of Directors and the prior consultation obligations applying to the matters on the agenda of the October 16, 2015 Shareholders' Meeting, which automatically expired at the end of that meeting.

The Fenice Agreement was amended on September 25, 2015 to reflect the changes resulting from the cessation of Feidos 11 S.p.A. as a Fenice S.r.l. shareholder and member of the Fenice Agreement, as previously mentioned.

The latest amendment to the Fenice Agreement was made on March 15, 2016.

- On October 16, 2015, the separate Tag-along Agreements to which Fenice S.r.l. was party in regard to Prelios were terminated by mutual consent with Banca 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. These Agreements regulated the terms and conditions under which Fenice S.r.l. had granted each of the aforementioned owners tag-along rights covering the securities of Prelios owned by them at the date that right was exercised.

c) The new Coinv shareholders' agreement

The shareholders' agreement signed on May 24, 2014 by Nuove Partecipazioni S.p.A., UniCredit S.p.A., Intesa Sanpaolo S.p.A. (and, limited to certain provisions, Marco Trochetti Provera & C. S.p.A.), which Manzoni S.r.l. subsequently joined on April 16, 2015, was terminated on August 11, 2015. That shareholders' agreement contained, inter alia, provisions concerning the investment owned by Coinv S.p.A. in Prelios. It was terminated in the broader framework of the agreements to execute a sweeping corporate and industrial operation affecting Pirelli & C., as announced to the market.

Also on August 11, 2015, Marco Trochetti Provera & C. S.p.A., Nuove Partecipazioni S.p.A., UniCredit S.p.A., Manzoni S.r.l. and Intesa Sanpaolo S.p.A. (the “Parties”) signed a new shareholders' agreement concerning, specifically in regard to Prelios, the investment owned by Coinv S.p.A. in Prelios, amounting to 8.111% of the voting shares.

The shareholders' agreement shall remain valid and in force until the fifth anniversary after the signing date. It will be automatically renewed on that date for another two years, unless one of the Parties gives written notice to the other Parties that it does not wish to renew the shareholders' agreement, by giving said notice at least 4 (four) months before expiry of the applicable deadline.

d) Additional shareholders' agreement between Pirelli & C. S.p.A., UniCredit S.p.A., Intesa Sanpaolo S.p.A. and Coinv

On December 28, 2015, UniCredit S.p.A., Intesa Sanpaolo S.p.A. Pirelli & C. and Coinv (the "Members") signed an agreement containing several shareholders' agreement clauses related to Prelios and affecting the Prelios shares (ordinary shares and Category B shares) and options to subscribe Prelios shares, held by the Members and concerning the Prelios Capital Increase.

The latest amendment to the aforementioned agreement was made on March 15, 2016.

*

The abstracts containing the key details of the cited agreements and shareholders' agreements are available, inter alia, on the Consob website and published on the Company website www.prelios.com together with the related financial notices.

1.6. Prelios share performance

Prelios stock is listed on the Automated Screen-based Trading System or MTA (Mercato Telematico Azionario) operated by Borsa Italiana.

The stock prices dating from before February 8, 2016 (the date on which the capital increase commenced) have been adjusted by the specific adjustment coefficient for the capital increase transaction.

During 2015, the price of Prelios stock rose from about Euro 0.2524 to about Euro 0.2694, while rising about +6.8% in a year marked by severe volatility on the stock market and non-recurring transactions that affected the Company.

During the reference period, the FTSE MIB index gained about +12.7%, rising from about 19,012 points to about 21,418 points. At the same time, the FTSE Italia *All-Share* index rose by about +15.4%, from about 20,138 points to about 23,236 points, while the FTSE Italia *Small Cap* index rose by about +19.5%, from about 16,179 points to about 19,339 points.

During the first half of the year, the Italian stock market benefited from the expansionary monetary policy of the ECB, which provided liquidity through quantitative easing (QE). That QE program is still in effect. From the middle of the year, the market then passed through an intensely volatile phase triggered by the Greek sovereign debt crisis and subsequently exacerbated by fears of a Chinese economic slowdown. These impacted the prices of key commodities, mainly oil, whose decline dragged down all stock indices worldwide. This highly volatile period continued until the end of the year, being buoyed by the expectations of a possible increase – subsequently confirmed – in reference interest rates by the United States Federal Reserve Bank and by additional fears over the softening of the Chinese economy.

During the first half of 2015, the price of Prelios stock rose from its low that year, about Euro 0.2380 on January 12, 2015, to reach its high for the year, about Euro 0.5008, on March 11, 2015, following publication of its consolidated financial results for 2014 and publication of the updated Outlook for the three-year period 2015-2017.

Subsequently, the stock price began tracking a downward trend, which nonetheless reflected the positive reaction of the market to the announcement made on August 6, 2015 that the Company Board of Directors had approved the “Centaurus” project which, inter alia, envisaged spinning off the non-core assets and investment activities to a new special purpose vehicle named “Focus Investments S.p.A.” (that transaction was completed on December 29, 2015) and a capital increase with pre-emptive rights for shareholders amounting to Euro 66.5 million.

The Company commenced that capital increase in February 2016, completing it in March 2016. The final conditions of the capital increase, set by the Board of Directors on February 3, 2016, have dictated the issuance of 646,145,631 new shares offered on a pre-emptive basis to Prelios shareholders according to an option ratio of 9 new shares for every 10 ordinary and/or Category B shares owned, at the subscription price of Euro 0.1029 (corresponding to a discount on the TERP³⁰ of about 34.4%).

The transaction took place during a market period dominated by extremely difficult and highly turbulent conditions. During the subscription period, the FTSE MIB fell by up to about -26.4% (February 11, 2016) from its level at the beginning of the year and up to about -34.4% (February 11, 2016) from its 2015 high (on July 20, 2015).

Prelios stock fell by about -43.2% between the date when the capital increase was set (closing price on February 3, 2016) and the final deadline for subscription of the shares after the unexercised pre-emptive rights were offered on the Stock Market (March 4, 2016).

During the subscription period of the Prelios share pre-emptive rights (February 8, 2016 – February 24, 2016), 419,798,781 shares were subscribed, amounting to 64.97% of the total number of shares offered. Instead, 171,723,825 shares, representing 26.58% of the shares offered, were subscribed after the offer on the Stock Market, during the February 29, 2016 and March 1, 2016 sessions, of the rights not exercised during the pre-emptive right subscription period. The remaining 54,623,025 shares, equal to 8.45% of the total number of shares offered, were subscribed by Intesa Sanpaolo S.p.A., in execution of the assumed underwriting

³⁰ The *Theoretical ex right price* (TERP) is the theoretical price of a share after exercise of pre-emptive right to a capital increase.

commitments, through offsetting of the receivable claimed from Prelios for transfer to the latter of the 10% equity interest in Prelios Società di Gestione del Risparmio S.p.A.

Following the capital increase, the share capital of Prelios is composed of 1,364,087,011 shares, of which 1,153,098,101 are ordinary shares and 210,988,201 are Category B shares.

Prelios S.p.A. - Stock performance



Source: FACTSET, prices for period from December 30, 2014 to March 11, 2016 (The prices before February 8, 2016, starting date of capital increase, are adjusted with the specific adjustment coefficient for the transaction)

Stock performance and market capitalisation

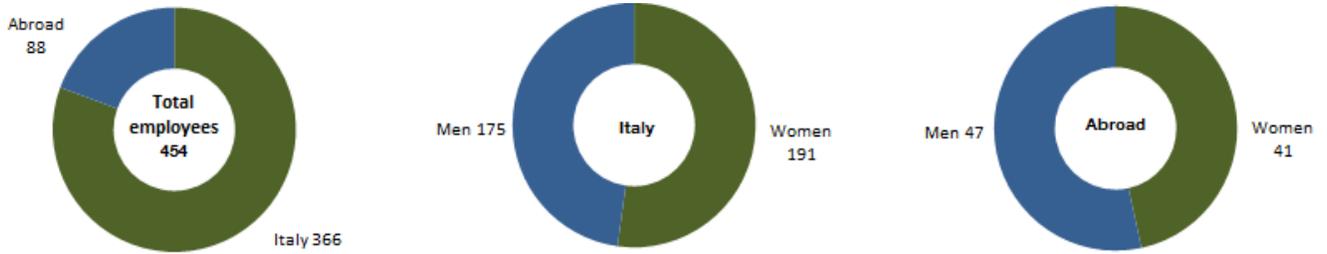
Prelios stock performance in 2015	6.8%
Prelios stock performance from beginning of 2016 until March 11, 2016	-66.8%
Capitalisation at December 30, 2014 (ordinary shares + category B shares)	€ 181 mn
Capitalisation at December 30, 2015 (ordinary shares + category B shares)	€ 193 mn
Capitalisation at March 11, 2016 (ordinary shares + category B shares) ^(*)	€ 122 mn

Note: (*) the price of category B shares (unlisted) was assumed as being equal to that of the ordinary shares

The prices prior to February 8, 2016, starting date of capital increase, are adjusted with the specific adjustment coefficient for the transaction.

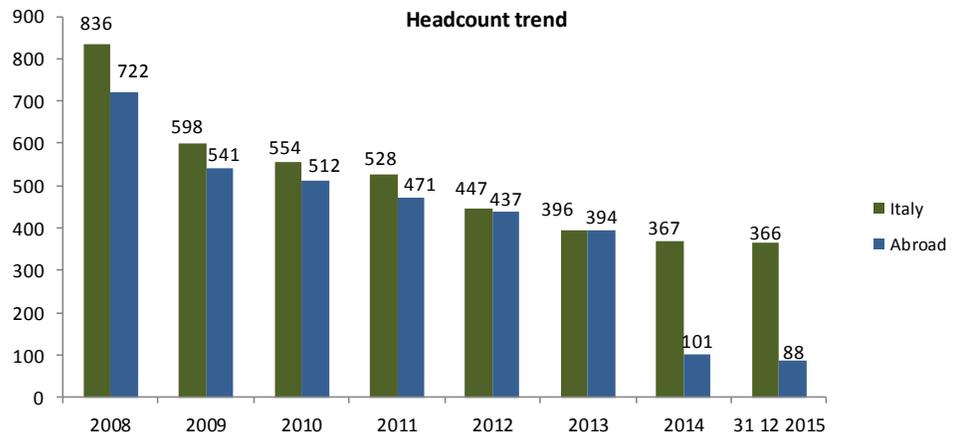
Source: elaboration of FACTSET data

1.7. Headcount³¹



Average age

Italy	Abroad
42.3	42.9



The total headcount after the DGAG disposal, including resources on temporary contracts, fell from 468 persons on December 31, 2014 to 454.

³¹ Including resources on temporary contracts.

2. CORPORATE BODIES

Board of Directors ³²

Giorgio Luca Bruno	Chairman
Sergio Iasi	Chief Executive Officer (CEO)
Anna Maria Artoni	Independent Director
Mirja Cartia d'Asero	Independent Director
Rosa Cipriotti	Independent Director
Giovanni Gilli	Director
Valeria Leone	Director
Andrea Mangoni	Independent Director
Davide Mereghetti	Director
Arturo Sanguinetti	Independent Director
Giovanni Jody Vender	Independent Director
Massimo Marinelli	Board Secretary

Internal Control, Risk and Corporate Governance Committee

Arturo Sanguinetti	Lead Independent Director – Chairman
Anna Maria Artoni	Independent Director
Rosa Cipriotti	Independent Director

Remuneration Committee

Giovanni Jody Vender	Independent Director – Chairman
Mirja Cartia d'Asero	Independent Director
Davide Mereghetti	Director

³² On October 16, 2015 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, 2017. 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.

Board of Statutory Auditors ³³

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

Supervisory Board

Arturo Sanguinetti	Chairman
Sergio Beretta	Member
Michela Zeme	Standing Statutory Auditor
Sergio Romiti	Member

Manager charged with preparing the Company's financial documents

Marco Andreasi ³⁴

Independent Auditors

Reconta Ernst & Young S.p.A. ³⁵

Via della Chiusa, 2

20123 Milan

³³ 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.

³⁴ On October 16, 2015 the Board of Directors of Prelios S.p.A. confirmed Marco Andreasi as 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.

³⁵ Appointment conferred by the shareholders' meeting on April 14, 2008.

3. PRELIOS IN 2015

During 2015, as in the previous year, the macroeconomic situation remained unsettled by uncertainties surrounding the overall growth prospects of the Italian economy. Although there were some initial signs of a future recovery, the persistence of the crisis was reflected in the real estate sector which, notwithstanding the sharp increase in volumes from 2013, still reflects a soft market. However, mention has to be made of several signs of a possible recovery, driven mainly by the recent renewed interest in Italy's real estate sector by opportunistic foreign investors, prompted by the effects of repricing and the resulting upturn in gross yields and easier access to credit than in previous years. Investments are expected to grow in 2016, stimulated by the upturn in domestic and foreign demand and the improvement in financing conditions.

- In February 2015, following agreements reached beginning in July 2014, Unicredit signed a long-term strategic agreement with the Fortress-Prelios consortium calling for:
 - ✓ sale to the affiliates of Fortress of the entire equity investment of UniCredit in UniCredit Credit Management Bank S.p.A. ("UCCMB"), including a portfolio of non-performing loans having a gross value of about 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 have agreed that they will collaborate as industrial partners in the management of certain non-performing loans. Therefore, Prelios Credit Servicing shortly begin managing certain loans in accordance with the agreements reached with Fortress.

In particular, the following agreements were signed on June 9, 2015: the "Relationship Agreement" – which regulates the contractual aspects of the partnership – and the "Main Terms of Subservicing Agreement" – which regulates in greater detail the principal terms for management of the share of PRECS in the portfolio acquired from UCCMB.

Subsequently, on October 30, 2015, UCCMB completed acquisition of the previously mentioned NPL portfolio for about Euro 2.4 billion.

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.

- On March 10, 2015 the Company Board of Directors approved the Budget 2015 and Outlook 2016-2017, which still show losses in amounts that will reduce equity and negative cash flow that, while not triggering a deficit over the life of the plan, will continue to provoke financial tension. However, a number of possible new actions have been identified, although their significant effects will be visible beginning in 2016. Since they are being studied and are thus not reflected in those forecasts, they might have a material impact on Group performance. This would consist in a significant stimulus resulting both from the substantial balancing of the Group's accounts and economic sustainability, consistently with the pursued objectives of turning it around, and the contextual conditions, such as renewed access to credit for launching new investment vehicles and pro-active collaboration with the banking system, which until now have severely limited the business activity of the Group. The Budget 2015 and Outlook 2016-2017 contain the following main objectives:
 - ✓ 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 asset 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 base 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.

In this context, the Company obtained a waiver for certain aspects of its loan agreements in 2015, and specifically in regard to the timelines/procedures for reimbursement of the cash flows resulting from sale of the co-investment activities (inversion of the senior debt 65%-35% repayment mechanism).

- On April 8, 2015, Prelios acquired approximately 39% of Officinæ Verdi S.p.A., Italy's leading operator in energy efficiency, with projects estimated to be worth over Euro 150 million under development in the next three years. Officinæ Verdi energy efficiency improvement projects are based on an integrated model combining high technical and financial skills. Officinæ Verdi has an innovative approach that is supported by Mætrics® Advanced, an "intelligent platform" capable of identifying waste, streamlining maintenance and monitoring the economic returns of actions for investors.
- The Ordinary and Extraordinary Shareholders' Meeting of the Company was held on June 24, 2015. During the ordinary part, the Shareholders' Meeting approved the separate financial statements 2014, which closed with a net loss of about Euro 74.1 million, while the consolidated loss amounted to about Euro 61.1 million. Moreover, following the resignation of a Director, the Shareholders' Meeting decided to confirm the number of members of the Board of Directors at 15 and to appoint Ms. Valeria Leone as the new director of the Company. During the extraordinary part, the Shareholders' Meeting resolved – pursuant to Article 2446, paragraph 2 of the Italian Civil Code – to cover the entire loss for the year, the loss for the previous year, and the pre-existing negative "other reserves", as reported on the separate financial statements 2014, through full use of the available reserves and reduction of the share capital to Euro 49,225,067.95.
- Following the preliminary agreement made in October 2014 for acquisition of 80% of Negentropy Capital Partners LLP, an asset manager based in London and operating under the supervision and regulation of the Financial Conduct Authority (FCA), work continued in the first half to complete the acquisition. 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. The completion of this transaction is conditioned on obtaining authorisation for the "change of control" in the company capital by the English authority.
- On August 6, 2015 the Board of Directors approved the plan to separate the business activities related to real estate investments and co-investments from the service activities (asset and fund management, integrated asset services, intermediation and valuation services, credit servicing), to be transferred to a separate special purpose vehicle that will be controlled by Prelios only initially and then be owned by the partners (the principal lending banks of Prelios, i.e. Banca Intesa and Unicredit, and Pirelli & C.). After the capital increase that the partners will subscribe, it is envisaged that Prelios will lose control in consequence of the governance agreements applying to this special purpose vehicle.
- The same Board of Directors meeting approved the Industrial Plan 2015-2017 (hereinafter, the "Plan") within the framework of the Project. Aside from the growth objectives that collectively aim to complete the restructuring of the Group (aimed at realising a pure management company) and the relaunch of Prelios as a European leader in the real estate and related financial services sector, the Industrial Plan also contains the elements that can reveal its close correlation with the Company recovery path, including the restructuring of its debt which, as part of the Transaction, will be transferred to the recipient company whose co-investors include the Partners and in which Prelios will lose control. The

Plan was prepared on the assumption that the Transaction would be realised and finalised, including the Prelios capital increase. The Plan 2015-2017 sets the following key goals:

- ✓ confirm its repositioning as a “pure management company”, basing it on the central role played by services inside and outside Italy through focus on the activities that allowed the Prelios Group to establish itself as a leading operator in the years after its listing. It will be repositioned as a “pure management company” through: (i) focus on the management platform and services for real estate assets and bank assets on behalf of non-captive investors in both Italy and Germany and, to a lesser extent, in Poland and (ii) implementation of the separation between the Services and Investments component in view of reducing the company risk profile, focusing management on development, and reducing potential conflicts of interest generated by the previous business model.
 - ✓ reduction of the risks inherent in the recently adopted business model through: (i) a reduction in debt, aimed at giving the Company greater efficiency and flexibility consistent with the models of long-term sustainability of service companies, and (ii) a reduction in the risk profile through the implementation of separation of the investment portfolio that is a part of the transaction;
 - ✓ a lean and efficient organisation with a cost position that is comprehensively competitive with that of leading competitors, exploiting the operating experience of an expert management team, further streamlining of the number of human resources and containment of other fixed costs deriving mainly from simplification of the business model;
 - ✓ streamlining and containment of the holding company costs, in view of limiting its burden through cutbacks in its staffing levels and fixed costs, while allowing the holding company to focus its activity on: domestic and international strategic development, interdisciplinary coordination of commercial and development initiatives, management of relationships with business investors and definition of the strategic guidelines for development of the segments of interest to the Group.
- On August 7, 2015 Mr Mario Civetta – an independent expert having adequate and documented professional expertise and meeting the prerequisites of independence and lack of any interest in the Transaction – certified that the company data were true and that the plan was feasible pursuant to and in accordance with Article 67, paragraph 3, sub-paragraph d), of Royal Decree 267 of March 16, 1942. This certification was also sworn on September 14, 2015 in the same version – after having only summarised several parts to avoid exact indication of certain numerical details and certain sensitive information used for certification, but which must not be disclosed to competitors and thus not be published, while fully confirming the premises, contents and conclusions – and filed for registration at the Milan Companies' Register on October 8, 2015.
 - On September 3, 2015 the agreement became enforceable: under this agreement, Feidos 11, a special purpose vehicle owned by, inter alia, Mr Massimo Caputi, sold to the creditor shareholders Pirelli, Intesa Sanpaolo and Unicredit 15.9% of Fenice, which owns 29.39% of Prelios S.p.A. in Category B shares. The transaction was executed through the exercise of a call option by Pirelli and the two banks.
 - On October 8, 2015 the Board of Directors of Prelios S.p.A. resolved to finalise the extraordinary transaction named “Progetto Centauro” (Centaur Project), approved on August 6, 2015. In particular, the Board of Directors took note of the conclusion of the approval process by Intesa Sanpaolo S.p.A., Pirelli & C. S.p.A. and UniCredit S.p.A. (the “Partners”) and by all the Lending Banks³⁶ of the Company in regard to the Transaction, specifically in regard to approval for restructuring the overall bank debt of the Company, on which realisation of the Project announced to the market had been conditioned. With the acceptance and agreement to the terms and conditions of the Project by all the parties involved, the following was signed:

³⁶ Intesa Sanpaolo S.p.A., UniCredit S.p.A., Banca Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano Soc.Coop.a r.l., Banca Popolare di Sondrio Soc.Coop.p.A., Banca Popolare dell'Emilia Romagna Soc.Coop., with Banca IMI S.p.A. as Agent Bank.

- ✓ a framework agreement between Prelios and the Partners that governs execution of the Transaction (hereinafter, the “Framework Agreement”);
- ✓ a new agreement for restructuring the overall bank debt between the Company and the Lending Banks (hereinafter, the “New Restructuring Agreement”).

In the overall context of the Transaction and pursuant to the terms and conditions set out in the Framework Agreement and New Restructuring Agreement, the Board of Directors then approved finalisation of the entire Transaction, which envisages:

- a. contribution of the Investments Business Unit, whose total assets, which are substantially the same as the book values, are valued at about Euro 308 million, together with a debt having a face value of about Euro 174 million, in favour of the newly incorporated company Focus Investments S.p.A. The contribution value of the Business Unit was assessed in an appraisal report prepared, pursuant to Article 2343-ter, paragraph 2, sub-paragraph b) of the Italian Civil Code, by Prof. Mario Massari, an independent expert having adequate and confirmed professional expertise, having the pre-requisite independence and absence of conflict of interest in the Transaction. In regard to the financial position, it is also envisaged that Prelios contribute Euro 20 million in cash, guaranteeing that Focus Investments S.p.A. would have adequate financial resources;
 - b. subsequent entry in Focus Investments S.p.A. by the Partners through a reserved capital increase for Euro 12 million and governance that, by regulating the voting mechanisms, causes Prelios to lose control and consequent consolidation of Focus Investments S.p.A. in Prelios at equity. Consequently, neither Prelios nor the Partners will control Focus Investments S.p.A., allowing it to proceed with the orderly disposal of its assets, inter alia in view of repaying the transferred debt;
 - c. subscription of the purchase and sale agreement for acquisition of the investment held by Intesa Sanpaolo S.p.A. in Prelios Società di Gestione del Risparmio S.p.A., representing 10% of its share capital³⁷;
 - d. a capital increase by Prelios totalling Euro 66.5 million, in the form of a rights offering to Prelios shareholders. Any unexercised options will be fully underwritten by the Lending Banks upon satisfaction of certain conditions, including the execution of an underwriting agreement. The proceeds resulting from the capital increase will be allocated as follows: Euro 48 million for repayment of the corporate debt, Euro 12 million to cover financial requirements related to development of the Services Platform, and Euro 6.5 million to be used to acquire a shareholding of 10% in Prelios Società di Gestione del Risparmio S.p.A. that is currently owned by Intesa Sanpaolo.
- The Ordinary Shareholders' Meeting gathered on October 16, 2015 and appointed the Board of Directors. It reduced the number of its members to 11 (from the 15 seats on the outgoing Board of Directors appointed in 2013). Moreover, the length of their term was set at three financial years (and thus until the shareholders' meeting called to approve the financial statements at December 31, 2017) and the total annual compensation for the entire Board was set at a maximum of Euro 550,000, which will be subsequently allocated amongst its various members as decided by the Board of Directors. Instead, the Extraordinary Shareholders' Meeting amended Article 5 of the Articles of Association (share capital and shares) by granting the directors, pursuant to Article 2443 of the Italian Civil Code, the right to increase the share capital by a maximum of Euro 66.5 million (including any share premium) through the issue of new Prelios ordinary shares, without par value, in the broader context of the extraordinary transaction of the spin-off and recapitalisation named “Progetto Centauro” (Centaur Project).
 - On December 29, 2015, Prelios S.p.A. completed the closing of the first part of the non-recurring spin-off transaction, by separating the Prelios investment and real estate co-investment business activities from those related to service activities (asset and fund management, integrated asset services, intermediation and valuation services and credit servicing). In particular, on that date – effective

³⁷ The fairness of the value of the investment has been confirmed in a specific fairness opinion issued by Prof. Giorgio Pellati, an independent expert having adequate and confirmed professional expertise, and having the pre-requisite independence and absence of conflict of interest in the Transaction.

December 31, 2015 – the investments business unit was transferred to a separate corporate entity that had already been formed for this purpose and 100% owned by Prelios S.p.A., named Focus Investments S.p.A., together with transfer of a portion of the Total Debt having a face value of about Euro 174 million.

On the same date, as part of the spin off transaction and the related strengthening of the overall financial position – in accordance with the agreements reached by Prelios and Partners – the Extraordinary Shareholders' Meeting of Focus Investments S.p.A. resolved, inter alia:

- ✓ a capital increase of approximately Euro 12 million reserved for subscription and payment by the Partners;
- ✓ the issue of equity financial instruments to be offered for subscription to the Company against a contribution of about Euro 20 million in cash to made by Prelios;
- ✓ the adoption of new Articles of Association for Focus Investments S.p.A., which provide for, inter alia, the distribution of the share capital of the Transferee in different categories of shares so that governance of the company is apportioned equally amongst all four shareholders, with effect from the time of subscription and release of the reserved capital increase to the Partners.

At the same time, the Centaur Project also aims at shoring up the balance sheet and financial position of the Company, by achieving a sustainable debt structure, balanced equity and financial position, with the goal of assuring its future as a going concern. This Project also envisages a capital increase with pre-emptive rights by Prelios.

The Transaction is aimed at:

- from the rational, strategic and industrial perspective:
 - spinning off the non-core Investment assets from Prelios, thereby permitting an acceleration in the process of implementing a business model to realise a pure management company consistent with the basic strategic focus that has been repeatedly declared to the market;
 - a clear business model with a focus on the pure activity of service provider and streamlining the allocation of financial resources;
 - greater possibility of access to new credit to seize the growth opportunities arising on the market;
 - improved market perception of the Company, with consequent possible participation in the process of consolidation under way in the sector;
 - reduced exposure to the needs and risks associated with the run-off of Investments, with the associated de-correlation of the Services business cash flows from the requirements of the Investments business;
- from the rational and financial perspective:
 - streamlining of the management structure with reduced overhead costs resulting from the Transaction;
 - realisation by Prelios of a significant reduction in its net financial position after the Transaction;
 - shoring up of the balance sheet and financial position, which can better support the business needs of the Services;
 - realisation of a balanced equity and financial position in order to pursue the structural conditions for long-term stability of the Company as a going concern.

INITIATIVES IDENTIFIED AND ADOPTED FOR THE RECOVERY OF THE BUSINESS AND ITS CONTINUATION AS A GOING CONCERN

With approval of the previous Annual Financial Report 2014 and the Half-yearly Financial Report at June 30, 2015, the Directors highlighted the persistence of significant uncertainties over the capacity of the Group to operate as a going concern, and the need to pursue further initiatives that might allow the Group to complete its own restructuring in view of achieving long-term financial solidity. Also in light of the results of the Budget 2015 and Outlook 2016-2017, both in terms of capitalisation and of the sustainability of Parent Company debt, the Directors had decided that the actions identified to guarantee that it would remain a going concern over the life of the Plan adequately addressed the significant uncertainties clouding its viability as a going concern and that, on the basis of the negotiations that were already at an advanced stage and ongoing especially with lenders, it might be possible to finalise the identified mitigation measures in a reasonably short time and as compatible with the requirements of the Company. Those measures would enable it to continue operating as a going concern, disposing of the liquidity necessary to cover its short-term and medium-term cash requirements within limits sustainable by the Group, while simultaneously pursuing additional initiatives so that the Group could complete its own restructuring to achieve long-term financial solidity.

At the beginning of 2015, the Group implemented various initiatives to defer its short-term financial commitments. The amendment to the loan agreement calling for inversion from 65% to 35% of the mechanism used to determine the amount of "Net Proceeds" (in essence, the cash flows generated by the disposal of investments) to be allocated to premature repayment of the Senior Loan was also formally agreed in the early months of 2015. Moreover, an agreement was made in H1 2015 for repayment in discharge of the debt towards UBI Banca, by using a portion of the greater amount of cash realised.

During 2015 and at the beginning of 2016, the Group carried out and completed a major process of restructuring that is illustrated in detail in this Report, which ultimately led to:

- repositioning Prelios as a "pure management company";
- reduction of the risks inherent in the business model adopted in the recent past;
- a capital increase totalling Euro 66.5 million;
- a major reduction in debt through (i) the spin-off of the Investments business unit and (ii) partial repayment of the corporate debt with a portion of the proceeds from the capital increase.

As previously mentioned, on August 6, 2015 the Board of Directors approved the guidelines for the extraordinary transaction named the "Centaur Project", concerning separation of the Investments business unit from the Services business unit and, consequently, the Industrial Plan 2015-2017 together with a new restructuring plan certified and sworn pursuant to and in accordance with Article 67, paragraph 3, subparagraph d), of Royal Decree 267 of March 16, 1942.

Moreover, it must be pointed out that at December 31, 2015, the extraordinary transaction described above was completed only in regard to the contribution in kind of the Prelios S.p.A. Investments Business Unit to Focus Investments S.p.A. That transfer was executed on December 29, 2015, while the following had not yet been completed: i) the Reserved Capital Increase in favour of Focus Investments S.p.A., paid up in cash by the Partners on January 12, 2016 and which, according to the governance rules of Focus Investments S.p.A., consequently triggered the loss of control by Prelios S.p.A., ii) the payment of Euro 20 million made on February 25, 2016 to Focus Investments S.p.A. for the subscription of equity financial instruments issued by the latter and that, in accordance with the provisions of the Restructuring Agreement, discharges Prelios S.p.A. from the approximately Euro 176 million debt transferred to Focus Investments S.p.A., iii) the effects of the Restructuring Agreement came into force beginning January 1, 2016, since all the remaining conditions precedent for those accords were satisfied in the first few months of 2016, iv) the Capital Increase with preemptive rights for Euro 66.5 million offered to the shareholders of Prelios S.p.A. that was completed on March 9, 2016.

Therefore, the consolidated financial statements of Prelios S.p.A. at December 31, 2015, show no accounting effects related to the transaction insofar as the only part of the transaction that had been completed before that date was the transfer of the Investments Business Unit to Focus Investments S.p.A., which was still controlled by Prelios S.p.A. at that date.

Therefore, to facilitate comprehension of the overall effects of the Transaction, part 7 of this report presents the pro-forma consolidated financial figures of the Prelios Group for the year at December 31, 2015. These have

been prepared merely for illustrative purposes, by making appropriate pro-forma adjustments to the historic financial data for the year at December 31, 2015, to reflect retroactively the material effects of the Transaction as if it had already been completed at December 31, 2015.

In light of the events that occurred in 2015 and the first few months of 2016, as described in the part "Subsequent Events", all the conditions precedent envisaged in the Framework Agreement and the New Restructuring Agreement were satisfied and all parts of the transaction were completed by the approval date of this Annual Financial Report 2015. Therefore, following completion of this Transaction, Prelios S.p.A. has achieved its financial objective of reducing its own debt, in regard to the portion transferred to Focus Investments S.p.A. and the portion repaid with the proceeds from the capital increase, while increasing its own capitalisation – through the same capital increase – in accordance with the provisions of the Industrial Plan 2015-2017.

In regard to its performance in 2015, discussed in detail below, attention is called to the fact that the profit targets forecast for the Services platform have been met, although the revenue target for the management and services platform previously announced to the market was missed due to the delayed implementation of certain agreements and failure to complete certain development activities (2015 revenue of about Euro 70 million, as compared with a target range of Euro 75-80 million announced to the market). Against this backdrop, the Board of Directors meeting held on March 21, 2016 approved the Budget 2016 that confirms the strategic policy of the Group by defining a short-term program of industrial actions identified to achieve the targets of the Industrial Plan 2015-2017. In particular, the Budget 2016 calls for increasing the volumes of assets under management. This is to be achieved principally by initiating the management agreements that have already been signed and obtaining new management mandates. The expected growth in margins is linked to this expected increase in sales turnover, to be realised gradually over the course of 2016.

Considering that the Transaction has been completed as planned and on the basis of the forecasts set out in the Industrial Plan 2015-2017, as updated by the Budget 2016, the Company believes that – although those forecasts still show losses, with consequent erosion of equity and negative cash flow in 2016 that, while not causing a deficit over the lifetime of the plan, nonetheless confirm the persistence of a financial and liquidity situation demanding careful monitoring by the Directors – it has completed its own process of restructuring to achieve long-term financial solidity.

On the basis of the circumstances described hereinabove, the Directors believe that the actions taken in 2015 and at the beginning of 2016 – as described in the parts "Prelios in 2015", "Subsequent events" and "Outlook" – and the actions envisaged in the Budget 2016, consistent with the Industrial Plan 2015-2017, have laid the bases for rebalancing the equity and financial position of the Company insofar as, although the inevitable uncertainties related to sector trends persist, the extraordinary transaction of spinning off the Investments business and associated financial restructuring of the Group have been completed in accordance with the provisions of the Industrial Plan 2015-2017. In this context, the Directors are presently unaware of any elements that might lead them to consider the Industrial Plan 2015-2017 unachievable. In particular, the Directors believe that all the executed actions are adequate to overcome contingent uncertainties over the viability of the Group as a going concern and, therefore, that the Group may continue operating.

4. NOTES ON MAIN GROUP ECONOMIC AND FINANCIAL DATA

This section contains an analysis of the income statement, balance sheet and cash flow statement of the Group at December 31, 2015. 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 derived from the combination or reclassification of accounting data, according to the reconciliation format found in Appendix A of this report on operations, and are applied to disaggregate financial figures based on the nature of the events which led to their origination. Refer to the analysis presented in part 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 part 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. in 2014 for the disposal of the investments held in the real estate companies holding the German residential portfolio called DGAG (Deutsche Grundvermögen AG), the financial figures for 2015 presented and commented on below do not include the figures pertaining to the German business unit that was sold in 2014. Indeed, in accordance with IFRS 5, these figures have been reclassified to a specific line related to assets/liabilities sold and/or held for sale.

4.1. Income statement

(Euro/million)	DECEMBER 2015	DECEMBER 2014
Consolidated revenues:	70.9	72.1
Management platform: operating result before restructuring costs and property writedowns/revaluations	(1.2)	0.6
Management platform: net income from equity investments before restructuring costs and property writedowns/revaluations	0.4	0.0
Total Management Platform: Operating result	(0.8)	0.6
Investment activities: operating result before restructuring costs and property writedowns/revaluations	(14.8)	(8.8)
Investment activities: net income from equity investments before restructuring costs and property writedowns/revaluations	1.1	18.7
Investment activities: income from shareholder loans (1)	4.8	4.5
Investment activities: loss from NPL portfolio valuation	(1.9)	(6.3)
Total Investment Activities: Operating result	(10.8)	8.1
Operating profit/(loss)	(11.6)	8.7
Financial expenses	(13.5)	(22.5)
Profit (loss) before restructuring costs, property writedowns/revaluations and income taxes	(25.1)	(13.8)
Restructuring costs	(0.5)	(13.9)
Property writedowns/revaluations	(18.2)	(39.1)
Result before taxes	(43.8)	(66.8)
Taxes	(4.9)	(2.8)
Net income (loss) from continuing operations	(48.7)	(69.6)
Minority interests	(0.1)	0.4
Consolidated net income/(loss) before discontinued operations	(48.8)	(69.2)
Net income (loss) from discontinued operations	4.3	8.1
Consolidated net income/(loss)	(44.5)	(61.1)

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

Consolidated revenue amounted to Euro 70.9 million for the year ended December 31, 2015, compared to Euro 72.1 million in 2014. In particular, the revenue of the Management Platform³⁸, both Italian and foreign, totalled Euro 70.1 million. This marked a contraction that was mainly due to the lower revenue generated by fund management activity following liquidation of the Olinda Fund and the reduction in fees from the Tecla Fund, for which the non-recurring extension was exercised. There has also been a contraction in the revenues of the German management platform, generated mainly by the loss of several non-captive mandates which expired at the end of 2014, and which have not yet been fully offset by the acquisition of new business. The revenue of the Investment Platform instead shows an increase that is mainly related to finalisation of the sale of the property located in Magdeburg, Germany.

The operating loss was Euro 11.6 million, as compared with Euro 8.7 million reported for 2014. Euro 1.4 million of this decline is attributable to the management platform, which contracted from an operating profit of Euro 0.6 million in 2014 to an operating loss of Euro 0.8 million in 2015. This deterioration is largely attributable to the service activities in Italy. The final result of the investment business fell Euro 18.9 million from 2014. That year had benefited from the positive impact of the disposal of an important area in Warsaw that is allocated mainly to retail activity. This sale was made by the Polish investee Polish Investment Real Estate Holding II BV, through disposal of the investment held in Berea Sp.Zoo., owner of the area. The non-performing loan business posted an impairment loss on the NPL portfolio of Euro 1.9 million, against a loss of Euro 6.3 million reported in 2014.

Financial expense in 2015 amounted to Euro 13.5 million, compared to financial expense of Euro 22.5 million at December 31, 2014. The improvement is mainly due to the gain on the premature repayment of the loan from UBI Banca, through payment on a lump sum basis of an amount less than its face value.

The restructuring expenses show a negative result of Euro 0.5 million, as opposed to a negative Euro 13.9 million for 2014. They are mainly related to expenses connected with streamlining of the Group, offset by the

³⁸ Net of general and administrative (G&A) expenses.

partial release of risk provisions following the supervening settlement or positive evolution of disputes that had previously caused the accrual of provisions.

Property write-downs/revaluations show a negative value of Euro 18.2 million, compared with a negative value of Euro 39.1 million reported for 2014. In particular, these reflected the value adjustments of the assets held by the Tecla Fund, deriving from adjustment of the valuations by independent experts, as well as the execution of preliminary sales agreements for the units held in the Olinda Fund. The final figure for 2015 reflects the write-downs recognised by Manifatture Milano S.p.A. (Euro -3.5 million), as well as the FIPRS Fund (Euro -3.2 million) and the Tecla Fund (Euro -2.8 million), partly offset by revaluation of the real estate portfolio held by the Spazio Industriale Fund for Euro 4.6 million. The item also includes Euro 10.5 million for adjustment of the value contributed by certain investments held by the Group in relation to their stated intention to sell the units held in the underlying real estate investment.

Taxes totalled Euro 5.0 million, compared with Euro 2.8 million at December 31, 2014.

The net loss attributable to the Group for the period ended December 31, 2015 amounted to Euro 44.5 million compared with a loss of Euro 61.1 million for 2014.

Management Platform ³⁹

Management activities (fund and asset management), specialist property and project management and agency services and non-performing loan management services (credit servicing) posted earnings of Euro 7.4 million in 2015, compared with earnings of Euro 12.4 million in 2014. The decrease was mainly due to the service companies in Italy, and in particular to the Fund Management business unit.

General and administrative expenses were Euro 8.2 million during the period, down from Euro 11.8 million in 2014.

Overall, operating loss from management activity, including general and administrative expenses, was Euro 0.8 million, compared to an operating profit of Euro 0.6 million in 2014.

Investment Activities⁴⁰

In 2015 investment activity yielded EBIT of negative Euro 8.9 million before the impairment loss on the NPL portfolio, compared with a positive Euro 14.4 million in 2014. Considering the negative impact of the impairment loss on the non-performing loan portfolio, Euro 1.9 million for the year ended December 31, 2015 and Euro 6.3 million for the year ended December 31, 2014, respectively, the operating loss was Euro 10.8 million compared with a loss of Euro 8.1 million at December 31, 2014. In Italy, the decrease was also due to the lower rents generated by the Tecla Fund, the Spazio Fund and the Raissa Fund following renegotiation of certain agreements with the lessee, Telecom. The positive result for the foreign platform reported at December 31, 2014 was largely attributable to the positive impact of the disposal of an important area in Warsaw that is allocated mainly to retail activity. This sale was made by the Polish investee Polish Investment Real Estate Holding II BV, through disposal of the investment held in Berea Sp.Zoo., owner of the area.

Properties worth Euro 549.2 million (Euro 141.3 million on a pro-rata basis) were sold⁴¹ in 2015, compared with Euro 877.7 million at December 31, 2014 (Euro 164.3 million on a pro-rata basis). Real estate transactions were executed for amounts essentially in line with the book value.

³⁹ 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.

⁴⁰ Investment Activities include income generated by Prelios from its investments in funds and companies that hold real estate and non-performing loan portfolios.

⁴¹ 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.

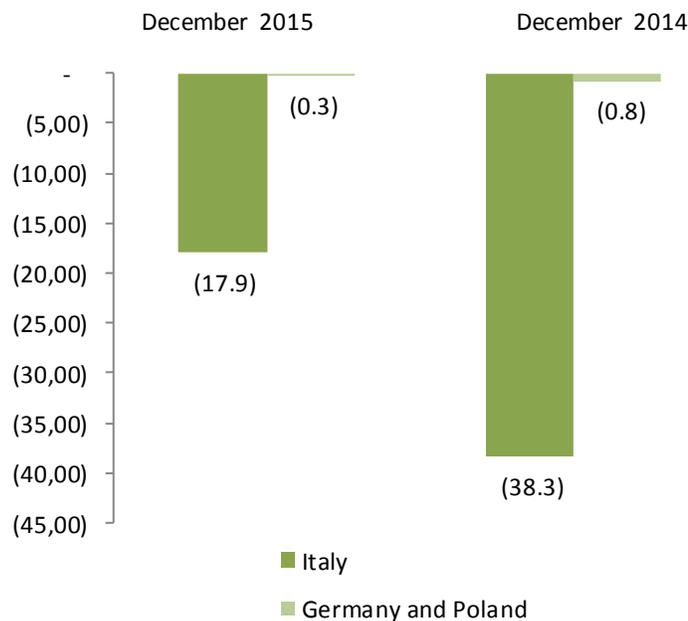
Total rents⁴² were Euro 138.3 million in 2015 compared to Euro 207.4 million in 2014. Prelios' pro-rata share of rents was Euro 38.8 million (Euro 48.3 million at December 31, 2014).

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/impairment of equity investments and real estate investments in 2015 represented a total of Euro 18.2 million, of which Euro 17.9 million related to the real estate portfolio in Italy and Euro 0.3 million to the real estate portfolio outside of Italy.

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

Adjustment of the real estate portfolio in which the Group holds an interest



⁴² 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%.

4.2. Balance sheet and financial analysis

The following table presents a management view of the balance sheet at December 31, 2015, compared with December 31, 2014.

(Euro/million)	DECEMBER 2015	DECEMBER 2014
Property, plant and equipment and intangible asses	289.2	334.2
of which investments in real estate funds and investment companies and shareholder loans granted (1)	219.9	273.6
of which goodwill	56.4	56.4
Net working capital	22.7	17.0
Discontinued operations	1.7	12.2
Net invested capital	313.6	363.4
Consolidated Equity	66.0	107.3
of which Group equity	63.2	104.8
Provisions	62.7	68.5
Net financial position	184.9	187.6
Total covering net invested capital	313.6	363.4

(1) The item includes equity investments in associates, joint ventures and other equity investments (124.4 million euro), receivables for shareholder loans (81.1 million euro), investments in real estate funds (11.7 million euro, recognised among "Other financial assets" in the consolidated balance sheet) and junior notes (2.9 million euro, recognised among "Other financial assets" in the consolidated balance sheet). The figures for December 2015 include provisions for equity investment writedowns of 0.2 million euro (0.4 million euro as at December 2014).

Property, plant and equipment and intangible assets amounted to Euro 289.2 million at December 31, 2015, compared to Euro 334.2 million at December 31, 2014. About Euro 48.1 million of the reduction is attributable to the repayment of loans made to the initiatives in which the Group participates, Euro 16.5 million to the negative pro-rata effect attributable to the Prelios Group stemming from property write-downs/revaluations, and Euro 9.4 million to redemptions of capital, of which Euro 6.0 million by the Olinda Fund and Euro 1.8 million by the joint venture Mistral Real Estate B.V. These changes were partially offset by an increase in guarantee deposits for escrow accounts of Euro 9.1 million related to Prelios SGR which secure the obligations to pay compensation to Olinda Fund investors, and related in particular to the representations and warranties issued on the condition and quality of the sold properties for which no liabilities are currently expected.

Net working capital was Euro 22.7 million at December 31, 2015, compared to Euro 17.0 million at December 31, 2014. The change refers mainly to repayment of 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.

Discontinued operations refer to assets held for sale pursuant to IFRS 5, according to the estimates of residual cash distributions from the sale of the DGAG Group. The reduction from the net amount reported in December 2014 is mainly due to repayment of the outstanding loans in exchange for sale of the German residential portfolio known as DGAG.

Consolidated net equity was a positive Euro 66.0 million, and equity attributable to the Group was a positive Euro 63.2 million.

Net financial position was a net debt of Euro 184.9 million at December 31, 2015, compared to a net debt of Euro 187.6 million at December 31, 2014.

The graph illustrates the combined effect of events that had an impact on the change in net financial position in 2015.

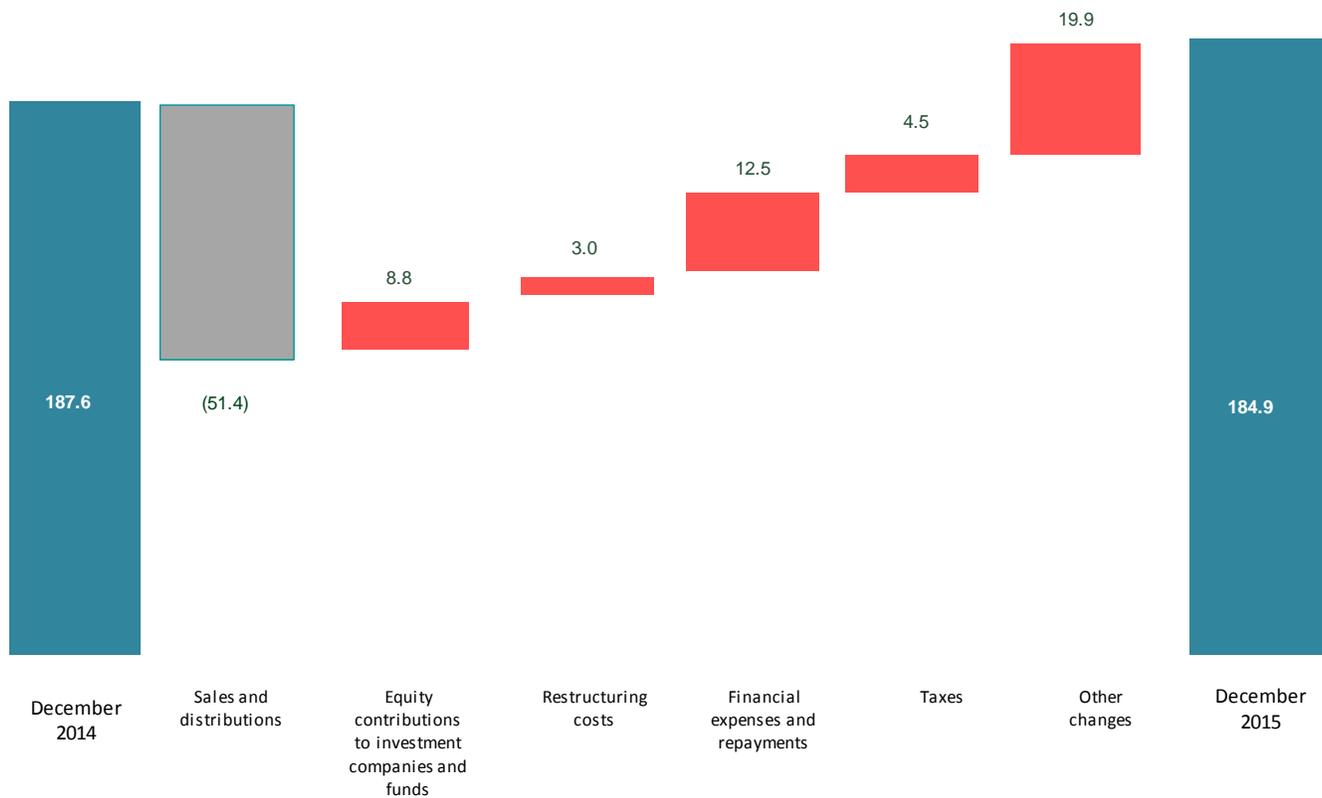
The negative change of Euro 2.7 million from December 31, 2014 was mainly due to the following:

- cash flows generated from sales and distribution by the investment company for Euro 51.4 million;

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

- equity contribution to investment companies and funds (Euro 8.8 million);
- restructuring costs (Euro 3.0 million);
- financial expenses and repayments Euro 12.5 million (of which Euro 14.3 million without monetary impact);
- taxes for Euro 4.5 million;
- other events partly linked to changes in net working capital for Euro 19.9 million.

(Euro/milione)



4.3. Net bank debt of investment companies and funds

The net bank debt was Euro 1.0 billion⁴³ on the real estate component of investment companies and funds with a market value on a 100% basis of Euro 2.3 billion. Prelios' average bank leverage on its real estate component was 44% (Prelios' pro-rata share of 55%) 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 12.5⁴⁴ million);
- 27% hedging of interest rate risk;
- an average maturity of 2.1 years (of which 2.1 years in Italy and 8.3 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 billion⁴⁵, against net bank debt of Euro 0.2 billion.

5. CONSOLIDATED INCOME STATEMENT

In 2015, the Group made an operating loss (as defined exactly in para 4 below) of Euro 11.6 million, compared with an operating profit of Euro 8.7 million in 2014 and a net loss attributable to the Group of Euro 44.5 million, compared with a net loss of Euro 61.1 million in 2014. The net loss was largely influenced by items that are outside the scope of ordinary operations, and in particular:

- impairment losses and property revaluations/write-downs, which amounted to a negative Euro 20.1 million (a negative Euro 45.4 million at December 31, 2014);
- restructuring expenses, which had a negative impact of Euro 0.5 million. This item mainly includes expenses connected with streamlining of the Group, loan losses and write-offs recognised as part of the program to restructure certain investees, offset by the partial release of risk provisions following the settlement or positive outcome of disputes that had previously generated accruals;
- The net income from assets and liabilities held for sale, which had a positive impact of Euro 4.3 million resulting from refinement of the estimated cash flows still remaining after disposal of the German residential portfolio known as DGAG, sold in 2014 to Buwog (fully owned by the Austrian group Immofinanz), along with the related residential management platform of Prelios Deutschland.

An income statement (accounting schedules) is presented below.

⁴³ This does not include certain funds classified as third-party funds in that Prelios' interest is less than 5% (and in particular Euro 0.2 billion attributable to the Cloe Fund).

⁴⁴ This includes Euro 4.9 million relating to a commitment already recognised among financial payables.

⁴⁵ The gross book value of the portfolio is Euro 9.5 billion.

(Euro/million)	DECEMBER 2015	DECEMBER 2014
Revenues from sales and services	70.9	72.1
Changes in inventories of work in progress, semi-finished and finished products	(2.7)	(2.0)
Other income	14.0	13.3
TOTAL OPERATING REVENUES	82.2	83.4
Purchases of raw and consumable materials used (net of change in inventories)	(1.8)	(3.2)
Personnel costs	(36.1)	(38.8)
Depreciation, amortization and impairment	(1.2)	(2.4)
Other costs	(61.5)	(66.6)
TOTAL OPERATING COSTS	(100.6)	(111.0)
EBIT	(18.4)	(27.6)
Net loss from equity investments of which:	(14.9)	(14.8)
- <i>portion of result of associates and joint ventures</i>	(10.9)	(13.3)
- <i>dividends</i>	0.4	0.0
- <i>gains on investments</i>	0.1	1.0
- <i>losses on investments</i>	(4.5)	(2.5)
Financial income	10.2	5.6
Financial expenses	(20.7)	(30.0)
RESULT BEFORE INCOME TAXES	(43.8)	(66.8)
Taxes	(4.9)	(2.8)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	(48.7)	(69.6)
of which attributable to minority interests	0.1	(0.4)
Net income (loss) from discontinued operations	4.3	8.1
CONSOLIDATED RESULT	(44.5)	(61.1)

Revenue from sales and services amounted to Euro 70.9 million in 2015, compared to Euro 72.1 million in 2014.

Other income totalled Euro 14.0 million, which was nearly the same as the final result of Euro 13.3 million reported in 2014. 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) totalled a negative Euro 1.8 million, compared with Euro 3.2 million at December 31, 2014. The change recorded in 2015 included Euro 0.6 million of net write-downs recognised on lower presumed realisable value, determined on the basis of independent appraisals as at December 31, 2015 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 Centrale Immobiliare S.r.l., Geolidro S.p.A. and Orione Immobiliare Prima S.p.A..

Personnel costs for the year at December 31, 2015 totalled Euro 36.1 million. This reflects a decrease of Euro 2.7 million from 2014, largely attributable to the reduction in average headcount during the period (446 employees, as compared with 631 employees in 2014), particularly in Germany following the partial loss of the agreement with Union Investment.

Other costs totalled Euro 61.5 million, compared with Euro 66.6 million in the previous year. 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. During 2015, impairment

losses fell sharply on receivables recognised to account for contingent risks of debtor insolvency, as well as losses on receivables already realised during the period in question (Euro -3.6 million). This decrease in impairment losses was partially offset by an increase in costs incurred for legal advice, as well as for professional engagements related to subcontracting of the cadastral register compliance service for the property and project management activity.

EBIT amounted to a negative Euro 18.4 million for the year ended December 31, 2015, compared with a negative Euro 27.6 million in 2014.

The net loss from investments was Euro 14.9 million in 2015, compared with a loss of Euro 14.8 million for the year ended December 31, 2014. The item includes a pro-rata net negative effect for the Prelios Group of Euro 16.5 million, deriving from property revaluations/write-downs, as compared with a negative Euro 33.6 million in 2014. The total negative effect reported in 2015 is related in particular to the write-downs recognised by Manifatture Milano S.p.A. (Euro -3.5 million), as well as the FIPRS Fund (Euro -3.2 million) and the Tecla Fund (Euro -2.8 million), partly offset by revaluation of the real estate portfolio held by the Spazio Industriale Fund for Euro 4.6 million. This item also includes Euro 10.5 million for the value adjustment to certain investments owned by the Group in relation to the stated intention by those investees to sell the units owned by them in the underlying real estate investment, as well as losses on investments for Euro 3.0 million attributable to the transfer to the income statement of the losses on the reserve previously carried at equity for the fair value measurement of units held by Prelios Società di Gestione del Risparmio S.p.A. in the Cloe Fund.

Financial income totalled Euro 10.2 million at December 31, 2015, compared with Euro 5.6 million in 2014. The improvement is mainly due to the gain on the premature repayment of the loan from UBI Banca, through payment on a lump sum basis of an amount less than its face value, both in regard to the Senior loan and the Super Senior loan.

Financial expenses totalled Euro 18.8 million at December 31, 2015, compared with the Euro 30.0 million reported during the previous year. This figure included the negative value adjustment to the junior securities held by the parent company resulting from the discounting of future cash flows for Euro 6.3 million, as compared with Euro 1.9 million at December 31, 2015. Moreover, Euro 4.0 million of the change from the previous year can be related to the lower figurative expenses recognised on the senior and super senior loans, following restructuring of the loan signed with the lending banks on March 4, 2015.

6. CO-INVESTED AND THIRD-PARTY REAL ESTATE PORTFOLIO AND REAL ESTATE NET ASSET VALUE AT DECEMBER 31, 2015

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 value⁴⁶, 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 date⁴⁷. This excludes the real estate portfolio underlying the Highstreet financial investment, whose value was analysed by Group entities.

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 investment portfolio

The information presented below concerning the Group's investment portfolio at December 31, 2015 is based on appraisals⁴⁸ performed by:

- CBRE for 28% of the portfolio;
- Eagle & Wise Service for 16% of the portfolio;
- REAG for 13% of the portfolio;
- other appraisers for the residual 16% of the portfolio.
- appraisals performed by Group entities for 27% of the portfolio (Highstreet).

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 appraiser.

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 three years) is sought both in accordance with the relevant industry regulations, and to ensure a more objective and independent assessment of the real estate assets. The 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

⁴⁶ Figures stated at cost net of any write-downs.

⁴⁷ The values thus determined exclude the deduction of any discounts resulting from sales mandates aimed at expediting the disposal of real estate portfolios.

⁴⁸ The value of the real estate portfolio underlying the Highstreet financial investment was analysed by Group entities.

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-invested⁴⁹ and third-party assets under management⁴⁹ amounted to Euro 5.2 billion at December 31, 2015 (Euro 5.4 billion at December 31, 2014), with an investment interest for Prelios of Euro 0.8 billion (Euro 0.9 billion at December 31, 2014). Assets consist of Euro 5.0 billion in real estate (the same amount as at December 31, 2014) and Euro 0.2 billion in non-performing loans (the same amount as at December 31, 2014).

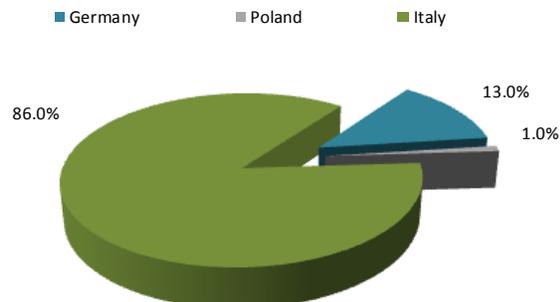
In terms of asset allocation by geographical area, of the Euro 5.1 billion in real estate assets, 86% are located in Italy, 13% in Germany and 1% in Poland.

The portion of real estate assets in which the Group does not have an interest amounted to Euro 2.7⁵⁰ billion in December 2015, up from Euro 2.3 billion in December 2014, and accounted for approximately 54% of the total value of the real estate portfolio. In particular, it is noted that in 2015, Prelios SGR took over the management contract for the Geoponente Fund, specialised in investments in real estate mainly used by the service sector, located in the centre or strategic districts of big cities or provincial capitals, and the Agris Fund, a real estate investment fund receiving mixed contributions and used for production purposes by entities operating in the agricultural sector.

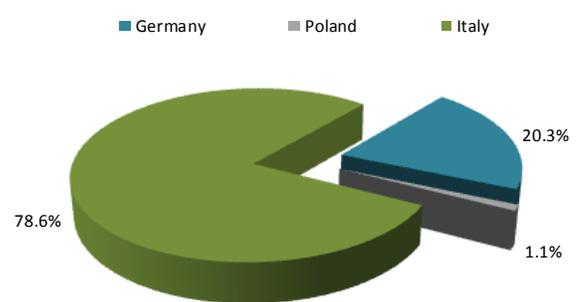
Based on the valuations of independent experts, which the Prelios Group requires for its entire portfolio and net of any discounted sales mandates granted to intermediaries, on a like-for-like basis, the market values of assets in which the Group holds an interest were written down by about 4.1% on average during the period. In 2015, the write-downs recognised for 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 illustrated in the following tables, the asset allocation as reported at market values by geographical area at December 31, 2015 shows that the percentage weight of Italy has grown since December 31, 2014. However, its composition has also changed: the weight of the Group co-investments in Italy has decreased slightly, while the percentage weight of assets under management in Italy has increased.

Co-Invested and Third Party Real Estate Assets - market value DECEMBER 2015



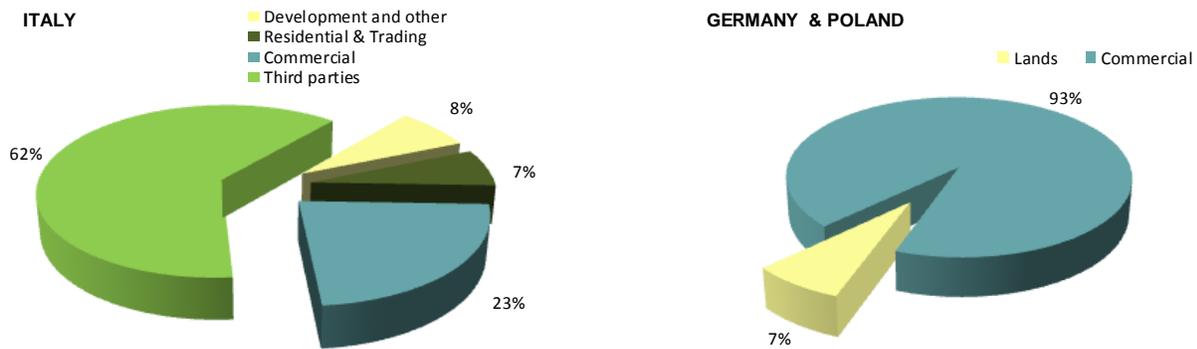
Co-Invested and Third Party Real Estate Assets - market value DECEMBER 2014



The following tables give an overview by product of the real estate portfolio expressed at market values at December 31, 2015 (100% values).

⁴⁹ Assets under management, excluding NPLs carried 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.

⁵⁰ It includes, inter alia, initiatives in which the Group holds an interest of less than 5%.



Land and development activities

Co-investments in assets as part of land and development activities were valued at Euro 382.8 million in December 2015, of which Euro 264.4 million relates to land and Euro 118.4 million relates to development. Prelios has a stake of about 43% equal to Euro 164.1 million.

As a percentage of the total real estate portfolio which the Group holds a pro-rata interest (Euro 698.3 million pro-rata), land and development activities are therefore approximately 23%.

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 96.3 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; The city plan is currently undergoing revisions;
 - Malaspina Espansione – semi-urban site, predominantly residential. In November 2015 a city planning agreement was signed with the local public authorities, approving the change in zoning of most of the remaining lots to residential use;
 - Cusago Espansione – non-urban site for tertiary sector 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, 2015 was Euro 74.8 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. Negotiations with the City of Milan began in 2015 for revision of the current city plan. The market value at December 31, 2015 was Euro 24.2 million.
- The former Lucchini site, approximately 85 hectares located in the northern suburbs of Warsaw with development potential once urban planning procedures have been completed, is now estimated at more than 300,000 square metres and has a market value of approximately Euro 52.4 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 0.3 billion at December 31, 2015 (net of non-performing loans, which are stated at book value), compared with Euro 0.4 billion reported at December 31, 2014. 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 0.7 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 2.3 billion (Euro 0.7 billion pro rata), around Euro 1.0 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, 2015 as compared with December 31, 2014.

	DECEMBER 2015 - 100% -				DECEMBER 2014 - 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	2.3	2.2	1.0	1.3	2.9	2.8	1.3	1.6
Real estate investment companies and funds in which the Group does not	2.7	2.7			2.3	2.3		
TOTAL REAL ESTATE	5.0	4.9	1.0		5.2	5.1	1.3	
<i>NPL (**)</i>	0.2	0.2	0.2		0.2	0.2	0.2	
CO-INVESTED AND THIRD PARTY REAL ESTATE ASSETS (***)	5.2	5.1	1.2		5.4	5.3	1.5	

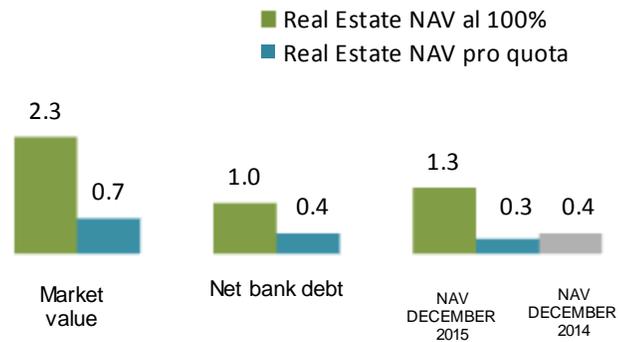
	DECEMBER 2015 - PRO QUOTA -				DECEMBER 2014 - PRO QUOTA -			
	Market value	Book value	Net Bank Debt	Net Asset Value	Market value	Book value	Net Bank Debt	Net Asset Value
Real estate investment companies and funds in which the Group holds an	0.7	0.7	0.4	0.3	0.8	0.8	0.4	0.4
Real estate investment companies and funds in which the Group does not	0.0	0.0			0.0	0.0		
TOTAL REAL ESTATE	0.7	0.7	0.4		0.8	0.8	0.4	
<i>NPL (**)</i>	0.1	0.1	0.1		0.1	0.1	0.1	
CO-INVESTED AND THIRD PARTY REAL ESTATE ASSETS (***)	0.8	0.8	0.5		0.9	0.9	0.5	

(*) 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.

Co-invested Real Estate Assets



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, Riva dei Ronchi, Induxia, Lupicaia, Maro, Roca, Gromis, Golfo Aranci and Aree Urbane Funds for a par value at December 31, 2015 of about Euro 0.3 million on a 100% basis and about Euro 0.1 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 on a 100% basis (thousands of euro)

	% PRE	Passing Rent	Passing Yield	Vacancy	Book value	Market value	Net debt
Fondo Tecla	44.8%	14,920	5.9%	20.1%	252,762	262,130	204,267
Fondo FIPRS	32.4%	20,336	9.1%		223,781	223,781	138,227
Fondo Raissa	35.0%	11,484	6.9%	1.3%	166,767	166,767	8,495
Fondo Monteverdi	48.8%	3,424	7.7%	73.9%	44,387	49,170	12,234
Fondo Spazio Industriale (*)	22.1%	19,024	7.1%	20.9%	269,835	301,716	173,174
Other		-			-	-	(970)
COMMERCIAL ITALY		69,187	7.2%	20.9%	957,532	1,003,564	535,427
Commercial Germany		-			-	-	(21,520)
Highstreet (Commercial)		55,482	8.6%		641,819	641,300	(57,688)
Residential Small Deals		-			-	-	(4)
TOTAL GERMANY		55,482	8.6%		641,819	641,300	(79,212)
TOTAL PORTFOLIO YIELDING		124,669	7.8%	15.4%	1,599,352	1,644,864	456,214
Trading Italy		2,685	n.m.	n.m.	287,289	295,267	382,082
Development Italy		-	n.m.	n.m.	116,131	118,427	82,560
Land Italy		342	n.m.	n.m.	205,587	211,968	123,705
Other Germany		877	n.m.	n.m.	12,977	13,350	3,808
Other Polonia		-	n.m.	n.m.	12,934	52,450	(23,043)
TOTAL OTHER		3,904			634,918	691,462	569,112
TOTAL CO-INVESTED REAL ESTATE ASSETS		128,572	5.8%		2,234,269	2,336,326	1,025,326

(*) For Fondo Spazio Industriale the passing rent and vacancy are updated to 2013 (latest available data).

Profitability of investment companies and funds on a pro-rata basis (thousands of euro)

	% PRE	Passing Rent	Passing Yield	Vacancy	Book value	Market value	Net debt
Fondo Tecla	44.8%	6,685	5.9%	20.1%	113,256	117,453	96,120
Fondo FIPRS	32.4%	6,583	9.1%		72,438	72,438	53,559
Fondo Raissa	35.0%	4,019	6.9%	1.3%	58,369	58,369	2,973
Fondo Monteverdi	48.8%	1,670	7.7%	73.9%	21,655	23,988	5,968
Fondo Spazio Industriale (*)	22.1%	4,208	7.1%	20.9%	59,687	66,739	38,306
Other		-			-	-	(320)
COMMERCIAL ITALY		23,166	7.1%	24.8%	325,405	338,987	196,606
Commercial Germany		-			-	-	(7,532)
Highstreet (Commercial)		6,704	8.6%		77,554	77,491	(8,685)
Residential Small Deals		-			-	-	(1)
TOTAL GERMANY		6,704	8.6%		77,554	77,491	(16,219)
TOTAL PORTFOLIO YIELDING		29,870	7.4%	22.0%	402,958	416,478	180,388
Trading Italy		964	n.m	n.m	106,341	111,033	129,153
Development Italy		-	n.m	n.m	55,064	56,119	38,478
Land Italy		76	n.m	n.m	83,732	87,029	43,445
Other Germany		439	n.m.	n.m.	6,489	6,675	2,171
Other Polonia		-	n.m	n.m	5,173	20,980	(9,130)
TOTAL OTHER		1,479			256,799	281,836	204,117
TOTAL CO-INVESTED REAL ESTATE ASSET		31,348	4.8%		659,757	698,314	384,505

(*) For Fondo Spazio Industriale the passing rent and vacancy are updated to 2013 (latest available data).

The Prelios Group's real estate income portfolio, with a market value of Euro 1.6 billion (Euro 0.4 billion on a pro-rata basis) and a book value of Euro 1.6 billion (Euro 0.4 billion on a pro-rata basis) generates pro-rata turnover from rentals of approximately Euro 29.9 million annually (approximately Euro 124.7 million on a 100% basis). The portfolio's ten principal tenants, representing approximately 90% of rents attributable to Prelios, are: Telecom Italia, Karstadt (Highstreet), Regione Sicilia, Valtur, Schuhhaus Max Hittcher GmbH, Vodafone, AVA Woman Berg GmbH, Eni-Sofid and Wind.

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	45,287	50,097	21,854	24,193
IAS 40	912,246	953,467	303,551	314,794
Commercial Italy	957,532	1,003,564	325,405	338,987
IAS 2	-	-	-	-
IAS 40	-	-	-	-
Commercial Germany	-	-	-	-
IAS 2	641,819	641,300	77,554	77,491
Highstreet (*)	641,819	641,300	77,554	77,491
IAS 2	244,632	252,610	94,201	98,893
IAS 40	42,657	42,657	12,140	12,140
Trading Italy	287,289	295,267	106,341	111,033
IAS 2	116,131	118,427	55,064	56,119
Development Italy	116,131	118,427	55,064	56,119
IAS 2	205,587	211,968	83,732	87,029
IAS 40	-	-	-	-
Land Italy	205,587	211,968	83,732	87,029
IAS 2	12,977	13,350	6,489	6,675
Other Germany	12,977	13,350	6,489	6,675
IAS 2	12,934	52,450	5,173	20,980
Land Poland	12,934	52,450	5,173	20,980
TOTAL CO-INVESTED REAL ESTATE ASSETS	2,234,269	2,336,326	659,757	698,314

(*) 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. PRO-FORMA FINANCIAL INFORMATION

As illustrated in detail in part 3, the extraordinary transaction was not fully complete at December 31, 2015, insofar as only the Investments Business Unit had been transferred, on December 29, 2015. The Reserved Capital Increase in favour of Focus Investments S.p.A. was paid up in cash by the Partners only on January 12, 2016. According to the governance rules of Focus Investments S.p.A., this resulted in the loss of control by Prelios S.p.A. Moreover, the Euro 66.5 million Capital Increase with Pre-emptive Rights offered for subscription to the shareholders of Prelios S.p.A. was completed only in March 2016.

Therefore, the consolidated and separate financial statements of Prelios S.p.A. at December 31, 2015 do not show any accounting effects in relation to the Transaction.

To facilitate comprehension of the effects of the Transaction, the following pro-forma consolidated financial information for the Prelios Group for the year at December 31, 2015 is provided. It has been prepared merely for illustrative purposes, by retroactively applying the effects of the Transaction.

Therefore, the pro-forma consolidated data have been obtained by making appropriate pro-forma adjustments to the historic data for the year at December 31, 2015, in order to reflect the material effects of the Transaction retroactively, particularly in regard to (i) the effects of the transfer of the Business Unit, such as deconsolidation of the assets and liabilities of the Investments Business Unit, and recognition of the accounting effects connected with the loss of control by Prelios S.p.A., with consequent recognition of the investment in Focus Investments S.p.A. by assuming continuation of its book values for accounting purposes, and (ii) the effects of the Capital Increase with Pre-emptive Rights, as if the Transaction had been fully completed at December 31, 2015.

It is specified that the accounting treatment of the Contribution and expected subsequent loss of control with "continuity of values", represented in the following table that contains pro-forma consolidated financial information, assumes bookkeeping consistent with the analysis performed by the Company, inter alia on the basis of qualified acquired opinions.

Nevertheless, the directors will consider all circumstances in 2016 that might lead to recognition of the Contribution at fair value at the time control of Focus Investments was lost, rather than with "continuity of values".

(Euro/million)	DECEMBER 2015	Loss of control of Focus Investments	Capital Increase with Pre-emptive Rights	DECEMBER 2015 PRO FORMA
Property, plant and equipment and intangible assets of which investments in real estate funds and investment companies and shareholder loans granted/SFP	289.2	(133.8)	0.0	155.4
	219.9	(132.8)	0.0	87.1
Net working capital of which inventories	22.7	(29.4)	0.0	(6.7)
	39.3	(39.3)	0.0	0.0
Discontinued operations	1.7	(1.7)	0.0	0.0
Net invested capital	313.6	(164.9)	0.0	148.7
Consolidated Equity of which Group equity	66.0	0.0	56.6	122.6
	63.2	0.0	59.4	122.6
Provisions	62.7	(30.8)	0.0	31.9
Net financial position from operating activities	184.9	(134.1)	(56.6)	(5.8)
Total covering net invested capital	313.6	(164.9)	0.0	148.7

The column "Loss of control of Focus Investments" includes the following pro-forma adjustments.

In consequence of the Contribution and subsequent loss of control of Focus Investments, as previously described, the values of the assets and liabilities constituting the Investments Business Unit will be deconsolidated, which may be related to: i) the assets and liabilities of the transferred subsidiaries, ii) the investments in associates and joint ventures and their financial receivables, iii) the transferred component of Senior Debt, and iv) certain asset and liability items related to the transferred staff.

In particular:

- reduction in the item "*investments in real estate funds and investment companies and shareholder loans granted/SFP*", totalling Euro 132.6 million, which represent the combined effect (i) of elimination of the

value of transferred investments in associates and joint ventures, related to allowances for doubtful accounts and junior notes for Euro 119.4 million; (ii) financial receivables from the associates and joint ventures constituting the Investments Business Unit, for Euro 81.1 million; (iii) recognition of the investment in Focus Investments S.p.A., totalling Euro 47.9 million, corresponding to the book value of the net assets granted and subsequent increase of its value that will be recognised following subscription, as envisaged by the Framework Agreement, by Prelios S.p.A. of equity instruments issued by Focus Investments S.p.A. for Euro 20.0 million;

- reduction, at "*inventories*", totalling Euro 39.3 million, which represents the entire amount of the real estate areas and properties owned by the transferred subsidiaries;

- Euro 134.1 reduction in "net financial position", representing the combined effect resulting principally from: (i) the Euro 47.2 million reduction in the value of "*cash and cash equivalents*" transferred to Focus Investments S.p.A., including the effects agreed with the Partners in the Framework Agreement concerning the value of the net assets transferred and the cash contribution of Euro 20.0 million in exchange for issuance of equity instruments by Focus Investments S.p.A. in favour of the contributing entity Prelios S.p.A.; and (ii) an adjustment reducing the "*payables to banks and other lenders*" by a total of Euro 176.6 million; this amount includes Euro 173.4 million that represent the book value of the Senior Debt transferred as part of the Investments Business Unit. In particular, at December 31, 2015, the Senior Debt transferred as part of the Contribution, for a total face value of Euro 176.2 million, has been eliminated for Euro 173.4 million, which represents its carrying value on the balance sheet of Prelios S.p.A. according to the amortised cost method;

- no effect has been recognised for the item "*total equity*". The reason is that the Contribution, in consequence of its recognition at book value, only represents a reclassification of the values of the transferred net assets in a single value represented by the investment in Focus Investments S.p.A., which has been consolidated on a summary basis at equity. Therefore, this reclassification has no effect whatsoever on the equity of Prelios S.p.A.;

- the amounts of the other items not commented on previously represent the book values of the assets and liabilities of the Investments Business Unit that, following the Contribution and subsequent loss of control of Focus Investments S.p.A., have been deconsolidated from the consolidated financial statements of Prelios S.p.A., as well as the net intercompany receivables from Focus Investments S.p.A. that will no longer be eliminated in consequence of its deconsolidation, with it consequently being recognised at equity as an associated company.

The column "Capital Increase with Pre-emptive Rights" includes the following pro-forma adjustments.

As previously described, the Capital Increase with Pre-emptive Rights involves the following accounting effects:

- at "net financial position", the amount of Euro 56.6 million related to the combined effect: (i) of the Euro 12 million increase in "*cash and cash equivalents*" remaining after use of the proceeds from execution of the Capital Increase with Pre-emptive Rights, as envisaged by the Framework Agreement, for repayment of a portion of the financial payables of Prelios comprised by the Senior Loan and the Super Senior Loan amounting to Euro 48.0 million and payment of the purchase price of the shares owned by Intesa Sanpaolo S.p.A., corresponding to 10% of the capital of Prelios Società di Gestione del Risparmio S.p.A., formerly 90% controlled by Prelios S.p.A., which Prelios itself acquired on March 9, 2016 for Euro 6.5 million; and (ii) the adjustment in reduction by Euro 44.6 million represented by the book value of "*financial payables*" repaid for a face value of Euro 48.0 million.

- at "*total equity*" the amount of Euro 59.4 million represents the total effect of the increase in equity upon completion of the Transaction and, in particular: i) the Euro 66.5 million increase in equity; ii), the reduction in equity for purchase of 10% of the share capital of Prelios Società di Gestione del Risparmio S.p.A. for Euro 6.5 million, which represents the accounting effect of purchase of minority shares in a subsidiary. This 10% share is recognised on the consolidated balance sheet of the Prelios Group for a value of Euro 2.8 million, at the item "minority interests" and iii) reduction in equity in consequence of the recognition of negative effects amounting to Euro 3.4 million resulting from the difference in the book value and the face value, of Euro 48.0 million, for the financial payable repaid in consequence of the positive conclusion of the Capital Increase with Pre-emptive Rights.

8. 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 Activity⁵¹. 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 2015	December 2014	December 2015		December 2014									
Management platform	5.2	10.9	3.2	3.3	(0.3)	(0.4)	(0.7)	(1.4)	(8.2)	(11.8)	(0.8)	(0.8)	0.6	0.6
Investment activities	(15.1)	(6.9)	7.8	2.6	(1.7)	18.4	0.1	0.3	0.0	0.0	(8.9)	(10.8)	14.4	8.1
Loss on NPL portfolio valuation	0.0	0.0	0.0	0.0	0.0	0.0	(1.9)	(6.3)	0.0	0.0	(1.9)	(10.8)	(6.3)	8.1
Operating profit/(loss)	(9.9)	4.0	11.0	5.9	(2.0)	18.0	(2.5)	(7.4)	(8.2)	(11.8)	(11.6)		8.7	

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.

8.1. REAL ESTATE ITALY

The Italy Real Estate business (Management Platform and Investment Activities) reported an operating loss at December 31, 2015 of Euro 9.9 million, compared with a profit of Euro 4.0 million in 2014.

Management Platform

The operating profit at December 31, 2015 was Euro 5.2 million, compared with an operating profit of Euro 10.9 million in 2014.

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

Fund Management	December 2015	December 2014
Revenue (millions of euro)	16.7	20.5
Operating profit/(loss) (millions of euro)	3.6	7.3
ROS	22%	36%
Number of funds managed (***)	28	26
Co-Invested and Third-party Real Estate Assets (*)	3.8	3.5
Number of employees (**)	70	73

(*) 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

(***) As at December 2015 two more funds are also established, whose operations had not yet begun at the balance sheet date.

⁵¹ 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.

Prelios Società di Gestione del Risparmio S.p.A. ("Prelios SGR") is specialised in the creation and management of closed-end real estate investment funds.

At December 31, 2015, Prelios SGR managed a total of 28 alternative real estate funds ("FIA") (one of them listed), as well as a management contract for the divestment of a real estate portfolio.

Revenue, essentially represented by fixed management fees, was Euro 16.7 million. The decrease from 2014 is primarily due to the sale of the Olinda-Shops Fund and the two-thirds reduction in the fees of the Tecla Fund, in relation to which the extraordinary extension was exercised pursuant to Law 116/2014.

The operating profit was Euro 3.6 million, compared with Euro 7.3 million in 2014. The decrease is directly attributable to the reduction in revenue, partly offset by ongoing cost containment measures, both of a structural and occasional nature.

In regard to the development of new initiatives during the period, Prelios SGR established the new Aurora equity fund and a new investment fund named Weybridge. It also established three new funds, two of which are dedicated to social housing and are scheduled to begin operating in the first few months of 2016. The development activity of Prelios SGR has continued with it taking over new management contracts for two real estate funds. These bring the number of new initiatives under management to six. Activities also continued to increase the amount of assets managed through the funds already under management, with the acquisition and contribution of new properties, and continuation of property development projects.

During 2015, Prelios SGR concluded the process of liquidating the listed fund Olinda-Shops Fund and a speculative fund reserved to institutional investors at the end of an orderly asset disposal process.

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 2015	December 2014
Revenue (millions of euro)	3.6	5.0
Operating profit/(loss) (millions of euro)	(0.9)	0.8
Volume of business (millions of euro)	247.7	353.8
Number of employees	15	19

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.

During the year, the company was affected by the process of its transformation from a company primarily dedicated to captive customers to a broker and advisor capable of providing third party customers with 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.

In particular, during 2015, the Company was awarded new contracts and renewed a number of commercialisation agreements worth approximately Euro 478 million. Furthermore, it was assigned new important leases of approximately 3,400 square metres worth about Euro 9 million.

The company was also awarded the following contracts, after a public invitation to tender:

- the Cassa Nazionale di Previdenza e Assistenza dei Dottori Commercialisti ("CNPADC" – the Italian social security fund for chartered accountants) awarded the Company the contract to sell a property in Naples;
- the Cassa Depositi e Prestiti (Development Investment Fund) awarded it a mandate to sell a property in Turin;

- the Cassa Depositi e Prestiti (Development Investment Fund – “Comparto Extra”) awarded it two mandates to sell a property in Genoa and one in Como.

The company is organised into two business units: i) “*Capital Market & Institutional Leasing*”, focused on the sale of real estate assets (handled on a block basis) and big assets, as well as property leasing, ii) “*Network Transactions*”, which handles the sale of small real estate asset sales scattered across Italy, subdivisions and residential construction sites.

The Network Transactions business unit, which handles the sale of small real estate asset sales scattered across Italy, subdivisions and residential construction sites, as well as the renegotiation of leases, was awarded contracts in 2015 worth a total of about Euro 38 million in rents to be renegotiated for important groups like Telecom Italia S.p.A., DPS Group (Trony) and BPM.

Revenue totalled Euro 3.6 million, down from the Euro 5.0 million reported in 2014. This was mainly due to the liquidation of Olinda-Shops Fund, and to the lower fees resulting from renegotiation of certain leases.

The Company's brokered volumes amounted to Euro 247.7 million, compared to Euro 353.8 million in 2014.

The operating loss amounted to Euro 0.9 million, which was worse than the figure reported for 2014 (positive Euro 0.8 million, which was positively impacted by the Olinda Fund). This was largely due to lower revenue.

At December 31, 2015, the portfolio of sales mandates amounted to approximately Euro 0.8 billion⁵², compared with Euro 2.66 billion in the previous year. The reduction is mainly related to the expiry of several sales mandates associated with the Prelios Group (the most important of which include the mandates from Excelsia Nove and Raissa Fund).

In regard to the management of non-captive clients, the Company acquired new contracts from major operators in 2015 (including Finanziaria Internazionale SGR [Catullo Fund], Finelco Group, CDP Investimenti SGR, UnipoSai Real Estate, Cassa Nazionale di Previdenza ed Assistenza dei Dottori Commercialisti, BNP Paribas Reim SGR - Fondo Enasarco 2, Acqua Marcia Immobiliare, Unicredit Subito Casa and Novartis Farma) covering office, retail and residential property assets.

It was also awarded contracts through invitations to tender or otherwise for the sale and lease of properties related to funds managed by Prelios Società di Gestione del Risparmio S.p.A., including Cloe Fund, Tecla Fund, Monteverdi Fund and Clarice Fund. These activities led to the acquisition of new sales mandates for Euro 250 million.

In January 2016, the company received three exclusive advisor mandates for the sale of three property complexes in Milan.

Valuations	December 2015	December 2014
Revenue (millions of euro)	6.7	4.0
Operating profit/(loss) (millions of euro)	1.1	0.3
ROS	16%	8%
Number of Loan Service valuations	approx. 38,000	approx. 20,000
Number of employees	14	13

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.

Specifically, the performance of the loan services segment showed a major increase in volumes compared to 2014.

Considering the confirmation by UniCredit of the award of contract for appraisal of the properties underlying applications for corporate mortgage loans, the contract signed with BNL, Banca Popolare di Milano and Sparkasse for the retail and small business and corporate areas, the new appraisal contract from Banca Popolare dell'Emilia Romagna (BPER), and the approximately 38,000 appraisals carried out in 2015, the Company is one of the leading appraisers in Italy for banks (“loan services”).

⁵² List price.

After a spike in volumes handled in H1 2015 following the opening of credit through new channels (subrogations and negotiations), beginning in H2 2015 the Deutsche Bank–Banco Poste contract stabilised at a volume of about 4,000 cases per year.

In business activities 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.

With respect to the full appraisal business, services continued to be provided to both asset management companies/real estate funds and custodian banks.

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 showed significant growth compared to 2014. This was partly due to the statistical revaluation of large real estate portfolios.

Revenue amounted to Euro 6.7 million in 2015, compared to Euro 4.0 million in 2014. The increase stemmed mainly from the upswing in revenue from the loan services appraisal business, whose principal clients were: Unicredit, Deutsche Bank, BNL, BPER, Ing Direct and Sparkasse.

Operating profit was Euro 1.1 million, with a higher margin than in the previous year following renegotiation of the contracts with suppliers and the appraiser network, and the significant contribution of mass appraisal activities, which are largely operated with internal resources.

Integra	December 2015	December 2014
Revenue (millions of euro)	20.9	19.1
Operating profit/(loss) (millions of euro)	1.4	2.5
ROS	7%	13%
Value of assets under management (billions of euro)	5.0	4.9
Floor area managed (in millions of m2)	over 5,6	5.4
Rental units managed	approx. 34,600	approx. 33,000
Leases managed	over 30,000	approx. 6,000
Passing Rent (millions of euro)	214.5	approx. 225
Capex (millions of euro) (*)	38.1	11.6
Value of project management assets under management (billions of euro) (**)	0.4	0.4
Number of employees	81	81

(*) Project management activities carried out in 2015.

(**) Value of assets under project management, most of which are already under property management.

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

Prelios Integra is one of Italy's leading operators in integrated property management and project development services, with Euro 5 billion in assets under management, representing over 5.6 million square metres.

In 2015, the Company continued the process begun in the previous year 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 non-captive clients 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, Wind, ADR and Unipol).

More generally, in 2015 the Company managed real estate assets equivalent to approximately 30,000 leases. The principal clients from outside the Group were: INPS e Roma Capitale (mercato terzi pubblici), Unicredit Leasing, Aeroporti di Roma, AXA Reim SGR, Telecom Italia, Prisma SGR, Unipol, INwit Excelsia Nove, Unicredit Business Integrated Solution, Eni Servizi, Conad, Wind, CDP SGR, Meucci, IdeAFIMIT SGR and A2A.

In particular, the “società consortile a responsabilità limitata” (consortium with limited liability) named Melius Gestioni S.c.a r.l. was formed in October 2015. This Company is owned 51% by Integra and 49% by Gestione Integrata S.r.l., which has been delegated the task of supporting the company in managing the operating activities covered by the contract signed during the year. This contract regulates the delegation of the administrative and accounting management services for clients of the real estate assets of Roma Capitale.

Furthermore, during 2015, the Company assisted various clients with the process of disposing of and/or improving and appraising their properties, while continuing to consolidate the technical and professional unit for non-captive clients.

In particular, several new contracts were acquired, including:

- Eni servizi S.p.A., for the framework agreement covering the real estate technical activities involved in management of the real estate holdings of ENI and its subsidiaries;
- CDPI SGR: tender for the execution of a feasibility study, the urban design and preparation of all drawings necessary to obtain the urban certification for a property in Diano Castello (IM) known as the “ex Caserma Camandone”, and a property located in Albenga (SV) and named “ex Caserma di Piave”;
- Unicredit (UBIS): project services and restructuring works of premises to be used as agencies and/or offices involving owned properties or properties leased from third parties;
- ADR, for advisory and maintenance due diligence activities;
- INwit for administrative support activities;
- Unipol for technical due diligence.

The company has also participated, either directly or through joint ventures with other companies, in different public or private contract bidding procedures, winning the following contracts:

- ENI Corporate: due diligence, appraisals and sale of certain properties;
- State Property Office (“Agenzia del Demanio”): ordinary and extraordinary maintenance on the properties used by State Administrations and properties where maintenance is managed by the Agenzia del Demanio (Venice and Emilia-Romagna).
- Unicredit Business Integrated Solutions for the execution of a works contract to perform special maintenance on the plant located in Rimini Piazza tre Martiri.

Revenue totalled Euro 20.9 million at December 31, 2015. This marked a healthy increase from the Euro 19.1 million in revenue generated during 2014, mainly due to the improved results achieved by the general building contract activity related to the remodeling of Unicredit bank branches and the due diligence and urban planning activity (Unicredit Leasing, Aeroporti di Roma, Abaco Servizi, Unipol and CDP SGR).

Notwithstanding the growth in revenue, the operating profit of Euro 1.4 million was down slightly from the Euro 2.5 million realised in 2014, due to the increase in costs incurred for professional mandates tied to the subcontract for the cadastral register compliance service, costs for services underlying the general building contract and urban planning activity, and the costs incurred for legal advice.

Finally, in December 2014, the Competition and Market Supervisory Authority (“Autorità Garante della Concorrenza e del Mercato” or “AGCM”) gave the Company a “Legality Rating” score of 2 stars++. This score may be considered an excellent result, given that the rating ranges from a minimum of one to a maximum of three stars.

The company recently obtained ISO 50001 certification of its energy management system from the certifying entity IMQ. This complements previous certifications, such as the 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 critical issues 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 decisions of the majority partners.

The operating loss at December 31, 2015 was Euro 15.1 million, compared with a loss of Euro 6.9 million in 2014.

The market environment remains fragile, with few transactions and falling prices, preventing coverage of operating and financial costs by investment companies. Therefore, Investment activities continued to post a loss.

Property sales in 2015 (considering the properties of associates, joint ventures and funds in which the Group holds an interest on a 100% basis) totalled Euro 112.2⁵³ million (Euro 375.6⁵⁴ million in 2014).

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

Total rents⁵⁵ were Euro 72.1 million (Euro 112.0 million for the year at December 31, 2014).

8.2. REAL ESTATE GERMANY

The Real Estate Germany business (Management Platform and Investment Activities) reported EBIT of Euro 11.0 million in 2015, compared with EBIT of Euro 5.9 million in 2014.

Management Platform

Germany	December 2015	December 2014
Revenue (millions of euro)	12.3	15.1
Operating profit/(loss) (millions of euro)	3.2	3.3
ROS	26%	22%
Floor area managed (in millions of m2) (*)	0.8	approx 1.0
Number of rental units managed (*)	58	72
Co-Invested Real Estate Assets (**)	0.7	1.1
Third-party Real Estate Assets under Service (***)	1.0	n.a.
Number of employees	71	83

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

(**) Market value in billions of euro on a 100% basis.

(***) Market value in billions of euro on a 100% basis. estimated by management, and related to a portfolio composed primarily of shopping centers, in relation to which are provided specific services of the management of shopping centers, such as center management, property, facility and letting, to which are added other specialist such as those of development.

Revenue fell from Euro 15.1 million to Euro 12.3 million. The decrease was generated mainly by the loss of several non-captive mandates which expired at the end of 2014, and which have not yet been fully offset by the acquisition of new business.

⁵³ Including Euro 7.9 million attributable to funds or vehicles declared to be in stop loss.

⁵⁴ Including Euro 74.6 million attributable to funds or vehicles declared to be in stop loss.

⁵⁵ 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.

Operating profit for the service platform alone was Euro 3.2 million for the year ended December 31, 2015, about the same as the result for 2014.

Investment Activities

EBIT was Euro 7.8 million at December 31, 2015, compared with EBIT of Euro 2.6 million in 2014. The amount realised in 2015 benefited from the positive effect of sale of a property located in Berlin owned by Gädeke & Landsberg Dritte Contract KG.

Property sales in 2015 (considering the properties of associates, joint ventures and funds in which the Group holds an interest on a 100% basis) totalled Euro 436.6 million, compared to Euro 448.9 million (which included the sale of the "Small Deal" German residential portfolio). For the Highstreet portfolio, in which Prelios holds a 12.08% interest indirectly, through Sigma RE B.V., sales amounted to approximately Euro 381.4 million, with the most significant relating to two commercial-use buildings located in Wiesbaden (Kirchgasse), Munich (Bahnhofplatz), and Karlsruhe (Zähringer).

The property transactions executed during 2015 were largely finalised for amounts at or near their book value, while they had been realised for slightly higher amounts in 2014.

Total rents were Euro 66.2 million, compared with Euro 95.4 million in 2014.

8.3. REAL ESTATE POLAND

The Poland real estate business (Management Platform and Investment Activities) reported a negative EBIT of Euro 2.0 million at December 31, 2015, reflecting a deterioration from the figure for 2014 (positive Euro 18.0 million), which was mainly due to the investment activity.

Management Platform

Poland	December 2015	December 2014
Revenue (millions of euro)	0.3	0.3
Operating profit/(loss) (millions of euro)	(0.3)	(0.4)
Floor area managed (in millions of m2) (*)	0.3	0.3
Co-Invested and Third-Party Real Estate Assets	52.5	56.0
Number of employees	8	8

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

The EBIT of the management platform amounted to negative Euro 0.3 million, which was substantially the same as the negative Euro 0.4 million reported during 2014.

Investment Activities

The operating loss was Euro 1.7 million, compared with an operating profit of Euro 18.4 million at December 31, 2014. That year had benefited from the positive impact of the disposal of an important area in Warsaw that is allocated mainly to retail activity. This sale was made by the Polish investee Polish Investment Real Estate Holding II BV, through disposal of the investment held in Berea Sp.Zoo., owner of the area.

8.4. NON-PERFORMING LOANS

Non-performing loans (Management Platform and Investment Activities) posted an operating loss of Euro 2.5 million at December 31, 2015, compared with a loss of Euro 7.4 million in 2014. The operating loss in 2014 included the negative impact of the valuation of the NPL portfolio for Euro 6.3 million (Euro 1.9 million at December 31, 2015).

Management Platform

NPL	December 2015	December 2014
Revenue (millions of euro)	9.5	7.7
Operating profit/(loss) (millions of euro)	(0.7)	(1.4)
Receipts (millions of euro)	47.8	44.4
Gross book value (billions of euro)	9.5	8.7
Number of NPL managed	over 45,000	over 75,000
Number of employees	59.0	60.0

Prelios Credit Servicing (PRECS) operates in the field of managing and optimising non-performing loans and functions as a financial intermediary pursuant to Art. 107 of the Consolidated Law on Banking ("TUB").

In accordance with the implementing provisions of the reform of Title V of the Consolidated Banking Act, on October 8, 2015 the company applied to the Bank of Italy for entry in the Single Register of Financial Intermediaries envisaged in Article 106 of the Consolidated Law on Banking.

PRECS currently manages a portfolio of non-performing loans with a gross book value of approximately Euro 9.5 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.

The Company was also involved in various advisory activities, both on behalf of major banks, mainly as manager of the process of selling mortgage and unsecured portfolios, and on behalf of international investors, for which it was a lead advisor in the analysis and assessment of possible acquisition of non-performing loan portfolios, including those resulting from property lease agreements.

In regard to the management and recovery of non-performing loans, 2015 marked an important year with the acquisition of Euro 1.7 billion in new assets under management (while pointing out that in certain cases, the assets under management are the object of a mandate for both activities, including Euro 1.2 billion for the special servicing activity and Euro 0.6 billion for the master servicing activity).

Revenue totalled Euro 9.5 million at December 31, 2015, up 23% from Euro 7.7 million in 2014.

Revenue increased in 2015 (Euro +1.8 million), which can be related (i) to participation in several securitisation transactions where PRECS was involved as special, master and corporate servicer, (ii) the commencement of new special servicing contracts with major Italian banks, (iii) the fees accrued on collections generated by the sale of a portion of the portfolio managed on behalf of the securitisation special purpose vehicles, and (iv) the fees related to the advisory activity that the company has performed in support of various international investors.

Moreover, through its subsidiary SIB S.r.l., the company has played an active role in the improvement and disposal of the real estate assets of a major pension fund, by fully exploiting the recovery in the real estate market that took off especially in H2 2015.

The operating loss in 2015 was Euro 0.7 million, compared with a loss of Euro 1.4 million in 2014.

Collections in 2015 on behalf of clients amounted to approximately Euro 47.8 million, compared to about Euro 44.4 million in the same period of 2014. The improvement from 2014 reflects the previously mentioned sale of a portion of a managed portfolio finalised on September 30, and the effective management of individual cases in and out of court.

The number of non-performing loans managed in 2015 (over 45,000 loans) was down from the previous year, following the consensual termination of an unsecured asset management mandate characterised by a high number of small-medium sized cases. The gross book value was more than offset by the acquisition of new secured asset management mandates involving medium-sized and large loans.

As special servicer, the Company is rated by two agencies, Standard & Poor's and Fitch, which in 2015 continued to give it positive ratings, namely above average and RSS2/CSS2, respectively.

Also as master servicer, the rating assigned by Standard & Poor's in 2015 was Above Average.

Moreover, the first sale of receivables was made in December, as part of the new multi-originator securitisation program for the securitisation of non-performing loans by Italian banks. This program saw the participation of PRECS, as master and special servicer, and Banca Akros (Banca Popolare di Milano Group).

The transaction, which now counts the participation of six Italian banks and an international fund specialising in NPLs, which subscribed to the junior class of securities, allowed the participating banks to reach a valid solution for the reduction of its own stock of non-performing loans and cutting their own negative cash flow.

The transaction has taken the form of an open program, and allows further sales of receivables, both by the six banks that participated in its launch, and by any other bank domiciled in Italy that is willing to participate. It is envisaged that the NPL multi-seller special purpose vehicle may use standardised procedures and documentation to realise swift purchases of NPLs up to about Euro 5 billion in gross book value from any bank interested in selling non-performing mortgage and unsecured loan portfolios.

This solution enables the smaller banks to sell small loan portfolios that would otherwise not attract the interest of international investors due to their nature and size. On the other hand, it allows medium-sized and big banks to dispose of loans at prices higher than those that could be realised with the transactions executed hitherto on the market. This is accomplished by virtue of the financial structure and diversified nature of the platform.

Investment Activities

The operating loss from investment activities was Euro 1.9 million, compared with an operating loss of Euro 6.3 million made in 2014. The latter result was attributable to the impairment losses on the NPL portfolio due to impairment of the junior bond held by the parent company, related to a portfolio with underlying mortgage loans.

9. RISKS AND UNCERTAINTY

Although the real estate market enjoyed steady growth during 2015, according to preliminary figures, the economic scenario still appears dominated by uncertainties over the effective levels of growth. Despite the expectation of making additional losses, the Group has 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".

Since 2014, the Group has adopted an enterprise risk management (ERM) system, in accordance with the most recent Italian and national best practices and in accordance with the recommendations of the "Borsa Italia Governance Code for Listed Companies," which the Group has adopted.

The enterprise risk management system is organised 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 chosen strategy. It also 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 risk management system adopted by the Group calls for the following dedicated functions:

- 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 manage risk comprehensively;
- the Risk Officer, tasked with facilitating, providing methodological support, coordination and reporting of the ERM process. The Risk Officer acts in coordination with the other existing control functions.

The Group has identified five main areas of risk (Group risk model):

- 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 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 internal processes, prices, suppliers, quality, information technology, personnel, management reporting, budget and planning processes, environmental risks and workplace safety.

The principal phases of the enterprise risk management process adopted by the Group for the definition and management of risks are:

- analysis of the assumptions, targets and transactions envisaged in the plan and relating to the management platform, and analysis of the residual impact of the Investment Business Unit following its transfer to Focus Investments;
- working with company 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. The risks reflect the transfer of the Investments Business Unit to Focus Investments S.p.A. on December 29, 2015 and the subsequent entry of new shareholders on January 12, 2016. Following these transactions, Prelios has a shareholding representing about 25% of the voting shares of Focus Investments and 87.2% of its economic capital.

9.1. EXTERNAL CONTEXT RISKS

9.1.1. RISKS RELATED TO THE CONCENTRATION OF BUSINESS ACTIVITIES IN ITALY, GERMANY AND POLAND

The Prelios Group operates its business activities mainly on the Italian and German markets, and to a lesser extent, the Polish market. The initiatives with income property assets owned by real estate funds and special purpose vehicles in which Prelios participates indirectly through its investment in Focus Investments S.p.A. are also concentrated in those countries. Group results might be negatively impacted by a worsening of the economic cycles of those countries.

9.1.2. RISKS RELATED TO THE PERFORMANCE OF THE REAL ESTATE MARKET

The performance of the real estate market is cyclical. It is conditioned by a series of variables such as general economic conditions, changes in interest rates, inflation trends, tax laws and the liquidity available on the market.

Although the general macroeconomic scenario contains clear signals of recovery, it is not exempt from risk factors such as the decline in the growth rate of the biggest economies and possible disturbances in the Eurozone due to possible financial and sovereign debt crises in the Eurozone.

The capacity of European monetary policy to reverse the trend will play a crucial role in reversing the inflation trend, by nudging inflation back up to an optimal target. Deflation would entail an increase in real interest rates, by slowing down the capital destined for investments, with depressing effects on the economy.

The impact of quantitative easing pursued by the European Central Bank has had a major impact on the interest rate trend, and the yields on government securities have fallen broadly across the Eurozone. The actions taken by the European Central Bank have also had major repercussions on the Euro/dollar exchange rate, which fell close to parity after the Euro depreciated by nearly 25% from its 2014 levels.

However, in this generally positive scenario, it remains to be seen what actual impact these actions will have on the willingness of banks to increase the amount of capital allocated to financing business, and facilitating consumer spending, with a possible increase in transaction volumes and, consequent improvement in the values of real estate fundamentals.

In regard to the level of exposure of the Company to risks related to market performance, the spin-off of non-core assets and investment activities on the one hand, and the core activity of real estate asset and credit management and the provisions of real estate services assume particular significance.

The spin-off of the Investments Business Unit from Prelios allows it to reduce its market risks related to direct investment activity (e.g. increase in property vacancy, increase of spreads, reduction in property book values).

On the other hand, the principal negative effects on the pure real estate management company activity might result from a failure to increase real estate transactions and problems in accessing the capital market, with consequent problems for the Company in providing its own technical, asset management and NPL management services to investors outside the Group.

9.2. STRATEGIC RISKS

9.2.1. RISK RELATED TO THE NEGATIVE PERFORMANCE OF GROUP RESULTS

The persistent crisis on financial markets in general, and the real estate sector in particular, has also had a negative impact on the results of Prelios over the past few years and supports the expectation of continuing losses. This negative outlook remains although the real estate market realised constant growth on the basis of the preliminary data for 2015.

In response to this market scenario, Prelios has optimised the components of its business model and is currently implementing the measures envisaged in its Industrial Plan 2015-2017 and confirmed in the Budget 2016. It has also identified and launched a series of new strategic projects that could further improve the performance of the Group.

The Industrial Plan 2015-2017 referring to the prospective performance of the Services business shows that the Group will make net losses over the three-year period, with consequent erosion of Prelios Group equity after the Contribution. Moreover, this dynamic is mainly impacted by recognition at equity of the effects deriving from the investments component, particularly in regard to the stake in Focus Investments S.p.A. Possible continuation of the crisis that has hit the sector might generate losses exceeding expectations, and consequently generate uncertainty over achievement of the targets set in the Industrial Plan 2015-2017. Moreover, this situation might cause further, gradual weakening of its own balance sheet and financial position, consequently having a potential impact on the Company and Group as going concerns.

9.2.2. RISKS ASSOCIATED WITH FAILURE TO IMPLEMENT THE 2015-2017 INDUSTRIAL PLAN AND BUDGET 2016

On August 6, 2015 the Company approved the Industrial Plan 2015-2017 and on March 21, 2016 approved the Budget 2016.

The Company has applied realistic assumptions, taking into account the difficulty of making forecasts 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.

The Industrial Plan 2015-2017 and Budget 2016 confirm the repositioning of the Group as a pure management company and focus of the activity of the Prelios Group on the Services sector (asset and fund management, property and project management, agency, valuations and credit servicing), as well as the full implementation of the new market-oriented business model, which requires new expertise and know-how to realise the strategy of gradual reduction of the captive activity and growth in revenue from non-captive clients.

In regard to the Investments component owned by Focus Investments S.p.A., the strategy included in the Industrial Plan 2015-2017 and in the Budget 2016 is to increase the value of investment holdings over a period of about five years. No injection of capital in Focus Investments S.p.A. is expected over the lifetime of the Industrial Plan 2015-2017, and it is not expected that Prelios will benefit from any distribution. 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 while the plans set forth in the 2015-2017 Industrial Plan and in the Budget 2016 continue to project losses over the three-year period, with the resulting decline in equity and negative cash flow, they will not cause a deficit during the plan period but nonetheless contribute to a continuing situation of financial tension. These plans are 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 identified actions and previously commented on in greater detail are adequate to deal with the contingent uncertainties surrounding the Group as a going concern and that it may continue operating.

9.3. FINANCIAL RISKS

9.3.1. RISKS RELATED TO FINANCIAL DEBT

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.

A major portion of the Investments Business Unit was contributed to Focus Investments S.p.A., with the transfer of an approximate total of Euro 176.2 million in debt owed by Prelios. Therefore, in consequence of the Contribution and Capital Increase with Pre-emptive Rights concluded in Q1 2016, the Company still has a total financial debt of about Euro 19.7 billion (plus interest incurred beginning July 1, 2015) owed to the Lending Banks and about Euro 10.3 million (plus interest incurred beginning July 1, 2015) of debt for settlement of a past purchase and sale. Only 50% of this latter debt will fall due by the end of 2017, plus applicable interest.

According to management forecasts, it is reasonable to assume that the Industrial Plan 2015-2017 and Budget 2016 will maintain the financial balance and a sustainable level of debt for the Group, while holding that the transactions reflected in the business plans can be reasonably realised on the basis of their current progress.

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.

Pursuit of the targets and guidelines envisaged in the Industrial Plan 2015-2017 are subject to numerous external variables not depending on the Company. These may include but are not limited to the performance of the market in which the Company and the Prelios Group operate and the applicable macroeconomic context. Therefore, missed and/or partial realisation of the targets of the Industrial Plan 2015-2017 and Budget 2016, as well as the possible need to adjust them in response to other needs that are not foreseen or foreseeable at present, might have a major negative impact on the balance sheet, income statement and financial position of the Prelios Group.

9.3.2. 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 New Restructuring Agreement.

This prospective risk stems from the fact that the New Restructuring Agreement has envisaged that the debt carry interest at a fixed rate of 3% until the due date (June 30, 2022).

The risks associated with the fluctuation in interest rates remain on the loans of the special purpose vehicles and real estate funds in which Focus Investments S.p.A. has an investment. Reference is made to Part 9.3.5 for a description of the risks related to Focus Investments S.p.A. that might impair the investment held by Prelios.

9.3.3. 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 materially influenced by realisation of the plans to grow the revenue and results of the management platform through the acquisition of new clients, while no impact on the Investments business is expected in consequence of the transfer to Focus Investments S.p.A. 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 related to the recourse guarantees issued to initiatives in which an interest is held, which allows management to acquire the necessary information to undertake the consequent actions.

9.3.4. CREDIT RISK

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.

Prelios Group service companies claim accounts receivable from certain funds and special purpose vehicles in which Focus Investments S.p.A. holds an investment and that are 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 special purpose vehicles were to persist, those accounts receivable would risk becoming uncollectible, at least in part, and thus be further impaired. This would have a negative impact on the balance sheet, income statement and financial position of the Group.

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.

The Group has significant concentrations of credit risk with respect to clients (investment companies and funds) in the real estate sector.

9.3.5. RISKS RELATED TO REAL ESTATE INVESTMENTS

Following the Contribution of the Investments Business Unit to Focus Investments S.p.A. and the subsequent entry of new shareholders on January 12, 2016, as previously mentioned, Prelios holds an investment representing about 25% of the voting shares and about 75% of the share capital of Focus Investments S.p.A. and 87.2% of its economic capital. Focus Investments S.p.A. faces the following risks which might impair the investment, and thus have a materially negative impact on the balance sheet, income statement or financial position of Prelios, notwithstanding the fact that management of those risks remains the responsibility of the decision-making bodies of the investee Focus Investments S.p.A., in accordance with the governance rules of Focus Investments S.p.A.

The following risks are mentioned in regard to these risks: (i) risks associated with possible write-downs of the real estate assets of Focus Investments S.p.A. consequent, inter alia, to the persistence of serious weakness on the real estate market or the occurrence of other negative events related to the peculiar nature of the real estate assets; (ii) risks related to the fluctuation in interest rates on the real estate fund special purpose vehicles; (iii) risks related to the existence of change in control clauses related to the special purpose vehicles, joint ventures and funds in which they invest; (iv) risks related to uncertainties in calculation of the value of real estate assets; (v) risks related to the concentration of lessees; (vi) risks related to participation in investment ventures with qualified minority interests if their objectives are misaligned with those of the shareholders or litigation with the latter; (vii) risks related to the existence of financial covenants in the loan agreements made by the real estate funds and investment special purpose vehicles; (viii) risks other than those previously mentioned (first and foremost, contractual and tax risks) that might arise in the investment vehicles, inter alia in consideration of the major investments and divestments made by them over time; (ix) risks related to the litigation not covered by the guarantees issued by Prelios.

9.4. LEGAL AND COMPLIANCE RISKS

9.4.1. LEGAL RISKS LINKED TO CIVIL AND ADMINISTRATIVE DISPUTES

Certain of the disputes described in the Annual Financial Report were transferred with the Investments Business Unit to Focus Investments S.p.A. Therefore, they have to be considered as included in the risks indicated in the preceding part 9.3.5 and within the limits of what is specified in part 9.4.3.

The situations in which Prelios and its subsidiaries are parties to civil and administrative lawsuits have been actioned mainly by:

- (i) certain lessees for the alleged violation of pre-emptive rights, during the sale of real estate originating in the assets of the Unione Immobiliare S.p.A. Group (merged with Prelios),
- (ii) certain social security entities in relation to management services provided by Edilnord Gestioni S.r.l. in liquidation,
- (iii) certain purchasers of real estate for alleged breaches of contract, non-contractual accords and/or defects in the purchased and sold real estate,
- (iv) certain clients in disputes relating to the procedures for provision of the services envisaged in the related agreements and
- (v) by third parties in relation to a public invitation to tender.

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:

- with three distinct writs of summons whose content is identical, notified in 2015, three formally independent entities sued the shareholders of Golfo Aranci S.p.A. (including Prelios S.p.A., with a share of 43.8%), at the Courts of Sassari (two writs of summons) and Rome, claiming compensation from all the respondents jointly for the damage sustained due to the allegedly unlawful conduct of the shareholders of Golfo Aranci S.p.A., in relation to the procedure previously executed by a local entity to select the private partners of the venture (which at the time was formed as an urban renewal company). The claim for compensation totals Euro 350 million for the three lawsuits. Group legal counsel has assessed the risk of losing the lawsuits as remote.
- Prelios owned a minority stake in a joint venture with a foreign investor (an investment currently transferred to Focus Investments S.p.A.), the owner of several special purpose vehicles dedicated to the development of an area in Poland, in Warsaw. Certain special purpose vehicles owned by the joint venture might sustain financial losses in relation to a non-recurring transaction executed in 2009, following the failure to request authorisation from Polish authorities. In that circumstance, the foreign investor would claim compensation for the damage from Prelios Polska Sp. z o.o., a subsidiary of Prelios, which at that time provided asset management services to the special purpose vehicles involved in the non-recurring transaction. No lawsuit has been filed as yet.

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

- The first such dispute relates to the initiative concerning the consortium G6 Advisor, which performed 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.

- The litigation to which the subsidiary Edilnord Gestioni S.r.l. in liquidazione is party concerns the lawsuit filed against it by a public entity for alleged default on certain contractual obligations and for damage related to certain real estate service agreements. The lawsuits refer to the management prior to acquisition of Edilnord Gestioni S.r.l. in liquidazione by Prelios. Consequently, they are partially covered by a guarantee issued by the seller, for a total claim of Euro 35 million.
- The litigation against Prelios Agency S.p.A. involves the alleged default on affiliation agreements and failure to pay intermediation fees totalling Euro 5.7 million. With judgement no. 2062/2016 published on February 17, 2016, the Court of Milan partly accepted the Parties' claims, ordering the Company to pay about Euro 0.5 million, inclusive of the opponent's legal expenses and interest at the legal rate from the date of the claim (December 21, 2011) until the publication date of the judgement. The judgement is provisionally enforceable and currently has not been notified by the opponent so as to trigger the short deadline for filing any appeal. The lawyer retained by the Company is awaiting a reply by the opponent's lawyer in regard to the terms and conditions of payment of what was ordered in the judgement, and to find out the claimants' intentions in regard to appeal of the aforementioned judgement.
- A construction company has sued Prelios, claiming Euro 6.4 million for the alleged failure to perform an agreement under private seal signed in 2006. In that agreement, the Company – acting as parent company – allegedly assumed the undertaking to consider claimant as the *“lead contractor with which to deal in regard to any future work”*, while receiving in return the free performance of code compliance work related to a previous works contract signed with Verdi S.r.l. (which was a Prelios subsidiary at that time);
- In February 2005 Prelios and the Group companies, and specifically Prelios Property & Project Management S.p.A., Prelios Agency S.p.A. and Prelios Credit Servicing S.p.A., signed an agreement with a major bank and several companies belonging to the Group by the same name, pursuant to which Prelios – acting on its own behalf or through the Group companies – promised to provide certain services related to the purchase, management and disposal of specific properties. In January 2011 the bank withdrew from the Agreement, and on December 14, 2012 the Bank filed a claim for damages, amounting to Euro 82 million.
Discussions between the parties that began in 2013 are still under way at this time, aimed at examining the reciprocal arguments and verifying possible amicable solutions to the dispute.
- It was deemed prudent to recognise a suitable provision for risks in the case of Prelios Deutschland GmbH (“Prelios DE”), a fully-owned subsidiary of Prelios, following possible breaches of property management contracts dating back to 2008.
- In June and July 2015, Prelios Credit Servicing S.p.A. received an indemnity claim for four special purpose vehicles for the securitisation of receivables, all investees of a company belonging to an important international banking group, due to alleged liability in relation to the special servicer activity performed until March 2014. Believing that this claim is unfounded, the Company took prompt action through its own lawyers to determine its validity. Therefore, contacts began with the law firm representing the special purpose vehicles to set up a discussion between the parties in regard to the individual claims, in view of checking the submitted documentation and the additional information requested by the Company. However, at this time it is not possible to perform a definitive analysis and quantify any risks since the documentation is incomplete and because the claims for damages are vague and generic. Notwithstanding the limits of these analyses, the Company – supported by its own lawyers – still believes that there are valid defence arguments against the opponent's claims, with there being no present need to set aside any provisions. It must also be pointed out that the Company has promptly invoked the existing insurance policies, by reporting the claims to the respective insurance companies.

Moreover, Consob conducted an inspection of Prelios Società di Gestione del Risparmio S.p.A. between October 2014 and February 2015 in regard to sale of the entire remaining real estate portfolio in which retail investors invested and which has been managed by Prelios Società di Gestione del Risparmio S.p.A. Following the inspection, Consob raised a number of objections, against which Prelios Società di Gestione del Risparmio

S.p.A. has submitted its own defence arguments, rejecting those objections. The proceeding by Consob is still under way.

9.4.2. TAX RISKS

At the date of approval of this annual report, the tax litigation between the Italian tax authorities and Prelios and some of its subsidiaries was still pending, representing a total of around Euro 1.8 million in taxes (excluding penalties and interest). The tax claims made by the Italian tax authorities against Prelios and, for the most part, against certain of its subsidiaries, mainly refer to the following issues being litigated before the Tax Courts:

- charge of higher income and non-recognition of costs for IRES (corporate income tax) and IRAP (regional tax on productive activity);
- invalid deduction of VAT and erroneous application of VAT;
- claim in regard to registry tax;
- claim in regard to ICI (municipal property tax).

Partly on the basis of the information in its possession today, the Company believes that the situations challenged by the competent Tax Authorities might conclude favourable with a favourable decision for the entities that received these claims.

* * *

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 claimed by the Italian tax authorities amounts to approximately Euro 32.5 million in taxes (excluding penalties and interest), while the total amount claimed by German tax authorities is about Euro 2.2 million (excluding penalties and interest).

The most significant situations are as follows:

- a) associates of Prelios:
 - i. Social & Public Initiatives Fund (managed by Prelios Società di Gestione del Risparmio S.p.A.), in which Prelios S.p.A. indirectly holds a 35% stake.
On May 10, 2013 the Italian Revenue Agency served Prelios Società di Gestione del Risparmio S.p.A. with a payment notice for tax relating to several contributions made to the real estate investment fund Social & Public Initiatives 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 served Prelios Società di Gestione del Risparmio S.p.A. with another tax payment notice, by calculating about Euro 2 million in additional tax (plus penalties, amounting to 120% of the taxes and interest).
The decisions issued at the first and second levels of jurisdiction ruled in favour of the company.
The amount of the aforementioned payment notices is Euro 7.2 million (plus penalties equal to 120% of the taxes, plus interest).
 - ii. Dicembre 2007 S.p.A. in liquidation: on December 18, 2015 the Italian Revenue Agency served the Company (which ceased its own operations in December 2013) with an IRES (corporate income tax) assessment for the year 2010 (Euro 2.2 million in additional tax, plus interest and penalties) as part of a transfer and exchange transaction. An appeal was filed before the Provincial Tax Court.
- b) associates of Focus Investments S.p.A.:
 - i. Iniziative Immobiliari S.r.l. in liquidation, in which Focus Investments S.p.A. 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 (Italian Tax Police) challenged the merger transaction involving Iniziative Immobiliari S.r.l. in 2003 for tax avoidance.

The findings of the Guardia di Finanza were contained in four notices of assessment, entailing, for 2004-2006, higher taxes (IRES and IRAP) of Euro 17.2 million (plus penalties equal to 100% of the tax and interest) and, for 2007, an adjustment of losses for the year (from Euro 1.7 million to Euro 0.8 million), writing off those for previous tax years, totalling approximately Euro 13.9 million. This dispute was decided in favour of the Company with a final judgement by the Provincial Tax Court.

The Company filed separate appeals against the cited tax assessments. Both the Milan Provincial Tax Court and the Regional Tax Court found in the company's favour in the disputes relating to the 2004-2006 notices of assessment (joined in the court of first instance). The Italian Revenue Agency appealed against this decision before the Supreme Court. In 2013 the Company filed its own counter appeal. At the approval date of this annual report, a date has not been set for the hearing for the dispute before the Court of Cassation.

* * *

In addition to the above, an inspection initiated by the Guardia di Finanza in May 2012 of several real estate investment funds managed by Prelios SGR on January 24, 2013. Several real estate investment funds managed by Prelios Società di Gestione del Risparmio S.p.A. were the target of this inspection. Those investment funds had already received 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 Società di Gestione del Risparmio S.p.A. – acting as 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 assignment of a tax code by the Italian Revenue Agency. To protect the interests of the Funds, Prelios Società di Gestione del Risparmio S.p.A. has appealed in turn to the Tax Commission, the Court of Cassation, the Lazio Regional Administrative Tribunal and the Council of State. At a public hearing on July 11, 2013, the Regional Tax Court decided on the merits of the dispute, by accepting all of the objections raised by Prelios Società di Gestione del Risparmio S.p.A. and ordering the annulment of all the notices of assignment of a tax code to the nine Funds.

On March 17, 2014, appeals were filed with the Court of Cassation by the Attorney General's Office on behalf of the Italian Revenue Agency against the decisions with which the Lombardy Regional Tax Court had annulled the notice of assignment of a tax code to the Funds. In response, Prelios Società di Gestione del Risparmio S.p.A. entered an appearance and lodged a specific counter-appeal against the Attorney General's Office by the applicable deadline.

* * *

No claims have been made against the German subsidiaries controlled by Prelios S.p.A. or its own subsidiaries.

In regard to the German associates, the tax claims made the competent tax authorities total Euro 2.2 million (excluding penalties and interest), for which provisions of the same amount have been set aside, and specifically:

- claims related to the companies transferred to Focus Investments for about Euro 1.0 million (excluding penalties and interest), against which specific provisions have been accrued for the same amount;

- claims related to the companies owned with minority interests by Prelios for about Euro 1.2 million (excluding penalties and interest), against which specific provisions have been accrued for the same amount.

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

9.4.3. RISKS RELATED TO REPRESENTATIONS AND WARRANTIES MADE BY PRELIOS AND ITS INDEMNITY OBLIGATIONS RELATED TO THE INVESTMENTS BUSINESS UNIT

As part of the transfer of the Investments Business Unit to Focus Investments S.p.A., the Company made representations and warranties in favour of Focus Investments S.p.A., and also assumed related indemnity obligations in connection with the non-existence of liabilities, capital losses, contingent liabilities, non-existent assets, losses, costs and expenses, either present or contingent, that might stem from facts, acts or omissions that occurred or were completed by January 12, 2016, even all or part of their effects appears after that date, net of the liabilities, accruals of the risk provisions and other adjustments recognised in the balance sheet of the Investments Business Unit and/or in the last financial statements approved by specific companies, funds or entities, which are either direct or indirect investees of Prelios, included in the Investments Business Unit; or by violation of clauses contained in any articles of association, regulation and/or agreement applicable to Prelios, Focus Investments S.p.A. and/or the Investees, or by violation of provisions of law or other measures applicable to them, in connection with the transfer to Focus Investments S.p.A. of the investments, units of funds, and all other assets and legal relationships included in the Investments Business Unit, up to a maximum aggregate amount of Euro 25 million.

A specific guarantee is also provided in relation to the fact that no capital losses, contingent liabilities, non-existent assets, losses, costs and expenses, either present or contingent, will accrue to Focus Investments S.p.A. or to any of the Investees due to a specific, identified and currently pending dispute over certain alleged breaches, up to a maximum amount of Euro 7 million, although it is possible to increase this amount if the indemnity owed is for a higher amount and falls within the aforementioned limit of Euro 25 million, which is the absolute cap on the guarantee. These guarantees have a duration of 36 months subsequent to January 12, 2016.

Therefore, should liabilities arise that would trigger indemnity obligations, Prelios might have to compensate Focus Investments S.p.A. This would consequently have a major negative impact on the balance sheet, income statement and financial position of the Company and/or the Prelios Group.

9.5. OPERATING RISKS

9.5.1. 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.

As part of its efforts 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 consequent creation of back-up staff members for resources with critical know-how. Notwithstanding the implementation of these incentive policies, it is not possible to rule out the loss of key resources, with consequent negative impact on the balance sheet, income statement and financial position of the Group.

10. SUBSEQUENT EVENTS

- On January 12, 2016, the Board of Directors of Prelios S.p.A. formally resolved to exercise the power, granted to it pursuant to Article 2443 of the Italian Civil Code by the Extraordinary Shareholders' Meeting of October 16, 2015, to increase the share capital up to the maximum amount of Euro 66.5 million (including any share premium) by issuing new Prelios ordinary shares, with no par value, as options to the shareholders (holding ordinary shares and holding Category B shares), in proportion to the number of shares held.

Moreover, subject to the fulfilment of certain conditions, UniCredit S.p.A. and Intesa Sanpaolo S.p.A., have irrevocably undertaken to subscribe, by exercising the relevant options, excluding any joint and several liability between them, a portion of the rights offering, respectively equal to Euro 6,583,377.00 and Euro 3,077,593.00, which will be released through partial voluntary offsetting with a corresponding portion of their respective credit claims against Prelios. It is noted that the unexercised rights are fully backed by the Lending Banks under certain conditions.

- Also on January 12, 2016, the capital increase for Euro 12 million reserved to Intesa Sanpaolo S.p.A., Pirelli & C. S.p.A. and UniCredit S.p.A. was executed in Focus Investments S.p.A., the special purpose vehicle to which were transferred all the Prelios real estate investments and co-investments. With the entry of the Partners in Focus Investments S.p.A., the new Articles of Association of the company were also adopted. Inter alia, they provide for the distribution of share capital in different categories of shares so that the governance of the company is apportioned equally amongst all four shareholders, with the consequent loss of control by Prelios.
- On February 3, 2016, the Board of Directors of Prelios S.p.A. set the final conditions for the capital increase by resolving to increase the share capital on a divisible and paid-up basis for a maximum par value of Euro 6,461,456.31 plus a total maximum share premium of Euro 60,026,929.12, and thus for a maximum aggregate total of Euro 66,488,385.43 including the share premium, through the issuance of a maximum total of 646,145,631 new shares, without specification of their par value, having the same characteristics as the outstanding shares (to be issued with regular entitlement to dividends), at an issue price per share of Euro 0.1029, of which Euro 0.0100 to be allocated to capital and Euro 0.0929 to be allocated to the share premium, to be issued as a rights offering to shareholders (owners of ordinary shares and owners of Category B shares) pursuant to Article 2441, paragraph 1, Italian Civil Code. The subscription was determined – in accordance with the resolutions of the Extraordinary Shareholders' Meeting of October 16, 2015 – in accordance with market practice and applying a 34.4% discount on the TERP⁵⁶ of the Prelios ordinary shares, calculated on the basis of the official Stock Market price on February 3, 2016, amounting to Euro 0,2053. The Shares were offered as options to shareholders holding Prelios ordinary shares and to shareholders holding Category B shares, at the Subscription price, based on an option ratio of 9 Shares for every 10 Ordinary shares held and/or for every 10 Category B shares held.
- On February 5, 2016, Consob approved the prospectus for the offering of the pre-emptive right to those entitled and the listing of newly issued shares of Prelios S.p.A. resulting from the divisible and paid-up capital increase. The proceeds resulting from the capital increase, totalling Euro 66.5 million, will be allocated as follows: Euro 48 million for repayment of the corporate debt, Euro 12 million to cover financial requirements related to development of the Services Platform, and Euro 6.5 million to be used to acquire a shareholding of 10% in Prelios SGR, which is currently owned by Intesa Sanpaolo.
- During the subscription period, which began on February 8, 2016 and concluded on February 24, 2016, of the maximum 646,145,631 newly issued Prelios ordinary shares, a total of 466,443,090 pre-emptive rights were exercised for 416,798,781 shares, representing about 64.97% of the total shares offered, for a total countervalue of about Euro 43.2 million.

In particular, in accordance with the commitments undertaken, UniCredit S.p.A. and Intesa Sanpaolo S.p.A. subscribed their assigned shares of the capital increase (totalling about 14.53% of the Shares offered),

⁵⁶ *Theoretical Ex-right Price* ("TERP"), which is the theoretical price of a share after exercise of the pre-emptive right to a capital increase.

equal to Euro 6.6 million and Euro 3.1 million respectively, released through voluntary partial offsetting of the corresponding portion of their respective receivables towards the Company. The 251,496,500 pre-emptive rights that were not exercised during the Subscription Period (the “unexercised rights”), for the subscription of 226,346,850 newly issued shares, corresponding to about 35.03% of the total shares offered, for a total value of about Euro 23.3 million, were offered on the Stock Market by Prelios S.p.A. pursuant to Article 2441 Italian Civil Code. Of these, 171,723,825 shares (equal to about 26.58% of the total number of newly issued ordinary shares) were subscribed for a total value of about Euro 17.7 million. Therefore, partly considering the shares subscribed at the end of the Subscription Period, a total of 591,522,606 shares (equal to about 91.55% of the total number of newly issued ordinary shares) were subscribed for a total value of about Euro 60.9 million.

- On February 25, 2016 Prelios S.p.A. subscribed the equity financial instruments issued by Focus Investments S.p.A. This is the special purpose vehicle to which all the business activities related to the real estate investments and co-investments of the Prelios Group were transferred, in exchange for a cash contribution of Euro 19.95 million, with the clarification that a portion amounting to Euro 50 thousand of the total Euro 20 million had already been paid by the company to Focus Investments S.p.A. when it was incorporated. Following satisfaction of this obligation, which had been imposed as one of the conditions for success of the overall Transaction, Prelios S.p.A. was fully released from liability for the approximately Euro 176 million in debt transferred to Focus Investments S.p.A. at the effective date of the transfer.
- Pursuant to the underwriting agreement made on February 3, 2016 with the Lending Banks of Prelios and the undertakings assumed in consequence thereof, on March 9 Intesa Sanpaolo S.p.A. subscribed the entire amount of unexercised pre-emptive rights, equal to about 8.45% or 54,623,025 shares – for a total value of about Euro 5.6 million, through conversion for the same amount of its own financial receivable from Prelios through offsetting mechanisms and in connection with purchase by Prelios of all the shares of Prelios SGR owned by Intesa Sanpaolo, amounting to 10% of the share capital. Following that subscription, the Capital Increase with Pre-emptive Rights was fully subscribed for a total value of Euro 66,488,385.43.
- On March 10, 2016 the Company reported the new composition of its share capital, fully subscribed and paid-up, which totals Euro 55,686,524.26, broken down into:
 - 1,153,098,810 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.
- On March 21 the Company approved the Budget 2016 which, in the context of the Industrial Plan 2015-2017, confirms the focus the Prelios Group on the Services sector (asset and fund management, property and project management, agency, valuations and credit servicing), as well as the full implementation of the new market-oriented business model, which requires new expertise and know-how to realise the strategy of gradual reduction of the captive activity and growth in revenue from non-captive clients. Consistently with the Industrial Plan 2015-2017, the Budget 2016 imposes the following specific short-term objectives:
 - stabilisation and growth of service platform revenue, improvement of the margins for certain Group companies and implementation of the guidelines defined by the individual business units;
 - operating implementation of the DoBank (formerly UCCMB) mandate;
 - development of new strategic projects for the Group, with a particular focus on managed asset markets (Prelios Europe): Prelios, in accordance with current market trends and considering the Alternative Investment Fund Managers Directive (AIFMD), aims to attract major international investors with instruments alternative to real estate funds;
 - transforming the German platform'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 northern Europe.

- launching new indirect investment vehicles (the Listed Real Estate Investment Company Project): exploiting recent changes in 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);
- continued focus on streamlining fixed costs.

The Budget 2016 confirms the targets announced to the market as part of the Industrial Plan 2015-2017 approved by the Board of Directors last August 6.

11. BUSINESS OUTLOOK

Partly in consideration of the previously mentioned improvement in the reference market, Prelios has identified and is implementing, at the level of the individual Group business units, a series of measures and initiatives in implementation of (i) the Budget 2016 approved by the Board of Directors on March 21, 2016 and (ii) the Industrial Plan 2015-2017 approved by the Board of Directors on August 6, 2015.

From the management standpoint – with completion in March of the Extraordinary Transaction – 2016 will be dedicated to re-launching Prelios as a major European real estate and financial services centre.

As previously described in the part dedicated to “subsequent events”, the Company approved the Budget 2016 that confirms the following economic targets already announced to the market with the Industrial Plan 2015-2017:

Service Platform turnover: between Euro 100 million and Euro 105 million;

- positive EBIT for the Service Platform, gross of G&A, of Euro 10 to 12 million.

In conclusion, after the recently completed Extraordinary Transaction to spin off activities and shore up the balance sheet, and the results of the Budget 2016 and Industrial Plan 2015-2017, the Directors of Prelios consider it reasonable to assume that the Group may continue operating as a going concern.

12. ANNUAL REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

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

13. OTHER INFORMATION

13.1. Ordinary and extraordinary shareholders' meeting

The Ordinary and Extraordinary Shareholders' Meeting was held on June 24, 2015, on sole call.

During the Ordinary part, not only did the Shareholders' Meeting approve the financial statements for 2014, it also appointed a replacement for Director Claudia Bugno, who had resigned. Ms. Valeria Leone is the newly appointed Director of the Company, and was nominated for this position by the shareholder Pirelli & C. S.p.A. Her appointment confirmed the number of members on the Board of Directors at fifteen. 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.

For the Extraordinary part, the Shareholders' Meeting resolved – pursuant to Article 2446, paragraph 2, Italian Civil Code, to cover the entire loss for the year (Euro 74,129,720.08), the loss for the previous year (Euro 299,772,019.32) and the pre-existing negative “other reserves” for Euro 5,570,314.65, as reported in the financial statements 2014, by:

1. fully using the available reserves, for the amount of Euro 2,255,864.80;
2. reduction in the share capital by Euro 377,216,189.25, without cancelling any shares, since they do not have par value.

Consequently, since the share capital had been reduced to Euro 49,225,067.95, Article 5 (share capital) of the Prelios Articles of Association was amended.

The Ordinary and Extraordinary Shareholders' Meeting was held on October 16, 2015, on sole call.

During the Ordinary part, the Shareholders' Meeting appointed the new and current Board of Directors, while reducing the number of its members to 11 (from the 15 of the outgoing Board of Directors appointed in 2013), electing them from the only slate submitted by the shareholders Intesa Sanpaolo S.p.A., Pirelli & C. S.p.A. and Unicredit S.p.A.. Moreover, the length of their term was set at three financial years (and thus until the shareholders' meeting called to approve the financial statements at December 31, 2017) and the total annual compensation for the entire Board was set at a maximum of Euro 550,000.00.

During the Extraordinary part, the Shareholders' Meeting amended Article 5 of the Articles of Association (share capital and shares) by granting the Directors, pursuant to Article 2443 of the Italian Civil Code, the power to increase the share capital by a maximum of Euro 66.5 million (including any share premium) through the issue of new Prelios ordinary shares, without par value, in the broader context of the extraordinary transaction of the spin-off of the real estate investments and co-investments business from that of real estate services, and shoring up the Company balance sheet and financial position.

After the aforementioned full execution of the Capital Increase with Pre-emptive Rights, as attested on March 10, 2016, the current fully subscribed and paid-up share capital of Prelios S.p.A. totals Euro 55,686,524.26, broken down into:

- 1,153,098,810 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.

13.2. Treasury shares

At December 31, 2015, the Company held a total of 1,788 treasury shares in portfolio, out 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.

13.3. 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. The previous renewal for the three-year period 2013-2015 ends with the 2015 financial year. In view of continuing this tax treatment, the parent company Prelios S.p.A. has already expressed its own intention to renew the tax consolidation system for the three-year period 2016-2018 with its own subsidiaries that satisfy the legal obligations, unless it is prematurely terminated due to loss of control of the consolidated entity or the financial year does not coincide with that of the consolidating company.

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.

13.4. Group VAT settlement

For the 2015 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.

13.5. 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.

14. PARENT COMPANY PRELIOS S.P.A.

At December 31, 2015, Prelios S.p.A. reported a net loss of Euro 29.6 million, compared with a net loss of Euro 74.1 million in the previous year.

In regard to the aforementioned loss for the year reported at December 31, 2015 and its amount, certification was filed on March 10, 2016 that the capital increase with pre-emptive rights had been executed, as approved by the Board of Directors in exercise of the power granted to it by the Extraordinary Shareholders' Meeting of the Company on October 16, 2015.

The capital increase with pre-emptive rights was fully executed for Euro 6,461,456.31 at par plus a total shareholders' premium of Euro 60,026,929.12, and thus for a total of Euro 66,488,385.43 inclusive of the share premium.

Therefore, the fully subscribed and paid-up share capital of Prelios S.p.A. totals Euro 55,686,524.26, broken down into:

- 1,153,098,810 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.

Considering the amount of the share capital (Euro 55,686,524.26) and the additional paid-in capital (Euro 60,026,929.12) created in consequence of the full execution of the capital increase, the loss at December 31, 2015 (Euro 29,622,332.51) is less than one third of the current share capital.

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 2015	DECEMBER 2014
Total operating revenue	12.4	14.5
EBIT including net income from equity investments	(33.0)	(67.6)
Financial operations	(0.7)	(16.7)
Net income (loss) from discontinued operations	4.3	9.6
Net loss	(29.6)	(74.1)

Operating revenue amounted to Euro 12.4 million, compared with Euro 14.5 million in the previous year, and mainly relate to staff services provided centrally by the parent company for its subsidiaries, as well as the recovery of sundry costs (especially recovery of site costs), brand licensing and asset management fees. They also include the release of certain provisions made during the previous years. In 2014 they included Euro 2.5 million in income from the subsidiary Edilnord Gestioni S.r.l. (in liquidation) following settlement of the litigation connected with contracts previously managed on behalf of Inpdap.

The operating loss, including the net income from equity investments, was Euro 33.0 million, compared to a loss of Euro 67.6 million in 2014. 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 64.9 million in 2014 to Euro 30.4 million in 2015. Other positive effects included the improvement at the level of EBIT (negative Euro 9.1 million for the year ended December 31, 2015, compared to negative Euro 18.2 million in 2014) and the change in dividends received, which amounted to Euro 6.5 million in 2015, compared to Euro 15.9 million in the previous year.

Financial operations, net of financial income included in "Net income (loss) from discontinued operations", generated a loss of Euro 0.7 million, compared with a loss of Euro 16.7 million in the previous year.

At December 31, 2015, financial income included the gain on the premature discharge of the loan from UBI Banca, through payment on a lump sum basis of an amount less than its face value, both in regard to the Senior loan and the Super Senior loan. In 2014 this item had suffered from the negative impact of impairment of the junior securities by Euro 6.3 million. The remainder of the change can be related to the reduction in the

figurative expenses recognised for the Senior and Super Senior loans, as well as a positive delta in the exchange rate deltas on Polish zloty loans.

Net income (loss) from discontinued operations refers, as in the previous year, to the income and expenses from assets and losses connected with “discontinued operations”. In fact, disposal of the units of the real estate companies owning the German residential portfolio DGAG (Deutsche Grundvermögen GmbH) is classified as discontinued operations in accordance with IFRS 5.

At December 31, 2015 this result was a positive Euro 4.3 million, and includes the adjustment to the value of the investment in Solaia RE S.à.r.l. and the loans made on behalf of the subsidiary Prelios Netherland B.V. to the companies to which the investment in the DGAG portfolio belonged. In 2014 the net income from discontinued operations of Euro 9.6 million also included the gain of Euro 1.2 million realised by disposal of the minority shares owned directly by Prelios S.p.A. in the German companies belonging to the DGAG Group.

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

(in millions of euro)	DECEMBER 2015	DECEMBER 2014
Property, plant and equipment and intangible assets	279.9	290.8
<i>of which investments</i>	269.2	147.7
Net working capital	(2.8)	(5.8)
Discontinued operations	-	32.6
Net invested capital	277.1	317.6
Equity	19.8	49.4
Provisions	6.3	11.3
Net financial position	251.0	256.9
Total covering Net Invested Capital	277.1	317.6

The transfer of the Investments Business Unit to Focus Investments S.p.A. was completed on December 29, effective December 31, 2015. The business unit includes the assets and liabilities related to operation of the investment activity, and particularly the investments owned by Prelios S.p.A. in the real estate investment companies and the loans made to them, and Euro 176.2 million of the Senior debt. The conditions precedent imposed in the new restructuring agreement of the debt signed by Prelios S.p.A. and the lending banks on October 8, 2015 to release Prelios S.p.A. from the obligations connected with the debt had not yet been fully realised at the reporting date. Therefore, the transferred portion of the debt is still recognised together with the liabilities of Prelios S.p.A. on the balance sheet at December 31, 2015.

Property, plant and equipment and intangible assets showed a net decline of Euro 10.9 million compared to December 2014. This was mainly due to the contraction in non-current financial receivables. The net increase in the value of investments was mainly related instead to transfer of the Investments Business Unit to Focus Investments S.p.A., a subsidiary at December 31, 2015.

Net working capital increased from a negative value of Euro 5.8 million at December 31, 2014 to a negative value of Euro 2.8 million at December 31, 2015.

The change is mainly related to settlement during the year of several debts to the joint ventures recognised in the previous years, and to transfer of the business unit.

At December 31, 2014, assets held for sale included the assets connected with the German residential portfolio DGAG, including the investment held in the joint venture Solaia RE S.à r.l. (which was fully impaired in 2015) and the portion of the loan claimed from the subsidiary Prelios Netherlands B.V. and allocated by it to finance the joint ventures owned by the DGAG portfolio. The latter was almost fully repaid during the year, and the residual amount was transferred to the investee Focus Investments S.p.A. as part of transfer of the Investments Business Unit.

Net invested capital amounted to Euro 277.1 million, compared to Euro 317.6 million for the year ended December 31, 2014. The decrease was related to the previously mentioned reductions in non-current financial receivables and assets held for sale.

Equity at December 31, 2015 amounted to Euro 19.8 million, compared with Euro 49.4 million at December 31, 2014. This change was largely attributable to the net loss of Euro 29.6 million.

Net financial position was net debt of Euro 251 million at December 31, 2015, compared to net debt of Euro 256.9 million at the end of 2014. Non-current bank debt fell by about Euro 5.9 million, following the repayments made during the year and the previously mentioned premature discharge of the debt to UBI Banca. The decrease in current financial payables, amounting to Euro 36 million, was partially offset by the contraction in current financial receivables, totalling Euro 30.9 million. Both changes were mostly related to transfer to the Investments Business Unit of the previously existing financial receivables and payables existing between Prelios S.p.A. and the investment subsidiaries.

Cash and cash equivalents were reduced by about Euro 4.8 million.

Human resources

Prelios S.p.A. had 37 employees at December 31, 2015, compared to 59 at December 31, 2014. The workforce was made up of 9 senior managers, 10 middle managers, 17 office workers and one manual worker.

As part of the transfer of the Investments Business Unit, 16 employees were transferred from Prelios S.p.A. to the subsidiary Focus Investments S.p.A., including 5 senior managers, 5 middle managers and 7 office workers, effective December 31, 2015.

15. APPENDICES

APPENDIX A – Non-GAAP measures

The non-GAAP measures used are as follows:

- **Operating loss** (Euro -11.6 million): determined as EBIT of Euro -18.4 million plus net loss from investments of Euro 16.4 million (values reported in “EBIT” and “Net loss from investments”, respectively in the consolidated income statement), plus income from shareholder loans of Euro 4.8 million (included in financial income), adjusted for NPL portfolio restructuring costs (Euro 1.9 million, included in the item “financial expenses”), net property write-downs/revaluations (Euro 7.5 million) and restructuring costs of Euro -0.8 million.
- **Profit/(loss) before restructuring costs, property write-downs/revaluations and income taxes** (Euro -25.1 million): value obtained by adding operating profit/(loss) (Euro -11.6 million) to financial expenses (Euro -13.5 million).
- **Income from shareholder loans** (Euro 4.8 million): this figure consists of the value of interest income on loans to associates and joint ventures (Euro 4.6 million) and the value of income on securities classified as “financial income”, shown gross of the net real estate write-downs of Euro 0.2 million.
- **Impairment loss on the NPL portfolio**: this figure refers to the decrease in the value of the junior securities included among “financial expenses”.
- **Financial income/(Financial expenses)** (Euro -13.5 million): this includes the item “financial expenses” (adjusted for possible impairment of junior notes or financial receivables and the non-recurring component included in restructuring costs) 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 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 2015	DECEMBER 2014
EBIT	(18.4)	(27.6)
Net income from equity investments	(14.9)	(14.9)
Income from shareholder loans (2)	4.8	4.5
Loss from NPL portfolio valuation (3)	(1.9)	(6.3)
Restructuring costs (1)	0.8	13.9
Property (write-downs)/revaluations (2)	18.0	39.1
Total	(11.6)	8.7

Profit/(loss) before restructuring costs, property write-downs/revaluations and taxes	DECEMBER 2015	DECEMBER 2014
Operating profit/(loss)	(11.6)	8.7
Financial expenses	(13.5)	(22.5)
Total	(25.1)	(13.8)

Income from shareholder loans	DECEMBER 2015	DECEMBER 2014
interest income on financial receivables due from joint ventures	4.6	4.5
Property (write-downs)/revaluations (2)	0.2	-
Total	4.8	4.5

Financial income (expenses)	DECEMBER 2015	DECEMBER 2014
Financial expenses	(20.7)	(29.9)
Financial income	10.2	5.6
Income from shareholder loans (1)	(4.6)	(4.5)
Loss from NPL portfolio valuation	1.9	6.3
Restructuring costs (1)	(0.3)	-
Total	(13.5)	(22.5)

NOTE

(1) Restructuring costs in 2015 totalled a negative amount of Euro 0.5 million, of which a loss for Euro 1.0 million included in EBIT, a positive amount of Euro 0.2 million and Euro 0.3 million recorded respectively in net income from investments in companies accounted for using the equity method and financial expenses.

(2) Property (write-downs)/revaluations in 2015 totalled Euro 18.2 million (pro-rata share attributable to the Group): of which Euro 16.5 million recorded in net income from investments in companies accounted for using the equity method, Euro 1.5 million included in EBIT of fully consolidated companies and Euro 0.2 million included in financial income of fully consolidated companies.

(3) Loss from NPL portfolio valuation included in financial expenses for Euro 1.9 million.

APPENDIX B**Detail of real estate debt of investment companies and funds**

	Net financial position	Net bank debt
Commercial Italy	572,298	535,427
Commercial Germany	(18,910)	(21,520)
Commercial Germany - Highstreet -	338,452	(57,688)
Residential Germany - Small Deals -	(4)	(4)
TOTAL PORTFOLIO YIELDING	891,836	456,214
Trading Italy	482,434	382,082
Development Italy	97,999	82,560
Land Italy	127,828	123,705
Other Germany	3,813	3,808
Land Poland	14,164	(23,043)
TOTAL OTHER PORTFOLIO	726,238	569,112
TOTAL REAL ESTATE	1,618,074	1,025,326

Maturity (years)*	1.7
of which Italy	8.3
of which Germany	1.7

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

Main contractual clauses concerning debt⁵⁷

It should be noted that the covenants of all outstanding loans to funds and investment companies 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, 2015, 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. According to estimates available at the preparation date of this report, it is likely that the LTV of Gamma RE B.V. will not meet the contractually envisaged threshold at the next calculation date on March 31, 2016.

Moreover, mention is made of certain positions whose debt has fallen due in relation to the Vivaldi Fund, the Patrimonio Uffici Fund, Iniziative Immobiliari Due S.r.l. (the last two fell due on December 31, 2015).

Negotiations have started with the various financial counterparties in respect of all the above positions not meeting contractual conditions, in order to formalise and finalise solutions.

⁵⁷ The analysis does not include the figures relating to funds classified as third-party funds, since Prelios holds an interest of less than 5%.

APPENDIX C

Glossary

- **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.
- **2016 Budget:** planning of the income statement, cash flow statement and balance sheet for 2016, approved by the Board of Directors on March 21, 2016.
- **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.
- **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 entities that finance the Company.
- **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.
- **Gruppo or Prelios Group:** the Company and the companies controlled by it pursuant to Article 93 of the Consolidated Law on Finance.
- **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 the 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 (NPL):** portfolios of non-performing mortgage loans originated by banks, i.e. arising from disputed loans secured by mortgages on real estate.
- **Transaction:** The strategic extraordinary transaction, serving to restructure the Prelios Group through completion of the process of focusing it on the Services business activity and its repositioning as a “pure management company” – with the objective of also maintaining the conditions for its continued operation as a going concern and shore up its balance sheet and financial position on a long-term basis, through the Contribution to Focus Investments S.p.A. of the Investments Business Unit and transfer of about Euro 176.2 million in debt held owned by Prelios (pursuant to the agreements with Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Pirelli & C. contained in the Framework Agreement and the agreements with the Lending Banks contained in the New Restructuring Agreement) – and consisting, inter alia, of the Reserved Capital Increase of Focus Investments, the Cash Contribution, the Capital Increase with Pre-emptive Rights, the subscription and underwriting commitments for the Capital Increase with Pre-emptive Rights, and the activities related to execution of the New Restructuring Agreement.
- **2016-2017 Outlook:** strategic guidelines and growth targets for the Group's income statement, balance sheet and cash flow statement 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.
- **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.

- **Industrial Plan:** the Group's plan for the period 2015-2017, approved on August 6, 2015 on the basis of the 2015-2017 Guidelines, previously approved by the Board of Directors on March 10, 2015.
- **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.
- **Investments Business Unit:** the business unit of Prelios S.p.A. transferred through the Contribution of Investments comprised by assets (mainly investments in companies and units of funds for investments and co-investments in the real estate sector), receivables, payables, agreements, employee relationships and a portion of the debt related to the Senior Loan.
- **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 2015 and Group equity at December 31, 2015 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	(29,622)	19,768
Consolidation adjustments:		
- net income (loss) from discontinued operations	580	2,324
- contribution to subsidiaries	(24,949)	(501,896)
- net income from equity investments	(14,617)	(101,386)
- elimination of writedowns/dividends and goodwill recorded in the financial statements of the parent company	23,579	635,627
- other consolidation adjustments	492	8,739
Prelios Group consolidated financial statements (attributable to the Group)	(44,537)	63,176

B. THE PRELIOS GROUP – CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2015

1. CONSOLIDATED BALANCE SHEET*(in thousands of euro)*

ASSETS	12.31.2015	12.31.2014
NON-CURRENT ASSETS		
1 Property, plant and equipment	800	853
2 Intangible assets	58,595	59,082
3 Equity investments	123,732	150,104
<i>of which investments held for sale</i>	-	3,849
4 Other financial assets	25,151	16,254
5 Deferred tax assets	7,461	8,310
7 Other receivables	86,346	113,596
<i>of which from related parties</i>	81,088	108,355
TOTAL NON-CURRENT ASSETS	302,085	348,199
CURRENT ASSETS		
9 Inventories	39,317	43,472
6 Trade receivables	41,956	35,074
<i>of which from related parties</i>	16,538	18,758
7 Other receivables	19,701	17,773
<i>of which from related parties</i>	9,146	8,834
10 Cash and cash equivalents	72,607	77,192
8 Tax receivables	2,768	3,013
TOTAL CURRENT ASSETS	176,349	176,524
29 DISCONTINUED OPERATIONS	1,744	12,164
<i>of which from related parties</i>	1,744	9,964
TOTAL ASSETS	480,178	536,887

EQUITY	12.31.2015	12.31.2014
GROUP EQUITY		
11 Share capital	49,216	426,432
12 Other reserves	(8,980)	(15,940)
13 Retained earnings (losses)	67,477	(244,539)
Net profit (loss) for the period	(44,537)	(61,149)
TOTAL GROUP EQUITY	63,176	104,804
14 MINORITY INTERESTS	2,871	2,488
TOTAL EQUITY	66,047	107,292
LIABILITIES	12.31.2015	12.31.2014
NON-CURRENT LIABILITIES		
15 Bank borrowings and payables to other lenders	247,089	256,434
17 Other payables	5,527	524
18 Provisions for future risks and expenses	33,779	40,187
5 Deferred tax provision	2,527	2,156
19 Employee benefit obligations	11,103	12,080
20 Tax payables	-	122
TOTAL NON-CURRENT LIABILITIES	300,025	311,503
CURRENT LIABILITIES		
15 Bank borrowings and payables to other lenders <i>of which to related parties</i>	10,716 5,141	8,490 6,576
16 Trade payables <i>of which to related parties</i>	54,902 2,568	47,316 3,063
17 Other payables <i>of which to related parties</i>	25,017 1,796	40,917 19,039
18 Provisions for future risks and expenses <i>of which to related parties</i>	15,409 150	14,510 418
20 Tax payables <i>of which to related parties</i>	8,062 -	6,859 1,080
TOTAL CURRENT LIABILITIES	114,106	118,092
TOTAL LIABILITIES	414,131	429,595
TOTAL LIABILITIES AND EQUITY	480,178	536,887

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

2. CONSOLIDATED INCOME STATEMENT*(in thousands of euro)*

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
21 Revenue from sales and services	70,908	72,124
22 Changes in inventories of work in progress, semi-finished and finished products	(2,749)	(2,002)
23 Other income	14,000	13,233
TOTAL OPERATING REVENUE	82,159	83,355
<i>of which from related parties</i>	23,292	29,927
<i>of which non-recurring events</i>	5,066	1,869
Raw and consumable materials used (net of change in inventories)	(1,791)	(3,224)
Personnel costs	(36,049)	(38,828)
Depreciation, amortisation and impairment	(1,234)	(2,373)
Other costs	(61,477)	(66,583)
24 TOTAL OPERATING COSTS	(100,551)	(111,008)
<i>of which to related parties</i>	(5,416)	(7,228)
<i>of which non-recurring events</i>	(6,087)	(15,825)
EBIT	(18,392)	(27,653)
25 Net loss from equity investments:	(14,862)	(14,769)
<i>of which from related parties</i>	(15,383)	(14,861)
<i>of which non-recurring events</i>	255	125
- portion of result of associates and joint ventures	(10,915)	(13,323)
- dividends	404	-
- gains on investments	118	1,009
- losses on investments	(4,469)	(2,455)
26 Financial income	10,175	5,564
<i>of which from related parties</i>	5,044	4,556
27 Financial expenses	(20,740)	(29,958)
<i>of which to related parties</i>	(334)	(721)
PROFIT (LOSS) BEFORE TAXES	(43,819)	(66,816)
28 Taxes	(4,933)	(2,831)
NET INCOME FROM CONTINUING OPERATIONS	(48,752)	(69,647)
attributable to minority interests	104	(391)
29 NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	4,319	8,107
<i>of which from related parties</i>	-	8,760
GROUP NET INCOME/(LOSS)	(44,537)	(61,149)
30 PROFIT (LOSS) PER SHARE (in euro):		
<i>basic earnings</i>	(0.06)	(0.10)

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

3. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*(in thousands of euro)*

		01.01.2015-12.31.2015			of which attributable	
		gross	taxes	net	Group	Minority interests
A	Net profit (loss) for the period			(44,433)	(44,537)	104
	Other components recorded under equity that can be reclassified in the income statement in a future period:	4,188	(1,163)	3,025	2,720	305
	Exchange differences from the translation of foreign financial statements	21	-	21	21	-
	Total available-for-sale financial assets	4,226	(1,163)	3,063	2,757	306
	- Adjustment of available-for-sale financial assets to fair value	1,204	(332)	872	785	87
	- portion of (profit)/losses transferred to the income statement that were previously recorded directly under equity	3,022	(831)	2,191	1,972	219
	Share of other equity components related to associates and joint ventures	(59)	-	(59)	(58)	(1)
	- portion of profit/(losses) recorded directly under equity	(59)	-	(59)	(58)	(1)
	Other components recorded under equity that could not be reclassified in the income statement in a future period:	564	(20)	544	544	-
	Balance of actuarial gains/(losses) on employee benefits	564	(20)	544	544	-
B	Total other components recorded under equity	4,752	(1,183)	3,569	3,264	305
A+B	Total comprehensive income/(losses) for the period			(40,864)	(41,273)	409
		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	315	-	315	315	-
	- portion of profit/(losses) recorded directly under equity	315	-	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)

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	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 12.31.2014	426,432	(5,609)	(3,995)	(3,239)	3,467	(6,569)	(244,534)	(61,149)	104,804	2,488	107,292
Total other components recorded under equity	-	82	3,684	564	(1,067)	-	-	-	3,263	306	3,569
Allocation of 2014 results	(377,216)	-	-	-	(2,256)	5,570	312,753	61,149	-	-	-
Cost of equity transactions	-	-	-	-	-	(80)	-	-	(80)	(2)	(82)
Other changes	-	-	3	(263)	(39)	767	(742)	-	(274)	(25)	(299)
Net profit (loss) for the period	-	-	-	-	-	-	-	(44,537)	(44,537)	104	(44,433)
Equity at 12.31.2015	49,216	(5,527)	(308)	(2,938)	105	(312)	67,477	(44,537)	63,176	2,871	66,047

	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 period	-	-	-	-	-	-	-	-	(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

5. CONSOLIDATED CASH FLOW STATEMENT*(in thousands of euro)*

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
Profit (loss) before taxes	(43,819)	(66,816)
Profit/(loss) from businesses sold	4,319	8,107
Amortisation, depreciation, write-downs and write-backs on intangible assets and prope	1,234	2,373
Impairment of receivables	2,248	5,807
Capital gains/losses on sale of property, plant and equipment	(5)	(44)
Net income from investments net of dividends	14,862	17,621
Financial expenses	20,740	29,958
Financial income	(10,175)	(5,564)
Change in inventories	4,155	4,934
Change in trade receivables/payables	(1,418)	(6,905)
Change in other receivables/payables	6,357	(10,531)
Change in employee benefit obligations and other provisions	(5,653)	(6,215)
Taxes	(4,931)	(1,003)
Net cash flow generated from discontinued operations	(4,319)	(8,107)
Other changes	34	576
Net cash flow generated/(absorbed) by operating activities (A)	(16,371)	(35,809)
Investments in property, plant and equipment	(171)	(54)
Disposal of property, plant and equipment	2	364
Investments in intangible assets	(531)	(487)
Disposal of intangible assets	11	58
Net cash flow generated by disposal of interests in subsidiaries	117	92
Acquisition of interests in associates and joint ventures	7,903	(13,095)
Disposal of interests in associates and joint ventures and other changes	371	110
Dividends received	404	-
Purchase of other financial assets	(9,933)	(200)
Disposal/reimbursements of other financial assets	309	995
Net cash flow generated/(absorbed) by investing activities (B)	(1,518)	(12,217)
Other changes in equity	127	(53)
Change in financial receivables	21,693	4,979
Change in financial payables	(17,931)	6,203
Cash flow generated by financial income	838	547
Cash flow absorbed by financial expenses	(2,223)	(2,459)
Net cash flow generated/(absorbed) by financing activities (C)	2,504	9,217
Net cash flow generated/(absorbed) by discontinued operations	10,800	30,392
Net cash flow generated/(absorbed) by discontinued operations (D)	10,800	30,392
Total net cash flow generated/(absorbed) in the period (E=A+B+C+D)	(4,585)	(8,417)
Cash and cash equivalents + bank current account overdrafts at the beginning of the period (F)	77,192	85,609
Cash and cash equivalents + bank current account overdrafts at the end of the period (E+F)	72,607	77,192
of which:		
- cash and cash equivalents	72,607	77,192
- bank current account overdrafts	-	-

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

6. CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2015 – 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 2015 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 consolidated financial statements are 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 21, 2016.

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

As previously described in greater detail in the Directors’ Report on Operations, and especially in regard to the parts “Prelios in 2015”, referring specifically to the part “Measures to revitalise operations and ensure that the Company can continue as a going concern”, “Subsequent events” and “Outlook”, the Company – considering the improvement in the reference market – has identified and is implementing a series of measures to improve operations in accordance with (i) the Budget 2016 approved by the Board of Directors on March 21, 2016 and (ii) the Industrial Plan 2015-2017 approved by the Board of Directors on August 6, 2015.

Moreover, as described in more detail in the Report on Operations, the Company completed its restructuring during 2015 and at the beginning of 2016 through (i) the spin-off of its investments business unit, (ii) restructuring of its senior and super senior debt, and (iii) the capital increase with pre-emptive rights. These actions gave the Company the structural framework it need to pursue future growth for the creation of an asset management centre at the European level.

Moreover, it must be pointed out that at December 31, 2015, the extraordinary transaction described above was completed only in regard to the contribution in kind of the Prelios S.p.A. Investments Business Unit to Focus Investments S.p.A. That transfer was executed on December 29, 2015, while the following had not yet been completed: i) the Reserved Capital Increase in favour of Focus Investments S.p.A., paid up in cash by the Partners on January 12, 2016 and which, according to the governance rules of Focus Investments S.p.A., consequently triggered the loss of control by Prelios S.p.A., ii) the payment of Euro 20 million made on February 25, 2016 to Focus Investments S.p.A. for the subscription of equity financial instruments issued by the latter and that, in accordance with the provisions of the Restructuring Agreement, discharges Prelios S.p.A. from the approximately Euro 176 million debt transferred to Focus Investments S.p.A., iii) the effects of the Restructuring Agreement came into force beginning January 1, 2016, since all the remaining conditions precedent for those accords were satisfied in the first few months of 2016, iv) the Capital Increase with pre-emptive rights for Euro 66.5 million offered to the shareholders of Prelios S.p.A. that was completed on March 9, 2016.

Therefore, the consolidated financial statements of Prelios S.p.A. at December 31, 2015, show no accounting effects related to the transaction insofar as the only part of the transaction that had been completed before that date was the transfer of the Investments Business Unit to Focus Investments S.p.A., which was still controlled by Prelios S.p.A. at that date.

In light of the events that occurred in 2015 and the first few months of 2016, as described in the part “Subsequent Events”, all the conditions precedent envisaged in the Framework Agreement and the New Restructuring Agreement were satisfied and all parts of the transaction were completed by the approval date of this Annual Financial Report 2015. Therefore, following completion of this Transaction, Prelios S.p.A. has achieved its financial objective of reducing its own debt, in regard to the portion transferred to Focus Investments S.p.A. and the portion repaid with the proceeds from the capital increase, while increasing its own capitalisation – through the same capital increase – in accordance with the provisions of the Industrial Plan 2015-2017.

The Annual Financial Report 2015 shows a net loss of about Euro 45 million, which is better as a whole than the result for the previous year, in spite of non-recurring charges amounting to about Euro 19 million, mainly represented by property write-downs.

In financial terms, the balance sheet at December 31, 2015 shows cash and cash equivalents totalling about Euro 73 million, higher than forecast and mainly due to the (i) receipt of net income from several joint ventures earlier than expected, (ii) deferral of the payment of several non-recurring charges, (iii) improvements deriving from performance of the services platform and, finally, (iv) deferral of the repayment of debts until after the forecast dates due to the different timing of distribution to the Parent Company of cash and cash equivalents by certain investees.

Considering that the Transaction has been completed as planned and on the basis of the forecasts set out in the Industrial Plan 2015-2017, as updated by the Budget 2016, the Company believes that – although those forecasts still show losses, with consequent erosion of equity and negative cash flow in 2016 that, while not causing a deficit over the lifetime of the plan, nonetheless confirm the persistence of a financial and liquidity situation demanding careful monitoring by the Directors – it has completed its own process of restructuring to achieve long-term financial solidity.

On the basis of the circumstances described hereinabove, the Directors believe that the actions taken in 2015 and at the beginning of 2016 – as described in the parts “Prelios in 2015”, “Subsequent events” and “Outlook” – and the actions envisaged in the Budget 2016, consistent with the Industrial Plan 2015-2017, have laid the bases for rebalancing the equity and financial position of the Company insofar as, although the inevitable uncertainties related to sector trends persist, the extraordinary transaction of spinning off the Investments business and associated financial restructuring of the Group have been completed in accordance with the provisions of the Industrial Plan 2015-2017. In this context, the Directors are presently unaware of any elements that might lead them to consider the Industrial Plan 2015-2017 unachievable. In particular, the Directors believe that all the executed actions are adequate to overcome contingent uncertainties over the viability of the Group as a going concern and, therefore, that the Group may continue operating.

Prelios S.p.A. ended the year at December 31, 2015 with a loss of Euro 29,622,332.51.

In regard to the aforementioned loss for the year reported at December 31, 2015 and its amount, certification was filed on March 10, 2016 that the capital increase with pre-emptive rights had been executed, as approved by the Board of Directors in exercise of the power granted to it by the Extraordinary Shareholders’ Meeting of the Company on October 16, 2015.

The capital increase with pre-emptive rights was fully executed for Euro 6,461,456.31 at par plus a total shareholders’ premium of Euro 60,026,929.12, and thus for a total of Euro 66,488,385.43 inclusive of the share premium.

Therefore, the fully subscribed and paid-up share capital of Prelios S.p.A. totals Euro 55,686,524.26, broken down into:

- 1,153,098,810 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.

Considering the amount of the share capital (Euro 55,686,524.26) and the additional paid-in capital (Euro 60,026,929.12) created in consequence of the full execution of the capital increase, the loss at December 31, 2015 (Euro 29,622,332.51) is less than one third of the current share capital.

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 as at December 31, 2015, and of the measures implementing Article 9 of Legislative Decree 38/2005. 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.

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.

The accounting standards and policies are consistent with those used in the preparation of the financial statements at December 31, 2014. The exceptions are in respect of the new standards/interpretations adopted by the Group starting from January 1, 2015. The nature and impact of these changes are described below.

6.3.1. Accounting standards and interpretations endorsed and in force from January 1, 2015

The following new standards and interpretations came into force on or after January 1, 2015.

- “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 changes were endorsed by the European Union on December 18, 2014 (Regulation (EU) no. 1361/2014) and came into force beginning January 1, 2015.

The application of these changes has not had a material impact on the consolidated financial statements.

- IFRIC Interpretation 21 – Levies

This interpretation, published on May 20, 2013, addresses the recognition of a liability for payment of a tax if that liability falls within the scope of application of IAS 37 and the recognition of a liability for payment of a tax whose timing and amount are uncertain. The interpretation was endorsed by the European Union (Regulation [EU] no. 634/2014) and applies beginning with the financial years commencing after June 17, 2014. The application of this interpretation has not had a material impact 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 yet come into force or been endorsed by the European Union, and which are therefore not applicable, are listed below.

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

- Amendments to 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 yet endorsed these amendments. The impact of 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 IFRS 9 Financial Instruments.

That document replaced the previous versions published in 2009 and 2010 for the “classification and measurement” phase and in 2013 for the “hedge accounting” phase. This publication completed the project to reform IAS 39, in view of reducing its complexity. That project was carried out in three phases: “classification and measurement”, “impairment” and “hedge accounting”. Revision of the rules for “macro hedge accounting” has yet to be completed, although this process is being handled through 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 that were considered too strict have been amended, in view of guaranteeing greater consistency between the accounting representation of hedges and risk management. In particular, changes have been implemented for the types of transactions eligible for hedge accounting, in particular by broadening the risks of non-financial assets/liabilities eligible to be managed under hedge accounting;
- the effectiveness test mandated by IAS 39 has been replaced with 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 required;
- the classification and measurement of financial assets: financial assets may be classified in the category “*Fair value through other comprehensive income (FVOCI)*” or at amortised cost. The category “*Fair value through profit or loss*” is also envisaged, but only as a second choice. 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 model for impairment is envisaged, based on a concept of “forward-looking expected loss” in order to guarantee more immediate recognition of losses than the IAS 39 model of “incurred loss”, according to which losses may be recognised only when there is objective evidence of loss arising after initial recognition of the assets;
- financial liabilities: IASB has substantially confirmed the provisions of IAS 39, while maintaining the possibility to apply the fair value through profit or loss principle to measurement of the financial liability when certain conditions are met. If the fair value option is adopted for financial liabilities, the new principle envisages that the change in fair value attributable to the change in the issuer’s credit risk (“own credit”) has to be recognised in the statement of comprehensive income and not in the income statement. This consequently eliminates a source of volatility in economic results that became particularly acute during economic and financial crises.

This standard has not yet been endorsed by the European Union. Mandatory application of the standard is scheduled to begin January 1, 2018, with the possibility of early application of the entire standard or only the amendments related to the accounting of “own credit” for financial liabilities carried at fair value.

The impact of future application of this standard to the consolidated financial statements cannot be quantified at this time.

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

The amendments aim to clarify three questions related to the consolidation of an investment entity. More specifically:

- amendment of IFRS 10 to confirm the exemption from preparation of consolidated financial statements for an intermediate parent (that is not an investment entity) which is controlled by an investment entity;
- amendment of IFRS 10 to clarify the rule that an investment entity has to consolidate a subsidiary, instead of recognising it at fair value, applies only to those subsidiaries that:
 - i) act “as an extension of the operations of the investment entity parent” and
 - ii) are not investment entities;
- amendment of IAS 28 in regard to application of the equity method by a non-investment entity investor with investments in associated investment entities or joint ventures.

These amendments, which have not yet been endorsed by the European Union, came into force on January 1, 2016. However, early application is allowed.

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

- IFRS 16 – Leases

On January 13, 2016 the IASB published IFRS 16 – Leases. This document replaces the previous standard IAS 17 Leases and interpretations thereof.

The main changes introduced by IFRS 16 can be summarised as follows:

- IFRS 16 eliminates classification of the lease as an operating lease or financial lease for the lessee: all leases are treated in a way analogous to their treatment under the previously applicable IAS 17 for finance leases;
- leases are “capitalised” through recognition of the discounted value of payments for the lease either as an asset (right to use the assets covered by the lease agreement) or as property, plant and equipment;
- if the lease instalments are paid over time, the lessee recognises a financial liability that represents its obligation to make future payments for the lease;
- IFRS 16 does not require the recognition of assets and liabilities for short-term leases (having a duration no longer than 12 months) and for leases covering assets of modest value (e.g. the lease of a personal computer).

IFRS 16 has not yet been endorsed by the European Union and applies beginning January 1, 2019. Early application is allowed for those entities that also apply IFRS 15 Revenue from Contracts with Customers.

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

- Amendments to IAS 7 – Disclosure initiative

These amendments, issued on January 29, 2016, will require that entities make a disclosure that allows investors to assess the changes in liabilities stemming from financing activities, including the changes resulting from cash flows and non-monetary changes.

The amendments, which have not yet been endorsed by the European Union, apply starting January 1, 2017. However, early application is allowed.

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

- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

These amendments, issued on January 19, 2016, aim to clarify how to recognise deferred tax assets for unrealised losses on debt instruments carried at fair value. The amendments, which have not yet been endorsed by the European Union, apply starting January 1, 2017. However, early application is allowed.

The impact of 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 Joint Venture

These amendments aim to clarify accounting treatment, both when control of a subsidiary is lost (regulated by IFRS 10) and in the case of *downstream transactions* regulated by IAS 28, according to whether the objection of the transaction is a business or not, according to the definition given in IFRS 3. If the object of the transaction is a business, then the full amount of the gain has to be recognised in both cases (loss of

control and downstream transactions). But if the object of the transaction is not a business, then the profit has to be recognised in both cases only for the portion related to minority interests.

IASB has indefinitely deferred the effective date of these amendments, which have not yet been endorsed by the European Union.

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

- IFRS 15 – Revenue from Contracts with Customers

On May 28, 2014 the IASB published IFRS 15 Revenue from Contracts with Customers. One of the principal aims of this project is to define rules consistent with US GAAP. This convergence should improve the comprehension of financial statements by the financial community.

The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and a series of related interpretations.

The new standard applies to all contracts with customers, except for the contracts that fall in the scope of IAS 17 Leasing, insurance contracts and financial instruments.

The standard imposes a five-step model that applies (with few exceptions) to all sales contracts, regardless of the type of transaction or applicable business sector, and also provides a model for the recognition and measurement of related earnings in the case of certain non-financial assets not resulting from the ordinary activity of the entity (e.g. sales of property, plant and equipment, and intangible assets). Specifically, the standard defines the following five steps:

1. identify the contract with the customer, defined as a written or oral commercial agreement between two or more parties that establishes legally protected rights and obligations with the customer;
2. identify the performance obligations (separately identifiable obligations) in the contract: the key factor is to determine whether a good or service is distinguishable, i.e. whether the customer can benefit from it on its own or in conjunction with others. The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract;
3. determine the transaction price, as the amount to which an entity expects to be entitled in exchange for the transfer of goods and services to the customer and according to whether there are any financial components, for example the time value of money and the fair value of any non-cash consideration;
4. allocate the transaction price to the performance obligations in the contracts; if this is not possible, the entity will have to use estimates according to an approach that maximises the use of observable input data;
5. recognise revenue when (or as) the entity satisfies a performance obligation, i.e. when control of the good or service is passed, while keeping mind that services might not be performed at a specific instant but also over a period of time. Control of an asset is defined as the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. The benefits related to the asset are the potential cash flows that may be obtained directly or indirectly from use of the asset. In this regard, new guidelines are given to determine whether revenue has to be recognised at a specific moment in time or over the course of time, thereby replacing the previous distinction between goods and services.

The standard, which has not yet been endorsed by the European Union, applies starting January 1, 2018, but early application is also allowed.

The impact deriving from first-time application of the new standard to the consolidated financial statements cannot be foreseen at this time.

- Amendments to IAS 1 – Disclosure initiative

These amendments are aimed to:

- clarify the rules concerning materiality of information;
- clarify that specific items in the income statement, statement of comprehensive income and balance sheet may be broken down;
- introduce guidelines as to how an entity should present subtotals in the income statement, statement of comprehensive income and balance sheet;
- clarify that entities enjoy flexibility in regard to the order in which they present the notes, emphasising that comprehensibility and comparability should be considered when the order of presentation is decided;
- eliminate the guidelines for identification of the material accounting policy.

These changes were endorsed by the European Union on December 18, 2015 (Regulation [EU] no. 2406/2015) and came into force beginning January 1, 2016.

It is not expected that there will be any significant changes in how the consolidated financial statements are presented following application of these changes.

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

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

These changes were endorsed by the European Union on December 18, 2015 (Regulation [EU] no. 2441/2015) and came into force beginning January 1, 2016.

- 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 depreciation and amortisation as the expected way in which the future economic benefits of an asset will be consumed.

The IASB has clarified that a revenue-based method of depreciation or amortisation is not deemed appropriate. This is because it only reflects the flow of revenue generated by that asset and not, instead, how the future economic benefits incorporated in the asset itself are consumed.

This assumption may cease to be valid in limited cases where intangible assets are involved.

The guidance added to both of the standards explains that future reductions in sales prices might indicate a high rate of consumption of the future economic benefits inherent in an asset.

These changes were endorsed by the European Union on December 2, 2015 (Regulation [EU] no. 2231/2015) and came into force beginning January 1, 2016.

No significant impact on the consolidated financial statements is expected from 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 interest in a joint operation constituting a business has to be recognised in compliance with IFRS 3 Business Combinations, i.e. according to the purchase price allocation rule.

These changes were endorsed by the European Union on November 24, 2015 (Regulation [EU] no. 2173/2015) and came into force beginning January 1, 2016.

It is not expected that they will have a significant impact on the consolidated financial statements.

- “Improvements” to IFRS (2012-2014 issued by IASB on September 24, 2014)

The IASB issued a number of amendments to several standards in effect in response to problems 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 disposal methods.
IFRS 7 – Financial Instruments Disclosures	<ul style="list-style-type: none"> • Servicing contracts • Applicability of amendments to IFRS 7 to interim financial statements
IAS 19 – Employee Benefits	Discount rate: problems connected with reference markets
IAS 34 – Interim Financial Reporting	Requirements if the disclosure is given in the interim financial report, but not in the interim financial statements themselves

These changes were endorsed by the European Union on December 15, 2015 (Regulation [EU] no. 2343/2015) and came into force beginning January 1, 2016. No significant impact on the consolidated financial statements is expected from the introduction of these changes.

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, 2015 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 considered to be all companies and entities to which the Group is exposed or from which it is entitled to variable returns, deriving from its own relationship with the investee and, at the same time, has the capacity to impact those returns by exercising its own power over that entity.

An investee is specifically considered a subsidiary if, and only if the Group simultaneously has:

- power over the investee entity (or holds valid rights that grant it the current capacity to manage the significant activities of the investee);
- the exposure or rights to variable returns deriving from the relationship with the investee;
- the capacity to exercise its own power over the investee in order to impact the amount of its returns.

It is generally presumed that holding a majority of the voting shares grants control.

If facts and circumstances indicate that there have been changes in one or more of the three elements material to the definition of control, the Group reconsiders whether it has control of an investee 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. Therefore, the assets, liabilities, revenues and costs of the subsidiary acquired or sold during the year are included in the consolidated financial statements from the date on which the Group obtains control until the date when the Group no longer exercises control over the company.

The portions of equity, profit (loss) for the year and each of the other components of the statement of comprehensive income attributable to minority interests are separately indicated in the consolidated balance sheet, income statement, and 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 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 version of IFRS 11, a joint venture is an agreement for joint control in which the parties that hold joint control have claims on the net assets of the agreement. A joint venture implies the formation of a legal entity that controls the assets, assumes the liabilities and signs the agreements in its own name.

Companies included in the consolidation area are listed in Appendix 1 “Consolidation area”, in which the accompanying notes discuss the related changes. As specifically indicated in the cited appendix, at the approval date of these financial statements, certain companies had left the area of consolidation following completion of the “Centauro” transaction.

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 and in the 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;
- the price paid for 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 recognition of any negative goodwill as income in the income statement, if the fair value of the interest acquired exceeds the purchase price;
- the changes in the units of participation in a subsidiary that do not entail loss of control are recognised at equity;
- if control over a subsidiary is lost, its associated assets (including goodwill), liabilities, minority interests and other components of equity are eliminated, while any profit or loss is recognised in the income statement. Any equity share that is kept has to 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 cost) is adjusted to take account of:

- the investor’s share of the operating results achieved by the investee after the acquisition date;
- all changes in the other components of the statement of comprehensive income of the investees, and the variations in the investee’s equity that have not been recognised in the income statement in accordance with the applicable accounting standards;
- 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 it loses significant influence over an associate or joint control over a joint venture, the Group measures and recognises the residual investment at fair value. The difference between the book value of the investment at the date on which significant influence or joint control are lost and the fair value of the remaining investment and consideration received has to be recognised in the income statement.

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%
Other assets:	
- vehicles	25%
- office equipment	20%-50%
- furniture 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.

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 rentals 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 assetsProperty, plant and equipment and intangible assets

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

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

The recoverable amount of an asset is the higher of its fair value, less costs 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.

Investments

The carrying amount of investments in associates and joint ventures, accounted for using the equity method, is compared with the recoverable amount for impairment testing purposes. The recoverable

amount is the higher of fair value less costs to sell, and value in use. In order to verify the absence of impairment, it is sufficient for one of these two values to be higher than the carrying amount.

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

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

- a) the share of the discounted 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 final 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 discounted 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 financial expenses that can be capitalised, 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 financial expenses that can be capitalised, 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 the real estate portfolio: Inventories (IAS 2) – Investment Property (IAS 40)

Of the Group's real estate portfolio held by consolidated companies, around 40% of the consolidated carrying amount attributable to the Group refers to property investments carried at fair value (IAS 40). These are properties held by associates and joint ventures that have been valued in accordance with IAS 40. This allows adjustment to the 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 all costs that relate directly to the specific contract, costs that are attributable to contract activity in general, costs charged to customers 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 contract work 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 contract work 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 impossibility of recovery, 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 cash equivalents in hand.

Provisions for risks and expenses

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

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

Where the effect of 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 in defined benefit plans (mainly staff severance indemnities) and other long-term benefits are subject to actuarial assessments. 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.

Until December 31, 2006 the severance indemnities (TFR) of Italian companies were considered a defined benefits plan. The regulations governing these indemnities were modified by Law 296 of December 27, 2006 ("Budget Act 2007") and subsequent decrees and regulations issued during the first several months of 2007. In consequence of changes, and especially in regard to the Group companies having at least 50 employees, this institute now has considered a defined benefits plan exclusively for the amounts accrued before January 1, 2007 (and not yet paid out at the reporting date), while after that date, it may consider a defined contribution plan.

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.

If these instruments held by the Group, it 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 from the start of the hedge itself.

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 and tax base 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 consolidated 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”, setting out common procedures for applying tax rules and regulations.

The adoption of a Group consolidated tax filing will allow the parent company Prelios S.p.A. to offset its own taxable profits or losses against those of its Italian domiciled subsidiaries which have opted for tax consolidation. The previous renewal for the three-year period 2013-2015 ends with the 2015 financial year. In view of continuing this tax treatment, the parent company Prelios S.p.A. has already expressed its own intention to renew the tax consolidation system for the three-year period 2016-2018 with its own subsidiaries that satisfy the legal obligations, unless it is prematurely terminated due to loss of control of the consolidated entity or the financial year does not coincide with that of the consolidating company.

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.

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 may also enter into derivative contracts used for hedging.

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 exchange rate and interest rate risks, which are implemented if appropriate 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.

Types of financial risks

In carrying out its ordinary business activities, the Group is exposed to the following financial risks:

- exchange rate 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 related to financial assets: deriving from the variation in market prices related to financial assets originated and financial liabilities assumed;
- credit risk: represented by the risk of default on 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, 2015, 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 value of financial instruments caused by changes in interest rates impact the level of debt and financial income and expenses for the year; therefore, they are considered in this 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 than the euro, mainly the Polish zloty. Changes in exchange rates thus produce no significant effects on the income statement.

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 two controlling interests in companies that prepare their financial statements in a currency (zloty) other than the euro, 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. Nevertheless, considering that there is no long-term debt with variable interest rate at December 31, 2015, any change in interest rates would not impact total consolidated equity.

There is substantially no any prospective risk of variation in interest rates on the debt covered by the New Restructuring Agreement, which envisages that the debt carry interest at a fixed rate of 3% until its due date (June 30, 2022).

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 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.

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:

<i>in thousands of euro</i>	0.10%	0.10%	-0.05%	-0.05%
	12.31.2015	12.31.2014	12.31.2015	12.31.2014
Impact on net income				
- fully consolidated companies	11	30	(6)	(15)
- equity-accounted companies	(295)	(318)	148	159
Total impact on net income	(284)	(288)	142	144

Impact on equity				
- fully consolidated companies	11	30	(6)	(15)
- equity-accounted companies	(295)	(318)	148	159
Total impact on equity	(284)	(288)	142	144

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) paid 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.

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

Credit risk is the Group’s exposure to potential losses deriving default on obligations assumed by commercial and financial 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.

The Prelios Group service companies claim accounts receivable from funds and vehicles in which Focus Investments S.p.A. has an interest and which are experiencing cash flow problems 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 at least partly uncollectible, and thus becoming impaired. That would consequently have a negative impact on the balance sheet, income statement and financial position of the Group.

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 impossibility of recovery.

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. These plans are materially influenced by realisation of the plans to grow the revenue and results of the management platform through the acquisition of new clients, while no impact on the Investments business is expected in consequence of the transfer to Focus Investments S.p.A. 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.

This risk is managed by the Treasury unit, which maintains an adequate level of cash and/or easily saleable short-term instruments and/or available funds obtainable through an adequate amount of credit facilities.

Banking relationships are negotiated and managed centrally at the national level where the Group operates in order to ensure that short- and medium-term financial needs are met as cheaply as possible.

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 the face value of outstanding debts.

The due dates of financial liabilities at December 31, 2015, relating to exposures of companies consolidated line by line, are summarised 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 (*)	257,805	262,888	229,662	6,410	12,613	14,203
Trade payables	54,902	54,902	54,902	-	-	-
Other payables	30,544	30,544	25,017	5,000	-	527
Total	343,251	348,334	309,581	11,410	12,613	14,730

(*) Bank borrowings and payables to other lenders "within 1 year" include Euro 173.4 millions representing the book value calculated using the amortized cost method of Senior Debt contributed to the Investments Business Unit and Euro 48 millions relative to the portion of nominal financial debt repaid as a result of the successful conclusion of the capital increase in option occurred at the beginning of 2016.

Financial liabilities at December 31, 2014 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	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

Trade payables include the portion of payables to third parties more than 90 days past due in an amount of approximately Euro 4.0 million at December 31, 2015 (Euro 3.9 million at December 31, 2014).

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:

- in the main market for the asset or liability; or
- 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	12.31.2015			12.31.2014		
		Total	non-current	current	Total	non-current	current
Financial assets measured at fair value							
Other financial assets	4	2,870	2,870	-	4,800	4,800	-
Loans and receivables							
Trade receivables	6	41,956	-	41,956	35,074	-	35,074
Other receivables	7	106,047	86,346	19,701	131,369	113,596	17,773
Cash and cash equivalents	10	72,607	-	72,607	77,192	-	77,192
Available-for-sale financial assets							
Other financial assets	4	12,408	12,408	-	10,712	10,712	-
Restricted deposits							
Other financial assets	4	9,873	9,873	-	742	742	-
TOTAL FINANCIAL ASSETS		245,761	111,497	134,264	259,889	129,850	130,039
Financial liabilities measured at amortised cost							
Bank borrowings and payables to other lenders	15	257,805	247,089	10,716	264,924	256,434	8,490
Trade payables	16	54,902	-	54,902	47,316	-	47,316
Other payables	17	30,544	5,527	25,017	41,441	524	40,917
TOTAL FINANCIAL LIABILITIES		343,251	252,616	90,635	353,681	256,958	96,723

Fair value hierarchy

The following table shows assets carried at fair value at December 31, 2015, divided into the three levels defined above:

	Note	Carrying amount at 12.31.2015	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS					
Available-for-sale financial assets	2	12,408	1,730	9,929	749
- investments in other companies	2	749	-	-	749
- closed-end real estate funds	2	11,659	1,730	9,929	-
Other financial assets measured at fair value	2	2,870	-	-	2,870
Bonds - junior notes	2	2,870	-	-	2,870

During 2015, 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 2015, no changes occurred in level 3 or transfers from level 3 to other levels, and vice-versa.

6.6. Capital management policy

As described in detail in the Directors' Report on Operations, the Company launched a major reorganisation project to relaunch its industrial development prospects in 2015 and completed it in early 2016. This reorganisation has led, inter alia, to a capital increase aimed at achieving long-term financial solidity.

In said context, the main indicators used by the Group in the past to manage capital (ROE, Gearing and Net Financial Position) will reacquire 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.

In this regard, 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;
- the estimate of contingent liabilities for outstanding legal and tax litigation as described in more detail in part 9.4 of the report on operations;
- quantification of the impairment of receivables, 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 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:

- 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 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 appraiser 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

The trend tracked by revenues is not impacted by sharp seasonal changes, although an increase in transactions is concentrated in the last several months of the year.

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 800 thousand, a net decrease of Euro 53 thousand since December 31, 2014, and are made up as follows:

	12.31.2015			12.31.2014		
	Historical cost	Accumulated depreciation/ write-downs	Net value	Historical cost	Accumulated depreciation/ write-downs	Net value
Buildings	1,013	(905)	108	985	(876)	109
Plant and machinery	1,430	(1,317)	113	1,434	(1,265)	169
Industrial and commercial equipment	99	(93)	6	116	(108)	8
Other assets, of which:	10,699	(10,126)	573	11,332	(10,765)	567
- <i>vehicles</i>	90	(78)	12	86	(79)	7
- <i>furniture, office equipment and other</i>	10,586	(10,048)	538	11,223	(10,686)	537
- <i>works of art</i>	23	-	23	23	-	23
Total	13,241	(12,441)	800	13,867	(13,014)	853

The following table shows changes in historical costs and accumulated depreciation in 2015:

Historical cost	12.31.2014	Changes in consol.			12.31.2015
		area/Other	Increases	Decreases	
Buildings	985	-	28	-	1,013
Plant and machinery	1,434	-	-	(4)	1,430
Industrial and commercial equipment	116	-	1	(18)	99
Other assets, of which:	11,332	(9)	147	(771)	10,699
- vehicles	86	-	8	(4)	90
- furniture, office equipment and other	11,223	(9)	139	(767)	10,586
- works of art	23	-	-	-	23
Total	13,867	(9)	176	(793)	13,241

Accumulated depreciation/write-downs	12.31.2014	Changes in consol.			12.31.2015
		area/Other	Depreciation/ Write-downs	Uses	
Buildings	(876)	-	(29)	-	(905)
Plant and machinery	(1,265)	-	(56)	4	(1,317)
Industrial and commercial equipment	(108)	-	(3)	18	(93)
Other assets, of which:	(10,765)	9	(139)	769	(10,126)
- vehicles	(79)	-	(3)	4	(78)
- furniture, office equipment and other	(10,686)	9	(136)	765	(10,048)
Total	(13,014)	9	(227)	791	(12,441)

Note 2. INTANGIBLE ASSETS

These amount to Euro 58,595 thousand, a net decrease of Euro 487 thousand over December 31, 2014.

	12.31.2014	Increases	Decreases	Amortisation/ Write-downs	
				12.31.2015	
Concessions, licences and trademark	2,074	-	-	(603)	1,471
Software application	623	531	(11)	(404)	739
Goodwill	56,385	-	-	-	56,385
Total	59,082	531	(11)	(1,007)	58,595

Concessions

The amount recognised in the balance sheet mainly refers to the concession granted by the Municipality of Milan to the subsidiary Parcheggi Bicocca S.r.l. for the management of car parks in the Bicocca area until 2032.

This value was supported by the appraisal prepared by an independent appraiser, who determined the value of the concessions through discounting the future cash flows that presumably will be generated by using them. This appraisal resulted in a Euro 488 thousand impairment in the value of the concession.

Software application

The increases recognised during the year mainly refer to the costs incurred to implement new SAP modules, and for evolutionary maintenance of previously installed software.

Goodwill

This item totalled Euro 56,385 thousand, unchanged from December 31, 2014.

For the purposes of impairment testing, goodwill is allocated to the cash-generating units (CGU) shown in the table below, all belonging to the services platform:

	12.31.2015	12.31.2014
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 discounted value of unlevered free cash flows expected over the planning period and the closing value, calculated by projecting in perpetuity the cash flow expected at the end of three years.

The Budget 2016 and Industrial Plan 2015-2017 data for 2017 used in the appraisal process have been approved at the consolidated level by the Board of Directors of the parent company, as well as by the Boards of Directors of the various CGUs/legal entities. For 2018, cash flow is estimated to remain flat as compared with 2017 for all of the CGUs due to a zero growth rate.

The value in use of the cash generating units for which goodwill has been recognised 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 Budget 2016 has been revised in light of the Actual 2015 data, while no change has been made to the Plan data (2015-2017) for 2017. In accordance with the Industrial Plan 2015-2017, The Group is pursuing the objective of focusing on Service activities, with a clear focus on the development of its management and services business, proceeding to the total disposal of investments, in order to anticipate as much as possible the strategic repositioning of the Company as a pure management company. At the same time, it also aims to shore up the balance sheet and financial position of the Company, through a sustainable debt structure and balanced equity and financial position that can assure its future as a going concern. Group management has carried out the following actions to pursue the objectives envisaged in the plan:

- an extraordinary transaction to spin off or separate the real estate investment and co-investment business activities of Prelios from those related to the services activities (asset and fund management, integrated asset services, intermediation and valuation services, credit servicing) in Italy, Germany and Poland, beginning December 31, 2015, through contribution of the Investments Business Unit to a separate corporate vehicle, previously formed for this purpose and named Focus Investments S.p.A.;
- a capital increase with pre-emptive rights of Euro 66.5 million, concluded on March 9, 2016 and fully subscribed;
- restructuring of the debt of the Parent Company, Prelios S.p.A., through revision of the economic conditions and repayment due dates after the repayments made with, inter alia, the proceeds of the capital increase with pre-emptive rights.

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 effects of restructuring and future cost-efficiency measures which have to be excluded in accordance with the accounting standard have been stripped from the three-year planning flows.

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 for the explicit period was estimated for domestic entities at 6.91% post-tax, while the lower country risk of Germany was taken into account for the German CGU (WACC = 5.90%).

The estimate of the cost of own resources is based on the CAPM, assuming the following parameters:

- risk free rate = 1.7% Italy; 0.5% Germany (average yield of the BTP 10-year Italian government bond over the last 12 months at the reference date of this report for Italy, and the Bund 10-year German government bond over the last 12 months at the reference date of this report for Germany);
- beta levered Prelios weekly = 1.01
- market risk premium = 6% (Source: *Aswath Damodaran*).

The cost of borrowing pre-tax was assumed to be 3% (= 2.3% post-tax for Italy and 2.1% for Germany). The normal financial structure for calculating the cost of debt and the weighted average cost of capital (WACC) was set at 15.6% for the debt component and 84.4% 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	
	12.31.2015	12.31.2014	12.31.2015	12.31.2014
ITALY				
Agency	6.91%	7.18%	0.00%	0.00%
Credit Servicing	6.91%	7.18%	0.00%	-1.00%
Property	6.91%	7.18%	0.00%	0.00%
Fund management	6.91%	7.18%	0.00%	1.50%
GERMANY	5.90%	6.26%	0.00%	0.00%

The growth rate g was set at 0 for all the CGUs, in order to adopt a conservative approach with respect to the assumptions set out in the Industrial Plan 2015-2017.

The terminal value was determined on the basis of the simple average of EBIT 2016-2018 net of theoretical taxes at the full rate, with a discount rate (WACC) of 10.06% for Italy and 8.97% for Germany.

For all the CGUs the recoverable value is more than the associated carrying amount.

A sensitivity analysis has been carried out on the discount rate (WACC) to determine the rate increase that would cause each CGU to have a recoverable amount equal to the carrying amount. Even by applying an increase at the rate of 20%, the recoverable value would be higher than the carrying value of the CGUs.

No assumptions of deviation in the growth rate g have been made, since it has already been assumed to be zero.

The asset-side, second-level impairment test was carried out by verifying that the recoverable value of Group assets was greater than their carrying amount. The overall enterprise value (services + investment) was calculated with the sum of the parts (SOTP) method by 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 book value for comparison 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, 2015;
- (+) the current value of minorities determined in accordance with the estimate of the legal entities' equity value.

A sensitivity analysis has been carried out on the discount rate (WACC) to determine the rate increase that would cause each CGU to have a recoverable amount equal to the carrying amount. In this case, an exact increase of 3.03% in the rate would make the recoverable value and book value of Group assets match.

Note 3. INVESTMENTS

Equity investments in associates and joint ventures are accounted for using the equity method and amount to Euro 123,732 thousand, for a net decrease of Euro 26,372 thousand since December 31, 2014.

Changes during the year are as follows:

	01.01.2015-12.31.2015				01.01.2014-12.31.2014			
	Total associates	joint ventures	held for sale		Total associates	joint ventures	held for sale	
Opening balance	150,104	37,797	108,458	3,849	169,180	42,961	122,925	3,294
Acquisitions/contributions of capital and reserves/other	8,836	-	8,836	-	58,914	(9)	58,923	-
Portions of other components recorded under equity	(59)	(82)	23	-	315	-	315	-
Reclassification/Other changes	(1,112)	(518)	-	(594)	(158)	-	(158)	-
Distributions of dividends and reserves	(9,422)	(2,799)	(3,416)	(3,207)	(2,852)	-	(2,852)	-
Disposals and liquidations	(371)	-	(371)	-	(110)	-	(110)	-
Share of income/losses on investments	(12,361)	3,139	(15,452)	(48)	(13,271)	(5,156)	(8,115)	-
Fair value adjustment	-	-	-	-	555	-	-	555
Net (increase)/decrease in financial receivables	(11,615)	-	(11,615)	-	(50,264)	1	(50,265)	-
Change in provisions for risks and expenses	(268)	-	(268)	-	(12,205)	-	(12,205)	-
Closing balance	123,732	37,537	86,195	0	150,104	37,797	108,458	3,849

The changes in this item are mainly related to the distributions of dividends and reserves, of which Euro 6,005 thousand referring to the repayments of principal by the Olinda Fund and Euro 1,750 thousand by Mistral Real Estate B.V. The final result reported by the investees, for a negative total of Euro 1,903 thousand, includes a net negative pro-rata effect of Euro 16.5 million attributable to the Prelios Group that derived from net real estate write-downs. The total negative effect reported in 2015 is related in particular to the write-downs recognised by Manifatture Milano S.p.A. (Euro -3.5 million), as well as the FIPRS Fund (Euro -3.2 million) and the Tecla Fund (Euro -2.8 million), partly offset by revaluation of the real estate portfolio held by the Spazio Industriale Fund for Euro 4.6 million. The item also includes Euro 10.5 million for adjustment of the value contributed by certain investments held by the Group in relation to their stated intention to sell the units held in the underlying real estate investment.

The item "Net (increase)/decrease in financial receivables" includes in the period under discussion the increase 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 believes that it will recover the related carrying amount, largely through a sales transaction. With sale of the remaining assets of the Olinda Fund to “Reitaly”, the process of unwinding the investments of Olinda – Shops Fund was completed by the expiration date of the fund itself. The process of unwinding the fund was completed on February 25, 2015.

Other information about the equity investments

a) Information about consolidated subsidiaries having significant minority interests

At December 31, 2015 the Group did not consolidate subsidiaries having significant minority interests.

There were no changes in equity interest during 2015 without the loss or acquisition of control.

b) Financial data

At December 31, 2015 Prelios S.p.A. did not own individually significant interests in associates and joint ventures.

Reference is also made to the more detailed illustration provided in the Report on Operations concerning the Extraordinary Transaction, and especially the formation of Focus Investments S.p.A. contribution of the Investments Business Unit on December 29, 2015. As previously mentioned, the extraordinary transaction had not been fully completed at December 31, 2015. Therefore, the consolidated and separate financial statements of Prelios S.p.A. at December 31, 2015 do not show any accounting effects related to the Transaction.

With completion of the Transaction during the first several months of 2016, and particularly after the entry of new partners in the share capital of Focus Investments S.p.A. on January 12, 2016 through subscription and full release of a capital increase in cash reserved to them, for a total amount of Euro 12 million, with simultaneous adoption of a governance structure causing the loss of control by Prelios S.p.A. (which remains the minority shareholder of Focus Investments S.p.A., but with a majority of equity rights), the investment of Prelios S.p.A. in Focus Investments S.p.A. will be classifiable as a non-controlling interest. Consequently, it will be consolidated according to the equity method in the consolidated financial statements of Prelios S.p.A. beginning 2016.

Therefore, to provide more information in this regard, the following shows the contribution of the spun-off business unit in reference to the consolidated figures at December 31, 2015.

INVESTMENTS BUSINESS UNIT "CENTAURO" 12.31.2015			
ASSETS		EQUITY	
NON-CURRENT ASSETS		TOTAL EQUITY	51,587
Property, plant and equipment	1	LIABILITIES	
Intangible assets	1,200	NON-CURRENT LIABILITIES	
Equity investments	116,720	Bank borrowings and payables to other lenders	173,422
Other financial assets	2,870	Provisions for future risks and expenses	24,220
Deferred tax assets	79	Employee benefit obligations	52
Other receivables	86,300	TOTAL NON-CURRENT LIABILITIES	197,694
TOTAL NON-CURRENT ASSETS	207,170	CURRENT LIABILITIES	
CURRENT ASSETS		Bank borrowings and payables to other lenders	4,065
Inventories	39,316	Trade payables	13,040
Trade receivables	4,260	Other payables	8,981
Other receivables	9,328	Provisions for future risks and expenses	6,648
Cash and cash equivalents	27,170	Tax payables	7,313
Tax receivables	340	TOTAL CURRENT LIABILITIES	40,047
TOTAL CURRENT ASSETS	80,414	TOTAL LIABILITIES	237,741
DISCONTINUED OPERATIONS	1,744	TOTAL LIABILITIES AND EQUITY	289,328
TOTAL ASSETS	289,328		

The net financial position of the Business Unit amounted to net debt of Euro 150.1 million at December 31, 2015.

Therefore, on the basis of the consolidated values at December 31, 2015, the book value of the investment in Focus Investments S.p.A. upon deconsolidation will be Euro 51,587.

Finally, it should be noted that there is a lien totalling Euro 20,507 thousand over shares in associates and joint ventures.

Note 4. OTHER FINANCIAL ASSETS

These amount to Euro 25,151 thousand, for a net increase of Euro 8,897 thousand over December 31, 2015. These are composed as follows:

	12.31.2015	12.31.2014
Available-for-sale financial assets measured at fair value in equity	12,408	10,712
Closed-end real estate funds	11,659	9,963
Investments in other companies	749	749
Other financial assets measured at fair value	2,870	4,800
Bonds – junior notes	2,870	4,800
Restricted deposits	9,873	742
Total	25,151	16,254

Fair value hierarchy

During 2015, 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, 2015:

	01.01.2015 - 12.31.2015	01.01.2014 - 12.31.2014
Opening balance	9,963	11,245
Increases	802	200
Decreases/Repayment of capital	(309)	(665)
Fair value adjustment	1,203	(817)
Closing balance	11,659	9,963
of which:		
Cloe Office Fund	6,497	5,749
Tecla Office Fund	1,730	1,623
Enasarco One Fund	1,514	1,498
Federale Immobiliare di Lombardia Fund	1,147	946
Parchi Agroalimentari Italiani Fund	771	147

The item was adjusted upwards by Euro 1,203 thousand to account for changes in the fair value of real estate fund units. During 2015 losses of Euro 3,022 thousand were transferred to the income statement. These losses resulted from fair value measurement of the units held in the Cloe Fund which had accumulated at December 31, 2015, following acceptance of the proposal for block sale of the entire remaining portfolio.

4.2 Investments in other companies

This item totalled Euro 749 thousand, unchanged from the previous year.

4.3 Other financial assets measured at fair value

At December 31, 2015 the item under review totalled Euro 2,870 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. This amount is shown net of the impairment recognised at December 31, 2015 for Euro 1,930 thousand. This was due to the changed estimate of expected cash flows, which generated a value adjustment resulting from the discounting of future cash flows. This adjustment has been recognised in 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.

4.4 Restricted deposits

This item comprises cash and cash equivalents not freely usable by the Group in the short term.

During 2015 there was a significant increase in this item from the previous year, with Euro 8,268 thousand of this related to the security deposits connected with escrow accounts held by Prelios Società di Gestione del Risparmio S.p.A. and posted as security for the indemnity obligations towards the purchasers of the Olinda Fund. They relate in particular to the representations and warranties given as to the condition and quality of the sold real estate.

Note 5. DEFERRED TAX ASSETS AND DEFERRED TAX PROVISION

These are composed as follows:

	12.31.2015	12.31.2014
Deferred tax assets	7,461	8,310
Deferred tax provision	(2,527)	(2,156)
Total	4,934	6,154

Prepaid taxes and deferred 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:

	12.31.2015	12.31.2014
Deferred tax assets	9,349	10,072
Deferred tax provision	(4,415)	(3,918)
Total	4,934	6,154

The statement presented below details the change that occurred during financial year 2015 in the balance of deferred tax assets:

Description	12.31.2014	Provisions	Uses	Other changes	12.31.2015
Recoverable tax losses	3,800	124	(601)	-	3,323
Allowance for doubtful accounts	-	1,995	-	-	1,995
Amortisation and depreciation	1,397	38	(409)	-	1,026
Closing cost of capital increase	1,318	-	(495)	-	823
Provision for future risks and expenses	1,095	23	(409)	(41)	668
One-off incentives + LTI + Layoffs	651	20	(211)	1	461
Invoices to be received	436	453	(544)	-	345
Actuarial adjustment of staff funds	161	-	-	-	161
Adjustment of fund units in portfolio and derivatives to fair value	838	-	-	(679)	159
Elimination of intra-group margins	101	-	-	4	105
Legal expenses	122	116	(90)	-	148
Other	153	135	(155)	2	135
Total	10,072	2,904	(2,914)	(713)	9,349

The column “other changes” mainly includes the deferred tax assets recognised as a balancing entry for the net equity resulting from the fair value adjustment of the units of funds held in the portfolio.

If they are used after 2016, the deferred tax assets have been measured by considering the prospective rates applicable to the individual entities.

Tax losses for which no prepaid taxes have been recognised are analysed by expiry date as follows:

<i>(in million euro)</i>	12.31.2015
Unlimited losses – partially offsettable*	55
Unlimited losses Pre Deutschland GmbH **	44
Tax consolidation losses – 2010-2014 *	101
Tax consolidation losses – 2015*	17
Total	217

* 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 carried forward indefinitely and offset to the extent of 60% of the income of each year for the portion exceeding one million euro.

This amount includes Euro 79 million referring to the companies included in the extraordinary transaction named “Progetto Centauro” (Centaur Project), for which reference is made to the Report on Operations. The non-remunerated tax losses of the companies included in the Centaur Project that were generated during the term of the Prelios consolidation will be reassigned to the respective companies in the 2016 income tax return for the 2015 tax year.

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.

Against residual tax losses of Euro 138 million, the unrecognised deferred tax assets would total Euro 31 million (Euro 44 million at December 31, 2014 against a total of Euro 170 million in tax losses). These are calculated for the Italian companies at a rate of 27.5% for the estimated tax losses that may be used in 2016, reduced to 24% for the remaining losses. The adjustment of the corporate tax rate (IRES) from 27.5% to 24%, as envisaged in the Stability Law and effective from January 1, 2017, is not applicable to holding companies.

The temporary differences giving rise to the deferred tax liabilities at December 31, 2015 are detailed in the table below:

Description	12.31.2014	Provisions	Uses	Other changes	12.31.2015
Amortisation of goodwill	3,646	-	-	-	3,646
Actuarial adjustment of staff funds	173	-	(2)	5	176
Fund units in portfolio	90	-	-	491	581
Other	9	-	(6)	9	12
TOTAL	3,918	-	(8)	505	4,415

In particular, in 2015 deferred taxes of Euro 491 thousand were recognised as a contra-entry in equity in relation to the alignment of available-for-sale financial assets to fair value.

Note 6. TRADE RECEIVABLES

These amount to Euro 41,956 thousand, representing a change of Euro 6,882 thousand from the final figure reported at December 31, 2015.

	12.31.2015			12.31.2014		
	Total	non-current	current	Total	non-current	current
Trade receivables from associates	3,101	-	3,101	6,258	-	6,258
Trade receivables from joint ventures and other Prelios Group companies	52,613	-	52,613	53,484	-	53,484
Trade receivables from other related parties	493	-	493	16	-	16
Trade receivables from third parties	34,565	-	34,565	22,974	-	22,974
Receivables for contracts	119	-	119	109	-	109
Total gross trade receivables	90,891	-	90,891	82,841	-	82,841
Allowance for doubtful accounts	(48,935)	-	(48,935)	(47,767)	-	(47,767)
Total	41,956	0	41,956	35,074	0	35,074

Trade receivables mainly refer to contracts for the provision of fund and asset management services and technical and commercial services.

The trade receivables from other related parties, amounting to Euro 493 thousand, mainly refer to the receivables from Pirelli & C. S.p.A. for the recovery of costs for clean-up work in the Bicocca area by the subsidiary Lambda S.r.l., and to the new subscription agreement for the parking lots located in the Bicocca area.

Out of total gross trade receivables of Euro 90,891 thousand (Euro 82,841 thousand at December 31, 2014), Euro 51,523 thousand are past due (Euro 54,179 thousand at December 31, 2014), of which Euro 41,759 thousand overdue 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 48,935 thousand (Euro 47,767 thousand at December 31, 2014), 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:

	12.31.2015	12.31.2014
Opening balance	47,767	44,178
Provisions	2,007	5,142
Provisions as a reduction to revenue	2,058	2,842
Uses	(4,523)	(3,909)
Release of excess allowance	(82)	(354)
Changes in consolidation area/reclassifications/other	1,708	(132)
Closing balance	48,935	47,767

Following the difficult property market scenario already noted in previous years, growing 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, occasionally on the basis of the information received 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 2,031 thousand, recognised in the income statement under the item “Other Costs” (Note 24) which also includes write-downs and losses on sundry receivables amounting to Euro 217 thousand.

Details of the total effect recognised in the income statement as a result of the impairment of receivables are presented below.

	12.31.2015	12.31.2014
provisions for doubtful trade receivables	2,007	5,142
losses on trade receivables	24	201
total impairment of trade receivables	2,031	5,343
provisions for other doubtful receivables	193	490
losses on other receivables	24	-
total impairment of other receivables	217	490
Net income (loss) from discontinued operations	-	(26)
Total impairment of receivables	2,248	5,807

At the reporting date, the fair value of receivables approximates their related carrying amount.

Note 7. OTHER RECEIVABLES

These are broken down as follows:

	12.31.2015			12.31.2014		
	Total	non-current	current	Total	non-current	current
Other receivables from associates	-	-	-	41	-	41
Other receivables from joint ventures	10,117	-	10,117	10,210	-	10,210
Other receivables from other related parties	1,332	-	1,332	1,650	-	1,650
Sundry receivables	20,122	5,258	14,864	18,432	5,241	13,191
Accrued income and prepaid expenses, of which:	980	-	980	1,252	-	1,252
- in relation to other related parties	55	-	55	69	-	69
- in relation to joint ventures	56	-	56	56	-	56
- in relation to third parties	869	-	869	1,127	-	1,127
Financial receivables	81,377	81,088	289	108,468	108,355	113
Total other gross receivables	113,928	86,346	27,582	140,053	113,596	26,457
Allowance for doubtful accounts for other receivables, of which:	(7,881)	-	(7,881)	(8,684)	-	(8,684)
- from joint ventures	(2,648)	-	(2,648)	(3,305)	-	(3,305)
- from third parties	(5,233)	-	(5,233)	(5,379)	-	(5,379)
Total	106,047	86,346	19,701	131,369	113,596	17,773

In order to realign the face value to the presumed realisable value, other gross receivables of Euro 113,928 thousand (Euro 140,053 thousand at December 31, 2014) were covered by Euro 7,881 thousand in allowances for doubtful accounts (Euro 8,684 thousand at December 31, 2014). This was mainly attributable to receivables for the NPL portfolio, which were impaired following revisions of the business plans concerned.

Changes in the allowance for doubtful accounts for other current receivables are shown below:

	12.31.2015	12.31.2014
Opening balance	8,684	7,394
Provisions	193	490
Uses	(1,143)	(13)
Reclassifications/other changes	147	813
Closing balance	7,881	8,684

The impairment of other receivables, as recognised in the income statement at “Other Costs” (note 24), totalled a negative Euro 217 thousand, of which Euro 24 thousand for losses that had already been realised.

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 amounts to a net total of Euro 7,469 thousand (Euro 6,905 thousand at December 31, 2014). In adjustment of a gross value of Euro 10,117 thousand, an allowance for doubtful accounts of Euro 2,648 thousand was recognised for the remaining receivable claimed by the parent company from 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 20,122 thousand compared with Euro 18,432 thousand at December 31, 2014. The change is mainly related to the suspended costs related to the proposed capital increase that had not been completed by the reference date of these financial statements.

	12.31.2015			12.31.2014		
	Total	non-current	current	Total	non-current	current
Sundry receivables, of which:						
- Advances	5,121	4,987	134	5,495	4,987	508
- Receivables for the NPL portfolio	4,152	-	4,152	4,156	-	4,156
- Other tax receivables	2,383	221	2,162	1,762	221	1,541
- Receivables from social security institutions	731	-	731	1,463	-	1,463
- Other sundry receivables	7,735	50	7,685	5,556	33	5,523
Total	20,122	5,258	14,864	18,432	5,241	13,191

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 had already been eliminated at December 31, 2014, having accrued an allowance for doubtful accounts for the total amount of outstanding receivables. In particular, the item includes mortgage and unsecured receivables acquired by CFT Finanziaria S.p.A. (which took over Vindex S.r.l.), mainly 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 consolidation basis, and to receivables for other indirect taxes.

In this regard, it should be noted that for tax year 2015, Prelios S.p.A., acting as parent company, and its subsidiaries, have elected to make a consolidated Group VAT tax settlement, in accordance with the Ministerial Decree of December 13, 1979.

Other sundry receivables also include Euro 787 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 at the time by Prelios Società di Gestione del Risparmio S.p.A.

After the outcome of the appeal presented to the Milan Court of Appeal, which in any case cancelled some of the penalties applied, the case has been taken to the Court of Cassation. With a judgement issued on November 20, 2015, the Court of Cassation rejected the appeal filed by Prelios S.p.A. and Prelios Società di Gestione del Risparmio S.p.A. (of April 4, 2011), inter alia on behalf of the individuals fined by Consob in connection with the procedures for the public offer of purchase of the Berenice and Tecla Funds. At the same time, the Court of Cassation also rejected the cross-appeal filed by Consob against the decision of the Milan Court of Appeal. The Milan Court of Appeal had partly accepted several of the reasons of the appeal against Consob, consequently voiding the penalties levied on the three penalised individuals (not employees of Prelios Società di Gestione del Risparmio S.p.A.), while confirming the other penalties imposed by Consob.

All of the affected parties have been duly informed of the subsequent filing of the judgement (which took place on December 30, 2015).

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, 2015, the Group was owed a residual receivable of Euro 15 thousand from said parties.

The item also includes the receivable claimed by Prelios Società di Gestione del Risparmio S.p.A. for the VAT prepaid on behalf of the Hospitality & Leisure Fund (Euro 1,035 thousand).

Financial receivables

At December 31, 2015 non-current financial receivables amounted to Euro 81,088 thousand, marking a net decrease of Euro 27,267 thousand since December 31, 2014, while current financial receivables amounted to Euro 289 thousand. These are broken down as follows:

	12.31.2015			12.31.2014		
	Total	non-current	current	Total	non-current	current
Receivables from associates	631	631	-	631	631	-
Receivables from joint ventures	80,691	80,457	234	107,837	107,724	113
Receivables from third parties	55	-	55	-	-	-
Total	81,377	81,088	289	108,468	108,355	113

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 2015 are as follows:

	12.31.2014	Increases	Decreases	Offset against	12.31.2015
				provisions for equity-accounted investments	
Financial receivables from associates	631	-	-	-	631
Financial receivables from joint ventures	107,724	12,999	(51,881)	11,615	80,457
Total	108,355	12,999	(51,881)	11,615	81,088

The increase in receivables from joint ventures consists of Euro 7,292 thousand from the disbursement of new loans (of which Euro 4,799 thousand in favour of Manifatture Milano S.p.A. and Euro 1,500 thousand in favour of Sicily Investments S.à.r.l. and Trinacria Capital S.à.r.l., Luxembourg holding companies of the FIPRS Fund), capitalisation of the interest accrued during the period (Euro 4,896 thousand) and the effect resulting from discounting of the non-interest bearing shareholder loans (Euro 265 thousand).

The decrease in receivables from joint ventures stems from Euro 29,871 thousand in repayments of shareholder loans made during the year, particularly by Gädeke & Landsberg Dritte Contract KG (Euro 18,951 thousand) and Polish Investments Real Estate Holding II B.V. (Euro 9,400 thousand) and Euro 7,744 thousand from the waiver of shareholder loans, of which Euro 4,917 thousand to Polish Investments Real Estate Holding II B.V. and Euro 1,756 thousand to Manifatture Milano S.p.A..

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 2,768 thousand, compared with Euro 3,013 thousand at December 31, 2014. They mainly relate to *other tax receivables* for income taxes of companies consolidated on a line-by-line basis that have not opted to file for income tax on a consolidated Group basis, or to taxes of companies in participating in the tax consolidation program that were incurred before they joined that program.

Note 9. INVENTORIES

	12.31.2015	12.31.2014
Trading properties held for sale	14,282	15,688
Land for development	20,164	20,422
Properties under construction/renovation	4,871	7,362
Total	39,317	43,472

Trading properties held for sale

These amount to Euro 14,282 thousand, a net decrease of Euro 1,406 thousand compared with December 31, 2014, Euro 625 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, 2015 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

This item totalled Euro 20,164 thousand, substantially the same as the amount reported the previous year. The changes stem from Euro 332 thousand in net write-downs on the lower presumable realisation value, as determined on the basis of independent appraisals prepared at December 31, 2015.

Properties under construction/renovation

These increased to Euro 4,871 thousand, with a reduction attributable to Euro 2,450 thousand from sale of the property located in Magdeburg, Germany and Euro 42 thousand in net write-downs recognised to account for the lower presumed realisable value.

The inventories existing at December 31, 2015 mainly consisted of properties undergoing remodelling in the Bicocca area of Milan (Euro 4,086 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:

	12.31.2015	12.31.2014
Bank and post office current accounts	72,334	77,119
Cheques	200	3
Cash and cash equivalents in hand	73	70
Total	72,607	77,192

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	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 12.31.2014	426,432	(5,609)	(3,995)	(3,239)	3,467	(6,569)	(244,534)	(61,149)	104,804	2,488	107,292
- Adjustment of available-for-sale financial assets to fair value	-	-	1,083	-	(298)	-	-	-	785	87	872
- portion of (profit)/losses transferred to the income statement that were previously recorded directly under equity	-	-	2,720	-	(748)	-	-	-	1,972	219	2,191
- balance of actuarial gains/(losses) on employee benefits	-	-	-	564	(21)	-	-	-	543	1	544
- share of other equity components related to associates and joint ventures	-	61	(119)	-	-	-	-	-	(58)	(1)	(59)
- exchange differences from the translation of foreign financial statements	-	21	-	-	-	-	-	-	21	-	21
Total other components recorded under equity	-	82	3,684	564	(1,067)	-	-	-	3,263	306	3,569
Allocation of 2014 results	(377,216)	-	-	-	(2,256)	5,570	312,753	61,149	-	-	-
Cost of equity transactions	-	-	-	-	-	(80)	-	-	(80)	(2)	(82)
Other changes	-	-	3	(263)	(39)	767	(742)	-	(274)	(25)	(299)
Net profit (loss) for the period	-	-	-	-	-	-	-	(44,537)	(44,537)	104	(44,433)
Equity at 12.31.2015	49,216	(5,527)	(308)	(2,938)	105	(312)	67,477	(44,537)	63,176	2,871	66,047

Note 11. SHARE CAPITAL

During the extraordinary part, the Shareholders' Meeting on June 24, 2015 resolved – pursuant to Article 2446, paragraph of the Italian Civil Code – to cover the entire loss for the year, the loss for the previous year, and the pre-existing negative “other reserves”, as reported on the separate financial statements 2014, through full use of the available reserves and reduction of the share capital to Euro 49,225,067.95.

Following this reduction in share capital at December 31, 2015, the fully subscribed and paid-up share capital consisted of:

- 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, 2015, share capital was reported net of 1,788 treasury shares in the Group's portfolio, as required by IAS 32, and totalled Euro 49,216.

In regard to the aforementioned loss for the year reported at December 31, 2015 and its amount (Euro 29,622,332.51), certification was filed on March 10, 2016 that the capital increase with pre-emptive rights had been executed, as approved by the Board of Directors in exercise of the power granted to it by the Extraordinary Shareholders' Meeting of the Company on October 16, 2015.

The capital increase with pre-emptive rights was fully executed for Euro 6,461,456.31 at par plus a total shareholders' premium of Euro 60,026,929.12, and thus for a total of Euro 66,488,385.43 inclusive of the share premium.

Therefore, the fully subscribed and paid-up share capital of Prelios S.p.A. totals Euro 55,686,524.26, broken down into:

- 1,153,098,810 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.

Considering the amount of the share capital (Euro 55,686,524.26) and the additional paid-in capital (Euro 60,026,929.12) created in consequence of the full execution of the capital increase, the loss at December 31, 2015 (Euro 29,622,332.51) is less than one third of the current share capital.

Following the loss of Euro 44,537 thousand made in 2015, the equity attributable to the Group totalled a positive Euro 63,176 thousand, compared with a positive Euro 104,804 thousand at December 31, 2014, as shown in the table.

LTI/Stock option plans

The Group did not have any active LTI/Stock option plans as at December 31, 2015.

Note 12. OTHER RESERVES

Other reserves had an overall negative total of Euro 8,980 thousand compared to a negative figure of Euro 15,945 thousand at December 31, 2014.

Reserve for fair value measurement of available-for-sale financial assets

The negative amount of Euro 308 thousand, before tax (recognised 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.

The value of these investment units rebounded in 2015, with a positive change in the reserve amounting to a total of Euro 3,684 thousand, of Euro 2,720 thousand for the losses transferred to the income statement following fair value measurement of the units held by Prelios Società di Gestione del Risparmio S.p.A. in the Cloe Fund after acceptance of the proposal for block sale of the entire remaining portfolio.

Reserve for actuarial gains/(losses)

This reserve shows a negative balance of Euro 2,938 thousand, with a Euro 564 thousand positive change from the previous year and includes the net actuarial losses on post-employment defined benefits under IAS 19, before related taxes.

Reserve for tax on items credited/debited to equity

This reserve amounts to a positive Euro 105 thousand and reflects the tax effect of items credited/debited directly to equity.

During 2015, this reserve was drawn down by Euro 2,256 thousand following full coverage of the losses for the previous year as resolved by the parent company.

Note 13. RETAINED EARNINGS/(LOSSES)

These totalled a positive Euro 67,477 thousand, with a net increase of Euro 312,011 thousand from December 31, 2014, mainly related to the coverage resolved by the Shareholders' Meeting through reduction in the share capital.

Note 14. MINORITY INTERESTS

Minority interests totalled Euro 2,871 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 interests increased by about Euro 383 thousand from December 31, 2014, of which Euro 104 thousand due to the positive net result of Euro 87 thousand for the period related to the net increase in the reserve recognised for fair value measure of the units owned by Prelios Società di Gestione del Risparmio S.p.A. in real estate investment funds.

These effects were partly offset by deconsolidation of the company P.B.S. Società consortile a r.l. (in liquidation), following conclusion of the process of winding up and then cancelling the company from the Companies Register (amounting to Euro 47 thousand).

LIABILITIES**Note 15. BANK BORROWINGS AND PAYABLES TO OTHER LENDERS**

Bank borrowings and payables to other lenders are analysed as follows:

	12.31.2015			12.31.2014		
	Total	non-current	current	Total	non-current	current
Bank borrowings	240,287	236,569	3,718	246,965	246,210	755
Other financial payables	1,841	82	1,759	1,147	86	1,061
Payables to other lenders	10,536	10,438	98	10,236	10,138	98
Financial payables to joint ventures	5,141	-	5,141	6,576	-	6,576
Total	257,805	247,089	10,716	264,924	256,434	8,490

At December 31, 2015 and December 31, 2014, the breakdown of payables by interest rate and original currency is as follows:

12.31.2015	Total	Fixed rate	Floating rate
Original currency: euro			
Current payables	10,716	6,998 65.3%	3,718 34.7%
Non-current payables	247,089	247,089 100.0%	- 0.0%
Total	257,805	254,087 98.6%	3,718 1.4%

12.31.2014	Total	Fixed rate	Floating rate
Original currency: euro			
Current payables	8,490	1,159 14%	7,331 86%
Non-current payables	256,434	252,727 99%	3,707 1%
Total	264,924	253,886 96%	11,038 4%

The percentage exposure to interest rate fluctuations at December 31, 2015 is zero, considering the natural coverage provided by financial receivables at a floating rate.

It should be noted that 38.7% (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 240,287 thousand at December 31, 2015, marking a decrease of Euro 6,678 thousand compared to December 31, 2014 and attributable to repayments made during the period.

The item is broken down as follows:

	12.31.2015			12.31.2014		
	Total	non-current	current	Total	non-current	current
Non-recourse loans	3,718	-	3,718	4,462	3,707	755
Fixed-term credit facilities – Senior and Super Senior loans and current accounts	236,569	236,569	-	242,503	242,503	-
Total	240,287	236,569	3,718	246,965	246,210	755

Non-recourse loans

The item refers to the loan granted by Banca Intesa Mediocredito S.p.A. to Parcheggi Bicocca S.p.A.. At December 31, 2015 the investee was not in compliance with the covenant. Consequently, the company directors contacted the lending bank to request an amendment to the agreement, specifically in regard to the possibility of revising the aforementioned covenant in accordance with the expected cash flows of Parcheggi Bicocca S.p.A. A “stand-still” period will be requested while awaiting the outcome of this revision.

Fixed-term credit facilities – Senior and Super Senior loans and current accounts

This item refers to the balance at December 31, 2015 of Senior and Super Senior loans provided to Prelios S.p.A. by leading Italian banks forming a part of the “Club Deal” syndicate. Those loans were granted following the debt restructuring agreement signed on May 7, 2013 and subsequently amended.

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, 2015 the carrying amount of financial liabilities was recognised at amortised cost.

Both credit facilities are non-current loans: the Senior loan is due on December 31, 2018, while the Super Senior loan is due on December 31, 2017.

On March 4, 2015 Prelios S.p.A. signed an agreement with the lending banks to restructure its existing debt. For the years 2015 and 2016, that agreement waives the original clause providing for repayment of the Senior loan with 65% of the net income realised, by setting the percentage at 35%. The original clause will be reapplied after December 31, 2016. Together with that agreement Prelios S.p.A. also discharged its debt to UBI Banca S.c.r.l. related both to the Senior loan and to the Super Senior loan, with total payment of about Euro 2.9 million (or 40% of the principal owed on the debt, inclusive of accrued interest), pursuant to the agreements separately reached with the bank. Following these agreements, UBI Banca S.c.r.l. is no longer a member of the pool of lending banks.

On October 8, 2015 Prelios and the lending banks signed a new agreement to restructure its total bank debt. The agreements call for contribution to the investee Focus Investments S.p.A., together with the Investments Business Unit, of a portion of the Senior debt totalling: (i) Euro 160,418 thousand in principal; (ii) Euro 13,359 thousand as interest accrued until June 30, 2015; (iii) the interest accrued on the principal beginning July 1, 2015 and until the contribution date, which took effect on December 31, 2015. The new restructuring agreement has imposed several conditions precedent for the release of Prelios from the obligations deriving from the transferred debt. These conditions had not yet been fully satisfied at December 31, 2015; therefore, the debt is still included amongst the financial payables of Prelios S.p.A. at the date of these financial statements.

The conditions imposed for the successful outcome of the overall Transaction include the full release of Prelios S.p.A. from joint liability for the debt transferred to Focus Investments S.p.A. on February 25, 2016 after Prelios S.p.A. signed the equity financial instruments issued by Focus Investments S.p.A., in exchange for a cash contribution of Euro 19.95 million.

Note that the interest accrued on the Senior loan from January 1 to December 31, 2015 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 1,971 thousand) was paid on the due date of December 31, 2015.

Both of these loans do not have financial covenants.

Other financial payables

“Other current financial payables” include Euro 1,749 thousand attributable to the management of real estate contracts services performed for third parties, almost entirely offset by dedicated current accounts included under the item “Cash and cash equivalents”.

Payables to other lenders

Among other things, this item includes Euro 10,438 thousand owed by Prelios S.p.A., in connection with a debt to Intesa Sanpaolo S.p.A. that was contracted on July 17, 2014 to cover deferred contractual expenses related to sales of investment units made in the past.

The face value of the debt, amounting to Euro 10,000 thousand, accrues interest at the fixed rate of 3%.

Pursuant to the amendment signed by the parties on October 8, 2015, subject to the same conditions precedent imposed for the Framework Agreement signed as part of the Centaur transaction, 50% of the debt is payable at the due date of September 30, 2017 and the remaining 50% at September 30, 2018, together with the interest accrued on each tranche, except for several contractual provisions that provide for early payment when certain conditions are met.

Financial payables to joint ventures

This item includes, in particular, a financial payable owed by the parent company on its obligations to make capital contributions to the joint venture Aree Urbane S.r.l. (in liquidation) for Euro 4,892 thousand.

Note 16. TRADE PAYABLES

These comprise:

	12.31.2015			12.31.2014		
	Total	non-current	current	Total	non-current	current
Trade payables to associates	555	-	555	1,206	-	1,206
Trade payables to joint ventures and other Prelios Group companies	1,295	-	1,295	1,556	-	1,556
Trade payables to other related parties	718	-	718	301	-	301
Trade payables to third parties	52,334	-	52,334	44,253	-	44,253
Total	54,902	0	54,902	47,316	0	47,316

At December 31, 2015, the fair value of the item in question approximates its carrying amount.

Trade payables include the portion of payables to third parties more than 90 days past due in an amount of approximately Euro 4.0 million at December 31, 2015 (Euro 3.9 million at December 31, 2014).

Trade payables to associates

These amount to Euro 555 thousand and are entirely attributable to payables to Progetto Corsico S.r.l. as the allottee, for site development charges and the related incidental costs, for an area located in the Municipality of Corsico.

Trade payables to joint ventures and other Prelios Group companies

These total Euro 1,295 thousand and essentially refer to various chargebacks by the joint ventures and other companies of the Prelios Group, mostly related to rent instalments.

Trade payables to other related parties

These amount to a total of Euro 718 thousand, compared with Euro 301 thousand at December 31, 2014.

They mainly relate to the payable to the Pirelli Group for the chargeback of utilities and expenses of the R&D building. They also include payables for health care services provided by Poliambulatorio Bicocca S.r.l.

Trade payables to third parties

These total Euro 52,334 thousand, compared with Euro 44,253 thousand at December 31, 2014.

The item includes Euro 3,261 thousand in *trade payables to customers for contracts* (Euro 3,216 thousand as at December 31, 2014), generated by advances exceeding 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 related margins on these contracts amounted to Euro 4,307 thousand at December 31, 2015 (Euro 16,690 thousand at December 31, 2014), while advances received against invoices for percentage completion totalled Euro 7,568 thousand (Euro 19,906 thousand at December 31, 2014).

Note 17. OTHER PAYABLES

These comprise:

	12.31.2015			12.31.2014		
	Total	non-current	current	Total	non-current	current
Other payables to associates	5	-	5	2,444	-	2,444
Other payables to joint ventures and other Prelios Group companies	1,791	-	1,791	16,595	-	16,595
Other payables to third parties, of which:	27,938	5,521	22,417	21,656	521	21,135
- <i>payables to employees</i>	4,022	-	4,022	4,352	-	4,352
- <i>other tax payables</i>	2,838	-	2,838	2,201	-	2,201
- <i>urbanisation charges</i>	2,426	-	2,426	-	-	-
- <i>social security payables</i>	1,661	-	1,661	1,865	-	1,865
- <i>payables for down payments and advances</i>	233	-	233	2,695	-	2,695
- <i>other sundry payables</i>	16,758	5,521	11,237	10,543	521	10,022
Accrued liabilities and deferred income	810	6	804	746	3	743
Total	30,544	5,527	25,017	41,441	524	40,917

Other payables to joint ventures and other Prelios Group companies

These refer mainly to repayment of 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.

Other payables to third parties

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 consolidated Group basis, and to payables for other indirect taxes.

The *payables for site development costs* refer to the payable of Iniziative Immobiliari 3 S.r.l. for the amounts previously collected by Olinda Fund Shops (as the assigned developer of the Bicocca area), and as contractually envisaged for the work in progress related to the site development of the area possessed by the site developer.

Social security payables relate to the amount owed by the Group to social security institutions. The item includes Euro 1,267 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.

The *payables for earnest money and prepayments* refer to price prepayments made by residential property customers in connection with agreements that have yet to be made.

Payables to directors and the Supervisory Board included under other sundry current payables amount to Euro 893 thousand (in comparison to Euro 1,535 thousand at December 31, 2014), while payables to Statutory Auditors total Euro 705 thousand (Euro 646 thousand at December 31, 2014).

Finally, the item also includes Euro 2,126 thousand for the net payable owed to the City of Milan by Lambda S.r.l. as the cash settlement in lieu of realisation of several underground parking garages originally planned in the Bicocca area.

The *other sundry non-current payables* include Euro 520 thousand for the payables on arrears yet to be paid to the company INPS Gestione Immobiliare – IGEI S.p.A. (in liquidation), in which Prelios S.p.A. has a 9.6% interest. This payable has been classified as non-current insofar as no outlay is scheduled during the next year.

The *other sundry payables* also include Euro 7,523 thousand in liabilities that the subsidiary Prelios Società di Gestione del Risparmio S.p.A. has recognised in its own balance sheet, upon final liquidation of Olinda Fund Shop on February 25, 2015, so that the liquidation procedure could be completed by the deadlines imposed by the management regulation, while promising to handle their administrative management at its own exclusive expense for 10 years.

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 yet been realised outside of the Group.

Note 18. PROVISIONS FOR FUTURE RISKS AND EXPENSES

These provisions total Euro 49,188 thousand (of which the non-current portion was Euro 33,779 thousand) compared with Euro 54,697 thousand at December 31, 2014 (of which the non-current portion was Euro 40,187 thousand).

	12.31.2015			12.31.2014		
	Total	non-current	current	Total	non-current	current
Provision for future expenses for contractual commitments	26,337	22,245	4,092	27,975	26,050	1,925
Provision for arbitration, lawsuits and outstanding disputes	17,908	11,084	6,824	19,375	13,021	6,354
Provision for guarantees	387	30	357	741	587	154
Provisions for other risks	2,394	420	1,974	2,323	529	1,794
Restructuring provision	2,012	-	2,012	3,865	-	3,865
Provision for future risks on equity-accounted investments	150	-	150	418	-	418
Total	49,188	33,779	15,409	54,697	40,187	14,510

The changes which occurred in 2015 are as follows:

	12.31.2014	Decrease in financial receivables	Change in consol. area/other	Changes		12.31.2015
				Increase	Decrease	
Provision for future expenses for contractual commitments	27,975	-	(28)	2,972	(4,582)	26,337
Provision for arbitration, lawsuits and outstanding disputes	19,375	-	(11)	5,443	(6,899)	17,908
Provision for guarantees	741	-	-	-	(354)	387
Provisions for other risks	2,323	-	(20)	627	(536)	2,394
Restructuring provision	3,865	-	-	231	(2,084)	2,012
Provision for future risks on equity-accounted investments	418	11,615	-	(11,615)	(268)	150
Total	71,884	11,615	(59)	(2,342)	(14,723)	49,188

Provision for future expenses for contractual commitments

The item includes Euro 9,318 thousand of the provision for expenses accrued by the subsidiary Geolidro S.p.A. in relation to contractual commitments assumed in relation to the execution of special maintenance work on sold properties. Euro 1,739 thousand of this fund was used during the year, mainly in relation to the renewal work performed on properties located in the “Arenaccia” quarter of Naples.

This item also includes Euro 1,691 thousand to cover future costs related to the move of the Milan office and the premature termination of the lease on the HQ2 building. The provision was used to cover the additional rent paid in 2015, amounting to Euro 563 thousand.

The item also includes Euro 11,328 thousand for the estimated costs that the subsidiary Lambda S.r.l. could incur for certain site development work commitments. In particular:

- the item includes Euro 1,293 thousand in liabilities estimated by the company for the construction of the childcare centre/nursery school. The provision was used for the percentage completion of work in 2015, amounting to Euro 1,746 thousand;
- Euro 8,585 thousand relates instead to expenses incurred to cover commitments undertaken with the City of Milan to build several parking facilities in the Bicocca area;
- Euro 1,250 thousand as 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.

Euro 1,500 thousand of this item must be attributed to the provision accrued by Prelios S.p.A. to cover likely charges to the company in relation to the past termination of a contractual agreement and, and about Euro 2,507 thousand to a specific provision for risks accrued by Centrale Immobiliare S.r.l. in relation to the preliminary technical assessment received concerning a claim for damage resulting from alleged building

construction defects, and identifying this amount as representing 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 analyses to determine the responsibility of the construction firms and persons that it used for the property development and, if necessary, seek recovery of damage from them.

Finally, the item includes Euro 4,451 thousand in provisions to cover probable costs resulting from litigation with clients stemming from the past management of certain German portfolios.

Provisions for guarantees

This amount includes 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

This item consists mainly of a contingent risk of tax assessment following legal and regulatory changes affecting the sale of investments in German companies belonging to 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.

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 totalled Euro 11,103 thousand, a net decrease of Euro 977 thousand compared with December 31, 2014. The item is broken down as follows: The item is broken down as follows:

	12.31.2015	12.31.2014
Provision for employee severance indemnity	3,020	3,347
Pension funds	7,489	8,139
Other employee benefits	594	594
Total	11,103	12,080

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, 2015.

Changes in the provision for employee severance indemnity as at December 31, 2015 and the previous year are set out below:

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
Opening balance	3,347	3,269
Accrued portion allocated to income statement	79	124
Equity adjustment for actuarial gains/losses	(77)	454
Employee severance indemnity advances	(13)	(94)
Benefits paid	(283)	(406)
Other changes	(33)	-
Closing balance	3,020	3,347

The provision for employee severance indemnity changed mainly due to uses during the year for payments to staff leaving the Company.

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 during 2015 and in the previous year are set out below:

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
Opening balance	8,139	6,372
Accrued portion allocated to income statement	91	(176)
Equity adjustment for actuarial gains/losses	(488)	1,679
Benefits paid	(884)	(461)
Other changes	631	725
Closing balance	7,489	8,139

The amounts recognised in the income statement are included in the item “Personnel costs” (Note 24).

Other employee benefits

Other employee benefits also include length-of-service bonuses and loyalty bonuses totalling Euro 594 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 442 at December 31, 2015 (454 including temporary staff), compared with 463 at December 31, 2014 (468 including temporary staff). The change is specifically related to the staff cutbacks carried out in Germany following partial loss of the agreement with Union Investment.

The following table provides a breakdown of employees:

	12.31.2015	12.31.2014
managers	54	59
corporate officers	116	125
office workers	265	265
manual worker/auxiliary staff (*)	7	14
temporary staff	12	5
total	454	468

(*) Staff number varies in relation to operations tied to contracts managed.

Other information

The principal actuarial assumptions used at the date of the last reference valuation on December 31, 2015 show a 0.20 percentage change compared with the previous year. Their specific details are shown as follows:

	Italy	Germany
discount rate	2.20%	2.20%
inflation rate	1.75%	1.75%

Note 20. TAX PAYABLES

These comprise:

	12.31.2015			12.31.2014		
	Total	non-current	current	Total	non-current	current
Other tax payables	8,062	-	8,062	5,779	-	5,779
Other payables to joint ventures under tax transparency regime	-	-	-	1,080	-	1,080
Total	8,062	0	8,062	6,859	0	6,859

Other tax payables

Other tax payables include, inter alia, the amounts owed for current income taxes by companies which do not participate in the tax consolidation program 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 consolidation program or related to IRAP amounts.

Payables to joint ventures under tax transparency regime

At December 31, 2014, this item refers to the payable of Prelios S.p.A. to Trixia S.r.l. for tax transparency. From 2006 to 2008 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. The payable was offset during 2015 with the trade receivables of Prelios S.p.A. and other Group companies, pursuant to the agreement signed by the parties on November 10, 2015.

COMMITMENTS AND GUARANTEES

Banks and insurance companies have issued a total of Euro 81,782 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 18,493 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 1,893 thousand;
- co-obligation of Prelios S.p.A. for a maximum of Euro 1,500 thousand on the commitment of DGAG Beteiligung GmbH & Co. KG and Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau GmbH to finance its own investee Grundstücksgesellschaft Königstraße mbH & Co. KG;
- 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 buyers against contingent claims as part of sale of the “DGAG” portfolio and related management platform, executed in 2014.

Liens on shares

There are liens totalling Euro 20,507 thousand on the shares of associates and joint ventures. This refers in particular to 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 4,831 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 S.p.A. to pay up to Euro 441 thousand to cover contingent liabilities related to the joint venture Espelha Serviços de Consultadoria L.d.A., which was liquidated in December 2014;
- Prelios Netherlands B.V. to finance its own investee Gamma RE B.V. for a residual amount of Euro 300 thousand, to be made for a maximum annual amount of Euro 150 thousand by December 31, 2017;
- Prelios Netherlands B.V. to cover the advisory costs related to the agreement signed in July with the partners of the Highstreet consortium, for a residual amount of Euro 110 thousand;
- Prelios S.p.A. to pay certain trade payables of the joint venture Riva dei Ronchi S.r.l. (in liquidation) for Euro 15 thousand.

Third-party assets held by the Group

These are represented by notes kept by the subsidiary Prelios Credit Servicing S.p.A. on behalf of certain securitisation special purpose vehicles pursuant to Law 130.

The notes, issued in favour of the subscribers, have a total residual value, net of repayments already made, of Euro 7,049 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)

	12.31.2015	12.31.2014
CURRENT ASSETS		
Other receivables	289	113
- of which receivable from related parties	234	113
Financial receivables	289	113
- third parties	55	-
- joint ventures and other Prelios Group companies	234	113
Cash and cash equivalents	72,607	77,192
TOTAL CURRENT ASSETS - A	72,896	77,305
CURRENT LIABILITIES		
Bank borrowings and payables to other lenders	(10,716)	(8,490)
- of which payable to related parties	(5,141)	(6,576)
- joint ventures and other Prelios Group companies	(5,141)	(6,576)
- other financial payables	(1,759)	(1,061)
- bank borrowings	(3,718)	(755)
- payables to other lenders	(98)	(98)
TOTAL CURRENT LIABILITIES - B	(10,716)	(8,490)
NON-CURRENT LIABILITIES		
Bank borrowings and payables to other lenders	(247,089)	(256,434)
- other financial payables	(10,520)	(10,224)
- Payables to other lenders	(236,569)	(246,210)
TOTAL NON-CURRENT LIABILITIES - C	(247,089)	(256,434)
NET FINANCIAL POSITION EXCL. SHAREHOLDER LOANS GRANTED(*) - D = (A + B +C)	(184,909)	(187,619)

(*) 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 70,908 thousand, compared with Euro 72,124 thousand at December 31, 2014, and is composed as follows:

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
Revenue from contracts	23	137
Revenue from sales	3,447	931
- sales of residential property	857	-
- sales of commercial property	2,590	931
Revenue from services	67,438	71,056
Total	70,908	72,124

Revenue from contracts

As at December 31, 2015 these amounted to Euro 23 thousand, compared with Euro 137 thousand in 2014. This item consists mainly of the revenue generated by Lambda S.r.l. for the execution of certain site improvement work under way on behalf of the companies involved in development of the Milano Bicocca and Pioltello areas.

Revenue from sales

Sales completed in 2015 mainly refer to property units sold by Centrale Immobiliare S.r.l., Geolidro S.p.A. and Orione Immobiliare Prima S.p.A., and completion of sale of the property located in Magdeburg, Germany.

Revenue from services

Revenue from the rendering of services can be broken down as follows:

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
Revenue from services to third parties	45,948	41,380
Revenue from services to associates	1,825	10,807
Revenue from services to joint ventures and other Prelios Group companies	19,619	18,808
Revenue from services to other related parties	46	61
Total	67,438	71,056

As indicated in the Report on Operations, to which reference is made, this item reflects a contraction that is mainly related to the lower revenue generated by the fund management activity following liquidation of the Olinda Fund and reduction in the commissions of the Tecla Fund, for which an extraordinary extension has been exercised, as well as a contraction in revenue from the German management platform generated largely by the loss of certain contracts from non-captive clients that expired at the end of 2014, which have not yet been fully offset by the acquisition of new business.

Note 22. CHANGE IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS

The change in inventories at December 31, 2015 resulted in an overall decrease of Euro 2,749 thousand compared to an increase of Euro 2,002 thousand at December 31, 2014. Of this change, Euro 374 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, 2015, or due to the lower prices at which individual subsidiaries were willing to sell pursuant to sale mandates assigned, subject to the approval of their respective boards of directors, and the sale of a property in Magdeburg, Germany which was completed during the year.

Note 23. OTHER INCOME

The item in question can be broken down as follows:

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
Recoveries, reimbursements and other income	12,198	12,982
Other income from associates, joint ventures and other Prelios Group companies	895	196
Other income from other related parties	907	55
Total	14,000	13,233

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 and impairment.

The *other income from other related parties* mainly relates to the recovery by Pirelli & C. S.p.A. of costs for clean-up work performed in the Bicocca area by the subsidiary Lambda S.r.l., and recovery of the costs related to the Milan building – HQ2.

The item includes costs for non-recurring events of Euro 5,066 thousand accounting for approximately 36% of the total item.

Note 24. OPERATING COSTS

Operating costs amount to Euro 100,551 thousand, compared with Euro 111,008 thousand as at December 31, 2014, and consist of:

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
Raw and consumable materials used of which:	1,791	3,224
a) <i>Assets purchased</i>	411	254
b) <i>Change in inventories of trading properties, raw and miscellaneous materials</i>	1,380	2,970
Personnel costs	36,049	38,828
Depreciation, amortisation and impairment	1,234	2,373
Other costs	61,477	66,583
Total	100,551	111,008

Raw and consumable materials used (net of change in inventories)

Assets purchased totalled Euro 411 thousand at December 31, 2015 and related to the purchase of various consumables.

During 2015 the item "*Change in inventories of trading properties, raw materials and miscellaneous materials*" totalled a negative Euro 1,380 thousand, compared with a negative amount of Euro 2,970 thousand in 2014. Euro 625 thousand of the change is attributable to net write-downs recognised for the lower presumed realisable value, determined on the basis of independent appraisals as at December 31, 2015 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 totalled Euro 36,049 million. This reflects a decrease of Euro 2,779 million from 2014, largely attributable to the reduction in average headcount during the period (446 employees, as compared

with 631 employees in 2014), particularly in Germany following the partial loss of the contract with Union Investment.

The item is broken down as follows:

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
Wages and salaries	27,213	29,043
Social security contributions	6,417	6,858
Employee severance indemnity	79	124
Costs for defined-contribution pension funds/Other costs	2,340	2,803
Total	36,049	38,828

For the number of employees, please see the comments on employee benefit obligations (Note 19).

This item includes non-recurring events totalling a positive Euro 104 thousand.

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

At December 31, 2015 these amounted to Euro 61,477 thousand, compared with Euro 66,583 thousand in 2014.

The item can be broken down by type as follows:

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
Cost for services	41,030	39,120
Lease and rental cost	4,926	6,331
Impairment of receivables	2,248	5,807
Provisions for risks and expenses	6,982	8,312
Other operating expenses	6,291	7,013
Total	61,477	66,583

Costs for services

The costs for services totalled Euro 41,030 thousand, compared with Euro 39,120 thousand in 2014. They are mainly represented by maintenance costs, lease and rental costs, commission income, consultant and professional advisor fees.

The change originated mainly from the increase in costs incurred for legal advice, and for professional mandates related to the subcontract of the cadastral compliance service provided as part of the property and project management activity.

This item includes the effects of non-recurring events totalling a net negative amount of Euro 339 thousand. In particular, the item includes Euro 963 thousand related to the closing costs incurred for transfer of the Investments Business Unit to Focus Investments S.p.A. by the parent company.

Remuneration paid to directors and the Supervisory Board totalled Euro 3,525 thousand, compared with Euro 4,078 thousand in 2014, and fees paid to statutory auditors of consolidated companies totalling Euro 505 thousand, compared with Euro 514 thousand in 2014.

Lease and rental costs

These costs amount to Euro 4,926 thousand compared with Euro 6,331 thousand reported at December 31, 2014, and refer almost entirely to the rental of head office buildings, and to the lease and hire of motor vehicles. The contraction is related to the lower rents paid for offices outside Italy, and for the Milan offices following the addendum to the lease signed by Prelios S.p.A. and Pirelli & C. S.p.A. that regulated the leased spaces, with a consequent reduction in the annual rent.

Impairment of receivables

At December 31, 2015, impairment of receivables totalled Euro 2,248 thousand and was recognised to cover potential risks of debtor insolvency and bad debts already incurred during the period in question.

The item includes costs for non-recurring events of Euro 1,124 thousand, accounting for 50% of the total item, due to the write-downs 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, 2015 the item showed a net balance of Euro 6,982 thousand, compared with Euro 8,312 thousand in 2014. The change is related to the lower impact of non-recurring charges, especially to cover likely charges resulting from lawsuits with clients over the previous management of certain German portfolios (about 44%, compared with 70% in 2014).

Details of these provisions can be found in the notes on liabilities in the section “provisions for future risks and expenses”.

Other operating expenses

These amount to Euro 6,291 thousand, compared with Euro 7,013 thousand reported in 2014.

The item includes, inter alia, Euro 1,346 thousand in costs for duties and other taxes, mostly involving IMU (municipal property tax), registration taxes and irrecoverable VAT on financial transactions.

At December 31, 2015 the item reflected the negative impact of non-recurring events totalling Euro 1,692 thousand.

Note 25. NET INCOME FROM INVESTMENTS

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
Portion of result of associates and joint ventures	(10,915)	(13,323)
Dividends	404	-
Gains on investments	118	1,009
Losses on investments	(4,469)	(2,455)
Total	(14,862)	(14,769)

The combined amount of the various components of this item includes a pro-rata net negative effect for the Prelios Group of Euro 16.5 million, deriving from property revaluations/write-downs, as compared with a negative Euro 33.6 million in 2014. The total negative effect reported in 2015 is related in particular to the write-downs recognised by Manifatture Milano S.p.A. (Euro -3.5 million), as well as the FIPRS Fund (Euro -3.2 million) and the Tecla Fund (Euro -2.8 million), partly offset by revaluation of the real estate portfolio held by the Spazio Industriale Fund for Euro 4.6 million. The item also includes Euro 10.5 million for adjustment of the value contributed by certain investments held by the Group in relation to their stated intention to sell the units held in the underlying real estate investment.

Euro 3.0 thousand of the losses on investments is attributable to the reversal on the income statement of the losses of the reserve previously recognised in equity and relating to the fair value measurement of the units owned by Prelios Società di Gestione del Risparmio S.p.A. in the Cloe Fund following acceptance of the proposal for block sale of the entire remaining portfolio.

Moreover, after completion of the process to unwind the investments of Olinda – Shops Fund on the expiration date of the fund itself, the units owned by Prelios Netherlands B.V. and Prelios Società di Gestione del Risparmio S.p.A. were impaired for adjustment to the presumable values that will be paid following disposal of the real estate portfolio, accumulating a total negative effect of Euro 90 thousand.

Note 26. FINANCIAL INCOME

Financial income amounts to Euro 10,175 thousand, compared with Euro 5,564 thousand in 2014.

The improvement is mainly due to the gain on the premature repayment of the loan from UBI Banca, through payment on a lump sum basis of an amount less than its face value. This related both to the Senior and to the Super Senior loan. As previously mentioned, following this agreement UBI Banca no longer belongs to the pool of lending banks.

At December 31, 2015 the item reflected the positive impact of non-recurring events totalling Euro 279 thousand.

The item is broken down as follows:

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
<u>Interest income</u>		
a) Interest income from non-current assets:		
- Interest income on financial receivables due from associates	-	1
- Interest income on financial receivables due from joint ventures	4,660	4,474
Total interest income from non-current assets	4,660	4,475
b) Interest income from current assets:		
- interest income from associates	17	-
- Interest income from joint ventures	367	81
- Other interests	181	502
Total interest income from current assets	565	583
<u>Other financial income</u>		
Other/miscellaneous	4,381	443
Exchange gains	569	63
Total	10,175	5,564

Note 27. FINANCIAL EXPENSES

These amount to Euro 20,740 thousand, compared with an amount of Euro 29,958 thousand reported at December 31, 2014.

They are broken down as follows:

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
Interest due to banks	16,067	20,460
Interest due to associates	-	48
Interest due to joint ventures	334	261
Interest due to third parties on convertible bond	-	234
Interest due to other related parties on convertible bond	-	408
Interest due to others	479	554
Other financial expenses	3,805	7,250
Other financial expenses due to joint ventures	-	3
Exchange losses	55	740
Total	20,740	29,958

The *interest due to banks* mainly refer to the senior and super senior loans made with banks for normal operation of company activity. Euro 3,993 million of the change from the previous year can be related to the lower figurative expenses recognised on the senior and super senior loans, following restructuring of the loan signed with the lending banks on March 4, 2015.

The *other financial expenses* include Euro 1,930 thousand for the negative adjustment to the junior securities held by Focus Investments S.p.A. and resulting from the discounting of future cash flows, against Euro 6,323 thousand reported during the previous year.

Note 28. INCOME TAXES

The item “Income taxes”, for current, prepaid and deferred taxes, calculated on the basis of current rates, totals Euro 4,933 thousand, compared with Euro 2,831 thousand in 2014.

	01.01.2015- 12.31.2015	01.01.2014- 12.31.2014
Current taxes	4,931	1,003
Deferred tax assets	10	4,573
Deferred tax liabilities	(8)	(2,745)
Total	4,933	2,831

In particular, the total amount comprises:

- IRES and other taxes on foreign income of Euro 4,985 thousand (consisting entirely of current taxes) compared with Euro 1,720 thousand in 2014;
- IRAP totalling Euro 52 thousand (of which Euro 589 thousand in current taxes), compared with Euro 1,111 thousand in 2014.

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	12.31.2015
PROFIT (LOSS) BEFORE TAXES	(39,500)
Net income/(loss) from discontinued operations	(4,319)
NET PROFIT (LOSS) BEFORE TAXES ON OPERATING ACTIVITIES	(43,819)
Reversal of net income from investments	14,862
Taxed dividends	324
Other taxable/non-deductible changes	15,885
Total taxable amount	(12,748)
Theoretical tax	3,191
Difference in prior year tax	(164)
Adjusted theoretical tax	3,027
Reported taxes	(4,985)
Difference due to:	(8,012)
- Unrecorded taxes on negative taxable income	(6,298)
- Non-deductible costs, non-operating losses and other permanent changes	(2,425)
- Non-deductible interest pursuant to Article 96 of the Italian Income Tax Act	(1,672)
- Taxes on Group tax basis	1,292
- Use of past tax losses	1,961
- Other changes	(870)

IRAP	12.31.2015
PROFIT (LOSS) BEFORE ITALIAN TAXES	(13,071)
Financial income (expenses) of financial companies	(566)
Total taxable amount	(13,637)
Theoretical IRAP (tax rate of 3.9%)	532
Difference in prior year tax	639
Adjusted theoretical IRAP	1,171
Reported IRAP	52
Difference due to:	(1,119)
- Unrecorded taxes on negative taxable income	(860)
- Difference between theoretical and effective tax rate	2
- Other changes	(261)

(*) 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:	12.31.2015
Italy	31.40%
Germany	32.27%
Netherlands	20%-25%
Poland	19.00%

Note 29. NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

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. 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 closed on June 27, 2014 for the real estate companies and on July 4, 2014 for the service platform. The estimated effects of the transaction were reflected in the 2013 financial statements as discontinued operations. A similar classification has been adopted in these financial statements, including the effects of the determination of certain price components previously subject to provisional estimate.

The "net income (loss) from discontinued operations" attributable to the Group was a positive Euro 4,319 thousand.

Note 30. EARNINGS/(LOSS) PER SHARE

The loss per base and diluted share is shown as follows. The amounts are equivalents insofar as there is no outstanding stock different from the Category A and B shares that could impact the calculation of the earnings/(loss) per diluted shares.

	12.31.2015	12.31.2014
Consolidated net profit (loss) (A)	(44,537)	(61,149)
Weighted average number of shares outstanding for the calculation of profit (loss) per share:	717,939,592	638,259,263
Profit (loss) per share (in euro)	(0.06)	(0.10)

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 mentioned 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, 2015 are as follows:

DECEMBER 31, 2015

	ITALY	GERMANY	POLAND	NPL	HOLDING COMPANY	TOTAL	ELIMINATIONS	CONSOLIDATED
Consolidated revenue	49,139	12,950	332	9,463	14,191	86,075	(15,167)	70,908
<i>of which from third parties</i>	48,163	12,950	332	9,463	-	70,908	-	70,908
<i>of which from the Group</i>	976	-	-	-	14,191	15,167	(15,167)	-
EBIT	(8,245)	(3,344)	(787)	(536)	(5,480)	(18,392)	-	(18,392)
Net income from investments	(24,094)	11,511	(2,279)	-	-	(14,862)	-	(14,862)
EBIT including net income from investments	(32,339)	8,167	(3,066)	(536)	(5,480)	(33,254)	-	(33,254)
Financial income from investments	2,225	1,413	1,022	-	-	4,660	-	4,660
Loss from NPL portfolio valuation	-	-	-	(1,930)	-	(1,930)	-	(1,930)
EBIT including net income and financial income from investments (a)	(30,114)	9,580	(2,044)	(2,466)	(5,480)	(30,524)	-	(30,524)
Other financial income/expenses							-	(13,295)
Profit (loss) before taxes							-	(43,819)
Income taxes							-	(4,933)
Net profit (loss) for the year							-	(48,752)
attributable to minority interests							-	104
Income (loss) from discontinued operations							-	4,319
Consolidated net profit (loss) for the year							-	(44,537)

Notes:

Property write-downs/revaluations (b)	(17,898)	(185)	(81)	-	-	(18,164)	-	(18,164)
Restructuring costs (c)	(1,983)	(1,201)	-	80	2,661	(443)	-	(443)
EBIT including net income and financial income from investments before restructuring costs and property write-downs/revaluations and property tax (d) = (a) - (b) - (c)	(10,233)	10,966	(1,963)	(2,546)	(8,141)	(11,917)	-	(11,917)

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)	72,124
<i>of which from third parties</i>	47,832	15,102	324	7,766	1,100	72,124	-	72,124
<i>of which from the Group</i>	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

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, 2015:

DECEMBER 31, 2015

	ITALY	GERMANY	POLAND	NPL	TOTAL	ELIMINATIONS	CONSOLIDATED
Non-current assets:	178,349	26,593	63	3,123	208,128	-	208,128
Property, plant and equipment	556	178	63	3	800	-	800
Intangible assets, of which	41,351	16,994	-	250	58,595	-	58,595
Goodwill	39,495	16,890	-	-	56,385	-	56,385
Investments in real estate funds and investment companies and other financial assets	136,442	9,421	-	2,870	148,733	-	148,733 (1)
Net working capital	29,785	(6,412)	(976)	267	22,664	-	22,664
Inventories	39,316	-	1	-	39,317	-	39,317
Other components of net working capital	(9,531)	(6,412)	(977)	267	(16,653)	-	(16,653) (2)
NET INVESTED CAPITAL	208,134	20,181	(913)	3,390	230,792	-	230,792

TOTAL CONSOLIDATED not included in NFP	TOTAL from financial statements	of which amounts included in NFP
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Notes

The balances indicated by notes 1) and 2) have been obtained as follows:

1)

Investments in associates	37,537	37,537	-
Investments in joint ventures	86,195	86,195	-
Other financial assets	25,151	25,151	-
Provision for future risks on equity-accounted investments reclassified from "Current provisions for future risks and expenses"	(150)	(150)	-
Total investments in real estate funds and investment companies	148,733	148,733	-

2)

	TOTAL CONSOLIDATED not included in NFP	TOTAL from financial statements	of which amounts included in NFP
Deferred tax assets	7,461	7,461	-
Other non-current receivables	5,258	86,346	81,088
Current trade receivables	41,956	41,956	-
Other current receivables	19,412	19,701	289
Current tax receivables	2,768	2,768	-
Other non-current payables	(5,527)	(5,527)	-
Current trade payables	(54,902)	(54,902)	-
Other current payables	(25,017)	(25,017)	-
Current tax payables	(8,062)	(8,062)	-
Other components of net working capital	(16,653)	64,724	81,377

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
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)
NET INVESTED CAPITAL	230,934	7,336	(810)	5,447	242,907	-	242,907

TOTAL CONSOLIDATED not included in NFP	TOTAL from financial statements	of which amounts included in NFP
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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	5,241	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)	-
Other components of net working capital	(26,440)	82,028	108,468

6.11. Related-party transactions

The following tables show transactions and balances with related parties:

	01.01.2015- 12.31.2015	% (*)	01.01.2014- 12.31.2014	% (*)
Operating revenue	23,292	28.3%	29,927	35.9%
Operating costs	(5,416)	5.4%	(7,228)	6.5%
Net loss from equity investments	(15,383)	103.5%	(14,861)	100.6%
Financial income	5,044	49.6%	4,556	81.9%
Financial expenses	(334)	1.6%	(721)	2.4%
Taxes	-	0.0%	-	0.0%
Income (loss) from discontinued operations	-	0.0%	8,760	108.1%

(*) The percentage is calculated with reference to the total financial statement item

	12.31.2015				12.31.2014			
	Total	% (*)	non-current	current	Total	% (*)	non-current	current
Trade receivables	16,538	39.4%	-	16,538	18,758	53.5%	-	18,758
Other receivables, of which:	90,234	85.1%	81,088	9,146	117,189	89.2%	108,355	8,834
- financial receivables	81,322	100.0%	81,088	234	108,468	77.7%	108,355	113
Discontinued operations	1,744	0.0%	1,744	-	9,964	81.9%	9,964	-
- financial receivables	1,744	100.0%	1,744	-	9,964	100.0%	9,964	-
Trade payables	(2,568)	100.0%	-	(2,568)	(3,063)	-6.5%	-	(3,063)
Other payables	(1,796)	-4.7%	-	(1,796)	(19,039)	-45.9%	-	(19,039)
Tax payables	-	-5.9%	-	-	(1,080)	-15.5%	-	(1,080)
Bank borrowings and payables to other lenders	(5,141)	0.0%	-	(5,141)	(6,576)	-2.5%	-	(6,576)
Provisions for future risks and expenses	(150)	-2.0%	-	(150)	(418)	-0.8%	-	(418)

(*) 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 at December 31, 2015 are detailed as follows:

Transactions with associates, joint ventures and other companies

Operating revenue	22,339	The item refers to Group company mandates for fund and asset management services and technical and commercial services.
Operating costs	(733)	These refer to recharges of various kinds.
Net loss from equity investments	(15,383)	The item mainly refers to the equity method valuation of Group investments, as well as other investments adjustments.
Financial income	5,044	This mostly refers to interest earned on financial receivables held by Group companies.
Financial expenses	(334)	
Current trade receivables	16,045	This balance includes receivables arising from "operating revenue".
Other non-current receivables	81,088	
- of which financial receivables	81,088	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	7,759	This includes residual credits of various nature.
- of which financial receivables	234	
Discontinued operations	1,744	
- of which financial receivables	1,744	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	(1,850)	They refer to various chargebacks, mainly rent, urbanisation charges and accessory costs.
Other current payables	(1,796)	These refer to various chargebacks.
Bank borrowings and payables to other lenders	(5,141)	These include mainly and other financial payables arising from capital contributions in Aree Urbane S.r.l. (in liquidation) for Euro 4,892 thousand.
Provisions for future risks and expenses	(150)	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 of the transactions and balances at December 31, 2015 between the Prelios Group and other related parties, specifically with Pirelli & C. S.p.A. and its subsidiaries and other parties 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	953	The item mainly refers to the recovery, from Pirelli & C. S.p.A., of the costs related to the reclamation works carried out in the Bicocca area by the subsidiary Lambda S.r.l., and to the incomes from the contract signed with Pirelli Tyres S.p.A. related to the parking in the Bicocca area.
Operating costs	(2,019)	The item includes costs for rental and expenses for the R&D building charged to Prelios S.p.A. by Pirelli Group and the costs for health services provided by the company Poliambulatorio Bicocca S.r.l..
Current trade receivables	493	These mainly refer to receivables from Pirelli & C. S.p.A. related to the recovery of costs for the reclamation works carried out in the Bicocca area by the subsidiary Lambda S.r.l., and to the new subscription contract related to the parking in the Bicocca area.
Other current receivables	1,387	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 and expenses of that building.
Current trade payables	(718)	These mainly refer to the payable to Pirelli Group for the rental, the chargeback of utilities and expenses of the R&D building. They also include payables for health services provided by the company Poliambulatorio Bicocca S.r.l..

Considering the recent capital increase completed in March 2016 and the consequent change in the ownership structure, the delegated corporate bodies of Prelios S.p.A. will shortly consider any changes or additions to be made to the scope of parties considered “related parties” in these financial statements.

Cash flows

At December 31, 2015, there were no other cash flows referring to related-party transactions which should be disclosed and which cannot be directly determined from the financial statements and the notes thereto.

Key management personnel

At December 23, 2015, the remuneration of the 23 key managers (of whom 15 were in office as at December 31, 2015), 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 2,794 thousand (Euro 4,124 thousand at December 31, 2014), of which Euro 305 thousand (Euro 934 thousand at December 31, 2014) was classified in the income statement as “Personnel costs” and Euro 2,359 thousand (Euro 3,190 thousand at December 31, 2014) recognised in the income statement as “Other costs”, and Euro 130 thousand that was financially suspended and relate to one-off compensation resolved by the Board of Directors in favour of two members of the Internal Control, Risk and Corporate Governance Committee for the activity performed in connection with the “Centaur project” transaction. The long-term portion is zero, as was the case in 2014.

6.12. Other information**Independent auditor fees**

The following statement, prepared in accordance with Article 149-duodecies of the CONSOB Issuer Regulations, reports the fees paid in 2015 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:		1,239
Prelios S.p.A.	545	
Subsidiaries	694	
Certification services:		549
Prelios S.p.A.	525	
Subsidiaries	24	
Miscellaneous auditing services:		59
Prelios S.p.A.	59	
Grand total:		1,847
Prelios S.p.A.		1,129
Subsidiaries		718

7. SUPPLEMENTARY TABLES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.1 Appendix 1: Area of consolidation

Note	Business at 12.31.2015	Registered office City, Country	Share capital	Held at 12.31.2015 by	12.31.2015	12.31.2014	
					% ownership & voting rights (*)	% ownership & voting rights (*)	
Fully consolidated companies							
Subsidiaries							
	BauBeCon Treuhand GmbH	Real Estate	Hamburg/Germany	€ 530.000	Prelios Immobilien Management GmbH	100,00%	100,00%
(1)	Centrale Immobiliare S.r.l.	Real Estate	Milan/Italy	€ 100.000	Focus Investments S.p.A.	100,00%	--
	CFT Finanziaria S.p.A.	NPL	Milan/Italy	€ 20.110.324	Prelios S.p.A.	--	100,00%
(2)	DGAG Beteiligung GmbH & Co. KG (**)	Real Estate	Hamburg/Germany	€ 42.118.455	Mistral Real Estate B.V.	100,00%	94,90%
(2)	DGAG Nordpartner GmbH & Co. KG (**)	Real Estate	Hamburg/Germany	€ 2.760.976	Mistral Real Estate B.V.	94,00%	94,00%
	Edinord Gestioni S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 100.000	Prelios S.p.A.	100,00%	100,00%
	Einkaufszentrum Münzstrasse GmbH & Co. KG (**)	Real Estate	Hamburg/Germany	DM 10.000.000	DGAG Beteiligung GmbH & Co. KG Prelios Deutschland GmbH	74,80% 25,20%	74,80% 25,20%
	Erste DGAG Grundstücksgesellschaft mbH & Co. KG (**)	Real Estate	Hamburg/Germany	DM+€ 970.000+31.700	DGAG Beteiligung GmbH & Co. KG Verwaltung Erste DGAG Grundstücksgesellschaft mbH	94,00% 6,00%	94,00% 6,00%
(3)	Focus Investments S.p.A.	Real Estate	Milan/Italy	€ 50.000	Prelios S.p.A.	100,00%	--
(1)-(19)	Focus Investments International B.V. (formerly Prelios Netherlands B.V.)	Real Estate	Amsterdam/Netherlands	€ 21.000	Focus Investments S.p.A.	100,00%	--
	Geolidro S.p.A.	Real Estate	Naples/Italy	€ 120.000	Centrale Immobiliare S.r.l.	100,00%	100,00%
(1)	Iniziativa Immobiliare 3 S.r.l.	Real Estate	Milan/Italy	€ 10.000	Focus Investments S.p.A.	100,00%	--
(1)	Lambda S.r.l.	Real Estate	Rome/Italy	€ 578.760	Focus Investments S.p.A.	100,00%	100,00%
(1)	Mistral Real Estate B.V. (Tracking Share) (**)	Real Estate	Amsterdam/Netherlands	€ 18.000	Focus Investments S.p.A.	35,02%	100,00%
	Mistral Real Estate B.V. (Tracking Shares Goßlers Park) (**)	Real Estate	Amsterdam/Netherlands	€ 18.000	Focus Investments S.p.A.	35,02%	--
(1)	Mistral Real Estate B.V. (Tracking Shares Osnabruck) (**)	Real Estate	Amsterdam/Netherlands	€ 18.000	Focus Investments S.p.A.	35,02%	35,02%
(1)	Mistral Real Estate B.V. (Tracking Shares Dresden) (**)	Real Estate	Amsterdam/Netherlands	€ 18.000	Focus Investments S.p.A.	35,02%	--
(1)	Orione Immobiliare Prima S.p.A.	Real Estate	Milan/Italy	€ 104.000	Focus Investments S.p.A.	100,00%	--
(1)	Parceggi Bicocca S.r.l.	Real Estate	Milan/Italy	€ 1.500.000	Focus Investments S.p.A.	100,00%	--
(4)	P.B.S. Società consortile a r.l. (in liquidation)	Real Estate	Milan/Italy	€ 100.000	Prelios INTEGRA S.p.A.	--	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%
(5)	Prelios Center Marketing GmbH (formerly Prelios Investments Deutschland GmbH)	Real Estate	Hamburg/Germany	€ 25.000	Prelios Deutschland GmbH	100,00%	--
	Prelios Credit Servicing S.p.A.	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	€ 25.000	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 Management Services Deutschland GmbH	Real Estate	Hamburg/Germany	€ 25.000	Prelios Deutschland GmbH	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%
(6)	Prelios RE Advisory Sp. Z o.o	Real Estate	Warsaw/Poland	PLN 1.000.000	Prelios S.p.A.	100,00%	--
(1)	Prelios Residential Investments GmbH	Real Estate	Hamburg/Germany	€ 570.000	Focus Investments S.p.A.	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 liquidation)	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 liquidation)	Real Estate	Hamburg/Germany	€ 8.000.000	Prelios Deutschland GmbH	74,90%	74,90%
	Servizi Amministrativi Real Estate S.p.A.	Other	Milan/Italy	€ 520.000	Prelios S.p.A.	100,00%	100,00%
	SIB S.r.l.	Real Estate	Milan/Italy	€ 10.100	Prelios Credit Servicing S.p.A.	100,00%	100,00%
	Sustainable Energy S.r.l.	Real Estate	Milan/Italy	€ 10.000	Prelios S.p.A.	100,00%	100,00%
	Verwaltung Einkaufszentrum Münzstrasse GmbH (**)	Real Estate	Hamburg/Germany	DM 50.000	DGAG Beteiligung GmbH & Co. KG Prelios Deutschland GmbH	74,80% 25,20%	74,80% 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%

Note	Business at 12.31.2015	Registered office City, Country	Share capital	Held at 12.31.2015 by	12.31.2015	12.31.2014
					% ownership & voting rights (*)	% ownership & voting rights (*)
Equity-accounted companies						
Associates						
	Monteverdi - Fondo comune di investimento immobiliare speculativo di tipo chiuso	Real Estate Milan/Italy	€ 62,000,000	Iniziative Immobiliari 3 S.r.l. Prelios Società di Gestione del Risparmio S.p.A. Tiglio I S.r.l.	29.84% 4.03% 66.13%	29.84% 4.03% 66.13%
(7)	Olinda Fondo Shops - Fondo quotato ad apporto privato (*)	Real Estate Milan/Italy	€ --	Prelios Società di Gestione del Risparmio S.p.A. Focus Investments International B.V. (formerly -- Prelios Netherlands B.V.)	-- --	5.18% 6.64%
(1)	Progetto Corsico S.r.l.	Real Estate Milan/Italy	€ 100,000	Focus Investments S.p.A. Prelios S.p.A.	49.00% --	-- 49.00%
(1)	Progetto Fontana S.r.l. (in liquidation)	Real Estate Milan/Italy	€ 10,000	Focus Investments S.p.A. 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 International B.V. (formerly Prelios Netherlands B.V.) Spazio Investment N.V.	22.07% 0.23%	22.07% 0.23%
Joint ventures						
	Afrodite S.à.r.l.	Real Estate Luxembourg	€ 4,129,475	Prelios S.p.A. Focus Investments International B.V. (formerly Focus Investments International B.V.)	40.00% --	40.00% 40.00%
(8)	Aida RE B.V. (in liquidation)	Real Estate Amsterdam/Netherlands	€ 18,000	Prelios Netherlands B.V.	--	40.00%
	Alceo B.V.	Real Estate Amsterdam/Netherlands	€ 18,000	Prelios S.p.A.	33.00%	33.00%
	Almede Luxembourg S.à.r.l.	Real Estate Luxembourg	€ 12,955	Prelios S.p.A.	35.05%	35.05%
	Aree Urbane S.r.l. (in liquidation)	Real Estate Milan/Italy	€ 100,000	Prelios S.p.A.	34.60%	34.60%
	Artemide S.à.r.l.	Real Estate Luxembourg	€ 2,857,050	Prelios S.p.A.	35.00%	35.00%
	Austin S.à.r.l.	Real Estate Luxembourg	€ 125,000	Prelios S.p.A.	28.46%	28.46%
	Beteiligungsgesellschaft Einkaufszentrum Mülheim mbH	Real Estate Hamburg/Germany	DM 60,000	Prelios Deutschland GmbH	41.17%	41.17%
	Bioccca 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%
(1)	Colombo S.à.r.l.	Real Estate Luxembourg	€ 960,150	Focus Investments S.p.A. 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%
(9)	Continuum S.r.l. (in liquidation)	Real Estate Milan/Italy	€ 20,000	Prelios S.p.A.	--	40.00%
	Dallas S.à.r.l.	Real Estate Luxembourg	€ 125,000	Prelios S.p.A.	28.46%	28.46%
(1)	Delamain S.à.r.l.	Real Estate Luxembourg	€ 12,500	Focus Investments S.p.A. Prelios S.p.A.	49.00% --	-- 49.00%
(1)	Doria S.à.r.l.	Real Estate Luxembourg	€ 992,850	Focus Investments S.p.A. Prelios S.p.A.	35.00% --	-- 35.00%
	Einkaufszentrum Mülheim GmbH & Co. KG (in liquidation)	Real Estate Hamburg/Germany	€ 26,075,886	Prelios Deutschland GmbH	41.18%	41.18%
	Fondo Città di Torino - Fondo comune di investimento immobiliare speculativo di tipo chiuso	Real Estate Milan/Italy	€ 34,500,000	Focus Investments International B.V. (formerly Prelios Netherlands B.V.) Focus Investments International B.V. (formerly Prelios Netherlands B.V.)	36.23% -- 36.23%	36.23% -- 36.23%
	Gamma RE B.V.	Real Estate Amsterdam/Netherlands	€ 18,000	Prelios Netherlands B.V.	49.00%	49.00%
	Golfo Aranci S.p.A. (in liquidation)	Real Estate Golfo Aranci (OT)/Italy	€ 1,000,000	Prelios S.p.A.	43.80%	43.80%
(10)	Gromis S.r.l. (in liquidation)	Real Estate Milan/Italy	€ 10,000	Prelios S.p.A. Centrale Immobiliare S.r.l.	6.21% 33.00%	-- 6.21%
	Grundstücksgesellschaft Königstraße mbH & Co. KG	Real Estate Hamburg/Germany	€ 1,024,629	DGAG Beteiligung GmbH & Co. KG Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau mbH	44.90% 5.10%	44.90% 5.10%
	Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG	Real Estate Hamburg/Germany	€ 22,905,876	Prelios Deutschland GmbH	33.75%	33.75%
	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%
(1)	Induxia S.r.l. (in liquidation)	Real Estate Milan/Italy	€ 40,000	Focus Investments S.p.A. Prelios S.p.A.	24.75% --	-- 24.75%
(1)	Inimm Due S.à.r.l.	Real Estate Luxembourg	€ 240,950	Focus Investments S.p.A. Prelios S.p.A.	25.01% --	-- 25.01%
(1)	Iniziative Immobiliari S.r.l. (in liquidation)	Real Estate Milan/Italy	€ 5,000,000	Focus Investments S.p.A. Prelios S.p.A.	49.46% --	-- 49.46%

Note	Business at 12.31.2015	Registered office City, Country	Share capital	Held at 12.31.2015 by	12.31.2015	12.31.2014	
					% ownership & voting rights (*)	% ownership & voting rights (*)	
(1)	Manifatture Milano S.p.A.	Real Estate	Rome/Italy	€ 11,230,000	Focus Investments S.p.A.	50.00%	--
	Maro S.r.l. (in liquidation)	NPL	Milan/Italy	€ 20,000	Prelis S.p.A.	--	50.00%
(1)	Masseto I B.V.	Real Estate	Amsterdam/Netherlands	€ 19,000	Focus Investments S.p.A.	25.00%	25.00%
					Prelis S.p.A.	33.00%	--
(11)	Melius Gestioni S.c.a r.l.			€ 15,000	Prelis INTEGRA S.p.A.	--	33.00%
(1)	Mistral Real Estate B.V.	Real Estate	Amsterdam/Netherlands	€ 18,000	Focus Investments S.p.A.	51.00%	--
					Prelis S.p.A.	35.02%	--
					Prelis S.p.A.	--	35.02%
(1)	M.S.M.C. Italy Holding B.V.	Real Estate	Amsterdam/Netherlands	€ 20,053	Focus Investments S.p.A.	25.00%	--
					Prelis S.p.A.	--	25.00%
	Nashville S.à.r.l.	Real Estate	Luxembourg	€ 125,000	Prelis S.p.A.	28.46%	28.46%
(12)	Officinae Verdi S.p.A.	Real Estate	Rome/Italy	€ 1,455,418	Prelis S.p.A.	38.89%	--
(1)	Polish Investments Real Estate Holding II B.V.	Real Estate	Amsterdam/Netherlands	€ 18,000	Focus Investments S.p.A.	40.00%	--
					Prelis S.p.A.	--	40.00%
(1)	Popoy Holding B.V.	Real Estate	Rotterdam/Netherlands	€ 26,550	Focus Investments S.p.A.	25.00%	--
					Prelis S.p.A.	--	25.00%
(1)	Progetto Bicocca La Piazza S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 3,151,800	Focus Investments S.p.A.	26.00%	--
					Prelis S.p.A.	--	26.00%
(18)	Progetto Bicocca Universita' S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 50,360	Prelis S.p.A.	50.50%	50.50%
(1)	Progetto Gioberti S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 100,000	Focus Investments S.p.A.	50.00%	--
					Prelis S.p.A.	--	50.00%
	RAMS-Rome Art Mind Society S.r.l. (in liquidation)	Real Estate	Rome/Italy	€ 50,000	Prelis Integra S.p.A.	40.00%	40.00%
	Resident Berlin 1 P&K GmbH	Real Estate	Berlin/Germany	€ 125,000	Prelis Residential Investments GmbH	40.00%	40.00%
	Riva dei Ronchi S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 100,000	Prelis S.p.A.	50.00%	50.00%
	Roca S.r.l. (in liquidation)	NPL	Milan/Italy	€ 20,000	Prelis S.p.A.	25.00%	25.00%
(1)-(13)	Sicily Investments S.à.r.l.	Real Estate	Luxembourg	€ 12,500	Focus Investments S.p.A.	49.80%	--
					Prelis S.p.A.	--	40.00%
					Focus Investments International B.V. (formerly Netherlands B.V.)	2.00%	24.66%
(14)	Sigma RE B.V.	Real Estate	Amsterdam/Netherlands	€ 18,000	Prelis S.p.A.	--	--
					Prelis S.p.A.	22.66%	--
	Solaia RE S.à.r.l.	Real Estate	Luxembourg	€ 13,000	Prelis S.p.A.	40.00%	40.00%
(1)-(15)	Solaris S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 20,000	Focus Investments S.p.A.	50.00%	--
					Prelis S.p.A.	--	40.00%
	Tamerice Immobiliare S.r.l. (in liquidation)	Real Estate	Milan/Italy	€ 500,000	Prelis S.p.A.	20.00%	20.00%
					Focus Investments International B.V. (formerly Netherlands B.V.)	--	40.00%
(16)	Theta RE B.V. (in liquidation)	Real Estate	Amsterdam/Netherlands	€ 18,005	Prelis Netherlands B.V.	49.80%	--
(1)-(17)	Trinacria Capital S.à.r.l.	Real Estate	Luxembourg	€ 12,500	Focus Investments S.p.A.	--	40.00%
					Prelis S.p.A.	--	--
(1)	Trixia S.r.l.	Real Estate	Milan/Italy	€ 1,209,700	Focus Investments S.p.A.	36.00%	--
					Prelis S.p.A.	--	36.00%
	Verwaltung Büro- und Lichtspielhaus Hansaallee GmbH	Real Estate	Hamburg/Germany	DM 50,000	Prelis Deutschland GmbH Grundstuecksgesellschaft Merkur Hansaallee mbH & Co. KG	27.00%	27.00%
						20.00%	20.00%
	Verwaltung City Center Mülheim Grundstuecksges. GmbH	Real Estate	Hamburg/Germany	DM 60,000	Prelis Deutschland GmbH	41.17%	41.17%
	Verwaltung Kurpromenade 12 Timmendorfer Strand GG mbH	Real Estate	Hamburg/Germany	DM 50,000	Prelis Deutschland GmbH	50.00%	50.00%
(2)	Verwaltung Mercado Ottensen Grundstuecksgesellschaft mbH	Real Estate	Hamburg/Germany	DM 50,000	Focus Investments International B.V. (formerly Netherlands B.V.)	44.00%	44.00%
					Mistral Real Estate B.V.	56.00%	50.00%
(1)	Vespucci S.à.r.l.	Real Estate	Luxembourg	€ 960,150	Focus Investments S.p.A.	35.00%	--
					Prelis S.p.A.	--	35.00%
	Vesta Finance S.r.l.	NPL	Milan/Italy	€ 10,000	Prelis S.p.A.	35.00%	35.00%
	Vivaldi - Fondo comune di investimento immobiliare speculativo di tipo chiuso	Real Estate	Milan/Italy	€ 22,000,000	Focus Investments International B.V. (formerly Netherlands B.V.)	50.00%	50.00%
					Prelis Deutschland GmbH	0.20%	0.20%
	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	Focus Investments International B.V. (formerly Netherlands B.V.)	10.50%	10.50%
					Prelis Deutschland GmbH	0.20%	0.20%

Note

(*) 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 December 29, 2015 Prelios S.p.A. completed the closing of the extraordinary transaction done by separating the Investments business unit from those related to service activities (asset and fund management, integrated services on capital, brokerage services and evaluation and credit servicing) through the contribution of the Investments Business Unit to the newly formed Focus Investments S.p.A.. The transfer shall take effect from December 31, 2015. Following this transfer, as at 31 December 2015, the companies identified above are now held directly by the company Focus Investments S.p.A..
- (2) With effect from September 30, 2015 the following changes took place: the company Mistral Real Estate B.V. acquired a stake of 5.1% of the share capital of the company DGAG Beteiligung GmbH & Co. KG and 6% of the share capital of the company Mercado Ottensen Grundstücksgesellschaft Verwaltung mbH, while DGAG Nordpartner Grundstücksgesellschaft mbH acquired a stake of 4% of the share capital of the company DGAG Nordpartner GmbH & Co. KG.
- (3) On November 9, 2015 the company Focus Investments S.p.A. was established, wholly owned by Prelios S.p.A.. The constitution became effective as of November 10, 2015 when its incorporation was registered in the Register of Companies of Milan.
- (4) On September 28, 2015 was held the meeting of the company P.B.S.c.a.r.l. (in liquidation), which approved the final liquidation balance sheet and its distribution plan and thus the demand for cancellation of the company from the Register of Companies, which took place on October 12, 2015.
- (5) With effect from October 1, 2015 Prelios S.p.A. transferred to Prelios Deutschland GmbH the entire investment in the company equal to 100% of the share capital. At the same time, the company changed its name to Prelios Center Marketing GmbH.
- (6) On May 19, 2015 was built the Prelios RE Advisory Spółka z ograniczoną odpowiedzialnością company whose capital is wholly owned by Prelios S.p.A..
- (7) On February 25, 2015 the liquidation process of Olinda Fondo Shops - Fund listed private contribution ended.
- (8) With effect from February 19, 2015, the company Aida RE B.V. (in liquidation) was removed from the Companies Register in Amsterdam.
- (9) With effect from November 18, 2015, the company Continuum S.r.l. (in liquidation) was removed from the Companies Register in Milan.
- (10) On September 22, 2015 the shareholders' meeting of the company Gromis S.r.l. resolved to proceed with the anticipated dissolution of the company, with effect from September 29, 2015. On January 8, 2015 the company iniziativa Immobiliari 3 S.r.l. bought from Masseto I B.V. a share of 33% of the share capital of the company Gromis S.r.l., with effect from January 21, 2015. By application of transfer units dated November 6, 2015 iniziativa Immobiliari 3 S.r.l. transferred to Prelios S.p.A. the entire interest of 33% of the share capital held in the company.
- (11) On October 22, 2015 was set up Melius Gestioni consortium company with limited liability, which is 51% owned by Prelios INTEGRA S.p.A..
- (12) On March 26, 2015 the company Prelios S.p.A. acquired a stake in the share capital of the company Officinae Verdi S.p.A. companies; as at December 31, 2015 the same is held for a share of 38.89%.
- (13) On October 20, 2015 Prelios S.p.A. acquired from third parties the investment held in the company Sicily Investments S.à.r.l. equal to 60% of the share capital. At the same time Prelios S.p.A. sold shares amounting to 50.20% of the share capital of the company Sicily Investments S.à.r.l. to third parties. Following these operations Prelios S.p.A. holds 49.80% of the company's share capital.
- (14) On November 6, 2015 Prelios S.p.A. acquired from the company Focus Investments International B.V. (formerly Prelios Netherlands B.V.) a share of 22.66% of the share capital of the company Sigma B.V.. Following this transaction, the share capital of Sigma B.V. is held by Prelios S.p.A. for a share of 22.66% and Focus Investments International B.V. (formerly Prelios Netherlands B.V.) for a share of 2%.
- (15) On November 5, 2015, the company Prelios S.p.A. acquired from third parties a share of 10% of the share capital of Solaris S.r.l. (in liquidation). The act was filed with the Company Register of Milan on November 9, 2015.
- (16) With effect from February 19, 2015, the company Theta RE B.V. (in liquidation) was removed from the Companies Register in Amsterdam.
- (17) On October 20, 2015 Prelios S.p.A. acquired from third parties the investment held in the company Trinacria Capital S.à.r.l. equal to 60% of the share capital. At the same time Prelios S.p.A. sold shares amounting to 50.20% of the share capital of the company Trinacria Capital S.à.r.l. to third parties. Following these operations Prelios S.p.A. holds 49.80% of the company's share capital.
- (18) With effect from January 20, 2016, the company Progetto Bicocca Università S.r.l. (in liquidation) was removed from the Companies Register in Milan.
- (19) With effect from February 9, 2016, the company Prelios Netherlands B.V. changed its name into Focus Investments International B.V..

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, 2015 to December 31, 2015.

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, 2015 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 21, 2016

The Chief Executive Officer

The manager charged with preparing
the company's financial statements

(Sergio Iasi)

(Marco Andreasi)

9. INDEPENDENT AUDITORS' REPORT



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Independent auditor's report in accordance with articles 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.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Prelios Group, which comprise the balance sheet as at 31 December 2015, and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors of Prelios S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11, paragraph 3 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Prelios Group as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Reconta Ernst & Young S.p.A.
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Emphasis of Matter

We draw attention to the explanatory note 6.2 to the financial statements "*Basis of preparation - adoption of the going concern assumption in preparing the financial statements*" and to the Directors' Report on Operations with reference to the Directors' assessment of the Group's ability to continue as a going concern, considering the effects arising from the completion during the first months of 2016 of the extraordinary spin-off transaction of the Investment business from the Services business, the bank debt restructuring and the outcome of the capital increase. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements

Opinion on the consistency of the Directors' Report on Operations and of specific information of the Annual Report on Corporate Governance and Ownership Structure with the consolidated financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Directors' Report on Operations and of specific information of the Annual Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements. 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 Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Annual Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Prelios Group as at 31 December 2015.

Milan, April 4, 2016

Reconta Ernst & Young S.p.A.

Signed by: Giuseppe Savoca, Partner

This report has been translated into the English language solely for the convenience of international readers.

D. ANNUAL REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

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GLOSSARY

Directors: the members of the Board of Directors of PRELIOS S.p.A..

Meeting: the Ordinary or Extraordinary Shareholders' Meeting of Prelios S.p.A., held in accordance with the applicable provisions of law.

Capital Increase: the paid-up and divisible Prelios capital increase, of a maximum of Euro 66.5 million (including any share premium), as approved by the Board of Directors in execution of the power granted to it, pursuant to Article 2443 of the Italian Civil Code, by the Meeting of October 16, 2015, by issuing new Prelios ordinary shares, with no expressed par value and having the same characteristics as the outstanding shares, offered in option to the entitled parties pursuant to art. 2441, paragraph 1, of the Italian Civil Code.

Governance Code: the 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/c.c.: the Italian Civil Code.

Board of Statutory Auditors: the Board of Statutory Auditors of PRELIOS S.p.A..

Board of Directors/Board: the Board of Directors of PRELIOS S.p.A.

Report Date: the date of the Board of Directors' meeting which approved this Report, March 21, 2016.

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 Law on Finance.

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 pursuant to Article 93 of the Consolidated Law on Finance.

Extraordinary Transaction or Transaction or "Progetto Centauro" (Centaur Project): extraordinary transaction aimed at separating the business component within the Group's real-estate investments and co-investments sector from the real-estate services component, through the contribution of the business unit to Focus Investments S.p.A., an Italian company not controlled by Prelios. The transaction also includes the shoring up of the balance sheet and financial position of the Company, by achieving a sustainable debt structure, balanced equity and financial position, suitable for ensuring the structural conditions for its future as a going concern. This transaction also envisages the capital increase by Prelios.

Procedure for Related-Party Transactions: 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.

Issuers' Regulations: the Regulations concerning the provisions on issuers, adopted by Consob through Resolution 11971 of May 14, 1999, as subsequently amended and updated.

Report: the report on corporate governance and ownership structure, which companies are required to prepare in accordance with the Consolidated Law on Finance 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.

Consolidated Law on Finance: Legislative Decree 58 of February 24, 1998, as subsequently amended and updated.

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 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 October 16, 2015 appointed the current **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, 2017.

The appointment of one fifth of the directors to be elected is reserved for a qualified minority of shareholders, which present a list of candidates¹, 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 Intesa Sanpaolo S.p.A., Pirelli & C. S.p.A. and UniCredit S.p.A.²

The Board is vested with full powers of ordinary and extraordinary management³ 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-elected⁴.

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 Auditors⁵.

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 Intesa Sanpaolo S.p.A., Pirelli & C. S.p.A. and UniCredit S.p.A. signed a shareholders' agreement on September 21, 2015, concerning the submission of a joint list of candidates for the appointment of the Board of Directors of Prelios, included on the agenda of the Meeting of October 16, 2015, as well as the prior consultation requirements for the discussion of the items included on the agenda of that Meeting. The shareholders' agreement expired automatically at the conclusion of the aforementioned Meeting on October 16, 2015.

³ See Article 18 of the Articles of Association for the responsibilities and prerogatives assigned by it to the Board of Directors.

⁴ 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.

⁵ See Article 22 of the Articles of Association.

The current Board of Statutory Auditors was appointed by the Ordinary Shareholders' Meeting of PRELIOS on 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.

The **Shareholders' Meeting** is the body that represents all the shareholders and which is responsible for resolving (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 Auditors⁶.

2. INFORMATION ON THE STRUCTURE OF SHARE OWNERSHIP (pursuant to Article 123-bis, paragraph 1, Consolidated Law on Finance) at the Date of the Report.

The Extraordinary Meeting of the Company:

- A. on June 24, 2015, upon approval of the 2014 draft financial statements, given the extent of the loss for the 2014 financial year and having found that the conditions set out in Article 2446 of the Italian Civil Code applied, resolved – through use of the available reserves – to reduce the share capital with no cancellation of shares, since they have no par value. As a result, the share capital was reduced from a nominal Euro 426,441,257.20 to a nominal Euro 49,225,067.95;
- B. resolved, on October 16, 2015, to grant the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, the power to exercise, within the period of 1 year from the date of the Extraordinary Meeting's resolution, the power of increasing the share capital, on one or more occasions, for a maximum total of Euro 66,500,000.00 (including any share premium), by issuing ordinary shares with no par value with regular dividend entitlement and characteristics identical to the Prelios ordinary shares outstanding at the time of their issue, to be offered in option to entitled parties pursuant to Article 2441 of the Italian Civil Code, with the broadest powers for the directors to set, in accordance with the limits indicated above, the terms, procedures and conditions of the capital increase, including the subscription price for the new shares and any share premium (and therefore the associated allocation to the capital and any share premium).

In execution of the aforementioned authority, the Company Board of Directors:

- A. resolved on January 12, 2016 formally to execute the aforementioned authority received pursuant to Article 2443 Italian Civil Code and to approve the capital increase on a divisible and paid-up basis for a maximum total (including any share premium) of Euro 66,500,000.00, through the issuance of a number of shares to be issued in the form of a rights offering to existing shareholders who, at the starting date of the subscription period, will be owners of ordinary shares and Category B shares, in proportion to the number of shares owned by each one of them, while deferring calculation of the exact amount of the capital increase, issue price and subscription ratio until a subsequent Board of Directors meeting;
- B. on February 3, 2016, it set the final conditions for the capital increase by resolving to increase the share capital on a divisible and paid-up basis for a maximum par value of Euro 6,461,456.31 plus a total maximum share premium of Euro 60,026,929.12, and thus for a maximum aggregate total of Euro 66,488,385.43 including the share premium, through the issuance of a maximum total of

⁶ 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.

646,145,631 new shares, without specification of their par value, having the same characteristics as the outstanding shares (to be issued with regular entitlement to dividends), at an issue price per share of Euro 0.1029 (the “Subscription Price”), of which Euro 0.0100 to be allocated to capital and Euro 0.0929 to be allocated to the share premium, to be issued as a rights offering to shareholders (owners of ordinary shares and owners of Category B shares) pursuant to Article 2441, paragraph 1, Italian Civil Code.

Following the completion of the foregoing, the following is noted.

a) Structure of the share capital (pursuant to Article 123-bis, paragraph 1, letter a) of the Consolidated Law on Finance)

At the Date of the Report, the fully subscribed and paid-up **share capital** totals Euro 55,686,524.96, divided into 1,153,098,810 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 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)	1,153,098,810	84.533	Listed on the Automated Screen-based Trading System organised and managed by Borsa Italiana S.p.A. – Small Cap Segment
Category B shares (ISIN IT0004936024)	210,988,201	15.467	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 Law on Finance)

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 Law on Finance)

⁷ See Article 6-bis of the Articles of Association.

At the Date of the Report, based on the notifications received pursuant to Article 120 of the Consolidated Law on Finance and other information available, as well as information published by Consob⁸, the main holders of ordinary shares of the voting capital of Prelios are as follows:

REPORTING ENTITY	DIRECT SHAREHOLDER	% OF ORDINARY SHARE CAPITAL	% OF VOTING SHARE CAPITAL
CHINA NATIONAL CHEMICAL CORPORATION	PIRELLI & C. S.P.A.	12.846%	12.846%
UNICREDIT S.P.A.	UNICREDIT S.P.A.	11.711%	11.711%
INTESA SANPAOLO S.P.A.	INTESA SANPAOLO S.P.A.	10.217%	10.217%
DANIEL BUARON	DEB HOLDING S.R.L.	6.622%	6.622%

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, 2015 and/or purchases/disposals of these in 2015 by the Company;
- at December 31, 2015, 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 Law on Finance)

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 Law on Finance)

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 Law on Finance)

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 Law on Finance)

Moreover, in regard to the agreements of relevance to PRELIOS pursuant to Article 122 of the Consolidated Law on Finance, the following points should be considered.

a) Shareholders' agreement concerning PRELIOS

On February 26, 2016, some holders of PRELIOS ordinary shares, representing 21.852% of the share capital with voting rights (the "Syndicated Shares"), accepted and signed a Shareholders'

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 Law on Finance 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 Law on Finance.

Agreement, thereby committing to contribute the Syndicated Shares to the Agreement, thus forming a Prelios share syndicate (the “Syndicate”).

The Shareholders’ Agreement governs the rights and obligations of the parties in relation to (i) expressing a vote in the Meeting with regard to specific matters, (ii) restrictions on the circulation of Syndicated Shares and the contribution of further shares, (iii) the contribution of further new Shares to the Syndicate, (iv) the bodies of the Shareholders’ Agreement, (v) a commitment not to sign other shareholder-type agreements.

The Shareholders’ Agreement is effective for a period of three years from February 26, with a renewal option for the parties.

Further parties signed up to the Shareholders’ Agreement on March 7, 2016, bringing the total PRELIOS ordinary shares contributed to the Agreement to 23.206% of the share capital with voting rights.

b) Fenice Agreement – a shareholders’ agreement between Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A.

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, the following points must be made.

- On July 31, 2013, 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 (most recently modified on September 25, 2015), entitled the “**Fenice Agreement**”) concerning Fenice S.r.l. (which Fenice itself has signed), the holder of all category B shares without voting rights, representing 29.388% of the economic capital of Prelios.

In this regard, on September 3, 2015, Feidos 11 S.p.A. transferred the entire stake held in Fenice S.r.l. to Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Pirelli & C. S.p.A. in a proportion according to the provisions of the redemption right stipulated in the articles of association of Fenice S.r.l. and the purchase option stipulated by the Fenice Agreement. As a result of this transfer, Feidos 11 S.p.A. ceased to be a part of the shareholding structure at Fenice S.r.l. and the Fenice Agreement, which continues to remain in effect among the parties, Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Pirelli & C. S.p.A..

The Fenice Agreement governs the rights and obligations of the parties Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Pirelli & C. S.p.A. in relation to: (i) the governance and transferability of the investments held by the parties in Fenice S.r.l.; (ii) the disposal of the investment that Fenice S.r.l. acquired in Prelios; and (iii) the rights of co-sale of the Prelios ordinary shares held by the parties Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Pirelli & C. S.p.A. in the event of transfer by Fenice S.r.l. of the category B shares (or any other investments) owned in Prelios; (iv) the consultation requirements between the parties Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Pirelli & C. S.p.A. before the ordinary and extraordinary Prelios meetings (with no restriction on participation and voting imposed against the parties in question).

In this regard, the parties Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Pirelli & C. S.p.A. signed an agreement separate and independent from the Fenice Agreement on September 21, 2015, concerning the submission of the joint list of candidates for the appointment of the Board of Directors, as well as the prior consultation requirements regarding the matters on the agenda of the Meeting of October 16, 2015, which automatically expired on its conclusion.

The Fenice Agreement was modified on September 25, 2015 to take account of the changes resulting from the aforementioned exit of Feidos 11 S.p.A. from the shareholding structure at Fenice S.r.l. and from the Fenice Agreement.

The latest amendment to the Fenice Agreement was made on March 3, 2016.

- On October 16, 2015, the separate **Co-sale Agreements** which Fenice S.r.l. had in place with regard to Prelios with Banca 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, were consensually terminated. These

Agreements regulated the terms and conditions under which Fenice S.r.l. had granted each of the aforementioned owners co-sale rights covering the securities of Prelios owned by them on the date when they exercise said right.

c) The new Coinv shareholders' agreement

- (i) As part of the broader plan of the agreements regarding the completion of a wide-ranging corporate and industrial operation concerning Pirelli & C., as previously disclosed to the market, August 11, 2015 saw the termination of the shareholders' agreement signed on May 24, 2014 between Nuove Partecipazioni S.p.A., UniCredit S.p.A., Intesa Sanpaolo S.p.A., (and, limited to certain provisions, Marco Trochetti Provera & C. S.p.A.), with Manzoni S.r.l. subsequently signing up on April 16, 2015, containing, inter alia, provisions regarding the investment held by Coinv S.p.A. in Prelios.

Also on August 11, 2015, Marco Trochetti Provera & C. S.p.A., Nuove Partecipazioni S.p.A., UniCredit S.p.A., Manzoni S.r.l. and Intesa Sanpaolo S.p.A. (the "Parties") signed a new shareholders agreement concerning, with specific regard to Prelios, the investment held by Coinv S.p.A. in Prelios, totalling 8.111% of the share capital with voting rights.

The shareholders' agreement will remain valid and effective until the fifth anniversary of the signing date, and will be renewed automatically on that date for a further period of two years, unless one of the Parties notifies the other Parties in writing of its wish not to renew the shareholders' agreement, subject to a notice period of at least 4 (four) months ahead of the expiry of the term in question.

d) Additional shareholders' agreement between Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and Coinv

On December 28, 2015, UniCredit S.p.A., Intesa Sanpaolo S.p.A. Pirelli & C. and Coinv (the "**Parties**"), signed an agreement containing certain shareholder agreements concerning Prelios, the subject of which was Prelios shares (ordinary shares and Category B Shares) and options for the subscription of Prelios shares, held by the Parties and concerning the Prelios capital increase.

The latest amendment to the aforementioned agreement was made on March 15, 2016.

*

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 Law on Finance) and statutory provisions concerning the public tender offer (pursuant to Article 104, paragraph 1-ter and Article 104-bis, paragraph 1 of the Consolidated Law on Finance)

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 the 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 Law on Finance; and (ii) the implementation of the neutralisation rules provided for in Article 104, paragraphs 2 and 3 of the Consolidated Law on Finance.

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 Law on Finance)

At the Date of the Report, 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. As described above, on October 16, 2015, the Extraordinary Shareholders' Meeting resolved to grant the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, the option of exercising the power to increase the share capital. This option was exercised by the Board of Directors on January 12, 2016 and February 3, 2016, within the deadlines and in accordance with the procedures indicated above.

*

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 Law on Finance 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 Law on Finance and made available on the Website by the statutory deadline.
- Article 123-bis, paragraph 1, letter l) of the Consolidated Law on Finance 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 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 Law on Finance)

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 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 Governance Code in force, the Board of Directors pro tempore in office – noting the already prevalent and substantial compliance of the corporate governance model with the new provisions – resolved, on July 29, 2015, subject to the approval of the Internal Control, Risk and Corporate Governance Committee, to adopt the Code.

The adoption of the Code was most recently confirmed by the Board of Directors currently in office on October 16, 2015.

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 Law on Finance)

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 Law on Finance – 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 Law on Finance), 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

⁹ With Resolution no. 18098 of February 8, 2012, Consob issued the related implementing regulation modifying the Issuers' Regulations.

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 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. 19499 of January 28, 2016, which set the quota of participation applicable to the Company at 4.5%.

Succession plans

The Board of Directors pro tempore in office – 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 Governance Code (Article 5.C.2), taking into account the nature and structure of the current ownership and the related agreements.

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 Law on Finance)

Following the Board of Directors’ final approval of the Extraordinary Transaction, and the changes to the shareholders’ structure, all of Prelios’ Directors decided to tender their resignations on September 4, 2015, with effect from the end of the Shareholders’ Meeting on October 16, 2015, deeming it to be in the Company’s best interests that the Shareholders renew the composition of the governing body without having to wait for its term of office to expire naturally, which would have happened at the time of approval of the financial statements as at December 31, 2015.

It should be noted 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, in each case in accordance with the principles of gender equality.

The Shareholders’ Meeting of October 16, 2015 therefore appointed the current Board of Directors, elected from the single list presented by the shareholders Intesa Sanpaolo S.p.A., Pirelli & C. S.p.A. and UniCredit S.p.A. with around 99.99% of the votes of those entitled to vote at 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.

At the Date of the Report, the Board of Directors is composed of 10 members whose term of office will expire with the approval of the financial statements at December 31, 2017, with Mr Sergio Iasi – in agreement with the Company – having tendered his resignation as Director and Chief Executive Officer of the Company on March 21, 2016¹¹. At the meeting held on March 21, 2016, the Board – in recognising the resignation – deemed it appropriate, *inter alia*, to postpone any decision concerning the appointment of the director stepping down to the next Meeting¹².

At the meeting held immediately after the appointment, the Board of Directors verified that the 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 Law on Finance. Pursuant to Article 3.C.4 of the Governance Code, the result of this review was published in an announcement made to the market¹³.

It should be noted that Anna Maria Artoni, Giovanni Gilli and Arturo Sanguinetti were appointed to the Board of Directors of the Company for the first time on October 16, 2015.

¹¹ See the Press Release of March 21, 2016.

¹² For details, see paragraph 18. “Changes made since the end of the current financial year”.

¹³ See the Press Release of October 16, 2016.

It should also be noted that the following ceased to be Directors during the year: Massimo Caputi (formerly Deputy Chairman of the Board – executive director), Marina Brogi (formerly non-executive director – independent), Claudia Bugno (formerly non-executive director – independent), Francesco Chiappetta (formerly non-executive director), Carlo Croce (formerly non-executive director – independent), Moroello Diaz della Vittoria Pallavicini (formerly non-executive director), Alessandra Patera (formerly non-executive director) and Massimo Tezzon (formerly non-executive director – independent).

At the close of the Shareholders' Meeting on October 16, 2015, the Board therefore appointed new corporate officers, with Giorgio Luca Bruno confirmed as Chairman of the Board of Directors and Sergio Iasi 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), his/her role held on the Board and its Committees, participation at their meetings and date of first appointment as a member of the Board of Directors of the Company.

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 Legislative Decree 385 of September 1, 1993), including asset management companies;
- (iii) are involved in banking or insurance.

The Board also considered the fact that the same director holding more than three executive appointments in the companies referred to in points (i), (ii) and (iii) is 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 free to decide differently, as disclosed in the annual report on corporate governance and ownership structure; hence it may include directorships or 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.

On the re-election of the Board of Directors by the Shareholders' Meeting of October 16, 2015, 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. 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 2015, normally attended by all members of the Board of Statutory Auditors (a total of 10 Board meetings, 5 meetings of the Remuneration Committee, 9 meetings of the Internal Control, Risk and Corporate Governance Committee and 9 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 Law on Finance)

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, the Board approved the 2015-2017 Business Plan on August 6, 2015.
- defines the nature and level of compatible risk in view of the issuer's strategic objectives. The Board approved the guidelines and structure of the 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, the Board of Directors, on May 14, July 29 and November 6, 2015, 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. 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 2015, this took place at regular board meetings (ten meetings were held in 2015, 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 2015 draft financial statements, the Board, at its meeting on March 21, 2016, also examined the Impairment Test at December 31, 2015 – 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 2015, guidance was specifically requested from directors on the persons whose presence on the Board was deemed advisable. The composition of 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 2015 and the results were assessed by the Internal Control, Risk and Corporate Governance Committee and, on March 21, 2016, by the Board itself. For 2015, 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 2015 draft financial statements, following an evaluation by the Internal Control, Risk and Corporate Governance Committee. To summarise, full satisfaction was expressed with regard to the functioning of the Board of Directors, an improvement on 2014. Similarly to the previous year, the evaluations of the size and composition of the Board of Directors, the minuting of the meetings, the corporate governance arrangements and the activities of the Committees were positive. The suggestions made by some directors, which will undergo the appropriate analysis so that further improvements can be implemented even more effectively, concern, in particular, opportunities for engaging the Board even more intensively in regard to strategic issues and, specifically, business development initiatives.

* * *

The Articles of Association (Articles 14, 15, 16 and 17) set out the operating procedures and rules for Board meetings.¹⁴ Although a minimum number of meetings is not specified, it is common practice

¹⁴ 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

for the Board to be convened in accordance with the recommendations of Borsa Italiana,¹⁵ and at least four times a year for the approval of the financial statements for 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,¹⁶ 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 2015, a total of ten 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.

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.

¹⁵ See Article 2.6.2., paragraph 1, letter c) of the Stock Exchange Regulations.

¹⁶ 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.

Four Board of Directors meeting had been held by the Date of the Report, and at least three other Board of Directors meetings are scheduled to be held in 2016, as previously announced to the market¹⁷.

* * *

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.

As things stand – based on the information and statements made by the parties concerned – no current, concrete or material situations were revealed that would require reporting pursuant to Article 2390 of the Italian Civil Code. It is expressly understood that, in relation to any specific circumstances causing genuine problems, 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 mentioned previously, at the close of the Shareholders’ Meeting on October 16, 2015, the Board of Directors confirmed Sergio Iasi as Chief Executive Officer¹⁸ of the Company, with direct responsibility for the development and running of the business and the management of related activities, the operational organisational structure and the staff functions which report directly to him.

In accordance with the provisions of the Code and in line with best practice, the Board of Directors resolved, on October 16, 2015, 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). In particular, the Chief Executive Officer was granted organisational responsibility for (i) the ordinary and extraordinary management of the Company, with the exclusive exception of matters under the responsibility of the Chairman; (ii) the identification and implementation of opportunities and initiatives to develop the Company and the Group with regard to the various business sectors in which it operates; (iii) the preparation and implementation of the organisational structure of the Company and of the business areas under its control and the management of human resources, in agreement with the Chairman; (iv) the management of administration, finance and control activities, except for the activities of the Manager charged with preparing the Company’s financial documents, who reports directly to the Chairman;
- name Sergio Iasi, Chief Executive Officer, as “Director in charge of the internal control and risk management system”, with the attendant responsibilities under the Governance Code (Article 7.C.4).

The structure for the year, as 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

¹⁷ See Press Release of November 6, 2015, as updated by the press release of February 3, 2016.

¹⁸ On March 21, 2016, Sergio Iasi tendered his resignation as Director and Chief Executive Officer of the Company.

appropriate distribution of power to guarantee operational efficiency in a reference market where swift action is a prerequisite for seizing the best business opportunities.

Up to the Date of the Report, the Chief Executive Officer Sergio 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 pro tempore in office during the year had 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.

On October 16, 2015, the Board of Directors confirmed Giorgio Luca Bruno as Chairman of the Board of Directors of the Company, with responsibilities for governance, organisation and general management.

It should be noted that the structure of powers and authorities, approved by the Board of Directors on October 16, 2015, takes into account the new scenario of the Company's activities and the new composition of the Board itself. In particular, managerial powers were granted, providing for a restructuring of the powers granted, including in quantitative terms, compared with what had been granted in the past by the previous Board of Directors, with greater involvement of the Chairman (who was not granted operational powers by the previous mandate), to whom specific powers were granted which, therefore, now qualify him as an executive director. In particular, in addition to the specific prerogatives of the position, the Chairman has been granted organisational responsibility for (i) the direct supervision and management of relations with the authorities, public, national or supranational institutional bodies, and with shareholders and institutional and private investors; (ii) organising, overseeing, coordinating and managing mergers & acquisitions, extraordinary transactions and activities in general, business partnerships and new relationships with interested parties; (iii) defining, piloting and coordinating the institutional communication strategies of the Company and Group and also overseeing their implementation; (iv) general oversight of all the corporate activities and structures which help to ensure correct, efficient and effective corporate governance.

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 Law on Finance), 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 Law on Finance, 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.

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, during the year, the Chairman of the Board of Directors, Giorgio Luca Bruno, and the Chief Executive Officer, Sergio Iasi, were to be considered executive directors in view of the specific mandate granted to them.

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 six non-executive directors (Anna Maria Artoni, Mirja Cartia d’Asero, Rosa Cipriotti, Andrea Mangoni, Arturo Sanguinetti 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 Law on Finance.

The results of these assessments were communicated to the market.¹⁹

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.

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).

It should be noted that, during the financial year, there were no meetings involving the independent directors alone because of the particular concentration by the Board and the Committee for Related-

¹⁹ See the Press Release of October 16, 2016.

Party Transactions in activities and assessments connected with the extraordinary transaction concluded at the start of 2016 and, specifically, also as a consequence of the early resignations of the Board in office on October 16, 2015 and the resulting appointment of a new Board, whose short period of activity before the end of 2015 made it both impossible and unproductive to plan a specific meeting for independents alone. However, during 2015 there were frequent opportunities for independents to meet, within the context of the numerous meetings of the Board (the majority of which is made up of independent directors) and the board committees.

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 apply²⁰, it was considered appropriate to appoint such a person – identified as the Chairman of the Internal Control, Risk and Corporate Governance Committee, Arturo Sanguinetti – 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 was handled directly during the year 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 was 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 were able to 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 May 14, 2015) 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:

- 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

²⁰ Application principle 2.C.3 states 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.*

Procedure, provision has also been made – in accordance with Article 115-bis of the Consolidated Law on Finance – 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 Law on Finance)

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.2²¹ 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.

²¹ Application principle 4.C.2 states 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 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 three non-executive directors, the majority of whom are independent:

- **Giovanni Jody Vender** (Chairman – non-executive, independent director);
- **Mirja Cartia d’Asero** (non-executive director, independent);
- **Davide Mereghetti** (non-executive director);

who possess adequate knowledge and experience of accounting and financial matters or remuneration policies.

It should also be noted that the following ceased to be members of the Committee during the year: Rosa Cipriotti and Carlo Croce (formerly non-executive and independent director).

The Board appointed the current Committee on October 16, 2015 and assigned the relevant tasks in order to make them fully compliant with the provisions of the Code.

The Committee serves an advisory, policymaking and supervisory function to ensure the application of remuneration policies within the Group, designed to attract, motivate and retain resources that have the professional skills necessary to successfully pursue the objectives of the PRELIOS Group and able to align the interests of management and shareholders.

In particular, the Committee:

- a) assists the Board of Directors in defining – pursuant to current legislation and regulations – the remuneration policy of the Company, directors and managers with strategic responsibilities²² and the relevant implementation criteria, where adopted;
- b) periodically assesses the adequacy, overall consistency and practical application of the remuneration policy for directors and managers with strategic responsibilities and the relevant criteria for its implementation, where adopted;
- c) for executive directors and other directors vested with special duties, submits proposals to the Board:
 - for their remuneration, in line with the remuneration policy and related implementation criteria, where adopted;
 - for the setting of performance targets for the variable component of such remuneration;
 - for the definition, if necessary based on the principles enshrined in the remuneration policy and related criteria for the implementation, where adopted, of any:
 - (i) non-competition agreements;
 - (ii) agreements 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;
 - (iii) arrangements for termination of the contract;
- d) assists the Board of Directors in examining proposals to be submitted to the Shareholders’ Meeting on the adoption of share-based compensation plans;

²² Parties qualified as such by the Board of Directors (in accordance with the stipulations of the applicable regulations and the Procedures adopted by the Company) and selected from those who have the power and responsibility, directly or indirectly, for the planning, management and control of the Company’s activities and to adopt decisions which may affect its development and future prospects.

- e) monitors the implementation of decisions adopted by the Board, verifying in particular the actual achievement of the performance targets set;
- f) prepares and submits the annual remuneration report to the Board of Directors 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;
 - illustrates in detail the remuneration paid during the reference period on any basis and in any form by the Company and its subsidiaries.

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 (hereinafter the “**Secretary**”) 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 2015; 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 24, 2015, which approved the 2015 financial statements; and (ii) the Remuneration Report for 2014 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) 2014 of the Deputy Chairman and Chief Executive Officer pro tempore in office and, by definition, for the same parties, of the variable remuneration system (MBO) 2015.
- remuneration issues concerning independent directors.

In 2016, prior to the Date of the Report, two meetings of the Remuneration Committee took place.

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 Law on Finance, on March 10, 2015 the Board of Directors, after receiving the favourable opinion of the Remuneration Committee, approved the Remuneration Report for the financial year 2014, including the remuneration policy later submitted to the advisory vote of the Shareholders' Meeting of June 24, 2015, which also approved the 2014 financial statements; this has since been made available in the governance/corporate documents section of the Website.

With specific reference to the financial year 2015, on March 21, 2016, the Board of Directors, after receiving the favourable opinion of the Remuneration Committee, approved the Remuneration Report, including the remuneration policy to be submitted to the advisory vote of the Shareholders' Meeting which will be called to approve the 2015 Financial Statements.

The Remuneration Report is divided into two sections and illustrates:

- 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;
- b) the Statement of Remuneration for the year in question 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.

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 21, 2016, to be submitted to the Shareholders' Meeting held to approve the 2015 Financial Statements.

While the aforementioned Remuneration Report, published on the Website in accordance with the law, should be referred to for further information, the Remuneration Policy contained therein shows no substantial changes from the Policy defined and approved during the last financial year and 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 deferral 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. Considering the new requirement in the reference context that mandates adoption of these mechanisms and the delicacy of the related legal aspects, for the moment 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, or LTI), not yet finalised in consideration of the current development stage that the Company is going through;
- 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 with 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 October 16, 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, the “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 Law on Finance)

On December 31, 2015, no compensation was planned for the directors in the event of resignation, dismissal or termination of the contract following a public tender offer.

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.

For the sake of thoroughness of information and as already communicated in the Report of 2014, it should be noted that the Board of Directors, on May 30, 2013, after receiving the favourable opinion of the Remuneration Committee, had decided – in accordance with the "Remuneration policy" and also on the basis of the Benchmark provided by the Hay Group, a company specialised in compensation – to grant the Vice Chairman pro tempore in office, Massimo Caputi, and the Chief Executive Officer pro tempore in office, 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.

On the aforementioned resignations of the Board of Directors, with effect from the end of the Shareholders' Meeting on October 16, 2015, the Vice Chairman pro tempore in office Massimo Caputi and the Chief Executive Officer pro tempore in office Sergio Iasi expressly waived the aforementioned compensation; therefore, the premises set out in principle 6.P.5. and application principle 6.C.1., letter f), of the Governance Code did not apply.

Moreover, it should be noted – for the sake of thoroughness of information and as already communicated to the market²³ – that, following the resignation tendered by Sergio Iasi on March 21, 2016, from the post of Director and Chief Executive Officer, an agreement was reached for the early termination of the contract, approved by the Board of Directors, subject to a unanimous and justified favourable assessment from the Remuneration Committee and after consulting with the Board of Statutory Auditors²⁴.

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:

- **Arturo Sanguinetti** (Chairman – non-executive director, independent);
- **Anna Maria Artoni** (non-executive director, independent);
- **Rosa Cipriotti** (non-executive, independent director);

who have suitable experience of accounting and finance or risk management.

It should be noted that the following ceased to be members of the Committee during the financial year: Massimo Tezzon, Marina Brogi, Mirja Cartia d'Asero (formerly non-executive and independent directors) and Andrea Mangoni.

The Board instituted the Committee on October 16, 2015 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 and risk management system and, on the other, of the corporate governance structure in general.

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 and the coordination procedures between the parties involved in them, 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

²³ See the Press Release of March 21, 2016.

²⁴ For details, see paragraph 18. "Changes made since the end of the current financial year".

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:
 - 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);
 - 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;
- supports, with appropriate preparatory work, the assessments and decisions of the Board of Directors concerning the management of risks arising from detrimental facts of which the Board of Directors has become aware.

The following are referred to the Committee:

- by the Director(s) 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:

- a. 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;
- b. proposes the methods and timing of the annual self-assessment of the Board of Directors;
- c. nominates candidates to the Board for co-opting in the event of the replacement of independent directors;
- d. 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:

- a. 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;
- b. 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.

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 them, shall discuss the following specific matters:

- the financial reporting process;
- 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 advisers – 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.

Nine Committee meetings were held in 2015; these lasted for about two hours 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 pro tempore in office examined and assessed, inter alia, the following main issues concerning:

- 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 2014, the Half-yearly Financial Report at June 30, 2015, the Interim Management Reports at March 31 and September 30, 2015, 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 disclosure requests sent to the Company by Consob pursuant to Article 115 of the Consolidated Law on Finance and the consequent responses, including documents, that the Company provided by the requested deadlines;
- the level of compliance with the Governance Code;
- the outcome of the activities carried out as part of the Board Performance Evaluation and the evaluation procedures for 2015;
- the preparatory work for the annual assessment of the independence of directors;
- the updating of the procedure for the management and public disclosure of price-sensitive information;
- updates to the Organisational Model pursuant to Legislative Decree 231/2001 with particular reference to the amendments and updates deemed necessary and appropriate (including by the Supervisory Board), following the new requirements concerning the list of offences as well as the gap analysis carried out;
- activities pertaining to the Enterprise Risk Management system, along with the main risks for PRELIOS and its subsidiaries and the companies in which it holds an interest;
- the activities carried out as part of the "Process 262" updating process of the Internal Control System. 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.

In the course of its work, the Committee has reviewed and assessed reports:

- from the Head of Internal Audit for the 2014 financial year, the 2015 Audit Plan and related progress reports, and periodic reports on work and activities in 2015;
- 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 2014 and the first half of 2015;
- 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 2015 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, the Risk Officer 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".

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”.

It should also be pointed out that, during the financial year, the Committee for Related-Party Transactions spent several meetings examining the Extraordinary Transaction entitled “Progetto Centauro” (Centaur Project), the subject of which was the separation of the business component within the Group’s real-estate investments and co-investments sector from the real-estate services component, through the contribution of the business unit to Focus Investments S.p.A., an Italian company not controlled by Prelios.

The transaction also includes the shoring up of the balance sheet and financial position of the Company, by achieving a sustainable debt structure, balanced equity and financial position, suitable for ensuring the structural conditions for its future as a going concern. This transaction also finalised the Prelios Capital Increase.

The aforementioned Transaction was qualified, since its inception and as a prudential measure, in accordance with the regulations in force concerning Related-Party Transactions and the relevant procedure adopted by the Company, as a “Related-Party Transactions of Major Significance”:

- a) in consideration of the possible interest for Pirelli & C. S.p.A. (together with Intesa Sanpaolo S.p.A. and UniCredit S.p.A.) in assessing potential involvement, which has since been confirmed;
- b) in light also (irrespective of whether or not the relevance indices indicated in the relevant regulations are exceeded) of the nature, strategic significance, size or commitments which the Transaction might entail, that would have a considerable impact on the activities of the Company and of the Group.

Therefore, the Committee for Related-Party Transactions pro tempore in office, entirely composed of non-executive and independent directors, unrelated to the Transaction (Massimo Tezzon – Chairman, Marina Brogi, Mirja Cartia d’Asero and Andrea Mangoni), was involved, in advance and as soon as the possibility of the Transaction has been sketched out and seamlessly during all the negotiation phases concerning the Transaction, through the transmission of an adequate and timely flow of information, which is constantly updated by the Prelios Management according to changes in the activities implemented, including through two delegates, members of the Committee for Related-Party Transactions, who monitored the development and associated activities more directly (Mirja Cartia d’Asero and Andrea Mangoni).

The Committee for Related-Party Transactions performed the duties within its remit, having appointed independent Advisers tasked with assisting the Company, i.e. Lazard for the financial and balance sheet aspects, and Chiomenti Studio Legale for the legal aspects, concerning contractual and corporate matters.

The Related-Party Transaction was thus approved unanimously on August 6, 2015 by all the members of the Prelios Board of Directors pro tempore in office, subject to the unanimous and justified favourable, mandatory and binding judgement of the Committee for Related-Party Transactions pro tempore in office, which was later confirmed on October 8, 2015 following the completion of the contractual agreements with all the interested parties involved.

The Committee for Related-Party Transactions and the Board of Directors pro tempore in office were provided with adequate information on a continuous basis and sufficiently in advance regarding the Related-Party Transaction, as well as timely updates regarding the development of the negotiations, including the final outcome thereof, respectively, in the report of 6 August, 2015, thus facilitating the taking of informed decisions.

The Committee for Related-Party Transactions was guaranteed constant flows of complete and timely information during the negotiations, including through the sending of periodic reports and periodic meetings/conference calls to provide updates about the development of the main elements of the Transaction, with an indication of any significant changes arising from the progress of the negotiations, thus allowing the Committee to make observations at all phases of the negotiations, as

well as come to a progressive judgement on the merits of the envisaged Transaction, taking the appropriate steps with requests for information and making suggestions, where necessary.

Lazard and Chiomenti Studio Legale have provided continuous support and oversight for the negotiation activities, to ensure adequate and timely information for all members of the Committee for Related-Party Transactions, according to the procedures and time frames deemed suitable with regard to the specific circumstances, so as to reduce any potential disparities in information to a minimum and promote informed choices.

Updates were then provided over subsequent and separate meetings of the competent company bodies, in particular during:

- 9 meetings of the Committee on November 19, 2014, December 23, 2014, March 9, 2015, May 8, 2015, June 3, 2015, June 18, 2015, July 23, 2015, August 6, 2015 and October 8, 2015;
- 8 meetings of the Board of Directors on November 5, 2014, December 23, 2014, March 10, 2015, May 14, 2015, July 6, 2015, July 29, 2015, August 6, 2015 and October 8, 2015,

during which the Committee and the Board of Directors constantly monitored the progress of the Transaction, with the ability to request information and make observations and suggestions to the parties tasked with the preparation of the Transaction and the conducting of the negotiations.

For more details, refer to the Disclosure Document concerning Transactions with Related Parties drafted by the Company in accordance with the terms and conditions set forth in the legislation and regulations in force and made available in the governance/corporate documents section of the Website.

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One meeting of the Internal Control, Risk and Corporate Governance Committee was held in 2016 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 activities continued concerning the 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 was supported during the financial year by a "Managerial Risk Committee" (headed by the Chief Executive Officer pro tempore in office 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.

It should be understood that, as mentioned above, the Internal Control, Risk and Corporate Governance Committee – on May 8, July 23, and November 3, 2015 – examined and approved the activities carried out, expressing a positive opinion regarding the guidelines and structure of the risk management system, considering it suitable, for now, in view of the characteristics of the company and the risk profile assumed, as well as in line with the provisions of the Governance Code, with no prejudice to the need to monitor the adequacy of the system on a continuous basis with regard to the developing reference context and verification of the effectiveness thereof. Reports in this regard were made to the Board of Directors.

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

During the financial year, 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

During the financial year, in agreement with the Board of Directors, the Chief Executive Officer pro tempore in office 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 Director in charge of the internal control and risk management system, and to the Internal Control, Risk and Corporate Governance Committee and Statutory Auditors.

In 2015 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 participated in specific 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 2015 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 2015, 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 2015 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 2015 audit plan.

In 2015 the Head of Internal Audit submitted to the Internal Control, Risk and Corporate Governance Committee the audit plan scheduled for 2015, which was later approved by the Board of Directors on March 10, 2015. During the year, quarterly reports were submitted on the progress made on the audit plan. Periodic reports were made during the financial year on the progress of the audit plan.

On March 16, 2016 the Head of Internal Audit submitted to the Internal Control, Risk and Corporate Governance Committee the audit plan scheduled for 2016, which was later approved by the Board on March 21, 2016 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, August 28, 2013 and November 6, 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:

- **Arturo Sanguinetti**, 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 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. Crimes concerning breach of copyright (Article 25-novies of Legislative Decree 231/2001);
- h. Environmental offences (Article 25-undecies of Legislative Decree 231/2001);
- i. Employment of citizens from other countries without proper authorisation for residence.

The Company, in agreement with the Supervisory Board, sought to conduct a risk assessment and risk ranking which led to the updating of the Organisational Model in light of the entry into force of the new requirements concerning the list of offences, such as self-laundering, false accounting/corporate offences and environmental offences (the offences of “environmental pollution” and “environmental disaster”); it also took into account the Confindustria Guidelines 231 (March 2014 edition), without finding any particular failings in the system, yet implementing certain improvements.

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 also adopted an internal whistleblowing policy some time ago 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 be 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 Law on Finance;
- 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 SGR²⁵, it was decided that the Procedure should apply to the extent compatible with the above special regulations.

²⁵ The shareholders’ meeting of the asset management company appointed, on justified recommendation of the Board of Statutory Auditors, PricewaterhouseCoopers to audit its accounts, with the mandate expiring on the approval of the financial statements as at December 31, 2015.

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 Law on Finance and Article 19.4 of the Articles of Association, and after consulting with the Board of Statutory Auditors, the Board confirmed Marco Andreasi (the Company's Chief Financial Officer) as manager charged with preparing the Company's financial documents on October 16, 2014. He satisfies the integrity prerequisites imposed on directors and is an expert in administration, finance and control. He is also designated as a "Key Manager" pursuant to current legislation and regulations in effect pro tempore and the Company's procedures.

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 16, 2016, 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 Law on Finance; (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 21, 2016.

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.²⁶

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”.

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

²⁶ 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.

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 list²⁷.

Following the entry into force of Law 120 of July 12, 2011 (which amended Article 147-ter of the Consolidated Law on Finance), 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.

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

²⁷ Pursuant to Article 144-quater of the Issuers’ Regulations, Consob issued Resolution no. 19499 of January 28, 2016, which set the quota of participation applicable to the Company at 4.5%.

the control body following the entry into force of the related amendment to the Articles of Association and, therefore, at the Shareholders' Meeting which will be called to approve the 2015 Financial Statements. 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, 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 Law on Finance)

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.²⁸

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 Law on Finance, the Board of Statutory Auditors is charged with supervising:

- compliance with the law and the Articles of Association;

²⁸ 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.

- 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 financial reporting process;
- (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. At least one member of the Board of Statutory Auditors attended all the meetings of the Board of Directors during the financial year.

Nine meetings of the Board of Statutory Auditors were held in 2015, lasting an average of about two hours. Two meetings of the Board of Statutory Auditors have been held in 2016 before and up to the Date of the Report.

The Board of Statutory Auditors reported to the Shareholders' Meeting of June 24, 2015 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, 2014, which was approved by the Shareholders' Meeting of June 24, 2015 that was also called pursuant to Article 2446 of the Italian Civil Code.

In 2015, 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 8067632²⁹ 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 16, 2016, 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.

²⁹ 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 Law on Finance".

The large number of Board and Committee meetings that the Board of Statutory Auditors generally attended in 2015 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.

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.

During 2015, 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 Law on Finance)

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' Meetings for Financial Year 2015

Two Shareholders' Meetings were held, on single call, during 2015, on June 24 and October 16.

On June 24, 2015, the Shareholders' Meeting – attended by six directors pro tempore in office and all the members of the Board of Statutory Auditors – resolved, in an ordinary session, to approve the financial statements as at December 31, 2014, deferring the adoption of the measure to be assumed pursuant to Article 2446, paragraph 2, of the Italian Civil Code. The resolution was adopted with over 99% of votes in favour.

Moreover, the Shareholders' Meeting – following the resignation of Claudia Bugno as Director – elected Valeria Leone as a new Director of the Company, confirming the number of members of the Board of Directors at 15. The resolution was adopted with over 98% of votes in favour.

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 resolution was adopted with over 99% of votes in favour.

During the extraordinary session, the Shareholders' Meeting – taking into account the overall losses as at December 31, 2014, with the Company thus finding itself in the situation laid down in Article 2446, paragraph 2, of the Italian Civil Code – resolved on full coverage of the aforementioned losses, through use of the available reserves, with a corresponding reduction of the share capital from a nominal Euro 426,441,257.20 to a nominal Euro 49,225,067.95. The resolution was adopted with 100% of votes in favour.

*

On October 16, 2015, the Ordinary Shareholders' Meeting – attended by eight directors pro tempore in office and all the members of the Board of Statutory Auditors – appointed the new Board of Directors currently in office, reducing its number of members to 11 (compared with the 15 members of the outgoing Board appointed in 2013), based on the single list submitted by the shareholders, Intesa Sanpaolo S.p.A., Pirelli & C. S.p.A. and Unicredit S.p.A.. Moreover, the length of their term was set at three financial years (and thus until the shareholders' meeting called to approve the financial statements at December 31, 2017) and set the total annual compensation for the entire Board at a maximum of Euro 550,000.00.

All the resolutions above were adopted with over 99% of votes in favour.

The Extraordinary Shareholders' Meeting approved the amendment of Article 5 of the Articles of Association, granting the directors, pursuant to Article 2443 of the Italian Civil Code, the right to increase the share capital by a maximum of Euro 66.5 million (including any share premium) through the issue of new Prelios ordinary shares, without par value, in the broader context of the extraordinary transaction involving the spin-off of the business component within the Group's real-estate investments and co-investments sector from the real-estate services component, along with the shoring up of the balance sheet and financial position of the Company, finalised in March 2016.

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 Law on Finance)

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, the following changes to the Corporate Governance structure of the Company should be noted.

On March 21, 2016, Sergio Iasi tendered his resignation as Director and Chief Executive Officer of the Company³⁰.

In this regard, the Board of Directors – having considered the next Shareholders' Meeting for the approval of the 2015 financial statements and the fact that any co-opting of a director would, in any event, expire at the aforementioned Meeting – resolved to defer any decision on this matter to the said Meeting and, therefore, also decided not to appoint a new Chief Executive Officer at that point.

On the same date, the Board of Directors – deeming it appropriate, at that point, not to nominate a new Chief Executive Officer, in order to ensure the Company remained fully operational, with managerial continuity, in line and accordance with the targets for implementing the 2016 Business Plan and Budget – established, as envisaged in the Articles of Association, a General Management position, entrusted to Riccardo Serrini, deeming this the most suitable and effective solution – at least during this initial phase – for keeping the governance structure consistent with that adopted up to that point.

The General Manager, Riccardo Serrini, within the remit of the organisational responsibilities allocated by the Board of Directors, was granted the broadest necessary managerial powers – to be exercised individually and with the option of appointing proxies, for the fulfilling of one or more acts of categories of acts, provided that they fall within the scope of the powers conferred, and to revoke them – with the express exclusion of certain specific transactions in excess of the value limits laid down, responsibility for which remains with the Board of Directors.

At the same time, the duties and responsibilities already granted to the Chairman of the Board of Directors, Giorgio Luca Bruno (executive director), were confirmed, with the addition – in accordance with the current governance structure – of those of the “Director in charge of the internal control and risk management system”.

The Chairman Giorgio Luca Bruno 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.

³⁰ See the Press Release of March 21, 2016.

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 LAW ON FINANCE

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 Officer of the Group, after consulting with the Group Risk Officer, based on the principles of risk analysis, 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 Law on Finance.

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	08/05/13	16/10/15	Approval Financial Statements 2017	M	X				/	10/10				
Chief Executive Officer (a)	Sergio Iasi ³¹	1958	13/12/12	16/10/15	Approval Financial Statements 2017	M	X				n/a	10/10				
Director	Anna Maria Artoni ³²	1967	16/10/15	16/10/15	Approval Financial Statements 2017	M		X	X	X	/	2/3	1/1	M		
Director	Cartia d'Asero Mirja ³³	1969	19/06/14	16/10/15	Approval Financial Statements 2017	M		X	X	X	/	10/10	8/8	M	1/1	M
Director	Cipriotti Rosa ³⁴	1974	08/05/13	16/10/15	Approval Financial Statements 2017	M		X	X	X	1	9/10	1/1	M	4/4	M
Director	Giovanni Angelo Carlo Gilli	1954	16/10/15	16/10/15	Approval Financial Statements 2017	M		X			4	3/3				
Director	Valeria Leone	1961	24/06/15	16/10/15	Approval Financial Statements 2017	M		X			/	8/8				
Director	Mangoni Andrea ³⁵	1963	08/05/13	16/10/15	Approval Financial Statements 2017	M		X	X	X	2	8/10	8/8	M		
Director	Davide Mereghetti	1966	08/05/13	16/10/15	Approval Financial Statements 2017	M		X			1	7/10			4/5	M
Director	Arturo Sanguinetti ³⁶	1954	16/10/15	16/10/15	Approval Financial Statements 2017	M		X	X	X	2	3/3	1/1	C		

³¹ On March 21, 2016, Sergio Iasi tendered his resignation as Director and Chief Executive Officer.

³² Member of the Internal Control, Risks and Corporate Governance Committee since October 16, 2015.

³³ Member of the Internal Control, Risks and Corporate Governance Committee until October 16, 2015 and, subsequently, Member of the Remuneration Committee.

³⁴ Member of the Remuneration Committee until October 16, 2015 and, subsequently, Member of the Internal Control, Risks and Corporate Governance Committee.

³⁵ Member of the Internal Control, Risks and Corporate Governance Committee until October 16, 2015.

³⁶ Member of the Internal Control, Risks and Corporate Governance Committee since October 16, 2015.

Director	Giovanni Jody Vender	1950	21/04/11	16/10/15	Approval Financial Statements 2017	M		X	X	X	1	10/10			5/5	C
Directors who vacated seat during the Financial Year																
Deputy Chairman	Massimo Caputi	1952	08/05/13	08/05/13	16/10/2015	M	X				n/a	7/7				
Director	Marina Brogi	1967	21/04/11	08/05/13	16/10/2015	M		X	X	X	n/a	6/7	7/8	M		
Director	Claudia Bugno	1975	08/05/13	08/05/13	31/03/2015	M		X	X	X	n/a	1/1				
Director	Francesco Chiappetta	1960	08/05/13	08/05/13	16/10/2015	M		X			n/a	7/7				
Director	Carlo Emilio Croce	1945	25/01/06	08/05/13	16/10/2015	M		X	X	X	n/a	4/7	2/4			M
Director	Moroello Diaz della Vittoria Pallavicini	1970	08/05/13	08/05/13	16/10/2015	M		X			n/a	5/7				
Director	Alessandra Patera	1970	08/05/13	08/05/13	16/10/2015	M		X			n/a	6/7				
Director	Massimo Tezzon	1946	08/05/13	08/05/13	16/10/2015	M		X	X	X	n/a	6/7	8/8	C		
Quorum required to submit lists for the latest appointment: 2%																
Number of meetings held during the Financial Year:								Board of Directors: 10				Internal Control, Risk and Corporate Governance Committee: 9			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	19/04/2010	08/05/13	Approval Financial Statements 2015	M	X	5/9	8
Standing Statutory Auditor	Marco de Ruvo	1962	08/05/13	08/05/13	Approval Financial Statements 2015	M	X	9/9	35
Standing Statutory Auditor	Michela Zeme	1969	08/05/13	08/05/13	Approval Financial Statements 2015	M	X	9/9	7
Alternate Statutory Auditor	Marco Aurelio Guarna	1972	08/05/13	08/05/13	Approval Financial Statements 2015	M	X	n/a	46
Alternate Statutory Auditor	Flavia Daunia Minutillo	1971	08/05/13	08/05/13	Approval Financial Statements 2015	M	X	n/a	12
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: 9									
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 Law on Finance 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	16 October 2015	//
Anna Maria Artoni	Director	16 October 2015	//
Mirja Cartia d'Asero	Director	16 October 2015	//
Rosa Cipriotti	Director	16 October 2015	<ul style="list-style-type: none"> • Arca Fondi SGR S.p.A.: Director
Giovanni Angelo Carlo Gilli	Director	16 October 2015	<ul style="list-style-type: none"> • BANCA ITB: Director • Fondo Italiano d'Investimento SGR SpA: Director • Provis SpA: Deputy Chairman of the Board of Directors • Privredna Banka Zagreb: Chairman of the Supervisory Board
Valeria Leone	Director	16 October 2015	
Andrea Mangoni	Director	16 October 2015	<ul style="list-style-type: none"> • Amber Capital Italia SGR S.p.A.: Director • Telecom Argentina S.A.: Director
Davide Mereghetti	Director	16 October 2015	<ul style="list-style-type: none"> • F21 SGR S.p.A.: Director
Arturo Sanguinetti	Director	16 October 2015	<ul style="list-style-type: none"> • Banca Popolare di Bari: Director • Wise SGR: Chairman of the Board of Statutory Auditors
Giovanni Jody Vender	Director	16 October 2015	<ul style="list-style-type: none"> • Astor SIM S.p.A.: Director
Sergio Iasi (1)	Chief Executive Officer	16 October 2015	//

(1) Position no longer held at the Date of the Report.

E. NOTICE OF CALL

PRELIOS S.P.A.

Registered offices in Milan, Viale Piero e Alberto Pirelli no. 27

Fully paid-up share capital 55,686,524.26 Euro

Milan Companies Register no. 02473170153

Tax code and VAT No. 02473170153

SHAREHOLDERS' MEETING CALL

All those entitled to vote at the shareholders' meeting of Prelios S.p.A. are called to meet **at 10:30 a.m. on May 19, 2016, at the Fondazione Stelline, Corso Magenta no. 61, Milan**, for an Ordinary Shareholders' Meeting on single call to discuss and resolve on the following

AGENDA

1. Financial statements as at and for the year ended December 31, 2015. Contingent resolutions;
2. The appointment of a Director and / or reduction in the number of Directors. Contingent resolutions.
3. Appointment of the Board of Statutory Auditors:
 - appointment of the Standing and Alternate Statutory Auditors;
 - appointment of the Chairman of the Board of Statutory Auditors;
 - determination of the remuneration of the members of the Board of Statutory Auditors.
4. Remuneration Report: consultation on the Remuneration Policy

DOCUMENTS

The Directors' Reports and the proposed resolutions, along with the supplementing documentation provided to the Meeting, pertaining to all the items on the agenda, will be made available to the public at the Company's registered office, in Viale Piero e Alberto Pirelli 27, Milan, Italy, at Borsa Italiana S.p.A. and through the authorised storage system eMarket Storage (www.emarketstorage.com), as well as published on the Company's website www.prelios.com (Governance section) by the deadlines set out by law and as follows.

The following are provided at the same time as publication of this notice of call:

- the Director's Report on the second item on the agenda relating to the appointment of a Director and / or the reduction in the number of Directors, specifying that in this particular circumstance, the list voting systems cannot, nonetheless, be applied;
- the Director's Report on the third item on the agenda relating to the appointment of the Board of Statutory Auditors.

The following documentation will be made available by April 27, 2016:

- 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 and updated (the Consolidated Law on Finance or "TUF") – 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;
- The Director's Report on the third item on the agenda relating to the consultation on the Remuneration Policy.

Documentation pertaining to the financial statements of the subsidiaries and associates will be made available to the public at the registered office by May 4, 2016.

QUESTIONS REGARDING THE MATTERS ON THE AGENDA

In accordance with the law, those entitled to vote may submit questions about the agenda items prior to the Shareholders' Meeting. Questions must be sent by post to the Company's registered office, or by fax to the fax no. 02 6281.4460, or transmitted to the certified e-mail address *assemblea@pec.prelios.it*, or by going to the website *www.prelios.com* and following the specific instructions set out in the section concerning the shareholders' meeting, where further information on the matter may also be found.

Any questions must be received by the Company by May 16, 2016.

ADDITIONS TO THE AGENDA AND THE PRESENTATION OF NEW RESOLUTION PROPOSALS

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 April 17, 2016), request that additions be made to the agenda, stating their proposed additional agenda items in their request, or present draft proposals concerning items already on the agenda.

Since the due date is a holiday, that deadline is extended until the first week day thereafter, and thus until April 18, 2016.

The request – together with suitable documentation certifying ownership of the aforementioned shareholding, issued by those intermediaries who keep the accounts, containing a record of the shares – must be submitted in writing, also by post, to the Company's registered office, or transmitted to the certified e-mail address *assemblea@pec.prelios.it*.

By 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 May 4, 2016).

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.

Note that additions to the agenda are not allowed in regard to arguments that the Shareholders' Meeting is legally bound to decide on proposal by the Directors, or on the basis of a project or report submitted by the Directors, other than those matters referred to in 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.

ENTITLEMENT TO ATTEND SHAREHOLDERS' MEETINGS - VOTING BY PROXY

Entitlement to attend and vote at the Shareholders' Meeting is certified by a notice from the Company, and issued by the authorised intermediary, on the basis of that intermediary's own records, in favour of the person entitled to vote on May 10, 2016 (*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 found on the Company's website www.prelios.com (governance section) or can be obtained from the Company's registered office.

The proxy may be notified to the Company beforehand, at the certified e-mail address assemblea@pec.prelios.it, or to the Company's registered office by ordinary mail. 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 at 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 statement with voting instructions shall be assigned using the form to be found on the website www.prelios.com (in the section concerning the Designated Representative) or obtainable from the registered office of Computershare S.p.A. or of the Company.

Nevertheless, the original copy of the proxy statement shall be sent to the registered office of Computershare S.p.A., Via Lorenzo Mascheroni no. 19 – 20145 Milano, and a copy thereof, certified as being a true copy of the original, may be sent in advance to the fax no. 02.46776850 or attached to an e-mail message sent to the address ufficiomilano@pecserviziotitoli.it, no later than May 17, 2016.

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.

LIST VOTE FOR THE APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS

Pursuant to Article 22 of the Articles of Association, and to the applicable legal and regulatory provisions, the Statutory Auditors shall be appointed on the basis of the lists on which the candidates must be listed in numerical order.

The lists presented by shareholders, signed by those presenting them complete with details of their identity and their total shareholding in the Company's ordinary share capital, must be deposited with the Company's registered office at least twenty-five days prior to the date set for the combined session of the Shareholders' Meeting, and thus by April 24, 2016.

Shareholders may file lists of candidates by sending said lists, together with the corresponding supporting documents, to the following e-mail address: assemblea@pec.prelios.it.

Only those shareholders who either individually, or together with other shareholders, own, at the time the list is presented, shares representing at least 1.5% of those shares with voting rights at ordinary shareholders' meetings, shall be entitled to submit lists, and they are obliged to prove their ownership of the number of shares needed to present the lists, by the deadline established for publication of said lists by the Company, and thus no later than April 28, 2016.

Each shareholder may present, either individually or together with other shareholders, one list only, and each candidate may only be presented on one list, on penalty of disqualification.

The lists shall be made available to the public at the Company's registered office, on the Company's website www.prelios.com (corporate governance section), and by other means established by CONSOB, at least twenty-one days prior to the date set for the single call of the Shareholders' Meeting, and thus by April 28, 2016.

If just one list has been submitted by that deadline, or only lists that are related to each other pursuant to applicable law and regulations, additional lists may be submitted until the third day after that date. In this case, the previously indicated 1.5% threshold for the submission of lists is reduced to 0.75%.

The following documents have to be submitted together with each list: (i) the documentation required pursuant to Article 144-*sexies* of the Regulation adopted by Consob with Resolution no. 11971 of May 14, 1999, as amended (the "Issuers Regulation") and (ii) the acceptances of candidacy by the individual candidates and the statements in which they certify, under their own responsibility, that no causes for their disqualification or incompatibility exist, and that they satisfy the applicable statutory and regulatory requirements and those imposed by the Articles of Association for the position.

Each candidate will also have to declare his or her fitness to be qualified as independent pursuant to, *inter alia*, the principles set out in the Governance Code as applicable to directors.

Submission of each candidate's statements must be accompanied by their curriculum vitae, containing detailed information on their personal and professional characteristics, while also recommending grant of authorisation for its publication on the Company website.

Given that, pursuant to Article 2400, last paragraph, of the Italian Civil Code, the Shareholders' Meeting must be informed of the management and control positions held by the Statutory Auditors at other companies at the time they are appointed and before they accept their position, and also in light of the provisions of Article 148-bis of the Consolidated Law on Finance, the candidates are requested to submit a specific statement to that effect as part of their curriculum vitae.

Any changes occurring up to the day on which the Shareholders' Meeting takes place must be promptly reported to the Company.

The lists of candidates must be divided into two sections: one containing an indication of the candidates (marked by a progressive list number) for the position of Standing Statutory Auditor, with the other containing an indication of the candidates (marked by a progressive list number) for the position of Alternate Statutory Auditor. The first of the candidates in each section will have to be entered in the Register of Statutory Auditors who have carried out statutory auditing activities of financial statements for a period of not less than three years.

In order to guarantee gender balance in accordance with applicable laws and regulations, one third of the candidates included in each list submitted must belong to the least represented gender.

Accordingly, the lists that, in consideration of both sections, have three or more candidates, 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 lists submitted that fail to comply with the aforesaid requirements shall not be taken into consideration.

Finally, all Shareholders who intend to present lists for the appointment of members to the Board of Statutory Auditors are invited to consult the specific documents published on the Company's website www.prelios.com.

INFORMATION REGARDING SHARE CAPITAL AND SHARES WITH VOTING RIGHTS

The subscribed and paid-up share capital of Prelios S.p.A. currently stands at Euro 55,686,524.26, divided into 1,153,098,810 ordinary shares and 210,988,201 category B shares, with no par value. Only holders of ordinary shares are entitled to vote at the Shareholders' Meeting. The Company currently holds 1,788 ordinary treasury shares with suspended voting rights.

*

Milan, April 7, 2016.

for the Board of Directors
the Chairman
(Giorgio Luca Bruno)

F. PROPOSED RESOLUTIONS

Item 1)**Financial statements as at and for the year ended December 31, 2015. Contingent resolutions.**

Dear Shareholders,

The Financial Year ending December 31, 2015 closed with a Group loss of Euro 44,537 thousand on a consolidated basis and Euro 29,622,332.51 in the separate financial statements.

In regard to the aforementioned loss for the year at December 31, 2015 and its amount, attention is called to the fact that in the meantime, on March 10, 2016, legal certification was filed at the Milan Companies Register of completed execution of the capital increase with pre-emptive rights approved by the Board of Directors on January 12, 2016, which exercised the authority granted to it pursuant to Article 2443 Italian Civil Code by the Extraordinary Shareholders' Meeting of the Company on October 16, 2015. The terms for that capital increase were set by the Board of Directors at its meeting held on February 3, 2016 and announced to the market on that same date (the "Capital Increase with Pre-emptive Rights").

In particular, the aforementioned Capital Increase with Pre-emptive Rights was fully executed for a par value of Euro 6,461,456.31 plus a total share premium of Euro 60,026,929.12, and thus for an aggregate total of Euro 66,488,385.43 including the share premium, through the issuance of a total of 646,145,631 new shares, without specification of their par value, having the same characteristics as the outstanding shares (issued with regular entitlement to dividends), at an issue price per share of Euro 0.1029, of which Euro 0.0100 to be allocated to capital and Euro 0.0929 to be allocated to the share premium, to be issued as a rights offering to shareholders (owners of ordinary shares and owners of Category B shares) pursuant to Article 2441, paragraph 1, Italian Civil Code.

Therefore, the fully subscribed and paid-up share capital of Prelios S.p.A. currently totals Euro 55,686,524.26, broken down into:

- 1,153,098,810 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.

Considering the amount of the current share capital (Euro 55,686,524.26) and the additional paid-in capital (Euro 60,026,929.12) created in consequence of the full execution of the Capital Increase with Pre-emptive Rights, the loss at December 31, 2015 (Euro 29,622,332.51) is less than one third of the current share capital.

The Restated Balance Sheet that reflects the aforementioned full execution of the Capital Increase with Pre-emptive Rights, as certified on March 10, 2016, is attached to this proposal.

Therefore, we propose that you resolve to approve the Separate Financial Statements at December 31, 2015 and the Board of Directors' Report on Operations by carrying forward the loss for the year of Euro 29,622,332.51.

* * *

On the basis of the above, the Board of Directors therefore submits for your approval the following draft resolution:

"The Ordinary Shareholders' Meeting:

- *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, 2015 reporting a loss of Euro 29,622,332.51;*

- *having taken note of the Restated Balance Sheet, which takes into account the aforementioned full execution of the Capital Increase with Pre-emptive Rights,*

RESOLVES

- 1) *to approve:*
 - a) *the report on operations of the Board of Directors;*
 - b) *the separate financial statements for January 1 – December 31, 2015, 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 29,622,332.51 as submitted by the Board of Directors in their entirety in their individual entries with the proposed allocations;*
- 2) *to carry forward the loss for the year.*

Prelios S.p.A.
Restated Balance Sheet

ASSETS	31.12.2015	31.12.2015 RESTATED
NON-CURRENT ASSETS		
Property, plant and equipment	480.208	480.208
Intangible assets	286.033	286.033
Investments in subsidiary companies	266.692.771	93.241.727
Investments in associated companies and joint ventures	1.920.286	28.442.515
Other financial assets	783.195	783.195
Deferred tax assets	1.310.700	1.310.700
Other receivables	9.918.065	9.918.065
- of which from related parties	9.918.065	9.918.065
TOTAL NON-CURRENT ASSETS	281.391.258	134.462.443
CURRENT ASSETS		
Trade receivables	8.015.588	8.015.588
- of which from related parties	7.912.425	7.912.425
Other receivables	11.283.537	11.283.537
- of which from related parties	7.935.696	7.935.696
Cash and cash equivalents	26.455.217	18.493.602
Tax receivables	2.525.500	2.525.500
- of which from related parties	1.700.256	1.700.256
TOTAL CURRENT ASSETS	48.279.842	40.318.227
TOTAL ASSETS	329.671.100	174.780.670
NET EQUITY	31.12.2015	31.12.2015 RESTATED
NET EQUITY		
Share capital	49.216.128	55.677.584
Other reserves	174.500	60.201.429
Retained earnings/(losses)	-	-
Result for the year	(29.622.333)	(33.064.763)
TOTAL NET EQUITY	19.768.295	82.814.250
LIABILITIES	31.12.2015	31.12.2015 RESTATED
NON-CURRENT LIABILITIES		
Bank borrowings and payables to other lenders	247.007.436	29.071.051
Other payables	520.589	520.589
Provisions for future risks and expenses	4.843.517	4.843.517
Employee benefit obligations	523.595	523.595
TOTAL NON-CURRENT LIABILITIES	252.895.137	34.958.752
CURRENT LIABILITIES		
Bank borrowings and payables to other lenders	36.514.749	36.514.749
- of which to related parties	36.514.749	36.514.749
Trade payables	13.606.782	13.606.782
- of which to related parties	4.245.754	4.245.754
Other payables	5.007.529	5.007.529
- of which to related parties	3.187.486	3.187.486
Provisions for future risks and expenses	1.094.670	1.094.670
Tax payables	783.938	783.938
- of which to related parties	783.938	783.938
TOTAL CURRENT LIABILITIES	57.007.668	57.007.668
TOTAL LIABILITIES	309.902.805	91.966.420
TOTAL LIABILITIES AND NET EQUITY	329.671.100	174.780.670

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)

Appointment of a Director and/or reduction in the number of Directors. Contingent resolutions.

Dear Shareholders,

On March 21, 2016, Mr Sergio Iasi resigned from his position as Director and Chief Executive Officer of the Company.

At its meeting on March 21, 2016, the Board of Directors resolved to appoint Riccardo Serrini as General Manager, to guarantee management continuity, and not to replace Mr Iasi 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 10 members (of whom six can be classed as independent non-executive directors and four belonging to the less-represented gender). Their term of office is due to expire upon approval of the financial statements at December 31, 2017, whereas the Shareholders' Meeting held on October 16, 2015 resolved to set the number of Board members at 11.

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 procedure required by law, as set out in said Article 12, is not applicable.

Furthermore, the same article expressly provides for compliance with the gender balance required by applicable legislation and regulations, which led the aforementioned Shareholders' Meeting of October 16, 2015 to set the number of Board members at 11, appointing four directors belonging to the less represented gender.

Each member of the Board of Directors receives gross annual compensation of Euro 30,000 for the position, in addition to any further compensation set by the Board of Directors for participation in internal committees.

The Board of Directors therefore invites you to pass the appropriate consequent resolutions.

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 3)

Appointment of the Board of Statutory Auditors:

- **appointment of the Standing and Alternate Statutory Auditors;**
- **appointment of the Chairman of the Board of Statutory Auditors;**
- **determination of the remuneration of the members of the Board of Statutory Auditors.**

Dear Shareholders,

The three-year mandate of the Board of Statutory Auditors granted by the Shareholders' Meeting on May 8, 2013 expires at the Shareholders' Meeting called to approve the financial statements at December 31, 2015.

Therefore, the Shareholders' Meeting must, pursuant to applicable laws, regulations and Article 22 of the Articles of Association (which is cited in its entirety at the end of this report):

- appoint three Standing Statutory Auditors and three Alternate Statutory Auditors;
- appoint the Chairman of the Board of Statutory Auditors, if it is not possible to choose him following application of the list voting procedure;
- determine the remuneration of the members of the Board of Statutory Auditors.

The Standing and Alternate Statutory Auditors shall be elected by using the list voting procedure. The candidates will be listed on each list with a progressive number.

In regard to the prerequisites imposed on the shareholders that wish to submit lists for election of the Board of Statutory Auditors and the prerequisites that have to be satisfied by the candidates to be Statutory Auditor, reference is made to compliance with the provisions issued in this regard by Consob in its own Regulation no. 11971 of May 14, 1999 (Articles 144-*quinquies* et seq.), in implementation of the provisions of Articles 148 and 148-*bis* of Legislative Decree no. 58 of February 24, 1998 (the “**Consolidated Law on Finance**”).

Pursuant to the current Governance Code of listed companies issued by Borsa Italiana S.p.A. (the “**Governance Code**”), which the Company has adopted, statutory auditors have to be chosen from among those persons who may be qualified as independent, inter alia according to the criteria imposed by the Governance Code itself in regard to directors. Therefore, those who are entitled and wish to submit lists are requested to follow it when choosing the candidates to be proposed.

Lists may be submitted by those shareholders who, alone or together with other shareholders, at the date on which the list is submitted, represent at least 1.5% of the shares that may vote at the Ordinary Shareholders' Meeting (the threshold envisaged by the Articles of Association and lower than the threshold set by Consob with Resolution no. 19499 of January 28, 2016¹), pursuant to the terms and conditions indicated in Article 22 of the Articles of Association and as cited in the notice of call of the Shareholders' Meeting.

The lists of candidates listed with a progressive number – subscribed by the shareholders that submit them, with indication of their identity and their total percentage of investment in the ordinary share capital of the Company – have to be filed at the registered office of the Company at least 25 days before the scheduled date of the Shareholders' Meeting.

Shareholders may deposit lists of candidates by sending said lists, together with the corresponding supporting documents, to the following certified e-mail address: assemblea@pec.prelios.it.

¹ Pursuant to Article 144-*quater* of the Issuers Regulation, Consob has set the share of investment applicable to the Company at 4.5%.

If just one list has been submitted by that deadline, or only lists that are related to each other pursuant to applicable law and regulations, additional lists may be submitted until the third day after that date. In this case, the previously indicated 1.5% threshold for the submission of lists is reduced to 0.75%.

Each list has to be submitted together with the documentation required pursuant to Article 22 of the Articles of Association and applicable laws and regulations.

Individual candidates' acceptance of their candidacy, and a statement by them, made under their own responsibility, attesting to the absence of any causes of ineligibility or incompatibility, and to the fact that any requirements for the corresponding office have been met, shall also be filed together with each list.

Each candidate's statements must be accompanied by their curriculum vitae, containing detailed information on their personal and professional characteristics, with a list of the management and control positions that they hold at other companies.

The lists of candidates must be divided into two sections: one containing an indication of the candidates (marked by a progressive list number) for the position of Standing Statutory Auditor, with the other containing an indication of the candidates (marked by a progressive list number) 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 audits of financial statements for a period of not less than three years.

Moreover, the Articles of Association² interpose the provisions of Law 120 of July 12, 2011, which amended the articles of the Consolidated Law on Finance related to composition of the management bodies (Art. 147-ter) and control bodies (Art. 148), by providing that at least one third of the members of the management bodies belong to the least represented gender.

Therefore, to guarantee gender balance, Article 22 of the Articles of Association require that the lists which have three or more candidates, when counting both sections, have to 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.

The Articles of Association also provide that when considering Standing Statutory Auditors and Alternate Statutory Auditors separately, if the application of the list voting procedure 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.

Accordingly, the Board of Directors asks the shareholders that wish to submit lists for the election of members of the Board of Statutory Auditors to comply with the aforementioned provisions, while recommending in this regard that the first two candidates from each section of the list are of a different gender.

Each shareholder may present one list only, either individually or together with other shareholders, and each candidate may only be presented on one list, on penalty of ineligibility.

Any lists submitted that fail to comply with the provisions of Article 22 of the Articles of Association shall not be taken into consideration.

The Company will provide the public with any lists of candidates that might be submitted, complete with the information required pursuant to applicable rules and regulations, at its own head office, at Borsa Italiana S.p.A. and the authorised storage system, and by publication on the website www.prelios.com.

Finally, all Shareholders who intend to present lists for the appointment of members to the Board of Statutory Auditors are invited to consult the specific documents published on the Company's website

² The Extraordinary Shareholders' Meeting of April 17, 2012 and May 8, 2013 resolved to amend Articles 12 and 22 of the Articles of Association that regulate the mechanisms used to appoint the Directors and members of the Board of Statutory Auditors.

www.prelios.com and, in particular, the recommendations set out in Consob Communication no. DEM/9017893 of February 26, 2009.

In addition to appointment of the Board of Statutory Auditors, it is also necessary to resolve on grant of the annual compensation of the members of the Board of Statutory Auditors, which is currently set at Euro 55 thousand gross annually for the Chairman of the Board of Statutory Auditors and Euro 37 thousand gross annually for each of the Standing Statutory Auditors (additional compensation of Euro 15 thousand is currently provided for the member of the Board of Statutory Auditors assigned as a member of the company Supervisory Board).

In determining the compensation to be granted to the members of the Board of Statutory Auditors, we ask you – as we also did when you made the appointments in 2013 – to consider the additional duties to be assigned to this body pursuant to Legislative Decree no. 39 of January 27, 2010, entitled “Implementation of Directive 2006/43/EC, concerning the statutory audits of the annual accounts and consolidated accounts, amending Directives 78/660/EEC and 83/349/EEC, and abrogating Directive 84/253/EEC” and the circumstance that, pursuant to the new Article 6, paragraph 4-bis, of Legislative Decree no. 231 of June 8, 2011, entitled “Regulations governing the administrative liability of legal entities, companies and associations that are not legal entities, pursuant to Article 11 of Law 300 of September 29, 2000”, the Board of Statutory Auditors may be assigned the functions of Supervisory Board envisaged in that legislative decree.

Therefore, pursuant to and in compliance with the provisions of the Articles of Association and applicable law and regulations, the Board of Directors asks you to submit lists of candidates for election to the Board of Statutory Auditors and proposals concerning determination of their compensation, and to resolve on:

- appointment of the members of the Board of Statutory Auditors (three Standing Statutory Auditors and three Alternate Statutory Auditors) by voting the lists of any candidates that might be submitted;
- appointment of the Chairman of the Board of Statutory Auditors, unless he can be chosen directly pursuant to the Articles of Association;
- determination of the remuneration of the members of the Board of Statutory Auditors.

* * *

Article 22 of the current Articles of Association and the application principles 8.C.1, 8.C.2 and 8.C.3 of the Governance Code are cited below.

Articles of Association

Board of Statutory Auditors

Art. 22

22.1 The Board of Statutory Auditors is comprised of three Standing Statutory Auditors and by three Alternate Statutory Auditors who meet the requirements imposed by current law and regulations. Accordingly, the subject areas and sectors of activity strictly related to those of the business will be considered, and as indicated in the corporate purpose, and specifically in regard to companies or entities operating in the financial, industrial, banking, insurance, real estate and service sectors in general.

22.2 The Shareholders’ Meeting elects the Board of Statutory Auditors and determines the remuneration of its members. The minority interests are entitled to appoint one Standing Statutory Auditor and one Alternate Statutory Auditor.

22.3 Except as provided in paragraph 18 of Article 22 of these Articles of Association, the Board of Statutory Auditors is appointed – in compliance with statutory and/or regulatory obligations – on the basis of lists submitted by the shareholders in which the candidates are listed with a progressive number.

22.4 Each list shall not contain more candidates than the number of members to be elected.

22.5 A list may be submitted by those shareholders who, alone or together with other shareholders represent at least 1.5 per cent of the shares entitled to vote at the Ordinary Shareholders' Meeting, or the lower threshold imposed by the regulations issued by the Commissione Nazionale per le Società e la Borsa [Italian Securities and Exchange Commission] for the submission of lists of candidates to be elected to the Board of Directors, with it being necessary to prove ownership of the number of shares necessary to submit the lists of statutory auditor candidates by the deadlines imposed by law and/or regulation.

22.6 Each shareholder may submit or participate in the submission of just one list.

22.7 The lists of candidates, signed by those that submit them, have to be filed at the head office of the company, and be made available to anyone requesting them, at least twenty-five days before the date scheduled for the shareholders' meeting called to resolve on appointment of the members of the Board of Statutory Auditors, unless an extension is granted in the cases envisaged by law and/or regulation.

They are provided to the public at the head office of the company, on the website or by the other means envisaged by the Commissione Nazionale per la Società e la Borsa with a regulation at least twenty-one days before the date of the shareholders' meeting.

Without prejudice to any additional documentation required by law and/or regulations, the lists must be accompanied by a curriculum vitae containing the personal details and professional qualifications of the nominated individuals, with indication of the management and control positions held at other companies, and the statements with which the individual candidates:

- accept their nomination; and
- attest, 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.

22.8 Any lists submitted without observing the foregoing provisions shall be deemed to be not submitted.

22.9 Each candidate may be included in one list only, under penalty of ineligibility.

22.10 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 entered in the Register of Statutory Auditors, who have performed statutory audits of 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, 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.

22.11 Any person entitled to vote may vote on one list only.

22.12 The members of the Board of Statutory Auditors are elected as follows:

- a) two Standing Statutory Auditors and two Alternate Statutory Auditors are elected 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 elected from the list that obtained the highest number of votes at the Shareholders' Meeting after the first list ("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.

22.13 The Board of Statutory Auditors is chaired by the Standing Statutory Auditor indicated as the first candidate in the minority list.

22.14 *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.*

22.15 *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 reconstituted 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.*

22.16 *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 preceding paragraph 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, instead, the statutory auditors elected from the minority list have to be replaced, the Shareholders' Meeting shall replace them by majority vote, choosing them when possible from the candidates indicated on the list from which the statutory auditor to be replaced had been elected, and nonetheless in accordance with the necessary representation of minority shareholders. However, the gender balance imposed by applicable law and/or regulations must be assured. The principle of necessary representation of minorities is deemed satisfied when statutory auditors are elected from minority list candidates or from other lists than the list that received the highest number of votes when the Board of Statutory Auditors was elected.*

22.17 *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.*

22.18 *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.*

22.19 *The outgoing Statutory Auditors may be re-elected.*

22.20 *Participation at the Board of Statutory Auditors meetings is allowed – if the Chairman or his substitute determine that it is necessary – by means of telecommunication systems that allow participation in the debate and equal information for all participants.*

*

Code of Conduct

Statutory Auditors

Application principles 8.C.1, 8.C.2 and 8.C.3

8.C.1. *The statutory auditors are chosen from among those persons who may be qualified as independent on the basis of, inter alia, the principles envisaged in this Code in regard to the directors. The board of statutory auditors verifies their compliance with these principles after they are*

appointed, and once annually thereafter, by transmitting the result of these checks to the board of directors. The latter publishes them, after their appointment, in an announcement made to the market and, thereafter, in the report on corporate governance, according to terms and conditions consistent with those envisaged for the directors.

8.C.2. The statutory auditors shall accept their position when they believe that they can dedicate the necessary time to diligent performance of their duties.

8.C.3. The remuneration of the statutory auditors is based on the requested commitment, the importance of the position held and the dimensions and sector in which the business operates.

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 4)

Remuneration Report: consultation on the Remuneration Policy

Dear Shareholders,

Legislative Decree no. 58 of February 24, 1998 (the “**Consolidated Law on Finance**” 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, general managers and 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, senior managers and managers with strategic responsibilities, 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.

The Remuneration Policy is also drafted in accordance with the recommendations contained in the Governance Code of listed companies of Borsa Italiana S.p.A. (the “**Governance Code**”) – adopted by the Company, which generally sets out self-regulatory rules on the remuneration of 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 amended (published on the corporate governance section of the Company’s website www.prelios.com, governance section), 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 directors, general 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 approve that Policy.

The Remuneration Report is available at the head office of the Company, at Borsa Italiana S.p.A. and the authorised storage system eMarket Storage (www.emarketstorage.com), and is also published on the Company website www.prelios.com (governance section).

* * *

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 managers with strategic responsibilities;*
- *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 managers with strategic responsibilities, as well as the procedures used to adopt and implement said Policy.”

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GLOSSARY

Shareholders' Meeting: the Ordinary Shareholders' Meeting of Prelios S.p.A.

Governance Code: the Governance Code of listed companies approved by the Corporate Governance Committee and recommended by Borsa Italiana S.p.A. (July 2015 version). The Code is available to the public at the website <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: persons appointed to that position by the Board of Directors in the organisational structure of the Company and the Group.

Senior Managers: Group employees classed as senior managers, in accordance with the applied Italian National Collective Employment Agreement (Senior Managers of companies producing goods and services).

Key Managers: senior 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*, expresses the operating result. Earnings Before Interest and Taxes, the operating income from the Company's ordinary operations plus the net income from equity investments and the value of income from shareholder loans, before deducting financial expenses, 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 Law on Finance.

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 in 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 Industrial Plan.

NFP: Net Financial Position, providing the measure of net financial debt, i.e. the amount of financial debt contracted by the company from which available funds are deducted measure of net financial

debt, i.e. the amount of financial debt contracted by the company from which available funds are deducted.

Policy: the Remuneration Policy adopted by the Company to apply the provisions of the Consolidated Law on Finance, the Consob Issuers Regulations and the Governance Code adopted in full by the Company.

Prelios: Prelios S.p.A.

RCP 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 Regulation: 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 Consolidated Law on Finance and the Issuers’ Regulation.

Report: the report on remuneration paid in the reference year to members of the management and control bodies, General Managers and Key Managers.

Website: the Company website *www.prelios.com*.

Company: Prelios S.p.A.

TUF/Consolidated Law on Finance: Legislative Decree 58 of February 24, 1998 as amended.

Introduction and reference regulatory framework

Matters pertaining to remuneration have become 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 Consolidated Law on Finance, which requires listed companies to publish a Remuneration Report at least 21 days prior to the annual ordinary shareholders' meeting, 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 Consolidated Law on Finance came into force following issuance of the relevant implementing regulatory provisions by Consob with Resolution no. 18049 of December 23, 2011, which, inter alia, introduced Article 84-quater (Remuneration Report) of the Issuers' Regulations. The Policy is also prepared in compliance with the recommendations set forth in the 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 pointed out that the risk governance process is integrated in the strategic planning process. This guarantees that the targets set to qualify for variable bonuses do not expose the Company to managerial actions inconsistent with the Industrial Plans approved by the Board of Directors and the risk level deemed 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 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, including those resulting – when deemed appropriate or necessary – from 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 over 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 develop individual performance, while also creating a strong tie between remuneration, overall company performance and the correct control of company risks.

2. Governance of remuneration

2.1 *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 *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 directors vested with special duties and to directors vested with specific authority, with the advice of the Board of Auditors, as well as General Managers, where appointed.

2.3 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 directors vested with special duties, 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 directors vested with special duties 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 October 16, 2015 and are all non-executive directors, the majority of whom are independent directors, recognised as such by the Company in accordance with the provisions of Article 147-ter of the Consolidated Law on Finance and the application principles of the Governance Code.

As at the date of this Report, the members of the Remuneration Committee are:

- Giovanni Jody Vender (Chairman – non-executive, independent director);
- Mirja Cartia d'Asero (non-executive director, independent);
- Davide Mereghetti (non-executive director);

all members of the Remuneration Committee have adequate knowledge and experience with accounting, finance and remuneration policies.

The Committee meets whenever 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 2015 published in the Corporate Governance section of the Website.

2.4 Role of the Board of Statutory Auditors

The Board of Statutory Auditors expresses opinions required by existing regulations on the remuneration proposals of the directors vested with special duties and those with special mandates. It generally monitors the procedures for effective implementation of the corporate governance rules envisaged in the Governance Code adopted by the Company, and thus also those concerning resolutions on compensation 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 Policy is defined on the basis of a thorough examination of any known and applicable market benchmarks, in view of the specific and unique characteristics of the Group, and for overseeing the effective enforcement of the Policy.

Any deviations from to the criteria defined in the Policy, with reference to directors vested with special duties and Key Managers, shall require the approval of the Board of Directors, after the review of the Remuneration Committee.

In preparing this Policy, no independent experts were involved and no remuneration policies of other companies were used, although general reference was made to known market practices.

Moreover, the prevailing market trends are constantly monitored both with reference to remunerations level and with regard to applicable incentive and retention systems.

4. Contents of the Policy: remuneration criteria and major components

The purpose of the Policy is to establish the remuneration criteria and major components for the definition of the remuneration structure:

- of directors;
- of Key Managers (including General Managers, 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 Key elements

The principal remuneration tools used by the Group are: fixed component, short-term incentives, medium-long term incentives and benefits, with an approach to total remuneration that ensures a balanced remuneration of fixed and variable components. 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.

➤ *Annual Variable 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.

➤ *Multi-annual Variable Component ("LTI"):*

- rewards performance, as with the annual variable remuneration but with a medium-long term horizon;
- 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 aforementioned variable incentive instruments.

In particular, considering its business and economic context and the peculiar evolutionary phase that the Group is passing through, no multi-year variable incentive plan (LTI Plan) has been adopted, although the Company intends to adopt appropriate mechanisms to support its business model, inter alia with a medium-long term perspective, consistently with the Plan targets of the Company.

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.

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.

At December 31, 2015³, these are:

- directors holding special duties, the Chairman of the Board of Directors Giorgio Luca Bruno and the Chief Executive Officer Sergio Iasi⁴, who have been given specific management mandates and have to be qualified as directors with executive authority;
- directors not assigned special duties, the Directors Anna Maria Artoni, Mirja Cartia d’Asero, Rosa Cipriotti, Giovanni Angelo Carlo Gilli, Valeria Leone, Andrea Mangoni, Davide Mereghetti, Arturo Sanguinetti and Giovanni Jody Vender.

When it appointed the Board of Directors, the Shareholders’ Meeting of October 16, 2015, set – pursuant to Article 2389, paragraph 1, Italian Civil Code - the aggregate annual compensation for remuneration of the directors, assigning the Board of Directors the task of deciding its allocation.

More specifically, the Shareholders’ Meeting had approved total annual gross compensation of Euro 550,000.00; 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 practices, there are no provisions for a variable component of remuneration for directors not vested with special duties.

For independent directors, no form of additional remuneration is provided over and above the fixed amount approved 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. That fixed compensation might be supplemented in certain cases where exceptional or otherwise additional duties are required in addition to normal responsibilities, for which specific justification must be given.

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 best market practices, there is also an insurance policy known as D&O (Directors & Officers) Liability insurance for civil liability towards third parties of corporate bodies that also extends to Key Managers and, in general, to Managers and Executives in performing their duties.

³ On October 16, 2015, the Ordinary Shareholders’ Meeting appointed the Board of Directors, set the number of its members at 11 and their term until approval of the financial statements at December 31, 2017. At the end of the Shareholders’ Meeting, the Board of Directors appointed the corporate officers and established the Board of Directors Committees.

⁴ On March 21, 2016, Mr Sergio Iasi resigned from his position as Director and Chief Executive Officer of the Company.

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 directors vested with special duties

At the time of appointment or during the next meeting, the Remuneration Committee shall submit to the Board of Directors a proposed remuneration structure for directors vested with special duties.

The remuneration of directors vested with special duties may consist of the following components:

- a Fixed Component (fixed gross annual compensation);
- an Annual Variable Component (variable annual incentive, the “MBO”);
- a Multi-year 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 characteristics of its business.

As a general rule, it is the Group's policy to set the fixed component of remuneration not to exceed 50% of total target remuneration.

If directors vested with special duties are not vested with specific powers, their remuneration will only include a fixed component, and not a variable component.

For directors vested with special duties, the Board of Directors may also establish, as provided by law and/or by the National Collective Employment Agreement in force (Senior 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 directors vested with special duties. 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 2015, these conditions were not met.

It is the Group's policy not to establish any additional compensation for Company directors vested with special duties who are members of the boards of directors of subsidiaries and associates. If the competent bodies of said companies should resolve to assign emoluments, they shall be paid directly to Prelios. Any exceptions must be examined in advance by the Remuneration Committee and approved by the Board of Directors. In 2015, these conditions were not met.

In analysing the positioning, the composition and, more in general, the competitiveness of the remuneration of directors vested with special duties, the Company may use the methodological support of major companies specialised in executive compensation, which shall consider, in assessing the role played in relation to the responsibilities assigned, the complexity of the organisational context in which they operate and the impact on the Company's results.

7. Key Managers

During 2015, the Board of Directors considered Mr Marco Andreasi, the current Chief Financial Officer – Manager responsible for preparing the corporate accounting documents, as a “Key Manager”.

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 Multi-year Variable Component (long-term incentive, or “LTI”);
- company benefits, according to the policies adopted.

In general, as for directors vested with special duties, 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.

In general, Group policy is to set a fixed level of remuneration that does not exceed 60% of the total target remuneration, to guarantee better balancing with what is regulated for directors assigned special duties (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 2015, these conditions were not met.

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 2015, these conditions were not met.

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 directors vested with special duties 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 directors vested with special duties, the bonus shall not exceed 1.5 times the 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 directors vested with special duties and Key Managers, 25% of the MBO accrued will be deferred to the maturity of the LTI Plan, when defined, and will also be recognised depending on the results achieved in the reference period. However, this will be done according to the specific LTI structure to be defined periodically.

The above mechanisms shall not apply to the Head of Internal Audit, although he or she is the beneficiary of annual incentives, inasmuch 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 2016 – 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 definition and approval of the Budget 2016 or possible approval of a new Industrial 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 over 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 Industrial Plan of the Company.

In general, potential beneficiaries of the new LTI plan, in addition to directors vested with special duties (with the exclusion of the Chairman, unless he is assigned management or operating responsibilities), and Key Managers, can be the Managers deemed significant for the achievement of the Group's objectives.

MBO objectives for directors vested with special duties 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 proposal by 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 directors vested with special duties, 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 (limit of 1.5 times annual remuneration to the target).

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 consideration the current development stage that the Company is going through, finalisation and consequent allocation of the LTI Plan – 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 Budget 2016 or possible approval of a new Industrial Plan for the Company, depending on the targets identified and aimed at supporting the Group’s business model.

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 directors vested with special duties, 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 stipulate with directors, Key Managers and, more generally, with Managers, agreements regulating in advance 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.

No early termination of employment agreements existed at December 31, 2015.

10.2 Not-to-compete and non-solicitation agreements

In order to protect the interests and critical professional skills of the Group, not-to-compete and non-solicitation agreements may be made 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

No substantial changes have been made to the Policy defined and approved last year.

* * *

The following table summarises the information required by Schedule 7-bis – Section I – Annex 3A of the Issuers' Regulations and the Remuneration Report.

TABLE SUMMARISING THE INFORMATION REQUIRED BY SCHEDULE 7-BIS – SECTION I – ANNEX 3A OF THE ISSUERS REGULATION AND THE REMUNERATION REPORT

<u>Elements indicated in Schedule 7-bis of Annex 3A of the Issuers Regulation</u>	<u>References to the paragraphs of this Remuneration Report</u>
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 components and information on the connection between the change in results and the change in remuneration.	Paragraphs 8 and 9.
h) The criteria used to evaluate the performance objectives underlying the assignment of shares, options, other financial instruments or other variable remuneration components.	Paragraphs 8 and 9.
i) Information aimed at highlighting the consistency of the Remuneration Policy with the pursuit of the Company’s long-term interests and with the risk management policy, if formalised.	Paragraphs 1 and 4.
j) The terms for the accrual of rights (“vesting period”), any deferred payment systems, specifying the deferral periods and the criteria used to determine such periods and, if applicable, ex post correction mechanisms.	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 existence of any insurance, social security or	Paragraphs 4.2, 5, 6 and 7.

pension schemes, other than compulsory ones.	
n) Any applied remuneration policy in 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 2015 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 2015, as members of the administrative and auditing bodies or as Key Managers.

During 2015, no Key Manager received higher total compensation than the highest total compensation received by directors or statutory auditors.

The Company did not appoint any General Managers in 2015.

A) Part One

12 Compensation of the members of the administrative and auditing bodies in office at December 31, 2015.

12.1 The Board of Directors.

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:

- directors vested with special duties, who may be assigned specific managerial powers (executive directors);
- directors not vested with special duties.

At December 31, 2015⁵, these are:

- directors holding special duties, the Chairman of the Board of Directors Giorgio Luca Bruno and the Chief Executive Officer Sergio Iasi⁶, who have been given specific management mandates and have to be qualified as directors with executive authority;

⁵ On October 16, 2015, the Ordinary Shareholders' Meeting appointed the Board of Directors, set the number of its members at 11 and their term until approval of the financial statements at December 31, 2017. At the end of the Shareholders' Meeting, the Board of Directors appointed the corporate officers and established the Board of Directors Committees.

⁶ On March 21, 2016, Mr Sergio Iasi resigned from his position as Director and Chief Executive Officer of the Company.

- directors not assigned special duties, the Directors Anna Maria Artoni, Mirja Cartia d’Asero, Rosa Cipriotti, Giovanni Angelo Carlo Gilli, Valeria Leone, Andrea Mangoni, Davide Mereghetti, Arturo Sanguinetti and Giovanni Jody Vender.

When it appointed the Board of Directors, the Shareholders’ Meeting of October 16, 2015, set – pursuant to Article 2389, paragraph 1, Italian Civil Code - the aggregate annual compensation for remuneration of the directors, assigning the Board of Directors the task of deciding its allocation. More specifically, the Shareholders’ Meeting had approved total annual gross compensation of Euro 550,000.00; 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 practices, there are no provisions for a variable component of remuneration for directors not vested with special duties.

For independent directors, no form of additional remuneration is provided over and above the fixed amount resolved by the Shareholders’ Meeting, as allocated by the Board of Directors, without prejudice to the recognition of the specific fixed compensation assigned for participation in any board committees.

Annual compensation of 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 best market practices, there is also an insurance policy known as D&O (Directors & Officers) Liability insurance for civil liability to third parties of corporate bodies that also extends to Key Managers and, in general, to Managers and Executives in performing their duties.

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 (Senior 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 2015, directors not vested with special duties currently in office received the following compensation calculated according to their position:

- Anna Maria Artoni received gross fixed emoluments of Euro 6,209.68 for the office of director and Euro 4,139.78 as a member of the Internal Control, Risk and Corporate Governance Committee;
- Mirja Cartia d’Asero⁷ received gross emoluments of Euro 30,000.00 for the position of Director, Euro 15,860.22 as a member of the Internal Control, Risks and Corporate Governance

⁷ Member of the Internal Control, Risks and Corporate Governance Committee until October 16, 2015 and subsequently of the Remuneration Committee.

Committee, Euro 3,104.84 as member of the Remuneration Committee, and a supplementary emolument of Euro 65,000.00 for the activity she performed as member of the Committee for Related-Party Transactions⁸;

- Rosa Cipriotti⁹ received gross fixed emoluments of Euro 30,000.00 for the office of director and Euro 4,139.78 as a member of the Internal Control, Risk and Corporate Governance Committee, as well as Euro 11,895.16 as a member of the Supervisory Board pursuant to Legislative Decree 231/2001;
- Giovanni Gilli received gross fixed emoluments of Euro 6,209.68 for the office of director; this compensation was paid directly to Intesa Sanpaolo S.p.A.;
- Valeria Leone received gross fixed emoluments of Euro 15,500.00 for the office of director;
- Andrea Mangoni¹⁰ received gross emoluments of Euro 30,000.00 for the position of Director, Euro 15,860.22 as a member of the Internal Control, Risks and Corporate Governance Committee, Euro 3,104.84 as member of the Remuneration Committee, and a supplementary emolument of Euro 65,000.00¹¹ for the activity he performed as member of the Committee for Related-Party Transactions;
- 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 payments were made directly to UniCredit S.p.A.;
- Arturo Sanguinetti received gross fixed emoluments of Euro 6,209.68 for the office of director and Euro 4,139.78 as a member of the Internal Control, Risk and Corporate Governance Committee, as well as Euro 3,104.84 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 directors vested with special duties currently in office is described in paragraph 13 below.

⁸ On October 8, 2015, the Board of Directors – after receiving the favourable opinion of the Remuneration Committee and consulting with the Board of Statutory Auditors – approved the grant of supplemental compensation to the non-executive and independent Directors Mirja Cartia d’Asero and Andrea Mangoni for the extraordinary work performed by them as members of the Committee for Related Parties Transactions, as part of the extraordinary transaction named the “Progetto Centauro” (Centaur Project), for separation of the Group real estate investment and co-investment business unit from the real estate services business unit, through the transfer to Focus Investments S.p.A., an Italian company now not controlled by Prelios, of the associated business unit and shoring up of the balance sheet and financial position of the Company. This operation also involved the Prelios capital increase completed in March 2016.

⁹ Member of the Remuneration Committee until October 16, 2015 and, subsequently, the Internal Control, Risk and Corporate Governance Committee.

¹⁰ The Director was a member of the Internal Control, Risks and Corporate Governance Committee until October 16, 2015.

¹¹ On October 8, 2015, the Board of Directors – after receiving the favourable opinion of the Remuneration Committee and consulting with the Board of Statutory Auditors – approved the grant of supplemental compensation to the non-executive and independent Directors Mirja Cartia d’Asero and Andrea Mangoni for the extraordinary work performed by them as members of the Committee for Related Parties Transactions, as part of the extraordinary transaction named the “Progetto Centauro” (Centaur Project), for separation of the Group real estate investment and co-investment business unit from the real estate services business unit, through the transfer to Focus Investments S.p.A., an Italian company now not controlled by Prelios, of the associated business unit and shoring up of the balance sheet and financial position of the Company. This operation also involved the Prelios capital increase completed in March 2016.

12.2 Board of Statutory Auditors.

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 best market practices, there is also an insurance policy known as D&O (Directors & Officers) Liability insurance for civil liability to third parties of corporate bodies that also extends to Key Managers and, in general, to Managers and Executives in performing their duties. 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.

The Standing Statutory Auditor Marco de Ruvo received a position in 2015 at a company in which Prelios S.p.A. has an equity interest. For that position, which he assumed November 9, 2015, he was paid an emolument of Euro 2,178.08 for the pro-rated amount owed for that position.

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 2015, 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 a gross fixed emolument of Euro 37,000.00 for the position of Standing Statutory Auditor and Euro 2,178.08 for a position on the Board of Statutory Auditors at a company in which Prelios has an equity interest;
- 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 directors vested with special duties in office at December 31, 2015.

After examination and review by the Remuneration Committee and receiving the opinion of the Board of Statutory Auditors, the Board of Directors established the remuneration structure for directors vested with special duties.

13.1 The Chairman of the Board of Directors

In accordance with the Policy approved during the previous year, the remuneration of the Chairman of the Board of Directors Giorgio Luca Bruno (director with executive authority) currently consists of annual gross compensation of Euro 400,000.00. He does not participate in the MBO annual variable remuneration system, but participation in the eventual LTI multi-year variable incentive system, if agreed on the basis of the business plan approved by the Company and in accordance with the adopted Remuneration Policy.

For the financial year 2015, the Chairman received gross annual fixed emoluments of Euro 311,451.61, of which Euro 30,000.00 was for the office of director and Euro 281,451.61 was for the office of Chairman.

There are no specific agreements establishing indemnity in the event of the early termination of employment, compensation for not-to-compete 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.

The remuneration of the Chairman – who was granted specific management authority by the new Board of Directors on October 16, 2015 – reflects the greater participation by the Chairman himself (who had not been granted operating authority during his previous term). He was also granted specific operating authority which consequently qualify him now as a director with executive authority.

For more details on the above, refer to the “Report on Corporate Governance and Ownership Structure” for 2015 published in the Corporate Governance section of the Website.

Finally, the Chairman's remuneration structure complies with the Remuneration Policy adopted by the Company, which the Shareholders' Meeting approved on June 24, 2015, and in accordance with the market benchmark for similar positions.

13.2 The Chief Executive Officer

In line with the Policy approved in the previous year, the remuneration of the Chief Executive Officer, Sergio Iasi, envisaged that he receive, until his resignation on March 21, 2016:

- fixed annual gross compensation of: (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 could be achieved if certain predefined company objectives were achieved (“MBO”) and, when applicable, a variable medium-long term component (“LTI”);
- *benefits*.

The financial year 2015, the Chief Executive Officer received gross annual fixed emoluments of (i) Euro 30,000.00 for the office of director and (ii) Euro 650,000.00 for the office of Chief Executive Officer.

The Chief Executive Officer also accrued and received gross annual compensation of Euro 130,000.00 earned by achieving part of the targets previously assigned by the delegated corporate bodies, in accordance with the Budget 2015 figures and the applicable weighted values. These values were assigned to him according to the responsibilities and consequent authority granted to him.

The foregoing was reviewed and approved by the Board of Directors, after receiving unanimous approval by the Remuneration Committee and the opinion of the Board of Statutory Auditors.

Moreover, the Chief Executive Officer received the following additional benefits in 2015:

- 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;
- Insurance policy for permanent disability and death due to illness, and healthcare and temporary life insurance for Euro 17,960.00;
- D&O Liability insurance policy;
- Company car in accordance with Company policy, for an agreed value of Euro 4,058.76;
- Customary work tools for the office, in accordance with Company practices and policies.

At December 31, 2015, no specific indemnities were envisaged for early termination of the relationship, and no specific agreements provided 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.

For complete information, as already reported in the Report for 2014, on May 30, 2013 the Board of Directors resolved, after receiving the favourable opinion of the Remuneration Committee – in accordance with the “Remuneration Policy” and the specific benchmark designed by Hay Group, a company specialising in compensation – to grant the Chief Executive Officer at that time, Mr Sergio Iasi:

- in the event of early termination of his employment by the Company (except in cases of dismissal with cause pursuant to law) or the resignation of the Chief Executive Officer with cause, or if he was not re-appointed upon premature expiration of his term, all-inclusive gross compensation to the outgoing Director equal to the higher of: (i) the fixed and variable annual remuneration due until the end of his 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.

On occasion of the aforementioned resignation of the Board of Directors, effective from the end of the Shareholders' Meeting on October 16, 2015, the Chief Executive Officer Signor Sergio Iasi specifically abandoned any claim to the aforementioned indemnities.

Moreover – again to provide complete information and as already announced to the market¹² – an agreement was reached for early termination of the relationship following the resignation of Mr Sergio Iasi as Director and Chief Executive Officer on March 21, 2016. The terms and conditions of that

¹² See the Press Release of March 21, 2016.

agreement were approved by the Board of Directors, after receiving the unanimous approval of the Remuneration Committee and consulting with the Board of Statutory Auditors.

Finally, the Chief Executive Officer's remuneration structure at December 31, 2015 complies with the Remuneration Policy adopted by the Company, which the Shareholders' Meeting approved on June 24, 2015, and in accordance with the market benchmark for similar positions.

14. Remuneration of other Key Managers in office at December 31, 2015.

As at December 31, 2015, Marco Andreasi is a “Key Manager”, as the Chief Financial Officer and 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”);
- if applicable, a medium-long term variable component (“LTI”);
- *benefits*.

In 2015, the total compensation of Marco Andreasi amounted to:

- Euro 300,000.00 as gross remuneration and Euro 85.00 as a travel allowance;
- Euro 4,723.64 as the agreed value of non-work-related insurance policy and healthcare.

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 2,946.60.

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 2015.

As a result of the appointment of the new Board of Directors, compensation was paid in 2015 to the beneficiaries listed below who are no longer in office.

The following persons held the office of director on the Board of Directors until October 16, 2015:

- Massimo Caputi (formerly Deputy Chairman – director with executive authority);
- Marina Brogi (formerly non-executive director, independent);
- Francesco Chiappetta (formerly non-executive director);
- Carlo Emilio Croce (formerly non-executive, independent director);
- Moroello Diaz della Vittoria Pallavicini (formerly non-executive director);
- Alessandra Patera (formerly non-executive director);
- Massimo Tezzon (formerly non-executive, independent director);

Ms. Claudia Bugno (formerly non-executive, independent director) held the position of Director until March 31, 2015.

The Company has not appointed General Managers.

15.1 Non-executive directors

When the Shareholders' Meeting of May 8, 2013 appointed the Board of Directors, it set their total gross annual compensation at Euro 650,000.00. Following examination and evaluation by the Remuneration Committee, the Board then allocated this total in the amount of Euro 30,000.00 for each of its members, with Euro 15,000.00 to be allocated in addition to each Director serving on the Remuneration Committee who is a director and Euro 20,000.00 to be allocated in addition to each Director serving on the Internal Control, Risk and Corporate Governance Committee.

In line with the aforementioned Policy, the remuneration of non-executive Directors consists only of a gross annual fixed component, without any variable component.

For 2015:

- Marina Brogi received gross fixed emoluments of Euro 23,790.32 for the office of director and Euro 15,860.22 as a member of the Internal Control, Risk and Corporate Governance Committee;
- Claudia Bugno received gross fixed emoluments of Euro 7,500.00 for the office of director;
- Francesco Chiappetta received gross fixed emoluments of Euro 23,790.32 for the office of director;
- Carlo Emilio Croce received gross fixed emoluments of Euro 23,790.32 for the office of director and Euro 11,895.16 as a member of the Remuneration Committee;
- Moroello Diaz della Vittoria Pallavicini received gross fixed emoluments of Euro 23,790.32 for the office of director;
- Alessandra Patera received gross fixed emoluments of Euro 23,790.32 for the office of director;
- Massimo Tezzon received gross fixed emoluments of Euro 23,790.32 for the office of director and Euro 15,860.22 as a member of the Internal Control, Risk and Corporate Governance Committee and Euro 11,895.16 as a member of the Supervisory Board.

The compensation paid, for each of the above individual items, is consistent with the Policy approved in the previous year.

15.2 The Deputy Chairman of the Board of Directors

In line with the Policy, the remuneration of Deputy Chairman Massimo Caputi was, until the Shareholders' Meeting on October 16, 2015:

- an annual fixed gross component of: (i) Euro 30,000.00 for the office of Director; and (ii) Euro 600,000.00 for the office of Deputy Chairman;
- an annual variable component that could be earned if certain predefined company objectives were achieved (“MBO”) and, when applicable, a variable medium-long term component (“LTI”);
- *benefits*.

For the financial year 2015, the Deputy Chairman received gross annual fixed emoluments of (i) Euro 23,790.32 for the office of director and (ii) Euro 475,806.45 for the office of Deputy Chairman.

Moreover, Massimo Caputi enjoyed 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 22,202.47;
- D&O Liability insurance policy;
- Monthly reimbursement of expenses related to accommodation in Milan (hotel or guest house) and expenses incurred in the performance of his official duties, amounting to Euro 50,000.00;
- Company car in accordance with Company policy, for an agreed value of Euro 3,070.28;
- Customary work tools for his position, in accordance with Company practices and policies.

No indemnities were paid for early termination of the relationship.

For complete information, as already reported in the Report for 2014, on May 30, 2013 the Board of Directors resolved, after receiving the favourable opinion of the Remuneration Committee – in accordance with the “Remuneration Policy” and the specific benchmark designed by Hay Group, a company specialising in compensation – to grant the Deputy Chairman at that time, Mr Massimo Caputi:

- in the event of early termination of his employment by the Company (except in cases of dismissal with cause pursuant to law) or the resignation of the Deputy Chairman with cause, or if he was not re-appointed upon premature expiration of his 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 his 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.

On occasion of the aforementioned resignation of the Board of Directors, effective from the end of the Shareholders' Meeting on October 16, 2015, the Deputy Chairman Massimo Caputi specifically abandoned any claim to the aforementioned indemnities.

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 management and control bodies and other key managers.

Name and surname	Office	Period in which he/she held office	Office end date	Fixed remuneration	Fees for participation in committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	End-of-office indemnity or employee severance indemnity
						Bonuses and other incentives	Participation in profits					
Giorgio Luca Bruno (a)	Chairperson	from 01.01.15 to 31.12.15	Approval of financial statements as at 31.12.17									
				311.452 ⁽¹⁾	-	-	-	-	-	311.452	-	-
					-	-	-	-	-	-	-	-
Total				311.452	-	-	-	-	-	311.452	-	-
Sergio Iasi (b)	Chief Executive Officer	from 01.01.15 to 31.12.15	Approval of financial statements as at 31.12.17									
				680.000 ⁽²⁾	-	130.000 ⁽³⁾	-	26.971 ⁽⁴⁾	-	836.971	-	-
					-	-	-	-	-	-	-	-
Total				680.000	-	130.000	-	26.971	-	836.971	-	-
Anna Maria Artoni (c) (d)	Director (independent)	from 16.10.15 to 31.12.15	Approval of financial statements as at 31.12.17									
				6.210 ⁽⁵⁾	4.140 ⁽⁶⁾	-	-	-	-	10.350	-	-
					-	-	-	-	-	-	-	-
Total				6.210	4.140	-	-	-	-	10.350	-	-
Mirja Cartia D'Asero (e)	Director (independent)	from 01.01.15 to 31.12.15	Approval of financial statements as at 31.12.17									
				30.000 ⁽⁷⁾	83.965 ⁽⁸⁾	-	-	-	-	113.965	-	-
					-	-	-	-	-	-	-	-
Total				30.000	83.965	-	-	-	-	113.965	-	-
Rosa Cipriotti (f)	Director (independent)	from 01.01.15 to 31.12.15	Approval of financial statements as at 31.12.17									
				30.000 ⁽⁷⁾	16.035 ⁽⁹⁾	-	-	-	-	46.035	-	-
					-	-	-	-	-	-	-	-
Total				30.000	16.035	-	-	-	-	46.035	-	-
Giovanni Angelo Carlo Gilli (c)	Board Member	from 16.10.15 to 31.12.15	Approval of financial statements as at 31.12.17									
				6.210 ⁽⁵⁾	-	-	-	-	-	6.210	-	-
					-	-	-	-	-	-	-	-
Total				6.210	-	-	-	-	-	6.210	-	-
Valeria Leone (g)	Board Member	from 24.06.15 to 31.12.15	Approval of financial statements as at 31.12.17									
				15.500 ⁽¹⁰⁾	-	-	-	-	-	15.500	-	-
					-	-	-	-	-	-	-	-
Total				15.500	-	-	-	-	-	15.500	-	-
Andrea Mangoni (h)	Director (independent)	from 01.01.15 to 31.12.15	Approval of financial statements as at 31.12.17									
				30.000 ⁽⁷⁾	80.860 ⁽¹¹⁾	-	-	-	-	110.860	-	-
					-	-	-	-	-	-	-	-
Total				30.000	80.860	-	-	-	-	110.860	-	-
Davide Mereghetti (i)	Board Member	from 01.01.15 to 31.12.15	Approval of financial statements as at 31.12.17									
				30.000 ⁽⁷⁾	15.000 ⁽¹²⁾	-	-	-	-	45.000	-	-
					-	-	-	-	-	-	-	-
Total				30.000	15.000	-	-	-	-	45.000	-	-
Arturo Sanguinetti (c) (d) (l)	Director (independent)	from 16.10.15 to 31.12.15	Approval of financial statements as at 31.12.17									
				6.210 ⁽⁵⁾	4.140 ⁽⁶⁾	-	-	-	3.105 ⁽¹³⁾	13.455	-	-
					-	-	-	-	-	-	-	-
Total				6.210	4.140	-	-	-	3.105	13.455	-	-
Giovanni Jody Vender (i)	Director (independent)	from 01.01.15 to 31.12.15	Approval of financial statements as at 31.12.17									
				30.000 ⁽⁷⁾	15.000 ⁽¹²⁾	-	-	-	-	45.000	-	-
					-	-	-	-	-	-	-	-
Total				30.000	15.000	-	-	-	-	45.000	-	-
Massimo Caputi (m)	Deputy Chairperson	from 01.01.15 to 16.10.15										
				499.597 ⁽¹⁴⁾	-	-	-	79.832 ⁽¹⁵⁾	-	579.429	-	-
					-	-	-	-	-	-	-	-
Total				499.597	-	-	-	79.832	-	579.429	-	-
Marina Brogi (m)	Director (independent)	from 01.01.15 to 16.10.15										
				23.790 ⁽¹⁶⁾	15.860 ⁽¹⁷⁾	-	-	-	-	39.650	-	-
					-	-	-	-	-	-	-	-
Total				23.790	15.860	-	-	-	-	39.650	-	-
Claudia Bugno (n)	Director (independent)	from 01.01.15 to 31.03.15										
				7.500 ⁽¹⁸⁾	-	-	-	-	-	7.500	-	-
					-	-	-	-	-	-	-	-
Total				7.500	-	-	-	-	-	7.500	-	-
Francesco Umile Chiappetta (m)	Director	from 01.01.15 to 16.10.15										
				23.790 ⁽¹⁶⁾	-	-	-	-	-	23.790	-	-
					-	-	-	-	-	-	-	-
Total				23.790	-	-	-	-	-	23.790	-	-

Name and surname	Office	Period in which he/she held office	Office end date	Fixed remuneration	Fees for participation in committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	End-of-office indemnity or employee severance indemnity
						Bonuses and other incentives	Participation in profits					
Carlo Emilio Croce (m)	Director (independent)	from 01.01.15 to 16.10.15										
				23,790 ⁽¹⁶⁾	11,895 ⁽¹⁹⁾	-	-	-	-	35,685	-	-
				-	-	-	-	-	-	-	-	-
Total				23,790	11,895	-	-	-	-	35,685	-	-
Moroello Diaz Della Vittoria Pallavicini (m)	Director	from 01.01.15 to 16.10.15										
				23,790 ⁽¹⁶⁾	-	-	-	-	-	23,790	-	-
				-	-	-	-	-	-	-	-	-
Total				23,790	-	-	-	-	-	23,790	-	-
Alessandra Patera (m)	Director	from 01.01.15 to 16.10.15										
				23,790 ⁽¹⁶⁾	-	-	-	-	-	23,790	-	-
				-	-	-	-	-	-	-	-	-
Total				23,790	-	-	-	-	-	23,790	-	-
Massimo Tezzon (m)	Director (independent)	from 01.01.15 to 16.10.15										
				23,790 ⁽¹⁶⁾	15,860 ⁽¹⁷⁾	-	-	-	11,895 ⁽²⁰⁾	51,545	-	-
				-	-	-	-	-	-	-	-	-
Total				23,790	15,860	-	-	-	11,895	51,545	-	-
Enrico Laghi	Chairman of the Board of Statutory Auditors	from 01.01.15 to 31.12.15	Approval of financial statements as at 31.12.15									
				55,000 ⁽²¹⁾	-	-	-	-	-	55,000	-	-
				-	-	-	-	-	-	-	-	-
Total				55,000	-	-	-	-	-	55,000	-	-
Marco De Ruvo	Standing Statutory Auditor	from 01.01.15 to 31.12.15	Approval of financial statements as at 31.12.15									
				37,000 ⁽²²⁾	-	-	-	-	-	37,000	-	-
				2,178 ⁽²³⁾	-	-	-	-	-	2,178	-	-
Total				39,178	-	-	-	-	-	39,178	-	-
Michela Zeme (o)	Standing Statutory Auditor	from 01.01.15 to 31.12.15	Approval of financial statements as at 31.12.15									
				37,000 ⁽²²⁾	-	-	-	-	15,000 ⁽²⁴⁾	52,000	-	-
				-	-	-	-	-	-	-	-	-
Total				37,000	-	-	-	-	15,000	52,000	-	-
Marco Andreasi	Key Manager	from 01.01.15 to 31.12.15										
				300,085 ⁽²⁵⁾	-	-	-	7,670 ⁽²⁶⁾	-	307,755	-	-
				-	-	-	-	-	-	-	-	-
Total				300,085	-	-	-	7,670	-	307,755	-	-

(a) Confirmed as Chairperson of the Board of Directors on 16 October 2015.

(b) Confirmed as Chief Executive Officer on 16 October 2015. Resigned from office on 21 March 2016.

(c) Appointed as Board Member on 16 October 2015.

(d) Appointed as Member of the Internal Control, Risk and Corporate Governance Committee on 16 October 2015.

(e) Confirmed as Board Member on 16 October 2015; member of the Internal Control, Risk and Corporate Governance Committee until 16 October 2015; appointed as member of the Remuneration Committee on 16 October 2015.

(f) Confirmed as Board Member on 16 October 2015; member of the Remuneration Committee until 16 October 2015; appointed as member of the Internal Control, Risk and Corporate Governance Committee on 16 October 2015.

(g) Appointed as Board Member on 24 June 2015 and confirmed in office on 16 October 2015.

(h) Confirmed as Board Member on 16 October 2015; member of the Internal Control, Risk and Corporate Governance Committee until 16 October 2015.

(i) Confirmed as Board Member and Member of the Remuneration Committee on 16 October 2015.

(l) Appointed as Member of the Supervisory Board on 16 October 2015.

(m) No longer in office on 16 October 2015.

(n) Resigned from office of Board Member on 31 March 2015.

(o) Confirmed as Member of the Supervisory Board on 16 October 2015.

(1) Includes remuneration of Euro 281,452 as Chairperson and Euro 30,000 as Board Member.

(2) Includes remuneration of Euro 650,000 as Chief Executive Officer and Euro 30,000 as Board Member.

(3) Includes MBO of Euro 130,000.

(4) Includes insurances (including health care) of Euro 22,912 and Euro 4,059 as conventional car value benefit.

(5) Includes remuneration of Euro 6,210 as Board Member.

(6) Includes remuneration of Euro 4,140 as member of the Internal Control, Risk and Corporate Governance Committee.

(7) Includes remuneration of Euro 30,000 as Board Member.

(8) Includes remuneration of Euro 80,860 as member of the Internal Control, Risk and Corporate Governance Committee (of which Euro 65,000 as one-off remuneration for the activity carried out in relation to the "Progetto Centauro") and remuneration of Euro 3,105 as member of the Remuneration Committee.

(9) Includes remuneration of Euro 4,140 as member of the Internal Control, Risk and Corporate Governance Committee and remuneration of Euro 11,895 as member of the Remuneration Committee.

(10) Includes remuneration of Euro 15,500 as Board Member.

(11) Includes remuneration of Euro 80,860 as member of the Internal Control, Risk and Corporate Governance Committee (of which Euro 65,000 as one-off remuneration for the activity carried out in relation to the "Progetto Centauro").

(12) Includes remuneration of Euro 15,000 as member of the Remuneration Committee.

(13) Includes remuneration of Euro 3,105 as member of the Supervisory Board.

(14) Includes remuneration of Euro 475,807 as Deputy Chairperson and Euro 23,790 as Board Member.

(15) Includes insurances (including health care) of Euro 26,762, Euro 50,000 as rentals and Euro 3,070 as conventional car value benefit.

(16) Includes remuneration of Euro 23,790 as member of the Supervisory Board.

(17) Includes remuneration of Euro 15,860 as member of the Internal Control, Risk and Corporate Governance Committee.

(18) Includes remuneration of Euro 7,500 as member of the Supervisory Board.

(19) Includes remuneration of Euro 11,895 as member of the Remuneration Committee.

(20) Includes remuneration of Euro 11,895 as member of the Supervisory Board.

(21) Includes remuneration of Euro 55,000 as Chairman of the Board of Statutory Auditors.

(22) Includes remuneration of Euro 37,000 as Standing Statutory Auditor.

(23) Includes remuneration of Euro 2,178 as Standing Statutory Auditor of the company Focus Investments S.p.A..

(24) Includes remuneration of Euro 15,000 as member of the Supervisory Board.

(25) Includes remuneration of Euro 300,000 as Chief Financial Officer and Manager charged with preparing the Company's financial documents and travel allowance of Euro 85.

(26) Includes health care and conventional value of insurance policies totalling Euro 4,724 and conventional car value benefit totalling Euro 2,946.

TABLE: Monetary incentive plans for members of the management body, general managers and other key managers.

Nome e Cognome	Carica	Piano	Bonus dell'anno			Bonus di anni precedenti			Altri bonus
			(A) Erogabile/Erogato	(B) Differito	(C) Periodo di differimento	(A) Non più erogabili	(B) Erogabile/Erogati	(C) Ancora differiti	
Sergio Iasi	Amministratore Delegato								
Compensi nella Società che redige il bilancio		Piano approvato dal Consiglio di Amministrazione del 14.05.15	130.000	-	-	-	-	-	-
Compensi da controllate e collegate			-	-	-	-	-	-	-
Totale			130.000	-	-	-	-	-	-

TABLE: Shareholdings of the members of the management and control bodies.

Name and surname	Investee company	Number of shares owned at 12/31/2014 (or at the date of appointment)	Number of shares purchased during 2015	Number of shares sold during 2015	Number of shares owned at 12/31/2015 (or at the date of termination if this occurred)
BOARD OF DIRECTORS IN OFFICE					
• Giorgio Luca Bruno	Prelios S.p.A.	0	0	0	0
• Sergio Iasi - Chief Executive Officer (CEO) (1)	Prelios S.p.A.	0	0	0	0
• Anna Maria Artoni	Prelios S.p.A.	0	0	0	0
• Mirja Cartia d'Asero	Prelios S.p.A.	0	0	0	0
• Rosa Cipriotti	Prelios S.p.A.	0	0	0	0
• Giovanni Gilli	Prelios S.p.A.	0	0	0	0
• Valeria Leone	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
• Arturo Sanguinetti	Prelios S.p.A.	0	0	0	0
• Giovanni Jody Vender	Prelios S.p.A.	0	0	0	0
DIRECTORS WHO LEFT OFFICE IN 2015					
• Massimo Caputi - Deputy Chairman	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
• Francesco Chiappetta	Prelios S.p.A.	13,365	0	0	13,365
• 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
• Alessandra Patera	Prelios S.p.A.	0	0	0	0
• Massimo Tezzon	Prelios S.p.A.	0	0	0	0

BOARD OF STATUTORY AUDITORS IN OFFICE					
• Enrico Laghi – Chairman	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 Statutory Auditor	Prelios S.p.A.	0	0	0	0
• Flavia Daunia Minutillo – Alternate Statutory Auditor	Prelios S.p.A.	0	0	0	0

(1) On March 21, 2016, Mr Sergio Iasi resigned from his position as Director and Chief Executive Officer of the Company.

TABLE: Investments of other key managers

Number of Key Managers	Investee company	Number of shares owned at 12/31/2014 (or at the date of appointment)	Number of shares purchased during 2015	Number of shares sold during 2015	Number of shares owned at 12/31/2015 (or at the date of termination if this occurred first)
1	Prelios S.p.A.	0	0	0	0

G. FINANCIAL STATEMENTS UPDATE FOLLOWING THE REQUEST FOR INTEGRATION PURSUANT TO ARTICLE 126-BIS PARAGRAPH 4 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 AS SUBSEQUENTLY AMENDED AND INTEGRATED

PRELIOS S.P.A.

Registered office at 27, Viale Piero e Alberto Pirelli, Milan
 Fully paid-up share capital 55,686,524.26 Euro
 Milan Companies Register no. 02473170153
 Tax code and VAT No. 02473170153

**SHAREHOLDERS' MEETING OF 19 MAY 2016
 AMENDMENTS TO THE AGENDA**

With reference to the Ordinary Shareholders' Meeting of PRELIOS S.p.A.'s ("**Prelios**" or the "**Company**") called, with notice published on 7 April 2016, on **19 May 2016, at 10:30 a.m. (single call), in Milan, corso Magenta 61, at Fondazione Stelline.**

In its meeting of 2 May 2016, Prelios' Board of Directors decided to integrate item 2 on the agenda following Negentropy Capital Partners LLP's request (which declared to act in the name and on behalf of the mutual fund Negentropy Sicaf-Sif / Negentropy Special Situation Fund, Luxembourg, which owns 38,173,500 ordinary shares of the Company, equal to 3,31% of the ordinary voting capital), pursuant to article 126-bis of Legislative decree no. 58 of 24 February 1998 as subsequently amended and integrated (the Consolidated Law on Finance), also absorbing and going beyond the discussion and resolution about that set out in item 2 on the agenda of the previous notice, which is renumbered as item 3.

Consequently, following the above request for integration, the Shareholders will be called to discuss and resolve on the following

AGENDA

1. Financial statements as at and for the year ended 31 December 2015. Contingent resolutions;
2. The appointment of new Directors, up to a maximum of 3 (three), subject to the redetermination of the number of members of the Board of Directors from the current 11 (eleven) up to 13 (thirteen) members. Contingent resolutions.
3. The appointment of a Director and / or reduction in the number of Directors. Contingent resolutions.
4. Appointment of the Board of Statutory Auditors:
 - appointment of the Standing and Alternate Statutory Auditors;
 - appointment of the Chairman of the Board of Statutory Auditors;
 - determination of the remuneration of the members of the Board of Statutory Auditors.
5. Remuneration Report: consultation on the Remuneration Policy

DOCUMENTS

The Report on the second item on the agenda prepared by the requesting shareholder about the matter to be included in the agenda items pursuant to article 126-bis of the Consolidated Law on Finance, together with the assessment document approved by the Board of Directors, are made available to the public on today's date at the Company's registered office in Milan, Viale Piero e Alberto Pirelli 27, at Borsa Italiana S.p.A. and the authorised storage mechanism eMarket Storage (www.emarketstorage.com) and posted on the Company's website www.prelios.com (governance section).

*

All the other terms and information already communicated via the notice of call of the Shareholders' Meeting published on 7 April 2016 are confirmed - which is referred to herein as a whole - available at the Company's registered office in Milan, Viale Piero e Alberto Pirelli 27, at Borsa Italiana S.p.A. and the authorised storage mechanism eMarket Storage (www.emarketstorage.com) and posted on the Company's website www.prelios.com (governance section) together with said notice.

The reports and documents previously made public by the Company in accordance with the rules, laws and regulations currently in place regarding the remaining items on the agenda, will remain available.

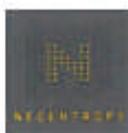
*

Milan, 2 May 2016.

for the Board of Directors

the Chairman

(Giorgio Luca Bruno)



Report prepared by the shareholder Negentropy pursuant to article 126-bis paragraph 4 of Legislative decree no. 58 of 24 February 1998, as subsequently amended and integrated, on the request to integrate the items on the agenda of Prelios S.p.A.'s Ordinary Shareholders' Meeting convened on single call on 19 May 2016

Dear Shareholders,

This report has been prepared by Negentropy Capital Partners LLP, which acts in the name and on behalf of the mutual fund Negentropy Sicav-Sif / Negentropy Special Situation Fund ("**Negentropy**"), pursuant to article 126-bis paragraph 4 of Legislative decree no. 58 of 24 February 1998 ("**Consolidated Law on Finance**"), and concerns the request to integrate the items on the agenda of the Ordinary Shareholders' Meeting of Prelios S.p.A. (the "**Company**" or "**Prelios**") - convened on single call on 19 May 2016 - with the following item, to be discussed and resolved upon in the ordinary session:

"The appointment of new Directors, up to a maximum of 3 (three), subject to the redetermination of the number of members of the Board of Directors from the current 11 (eleven) up to 13 (thirteen) members. Contingent resolutions;

* * *

In their meeting of 16 October 2015, the Shareholders set at 11 the number of members of the Company's Board of Directors. Following the resignation of Mr. Sergio Iasi from the post of Director and Managing Director, handed in on 21 March 2016, the current Board of Directors is comprised of 10 members (of whom 6 qualify as independent non-executive directors and 4 belong to the less represented gender). Its term of office expires with the approval of the financial statements at 31 December 2017.

We are a party to a shareholders' agreement which was signed on 26 February 2016 and subsequently integrated on 7 March 2016, concerning Prelios' ordinary shares. The shareholders' agreement was published pursuant to ruling legislation (the "**Agreement**").¹

The Agreement currently covers 267,590,087 Prelios' ordinary shares which account for 23.206% of the Company's share capital with voting rights. As it was signed relatively recently and being partly comprised of parties that joined Prelios' shareholding structure only after the capital increase completed on 10 March 2016, the Agreement was not included in the appointment of the current Board of Directors, despite accounting for a highly significant percentage of Prelios' voting capital.

¹ For additional information about the Agreement, reference should be made to the Company's website: <http://www.prelios.com/it/governance/patti-parasociali/patto-parasociale-relativo-a-prelios-s-p-a-azioni-sindacate.html>



As already disclosed to the market, the Agreement refers to a shareholders' agreement pursuant to article 122 paragraph 1 and paragraph 5, letter a) (obligation of prior consultation for the exercise of voting rights), b) (restrictions on the transfer of shares), c) (purchase of shares) and d) (exercise of dominant influence, including jointly) of the Consolidated Law on Finance.

Consequently, by signing the Agreement, the relevant parties paved the way for a long-term investment which will promote the future development of the Company. With this objective, the parties to the Agreement believe that the possibility of participating in the appointment of the new members of the Board of Directors, up to a maximum of 3 (three), during shareholders' meeting, is consistent with the content and the aim of the Agreement. In fact, should this possibility be denied, the parties to the Agreement would be unable, until the end of the term of office of the current Board of Directors, to contribute physiologically and constructively to improving the Company's management in the interest of all Shareholders.

Consequently and given the calling of Prelios' Ordinary Shareholders' Meeting by the Board of Directors, whose agenda already included discussing the appointment and/or number of the members of the Board of Directors, the shareholder Negentropy, on its own and as a party to the Agreement, intends to avail itself of the right to request the integration of the items on the agenda. This right was granted to the shareholders which own more than 2.5% of share capital, comprised of ordinary shares, in order to propose the appointment of new directors, up to a maximum of 3 (three), without the Company bearing the organisational and economic burden of calling a specific meeting.

Specifically, Negentropy proposes: (i) redetermining the number of the members of the Company's Board of Directors from the current 11 members to 13; and (ii) appointing up to 3 (three) new Company's Directors, it being understood that the new directors will remain in office until the end of the term of the office of the current Board of Directors, hence until the Shareholders' Meeting called to approve the financial statements at 31 December 2017.

According to Negentropy, the appointment of new directors for Prelios will enable it to align the representation within the Board of Directors with the Company's new shareholding structure.

Moreover, integrating the Board of Directors will further increase the Board's skills which would benefit from the contribution offered by new professional abilities and top level experience, supporting the effectiveness of the Board's decisions.

NEGENTROPY CAPITAL PARTNERS LLP, ROYALTY HOUSE, 32 SACKVILLE STREET, LONDON W1S 3EA Company No 0C343899

NEGENTROPY
CAPITAL PARTNERS LLP



The increase in the number of Directors is proposed in accordance with article 12.1 of Prelios' by-laws, whereby the Company is managed by a Board of Directors comprised of between five and nineteen members, and article 12.13 of said by-laws, whereby the Shareholders may decide for the integration with the legal majorities, however without prejudice to compliance with the gender balance required by the law and/or pro tempore regulations.

Milan, 18 April 2016

Ferruccio Ferrara
Negentropy Capital Partners LLP

A handwritten signature in blue ink, appearing to read 'Ferruccio Ferrara', written over the printed name.

Assessments of Prelios S.p.A.'s Board of Directors pursuant to article 126-bis paragraph 4 of Legislative decree no. 58 of 24 February 1998, as subsequently amended and integrated, on the request to integrate the items on the agenda of the Ordinary Shareholders' Meeting called on 19 May 2016.

Dear Shareholders,

On 18 April 2016, Negentropy Capital Partners LLP – acting in the name and on behalf of the mutual fund Negentropy Sicaf-Sif / Negentropy Special Situation Fund, Luxembourg, ("**Negentropy**"), which owns 38,173,500 ordinary shares of the Company, equal to 3.31% of the ordinary voting capital – made a request to the Company to integrate the items on the agenda of the Ordinary Shareholders' Meeting already called on 19 May 2016, pursuant to article 126-*bis* of Legislative decree no. 58 of 24 February 1998, as subsequently amended and integrated (the "**Consolidated Law on Finance**")¹.

Specifically, it was requested the following item is added to the agenda items: "*The appointment of new Directors, up to a maximum of 3 (three), subject to the redetermination of the number of members of the Board of Directors from the current 11 (eleven) up to 13 (thirteen) members. Contingent resolutions*".

Given the requested integration, Negentropy also asked that the Shareholders discuss the related topics immediately after the first item on the agenda, "*Financial statements as at and for the year ended 31 December 2015. Contingent resolutions*", in order to absorb and go beyond the discussion and resolution of the set out in item two, "*Appointment of a Director and/or reduction in the number of members of the Board of Directors. Contingent resolutions*".

While remembering that it is a party to a shareholders' agreement signed on 26 February 2016 and subsequently integrated on 7 March 2016, concerning Prelios' shares and covering a total of 267,590,087 Prelios's ordinary shares, accounting for 23.206% of the ordinary voting capital, Negentropy proposed, in particular to: (i) redetermine the number of the members of the Company's Board of Directors, from the current 11 members to 13; and (ii) appoint up to 3 (three) new Company's Directors, it being understood that the new directors will remain in office until the end of the term of the office of the current Board of Directors, hence until the Shareholders' Meeting called to approve the financial statements at 31 December 2017.

Based on the above, in its meeting of 2 May 2016, the Board of Directors carried out the following assessments pursuant to article 126-*bis* paragraph 4 of the Consolidated Law on Finance, which are made available to the public together with the Report prepared by the requesting shareholder.

* * *

Negentropy is entitled to and duly exercised the right to request an integration to the items on the agenda of the Shareholders' Meeting which, consequently, will be also asked to discuss and resolve on the following additional matter, as item 2) on the agenda, "*The appointment of new Directors, up to a maximum of 3 (three), subject to the redetermination of the number of members of the Board of Directors from the current 11 (eleven) up to 13 (thirteen) members. Contingent resolutions*", therefore renumbering as item 3) the topic already included as item 2) on the agenda of the previous notice calling the meeting, "*Appointment of a Director and/or reduction in the number of members of the Board of Directors. Contingent resolutions*".

¹ See the Press Release of 19 April 2016.

In this respect, when submitting slates and when subsequently appointing directors, the Company has always facilitated shareholders in taking conscious and informed decisions about the optimal Board's composition and the professional characteristics that candidates should have with respect to the Company's business model.

In its report to the recent Ordinary Shareholders' Meeting of 16 October 2015, during which the current Directors were appointed, Prelios' Board of Directors has duly described the guidelines about the management and professional positions whose presence within the Board would be appropriate, also considering the annual assessments about the operations of the Board (Board Performance Review) and the professional characteristics, the experience, including of a management nature and in general, of the components and the office seniority.

On that occasion, specific evidence was given of the fact that the Company's and Prelios' Group's strategic guidance – aimed at strengthening their repositioning as a pure management company, specialised in business activities related to property enhancement and management and non-performing loans, including on behalf of third-party investors, through a distinctive model focused on financial and property services related to the real estate sector (asset and fund management, asset integrated services, valuation and intermediation services, credit servicing) – requires that the Board of Directors be comprised of professionals, skills and experience, both general and specific, with specific regard to the real estate, financial and professional sectors.

In determining the number and identifying the members of the new Board of Directors, in its Ordinary meeting of 16 October 2015, the Shareholders decided also on the basis of the outgoing Directors' evaluations of the above-mentioned focus on the Company's business model (in view of the non-recurring transaction involving the spin-off of the investments and co-investments business from that of property management and services, which took place in early 2016, as part of a wider effort to strengthen the Group's equity and financial structure) and the comments made also on the presence of independent directors. The latter is a fundamental element which guarantees the interest of all shareholders and third parties and whose contribution is to be considered necessary for the composition and functioning of the Committees with advisory and proposal duties towards the Board of Directors. Specifically, on that occasion, the Shareholders decided to set at 11 the number of the Board members, down from the 15 of the previous Board, agreeing that the reduction was in line with the new structure of the Group's activities and size.

Later on, in accordance with the ruling Code of Corporate Governance for listed companies promoted by Borsa Italiana S.p.A., which the Company adopted, the Directors in office at 21 March 2016 expressed extremely positive evaluations of the size and composition of the current Board of Directors, the Corporate Governance structure and the activities of the Board Committees in their annual Board Performance Review, noting - inter alia - the balance between executive, non-executive and independent Directors who, today, are the majority of the Board members. This is an additional characteristic which protects the interests of all shareholders and third parties.

Following Negentropy's request for the integration of the items on the Shareholders' Meeting agenda, in order to enable the shareholders to decide based on the widest possible informational elements, the Company engaged an independent third party, Spencer Stuart, to carry out an independent evaluation, focusing, in particular, on the numerical and qualitative composition of the current Board. The relevant report was developed considering applicable regulations and practices, the evolution of the Company's ownership and governance structure, the specific analysis of Prelios' Board composition, the findings of the Board Review and market and sector benchmark.

The evaluation showed that Prelios' current Board of Directors' qualitative and quantitative composition is adequate to enhance the functions of the company body, considering the sector and business model and the Group's current complexities, the Company's current governance structure,

the evolution of the Italian and European legislation, the code of corporate governance recommended for listed companies and Spencer Stuart's experience in Italy and Europe in this respect. Specifically, the following was noted: (i) a clear complementarity in terms of skills, professionalism and seniority which adequately challenges the Board of Directors and the executive bodies, and (ii) the presence of the following Board Committees: Remuneration Committee and Internal Control, Risk and Corporate Governance Committee.

With respect to the size, since the adequate number ranges between 9 and 11 members, Prelios' Board is deemed to be in line with the market benchmark and international best practices.

Finally, with respect to the Board's structure, the assessment showed the following:

- the presence of a majority of independent directors pursuant to the Consolidated Law on Finance and the Code of Corporate Governance was highly appreciated, specifically given the Company's ownership structure;
- a good level of complementarity and diversity is ensured, specifically in terms of gender (four directors are women), age (broad mix of age/seniority, with average tenure of 2.5 years against a 5-year market benchmark) and professional experience (good level of complementarity of profiles from several areas);
- the Directors proved that they participate and contribute to the Company's business, in particular given the current developments; the level of participation in Board's and Committees' meetings is equal to 100% for most Directors.

Finally, Negentropy's request did not include the names and the related CVs of the proposed candidates, if any.

* * *

Based on the above and considering the independent expert's evaluations with respect to the board assessment, the current Board composition is deemed adequate and efficient in numerical terms and in terms of skills and professionalism as well as personality.

* * *

The Board of Directors hopes that the Shareholders will resolve in agreement.

Prelios S.p.A.

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