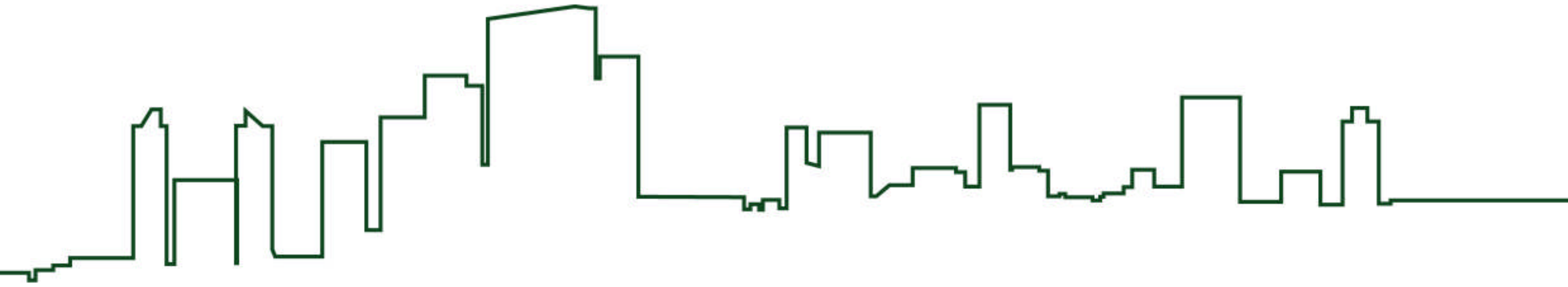
PRELIOS

ANNUAL FINANCIAL REPORT

2013



A. DIRECTORS' REPORT ON OPERATIONS

1. CORPORATE REVIEW

1.1. Reference market scenario

1.1.1. Macroeconomic environment in Europe

- Overall, GDP in the euro area contracted in 2013 (-0.4%), despite an uptick of 0.1% in the third quarter. Performance varied considerably from country to country; while growth continued in Germany, Spain finally returned to growth after nine quarters of recession, with France recording another dip following a slump in exports and a decline in investment.
- The recovery, driven by exports for now, will be impacted by the slightest increase in domestic demand. In general the recovery, buoyed by an improvement in the confidence index, is continuing at a leisurely pace. However, it will pick up over the next few quarters due to looser fiscal policy (expected to become more expansionary in 2015), growth in global markets and low inflation (forecast at 1.4% in 2014 and 1.2% in 2015)[1].
- There is a growing disconnect within the area as a whole: while business confidence returns, even among small and medium-sized enterprises, lending is contracting at an increasing rate. Across the euro zone, the annual decline in lending to the private sector was 1% in early 2013, slipping to 1.6% last November. Bank lending to companies in the "non-financial sector", i.e. the real economy, recorded an annual contraction of 2.5% in early 2013, although according to the latest figures this has now reached -3.9%. The steady decline is beginning to look incompatible with the prospect of a recovery bringing jobs to the tens of millions of unemployed in Europe today.
- Meanwhile, the credit crunch is hampering investment and fuelling the stagnation that is now pushing some European countries into deflation[2].

1.1.2. Macroeconomic environment in Italy

- According to the Bank of Italy, 2014 will signal a return to modest growth for the Italian economy, destined to accelerate "albeit to a limited extent, next year". Positive signs are emerging for GDP: the prolonged fall witnessed since the summer of 2011 came to a halt in the third quarter of 2013, up by 0.1% after nine consecutive quarters, or more than two years, of decline. Italian GDP "after declining by 1.8% in 2013, would grow by 0.7% in 2014 and 1% in 2015".
- The tentative recovery in GDP in 2014 and that forecast for 2015 will have a delayed effect on employment, which is expected to rise to 12.8% in 2014 and 12.9% in 2015 (vs 12.7% in 2013).

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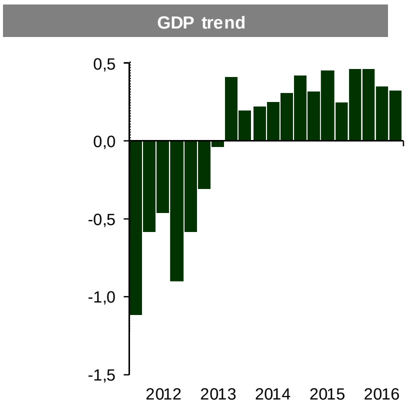
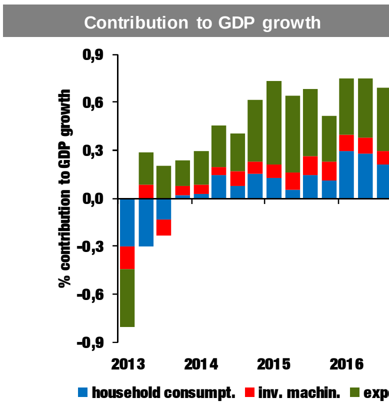
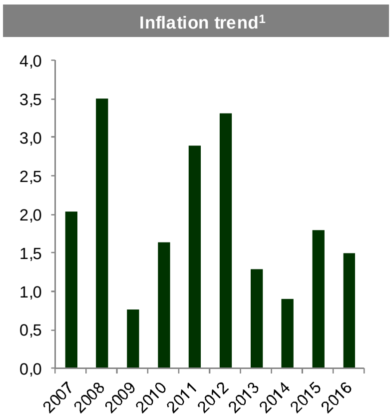
[1] Intesa Sanpaolo, Scenario 2014, Q1 2014 update, January 2014.
[2] Bank of Italy, Economic Bulletin 1/2014.

- With domestic demand, particularly consumer spending, remaining weak, the economy will be driven by foreign demand, which will kick-start a new cycle of restocking and investment: the latter will benefit from an easing of liquidity constraints for businesses, which will benefit from the payment of arrears by the government and an easing of the restrictions on bank lending.
- Household spending will also make a positive contribution, albeit very faintly, due to persistent problems in the labour market and the low impact of fiscal policy on disposable income; only the slowdown in inflation will provide a permanent boost to the purchasing power of households.
- Inflation, which fell to 1.3% in 2013, recorded significantly lower growth rates than in 2011-2012, and is expected to slip further in 2014 before returning to around 1.5% in 2015. On balance, the risk of widespread deflation remains modest. Nevertheless, the fall in inflation could be more pronounced and persistent than envisioned, especially if weak demand is reflected in forecasts.

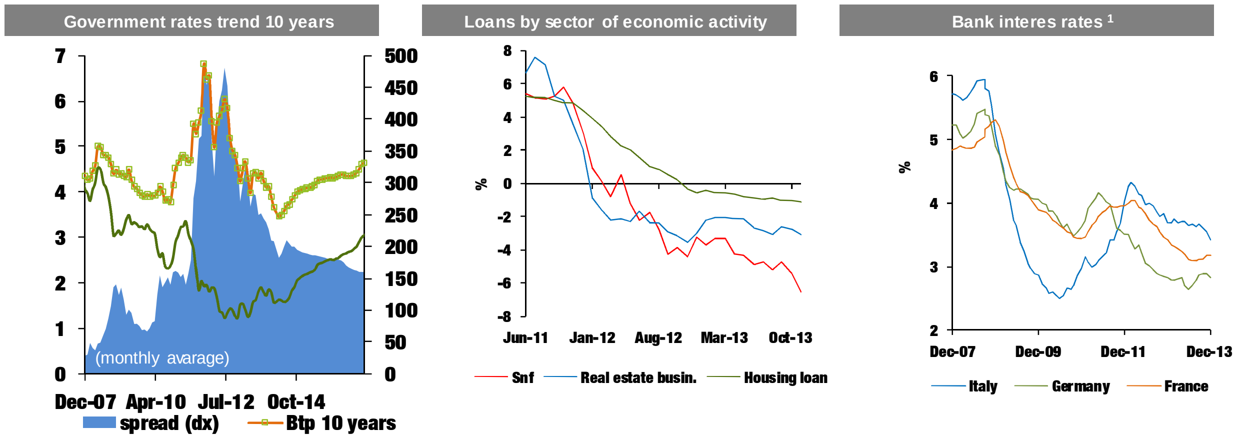






1. Change y/y, normalized
Source: Prometeia calculations on ISTAT, Thomson Reuters data, estimated datas Prometeia, Rapporto di Previsione, january-14; monthly average; historical data as at 31 january 2014

- The negative performance of the global economy in 2013, combined with specific pressures on Italian sovereign debt, led to a surge in Italian ten-year bond yields and a significant widening of the spread with the German ten-year Bund. Efforts to improve stability have helped to reverse the upward trend and, looking ahead, the BTP-Bund spread is expected to narrow (albeit to well above pre-crisis levels).
- The availability of credit, particularly relevant to the real estate sector, continues to contract for businesses and households alike. This is due to a fall in demand for loans and the banks being more selective in view of the need to recapitalise and the increase in non-performing loans (80% of new flows of non-performing loans come from the construction and real estate sector).
- The interest rates charged to Italian firms are higher than the average rates in the euro zone. In addition, initiatives to boost lending to the sector (bond issues to raise funds for mortgage loans, additional guarantees for credit institutions and the FIA housing fund) also failed to deliver the expected results.



1. Bank interest rates on euro loans to household for house purchase
Source: Prometeia calculations on ISTAT, Thomson Reuters data, estimated data Prometeia, Rapporto di Previsione, january-14; monthly averagei; historical data as at 31 january 2014

1.1.3. Real Estate Market – Europe

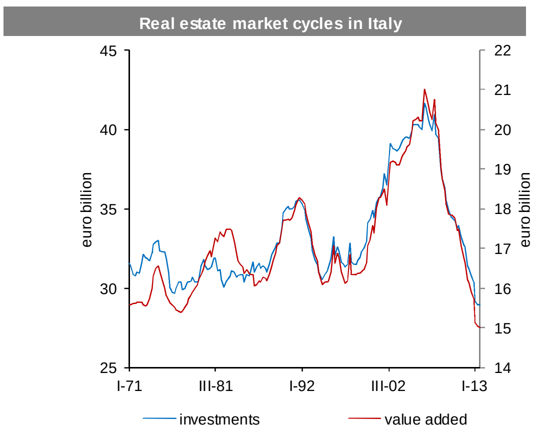
- The European markets have seen some of the best results since 2007, with the volume of investment in commercial real estate reaching Euro 135 billion in 2013 (+14%).
- Although the United Kingdom, Germany and France still represent 80% of the European real estate market, investors are showing a growing interest in ten Tier 2 markets: Warsaw, Dublin, Amsterdam, Milan, Barcelona, Rome, Madrid, Brussels, Luxembourg and Bucharest[3].
- Investors have tended to focus on the office segment (51% of the total investment volume), which recorded an increase of 45% on 2012. The volume of office investments reached its highest level since 2009, mainly due to the major transactions recorded in the fourth quarter, while retail investments were up by 41% on 2012.
- Growing interest among foreign investors is another sign of the recovery witnessed by Tier 2 markets. In 2013, 70% of investments were made by cross-border investors, compared with 46% in 2009. The majority of cross-border investors are from the euro zone and North America.
- In general, the countries that have performed the best are on Europe's periphery: Italy, Spain, Portugal and Ireland all recorded investment growth of 150% or more (approximately Euro 5 billion in the fourth quarter vs Euro 1.7 billion in 2012)[4].
- By contrast, the rental market is continuing to decline, albeit at a slower rate. In the ten Tier 2 markets, 2.3 million square metres were leased in 2013, down slightly (-3%) compared with 2012. The rental market is still weighed down by the difficult economic conditions in these countries.

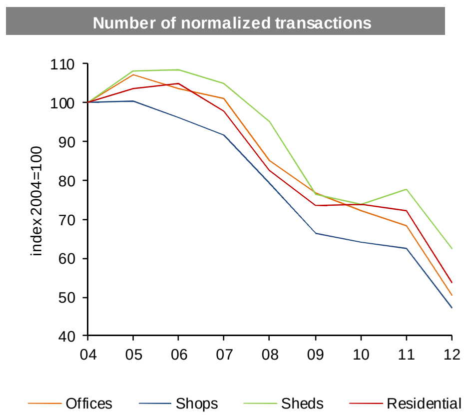
[3] BNP Paribas Real Estate, Press Release, January 7, 2014.
[4] CBRE, European Investment Quarterly 4Q 2013, January 2014.

- Rents and yields look set to stabilise in 2014. In safe, mature markets, where prime rents are at historically low levels, the changes that occur will be negligible. Conversely, yields will improve in markets still gripped by the euro zone crisis and the resulting austerity, due to a gradual improvement in economic fundamentals[5].

1.1.4. Real Estate Market – Italy

- Market cycles in the real estate sector in Italy are traditionally characterised by significant fluctuations and modest long-term growth (1970-2000). The average duration of these cycles is ten years, with the exception of the most recent one, which began in 2000 and has been unusually protracted and intense both during the upswing and the current downswing.
- The sector has been in recession since 2007, contracting by more than 30%: the number of employees has returned to early 2000 levels (a fall of -395,000 since 2007) while added value has reached an all-time low.
- The slump in demand is expected to end in 2014, giving way to growth of 0.1% in annual average terms and a new investment cycle over the next two years, albeit at a fairly sedate pace against a backdrop of modest economic growth.
- In 2013 the first signs of recovery appeared, with Euro 4.6 billion in volume terms, equivalent to the entire three-year period 2009-2011 (+133% compared with 2012). This rebound has driven up real estate investments in Italy to 3.2% compared with the European total (in line with the pre-crisis average of 3.3%)[6].
- Investor interest has focused on both office and retail products, as well as on other types such as the hotel industry, especially in the two main markets of Milan and Rome. According to the signs in the first few months of 2014, the resurgence of interest in the Italian market looks set to continue over the coming months.

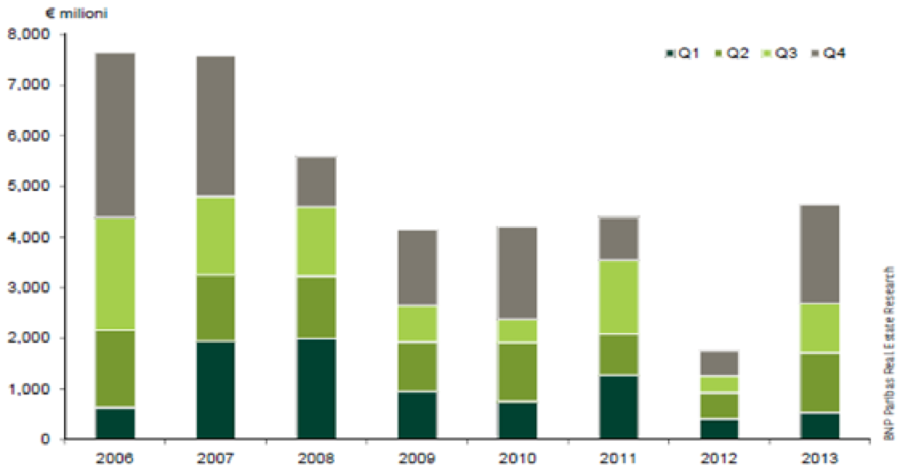




Source: Prometeia calculation on ISTAT data.

[5] Colliers, Office Snapshot, January 2014.
[6] Nomisma, presentation of the First Real Estate Market Report 2014, March 2014.

Quarterly investments



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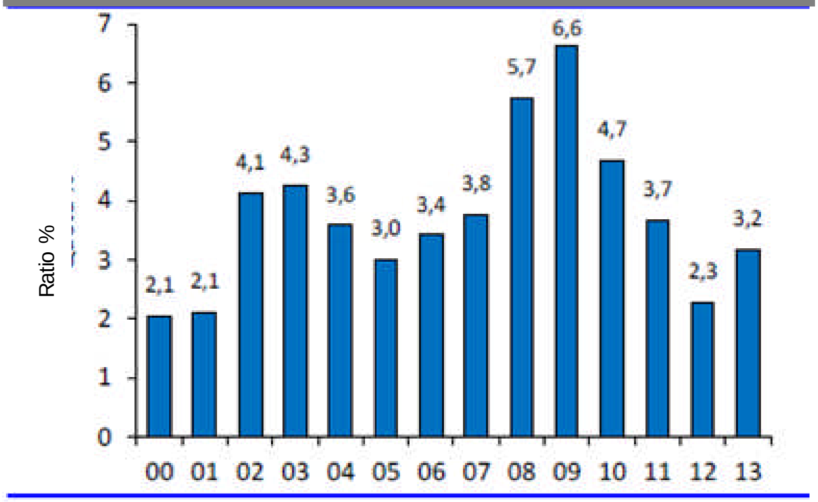
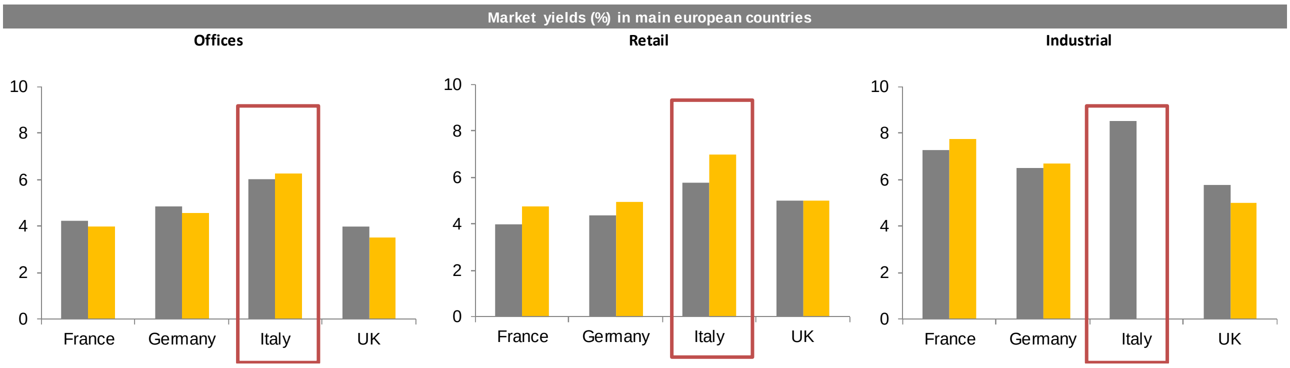
Weight of real estate investments in Italy out of total investments in Europe (%)



Source:Nomisma calculation on Nomisma, BNP Paribas RE, CBRE and DTZ data

- Italy is once again on the agenda of international real estate investors who, since the second half of 2013, have been studying the Italian market with a view to closing the first, mainly opportunistic, deals.
- This renewed interest is linked to widespread market repricing, which delivers higher yields than elsewhere.

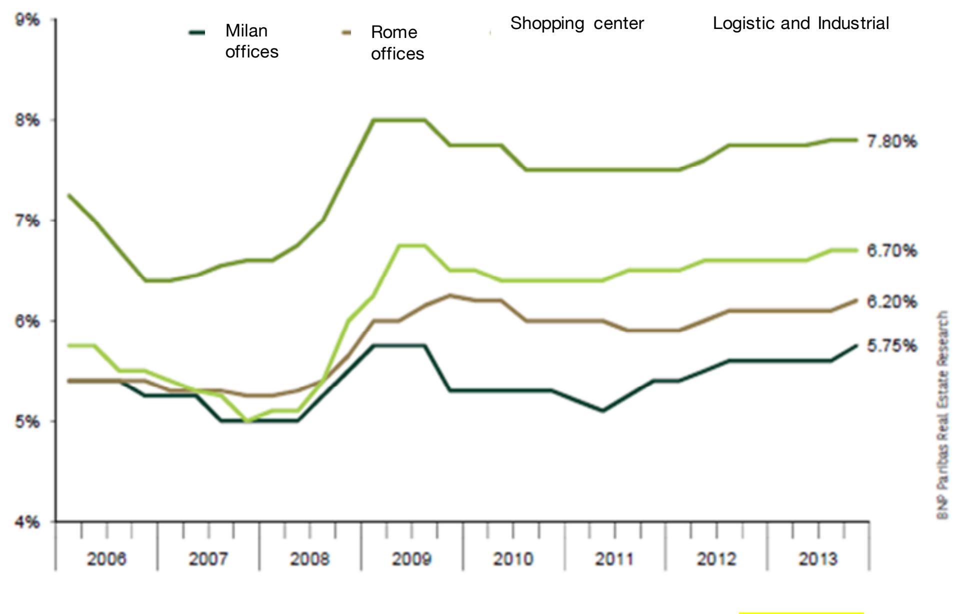
- The price trend in general remains negative, with access to credit still extremely difficult. The price correction that began recently has primarily been observed in secondary assets, especially those owned by foreign investors and held mainly in pan-European portfolios. By contrast, Italian investors have chiefly invested in Italy over the years (98% of the real estate asset allocation of asset management companies) and are less likely to accept losses that would not be offset by capital gains abroad[7].
- More specifically, investors are most interested in the Retail, Offices and Hospitality asset classes.
- Real estate investment in the Retail sector, where there has been significant repricing, has attracted the attention of more sophisticated international investors, drawn by investments with yields in line with "Value Added" and "Opportunistic" investments.
- Domestic investors are focusing instead on "core" investments (buildings leased to primary tenants, without maintenance/planning issues and in strategic locations) with modest and stable performance targets, minimising the risk profile wherever possible.



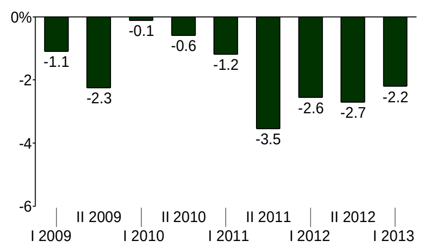
Source:BNP Paribas Real Estate, At a glance, Investimenti in Italy, Q4 2013; EMEA Rents and Yields Market View (CBRE Global Research and Consulting), European Investment (Savills)
Note: data regarding Paris, Hamburg, Berlin, Dusseldorf , Munich, Frankfurt, Milan and London (prime yields as at half 2013)

[7] BNP Paribas Real Estate, At a glance, Investimenti in Italia, Q4 2013.

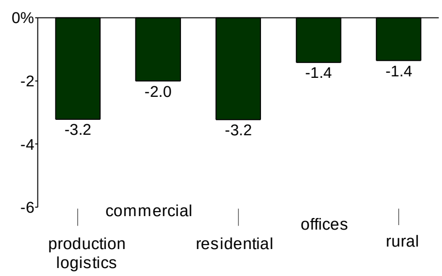
Net initial yields *prime*



Average half-year change in 3 years



Destination use variance



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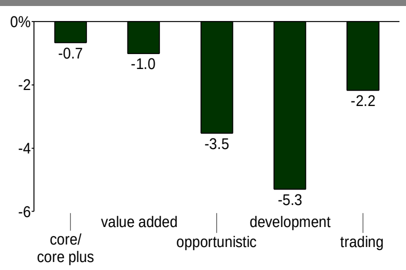
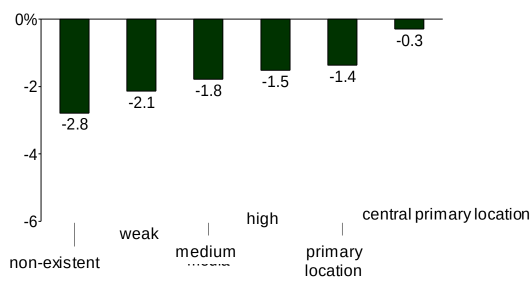
Risk profile variance



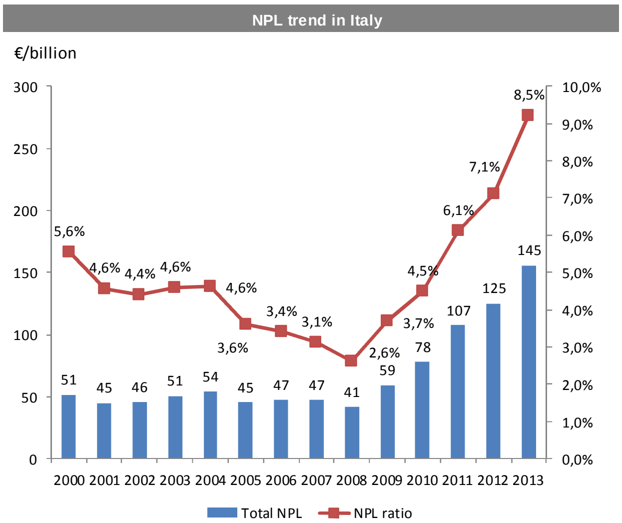
Average half-year change in 3 years

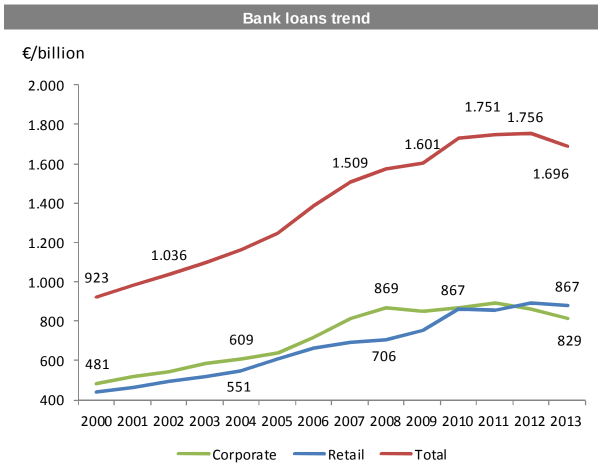


Source: Prometeia analysis on a sample of 1,700 assets in real estate funds
Note: data represent average changes in the half-year period

Non-performing loans (NPL)

- The steady growth in lending by Italian banks recorded since 2000 has slowed in the last three years; total bank loans stood at approximately Euro 1,700 billion at the end of 2013, a decrease of around Euro 150 billion compared with 2010.
- The fallout from the global economic crisis which began in 2008 has triggered a sharp increase in non-performing loans; these stood at Euro 156 billion in January 2014, rising from around 3% of total loans to more than 8% by the end of 2013, the highest level since May 1999 (8.37%).
- Around half of current non-performing loans are secured on real estate, particularly industrial assets.
- Macroeconomic forecasts predict a slight recovery over the next few years, although the proportion of non-performing loans on bank balance sheets will continue to grow through to 2016, reaching approximately 11% of total loans in the sector.
- The asset quality review currently under way at major Italian (and European) banks is leading to a further reduction in the book value of non-performing loans, creating an active NPL market with a consequent impact on the real estate sector linked to the non-performing loans themselves.





Source: ABI, Banca d'Italia, Prometeia, Cerved

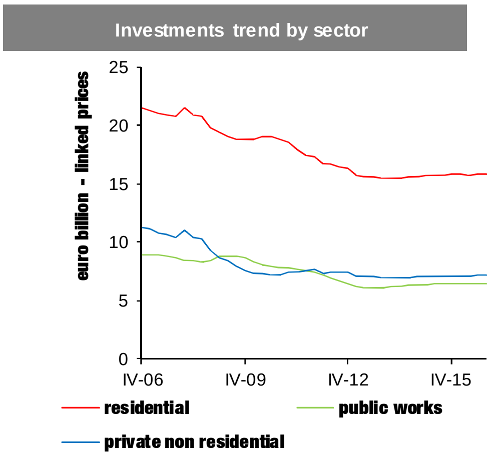
Real estate funds

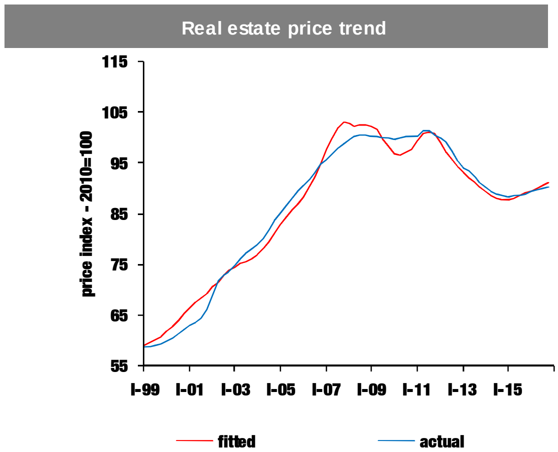
- In Italy, despite the dual real estate and economic crisis, there has been a 3.5% increase in net equity within the real estate fund industry. This increase is due both to the entry of new funds and new fund-raising or capital inflows.
- At the end of December, NAV was around Euro 39 billion, with real estate assets worth around Euro 50 billion. For the first time, there are also public-sector and social housing funds, which look set to grow in the next few years.
- There are 372 active funds, including 25 listed retail funds: of these, six already benefit from the grace period, four have extended their original maturity (from 1.3 to 15 years) and the remainder will mature in the next six years. The closure of "family" funds is partly offset by new reserved funds.
- A central theme for the retail sector is the relatively short maturity of many funds, with the risk of oversupply in a non-residential real estate market that remains fragile. For listed retail funds alone, around Euro 6 billion is expected to enter the new asset market, mainly represented by offices.[8]

Growth trends

- After a few years when the real estate market saw a steady decline in investment, a stabilisation is expected in 2014 that will continue for several years.
- If 2008-2009 was the United Kingdom, 2010-2011 Germany and 2012-2013 Spain and Ireland, many observers believe that 2014 and 2015 will see Italy become one of the main targets of cross-border investors owing to its newfound political stability, attractive prices for quality assets and, more importantly, significant yields relative to country risk.
- Although opportunistic investments tended to prevail at first, the future interest is expected to turn towards "core" investments, i.e. with a medium- to long-term horizon, even though fiscal uncertainty represents the main deterrent at the moment.
- In terms of real estate values, after a cycle of continuous price growth which began in 2000, followed by a period of decline, albeit to a lesser extent than in other European countries, the residential real estate market in Italy has been stabilising since 2009.
- Over the next few years, stabilisation will drive prices up again, although the increase will be more moderate than in the past, both for the residential market and for non-residential property, which has historically shown a close correlation with the residential segment.
- The stabilisation predicted over the next few years will also give new impetus to property-related services.

[8] Scenari Immobiliari, November 2013; financial statements of listed funds at June 30, 2013 considering the extension period and grace period.

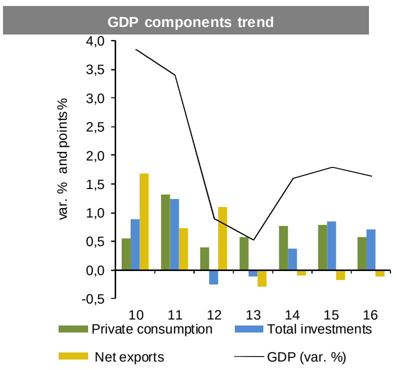




Source: Prometeia calculation on BCE, OECD data.

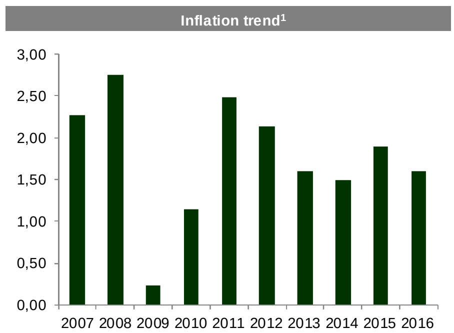
1.1.5. Macroeconomic environment in Germany

- The double dip witnessed in the euro zone in 2012 and 2013 barely affected Germany, which, unlike its European partners, benefited from its solid positioning in the most dynamic international markets.
- Germany was not forced to tighten fiscal policy, benefiting more from the expansionary monetary policy of the ECB since it was considered by international investors as a sort of "safe haven". Going forward, these factors will allow Germany to rebound more quickly than its European partners, after modest growth in 2013 which nevertheless tempered the recession in the wider euro area.
- German inflation remained under control at a level close to 2%, maintaining the right conditions for the continued strengthening of the country's economy.



GDP variance (a/a)

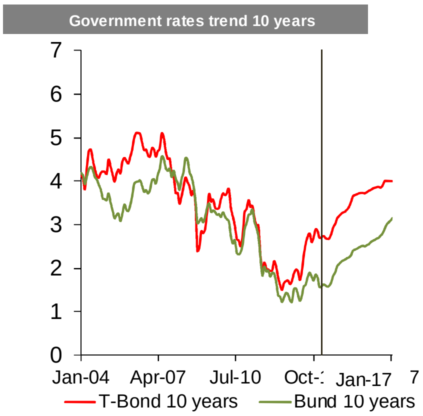
	Germany	EMU	EMU (excl. Germ.)
2012	0.9	-0.6	-1.2
2013	0.5	-0.4	-0.7
2014	1.6	1	0.8
2015	1.8	1.5	1.4
2016	1.6	1.4	1.3

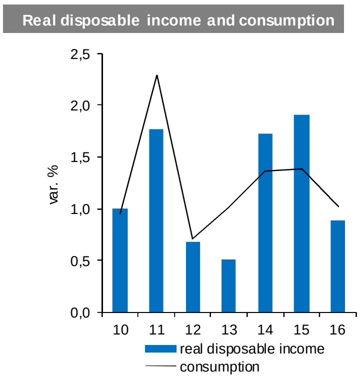


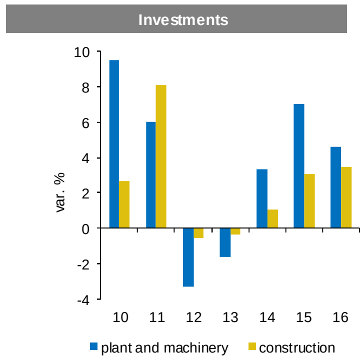
1. Change y/y, normalized
Source: Prometeia calculation on Bundesbank, Eurostat, Thomson Reuters data, estimated data Prometeia, Rapporto di Previsione, janurary-14; monthly average; historical data 31 january 2014.

- After years in which the "safe haven" status attributed to Germany by the international markets led to a steady fall in the interest rates that the country pays investors, reaching a low in 2012 with rates slightly above 1% (and below inflation), the stabilisation of the economic situation in Europe as a whole will gradually bring government interest rates back to pre-crisis levels.

- Household consumption will continue to benefit from solid labour market conditions, non-marginal wage increases compared with those witnessed during the industrial restructuring in the early 2000s and low inflation.
- Investments will be sustained by the upturn in demand, together with the low cost of credit and solid company profits.



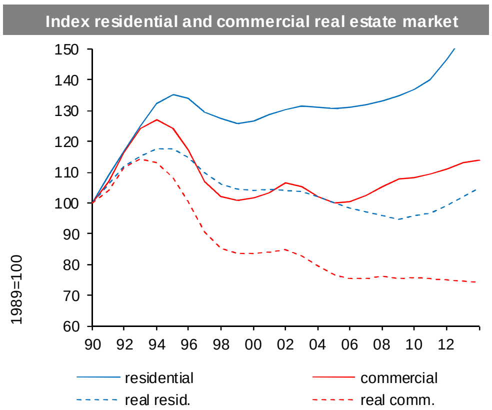


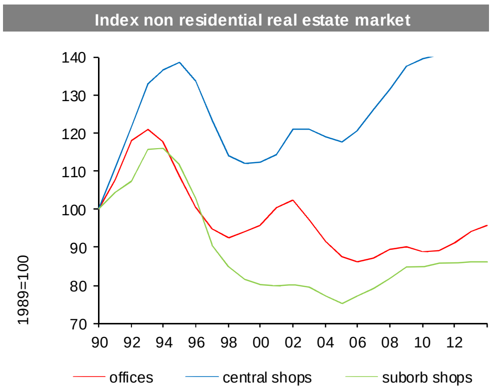


Source: Prometeia calculation on Bundesbank, Eurostat, Thomson Reuters data, estimated data Prometeia, Rapporto di Previsione, janurary-14; monthly average; historical data 31 january 2014.

1.1.6. Real estate market – Germany

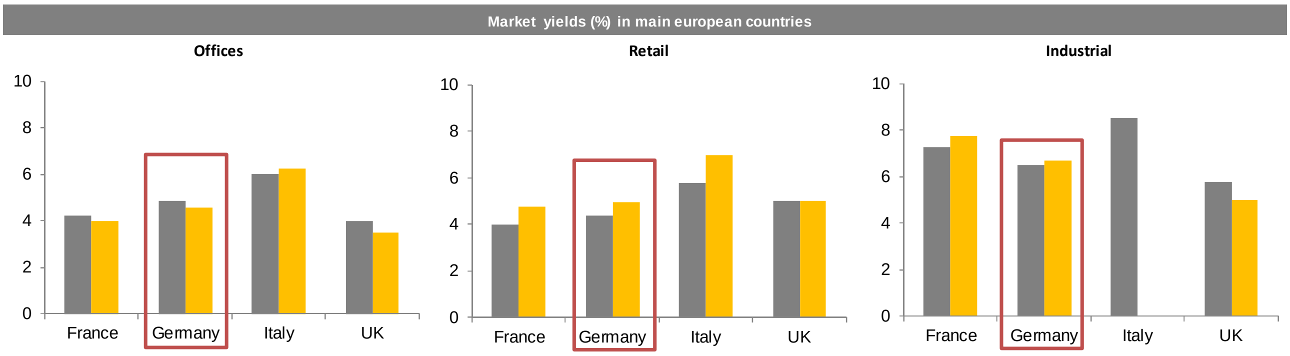
- The growth in residential investments in recent years has been mainly driven by the rise in household disposable income and the demand for real estate as a safe investment for capital preservation.
- Conversely, the performance of non-residential investments reflects the industrial restructuring process, characterised by offshoring and outsourcing of key stages of production.
- In terms of performance, the non-residential sector has proved less successful than the residential segment and prices/rentals are still far lower in real terms than 1990 levels.
- As in the residential market, investments tended to be defensive in nature, focusing on prime areas of major German cities.





Source: Bulwiengesa; indicators relate to the performance of joint prices and rents

- Demand in the core and core-plus segment continues to outstrip supply, resulting in a slight contraction in yields over the past few months.
- Yields for prime office and commercial buildings, based on the data for the top six German cities, have fallen by around 10 basis points in the last 12 months.
- Yield compression is also expected in 2014, driven mainly by three factors: 1) accommodative monetary policy by the ECB, 2) high spread between German long-term government bonds and prime yields in the German real estate market and 3) the medium- to long-term inflation risk.

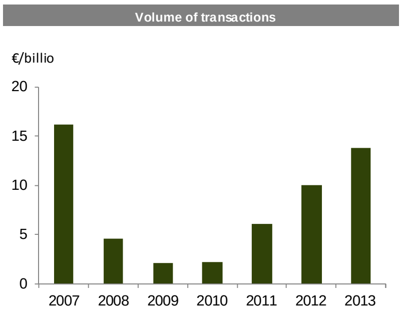


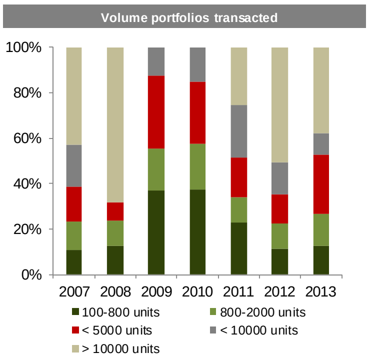
Source: EMEA Rents and Yields Market View (CBRE Global Research and Consulting), European Investment (Savills)
Note: data regarding Paris, Hamburg, Berlin, Dusseldorf, Munich, Frankfurt, Milan and London (prime yields as at half 2013)

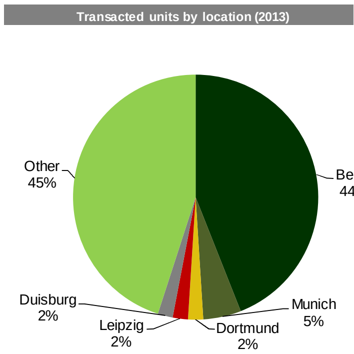
Residential segment

- The value of residential transactions in the German market has grown steadily since 2010, to reach approximately Euro 14 billion in 2013 (+35% vs 2012)
- Although activity has increased overall, transactions in large portfolios (in excess of 10 thousand units) have undergone a significant decline, both in terms of numbers (from six transactions in 2012 to two in 2013), and in terms of the percentage of the total market (from 50% in 2012 to just under 40% in 2013).

- Berlin continues to be of most interest to investors, representing almost 50% of deals in 2013.
- It should be noted that between 2012 and 2013, major IPOs were completed which involved companies owning residential portfolios.





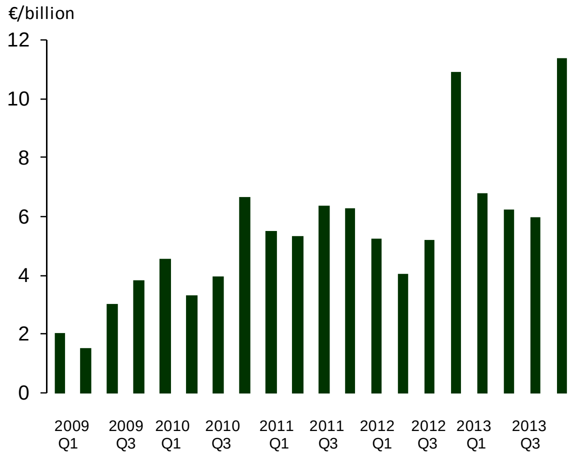


Source: Germany Investment, February 2014, Savills

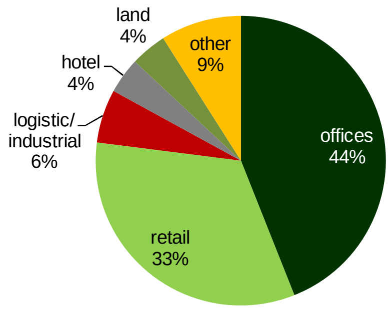
<u>Non-residential segment</u>

- The economic climate and the performance of the financial markets have bolstered the growth in transactions in the German non-residential market (over Euro 30.4 billion in 2013, or +20% compared with 2012), recording the highest transaction volume since 2007.
- The high demand coupled with a growing shortage of properties have led to a further slide in prime location yields: as a result, some investors have partially reoriented their asset allocation, contemplating alternative strategies and increasing their risk tolerance.
- The office segment in 2013 represented 44% of the total market volume, representing more than Euro 13 billion in transactions (+61% year-on-year). Even the retail segment, aided by its ability to generate stable cash flows, has witnessed a surge in growth, ranking second by volume of transactions for the first time since 2009 (around Euro 10 billion).
- The real estate services sector is seeing the same growth trend as the non-residential market.

Volume of transactions



Volume transactions by tipe of use (2013)

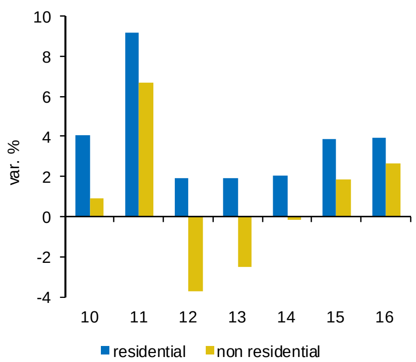


Source: Germany Investment, February 2014, Savills

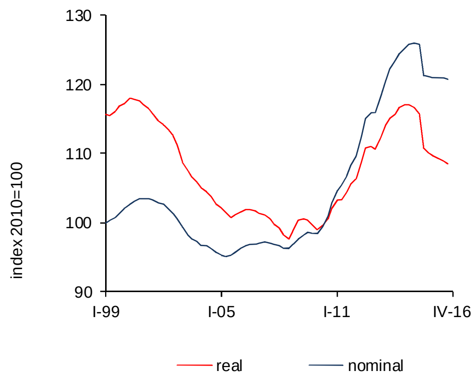
Growth trends

- Household finances and demographics seem unlikely to fuel a boom in demand for residential investment. House prices will continue to be propped up by household savings and by the gradual return to normal of the situation in the European and global markets; a partial dip in prices is to be expected as the European recovery takes hold and the uncertainty associated with this eases. Inflation, while remaining below an annual average of 2%, will tend to erode the real value of homes in 2015 and 2016.
- In 2015-2016, investment is expected to resume in non-residential construction, bolstered by the economic recovery and cheap credit; however, the increase in the number of countries considered safe for the purpose of diversifying real estate investments (in view of the strengthening of the economic recovery and normalisation process in Europe) could dampen demand in this segment.

Investments (var a/a)



House prices



Source: Prometia calculation on Statistisches Bundesamt, BCE, OECD data.

1.2. Group profile

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

Prelios is one of Europe's leading asset management groups, with a comprehensive range of real estate and financial services and around Euro 6.2[9] billion in assets under management. The Group has a skilled organisation of around 500 professionals[10], with significant professional expertise and an excellent track record built up over the years in a competitive international arena.

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

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

At December 31, 2013, assets under management (AuM) totalled Euro 6.2[11] billion and included Euro 6.0 billion in real estate assets (market value), and Euro 0.2 billion in non-performing loans (book value).

[9] Assets under management include approximately Euro 0.4 billion in the Spazio Industriale Fund, which exited the scope of management of the subsidiary Prelios SGR S.p.A. in the second quarter of 2013 but which continues to be managed through the investment division of the parent company, and Euro 0.1 billion invested in the Lucchini development project managed by the company Bielany Project Management, in which Prelios S.p.A. has a 40% stake.
[10] This figure excludes the DGAG deal, described below.
[11] Assets under management, excluding NPL valued at book value, are stated at market value at December 31, 2013 based on appraisals and analysis by independent experts. In addition, AUM includes approximately Euro 0.4 billion in the Spazio Industriale Fund and Euro 0.1 billion invested in the Lucchini development project managed by the company Bielany Project Management, in which Prelios S.p.A. has a 40% stake.

In terms of the geographical distribution of real estate assets, Italy accounts for Euro 4.4 billion, primarily in 22 real estate funds managed by the subsidiary Prelios SGR, one of the leading players in the Italian real estate market.

The remainder of the portfolio is located in Germany (Euro 1.6 billion) and Poland (Euro 0.1 billion).

1.3. Activities and services

ITALY

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

Prelios SGR – Real estate fund management

The Group is involved in real estate fund management through its subsidiary Prelios SGR (90% Prelios, 10% Intesa Sanpaolo), which – with 22 funds and approximately Euro 3.7[12] billion in assets under management – is one of Italy's leading real estate asset management companies.

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

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

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

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

[12] Market value expressed at 100%, including the portfolio of Excelsia 9 S.r.l. and excluding the investment in the Spazio Industriale Fund, which exited the scope of management of the subsidiary Prelios SGR S.p.A. in the second quarter of 2013 and which continues to be managed through the parent company's investment division.

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 4.9 billion in assets under management, representing over 4.9 million square metres.

Prelios Integra offers an integrated active and dynamic management service (asset, property and facility management) aimed at creating value for customers in both the public and private sectors: from property administration and accountancy to tenant management, from technical and maintenance services to research and sales support.

As part of its development and project management activities, Prelios Integra takes care of all the planning and construction phases of a building or property development, from designing the concept to turnkey delivery of the finished product. Prelios Integra has unique expertise in sustainability: from designing eco-friendly buildings from the ground up to green retrofitting, and from energy certificates to renewable energy. This is testified by the numerous accolades garnered over the years, including the 2011 Mipim Awards in the "Green Building" category for the headquarters of 3M Italy, one of the leading examples of contemporary eco-architecture.

In the retail segment, the Company relies on a highly specialised division that deals with the construction and development of shopping centres across Italy – from operation and administration to liaising with retailers and strategic optimisation of the tenant mix.

Prelios Agency – Real estate brokerage, valuations and franchising

In Italy, the subsidiaries Prelios Agency and Prelios Valuations are responsible for providing real estate brokerage and valuation services. Prelios Agency is currently being strategically repositioned, potentially outside the captive market.

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

With a team of qualified professionals and a network of over 400 trusted agents nationwide, Prelios Agency acts as a single point of contact for various types of customer: from the corporate world to the public and private sector, and from real estate funds to institutional investors. Prelios Agency is a leading player in the capital markets, an area in which it has worked with all the major national and international investors.

Prelios Agency offers its customers a professional approach at each stage of the development process: from putting together an investment strategy or selling an asset to structuring the deal, from finding tenants to optimising the profitability of a property, from providing highly specialised services such as the data room and due diligence support to preparing marketing plans.

<u>Prelios Valuations – Valuations</u>

Prelios Valuations is an independent provider of valuations for individual properties and real estate portfolios in the tertiary and residential segments. With approximately 13,000 appraisals in 2013, it specialises in valuation services for banks ("Loan Service").

The company employs a team of professionals and a network of about 150 qualified surveyors enrolled in approved professional bodies, acting in accordance with the highest international standards as well as with the ABI guidelines and the RICS Red Book. It is also a founding member of Assovib, an association for the promotion of quality and a professional culture within the bank valuations sector.

The organisational structure is divided into three areas of activity: mass appraisals of large real estate portfolios with statistical methods, using the proprietary technology Magister; full appraisals, or the valuation of real estate and real estate portfolios through economic and financial analysis; and loan services, or support services for lending by banking groups, leasing companies and private banks.

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

Prelios Credit Servicing (PRECS) is a financial intermediary registered on the list referred to in Article 107 of the Consolidated Banking Act, tasked with heading one of the Prelios Group's three strategic businesses: the management and recovery of non-performing loans. In October 2013, the joint venture with the former partner Crédit Agricole Corporate & Investment Bank was successfully dissolved, and, by repurchasing 20% of the shares, the PRECS platform is now 100% owned by Prelios S.p.A.

PRECS, through its service activities (special, master and corporate servicing), manages a portfolio of Euro 8.5 billion[13] and ranks among Italy's foremost operators in the management of non-performing loans (NPL) by volume.

The company operates through a highly specialised organisation that combines expertise in financial, real estate and legal matters; nationwide coverage is also guaranteed by the Rome branch and a network of specialised legal and real estate professionals. 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.

Since dissolving the joint venture with Crédit Agricole Corporate & Investment Bank and transferring some of the portfolios previously managed, PRECS is now focused on securing new mandates for non-performing/sub-performing loans from the banking system and developing more profitable, high-value-added activities (e.g. special situation and advisory for portfolio disposals).

The combination of being an independent institutional operator and the Group's strategic approach as a "pure management company" makes PRECS the ideal partner for banking

[13] Gross Book Value.

customers and global investors, as confirmed by the positive assessment of leading ratings agencies. Prelios Credit Servicing recently had its rating confirmed by Standard & Poor's and Fitch. On January 18, 2013, the ratings agency Fitch confirmed the company's rating at RSS2/CSS2 for special servicing activities on both residential and commercial secured portfolios. The rating is one level below the highest market standard. This positive assessment confirms the opinion previously issued on October 15, 2012 by the ratings agency Standard & Poor's, which had assigned the Company an Above Average rating with the Outlook upgraded to "Stable". On April 10, 2013, Standard & Poor's began covering the Company's rating solely for the Master Servicer activities; the first rating assigned was Above Average with Stable Outlook.

GERMANY

Prelios Deutschland ("Prelios DE") is one of the leading real estate service companies in the commercial sector in Germany, with around Euro 1.4 billion in assets under management.

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

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

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

With a large base of loyal customers and investors with long-term mandates, the commercial division, which manages around 1.0 million square metres, is recognised for its excellence. In addition to the properties in the Highstreet retail portfolio, which includes 56 units mainly occupied by the German chain Karstadt, it manages shopping centres, multi-tenant retail spaces, offices and mixed-use buildings.

Among the many accolades received by the German company – it recently took the prize for "Lago di Costanza" – it was voted best shopping centre in Germany for two years in a row, in 2012 and 2013[14].

POLAND

Prelios Polska ("Prelios PL") offers a full range of real estate services, from technical consultancy to urban planning, from master-plan development to construction and turnkey delivery.

Its customers include public and private investors of high standing.

In recent years, Prelios Polska has worked on residential projects involving over 3,000 units and commercial projects involving a total of 46,000 square metres, both characterised by the adoption of high standards of environmental sustainability. It also built the medical centre at Gdansk University, a 34,000 square metre facility with 300 beds.

[14] Ecostra, Shopping Center Performance Report 2012-2013.

1.4. Economic and financial highlights

The net loss attributable to the Group was Euro 332.8 million, compared with a loss at December 31, 2012 of Euro 241.7 million. Net profit is largely determined by items that are outside the scope of ordinary operations, and in particular:

- the disposal of the German residential portfolio known as DGAG (on which an agreement was reached in February 2014), consisting of approximately 18,000 units, sold to BUWOG (100% owned by the Austrian Group Immofinanz) together with the related residential management platform of Prelios Deutschland. This transaction, in which the economic and financial effects have been treated as discontinued operations, has already had a negative impact of Euro 142.6 million on the 2013 financial statements, while the financial effects (cash-in) will be visible only in 2014 and 2015. The deal has allowed the Company to dispose of a highly leveraged portfolio (approximately Euro 300 million in nominal pro-rata unconsolidated debt maturing in September 2014) and at the same time to focus on business management services with higher margins;
- restructuring costs, which had a negative impact of Euro 42.6 million, more than twice the Euro -18.8 million at December 31, 2012. This figure includes losses on receivables and write-offs made under the restructuring programme of certain investee companies and the costs linked to the rationalisation of the Group, its various sites and tax litigation settlements, despite giving the Company a more streamlined and competitive structure from as early as 2014;
- impairment losses and property write-downs, which amounted to Euro -111.1 million (Euro -142.8 million in December 2012).

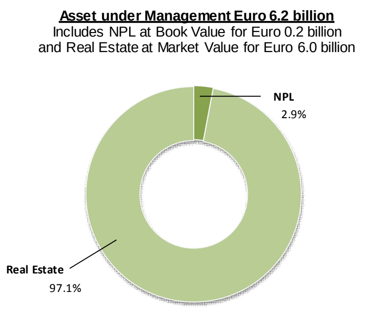
Given the loss for the period, Group equity at December 31, 2013 is negative at Euro -69.1 million. Since the parent company is in the situation referred to in Article 2447 of the Italian Civil Code, this triggers the automatic conversion of the entire mandatory convertible bond issue recognised at December 31, 2013 for Euro 235.9 million. Following this conversion, equity is Euro 166.8 million.

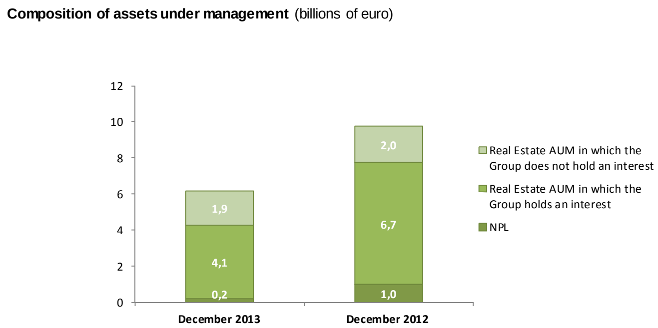
Income statement data	December 2013	December 2012
Consolidated revenue	**73.1**	**85.9**
of which services	*68.6*	*79.8*
of which other	*4.5*	*6.1*
Operating profit/(loss)	**(55.2)**	**(83.9)**
of which Management Platform	*(15.5)*	*(0.8)*
of which Investment Activities	*(39.7)*	*(83.1)*
Restructuring costs	(42.6)	(18.8)
Property (write-downs)/revaluations	(84.0)	(77.8)
Group net income/(loss) before discontinued operations	**(190.2)**	**(242.7)**
Net income (loss) from discontinued operations	(142.6)	1.0
Group net income/(loss) for the period	**(332.8)**	**(241.7)**

Balance sheet data	December 2013	December 2012
Equity	(66.3)	80.4
of which Group equity	*(69.1)*	*74.2*
Equity following total conversion of Convertible loan	169.6	N/A
of which Group equity following total conversion of Convertible loan	*166.8*	*N/A*
Net financial position	(388.4)	(520.5)
Net Financial Position after capital increase following total conversion of Convertible loan	(152.5)	N/A

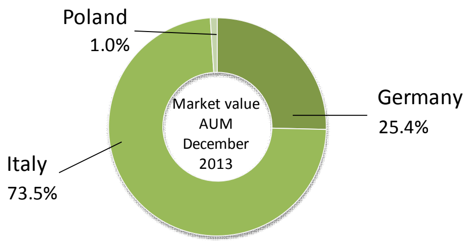
Indexes	December 2013	December 2012
Employees (*)	790	884
Real estate assets under management (billion)	6.0	8.7
Pro-rata NAV (billion)	0.4	0.6

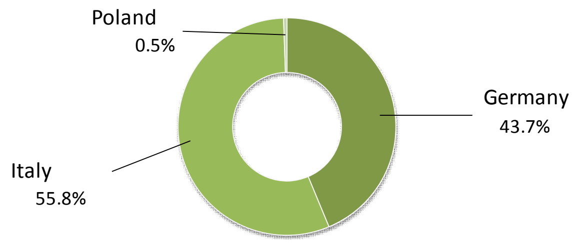
(*) The Group had 790 employees at December 31, 2013 (of which 290 will leave following the signing of agreements with BUWOG for the sale of the residential services platform), including four resources with temporary contracts, compared with 884 employees at December 31, 2012, including six resources with temporary contracts.



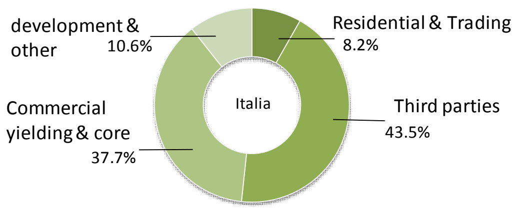


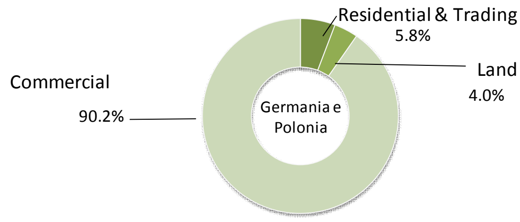
The following graphs illustrate AuM 2013 by geographical area compared with the corresponding figure for 2012:





These graphs illustrate AUM 2013 by designated use:





1.5. Shareholders at December 31, 2013

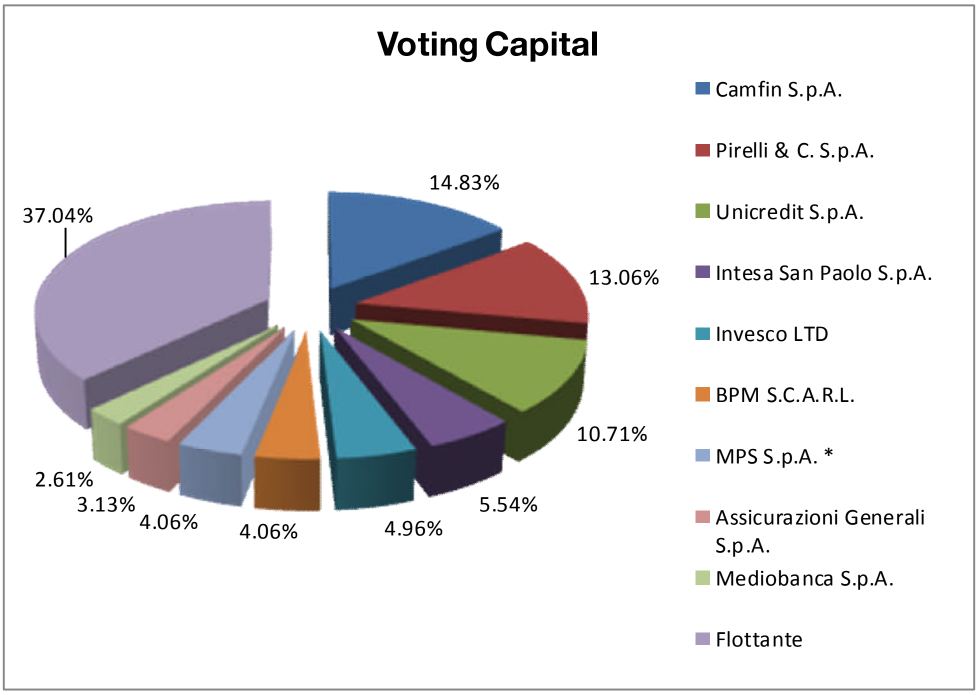
Following the implementation of the resolutions passed by the extraordinary shareholders' meeting of May 8, 2013, the special capital increase operation, both reserved and with pre-emptive rights, was successfully completed.

With the entire subscription of the capital increase reserved for the company Fenice S.r.l. (owned by Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A.), 117,597,496 Category B shares were issued, without voting rights and not intended to be listed, for a total amount of Euro 70,005,789.37.

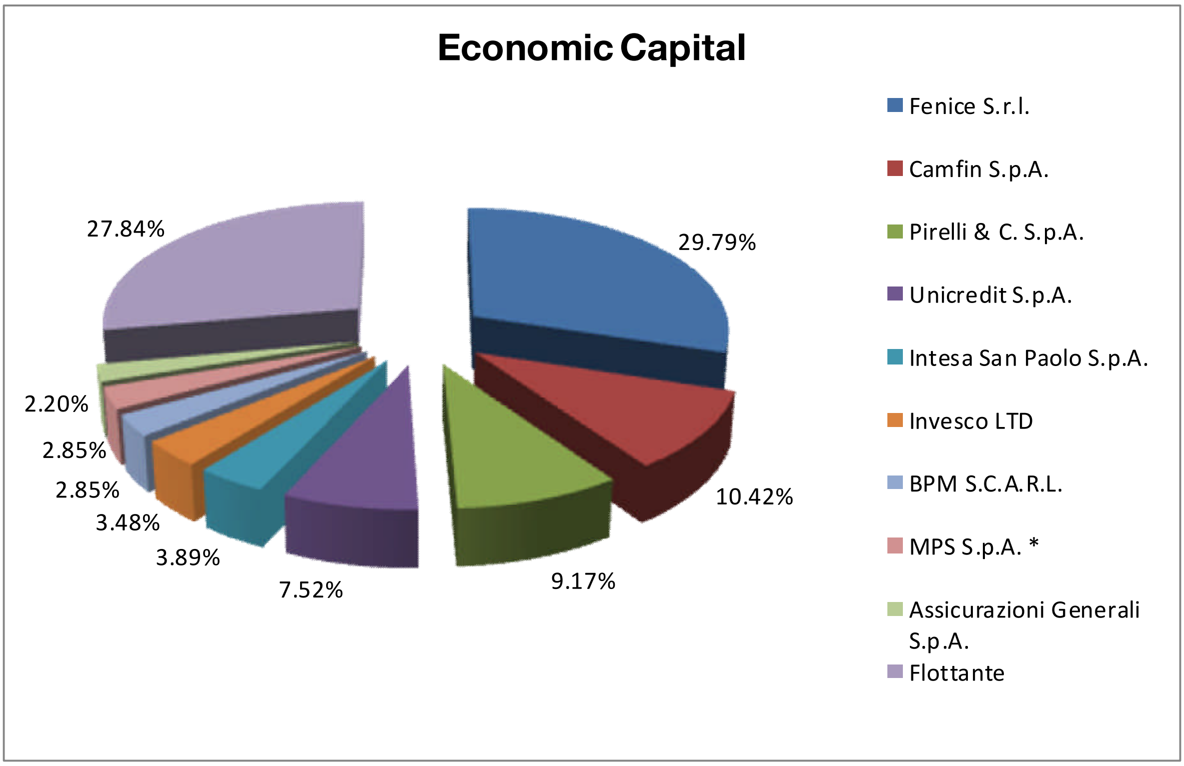
With the entire subscription of the capital increase, by law a rights offering for all shareholders of the Company, 193,195,887 ordinary shares were issued with regular dividends and identical features to those of outstanding shares at the time of their issue, for a total amount of Euro 115,009,511.53.

Therefore, the share capital of Prelios S.p.A. at December 31, 2013 was Euro 189,896,923.40 (fully subscribed and paid up), represented by a total of 394,793,383 shares (without par value), consisting of 277,195,887 ordinary shares and 117,597,496 Category B shares.

Below is an illustration of the composition of the Voting Capital and Economic Capital at December 31, 2013 for shareholders that hold shares exceeding 2% of the capital.



* On February 26, 2014, Banca Monte dei Paschi di Siena reduced its investment in Prelios to below 2% of the share capital.



* On February 26, 2014, Banca Monte dei Paschi di Siena reduced its investment in Prelios to below 2% of the share capital.

With reference to the provisions of Article 122 of the Consolidated Finance Act, the shareholders' agreement concerning Prelios ordinary shares signed on September 20, 2013 by Camfin S.p.A., Intesa Sanpaolo S.p.A. and Massimo Moratti, the latter also for and on behalf of C.M.C. S.p.A. and Istifid S.p.A. (together "Massimo Moratti"), was terminated early by mutual consent with effect from October 31, 2013. Notification of the early termination was filed with the Companies' Register of Milan on November 4, 2013.

It should further be noted that, under the agreements reached between the parties to the transaction aimed at continuing the capital and financial strengthening of the Company through recapitalisation and rebalancing of its financial structure, as well as boosting the Group's growth prospects and industrial development, repeatedly communicated to the market and concluded in 2013:

- Feidos 11 S.p.A., Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Pirelli & C. S.p.A. have signed and entered into a shareholders' agreement (the "Fenice Agreement") relating to Fenice S.r.l. (which Fenice itself has signed), holder of all Category B shares issued. The Fenice Agreement governs the rights and obligations of the parties in relation to: (i) the governance and transferability of the investments held in Fenice S.r.l.; (ii) the disposal of the investment that Fenice S.r.l. acquired in Prelios and (iii) the transferability of some shares issued by Prelios that are or will be held by the parties.

An excerpt from the Fenice Agreement and related communications can be found in the corporate governance section of the Company's website at www.prelios.com.

- Fenice S.r.l. has entered into separate co-sale agreements (the "Co-Sale Agreements") with Camfin S.p.A., Massimo Moratti, Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano S.c.a.r.l., Banca Popolare di Sondrio S.p.A., Banca Popolare dell'Emilia Romagna Soc.Coop., Banca Carige S.p.A. and UBI Banca Soc.Coop.p.A. (formerly Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A.) governing the terms and conditions under which Fenice S.r.l. granted each of these holders rights of co-sale on all Prelios shares and/or all Mandatory Convertible Bonds held by them when the corresponding rights were exercised. With effect from February 18, 2014, the co-sale agreement between Fenice and Massimo Moratti was terminated by mutual consent. An excerpt from the Co-Sale Agreement and related communications can be found in the corporate governance section of the Company's website at www.prelios.com.

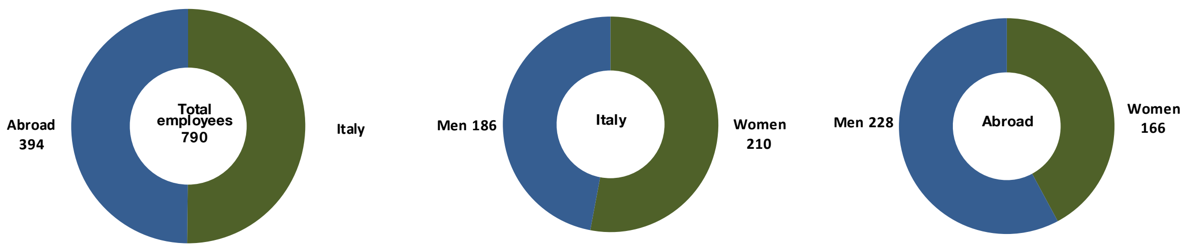
Lastly, it is reported that the corporate governance section of the Company's website contains a more detailed excerpt, together with the related communications, from the shareholders' agreement between Marco Tronchetti Provera & C. S.p.A., Marco Tronchetti Provera Partecipazioni S.p.A., Gruppo Partecipazioni Industriali S.p.A., Nuove Partecipazioni S.p.A., Lauro Cinquantaquattro S.r.l., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. concerning, *inter alia*, the Prelios ordinary shares held by Camfin S.p.A., according to a specific provision relating to the governance of Prelios.

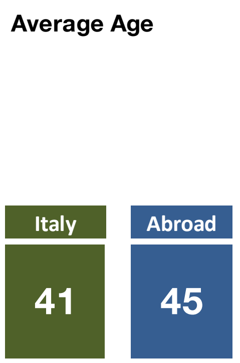
1.6. Prelios share performance

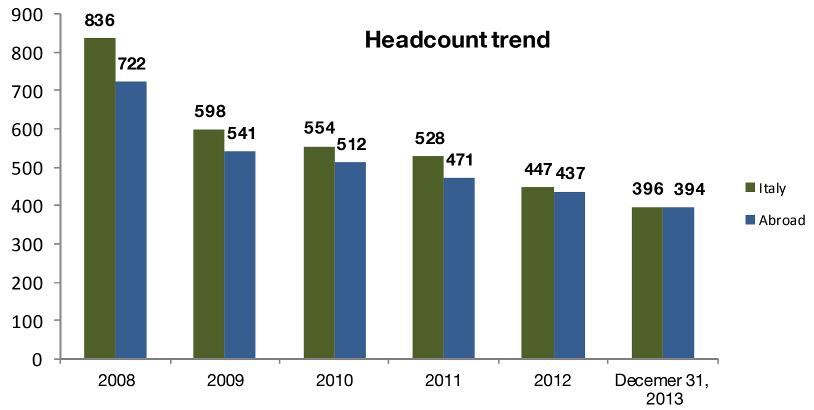
In 2013, Prelios shares recorded an absolute performance of -20.23%. The FTSE MIB recorded an absolute performance of +16.05%, the FTSE SmallCap +30.42% and the sector index EPRA +10.23%.

Prelios therefore underperformed the FTSE MIB and the main European sector indices.

1.7. Headcount[15]







The total headcount after the DGAG disposal, including resources on temporary contracts, fell to 500.

[15] Including resources on temporary contracts.

2. CORPORATE BODIES

Board of Directors[16]

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

Internal Control, Risk and Corporate Governance Committee[17]

Massimo Tezzon	Lead Independent Director – Chairman
Marina Brogi	Independent Director
Andrea Mangoni	Independent Director

Remuneration Committee

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

[16] The shareholders' meeting on May 8, 2013 appointed the members of the Board of Directors for a three-year term, i.e. until the approval of the financial statements at December 31, 2015. At the end of the meeting, the Board appointed the executive officers, established the Board committees and appointed the members of the Supervisory Board. On February 18, 2014, the lawyer Anna Chiara Svelto resigned from the post of Director.
[17] On February 18, 2014 the lawyer Anna Chiara Svelto resigned as member of the Internal Control, Risk and Corporate Governance Committee.

Board of Statutory Auditors[18]

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

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

Chief Reporting Officer

Mark Andreasi[19]

Independent Auditors

Reconta Ernst & Young S.p.A.[20]
Via della Chiusa, 2
20123 Milan

[18] 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.
[19] With effect from November 7, 2013, the date on which all formalities were completed subsequent to the approval of the interim report on operations to September 30, 2013, Elena Capra was named Chief Financial Officer and consequently Chief Reporting Officer pursuant to Article 154-*bis* of the Consolidated Finance Act; on February 24, 2014, the Board of Directors of Prelios S.p.A. appointed Mark Andreasi as the new Chief Financial Officer of the Company and Chief Reporting Officer pursuant to Article 154-*bis* of the Consolidated Finance Act.
[20] Appointment conferred by the shareholders' meeting on April 14, 2008.

3. PRELIOS IN 2013

Given the highly unstable macroeconomic scenario, the market remains fragile, with GDP only starting to grow in the fourth quarter of 2013 after nine consecutive quarters in recession. That said, although GDP shrank in 2013 as a whole, the first positive signs are emerging in the real economy; for the real estate sector, this suggests a possible end to recession partly due to repricing, which has affected both performing assets and non-performing assets, regardless of the local reference market.

In view of the difficulties in the national reference market, in 2013 the Group expects a significant slowdown in sales. As described more fully in previous interim reports, since the end of 2012 this has required suitable measures to be adopted to allow the Company to continue as a going concern, partly by conducting extraordinary transactions that modify the overall financial structure or that are able to generate additional cash flows compared with those generated by ordinary activities.

In this context, in May 2013 the Company resolved on the extraordinary capital increase and debt restructuring in order to provide new opportunities for growth and development (the "Transaction").

Due to delays in completing the Transaction, the Company has prioritised the management of the business as a going concern over ordinary business development. Having successfully completed the Transaction, efforts are under way to build on initiatives that will develop the business, in line with the strategy of repositioning in the target market of asset management and real estate and financial services for third-party investors, the results of which, however – for the reasons mentioned above – have not yet taken full effect.

The Transaction (as provided for in the subsequent agreements reached during the negotiations with all interested parties) has involved implementing the necessary measures aimed, in short, at:

• strengthening the Company's capital, if necessary through the expansion of the shareholder base and the entry of a new industrial partner; and

• a comprehensive review of the financial debt structure in order to restructure the outstanding debt within sustainable limits and to rebalance the financial situation through a recovery plan and related restructuring agreements.

On December 21, 2012, Prelios and Feidos 11 S.p.A. ("Feidos 11" or the "Industrial Investor"), a special purpose entity controlled by Feidos and in which the Rovati, Diaz della Vittoria Pallavicini and Cornetto Burlot families also hold an interest through special purpose entities, signed a "Framework Agreement" which planned and regulated activities pertaining to:

• the Company's recapitalisation through a capital increase totalling approximately 185 million euro; and

• the restructuring of existing debt, restructured based on the new business plan, according to which:

- 250 million euro would have remained as a loan (Super Senior and Senior); and

- up to Euro 269 million would have been converted into convertible loan instruments (the "Convertible Loan"), with a cash option for redemption exercisable by the Company.

Regarding the key facts about the Transaction, it is worth noting the following.

On March 26, 2013, Prelios received formal notification regarding the commitments of the Lenders, Feidos 11 and certain parties to the Prelios Agreement, to underwrite and/or guarantee the underwriting of the capital increase (under the terms and conditions of the term sheet recently prepared with the Lenders themselves concerning the final restructuring agreements), submitted for the approval of the Company's shareholders on May 8, 2013.

On March 27, 2013, the Board of Directors of Prelios, following the meeting on November 13, 2012 which had already approved the Group's 2013-2016 Guidelines in terms of the operational component (on an unlevered basis), approved the overall Strategic Plan and the equity and financial component (on a levered basis), partly in light of the expected outcome and development of the proposed Transaction.

On March 28, 2013, following the approval of the Board of Directors, the business data contained in the Prelios economic and financial plan forming the basis of the Transaction were certified as feasible and accurate – in accordance with Article 67 of Decree 267/1942 – by Mario Civetta, appointed for that purpose by the Company. The certification was filed on March 29, 2013 with the Companies' Register of Milan and was subsequently published on the Company's website.

On April 4, 2013, the Group signed specific agreements – following a "Head of Terms" approved on March 27, 2013 – with Crédit Agricole ("CA") which made provision, *inter alia*, for (i) the exit of CA as a shareholder of the subsidiary Prelios Credit Servicing ("PRECS"); (ii) the exit of Prelios from co-investments in the NPL sector as part of a joint venture with CA; and (iii) the transfer of the management of special servicing on co-invested portfolios to another servicer. This agreement is part of the Group's wider strategy to focus on a service-based business model as a pure management company, and – regaining sole ownership of PRECS – to relaunch PRECS with third parties in order to acquire new management portfolios in a market with solid growth prospects.

On April 22, 2013, the Standstill on the "Club Deal" was formally extended to June 30, 2013, which led to the further postponement until that date of principal and interest payment obligations, previously extended until March 31, 2013, in order to allow enough time to finalise and sign the debt restructuring agreements and all the related documents, particularly in view of the timing of the negotiations.

On May 7, 2013, the Company entered into an agreement with the Lenders to restructure the existing debt (resulting from the "Club Deal" with the Lending Banks and the loan agreement with Pirelli & C.) – and the related bank account pledge to guarantee the obligations assumed by the Company as part of the restructuring – in accordance with the provisions of the term sheet previously approved and signed by all Lenders and by the Industrial Investor. As previously mentioned, the restructuring meant that (i) Euro 250 million would be in the form of a loan (Senior and Super Senior) and (ii) up to Euro 269 million would be converted into a mandatory convertible bond, with a cash option for redemption exercisable by the Company.

As for the principal terms of the restructuring, the Super Senior Loan of Euro 50 million matures in five years (bullet payment) with half-yearly interest in cash at an all-in rate of

4.0%; whereas the Senior Loan of Euro 200 million, to be repaid with cash flows generated from the sale of the Group's real estate assets, matures in six years (bullet payment), with capitalised interest at an all-in rate of 3.0% for the first four years and with a step-up market rate thereafter. For both loans, the financial covenants were eliminated.

The shareholders' meeting of May 8 delegated the issue of the Convertible Loan to the Board of Directors, which was exercised on June 10, 2013. The bonds were issued on August 26, as stated in the paragraph on subsequent events. The principal terms of the Convertible Loan are: seven-year term (subject to extension for a further three years and subject to the occurrence of specific "trigger events" to allow for the possibility of early conversion, particularly if the Company should find itself in the future in one of the situations provided for in Articles 2446 and 2447 of the Italian Civil Code); capitalised interest at an all-in rate of 1.00%; and a conversion price equal to the greater of (i) the subscription price of the reserved capital increase with pre-emptive rights approved in May 2013 (Euro 0.5953 per share) and (ii) the average Prelios share price in the month prior to the conversion date.

On May 8, 2013, Feidos 11 and the Primary Lenders (Pirelli & C., Intesa Sanpaolo and UniCredit) informed the Company that they had signed the "NewCo Investment Agreement" in compliance with the term sheet (as sent to the Company on March 29, 2013 and subsequently published on March 30, 2013), in relation to the commitment assumed for the capitalisation of the investment vehicle "NewCo" – for an amount, respectively, of around Euro 20 million for Feidos 11 and around Euro 50 million for the Primary Lenders – so that NewCo could subscribe for the reserved capital increase for a total of around Euro 70 million.

On May 31, 2013, with Resolution 18565, CONSOB granted the IPO exemption for participants in the Group's financial restructuring, capital strengthening and business recovery operation, subject to certain commitments formally accepted by them in July.

On June 10, 2013, the Board of Directors of Prelios S.p.A. formally exercised the power granted to it by the shareholders' meeting on May 8, 2013 to proceed with the issue, subject to a maximum amount of Euro 269 million, of mandatory convertible bonds (the "Convertible Loans" or "Loans") into ordinary shares and/or Category B shares, without voting rights, to be subscribed only by Pirelli & C. (the "Convertible Loan"), without Rights, with the consequent increase in the share capital to service the conversion.

The Board of Directors has therefore resolved to approve the related Regulations and the divisible paid capital increase for a maximum of Euro 297,644,375.01. This increase may be made within a maximum period of seven years, subject to extension for a further three years, from the issue of the Convertible Loan, to service the conversion (partial or total) of the Bonds, by issuing a maximum of 499,990,551 ordinary shares of Prelios under tranche A of the Convertible Loan (including the case where tranche B is also converted into ordinary shares) and a maximum of 144,678,117 Category B shares under tranche B of the Convertible Loan. The Board then proceeded to grant all necessary and appropriate powers to give effect to the resolutions and, in particular, to give the Chief Executive Officer the power to issue the Convertible Loan following the precise definition of the actual amount of the Convertible Loan based on the results of the capital increase with pre-emptive rights.

On July 9, 2013, CONSOB provided the requested clarification regarding the conditions of the exemption from IPO obligations for participants in the transaction, where for the exemption granted on May 31, 2013 and July 11, 2013 CONSOB confirmed the approval of the prospectus relating to the rights offering to the beneficiaries and the listing of the newly issued ordinary shares of Prelios S.p.A., following the divisible capital increase approved by the extraordinary shareholders' meeting of the Company on May 8, 2013, for a maximum total of Euro 115 million, to be offered as an option to all shareholders of the Company. The process for a capital increase with pre-emptive rights began on July 22, 2013.

On July 18, 2013, a loan agreement was signed (the "bridge loan") between Prelios and Fenice, a company owned by Feidos 11, Intesa Sanpaolo, UniCredit and Pirelli & C., for a total of Euro 20 million, in order to cover the Company's financial needs pending the completion of the instruments necessary to give effect to the Group's capital and financial strengthening plans, as well as the rebalancing of its financial structure.

On July 31, 2013, the Company received notice from Camfin (and on behalf of Cam Partecipazioni) of the subscription of the rights offering relating to the capital increase for a total of Euro 115,009,511.53 through the exercise of its Rights for a total of Euro 17,061,613.51. In addition, on the same date, the Company was informed of the entire subscription of the reserved capital increase for Euro 70,005,789.37 by Fenice S.r.l. (a company owned by Feidos 11, Pirelli & C., Intesa Sanpaolo and UniCredit), resulting in the issue of 117,597,496 Category B shares without voting rights and not intended to be listed (the "Reserved Capital Increase"). The subscription of the Reserved Capital Increase was subject to fulfilment of the conditions provided partly to guarantee the effectiveness of the overall debt restructuring agreement (signed by the Company and its lenders on May 7, 2013) and, more specifically, of those communicated on July 18, 2013 and outlined in the Prospectus, namely:

- the commencement of the capital increase with pre-emptive rights, which took place on July 22, 2013;
- the drafting and execution of agreements relating to the IPO exemption for all those involved in the aforementioned extraordinary transaction, in accordance with the conditions laid down by CONSOB;
- evidence of the subscription of a portion of the capital increase with pre-emptive rights for at least Euro 17 million (consisting of the aforementioned subscription by Camfin S.p.A.).

During the offer period, which took place between July 22, 2013 and August 8, 2013 inclusive, 32,494,380 Rights were exercised (based on a ratio of 23 new shares for every 10 shares held) for the subscription of 74,737,074 newly issued ordinary shares of Prelios, equivalent to 38.68% of the total ordinary shares offered, for a total cash value of Euro 44,490,980.15. The shareholders party to the previous shareholders' agreement on Prelios shares (Camfin, Generali, Intesa Sanpaolo and Mediobanca) subscribed for a total of 41,510,722 newly issued ordinary shares of Prelios, for a total cash value of Euro 24,711,332.81, equal to 21.49% of the total. Therefore, at the end of the offer period, 51,503,830 Rights for the subscription of 118,458,809 newly issued ordinary shares of Prelios had not been exercised, equivalent to 61.32% of the total ordinary shares offered with a total value of Euro 70,518,529.00.

A rights auction was held for the Rights not exercised following the offer period, which were all sold between August 12 and August 19. Following the rights auction, 1,563,011 shares had been subscribed (0.81% of the total ordinary shares offered), for a total value of Euro 930,460.45.
Given the 74,737,074 shares already subscribed during the rights offering, a total of 76,300,085 ordinary shares were subscribed with a total value of Euro 45,421,440.60.
The remaining 116,895,802 ordinary shares (representing 60.51% of the total ordinary shares offered), representing a total value of Euro 69,588,070.93, were subscribed by the Lenders pursuant to the underwriting commitments assumed, through the pro-rata conversion of the amounts owed to them by the Company.

As a result of the execution of the Capital Increase with Pre-emptive Rights and the Reserved Capital Increase, the full amount of the authorised Capital Increase with Pre-emptive Rights was therefore subscribed, amounting to Euro 115,009,511.53 for 193,195,887 ordinary shares (39.49% during the offering and 60.51% underwritten by the Lenders); the entire amount of the approved Reserved Capital Increase was subscribed, totalling Euro 70,005,789.37 for 117,597,496 Category B shares. Under the Debt Restructuring Agreement, the net proceeds received from the subscription of the Capital Increase with Pre-emptive Rights by the market (Euro 20,710,107.79) were allocated as follows: Euro 7,855,054.04 to the partial early repayment of the total debt towards the Primary Lenders (Pirelli & C., Intesa Sanpaolo and UniCredit) and Euro 7,855,054.04 to Provisions for Cash Requirements 1, the remainder being freely available to the Company. Following the results of the capital increase with pre-emptive rights and in accordance with the resolution passed by the Board of Directors on June 10, 2013, regarding the Prelios Convertible Loan 2013-2019, the exact amount of the Convertible Loan (corresponding to the amount of residual debt following the restructuring of the overall debt, the partial repayment following the capital increase with pre-emptive rights and the exercise of the Lenders' guarantee following the auction of unexercised rights) is a nominal Euro 233,534,000. Therefore, 233,534.00 Convertible Loans were issued with a par value of Euro 1,000.00 each, of which:

- 166,042 Loans (71.1% of the total) represent tranche A, convertible into ordinary shares;
- 67,492 Loans (28.9% of the total) represent tranche B, convertible into Category B shares, reserved for Pirelli & C.

On August 26, 2013, the declaration of completion of the reserved capital increase and capital increase with pre-emptive rights was filed with the Companies' Register of Milan. The share capital of Prelios, fully subscribed and paid up, amounts to Euro 189,896,923.40, divided into 394,793,383 shares, of which:

- 277,195,887 ordinary shares with no par value and regular dividends;
- 117,597,496 Category B shares, convertible into ordinary shares, with no par value and voting rights, not intended for listing.

In August, Prelios therefore successfully completed the extraordinary transaction approved by the shareholders' meeting on May 8, 2013.

The overall market trend and positioning resulting from the industrial management of the Prelios Group in 2013 can be summarised as follows:

- a delay of about nine months in the completion of the restructuring transaction, which led to a postponement of the launch of the development strategy. Only from September was the management actually able to focus entirely on the business recovery, embarking on new business growth and development initiatives consistent with the repositioning strategy behind the restructuring transactions, with renewed interest from the market and industry operators. This process allowed a significant pipeline to be developed even in 2013, through business development activities that will start to yield results from mid-2014;

- a focus on the reorganisation and restructuring of the Group aimed at repositioning the operating companies in the market with the most competitive profitability and costs and with an integrated market strategy for the various Strategic Business Units (one-stop shopping approach); however, the reference scenario weighed on the performance of the credit servicing, property and agency services in 2013 compared with the forecasts contained in the Plan, partly due to the execution of certain extraordinary transactions in 2013 (e.g. the exit of Crédit Agricole from Prelios Credit Servicing and the sale of the franchising network). The exit of Crédit Agricole from Prelios Credit Servicing was specifically intended to mitigate the risks for the Prelios Group arising from its partner's declaration that it did not to want to remain a party to the joint venture agreements with the Group and to seize the opportunity of regaining complete operational independence of the relaunched servicer.

Briefly, the main effects of this on the 2013 results can be summarised as follows:

- lower revenue compared with the Plan forecasts by around Euro 30 million due to the inertia of the Company, not reversible in 2013 following the delayed completion of the restructuring transaction;
- a greater reduction in costs than that forecast in the Fenice Plan (-13% compared with 2012, whereas the Plan estimated a cost reduction of -10% compared with 2012). The cost reduction policy is achieved by reorganising the Company and reducing staff (92 in 2013, excluding temporary staff);
- protection of profit margins, despite an overall fall in revenue;
- focus of the Strategic Business Units on more competitive cost structures and commercial propositions with the aim of achieving the first positive results during the first half of 2014.

Furthermore, the 2013 results include the effects of the conclusive decision by the Board of Directors on February 12, 2014 to approve a complex disposal transaction involving Prelios S.p.A. and its subsidiaries and investees, with the sale to the Immofinanz Group (i) of the DGAG real estate portfolio (currently 40% indirectly owned in partnership with RREEF, which owns 60%) and (ii) of the Germany Residential Services Platform, an activity carried out by the subsidiary Prelios Deutschland GmbH and its subsidiaries, largely servicing the same DGAG real estate portfolio (hereinafter also "DGAG" or the "Portfolio").

These sales transactions are described separately below, bearing in mind that the deal constitutes a single overall transaction and, as such, must be regarded and construed in view of the recent shift in the German residential market towards operating/ownership/financial models that seek to integrate within a single parent company both the ownership of investment property and the provision of property management services.

DGAG real estate portfolio

The investment in the DGAG real estate portfolio – acquired in 2007 in partnership with RREEF Global Opportunities Fund II LLC, an investment fund managed by Deutsche Asset & Wealth Management Real Estate – consists of approximately 18,000 housing units located primarily in northern Germany. The investment, which is held through a complex corporate structure, has always been highly leveraged (over 75% loan to value) and, following changes in the real estate market, is now misaligned with the leverage currently available in the German market for similar types of portfolio (the "Loan").

Residential Services Platform

The Residential Services Platform employs 290 direct staff, carrying out specialised asset, property and facility management services.

The main sites are in Hamburg (head office) and Kiel, with regional offices in Brunswick, Berlin, Hanover, Lübeck, Munich and Frankfurt.

In 2012, in view of the due date of the Loan and in line with the Company's plans – which form part of the strategy, announced to the market, of gradually disposing of the portfolio co-investment activities at a fair price, with the aim to reduce equity exposure – as well as that of the partner RREEF, a financial advisor was identified, jointly with the latter, with the objective of (i) refinancing DGAG, with no obligation for the partners to make an equity injection in support of the debt and (ii) identifying potential investors interested in acquiring at least part of the Portfolio.

During the subsequent scouting activities, a party was identified that was interested in acquiring the entire Portfolio: the Austrian listed company Immofinanz, through its subsidiary BUWOG.

From the point of view of the Prelios Group, the rationale behind the single overall disposal project relating to the DGAG transaction can be summarised as follows:

(i) the disposal of the Portfolio (relating to assets in the residential sector) in line with the strategic approach and with both current market values for this type of asset and the timing provided for by the Company's Strategic Plan;
(ii) the failure to identify – following a parallel scouting activity – parties likewise interested in the real estate component, maintaining outsourcing services, contrary to that initially estimated in the Company's plans, which assumed the continued management of the divested properties;
(iii) the disposal, albeit contrary to the approved plan, of the less profitable service activities in Germany;
(iv) the complete disposal of the Residential Services Platform to counter the strategic risk of being unable to replace management contracts within a certain timeframe and the operational risk of having to carry out a long and complex process of unwinding/liquidation of the same operating services platform, which undoubtedly would have entailed major and significant costs.

With the DGAG transaction, the Prelios Group consolidates its operational presence in Germany in the "premium" high-value-added segment of shopping centres and highstreet retailing, while pursuing greater integration between the management activities of its Italian and German commercial portfolios.

In terms of the impact of the DGAG transaction, it should be noted that the economic and financial effects, both in the "investment" component and the "services" component, are treated as discontinued operations, separate from the Group's usual activity, in accordance with international accounting standards (IFRS 5).

- Regarding the financial aspects, the transaction as a whole will generate a cash flow for the Group in the region of Euro 27.2 million, which it is reasonable to expect within the next 18 months.
- Regarding the economic impact, the sale of the Services Platform has a negative impact on the income statement of Euro 78.9 million (Euro 78.4 million in relation to the goodwill recorded), while the investment component has a negative impact on the income statement of Euro 62.4 million. The overall consolidated impact of the Transaction is therefore Euro 141.3 million.

With a view to boosting development and relaunching the real estate services and management business primarily for third-party customers – following the organisational repositioning of the various management companies and services and their commercial expansion in the previous financial year – the Group has embarked on numerous business development initiatives to secure new mandates and/or increase the assets under management. More specifically, the Group is currently engaged:

- in participating in the most significant operations in Italy for the development of assets with a real estate underlying or collateral, acting from time to time with different management partners and equity providers with whom advanced negotiations are under way regarding the structuring and management of vehicles for the purchase – on behalf of third-party investors – of real estate assets (both on a "sale and leaseback" basis and for the disposal of "non-core" assets), portfolios of non-performing loans and "repossessed assets" owned by banks and leasing companies;
- in structuring new real estate funds (if necessary by taking over the management of existing funds managed by third-party asset management companies) and/or the expansion of those already in operation and currently included in the scope of management of Prelios Società di Gestione del Risparmio S.p.A.;
- in managing business development activities with a view to creating synergy between the Group's various service companies to maximise value creation, subject to the safeguards and guarantees of independence and operational autonomy typical of legal entities (while taking into account the rules on management and coordination within corporate groups) and which characterise certain Group companies under the legislation and regulations applicable to them (Prelios Società di Gestione del Risparmio S.p.A. and Prelios Credit Servicing S.p.A.);
- in developing the services platform in Germany, focused on commercial asset management to generate synergy and with the twofold objective of (i) sharing

management know-how; (ii) supporting Italian institutional investors in overseas property investments; and (iii) attracting German institutional investors to the Italian market, all by harnessing one of the Group's major strengths, namely its international footprint.

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

It is worth noting first of all that the transaction aimed at pursuing the capital and financial strengthening of the Company through its recapitalisation and the rebalancing of its financial structure, as well as relaunching the prospects for growth and industrial development of the Prelios Group, announced to the market and approved by the extraordinary shareholders' meeting of May 8, 2013 (the "Extraordinary Transaction"), was only completed in August 2013, later than expected by the market.
From a management point of view, it has therefore not been possible to develop and implement, within the original timeframe, all the steps necessary for a rapid recovery of the Company's prospects. Consequently, the Company has not been able to achieve the results forecast in the plan approved as part of the Extraordinary Transaction (the "Plan"), particularly in a market scenario characterised by persistent weakness and significant uncertainty over both the timing and size of a recovery that only began to show the first tentative signs in early 2014.
Having successfully completed the Extraordinary Transaction, activities are under way to build on the initiatives for the development of the business, in line with the strategy of repositioning the Company as a benchmark in asset management and real estate and financial services for third-party investors.

Despite the activities carried out in 2013 and described above, the Group reported further significant financial losses at December 31, 2013 due to: underperforming expectations, as described above; property write-downs resulting from a widespread market repricing caused by the willingness of domestic and international operators to invest in Italy with higher yields than in the past; write-downs of goodwill due to revised forecasts of the Group's performance (see 2014-2016 Guidelines), as well as write-downs of NPL portfolios following the deterioration in debt recovery forecasts.

Furthermore, in line with the fundamental strategic direction of Prelios, in February of this year the Company entered into an agreement for the disposal of shares of real estate companies owning the German residential portfolio "DGAG", an investment initiative 60% owned by RREEF Global Opportunities Fund II LLC and 40% by Prelios. Closely related to this disposal, promoted and defined moreover by the majority partner, was that relating to the disposal of the Residential platform of Prelios Deutschland (100% controlled by Prelios S.p.A.), which provides technical and administrative services to the aforementioned residential portfolio. The transaction, finalised earlier than originally planned, has been completed with lower than expected values and with delayed payment of the price compared with the assumptions contained in the Plan. Indeed, Prelios was forced to sell the services platform at a significant loss, together with its minority stake in the investment vehicles, since it was not possible to envisage how this could be put to full and efficient use in the absence of a commitment by the purchaser to renew the mandates relating to the real estate portfolio sold.

In this difficult context, Prelios – confirming its strategic objective of repositioning itself as a “pure management company” – has identified, is implementing and is committed to pursuing a series of initiatives for the development of the business predominantly for third-party customers, notably by the subsidiaries Prelios Società di Gestione del Risparmio S.p.A. and Prelios Credit Servicing S.p.A. as well as through the pursuit of ever-increasing growth in the provision of technical and administrative real estate services for third parties by the Group’s specialised companies, through Prelios Integra S.p.A. The gradual disposal of co-investment assets continues in parallel, while taking account of the still unstable market conditions.

The intense commercial activity and increase in business initiatives – focused on increasing the assets under management and revenue from technical services and asset management, both in the real estate and loan sectors, developed through the Prelios S.p.A. network and through the activities promoted independently by the individual service companies within the Group – is expected to yield the first positive results in the second half of 2014 and early 2015, at the same time that the various initiatives finalised become fully operational and those still awaiting finalisation are completed.

In this context, in line with the aforementioned strategic direction and in order to revive the prospects of business development, if necessary through acquisitions – as explained in the section on subsequent events – the Company has, with the help of its advisors, embarked on initiatives aimed at establishing possible industrial partnerships with third-party operators. More specifically, contact has been made with the well-known international private equity fund Fortress Investment Group Ltd, in order to assess the feasibility and interest of a possible merger with the Prelios Group, particularly in the areas of real estate management and non-performing loans.

At the meeting of April 9, 2014 – as described more fully in the section on subsequent events – the Board of Directors of Prelios, noting the difference in economic and financial results compared with the Plan forecasts, pending the drafting of a new Business Plan – to be approved together with the interim report on operations at March 31, 2014 – approved the Group Guidelines for the period 2014-2016, which set out the growth strategies of the Prelios Group for the Services Platform and, with regard to the Investment area, confirm the gradual unwinding of co-investments. The 2014-2016 Guidelines highlight the expected negative economic results over the three-year period, before any property write-downs due to market conditions, together with a cash flow generating a net financial deficit as early as 2014, for which negotiations are still ongoing with the principal Lenders to identify the necessary funding. In the absence of appropriate corrective action, furthermore already identified by the Company, these forecasts represent uncertainties that cast significant doubts on the Group’s ability to continue as a going concern.

In general, the 2014-2016 Guidelines also provide for:

- confirmation of the pure management company business model with a strong focus on three business segments: asset management, real estate services and non-performing loans;
- strong growth in the third-party market, particularly in the more profitable "premium" segments;
- substantial benefits from the second half of 2014 from the business development initiatives already undertaken to increase revenue and assets under management;
- confirmation of the divestment programme over the period covered by the Guidelines, with further rationalisation of the related indirect costs.

Among the initiatives aimed at meeting financial requirements – highlighted by the 2014-2016 Guidelines – certain corrective actions and mitigating measures for the planned exits have been identified. These initiatives have already been presented to the principal Lenders and shareholders of the Company who, based on the discussions held, have expressed their willingness in principle to support the Company through transactions aimed at meeting the requirements forecast for the time necessary to allow a more structured transaction to be agreed, with a financial and capital balance consistent with the requirements outlined in the 2014-2016 Guidelines and enabling the Group to operate on a going concern basis.

More specifically, the measures identified to address this cash flow deficit include actions to mitigate financial commitments, at least in terms of postponing the timing of these, both in the short and medium term, in order to make these commitments sustainable for the Group in line with a structural rebalancing of its financial position. To that end, several courses of action have been identified with varying chances of success, which can be summarised as follows: (i) deferral until after 2016 of the payment of contractual charges in connection with the disposal of equity investments made in the past; (ii) obtaining a waiver of the commitment to make a contribution to a subsidiary in liquidation; (iii) deferral until after 2016 of a potential legal claim settlement; (iv) a standstill on the principal equity injections in initiatives held with a qualified minority interest, to be negotiated individually with each partner and their respective lending banks; and (v) obtaining a waiver for certain aspects of the current funding arrangements of the parent company, including in particular the timing of the repayment of cash flows that will result from the disposal of co-investments (Senior debt repayment mechanism 65%-35%) to bring these in line, in terms of amounts and maturities, with the Group's ability to generate cash flow from its overall operations.

Despite the early stages of the discussion with the principal Lenders of the parent company, who are also closely involved in many of the investment vehicles, based on the negotiations held so far and their willingness in principle to support the needs of the Group, the directors of Prelios consider it reasonable to expect that the aforementioned corrective actions could be completed to an extent and within a timeframe that would possibly require only residual marginal financing over the lifetime of the plan, manageable with the further deferral of certain financial outflows. The mitigation actions being discussed with the principal Lenders are believed to be sufficient to enable the Group to meet the expected cash flow requirement and thus to operate as a going concern.

Furthermore, the following additional courses of action have been identified, the effects of which are not currently reflected in the economic forecasts of the 2014-2016 Guidelines:

1. Cost efficiency actions. Following the cost-saving process conducted in 2013 which reduced fixed costs by around Euro 14 million compared with 2012, the Group believes that it can make further efficiency gains, mainly focused on corporate expenditure, by cutting back on personnel costs, IT investments, site costs and consultancy fees.
2. Business development. The launch of the Group's new business plan has begun to yield positive results, so a possible further improvement in revenue performance could be envisaged subject to the fulfilment of certain "background" conditions, such as: (i) the availability of credit facilities for third parties for the successful launch of new funds or asset management projects; (ii) closer cooperation with shareholder banking groups; and (iii) the possibility of structuring agreements for the distribution of asset management products.

The feasibility assessment of the Guidelines was based on fairly realistic assumptions, taking into account the difficulty of making predictions in the current economic and financial climate, for example by ruling out future crises affecting the financial markets or an accumulation of the factors that led to the current deterioration in the general reference scenario and the real estate market in particular.

It is also believed that the market scenario will allow property disposals to take place at values and at a time in line with the net capital invested in initiatives and with cash flows available for Prelios on the date of completion of the transactions themselves, for which significant values are essentially foreseeable only from 2016 onwards, in line with the absorption capacity of the market at appropriate valuation levels.

Given the forecasts contained in the 2014-2016 Guidelines, which highlight significant uncertainties over the Group's ability to operate as a going concern, initiatives are necessary, as identified above, which will enable the Group to have the necessary liquidity to cover its needs for the time necessary to define the terms and technical arrangements of a structured investment from the Lenders which meets the Group's cash flow requirements over the next three years, thus allowing measures to be taken to return to profitability.
Based on the initiatives that the Company has already put in place with its principal Lenders and shareholders, the directors believe that they can obtain coordinated and joint support in the immediate future.

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, 2013. For the purposes of the balance sheet management analysis in paragraph 4.1, non-accounting indicators (Non-GAAP measures) have been used, generally adopted by the management to monitor and evaluate the Group's performance. The aim is to present the Group's results from operations, net of transactions which, by their nature or amount, are unusual, and changes in value of the real estate portfolio, thereby ensuring a greater degree of comparability of the results and the information over time with other leading operators which apply similar non-GAAP measures.

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

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

The measure that best reflects the business performance of the Management Platform and Investment Activities of the Group is "Operating profit/(loss)", consisting of EBIT including net income from investments and income from shareholder loans before restructuring costs and property write-downs/revaluations.
Following the agreement reached by the joint venture Solaia RE S.à.r.l. for the disposal of shares in real estate companies that own the German residential portfolio known as DGAG (Deutsche Grundvermögen AG), and the transfer of part of the Prelios Deutschland GmbH platform (a wholly owned subsidiary of Prelios S.p.A.), which provides technical and administrative services to the aforementioned residential portfolio, in the interests of consistency some items in the balance sheet and income statement for the previous year have been restated to show the effects of the transaction separately in accordance with IFRS 5. Specifically, the balance sheet and income statement data for 2013, presented and discussed below, does not include data on the proportion of the German business unit being divested in early 2014, following a negotiation process that began in late 2013, which in accordance with IFRS 5 were reported separately under discontinued operations. Similarly, the economic data for 2012 were classified under the same item.

4.1. Income statement

(millions of euros)	DECEMBER 2013	DECEMBER 2012
Consolidated revenue:	73.1	85.9
of which services	*68.6*	*79.8*
of which other	*4.5*	*6.1*
Management Platform: EBIT before restructuring costs, impairment and property write-downs/revaluations	(5.1)	2.5
Management Platform: net income from investments before restructuring costs and property write-downs/revaluations	(0.3)	0.1
Management Platform: impairment	(10.1)	(3.4)
Total Management Platform: Operating profit/(loss)	**(15.5)**	**(0.8)**
Investment Activities: EBIT before restructuring costs, loss on NPL portfolio valuation and property write-downs/revaluations	(24.8)	(20.6)
Investment Activities: net income from investments before restructuring costs, loss on NPL portfolio valuation and property writedowns/revaluations	(6.7)	(11.1)
Investment Activities: income from shareholder loans (1)	8.8	10.2
Investment Activities: loss on NPL portfolio valuation	(17.0)	(61.6)
Total Investment Activities: Operating profit/(loss)	**(39.7)**	**(83.1)**
Operating profit/(loss)	**(55.2)**	**(83.9)**
Financial income/(Financial expenses)	6.6	(52.0)
Profit/(loss) before restructuring costs, property write-downs/revaluations and income taxes	**(48.6)**	**(135.9)**
Restructuring costs	(42.6)	(18.8)
Property (writedowns)/revaluations	(84.0)	(77.8)
Profit (loss) before taxes	**(175.2)**	**(232.5)**
Income taxes	(16.0)	(9.5)
Net profit	**(191.2)**	**(242.0)**
Minority interests	1.0	(0.7)
Group net income/(loss) before discontinued operations	**(190.2)**	**(242.7)**
Net income (loss) from discontinued operations	(142.6)	1.0
Group net income/(loss) for the period	**(332.8)**	**(241.7)**

(1) The value mainly consists of interest income from loans to associates and joint ventures.

Consolidated revenue at December 31, 2013 amounts to Euro 73.1 million compared with Euro 85.9 million at December 31, 2012. Specifically, Management Platform revenue, foreign and Italian, amounted to Euro 68.6 million in 2013, a decrease of Euro 11.2 million compared with the Euro 79.8 million recorded at December 31, 2012. Euro 5.5 million of this decrease was mainly attributable to credit servicing activities, which fell from Euro 14.0 million at December 31, 2012 to Euro 8.5 million at December 31, 2013 due to the loss of some mandates and specialised agency services in Italy, down by Euro 3.7 million mainly due to lower transaction volumes and managed contracts.

Operating profit/(loss) is negative at Euro 55.2 million, compared with a loss of Euro 83.9 million at December 31, 2012, which benefited from a positive effect of Euro 3.7 million due to a favourable arbitral award concerning a previous development contract associated with project financing. On the one hand, a contraction in earnings is recorded for the Management Platform, essentially due to the impairment test (negative at Euro 10.1 million in 2013 compared with a negative impact of Euro 3.4 million at December 31, 2012) and lower volumes of activity and, on the other, a significant reduction is recorded in the loss on Investment Activities, mainly due to the loss on the valuation of the NPL portfolio (Euro 17.0 million at December 31, 2013 compared with a similarly negative Euro 61.6 million in 2012).

The "financial income/(financial expense)" item reflects the effects of the debt restructuring that was completed in August, with retroactive effect from January 1, 2013 both with regard to the new remuneration conditions and the restated amount of financial debt. Specifically, this includes:

- the positive effect associated with the Restructuring Agreement which led to the transformation of Corporate financing into the new Super Senior, Senior and Convertible credit facilities, initially recognised at fair value, calculated in accordance with the valuation methods deemed appropriate in view of the characteristics of each component of the new debt, which results in an amount less than their par value of Euro 39.9 million;
- the expensing of upfront fees relating to financial payables existing towards the pool of banks (the "Club Deal") and towards Pirelli & C. for Euro 8.8 million;
- the recognition of new interest expense for Euro 22.0 million, including Euro 10.4 million of accrued interest on the Super Senior, Senior and Convertible Loans, based on the Restructuring Agreement and, for Euro 11.6 million, the relevant portion of the economic effect resulting from the measurement at amortised cost of the new debt initially recognised at fair value;
- recognition of the negative economic effect for Euro 3.0 million, calculated solely for the portion of converted debt, relating to the spread between the quoted market prices on the date of execution of the capital increase and the subscription price of the capital increase.

The "restructuring costs" item is generally confined to the costs of voluntary redundancy schemes, the costs of rationalisation of the Group and its sites, extraordinary charges arising from tax litigation settlements, as well as support, including a debt write-off, for investees to continue as a going concern as part of the financial restructuring plans already formalised or at an advanced stage of negotiation with banks and partners; all subject to the differential representation of the Group's restructuring actions compared with the normal operating result.

This item, amounting to Euro 42.6 million in 2013, primarily includes losses on receivables and write-offs made as part of the planned reorganisation of certain investee companies and expenses associated with the rationalisation of the Group's sites, as well as extraordinary charges related to tax litigation settlements. In 2012, this item was approximately Euro 18.8 million.

The "property write-downs/revaluations" item, which amounted to Euro 84.0 million in 2013, includes value adjustments of assets in the Real Estate component (i.e. excluding non-performing loans), mainly in Italy. As explained in more detail below, this adjustment reflects the updating of real estate valuations commissioned to independent experts on the portfolio held at December 31, 2013.

Taxes, which totalled Euro 16.0 million compared with Euro 9.5 million at December 31, 2012, mostly relate to companies in Italy. This amount mainly includes the change in deferred taxes of Euro 14.2 million and IRAP. The figure reported in 2012 included several items pertaining to the settlement of outstanding positions with the Italian Tax Authorities for Euro 2.3 million.

"Net income (loss) from discontinued operations", totalled Euro 142.6 million at December 31, 2013, reflects an estimate of the expected capital loss as a result of the signing of the divestment agreement for the German residential portfolio known as "DGAG", as well as the economic effects both in the asset component and related services, as described earlier in paragraph 3.

"Net profit attributable to the Group" at December 31, 2013 consisted of a loss of Euro 332.8 million compared with a reported loss of Euro 241.7 million at December 31, 2012.

Management Platform[21]

Net income from fund and asset management, specialised Property & Project Management and Agency services, and those related to the management of non-performing loans (credit servicing), including general and administrative expenses, showed a loss of Euro 15.5 million at December 31, 2013, compared with a loss of Euro 0.8 million at December 31, 2012. The negative change is mainly due to service companies in Italy (including credit servicing) and includes the negative impact of the impairment test on the services platform for Euro 10.1 million.

Investment Activities[22]

In 2013, Investment Activities generated EBIT before the loss on valuation of the NPL portfolio of a negative amount of Euro 22.7 million, compared with a negative amount of Euro 21.5 million in the corresponding period of 2012. Considering the negative impact of the loss on NPL portfolio valuation of Euro 17.0 million at December 31, 2013 and Euro 61.6 million at December 31, 2012, operating profit/(loss) was negative at Euro 39.7 million compared with a similarly negative value of Euro 83.1 million in 2012.

***

In the course of 2013, property sales[23] totalled Euro 2,239.9 million, of which Euro 917.0 million relates to the sale of the German residential portfolio DGAG[24] to BUWOG, part of the Immofinanz Group, (Euro 539.3 million *pro rata*, of which Euro 367.0 million is attributable to DGAG) compared with Euro 657.1 million at December 31, 2012 (Euro 192.5 million *pro rata*). The Company has realised its real estate transactions at values substantially in line with the book value at December 31, 2012.

Total rents[25] in 2013 amounted to Euro 363.4 million, of which Euro 71.3 million was attributable to DGAG, compared with Euro 395.8 million at December 31, 2012, of which Euro 70.5 million was attributable to DGAG; Prelios's *pro-rata* share of rents amounted to

[21] Net income from the Management Platform means earnings generated by the Group through fund and asset management activities, specialised real estate services (Property & Project Management and Agency), NPL management services (credit servicing) and general and administrative expenses.
[22] Investment Activities include income generated by Prelios from its investments in funds and companies that hold real estate and non-performing loan portfolios.
[23] The value is determined by adding property sales made by consolidated companies to 100% of the property sales of associates, joint ventures and funds in which the Group held at least a 5% stake at December 31, 2013.
[24] The negative economic effects of the DGAG transaction are detailed in the previous paragraph.
[25] The value is determined by adding the rents collected by consolidated companies to 100% of the rents of associates, joint ventures and funds in which the Group held a stake of at least 5% at December 31, 2013.

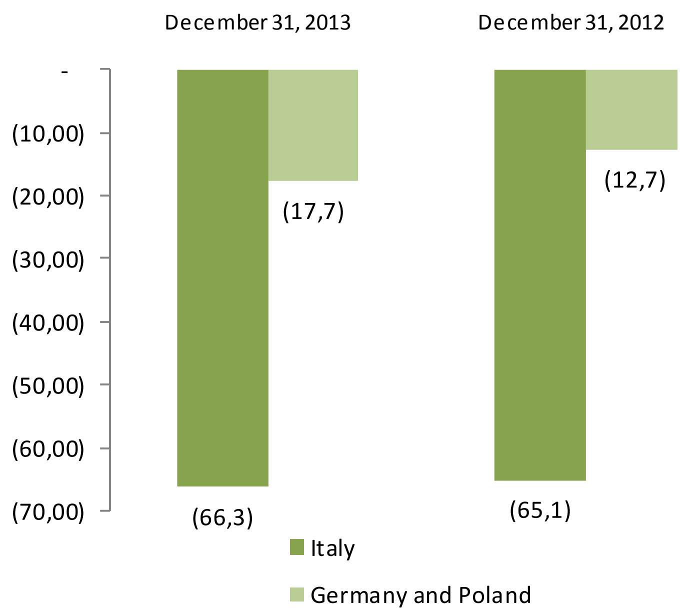
Euro 95.6 million, of which Euro 30.5 million was attributable to DGAG (Euro 102.1 million at December 31, 2012, of which Euro 30.2 million was attributable to DGAG).

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

Write-downs of equity investments and real estate investments in 2013 represented a total of Euro 84.0 million, of which Euro 66.3 million related to the real estate portfolio in Italy and Euro 17.7 million to the real estate portfolio in Germany and Poland.

The graph illustrates the 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



4.2. Balance sheet and financial analysis

In the following table, along with a management representation of the 2013 balance sheet compared with 2012, the pro-forma position at December 31, 2013 is also presented, which already takes into account the full use of the Convertible Loan to increase equity, the automatic conversion of which, since the parent company is in the situation provided for in Article 2447 of the Italian Civil Code, is governed by the terms of the loan itself.

(millions of euro)	DECEMBER 2013	DECEMBER 2013 PRO-FORMA (2)	DECEMBER 2012
Fixed assets	**353.2**	**353.2**	**611.7**
of which investments in funds and real estate investment companies and shareholder loan receivables (1)	*290.5*	*290.5*	*455.2*
of which goodwill	*56.4*	*56.4*	*144.8*
Net Working Capital	**14.7**	**14.7**	**55.1**
Discontinued operations	**26.4**	**26.4**	**0.0**
Net Invested Capital	**394.3**	**394.3**	**666.8**
Equity	**(66.3)**	**169.6**	**80.4**
of which Group Equity	(69.1)	166.8	74.2
Provisions	**71.2**	**71.2**	**65.9**
NFP	**388.4**	**152.5**	**520.5**
Liabilities relating to discontinued operations	**1.0**	**1.0**	**0.0**
Total covering Net Invested Capital	**394.3**	**394.3**	**666.8**

(1) This item includes investments in associates, joint ventures and other equity investments (Euro 169.9 million), receivables from shareholder loans (Euro 110.7 million), investments in real estate funds (Euro 11.2 million included in "other financial assets" in the consolidated balance sheet) and junior notes (Euro 11.3 million included in "other financial assets" in the consolidated balance sheet). The values at December 2013 and December 2012 include provisions for investment risks of Euro 12.6 million and Euro 2.8 million respectively.

(2) Pro-forma data as at December 31, 2013 already takes into account the entire use of the Convertible Loan, including interest accrued at December 31, 2013, for the equity increase.

Fixed assets at December 31, 2013 total Euro 353.2 million, compared with Euro 611.7 million at December 31, 2012. The reduction is due to the effects of the disposal of the German residential Group “DGAG” for Euro 141.3 million, to write-downs of real estate investee companies for Euro 78.2 million, and to the goodwill impairment loss recorded on certain service companies for Euro 10.1 million, as well as redemptions/conversions of shareholder loans, net of contributions made in the period.

Net working capital at December 31, 2013 is Euro 14.7 million, a decrease of Euro 40.4 million compared with the Euro 55.1 million at December 31, 2012. The decrease in floating assets is primarily due to the decrease in trade and other receivables due to write-downs made against entities and real estate funds in which the Company holds an interest, with a view to providing support for investees to continue as a going concern as part of the financial restructuring plans already formalised or at an advanced stage of negotiation with banks and partners, and the impact of the reduction in deferred tax assets in accordance with the assumed probability of realisation and tax deductibility, taking into account as well the Group's new three-year guidelines, offset by a reduction in tax payables as a result of the partial payment made in settlement of a tax litigation case.

Discontinued operations represent the estimated effect of the cash distributions expected from the aforementioned DGAG Group disposal transaction, net of working capital to be transferred to the purchaser.

Consolidated equity is negative at Euro 66.3 million, while equity attributable to the Group is negative at Euro 69.1 million, compared with a positive value of Euro 74.2 million at December 31, 2012. The change is primarily attributable to the net loss for the period of Euro 332.8 million and the positive effect of the aforementioned capital increase of Euro 185.0 million.
In the pro-forma position at December 31, 2013, consolidated equity and equity attributable to the Group, considering the conversion of the Convertible Loan, stood at Euro 169.6 million and Euro 166.8 million respectively.

Net Financial Position at December 31, 2013 is negative at Euro 388.4 million, a significant improvement on the Euro 520.5 million at December 31, 2012, due to the aforementioned capital increase and financial debt restructuring.

The graph illustrates the combined effect of events that had an impact on the change in Net Financial Position in 2013.

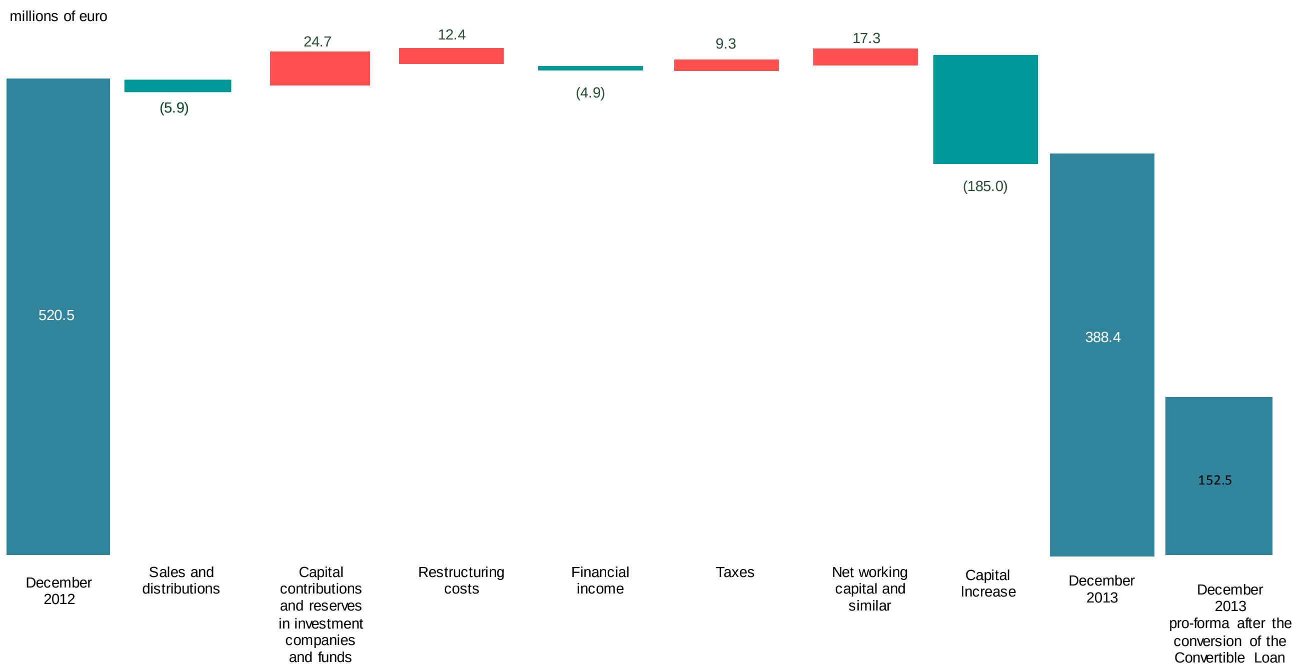
The increase from December 31, 2012 of Euro 132.1 million was mainly due to the following:

- completion of the capital increase and subsequent debt restructuring for Euro 185 million, of which i) capital increase with pre-emptive rights for Euro 115.4 million, which, net of Euro 7.9 million, represents the cash used to repay existing debt, generated Euro 107.5 million for the Group, and ii) conversion of a portion of the previous debt into share capital for Euro 69.6 million;
- cash flows generated from sales and distribution by the investment company for Euro 5.9 million;
- net financial income of Euro 4.9 million, of which Euro 39.9 million derives from the positive impact of the fair value measurement of the new Super Senior and Senior Loans, net of financial expenses on new credit facilities for Euro 22.0 million, capitalised and unpaid, and the expensing of the remaining upfront fees relating to existing debt for Euro 8.8 million, which were part of the restructured debt, carried at amortised cost in 2012.

Conversely, the following events had a negative impact on Net Financial Position:

- equity contribution to investment companies and funds for Euro 24.7 million;
- other events partly linked to changes in net working capital for Euro 17.3 million;
- payment of restructuring costs for Euro 12.4 million;
- payment of taxes for Euro 9.3 million.

The following table illustrates the main changes in Net Financial Position for the period.



In the pro-forma position at December 31, 2013, Net Financial Position, equal to Euro 152.5 million, assumes the full conversion of the Convertible Loan.

4.3. Net bank debt of investment companies and funds

With a market value based on 100% of the real estate component of investment companies and funds of Euro 4.1 billion, net debt amounted to Euro 2.4[26] billion: the average bank leverage of Prelios in the real estate component is 58% (59% *pro rata*) of 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 37.4 million);

- significant hedging of interest rate risk (58%) and average maturity of around 0.7 years (values at 100%).

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

With regard to the non-performing loan sector, the book value of loans on a 100% basis is around Euro 0.2 billion[27], against a net bank debt of Euro 0.2 billion.

[26] This does not include Euro 0.3 billion relating to funds classified as third-party funds since Prelios holds an interest of less than 5%.

[27] The gross book value of the portfolio is Euro 8.5 billion.

Net bank debt has an average maturity of 0.7 years (0.7 years in Italy and 0.9 years in Germany), while the renewal of some loans could be critical in view of trends in property values.

5. CONSOLIDATED INCOME STATEMENT

The net loss attributable to the Group was Euro 332.8 million, compared with a loss at December 31, 2012 of Euro 241.7 million. Net profit is largely determined by items that are outside the scope of ordinary operations, and in particular:

- the disposal of the German residential portfolio known as DGAG (on which an agreement was reached in February 2014), consisting of approximately 18,000 units, sold to BUWOG (100% owned by the Austrian Group Immofinanz) together with the related residential management platform of Prelios Deutschland. This transaction, for which the economic and financial effects have been treated as discontinued operations, have already had a negative impact of Euro 142.6 million on the 2013 financial statements, while the financial effects (cash-in) will be visible only in 2014 and 2015. The deal has allowed the Company to dispose of a highly leveraged portfolio (approximately Euro 300 million in nominal pro-rata unconsolidated debt maturing in September 2014) and at the same time to focus on business management services with higher margins;
- restructuring costs, which had a negative impact of Euro 42.6 million, more than twice the Euro -18.8 million at December 31, 2012. This figure includes losses on receivables and write-offs made under the restructuring programme of certain investee companies and the costs linked to the rationalisation of the Group, its various sites and tax litigation settlements, despite giving the Company a more streamlined and competitive structure from as early as 2014;
- impairment losses and property write-downs, which amounted to Euro -111.1 million (Euro -142.8 million in December 2012).

Given the loss for the period, Group equity at December 31, 2013 is negative at Euro -69.1 million. Since the parent company is in the situation referred to in Article 2447 of the Italian Civil Code, this triggers the automatic conversion of the entire mandatory convertible bond issue recognised at December 31, 2013 for Euro 235.9 million. Following this conversion, equity is Euro 166.8 million.

Below is a income statement (accounting schedules).

(millions of euro)	DECEMBER 2013	DECEMBER 2012
Revenue from sales and services	73.1	85.9
Changes in inventories of work in progress, semi-finished and finished products	(0.4)	0.1
Other income	8.2	14.1
TOTAL OPERATING REVENUE	**80.9**	**100.1**
Raw and consumable materials used (net of change in inventories)	(5.8)	(4.6)
Personnel costs	(43.5)	(54.5)
Depreciation, amortisation and impairment	(12.9)	(7.6)
Other costs	(100.5)	(76.1)
TOTAL OPERATING COSTS	**(162.7)**	**(142.8)**
EBIT	**(81.8)**	**(42.7)**
Net income from investments	(108.8)	(143.4)
- net profit share from investments in associates and joint ventures	*(87.8)*	*(128.2)*
- dividends	*0.1*	*1.1*
- gains on investments	*0.4*	*3.3*
- losses on investments	*(21.5)*	*(19.6)*
Financial income	52.8	14.2
Financial expenses	(37.4)	(60.6)
NET PROFIT BEFORE TAX	**(175.2)**	**(232.5)**
Taxes	(16.0)	(9.5)
NET PROFIT FROM CONTINUING OPERATIONS	**(191.2)**	**(242.0)**
attributable to minority interests	(1.0)	0.7
Net income from assets/liabilities held for sale	(142.6)	1.0
NET PROFIT/(LOSS) ATTRIBUTABLE TO THE GROUP	**(332.8)**	**(241.7)**

Revenue from sales and services in 2013 totalled Euro 73.1 million, compared with Euro 85.9 million in 2012. The decrease is mainly attributable to the specialised agency and property and project management services, due to the continuing crisis in the property sector which has resulted in a significant slowdown in the number and size of transactions brokered and contracts managed, as well as to the credit servicing activity.

Other income at December 31, 2013 totalled Euro 8.2 million, compared with Euro 14.1 million in 2012, a figure that included a one-off amount of Euro 3.7 million linked to a favourable settlement regarding a public-sector development contract associated with project financing. These relate to chargebacks to tenants of the management costs of company-owned properties or properties managed for third parties; in the latter case the chargebacks relate mainly to property management activities. It also includes the settlement or successful outcome of disputes that had created risks and uncertainties and the consequent funding of risk provisions.

Purchases of raw and consumable materials used (net of changes in inventories) amounted to Euro 5.8 million, compared with Euro 4.6 million at December 31, 2012.

Personnel costs totalled Euro 43.5 million in 2013, compared with Euro 54.5 million in 2012. The figure for 2013 includes approximately Euro 3.9 million of restructuring costs, compared with Euro 8.6 million in 2012. The decrease of Euro 11.0 million is mainly due to the reduction in the average headcount during the period.

Other costs at December 31, 2013 totalled Euro 100.5 million, compared with Euro 76.1 million at December 31, 2012. This item includes costs for maintenance services, commissions, consultancy and professional fees, rental costs of corporate sites, other operating expenses, provisions for risks and write-downs of receivables. The increase is also attributable to the write-down of certain significant receivables made partly with a view to providing support for investees to continue as a going concern as part of the financial restructuring plans already formalised or at an advanced stage of negotiation and the provision of funds in relation to future costs that the Group could incur based on the commitments assumed.

EBIT at December 31, 2013 was negative at Euro 81.8 million, compared with a negative value of Euro 42.7 million at December 31, 2012.

Net income from investments in 2013 was negative at Euro 108.8 million, compared with a negative value of Euro 143.4 million at December 31, 2012. This item includes, *inter alia*, the negative effect of the write-down of equity investments and real estate investments for Euro 78.2 million and the loss on valuation of the NPL portfolio for Euro 13.9 million, compared with the corresponding negative values at December 31, 2012 of Euro 69.0 million and Euro 61.6 million respectively.

Financial income totalled Euro 52.8 million at December 31, 2013, compared with Euro 14.2 million in 2012: the increase of Euro 38.6 million is mainly due to the positive effect of the Restructuring Agreement, which led to the transformation of Corporate financing into the new Super Senior, Senior and Convertible credit facilities, initially recognised at fair value, calculated in accordance with the valuation methods deemed appropriate with respect to the characteristics of each component of the new debt.

Financial expenses amounted to Euro 37.4 million at December 31, 2013, compared with Euro 60.6 million in 2012. The reduction is largely due to the positive effect from the 1% interest rate applied to the "Convertible Loan" portion following the debt restructuring in the third quarter of 2013, with retroactive effect from 1 January 2013, as well as the general reduction in financial debt arising from the debt restructuring operation.

6. MANAGED PORTFOLIO – ASSETS UNDER MANAGEMENT AND REAL ESTATE NET ASSET VALUE AT DECEMBER 31, 2013

The following analyses concern the Group's assets under management (AUM) and in many cases assets in which it invests (values at 100% and based on the percentage interest) through real estate funds or investment companies. AUM corresponds to the value of assets under management and is expressed, with the exception of non-performing loans, which are stated at book value[28], by the values determined following appraisals by independent experts at the reporting date[29].

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. Asset Under Management Real Estate

The following information relating to portfolios managed by the Group at December 31, 2013 is based on the valuations carried out by CB Richard Ellis for the entire portfolio, except for:

- the Patrimonio Uffici, Cloe, Obton, Manifatture Milano and Mistral Real Estate Funds, valued by REAG;
- the Hospitality & Leisure Fund, valued by JLL;
- the Olinda and Diomira Funds, valued by Scenari Immobiliari;
- the Raissa, Enasarco, Spazio Industriale and Eridano Funds, valued by Patrigest;
- the Vivaldi, Fedora, Clarice and Gromis Funds[30], valued by K2Real;
- Resident Sachsen, Resident Baltic and Resident West, valued by NAI Apollo;
- Iniziative Retail, valued at its exit value;
- Coimpex, valued by AK Expert;
- Highstreet, valued by Cushman & Wakefield;
- DGAG, valued at its exit value in accordance with IFRS 5 in view of the aforementioned disposal.

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

The Discounted Cash Flow method, which discounts the cash flows resulting from leases to present value by applying a discount factor which reflects the specific risks associated with

[28] Figures stated at cost net of any write-downs.
[29] The values thus determined exclude the deduction of any discounts resulting from sales mandates aimed at expediting the disposal of real estate portfolios.
[30] The valuation at December 31, 2013 of the Gromis assets is based on the appraisal value at September 30, 2013, which is the latest figure available.

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 reference to the recent CONSOB Recommendation of July 18, 2013, in recent years the valuation of the Group's real estate assets has been entrusted to various valuers, mainly Cushman & Wakefield, Patrigest, CB Richard Ellis, John Lang LaSalle, K2Real, REAG and other leading companies in the sector that offer specialised valuations for real estate investments as independent experts. This alternation (note the average term of office is approximately four years) is sought both in accordance with the relevant industry legislation, and to ensure a more objective and independent assessment of the real estate assets. The 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, the independent valuer is selected based on an analysis of the specific professional aspects and nature of the appointment and takes into account, *inter alia*: the years of experience in valuing real estate assets, enrolment in the CTU (professional body) register kept by an Italian Court, having at least once valued assets of a total value in excess of Euro 25 million belonging to a single owner, possession of suitable process quality certification, adequate technical and organisational standards and no conflicts of interest.
It should be noted that the real estate portfolio managed by Prelios SGR, in accordance with the joint communication of the Bank of Italy and CONSOB of July 29, 2010, is subject to an audit of the assumptions used by the independent experts to prepare their estimates, in accordance with internal procedures governing the guidelines, roles and responsibilities of the various departments involved, as well as discussions with independent experts. The Group has extended these procedures to its other operations subject to the appropriate terms and conditions, in response to the aforementioned CONSOB Recommendation of July 18, 2013.

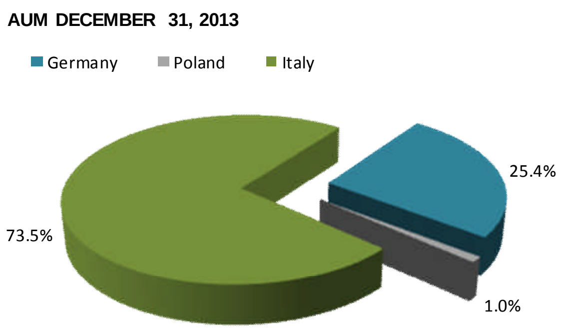
Assets under management[31] at December 31, 2013 amounted to Euro 6.2[32] billion (Euro 9.7 billion at December 31, 2012), with an interest of Prelios of Euro 1.2 billion (Euro 2.1 billion at December 31, 2012). Assets under management consists of Euro 6.0 billion in real estate

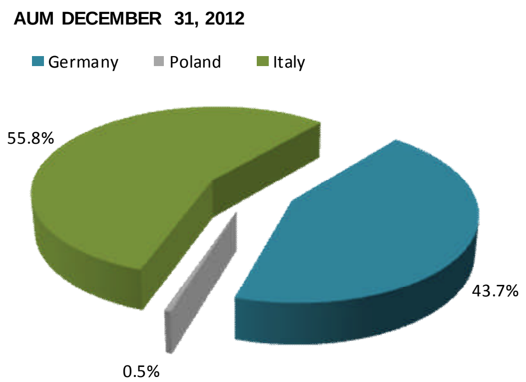
[31] Assets under management, excluding NPL valued at book value, is expressed at market value based on the appraisals and analysis of independent experts. The market values determined by independent experts do not take into account a possible acceleration of the sales plan beyond the reasonable period 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.
[32] Including approximately Euro 0.4 billion relating to the Spazio Industriale Fund, invested in but exited from the scope of management of the subsidiary Prelios SGR S.p.A. during the second quarter of 2013, but which continues to be managed through the investment division of the parent company, and Euro 0.1 billion relating to the Lucchini development project managed by the company Bielany Project Management, in which Prelios S.p.A. has a 40% stake.

(Euro 8.7 billion at December 31, 2012) and Euro 0.2 billion in non-performing loans (Euro 1.0 billion at December 31, 2012). In terms of asset allocation by geographical area, of the Euro 6.0 billion in real estate assets, 73.5% are managed in Italy, 25.4% in Germany and 1.0% in Poland.

The portion of real estate assets in which the Group does not have an interest amounted to Euro 1.9[33] billion in December 2013, substantially in line with that recorded in December 2012, representing about 32.0% of the total value of assets under management Real Estate.

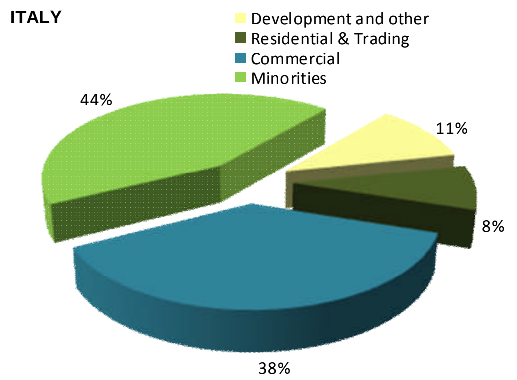
Based on the valuations of independent experts, which the Prelios Group normally requires for its entire portfolio every six months and net of any discounted sales mandates granted to intermediaries, on a like-for-like basis, the market values of assets in which the Group holds an interest were written down by around 8% on average during the period. In 2013, the write-downs essentially recorded on all 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 the following tables show, the distribution of the asset allocation expressed in market values by geographical area at December 31, 2013 shows that Italy's percentage (including the Spazio Industriale Fund invested in but exited from the scope of management of the subsidiary Prelios SGR S.p.A. in the second quarter of 2013, but which continues to be managed by the investment division of the parent company, and the Lucchini development project managed by the company Bielany Project Management, 40% owned by Prelios S.p.A.) has increased compared with that in Germany, even with the exit of the DGAG portfolio from the scope of management.

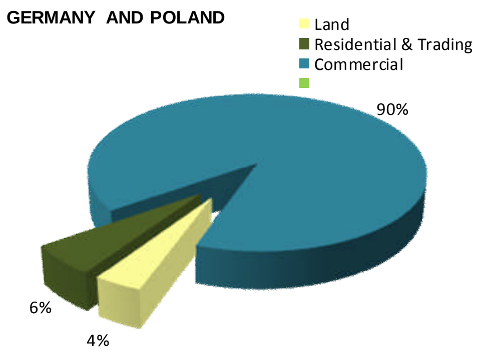




The following tables give an overview by product of assets under management expressed at market values at December 31, 2013 (100% values).

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





Land and development activities

The assets managed and invested in as part of the land and development activities were valued at Euro 533.1 million in December 2013, of which Euro 407.0 million relates to land and Euro 126.1 million relates to development. Prelios has a stake of 41% equal to Euro 221.1 million.

Land and development activities as a percentage of the total real estate assets under management, for investment companies and funds in which the Group holds an interest (Euro 1,076.2 million *pro rata*), is therefore 21%.

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 & Project Management and Agency services.

The land and development activities of the various joint ventures in which Prelios holds an interest are 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 borrowing is generally divided into two facilities with mortgage guarantees: the first for the purchase of the land and the second for progress payments (capitalisation).

The main projects currently in progress are:

- Manifatture Milano (50% Prelios): land adjacent to Bicocca (an area to the north of Milan). Around 73,000 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 99 million. The development activity is managed as a joint venture with Fintecna Immobiliare, although the project is currently behind schedule.
- Trixia (36% Prelios): land designated for real estate development, and already partly developed, situated on the outskirts of the Municipality of Milan. The real estate assets of the company consist of the following:
    - Area e Cascina Zibido – a property comprising land and derelict farm buildings;
    - Malaspina Espansione – semi-urban site, predominantly residential;

- Cusago Espansione – non-urban site for commercial development;
- Castello di Tolcinasco – part of the Castello di Tolcinasco estate;
- Residenze Malaspina – residential development located in the Municipality of Pioltello, comprising three lots and a retail complex: construction began in 2004 and is now complete; the development is still in the marketing phase.

The market value of all real estate assets at December 31, 2013 was Euro 81.6 million.

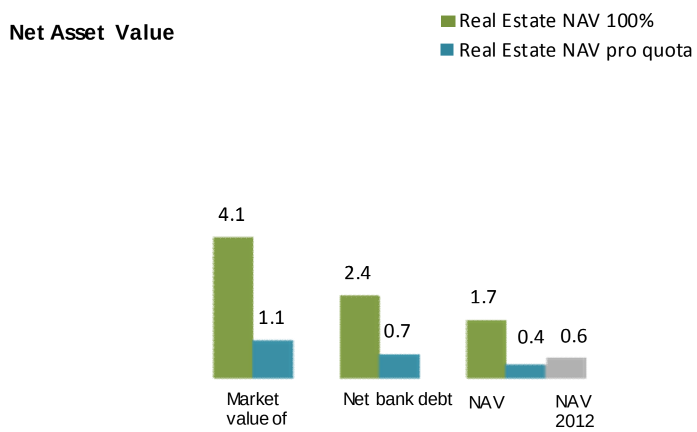
- Inim 2 (25% Prelios): in the section dedicated to RCS, the investment initiative owns a site where around 40,000 square metres of gross floor area has been partially developed for manufacturing, tertiary and commercial use. The market value at December 31, 2013 was Euro 30.7 million.
- The former Lucchini site – approximately 90 hectares located in the northern suburbs of Warsaw with a development potential now estimated at more than 400,000 square metres – has a market value of more than Euro 60 million (Prelios has a 40% stake). On one part of the site (for retail and office use), the planning process has been completed with the approval in December of a new Master Plan.

6.2. Real Estate Net Asset Value estimated by independent third-party experts

The *pro-rata* Net Asset Value of the investments of Prelios, at December 31, 2013, amounted to Euro 0.4 billion (net of non-performing loans, which are stated at book value), a decrease compared with December 31, 2012. This value corresponds to the difference between the *pro-rata* value of the assets held, as determined by independent experts (Euro 1.1 billion), and the *pro-rata* net bank debt of the investment companies and funds in which Prelios holds an interest, amounting to Euro 0.7 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 3.9 billion (Euro 1.0 billion *pro rata*), around Euro 1.2 billion (Euro 0.4 billion *pro rata*) relates to investment property measured at fair value (IAS 40).

The following table shows the Net Asset Value of the Company at December 31, 2013.



The following table shows the Real Estate Net Asset Value for December 2013 and December 2012.

(amounts in billions of euro)	DECEMBER 2013 - 100% -				DECEMBER 2012 - 100% -			
	Market value	Book value	Net Bank Debt	Net Asset Value	Market value	Book value	Net Bank Debt	Net Asset Value
Real estate investment companies and funds in which the Group holds an interest	4.1	3.9	2.4	**1.7**	6.7	6.4	4.6	**2.1**
Real estate investment companies and funds in which the Group does not hold an interest (a)	1.9	1.9			2.0	1.9		
TOTAL REAL ESTATE	**6.0**	**5.8**	**2.4**		**8.7**	**8.3**	**4.6**	
NPL (*)	*0.2*	*0.2*	*0.2*		*1.0*	*1.0*	*1.0*	
TOTAL ASSETS UNDER MANAGEMENT (***)	**6.2**	**6.0**	**2.6**		**9.7**	**9.3**	**5.6**	

	DECEMBER 2013 - PRO RATA -				DECEMBER 2012 - PRO RATA -			
	Market value	Book value	Net Bank Debt	Net Asset Value**	Market value	Book value	Net Bank Debt	Net Asset Value**
Real estate investment companies and funds in which the Group holds an interest	1.1	1.0	0.7	**0.4**	1.8	1.7	1.2	**0.6**
Real estate investment companies and funds in which the Group does not hold an interest (a)	0.0	0.0			0.0	0.0		
TOTAL REAL ESTATE	**1.1**	**1.0**	**0.7**		**1.8**	**1.7**	**1.2**	
NPL (*)	*0.1*	*0.1*	*0.1*		*0.3*	*0.3*	*0.3*	
TOTAL ASSETS UNDER MANAGEMENT (***)	**1.2**	**1.1**	**0.8**		**2.1**	**2.0**	**1.5**	

(*) For non-performing loans, the value included in the "market value" columns corresponds to the acquisition cost less any write-downs.
(**) For the purposes of calculating consolidated assets, these were considered to be entirely financed by equity.
(***) The total includes the Spazio Industriale Fund, which exited the scope of management of the subsidiary Prelios SGR S.p.A. in the second quarter of 2013, but which continues to be managed by the investment division of the parent company. It represents a significant market value and book value of approximately Euro 0.4 billion and euro 0.3 billion, respectively, and is linked to the Lucchini development project managed by the company Bielany Project Management, in which Prelios has a 40% stake, with a significant market value of around Euro 0.1 billion.
(a) This includes, *inter alia* , initiatives in which the Group holds an interest of less than 5%.

Net bank debt does not include the borrowings of several initiatives in liquidation or similar, 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 and Roca Funds for a par value at December 31, 2013 of around Euro 192.4 million on a 100% basis and around Euro 66.2 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 contain information on profitability per cluster on a 100% and pro-rata basis, respectively: in particular, details are given of rental income components with an indication of the corresponding 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; Vacancy rate is calculated as the ratio of vacant floor space to total floor space of the asset.

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

	% PRE	Passing Rent	Passing Yield	Vacancy	Book value	Market value	Net debt
Tecla Fund	44.8%	24,114	6.5%	14.3%	370,770	370,770	267,578
FIPRS Fund	22.0%	20,337	8.0%		253,150	253,150	160,169
Raissa Fund	35.0%	17,304	8.3%	0.6%	208,010	211,833	28,413
Olinda Fund	10.6%	28,311	8.3%	12.3%	341,201	421,075	222,461
Gromis S.r.l.	33.0%	1,000	8.2%		12,216	12,700	10,414
Monteverdi Fund	48.8%	4,904	10.4%	65.1%	47,300	66,140	21,200
Spazio Industriale Fund	22.1%	19,024	7.7%	20.9%	245,766	284,118	156,169
Hospitality & Leisure Fund	35.0%	2,000	3.8%	22.1%	52,000	52,000	66,527
Commercial Italy		**116,994**	**7.6%**	**18.1%**	**1,530,414**	**1,671,786**	**932,931**
Commercial Germany		**4,638**	**6.8%**	**9.3%**	**76,380**	**81,442**	**35,294**
Mistral Properties	40.6%	4,638	6.8%	9.3%	68,649	73,710	35,294
DGAG - Special Properties	100.0%	-			7,732	7,732	-
Highstreet		**96,546**	**7.3%**	**0.2%**	**1,320,430**	**1,320,430**	**655,083**
Residenza Small Deals		**7,590**	**8.3%**	**11.6%**	**91,733**	**92,300**	**77,691**
Total Germany		**108,775**	**7.3%**	**1.9%**	**1,488,543**	**1,494,172**	**768,068**
Total portfolio YIELDING		**225,769**	**7.5%**	**12.6%**	**3,018,957**	**3,165,958**	**1,700,999**
Trading Italy		**4,567**	**n.m.**	**n.m.**	**356,353**	**363,518**	**378,891**
Development Italy		**-**	**n.m.**	**n.m.**	**121,716**	**126,122**	**84,140**
Land Italy		**342**	**n.m.**	**n.m.**	**313,589**	**343,857**	**221,405**
Other Germany		**1,581**	**n.m.**	**n.m.**	**32,080**	**39,000**	**14,309**
Land Poland		**26**	**n.m.**	**n.m.**	**17,384**	**63,135**	**(1,290)**
Total Other		**6,516**			**841,122**	**935,632**	**697,456**
Total portfolio in which the Group holds an interest		232,285	6.0%		3,860,079	4,101,590	2,398,454

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

	% PRE	Passing Rent	Passing Yield	Vacancy	Book value pro rata	Market value pro rata	Net debt pro rata
Tecla Fund	44.8%	10,803	6.5%	14.3%	166,105	166,105	124,444
FIPRS Fund	22.0%	4,466	8.0%		55,592	55,592	42,095
Raissa Fund	35.0%	6,056	8.3%	0.6%	72,804	74,142	9,945
Olinda Fund	10.6%	2,999	8.3%	12.3%	36,140	44,600	23,553
Gromis S.r.l.	33.0%	330	8.2%		4,031	4,191	3,437
Monteverdi Fund	48.8%	2,393	10.4%	65.1%	23,082	32,276	10,346
Spazio Industriale Fund	22.1%	4,208	7.7%	20.9%	54,364	62,847	34,447
Hospitality & Leisure Fund	35.0%	700	3.8%	22.1%	18,200	18,200	23,284
Commercial Italy		**31,956**	**7.4%**	**22.9%**	**430,318**	**457,953**	**271,550**
Commercial Germany		**1,055**	**3.8%**	**7.2%**	**35,556**	**38,655**	**15,868**
Mistral Properties	40.6%	1,055	3.8%	7.2%	27,825	30,923	15,868
DGAG - Special Properties	100.0%	-			7,732	7,732	-
Highstreet		**11,682**	**7.3%**	**0.2%**	**159,772**	**159,772**	**79,049**
Residenza Small Deals		**3,791**	**8.3%**	**11.6%**	**45,817**	**46,100**	**38,906**
Total Germany		**16,529**	**6.9%**	**4.5%**	**241,145**	**244,527**	**133,823**
Total portfolio YIELDING		**48,484**	**7.2%**	**18.6%**	**671,463**	**702,480**	**405,374**
Trading Italy		**1,647**	**n.m.**	**n.m.**	**131,353**	**135,497**	**127,501**
Development Italy		**-**	**n.m.**	**n.m.**	**57,658**	**59,351**	**38,564**
Land Italy		**-**	**n.m.**	**n.m.**	**125,019**	**136,504**	**77,648**
Other Germany		**770**	**n.m.**	**n.m.**	**14,622**	**17,081**	**5,746**
Land Poland		**10**	**n.m.**	**n.m.**	**6,955**	**25,255**	**(506)**
Total Other		**2,427**			**335,607**	**373,688**	**248,953**
Total portfolio in which the Group holds an interest		**50,911**	**5.1%**		**1,007,069**	**1,076,168**	**654,327**

The Prelios Group's real estate yielding portfolio, with a market value of Euro 3.2 billion (Euro 0.7 billion on a *pro-rata* basis) and a book value of Euro 3.0 billion (Euro 0.7 billion on a *pro-rata* basis) generates a pro-rata turnover from rentals of approximately Euro 48.5 million annually (approximately Euro 225.8 million on a 100% basis). The portfolio's ten principal tenants, representing 73% of rents attributable to Prelios, are: Telecom, Karstadt (Highstreet), Regione Sicilia, Conforama Italia, Valtur, Eni, Vodafone, Alstom Power, Virgin, Active Italia and Manutencoop Facility Management S.p.A..

The following table gives a representation by country of AUM 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	456,586		555,904	82,309		100,150
IAS 40	1,073,827		1,115,882	348,008		357,803
Commercial Italy	**1,530,413**		**1,671,786**	**430,318**		**457,953**
IAS 2	76,380		81,442	35,556		38,655
IAS 40	-		-	-		-
Commercial Germany	**76,380**		**81,442**	**35,556**		**38,655**
IAS 2	1,320,430		1,320,430	159,772		159,772
IAS 40	-		-	-		-
Highstreet	**1,320,430**	(*)	**1,320,430**	**159,772**	(*)	**159,772**
IAS 2	6,050		6,190	3,021		3,091
IAS 40	85,683		86,110	42,796		43,009
Residenza Small Deals	**91,733**		**92,300**	**45,817**		**46,100**
IAS 2	302,876		310,041	116,133		120,277
IAS 40	53,477		53,477	15,220		15,220
Trading Italy	**356,353**		**363,518**	**131,353**		**135,497**
IAS 2	121,716		126,122	57,658		59,351
IAS 40	-		-	-		-
Development Italy	**121,716**		**126,122**	**57,658**		**59,351**
IAS 2	313,589		343,857	125,019		136,504
IAS 40	-		-	-		-
Land Italy	**313,589**		**343,857**	**125,019**		**136,504**
IAS 2	32,080		39,000	14,622		17,081
IAS 40	-		-	-		-
Other Germany	**32,080**		**39,000**	**14,622**		**17,081**
IAS 2	17,384		63,135	6,955		25,255
IAS 40	-		-	-		-
Land Poland	**17,384**		**63,135**	**6,955**		**25,255**
Total portfolio in which the Group holds an interest	**3,860,079**		**4,101,590**	**1,007,069**		**1,076,168**

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

7. PERFORMANCE OF THE BUSINESS DIVISIONS

This section describes the economic performance of both the Real Estate component (by geographical area) and the NPL component, distinguishing between income/expenses from the Management Platform and income/expenses from Investment Activities[34]. 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 2013	December 2012	December 2013	December 2012	December 2013	December 2012	December 2013	December 2012	December 2013	December 2012	December 2013	Subtotal	December 2012	Subtotal
Management platform	4.7	11.5	5.3	0.6	(0.5)	0.0	(3.2)	0.1	(11.8)	(9.5)	(5.4)	(15.5)	2.7	(0.7)
Management platform goodwill impairment	(5.8)	0.0	0.0	0.0	(3.3)	0.0	(1.0)	(3.4)	0.0	0.0	(10.1)		(3.4)	
Investment activities	(26.5)	(22.6)	0.6	(0.5)	(1.5)	(0.5)	4.7	2.1	0.0	0.0	(22.7)	(39.7)	(21.5)	(83.1)
Loss on NPL portfolio valuation	0.0	0.0	0.0	0.0	0.0	0.0	(17.0)	(61.6)	0.0	0.0	(17.0)		(61.6)	
Operating profit/(loss)	(27.6)	(11.1)	5.9	0.1	(5.3)	(0.5)	(16.5)	(62.8)	(11.8)	(9.5)	(55.2)		(83.8)	

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

7.1. Real Estate Italy

The operating profit/(loss) for Real Estate Italy (Management Platform and Investment Activities) at December 31, 2013 was negative by Euro 27.6 million, compared with a negative amount of Euro 11.1 million in the same period of 2012, which included, *inter alia*, a one-off amount of Euro 3.7 million due to a favourable outcome to a dispute concerning an earlier public-sector development contract involving project financing.

<u>Management Platform</u>

The operating profit/(loss) at December 31, 2013 was negative by Euro 1.1 million, compared with a profit of Euro 11.5 million in the same period of 2012. Net of the negative impact of the impairment test on Prelios Agency, amounting to Euro 5.8 million, operating profit was Euro 4.7 million: the decrease compared with the previous year, which included the aforementioned one-off payment of Euro 3.7 million, is mainly due to the contraction in property and project management and agency activities.

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[34] 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.

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

Fund Management	**December 31, 2013**	**December 31, 2012**
Revenue (millions of euro)	21.0	23.3
Operating profit/(loss) (millions of euro)	7.6	8.5
ROS	36%	37%
Number of funds managed	22	23
AUM (*)	3.7	4.3
Number of employees	67	62

(*) Market value in billions of euros, expressed on a 100% basis, including the portfolio of Excelsia 9 S.r.l., excluding the Spazio Industriale Fund, which exited the scope of management during the second quarter of 2013.

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

At December 31, 2013, Prelios SGR managed a total of 22 funds, of which nine are ordinary (two of them listed) and 13 speculative, as well as a management contract for the divestment of a real estate portfolio.

Revenue, essentially consisting of management fees, amounted to Euro 21.0 million in 2013, a decrease of 9.9% compared with the figure recorded at December 31, 2012. The difference is mainly due to the reduction in assets under management, which fell from Euro 4.3 billion at December 31, 2012 to Euro 3.7 billion at December 31, 2013.

In relation to the creation and/or management of new funds, in May 2013 Prelios SGR took over the management of the Obton Fund, a closed-end speculative real estate fund that invests primarily in operating buildings involved in the production of renewable energy, particularly photovoltaic installations.

The Fund invests in photovoltaic installations that are already "grid-connected", seeking a minimum target size of around Euro 50 million (about 14 MW).

In June 2013, Prelios SGR and TerniEnergia (a company active in the fields of renewable energy, energy efficiency and waste management, listed on the Star segment of the Italian Stock Exchange) signed an agreement for the establishment of "RA" – Renewable Assets, a closed-end real estate investment fund reserved for qualified investors, which will invest in operating assets for the production of energy from renewable sources initially conferred by TerniEnergia.

On November 27, 2013, Prelios SGR was awarded the tender published on March 27, 2013 by the Cassa Nazionale di Previdenza e Assistenza a favore dei Dottori Commercialisti ("CNPADC"), with a restricted procedure for the selection of an asset management company to set up and manage a closed-end real estate fund reserved for qualified investors (final award on January 17, 2014). The CNPADC initially endowed the Fund with the sum of Euro 50 million, reserving the right to increase this to a maximum of Euro 300 million. The Fund, with a duration of 30 years, will invest at least 90% of these sums in property assets and real estate rights in Italy, primarily for commercial, tertiary or office use, but not for residential use.

On December 19, 2013, Prelios SGR was awarded the tender published on September 6, 2013 by the Centro Agroalimentare di Bologna S.c.p.A. ("CAAB"), with a restricted procedure for the selection of an asset management company to set up and manage a closed-end real estate fund reserved for qualified investors (final award on December 24, 2013).

The fund is promoted, *inter alia*, for the execution of the project known as F.I.CO. (Fabbrica Italiana Contadina), a development within the Bologna food market which distils the best of Italian wine and food, promoting and showcasing traditional local produce by bringing in local producers and businesses and providing support with production, marketing and administration.

The 40-year Fund will be established by subscription (i) by CAAB, with the shares paid for by a contribution of the land on which the project is to be developed, and (ii) by qualified investors, with the shares paid for in cash for an amount not less than Euro 40 million, giving a total minimum amount of not less than Euro 95 million.

The intense scouting process immediately embarked on by the new management continued with the study and promotion of numerous initiatives which led to the inception, on January 23, 2014, of a closed-end real estate fund reserved for qualified investors named "Igea", dedicated to investments in the real estate sector by institutional investors, particularly initiatives with a significant property development or redevelopment component. The transaction mainly involves the Fund acquiring ownership (through contribution and/or purchase) of land destined for real estate development or buildings suitable for conversion/renovation.

The Fund will involve both institutional investors with a financial investment profile, who will participate in the Fund with cash contributions, and other qualified investors who will participate through contributions in kind (land or buildings). Prelios SGR has already collected cash subscriptions totalling Euro 25 million from a leading social security agency and is completing due diligence for the purchase of land for a residential development scheme.

During the year, Prelios SGR also successfully bid for the creation and management of a closed-end investment fund dedicated to investing in "five-star luxury" hotels in Italian and foreign cities, promoted by a major international player active in hotel management.

In parallel with the development of new initiatives, an ongoing commitment was maintained to strengthen the organisational structure and positioning as a benchmark for industry best practice, guaranteeing investors the highest service standards. Based on these guidelines, Prelios SGR has upgraded and expanded its business development unit, which now reports to the Head of Business Development, Fund Raising and Investor Relations, introduced the role of Fund Director and reinforced the position of Technical Director, who reports directly to the Fund Director.

Finally, Prelios SGR has obtained ISO 9001 Quality Management certification. The project, which began in January 2013 by designing the entire Quality Management System, was concluded in the first half of the year thanks to the important and ongoing work carried out recently to optimise internal regulations.

Agency	December 31, 2013	December 31, 2012
Revenue (millions of euro)	1.6	5.3
EBIT before impairment	(3.4)	(2.0)
Management platform impairment	(5.8)	0.0
Operating profit/(loss) (millions of euro)	(9.2)	(2.0)
Volume of business (in millions of euro)	43.8	276.9
Number of employees	21	25

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..

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.

In 2013, the Agency's poor performance was largely due to the continuing crisis in the real estate sector in Italy, which has led to a significant slowdown in the number and size of transactions.

At December 31, 2013, the portfolio of sales mandates from external customers amounted to Euro 1,540[35] million.

It should be noted that on September 27, 2013, the sale was agreed to Re/Max of 100% of the shares of the company Brand for Agency Services S.r.l., not considered strategic for the Group. With this transaction, the Prelios Group finally exits the franchise brokerage sector for retail customers, continuing to concentrate exclusively on institutional brokerage and brokerage for international operators, in line with the Group's repositioning as a "pure manager" and its focus on the core business.

Valuations	December 31, 2013	December 31, 2012
Revenue (millions of euro)	3.4	4.0
Operating profit/(loss) (millions of euro)	0.4	0.2
ROS	12%	5%
Number of Loan Service valuations	12,859	20,309
Number of employees	11	12

The subsidiary Prelios Valuations E-Services S.p.A. is an independent operator providing valuations of individual properties and real estate portfolios for tertiary and residential use, specialising in valuation services for banks ("Loan Services").

Revenue in 2013 stood at Euro 3.4 million, compared with Euro 4.0 million in the corresponding period of 2012; revenue from valuation activities are slightly lower than in 2012, despite an improvement in ROS.

35 List price.

More specifically, the volumes of the "Loan Services" activity declined following the loss, in October 2013, of the Intesa Sanpaolo contract, which generated around 11,500 appraisals a year.

A reduction in the volume of work was also recorded for the ING Direct contract.

By contrast, the "Full Appraisals" sector, dedicated to companies, institutional investors and real estate funds, increased its turnover in 2013 by 38% compared with 2012.

The under-performing situation in the Loan Services sector compared with the previous year generated 26% less turnover in 2013, although other business lines with a higher margin saw a 23% increase in turnover during the year.

Integra	**December 31, 2013**	**December 31, 2012**
Revenue (millions of euro)	15.2	15.6
Operating profit/(loss) (millions of euro)	0.8	5.8
ROS (*)	5%	13%
Value of assets under management (billions of euro)	4.9	4.9
Floor area managed (in millions of m^2)	4.9	4.1
Rental units managed	approx. 29,000	over 28,000
Leases managed	over 2,800	over 3,000
Passing Rent (millions of euro)	over 242	over 267
Value of project management assets under management (billions of euro) (**)	0.4	0.5
Capex at December 31 (millions of euro) (***)	29.2	15.6
Total capex pipeline (millions of euro) (****)	329	356.4
Number of employees	89	75

(*) The calculation of ROS on the comparative data at December 31, 2012 excludes the impact of Euro 3.7 million on EBIT relating to the favourable arbitral award in 2012.
(**) Value of assets under project management, most of which are already under property management.
(***) Project management activities carried out in 2013.
(****) Project management activities potentially feasible based on the mandates in place.

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

Prelios Integra is one of Italy's leading operators in integrated property management and project development services, with Euro 4.9 billion in assets under management, representing over 4.9 million square metres.

Prelios Integra offers an integrated active and dynamic management service (asset, property and facility management) aimed at creating value for customers in both the public and private sectors: from property administration and accountancy to tenant management, from technical and maintenance services to research and sales support.

As part of its project management activities, the Company takes care of all the planning and construction phases of a building, with unique expertise in sustainability: from designing eco-friendly buildings from the ground up to green retrofitting, and from energy certificates to renewable energy.

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

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

- administrative and real estate management;
- facility management and energy;
- project management;
- asset management and development;
- sales support;
- shopping centre management.

Revenue at December 31, 2013 amounted to Euro 15.2 million, substantially in line with that of 2012 (Euro 15.6 million). Operating profit was Euro 0.8 million, compared with Euro 5.8 million at December 31, 2012. This benefited from the positive impact of Euro 3.7 million due to a favourable arbitral award concerning a previous public-sector development contract associated with project financing. The decrease is mainly due to the reduction in turnover in the public sector, which in 2012 generated revenue from extraordinary maintenance on INPS real estate assets (lot 1) of Euro 1.7 million, compared with Euro 0.2 million euro for the year under review, and to the decline in revenue from the Group's companies.

In 2013 the Company managed a real estate portfolio equivalent to more than 2,800 lease agreements. The main "third-party" customers were: INPS, Telecom Italia, Autogrill, Excelsia 9, SR3 Certosa (Stam Europe), Duemme SGR and Prisma SGR.

In 2013, the Company acquired the following new mandates: UBI, Carige, Prisma SGR, Stam Europe, UniCredit Leasing and Telecom Italia.

Investment Activities

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

The operating loss in 2013 was Euro 26.5 million, compared with a loss of Euro 22.6 million in the same period of 2012.

The market environment remains fragile, with few transactions and plummeting prices, preventing coverage of operating and financial costs by investment companies. Therefore, despite lower costs than in 2012, net income from Investment Activities remains negative.

Property sales in 2013 (considering the properties of associates, joint ventures and funds in which the Group holds an interest on a 100% basis) amounted to Euro 44.0 million (Euro 303.4 million in the same period of 2012). Real estate transactions were realised at values substantially in line with the book value (gross margins on sales[36] made in 2012 were -1.4%). Total rents[37] amounted to Euro 124.2 million (Euro 132.9 million at December 31, 2012).

[36] The value is calculated by dividing the sales value by the related gross capital gains. These are made by consolidated companies, associates, joint ventures and funds in which the Group holds an interest of at least 5%.

[37] 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.

7.2. Real Estate Germany

In 2013 the Real Estate Germany business (Management Platform and Investment Activities), purely with reference to commercial activity, reported an operating profit of Euro 5.9 million, compared with a profit of Euro 0.1 million in 2012.

Management Platform

Germany	December 31, 2013	December 31, 2012
Revenue (millions of euro)	17.9	14.2
Operating profit/(loss) (millions of euro)	5.3	0.6
ROS	30%	4%
Floor area managed (in millions of m^2) (*)	approx. 1.0	approx. 1.8
Number of rental units managed (*)	83	115
AUM (**)	1.4	2.7
Number of employees	82	78

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

At December 31, 2013, operating profit stood at Euro 5.3 million, compared with Euro 0.6 million at December 31, 2012. This increase is mainly due to the revenue generated by the Highstreet portfolio (especially from sales).

Revenue rose from Euro 14.2 million at December 31, 2012 to Euro 17.9 million in 2013. The increase is primarily due to fees generated by the Highstreet portfolio.

Investment Activities

At December 31, 2013, EBIT stood at Euro 0.6 million, compared with a negative amount of Euro 0.5 million in the previous year.

Property sales in 2013 (considering the properties of associates, joint ventures and funds in which the Group holds an interest on a 100% basis) amounted to Euro 2,195.9 million, of which Euro 917.0 million related to the aforementioned sale of the DGAG German residential portfolio to BUWOG, part of the Immofinanz Group. Compared with the Euro 353.2 million in the same period of 2012, there has been a marked increase in sales for the Highstreet commercial portfolio, which recorded Euro 1,271.0 million in 2013 compared with Euro 185.0 million in 2012. Real estate transactions in 2013 were realised at values in line with the book value (0.5% in the same period of 2012). Total rents stand at Euro 239.0 million, of which Euro 71.3 million relates to DGAG (Euro 262.7 million in 2012, of which Euro 70.5 million relates to DGAG).

7.3. Real Estate Poland

The Poland Real Estate business (Management Platform and Investment Activities) reported an operating loss in 2013 of Euro 5.3 million, compared with a loss of Euro 0.5 million in 2012.

Management Platform

Poland	December 31, 2013	December 31, 2012
Revenue (millions of euro)	0.5	1.1
EBIT before impairment	(0.5)	0.0
Management platform impairment	(3.3)	0.0
Operating profit/(loss) (millions of euro)	(3.8)	0.0
Floor area managed (in millions of m^2) (*)	0.4	0.7
AUM (**)	0.1	0.1
Number of employees	13	22

(*) The figure refers to the Lucchini site managed by the company Bielany Project Management, 40% owned by Prelios S.p.A.
(**) Market value expressed in billions of euro on a 100% basis.

Before impairment losses, the operating loss was Euro 0.5 million, compared with a break-even result at December 31, 2012.

These results reflect the virtual completion of the sale of the stock of properties under development, while the urban development of some land in the portfolio is still in the process of being completed.

Investment Activities

The operating loss was Euro 1.5 million, compared with a loss of Euro 0.5 million in the previous year. The business is currently working on completing the planning process, which will release more than 400,000 square metres of land for potential development at the former Lucchini site in Warsaw, of which Prelios owns 40%. The result is influenced by the operating and financial costs linked to the development of the area.

In 2013 there were no significant sales of buildings or land (considering the properties of associates, joint ventures and funds in which the Group holds an interest on a 100% basis), while in the same period of 2012, this amounted to Euro 0.5 million.

7.4. Non-performing loans

In 2013, Non-performing loans (Management Platform and Investment Activities) reported an operating loss of Euro 16.5 million, compared with a loss of Euro 62.8 million in 2012. The operating loss in 2013 includes the negative impact of the valuation of the NPL portfolio for Euro 17.0 million (Euro 61.6 million at December 31, 2012).

Management Platform

NPL	December 31, 2013	December 31, 2012
Revenue (millions of euro)	8.5	14.0
EBIT before impairment	(3.2)	0.1
Management platform impairment	(1.0)	(3.4)
Operating profit/(loss) (millions of euro)	(4.2)	(3.3)
ROS	-49%	-24%
Receipts (millions of euro)	94	178
Gross book value (billions of euro)	8.5	8.7
Number of NPL managed	over 75,000	over 74,000
Number of employees	75	120

Prelios Credit Servicing is one of Italy's leading companies by volume in the management of non-performing loans, with a managed portfolio of approximately Euro 8.5 billion (gross book value).

EBIT before impairment losses was negative by Euro 3.2 million in 2013, whereas this was essentially at break-even point at December 31, 2012.

The loan collection activity in the main channels used – judicial and out-of-court – confirmed a gradual slowdown in the year under review; at December 31, 2013, the value of NPL collections amounted to Euro 94 million, compared with Euro 178 million at December 31, 2012. Judicial recovery has seen an increasing number of auctions without bidders, while out-of-court recovery has been significantly hampered by the credit crunch, which prevents debtors from having the liquidity necessary to close out their position and prevents potential investors from raising the necessary funds to invest in the sector, with a consequent negative impact on the likelihood of settlement of the "top" positions and of structured transactions.

The contraction in revenue of Euro 5.5 million, partly attributed to the market dynamics described above, was also caused by the gradual release during the year of special servicing mandates relating to portfolios owned by Crédit Agricole-CIB, which has significantly reduced the portfolio under management.

On October 16, 2013, Prelios and DGAD International S.à.r.l. gave effect to agreements entered into in early 2013 under which Prelios would have to buy the 20% stake held by DGAD in PRECS and sell to DGAD the entire stake held in European NPL, equivalent to 33% of the capital. By signing this agreement, Prelios disposes of its shares in the investment vehicle and consolidates its investment in the credit servicing company, which increases to 100%. The transaction remains in line with the Group's objective to focus on operating as a "pure management company" in the extra-captive market, and, in particular (i) the acquisition of full control of the Company by Prelios; (ii) the development and relaunch of special servicing activities through the acquisition of new mandates on the market; (iii) the continuation of "reserved" activities, i.e., the management of the services for Master Servicing, Corporate Servicing and Junior Representative of Noteholders (JRON) for portfolios currently managed under special servicing arrangements, including with CA-CIB.

Investment Activities

	December 31, 2013	**December 31, 2012**
Portfolio yield	4.7	5.0
Capital loss on disposal of portfolios	0.0	(2.9)
EBIT before loss on NPL portfolio valuation	4.7	2.1
Loss on NPL portfolio valuation	(17.0)	(61.6)
Operating profit/(loss) (millions of euro)	**(12.3)**	**(59.5)**

EBIT before the valuation loss on the NPL portfolio is positive at Euro 4.7 million, compared with a positive amount of Euro 2.1 million in the same period of 2012 (a figure that included a capital loss of Euro 2.9 million due to the block transfer of certain mortgage and unsecured loans held by the subsidiary CFT). Considering the negative impact of Euro 17.0 million in 2013 and Euro 61.6 million in 2012 relating to the valuation loss on the NPL portfolio, operating profit/(loss) was negative at Euro 12.3 million, compared with a negative amount of Euro 59.5 million at December 31, 2012.

In view of the transfer agreement executed on October 16, 2013 with Crédit Agricole on the exit of Prelios from NPL co-investments in a joint venture with the latter, 2013 net profit refers almost exclusively to the joint venture with Morgan Stanley.

8. RISKS AND UNCERTAINTY

Despite the difficult macroeconomic environment, which has been particularly challenging for the real estate sector, and despite the uncertainties highlighted by the 2014-2016 Guidelines resulting from additional losses expected in the three-year period and the need for funding in the same period to cover the expected deficit, the directors have currently adopted the going concern assumption in the preparation of the financial statements, based on the commitments and audits described in the paragraph on "Initiatives to maintain corporate continuity" and in the paragraph in the explanatory notes on the "Adoption of the going concern assumption in the preparation of the financial statements". This is mainly due to the willingness demonstrated by the principal Lenders to support a series of actions to mitigate the expected cash flow requirements and the alteration of the financial structure in the medium term so that this is within sustainable limits for the Group, as well as other initiatives already identified and described in the aforementioned paragraph.

8.1. Risks related to the Group's financial structure

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

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

The guidelines for managing said financial risks are defined by the Administration, Finance and Control department. The risk management policies are aimed at confirming to Group management that activities entailing financial risk are governed by appropriate policies and procedures and that financial risks are identified, evaluated and managed in compliance with the Group's attitude towards risk. Under these guidelines, the Group uses derivatives in relation to the underlying financial assets or liabilities or future transactions.

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

8.1.1. Risks related to financial debt

The 2014-2016 Guidelines indicate a Group cash flow requirement which is unsustainable in the short term in the absence of new initiatives and corrective actions concerning the commitments currently planned, which require the willingness on the part of the principal Lenders and shareholders to support the Company by modifying the current financial structure or any financial commitments that are not covered by cash flows from operating activities. The expectation of such support, based on the willingness in principle expressed by the principal Lenders, together with the postponement of certain commitments for the period necessary to define a structural transaction with the Lenders in order to reschedule the financial commitments so that these are sustainable and consistent with the Group's ability to generate cash and the time it takes to do so, are currently regarded as necessary to enable the Group to maintain a sustainable financial and capital balance and to adopt an appropriate going concern assumption in the preparation of the annual report at December 31, 2013.

In this regard, it is expected that a cash deficit will arise in the third quarter of 2014, which can only be addressed by sharing the proposed actions to mitigate the Group's exposure with creditor counterparties. In view of this requirement and considering the need for additional cash flows beyond those that can be generated from the core business, as currently forecast, or for an alteration of the commitments to which the Group is currently exposed, the directors believe – based on the discussions held and the willingness in principle expressed by the Lenders and shareholders – that the planned actions to mitigate the short-term requirement and the medium-term structural rebalancing are able to support the financial structure so as to enable the Prelios Group to operate as a going concern.

8.1.2. Risks relating to the failure to comply with financial covenants or commitments, statements and guarantees

The Restructuring Agreement does not oblige the Company to comply with financial covenants, but imposes periodic reporting obligations.

Failure to comply with these periodic reporting obligations does not trigger the express automatic termination of the agreement *per se*; however, the violation of the aforesaid obligations would entitle the Lending Banks to exercise the contractual remedies available to them, with the consequent acceleration of the repayment of the loan for the parent company. Based on the information disclosed in compliance with said reporting requirement (i.e. as a consequence of failing to comply with the reporting obligation itself), it may be necessary to implement corrective actions which are unplanned and not currently foreseeable, which could have a negative impact on the balance sheet, income statement and financial position of the Group.

8.1.3. Risks related to interest rate fluctuations

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

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

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

It should be noted that a pro-rata share of 39% of the total debt (bank and non-bank) of vehicles in which Prelios holds an interest is protected from interest rate fluctuations above a certain level either through fixed-rate loans or through recourse to hedging derivatives.

8.1.4. Currency risk

The Group is active internationally in Europe and has a minimal exposure to currency risk arising from positions in currencies other the euro, mainly the Polish zloty. This risk is managed by the Group's treasury and is exclusively related to shareholder loans owed by joint ventures for real estate projects in Poland.

8.2. Risks related to the Group's business activity

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

The ongoing financial crisis which has hit financial markets in general, and the real estate sector in particular, has also had a negative influence on the results of Prelios over the past few years.

Prelios has optimised the components of its business model in order to deal with this market situation, and has implemented the actions provided under the Recovery Plan. Any continuation of the crisis affecting the sector, which could continue to have a negative impact in 2014 as well as in upcoming years, could consequently generate uncertainties with regard to the achievement of the objectives of the new 2014-2016 Guidelines, even though these are more conservative than those of the previous plan. This could mean that dividends cannot be distributed or the debt repaid, and further erode the structure of the Group's balance sheet, income statement and financial position.

8.2.2. Risks associated with the failure to implement the new 2014-2016 Guidelines

On April 9, 2014, the Board of Directors of the Company approved the 2014-2016 Guidelines, which contain the strategic guidelines and growth targets for the economic, financial and business growth of the Company and the Group for the next three years.

The Company, which in 2013, due to the protracted completion of the Transaction, prioritised the management of business continuity over the development of ordinary business, will implement the new 2014-2016 Guidelines in the light of the new market context.

The 2014-2016 Guidelines, based on which the objectives of the new plan will be defined, were prepared taking into account estimates prepared by the Group with the assistance of advisors engaged for this purpose. Since estimates and processed data are involved, these – as accurate as they may be – are subject by definition to uncertainties and variables.

Therefore, if trends in the economic scenario should deviate from the estimates and processed data used as the basis for the strategic guidelines, this could compromise its achievement, with consequent negative impacts on the Group's balance sheet, income statement and financial position.

In the light of this, extraordinary measures cannot be ruled out should a liquidity requirement arise which exceeds the forecasts contained in the 2014-2016 Guidelines, possibly due to a reduced cash inflow from the divestment of assets, or an increase in the funding requirement due to a further economic downturn, which could have a knock-on effect for the Group's operations and finances.

The 2014-2016 Guidelines contain several estimates concerning the competitive positioning of the Company and the Group made by Prelios based on the data available and its knowledge of the sector in which it operates. However the lack of certain and homogeneous information about the sector makes the estimates and forecasts subject to risks and uncertainty in general. Therefore, the results of Prelios and the performance of the sector in which it operates could differ, even significantly, from the forward-looking statements made, due to unknown or unforeseeable risks, uncertainties or other factors. The 2014-2016 Guidelines also contain forward-looking statements, and specifically forecasts about the economic and financial performance of the Group and about future events. The actual results could, however, be different from those indicated in these statements, as a result of uncertainties and other factors not currently foreseeable, including risks associated with continuing problems in the reference markets and the possible deterioration in the macroeconomic context.

8.2.3. 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 heavily influenced by the implementation of sales plans in accordance with the timescales and amounts contained in the forecasts made, in correlation with the repayment plans for borrowing raised to support investments. The differences between the plans and final figures are constantly monitored for the purpose of adopting all necessary remedies as soon as these may be required.

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

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

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

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

Liquidity risk, which is monitored constantly, is also closely related to the Company's requirements and is assessed partly in relation to the aforementioned initiatives, designed to bring about the Company's recovery and to enable it to continue as a going concern.

8.2.4. Legal risks linked to civil and administrative disputes

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

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

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

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

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

Polish Investment Real Estate Holding II B.V., a Dutch company in which Prelios S.p.A. holds a qualified minority interest as a joint venture with investment funds belonging to Grove, and which holds the entire share capital of Coimpex Sp.Zo.o. directly and Berea Investments Sp.Zo.o. SKA indirectly, which own land currently undergoing development in Warsaw. The land was acquired indirectly by Prelios S.p.A. through the purchase of Coimpex Sp.Zo.o. and Relco Sp.Zo.o. (subsequently merged into Coimpex Sp.Zo.o.) in 2008 and was subsequently sold to Polish Investment Real Estate Holding II B.V. With reference to the above, Grove has raised some concerns about the way in which Prelios S.p.A. handled the negotiations for the sale to Polish Investment Real Estate Holding II B.V. of the companies that originally owned the land. On July 3, 2013, it sent the Company a notice of initiation of international arbitration, alleging that the transaction was conducted under different conditions to those presented and, in any case, in a manner not consistent with the principles laid down in the investment agreements between the parties. In particular Grove is essentially seeking the payment of the difference between the purchase price paid for the land by the joint venture initiative between the parties and that paid for the previous purchase made indirectly by Prelios S.p.A.; an amount, according to the documents instituting the litigation, totalling approximately Euro 17 million plus legal costs. Grove also claimed the existence of a possible conflict of interest for Prelios Polska Sp.Zo.o. (a subsidiary of Prelios S.p.A.), which allegedly failed to act diligently in providing development services in order to benefit Prelios S.p.A. The Company is currently analysing the documentary evidence and the arguments supporting the claim in order to determine the actual risk, and is preparing to take all measures deemed necessary to protect its rights, including during arbitration. The arbitration is currently pending and the parties have filed their respective pleadings. It is not considered likely, especially in the light of the legal advice provided by the experts retained, that liabilities will arise from this litigation.

It is also noted that in 2009 Relco was merged into Coimpex. As part of the merger, land subject to perpetual usufruct in favour of Relco was transferred to Coimpex. However, some of this land was designated to forestry and agricultural use at the time and the transfer needed the consent of the Polish Ministry of the Interior.
This consent was not applied for; in the meantime the land has been developed and is now used for offices. Coimpex is preparing a motion to be presented to the competent ministry to request ex-post consent for the transfer. The risk consists of the possible withdrawal of the perpetual usufruct currently belonging to Coimpex. Grove, which is a partner in the initiative alongside Prelios, could find that the absence of an application for consent was caused by negligence on the part of the subsidiary Prelios Polska Sp.Zo.o., which at the time of the events provided asset management services to the companies involved in the merger.

In relation to civil and administrative disputes involving different investment companies in which the Group holds qualified minority interests, it should be noted that, given the legal subjectivity of said investment companies, the legal risk assessment and the provision for any contingent liabilities is made at the level of the individual companies, with monitoring and involvement by Prelios internal departments. Nevertheless, it is worth mentioning the initiative concerning the consortium G6 Advisor, which carries out management activities in relation to the divestment of certain securitised real estate portfolios, in which the subsidiary Prelios Agency S.p.A. has a 42.3% stake. The legal status of the consortium effectively involves a joint liability for all consortium members; if the consortium should lose the proceedings, the consortium members could be held directly liable on behalf of the consortium if the consortium fund is not sufficient to meet the obligations of the consortium itself. The total claim of the disputes in which the consortium is a party is Euro 28.2 million.

Arbitration has also been initiated by the company CILE S.p.A. against Prelios S.p.A. for an alleged breach by the latter of procurement contracts. Although the litigation is at a preliminary stage, it is apparent that the claim is for approximately Euro 1.5 million. In this context Prelios S.p.A., not considering the risk of liabilities probable, plans to challenge the claims made by the other party in the arbitration.

Finally, in February 2005, Prelios and Group companies, namely Prelios Property & Project Management, Prelios Agency and Prelios Credit Servicing, signed a contract with Capitalia (now UniCredit) and several companies belonging to the group of the same name under which Prelios – either directly or through Group companies – committed to providing

Capitalia with certain services relating to the purchase, management and sale of certain properties, the subject of enforcement proceedings for the recovery of debts owed to Capitalia, in order to assist the latter with credit protection by safeguarding and realising real estate assets.

In January 2011, UniCredit withdrew from the contract, demanding the return of all documents in the possession of the Prelios Group. This was followed by the withdrawal of other companies in the UniCredit Group.

In 2011, after the contract was terminated, UniCredit sent Prelios three letters in which it challenged the work done by the Company and other Group companies (in this case Prelios Property & Project Management) as part of the asset management activities. In September 2011, the documents regarding the properties covered by the contract were returned.

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

The Company dismissed outright the claims for compensation made by UniCredit, at the same time seeking payment of Euro 560 thousand for services rendered by Prelios Property & Project Management and not paid for (note that the total amount for services rendered by the Prelios Group is approximately Euro 770 thousand).

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

During the second half of 2013, a series of meetings was held between the parties to examine their respective arguments and study possible amicable solutions to the dispute; the possibility emerged that the claim was only partially late, although this is yet to be verified, particularly in terms of calculating any related compensation. At any rate, it was considered prudent to set aside a proper provision for risks at December 31, 2013.

8.2.5. Tax risks

At the date of approval of this annual report, the tax litigation between the Italian tax authorities and Prelios S.p.A. (the "Company") and some of its subsidiaries was still pending, representing a total of around Euro 2.3 million in taxes (excluding penalties and interest).

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

- charge of higher income and non-recognition of costs for IRES and IRAP purposes;
- application of the arm's length principle on property purchases and sales;
- charging of VAT;
- registration duty on declaratory judgments of loans.

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

* * *

In the interests of completeness, it is pointed out that, in terms of the companies in which Prelios S.p.A. or its subsidiaries have invested with qualified minority interests with third-party investors (associates and joint ventures), the total amount disputed by the Italian tax authorities amounts to approximately Euro 308 million in taxes (excluding penalties and interest), of which approximately 84% relates to a single company, Tamerice Immobiliare S.r.l. in liquidation ("Tamerice"). It should be noted in this regard that on March 12, 2014, Tamerice signed with the Italian Revenue Agency (Agenzia delle Entrate) and collection agent Equitalia Nord S.p.A. a tax settlement agreement (debt restructuring agreement under Articles 182-*bis* and 182-*ter* of the Italian Bankruptcy Law) in order to resolve the tax litigation amicably (see the section on Tamerice for more details).

The most significant situations are as follows:

(a) Tamerice Immobiliare S.r.l. in liquidation, in which Prelios holds 20% of the share capital. During a tax inspection carried out in 2008 by the Guardia di Finanza (Italian Financial Police), the latter, with reference to the 2005 tax period and subsequent periods, disputed the tax deductibility of a capital loss realised by Tamerice following a divestment.
In the notices of assessment, the Italian Revenue Agency justified the claim by referring to the legal principle of "abuse of rights".
According to the matters indicated in the notices of assessment for 2005, 2006 and 2007, the claim gives rise to additional taxes for a total of Euro 258 million (excluding penalties and interest). The notices were challenged before the tax court (a brief description of the litigation status is given below). Tamerice currently has negative equity, and went into liquidation in 2012.
In terms of the status of ongoing disputes, the following is observed.
With reference to the notice of assessment for 2005 (the amount of which was Euro 9 million in taxes, plus penalties equal to 100% of the taxes, plus interest), the Regional Tax Commission of Milan, with a decision of June 5, 2013, dismissed the appeal filed by Tamerice, upholding the original payment order issued. This decision was appealed before the Supreme Court, however the filing of said decision determines the enforceability of the tax due of approximately Euro 5.3 million (consisting of a payment slip sent to the company in July 2011, for which the Italian Revenue Agency announced that the suspension had been lifted in June 2013) as well as the residual debt. Tamerice, in view of the partially favourable outcome in a separate dispute, has a tax credit for around Euro 14 million (plus interest), which it can offset against the debt established by the judgment of the Regional Tax Commission. At present, Tamerice does not have sufficient financial resources to make any payment ordered in the meantime.

Regarding the notice of assessment for 2006 (comprising Euro 71 million in taxes, plus penalties equal to 200% of the tax, plus interest) and the notice of assessment for 2007 (the equivalent in terms of taxes is Euro 178 million, plus penalties equal to 200% of the taxes, plus interest), the payment obligations, as well as the related judgments, have been suspended pending the final outcome of the litigation relating to the notice of assessment for 2005.

Again with reference to the above dispute, it should be noted that on July 31, 2012, the Company received a payment slip for payment on account of the additional tax for Euro 221 million (covering taxes and penalties relating to the notices of assessment for 2005 and 2006). The Provincial Tax Commission granted the suspension of the payment on account of the additional tax and ordered that the proceedings be joined to those pending against the notice of assessment for 2006. A hearing is due to be scheduled before the section of the Provincial Tax Commission to which the above matter has been reassigned.

As mentioned earlier, on March 12, 2014, Tamerice Immobiliare S.r.l. in liquidation signed a tax settlement agreement (debt restructuring agreement under Articles 182-*bis* and 182-*ter* of the Italian Bankruptcy Law) with the Italian Revenue Agency and collection agent Equitalia Nord S.p.A. in order to reach an amicable settlement of the outstanding tax dispute.

Under the tax settlement agreement, Tamerice is required to arrange payment of the amount due to the Italian Revenue Agency of Euro 43,739,046 and the amount due to the collection agent of Euro 2,033,865.64, representing a total of Euro 45,772,911.64 (note also that the company has waived the tax credits for Euro 15,482,561 in the Italian Revenue Agency's favour, so the total amount due to the Italian Revenue Agency and collection agent will be Euro 61,255,472.64).

Tamerice's shareholders have already provided the company – through a non-repayable contribution – with the necessary financial resources for full payment of the amount due both under the tax settlement agreement and for the payment of creditors who are not parties to the restructuring agreement. These irrevocable shareholder commitments are contingent on a final court judgment approving the restructuring agreement. The liability for Prelios S.p.A. is approximately Euro 11 million, already accounted for in these financial statements.

The Tamerice recovery plan provides, *inter alia*, for the sale of the business comprising all disposable and residual assets and liabilities of the company (excluding those to be extinguished under the restructuring agreement) to Centrale Immobiliare S.r.l., a wholly owned subsidiary of Prelios S.p.A.. The sale is also contingent on a final court judgment approving the restructuring agreement.

(b) Spazio Investment N.V., in which Prelios indirectly holds 22% of the share capital.
Following an inspection by the Guardia di Finanza for the period 2006-2009, the Italian Revenue Agency served notices of assessment for the first two years (2006 and 2007) for a total of Euro 9.4 million in taxes (plus penalties equal to 120% of the taxes and interest).
In the opinion of the Italian Tax Authorities, Spazio Investment N.V. should be considered a de facto resident for tax purposes in Italy and only formally based in the Netherlands.
Therefore, the total amount of the claims, taking into account the estimated claims for 2008, for which no notice of assessment has yet been received, is Euro 19.7 million (plus any penalties imposed, equal to 120% of the taxes and interest). Separate appeals were presented in March 2013 in relation to the notices of assessment served to the company. The Provincial Tax Commission granted the suspension application and scheduled the initial hearing for October 14, 2013. The company and the Italian Revenue Agency have requested a postponement of the hearing and at the same time applied for conciliation (the hearing was set for May 19, 2014).

(c) Iniziative Immobiliari S.r.l. in liquidation, in which Prelios holds 49.46% of the share capital.
In 2008, the company underwent a tax inspection for the 2004-2008 tax years, which resulted in a notice of assessment being issued whereby the Guardia di Finanza criticised the merger transaction involving Iniziative Immobiliari S.r.l. in 2003 for tax evasion.
The 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.
Both the Provincial Tax Commission and the Regional Tax Commission found in the company's favour in the disputes relating to the 2004-2006 notices of assessment (joined in first instance). The Italian Revenue Agency appealed against this decision before the Supreme Court. In April 2013 the company filed its counter appeal. At present, a date has not been set for the hearing for the dispute at the Supreme Court.
With reference to the IRES-IRAP notice of assessment for the 2007 tax year, the Provincial Tax Commission granted the company's appeal and set a time limit for appeal by the Italian Revenue Agency.

The Italian Revenue Agency sent the company a request for information and documents on the disposal of properties made in the 2008 and 2009 tax years, with which the company complied.

To date, no notices of assessment have been sent following the request for clarification.

(d) Social & Public Initiatives Fund (managed by Prelios SGR), in which Prelios S.p.A. indirectly holds a 35% stake.
On May 10, 2013, the Italian Revenue Agency served a payment notice on Prelios SGR regarding certain contributions to the real estate investment fund Social & Public Initiatives made in 2008. These transactions were reclassified as property sales and as such are subject to proportional registration tax (in addition to mortgage tax and land registry taxes, also proportionately).
On this basis, the Italian Revenue Agency requested the payment of additional tax of approximately Euro 5.2 million (plus penalties equal to 120% of the taxes, plus interest).
On June 12, 2013, the Italian Revenue Agency sent Prelios SGR a payment notice for a further contribution to the same real estate fund. Additional taxes have been paid of approximately Euro 2 million (plus penalties equal to 120% of the taxes, plus interest).
The total amount of the aforementioned two payment notices is Euro 7.2 million (plus penalties equal to 120% of the taxes, plus interest).
Following these notices, Prelios SGR, for and on behalf of the fund, filed an appeal with the Provincial Tax Commission, which found in favour of Prelios SGR. The Italian Revenue Agency has until June 17, 2014 to appeal.
On March 21, 2014, Prelios SGR was sent a payment slip for Euro 20.1 million relating to the aforementioned payment notices. Prelios SGR appealed against the payment slip before the competent authorities.

* * *

In addition to the above, on January 24, 2013, an inspection was concluded which had been initiated by the Guardia di Finanza in May 2012 of several real estate investment funds managed by Prelios SGR and already the recipients of a tax code from the Italian Revenue Agency (namely Retail & Entertainment Fund, Progetti Residenza Fund, Portafogli Misti Fund, Social & Public Initiatives Fund, Hospitality & Leisure Fund, Immobiliare Pubblico Regione Siciliana Fund, Immobiliare Raissa Fund, Patrimonio Uffici Fund and Diomira Fund, hereinafter referred to as the "Funds").

Prelios S.p.A. has invested its own resources in these Funds by acquiring minority interests.

In the conclusions contained in the official inspection reports drafted following the inspections, the Guardia di Finanza maintains that:

- from the date of their inception, and at least until 2011, the Funds were used as shell corporations;
- the Funds were set up and managed in the absence of valid economic reasons and thus purely or predominantly for tax reasons;
- the Funds were set up for the purposes of tax evasion, in essence consisting of a "*mere instrument to replace the existing real estate companies"* which "d*oes not have any income or capital structure, but solely provides tax benefits"*;
- consequently the tax advantage obtained was unlawful.

Based on the findings of the official inspection reports, the Funds were charged with a total of (i) Euro 484 million in IRES and IRAP and (ii) Euro 187 million in indirect taxes.

Prelios SGR, against which no charge was made directly in the official inspection reports, was sent the aforementioned documents as the management company of the Funds.

Based on the specific information received by Prelios SGR, it takes the view, supported by its advisors, who are leading experts on the subject, that the allegations made by the Guardia di Finanza are the result of an erroneous reconstruction/interpretation of the facts, particularly considering that:

- the Funds were set up based on solid and proven technical and economic reasons;
- the Fund regulations were approved by the Bank of Italy both on their inception and when subsequently amended;
- the legal status of the Funds was never questioned by the Supervisory Authorities.

In addition, it must be stressed that the assertion whereby the Funds were a shell for existing real estate companies is made in the report based on insufficient evidence in view of the very different economic and legal substance of the two institutions they are purported to conceal.

The reports thus appear to be unfounded both in point of fact and in point of law, especially in the light of a correct interpretation of the rules introduced by Article 32 of Decree-Law 78/2010 ("DL 78").

In this regard it is noted that DL 78 introduced the distinction between institutional and non-institutional funds.

As stipulated by the Italian Revenue Agency itself, the favourable tax regime allowed for real estate funds applies to the former, regardless of whether they have operational autonomy or multiple participants. The exclusive participation of institutional investors in the real estate fund is a prerequisite for the fulfilment of the economic role of the fund – i.e. collective asset management – and is a guarantee that the fund will not be used for specious purposes (based on information received from six of the nine funds allegedly in this situation).

For those funds not reserved for institutional investors, please see the information given above concerning the erroneous claims of the Guardia di Finanza.

It should be noted that in July 2013, the Italian Revenue Agency sent Prelios SGR – based on the points raised in the official inspection reports – several payment notices for a total of around Euro 70,000 (not including penalties and interest). The payment notices were subsequently cancelled by the tax authority.

Prelios SGR has not been notified of any further action by the Italian Revenue Agency concerning the official inspection reports.

* * *

In October 2011, the same Funds received notice of the allocation of a tax code by the Italian Revenue Agency. To protect the interests of the Funds, Prelios SGR has appealed in turn before the Tax Commission, the Supreme Court, the Lazio Regional Administrative Court and the Council of State. The courts are yet to issue a decision on the merits. The most recent judgment was handed down on June 10, 2013 by the Lazio Regional Administrative Court.

Regarding the appeal before the Provincial Tax Commission of Milan, the latter, at the hearing on April 26, 2012, declined to issue a decision on the merits, instead declaring the *lis pendens* between this case and the case brought before the Administrative Court. Prelios SGR therefore sought a referral of the matter to a higher court so that the Supreme Court could establish jurisdiction, and filed an appeal with the Regional Tax Commission.

The Supreme Court found the orders issued by the Provincial Tax Commission to be unlawful, ruling that the jurisdiction over the dispute belonged to the tax courts.

On July 11, 2013, a hearing was held before the Regional Tax Commission at which an appeal was immediately filed against the *lis pendens* ruling.

At a public hearing on July 11, 2013, the Regional Tax Commission disposed of the merits of the dispute, granting all pleas of Prelios SGR and ordering the annulment of the notice of allocation of a tax code to the nine Funds.

On March 17, 2014, appeals were filed with the Supreme Court by the Attorney General's Office on behalf of the Italian Revenue Agency against the decisions with which the Lombardy Regional Tax Commission had annulled the notice of allocation of a tax code to the Funds.

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Finally, it should be noted that settlement proposals are currently pending before the competent offices of the Italian Revenue Agency, submitted in 2013 to obtain a total waiver of the tax on these Funds based on the official inspection reports of the Guardia di Finanza of January 24, 2013.

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In relation to the DGAG portfolio in Germany, tax inspections are in progress on specific issues, most of which were analysed on acquisition of the portfolio, and are therefore covered by guarantees from the original sellers.

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

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

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

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

For the portfolios of non-performing loans, further write-downs cannot be ruled out, particularly if there is a further increase in the debt recovery times.

8.2.7. Tenant concentration risk

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

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

Karstadt, a historical tenant of the Highstreet portfolio (12% Prelios), is currently in financial distress. The company went through a financial crisis in 2009, which it overcame through a change in ownership and restructuring of the Group that led to the negotiation of a rental reduction.

Any new financial crisis for Karstadt could lead to non-payment of rentals and/or vacant buildings, with an impact on the selling price of these and on the timing of the disposal plan provided for in the Business Plan. In addition, since Prelios Deutschland provides real estate services to Highstreet, any liquidity issues would also lead to non-payment of services by Karstadt.

8.2.8. Risks related to initiatives in which qualified minority interests are held

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

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

In addition to the above, it cannot be ruled out that the lending banks – in case of default by companies on the loans granted to them – might bring legal action (there not being any specific contractual clauses with such content in the loan agreements) against the shareholders – and, therefore, also against the Group, owing to its qualified minority interest – seeking the repayment of any amounts received by the shareholders by way of repayment of a shareholder loan and/or capital or distributions ("claw-back actions"), with the resulting negative effects on the Group's balance sheet, income statement and financial position.

Finally, the investment exit strategy could lead to the failure to renew management mandates with possible reductions in income from the provision of specialised real estate services.

8.2.9. Risks related to the corporate governance structure of investment vehicles

The Company has entered into shareholders' agreements with the other shareholders of vehicle companies used to make the various investments in order to control their corporate governance. Even though there are mechanisms in place (such as reciprocal purchase and/or sell options) aimed at settling any disputes between the members of these shareholders' agreements, including with respect to management or deadlock situations, the following cannot be ruled out: (i) the occurrence of said events may impose restrictions, significant or otherwise, on the ability of the investment vehicles to carry out their respective activities and for the Company to pursue its investment objectives and (ii) the existing shareholders' agreements may not cover all the possible disputes that could arise between the partners within the scope of the different initiatives, with the result that the lack of agreement between the shareholders could lead to complex disputes of an international nature where the outcome is uncertain due to the very nature of the dispute.

In addition to the above, the shareholders may disagree on the financial support – even where this is ordinary – to be given to the initiatives; in these cases, there may be liquidity risks in companies in which interests are held, or risks related to the performance provided for under the plan.

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

8.3. Risk factors related to the Group's business sector

8.3.1. Risks related to the performance of the real estate market

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

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

8.3.2. Risks related to Public Administration tendering processes

Some of the services provided by the Prelios Group are rendered and may be rendered to the Public Administration and/or public bodies through participation in public procurement procedures, both on an individual basis and in temporary joint ventures created for this purpose.

The aforementioned public tender processes are characterised by high levels of uncertainty, since there is increasing competition from industry operators on the one hand, and on the other, an increasing tendency of bidders who are excluded from bidding or who are unsuccessful in the bidding process to dispute the validity of the process, seeking cancellation of the relevant award.

This could affect the ability of Prelios Group companies to plan objectives for their respective business plans.

Furthermore, dealings with the Public Administration and, specifically, any behaviour in violation of the applicable regulations, may give rise to significant events, such as offences pursuant to and for the purpose of applying Legislative Decree 231/2001, concerning the administrative responsibility of entities. It should be noted, however, that the Group companies concerned have all adopted Organisational Model 231 in accordance with the applicable regulations.

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

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

8.3.4. 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 counterparties.

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

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

The Group has concentrations of credit risk with customers (companies and investment funds) in which it also holds an interest in the real estate sector, which, given the market context, have had non-performing loans in recent years which have had, and could still have, an impact on the assessment of the recoverability of the Group's receivables.

8.3.5. 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 order to counter this risk, the Group plans, *inter alia*, to adopt suitable incentive schemes, in line with the Company's remuneration policy.

On the other hand, the efficacy of any restructuring actions that lead to workforce reductions – which are necessary for rationalising and optimising the organisation and the personnel dedicated to different functions, in accordance with the new requirements of the Group – could be limited by legal or union constraints existing in countries in which the Group operates, preventing the attainment of the targets set.

8.3.6. Risk related to the completion of contracted works

With regard to procurement contracts, companies in the Prelios Group that operate in this sector are subject to the risks that are typically related to such activities: (i) risks related to the need to restore defects resulting from malfunctions and/or defects in the works carried out; (ii) risks related to the failure to respect the timelines established, resulting in the application of penalties; and (iii) risks associated with the failure to pay for work in progress during the project.

The business model applied by the Prelios Group in this sector normally provides for said works to be performed not by the Company itself, but by qualified sub-contractors which therefore must be able to cover the risks in points (i) and (ii). Nevertheless, under the applicable regulations, companies in the Prelios Group would in any case be directly liable towards the customer, and only able to bring an action for recovery against the sub-contractor, since in most cases, the contractual relationship is between the customer and the Prelios Group companies.

Therefore, any breach of the obligations by the sub-contractor could result in the Prelios Group companies, as parties to the contractual relationship, being called upon to advance the amounts sought by way of compensation, resulting in risks related to the ability to recover said amounts.

8.3.7. Other risks

As part of the asset disposal process, in line with the current residual lifetime of the Tecla and Olinda Funds, given the persistence of a reduced absorption capacity of the market and the absence of signs of recovery in the near future, Prelios SGR has assessed, with the help of leading advisors, the feasibility of modifying the lifetime of the Funds and their management regulations, partly in view of an increase in the absorption capacity of the respective markets in future years. This approach, analysed from a real estate perspective with a view to maximum value protection in the interests of Fund participants and creditors, is still being discussed with the institutions. Although a solution is expected that would allow orderly and balanced management of the Funds, if this does not materialise in the next few months, significant doubts would be raised over the ability of the Funds to proceed with an orderly disposal of their real estate assets, with additional negative implications in terms of realisable values. The Company, as a result of the feedback it receives on the issues outlined above, will make the appropriate strategic and real estate decisions for the management of the Tecla and Olinda Funds.

9. SUBSEQUENT EVENTS

- On February 12, 2014, the company Solaia RE S.à.r.l., a joint venture 60% owned by a fund managed by Deutsche Asset & Wealth Management Real Estate (Deutsche Bank Group) and 40% by Prelios S.p.A., reached an agreement with the company BUWOG, a wholly owned subsidiary of the Austrian Immofinanz Group, for the sale of shares in the real estate companies holding the German residential portfolio better known as DGAG. The transaction, promoted and defined by the majority partner Deutsche Asset & Wealth Management Real Estate (Deutsche Bank Group), involved the transfer of the platform of Prelios Deutschland (100% owned by Prelios S.p.A.), which provides technical and administrative services to the aforementioned residential portfolio. The transaction is part of the implementation process of the new business model launched in 2013, which sees Prelios as manager of a portfolio of integrated real estate services, focusing its human and financial resources on higher value-added segments of the European real estate market. With this transaction, the Prelios Group is further focusing its operational presence in Germany in the high-value-added "premium" segment of shopping centres and highstreet retailing. The deal is expected to be closed by the end of June 2014; the effects of the transaction are presented in the 2013 financial statements as discontinued operations.

- 2014-2016 Guidelines

  On April 9, 2014, the Board of Directors approved the Group Guidelines for 2014-2016, in view of the following reasons:

  - results at December 31, 2013 that were not in line with that provided for in the Plan – essentially regarded as obsolete – largely owing to (i) the continuing crisis in the market and (ii) the postponed launch of the development strategy due to the delay in the Extraordinary Transaction;
  - the failure to secure new NPL management mandates to compensate for the expected cancellation of mandates for the management of Crédit Agricole securitisation vehicles managed by Prelios Credit Servicing S.p.A., agreed in order to regain strategic and operational independence;
  - the need to dispose of the residential services platform in Germany, together with the sale of the DGAG real estate portfolio (held by Prelios with a minority interest);
  - the persistent market slump, preventing "investments" from regaining value in the medium term;
  - the need, therefore, to realign the values and realisation times for certain assets compared with that provided for in the Plan;
  - the worse-than-expected performance of service companies, not considered likely to recover in the short term.

  The Guidelines – designed on a stand-alone basis, i.e. without factoring in any extraordinary corporate or commercial agreements entered into – first and foremost identify the main strategic growth policies for the Prelios Group, after a thorough analysis of the reference market and the relative positioning of Prelios:

- continued rationalisation of the costs of the parent company Prelios S.p.A., with increased autonomy for the operating companies and disposal of the investment portfolio;
- consolidation of the market positioning for each operating company within the services platform, with a strong focus on three business segments: asset management, real estate services and non-performing loans;
- increased role as a key partner for Italian and foreign institutional investors by leveraging the know-how and the network of services offered by the integrated platform;
- use of a brand recognised in Italian and foreign markets, with a focus on the Italian and German markets.

Nevertheless, the 2014-2016 Guidelines indicate further losses estimated by the Group, regardless of any additional property write-downs caused by the market and a cash outflow that, in the absence of corrective action, would not be sustainable for the Group.

Therefore, in early 2014, the principal Lenders and shareholders were approached with a view to setting up initiatives for the deferment of short-term financial commitments in order to keep the funding requirement within sustainable limits for the time necessary to allow the terms to be defined for adapting the medium-term financial structure to the projections contained in the Guidelines. These discussions are now at an advanced stage.

Effectively, the achievement of the objectives of financial rebalancing and return to profitability requires an adequate period of consolidation of the Group's industrial management, which does not – at this time and in the absence of further initiatives and actions, particularly in terms of rationalising costs and reinforcing the business development activity, in addition to the aforementioned review of the financial commitments – indicate positive financial results or cover cash requirements during the three-year forecasting period.

In early 2014, in line with the strategic guidelines and in order to boost the prospects of industrial development, if necessary through acquisitions, the Company, with the help of its advisors, embarked on initiatives aimed at establishing possible industrial partnerships. More specifically, as already disclosed to the market, the international private equity fund Fortress Investment Group Ltd, the controlling shareholder of the companies Torre SGR S.p.A. and Italfondiario S.p.A., active respectively in the management of real estate investment funds and non-performing loans, was approached to examine the feasibility and benefits of a possible merger with the Prelios Group, particularly in the real estate management and non-performing loan sectors.

To date, following the activities and exchange of information carried out so far, as well as the resulting negotiations, a Memorandum of Understanding has been agreed by Prelios and Fortress which confirms their mutual interest in continuing to assess the possible mergers, based on terms and conditions and a respective share of the two business sectors that are still to be defined.

The preliminary agreements reached mainly concern the next steps to be taken, the relevant timeframe and the structure of the transaction, which – at present – would involve a possible merger between Prelios Società di Gestione del Risparmio S.p.A. and Torre SGR S.p.A. (active in the real estate management sector) and between Prelios Credit Servicing S.p.A. and Italfondiario S.p.A. (active in the non-performing loans sector). During the next stages of the negotiations – in addition to the issue of exchange ratios between the asset and NPL management companies and those typically related to shareholders' agreements and governance – other material aspects will be studied in more depth to assess whether to continue the process. These aspects concern, in particular: (i) the rationale and industrial objectives of the merger to prepare the business plan of the combined entities and identify the corresponding synergies; (ii) the roles of Prelios and Fortress in the merger; (iii) additional contributions that could potentially be made by Prelios and Fortress to develop the partnership and, more specifically, analysis of possible synergies with other service companies in the Prelios Group.

The progress of the transaction will be disclosed to the market in accordance with the timeframes and procedures prescribed by law.

10. BUSINESS OUTLOOK

The reference macroeconomic scenario evidently remains characterised by significant uncertainty over the prospects for economic growth in general. The continuing crisis, despite the first – albeit tentative – signs of a possible recovery, is reflected in the real estate sector, where the market is fragile and borrowing costs remain high.
In this difficult context, Prelios – in confirming the strategic goal of repositioning as a "pure management company" – has identified and is implementing a series of initiatives, as described more fully elsewhere in this document.

In paragraph 6.2 of the explanatory notes, the directors outlined the uncertainties that cast significant doubt on the Group's ability to operate as a going concern; they point out, in addition to other measures and initiatives already identified – based on the discussions held – the willingness of the principal Lenders and shareholders to meet the financial requirements of the Company by means of transactions that support the current financial structure, so as to enable the Prelios Group to continue as a going concern. A cash requirement is expected to be generated from the third quarter of 2014, which will arise in any case following the mitigating measures announced.

These factors are the basis for the going concern assumption adopted in the financial statements for the year ended December 31, 2013.

From a management point of view, 2014 also looks set to be a year of transition, when the management will focus on the actions necessary to achieve the objectives set out in the Guidelines and thereafter in the new Business Plan, consolidating the development of the business, particularly for services, in line with the Group's strategy to become a pure management company, in parallel with the definition with the Lenders of the terms for restructuring the capital and financial structure within suitable and sustainable limits to support the Group's needs.

However, the directors point out the uncertainties naturally linked with its future management, particularly taking into account the reference market context.

11. ANNUAL REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

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

12. OTHER INFORMATION

12.1. Extraordinary shareholders' meeting

The extraordinary shareholders' meeting held on May 8, 2013 resolved:

- to proceed with the coverage of the loss of Euro 213,995,990.64 shown in the separate financial statements of Prelios S.p.A. at December 31, 2012, by reducing the share capital by the same amount; the share capital is therefore reduced to Euro 4,881,622.50, with no cancellation of shares;
- to proceed with a reverse stock split of the ordinary shares according to a ratio of one new ordinary share, with no par value and regular dividend rights, for every ten ordinary shares held, subject to cancellation, partly to balance the overall reverse stock split, of 1,171,777 ordinary shares held by the Company, without a reduction in the share capital;
- to proceed with an indivisible paid capital increase for a total amount of Euro 70,005,789.37 reserved for Fenice S.r.l. – a company in which Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. have an interest – and therefore excluding the Rights pursuant to Article 2441, paragraph 5 of the Italian Civil Code, through the issue of 117,597,496 Category B Shares, convertible into ordinary shares, without voting rights and not destined for listing (the "Reserved Capital Increase");
- to proceed with the divisible paid share capital increase for an aggregate amount of up to Euro 115,009,511.53 to be offered with pre-emptive subscription rights to all Company shareholders, pursuant to Article 2441, paragraph 1 of the Italian Civil Code, through the issue of 193,195,887 ordinary shares, which will have regular dividend rights and identical characteristics to the shares outstanding at the time of issuance (the "Capital Increase with Pre-emptive Rights");
- to grant the Board of Directors the right to issue, pursuant to Article 2420-*ter*, paragraph 2 of the Italian Civil Code, for a maximum amount equal to a nominal Euro 269,000,000.00, mandatory convertible bonds (convertible bonds) to be converted into ordinary shares and/or Category B Shares, excluding the Rights pursuant to Article 2441, paragraph 5 of the Italian Civil Code, with the subsequent divisible share capital increase for the exclusive benefit of the conversion, for a maximum amount of Euro 297,644,375.01, to be implemented by issuing a maximum of 499,990,551 ordinary shares and a maximum of 144,678,117 Category B shares;
- to amend Articles 5 and 6 of the Articles of Association by inserting a new Article 6-*bis.*

The Reserved Capital Increase and Capital Increase with Pre-emptive Rights were fully subscribed and, pursuant to Article 2444 of the Italian Civil Code, on August 26, 2013, notice of completion, together with the updated Articles of Association, were filed with the relevant companies' register.

In pursuance of the resolution of the Board of Directors of June 10, 2013, which exercised the aforementioned right conferred by the extraordinary shareholders' meeting of May 8, 2013 pursuant to Article 2420-*ter*, paragraph 2 of the Italian Civil Code, on August 26, 2013, 233,534 mandatory convertible bonds (Convertible Bonds) to be converted into ordinary shares and/or Category B shares, excluding the Rights pursuant to Article 2441, paragraph 5 of the Italian Civil Code, were issued for an amount equal to a nominal Euro 233,534,000.00, resulting in a divisible capital increase for the exclusive benefit of the conversion, for a maximum of Euro 258,401,789.44, to be implemented by issuing, before the deadline of March 31, 2023, a maximum of 434,069,863 ordinary shares and a maximum of 125,446,190 Category B shares, with no par value, regular dividend rights and with the same characteristics as those outstanding at the date of issue.

12.2. Treasury shares

The shareholders' meeting of May 8, 2013 approved the reverse stock split of ordinary shares based on the ratio of one ordinary share for every ten ordinary shares held, after the cancellation of 1,171,777 ordinary shares held by the Company without a reduction in the share capital.

At December 31, 2013, the Company held 1,788 treasury shares in its portfolio, out of a total of 394,793,383 shares, as arising after the reverse stock split of the ordinary shares of Prelios, subject to partial cancellation of the same.

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

12.3. Tax consolidation

From financial year 2010, the Company, as the consolidating company, opted for the tax consolidation regime 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. This option was recently renewed on June 14, 2013 for the three-year period 2013-2015, unless terminated early due to loss of control of the subsidiary or if the subsidiary's financial year is no longer the same as that of the parent company.

The adoption of the tax consolidation regime allows the parent company Prelios S.p.A. to offset its own taxable profits or losses against those of its Italian resident subsidiaries which have opted for the scheme.

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

12.4. Group VAT settlement

For the 2013 tax period, Prelios S.p.A., as the parent company, and its subsidiaries within the meaning of the Ministerial Decree of December 13, 1979, have elected to make an independent Group VAT tax settlement.

12.5. Publication of disclosure documents

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

13. PARENT COMPANY PRELIOS S.P.A.

At December 31, 2013, Prelios S.p.A. reported a net loss of Euro 299.8 million, compared with a net loss of Euro 214.0 million in the previous year.

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

(in millions of euro)	DECEMBER 2013	DECEMBER 2012
Total operating revenue	13.0	17.6
EBIT including net income from investments	(202.5)	(186.9)
Financial operations	21.1	(34.9)
Net income (loss) from discontinued operations	(115.8)	1.8
Net profit	(299.8)	(214.0)

Following the sale to third parties of the shares of real estate companies owning the German residential portfolio DGAG (Deutsche Grundvermögen GmbH), and the transfer of the Prelios Deutschland GmbH platform that provides technical and administrative services to the aforementioned residential portfolio, in accordance with International Financial Reporting Standards (IFRS 5), a distinction has been made between income and expenses arising from assets and liabilities of discontinued operations and the results of operations related to ordinary activities. These income and expenses, with a net value of a negative amount of Euro 115.8 million at December 31, 2013, are recorded under "Net income (loss) from discontinued operations" and include:

(i) a negative amount of Euro 116.8 million resulting from impairment losses on investments in companies that own the investment in the DGAG portfolio and the portion of the services platform dedicated to this, and on finance arranged on behalf of the subsidiary Prelios Netherland B.V. in respect of such companies;
(ii) a positive amount of Euro 1.0 million in financial income from the receivable due from the subsidiary Prelios Netherlands B.V. intended to finance the DGAG Group, which will be repaid on completion of the transaction.

At December 31, 2012, this item related entirely to financial income from Prelios Netherlands B.V., accrued on finance intended for DGAG.

Operating revenue amounted to Euro 13.0 million, compared with Euro 17.6 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 site costs, brand licensing and asset management fees, shared proportionally with subsidiaries.

The decrease compared with the previous period (Euro 3.2 million) is mainly due to fees for staff services provided to subsidiaries; this reduction is largely due to the transfer from July 1 of many of the staff functions (such as procurement, treasury, information technology, human resources) from the holding company to the company Servizi Amministrativi Real Estate S.p.A., which acts on behalf of other Group companies, including Prelios S.p.A.. The reduction in operating revenue was also due to the reduced amount of site costs recovered from subsidiaries, which fell from a total of Euro 3.0 million in 2012 to a total of approximately Euro 2.1 million in 2013, due to the lower cost incurred by Prelios S.p.A. for its Milan and Rome sites.

EBIT including net income from investments was negative by Euro 202.5 million, compared with a negative amount of Euro 186.9 million in 2012. The decrease is mainly due to the near-total absence of dividends distributed by investee companies, totalling Euro 0.1 million at December 31, 2013, compared with Euro 40.2 million in 2012, partially offset by the decrease in impairment losses on investments (which, net of the write-downs included in "Net income (loss) from discontinued operations", rose from Euro 199.8 million in 2012 to Euro 174.3 million in 2013).

Financial operations, net of financial income included in "Net income (loss) from discontinued operations", generated income of Euro 21.1 million, compared with a loss of Euro 34.9 million in the previous year. This item benefits from the positive effect linked to the restructuring of the debt of Prelios S.p.A., which took effect from January 1, 2013 and which led to the transformation of the Corporate financing into the new Super Senior, Senior and Convertible Loan credit facilities, initially recognised at fair value*,* calculated according to the valuation methods deemed appropriate in view of the characteristics of each component of the new debt. This results in an amount which is less than their par value for Euro 39.9 million, as well as a reduction in financial expenses for Prelios S.p.A., due both to the reduced amount of debt following the conversion into share capital of a portion (Euro 69.6 million) of the debt outstanding at December 31, 2012, and the low interest rate (1%) applied to the tranche of finance referred to as the "Convertible Loan".

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

(in millions of euro)	DECEMBER 2013	DECEMBER 2013 PRO-FORMA *	DECEMBER 2012
Fixed assets	306.1	306.1	568.0
of which investments	*109.8*	*109.8*	*305.9*
Net working capital	(16.3)	(16.3)	(8.9)
Discontinued operations	26.0	26.0	0.0
Net invested capital	**315.8**	**315.8**	**559.1**
Equity	(113.0)	122.9	4.6
Provisions	11.1	11.1	12.3
Net financial position	417.7	181.8	542.2
Total covering Net Invested Capital	**315.8**	**315.8**	**559.1**

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

Net invested capital stands at Euro 315.8 million, compared with Euro 559.1 million at December 31, 2012. The decrease is mainly due to the fall in the value of investments (for Euro

188.9 million) and the reduction in the value of loans granted to Group companies (for Euro 44.6 million). "Discontinued operations" include assets relating to the German residential portfolio DGAG, and more specifically: (i) for Euro 18.8 million, the portion of the loan receivable from the subsidiary Prelios Netherlands B.V., to be used to finance the joint ventures holding the DGAG portfolio due to be repaid to Prelios S.p.A. on completion of the transaction; (ii) for Euro 4.4 million, the value of the investment held in the joint venture Solaia RE S.à.r.l; and (iii) for Euro 2.8 million, the value of the minority interests held in certain German companies that are owned by Solaia RE S.à.r.l..

Net working capital has fallen from a negative amount of Euro 8.9 million at December 31, 2012 to a negative amount of Euro 16.3 million at December 31, 2013; this item was affected during the period by the negative impact of the increase in trade payables, which rose from a total of Euro 14.5 million at December 31, 2012 to a total of Euro 20.0 million, and which include, at December 31, 2013, costs incurred for the capital increase transaction and not yet paid of approximately Euro 2.7 million. A decrease in tax receivables is also recorded both from subsidiaries for the tax consolidation regime (reduction of around Euro 3.2 million compared with 2012) and from the Italian Revenue Agency (reduction of around Euro 1.9 million compared with December 2012, due to amounts used to offset payments due to the Italian Revenue Agency). These decreases were partially offset by the zero value of derivative instruments following the unwinding of contracts, which at December 31, 2012 had a negative value of around Euro 2.5 million.

Equity at December 31, 2013 was down by Euro 113 million, compared with a positive amount of Euro 4.6 million at December 31, 2012; this change was primarily attributable to a negative result of Euro 299.8 million and the positive effect of the capital increase for a total of Euro 185.0 million.

This situation therefore gives rise to the automatic conversion of the entire mandatory convertible bond issue recognised at December 31, 2013 for Euro 235.9 million. Following this conversion, the resulting loss would not trigger the situation referred to in Article 2447 of the Italian Civil Code, but that described in the first paragraph of Article 2446 of that Code. For more details, please see the notice of meeting for the relevant measures.

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

The decrease in the funds carried in the balance sheet is mainly due to the use of restructuring provisions made during the year, as well as the release of some funds set aside in previous years for litigation or guarantees given.

Net Financial Position at December 31, 2013 is negative for Euro 417.7 million, compared with a negative amount of Euro 542.2 million at the end of 2012. The improvement mainly derives from the restructuring of financial debt underwritten by Prelios S.p.A. with its lenders as part of the extraordinary recapitalisation transaction. Following the transaction, the outstanding loans at December 31, 2012 with the pool of banks (Club Deal) and Pirelli & C. S.p.A., for a total amount of Euro 561.0 million, were partly converted into share capital (Euro 69.6 million) and partly repaid (Euro 7.9 million), with the remainder replaced by the Convertible Loan (for a total of Euro 233.5 million, of which Euro 148.4 million was subscribed by Pirelli & C. S.p.A.) and by the new Senior (Euro 200 million) and Super Senior (Euro 50 million) Loans.

Human resources

At December 31, 2013, Prelios S.p.A. had 63 employees, compared with 105 at December 31, 2012. The workforce is made up of 16 managers, 14 corporate workers, 32 office workers and one manual worker.

The change compared with the previous financial year is largely due to the transfer of staff to other companies of the Group, particularly the subsidiaries Servizi Amministrativi Real Estate S.p.A. and Prelios Integra S.p.A..

14. APPENDICES

APPENDIX A – Non-GAAP measures

The non-GAAP measures used are as follows:

- **Operating profit/(loss)** (Euro -55.2 million): determined as EBIT of Euro -81.8 million plus net income from investments of Euro -108.8 million (values reported in "EBIT" and "Net income from investments" respectively in the consolidated income statement), plus income from shareholder loans of Euro 8.8 million (included in financial income), adjusted for restructuring costs (Euro 42.6 million) and property write-downs/revaluations (Euro 84.0 million).
- **Profit/(loss) before restructuring costs, property write-downs/revaluations and income taxes** (Euro -48.6 million): value obtained by adding operating profit/(loss) (Euro -55.2 million) to financial income (Euro 6.6 million).
- **Income from shareholder loans** (Euro 8.8 million): this consists of the amount of interest income from loans to associates and joint ventures and the value of any income from securities contained in the item "financial income"; it is reported net of any loss in value of junior notes included in the item "financial expenses".
- **Financial income/(Financial expenses)** (Euro 6.6 million): this includes the item "financial expenses" (adjusted for impairment of junior notes or financial receivables) and the item "financial income", net of income from shareholder loans.
- **Investments in real estate investment companies and funds**: this includes investments in associates and joint ventures, in closed-end real estate funds, investments in other companies and junior notes (as per the item "Other financial assets").
- **Net working capital**: 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.
- **Funds**: this measure consists of the sum of the items "Provisions for risks and expenses (current and non-current)", "Employee benefit obligations" and "Deferred tax provisions" and is stated net of provisions for risks on equity-accounted investments that are included in "Investments in real estate investment companies and funds".
- **Net Financial Position**: this measure represents a valid indicator of the ability to meet financial commitments. Net Financial Position is represented by the gross financial debt less cash and other cash equivalents and other current financial receivables.
- **Gross Bank Debt**: represented by the total debts of each initiative towards the banking system.
- **Net Bank Debt**: represented by the Gross Bank Debt of each initiative less cash and cash equivalents.

- **Return on Sale (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 31, 2013	December 31, 2012
EBIT	(81.8)	(42.7)
Net income from investments	(108.8)	(143.4)
Income from shareholder loans (1)	8.8	10.2
Restructuring costs	42.6	18.8
Property (write-downs)/revaluations (2)	84.0	73.2
Total	**(55.2)**	**(83.9)**

Profit/(loss) before restructuring costs, property write-downs/revaluations and income taxes	December 31, 2013	December 31, 2012
Operating profit/(loss)	(55.2)	(83.9)
Financial expenses	6.6	(52.0)
Total	**(48.6)**	**(135.9)**

Income from shareholder loans	December 31, 2013	December 31, 2012
Interest income on financial receivables due from joint ventures (1)	8.8	10.2
Total	**8.8**	**10.2**

Financial expenses	December 31, 2013	December 31, 2012
Financial expenses	(37.4)	(60.6)
Financial income	52.8	14.2
Income from shareholder loans	(8.8)	(10.2)
Property (write-downs)/revaluations (2)	-	4.6
Total	**6.6**	**(52.0)**

NOTES

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

(2) Property (write-downs)/revaluations in 2012 totalled Euro 77.8 million (pro-rata share attributable to the Group): of which Euro 3.2 million included in EBIT of fully consolidated companies, Euro 4.6 million reported in financial expenses and Euro 70.0 million recorded in net income from investments in companies accounted for using the equity method.

APPENDIX B

Detail of real estate debt of investment companies and funds

	Net financial position	Net bank debt	Maturity (years)*
Commercial Italy	993,731	932,931	0.9
Commercial Germany	77,333	35,294	0.8
Commercial Germany - Highstreet -	985,142	655,083	0.6
Residential Germany - Small Deals -	99,720	77,691	3.7
TOTAL INCOME PORTFOLIO	**2,155,926**	**1,700,999**	
Trading Italy	474,592	378,891	0.4
Development Italy	102,049	84,140	1.9
Land Italy	307,396	221,405	0.2
Other Germany	14,250	14,309	4.2
Land Poland	63,550	(1,290)	-
TOTAL OTHER PORTFOLIO	**961,837**	**697,456**	
TOTAL REAL ESTATE	**3,117,763**	**2,398,454**	**0.7**

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

Key contractual clauses related to debt[38]

It should be noted that the covenants of all outstanding loans on investment companies and funds in which Prelios holds an interest are monitored on a quarterly 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 between (i) bank debt and (ii) the appraised value of the portfolio;

- LTC (Loan To Cost): ratio between (i) bank debt and (ii) the book value of the portfolio;

- ISCR (Interest Service Cover Ratio): ratio between (i) revenue from rentals net of management costs, and (ii) financial expenses;

- DSCR (Debt Service Cover Ratio): ratio between (i) revenue from rentals and sales net of management costs, and (ii) financial expenses and capital repayments;

- Maximum Outstanding Amount: maximum amount of bank exposure allowed.

At December 31, 2013, certain investment companies and funds in which Prelios holds an interest have covenants which are not in line with those provided for in the agreement. In particular, the following should be noted:

- LTV: Gamma Re B.V., Fondo Città di Torino;
- the Maximum Outstanding Amount of Resident West GmbH and the Tecla and Monteverdi Funds.

[38] The analysis does not include data relating to the Cloe, Armilla, Clarice, Anastasia, Fedora and Eridano Funds, classified as third-party funds since Prelios holds an interest of less than 5%.

Resident West GmbH, which was sold in February 2014, is the only company with a covenant aimed at measuring unlet real estate units in the company's portfolio, which is not in line with the contractual provisions. Lastly, only one company, Gamma Re B.V., has a covenant that is not in line with the contractual limit, the "Margin to Loan" ratio (ratio between (i) the stock exchange value of units of the Tecla Fund held by Gamma Re B.V. and (ii) bank debt).

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

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

Lastly, it should be noted that there are certain positions relating to Solaris and Aree Urbane (both companies in liquidation), Golfo Aranci, Trinacria Capital and Sicily Investments, and the following Funds: Immobili Pubblici Regione Sicilia, Patrimonio Uffici, Social&Public Initiatives, Iniziative Immobiliari Due, Olinda and Vivaldi (the last three had expired at December 31, 2013), for which new agreements are being negotiated with financial counterparties in respect of the expired debt.

APPENDIX C

Glossary

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

- **Assets Under Management (AUM):** real estate assets and non-performing loans managed, 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.

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

- **Lending Banks:** Intesa Sanpaolo S.p.A., UniCredit S.p.A., Banca Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano Soc. Coop. a r.l., Banca Popolare dell'Emilia Romagna Soc. Coop., Banca Carige S.p.A. – Cassa di Risparmio di Genova e Imperia and UBI Banca Soc. Coop. p.A. (formerly Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A.).

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

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

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

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

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

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

- **Senior Loan:** share of Euro 200 million of the Company's debt under the Restructuring Agreement. The principal terms and conditions relating to this 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 principal terms and conditions relating to this 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**: refers to general expenses and holding costs and includes costs related to the Board of Directors and Central Staff Functions.

- **Group or Prelios Group:** the Company and its subsidiaries within the meaning of Article 93 of the Consolidated Finance Act.

- **2014-2016 Guidelines:** strategic guidelines and growth targets for the assets, income and cash flows of the Company and the Group for the next three years, as approved by the Board of Directors on April 9, 2014.

- **Highstreet**: 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): medium- to long-term incentive.

- **MBO** (Management By Objective): indicates the annual variable component of remuneration obtainable from achieving predefined business objectives.

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

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

- **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.

- **Recovery Plan:** the Company's strategic plan 2013-2016 based on civil law approved by the Board of Directors on March 27, 2013 and filed with the Companies' Register of Milan on March 29, 2013.

- **Business Plan:** the Group's new plan to be established based on the 2014-2016 Guidelines approved by the Board of Directors on April 9, 2014.

- **Strategic Plan:** consolidated strategic plan of the Group for the 2013-2016 period, approved by the Board of Directors on March 27, 2013, which includes the Recovery Plan.

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

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

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

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

APPENDIX D

Parent company reconciliation

Pursuant to the CONSOB Communication of July 28, 2006, below is a reconciliation of the results for financial year 2013 and Group equity at December 31, 2013 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	**(299,772)**	**(112,987)**
Consolidation adjustments:		
- net income (loss) from discontinued operations	(142,625)	(142,625)
- contribution to subsidiaries	(72,558)	(368,052)
- net income from investments	(107,925)	(90,746)
- elimination of writedowns/dividends and goodwill recorded in the financial statements of the parent company	290,492	655,320
- other consolidation adjustments	(450)	(10,023)
Prelios Group consolidated financial statements (attributable to the Group)	**(332,838)**	**(69,113)**

B. THE PRELIOS GROUP – CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2013

1. CONSOLIDATED BALANCE SHEET

(in thousands of euro)

	ASSETS	12.31.2013	12.31.2012
	NON-CURRENT ASSETS		
1	Property, plant and equipment	1,031	1,615
2	Intangible assets	60,714	151,402
3	Investments	169,180	236,770
	of which investments held for sale	*3,294*	*3,371*
4	Other financial assets	24,189	16,577
5	Deferred tax assets	11,070	24,325
7	Other receivables	115,980	213,579
	of which from related parties	*110,675*	*208,105*
	TOTAL NON-CURRENT ASSETS	**382,164**	**644,268**
	CURRENT ASSETS		
9	Inventories	48,406	54,379
6	Trade receivables	35,055	63,891
	of which from related parties	*22,230*	*46,745*
7	Other receivables	23,560	35,917
	of which from related parties	*7,516*	*5,603*
10	Cash and cash equivalents	85,609	45,090
8	Tax receivables	6,453	8,465
	TOTAL CURRENT ASSETS	**199,083**	**207,742**
30	**DISCONTINUED OPERATIONS**	**27,781**	**0**
	of which from related parties	*18,800*	-
	TOTAL ASSETS	**609,028**	**852,010**

	EQUITY	12.31.2013	12.31.2012
	GROUP EQUITY		
11	Share capital	189,888	218,283
12	Other reserves	(14,529)	(18,258)
13	Retained earnings (losses)	88,366	115,887
	Net profit (loss) for the year	(332,838)	(241,734)
	TOTAL GROUP EQUITY	**(69,113)**	**74,178**
14	**MINORITY INTERESTS**	**2,778**	**6,213**
	TOTAL EQUITY	**(66,335)**	**80,391**

	LIABILITIES	12.31.2013	12.31.2012
	NON-CURRENT LIABILITIES		
15	Bank borrowings and payables to other lenders	465,101	420,993
	of which to related parties	*149,876*	*157,389*
17	Other payables	915	976
18	Provisions for future risks and expenses	39,269	24,905
5	Deferred tax provision	1,723	2,495
19	Employee benefit obligations	10,255	12,568
20	Tax payables	1,464	7,376
	TOTAL NON-CURRENT LIABILITIES	**518,727**	**469,313**
	CURRENT LIABILITIES		
15	Bank borrowings and payables to other lenders	8,988	144,739
	of which to related parties	*6,576*	*17,993*
16	Trade payables	48,116	49,375
	of which to related parties	*3,720*	*3,702*
17	Other payables	52,529	64,060
	of which to related parties	*18,746*	*20,639*
18	Provision for future risks and expenses	32,615	28,777
	of which to related parties	*12,623*	*2,808*
20	Tax payables	11,983	12,829
	of which to related parties	*1,080*	*1,324*
21	Derivative financial instruments	-	2,526
	TOTAL CURRENT LIABILITIES	**154,231**	**302,306**
30	**LIABILITIES RELATED TO DISCONTINUED OPERATIONS**	**2,405**	**0**
	TOTAL LIABILITIES	**675,363**	**771,619**
	TOTAL LIABILITIES AND EQUITY	**609,028**	**852,010**

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

2. CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

Note		01.01.2013-12.31.2013	01.01.2012-12.31.2012
22	Revenue from sales and services	73,055	85,897
23	Changes in inventories of work in progress, semi-finished and finished products	(377)	94
24	Other income	8,227	14,140
	TOTAL OPERATING REVENUE	**80,905**	**100,131**
	of which from related parties	*39,241*	*53,951*
	Raw and consumable materials used (net of change in inventories)	(5,802)	(4,554)
	Personnel costs	(43,512)	(54,537)
	Depreciation, amortisation and impairment	(12,904)	(7,572)
	Other costs	(100,481)	(76,132)
25	**TOTAL OPERATING COSTS**	**(162,699)**	**(142,795)**
	of which to related parties	*(7,346)*	*(10,888)*
	of which non-recurring events	*(33,425)*	*(18,050)*
	EBIT	**(81,794)**	**(42,664)**
26	Net income from investments:	(108,812)	(143,360)
	of which from related parties	*(108,939)*	*(142,338)*
	of which non-recurring events	*(9,634)*	*(746)*
	- net profit share from investments in associates and joint ventures	(87,824)	(128,198)
	- dividends	53	1,140
	- gains on investments	445	3,336
	- losses on investments	(21,486)	(19,638)
27	Financial income	52,832	14,150
	of which from related parties	*11,833*	*11,411*
	of which non-recurring events	*39,862*	-
28	Financial expenses	(37,382)	(60,604)
	of which to related parties	*(4,389)*	*(20,811)*
	PROFIT (LOSS) BEFORE TAXES	**(175,156)**	**(232,478)**
29	Taxes	(16,088)	(9,489)
	of which to related parties	*600*	-
	NET INCOME FROM OPERATING ACTIVITIES	**(191,244)**	**(241,967)**
	attributable to minority interests	(1,031)	709
30	**NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS**	**(142,625)**	**942**
	of which from related parties	*13,457*	*11,050*
	GROUP NET INCOME/(LOSS)	**(332,838)**	**(241,734)**
31	**PROFIT (LOSS) PER SHARE (in euro):**		
	basic earnings		
	basic earnings	(0.66)	(0.29)
	diluted earnings	(0.53)	(0.29)

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)

Note 12		01.01.2013-12.31.2013			of which attributable to:	
		gross	taxes	net	Group	Minority interests
A	**Net profit (loss) for the year**			**(1,031)**	**-**	**(1,031)**
	Other components recorded under equity that can be reclassified in the income statement in a future period:	**5,741**	**(288)**	**5,453**	**5,516**	**(63)**
	Exchange differences from the translation of foreign financial statements	(94)	-	(94)	(94)	-
	Total available-for-sale financial assets	(867)	239	(628)	(565)	(63)
	- Adjustment of available-for-sale financial assets to fair value	(867)	239	(628)	(565)	(63)
	Share of other equity components related to associates and joint ventures	6,702	(527)	6,175	6,175	-
	- portion of (profit)/losses transferred to the income statement that were previously recorded directly under equity	3,541	-	3,541	3,541	-
	- portion of profit/(losses) recorded directly under equity	3,161	(527)	2,634	2,634	-
	Other components recorded under equity that cannot be reclassified in the income statement in a future period:	**718**	**(158)**	**560**	**560**	**0**
	Balance of actuarial gains/(losses) on employee benefits	527	(158)	369	369	-
	Share of other equity components related to associates and joint ventures	191	-	191	191	-
	- portion of profit/(losses) recorded directly under equity	191	-	191	191	-
B	**Total other components recorded under equity**	**6,459**	**(446)**	**6,013**	**6,076**	**(63)**
A+B	**Total comprehensive income/(losses) for the period**			**4,982**	**6,076**	**(1,094)**

		01.01.2012-12.31.2012			of which attributable to:	
		gross	taxes	net	Group	Minorities interests
A	**Net profit (loss) for the year**			**(241,025)**	**(241,734)**	**709**
	Other components recorded under equity that can be reclassified in the income statement in a future period:	**(1,562)**	**722**	**(840)**	**(562)**	**(278)**
	Exchange differences from the translation of foreign financial statements	394	-	394	394	-
	Total cash flow hedge	-	-	-	-	-
	- Adjustment of derivatives designated as a cash flow hedge to fair value	(2,526)	695	(1,831)	(1,831)	-
	- (Profit)/losses transferred to the income statement that were previously recorded directly under equity and related to cash flow hedges	2,526	(695)	1,831	1,831	-
	Total available-for-sale financial assets	(3,827)	1,052	(2,775)	(2,497)	(278)
	- Adjustment of available-for-sale financial assets to fair value	(3,827)	1,052	(2,775)	(2,497)	(278)
	Share of other equity components related to associates and joint ventures	1,871	(330)	1,541	1,541	-
	- portion of (profit)/losses transferred to the income statement that were previously recorded directly under equity	912	-	912	912	-
	- portion of profit/(losses) recorded directly under equity	959	(330)	629	629	-
	Other components recorded under equity that cannot be reclassified in the income statement in a future period:	**(2,113)**	**693**	**(1,420)**	**(1,392)**	**(28)**
	Balance of actuarial gains/(losses) on employee benefits	(2,150)	693	(1,457)	(1,429)	(28)
	Share of other equity components related to associates and joint ventures	37	-	37	37	-
	- portion of profit/(losses) recorded directly under equity	37	-	37	37	
B	**Total other components recorded under equity**	**(3,675)**	**1,415**	**(2,260)**	**(1,954)**	**(306)**
A+B	**Total comprehensive income/(losses) for the period**			**(243,285)**	**(243,688)**	**403**

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euro)

	Share capital	Conversion reserve	Reserve for fair value measurement of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gains/losses	Tax reserve related to entries credited/debited to equity	Other Reserves	Retained earnings (loss)	Profit (loss) for the period	**Group equity**	**Minority interests**	**Total**
Equity at 12.31.2012	**218,283**	**(2,064)**	**(6,211)**	**(10,233)**	**(1,818)**	**3,067**	**(999)**	**115,887**	**(241,734)**	**74,178**	**6,213**	**80,391**
Total other components recorded under equity	**-**	**(3,648)**	**(780)**	**10,065**	**718**	**(470)**	**-**	**-**	**-**	**5,885**	**(63)**	**5,822**
Cancellation of treasury shares	586	-	-	-	-	-	(586)	-	-		-	-
Allocation of 2012 results	(213,996)	-	-	-	-	-	-	(27,738)	241,734	-	-	-
Share capital increase	185,015	-	-	-	-	-	3,004	-	-	188,019	-	188,019
Cost of equity transactions	-	-	-	-	-	2,197	(7,989)	-	-	(5,792)	-	(5,792)
Other changes	-	-	1,800	-	(11)	(571)	-	217	-	1,435	(2,341)	(906)
Net profit (loss) for the year	-	-	-	-	-	-	-	-	-	0	(1,031)	(1,031)
Equity at 12.31.2013	**189,888**	**(5,712)**	**(5,191)**	**(168)**	**(1,111)**	**4,223**	**(6,570)**	**88,366**	**0**	**263,725**	**2,778**	**266,503**

	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	Conversion reserve	Reserve for fair value measurement of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gains/losses	Reserve for equity settled stock options	Tax reserve related to entries credited/debited to equity	Other Reserves	Retained earnings (loss)	Profit (loss) for the period	**Group equity**	**Minorities interests**	**Total**
Equity at 12.31.2011	**419,991**	**104,649**	**15**	**4,265**	**(1,844)**	**(2,755)**	**(12,104)**	**353**	**5,156**	**3,373**	**(6,885)**	**94,261**	**(289,641)**	**318,834**	**7,348**	**326,182**
Total other components recorded under equity	**-**	**-**	**-**	**-**	**394**	**(3,444)**	**1,871**	**(2,075)**	**-**	**1,300**	**-**	**-**	**-**	**(1,954)**	**(306)**	**(2,260)**
Allocation of 2011 results	(201,708)	(104,649)	(15)	(4,265)	-	-	-	-	(5,156)	(1,596)	5,877	21,871	289,641	-	-	-
Cost of equity transactions	-	-	-	-	-	-	-	-	-	-	9	-	-	9	-	9
Other changes	-	-	-	-	(614)	(12)	-	(96)	-	(10)	-	(245)	-	(977)	(1,538)	(2,515)
Net profit (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	(241,734)	(241,734)	709	(241,025)
Equity at 12.31.2012	**218,283**	**0**	**0**	**0**	**(2,064)**	**(6,211)**	**(10,233)**	**(1,818)**	**0**	**3,067**	**(999)**	**115,887**	**(241,734)**	**74,178**	**6,213**	**80,391**

5. CONSOLIDATED CASH FLOW STATEMENT

(in thousands of euro)

	01.01.2013-12.31.2013		01.01.2012-12.31.2012
Profit (loss) before taxes	(175,156)		(232,478)
Profit/(loss) from businesses sold	(142,625)		942
Amortisation, depreciation, write-downs and write-backs on intangible assets and property, plant and equipment	12,904		7,724
Impairment of receivables	29,724		10,592
Capital gains/losses on sale of property, plant and equipment	14		239
Net income from investments net of dividends	108,812		154,305
Financial expenses	37,382		60,604
Financial income	(52,832)		(14,150)
Change in inventories	5,973		922
Change in trade receivables/payables	(6,095)		(15,095)
Change in other receivables/payables	(8,733)		20,307
Change in employee benefit obligations and other provisions	7,608		(13,085)
Taxes	(1,853)		(5,394)
Net cash flow generated from discontinued operations	142,625		(942)
Other changes	526		(16)
Net cash flow generated/(absorbed) by operating activities (A)	**(41,726)**		**(25,525)**
Investments in property, plant and equipment	(215)		(893)
Disposal of property, plant and equipment	145		2,927
Investments in intangible assets	(342)		(799)
Disposal of intangible assets	72		-
Net cash flow generated by disposal of interests in subsidiaries	74		(10,955)
Acquisition of interests in associates and joint ventures	(54,201)		(5,905)
Disposal of interests in associates and joint ventures and other changes	63		7,333
Dividends received	53		1,140
Purchase of other financial assets	(11,323)		(1,000)
Disposal/reimbursements of other financial assets	2,625		4,171
Net cash flow generated by non-current assets held for sale	-		(593)
Net cash flow generated/(absorbed) by investing activities (B)	**(63,049)**		**(4,574)**
Change in share capital and other reserves	115,427	(1)	-
Other changes in equity	(1,000)		(2,121)
Change in financial receivables	39,783		56,395
Change in financial payables	(7,499)		(15,467)
Cash flow generated by financial income	2,129		1,337
Cash flow absorbed by financial expenses	(3,546)		(2,559)
Net cash flow generated/(absorbed) by financing activities (C)	**145,294**		**37,585**
Total net cash flow generated/(absorbed) in the period (D=A+B+C)	**40,519**		**7,486**
Cash and cash equivalents + bank current account overdrafts at the beginning of the period (E)	**45,090**		**37,604**
Cash and cash equivalents + bank current account overdrafts at the end of the period (D+E)	**85,609**		**45,090**
of which:			
- cash and cash equivalents	**85,609**		**45,090**
- bank current account overdrafts	**-**		**-**

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

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

6. CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2013 – 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 2013 the Group did not carry out atypical or unusual transactions.

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

In accordance with the provisions of Article 5, paragraph 2 of Legislative Decree 38 of February 28, 2005, these financial statements were prepared using the euro as the reporting currency, and all values have been rounded to the nearest thousand euro where not indicated otherwise.

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

The consolidated financial statements were approved by the Board of Directors on April 9, 2014.

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

As already described with greater detail in the directors' report on operations, with specific reference to the sections “Initiatives to maintain corporate continuity”, “Risks and uncertainties –Risks related to financial debt”, “Subsequent events” and “Outlook”, in 2013 there was a delay of about nine months in the completion of the restructuring transaction that has resulted in the deferral of the start of the development strategy. It has only been since September that management has been able to fully focus on business recovery with the launch of new growth and business development initiatives in keeping with the repositioning strategy forming the basis of restructuring transactions, while relying on a renewed focus by the market and operators in the sector.

Despite the focus on reorganising and restructuring the Group with the aim of repositioning operating companies in the market with more competitive profitability and cost profiles, and with a market strategy integrated among the various strategic business units (a one-stop-shopping approach), the scenario concerned still resulted in the underperformance of agency and property services and credit servicing in 2013 as compared to plan projections. At the same time, the Investment sector was affected by the continuing market weakness that influenced operating results in terms of the deterioration of cash flows projected from real estate assets and non-performing loans with a resulting negative impact on the balance sheets of certain Group operations that had a major impact on results for 2013.

Following intense negotiations that began in 2013, in February 2014 an agreement was reached for the sale of shares of the real estate companies that own the German residential portfolio, Deutsche Grundvermögen AG ("DGAG"); this agreement, which was already provided for in the Plan, although with different values and timing, concerns the investment initiative launched in 2007 and 60% owned by RREEF Global Opportunities Fund II LLC, an investment fund managed by Deutsche Asset & Wealth Management Real Estate (Deutsche Bank Group, hereinafter, RREEF), and 40% owned by Prelios, and it was entered into at values which, on the whole, were lower than those initially projected. Additional details are provided in the report on operations in the section "Prelios in 2013".

This transaction, which was promoted and established by the RREEF majority partner, was closely related to the sale, not covered in the Plan, of the platform of Prelios Deutschland (a 100% subsidiary of Prelios S.p.A., the "Residential Services Platform") that provides technical and administrative services to the above residential portfolio.

The overall combined sale project related to the aforementioned DGAG transaction was reported in the financial statements in accordance with IFRS 5 – Discontinued Operations for both business components sold which involved:

(i) the sale of the portfolio of residential assets ("investment") in keeping with the strategy and current market values for that type of asset and the timing specified in the Company's Plan. However, the agreements entered into involve generating projected cash flow upon completion of the sale, which was deferred by a year, and in a much smaller amount than stated in the Plan;

(ii) the disposal (not covered by the plan approved which assumed that the properties being sold would continue to be managed) of service operations in Germany with lower profitability (the "services") even though it was not possible to identify entities interested just in the real estate component, and outsourced services were maintained resulting in a significant negative impact on the income statement that was largely due to the write-down of goodwill recorded in the financial statements.

Furthermore, the overall development of the real estate market has shown negative trends compared to the Plan's projections in terms of the capacity to absorb real estate assets to be disposed of, and in terms of valuations of real estate portfolios held at December 31, 2013 as confirmed by independent valuers.

From a financial standpoint, at December 31, 2013 cash flows were only temporarily higher than the Plan's projections mainly due to the temporary deferral of obligations that are mainly related to capital injections to support investment vehicles that are owned but not controlled and are having financial difficulties. In addition, in early 2014 an agreement was reached for the above sale of the DGAG portfolio which is expected to produce significantly lower cash flows over a much longer period than projected in the Plan. These elements, together with a revision of cash flows expected from ordinary operations and the planned divestitures, are reflected in the 2014-2016 Guidelines in an overall financial deficit due to cash outflows that are significantly higher than cash in hand and loans, and that cannot be sustained by the Group in the absence of appropriate corrective measures.

Based mainly on the above unexpected events, financial year 2013 ended with a Group loss of Euro 332.8 million (Euro 299.8 million for Prelios S.p.A.), resulting in a negative equity on a consolidated basis and for the parent company invoking the special situation indicated in Article 2447 of the Italian Civil Code. Therefore share capital was automatically replenished through the full conversion of the convertible bond (Euro 235.9 million) approved by the Board of Directors on April 9, 2014.

After the above conversion of the convertible bond, the Company will be subject to the situation specified in Article 2446 of the Italian Civil Code since, in any case, the loss for the year is greater than one third of share capital after the above conversion.

In this market environment, and realising that, for the reasons noted above, some of the objectives already indicated in the Plan are to be considered to be met, while waiting for the preparation of the new Business Plan, the approval for which is expected together with the Financial Report for the first quarter of 2014, the Prelios Board of Directors met on April 9, 2014 and approved the Group's guidelines for 2014-2016, which indicate the updated strategies for the growth of the Prelios Group and include operating and financial projections for the next three years.

The 2014-2016 Guidelines, which were also approved by the boards of directors of subsidiaries to the extent applicable, were used by the Prelios-appointed expert who assisted the Company in the impairment test at December 31, 2013. Total impairment of about Euro 10 million was recorded for goodwill posted in relation to the CGU Agency, Credit Servicing and Poland mainly due to the reduction of projected cash flows below Plan levels.

Under the “service” component, the 2014-2016 Guidelines show a revenue and income base lower than the Plan following the sale of the German residential platform and the failure of the CGU Agency, Credit Serving, Integra and German Commercial unit to achieve revenue growth in 2013, and they call for a growth rate for the management platform that is comparable to previous projections. On the other hand, with regard to the Investment component, a market scenario was projected that is capable of supporting the recovery of the value of real estate portfolios held, but with a significant postponement of the real estate sales. Similarly, the assumptions for the repayment of senior debt call for a significant postponement as compared to the Plan.

The updated projections of the 2014-2016 Guidelines, which will be reflected in the Group's new Business Plan, subject to the approval of the Board of Directors in May 2014, take into consideration the unexpected events that occurred in 2013, changed market and growth projections and the obligations that the Group must meet, and they indicate an expectation of very negative operating results in the three-year period together with greater absorption of cash than projected in the Plan with a resulting deficit of funds that cannot be sustained by the Group. At present, in the absence of further initiatives and actions, especially in the area of rationalising costs and a further increase in business development activities and measures to revise financial obligations that could mitigate their size, the projections are no longer in line with the Group's commitments and capabilities and are indicative of uncertainties that could lead to significant doubts over the Group's ability to operate as a going concern.

Faced with these uncertainties, the steps, already identified by directors and described below, are now necessary to give the Group the cash necessary to cover its requirements needed for the time being to determine the timing and technical means of structured intervention by the main lenders and the Company's shareholders, which will make it possible to support cash needs and operating results expected over the next three years, thereby allowing sufficient time to take the steps to recover profitability and therefore the ability to operate as a going concern. These initiatives call for measures to mitigate financial obligations, at the very least in connection with their deferral over the short and medium term in order to make these obligations sustainable for the Group in keeping with a structural rebalancing of its financial position. To this end, various action plans have been identified with varying degrees of probable success. These can be summarised as follows: (i) deferral, until after 2016, of the payment of contractual charges in relation to the sale of equity investments in the past; (ii) obtaining a waiver to the obligation to make a contribution to an investee company in liquidation; (iii) potential payment of a settlement from a legal claim after 2016; (iv) standstill in key equity injections in initiatives in which the Group has a minority interest that qualifies it to negotiate individually with each partner and with the respective lending banks; and (v) obtaining waivers to certain aspects of current loan agreements of the parent company, including, in particular, the timing for the reimbursement of cash flows that will derive from the sale of joint businesses (65%-35% senior debt repayment mechanism) to be made consistent, in terms of amounts and maturities, with the Group's ability to generate funds from its overall operations. We believe that the measures to mitigate financial requirements that are being discussed with these major lenders may be sufficient to allow the Group to meet estimated short- and medium-term cash requirements, and thus to operate as a going concern.

As more fully illustrated in the section “Initiatives to maintain corporate continuity” in the report on operations, the directors currently believe that there is a reasonable expectation that over a period of time in keeping with the Company's current situation, it will be possible to carry out those measures suitable for deferring certain financial obligations. Thus it will be possible to obtain from lenders the funds necessary to cover the needs projected in the Guidelines for the time necessary and instrumental for working with them to determine a more cohesive financial and asset rebalancing transaction that is consistent with the needs indicated in the 2014-2016 Guidelines and with the Group's restructuring objectives, which will allow it to continue operating as a going concern.

To achieve this, the Company has initiated discussions with its main lenders and shareholders to obtain coordinated joint support in the forms, and at the timing, consistent with the above needs, which, on the basis of talks with lenders, we reasonably believe can be achieved in a very short time, primarily on the basis of the preliminary willingness demonstrated by them to support the implementation of the above measures to mitigate projected cash requirements and to revise the medium-term financial structure within limits that can be sustained by the Group.

6.3. Accounting standards and policies

In accordance with Regulation (EC) No 1606 of the European Parliament and of the Council of July 2002, the consolidated financial statements of the Prelios Group were prepared on the basis of the current International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union on December 31, 2013, and of the measures implementing Article 9 of Legislative Decree 38/2005. The IFRS also include all the revised international accounting standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

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

The accounting policies and principles adopted are consistent with those used in the preparation of the financial statements at December 31, 2012. The exceptions are in respect of the new standards/interpretations adopted by the Group starting from January 1, 2013. The nature and impact of these changes are described below.

These new standards/interpretations had no impact on this annual financial report.

For the first time, the Group has adopted certain standards and changes that required the restatement of the previous financial statements.

6.3.1. Accounting standards and interpretations endorsed and in force from January 1, 2013

- Amendments to IAS 1 – Presentation of Financial Statements – Presentation of components of other comprehensive income

  The main amendments to IAS 1 concern a new way to present components of comprehensive income in the Statement of Other Comprehensive Income (OCI).

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

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

  The actuarial gains/losses for defined-benefit pension plans are, on the other hand, an example of items not subject to reclassification in the income statement.

  The amendment only involved the method of presentation and required the restatement of the previous separate financial statements, but had no impact on the Group's financial position or its results.

- Amendments to IAS 19 – Employee Benefits

  The amendment of IAS 19 is focused on the procedures used to account for defined-benefit plans and termination benefits. The principal changes from the current standard concern:

  - defined-benefit plans: actuarial gains/losses (renamed remeasurements) must be immediately and fully recognised in the Statement of Comprehensive Income. The option that allowed not recognising actuarial gains/losses if they fell within a certain corridor (“corridor approach”) will no longer be allowed;
  - elimination of the “expected return on plan assets” and “interest cost”, which will be replaced by a new quantity called “net interest”, calculated by applying the discount rate now used only for the gross liability to the net liability (i.e. the gross liability net of the assets servicing the plan);
  - request for additional disclosures to be included in the explanatory notes to the financial statements for improved illustration of the risks stemming from defined-benefit plans;
  - termination benefits: based on the new standard, the factor that determines the timing for recognition in the financial statements is the fact that the entity may not withdraw

the offered benefit, i.e. it is irrevocable. Accordingly, termination benefits can essentially be of two types:

- o benefits connected with a broader restructuring plan, where the entity may not withdraw the offer and the employee has no alternative but to accept it; in this case, the offer is considered irrevocable when the lay-off plan is notified to the affected persons;
- o individual benefits that the business may theoretically withdraw at its discretion until acceptance by the employee: in this case, the offer becomes irrevocable when the employee accepts it.

It should be stressed that the elimination of the corridor approach had no impact on the consolidated financial statements since the Group did not previously exercise this option. In terms of the other amendments, there was no impact on the consolidated financial statements.

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

  The amendments introduced concern:

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

  These amendments are not applicable to the Group.

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

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

  These amendments are not applicable to the Group.

- IFRS 13 – Fair Value Measurement

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

The application of IFRS 13 had no significant impact on the Group's fair value measurements. IFRS 13 requires specific fair value disclosure, a part of which replaces the disclosure requirements previously mandated in other standards including IFRS 7 – Financial Instruments: Disclosures. The information required had an effect on the disclosures provided in the notes to these consolidated financial statements, and especially section 6.5 Fair Value Measurement.

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

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

  There was no significant impact on the consolidated financial statements from the application of the above amendments.

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

  The amendments provide, during the phase of first-time adoption of IFRS, for the possibility of not adopting the retrospective application of the provisions of IAS 20 – Accounting for government grants and disclosure of government assistance in relation to government loans received at a below-market rate of interest. These amendments make provision, during the phase of first-time application of IFRS, for the adoption of the same accounting method provided for existing preparers of IFRS financial statements. These amendments are not applicable to the Group.

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

As part of the project begun in 2009, the IASB has issued a series of amendments to five standards in force.

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

IFRS	Subject of the amendment
Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards	• Reiterated adoption of IFRS 1 • Financial expenses
IAS 1 – Presentation of Financial Statements	Clarifications relating to comparative data that must be presented
IAS 16 – Property, Plant and Equipment	Classification of servicing equipment
IAS 32 – Financial Instruments: Presentation	Tax effect of distribution to holders of equity instruments
IAS 34 – Interim Financial Reporting	Interim Financial Reporting and segment information for total assets and liabilities

These amendments had no significant 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

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

On November 19, 2013 the IASB issued a new version of IFRS 9 – Financial Instruments (Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39) that includes new requirements for the application of hedge accounting and several changes to IAS 39 and IFRS 7.

The main changes to the document concern:

- changes 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;
- a change in the procedure for recording forward contracts and derivative options when included in a hedge accounting relationship in order to reduce volatility in the income statement;
- changes in the effectiveness test since the current form will be 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 will no longer be required.

The second phase of the project, which covers impairment, and the third phase, which covers hedge accounting, initially were reflected in the issuance of two Exposure Drafts in November 2009 and December 2010 respectively. In March 2013 a new Exposure Draft was issued on the impairment of financial instruments (Financial Instruments: Expected Credit Losses).

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

- financial assets can be classified in only two categories – at fair value or at their amortised cost. The categories of loans and receivables, available-for-sale financial assets and financial assets held to maturity are therefore superseded. Classification within the two categories is made on the basis of the entity's business model and on the basis of the features of the cash flows generated by the assets themselves. Financial assets are measured at their amortised cost if both the following prerequisites are met: the entity's business model provides that financial assets are held to collect their cash flows (thus, substantially, not to make trading profits) and the characteristics of the cash flows of the assets correspond only to payment of principal and interest. Otherwise financial assets must be measured at fair value;
- the accounting rules for derivatives embedded in contracts or in other financial instruments have been simplified: separate accounting for the embedded derivative and the "host" financial asset is no longer required;

- all equity instruments – both listed and unlisted – must be measured at fair value. IAS 39 stated instead that, if fair value could not be determined reliably, unlisted equity instruments had to be measured at cost;
- the entity has the option of presenting in equity any changes in the fair value of equity instruments not held for trading, while instead for those held for trading this option is not available. This designation is permitted at the moment of initial recognition, may be adopted for a single security and is irrevocable. If this option is taken, the fair value changes of such instruments can never be reclassified from equity to profit or loss (neither in the event of impairment nor in the event of disposal). Dividends instead continue to be recognised through profit or loss;
- IFRS 9 does not allow reclassifications between the two categories of financial assets except in rare cases in which there is a change in the entity's business model. In this case the effects of the reclassification are applied prospectively;
- the disclosure required in the notes was adapted to the classification and to the measurement rules introduced by IFRS 9;
- it is possible not to implement the principle in the comparative period retrospectively to the date of first adoption of IFRS 9, except in the case in which a series of specific additional information is provided.

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

For the time being, the approval process for IFRS 9 has been suspended. In the new document from November 2013, since the IASB believes that the specified mandatory application date (previously after financial years beginning on or after January 1, 2015) is not consistent with the timing necessary to adapt to the new standard, it removed the indication of the date from IFRS 9, and deferred its determination until the entire process is nearly completed.

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

- IFRS 10 – Consolidated Financial Statements

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

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

The standard, issued in May 2011, was endorsed by the European Union in December 2012 (Regulation (EU) No 1254/2012), and came into force on January 1, 2014. No significant impact on consolidated financial statements is expected from the introduction of the new standard.

- IFRS 11 – Joint Arrangements

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

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

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

The standard, issued in May 2011, was endorsed by the European Union in December 2012 (Regulation (EU) No 1254/2012), and came into force on January 1, 2014. With reference to the consolidation method, no significant effects are expected on the consolidated financial statements from the application of this new standard, as the accounting treatment applied by the Group is in line with the changes introduced.

- IFRS 12 – Disclosure of Interests in Other Entities

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

The standard, issued in May 2011, was endorsed by the European Union in December 2012 (Regulation (EU) No 1254/2012), and came into force on January 1, 2014. No significant impact on consolidated financial statements is anticipated from the introduction of the new standard.

- IAS 27 – Separate Financial Statements

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

  The standard was endorsed by the European Union in December 2012 (Regulation (EU) No 1255/2012), and came into force on January 1, 2014. No significant impact is expected from its application.

- IAS 28 – Investments in Associates and Joint Ventures

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

  The standard was endorsed by the European Union in December 2012 (Regulation (EU) No 1255/2012), and came into force on January 1, 2014. No significant impact on the consolidated financial statements is expected from its application.

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

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

  - the significance of currently enjoying a statutory right to offsetting financial assets and liabilities;

  - the fact that, in certain cases, the sale of the asset and extinguishment of the liability at the same time may be considered de facto extinguishment of a net amount.

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

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

  These amendments clarify the temporary provisions for the application of IFRS 10. In addition, they limit the requirement to provide restated comparative data only for the comparison period preceding the first-time application of IFRS 10, 11 and 12. With regard to the additional disclosures required by IFRS 12 concerning interests held in other entities, these amendments eliminate the requirement to provide comparative information for periods preceding the application of IFRS 12. These amendments were endorsed by the European Union in April 2013 (Regulation (EU) No 313/2013) and came into force on January 1, 2014. No significant impact is expected on the consolidated financial statements from the application of these amendments.

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

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

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

  These amendments were endorsed by the European Union in November 2013 (Regulation (EU) No 1174/2013), and came into force on January 1, 2014. No significant impact is expected on the consolidated financial statements from the application of the above amendments.

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

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

  These amendments were endorsed by the European Union in December 2013 (Regulation (EU) No 1374/2013), and came into force on January 1, 2014. No significant impact is expected on the consolidated financial statements from the application of the above amendments.

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

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

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

These amendments were endorsed by the European Union in December 2013 (Regulation (EU) No 1375/2013), and came into force on January 1, 2014. No significant impact is expected on the consolidated financial statements from the application of the above amendments.

- IFRS 14 – Regulatory Deferral Accounts

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

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

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

These amendments have not yet been endorsed by the European Union and will be applicable on July 1, 2014. They are not expected to have a significant impact on the consolidated financial statements.

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

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

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

IFRS	Subject of the amendment
IFRS 2 – Share-based Payments	Definition of vesting condition
IFRS 3 – Business Combinations	Accounting for business combination cost adjustments that are subject to future events
IFRS 8 – Operating Segments	• Aggregation of operating segments • Reconciliation of total assets of segments covered by disclosure compared to the entity's assets
IFRS 13 – Fair Value Measurement	Short-term receivables and payables
IAS 16 – Property, Plant and Equipment	Revaluations – Proportional redetermination of accumulated depreciation
IAS 24 – Related Party Disclosures	Key management personnel
IAS 38 – Intangible Assets	Revaluations – Proportional redetermination of accumulated amortisation

These amendments have not yet been endorsed by the European Union, and they are not expected to have a significant impact on the consolidated financial statements.

- “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 2010-2012 cycle of annual improvements to IFRS.

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

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

These amendments have not yet been endorsed by the European Union, and they are not expected to have a significant impact on the consolidated financial statements.

- IFRIC Interpretation 21 – Levies

  On May 20, 2013 the IASB published IFRIC Interpretation 21 – Levies on the accounting methodology for levies other than income tax. The interpretation, which will apply to financial statements for periods beginning on or after January 1, 2014, has not yet been endorsed by the European Union.

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, 2013 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.

Following the agreement reached by the joint venture Solaia RE S.à.r.l. for the sale of equity interests in the real estate companies that own the German residential portfolio known as DGAG (Deutsche Grundvermögen AG) and for the transfer of a portion of the Prelios Deutschland GmbH platform (100% subsidiary of Prelios S.p.A.), which provides technical and administrative services to the above residential portfolio, the operating and balance-sheet impact of the transaction, in terms of both the asset and service components, are treated as a discontinued operation in accordance with IAS (IFRS 5).

6.3.4. Consolidation area

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

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

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

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

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

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;
- investments in associates and joint ventures are accounted for using the equity method, under which the carrying amount of such investments is adjusted to take account of:
  - the investor's share of the operating results achieved by the investee after the acquisition date;
  - changes ensuing from variations in the investee's equity that have not been recognised in the income statement in accordance with the accounting policies;
  - dividends paid by the investee;
  - if the Group's share of losses of an associate/joint venture exceeds the carrying amount of the investment in the financial statements, the additional losses are allocated against any financial receivables owed by the associate/joint venture. After reducing the 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;
- profits from sales by subsidiaries to joint ventures or associates are eliminated according to the Group's interest in the purchasing company;
- profits from property sales by joint ventures to other joint ventures or associates are recognised up to the difference between the Group’s interest in the purchasing company and its interest in the seller, in other words only the portion realised with third parties is recognised;
- only the portion of profits realised with third parties is recognised for gains from property sales by associates to other associates;
- subsidiaries, associates and joint ventures are recognised upon acquisition using the “acquisition method”, which entails:
  - determination of the purchase price in compliance with IFRS 3;

- determination of the fair value of the assets and liabilities acquired (both actual and contingent);
- allocation of the price paid to the fair value of the assets and liabilities acquired;
- recognition on a residual basis of any goodwill, defined as the positive difference between the purchase price and the interest in the net fair value of the net assets and liabilities identified/acquired;
- immediately recognising any negative goodwill as income in the income statement, if the fair value of the interest acquired exceeds the purchase price.

6.3.6 Accounting policies

ASSETS AND LIABILITIES

Intangible assets

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

Amortisation is recognised from the time 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.

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

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

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

Investment property (held by equity-accounted companies)

Investment property is real estate held in order to earn 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 assets

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

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

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

The recoverable amount of an asset is the higher of its fair value, less costs of disposal, and its value in use. Value in use is the present value of the future cash flows expected to arise from the asset and from its sale at the end of its useful life, net of tax, obtained by applying a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The value in use of the cash-generating units was estimated by an independent external expert.

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

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

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

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

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

Investments

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

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

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

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

b) the present value of expected future cash flows from dividends to be received and from the investment's ultimate sale (the Dividend Discount model – equity-side approach).

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

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

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

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

Other financial assets

Available-for-sale financial assets

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

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

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

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

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

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

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

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

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

Restricted deposits

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

Inventories

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

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

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

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

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

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

Of the Group's real estate portfolio held by consolidated companies, around a third of the consolidated carrying amount refers to property investments carried at fair value (IAS 40). In particular these are properties held by associates and joint ventures that have been valued in accordance with IAS 40. This allows fair value, as determined by independent experts, to be used as the basis for measuring property that is not going to be sold in the near term, but is to be held to earn rentals or for capital appreciation.

Contracts

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

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

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

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

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

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

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

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

Receivables

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

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

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

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

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

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

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

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

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

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

Junior securities and non-performing loans

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

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

Shareholder loans to associates and joint ventures

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

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

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

After initial recognition, shareholder loans are measured at amortised cost.

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

Payables

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

They are subsequently measured at amortised cost.

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

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

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

Cash and cash equivalents

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

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

Provisions for risks and expenses

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

For defined-benefit plans, the Prelios Group fully recognises actuarial gains and losses in equity in the year that they occur.

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

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

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

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

Derivative financial instruments

Derivatives qualifying as effective cash flow hedges

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

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

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

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

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

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

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

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

Derivatives not qualifying as hedges

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

Determination of the fair value of financial instruments

The fair value of financial instruments listed on an active market is based on market prices as of the reporting date. The market price used for derivatives is the bid price, while for financial liabilities the ask price is 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 Group basis in accordance with Article 117 *et seq*. of the Italian Income Tax Act. Participants in the consolidation are required to adopt a specific set of “Regulations”, involving common procedures for applying tax rules and regulations.

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

Costs and revenue from tax consolidation are calculated on the basis of the provisions of the Prelios Tax Consolidation Regulations. In particular, in accordance with Article 16 of the

Regulations, when applicable, the consolidating company remunerates consolidated companies which have tax losses for an amount equal to the IRES tax rate and within the limits of the tax loss remuneration expectations in the financial year.

This valuation takes account of the fact that the three-year tax consolidation option for 2010, 2011 and 2012 has just ended, and with a view to continue this tax mechanism in the future, on June 14, 2013 the consolidator, Prelios S.p.A., and its subsidiaries meeting the legal requirements renewed the tax consolidation for the three-year period 2013-2015 unless there is an early interruption due to a loss of control of the subsidiary, or a financial year that does not coincide with that of the consolidator.

<u>EQUITY</u>

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.

<u>INCOME STATEMENT</u>

Revenue and costs

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

Revenue recognition

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

Sale of assets

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

- the significant risks and rewards associated with ownership of the assets have been transferred to the buyer;
- effective control over the assets involved in the transaction and the normal continual level of activities associated with ownership have ceased;
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the sale will flow to the entity;

- the costs incurred or to be incurred can be reliably measured.

In particular, in the case of property sales, revenue is normally recognised when ownership changes hands, i.e. when the property is transferred to the buyer. If the nature and extent of the seller's involvement are such that there is no *de facto* transfer of the risks and rewards of ownership, revenue recognition is postponed until such transfer is deemed to have occurred.

Rendering of services

When the outcome of a transaction involving the rendering of services can be reliably estimated, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be reliably estimated when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete it can be measured reliably.

Interest

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

Dividends

Dividends are recognised when the shareholders’ right to receive payment is established, which normally corresponds to the date of the shareholders' meeting that approves the dividend distribution.

Dividends received from equity-accounted companies (associates and joint ventures) are recognised as a reduction in the value of the investment.

Earnings per share

Basic earnings per share are calculated by dividing consolidated net profit (loss) by the weighted average number of ordinary shares outstanding during the year. For the purposes of calculating diluted earnings per share, the weighted average number of outstanding shares is adjusted for the effects of all potentially dilutive shares.

6.4. Financial risk management policies

The Group's principal non-derivative financial liabilities are bank loans, trade payables and other payables.

The main purpose of these liabilities is to fund the Group's operating and investing activities.

The Group has financial receivables, trade receivables and other receivables, cash and cash equivalents and short-term deposits which originate directly from its operating and investing activities. The Group also holds available-for-sale financial assets and enters into derivative agreements for hedging purposes.

Financial risk management is an essential part of the activity of the Prelios Group.

The Group's financial risk management policies aim for the partial hedging of currency risk and mitigation of exposure to interest rates, also implemented through the use of selected derivative financial instruments.

In particular, the management of said financial risks is carried out centrally on the basis of guidelines established by the Finance department, which aim to assure Group management that activities entailing financial risk are governed by appropriate policies and procedures and that financial risks are identified, evaluated and managed in compliance with the Group's attitude towards risk. Under these guidelines, the Group uses derivatives in relation to the underlying financial assets or liabilities or future transactions.

Financial risks are managed centrally by the Treasury unit, which has the task of assessing risks and proposing any hedging strategies and arranging hedges shared with Group management.

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

In particular:

- it defines the level of hedging of floating-rate debt (with derivatives) on preparing the management plan and/or when significant changes occur (i.e., changes in the macroeconomic situation, significant changes in interest rates) that lead to a review;
- it negotiates corporate credit facilities with banks.

<u>Types of financial risks</u>

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

- currency risk: deriving from the variation in exchange rates related to financial assets originated and financial liabilities assumed;

- interest rate risk: deriving from the variation in interest rates related to financial assets originated and financial liabilities assumed;
- price risk associated with financial assets: deriving from the variation in market prices related to financial assets originated and financial liabilities assumed;
- credit risk: represented by the risk of non-fulfilment of obligations assumed by the counterparty in relation to uses of Group liquidity;
- liquidity risk: related to the need to meet short-term financial commitments.

Exposure to the various market risks is measured, as set out in IFRS 7, using sensitivity analysis, which highlights the effects of a variation in the significant variables in the different reference markets on income and expenses from financial operations and directly on equity.

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

• the sensitivity analyses were carried out by applying variations that are reasonably likely in the relevant risk variables to financial statement figures as at December 31, 2013, 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, brought about by changes in interest rates, of floating rate financial instruments, other than derivatives, which are not part of a cash flow hedge relationship, have an impact on financial income and expenses in the year; therefore, these are taken into consideration in the present analysis.

The management policies and sensitivity analysis regarding the aforementioned financial risks for the Prelios Group are described below.

Currency risk

Currency risk is the risk that the fair value or the future cash flows of a financial asset or liability change following fluctuations of exchange rates. The Group's exposure to the risk of interest rate fluctuations mainly concerns its operating activities (*transaction currency risk*) and its net investments in foreign subsidiaries (*translation currency risk*).

a) transaction currency risk

The Group is active internationally in Europe and has a minimal exposure to transaction currency risk arising from positions in currencies other the euro, mainly the Polish zloty. Changes in exchange rates thus produce no significant effects on the income statement.

This risk relates exclusively to shareholder loans given to joint ventures for real estate projects in Poland. It is managed by the Group Treasury unit, which is responsible for assessing and managing the net currency position in accordance with established guidelines and policies, by entering into derivative hedging contracts.

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

The Group's exposure to exchange rate fluctuation for all other currencies is immaterial and, therefore, is not subject to sensitivity analysis.

b) translation currency risk

The Prelios Group has only one controlling interest in a company which prepares its financial statements in a currency other than the euro (zloty), the Group's reporting currency. This exposes the Group to a limited translation currency risk, generated by fluctuations in zloty exchange rates against the consolidating currency (euro) which produce changes in the value of consolidated equity.

The main exposures to translation currency risk are carefully monitored and up until now the Group has decided not to hedge this exposure.

Total consolidated equity is mainly expressed in euro, meaning that a hypothetical appreciation/depreciation of these currencies against the euro would not have a significant impact on total consolidated equity.

Interest rate risk

Interest rate risk is the risk of the fair value or future cash flows of a financial asset or liability changing on account of fluctuations in market interest rates. The Group’s exposure to the risk of fluctuations in market interest rates is first and foremost linked to long-term floating-rate debt.

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

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

The Treasury unit periodically monitors these hedging instruments in accordance with the guidelines of the existing management mandate and, where necessary, proposes possible corrective actions to the decision-making bodies.

Although such derivatives are solely for hedging purposes, their designation as hedging instruments for the purposes of IAS 39 is decided by the Treasury unit according to whether or not they meet the IAS 39 requirements.

The Treasury unit uses the information made available by the Administration and Financial Statements unit on the net financial position and on the debt of companies in which interests are held, in order to determine the amount of non-hedged debt.

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

in thousands of euro	**0.10%**		**-0.10%**	
	12.31.2013	**12.31.2012**	**12.31.2013**	**12.31.2012**
Impact on net income				
- fully consolidated companies	109	112	(109)	(112)
- equity-accounted companies	(683)	(819)	704	843
Total impact on net income	**(574)**	**(707)**	**596**	**731**
Impact on equity				
- fully consolidated companies	109	112	(109)	(112)
- equity-accounted companies	(610)	(456)	631	547
Total impact on equity	**(501)**	**(344)**	**522**	**435**

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 (after checking with the Administration and Financial Statements unit) with simulations for the subsequent three quarters and subsequent half of the financial year.

The simulation includes the effect on (i) financial income/expenses of floating-rate payables and receivables; (ii) expenses/income from interest rate derivatives; and (iii) changes in the fair value of interest rate derivatives; they are calculated in terms of net income both for subsidiaries and for the results of investments in associates and joint ventures.

Such impacts relate to both companies consolidated line by line but also to companies accounted for using the equity method, considered on the basis of the interest held by the Prelios Group.

The direct impact on equity is linked to changes in the fair value of cash flow hedge derivatives, by virtue of the application of the international accounting standards that govern hedge accounting, which require the fair value measurement (mark to market) of these instruments to be allocated to a special equity reserve.

Price risk associated with financial assets

Price risk consists of the possibility that the value of a financial asset or liability will change following fluctuations in market prices (other than those related to exchange rates and interest rates), either when such changes arise from specific features of the financial asset or liability or of the issuer of the financial liability, or when such changes arise from market factors.

Specifically, the Prelios Group is exposed to price risk owing only to the volatility of the real estate funds in which it invests that are listed on the Milan Stock Exchange and on unlisted closed-end real estate funds classified in the consolidated financial statements as “available-for-sale financial assets” or “equity investments held for sale”, for which the change in fair value is recognised respectively in equity or in profit or loss. All other conditions being equal, a hypothetical 5% increase or decrease in the above parameters would not have a material impact on the Group's equity.

Credit risk

The credit risk is the Group’s exposure to potential losses deriving from the failure to fulfil the commercial and financial obligations taken on by the counterparties. This risk derives mainly from economic-financial factors, i.e. the possibility of counterparty default.

The Group is exposed to credit risk from its operating activities (especially for trade receivables, and to a lesser extent for non-performing loans) and from its financing activities.

For the purpose of limiting this risk where trade counterparties are concerned, the Group has procedures for evaluating customer potential and financial solidity, as well as for monitoring expected receipts and credit recovery actions. An analysis is then performed of past-due receivables and those falling due which are written down according to the Group's policies. Receivables written down include both significant single positions subject to individual impairment based on particular risk elements, and positions with similar characteristics from the point of view of credit risk that are grouped together and written down on a collective basis, in relation to the estimated average irrecoverability.

These procedures aim to establish customer credit limits, which once exceeded usually result in a suspension of further sales.

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

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

Information on the maximum exposure to credit risk, represented by the gross value of receivables, is contained in the following explanatory notes relating to trade receivables and other receivables respectively.

Liquidity risk

Liquidity risk is closely connected and constantly monitored in relation to Group requirements, as regards initiatives that aim to strengthen the Group’s equity and financial structure.

In ordinary operations, liquidity risk is the risk that available financial resources will be insufficient to meet financial and trade obligations in the agreed manner on the agreed due date.

The principal instruments used by the Group for managing liquidity risk are multi-year and annual financial plans and short-term treasury plans, which allow projected incoming and outgoing cash flows to be fully and properly identified and measured. Any differences between actual and plan figures are constantly analysed.

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

Bank relationships are negotiated centrally in order to ensure that short- and medium-term financial needs are satisfied at the lowest possible cost.

Financial resources, in particular receipt and payment flows, are instead managed in the individual countries so as to limit liquidity risk and non-compliance with the various local currency and tax regulations.

On the basis of financial statement data, the Treasury unit prepares a statement showing the due dates of financial liabilities, limited to the exposures of companies consolidated line by line (within 1 year, between 1 and 2 years, between 2 and 5 years, over 5 years), estimating the interest to be paid with reference to outstanding nominal debts.

The due dates of financial liabilities, relating to exposures of companies consolidated line by line, are as follows at December 31, 2013:

	Carrying amount	Contractual cash flows	within 1 year	1 - 2 years	2 - 5 years	over 5 years
Bank borrowings and payables to other lenders	474,089	526,986	11,003	2,830	261,202	251,951
Trade payables	48,116	48,116	48,116	-	-	-
Other payables	54,638	54,638	53,723	-	-	915
Total	**576,843**	**629,740**	**112,842**	**2,830**	**261,202**	**252,866**

Financial liabilities at December 31, 2012 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	565,732	660,382	179,890	287,757	190,535	2,200
Trade payables	49,375	49,375	49,375	-	-	-
Other payables	65,036	65,036	64,060	64	153	759
Total	**680,143**	**774,793**	**293,325**	**287,821**	**190,688**	**2,959**

Trade payables include the portion of payables to third parties more than 90 days past due in an amount of approximately Euro 3.2 million at December 31, 2013.

6.5. Fair value measurement

The Group measures financial instruments, such as derivatives and junior securities issued by non-performing loan vehicles, available-for-sale financial assets and non-financial assets, such as investment properties, at fair value on each reporting date. For the most part, these assets are measured by equity-accounted associates and joint ventures.

Fair value is the price that would be received from the sale of an asset or that would be paid to transfer a liability in a normal transaction between market operators on the measurement date. Fair value measurement assumes that a transaction to sell an asset or transfer a liability takes place:

(a) in the main market for the asset or liability; or

(b) in the absence of a main market, in the most advantageous market for the asset or liability. The main market or most advantageous market must be accessible for the Group.

The fair value of an asset or liability is measured using assumptions that market operators would use to determine the price of the asset or liability assuming that they are acting to satisfy their economic interest in the best way possible.

A fair value measurement of a non-financial asset takes account of a market operator's ability to generate economic benefits by employing the asset at its maximum and best use or selling it to another market operator who would use it to its maximum and best use.

The Group uses measurement techniques suitable for the circumstances, and for which there is sufficient data available to measure the fair value by maximising the use of major observable inputs and minimising the use of unobservable inputs.

IFRS 13 requires that all assets and liabilities measured at fair value or reported in the financial statements must be classified on the basis of a hierarchy of levels reflecting the significance of inputs used in determining fair value. These levels are as follows:

- Level 1 – determination of fair value on the basis of prices quoted in active markets for identical assets or liabilities that the entity is able to access on the measurement date;

- Level 2 – determination of the fair value based on inputs other than quoted prices included within Level 1 that are directly (i.e. as prices) or indirectly (i.e. derived from prices) observable;

- Level 3 – determination of the fair value based on valuation models for which the inputs are not based on observable market data.

In certain cases, the data used to measure the fair value of an asset or liability could be classified in several levels of the fair value hierarchy. In these cases, the fair value measurement is classified entirely in the same hierarchy level in which the lowest level input is classified, taking account of its importance for the measurement.

For assets and liabilities recognised in financial statements on a recurring basis, the Group determines whether there have been any transfers between hierarchy levels by reviewing the categorisation (based on the lowest level input that is significant for the purposes of the fair value measurement in its entirety) at each reporting date.

Classes of financial assets and liabilities

In order to complete the analyses required by IFRS 13, the following table presents the carrying amount of every class of financial asset and liability identified by IFRS, with an indication of the accounting policies applied:

	Note	12.31.2013			12.31.2012		
		Total	non-current	current	Total	non-current	current
Financial assets measured at amortised cost							
Other financial assets	4	193	193	-	193	193	-
Financial assets measured at fair value							
Other financial assets	4	11,123	11,123	-	-	-	-
Loans and receivables							
Trade receivables	6	35,055	-	35,055	63,891	-	63,891
Other receivables	7	139,540	115,980	23,560	249,496	213,579	35,917
Cash and cash equivalents	10	85,609	-	85,609	45,090	-	45,090
Available-for-sale financial assets							
Other financial assets	4	11,994	11,994	-	12,931	12,931	-
Restricted deposits							
Other financial assets	4	879	879	-	3,453	3,453	-
TOTAL FINANCIAL ASSETS		**284,393**	**140,169**	**144,224**	**375,054**	**230,156**	**144,898**
Financial liabilities measured at amortised cost							
Bank borrowings and payables to other lenders	15	565,732	420,961	144,771	525,760	488,802	36,958
Trade payables	16	49,375	-	49,375	74,852	-	74,852
Other payables	17	65,036	976	64,060	65,993	3,849	62,144
Hedging financial instruments							
Derivative financial instruments	21	-	-	-	2,526	-	2,526
TOTAL FINANCIAL LIABILITIES		**680,143**	**421,937**	**258,206**	**669,131**	**492,651**	**176,480**

Fair value hierarchy

The following table shows assets carried at fair value at December 31, 2013, divided into the three levels defined above:

	Note	Carrying amount at 12.31.2013	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS					
Available-for-sale financial assets	**2**	**11,994**	**2,053**	**9,192**	**749**
- investments in other companies	*2*	*749*	*-*	*-*	*749*
- closed-end real estate funds	*2*	*11,245*	*2,053*	*9,192*	*-*
Other financial assets measured at fair value	**2**	**11,123**	**-**	**-**	**11,123**
Bonds - junior notes	*2*	*11,123*	*-*	*-*	*11,123*

During 2013, 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). Fair value is determined on the basis of recent transactions involving similar securities only for the Cloe fund.

The table below shows the changes that occurred in Level 3 during 2013:

Beginning balance 01.01.2013	**1,010**
Increases	11,123
Decreases	(42)
Assets held for sale	(219)
Ending balance 12.31.2013	**11,872**

During the year there were no transfers from Level 3 to other levels or vice versa.

6.6. Capital management policy

As fully described in the directors' report on operations, in order to relaunch business development prospects, in 2013 the Company intensified business development measures while constantly monitoring the cash situation, which, as compared to the Plan:

☐ was negatively affected by the delay in completing the restructuring transaction and in liquidating net invested capital (NIC);

☐ was positively affected by the “temporary” deferral in financial support for initiatives in the portfolio;

☐ reflects the impact of an efficient management of working capital aimed at protecting the cash situation. In said context, the main indicators used by the Group in the past to manage capital (ROE, Gearing and Net Financial Position) will reassume significance only on completion of the turnaround.

6.7. Estimates and assumptions

Preparation of the consolidated financial statements requires management to make estimates and assumptions which, in some cases, are based on difficult, subjective judgements and past experience, and assumptions thought to be reasonable and realistic according to the circumstances, with particular reference to forecasts regarding timing and the values of the transfers set forth in Company plans.

The reliability of such estimates has an effect on the adoption of the going concern assumption in preparing the financial statements, on the values of balance-sheet assets and liabilities and on the disclosure of contingent assets and liabilities at the reporting date, as well as on the amount of revenue and costs in the reference period. Actual results could therefore differ from such estimates. The estimates and assumptions are regularly reviewed and the effects of any change are reflected in the income statement of the period of the change if the change affects that period only, or also in future periods if the change affects both the current and future periods.

On this point it must be noted that the situation caused by the current economic and financial crisis has made it necessary to make assumptions regarding a highly uncertain future, in which actual results in the next year may differ from the estimates, thus involving adjustments, even significant ones, to the carrying amount of the items concerned and which cannot be currently estimated or predicted.

The elaboration of estimates and evaluations by the management mainly regard:

- assessment of the recoverability of intangible assets and definition of their useful lives;
- valuation of the interest in associates and joint ventures, and assessment of the recoverability of financial receivables that such companies might owe;
- determination of the fair value of real estate properties and the realisable value of inventories;
- estimation of contingent liabilities for outstanding legal and tax litigation as described in more detail in paragraphs 8.2.4 and 8.2.5 of the report on operations;
- quantification of the impairment of receivables (partly with reference to determining the value of non-performing loans), financial assets and the estimate of the liabilities deemed likely and recorded under provisions for risks and expenses;
- estimates and assumptions on the recoverability of prepaid taxes.

Estimates and assumptions involving a significant risk of variation in the carrying amount of assets and liabilities mainly relate to goodwill, the valuation of the property portfolio and the valuation of loans in relation to the effects that this can have on the value of investments in associates and joint ventures. In accordance with the accounting standards, the Group must test its goodwill for impairment at least once a year, or whenever there are specific indications of impairment. The value of the property portfolio is verified at least half-yearly on the basis of independent appraisals, and the value of non-performing loans is also based on the periodic updating of estimated expected cash flows.

Asset values related to real estate portfolios and non-performing loans, or to the value of investments of proprietary vehicle companies, are measured on the basis of the respective appraisals or valuation models on the assumption of a development process or sale on the market as a part of a normal company cycle. In addition, with regard to valuations of the real estate portfolio, taking account of the provisions of current laws, for valuations of real estate

assets and real estate rights the group uses experts (who meet the requirements of Article 17 of Ministerial Decree 228/1999), but also subjects the results of their valuations to validation processes.
A review and check are performed in order to verify:

☐ whether the data and information contained in appraisal reports are adequate, complete and accurate;

☐ the experts' proper application of asset valuation criteria.

The Investment Portfolio Management unit is the party responsible for the updated reporting of useful data and information (property inventories, intended uses, employment situation, lease agreements, etc.) for valuations of real estate assets in the portfolio near the reporting date.
The mandate given to the experts hired for periodic (half-yearly and annual) valuations of real estate assets has a term, subject to substantiated exceptions, of up to four years. It cannot be renewed or reassigned unless at least three years have passed since the termination of the previous assignment.
The Group undertakes to ensure a periodic rotation of experts in the area of real estate assets, and to guarantee that each individual valuer does not certify more than 50% of the overall value of the real estate portfolio.
When selecting experts, the existence of any conflicts of interest is assessed to ascertain whether their independence may have waned.
The experts are third parties that are independent from the Group. Their valuations must be based on current laws and best international standards in order to determine the proper value of the properties.
The Risk Management unit, with the professional support of third parties specialising in real estate valuations as necessary, must verify that the asset valuation criteria used by the expert are consistent and have been properly applied. The latter verification process, which is performed on a sampling basis, must specify that a methodology consistent with commonly accepted practice has been applied for the appraisal. If there are large disagreements that could significantly alter the valuation, all checks must be performed, including those that contradict the experts, with the involvement of the appropriate Investment Portfolio Management.

The approval of the Company's guidelines on April 9, 2014 made it necessary to conduct an audit of the situation, at December 31, 2013, regarding the determination of the estimated value in use of goodwill recorded in the financial statements and to take an impairment loss of about Euro 10.1 million related to the Credit Servicing, Agency and Poland cash-generating units. In particular, as more fully described in the explanatory notes, the significant reduction in the value in use estimated for these CGUs was due to the decrease in cash flows projected by management compared to the 2013-2016 Business Plan approved in 2013. The recoverable amounts were calculated based on the determination of the greater of fair value, less sales costs, and "value in use" with the exception of any assets that are expected to be sold in the short term for which the book value was brought in line with the estimated sales price, if lower.

With regard to the High street investment, note that this investment is periodically assessed with respect to the recoverability of the remaining financial receivable through the analysis of expected cash flows from closing the joint venture, which is possible when the disposal of the real estate assets has been completed. This measurement of recoverability is based on estimated cash flows deriving from future portfolio sales, which will depend on the actual realisation of sales within the prescribed terms; any different sales conditions are capable of significantly affecting the value of the receivable recorded in the financial statements.

6.8. Seasonality

Revenue is not particularly influenced by seasonal trends.

6.9. Information on the consolidated balance sheet and consolidated income statement

All figures are presented in thousands of euro, unless otherwise specified.

The following explanatory notes refer to the consolidated balance sheet and consolidated income statement found in sections 1 and 2.

ASSETS

Note 1. PROPERTY, PLANT AND EQUIPMENT

These amount to Euro 1,031 thousand, a net decrease of Euro 584 thousand since December 31, 2012, and are made up as follows:

	12.31.2013			12.31.2012		
	Historical cost	**Accumulated depreciation/ write-downs**	**Net value**	**Historical cost**	**Accumulated depreciation/ write-downs**	**Net value**
Buildings	970	(848)	122	1,000	(898)	102
Plant and machinery	1,428	(1,210)	218	1,716	(1,531)	185
Industrial and commercial equipment	116	(105)	11	282	(123)	159
Other assets, of which:	13,051	(12,371)	680	14,232	(13,063)	1,169
- vehicles	78	(78)	-	173	(173)	-
- furniture, office equipment and other	12,950	(12,293)	*657*	14,036	(12,890)	*1,146*
- works of art	23	-	*23*	23	-	*23*
Total	**15,565**	**(14,534)**	**1,031**	**17,230**	**(15,615)**	**1,615**

The following table shows changes in historical costs and accumulated depreciation in 2013:

Historical cost	12.31.2012	Change in consol. area/ other	Increases	Decreases	Discontinued operations	12.31.2013
Buildings	1,000	-	142	(172)	-	970
Plant and machinery	1,716	-	104	(392)	-	1,428
Industrial and commercial equipment	282	(181)	17	(2)	-	116
Other assets, of which:	14,232	(356)	469	(994)	(300)	13,051
- vehicles	173	-	-	(95)	-	78
- furniture, office equipment and other	14,036	(356)	469	(899)	(300)	*12,950*
- works of art	23	-	-	-	-	*23*
Total	**17,230**	**(537)**	**732**	**(1,560)**	**(300)**	**15,565**

Accumulated depreciation/write-downs	12.31.2012	Change in consol. area/ other	Depreciation/ Write-downs	Uses	Discontinued operations	12.31.2013
Buildings	(898)	-	(29)	79	-	(848)
Plant and machinery	(1,531)	-	(45)	366	-	(1,210)
Industrial and commercial equipment	(123)	44	(28)	2	-	(105)
Other assets, of which:	(13,063)	78	(340)	954	-	(12,371)
- vehicles	(173)	-	-	*95*	-	*(78)*
- furniture, office equipment and other	(12,890)	78	*(340)*	*859*	-	*(12,293)*
Total	**(15,615)**	**122**	**(442)**	**1,401**	**-**	**(14,534)**

Note 2. INTANGIBLE ASSETS

These amount to Euro 60,714 thousand, a net decrease of Euro 90,688 thousand over December 31, 2012.

	12.31.2012	Increases	Decreases	Write-downs	Amortisation	Discontinued operations	12.31.2013
Concessions, licences and trademark	5,384	-	-	(1,542)	(265)	-	3,577
Software	1,250	389	(72)	-	(715)	(100)	752
Goodwill	144,768	-	-	(10,089)	-	(78,294)	56,385
Total	**151,402**	**389**	**(72)**	**(11,631)**	**(980)**	**(78,394)**	**60,714**

Concessions

The impairment of Euro 1,542 thousand 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 valuation conducted by an independent expert, who determined the value of the concessions in a range defined through the discounting of future cash flows that presumably will be generated by using the latter, taking into consideration ongoing disputes with the Municipality of Milan concerning concessions for the management of parking areas: the assumptions forming the basis of the valuations therefore make provision for the cancellation of revenue from the management of street parking.

Goodwill

This item totalled Euro 56,385 thousand at December 31, 2013, an overall reduction of Euro 88,383 thousand, of which Euro 78,294 thousand was related to the impairment of goodwill related to the residential business unit of the German CGU, which was discontinued at December 31, 2013, and Euro 10,089 thousand was in relation to the impairment loss of all goodwill recorded in the Credit Servicing, Agency and Poland CGUs.

With regard to the impairment of the goodwill related to the residential business unit of the German CGU, the value of which in the previous year was deemed to be recoverable from an estimate of its value in use, such impairment was based on the decision to sell the business unit concerned for an amount of Euro 1. As described in the report on operations, the sale of the DGAG investment portfolio, to which the German service platform was nearly entirely dedicated, would have resulted in the loss of management contracts unlike what was specified in the 2013-2016 Business Plan. In the absence of different market alternatives that could replace this volume of operations, and after assessing alternative scenarios, the Group decided to move forward with the sale, even though it generated a large loss, but was able to transfer the platform dedicated to the portfolio consisting of 290 employees.

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

	12.31.2012	Discontinued operations	12.31.2013 Before impairment test	Impairment losses	12.31.2013
ITALY	**46,327**	**0**	**46,327**	**(6,832)**	**39,495**
Agency	5,815	0	5,815	(5,815)	0
Credit Servicing	1,017	0	1,017	(1,017)	0
Property	13,356	0	13,356	0	13,356
Fund management	26,139	0	26,139	0	26,139
GERMANY	**95,184**	**(78,294)**	**16,890**	**0**	**16,890**
			0	0	0
POLAND	**3,257**	**0**	**3,257**	**(3,257)**	**0**
Total	**144,768**	**(78,294)**	**66,474**	**(10,089)**	**56,385**

The recoverable amount is the greater of the value in use and the fair value less costs to sell. IAS 36 does not require both values to be estimated (both value in use and fair value less costs to sell). It is sufficient instead to ascertain that one of the two values is higher than the carrying amount of the unit or group of units to which the goodwill is allocated, provided that a reduction in value is not to be recognised. If there are corporate costs which cannot be reallocated to the individual CGUs, under the terms of IAS 36, the impairment test on goodwill must be carried out on two levels:

1. the first-level test ascertains the recoverability of the goodwill values allocated to the individual CGUs to which goodwill is allocated, where CGUs are defined as the smallest identifiable reporting unit that presents largely independent flows;
2. the second-level test ascertains the recoverability of the total goodwill recognised in the Group's consolidated financial statements, considering also corporate costs not allocated to the individual CGUs.

The first-level impairment test was carried out by comparing the value in use of the CGUs with their respective carrying amounts. The value in use is calculated as the present value of projections of reasonable and sustainable results capable of representing the best estimate that top management is capable of making. In particular the value is the sum of the present value of unlevered free cash flows expected over the period of the guidelines and the closing value, calculated projecting in perpetuity the cash flow expected at the end of three years.

The guidelines used as a basis for the valuation process were approved at the consolidated level by the parent company's Board of Directors and by the boards of directors of the various CGUs/legal entities.

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 estimate of the value in use of the cash-generating units, with the exception of the Poland CGU, for which it was deemed that the value of goodwill was not recoverable based on the decision reflected in the new guidelines to gradually disengage from this market (involving the elimination of expected cash flows in the plan period), was assigned to an independent external expert.

The expert found that the final results for 2013 were lower than those projected in the 2013-2016 Plan for all CGUs, except for those of the Fund Management CGU for which results for 2013 were over the budgeted amounts. This difference was largely due to: i) the execution of the extraordinary capital increase and financial restructuring that occurred later than projections in the 2013-2016 Plan; and ii) the deferral of business development expected for the second half of 2013 based on the Group's plan to relaunch its business.

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 in second half of 2014; Regulatory uncertainty; Real estate taxes
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	Contract renewals according to plan – Union Investment customer – Achievement of growth with new customers	

To eliminate the asymmetry of flows stated in the guidelines, which have a greater upside than downside, and despite the significant reduction in flows projected by management, the expert made further downward adjustments to the flows of all CGUs based on the contribution of the plan's projected revenue component related to components not under contract, or already in the negotiating stage, after eliminating future restructuring effects and improvements in efficiency that the accounting standard requires to exclude (IAS 36, paragraph 44).

The capital cost configuration used is the weighted average cost of capital (WACC) of the Prelios Group, calculated on the basis of the most recent market information. The cost of capital was estimated for domestic entities at 8.52% post-tax, while for the German CGU the lower country risk of Germany was taken into account (WACC = 7.29%).

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

- risk-free rate = 4.27% for Italy and 1.62% for Germany;
- beta = 1.357;
- market risk premium = 5%.

The cost of borrowing pre-tax was assumed to be 8.71% (= 6.32% post-tax). The normal financial structure was set at 54% for the debt component and 46% 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**	
	12.31.2012	**12.31.2013**	**12.31.2012**	**12.31.2013**
ITALY				
Agency	9.84%	8.52%	0.00%	0.00%
Credit Servicing	9.84%	8.52%	-1.00%	-1.00%
Property	9.84%	8.52%	0.00%	0.00%
Fund management	9.84%	8.52%	0.00%	0.00%
GERMANY	8.04%	7.29%	1.00%	0.00%

The growth rate (g) was assumed to be 0% for all CGUs except for the Credit Servicing CGU, for which a growth rate of negative 1% was assumed, which was in keeping with the long-term outlook for the business.

The following table shows the respective pre-tax discount rates:

Cash-Generating Unit	Pre-tax discount rate
ITALY	
Agency	12.77%
Credit Servicing	18.46%
Property	12.85%
Fund management	13.32%
GERMANY	10.28%

As a result of the reduction in flows expected in the 2014-2016 Guidelines and adjustments to flows made by the expert, the recoverable value is less than the carrying amount for the Credit Servicing and Agency CGUs. For the remaining CGUs the recoverable value is more than the associated carrying amount.

The table below presents a sensitivity analysis which indicates the increase in the discount rate (or the reduction in the growth rate g) which would cause each CGU to have a recoverable value equal to the carrying amount.

Cash-Generating Unit	Increase in post-tax discount rate	Decrease in growth rate g	Decrease in EBIT in plan
ITALY			
Agency	n/s	n/s	n/s
Credit Servicing	n/s	n/s	n/s
Property	4.31%	>5%	-37.95%
Fund management (SGR)	>5%	>5%	-48.42%
GERMANY	2.35%	2.84%	-24.76%

The asset-side, second-level impairment test was done by verifying that the recoverable value of assets was greater than their carrying amount. The overall enterprise value (services + investment) was calculated with the sum of the parts (SOTP) method adding together:

- (+) the enterprise value of the CGUs relating to the services business, each assessed separately;
- (+) the current value of other assets to which goodwill is not allocated (this value is supported by appraisals of independent experts);
- (-) the present value of holding costs;
- (-) the carrying amount of funds similar to debt.

The asset-side carrying amount is derived (for the sake of consistency) on the basis of:

- (+) the Group's equity;
- (-) first-level impairment loss;
- (+) net financial position determined using the carrying amount at December 31, 2013 (which includes the convertible bond);

- (+) the current value of minorities determined in accordance with the estimate of the legal entities' equity value.

Note 3. EQUITY INVESTMENTS

Equity investments in associates and joint ventures are accounted for using the equity method and amount to Euro 169,180 thousand, a net decrease of Euro 67,590 thousand since December 31, 2012.

Changes during the year are as follows:

	01.01.2013-12.31.2013				01.01.2012-12.31.2012			
	Total	associates	joint ventures	held for sale	Total	associates	joint ventures	held for sale
Beginning balance	**236,770**	**53,625**	**179,774**	**3,371**	**327,036**	**65,713**	**254,158**	**7165**
Acquisitions/contributions of capital and reserves/other	48,675	(33)	48,708	-	17,348	73	17,275	-
Portions of other components recorded under net equity	6,175	66	6,109	-	1,587	179	1,408	-
Distribution of dividends and reserves	-	-	-	-	(10,945)	(1,329)	(9,023)	(593)
Disposals and liquidations	(63)	(63)	-	-	(7,333)	(3,713)	(3,620)	-
Share of income/losses on investments	(112,463)	(10,536)	(101,927)	-	(147,186)	(7,286)	(139,900)	-
Assets held for sale	(43,835)	-	(43,835)	-	-	-	-	-
Fair value adjustment	(77)	-	-	(77)	(3,201)	-	-	(3,201)
(Increase)/Net decrease in financial receivables	24,175	(56)	24,231	-	63,787	(10)	63,797	-
Change in provisions for risks and expenses	9,823	(42)	9,865	-	(4,323)	(2)	(4,321)	-
Ending balance	**169,180**	**42,961**	**122,925**	**3,294**	**236,770**	**53,625**	**179,774**	**3,371**

The changes in the item under discussion are attributable mainly to the final result of the investees, a negative total of Euro 112,463 thousand, which was partially offset by capital contributions during the period and changes occurring in other components recognised directly in equity, in particular in the cash flow hedging reserve. The final result of the investees also includes a pro-rata net negative effect for the Prelios Group of Euro 78.2 million, deriving from property write-downs, and Euro 13.9 million, deriving from impairment on the NPL portfolios.

Pursuant to IFRS 5, the shares of equity investments in real estate companies that own the DGAG German residential portfolio to be sold in the future were reclassified under “Discontinued operations”. See Note 30 of the income statement for a more complete description.

The item “Net (increase)/decrease in financial receivables” includes in the period under discussion the decrease in net financial receivables owed by associates and joint ventures in relation to the portions of losses made by the same exceeding the carrying amounts of the investments.

Changes in provisions for risks and expenses include, where there is a legal or constructive obligation, provisions for making good the losses of associates and joint ventures in excess of their carrying amounts plus any financial receivables owed by such companies.

Note that the equity investments “held for sale” refer exclusively to the portion of the Olinda fund held by Prelios Netherlands B.V., since the Group believes that it will recover the related carrying amount, largely through a sales transaction. As such the same was measured at the lower of the carrying amount and fair value less costs to sell, represented by stock market prices.

Conversely, the locked-up portion of the Olinda fund held by Prelios Società di Gestione del Risparmio S.p.A. is still recognised in equity investments in associates and measured with the equity method by virtue of the significant influence exercised over the fund.

In accordance with the disclosure requirements of IAS 28 (associates) and IAS 31 (joint ventures), the balance sheet and operating data included at 100% in the consolidated financial statements of associates and joint ventures are summarised below.

	associates	**joint ventures**
Non-current assets	284,291	2,158,084
Current assets	538,726	2,503,538
Non-current liabilities	457,661	3,198,976
Current liabilities	26,652	1,149,097
Revenue from sales and services	56,207	1,595,749
Operating costs	(95,072)	(1,753,290)
Net income	(51,167)	(370,354)

Finally, it should be noted that there is a lien totalling Euro 52,992 thousand over shares in associates and joint ventures.

Note 4. OTHER FINANCIAL ASSETS

These amount to Euro 24,189 thousand, a net increase of Euro 7,612 thousand over December 31, 2012. They are broken down as follows:

	12.31.2013	12.31.2012
Available-for-sale financial assets measured at fair value in net equity	**11,994**	**12,931**
Closed-end real estate funds	11,245	11,921
Investments in other companies	749	1,010
Other financial assets measured at fair value	**11,123**	**-**
Bonds – junior notes	11,123	-
Other financial assets measured at amortised cost	**193**	**193**
Bonds – junior notes	193	193
Restricted deposits	**879**	**3,453**
Total	**24,189**	**16,577**

Fair value hierarchy

During 2013, 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, 2013:

	01.01.2012 - 12.31.2013	01.01.201 - 12.31.2012
Beginning balance	**11,921**	**15,272**
Increases	200	1,000
Decreases/Repayment of capital	(9)	(535)
Fair value adjustment	(867)	(3,827)
Gain on sale	-	11
Ending balance	**11,245**	**11,921**
of which:		
Cloe Office Fund	6,783	7,469
Tecla Office Fund	2,053	2,055
Enasarco One Fund	1,460	1,460
Federal Lombardy Real Estate Fund	949	937

The item was adjusted downwards by Euro 867 thousand to account for changes in the fair value of real estate fund units. This reduction was recognised in equity, because it was considered insignificant or temporary both for the portion in the period and the accumulated total as at December 31, 2013.

4.2 Investments in other companies

This item totalled Euro 749 thousand. The change from the previous period included Euro 219 thousand due to the adjustment to fair value of assets held for sale, and Euro 42 thousand due to the distribution of reserves by the companies concerned.

4.3 Other financial assets measured at fair value

At December 31, 2013 the item under review totalled Euro 11,123 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.

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 expected due to the deterioration of the overall macroeconomic situation.

4.4 Other financial assets measured at amortised cost

The amount of Euro 193 thousand refers to a deferred redemption amount related to the securitisation of a portfolio of non-performing loans of Cairoli Finance S.r.l..

4.5 Restricted deposits

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

This amount includes Euro 158 thousand for the balance at December 31, 2013 of the restricted current account held at Banca Intesa that was opened as a result of the debt restructuring agreements of Prelios S.p.A..

Note 5. DEFERRED TAX ASSETS AND DEFERRED TAX PROVISION

These are composed as follows:

	12.31.2013	12.31.2012
Deferred tax assets	11,070	24,325
Deferred tax provision	(1,723)	(2,495)
Total	**9,347**	**21,830**

Deferred and prepaid taxes are accounted for, when the conditions are met, taking into account offsetting between legal entities. The breakdown of the same before offsets are made is as follows:

	12.31.2013	12.31.2012
Deferred tax assets	16,089	27,108
Deferred tax provision	(6,742)	(5,278)
Total	**9,347**	**21,830**

In keeping with the preparation of new 2014-2016 Guidelines for the Prelios Group and approved business plans which report a negative taxable income for financial years 2014, 2015 and 2016, several companies have adjusted the recoverable value of prepaid taxes by applying a full write-down. This decision was supported by information obtained from the parent company Prelios S.p.A. which does not project the generation of sufficient taxable income from 2014 to 2016 to recover the amount of prepaid taxes, including as a part of the Group's tax consolidation scheme. Therefore management is not reasonably certain that there will be taxable income that is greater than the amount of differences to be eliminated.

The statement presented below details the change that occurred during financial year 2013 in the balance of deferred tax assets:

Description	12.31.2012	Provisions	Uses	Other changes	12.31.2013
Recoverable tax losses	3,882	472	(46)	-	4,308
Provision for future risks and expenses	7,226	1,290	(5,803)	(214)	2,499
Amortisation and depreciation	1,937	335	(311)	-	1,961
Closing cost of capital increase	341	-	(341)	1,757	1,757
Adjustment of fund units in portfolio and derivatives to fair value	1,830	-	(695)	67	1,202
Actuarial adjustment of staff funds	1,214	10	(18)	(132)	1,074
One-off incentives + LTI + Layoffs	1,857	546	(1,610)	209	1,002
Elimination of intra-group margins	742	-	(139)	-	603
Invoices to be received	301	403	(216)	(3)	485
Allowance for doubtful accounts	264	276	(264)	-	276
Legal expenses	538	189	(461)	(42)	224
Write-down of inventories	4,971	-	(4,971)	-	-
Completion costs	1,533	-	(1,533)	-	-
Other	472	723	(499)	2	698
Total	**27,108**	**4,244**	**(16,907)**	**1,644**	**16,089**

The column entitled "other changes" mainly includes prepaid taxes recognised as a balancing entry to equity amounts, related specifically to Euro 1,757 thousand in closing costs for the capital increase transaction.

The reduction in prepaid taxes at December 31, 2013 was mainly due to the failure to record these amounts with the investment companies in response to the preparation of the new 2014-2016 Guidelines of the Prelios Group and the approval of the related business plans, which for 2014, 2015 and 2016 report negative taxable income and insufficient taxable income, including under the tax consolidation scheme, to recover the amounts previously recorded in the financial statements.

The temporary differences giving rise to the deferred tax liabilities at December 31, 2013 are detailed in the table below:

Description	12.31.2012	Provisions	Uses	Other changes	12.31.2013
Amortisation of goodwill	4,580	80	(1,014)	-	3,646
Fund units in portfolio	-	2,499	-	(117)	2,382
Actuarial adjustment of staff funds	248	-	(3)	7	252
Other	450	55	(43)	-	462
TOTAL	**5,278**	**2,634**	**(1,060)**	**(110)**	**6,742**

In particular, in 2013 deferred taxes of Euro 169 thousand were absorbed with a balancing entry in equity in relation to aligning available-for-sale financial assets to fair value.

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

	12.31.2013
Unlimited losses – partially offsettable*	62,678
Unlimited losses **	14
Unlimited losses Pre Deutschland GmbH***	25,475
Tax consolidation losses – 2010/2011*	18,425
Tax consolidation losses – 2012*	34,301
Tax consolidation losses – 2013*	15,157
Total	**156,050**

* These refer to losses with no limit on being carried forward that are offsettable only up to 80% of income for each year.

** These refer to losses produced in the first three years with no limit on being carried forward and usable up to 100% of income.

*** Of which Euro 16,058 thousand related to Corporate Income Tax and Euro 9,417 thousand related to Trade Tax.

The decision was taken not to recognise prepaid taxes on most of the tax losses that can be carried forward, in part relating to periods prior to tax consolidation under the parent company Prelios S.p.A. and, therefore, recoverable by the respective legal entities that had generated them.

The unrecognised prepaid taxes for the above tax losses would amount to Euro 39,998 thousand (Euro 39,313 thousand at December 31, 2012).

Note 6. TRADE RECEIVABLES

Trade receivables totalled Euro 35,055 thousand, a reduction of Euro 28,836 thousand compared to December 31, 2012 due in part to lower service volume during the period being reviewed.

	12.31.2013			12.31.2012		
	Total	non-current	current	Total	non-current	current
Trade receivables from associates	2,375	-	2,375	1,970	-	1,970
Trade receivables from joint ventures and other Prelios Group companies	56,188	-	56,188	62,434	-	62,434
Trade receivables from other related parties	176	-	176	563	-	563
Trade receivables from third parties	20,432	-	20,432	23,924	-	23,924
Receivables for contracts	62	-	62	40	-	40
Total gross trade receivables	**79,233**	**-**	**79,233**	**88,931**	**-**	**88,931**
Allowance for doubtful accounts	(44,178)	-	(44,178)	(25,040)	-	(25,040)
Total	**35,055**	**0**	**35,055**	**63,891**	**0**	**63,891**

Trade receivables mainly refer to contracts for the provision of fund and asset management services (real estate and non-performing loans) and technical and commercial services.

Trade receivables from other related parties (Euro 176 thousand) mainly include the receivable from the sale of improvements made to the R&D building to Pirelli & C. S.p.A., the owner of the property concerned.

Out of total gross trade receivables of Euro 79,233 thousand (Euro 88,931 thousand at December 31, 2012), Euro 54,427 thousand are past due (Euro 57,882 thousand at December 31, 2012), of which Euro 40,035 thousand for more than a year, mainly relating to investment companies and funds in which the Group invests with qualified minority shares.

Against gross trade receivables, there are provisions for impairment of Euro 44,178 thousand (Euro 25,040 thousand at December 31, 2012), 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:

	12.31.2013	12.31.2012
Beginning balance	**25,040**	**44,735**
Provisions	22,869	2,893
Provisions as a reduction to revenue	2,951	1,351
Uses	(4,188)	(18,005)
Release of excess allowance	(173)	(103)
Changes in consolidation area/reclassifications/other	(2,321)	(5,831)
Ending balance	**44,178**	**25,040**

Following the difficult property market scenario already noted in previous years, liquidity tensions deriving from the substantial contraction of lending and the general slowdown in sales in relation to a number of initiatives in which the Group has taken part, it was considered appropriate, partly on the basis of the information received at times from customers, to write down certain positions, including those relating to investee entities and real estate funds, with a view to supporting investees in their efforts to continue as going concerns in the context of financial restructuring plans already formalised or at an advanced stage of negotiation with lenders and partners.

In particular, impairment of trade receivables amounted to Euro 25,288 thousand, recognised in the income statement under the item "Other Costs" (Note 25) which also includes write-downs and losses on sundry receivables amounting to Euro 5,631 thousand.

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

	12.31.2013	12.31.2012
allowance for doubtful accounts for trade receivables	22,869	2,893
losses on trade receivables	2,419	6,953
total impairment of trade receivables	**25,288**	**9,846**
provision to allowance for doubtful accounts for other receivables	5,631	496
losses on other receivables	-	250
total impairment on other receivables	**5,631**	**746**
Total impairment of receivables	**30,919**	**10,592**

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

Note 7. OTHER RECEIVABLES

These are broken down as follows:

	12.31.2013			12.31.2012		
	Total	non-current	current	Total	non-current	current
Other receivables from associates	26	-	26	10	-	10
Other receivables from joint ventures	7,413	10	7,403	4,671	10	4,661
Other receivables from other related parties	2,250	-	2,250	663	-	663
Sundry receivables	25,326	5,244	20,082	44,044	5,252	38,792
Accrued income and prepaid expenses, of which:	1,140	61	1,079	946	166	780
- in relation to other related parties	69	-	69	68	-	68
- in relation to joint ventures	72	-	72	25	-	25
- in relation to third parties	999	61	938	853	166	687
Financial receivables	110,779	110,665	114	208,327	208,151	176
Total other gross receivables	**146,934**	**115,980**	**30,954**	**258,661**	**213,579**	**45,082**
Allowance for doubtful accounts for other receivables, of which:	**(7,394)**	**-**	**(7,394)**	**(9,165)**	**-**	**(9,165)**
- from joint ventures	(2,418)	-	(2,418)	-	-	-
- from third parties	(4,976)	-	(4,976)	(9,165)	-	(9,165)
Total	**139,540**	**115,980**	**23,560**	**249,496**	**213,579**	**35,917**

In order to realign the par value to the presumed realisable value of other gross receivables of Euro 146,934 thousand (Euro 258,661 thousand at December 31, 2012), there were provisions for impairment of Euro 7,394 thousand (Euro 9,165 thousand at December 31, 2012), attributable mainly to receivables for the NPL portfolio which were written down in respect of reviews of the business plans concerned.

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

	12.31.2013	12.31.2012
Beginning balance	**9,165**	**38,363**
Provisions	5,631	496
Provisions as a reduction to revenue		
Uses	(7,466)	(28,187)
Reclassifications/other changes	64	(1,507)
Ending balance	**7,394**	**9,165**

The impairment of other receivables, totalling Euro 5,631 thousand, is recorded in the income statement under the item “Other costs” (Note 25), and was essentially due to the write-down of a number of positions, within the general context of liquidity tension which affected the property market, as described in more detail in the section on “Trade receivables” to which the reader is referred.

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

These amount to Euro 7,413 thousand (Euro 4,671 thousand at December 31, 2012) and mainly include receivables for dividends declared by and due from Inimm Due S.à.r.l. (Euro 834 thousand), and the remaining receivable owed to the parent company by Polish Investments Real Estate Holding II B.V. for the sale of 85% of the share capital of the Polish companies Coimpex Sp.z.o.o. and Relco Sp.z.o.o. (Euro 2,418 thousand, which was fully written down in 2013), and the receivable due to Prelios Società di Gestione del Risparmio S.p.A. for VAT paid in advance on behalf of the Hospitality and Leisure Fund (Euro 1,172 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, and the accrued rent payment on that building.

In addition, it should be noted that after the application was forwarded to the Italian Revenue Agency (Agenzia delle Entrate) on April 30, 2013 to request reimbursement of IRES due to the failure to deduct IRAP related to employee and similar expenses, several Group companies recorded a receivable related to financial years 2007, 2008 and 2009 that was subsequently collected in March 2014 for a total amount of Euro 600 thousand paid by Pirelli & C. S.p.A. since the companies concerned belonged to the tax consolidation scheme pursuant to Articles 117 *et seq.* of the Italian Income Tax Act in which Pirelli & C. S.p.A. acted as consolidating company.

Sundry receivables

These amount to Euro 25,326 thousand compared with Euro 44,044 thousand at December 31, 2012.

	12.31.2013			12.31.2012		
	Total	non-current	current	Total	non-current	current
Sundry receivables, of which:						
- Advances	5,338	4,987	351	5,489	4,987	502
- Receivables in NPL portfolio	4,168	-	4,168	7,157	-	7,157
- Other tax receivables	1,869	221	1,648	5,944	221	5,723
- Receivables from social security institutions	1,525	-	1,525	1,588	-	1,588
- Other sundry receivables	12,426	36	12,390	23,866	44	23,822
Total	**25,326**	**5,244**	**20,082**	**44,044**	**5,252**	**38,792**

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. In particular the item comprises mortgage-backed and unsecured loans purchased by CFT Finanziaria S.p.A. (which incorporated Vindex S.r.l.) mostly from Banca Popolare di Intra and Banca Antonveneta.

An allowance for doubtful accounts of Euro 4,168 thousand (Euro 4,075 thousand at December 31, 2012) was set up for the receivables for the NPL portfolio, thereby eliminating the net amount at December 31, 2013.

Other tax receivables relate to the positions of companies consolidated line by line which do not file for VAT on a Group basis, and to receivables for other indirect taxes.

In this regard, it should be noted that for tax year 2013, Prelios S.p.A., acting as parent company, and its subsidiaries, have elected to make an independent Group VAT tax settlement, in accordance with the Ministerial Decree of December 13, 1979.

Other sundry receivables include, *inter alia*, Euro 7,254 thousand for the indemnity payable to parent company Prelios S.p.A. in relation to certain legal disputes primarily concerning maintenance and services provided to buildings managed on behalf of Inpdap, against which a payable of Euro 5,906 thousand has been recognised, as better described in Note 17 “Other payables”, to which the reader is referred.

Other sundry receivables also include Euro 1,287 thousand owed to the Group by certain directors and employees for CONSOB penalties applied by the Issuers Division and the Intermediaries Division following an investigation and related proceedings against Prelios S.p.A. and its subsidiary Prelios Società di Gestione del Risparmio S.p.A. in relation to the tender offer made in 2007 by Gamma RE B.V., a company 49% owned by the Prelios Group and 51% by Morgan Stanley, for units in the Tecla and Berenice funds, both managed by Prelios Società di Gestione del Risparmio S.p.A..

After the outcome of the appeal presented to the Appeals Court, which in any case cancelled some of the penalties applied, the case has been taken to the Supreme Court.

On April 5, 2012, as a result of the investigations performed, the Bank of Italy notified the members of the then Board of Directors, Board of Statutory Auditors and former General Manager of Prelios Società di Gestione del Risparmio S.p.A. of administrative and pecuniary penalties totalling Euro 150 thousand that the company paid with the obligation of exercising recourse against the sanctioned parties. As at December 31, 2013, the Group is due a residual receivable of Euro 15 thousand from said parties.

Financial receivables

At December 31, 2013 non-current financial receivables amounted to Euro 110,779 thousand, marking a net decrease of Euro 97,548 thousand since December 31, 2012, while current financial receivables amounted to Euro 114 thousand. These are broken down as follows:

	12.31.2013			12.31.2012		
	Total	**non-current**	**current**	**Total**	**non-current**	**current**
Receivables from associates	631	631	-	578	578	-
Receivables from joint ventures	110,148	110,034	114	207,693	207,517	176
Receivables from others	-	-	-	56	56	-
Total	**110,779**	**110,665**	**114**	**208,327**	**208,151**	**176**

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 2013 are as follows:

	12.31.2012	**Increases**	**Decreases**	**Offset of provision for risks on investments**	**Discontinued operations**	**12.31.2013**
Financial receivables from associates	578	1	(4)	56	-	631
Financial receivables from joint ventures	207,517	24,998	(52,520)	(24,231)	(45,730)	110,034
Financial receivables from others	56	1	(57)	-	-	-
Total	**208,151**	**25,000**	**(52,581)**	**(24,175)**	**(45,730)**	**110,665**

The increase in receivables from joint ventures included Euro 10,889 thousand for new loans, and in particular loans to Manifatture Milano S.p.A. (Euro 3,250 thousand), Polish Investments Real Estate Holding II B.V. (Euro 2,911 thousand), Gamma RE B.V. (Euro 1,063 thousand) and SIG RE B.V. (Euro 920 thousand) and the capitalisation of interest accrued during the period as well as the impact of discounting interest-free shareholder loans.

In particular, during the year under review, the discounting to the present value of interest-free shareholder loans involved an increase in receivables of Euro 5,319 thousand.

The decrease in *receivables from joint ventures* was largely due to the waiver of shareholder loans totalling Euro 33,538 thousand, and specifically those to Espelha - Serviços de Consultadoria Lda (Euro 24,935 thousand), Manifatture Milano S.p.A. (Euro 5,000 thousand) and Trixia S.r.l. (Euro 3,600 thousand) and Euro 14,598 thousand due to the repayment of outstanding shareholder loans, of which Euro 13,226 thousand was repaid by Espelha - Serviços de Consultadoria L.d.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.

The column entitled "Discontinued operations" includes a portion of the financial receivable from the joint ventures Solaia RE B.V. and Jamesmail B.V., which, on the basis of agreements signed for the sale of the DGAG portfolio, will be repaid upon the completion of the transaction; this amount was therefore reclassified under "Discontinued operations" in accordance with IAS (IFRS 5).

Note 8. TAX RECEIVABLES

These amount to a total of Euro 6,453 thousand, compared with Euro 8,465 thousand at December 31, 2012.

These comprise:

		12.31.2013			12.31.2012	
	Total	non-current	current	Total	non-current	current
Income tax receivables	4,961	-	4,961	6,973	-	6,973
Other receivables from third parties for tax consolidation	1,492	-	1,492	1,492	-	1,492
Total	**6,453**	**0**	**6,453**	**8,465**	**0**	**8,465**

Income tax receivables

These relate to income taxes of companies consolidated on a line-by-line basis that have not opted to file for income tax on a Group basis, or to taxes of companies in the tax group that arose before joining the tax Group.

Other receivables from third parties for tax consolidation

This item refers to the receivable owed to Prelios Credit Servicing S.p.A. by its previous parent company Fonspa S.p.A. for electing tax consolidation.

Note 9. INVENTORIES

	12.31.2013	12.31.2012
Trading properties held for sale	18,620	24,050
Land for development	22,551	23,044
Properties under construction/renovation	7,235	7,285
Total	**48,406**	**54,379**

Trading properties held for sale

These amount to Euro 18,620 thousand, a net decrease of Euro 5,430 thousand compared with December 31, 2012, Euro 3,760 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, 2013 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 totals Euro 22,551 thousand, essentially in line with the final figure as at December 31, 2012. In the period under review, said properties were written down for a total of Euro 73 thousand, in respect of the lower presumed realisable value.

Properties under construction/renovation

These total Euro 7,235 thousand, a net decrease of Euro 50 thousand compared to December 31, 2012. Of this net amount, Euro 480 thousand was due to net write-downs made primarily as a result of costs incurred for the design and upgrading of certain attics, the improvement of which, given the difficulties encountered with project timing, was deemed unlikely.

The inventories mainly refer to properties under renovation in the Bicocca area of Milan (Euro 3,856 thousand) and to a property located in Magdeburg in Germany (Euro 2,545 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:

	12.31.2013	**12.31.2012**
Bank and post office current accounts	85,534	43,872
Cheques	-	710
Cash and cash equivalents in hand	75	508
Total	**85,609**	**45,090**

Current bank and post office accounts include current accounts held with leading banks and lenders with a high credit rating and time deposits that can be redeemed upon demand of the account holder within 7 business days. Cash held in bank current accounts accrues interest at the rates agreed, from time to time, with the banking system.

An amount of Euro 570 thousand was reclassified under “Discontinued operations” since it is related to bank current accounts held by a part of the Prelios Deutschland GmbH platform (a 100% subsidiary of Prelios S.p.A.) that will be transferred as a part of the transaction to sell portions of the real estate companies that own the DGAG German residential portfolio.

EQUITY

GROUP EQUITY

Note 11. SHARE CAPITAL

In compliance with the resolution of the extraordinary shareholders' meeting of Prelios S.p.A. on April 17, 2012, and pursuant to Articles 2328 and 2346 of the Italian Civil Code, the par value of the shares was eliminated.

In addition, due to the results for the 2012 financial year, which recorded losses exceeding one third of share capital, the extraordinary shareholders' meeting, held on May 8, 2013 approved the reduction of share capital due to losses pursuant to Article 2446 of the Italian Civil Code which, therefore, fell to Euro 4,881,622.50. The same shareholders' meeting also approved the reverse stock split of ordinary shares according to the ratio of 1 new ordinary share for every 10 shares held, following the cancellation of 1,171,777 treasury shares held by Prelios S.p.A..

On August 27, 2013 an entry was made in the appropriate Company Register for the change in the share capital of Prelios S.p.A. following the completion of capital increases on a reserved basis or by option pursuant to the shareholder resolution of May 8, 2013. Thus, on that date, the share capital of Prelios S.p.A. was Euro 189,896,923.40, fully subscribed and paid up, and broken down into 277,195,887 ordinary shares with no par value, and 117,597,496 Category B shares, which have no par value and are not to be listed.

At December 31, 2013, share capital was reported net of 1,788 treasury shares in the Group's portfolio, as required by IAS 32, and totalled Euro 189,887,983.40.

Following the loss of Euro 332,838 thousand reported in 2013, the Group's equity at December 31, 2013 was a negative figure of Euro 69,113 thousand compared to a positive Euro 74,178 thousand at December 31, 2012. Thus, this situation triggered the automatic conversion of the entire bond with mandatory conversion recorded in the financial statements at December 31, 2013 by the parent company for an amount of Euro 235.9 million. As a result of this conversion, the reported loss would not invoke the situation specified in Article 2447 of the Italian Civil Code, but instead that contained in the first paragraph of Article 2446 of the Italian Civil Code. See the call of the shareholders' meeting for appropriate measures for additional details.

LTI/Stock option plans

The Group does not have any active LTI/Stock option plans as at December 31, 2013.

Note 12. OTHER RESERVES

Other reserves had an overall negative total of Euro 14,529 thousand compared to a negative figure of Euro 18,258 thousand at December 31, 2012.

Information is provided below on the changes that occurred during the course of 2013 with regards to other components recognised in equity.

	Conversion reserve	Reserve for fair value measurement of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gains/losses	Tax reserve related to entries credited/debited to net equity	**Net equity of the Group**	**Net equity of third parties**	**Total**
- Fair value measurement of available-for-sale financial assets	-	(780)	-	-	215	(565)	(63)	(628)
Prelios share of other components of comprehensive income relating to associates and joint ventures	(3,554)	-	10,065	191	(527)	6,175	-	6,175
- currency translation reserve	(94)	-	-	-	-	(94)	-	(94)
Total other components recorded under net equity	**(3,648)**	**(780)**	**10,065**	**718**	**(470)**	**5,885**	**(63)**	**5,822**

Reserve for fair value measurement of available-for-sale financial assets

This negative amount of Euro 5,191 thousand, before tax, classified in a separate reserve, was recognised for the fair value measurement of available-for-sale financial assets, which mainly compromise units held in real estate investment funds.

Impairment was recorded for these units in 2013, reflected in a decrease in the reserve of Euro 780 thousand.

Cash flow hedge reserve

This reserve, a negative Euro 168 thousand, includes the effective portion of profits and losses deriving from the fair value adjustment of derivative instruments designated to hedge exposure to variability in the cash flows from assets or liabilities recorded in the financial statements ("cash flow hedge").

During the course of 2013, this reserve recorded an increase of Euro 10,065 thousand for the fair value measurement of existing cash flow hedges held by associates and joint ventures.

Reserve for actuarial gains/(losses)

This reserve shows a negative balance of Euro 1,111 thousand 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 4,223 thousand and reflects the tax effect of items credited/debited directly to equity.

Note 13. RETAINED EARNINGS/(LOSSES)

This item totalled Euro 88,366 thousand, a net decrease of Euro 27,521 thousand compared to December 31, 2012, essentially due to the allocation of the result for 2012.

Note 14. MINORITY INTERESTS

Minority interests totalled Euro 2,778 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.

Minority interests were down by Euro 3,435 thousand compared with December 31, 2012 mainly due to the parent company's purchase of 20% of Prelios Credit Servicing S.p.A., in which it already held an 80% interest, and the loss for the period of Euro 1,031 thousand.

LIABILITIES

Note 15. BANK BORROWINGS AND PAYABLES TO OTHER LENDERS

Bank borrowings and payables to other lenders are analysed as follows:

	12.31.2013				12.31.2012		
	Total	**non-current**	**current**	**non-current liabilities related to discontinued operations**	**Total**	**non-current**	**current**
Bank borrowings	229,989	229,141	848	-	387,568	262,977	124,591
Financial payables to other related parties	-	-	-	-	170,863	157,357	13,506
Convertible bond	235,902	235,902	-	-	-	-	-
Other financial payables	1,524	628	1,466	(570)	2,684	627	2,057
Payables to other lenders	98	-	98	-	98	-	98
Financial payables to joint ventures	6,576	-	6,576	-	4,519	32	4,487
Total	**474,089**	**465,671**	**8,988**	**(570)**	**565,732**	**420,993**	**144,739**

It should be noted that Euro 149,876 thousand of the convertible bond was owed to related parties.

At December 31, 2013 and December 31, 2012, the breakdown of payables by interest rate and original currency is as follows:

12.31.2013	Total	Fixed rate		Floating rate	
Original currency: euro					
Current payables	8,988	1,674	18.6%	7,314	81.4%
Non-current payables	465,101	460,661	99.0%	4,440	1.0%
Total	**474,089**	**462,335**	**97.5%**	**11,754**	**2.5%**

12.31.2012	Total	Fixed rate		Floating rate	
Original currency: euro					
Current payables	144,739	5,593	3.9%	139,146	96.1%
Non-current payables	420,993	170,627	40.5%	250,366	59.5%
Total	**565,732**	**176,220**	**31.1%**	**389,512**	**68.9%**

The amount of fixed-rate debt indicated above includes debt that was contractually set at a fixed rate and debt, relating only to the comparison period of 2012, contractually set at a floating rate.

There was no exposure to interest rate fluctuations at December 31, 2013 in view of the natural hedge provided by floating-rate financial receivables (Euro 186,145 thousand before the offset against portions of losses realised by associates and joint ventures in excess of the carrying amount of the investments).

It should be noted that 39% (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 229,989 thousand at December 31, 2013, marking a decrease of Euro 157,579 thousand compared to December 31, 2012.

The item is broken down as follows:

	12.31.2013			12.31.2012		
	Total	non-current	current	Total	non-current	current
Non-recourse loans	5,178	4,440	738	5,874	5,180	694
Fixed-term credit facilities – Senior and Super Senior loans and current accounts	224,811	224,701	110	381,694	257,797	123,897
Total	**229,989**	**229,141**	**848**	**387,568**	**262,977**	**124,591**

Non-recourse loans

The item refers to the loan granted by Banca Intesa Mediocredito S.p.A. to Parcheggi Bicocca S.p.A..

Fixed-term credit facilities – Senior and Super Senior loans and current accounts

This item refers to the balance at December 31, 2013 of Senior and Super Senior loans provided to Prelios S.p.A. by leading Italian banks forming a part of the "Club Deal" syndicate.

With the conclusion of the capital increase transaction, the restructuring debt agreement went into effect by the recovery plan established in accordance with Article 67 of the Bankruptcy Law and signed on May 7, 2013 between Prelios S.p.A., the lending banks and Pirelli & C. S.p.A. Thus, effective January 1, 2013, the debt to lending banks, which had a par value of Euro 387,474 thousand, was converted into:

- Share capital (Euro 48,065 thousand);
- Tranche A of the convertible bond (Euro 85,162 thousand);
- Senior loan (Euro 200,000 thousand);
- Super Senior loan (Euro 50,000 thousand).

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, 2013 the carrying amount of financial liabilities was recognised at amortised cost.

The remaining debt of Euro 4,247 thousand was repaid.

Both credit facilities are non-current in nature: the Senior loan matures on December 31, 2018, but there is a provision requiring prepayment in an amount equal to 65% of funds received from the sale of real estate assets, and the Super Senior loan matures on December 31, 2017.

Note that the interest accrued on the Senior loan from January 1 to December 31, 2013 was classified under non-current payables since the Senior loan specifies that interest must be capitalised with repayment after the loan's maturity. On the other hand, interest on the Super Senior loan is paid semi-annually; the interest accrued during the year (Euro 2,028 thousand) was paid on December 31, 2013.

Both of these loans do not have financial covenants.

On June 26, 2013 the revolving loan agreement, arranged with Banca Intesa on December 28, 2011 and available up to Euro 20 million under certain conditions, became due. During the 18-month life of the agreement, the loan facility was never used by Prelios S.p.A..

Financial payables to other related parties

With regard to the debt restructuring process completed in August, including the partial conversion to share capital and the convertible bond, the outstanding debt with Pirelli & C. S.p.A. at December 31, 2012 was converted to share capital in the amount of Euro 21,523 thousand and into equity share instruments in the form of a convertible bond totalling Euro

148,372 thousand as more fully described under “Convertible bond”, which should be referenced.

Convertible bond

This item refers to the balance at December 31, 2013 of the bond with mandatory conversion subscribed by Pirelli & C. S.p.A. and lending banks following the capital increase for a total of Euro 233,534 thousand.

The bond is broken down into two tranches:

- Tranche A (71.1% of the total) is reserved for lending banks and Pirelli S.p.A. and provides the right to conversion to ordinary shares;

- Tranche B (28.9% of the total) is reserved for Pirelli & C. S.p.A. and provides the right to conversion to Class B shares.

The bond regulations, which were approved by the Board of Directors on June 10, set the bond's term at December 31, 2019, subject to an extension of a further three years and to the occurrence of specific trigger events required for the purposes of a possible early conversion. Accrued interest on the bond is capitalised and is payable at maturity at an all-in rate of 1%.

Other financial payables

“Other current financial payables” include Euro 1,419 thousand attributable to the management of real estate contracts carried out for third parties, almost entirely offset by dedicated current accounts included under the item “Cash and cash equivalents”.

The reduction compared to December 31, 2012 includes Euro 674 thousand for the repayment of several amounts received by Prelios Credit Servicing S.p.A., and especially for the management of NPL contracts for third parties.

Financial payables to joint ventures

This item, totalling Euro 6,576 thousand, includes remaining debit balances in intercompany current accounts and several financial payables of the parent company for obligations to make capital contributions to the investee companies Aree Urbane S.r.l. (in liquidation) in the amount of Euro 4,892 thousand, and Solaia RE S.à.r.l. in the amount of Euro 634 thousand.

At December 31, 2012 this item also included the parent company's payable in relation to the obligation to subscribe (through the investee companies Afrodite S.à.r.l. and Artemide S.à.r.l.) units in the Diomira Residential Fund, and the payable of the subsidiary Prelios Netherlands B.V. related to the obligation to subscribe units in the Vivaldi Fund, both of which were settled at the reporting date.

Note 16. TRADE PAYABLES

These comprise:

	12.31.2013			12.31.2012		
	Total	non-current	current	Total	non-current	current
Trade payables to associates	1,182	-	1,182	1,091	-	1,091
Trade payables to joint ventures and other Prelios Group companies	1,991	-	1,991	2,481	-	2,481
Trade payables to other related parties	547	-	547	130	-	130
Trade payables to third parties	44,396	-	44,396	45,673	-	45,673
Total	**48,116**	**0**	**48,116**	**49,375**	**0**	**49,375**

At December 31, 2013, 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 3.2 million at December 31, 2013 (Euro 1.1 million at December 31, 2012).

Trade payables to associates

These amount to Euro 1,182 thousand and are almost entirely attributable to payables to Progetto Corsico S.r.l. and Olinda Fondo Shops, as the allottees, for site development charges and the relative accessory costs, for an area located in the Municipality of Corsico and an area in the Bicocca zone, respectively.

Trade payables to joint ventures and other Prelios Group companies

These largely refer to chargebacks of various types made by joint ventures and other Prelios Group companies, mainly in relation to lease payments, site development charges and ancillary costs.

This item totalled Euro 1,991 thousand, reflecting a decrease of Euro 490 thousand.

Trade payables to other related parties

These amount to Euro 547 thousand, an increase of Euro 417 thousand over the final figure reported at December 31, 2012.

These mainly refer to the payable to Pirelli Tyre for the chargeback for utilities and expenses of the R&D building, and for the purchase of furnishings and systems for the same building. They also include payables for sanitary services provided by Poliambulatorio Bicocca S.r.l..

Trade payables to third parties

These amount to Euro 44,396 thousand, marking a decrease of Euro 1,277 thousand since December 31, 2012, mostly due to lower percentage completion volumes and the maintenance of contracts managed by the Group.

The item includes Euro 3,305 thousand in *trade payables to customers for contracts* (Euro 2,544 thousand as at December 31, 2012), generated by advances above the percentage completion relating to contracts with Lambda S.r.l. for site development initiatives in Bicocca and Pioltello.

In particular, the costs incurred and the related margins on these contracts amounted to Euro 16,601 thousand at December 31, 2013 (Euro 16,672 thousand at December 31, 2012), while advances received against invoices for percentage completion totalled 19,906 thousand (Euro 19,216 thousand at December 31, 2012).

Note 17. OTHER PAYABLES

These comprise:

	12.31.2013				12.31.2012		
	Total	**non-current**	**current**	**liabilities related to discontinued operations**	**Total**	**non-current**	**current**
Other payables to associates	2,159	-	2,159	-	2,163	-	2,163
Other payables to joint ventures and other Prelios Group companies	16,587	-	16,587	-	18,476	-	18,476
Other payables to third parties, of which:	33,001	523	33,306	(828)	39,773	528	39,245
- damages payable	*5,906*	-	5,906	-	*7,354*	-	7,354
- payables to employees	*4,198*	-	*4,861*	*(663)*	*5,605*	-	*5,605*
- other tax payables	*3,362*	-	*3,527*	*(165)*	*7,331*	-	*7,331*
- payables to social security institutions	*2,011*	-	*2,011*	-	*2,430*	-	*2,430*
- other sundry payables	*17,524*	*523*	*17,001*	-	*17,053*	*528*	*16,525*
Accrued liabilities and deferred income	*1,697*	*392*	*1,305*	-	4,624	*448*	*4,176*
Total	**53,444**	**915**	**53,357**	**(828)**	**65,036**	**976**	**64,060**

Other payables to associates

The payable, due entirely to Olinda Fondo Shops (as the allottee of the Bicocca area), refers to the amount collected from Iniziative Immobiliari 3 S.r.l., as provided for in the contract, for site development works in the area owned by said allottee.

Other payables to joint ventures and other Prelios Group companies

These refer mainly to a payable due to a German subsidiary originating from a “profit and loss agreement” active up until 2007, on the basis of which the associating party had the right to receive income generated by the associated party and, on the other hand, the obligation of covering any losses deriving from it, as well as a payable for expenses relating to the sale of investment units made in the past. Based on the agreements and shareholder agreements with the majority shareholder in the real estate joint ventures involved, the receivables concerning the items in question also relate exclusively to Prelios.

At December 31, 2012 this item also included an amount of Euro 1,987 thousand corresponding to the amount to be paid to Espelha – Serviços de Consultadoria Lda for the sale of Class C junior notes in September 2012. This payable, together with accrued interest for the year, was repaid in December 2013 through an offset with the balance of a Prelios S.p.A. financial receivable from the joint venture.

Other payables to third parties

Damages payable includes the residual liability of Edilnord Gestioni S.r.l. (in liquidation) for damages payable to Inpdap in relation to legal action over the management of certain contracts (Euro 5,906 thousand). These expenses are guaranteed by the previous company shareholder and are, therefore, essentially offset by receivables classified in the item “Other receivables”.

Payables to employees mostly refer to provisions for unused holiday entitlement and deferred salaries. It also includes contractualised liabilities for the restructuring plans being implemented.

Other tax payables relate to the VAT positions of companies consolidated on a line-by-line basis which do not file for this tax on a Group basis, and to payables for other indirect taxes.

Social security payables relate to the amount owed by the Group to social security institutions. The item includes Euro 1,577 thousand owed to the Italian social security authorities (INPS) and Euro 434 thousand to Italy's industrial accident agency (INAIL) and other welfare agencies, in relation to contributions accrued that will be paid on the respective maturity dates.

Payables to directors and the Supervisory Board included under other sundry payables amount to Euro 1,780 thousand (in comparison to Euro 614 thousand at December 31, 2012), while payables to Statutory Auditors total Euro 542 thousand (Euro 586 thousand at December 31, 2012).

The item “*other sundry payables*” includes, *inter alia*, a Prelios S.p.A. payable of Euro 9,975 thousand (amount unchanged with respect to the previous year) deriving from deferred contractual charges in relation to the sales of investment units which occurred in the past.

Accrued liabilities and deferred income

Deferred income includes Euro 1,080 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 71,884 thousand (of which the non-current portion was Euro 39,269 thousand) compared with Euro 53,682 thousand at December 31, 2012 (of which the non-current portion was Euro 24,905 thousand).

	12.31.2013			12.31.2012		
	Total	non-current	current	Total	non-current	current
Provision for future expenses for contractual commitments	33,062	28,184	4,878	21,968	16,633	5,335
Provision for arbitration, lawsuits and outstanding disputes	14,475	7,538	6,937	10,466	6,560	3,906
Provision for guarantees	2,154	1,748	406	355	30	325
Provisions for other risks	2,485	559	1,926	5,150	567	4,583
Restructuring provision	7,085	1,240	5,845	12,935	1,115	11,820
Provision for future risks on equity-accounted investments	12,623	-	12,623	2,808	-	2,808
Total	**71,884**	**39,269**	**32,615**	**53,682**	**24,905**	**28,777**

The changes which occurred in 2013 are as follows:

	12.31.2012	Decrease in financial receivables	Change in consol. area/other	Changes		liabilities related to discontinued operations	12.31.2013
				Increase	Decrease		
Provision for future expenses for contractual commitments	21,968	-	(540)	14,995	(3,361)	-	33,062
Provision for arbitration, lawsuits and outstanding disputes	10,466	-	-	7,303	(3,294)	-	14,475
Provision for guarantees	355	-	-	1,870	(71)	-	2,154
Provisions for other risks	5,150	-	(7)	136	(2,794)	-	2,485
Restructuring provision	12,935	-	-	3,855	(9,705)	-	7,085
Provision for future risks on equity-accounted investments	2,808	(24,175)	-	36,806	(2,808)	(8)	12,623
TOTAL	**53,682**	**(24,175)**	**(547)**	**64,965**	**(22,033)**	**(8)**	**71,884**

Provision for future expenses for contractual commitments

This provision includes, *inter alia*, Euro 11,931 thousand of which Euro 3,805 thousand accrued in 2013, concerning the provision for expenses set aside by subsidiary Geolidro S.p.A. in relation to contractual commitments to perform extraordinary maintenance works on properties sold, as well as Euro 2,529 thousand for future expenses in relation to the transfer of the Milan office and early termination of the rental contract for the HQ2 building. During the year, this provision was adjusted in the amount of Euro 1,293 thousand to reflect projected trends in the inflation index, the reduction of which will result in a higher expense for the Group, and the provision was used to cover supplemental fees paid during the year of Euro 584 thousand.

It should also be noted that the provision for future risks created in 2011 to cover the possible expenses payable by Prelios S.p.A. in relation to the sale of La Rinascente S.r.l. was used in the amount of Euro 439 thousand to cover the payment made in July to the company's purchaser, and the remaining Euro 877 thousand was released.

Finally, during the year several provisions for future risks were released. These were created in previous years to cover lawsuits that were either settled with a favourable outcome for the Group, or the associated risk of the Group losing was no longer considered likely by outside counsel in the disputes.

The item also includes Euro 17,000 thousand for the estimated costs that subsidiary Lambda S.r.l. could incur for certain site development work commitments. In particular, the item includes Euro 2,511 thousand in liabilities estimated by the company for the construction of the crèche/nursery school. The provision was used for the percentage completion of work in 2013, amounting to Euro 96 thousand. The amount of Euro 13,190 thousand, including Euro 9,000 thousand accrued in 2013, was in relation to expenses incurred to cover commitments undertaken with the Municipality of Milan to build several parking facilities in the Bicocca area. The provision also includes Euro 1,099 thousand for the prudential estimate of some site development commitments assumed by the Company in the past concerning areas sold in previous years, and expenses linked to the rebranding of franchises.

Provision for arbitration, lawsuits and outstanding disputes

This provision reflects the best estimate of probable risks from a number of ongoing disputes with customers, as well as provisions against specific risks relating to litigation with employees.

This provision also includes, where the conditions are met, the best estimate of probable charges deriving from assessment notices received by Prelios Group companies after tax inspections.

The increase during the period was for an allocation of Euro 3,000 thousand made by Prelios S.p.A. for expenses that the Company is likely to incur in relation to an agreement terminated in the past as more fully described in the section “Legal risks related to civil and administrative disputes” in the directors' report on operations. In addition, the increase includes about Euro 2,482 thousand for the establishment of a specific provision for future risks by Centrale Immobiliare S.p.A. in relation to the outcome of a preliminary technical assessment received concerning the request for damages from alleged construction defects at certain properties with this amount considered to represent the amount of the probable liability. This dispute involves a real estate development carried out by the Company that acted as the seller of newly built real estate units.

Provisions for guarantees

This amount is mainly attributable to provisions for risks connected to guarantees issued to Iniziative Retail S.r.l. for the real estate 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 mainly includes a potential tax risk as a result of changes to the legislation regarding the sales of investments in German companies in the Mistral Group, and provisions in relation to risks of payments to be made, in application of the tax consolidation regulations (previously in the name of Pirelli & C. S.p.A.) due to changes in the scope of reference.

Restructuring provision

This refers to restructuring costs, in relation to internal reorganisation plans, already approved and being implemented by a number of Group companies to address the new scenario in the real estate sector, with the aim of simplifying organisational levels and reducing operating costs by downsizing the workforce and simplifying corporate structures. The provision also includes costs of contracts for consideration relating to the Group's offices.

Provision for risks on equity-accounted investments

The provision for risks on equity-accounted investments reflects provisions against legal or constructive obligations to cover losses of associates or joint ventures that exceed their carrying amount plus the amount of any financial receivables owed by them.

Note 19. EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations amount to Euro 10,255 thousand, a net decrease of Euro 2,313 thousand compared with December 31, 2012. The item is broken down as follows:

	12.31.2013	12.31.2012
Provision for employee severance indemnity	3,269	3,932
Pension funds	6,372	7,800
Other employee benefits	614	836
Total	**10,255**	**12,568**

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, 2013.

Changes in the provision for employee severance indemnity as at December 31, 2013 and the previous year are set out below:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Beginning balance	**3,932**	**3,892**
Accrued portion allocated to income statement	148	208
Accrued portion allocated to curtailment income statement	-	(29)
Equity adjustment for actuarial gains/losses	(60)	596
Employee severance indemnity advances	(86)	(60)
Benefits paid	(629)	(618)
Other changes	(36)	(57)
Ending balance	**3,269**	**3,932**

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 25).

Pension funds

These are defined-benefit plans, mainly relating to German service companies.

Changes in pension funds at December 31, 2013 and in the previous year are set out below:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Beginning balance	**7,800**	**6,100**
Accrued portion allocated to income statement	181	296
Equity adjustment for actuarial gains/losses	(467)	1,553
Benefits paid	(829)	(310)
Liabilities held for sale	(956)	-
Other changes	643	161
Ending balance	**6,372**	**7,800**

The amounts recognised in the income statement are included in the item “Personnel costs” (Note 25).

Other employee benefits

“Other employee benefits” include Euro 20 thousand relating to the Altersteilzeit fund, a mechanism commonly adopted in Germany to agree early retirement for employees who have reached the age of 55.

Other employee benefits also include length-of-service bonuses and loyalty bonuses totalling Euro 594 thousand.

This item is reported net of Euro 51 thousand reclassified under Liabilities held for sale. See Note 30 for more information on this item.

The amounts recognised in the income statement are included in the item “Personnel costs” (Note 25).

Employees

The total number of employees, including auxiliary staff working in buildings, was 786 at December 31, 2013 (790 including temporary staff), compared with 878 at December 31, 2012 (884 including temporary staff).

However, following the sale of DGAG, total employees including temporary staff dropped to 500.

The following table provides a breakdown:

	12.31.2013	12.31.2012
managers	64	75
corporate officers	127	140
office workers	300	582
manual worker/auxiliary staff (*)	5	81
total	**496**	**878**

(*) Staff number varies in relation to operations tied to contracts managed.

Other information

The main actuarial assumptions used at the date of the latest related assessment (December 31, 2013) were unchanged from financial year 2012, with the exception of the discount rate which rose by 0.15%.

	Italy	Germany	Netherlands
discount rate	3.50%	3.50%	3.50%
inflation rate	2.00%	2.00%	2.00%

Note 20. TAX PAYABLES

These comprise:

	12.31.2013			12.31.2012		
	Total	non-current	current	Total	non-current	current
Other tax payables	12,367	1,464	10,903	18,881	7,376	11,505
Tax consolidation payables	-	-	-	244	-	244
Other payables to joint ventures under tax transparency regime	1,080	-	1,080	1,080	-	1,080
Total	**13,447**	**1,464**	**11,983**	**20,205**	**7,376**	**12,829**

Other tax payables

Other tax payables include, *inter alia*, the amounts owed for current income taxes by companies which are not in the tax group headed by Prelios S.p.A., as well as income tax owed by foreign companies and taxes owed by companies with respect to periods before joining the tax group or relative to IRAP amounts.

Other payables to joint ventures under tax transparency regime

From 2006 to 2008 the joint venture company Trixia S.r.l. exercised the tax transparency option allowed by Article 115 of the Italian Income Tax Act, under which all consequent relationships are governed by a special agreement to ensure that statutory and regulatory rules are applied on a common basis.

Note 21. DERIVATIVE FINANCIAL INSTRUMENTS

At December 31, 2012 this item totalled Euro 2,526 thousand and included the fair value measurement of several derivative financial instruments entered into by the parent company in 2012 to hedge interest rate risk on debt.

On July 31, 2013, as a result of the new fixed-rate debt structure, these derivative contracts were closed out before their maturity date.

The positive impact of eliminating fair value net of payments made to counterparty banks was recognised in the income statement under financial income (Euro 99 thousand).

COMMITMENTS AND GUARANTEES

Personal guarantees

Guarantee bonds

Banks and insurance companies have issued a total of Euro 92,631 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 36,520 thousand in guarantees and comfort letters in the interest of associates and joint ventures, broken down as follows:

- insurance co-obligations of various kinds to third parties for a total of Euro 4,420 thousand;
- guarantees of Euro 7,100 thousand to cover possible future charges and loans granted by banks to associates and joint ventures;
- guarantees given to Deutsche Pfandbriefbank AG (formerly Hypo Real Estate), the bank which funded the acquisition of the DGAG Group, for the coverage of any tax liabilities arising over the duration of the loan. These guarantees involve a net exposure for the Group of Euro 25,000 thousand.

Liens on shares

There are liens totalling Euro 52,992 thousand on the shares of associates and joint ventures. The item mainly includes the lien taken out on shares by the subsidiary Prelios Netherlands B.V. in favour of Morgan Stanley Real Estate Special Situation Fund III, L.P., to secure the loan granted by the latter to the company Gamma RE B.V..

Commitments to purchase investments/fund units/securities/loans/loss coverage

These amount to Euro 5,945 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 subscribe a total of up to Euro 1,000 thousand for the initial units in the C.A.A.B. (Centro Agro Alimentare di Bologna S.c.p.a.) fund;
- Prelios S.p.A., to pay up to Euro 980 thousand to Espelha Serviços de Consultadoria Lda, to cover contingent liabilities.

The parent company also has committed to cover losses by waiving an outstanding loan and making equity contributions as necessary to Manifatture Milano S.p.A..

Property purchase commitments

Commitments for the purchase of property refer to the commitment made by parent company Prelios S.p.A. to purchase certain properties owned by Imser 60 S.r.l., which might end up being unsold, for a maximum amount of Euro 287,270 thousand. The purchase price of these properties is contractually defined as a certain fraction of their market value. This option may be exercised by the counterparty from November 12, 2021 to May 31, 2022.

NET FINANCIAL POSITION

(alternative performance indicator not required by IFRS)

In keeping with the information provided in previous financial statements, the breakdown of the net financial position is provided below:

(in thousands of euro)

	12.31.2013	12.31.2012
CURRENT ASSETS		
Other receivables	**114**	**176**
- of which from related parties	*114*	*176*
Financial receivables	114	176
- *from joint ventures and other Prelios Group companies*	114	176
Cash and cash equivalents	**85,609**	**45,090**
TOTAL CURRENT ASSETS - A	**85,723**	**45,266**
CURRENT LIABILITIES		
Bank borrowings and payables to other lenders	**(8,988)**	**(144,739)**
- of which to related parties	*(6,576)*	*(17,993)*
- to joint ventures and other Prelios Group companies	(6,576)	(4,487)
- to other related parties	-	(13,506)
- other financial payables	(1,466)	(2,057)
- bank borrowings	(848)	(124,591)
- payables to other lenders	(98)	(98)
TOTAL CURRENT LIABILITIES - B	**(8,988)**	**(144,739)**
NON-CURRENT LIABILITIES		
Bank borrowings and payables to other lenders	**(465,101)**	**(420,993)**
- of which to related parties	*(149,876)*	*(157,389)*
- to joint ventures and other Prelios Group companies	-	(32)
- to other related parties	-	(157,357)
- other financial payables	(58)	(627)
- convertible bond (1)	(235,902)	-
- bank borrowings	(229,141)	(262,977)
TOTAL NON-CURRENT LIABILITIES - C	**(465,101)**	**(420,993)**
NET FINANCIAL POSITION (*) = D = (A+B+C)	**(388,366)**	**(520,466)**

(1) The convertible bond (Euro 235,902 thousand including interest accrued during the year) includes Euro 149,876 thousand payable to Pirelli & C. S.p.A.

(*) Pursuant to the Consob Communication of July 28, 2006, and in accordance with the CESR (Committee of European Securities Regulators) Recommendation of February 10, 2005 "Recommendation for the Consistent Implementation of the European Commission Regulation on Prospectuses"

INCOME STATEMENT

Note 22. REVENUE FROM SALES AND SERVICES

Revenue from sales and services amounts to Euro 73,055 thousand, compared with Euro 85,897 thousand at December 31, 2012, and is composed as follows:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Revenue from contracts	721	224
Revenue from sales	1,949	2,782
- sales of land for development	*31*	*-*
- sales of land for development	*-*	*440*
- sales of residential property	*1,918*	*2,342*
Revenue from services	70,385	82,891
Total	**73,055**	**85,897**

Revenue from contracts

This item totals Euro 721 thousand compared to Euro 224 thousand at December 31, 2012 and mainly includes revenue generated by Lambda S.r.l. for the completion of certain site development projects under way on behalf of companies involved in the development of the Bicocca and Pioltello areas in Milan.

Revenue from sales

Sales completed in 2013 mainly refer to property units sold by Centrale Immobiliare S.r.l., Geolidro S.p.A. and Orione Immobiliare Prima S.p.A..

Revenue from services

Revenue from the rendering of services can be broken down as follows:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Revenue from services to third parties	31,884	30,838
Revenue from services to associates	8,846	10,360
Revenue from services to joint ventures and other Prelios Group companies	29,581	41,568
Revenue from services to other related parties	74	125
Total	**70,385**	**82,891**

The decrease was mainly attributable to specialised agency and property and project management services due to the continuing crisis in the real estate sector that resulted in a considerable decline in the number and size of transactions brokered and contracts managed, and was also due to credit servicing operations.

Note 23. CHANGE IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS

The change in inventories in 2013 was an overall decrease of Euro 377 thousand compared to an increase of Euro 94 thousand at December 31, 2012. Of this change, Euro 553 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, 2013, 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.

Note 24. OTHER INCOME

The item in question can be broken down as follows:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Recoveries, reimbursements and other income	7,487	12,682
Other income from associates, joint ventures and other Prelios Group companies	620	570
Other income from other related parties	120	888
Total	**8,227**	**14,140**

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.

Other income from other related parties mainly refers to the recovery of costs related to the HQ2 building in Milan.

The item includes non-recurring items of Euro 479 thousand, accounting for approximately 5.8% of the total item.

Note 25. OPERATING COSTS

Operating costs amount to Euro 162,699 thousand, compared with Euro 142,795 thousand as at December 31, 2012, and consist of:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Raw and consumable materials used of which:	5,802	4,554
a) Assets purchased	*207*	*3,532*
b) Change in inventories of trading properties, raw and miscellaneous materials	*5,595*	*1,022*
Personnel costs	43,512	54,537
Depreciation, amortisation and impairment	12,904	7,572
Other costs	100,481	76,132
Total	**162,699**	**142,795**

Raw and consumable materials used (net of change in inventories)

Assets purchased totalled Euro 207 thousand at December 31, 2013 and was related to the purchase of various consumables.

In 2013 the item "*Change in inventories of trading properties, raw materials and miscellaneous materials*" was a negative figure of Euro 5,595 thousand compared to another negative figure of Euro 1,022 thousand in 2012. The change reported in 2013 included Euro 3,760 thousand for net write-downs applied due to the lower presumed realisable value determined on the basis of independent appraisals performed at December 31, 2013, or due to the lower values at which individual subsidiaries were willing to sell properties pursuant to sale mandates assigned subject to the approval of the respective boards of directors, and also due to sales completed during the period, mainly by Centrale Immobiliare S.r.l., Geolidro S.p.A. and Orione Immobiliare Prima S.p.A..

Personnel costs

Personnel costs amount to Euro 43,512 thousand, compared with Euro 54,537 thousand as at December 31, 2012.

The item is broken down as follows:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Wages and salaries	28,751	33,724
Voluntary redundancy costs	3,871	8,606
Social security contributions	7,637	8,588
Employee severance indemnity	148	179
Costs for defined-contribution pension funds/Other costs	3,105	3,440
Total	**43,512**	**54,537**

In 2013 there was a decrease in personnel costs primarily due to the reduction in average staff levels for the period (817 employees compared to 923 in 2012).

For the number of employees, please see the comments on employee benefit obligations (Note 19).

The item includes non-recurring items for a positive amount of Euro 3,871 thousand, accounting for a negative percentage of approximately 8.9% of the total item.

Depreciation, amortisation and impairment

Details on depreciation, amortisation and impairment can be found in the tables accompanying the notes on property, plant and equipment and intangible assets (Note 1 and Note 2).

Other costs

As at December 31, 2013 these amounted to Euro 100,481 thousand, compared with Euro 76,132 thousand in 2012.

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Other costs charged by associates	87	138
Other costs charged by joint ventures and other Prelios Group companies	449	4,199
Other costs charged by other related parties	2,421	921
Other costs charged by third parties	97,524	70,874
Total	**100,481**	**76,132**

The item can be broken down by type as follows:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Services	36,575	44,399
Lease and rental cost	7,582	6,865
Impairment of receivables	29,724	8,993
Provisions for risks	21,799	4,740
Other operating expenses	4,801	11,135
Total	**100,481**	**76,132**

Costs for services

Costs for services amount to a total of Euro 36,575 thousand, compared with Euro 44,399 thousand in 2012.

Costs for services consist mostly of maintenance costs, costs for managing third-party assets, commission payable and consultancy and professional fees.

The item fell considerably, owing mostly to lower volumes of construction and maintenance contracts managed by the Group, and a decrease in consultancy concerning the Group's operating activities.

Remuneration paid to directors and the Supervisory Board amount to Euro 4,735 thousand, compared with Euro 3,576 thousand at December 31, 2012, and fees paid to statutory auditors of consolidated companies amount to Euro 511 thousand, compared with Euro 570 thousand in 2012.

The item includes costs for non-recurring events of Euro 975 thousand, accounting for approximately 2.7% of the total item.

Lease and rental costs

These costs amount to Euro 7,582 thousand compared with Euro 6,865 thousand accounted for at December 31, 2012, and refer almost entirely to the rental of head office buildings, and to the lease and hire of motor vehicles.

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Lease and rental costs charged by other related parties	1,760	426
Lease and rental costs charged by joint ventures and other Prelios Group companies	252	3,874
Lease and rental costs charged by third parties	5,570	2,565
Total	**7,582**	**6,865**

The item includes costs for non-recurring events of Euro 1,571 thousand accounting for approximately 20.7% of the total item.

Impairment of receivables

At December 31, 2013, impairment of receivables totalled Euro 29,724 thousand and was recognised to cover potential risks of debtor insolvency and bad debts already incurred in the period in question.

The item includes costs for non-recurring events of Euro 22,718 thousand, accounting for 76% 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, 2013 provisions had been set aside for a total of Euro 21,522 thousand, compared with Euro 4,740 thousand in 2012.

This item includes Euro 500 thousand for investee companies related to a provision made by Prelios Netherlands B.V. in relation to a transaction involving the Corporate Service Agreement signed with Sigma RE B.V. and Omicron RE B.V..

Details of these provisions can be found in the notes on liabilities in the section “provisions for future risks and expenses”.

The item includes costs for non-recurring events of Euro 3,569 thousand, accounting for 16% of the total item.

Other operating expenses

These amount to Euro 4,801 thousand, compared with Euro 11,135 thousand accounted for in 2012.

The item includes, *inter alia*, Euro 1,647 thousand in costs for duties and other taxes, mostly involving IMU (municipal property tax), registration taxes and irrecoverable VAT on financial transactions.

The item includes costs for non-recurring events of Euro 721 thousand, accounting for 15% of the total item.

Note 26. NET INCOME FROM INVESTMENTS

	01.01.2013-12.31.2013	**01.01.2012-12.31.2012**
Net profit share from investments in associates and joint ventures	(87,824)	(128,198)
Dividends	53	1,140
Gains on investments	445	5,038
Losses on investments	(21,486)	(20,780)
Total	**(108,812)**	**(142,800)**

The item includes a pro-rata net negative effect for the Prelios Group of Euro 78.2 million, deriving from property write-downs.

This item includes costs for non-recurring events totalling Euro 9,634 thousand, accounting for about 8.9% of the total item, mostly attributable to unusual charges connected with tax litigation transactions, especially in relation to the joint venture Tamerice Immobiliare S.r.l.. Please see the report on operations for a more complete description.

Note 27. FINANCIAL INCOME

Financial income amounts to Euro 52,832 thousand, compared with Euro 14,150 thousand in 2012, and can be broken down as follows:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Interest income		
a) Interest income from non-current assets:		
- Interest income on financial receivables due from associates	1	38
- Interest income on financial receivables due from joint ventures	8,800	10,126
Total interest income from non-current assets	**8,801**	**10,164**
b) Interest income from current assets:		
- Interest income from joint ventures	3,005	1,204
- Other interests	621	443
Total interest income from current assets	**3,626**	**1,647**
Other financial income		
c) Financial income from non-current assets:		
- Income from securities	1	2
Total financial income from non-current assets	**1**	**2**
d) Financial income from current assets:		
- Other income from joint ventures	27	42
Total financial income from current assets	**27**	**42**
Other/miscellaneous	**40,202**	**491**
Exchange gains	**76**	**1,804**
Fair value measurement of derivatives	**99**	**0**
Total	**52,832**	**14,150**

The changes in interest income are related both to financial receivables from Group companies and to intra-group current accounts in place with associates or joint ventures, and to interest rates.

The item “Other/miscellaneous” includes the positive impact related to the Restructuring Agreement entailing the change of corporate loans into new Super Senior and Senior facilities, and the Convertible Loan initially recorded at their fair value, which was calculated using measurement methodologies deemed appropriate for the characteristics of each component of the new debt, and which is Euro 39,862 thousand less than the par value of the previous loans. This income is categorised as a non-recurring item accounting for 75.5% of the total item.

Exchange gains of Euro 76 thousand were largely related to the loan denominated in the Polish currency made to the joint venture Polish Investments Real Estate Holding II B.V., and includes income on foreign exchange hedging contracts put in place.

Note 28. FINANCIAL EXPENSES

These amount to Euro 37,382 thousand, compared with an amount of Euro 60,604 thousand recorded at December 31, 2012.

The decrease in interest expense compared with 2012 was due to the effect of borrowing rates and the containment of debt. Both factors were related to the aforementioned extraordinary debt restructuring and capital increase transactions that occurred in 2013.

They are broken down as follows:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Interest due to banks	25,942	32,471
Interest due to associates	37	-
Interest due to joint ventures	74	1,375
Interest due to other related parties	2,657	14,824
Interest due to third parties on convertible bond	863	-
Interest due to other related parties on convertible bond	1,504	-
Interest due to others	266	233
Other financial expenses	4,929	2,085
Other financial expenses due to joint ventures	117	4,612
Exchange losses	993	2,221
Fair value measurement of derivatives	-	2,783
Total	**37,382**	**60,604**

Interest due to banks refers to loans obtained from banks and the share of upfront commission paid for said loans.

Interest due to other related parties concerned the loan facility granted by Pirelli & C. S.p.A. to Prelios S.p.A., as well as the applicable portion of upfront fees paid for the loan and interest accrued during the period on the bridge loan provided to the parent company by Fenice S.r.l., a company owned by Feidos 11, Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Pirelli & C. S.p.A., totalling Euro 20 million, to support the Company's borrowing requirements while awaiting the completion of documents needed to implement the Group's capital and financial enhancement and the rebalancing of the financial structure. This bridge loan was repaid in a single amount through an offset with amounts paid to subscribe the reserved capital increase.

Note that in relation to the completion of the debt restructuring in August that was described in the report on operations, the borrowing interest rates were negotiated downward retroactively to January 1, 2013.

In addition, in 2013 this item included:

- o the payment of the remaining up-front fees for the previous debt to the pool of banks (the “CLUB DEAL”) and to Pirelli & C. S.p.A. (Euro 8,846 thousand);
- o the recording of new interest expense of Euro 22,026 thousand that includes Euro 10,466 thousand in expenses accrued on the Super Senior, Senior and Convertible Loan based on the Restructuring Agreement, and Euro 11,560 thousand representing

the applicable portion of the operating impact from measuring the new debt, which was initially recognised at fair value, at amortised cost;

- o the negative operating impact of Euro 3,004 thousand, which was calculated only on the portion of the converted financial receivable, related to the differential between the market quote on the date that the capital increase was executed and the subscription price of the capital increase.

Exchange losses amount to Euro 993 thousand compared with Euro 2,221 thousand in 2012, and mostly refer to the valuation of shareholder loans in Polish currency at year-end exchange rates at December 31, 2013.

Note 29. TAXES

	01.01.2013-12.31.2013	**01.01.2012-12.31.2012**
Current taxes	1,853	5,394
Deferred tax assets	12,661	3,463
Deferred tax liabilities	1,574	632
Total	**16,088**	**9,489**

The “Taxes” item, which includes current taxes, deferred and prepaid taxes calculated using current tax rates, totalled Euro 16,088 thousand compared to Euro 9,489 thousand in 2012. The latter figure included entries related to the settlement of pending positions with the Tax Authorities totalling Euro 2.3 million.

In particular, the total amount comprises:

- IRES and other taxes on foreign income of Euro 13,648 thousand (of which Euro 587 thousand in current taxes) compared with Euro 7,583 thousand in 2012;

- IRAP totalling Euro 2,440 thousand (of which Euro 2,440 thousand in current taxes), compared with Euro 1,906 thousand in 2012.

The item “Current taxes” includes a positive impact of Euro 600 thousand from the recording, by several Prelios Group companies, of a receivable from Pirelli & C. S.p.A. following the application forwarded to the Italian Revenue Agency (Agenzia delle Entrate) on April 30, 2013 to request the reimbursement of IRES due to the failure to deduct IRAP related to employee and similar expenses. This receivable, which was collected in 2014, is recorded in relation to Pirelli & C. S.p.A. since it refers to tax years 2007, 2008 and 2009 in which the companies concerned belonged to the tax consolidation scheme, pursuant to Articles 117 *et seq.* of the Italian Income Tax Act, in which Pirelli & C. S.p.A. acted as consolidating company.

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	**12.31.2013**
PROFIT (LOSS) BEFORE TAXES	**(317,781)**
Net income/(loss) from discontinued operations	142,625
NET PROFIT (LOSS) BEFORE TAXES ON OPERATING ACTIVITIES	**(175,156)**
Reversal of net income from investments	117,392
Taxed dividends	333
Other taxable/non-deductible changes	2,787
Total taxable amount	**(54,644)**
Theoretical tax	**14,572**
Difference in prior year tax	(893)
Adjusted theoretical tax	**13,679**
Reported taxes	**(13,648)**
Difference due to:	**(27,327)**
- Provisions for future risks	(8,424)
- Write-down of receivables	(7,756)
- Write-down of inventories	(5,998)
- Unrecorded taxes on negative taxable income	(4,183)
- Non-deductible interest pursuant to Article 96 of the Italian Income Tax Act	(2,440)
- Impairment of intangible assets	(2,216)
- Non-deductible costs, non-operating losses and other permanent changes	(1,588)
- Use of past tax losses	5,278

IRAP	**12.31.2013**
PROFIT (LOSS) BEFORE ITALIAN TAXES	**(81,358)**
Labour cost	35,825
Financial income (expenses) of financial companies	22,553
Total taxable amount	**(22,980)**
Theoretical IRAP (tax rate of 3.9%)	**896**
Difference in prior year tax	171
Adjusted theoretical IRAP	**1,067**
Reported IRAP	**(2,440)**
Difference due to:	**(3,507)**
- Tax that cannot be recorded on negative taxable income	(432)
- Difference between theoretical and effective tax rate	(670)
- Write-down of receivables	(1,082)
- Provision for risks/Utilisation	(777)
- Loans to staff, contract workers and directors	(200)
- Non-deductible costs and non-operating losses	(117)
- Other changes	(229)

(*) 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:	**12.31.2013**
Italy	31.40%
Germany	31.83%
Netherlands	25.50%
Poland	19.00%

Note 30. NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

On February 12, 2014, the company Solaia RE S.à.r.l., a joint venture in which a 60% interest is held by a fund managed by Deutsche Asset & Wealth Management Real Estate (Deutsche Bank group) and a 40% interest is held by Prelios S.p.A., has finally reached an agreement with the company BUWOG, a wholly owned subsidiary of the Austrian Immofinanz group, for the sale of shares in the real estate companies that own the German residential portfolio better known as DGAG. The transfer of a portion of the Prelios Deutschland GmbH platform (a 100% subsidiary of Prelios S.p.A.), which provides technical and administrative services to the above residential portfolio, is connected with the transaction promoted and set up by the majority partner, Deutsche Asset & Wealth Management Real Estate (Deutsche Bank group). The transaction is a part of the process to implement the new business model, which places Prelios as the manager of a portfolio of integrated real estate services focusing its human and financial resources on segments with the greatest added value in the European real estate market. With the transaction, the Prelios Group will further focus its operating presence in Germany on the premium segment with high added value, and on shopping centres and high street retail.

The “net income (loss) from discontinued operations” includes the net income generated at December 31, 2013 from the residential portion of the Prelios Deutschland GmbH platform (a 100% Prelios S.p.A. subsidiary) that provides technical and administrative services to the above residential portfolio, and from investment income and an anticipated capital loss, for a total of Euro 142,625 thousand applicable to the Group.

Net income (loss) from discontinued operations is broken down as follows:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Revenue from sales and services	29,632	45,064
Other income	2,990	5,909
TOTAL OPERATING REVENUE	**32,622**	**50,973**
of which from related parties	*13,233*	*17,232*
Raw and consumable materials used (net of change in inventories)	(120)	(133)
Personnel costs	(19,073)	(22,608)
Depreciation, amortisation and impairment	(149)	(152)
Other costs	(15,268)	(23,249)
TOTAL OPERATING COSTS	**(34,610)**	**(46,142)**
of which to related parties	-	*-519*
of which non-recurring events	*(963)*	*(2,595)*
EBIT	**(1,988)**	**4,831**
Net income from investments:	(3,203)	(5,810)
of which from related parties	*(3,601)*	*(7,584)*
- net profit share from investments in associates and joint ventures	(3,601)	(7,584)
- dividends	398	1,214
- gains on investments	-	1,702
- losses on investments	-	(1,142)
Financial income	3,825	1,921
of which from related parties	*3,825*	*1,921*
PROFIT (LOSS) BEFORE TAXES	**(1,366)**	**942**
Realised capital loss	(141,259)	-
NET INCOME/(LOSS) FROM DISCONTINUED OPERATIONS	**(142,625)**	**942**

Below are the main categories of discontinued operations and liabilities related to discontinued operations at December 31:

	12.31.2013			
	Book value	**Fair value adjustment**	**Reclassified**	**of which from related parties**
Property, plant and equipment	300	(300)	-	-
Intangible assets	78,394	(78,394)	-	-
Investments	43,835	(35,424)	(8,411)	-
Other financial assets	219	(219)	-	-
Other non-current financial receivables	45,730	(26,930)	(18,800)	(18,800)
Cash and cash equivalents	570	-	(570)	-
Discontinued operations	**-**	**(141,267)**	**27,781**	**18,800**
Non-current bank borrowings and payables to other lender	570	-	(570)	-
Provisions for future risks and expenses	8	(8)	-	-
Employee benefit obligations	1,007	-	(1,007)	-
Other payables	828	-	(828)	-
Liabilities related to discontinued operations	**-**	**(8)**	**2,405**	**-**
Net income (loss) from discontinued operations	**-**	**(141,259)**	**-**	**18,800**

Net cash flows attributable to the operating activity sold are summarised below:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Net cash flow generated/(absorbed) by operating activities (A)	(1,065)	4,303
Net cash flow generated/(absorbed) by investing activities (B)	(2,942)	(5,673)
Net cash flow generated/(absorbed) by financing activities (C)	4,026	1,921
Total net cash flow generated/(absorbed) in the period (D=A+B+C)	**19**	**551**
Cash and cash equivalents + bank current account overdrafts at the beginning of the period (E)	**551**	**0**
Cash and cash equivalents + bank current account overdrafts at the end of the period (D+E)	**570**	**551**

The following tables summarise the operating relationships of the companies being sold with related parties:

	01.01.2013-12.31.2013	01.01.2012-12.31.2012
Operating revenue	13,233	17,232
Operating costs	-	(519)
Net income from investments	(3,601)	(7,584)
Financial income	3,825	1,921

Revenue from related parties mainly relates to facility and project management activities that offer integrated solutions for residential real estate users. The latter include space-related activities (space planning and space management, specialised management of electronic and paper-based archives and move-in move-out services), building services (energy management; design, installation and maintenance of cogeneration and photovoltaic systems; management and routine and unscheduled property maintenance and related systems), individual services (desktop management, reception and switchboards, guard and security services, postal and environmental health services) and governance and consulting services (coordination and consulting services, feasibility studies and the optimisation of outsourced activities).

Operating costs recorded in 2012 specifically refer to the chargeback of technical and administrative services to joint ventures in relation to the residential portfolio which is to be sold.

Net income from investments refers to the ordinary income reported by the joint venture Solaia RE S.à.r.l..

Financial income instead refers to income accrued on shareholder loans provided to the joint ventures Solaia Real Estate B.V. and Jamesmail B.V. by Prelios Netherland B.V..

Note 31. EARNINGS/(LOSS) PER SHARE

	12.31.2013	12.31.2012
Consolidated net profit (loss) (A)	(289,641)	(241,734)
Weighted average number of shares outstanding for the calculation of profit (loss) per share:		
- basic (B)	436,422,489	839,982,115
- diluted (C)	547,235,100	839,982,115
Profit (loss) per share (in euro):		
- basic (A/B)	(0.66)	(0.29)
- diluted (A/C)	(0.53)	(0.29)

The weighted average of outstanding ordinary shares in 2013 was adjusted to account for events that changed the number of outstanding ordinary shares without a corresponding change in resources as governed by IAS 33, paragraph 26.

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.

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, 2013 are as follows:

DECEMBER 31, 2013

	ITALY	GERMANY	POLAND	NPL	HOLDING COMPANY	TOTAL	ELIMINATIONS	CONSOLIDATED
Consolidated revenue	47,548	17,961	544	8,808	11,212	86,073	(13,018)	73,055
of which from third parties	*45,624*	*17,961*	*544*	*8,808*	*118*	*73,055*	-	*73,055*
of which from the Group	*1,924*	-	-	-	*11,094*	*13,018*	*(13,018)*	-
EBIT	(49,848)	5,714	(7,641)	(10,983)	(19,036)	(81,794)	-	(81,794)
Net income from investments	(78,142)	(13,977)	(6,385)	(10,308)	-	(108,812)	-	(108,812)
EBIT including net income from investments	**(127,990)**	**(8,263)**	**(14,026)**	**(21,291)**	**(19,036)**	**(190,606)**	**-**	**(190,606)**
Financial income from investments	4,120	1,535	1,727	1,420	-	8,802	-	8,802
EBIT including net income and financial income from investments (a)	**(123,870)**	**(6,728)**	**(12,299)**	**(19,871)**	**(19,036)**	**(181,804)**	**-**	**(181,804)**
Other financial income/expenses						-	-	6,648
Profit (loss) before taxes						**(181,804)**	**-**	**(175,156)**
Income taxes						-	-	(16,088)
Net profit (loss) for the year						**(181,804)**	**-**	**(191,244)**
attributable to minority interests						-	-	(1,031)
Income (loss) from discontinued operations						**-**	**-**	**(142,625)**
Consolidated net profit (loss) for the year						**(181,804)**	**-**	**(332,838)**

Notes:

Property write-downs/revaluations (b)	(66,358)	(12,660)	(5,035)	-	-	(84,053)	-	(84,053)
Restructuring costs (c)	(29,835)	-	(2,011)	(3,602)	(7,132)	(42,580)	-	(42,580)
EBIT including net income and financial income from investments before restructuring costs and property write-downs/revaluations (d) = (a) - (b) - (c)	**(27,677)**	**5,932**	**(5,253)**	**(16,269)**	**(11,904)**	**(55,171)**	**0**	**(55,171)**

The results by segment at December 31, 2012 are as follows:

DECEMBER 31, 2012

	ITALY	GERMANY	POLAND	NPL	HOLDING COMPANY	TOTAL	ELIMINATIONS	CONSOLIDATED
Consolidated revenue	53,752	14,218	1,429	15,185	1,708	86,292	(395)	85,897
of which from third parties	*53,752*	*14,218*	*1,429*	*15,185*	*1,313*	*85,897*	-	*85,897*
of which from the Group	-	-	-	-	*395*	*395*	*(395)*	-
EBIT	(25,930)	(866)	(963)	(5,374)	(9,531)	(42,664)	-	(42,664)
Net income from investments	(73,590)	(9,136)	(1,707)	(58,927)	-	(143,360)	-	(143,360)
EBIT including net income from investments	**(99,520)**	**(10,002)**	**(2,670)**	**(64,301)**	**(9,531)**	**(186,024)**	**-**	**(186,024)**
Financial income from investments	3,430	1,851	2,120	2,765	-	10,166	-	10,166
EBIT including net income and financial income from investments (a)	**(96,090)**	**(8,151)**	**(550)**	**(61,536)**	**(9,531)**	**(175,858)**	**-**	**(175,858)**
Other financial income/expenses						-	-	(56,620)
Profit (loss) before taxes						**(175,858)**	**-**	**(232,478)**
Income taxes						-	-	(9,489)
Net profit (loss) for the year						**(175,858)**	**-**	**(241,967)**
attributable to minority interests						-	-	709
Income (loss) from discontinued operations						**-**	**-**	**942**
Consolidated net profit (loss) for the year						**(175,858)**	**-**	**(241,734)**

Notes:

Property write-downs/revaluations (b)	(65,023)	(12,766)	-	-	-	(77,789)	-	(77,789)
Restructuring costs (c)	(19,978)	-	-	1,182	-	(18,796)	-	(18,796)
EBIT including net income and financial income from investments before restructuring costs and property write-downs/revaluations and property tax (d) = (a) - (b) - (c)	**(11,089)**	**4,615**	**(550)**	**(62,718)**	**(9,531)**	**(79,273)**	**0**	**(79,273)**

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, 2013:

DECEMBER 31, 2013	ITALY	GERMANY	POLAND	NPL	TOTAL	ELIMINATIONS	CONSOLIDATED	
Non-current assets:	**201,513**	**29,378**	**40**	**11,560**	**242,491**	**-**	**242,491**	
Property, plant and equipment	445	535	40	11	1,031	-	1,031	
Intangible assets, of which	43,432	17,067	-	215	60,714	-	60,714	
Goodwill	*39,495*	*16,890*	-	-	56,385	-	*56,385*	
Investments in real estate funds and investment companies and other financial assets	157,636	11,776	-	11,334	180,746	-	180,746	(1)
Net working capital	**25,925**	**(12,621)**	**(949)**	**2,383**	**14,738**	**-**	**14,738**	
Inventories	45,859	2,545	2	-	48,406	-	48,406	
Other components of net working capital	(19,934)	(15,166)	(951)	2,383	(33,668)	-	(33,668)	(2)
NET INVESTED CAPITAL	**227,438**	**16,757**	**(909)**	**13,943**	**257,229**	**-**	**257,229**	

Notes	TOTAL CONSOLIDATED not included in NFP	TOTAL from financial statements	of which amounts included in NFP
The balances indicated by notes 1) and 2) have been obtained as follows:			
1)			
Investments in associates	42,961	42,961	-
Investments in joint ventures	126,219	126,219	-
Other financial assets	24,189	24,189	-
Provision for future risks on equity-accounted investments reclassified from “Current provisions for future risks and expenses”	(12,623)	(12,623)	-
Total investments in real estate funds and investment companies	**180,746**	**180,746**	**-**

2)	TOTAL CONSOLIDATED not included in NFP	TOTAL from financial statements	of which amounts included in NFP
Deferred tax assets	11,070	11,070	-
Other non-current receivables	5,315	115,980	110,665
Current trade receivables	35,055	35,055	-
Other current receivables	23,446	23,560	114
Current tax receivables	6,453	6,453	-
Other non-current payables	(915)	(915)	-
Non-current tax payables	(1,464)	(1,464)	-
			-
Current trade payables	(48,116)	(48,116)	-
Other current payables	(52,529)	(52,529)	-
Current tax payables	(11,983)	(11,983)	-
Derivative financial instruments	-	-	
Other components of net working capital	**(33,668)**	**77,111**	**110,779**

Assets and liabilities by geographical area were as follows at December 31, 2012:

DECEMBER 31, 2012

	ITALY	GERMANY	POLAND	NPL	TOTAL	ELIMINATIONS	CONSOLIDATED	
Non-current assets:	**254,673**	**143,970**	**3,336**	**2,488**	**404,467**	**-**	**404,467**	
Property, plant and equipment	817	670	79	49	1,615	-	1,615	
Intangible assets, of which	51,407	95,409	3,257	2,240	152,313	-	152,313	
Goodwill	*45,310*	*95,184*	*3,257*	*1,928*	145,679	-	*145,679*	
Investments in real estate funds and investment companies and other financial assets	202,449	47,891	-	199	250,539	-	250,539	(1)
Net working capital	**56,092**	**(13,522)**	**268**	**12,249**	**55,087**	**-**	**55,087**	
Inventories	51,793	2,545	41	-	54,379	-	54,379	
Other components of net working capital	4,299	(16,067)	227	12,249	708	-	708	(2)
NET INVESTED CAPITAL	**310,765**	**130,448**	**3,604**	**14,737**	**459,554**	**-**	**459,554**	

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	53,625	53,625	-
Investments in joint ventures	183,145	183,145	-
Other financial assets	16,577	16,577	-
Provision for future risks on equity-accounted investments reclassified from “Current provisions for future risks and expenses”	(2,808)	(2,808)	-
Total investments in real estate funds and investment companies	**250,539**	**250,539**	**-**

2)	TOTAL CONSOLIDATED not included in NFP	TOTAL from financial statements	of which amounts included in NFP
Deferred tax assets	24,325	24,325	-
Other non-current receivables	5,428	213,579	208,151
Current trade receivables	63,891	63,891	-
Other current receivables	35,741	35,917	176
Current tax receivables	8,465	8,465	-
Other non-current payables	(976)	(976)	-
Non-current tax payables	(7,376)	(7,376)	-
			-
Current trade payables	(49,375)	(49,375)	-
Other current payables	(64,060)	(64,060)	-
Current tax payables	(12,829)	(12,829)	-
Derivative financial instruments	(2,526)	(2,526)	
Other components of net working capital	**708**	**209,035**	**208,327**

6.11. Related-party transactions

The following tables show transactions and balances with related parties:

	01.01.2013-12.31.2013	% (*)	01.01.2012-12.31.2012	% (*)
Operating revenue	39,241	48.5%	53,951	53.9%
Operating costs	(7,346)	4.5%	(10,888)	7.6%
Net income from investments	(108,939)	100.1%	(142,338)	99.3%
Financial income	11,833	22.4%	11,411	80.6%
Financial expenses	(4,389)	11.7%	(20,811)	34.3%
Taxes	600	-3.7%	-	0.0%
Income (loss) from discontinued operations	13,457	-9.4%	11,050	1173.0%

(*) The percentage is calculated with reference to the total financial statement item

	12.31.2013				12.31.2012			
	Total	% (*)	non-current	current	Total	% (*)	non-current	current
Trade receivables	22,230	63.4%	-	22,230	46,745	73.2%	-	46,745
Other receivables, of which:	118,191	84.7%	110,675	7,516	213,708	85.7%	208,105	5,603
- financial receivables	*110,779*	100.0%	*110,665*	*114*	*208,271*	*100.0%*	*208,095*	*176*
Discontinued operations	18,800	67.7%	18,800	-	-	n/a	-	-
- financial receivables	*18,800*	*100.0%*	*18,800*	-	-	*n/a*	-	-
Trade payables	(3,720)	-7.7%	-	(3,720)	(3,702)	-7.5%	-	(3,702)
Other payables	(18,746)	-35.1%	-	(18,746)	(20,639)	-31.7%	-	(20,639)
Tax payables	(1,080)	-8.0%	-	(1,080)	(1,324)	-6.6%	-	(1,324)
Bank borrowings and payables to other lenders	(156,452)	-33.0%	(149,876)	(6,576)	(175,382)	-31.0%	(157,389)	(17,993)
Provisions for future risks and expenses	(12,623)	-17.6%	-	(12,623)	(2,808)	-5.2%	-	(2,808)

(*) The percentage is calculated with reference to the total financial statement item

Transactions and balances between the Prelios Group and associates, joint ventures and other companies in the Prelios Group are detailed as follows:

Transactions with associates, joint ventures and other companies

Operating revenue	39,047	This item refers to mandates signed by Group companies in relation to fund and asset management services (real estate and non-performing loans) and technical and commercial services.
Operating costs	(536)	This item refers to chargebacks of various types.
Net income from investments	(108,939)	This item mainly consists of the profit (loss) of equity-accounted investments, and value adjustments made to several investments held by the Group.
Financial income	11,833	This item mainly includes accrued interest on financial receivables from Group companies.
Financial expenses	(228)	This item largely refers to interest accrued on the payable to Espelha - Servicos de Consultadoria Lta in relation to the deferred payment for the purchase of Class C junior notes.
Profit (loss) from discontinued operations	13,457	This item refers to entries from reclassified related parties in accordance with IAS (IFRS 5).
Current trade receivables	22,054	This item includes the receivables indicated under the item "Operating revenues".
Other non-current receivables	110,675	
- of which financial receivables	*110,665*	This item includes loans made to cover property investments made by the Group. These receivables are classified as non-current based on their medium-term collection period in connection with divestiture plans for properties held directly or indirectly by the Company. These loans were made under market conditions with the exception of certain companies to which interest-free loans were made.
Other current receivables	5,197	Among other things, this item includes receivables for dividends approved but not yet received and residual receivables of various types.
- of which financial receivables	114	
Discontinued operations	18,800	
- of which financial receivables	*18,800*	This amount refers to financial receivables from the joint ventures Solaia RE B.V. and Jamesmail B.V., which, on the basis of agreements signed for the sale of the DGAG portfolio, will be repaid upon the completion of the transaction; therefore this amount was reclassified under "Assets held for sale" in accordance with IAS (IFRS 5).
Current trade payables	(3,173)	These items refer to chargebacks of various types related largely to lease payments, site development charges and ancillary costs.
Other current payables	(18,746)	This item includes chargebacks of various types.
Current tax payables	(1,080)	This amount mainly concerns the payable to Trixia S.r.l. in relation to the participation of the latter in the tax transparency mechanism pursuant to Article 115 of the Italian Income Tax Act, in accordance with which the Company's positive or negative taxable income is attributed to shareholders.
Bank borrowings and payables to other lenders	(6,576)	This item includes the remaining debit balances of intercompany current accounts and payables of a financial nature to cover obligations to make capital contributions to investee companies Aree Urbane S.r.l. (in liquidation) and Solaia RE S.à.r.l. (total of Euro 634,000).
Provisions for future risks and expenses	(12,623)	This item includes the provision to replenish losses of associates and joint ventures exceeding their book value.

For the sake of completeness, details will also be provided of the transactions and balances at December 31, 2013 between the Prelios Group and other parties that are indirectly 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	194	This item mainly refers to the recovery of costs related to the Milan - HQ2 building.
Operating costs	(2,421)	This item includes lease and rental costs and expenses of the R&D building charged to Prelios S.p.A. by the Pirelli group, as well as costs for the sanitary service performed by Poliambulatorio Bicocca S.r.l.
Financial expenses	(4,161)	These costs include up-front expenses paid for the loan provided by Pirelli & C. S.p.A. and interest accrued from January 1 - December 31, 2013 on the portion of the convertible bond subscribed by Pirelli & C. S.p.A. They also include interest accrued on the use of the bridge loan provided by Fenice S.r.l. (a party indirectly related to the Group through directors) that was subsequently converted to capital on July 31, 2013.
Taxes	600	These expenses refer to the proceeds from redetermining the Prelios Group's taxable income for financial years 2007, 2008 and 2009 compared to amounts determined some time ago under the tax consolidation scheme of Pirelli & C. S.p.A.
Current trade receivables	176	They mainly include the receivable from the sale of improvements made to the R&D building to Pirelli & C. S.p.A., the owner of the property concerned.
Other current receivables	2,319	This item mainly includes the security deposit provided to Pirelli & C. S.p.A. for the lease of the R&D building, and the accrued lease payment on that building. In addition, it should be noted that after the application was forwarded to the Italian Revenue Agency on April 30, 2013 to request reimbursement of IRES due to the failure to deduct IRAP related to employee and similar expenses, several Group companies recorded a receivable related to financial years 2007, 2008 and 2009 that was subsequently collected in March 2014 for a total amount of Euro 600,000 from Pirelli & C. S.p.A. since the companies concerned belonged to the tax consolidation scheme pursuant to Articles 117 *et seq*. of the Italian Income Tax Act in which Pirelli & C. S.p.A. acted as consolidating company.
Current trade payables	(547)	These mainly refer to the payable to Pirelli Tyre for the chargeback for utilities and expenses of the R&D building, and for the purchase of furnishings and systems for the same building. They also include payables for sanitary services provided by Poliambulatorio Bicocca S.r.l.
Non-current bank borrowings and payables to other lenders	(149,876)	This item refers to the portion of the convertible bond subscribed by Pirelli & C. S.p.A. and interest accrued on this bond from January 1 - December 31, 2013.

Cash flows

Significant cash flows in relation to related-party transactions that cannot be directly derived from the financial statements and explanatory notes include the bridge loan of Euro 20 million provided to Prelios S.p.A. by Fenice S.r.l. (a vehicle company owned by Feidos 11, Pirelli & C. S.p.A., UniCredit and Intesa Sanpaolo) on July 18 to support the financial requirements of Prelios S.p.A. while awaiting the execution of the capital increases. The loan was disbursed the following day and was then fully repaid with accrued interest at the time of the signing of the reserved capital increase by Fenice S.r.l. on July 31, 2013.

Key management personnel

At December 31, 2013, the remuneration of the 31 key managers (of whom 19 were in office as at December 31, 2013), meaning those persons, including the directors (whether executive or otherwise), with the authority and responsibility, directly or indirectly, for planning, managing and controlling the activities of Prelios S.p.A., amounted to Euro 4,389 thousand (Euro 5,630 thousand at December 31, 2012), of which Euro 393 thousand (Euro 3,412 thousand at December 31, 2012) was classified in the income statement as "Personnel costs" and Euro 3,996 thousand (Euro 2,218 thousand at December 31, 2012) recognised in the income statement as "Other costs". The long-term portion is zero, as was the case in 2012.

6.12. Other information

Independent auditor fees

The following table, prepared in accordance with Article 149-*duodecies* of the CONSOB Issuer Regulations, reports the fees paid in 2013 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:		**1,579**
Prelios S.p.A.	826	
Subsidiaries	753	
Certification services:		**957**
Prelios S.p.A.	935	
Subsidiaries	22	
Miscellaneous auditing services:		**29**
Subsidiaries	29	
Grand total:		**2,565**
Prelios S.p.A.		1,761
Subsidiaries		804

Milan, April 9, 2014

The Board of Directors

7. SUPPLEMENTARY TABLES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.1 Appendix 1: Consolidation area

	Business at 12.31.2013	Registered office City, Country	Share capital		Held at 12.31.2013 by	12.31.2013 % ownership and voting rights (*)	12.31.2012 % ownership and voting rights (*)
Fully consolidated companies							
Subsidiaries							
BauBeCon Treuhand GmbH	Real Estate	Hamburg, Germany	€	530,000	Prelios Immobilien Management GmbH	100.00%	100.00%
Brand for Agency Services S.r.l. (1)	Real Estate	Milan, Italy	-	-	Prelios S.p.A.	-	100.00%
Centrale Immobiliare S.r.l. (2)	Real Estate	Milan, Italy	€	2,426,652	Prelios S.p.A.	100.00%	100.00%
CFT Finanziaria S.p.A.	NPL	Milan, Italy	€	20,110,324	Prelios S.p.A.	100.00%	100.00%
DGAG Beteiligung GmbH & Co. KG (**)	Real Estate	Hamburg, Germany	€	42,118,455	Mistral Real Estate B.V.	94.90%	94.90%
DGAG Nordpartner GmbH & Co. KG (**)	Real Estate	Hamburg, Germany	€	2,760,976	Mistral Real Estate B.V.	94.00%	94.00%
Edilnord Gestioni S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	100.00%	100.00%
Einkaufszentrum Münzstrasse GmbH & Co. KG (**)	Real Estate	Hamburg, Germany	DM	10,000,000	DGAG Beteiligung GmbH & Co. KG	74.80%	74.80%
					Prelios Deutschland GmbH	25.20%	25.20%
Erste DGAG Grundstücksgesellschaft mbH & Co. KG (**)	Real Estate	Hamburg, Germany	DM+€	970000+31.700	DGAG Beteiligung GmbH & Co. KG	94.00%	94.00%
					Verwaltung Erste DGAG Grundstücksgesellschaft mbH	6.00%	6.00%
Geolidro S.p.A.	Real Estate	Naples, Italy	€	3,099,096	Centrale Immobiliare S.p.A.	100.00%	100.00%
Iniziative Immobiliari 3 S.r.l.	Real Estate	Milan, Italy	€	10,000	Prelios S.p.A.	100.00%	100.00%
Lambda S.r.l.	Real Estate	Milan, Italy	€	578,760	Prelios S.p.A.	100.00%	100.00%
Mistral Real Estate B.V. (Tracking Share) (**)	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	35.02%	35.02%
Mistral Real Estate B.V. (Tracking Share Goßlers Park) (**)	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	35.02%	35.02%
Mistral Real Estate B.V. (Tracking Share Osnabruck) (**)	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	35.02%	35.02%
Mistral Real Estate B.V. (Tracking Shares Dresden) (**)	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	35.02%	35.02%
Orione Immobiliare Prima S.p.A.	Real Estate	Milan, Italy	€	104,000	Prelios S.p.A.	100.00%	100.00%
Parcheggi Bicocca S.r.l.	Real Estate	Milan, Italy	€	1,500,000	Prelios S.p.A.	100.00%	100.00%
P.B.S. Società consortile a r.l. (in liquidation)	Real Estate	Milan, Italy	€	100,000	Prelios Property Management S.p.A.	60.00%	60.00%
Prelios Agency S.p.A.	Real Estate	Milan, Italy	€	1,000,000	Prelios S.p.A.	100.00%	100.00%
Prelios Agency Deutschland GmbH	Real Estate	Hamburg, Germany	€	25,000	Prelios Deutschland GmbH	100.00%	100.00%
Prelios Asset Management Deutschland GmbH	Real Estate	Hamburg, Germany	€	25,000	Prelios Deutschland GmbH	100.00%	100.00%
Prelios Credit Servicing S.p.A. (3)	NPL	Milan, Italy	€	14,250,000	Prelios S.p.A.	100.00%	80.00%
Prelios Deutschland GmbH	Real Estate	Hamburg, Germany	€	5,000,000	Prelios S.p.A.	100.00%	100.00%
Prelios Facility Management Deutschland GmbH	Real Estate	Hamburg, Germany	€	25,600	Prelios Deutschland GmbH	100.00%	100.00%
Prelios 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. (formerly Prelios Property & Project Management S.p.A) (4)	Real Estate	Milan, Italy	€	124,400	Prelios S.p.A.	100.00%	100.00%
Prelios Investments Deutschland GmbH	Real Estate	Hamburg, Germany	€	25,000	Prelios S.p.A.	100.00%	0.00%
Prelios Management Services Deutschland GmbH	Real Estate	Hamburg, Germany	€	25,000	Prelios Deutschland GmbH	100.00%	100.00%
Prelios Netherlands B.V.	Real Estate	Amsterdam, Netherlands	€	21,000	Prelios S.p.A.	100.00%	100.00%
Prelios Polska Sp.z.o.o.	Real Estate	Warsaw, Poland	PLN	35,430,000	Prelios S.p.A.	100.00%	100.00%
Prelios Residential Investments GmbH	Real Estate	Hamburg, Germany	€	570,000	Prelios S.p.A.	100.00%	100.00%
Prelios Società di Gestione del Risparmio S.p.A.	Real Estate	Milan, Italy	€	24,558,763	Prelios S.p.A.	90.00%	90.00%
Prelios Valuations & e-Services S.p.A	Real Estate	Milan, Italy	€	298,999	Prelios Agency S.p.A.	100.00%	100.00%
Progetto Vallata S.r.l. (in liquidation) (5)	Real Estate	Milan, Italy	-	-	Prelios S.p.A.	-	80.00%
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	74.80%	74.80%
					Prelios Deutschland GmbH	25.20%	25.20%
Verwaltung Erste DGAG Grundstücksgesellschaft mbH (**)	Real Estate	Hamburg, Germany	€	25,000	DGAG Beteiligung GmbH & Co. KG	100.00%	100.00%
Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau mbH (**)	Real Estate	Hamburg, Germany	€	26,100	DGAG Beteiligung GmbH & Co. KG	100.00%	100.00%

	Business at 12.31.2013	Registered office City, Country		Share capital	Held at 12.31.2013 by	12.31.2013 % ownership and voting rights (*)	12.31.2012 % ownership and voting rights (*)
Equity-accounted companies							
Associates							
Cairoli Finance S.r.l. (in liquidation)	NPL	Milan, Italy	€	10,000	Prelios S.p.A.	35.00%	35.00%
Monteverdi - Speculative closed-end real estate investment fund	Real Estate	Milan, Italy	€	62,000,000	Iniziative Immobiliari 3 S.r.l.	29.84%	29.84%
					Prelios Società di Gestione del Risparmio S.p.A.	4.03%	4.03%
					Tiglio I S.r.l.	66.13%	66.13%
Olinda Fondo Shops - Listed fund with private contributions (*)	Real Estate	Milan, Italy	€	NA	Prelios Società di Gestione del Risparmio S.p.A.	5.18%	5.18%
					Prelios Netherlands B.V.	6.64%	6.64%
Progetto Corsico S.r.l.	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	49.00%	49.00%
Progetto Fontana S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	10,000	Prelios S.p.A.	23.00%	23.00%
Sci Roev Texas Partners L.P.	Real Estate	Dallas, USA	$	12,000,000	Prelios S.p.A.	10.00%	10.00%
S.J. Acquisition L.P (6)	Real Estate	New York, USA	-	-	Prelios S.p.A.	-	10.00%
Spazio Investment N.V. (*)	Real Estate	Amsterdam, Netherlands	€	4,589,189	Prelios Netherlands B.V.	22.07%	22.07%
					Spazio Investment N.V.	0.23%	0.23%
Joint ventures							
24 Finance Mediazione Creditizia S.p.A. (formerly Prelios Finance S.p.A.) (7)	Real Estate	Milan, Italy	€	-	Prelios Agency S.p.A.	-	0.00%
Afrodite S.à.r.l.	Real Estate	Luxembourg	€	4,129,475	Prelios S.p.A.	40.00%	40.00%
Aida RE B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios Netherlands B.V.	40.00%	40.00%
Alceo B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	33.00%	33.00%
Alimede Luxembourg S.à.r.l.	Real Estate	Luxembourg	€	12,955	Prelios S.p.A.	35.05%	35.05%
Alnitak S.à.r.l.	Real Estate	Luxembourg	€	4,452,500	Prelios S.p.A.	35.00%	35.00%
Aree Urbane S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	34.60%	34.60%
Artemide S.à.r.l.	Real Estate	Luxembourg	€	2,857,050	Prelios S.p.A.	35.00%	35.00%
Austin S.à.r.l.	Real Estate	Luxembourg	€	125,000	Prelios S.p.A.	28.46%	28.46%
Beteiligungsgesellschaft Einkaufszentrum Mülheim mbH	Real Estate	Hamburg, Germany	DM	60,000	Prelios Deutschland GmbH	41.17%	41.17%
Bicocca S.à.r.l.	Real Estate	Luxembourg	€	12,520	Prelios S.p.A.	35.00%	35.00%
City Center Mülheim Grundstücksgesellschaft mbH & Co. KG	Real Estate	Hamburg, Germany	€	47,805,790	Prelios Deutschland GmbH	41.18%	41.18%
Colombo S.à.r.l.	Real Estate	Luxembourg	€	960,150	Prelios S.p.A.	35.00%	35.00%
Consorzio G6 Advisor	Real Estate	Milan, Italy	€	50,000	Prelios Agency S.p.A.	42.30%	42.30%
Continuum S.r.l. (in liquidation) (8)	Real Estate	Milan, Italy	€	20,000	Prelios S.p.A.	40.00%	40.00%
Dallas S.à.r.l.	Real Estate	Luxembourg	€	125,000	Prelios S.p.A.	28.46%	28.46%
Delamain S.à.r.l.	Real Estate	Luxembourg	€	12,500	Prelios S.p.A.	49.00%	49.00%
Doria S.à.r.l.	Real Estate	Luxembourg	€	992,850	Prelios S.p.A.	35.00%	35.00%
Einkaufszentrum Mülheim Gmbh & Co. KG	Real Estate	Hamburg, Germany	€	26,075,886	Prelios Deutschland GmbH	41.18%	41.18%
Espelha Serviços de Consultadoria L.d.A.	NPL	Funchal, Madeira	€	5,000	Prelios S.p.A.	49.00%	49.00%
European NPL S.A. (9)	NPL	Luxembourg	-	-	Prelios S.p.A.	-	33.00%
City of Turin Fund - Speculative closed-end real estate investment fund	Real Estate	Milan, Italy	€	34,500,000	Prelios Netherlands B.V.	36.23%	36.23%
Gamma RE B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios Netherlands B.V.	49.00%	49.00%
Gemeinnützige Wohnungsgesellschaft für den Kreis Herzogtum Lauenburg mbH	Real Estate	Lübeck, Germany	€	816,900	Prelios S.p.A.	2.05%	2.05%
					Solaia Real Estate B.V.	94.87%	94.87%
Gesellschaft für Wohnungsbau Lübeck mbH	Real Estate	Lübeck, Germany	€	900,000	Prelios S.p.A.	2.04%	2.04%
					Prelios DGAG Deutsche Grundvermögen GmbH	94.90%	94.90%
Golfo Aranci S.p.A. (formerly STU - Golfo Aranci - S.p.A.) (10)	Real Estate	Golfo Aranci (OT), Italy	€	1,000,000	Prelios S.p.A.	43.80%	43.80%
					Centrale Immobiliare S.p.A.	5.00%	5.00%
Grundstücksgesellschaft Königstraße mbH & Co. KG	Real Estate	Hamburg, Germany	€	1,024,629	DGAG Beteiligung GmbH & Co. KG	44.90%	44.90%
					Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau mbH	5.10%	5.10%
Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG	Real Estate	Hamburg, Germany	€	22,905,876	Prelios Deutschland GmbH	33.75%	33.75%
GWL Wohnungsbetreuungsgesellschaft mbH	Real Estate	Lübeck, Germany	€	26,000	Prelios S.p.A.	1.99%	1.99%
					Gesellschaft für Wohnungsbau Lübeck mbH	94.80%	94.80%
GWK Braunschweig GmbH	Real Estate	Braunschweig, Germany	€	1,050,000	Prelios S.p.A.	2.99%	2.99%
					Prelios DGAG Deutsche Grundvermögen GmbH	92.50%	92.50%
Heimstätten Lübeck GmbH	Real Estate	Lübeck, Germany	€	3,000,000	Prelios S.p.A.	2.04%	2.04%
					Solaia Real Estate B.V.	94.90%	94.90%
Kurpromenade 12 Timmendorfer Strand GG KG	Real Estate	Hamburg, Germany	€	6,237,761	Prelios Deutschland GmbH	50.00%	50.00%
IN Holdings I S.à.r.l.	Real Estate	Luxembourg	€	2,595,725	Prelios S.p.A.	20.50%	20.50%
Induxia S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	40,000	Prelios S.p.A.	24.75%	24.75%
Inimm Due S.à.r.l.	Real Estate	Luxembourg	€	240,950	Prelios S.p.A.	25.01%	25.01%
Iniziative Immobiliari S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	5,000,000	Prelios S.p.A.	49.46%	49.46%

	Business at 12.31.2013	Registered office City, Country	Share capital		Held at 12.31.2013 by	12.31.2013 % ownership and voting rights (*)	12.31.2012 % ownership and voting rights (*)
Manifatture Milano S.p.A.	Real Estate	Rome, Italy	€	11,230,000	Prelios S.p.A.	50.00%	50.00%
Maro S.r.l. (in liquidation)	NPL	Milan, Italy	€	20,000	Prelios S.p.A.	25.00%	25.00%
Masseto I B.V.	Real Estate	Amsterdam, Netherlands	€	19,000	Prelios S.p.A.	33.00%	33.00%
Mistral Real Estate B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	35.02%	35.02%
M.S.M.C. Italy Holding B.V.	Real Estate	Amsterdam, Netherlands	€	20,053	Prelios S.p.A.	25.00%	25.00%
Nashville S.à.r.l.	Real Estate	Luxembourg	€	125,000	Prelios S.p.A.	28.46%	28.46%
Polish Investments Real Estate Holding II B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	40.00%	40.00%
Popoy Holding B.V.	Real Estate	Rotterdam, Netherlands	€	26,550	Prelios S.p.A.	25.00%	25.00%
Progetto Bicocca La Piazza S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	3,151,800	Prelios S.p.A.	26.00%	26.00%
Progetto Bicocca Universita' S.r.l. (in liquidation)	Real Estate	Cinisello Balsamo, Italy	€	50,360	Prelios S.p.A.	50.50%	50.50%
Progetto Gioberti S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	50.00%	50.00%
Projekt Northwind GmbH & Co. KG (11)	Real Estate	Hamburg, Germany	€	1,000	Prelios S.p.A.	2.04%	-
RAMS-Rome Art Mind Society S.r.l. (12)	Real Estate	Rome, Italy	€	50,000	Prelios Integra S.p.A.	40.00%	-
Resident Baltic GmbH	Real Estate	Berlin, Germany	€	25,000	Prelios Netherlands B.V.	5.20%	5.20%
					S.I.G. RE B.V.	94.80%	94.80%
Resident Berlin 1 P&K GmbH	Real Estate	Berlin, Germany	€	125,000	Prelios Residential Investments GmbH	40.00%	40.00%
Resident Sachsen P&K GmbH	Real Estate	Berlin, Germany	€	25,000	Prelios Netherlands B.V.	5.20%	5.20%
					S.I.G. RE B.V.	94.80%	94.80%
Resident West GmbH	Real Estate	Hamburg, Germany	€	25,000	Prelios Netherlands B.V.	5.20%	5.20%
					S.I.G. RE B.V.	94.80%	94.80%
Riva dei Ronchi S.r.l.	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	50.00%	50.00%
Roca S.r.l. (in liquidation)	NPL	Milan, Italy	€	20,000	Prelios S.p.A.	25.00%	25.00%
Sicily Investments S.à.r.l.	Real Estate	Luxembourg	€	12,500	Prelios S.p.A.	40.00%	40.00%
Sigma RE B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios Netherlands B.V.	24.66%	24.66%
S.I.G. RE B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios Netherlands B.V.	47.20%	47.20%
SI Real Estate Holding B.V. - in liquidation	Real Estate	Amsterdam, Netherlands	€	763,077	Prelios S.p.A.	25.00%	25.00%
Solaia RE S.à.r.l.	Real Estate	Luxembourg	€	13,000	Prelios S.p.A.	40.00%	40.00%
Solaris S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	20,000	Prelios S.p.A.	40.00%	40.00%
Tamerice Immobiliare S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	500,000	Prelios S.p.A.	20.00%	20.00%
Theta RE B.V.	Real Estate	Amsterdam, Netherlands	€	18,005	Prelios Netherlands B.V.	40.00%	40.00%
Trinacria Capital S.à.r.l.	Real Estate	Luxembourg	€	12,500	Prelios S.p.A.	40.00%	40.00%
Trixia S.r.l.	Real Estate	Milan, Italy	€	1,209,700	Prelios S.p.A.	36.00%	36.00%
Verwaltung Büro- und Lichtspielhaus Hansaallee GmbH	Real Estate	Hamburg, Germany	DM	50,000	Prelios Deutschland GmbH	27.00%	27.00%
					Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG	20.00%	20.00%
Verwaltung City Center Mülheim Grundstucksges.GmbH	Real Estate	Hamburg, Germany	DM	60,000	Prelios Deutschland GmbH	41.17%	41.17%
Verwaltung Kurpromenade 12 Timmendorfer Strand GG mbH	Real Estate	Hamburg, Germany	DM	50,000	Prelios Deutschland GmbH	50.00%	50.00%
Verwaltung Mercado Ottensen Grundstuecksgesellschaft mbH	Real Estate	Hamburg, Germany	DM	50,000	Prelios Netherlands B.V.	44.00%	44.00%
					Mistral Real Estate B.V.	50.00%	50.00%
Vespucci S.à.r.l.	Real Estate	Luxembourg	€	960,150	Prelios S.p.A.	35.00%	35.00%
Vesta Finance S.r.l.	NPL	Milan, Italy	€	10,000	Prelios S.p.A.	35.00%	35.00%
Vivaldi - Speculative closed-end real estate investment fund (13)	Real Estate	Milan, Italy	€	22,000,000	Prelios Netherlands B.V.	50.00%	50.00%
Other significant investments pursuant to CONSOB Resolution 11971 of May 14, 1999							
AVW Assekuranzvermittlung der Wohnungs wirts chaft GmbH & Co KG	Real Estate	Hamburg, Germany	€	260,000	Prelios Netherlands B.V.	10.50%	10.50%
					Prelios Deutschland GmbH	0.20%	0.20%
Tecnocittà S.r.l. (in liquidation) (14)	Not operational	Milan, Italy	-	-	Prelios S.p.A.	-	12.00%

(*) 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 October 1, 2013 the sale of the entire investment in Brand for Agency Services S.r.l., which was carried out on September 27, 2013, went into effect.

(2) On November 4, 2013, the following revisions approved by the shareholders' meeting of Centrale Immobiliare S.p.A. went into effect: reduction of share capital to cover losses at June 30, 2013 from Euro 5,200,000 to Euro 2,426,652; transformation of the company from a joint stock company (*Società per Azioni) to a limited liability company (Società a Responsabilità Limitata) with the resulting new corporate name of Centrale Immobiliare S.r.l.; voluntary reduction of share capital from Euro 2,426,652 to Euro 100,000 (effective 90 days after the recording date).*

(3) On October 16, 2013 Prelios S.p.A. acquired a 20% interest in the share capital of Prelios Credit Servicing S.p.A. from third parties; it already held an 80% interest in that company.

(4) On June 3, 2013 the change of the corporate name of the company Prelios Property & Project Management S.p.A. to PRELIOS INTEGRA S.p.A. went into effect.

(5) On November 28, 2013 the company Progetto Vallata S.r.l. (in liquidation) was removed from the Milan Company Register.

(6) On January 23, 2013 S.J. Acquisition L.P. was liquidated.

(7) On January 3, 2013 the change in the corporate name of Prelios Finance S.p.A. to 24 Finance Mediazione Creditizia S.p.A. went into effect. On June 28, 2013 the 20% interest in the company's share capital was sold to third parties.

(8) On May 29, 2012 the extraordinary shareholders' meeting of Continuum S.r.l. (in liquidation) passed a resolution to approve the reduction of share capital from Euro 500,000 to Euro 20,000 and allocated Euro 480,000 to an unavailable restricted reserve; the resolution's effective date was September 20, 2012.

(9) On October 16, 2013 the entire investment held by Prelios S.p.A. in European NPL S.A. was sold to third parties.

(10) On April 14, 2013 the change of the corporate name of the company STU - Golfo Aranci S.p.A. to Golfo Aranci S.p.A. went into effect.

(11) On December 20, 2013, Prelios S.p.A. acquired from third parties a 2.04% interest in the share capital of Projekt Northwind GmbH & Co. KG; 94.9% of this company was already held by the joint venture Prelios Residential Real Estate GmbH.

(12) In September 2013 Prelios Integra S.p.A. participated in the establishment of Rams - Rome Art Mind Society S.r.l. with an interest of 40%.

(13) On May 8, 2013, Prelios Netherlands B.V. subscribed four units of the Vivaldi Fund valued at Euro 800,000.

(14) On March 29, 2013 the company Tecnocittà S.r.l. (in liquidation) was removed from the Milan Company Register.

8. CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Certification of the consolidated financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments and additions

1. The undersigned Sergio Iasi, in his capacity as Chief Executive Officer, and Marco Andreasi, as Financial Reporting Officer for Prelios S.p.A., certify, also taking into account the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for formation of the consolidated financial statements, during the period January 1, 2013 – December 31, 201.

2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for formation of the consolidated financial statements for the year ended December 31, 2013 was evaluated on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "Internal Control – Integrated Framework" guidelines issued by the "Committee of Sponsoring Organisations of the Treadway Commission" (COSO) which is a reference framework generally accepted at international level.

3. We also certify that:

3.1 The consolidated financial statements:

a) were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) No. 1606/2002 of the European Parliament and Council, of July 19, 2002;

b) correspond to the information in the accounting books and documents;

c) are capable of providing a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the group of companies included in the consolidation.

3.2 The report on operations includes a reliable analysis of the performance and results of operations,

and of the situation of the reporting entity and of the group of companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

April 9, 2014

The Chief Executive Officer	The Financial Reporting Officer
(Sergio Iasi)	(Marco Andreasi)

9. INDEPENDENT AUDITORS' REPORT

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Reconta Ernst & Young S.p.A.
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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders
of Prelios S.p.A.

1. We have audited the consolidated financial statements of Prelios S.p.A. and its subsidiaries, (the "Prelios Group") as of and for the year ended 31 December 2013, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Prelios S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated 28 March 2013.

3. In our opinion, the consolidated financial statements of the Prelios Group at 31 December 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Prelios Group for the year then ended.

4. The Group incurred losses greater than those estimated in the Strategic Plan, which had been subject to review pursuant to Article 67 of Decree 267/1942 (Bankruptcy Legislation). These losses have caused the Parent Company's share capital to be reduced under the minimum legal requirement at 31 December 2013; as a consequence, the Board of Directors held on 9 April 2014 resolved to execute the conversion to equity of the convertible bond, based on the power of attorney resolved by the Shareholders on 8 May 2013 within the debt restructuring agreement completed in 2013.

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Having considered the 2013 results deviating from the Strategic Plan, the Board of Directors held on 9 April 2014 approved the 2014-2016 Guidelines which include revised economic and financial forecasts to be reflected in a new business plan in the short term. These 2014-2016 Guidelines forecast further losses in the next three years and cash flow absorption resulting, already in 2014, in indebtedness not sustainable by the Group in absence of specific remediations. As disclosed in the Explanatory Notes, and referred to in the Directors' Report on Operations, the Directors have identified actions to mitigate the financial needs; such actions are mainly directed to deferring certain Group's obligations for the time needed to agree an appropriate financial structure in order to allows a structural rebalance of the financial position, consistent with the estimated needs.

The Directors have described the uncertainties that could cast significant doubts over the Group's ability to continue to operate as a going concern and the reasons why the Board of Directors believes that it is appropriate to issue the consolidated financial statements as of 31 December 2013 on a going concern basis, which mainly depends on the availability demonstrated by the main lenders and shareholders of Prelios S.p.A. to support the Group in the execution of identified remediation and in the implementation of a financial structure adequate with respect to the Group need, consistent with the financial needs identified in the 2014-2016 Guidelines.

5. The Directors of Prelios S.p.A. are responsible for the preparation of the directors' report on operations and of the annual report on corporate governance and ownership assets in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the consolidated financial statements of the directors' report on operations and of the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on corporate governance and ownership assets, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the directors' report on operations and the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on corporate governance and ownership assets, are consistent with the consolidated financial statements of the Prelios Group as of December 31, 2013.

Milan, April 30, 2014

Reconta Ernst & Young S.p.A.
Signed by: Alberto Romeo, Partner

This report has been translated into the English language solely for the convenience of international readers.

D. ANNUAL REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

CONTENTS

GLOSSARY

Shareholders' Meeting: the Ordinary or Extraordinary Shareholders' Meeting of Prelios S.p.A., held in accordance with the applicable provisions of law.

Lending Banks: Intesa Sanpaolo S.p.A., UniCredit S.p.A., Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano S.c.a.r.l., Banca Popolare di Sondrio S.p.A., Banca Popolare dell'Emilia Romagna Soc.Coop., Banca Carige S.p.A. and UBI Banca Soc.Coop.p.A. (formerly Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A.).

Code/Self-Governance Code: the Self-Governance Code for listed companies approved in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A. The Code is available to the public on the website of Borsa Italiana S.p.A. *www.borsaitaliana.it*.

Civil Code: the Italian Civil Code.

Board of Statutory Auditors: the Board of Statutory Auditors of Prelios S.p.A.

Board of Directors: the Board of Directors of Prelios S.p.A.

Date of the Report: the date of the Board of Directors' meeting which approved this Report, April 9, 2014.

Financial Reporting Officer: the manager charged with preparing the Company's financial documents, as provided for by Article 154-*bis* of the Consolidated Finance Act.

Issuer: Prelios S.p.A. or Prelios or the Company.

Financial Year: the financial year covered by the Report.

Lenders: jointly means the Lending Banks and Pirelli & C. S.p.A.

Prelios Group or Group: the Issuer and the companies controlled by it in accordance with Article 93 of the Consolidated Finance Act.

Extraordinary Transaction: the transaction designed to continue strengthening the capital and financial position of the Company through recapitalisation and the rebalancing of its financial structure, as well as boosting the Group's prospects for growth and business development, frequently communicated to the market and completed during the Financial Year.

Prelios Agreement: shareholders' agreement concerning the ordinary shares of Prelios S.p.A. signed on September 20, 2013 by Camfin S.p.A., Intesa Sanpaolo S.p.A. and Massimo Moratti, the latter also for and on behalf of C.M.C. S.p.A. and Istifid S.p.A. (together "Massimo Moratti"), and terminated early by mutual consent with effect from October 31, 2013. Notification of the early termination was filed with the Companies' Register of Milan on November 4, 2013.

Pirelli: Pirelli & C. S.p.A., with registered office at Viale Piero e Alberto Pirelli 25, Milan.

Procedure for Related-Party Transactions: the procedure for related-party transactions approved by the Prelios Board of Directors on November 3, 2010 (and amended on November 11, 2011), prepared pursuant to and for the purposes of Article 2391-*bis* of the Italian Civil Code and the "Regulation on transactions with related parties" adopted with CONSOB Resolution 17221 of March 12, 2010 (as amended by CONSOB Resolution 17389 of June 23, 2010), taking into account the guidance and clarification provided by CONSOB in Communication DEM/10078683 of September 24, 2010.

Regulations of the Convertible Loan: the regulations of the mandatory convertible loan "Prelios Convertible Loan 2013-2019".

Issuers' **Regulations:** the regulations applicable to issuers adopted by CONSOB with Resolution 11971 of May 14, 1999, as amended.

Market Regulations: the regulations applicable to markets adopted by CONSOB with Resolution 16191 of October 29, 2007, as amended.

Report: the report on corporate governance and ownership structure, which companies are required to prepare in accordance with the Consolidated Finance Act and the Issuers' Regulations.

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 Finance Act: Legislative Decree 58 of February 24, 1998, as amended.

1. ISSUER PROFILE

The Company's corporate governance structure is organised along the lines of a "traditional" management and control system, in which the management function rests solely with the Board of Directors, the supervisory function with the Board of Statutory Auditors, and the audit function with independent auditors registered in the special register kept by CONSOB.

In accordance with the recommendations of the Self-Governance Code and the principles of corporate governance observed at the international level and advocated within the European Union, the Board of Directors has also set up internal committees with policymaking and advisory functions.

The Ordinary Shareholders' Meeting of Prelios of May 8, 2013 appointed the **Board of Directors** of the Company for a three-year term, namely until the approval of the financial statements for the year ended December 31, 2015.

The appointment of one fifth of the directors to be elected is reserved for a qualified minority of shareholders, which present a list of candidates[1] in compliance with the provisions of law and the Articles of Association.

The current Board was appointed on the basis of a single list of candidates presented by the shareholders Camfin S.p.A., Intesa Sanpaolo S.p.A. and Massimo Moratti, already parties to the Prelios Agreement.

The Board is vested with full powers of ordinary and extraordinary management[2] and performs all tasks provided for by Article 1.C.1 of the Code.

The **Board of Statutory Auditors** is charged with overseeing compliance with the law and the Articles of Association, and the application of the principles of proper administration. It also ensures that the organisational, administrative and accounting structure and internal control system are both appropriate and reliable.

The Board of Statutory Auditors is also called on to oversee the effective implementation of the corporate governance rules adopted by the Company and to submit a reasoned proposal to the Shareholders' Meeting upon the appointment of the external auditors, verifying the independence of the Independent Auditors.

More specifically, following the entry into force of the Consolidated Statutory Audit Act, the Board of Statutory Auditors must perform additional and/or enhanced supervisory functions as "*Internal Control and Audit Committee*", as described more fully below.

The Board of Statutory Auditors consists of three Standing Statutory Auditors and two Alternate Statutory Auditors, appointed for a term of three years and eligible for re-election[3].

[1] Pursuant to the Articles of Association (Article 12), the Company is managed by a Board of Directors consisting of 5 to 19 members who remain in office for three financial years (unless a shorter period is established by the Shareholders' Meeting upon their appointment) and who are eligible for re-election. The Shareholders' Meeting decides on the number of members of the Board of Directors, which will remain fixed until resolved otherwise. The Board is appointed by list vote and the directors are subject to statutory ineligibility and disqualification clauses.

[2] See Article 18 of the Articles of Association for the powers vested in the Board by the Articles of Association.

[3] Following the decisions taken by the Extraordinary Shareholders' Meeting on May 8, 2013, the number of Alternate Statutory Auditors increased from two to three with effect from the first re-election of the Board following the entry into force of the relevant amendment to the Articles of Association; prior to that, the Board was composed of three Standing Statutory Auditors and two Alternate Statutory Auditors.

The appointment of one Standing Statutory Auditor and one Alternate Statutory Auditor is reserved for a qualified minority of shareholders, who present a list of candidates in accordance with the legal requirements and Articles of Association; the Statutory Auditor appointed by the minority is the Chairman of the Board of Statutory Auditors[4].

The current Board of Statutory Auditors was appointed by the Ordinary Shareholders' Meeting of Prelios of May 8, 2013, on the basis of a single list of candidates presented by the shareholders Camfin S.p.A., Intesa Sanpaolo S.p.A. and Massimo Moratti, already parties to the Prelios Agreement.

The **Shareholders' Meeting** is the body that represents all the shareholders and which is responsible for deliberating (i) during ordinary meetings, on the approval of the annual financial statements, the appointment and removal of members of the Board of Directors, the appointment of members of the Board of Statutory Auditors and their Chairman, the remuneration of directors and Statutory Auditors, the appointment of the external auditors, the responsibilities of directors and Statutory Auditors and other matters placed within its remit; (ii) during extraordinary meetings, on amendments to the Articles of Association and extraordinary transactions such as capital increases, mergers and demergers, except for those delegated by the Articles of Association to the Board of Directors in accordance with the law.

The **Independent Auditors**, registered in the special register kept by CONSOB, are responsible by law for external audits.

The appointment of the Independent Auditors is the responsibility of the Shareholders' Meeting, based on the reasoned proposal of the Board of Statutory Auditors[5].

2. INFORMATION ON THE OWNERSHIP STRUCTURE (pursuant to Article 123-*bis*, paragraph 1 of the Consolidated Finance Act)

[at the Date of the Report]

The Extraordinary Shareholders' Meeting of Prelios of May 8, 2013 resolved, *inter alia*:

1. to proceed with the coverage of the loss of Euro 213,995,990.64 reported in the financial statements of Prelios S.p.A. at December 31, 2012, by reducing the share capital by the same amount; the share capital is therefore reduced to Euro 4,881,622.50 with no cancellation of shares;
2. to proceed with a reverse stock split of the ordinary shares according to a ratio of one new ordinary share, with no par value and regular dividend rights, for every ten ordinary shares held, subject to cancellation, partly to balance the overall reverse stock split, of 1,171,777 ordinary shares held by the Company, without a reduction in the share capital;
3. to proceed with an indivisible paid capital increase for a total amount of Euro 70,005,789.37 reserved for Fenice S.r.l. – a company in which Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. have an interest – and therefore excluding the Rights pursuant to Article 2441, paragraph 5 of the Italian Civil Code, through the issue of 117,597,496 Category B Shares, convertible into ordinary shares, without voting rights and not destined for listing (the "**Reserved Capital Increase**");
4. to proceed with the divisible paid capital increase for an aggregate amount of up to Euro 115,009,511.53, to be offered with the Rights to all Company shareholders, pursuant to

[4] See Article 22 of the Articles of Association.

[5] The Shareholders' Meeting of April 14, 2008 appointed, based on the reasoned proposal of the Board of Statutory Auditors, Reconta Ernst & Young S.p.A. as Independent Auditors for the nine-year period 2008-2016.

Article 2441, paragraph 1 of the Italian Civil Code, through the issue of 193,195,887 ordinary shares, with regular dividend rights and identical characteristics to the shares outstanding at the time of issue (the "**Capital Increase with Pre-emptive Rights**")[6];

5. to grant the Board of Directors the right to issue, pursuant to Article 2420-*ter*, paragraph 2 of the Italian Civil Code, for a maximum amount equal to a nominal Euro 269,000,000.00, mandatory convertible bonds (convertible bonds) to be converted into ordinary shares and/or Category B Shares, excluding the Rights pursuant to Article 2441, paragraph 5 of the Italian Civil Code, with the subsequent divisible share capital increase for the exclusive benefit of the conversion, for a maximum of Euro 297,644,375.01, to be implemented by issuing a maximum of 499,990,551 ordinary shares and a maximum of 144,678,117 Category B shares;
6. to amend Articles 5 and 6 of the Articles of Association by inserting a new Article 6-*bis*.

The Reserved Capital Increase and Capital Increase with Pre-emptive Rights were fully subscribed and, pursuant to Article 2444 of the Italian Civil Code, on August 26, 2013, the notice of completion, together with the updated Articles of Association, were filed with the relevant companies' register.

In pursuance of the resolution of the Board of Directors of June 10, 2013, which exercised the aforementioned right conferred by the Extraordinary Shareholders' Meeting of May 8, 2013 in accordance with Article 2420-*ter*, paragraph 2 of the Italian Civil Code, on August 26, 2013, 233,534 mandatory convertible bonds (Convertible Bonds) to be converted into ordinary shares and/or Category B shares, excluding the Rights pursuant to Article 2441, paragraph 5 of the Italian Civil Code, were issued for an amount equal to a nominal Euro 233,534,000.00, resulting in a divisible capital increase for the exclusive benefit of the conversion, for a maximum of Euro 258,401,789.44, to be implemented by issuing, before the deadline of March 31, 2023, a maximum of 434,069,863 ordinary shares and a maximum of 125,446,190 Category B shares, with no par value and regular dividend rights, with the same characteristics as those outstanding at the date of issue.

For more information, please see the documents published in accordance with the law and available on the Website.

Following the completion of the foregoing, the following is noted.

a) Structure of the share capital

At the Date of the Report, the fully subscribed and paid-up **share capital** totals Euro 189,896,923.40, divided into 277,195,887 ordinary shares and 117,597,496 Category B shares, with no par value and issued in dematerialised form.

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

[6] The Prospectus for the rights offering to shareholders and admission to listing on the Automated Screen-based Trading System (Mercato Telematico Azionario) organised and managed by Borsa Italiana S.p.A. of ordinary shares of Prelios S.p.A. is available in the investor relations section of the Website.

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.

The table below shows the exact composition of the share capital as at the Date of the Report.

Share category	No of shares	% of share capital	Listed
Ordinary shares (ISIN IT0004923022)	277,195,887	70.213	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)	117,597,496	29.787	Not listed

*

On August 26, 2013, 233,534 mandatory convertible bonds (Convertible Bonds) were issued to be converted into ordinary shares and/or Category B shares, with a par value of Euro 1,000, of which:

- 166,042 bonds (71.1% of the total issue) represent tranche A, convertible into ordinary shares, and were subscribed by the Lenders;
- 67,492 bonds (28.9% of the total issue) represent tranche B, convertible into Category B shares, and were subscribed by Pirelli.

The Convertible Bonds, for which admission to listing has not been requested, were issued in dematerialised form, are bearer shares and are not divisible; on request they may be transformed into registered shares and vice versa.

For a more comprehensive and analytical examination of the characteristics of the "Prelios Convertible Loan 2013-2019", and the capital increase to service the conversion, please see the Regulations of the Convertible Loan and the Articles of Association available on the Website.

The table below shows the exact composition of the convertible bonds as at the Date of the Report.

Bonds	No of Bonds issued	Class of shares to service the conversion	Maximum number of shares to service the conversion
Convertible Bonds (ISIN IT0004953425)	166,042	Ordinary shares	434,069,863
	67,492	Category B shares	125,446,190

It should be noted that on April 9, 2014 the Board of Directors, upon approval of the 2013 draft financial statements, given the extent of the loss for the Financial Year, has established

[7] See Article 6-*bis* of the Articles of Association.

the occurrence of the conditions laid down in Article 8 of the Regulations of the Convertible Loan, which provides for mandatory early repayment by converting the "Prelios Convertible Loan 2013-2019", if the Company is in one of the two situations provided for in Articles 2446 and 2447 of the Italian Civil Code.

Accordingly, as announced to the market[8], mandatory early repayment of the "Prelios Convertible Loan 2013-2019" will take place by full conversion of the Convertible Bonds and, therefore, the automatic execution of the capital increase for the exclusive service of the conversion through the issue of 229,757,292 ordinary shares and 93,390,705 Category B shares, for a total of Euro 236,544,333.80, according to the terms and conditions set forth in the Regulations of the Convertible Loan and based on the decisions taken by the Conversion and Calculation Agent (*BNP Paribas Securities Service*) binding, in accordance with the Regulations, for the Company and the bondholders.

Following the completion of the above, the share capital is Euro 426,441,257.20, divided as shown in the following table.

Share category	No of shares	% of share capital	Listed
Ordinary shares (ISIN IT0004923022)	506,953,179	70.612	Listed on the Automated Screen-based Trading System organised and managed by Borsa Italiana S.p.A. – Small Cap Segment
Category B shares (ISIN IT0004936024)	210,988,201	29.388	Not listed

*

At the Date of the Report, the Company has not adopted any share-based incentive plans.

b) Restrictions on the transfer of shares (pursuant to Article 123-*bis*, paragraph 1, letter b) of the Consolidated Finance Act)

The ordinary shares and Category B shares are freely transferable, except as provided for in Article 6-*bis* of the Articles of Association.

The Convertible Bonds (and the related obligations, rights and associated transactions) held by the Lenders may be transferred, in whole or in part, on fulfilment of the requirements and according to the conditions set forth in the Regulations of the Convertible Loan.[9]

c) Significant shareholdings

At the Date of the Report, following the subscription of the entire Reserved Capital Increase by Fenice S.r.l., this held all 117,597,496 Category B unlisted shares issued without voting rights.

At the Date of the Report, based on the notification received pursuant to Article 120 of the Consolidated Finance Act and other information available, as well as that published by CONSOB, the holders of ordinary shares exceeding 2% of the voting capital of Prelios are as follows:

[8] See press release of April 9, 2014.
[9] See Article 17 (Transferability of the Convertible Bonds) of the Regulations of the Convertible Loan.

Registrant or lead shareholder	Direct shareholder		% of voting share capital			
	Name	Type of ownership	% share	of which non-voting		
				% share	voting rights held by	
					Party	% share
BANCA POPOLARE DI MILANO S.C.A.R.L.	BANCA DI LEGNANO S.P.A.	Ownership	0.013	0.000		
		Total	0.013	0.000		
	BANCA POPOLARE DI MILANO S.C.A.R.L.	Pledge	0.010	0.000		
		Ownership	4.057	0.000		
		Total	4.067	0.000		
	Total		**4.080**	**0.000**		
PIRELLI & C. SPA	PIRELLI & C. S.P.A.	Ownership	13.064	0.000		
		Total	13.064	0.000		
	Total		**13.064**	**0.000**		
INTESA SANPAOLO S.P.A.	INTESA SANPAOLO VITA S.P.A.	Ownership	0.002	0.000		
		Total	0.002	0.000		
	INTESA SANPAOLO PRIVATE BANKING S.P.A.	Pledge	0.002	0.000		
		Total	0.002	0.000		
	INTESA SANPAOLO S.P.A.	Pledge	0.011	0.000		
		Ownership	5.539	0.000		
		Total	5.550	0.000		
	Total		**5.554**	**0.000**		
UNICREDIT S.P.A.	UNICREDIT S.P.A.	Ownership	10.710	0.000		
		Total	10.710	0.000		
	Total		**10.710**	**0.000**		
ASSICURAZIONI GENERALI S.P.A.	ALLEANZA ASSICURAZIONI S.P.A.	Ownership	0.116	0.000		
		Total	0.116	0.000		
	GENERALI ITALIA S.P.A.	Ownership	2.386	0.000		
		Total	2.386	0.000		
	GENERALI VIE S.A.	Ownership	0.622	0.000		
		Total	0.622	0.000		
	GENERALI IARD S.A.	Ownership	0.003	0.000		
		Total	0.003	0.000		
	Total		**3.127**	**0.000**		
LAURO SESSANTUNO S.P.A.	CAM PARTECIPAZIONI SPA	Ownership	0.013	0.000		
		Total	0.013	0.000		
	CAMFIN S.P.A.	Ownership	14.822	0.000		
		Total	14.822	0.000		
	Total		**14.835**	**0.000**		
INVESCO LTD	INVESCO FUND MANAGERS LIMITED	Non-discretionary asset management	1.694	0.000		
		Total	1.694	0.000		
	INVESCO ADVISERS INC.	Non-discretionary asset management	0.309	0.000		
		Total	0.309	0.000		
	INVESCO GLOBAL ASSET MANAGEMENT LTD	Non-discretionary asset management	2.259	0.000		
		Total	2.259	0.000		
	INVESCO ASSET MANAGEMENT S.A.	Non-discretionary asset management	0.419	0.000		
		Total	0.419	0.000		
	INVESCO ASSET MANAGEMENT LIMITED	Non-discretionary asset management	0.278	0.000		
		Total	0.278	0.000		
	Total		**4.959**	**0.000**		
MEDIOBANCA S.P.A.	MEDIOBANCA S.P.A.	Ownership	2.606	0.000		
		Total	2.606	0.000		
	Total		**2.606**	**0.000**		

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, 2013 and/or purchases/disposals of these in 2013 by the Company;
- the Company held a total of 1,788 treasury shares at December 31, 2013. The change compared with December 31, 2012 is attributable solely to the reverse stock split and cancellation of 1,171,777 ordinary shares held by the Company, including the overall balancing of the transaction itself, referred to earlier.

d) Shares conferring special rights (pursuant to Article 123-*bis*, paragraph 1, letter d) of the Consolidated Finance Act)

There are no shares conferring special rights of control or special powers.

e) Employee share ownership: mechanism for exercising voting rights (pursuant to Article 123-*bis*, paragraph 1, letter e) of the Consolidated Finance Act)

In case of employee share ownership, there is no mechanism for voting if they do not vote themselves.

f) Restrictions on voting rights (pursuant to Article 123-*bis*, paragraph 1, letter f) of the Consolidated Finance Act)

There are no restrictions on voting rights, except regarding Category B shares without voting rights.

g) Shareholder agreements (pursuant to Article 123-*bis*, paragraph 1, letter g) of the Consolidated Finance Act)

With reference to the provisions of Article 122 of the Consolidated Finance Act, it should be noted that the Prelios Agreement has been terminated early by mutual consent with effect from October 31, 2013. Notification of the early termination was filed with the Companies' Register of Milan on November 4, 2013.

An excerpt from the Prelios Agreement and related communications can be found in the corporate governance section of the Website.

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In addition, under the agreements reached between the parties involved in the aforementioned Extraordinary Transaction:

- Feidos 11 S.p.A., Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Pirelli & C. S.p.A. have signed and entered into a Shareholders' Agreement (the "**Fenice Agreement**") relating to Fenice S.r.l. (which Fenice itself has signed), a company formed to take part in the Extraordinary Transaction and, at the Date of the Report, the holder of all Category B shares issued.

The Fenice Agreement governs the rights and obligations of the parties in relation to: (i) the governance and transferability of the investments held in Fenice S.r.l.; (ii) the disposal of the investment that Fenice S.r.l. acquired in Prelios following the Extraordinary Transaction; and (iii) the transferability of some shares issued by Prelios that are or will be held by the parties under the Extraordinary Transaction.
The excerpt from the Fenice Agreement and related communications can be found in the corporate governance section of the Website.

- Fenice S.r.l. has entered into separate co-sale agreements (the "**Co-Sale Agreements**") with Camfin S.p.A., Massimo Moratti, Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano S.c.a.r.l., Banca Popolare di Sondrio S.p.A., Banca Popolare dell'Emilia Romagna Soc.Coop., Banca Carige S.p.A. and UBI Banca Soc.Coop.p.A. (formerly Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A.) governing the terms and conditions under which Fenice S.r.l. granted each of these holders rights of co-sale on all Prelios shares and/or all Convertible Bonds held by them when the corresponding rights were exercised.
  With effect from February 18, 2014, the co-sale agreement between Fenice and Massimo Moratti was terminated by mutual consent.
  The excerpt from the Co-Sale Agreement and related communications can be found in the corporate governance section of the Website.

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Lastly, it is reported that the corporate governance section of the Website contains an excerpt, together with the related communications, of the shareholders' agreement between Marco Tronchetti Provera & C. S.p.A., Marco Tronchetti Provera Partecipazioni S.p.A., Gruppo Partecipazioni Industriali S.p.A., Nuove Partecipazioni S.p.A., Lauro Cinquantaquattro S.r.l., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. concerning, *inter alia*, the Prelios ordinary shares held by Camfin S.p.A., according to a specific provision relating to the governance of Prelios.

h) Change of control clauses (pursuant to Article 123-*bis*, paragraph 1, letter h) of the Consolidated Finance Act) and statutory provisions concerning the public tender offer (pursuant to Article 104, paragraph 1-*ter* and Article 104-*bis*, paragraph 1 of the Consolidated Finance Act)

There is no party that may, directly or indirectly, by virtue of shareholders' agreements, either alone or jointly with other parties to agreements, exercise control over Prelios.

It follows that, at present, the Company (or its subsidiaries) are not party to any significant agreements that take effect, are amended or are terminated upon a change of control in the "technical" sense. It should be noted, however, that with regard to the agreement concerning the loan for a maximum of Euro 359 million granted to the Company by the Lending Banks (the "Loan Agreement"), a change of control (or to be precise, "change in shareholding structure") clause had been defined, which, although not referring to a control situation, still established that such a circumstance would occur in the event that, without the prior written consent of the Lending Banks (which could not be unreasonably withheld or delayed), Camfin S.p.A. ceased to hold, directly or indirectly, an equity interest in the share capital of the Company equivalent to at least 12% of the same, with the consequent obligation for the Company to repay the outstanding loan in full and to effect payment of any other amount due under the relevant agreement. As a result of the finalisation and execution of agreements relating to the restructuring of the debt with the Company's Lenders (which took place on May 7, 2013), as part of the Extraordinary Transaction (completed in late August 2013), this clause has been partially amended and its scope restricted[10].

Except as noted above, the Company (or its subsidiaries) are not currently party to any significant agreements that take effect, are altered or are terminated upon a change of control.

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On the subject of public tender offer, it should be noted that the Articles of Association do not include: (i) provisions that derogate from the passivity rule set forth in Article 104, paragraphs 1 and 2 of the Consolidated Finance Act; and (ii) the implementation of the neutralisation rules provided for in Article 104, paragraphs 2 and 3 of the Consolidated Finance Act.

i) Delegation of authority to increase the share capital and authorisation to purchase treasury shares (pursuant to Article 123-*bis*, paragraph 1, letter m) of the Consolidated Finance Act)

Except as previously described, 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.

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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 Date of the Report, the Company holds 1,788 ordinary treasury shares, equal to approximately 0.000645% of the voting capital and approximately 0.000453% of the entire share capital.

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, nor is the Company subject to management and coordination by another company or entity in accordance with Article 2497 *et seq*. of the Italian Civil Code.

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[10] Specifically, the following events no longer constitute grounds for mandatory early repayment, nor may they in any way be construed as a "Material Event" or as non-compliance, nor be construed as a "Material Event" pursuant to the Loan Agreement:

(1) the completion of the (Extraordinary) Transaction as well as the fulfilment by the Company of the actions required for this purpose (including measures implementing the Plan, the (Extraordinary) Transaction and the granting of the pledge, as set forth in the Deed of Pledge (provided for under the Company's debt restructuring agreement)); and

(2) any change in the Company's shareholder structure:

   (I) instrumental or consequential to that provided for in this agreement (the Company's debt restructuring agreement) or in the NewCo Investment Agreement (provided for as part of the Extraordinary Transaction);

   (II) resulting from the acquisition of shares in the Company by third parties that are known to be reliable and have a suitable credit rating; and

   (III) resulting from the sale by the Industrial Investor (Feidos 11 S.p.A.) of its investment in the share capital of NewCo to third parties known to be reliable and with a suitable credit rating.

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.

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The information required by Article 123-*bis*, paragraph 1, letter i) of the Consolidated Finance Act relating to "*agreements between the company and directors... that provide for compensation in case of resignation or dismissal without just cause or if their employment ceases following a public tender offer*" is contained in the Remuneration Report published in accordance with Article 123-*ter* of the Consolidated Finance Act and made available on the Website within the statutory timeframe.

The information required by Article 123-*bis*, paragraph 1, letter l) of the Consolidated Finance Act relating to "*rules governing the appointment and replacement of directors... and the amendment of the Articles of Association, if different from the applicable laws and regulations that might also apply*" is illustrated in the section of this Report on the Board of Directors.

3. COMPLIANCE (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Finance Act)

Since its inception, Prelios has had a corporate governance system designed to manage and control the Company in line with market best practice, defining the precise distribution of roles and responsibilities between the various company bodies in order to comply with the laws, regulations, codes of conduct, procedures and Company regulations.

On May 3, 2002, the Company announced to the market that it had fully adopted the Self-Governance Code for Listed Companies published by Borsa Italiana, as well as the subsequent revised versions, implementing the consequent changes required from time to time.

In accordance with the applicable legislation and regulations, the aim of this Report is also to illustrate the corporate governance model adopted by the Company on the date of its publication, providing a snapshot of the current level of compliance with the provisions of the Code.

In this regard, it should be noted that at periodic intervals, and at least once a year, at the Board meeting called to examine the draft financial statements for the previous year, a special document is submitted to the Board of Directors prior to the approval of the Report which verifies the level of compliance with each individual provision of the Code, if necessary describing the actions proposed or under way.

It should be noted that Prelios and its strategically important subsidiaries are not subject to any provisions of foreign law that affect the Company's corporate governance structure.

It is stressed, however, that the subsidiaries Prelios SGR S.p.A. (asset management company) and Prelios Credit Servicing S.p.A. (financial intermediary registered on the list referred to in Article 107 of the Consolidated Banking Act) are subject to supervision by the Bank of Italy and that they adhere to the specific rules applicable to such companies, including with regard to governance.

With specific reference to the new Self-Governance Code for Listed Companies published by Borsa Italiana S.p.A. in December 2011, the Board of Directors, at its meeting of March 2, 2012 – noting the already prevalent and substantial compliance of the corporate governance model with the new provisions – resolved, subject to the approval of the Internal Control, Risk and Corporate Governance Committee, to adopt the new Code.

The 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 above documents are available in the corporate governance section of the Website.

Finally, in the interim financial report, the Company voluntarily reports on updates and additions to its corporate governance system compared with the information contained in the previous annual report.

4. BOARD OF DIRECTORS

4.1. APPOINTMENT AND REPLACEMENT (pursuant to Article 123-*bis*, paragraph 1, letter l of the Consolidated Finance Act)

For the appointment of members of the Board of Directors, the Articles of Association has made provision, since 2004, for the "list voting mechanism" – based on a transparent process and in accordance with Article 147-*ter* of the Consolidated Finance Act – to encourage more active participation of "minorities" in corporate proceedings, allowing them to nominate one fifth of directors.

Following the entry into force of Law 120 of July 12, 2011 (amending Article 147-*ter* of the Consolidated Finance Act), the appointment of directors in listed companies must be informed by the principles of gender equality.[11]

The Articles of Association uphold this principle by stipulating that in order to maintain gender equality in compliance with the regulations from time to time in force, in each list containing a minimum of three candidates, at least one third (rounded up to the nearest whole number if necessary) of these candidates must belong to the least represented gender. It should be pointed out that the Company was an early adopter of the minimum percentage eventually required under the applicable regulations.

[11] With its Resolution 18098 of February 8, 2012, CONSOB issued an implementing regulation amending the Issuers' 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[12], 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.

[12] Pursuant to Article 144-*quater* of the Issuers' Regulations, CONSOB, with Resolution 18775 of January 29, 2014, established the shareholding percentage applicable to the Company as 4.5%.

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.

Succession plans

In 2013, the Board of Directors – subject to the approval of the Internal Control, Risk and Corporate Governance Committee – decided not to adopt a succession plan for executive directors, as required by the Self-Governance Code (Article 5.C.2), taking into account the nature and structure of the current ownership and the related agreements regarding the Extraordinary Transaction.

The Company will consider whether to adopt – despite having fully completed the rationalisation of the organisational structure and alongside the tools and procedures already in place – formal methodologies that permit the monitoring of strategic roles within the Group and the existence of any internal parties capable of assuming positions of greater responsibility so as to ensure continuity in the development of key resources or to define the skills necessary to fill these roles when the need to conduct an external search arises due to "emergency" changes.

4.2. COMPOSITION (pursuant to Article 123-*bis*, paragraph 2, letter d) of the Consolidated Finance Act)

Following the Board's final approval of the Extraordinary Transaction, all Prelios directors decided to tender their resignation on March 27, 2013, with effect from the date of the Shareholders' Meeting on May 8, 2013, which, *inter alia*, approved the financial statements for the year ended December 31, 2012.

This decision was due to the fact that the execution of the aforementioned Extraordinary Transaction would have resulted in a change in the shareholder structure of Prelios. Therefore, the directors decided that it was in the best interest of the Company to allow its shareholders to appoint Board members without having to wait for their term of office to expire, which would have occurred with the approval of the financial statements for the year ended December 31, 2013.

It is pointed out that – in order to assist shareholders with the submission of lists and the subsequent appointment of directors – in the Directors' Report on the specific item on the agenda of the aforementioned Shareholders' Meeting (published in the corporate governance section of the Website), the outgoing directors expressed an opinion, *inter alia*, on the ideal composition of the Board and the professional qualities that candidates should have in view of the Company's business model and the complexity and specificity of the business sector in which it operates, taking into account the conditions attached to the Extraordinary Transaction, including the appointment of Sergio Iasi and Massimo Caputi, respectively, as Chief Executive Officer and Deputy Chairman (with responsibility for development), in each case in accordance with the principles of gender equality.

The Shareholders' Meeting of May 8, 2013 appointed the current Board of Directors, elected from the single list presented by the shareholders Camfin S.p.A., Intesa Sanpaolo S.p.A. and Massimo Moratti, already parties to the Prelios Agreement, which obtained more than 99% of the votes of those entitled to vote at the Shareholders' Meeting.

The proponents of the list provided a biography of each candidate so that shareholders could be informed of their personal and professional backgrounds and determine whether they qualified as independent.

The list is available in the corporate governance section of the Website.

At the Date of the Report, the Board of Directors is composed of 14 members whose term of office will expire with the approval of the financial statements at December 31, 2015.

In relation to this it is noted that on February 18, 2014, Anna Chiara Svelto – Non-executive director and member of the Internal Control, Risk and Corporate Governance Committee – resigned from the Board of Directors.

All directors currently in office were appointed for the first time by the aforementioned Shareholders' Meeting, with the exception of the Chief Executive Officer Sergio Iasi (appointed for the first time on November 13, 2012), as well as the independent directors Carlo Emilio Croce, appointed for the first time on January 25, 2006, Marina Brogi and Giovanni Jody Vender, appointed for the first time on April 21, 2011.

Following the re-election of the Board of Directors, the following ceased to hold the office of director during the year: Marco Tronchetti Provera (former Chairman of the Board – non-executive director), Enrico Parazzini (former Deputy Chairman – Executive director), Giuseppe Angiolini (former non-executive director – independent), Giovanni Fiori (former non-executive director – independent), Jacopo Franzan (former non-executive director), Valter Lazzari (former non-executive director – independent), Amedeo Nodari (former non-executive director), Dario Trevisan (former non-executive director – independent) and Giorgio Valerio (former non-executive director – independent).

At the close of the Shareholders' Meeting on May 8, 2013, the Board had therefore appointed new corporate officers, with Giorgio Luca Bruno named as Chairman and Massimo Caputi as Deputy Chairman, and Sergio Iasi confirmed as Chief Executive Officer of the Company.

The composition of the Board is shown in Table 1 in the Appendix to the Report, which indicates, *inter alia*, the status for each member (executive, non-executive, independent) and the role held on the Board.

For information on the personal and professional backgrounds of each director, please see their biographies on the Website.

Maximum number of appointments in other companies

In accordance with Article 1.C.3 of the Code, on November 7, 2007, the Prelios Board of Directors defined (and has since confirmed) the general criteria for the maximum number of appointments that can be held by directors. In principle, the office of director or auditor in more than five companies other than those under management and coordination by Prelios or its subsidiaries or associates is deemed incompatible with the role of director of the Company, where such companies:

(i) are listed in the FTSE MIB index (or equivalent foreign indices);

(ii) deal primarily with the public in the financial sector (listed in the Register of Financial Intermediaries referred to in Article 106/107 of Legislative Decree 385 of September 1, 1993), including asset management companies;

(iii) are involved in banking or insurance.

The Board also considers the fact that the same director holds more than three executive appointments in the companies referred to in points (i), (ii) and (iii) to be incompatible with the role of director of the Company.

Appointments held in several companies belonging to the same group are considered a single appointment, with executive positions taking precedence over non-executive positions.

In any event the Board is at liberty to decide differently, as disclosed in the annual report on corporate governance and ownership structure; hence it may include directorships or 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.

Based on the information provided by the parties concerned, it appears that all directors in office satisfy the criteria adopted.

Note that on re-election of the Board of Directors by the Shareholders' Meeting of May 8, 2013, the Shareholders (if intending to submit lists for the appointment of directors pursuant to the Articles of Association) were duly invited to view the aforementioned policy.

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 accordance with application criterion 2.C.2 of the Code, the Board runs an induction programme for new members, organising special meetings for directors and Statutory Auditors with the Prelios Group management so that they can learn about the business sector in which the Group operates, the dynamics of the business and its outlook, and the legal framework.

The high number of Board meetings and committee meetings held in 2013 (a total of 8 Board meetings, 2 meetings of the Remuneration Committee, 9 meetings of the Internal Control, Risk and Corporate Governance Committee and 11 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 legislation.

4.3. ROLE OF THE BOARD OF DIRECTORS (pursuant to Article 123-*bis*, paragraph 2, letter d) of the Consolidated Finance Act)

The Board of Directors plays a key role in the Company's management and strategic direction, and therefore performs all the tasks required by Article 1.C.1 of the Code.

Specifically, the Board of Directors:

- examines and approves the strategic, industrial and financial plans of the issuer and the group it heads, periodically monitoring their implementation, usually when it examines the financial statements for the period, and defines the corporate governance system of the issuer and the group structure. In this regard, on March 27, 2013, the Board adopted the Strategic Plan 2013-2016, which, in accordance with Article 67, paragraph 3, letter d) of Royal Decree 267/1942, as amended, had been certified by the independent expert Mario Civetta and published in the Companies' Register of Milan following the filing on March 29, 2013. As at the Date of the Report, on April 9, 2014 the Board had approved the 2014-2016 Guidelines, based on which the Group's new business plan is to be defined;

- defines the nature and level of compatible risk in view of the issuer's strategic objectives. In 2013, and until the Date of the Report, this was carried out with the support of the Internal Control, Risk and Corporate Governance Committee at the frequent Board meetings that took place. It is emphasised that, with the launch and subsequent execution of the Extraordinary Transaction, activity during the Financial Year focused on completing the Transaction, given its vital importance with regard to the major risks and the need to strengthen the capital and financial position of the Prelios Group and rebalance its overall financial structure. On November 11, 2013, the Board approved the guidelines and structure of the new risk management system (the "*Enterprise Risk Management Project*", or "**ERM Project**"), considering it suitable – for now – in view of the Company's characteristics and risk profile. The system will undergo constant monitoring to ensure that it remains adequate and to assess its effectiveness. On April 9, 2014, the Board examined and approved the work carried out, and welcomed the ERM Project in the process of being implemented;
- assesses the appropriateness 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 (formerly Prelios Property & Project Management), Prelios Valuation & e-Services and Prelios Agency. In 2013 and until the Date of the Report, this activity was carried out – and is still in the process of being implemented and refined – taking into account the Extraordinary Transaction and its effects;
- periodically examines, at least quarterly, the activities carried out by the executive directors in exercising the powers delegated to them. In 2013, this took place at regular board meetings (eight meetings were held in 2013, 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 corporate governance 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 2013 draft financial statements, the Board, at its meeting on April 9, 2014, also examined the Impairment Test at December 31, 2013 – 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 Review for 2013, guidance was specifically requested from directors on the persons whose presence on the Board was deemed advisable. It emerged that the composition of the Board was considered broadly adequate in terms of professional

expertise, as well as 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 main 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 the arrangements for the Board Performance Evaluation;
- 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 price-sensitive information (for more details, please see 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 2013 and the results were assessed by the Internal Control, Risk and Corporate Governance Committee and, on April 9, 2014, by the Board itself. For 2013, 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 completed questionnaires from directors while ensuring that answers remained anonymous; and (iii) Internal Audit preparing an analysis report, partly based on a comparison with the results of previous self-assessments. The results were then presented, as usual, at the Board of Directors' meeting that examined the 2013 draft financial statements, following an evaluation by the Internal Control, Risk and Corporate Governance Committee. Very briefly, it emerged from this that: (i) the Board's composition was generally considered to be balanced; (ii) the Board was considered to function well; (iii) the handling of strategic issues was considered effective; (iv) compliance with the Code and the procedures for negotiating and handling corporate governance issues were broadly satisfactory; and (v) the work of the Board's committees was outstanding. The suggestions made by some directors to receive pre-meeting documents even earlier and assessing the most relevant strategic issues more frequently and in greater depth have in fact already been implemented. Nevertheless, these will undergo the appropriate analysis so that further improvements can be implemented even more effectively.

* * *

The Articles of Association (Articles 14, 15, 16 and 17) set out the operating procedures and rules for Board meetings[13]. Although a minimum number of meetings is not specified, it is

[13] The Chairman convenes the Board and directs its work, ensuring that the directors are given, with reasonable notice – where this is possible and except in an emergency or in urgent cases – the necessary documents and information so that they can express an informed opinion on the items on the agenda. The Chairman – if necessary through the relevant internal functions – also informs the Directors and organises a discussion where necessary of the main legislative and regulatory developments affecting the Company and its governing bodies. The Board is convened by the Chairman or by any person acting as Chairman at the Company's registered office or at any other venue stated in the notice of meeting (provided that it is in Italy or in another Member State of the European Union), whenever it is in the Company's interest, or when requested by one of the Chief Executive Officers or by one fifth of the directors in office or by at least two Standing Statutory Auditors.

common practice for the Board to be convened in accordance with the recommendations of Borsa Italiana[14], 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[15], 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.

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.

Nevertheless, the resolutions of the Board of Directors are valid even in the absence of a formal call, if all of its members and all Standing Statutory Auditors in office are present.

[14] See Article 2.6.2, paragraph 1, letter c) of the Stock Exchange Regulations.

[15] Pursuant to Article 14.4 of the Articles of Association, the Board is convened at least five days before (or, in urgent cases, at least six hours before) the meeting.

In 2013, a total of eight meetings of the Board of Directors were held with an average duration of about an hour and a half.

For details of attendance at meetings by Board members, please see Table 1.

At the Date of the Report, three Board meetings had been held and at least six Board meetings scheduled for 2014, considering those already held and the calendar contained in the press release of November 4, 2013, as amended on February 7, 2014.

* * *

Regarding the possible concurrent activities carried out by directors, given that Article 12.16 of the 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.

In 2013, situations potentially covered by these rules were reported by the Deputy Chairman Massimo Caputi, the Chief Executive Officer Sergio Iasi and the Director Alessandra Patera, in relation to certain equity investments and roles held in other companies operating in the real estate sector, which however – based on the information and statements made by the parties concerned – did not reveal any current, concrete or material situations that had to be reported pursuant to Article 2390 of the Italian Civil Code. It is expressly understood that, in relation to any specific circumstances causing genuine problems, including those reported by the interested parties themselves, the Board of Directors will examine these carefully so that they may be assessed and the necessary actions taken in compliance with the applicable law.

4.4. EXECUTIVE OFFICERS

Chief Executive Officer

As previously mentioned, at the end of the Shareholders' Meeting of May 8, 2013, the Board of Directors confirmed Sergio Iasi as Chief Executive Officer of the Company.

In accordance with the provisions of the Code and in line with best practice, the Board of Directors has resolved to:

- delegate to the Chief Executive Officer Sergio Iasi all powers of ordinary and extraordinary administration (with the sole exception of (i) matters that cannot be delegated pursuant to Article 2381, paragraph 4 of the Italian Civil Code and (ii) those indicated in Article 18, paragraph 2 of the Articles of Association), setting – solely for internal purposes when dealing with the Board of Directors, and not relevant therefore when dealing with third parties – certain maximum limits (depending on the type of transaction), which, if exceeded, would come within the remit of the Board of Directors of the Company or require joint authorisation with the Chairman (namely relating to the sale and purchase of financial instruments and investments in companies; the purchase and sale of real estate; mortgages, loans and credit facilities; finance, contributions and capital increase transactions for investee companies; the issue of collateral and/or guarantees, generally with a maximum limit of Euro 30 million); transactions above Euro 15 million must be disclosed to the Chairman, while joint authorisation with the Deputy Chairman is required for the appointment and/or removal of senior executives;

- name Sergio Iasi, as Chief Executive Officer, as "*Director in charge of the internal control and risk management system*", with the attendant responsibilities under the Self-Governance Code (Article 7.C.4).

The structure outlined above, while maintaining a central role for the Board of Directors, ensures that authority is delegated in line with the Company's business model, with the appropriate distribution of power to guarantee operational efficiency in a reference market where speed is a prerequisite for seizing the best business opportunities.

The Chief Executive Officer Sergio Iasi was also:

- named as the Employer of the Company's personnel, with the associated responsibilities under the Consolidated Safety Act (both for employees and in relation to construction sites);
- delegated environmental and construction/planning responsibility (both for work carried out by the Company on all real estate units owned or used by it and for properties owned or used by third parties and managed by the Company);
- designated as legal representative for data protection purposes (both with regard to personal data held by the Company and data entrusted to the Company by third parties),

with full and unrestricted management and spending authority. The related functions were therefore delegated – in compliance with the applicable legislation – to the persons in charge of specific operational areas, in possession of the necessary requirements.

Lastly, in line with the recommendations of the Code (Article 2.C.5), the Chief Executive Officer has no directorships in any other issuer where the Chief Executive Officer is a director of the Company ("interlocking directorate").

Chairman

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.

The current Chairman of the Board, Giorgio Luca Bruno – in line with international and EU best practice adopted by the Code (Article 2.P.4) – has not been allocated specific management powers and therefore qualifies as a "non-executive director" in accordance with Article 2 of the Code, but is "non-independent" (in accordance with Article 3 of the Code) in view of the executive positions held within Camfin S.p.A., a shareholder of Prelios, and Lauro Sessantuno S.p.A., parent company of Camfin S.p.A., as well as Chief Corporate Development & Diversified Businesses Officer of Pirelli & C. S.p.A., which is also a shareholder of the Company.

Deputy Chairman

The Board of Directors, again on May 8, 2013, also resolved to appoint Massimo Caputi as Deputy Chairman of the Board of Directors, assigning him responsibility for the identification and implementation of opportunities and development initiatives in relation to different business sectors.

In this regard, the Board of Directors has resolved to confer on the Deputy Chairman Massimo Caputi all powers of ordinary and extraordinary administration (with the sole exception of (i) matters that cannot be delegated pursuant to Article 2381, paragraph 4 of the Italian Civil Code and (ii) those indicated in Article 18, paragraph 2 of the Articles of Association), setting – solely for internal purposes when dealing with the Board of Directors, and not relevant therefore when dealing with third parties – certain maximum limits (depending on the type of transaction), which, if exceeded, would come within the remit of the Board of Directors of the Company or require joint authorisation with the Chairman (namely relating to the sale and purchase of financial instruments and investments in companies; the purchase and sale of real estate; mortgages, loans and credit facilities; finance, contributions and capital increase transactions for investee companies; the issue of collateral and/or guarantees, generally with a maximum limit of Euro 30 million); transactions above Euro 15 million must be disclosed to the Chairman, while joint authorisation with the Chief Executive Officer is required for the appointment and/or removal of senior executives.

Reporting to the Board

In accordance with the provisions of Article 18 of the Articles of Association (which incorporates the requirements of Article 150, paragraph 1 of the Consolidated Finance Act), the Board of Directors and the Board of Statutory Auditors – except for cases in which certain transactions or activities are subject to the prior approval of the administrative body – receive a continuous and timely flow of information, in any case at least on a quarterly basis, on the activities carried out, the general performance of the business and its outlook; transactions with a major impact on the income statement, balance sheet and financial position undertaken by the Company and its subsidiaries; and any atypical or unusual transactions with related parties, or at least representing a potential conflict of interest, furnishing all the aspects necessary to assess those transactions.

In order to facilitate the orderly flow of information, since 2002 the Company has had a specific procedure ("*Procedure for the fulfilment of obligations pursuant to Article 150, paragraph 1 of Legislative Decree 58/1998*") which defines the rules to be followed to comply – on a quarterly basis – with the disclosure requirements referred to in Article 150 of the Consolidated Finance Act, concerning the activities of executive directors, both in exercising their delegated authority and in carrying out transactions approved by the Board, and in relation to business activities in general.

On March 4, 2011, the Board of Directors, having obtained the favourable opinion of the Internal Control and Corporate Governance Committee, proceeded to adapt the Procedure (now renamed the "*Procedure on the flow of information to directors and Statutory Auditors*"), partly in response to the adoption (on November 3, 2010) of a separate procedure relating to related-party transactions, described more fully below.

The full text of the Procedure on the flow of information to directors and Statutory Auditors is available in the corporate governance section of the Website.

4.5. OTHER EXECUTIVE DIRECTORS

In Article 2.C.1 the Code lays down the conditions in which a director should be regarded as an "executive director".

In light of the aforementioned definition, the Board has determined that, in addition to the Chief Executive Officer Sergio Iasi, the Deputy Chairman Massimo Caputi is also to be considered an executive director in view of the specific mandate assigned to him.

4.6. INDEPENDENT DIRECTORS

In Article 3.C.1 the Code defines the conditions in which a director may be regarded as an "independent director".

In light of the aforementioned definition, the Board – on the appointment of each person concerned – has concluded that seven non-executive directors (Claudia Bugno, Marina Brogi, Rosa Cipriotti, Carlo Emilio Croce, Andrea Mangoni, Massimo Tezzon and Giovanni Jody Vender) may be regarded as independent directors.

The Board of Directors, at the meeting immediately following the appointment, verified the fulfilment of the independence criteria set forth in the Code for the aforementioned independent directors, as well as the additional requirements set forth in Article 147-*ter*, paragraph 4 of the Consolidated Finance Act.

The results of these assessments were communicated to the market.[16]

According to principle 3.P.2 of the Code, the aforementioned assessment is usually carried out each year by the Board of Directors, and the results disclosed in the annual report. The last assessment was carried out on April 9, 2014.

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 Internal Control, Risk and Corporate Governance Committee and the Remuneration Committee are both composed of a majority of different independent directors (in particular, the Internal Control, Risk and Corporate Governance Committee is now composed only of independent directors).

In line with the recommendations of the Code (Article 3.C.6), a meeting of the independent directors was held on May 30, 2013, which notably examined the principal changes in the new Self-Governance Code and the most relevant aspects of the Company's governance. The meeting was also followed by an ad hoc meeting with the Prelios Group management, to provide newly appointed independent directors in particular with an appropriate

[16] See press release of May 8, 2013.

understanding of the business sector in which the Group operates, the business dynamics and their outlook.

4.7. LEAD INDEPENDENT DIRECTOR

In order to develop the role of independent directors, the Board decided to introduce a lead independent director with effect from March 9, 2006.

Although the conditions required by the Code do not apply[17], it was considered appropriate to appoint such a person – identified as the Chairman of the Internal Control, Risk and Corporate Governance Committee, Massimo Tezzon – as a point of reference and coordination for the queries and contributions of independent directors.

The lead independent director may also call – on his own initiative or at the request of other directors – special meetings of the independent directors (independent directors' executive sessions) to discuss issues considered of interest from time to time in relation to the functioning of the Board or management of the Company.

5. MANAGEMENT OF COMPANY INFORMATION

In terms of the management of confidential information, with particular reference to "inside" (i.e. "price-sensitive") information, it should be noted that this is handled directly by the Chief Executive Officer, in consultation with the Chairman and with the support of the relevant corporate functions.

The external disclosure of documents and information concerning the Company and its subsidiaries is made – in agreement with the Chief Executive Officer and the Chairman – by the Secretary of the Board of Directors, by Corporate Affairs and the Company Secretary (for reports to the authorities and shareholders), by the Communications Department (for press releases) and by Investor Relations (for communications intended for institutional investors and financial analysts).

The Chief Executive Officer and the heads of the aforementioned functions can liaise with each other at all times in response to any urgent need for external disclosure.

For the disclosure of documents and information, constant reference is made to the provisions of law and the regulations in force regarding Company information, while press releases are prepared in compliance with the requirements of Borsa Italiana, which has set the criteria for their structure and minimum content.

In addition, taking into account the provisions resulting from the transposition in Italy of EU directives on market abuse, since March 9, 2006, the Board has adopted a specific "Procedure for the management and public disclosure of price-sensitive information", available in the corporate governance section of the Website.

This Procedure, since updated (most recently on November 4, 2013) by the Board of Directors, subject to the favourable opinion of the Internal Control, Risk and Corporate Governance Committee, partly in light of the practical experience gained, defines:

[17] Application criterion 2.C.3 states that: "*The Board of Directors shall appoint an independent director as lead independent director in the following cases: (i) if the Chairman of the Board of Directors is ultimately responsible for the management of the Company (Chief Executive Officer); and (ii) if the office of Chairman is held by the person controlling the issuer*".

- the requirements and responsibilities for the classification of price-sensitive information;
- the arrangements for logging access to the price-sensitive information itself;
- the measures and rules in place to protect the confidentiality of price-sensitive information;
- the operational arrangements for disclosure to the market of price-sensitive information and the timing of its release to the public and/or analysts/investors. In connection with the above Procedure, provision has also been made – in accordance with Article 115-*bis* of the Consolidated Finance Act – to set up a special “Insider Register”, defining the relevant criteria for storing, managing and searching electronic data.

With specific reference to the laws on Internal Dealing, the Company has:

(i) identified the Key Managers of the Company as the persons subject to disclosure obligations, meaning key management personnel such as Senior Managers, where appointed, and other persons from time to time specifically identified by the Board of Directors in view of the role held;

(ii) introduced a “blackout period”, which for the aforementioned key persons referred to in paragraph (i) means refraining from dealing in shares issued by the Company – or other related financial instruments, as well as other listed securities issued by the Prelios Group – in the 20 days prior to the release of periodic financial results.

Lastly, the Company arranges to send the relevant notification to the aforementioned key persons, bound by disclosure obligations, providing all the information necessary to fulfil these obligations, and even preparing a special memorandum on internal dealing, as well as identifying Corporate Affairs and the Company Secretary as the point of reference for any requirements that these key persons might have and as the recipient of disclosures relating to transactions to be reported to the market.

6. BOARD COMMITTEES (pursuant to Article 123-*bis*, paragraph 2, letter d) of the Consolidated Finance Act)

In implementing the provisions of the Code (Article 4) and making use of the option provided for by Article 19.3 of the Articles of Association, the Board has established:

- a Remuneration Committee;
- an Internal Control, Risk and Corporate Governance Committee,

with policymaking and advisory functions, in which the composition and operating procedures are consistent with the provisions of the Code (Article 4.C.1).

A set of procedures and formalities has been defined for the Committees which is similar to those applied to the Board, namely with regard to information on the topics to be discussed, operating procedures (formation, resolutions and minutes) and participation of external parties, reporting to the Board at the first Board meeting following the Committee meeting.

Committee resolutions, including those adopted at meetings held via telecommunication systems, are recorded in the appropriate book; the minutes are signed by the Chairman and Secretary of the meeting.

7. NOMINATION COMMITTEE

The Board has decided not to set up an internal Nomination Committee taking into account – as required by criterion 4.C.2[18] of the Code – the number of independent directors in office, the ownership structure and the ability of the list voting system to provide transparency for the candidate selection and nomination procedure.

The relevant functions are therefore reserved for the entire Board, which may call on the support of the "Internal Control, Risk and Corporate Governance Committee".

8. REMUNERATION COMMITTEE

The Remuneration Committee – in full compliance with the recommendations of Article 6.P.3 of the Code – is currently composed of four non-executive directors, the majority of whom are independent:

- **Giovanni Jody Vender** (Chairman – non-executive independent director);
- **Rosa Cipriotti** (non-executive independent director);
- **Carlo Emilio Croce** (non-executive independent director);
- **Davide Mereghetti** (non-executive director);

who possess adequate knowledge and experience of accounting and financial matters or remuneration policies.

In addition, following the re-election of the Board of Directors, during the year Giorgio Valerio ceased to hold office as a member of the Committee (previously a non-executive independent director).

The Board appointed the current Committee on May 8, 2013 and identified and assigned the relevant tasks in order to make them fully compliant with the provisions of the Code, stipulating in particular that:

- it shall assist the Board in defining the Group's remuneration policy and related implementation criteria, where adopted;
- it shall periodically assess the adequacy, overall consistency and practical application of the remuneration policy and the criteria for its implementation, where adopted, by formulating proposals in this regard with specific reference to the directors and key management personnel;
- for directors assigned special roles, executive directors and senior managers (where appointed), it shall submit proposals to the Board for:
  - their remuneration, in line with the remuneration policy and related implementation criteria, where adopted;
  - the setting of performance targets for the variable component of such remuneration;

[18] Application criterion 4.C.2 states that: "*The formation of one or more committees may be avoided by assigning their functions to the entire Board, to be coordinated by the Chairman and subject to the following conditions: (i) the independent directors represent at least half of the Board of Directors, rounded down if the Board has an odd number of members; (ii) adequate time is spent during Board meetings on the performance of the functions that the Code assigns to the committees, an account of which is given in the corporate governance report; and (iii) for the Control and Risk Committee only, the issuer is not controlled by another listed company, or subject to external management or coordination. The Board of Directors shall provide details in the corporate governance report of the reasons behind the decision not to form one or more committees; in particular, it must provide sufficient justification for its decision not to appoint a Control and Risk Committee in relation to the complexity of the issuer and the sector in which it operates. Furthermore, the Board shall periodically re-evaluate the decision made.*"

  - the definition of any non-compete agreements;
  - the definition of any arrangements for termination of the contract, if necessary based on the principles enshrined in the remuneration policy and related implementation criteria, where adopted;
- it shall assist the Board in examining proposals to be submitted to the Shareholders' Meeting on the adoption of any share-based compensation plans;
- it shall monitor the implementation of decisions adopted by the Board, verifying in particular the actual achievement of the performance targets set;
- it shall prepare and submit an annual remuneration report to the Board that, for each individual member of the administrative and supervisory bodies, for senior managers and for all key management personnel:
  - gives an adequate representation of each item of remuneration in line with the remuneration policy;
  - illustrates in detail the remuneration paid during the reference period on any basis and in any form by the Company and its subsidiaries and/or associates.

The Board of Directors has also granted the Remuneration Committee specific authority to comment on remuneration issues pertaining to transactions with related parties of the Company, in compliance with the appropriate procedure adopted by Prelios, described in more detail below.

In terms of the functioning of the Remuneration Committee, it is provided for that this shall meet whenever its Chairman sees fit, or if a request to this effect is made by at least one member, by the Chairman of the Board of Directors or, if appointed, by the Chief Executive Officer, and in any case at suitable intervals for the proper performance of its functions.

The Secretary of the Board of Directors acts as Committee secretary.

As a rule, Committee meetings are convened by notice, if necessary sent by the Secretary on behalf of the Committee Chairman.

The documents and information available (or otherwise necessary) are sent to all members of the Committee sufficiently in advance of the meeting so that they may comment on these, generally together with the notice of call.

For meetings of the Committee to be valid, the presence is required of the majority of the members in office and resolutions are passed by an absolute majority of the members present.

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.

In 2013 two meetings were held; 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 May 8, 2013, which approved the 2012 financial statements; and (ii) the Remuneration Report for 2012 of members of the administrative and supervisory bodies, senior managers and key management personnel. This Report is published on the Website;
- the variable, annual and long-term incentive criteria for the management and the reasons why they have not been adopted;
- the remuneration package for the Chairman, Deputy Chairman and Chief Executive Officer upon appointment to their respective posts, partly based on special benchmarks and opinions prepared by consultants/independent professionals specialising in this area.

In 2014, 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.

As mentioned previously in the 2012 Report, in accordance with the dictates of Article 123-*ter* of the Consolidated Finance Act, on March 27, 2013 the Board of Directors, following the favourable opinion of the Remuneration Committee, approved the Remuneration Report, including the remuneration policy later submitted to the advisory vote of the Shareholders' Meeting of May 8, 2013, which also approved the 2012 financial statements; this has since been made available in the corporate governance section of the Website.

At the Date of the Report, it is noted that, with specific reference to the 2013 Financial Year, the Board of Directors will review the Remuneration Report (including the remuneration policy), following its examination by the Remuneration Committee and, in any case, prior to the publication, as required by law, of the Remuneration Report itself. The Remuneration Report will then be presented to the Shareholders' Meeting called to approve the 2013 financial statements, which will also have an advisory vote on the remuneration policy.

General remuneration policy

While reference is made to the aforementioned Remuneration Report published on the Website for further information, the remuneration policy contained in the Remuneration Report, and still in force at the Date of the Report, is designed to attract, motivate and retain resources that have the professional skills necessary to successfully pursue the objectives of the Prelios Group.

The policy in force at the Date of the Report is designed to align the interests of management and shareholders by pursuing the primary objective of creating sustainable value in the medium to long term by establishing a link between pay and individual and Group performance. More specifically, it sets out guidelines based on the following criteria:

a. the fixed component and variable component are properly balanced according to the Company’s strategic objectives and risk management policy, taking into account the business sector in which it operates and the nature of the business effectively carried out;
b. upper limits apply for the variable components;
c. the fixed component is sufficient to reward the director’s performance in the event that the variable component is not paid due to failure to reach performance targets;
d. performance targets are predetermined, measurable and linked to the creation of value for shareholders in the medium to long term;
e. the payment of a significant portion of the variable remuneration component (when long-term incentive mechanisms are in place) is deferred for an appropriate period of time after vesting; the measurement of that portion and the deferment period shall be consistent with the nature of the business carried out and the associated risk profiles;
f. any compensation agreed for the early termination of the directorship or job, or for the non-renewal of same, must be defined according to the provisions of the relevant case law and in line with the reference benchmarks and best practice in the field and, therefore, in such a way that its total amount does not exceed a certain amount or a certain number of years’ remuneration.

Share-based compensation plans

At the Date of the Report, there are no share-based compensation plans in place.

Remuneration of directors assigned special roles and executive directors

At the Date of the Report, the remuneration policy in place 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 (annual gross basic remuneration);
- an annual variable component (variable annual incentive, or MBO);
- a long-term variable component (long-term incentive, or LTI);
- company benefits generally provided for Directors, according to the policies adopted.

In general, the overall remuneration 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 the business carried out.

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, assesses whether other "key management personnel" within the Company and/or the Group might qualify as such, and whether existing key management personnel can still be regarded as such. The last assessment was carried out on April 9, 2014.

Anyone assigned a Senior Manager role is automatically considered one of the key management personnel.

The remuneration of key management personnel in general consists of the following elements:

- a fixed component (annual gross basic remuneration, or AGR);
- an annual variable component (variable annual incentive, or MBO);
- a long-term variable component (long-term incentive, or LTI);
- company benefits, according to the policies adopted.

In general, as for executive directors, the overall remuneration of key management personnel 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 the business carried out.

Incentive mechanisms for the Head of Internal Audit and the manager charged with preparing the Company's financial documents

At the Date of the Report, 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 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

At the Date of the Report, 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.

*

In accordance with the provisions of the Code, the Directors' remuneration is considered appropriate – and in line with that applied by the market in similar situations – as well as sufficient to attract, retain and motivate directors who have the professional skills required to successfully manage the Company.

Compensation for directors in the event of their resignation, dismissal or termination of employment following a public tender offer (pursuant to Article 123-*bis*, paragraph 1, letter i) of the Consolidated Finance Act)

On May 30, 2013, the Board of Directors, with the approval of the Remuneration Committee, resolved to grant the Deputy Chairman Massimo Caputi and the Chief Executive Officer Sergio Iasi:

- in the event of early termination of their office instigated by the Company (except in cases of statutory fair dismissal) or the resignation of the Deputy Chairman or the Chief Executive Officer on valid grounds, or in the event of early expiration and non-renewal of their office, all-inclusive gross compensation for the outgoing Director equal to the higher of: (i) the fixed and variable annual remuneration due until the end of their tenure; (ii) two years' fixed and variable remuneration;
- in the event of non-renewal at the end of the first three-year term, all-inclusive gross compensation for the outgoing Director equal to two years' fixed and variable remuneration.

This was calculated partly based on special benchmarks prepared by the Hay Group, a company specialising in compensation.

The recognition of such agreements on the financial arrangements that will apply in the event of early termination of the contract is consistent with the "remuneration policy" approved, as provided by law, by the Company and in effect at the Date of the Report.

There are no specific agreements that provide for remuneration for non-compete commitments, the maintenance of non-monetary benefits or the signing of consultancy agreements for a period following the termination of the relationship.

10. INTERNAL CONTROL, RISK AND CORPORATE GOVERNANCE COMMITTEE

The Internal Control, Risk and Corporate Governance Committee, in full compliance with the recommendations of Article 7.P.4 of the Code, is currently composed of three independent non-executive directors:

- **Massimo Tezzon** (Chairman – non-executive director, independent);
- **Marina Brogi** (non-executive director, independent);
- **Andrea Mangoni** (non-executive director, independent);

who have suitable experience of accounting and finance or risk management.

As previously mentioned, Anna Chiara Svelto, non-executive director and Committee member, resigned on February 18, 2014.

It should also be noted that following the re-election of the Board of Directors, the following ceased to be Committee members during the year: Dario Trevisan (previously Chairman – non-executive director, independent), Giovanni Fiori (previously non-executive director, independent) and Valter Lazzari (previously non-executive director, independent).

The Board instituted the Committee on May 8, 2013 and decided on its duties and operating procedures in full compliance with the Code, stipulating that the Committee has the task of ensuring, through appropriate preparatory work on the risk management system, the efficiency, effectiveness and fairness, on the one hand, of the internal control system and, on the other, of the corporate governance structure in general.

In terms of <u>internal control and risk management,</u> the Committee:

a. expresses its opinion and/or presents its proposals to the Board of Directors when the latter:

   - defines the guidelines for the internal control and risk management system;
   - evaluates, at least once a year, the suitability and effectiveness of the internal control system based on the risk profile assumed;
   - approves, at least once a year, the programme of work prepared by the Head of Internal Audit, in consultation with the Board of Statutory Auditors and the Director(s) in charge of the internal control and risk management system;
   - describes, in the corporate governance report, the key features of the internal control and risk management system, expressing its view on the overall suitability of this;
   - assesses, after consulting the Board of Statutory Auditors, the results presented by the external auditors in any letter of recommendations and in the report on the fundamental issues emerging from the external audit;
   - appointment and removal – on the proposal of the Director(s) in charge of the internal control and risk management system and after consulting the Board of Statutory Auditors – of the Head of Internal Audit, ensuring that he or she is given adequate resources to discharge his or her responsibilities, and setting his or her pay in line with the remuneration policy adopted by the Company.
     Where the Director(s) in charge of the internal control and risk management system is/are vested with operational authority, proposals for the appointment, removal and remuneration of the Head of Internal Audit should be shared with the Chairman of the Board of Directors, unless also vested with operational authority;

b. in assisting the Board of Directors:

   - evaluates, together with the manager charged with preparing the Company's financial documents and in consultation with the external auditors and the Board of Statutory Auditors, the proper use of accounting standards and their consistency for the purposes of preparing the consolidated financial statements;
   - expresses its opinion:
     a) on the periodic identification and assessment, at least annually, of the principal risks facing the Company and its subsidiaries so that these are properly monitored (annual risk assessment);
     b) on the definition and periodic updating, at least annually, of mitigation plans and "risk management" plans in general (annual risk management plan), in order to keep the overall levels of risk exposure below the risk threshold considered by the Board of Directors, on the recommendation of the Committee, as "acceptable" (risk appetite);
   - analyses periodic reports on the evaluation of the internal control and risk

management system and significant reports prepared by the internal audit unit;

- monitors the independence, adequacy, effectiveness and efficiency of the internal audit unit;
- may ask the internal audit unit to check specific operating areas, simultaneously notifying the Chairman of the Board of Statutory Auditors;
- reports to the Board of Directors, at least every six months, on the approval of the annual and interim reports, on the work performed and on the suitability of the internal control and risk management system.

The following are referred to the Committee:

- by the "*Director in charge of the internal control and risk management system*", any issues and critical aspects that emerge in the course of his or her work or reported to him or her so that the Committee can take the appropriate action;
- by the manager charged with preparing the Company's financial documents, the activities carried out at least once a year.

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In terms of corporate governance, the Committee:

- monitors the compliance and periodic updating of the rules on corporate governance and the upholding of any standards of conduct adopted by the Company and its subsidiaries;
- proposes the methods and timing of the annual self-assessment of the Board of Directors;
- nominates candidates to the Board for co-opting in the event of the replacement of independent directors;
- handles the preparatory work for the succession plan for executive directors, if adopted by the Board of Directors.

The Committee is also assigned the role of "*Committee for Related-Party Transactions*" – within the limits set by the applicable laws and regulations and the Procedure for Related-Party Transactions adopted by the Company – with regard to transactions with related parties of the Company or its subsidiaries, with the sole exception of matters concerning the remuneration of directors and key management personnel, entrusted to the Remuneration Committee.

Specifically, the Committee:

- periodically (and at least every three years) assesses any changes to the Procedure for Related-Party Transactions, sharing its views with the Board of Directors;
- for transactions of major significance, may request information and make observations to the relevant bodies and individuals tasked with handling the negotiations or investigating the transactions;
- for related-party transactions of major and minor significance, submits reasoned opinions on the benefit to the Company of proceeding with the transaction and on whether the terms are advantageous and substantially fair, and on proposals to adopt "Framework resolutions of major significance" and "Framework resolutions of minor

significance".

In terms of the functioning of the Committee, it is required that this shall meet whenever its Chairman sees fit, or if a request to this effect is made by at least one member, by the Chairman of the Board of Directors or, if appointed, by the Chief Executive Officer, and in any case at suitable intervals for the proper performance of its functions.

The Secretary of the Board of Directors acts as Committee secretary.

As a rule, Committee meetings are convened by notice, if necessary sent by the Secretary on behalf of the Committee Chairman.

The documents and information available (or otherwise necessary) are sent to all members of the Committee sufficiently in advance of the meeting so that they may comment on these, generally together with the notice of call.

For meetings of the Committee to be valid, the presence is required of the majority of the members in office and resolutions are passed by an absolute majority of the members present.

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 Financial Reporting Officer.

In this regard, with the entry into force of the Consolidated Statutory Audit Act, to allow the Board of Statutory Auditors to fulfil its supervisory role in accordance with the new powers defined by law, it is required that the Board of Statutory Auditors and the Internal Control, Risk and Corporate Governance Committee, at the respective committee meetings and in compliance with the responsibilities and roles assigned to it, shall discuss the following specific matters:

- the financial reporting process;
- the effectiveness of the internal control, internal audit and risk management system;
- the external audit of the annual financial statements and consolidated financial statements;
- the independence of the Independent Auditors.

The Committee – which in discharging its duties may engage external consultants – has adequate financial resources for the performance of its duties, with independent 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 meetings were held in 2013; 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 examined and assessed, *inter alia*:

- the impairment test methodology and activity in relation to the 2012 draft financial statements and their consistency with the requirements of IAS 36 and the related procedure adopted by the Company;
- updates made to the Organisational Model pursuant to Legislative Decree 231/2001 as a result of regulatory changes and the extension of predicate offences, as well as further improvements and refinements derived from the experience gained in the practical application of the Model, in order to ensure its suitability for achieving the

proposed objectives even more efficiently, with specific reference to the mapping and identification of risk areas and the related safeguards;
- the proposed amendments to the Articles of Association to comply with current legislation on gender equality, both on the appointment of statutory auditors and in the event of their replacement while in office;
- the level of compliance with the Self-Governance Code;
- the outcome of the activities carried out as part of the Board Performance Evaluation and the evaluation procedures for 2012;
- the expediency of not adopting a succession plan for executive directors, taking into account the nature and structure of the current shareholding structure and the related agreements on the Extraordinary Transaction;
- the preparatory work for the annual assessment of the independence of directors;
- the main tax risks and issues facing Prelios and its subsidiaries and the companies in which it holds an interest;
- the audit of the planning and control process;
- activities relating to the definition and implementation of the new risk management system;
- the proposed changes to the "Procedure for the management and public disclosure of price-sensitive information", purely for the purposes of refining and improving this, particularly taking into account the practical experience gained, there being no need at this stage for significant and/or structural changes and confirming, therefore, the validity of its approach and application.

In the course of its work, the Committee has reviewed and assessed reports:

- from the Head of Internal Audit for the 2012 financial year, the 2013 Audit Plan and related progress reports, and periodic reports on work and activities in 2013;
- 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 2012 and the first half of 2013;
- 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 2013 Financial Year.

It should further be noted that the new members of the Committee were able to examine in more detail, at a series of meetings with the Head of Internal Audit and the Financial Reporting Officer, 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, the current Committee, as the "*Committee for Related-Party Transactions*", examined and assessed the related-party transactions, including, in particular, the progress of the Extraordinary Transaction, in terms of the involvement of the Company's Lenders, and thus of Pirelli, and the review of the financial structure (and the related terms and conditions) of the Company's corporate debt, which qualified as a related-party transaction of "major significance".

In this latter regard, the "*Committee for Related-Party Transactions*" – composed solely of non-executive and independent directors – has received a continuous, comprehensive and timely flow of information about the Extraordinary Transaction and the activities carried out from time to time to strengthen the balance sheet and financial position of the Company and rebalance its financial structure.

With regard to Pirelli, since the restructuring agreement for the loan granted by it qualified as a related-party transaction of "major significance", as defined by the relevant procedure adopted by the Company, the "*Committee for Related-Party Transactions*" examined the aforementioned transaction at a series of meetings at which the relevant updates were obtained from those responsible for handling the negotiations, so as to enable the Committee to express its binding opinion on whether the related terms were advantageous and substantially fair – an opinion issued, without abstentions or votes against, on March 14, 2013, and later confirmed on March 27, 2013.

For more details, please see the Prospectus[19] published on the Website.

The "*Committee for Related-Party Transactions*" has also completed the periodic three-year analysis of the "Procedure for Related-Party Transactions" adopted by the Company (as required by law and by Article 17.2 of the Procedure itself), taking into account the changes in ownership on completion of the Extraordinary Transaction and the effectiveness of the Procedure itself.

Based on the fairness opinion received from an independent expert, the Committee has expressed a favourable opinion on (i) the identification of Camfin S.p.A., Pirelli & C. S.p.A., Marco Tronchetti Provera and Feidos/Feidos 11 S.p.A. as additional "related parties" of the Company, and (ii) the assessment of the Procedure and the proposed amendments. 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".

In 2014, five meetings of the Internal Control, Risk and Corporate Governance Committee took place prior 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 is responsible for the internal audit system, and it sets its 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

[19] Prospectus prepared in accordance with the "*Regulation on transactions with related parties*" adopted with CONSOB Resolution 17221 of March 12, 2010, as amended by CONSOB Resolution 17389 of June 23, 2010, as well as the Procedure for Related-Party Transactions.

determines the degree that these risks are compatible with Company operations in keeping with the strategic objectives identified.

In 2013, this activity was carried out and monitored especially with respect to the overall financial structure and level of sustainable debt.

In addition, during the Financial Year steps were taken to implement the new Enterprise Risk Management (ERM) model aimed at:

- providing management with an appropriate tool to clarify and assess risk factors and opportunities inherent in Company decisions to support and strengthen decision-making processes and the Group's forecasting capabilities;
- making an internal tool available to directors that they can rely on to: (i) understand and assess the risk profile adopted in pursuing the defined strategy; and (ii) periodically assess the adequacy and effectiveness of the risk management system.

Furthermore, the management and coordination of the Risk Management process assigned to the Company's Risk Officer will be supported by a “Managerial Risk Committee” (headed by the Chief Executive Officer and made up of the Risk Officer and heads of the appropriate Company units) with the duty of:

(i) supporting the director in charge of the internal control and risk management system in the performance of his or her duties to design, implement and manage the risk system; (ii) promoting a structured process to identify and measure risks; (iii) examining information on risks to which the Group is exposed; (iv) discussing and corroborating strategies to respond to risk as a function of overall exposure and assigning the related responsibilities for doing so; and (v) monitoring the actual implementation of strategies to respond to and overall manage risk.

Note that following the positive assessment of the Internal Control, Risk and Corporate Governance Committee, on April 9, 2014 the Board of Directors approved the activities performed and under way for the new ERM model.

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. In addition, there are specific limits to interaction with Group companies subject to supervision (i.e. Prelios Società di Gestione del Risparmio S.p.A. and Prelios Credit Servicing S.p.A.) in order to respect their autonomy and independence as required by current legislation.

After consulting with the Board of Statutory Auditors, the Board assesses the results reported by the external auditors in any suggestion letter produced and in the report on issues that arose during the external audit pursuant to Article 19 of the Consolidated Statutory Audit Act.

With specific reference to the assessment of the internal control system, as a part of its duty to effectively manage risks that are typical of the main operations of the Company and its subsidiaries, and to monitor the operating and financial situation of the Company and the Prelios Group, the Internal Control, Risk and Corporate Governance Committee believes that the internal control system is essentially adequate and, thus, suitable for protecting the Company's interests and for the purposes for which it was created, partly on the basis of information received from the Board of Statutory Auditors.

11.1. EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Pursuant to the guidelines in Article 7.P.3, letter a) of the Code, the Board has appointed the Chief Executive Officer currently in office to the position of "*Director in charge of the internal control and risk management system*".

This role 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 resulting necessary/appropriate powers to implement further initiatives and measures needed for full compliance with the provisions of self-regulation of listed companies.

11.2. HEAD OF INTERNAL AUDIT

In agreement with the Board of Directors, the Chief Executive Officer carried out his duties to implement, manage and monitor the internal control system and established a special specific "internal control unit", which is the responsibility of the Prelios Head of Internal Audit, Sergio Romiti. He is not in charge any operating area and reports to the Board of Directors.

In particular, at the proposal of the director in charge of the internal control and risk management system, and after obtaining the favourable opinion of the then Internal Control and Corporate Governance Committee, the Board of Directors appointed Sergio Romiti as Head of Internal Audit and set his remuneration in accordance with the related Company policy.

The Head of Internal Audit relies on an independent structure with specific applicable experience and on adequate financial resources to perform his duties, available as necessary without specific limitations.

The Head of Internal Audit must prepare the "work plan" for auditing activities and check the internal control and risk management system and the reliability of information systems, including accounting systems.

In particular, he must verify compliance with, and the effectiveness of, all rules, procedures and structures used by the Company to achieve the objectives set and meet with Corporate Affairs and the Company Secretary for the appropriate coordination and collaboration under their responsibility, and periodically report on his activities to the Chief Executive Officer for decisions under the responsibility of the latter, and to the Internal Control, Risk and Corporate Governance Committee and Statutory Auditors.

In 2013 the Head of Internal Audit, who has free access to all information useful for the performance of his duties and powers to access and make requests to all Company units, reported periodically on his activities to the director in charge of the internal control and risk management system, and on four occasions attended meetings of the Internal Control, Risk and Corporate Governance Committee, which were always attended by the Board of Statutory Auditors and the Financial Reporting Officer.

Audits of the internal control system for 2013 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 it 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 as dictated by current laws.

During the activity performed in 2013, 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 shared by management with specific action plans that were the subject of follow-up to verify whether the actions shared 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, the safeguarding of the Company's assets and compliance with current laws.

Other activities performed in 2013 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 2013 audit plan.

In 2013 the Head of Internal Audit submitted to the Internal Control, Risk and Corporate Governance Committee the audit plan scheduled for 2013, which was later approved by the Board of Directors on March 27, 2013. During the year, quarterly reports were submitted on the progress made on the audit plan.

On March 21, 2014 the Head of Internal Audit submitted to the Internal Control, Risk and Corporate Governance Committee the audit plan scheduled for 2014, which was later approved by the Board on April 9, 2014 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 on March 9, 2007, November 7, 2007, March

6, 2008, November 5, 2008, March 5, 2009, November 4, 2009, March 4, 2011, March 2, 2012 and August 28, 2013. The Organisational Model is published in the corporate governance 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 in order to avoid the creation of environmental circumstances enabling the commission of offences in general, and specifically, those offences specified in Legislative Decree 231/2001. Certain rules are also aimed specifically at managing relations with representatives of the Public Administration and third parties in general, and at obligations and activities of a corporate and market communication nature;
- 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 were prepared on the basis of three cardinal rules, and specifically:
  - the separation of roles in the performance of activities involving processes;
  - the “traceability” of decisions, i.e. their constant visibility (e.g. through appropriate documentation), making it possible to identify precise “areas” of responsibility and the “motivation” for these decisions;
  - the objectification of decision-making processes, in the sense of assuring that when decisions are made, purely subjective assessments are avoided, with reference made instead to established criteria.

In addition, the Company has appointed a Supervisory Board, with a collegial structure and independent powers of initiative and control, in charge of supervising the effectiveness, adequacy and functionality of and compliance with the Model, and also ensuring it is regularly updated.

This Board currently is made up of:

- **Massimo Tezzon**, independent director and Chairman of the Internal Control and Corporate Governance Committee;
- **Michela Zeme**, Standing Statutory Auditor;
- **Sergio Beretta**, university professor and expert in the area of corporate controls;
- **Sergio Romiti**, Head of Internal Audit.

At present, we do not wish to assign the duties of the Supervisory Board to the Board of Statutory Auditors since we believe it is preferable to have the related duties carried out by a body working exclusively on these activities, and since its members include a Statutory Auditor, there is an assurance of effective work and appropriate coordination with the Board of Statutory Auditors.

The Organisational Model ends with a section dedicated to transactions coming directly from “senior managers” of the Company, a section dedicated to the disciplinary system introduced to sanction violations of measures indicated in the Organisational Model and a section related to disseminating the Model and related training.

In addition, there are two appendices: (i) the first relates to major offences in accordance with Legislative Decree 231/2001 and summarises offences that could be significant for the Company as well as several possible ways in which offences could occur; and (ii) the second relates to the description of the Public Administration.

Article 6, paragraph 2, letter d) of Legislative Decree 231/2001 identifies precise reporting obligations for the body appointed to oversee the operation of and compliance with the models. This operation is facilitated by regular, structured reporting concerning issues/events at risk, the significance and analysis of which constitute “red flags” that can lead to in-depth responses by the Supervisory Board on any anomalous situations and/or offences.

The main types of offences that the Model intends to prevent include:

a. Offences to the detriment of the Public Administration:

   i. Improper receipt of funds, fraud to the detriment of the State or a government agency or to obtain public funds, and IT fraud to the detriment of the State or a government agency (Article 24 of Legislative Decree 231/2001);

   ii. Bribery and corruption (Article 25 of Legislative Decree 231/2001);

b. IT offences and illegal data handling (Article 24-*bis* of Legislative Decree 231/2001);

c. Corporate offences (Article 25-*ter* of Legislative Decree 231/2001);

d. Market abuse (Article 25-*sexies* of Legislative Decree 231/2001);

e. Crimes of manslaughter or serious or extremely serious injuries committed in violation of provisions on the protection of health and safety at work (Article 25-*septies* of Legislative Decree 231/2001);

f. Offences of receiving stolen goods, money laundering and using money, assets or benefits obtained illegally (Article 25-*octies* of Legislative Decree 231/2001);

g. Environmental offences (Article 25-*undecies* of Legislative Decree 231/2001).

At the beginning of 2013, the Company, in agreement with the Supervisory Board, and with the support of internal structures and outside professionals, launched an activity to map risks in relation to the new provisions of Article 25-*duodecies* (the hiring of citizens from other countries who lack proper residence permits) and related controls, and with respect to the new offences specified in Legislative Decree 231/2001 and introduced by Law 190/2012 (Provisions for the prevention and repression of corruption and illegality in the public administration) in order to ascertain whether it is appropriate to update the Organisational Model in keeping with the Company's specific activities.

The Italian subsidiaries with strategic significance have all established their own organisational models and supervisory boards. For each, the Supervisory Board was identified in the search for 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 completeness, it should be noted that the Company has also adopted an internal whistleblowing policy that governs the procedure for reporting violations, suspected violations and inducements to commit violations of laws, regulations, principles stated in the Code of Ethics, internal control principles and Company rules and procedures.

In particular, this policy, which supplements and is coordinated with the provisions of the Organisational Model pursuant to Legislative Decree 231/2001 adopted by the Company, specifies that employees who are aware of potential or actual violations are encouraged to give notice thereof immediately with the guarantee of full protection in terms of confidentiality and of no reprisals of any kind.

Reports may involve 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 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.

Reconta Ernst & Young S.p.A. is the Italian organisation in the Ernst & Young network that was also hired, through organisations with a presence in the various countries where the Group operates, to audit the financial statements of the main Prelios Group companies.

In order to ensure compliance with the independence requirement of companies hired to audit the financial statements, the Company has adopted an *ad hoc* procedure that internally governs this matter in relation to:

- the procedures for granting the official audit assignment to Independent Auditors hired by Prelios pursuant to the Consolidated Finance Act;
- the procedures for Prelios subsidiaries to grant the external audit assignment;
- the procedures for Prelios and its subsidiaries to grant the external auditor, or entities forming a part of its network, any other assignments (other audit services, audit-related services and non-audit services).

Assignment award options and limits are set for each category of services, as are approval procedures and the reporting obligations for final data.

Lastly, in light of the unusual regulations pertaining to the subsidiary Prelios SGR[20], it was decided that the Procedure should apply to the extent compatible with the above special regulations.

11.5. MANAGER CHARGED WITH PREPARING THE COMPANY’S FINANCIAL DOCUMENTS AND OTHER COMPANY POSITIONS AND OFFICES

In accordance with the provisions of Article 154-*bis* of the Consolidated Finance Act and Article 19.4 of the Articles of Association, on November 4, 2013, after consulting with the Board of Statutory Auditors, the Board appointed Elena Capra (the Company's Chief Financial Officer) as manager charged with preparing the Company’s financial documents (replacing Angelo Cattaneo who temporarily replaced Riccardo Taranto, the Company's previous Chief Financial Officer), who meets the requirements of integrity set for directors and is an expert in administration, finance and control, and also designated her as a “Key Manager” as defined by current legislation and regulations in effect *pro tempore* and by the Company's procedures.

Since February 24, 2014 Marco Andreasi replaced Elena Capra to become the Company's Chief Financial Officer and manager charged with preparing the Company’s financial documents.

By law, certain specific authorities and responsibilities are assigned to the Financial Reporting Officer; 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 entries;

b. to prepare appropriate administrative and accounting procedures to prepare 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 interim 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 Community; (iii) the financial statements correspond to accounting books and entries; (iv) that they 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; and (v) that the reports for the separate financial statements, consolidated financial statements and condensed interim financial statements include the information required by law for such documents;

[20] Based on the reasoned proposal of the Board of Statutory Auditors, the shareholders' meeting of the asset management company granted PricewaterhouseCoopers the audit assignment.

d. in the performance of the assignment and duties allocated, the provisions governing the responsibility of directors shall apply to the Financial Reporting Officer 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 April 7, 2014, Marco Andreasi, the Financial Reporting Officer, reported to Committee members on (i) the suitability of powers granted; (ii) the suitability and use of resources made available; (iii) statements and certifications pursuant to Article 154-*bis* of the Consolidated Finance Act; (iv) the adoption, implementation and use of administrative and accounting procedures; (v) mapping of companies and processes; (vi) System 262 and Operations for 2013; 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 April 9, 2014.

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 Financial Reporting Officer 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 intra-group and real estate transactions, are governed by internal procedures which the Company has adopted in order to guarantee effective correctness and substantial and procedural transparency in order to facilitate, if necessary, full and joint responsibility of the Board of Directors for the relevant decisions.

In particular, 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[21].

The procedural choices adopted by the Company are more rigorous 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 Committees established met the qualifications and requirements specified in the regulations issued by CONSOB and incorporated in the Procedure for Related-Party Transactions, and therefore, it assigned the authorities of the "Committee for Related-Party Transactions" to the "Internal Control, Risk and Corporate Governance Committee" with the exception of authorities relating to the compensation of directors and key management personnel 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 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 corporate governance 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.

[21] Procedure adopted pursuant to and for the purposes of Article 2391-*bis* of the Italian Civil Code and the "Regulation on transactions with related parties" adopted by CONSOB Resolution 17221 of March 12, 2010, as amended by CONSOB Resolution 17389 of June 23, 2010, reflecting the guidelines and clarifications provided by CONSOB in Communication DEM/10078683 of September 24, 2010.

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 corporate governance 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 that conform to the provisions of Article 8.P.1 of the Code that 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[22] are entitled to submit a list.

Following the entry into force of Law 120 of July 12, 2011 (which amended Article 147-*ter* of the Consolidated Finance Act), the appointment of members of the Board of Statutory Auditors in listed companies must be done on the basis of criteria that ensure compliance with gender equality[23]. The Articles of Association ensure compliance with this principle.

In addition, in order to ensure compliance with current laws on gender equality, the Extraordinary Shareholders' Meeting of May 8, 2013 approved several additional amendments to Article 22 (Board of Statutory Auditors) of the Articles of Association for the appointment of Statutory Auditors or their replacement during their term, but used criteria with greater flexibility in the formation of the lists.

In particular, the Shareholders' Meeting approved the amendment of Article 22, paragraph 1 by increasing the number of Alternate Statutory Auditors specified therein from two to three, thereby creating replacement mechanisms suitable for ensuring compliance with gender equality, with the proviso that this new provision and the resulting provisions will apply starting with the first renewal of the control body following the entry into force of the related amendment to the Articles of Association. Until that time, the Board of Statutory Auditors will be made up of three Standing Statutory Auditors and two Alternate Statutory Auditors.

In this regard, please see the related Directors' Report published in the corporate governance 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,

[22] Pursuant to Article 144-*quarter* of the Issuers' Regulations, and in its Resolution 18775 of January 29, 2014, CONSOB set the Company's percentage participation at 4.5%.
[23] In its Resolution 18098 of February 8, 2012, CONSOB issued the related implementation regulation, thereby amending the Issuers' Regulations.

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. Lists are divided into 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.

If the application of the list voting mechanism does not ensure, considering Standing Statutory Auditors and Alternate Statutory Auditors separately, 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 restructured 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, pursuant to the Articles of Association or the law, the Shareholders’ Meeting has to appoint the Standing Statutory Auditors and/or Alternate Statutory Auditors necessary to complete the Board of Statutory Auditors, it shall act as follows: if a Statutory Auditor appointed from the majority list must be replaced, the appointment shall be made with a majority vote without any list limitation, without prejudice, in any case, to compliance with the gender balance required by the applicable laws and/or regulations in force *pro tempore*.

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 OPERATION OF BOARD OF STATUTORY AUDITORS (pursuant to Article 123-*bis*, paragraph 2, letter d) of the Consolidated Finance Act)

The Company's current Board of Statutory Auditors consists of three Standing Statutory Auditors and two Alternate Statutory Auditors, who must meet the requirements specified by current laws and regulations[24].

[24] Pursuant to Article 22 of the Articles of Association, the matters and segments strictly relating to those of the Company, which should be used as a reference for the selection of members of the Board of Statutory Auditors, are intended to mean

By law, members of the Board of Statutory Auditors remain in office for three financial years, and can be re-elected.

Pursuant to Article 149 of the Consolidated Finance Act, the Board of Statutory Auditors is charged with supervising:

– compliance with the law and the Articles of Association;

– observance of principles of proper administration;

– the suitability of the Company's organisational structure (for those aspects under its authority), internal control system and administrative and accounting system, and the reliability of the latter to report operating events correctly;

– specific methods for implementing the rules of corporate governance specified by the Code, with which the Company has complied;

– the suitability of orders issued by the Company to subsidiaries in relation to reporting and confidential information requirements.

The duties of the Board of Statutory Auditors include, *inter alia*, other supervisory activities including with respect to the proper application of assessment criteria and procedures adopted by the Board of Directors to assess the independence of its members (Article 3.C.5 of the Code).

Finally, the Consolidated Statutory Audit Act further clarified and strengthened the authorities of the Board of Statutory Auditors by assigning it – in its capacity as the "*Internal Control and Audit Committee*" – the duty of supervising:

(i) the process of financial reporting;

(ii) the effectiveness of the internal control, internal audit and, if applicable, risk management systems;

(iii) the external 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 reasoned 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;

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those indicated in the corporate purpose (Article 4 of the Articles of Association), especially in relation to companies or entities operating in the financial, industrial, banking, insurance, real estate and service sectors in general.

(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 corporate governance 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 corporate governance section of the Website.

The current composition is indicated in Table 2, attached to this Report.

Eleven meetings of the Board of Statutory Auditors were held in 2013, lasting an average of about two hours.

In 2013 the participation of Statutory Auditors in meetings of the Board of Statutory Auditors was 94%, and with respect to meetings of the Board of Directors, the percentage was 97% for all members of the Board of Statutory Auditors.

The Board of Statutory Auditors reported to the Shareholders' Meeting of May 8, 2013 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, 2012, which was approved by the Shareholders' Meeting of May 8, 2013 that was also called pursuant to Article 2446 of the Italian Civil Code.

In 2013, the Board of Statutory Auditors also issued the opinions pursuant to Article 2389 of the Italian Civil Code.

Together with the Board of Directors, and on the basis of known information and written statements specifically issued by the interested parties, the Board of Statutory Auditors assessed the independence of its members on the first possible occasion after their appointment, taking account of all criteria specified by the Code with respect to the independence of directors.

Furthermore, in view of the provisions of CONSOB Communication 8067632[25] 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 final check of the independence of its members at a meeting held on March 14, 2014.

Pursuant to the previsions of application criterion 2.C.2 of the Code, specific meetings were held between the current Board of Statutory Auditors following its appointment, with the management of the Prelios Group, with the aim of providing appropriate information on the business sector in which the Group operates, operating trends and their development and the related regulatory framework.

The large number of Board and Committee meetings that the Board of Statutory Auditors generally attended in 2013 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.

With regard to the Code's other provisions concerning Statutory Auditors, we refer to what was stated above, in the specific sections where the related topics were covered, with specific reference to: related-party transactions; supervision over the independence of the Independent Auditors and coordination with the Internal Control, Risk and Corporate Governance Committee, Internal Audit and Risk Management.

Lastly, it should be noted that as at the Date of the Report, no member of the Board of Statutory Auditors has reported to the Company that the limits for accumulating positions on boards of directors and boards of statutory auditors, as specified in Article 144-*terdecies* of the Issuers' Regulations, have been exceeded.

The list of positions is published by CONSOB on its website.

15. SHAREHOLDER RELATIONS

The Company endeavours to establish an ongoing dialogue with shareholders and institutional investors based on an understanding of mutual duties, and periodically promotes meetings with representatives of the Italian and foreign financial community in full compliance with current applicable provisions and in relation to the handling of confidential information. Starting in March 2014, the Company's Investor Relations activities were assigned to

[25] CONSOB Communication DEM/DCL/DSG/8067632 of July 17, 2008 reporting "Situations of incompatibility of members of control bodies pursuant to Article 148, paragraph 3, letter c) of the Consolidated Finance Act".

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, interim reports, quarterly reports and interim operating reports), of a corporate nature (shareholder meeting minutes, prospectuses, extraordinary transactions, etc.) and of its corporate governance system (e.g. Code of Ethics and Conduct Guidelines; the Procedure for related-party transactions; the Procedure for the flow of information to directors and Statutory Auditors; the Code of Conduct for Real Estate Transactions; the Procedure for the management and public disclosure of price-sensitive information and the related register of individuals who have access to confidential information).

In the same section it is also possible to access documents made available to analysts and/or financial investors during Company presentations and/or meetings with them, and to find useful information regarding the composition of share capital and the shareholder base.

16. SHAREHOLDERS' MEETINGS (pursuant to Article 123-*bis*, paragraph 2, letter c) of the Consolidated Finance Act)

Based on the constant flow of information that the Company provides to the market, the Shareholders' Meeting is considered the place where a productive and effective relationship can be established with shareholders.

This venue makes it easier to have a real-time discussion, thereby providing a complete response to shareholders' requests for information, which always comply with regulations on confidential information.

In this regard, the Board encourages and facilitates the broadest participation possible of shareholders in Shareholders' Meetings, and it takes care to select a place, date and time for meetings that will facilitate such participation and allow shareholders to exercise their rights. In addition and to the extent possible, all directors and Statutory Auditors are usually present at Shareholders' Meetings, and especially those directors who, based on the positions held, are able to make a useful contribution to shareholder discussions.

Meetings may be convened at the registered office or elsewhere in Italy. The right to speak 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 Regulations are published in the corporate governance 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.

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Shareholders' Meeting for Financial Year 2013

In 2013 a single session of an Ordinary and Extraordinary Shareholders' Meeting was held on May 8, in which the majority of active directors and the entire Board of Statutory Auditors took part.

At the ordinary session, the Shareholders' Meeting approved: (i) the financial statements at December 31, 2012; (ii) the appointment of the Board of Directors; and (iii) the appointment of the Board of Statutory Auditors.

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.

At the extraordinary session, the Shareholders' Meeting approved:

(i) the reduction in share capital to cover losses pursuant to Article 2446 of the Italian Civil Code;

(ii) the reverse stock split of ordinary shares in the ratio of one new share for every ten ordinary shares held, following the cancelling of ordinary shares held by the Company to allow for the overall balancing of the transaction with no reduction in share capital;

(iii) the reserved, indivisible paid capital increase for a special purpose entity owned by Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A., and therefore excluding the Rights pursuant to Article 2441, paragraph 5 of the Italian Civil Code, through the issue of 117,597,496 Category B shares convertible to ordinary shares at a subscription price of Euro 0.5953 per share for a total of Euro 70,005,789.37;

(iv) the divisible paid capital increase for an aggregate amount of up to Euro 115,009,511.53 to be offered with the Rights to all Company shareholders, pursuant to Article 2441, paragraph 1 of the Italian Civil Code, through the issue of up to 193,195,887 ordinary shares at a subscription price of Euro 0.5953, which will have regular benefits and identical characteristics to the Prelios shares outstanding at the time of issue;

(v) the assignment to the Board of Directors, pursuant to Article 2420-*ter*, paragraph 2 of the Italian Civil Code, of the option to issue bonds up to a maximum par value of Euro 269,000,000.00 with mandatory convertible bonds (convertible bonds) to be converted into ordinary and/or Category B shares, excluding the Rights pursuant to Article 2441, paragraph 5 of the Italian Civil Code, with the subsequent divisible share capital increase for the exclusive benefit of the conversion, in an amount of up to Euro 297,644,375.01, to be implemented through the issue of up to 499,990,551 ordinary shares and up to 144,678,117 Category B shares;

(vi) the resulting amendments to Articles 5 and 6 of the Articles of Association and the introduction of a new Article 6-*bis* to the Articles of Association.

The following documents, *inter alia*, are available in the corporate governance section of the Website for each Shareholders' Meeting: (i) notice of call; (ii) documents, reports and proposed items for resolution submitted for the review of the Shareholders' Meeting; (iii) minutes of the Shareholders' Meeting; (iv) summary voting report; and (v) press release distributed by the Company concerning the procedure of the Shareholders' Meeting.

17. OTHER CORPORATE GOVERNANCE PROCEDURES (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Finance Act)

At the Date of the Report, there were no corporate governance procedures in addition to those indicated in the paragraphs above that were applied by the Company, other than the requirements specified by law or the regulations.

18. CHANGES MADE SINCE THE END OF THE CURRENT FINANCIAL YEAR

The Report takes account of changes made since the end of the current Financial Year up to the Date of the Report.

In this regard, there were no substantial changes in the Company's corporate governance structure.

APPENDIX 1:

"MAIN CHARACTERISTICS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS IN PLACE FOR THE FINANCIAL REPORTING PROCESS" PURSUANT TO ARTICLE 123-*BIS*, PARAGRAPH 2, LETTER B) OF THE CONSOLIDATED FINANCE ACT

The Company has implemented a complex risk management and internal control system, supported by a dedicated IT application for the preparation of (semi-annual/annual) financial reports.

In general, the internal control system created by the Company is aimed at ensuring the 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 Financial Reporting Officer, the key companies/processes that provide input and generate operating, balance sheet or financial information were mapped. Key companies and processes are identified annually on the basis of quantitative and qualitative criteria. The quantitative criteria consist of identifying those companies of the Prelios Group, which, in relation to the processes selected, represent a combined value greater than a specific level of significance. Qualitative criteria consist of a review of those processes and companies, which, based on the assessment of the Chief Executive Officers/Chief Financial Officers of the business areas, could represent potential risk areas even though they are not included in the quantitative parameters described above.

For each process, control risks/objectives were identified that are connected to the preparation of the financial statements and the effectiveness/efficiency of the internal control system in general.

Precise checking 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 was adopted that is able 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 significance criteria.

Based on periodic reporting, the Financial Reporting Officer 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 Financial Reporting Officer, together with the Chief Executive Officers, has provided the certification required by Article 154-*bis*, paragraph 5 of the Consolidated Finance Act.

TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS											INTERNAL CONTROL, RISK AND CORPORATE GOVERNANCE COMMITTEE		REMUNERATION COMMITTEE	
Position	**Members**	**In office since**	**In office until**	**List (M/m) ***	**Exec.**	**Non-exec.**	**Indep. of Code**	**Indep. of Cons. Fin. Act**	**(%) ****	**No of other positions *****	********	**(%) ****	********	******
Chairman	Giorgio Luca Bruno	05/08/13	Approval 2015 fin. statements	M		X			100					
Deputy Chairman	Massimo Caputi	05/08/13	Approval 2015 fin. statements	M	X				100					
Chief Executive Officer	Sergio Iasi	05/08/13	Approval 2015 fin. statements	M	X				100					
Director	Marina Brogi	05/08/13	Approval 2015 fin. statements	M		X	X	X	88		X	100		
Director	Claudia Bugno	05/08/13	Approval 2015 fin. statements	M		X	X	X	83					
Director	Francesco Umile Chiappetta	05/08/13	Approval 2015 fin. statements	M		X			100					
Director	Rosa Cipriotti	05/08/13	Approval 2015 fin. statements	M		X	X	X	83				X	100
Director	Carlo Emilio Croce	05/08/13	Approval 2015 fin. statements	M		X	X	X	63				X	50
Director	Moroello Diaz della Vittoria Pallavicini	05/08/13	Approval 2015 fin. statements	M		X			83					
Director	Andrea Mangoni	05/08/13	Approval 2015 fin. statements	M		X	X	X	100		X	75		
Director	Davide Mereghetti	05/08/13	Approval 2015 fin. statements	M		X			67				X	100
Director	Alessandra Patera	05/08/13	Approval 2015 fin. statements	M		X			100					
Director	Anna Chiara Svelto	05/08/13	02/18/2014	M		X			100		X	100		
Director	Massimo Tezzon	05/08/13	Approval 2015 fin. statements	M		X	X	X	100		X	100		
Director	Giovanni Jody Vender	05/08/13	Approval 2015 fin. statements	M		X	X	X	88				X	100
DIRECTORS WHO LEFT DURING THE FINANCIAL YEAR														
Chairman	Marco Tronchetti Provera	04/21/11	05/08/13	M		X			100					
Deputy	Enrico Parazzini	04/21/11	05/08/13	M	X				100					

Chairman														
Director	Giuseppe Angiolini	04/21/11	05/08/13	M		X	X	X	50					
Director	Giovanni Fiori	04/21/11	05/08/13	M		X	X	X	100		X	75		
Director	Jacopo Franzan	04/21/11	05/08/13	M		X			100					
Director	Valter Lazzari	04/21/11	05/08/13	M		X	X	X	100		X	50		
Director	Amedeo Nodari	04/21/11	05/08/13	M		X			100					
Director	Dario Trevisan	04/21/11	05/08/13	M		X	X	X	100		X	100		
Director	Giorgio Valerio	04/21/11	05/08/13	M		X	X	X	100				X	100
Quorum required to submit lists for the latest appointment: 2%														
Number of meetings held during the Financial Year:						Board of Directors: 8			Internal Control, Risk and Corporate Governance Committee: 9			Remuneration Committee: 2		

NOTES

* “M” or “m” is indicated in this column based on whether the member was elected from the majority (M) or minority (m) list.

** This column indicates the percentage participation of directors in meetings of the Board of Directors and committees respectively (no of times present/no of meetings held during the actual term of the individual concerned).

*** 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. Attached to the Report is the list of these companies with reference to each director with the clarification as to whether or not the company in which the position is held is a part of the Prelios Group.

**** An “X” in this column is used to indicate that the Board member is also a member of the committee.

TABLE 2: STRUCTURE OF BOARD OF STATUTORY AUDITORS

Position	Members	In office since	In office until	List (M/m) *	Independence from Code	(%) **	No of other positions ***
BOARD OF STATUTORY AUDITORS							
Chairman	Enrico Laghi	05/08/13	Approval 2015 fin. statements	M	X	90	10
Standing Statutory Auditor	Marco de Ruvo	05/08/13	Approval 2015 fin. statements	M	X	100	42
Standing Statutory Auditor	Michela Zeme	05/08/13	Approval 2015 fin. statements	M	X	80	20
Alternate Statutory Auditor	Marco Aurelio Guarna	05/08/13	Approval 2015 fin. statements	M	X	n/a	33
Alternate Statutory Auditor	Flavia Daunia Minutillo	05/08/13	Approval 2015 fin. statements	M	X	n/a	12
STATUTORY AUDITORS WHO LEFT DURING THE FINANCIAL YEAR							
Standing Statutory Auditor	Roberto Bracchetti	04/21/11	05/08/13	M	X	100	
Standing Statutory Auditor	Lelio Fornabaio	04/21/11	05/08/13	M	X	100	
Alternate Statutory Auditor	Franco Ghiringhelli	04/21/11	05/08/13	M	X	n/a	
Alternate Statutory Auditor	Paola Giudici	04/21/11	05/08/13	M	X	n/a	
Quorum required to submit lists for the latest appointment: 1.5%							
Number of meetings held during the Financial Year: 11							

NOTES

* “M” or “m” is indicated in this column based on whether the member was elected from the majority (M) or minority (m) list.

** This column indicates the percentage participation of statutory auditors in meetings of the Board of Statutory Auditors (no of times present/no of meetings held during the actual term of the individual concerned).

*** This column indicates the number of significant positions (as defined by Article 148-*bis* of the Consolidated Finance Act) as director or statutory auditor held by the individual concerned. 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 MAIN POSITIONS HELD BY DIRECTORS

Name	Position	In office since	Other positions
Giorgio Luca Bruno	Chairman	May 8, 2013	• Camfin S.p.A., Chief Executive Officer • Lauro Sessantuno S.p.A., Chief Executive Officer
Massimo Caputi	Deputy Chairman	May 8, 2013	//
Sergio Iasi	Chief Executive Officer	May 8, 2013	//
Marina Brogi	Director	May 8, 2013	• A2A, Oversight Board Member • UBI Banca, Oversight Board Member • Salini Impregilo, Oversight Board Member
Claudia Bugno	Director	May 8, 2013	• Banca Popolare dell'Etruria, Director
Francesco Chiappetta	Director	May 8, 2013	• Camfin S.p.A., Director • Lauro Sessantuno S.p.A., Director • Istituto Europeo di Oncologia S.r.l., Director
Carlo Emilio Croce	Director	May 8, 2013	//
Rosa Cipriotti	Director	May 8, 2013	//
Moroello Diaz della Vittoria Pallavicini	Director	May 8, 2013	//
Andrea Mangoni	Director	May 8, 2013	• Sorgenia S.p.A., Chairman and Chief Executive Officer • Fincantieri S.p.A., Director • Telecom Argentina SA, Board Member • Amber Capital SGR, Director
Davide Mereghetti	Director	May 8, 2013	• Camfin S.p.A., Director • F21 SGR S.p.A., Director
Alessandra Patera	Director	May 8, 2013	//
Massimo Tezzon	Director	May 8, 2013	• Banca Popolare dell'Etruria, Chairman of the Board of Statutory Auditors
Giovanni Jody Vender	Director	May 8, 2013	//
Anna Chiara Svelto(*)	Director	May 8, 2013	//

(*) On February 18, 2014, Director Anna Chiara Svelto resigned from the position of director and member of the Internal Control, Risk and Corporate Governance Committee.

E. PROPOSED RESOLUTIONS

Item 1)
Financial statements at December 31, 2013. Related and resulting resolutions.

To our shareholders:

The Financial Year ending December 31, 2013 closed with a Group loss of Euro 332,838 thousand on a consolidated basis and Euro 299,722,019 in the separate financial statements.

In view of the size of the loss, on April 9, 2014 the Board of Directors confirmed that one of the events had occurred that is specified in Article 8 of the regulations of the mandatory convertible loan ("Prelios Convertible Loan 2013-2019") (the "**Regulations of the Convertible Loan**") as a precondition for triggering the mandatory prepayment mechanism through automatic conversion, and as a result, the Company took the related actions.

In this regard, it should be recalled that to implement the resolution of the Board of Directors that met on June 10, 2013, and that exercised the option granted by the Extraordinary Shareholders' Meeting of May 8, 2013 pursuant to Article 2420-*ter*, paragraph 2 of the Italian Civil Code, and following the results of the capital increase with pre-emptive rights that was completed in August 2014, on August 26, 2013, 233,534 bonds with mandatory conversion (the "**Convertible Bonds**") to ordinary shares and/or Category B shares were issued without the Rights pursuant to Article 2441, paragraph 5 of the Italian Civil Code, with a par value of Euro 233,534,000.00, with the resulting divisible capital increase solely to service the conversion of up to Euro 258,401,789.44, to be implemented with the issue of up to 434,069,863 ordinary shares and up to 125,446,190 Category B shares with no par value and regular benefits, and the same characteristics as the bonds outstanding on the issue date. For further details, please see the Convertible Bond Regulation and Articles of Association available in the corporate governance section of the Company's website www.prelios.com.

Thus, with the mandatory prepayment of the "Prelios Convertible Loan 2013-2019" and the related conversion of the Convertible Bonds, the concurrent capital increase was executed solely to service the conversion through the issue – taking account of the conversion mechanisms specified in the Convertible Bond Regulation – of 229,757,292 ordinary shares and 93,390,705 Category B shares for a total of Euro 236,544,333.80.

On April 14, 2014 the confirmation of the execution of the capital increase solely to service the conversion, together with the updated Articles of Association, were filed and recorded, pursuant to Article 2444 of the Italian Civil Code, in the Companies' Register of Milan.

Thus, the current subscribed and paid-in share capital of Prelios totals Euro 426,441,257.20, broken down into 506,953,179 ordinary shares and 210,988,301 Category B shares.

Taking account of the amount of share capital, as recently confirmed, the result for the year was a loss greater than one third of share capital, thereby triggering the situation specified in Article 2446 of the Italian Civil Code. In this regard, for full details, reference should be made to the Directors' Report concerning "*Measures pursuant to Article 2446 of the Italian Civil Code. Related and resulting resolutions*", the subject of which is covered in item 2 of the agenda of the Shareholders' Meeting which will be made available by the deadlines and according to the procedures specified by current laws and regulations.

The Restated Balance Sheet, which takes into account the aforementioned conversion of the “Prelios Convertible Loan 2013-20199” into the Company's net equity, is attached to this proposal.

Thus, we ask you to vote to approve the separate financial statements at December 31, 2013 and the report on operations of the Board of Directors, and to defer to the following agenda item the appropriate measures to be taken in relation to the overall loss.

*

If you agree with our proposal, please approve the following

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, 2013 reporting a loss of Euro 299,772,019;
- having acknowledged the Restated Balance Sheet, that takes into account the aforementioned conversion of the “Prelios Convertible Loan 2013-2019” into the Company's net equity,

HEREBY RESOLVES

1) to approve:
   a) the report on operations of the Board of Directors;
   b) the separate financial statements for January 1 – December 31, 2013, 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 299,772,019 as submitted by the Board of Directors in their entirety in their individual entries with the proposed allocations;

2) to defer to the following agenda item of the Shareholders' Meeting the appropriate measures to be taken pursuant to Article 2446 of the Italian Civil Code.”

Prelios S.p.A.
Restated Balance Sheet
(amounts in euro)

ASSETS	12.31.2013	PROFORMA AT 12.31.2013	PROFORMA AT 04.08.2014 *
NON-CURRENT ASSETS			
Property, plant and equipment	689.959	689.959	689.959
Intangible assets	450.781	450.781	450.781
Investments in subsidiaries	91.250.811	91.250.811	91.250.811
Investments in associates and joint ventures	43.415.315	43.415.315	43.415.315
Other financial assets	12.256.503	12.256.503	12.256.503
Deferred tax assets	3.389.424	3.389.424	3.389.424
Other receivables	183.669.403	183.669.403	183.669.403
- of which with related parties	*183.669.403*	*183.669.403*	*183.669.403*
TOTAL NON-CURRENT ASSETS	**335.122.196**	**335.122.196**	**335.122.196**
CURRENT ASSETS			
Trade receivables	17.593.488	17.593.488	17.593.488
- of which with related parties	*16.250.824*	*16.250.824*	*16.250.824*
Other receivables	49.602.403	49.602.403	49.602.403
- of which with related parties	*39.556.161*	*39.556.161*	*39.556.161*
Cash and cash equivalents	69.007.906	69.007.906	69.007.906
Tax receivables	2.377.404	2.377.404	2.377.404
- of which with related parties	*489.466*	*489.466*	*489.466*
TOTAL CURRENT ASSETS	**138.581.201**	**138.581.201**	**138.581.201**
DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE	**26.049.597**	**26.049.597**	**26.049.597**
- of which with related parties	*18.800.000*	*18.800.000*	*18.800.000*
TOTAL ASSETS	**499.752.994**	**499.752.994**	**499.752.994**

EQUITY	12.31.2013	PROFORMA AT 12.31.2013	PROFORMA AT 04.08.2014 *
EQUITY			
Share capital	189.887.983	425.789.758	426.432.317
Other reserves	(3.103.133)	(3.103.133)	(3.103.133)
Retained earnings	-	-	-
Net (loss) for the year	(299.772.019)	(299.772.019)	(300.414.578)
TOTAL EQUITY	**(112.987.169)**	**122.914.606**	**122.914.606**

LIABILITIES	12.31.2013	PROFORMA AT 12.31.2013	PROFORMA AT 04.08.2014 *
NON-CURRENT LIABILITIES			
Bank borrowings and payables to other financial institutions	460.603.210	224.701.435	224.701.435
- of which with related parties	*149.876.327*	-	-
Other payables	912.092	912.092	912.092
Provisions for future risks and expenses	31.483.868	31.483.868	31.483.868
Employee benefit obligation	618.530	618.530	618.530
TOTAL NON-CURRENT LIABILITIES	**493.617.700**	**257.715.925**	**257.715.925**
CURRENT LIABILITIES			
Bank borrowings and payables to other financial institutions	62.945.842	62.945.842	62.945.842
- of which with related parties	*62.835.842*	*62.835.842*	*62.835.842*
Trade payables	20.021.726	20.021.726	20.021.726
- of which with related parties	*4.202.293*	*4.202.293*	*4.202.293*
Other payables	28.447.376	28.447.376	28.447.376
- of which with related parties	*13.351.783*	*13.351.783*	*13.351.783*
Provisions for future risks and expenses	4.628.927	4.628.927	4.628.927
Tax payables	3.078.592	3.078.592	3.078.592
- of which with related parties	*2.126.634*	*2.126.634*	*2.126.634*
Derivative financial instruments	-	-	-
TOTAL CURRENT LIABILITIES	**119.122.463**	**119.122.463**	**119.122.463**
TOTAL LIABILITIES	**612.740.163**	**376.838.388**	**376.838.388**
TOTAL LIABILITIES AND EQUITY	**499.752.994**	**499.752.994**	**499.752.994**

Restated Financial Statements as at December 31, 2013, considering the impact of the convertible bond loan conversion as of April 08, 2014

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Share Capital € 426,441,257.20
Milan Companies Register
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