PRELIOS

THE REAL POTENTIAL OF REAL ESTATE

Half-year Financial Report

at June 30th, 2012

CONTENTS

1. CORPORATE REVIEW

1.1 Mission

“To create sustainable value through real estate solutions and strategies based on excellence, innovation and integration”.

The strategic objectives are:
• to consolidate the positioning as a pure real estate manager, increasing the proportion of services for third parties and gradually reducing the invested capital;
• to become a point of reference in real estate services for Italian and international investors through the offer ofhigh standards in terms of quality, governance and transparency;
• to create a sophisticated culture, thus contributing to the real estate sector's structural evolution.

1.2 Real Estate Market

1.2.1 Global Real Estate Market

According to the latest report by Jones Lang LaSalle[1], the current state of the real estate markets shows a slowdown in the recovery currently in progress at the international level, where there is still, however, a positive sentiment associated with global economic prospects (in particular for the USA and Asia): total volumes of commercial properties changing hands in 2012 are expected in fact to be in line with the good results recorded in 2011.
Within this setting, it should be noted however that global total investments and the volumes of rentals fell overall by approximately 20% in third quarter 2012 compared with the same quarter of 2011. This drop can be attributed to a delayed reaction to the caution of corporate users and investors, which intensified towards the end of 2011. Volumes were also negatively affected by the lack of product available for investment, a shortage of good-quality rental premises and the absence of large transactions.
Again in the first quarter of 2012, global office rental volumes declined by approximately one fifth, compared with those recorded in the same quarter of 2011. Corporate users continue to strengthen their balance sheets and reduce operating costs, remaining selective in their operations. The low volumes of rentals in major financial centres such as New York and London are offset by strong demand from corporate users in emerging markets such as Beijing and São Paulo. This suggests that, when the final figures are out, global office rentals at the end of the year will be slightly down on those recorded in 2011.

[1] Jones Lang LaSalle, Jones Lang LaSalle Global Market Perspective, May 2012

1.2.2 European Real Estate Market

According to the latest study carried out by CBRE[2,] second quarter 2012 recorded a significant increase in investment activities in the United Kingdom and in France, compared with both the first quarter and the same period of the previous year. This was due to the fact that, in a moment of further financial uncertainty, investors sought out more “liquid” markets perceived as less risky compared with contexts of greater economic uncertainty. In particular, London and Paris recorded the most transactions in the offices segment.
Real estate is confirmed as a “safe haven”, with investors still showing a risk-adverse attitude and considering property a safer investment, in a moment of general uncertainty and extreme volatility on the markets. Second quarter 2012 recorded a substantial change in national trends compared with those seen over the last two years with London and Paris taking the lead. On the contrary, markets that had previously been growing strongly, Germany, Scandinavia and Central and Eastern Europe (CEE), while remaining among investors' target markets, saw a slowdown in real estate investment activity, are starting to suffer from the effects of a lack of prime assets and a risk of prices overheating.
Despite the fact that the volume of investments in Europe fell by 27 billion euro in the first quarter to the 24 recorded in the second, real estate investment activity in Europe remained substantially stable over the last two years, recording quarterly volume of between 24 and 27 billion euro.
The volume of commercial investments in offices in Europe between January and June of this year came out at 21.9 billion euro, down by 6% compared with the same period of 2011.
According to the Jones Lang LaSalle European Office Clock Report for second quarter 2012, prime office rents in Europe fell slightly for the second consecutive quarter, with a 0.2% drop in the general index[3].
This figure follows the 0.1% reduction in rents recorded in first quarter 2012, when for the first time since fourth quarter 2009 a decline in rents was noted on a quarterly basis.
The drop was due to changes in rents for offices in Western Europe, while rents in Eastern Europe remained unchanged: the increase of prime rents in Düsseldorf (+4.2%) and Berlin (+2.3%) was offset by the reductions recorded in Dublin (-6.5%), Madrid (-2.0%), Barcelona (-1.4%) and Paris (-1.2%).
Investments in retail properties amounted to 4.6 billion euro, the lowest level since 2009. Office investments reached 12.7 billion euro in the first half of 2012.
The figures emerge from the latest report of the Bnp Paribas Real Estate research department on Commercial and Office Investments in Europe in the first half of 2012[4].

1.2.3 Italian Real Estate Market

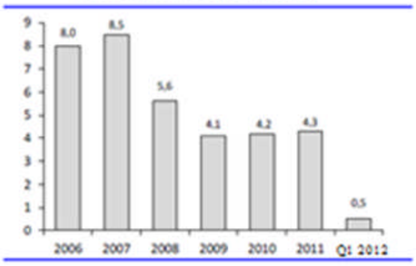
In the first three months of 2012 the Italian real estate market suffered another slowdown owing to the now usual factors: the deteriorating economic context, a selective banking industry, widespread expectations of a more general price adjustment. The drop in sales recorded in the first three months of the year was the inevitable consequence of a system that is struggling to find a new balanced position.

[2] CBRE, United Kingdom and France “safe havens” for investors. Southern Europe still struggling, July 2012
[3] Jones Lang LaSalle, The Jones Lang LaSalle Office Property Clock, Q2 2012, July 2012
[4] BNP Paribas Real Estate, Property Report, Investment in Western Europe, Q2 2012, July 2012

The falling prices compared with the maximum levels reached in 2007 were nowhere near enough to offset the reduction at the same time of banking support to the sector, nor to ward off fears of future crashes. A perverse mechanism has been created which, in the attempt to generate a gradual asset price reduction which otherwise would entail a breathless and, to some extent impossible, search for new capital, ends up strangling the market.
The lack of support for demand, in a context dominated by expectations of no growth, cannot fail to jeopardise prospects for the industry and, with them, the chance to absorb much of both the enormous stock of unsold properties, and of properties guaranteeing doubtful if not already bad loans.

According to Nomisma the first three months of 2012 confirmed the shrinking trend in the proportion of corporate real estate investments in Italy out of the total at the European level. Coming out, according to the various estimates, at between 400 and 500 million euro, the volume of investments in Italy in the first quarter, showed a real and proper “crash” (approximately 1 billion euro in first quarter 2011 for 4.3 billion euro at the end of the year), representing a reduction of 1.5% as a proportion of the total at the European level (from 3.7% at the end of 2011 to 2.4% of first quarter 2012).

Italy – Volume of corporate real estate investments *(billion euro)*



Source: Nomisma processing of Bnp Paribas Re, Cb Richard Ellis, Dtz and Savills data

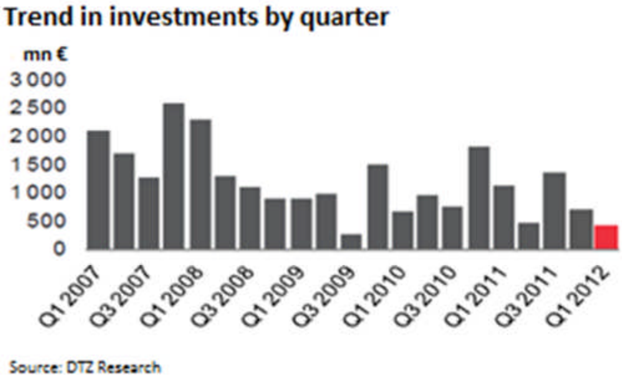
Proportion of real estate investments in Italy out of total investments in Europe *(%)*

Source: Nomisma processing of Bnp Paribas Re, Cb Richard Ellis, Dtz and Savills data

According to DTZ[5], which significantly entitled its report on Italy “A disappointing performance”, the Italian investment market was characterised by a lower number of operations during first quarter 2012, with only 400 million euro invested. This figure, as well as confirming the one already recorded by Nomisma, is in line with the slowdown in the market already recorded in fourth quarter 2011. The market is already suffering the impact of both the negative forecasts on the economic situation and the reduction in rents and capital values expected in 2012 and 2013. Italian investors increased their presence, investing 376 million euro, accounting for approximately 96% of the total volume in this quarter (63% of total volume invested in 2011).

The percentage of foreign investors came out at levels lower than 5%: according to DTZ, inter- or intra-regional investors will remain far from the Italian market until there is an improvement in the current economic situation.

[5] DTZ Research, Investment Market Update Italy Q1 2012, April 2012

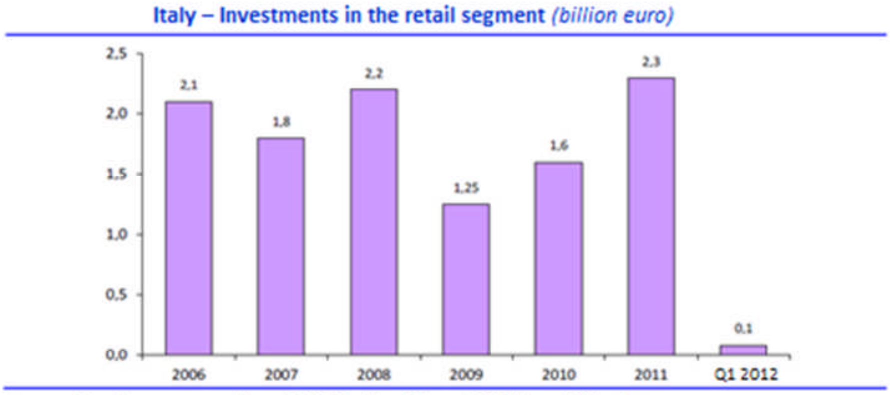


In Italy too, in line with what has been seen at the European level, most of the investments made in first quarter 2012 were directed at the executive segment (61% of the total). During the early months of 2012, the amount of investments in the Italian executive segment came out at around 311 million euro, much less than the level in the two years 2006-2007, when investments in the sector exceeded, on average, 3 billion. This reduction was only partly attributable to the wait-and-see attitude of foreign operators, due to the climate of uncertainty in the country and an awareness that prices are still too high.

According to CBRE[6], most of the volume invested in the second quarter involved operations of a value added type. In particular these were for empty offices in central or semi-central areas, mainly in Rome and Milan, which will be converted to other planning uses, mostly luxury residential, or rented out maintaining their use as offices.
In Rome and Milan, according to CBRE, we are already seeing from the second half of last year, a growing trend to purchase offices that have been empty for some time positioned in central and semi-central areas to be converted and/or rented out. In particular, conversion to luxury residential use is beginning to be assessed positively both by investors seeking added value and by owners. In fact, in the current market setting, in which the prospects for the executive market over the medium term are uncertain, the residential market in certain areas of cities is proving to be more solid and less volatile and with interesting returns.

The trend of investments in the retail segment fell sharply. This was partly ascribable to the anomalous volumes recorded in the same period of last year and, partly, to the deteriorating overall situation which also kept investors away from segments which were until last year perceived as less risky.

[6] CBRE, United Kingdom and France “safe havens” for investors. Southern Europe still struggling, July 2012



Source: Nomisma processing of BNP Paribas RE and CB Richard Ellis data

According to recent Cushman & Wakefield studies on second quarter 2012[7], the trend in shopping centres continues to be affected by declining consumption, particularly in the segments of clothing and electronics. Rents are generally under pressure and remain stable only in existing and consolidated centres, where however owners are beginning to grant incentives to national and international top brands. Renegotiations of existing agreements are frequent in secondary centres and expected rents are being redefined in projects under construction, for which longer selling times are now required. The general economic situation is also leading to a more cautious attitude in the high street market of major Italian cities, but demand remains strong for the best positions as availability is limited. The highest figures were again in Via Montenapoleone in Milan with rents of up to 7,000 euro per sq m/year and in Via Condotti in Rome, up to 6,800 euro per sq m/year.
The Nomisma report estimates an 11.5% drop in sales by the end of 2012 (in 2011 the drop was 2.2%), if the current scenario conditions remain in place, at the levels of the middle of the Nineties. If, however, the situation improves in terms of a loosening of selective lending by banks and a more marked decline in property prices, the drop could be more limited at 5.3%. As regards property prices, the average for the 13 major Italian cities was 1.8% down in the first half of the year for new homes, 2% for used homes, 2.1% for offices and 1.6% for shops.
In this clearly critical scenario there is still an element of potential optimism: the great interest of demand found by a recent Nomisma survey on household savings. Despite the precarious general economic situation and, very often, also a personal one, families say that they are still intending to buy homes in the next few years, mainly for direct use. A manifestation of interest of surprising dimensions which, however, risks turning out to be virtual in the absence of support. Almost all interviewees, in fact, said that they depended on a mortgage loan to meet a need which otherwise risks being transformed into another frustrated desire.

Starting from last year, loans disbursed to households fell sharply. In first quarter 2012, the mortgage loan segment recorded -47% from the previous quarter and that of personal loans declined by 11% (compared with -2.2% in 2011 from 2010).[8]
Traditionally cautious in taking out loans, in a deep recession, in a critical moment for the employment market and with falling available incomes, Italian families are even more wary of borrowing, above all for the purchase of durable high-value assets and property investments.

[7] Cushman & Wakefield, The Retail Market in Italy in the second quarter, July 2012
[8] Assofin, Crif, Prometeia, Osservatorio sul Credito al Dettaglio, July 2012

In this context, the level of consumer credit to households is expected to fall again significantly during 2012 (-2.7%), and slightly less in 2013 (-1.4%). Only in 2014 with the slow recovery in household spending should it begin to grow again although at a modest rate (+1.4%).
As regards the mortgage loan market, according to MutuiOnline in June mortgage applications were concentrated for 26% on fixed rate and for 58% on floating rate loans[9]. The average amount of loans disbursed was 127,849 euro, with 27% of borrowers applying for a loan of 70-80% of the cost of the property. However the growth in amounts is expected to slow gradually, coming to a halt at the end of 2012 (+0.3%), reflecting selective lending criteria and a reduction in demand associated with weakness of the property market.
In the two years, 2013-2014, loans for house buying should return to a modest trend of expanding stock (+1.3% in 2013 and +1.5% in 2014 respectively), in line with still limited demand and a slow recovery of the property market, confirming significantly more limited development prospects than in the pre-crisis period.

1.2.4 German Real Estate Market

Investments in German commercial properties amounted to 9.7 billion in the first six months of 2012, a drop of almost 14%[10] compared with the same period of the previous year, according to a survey conducted by BNP Paribas Real Estate.
According to the report by the Bnp Paribas Real Estate analysts[11] which examined the trend in investments in commercial properties in Germany in the first half of 2012 , after strong growth at the start of the year, with transactions worth 5.3 billion euro in the January-March period, in the second quarter turnover slowed amounting to 4.4 billion euro between April and June. Although it is inevitably affected by the deep crisis in which the Eurozone is immersed the German commercial property market is still enjoying strong demand.

Office buildings were by a long way the favourite assets, with a share of approximately 40% of the total volume of transactions. Retail properties generated just less than one third of turnover. There was strong demand for logistic complexes, accounting for 9% of the total. Hotels, instead, attracted investments to a much lesser extent than in the corresponding period of 2011, with a share that fell to just less than 4%. The 6 major German cities (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg and Munich) recorded a drop of 17% in Year-on-Year investment volumes, with a total of approximately 4.7 billion euro.
The percentage of foreign investors was 32%, about the same as in the previous year.

As far as the retail segment is concerned, again with reference to the major cities, last year prime rents grew at an average rate of 5%, while at the beginning of this year they continued to grow more selectively, that is in the cities of Cologne, Munich and Berlin. The top yields achieved in the prime locations of the 6 major cities remained stable at 4.2%.
According to Savills' figures, the German residential market is on target to hit total turnover of 10 billion euro at the end of 2012, with 6.13 billion already invested in the first six months of the year (+75% compared with first quarter 2011).

[9] MutuiOnline, Osservatorio Mutui, June 2012
[10] PropertyEU, German property investment falls 14% in first half: BNP Paribas, July 2012
[11] Bnp Paribas Real Estate, At a glance, Investment Market Germany, Q2 2012, July 2012

The number of units changing hands almost doubled in the first half of 2012 compared with the same period of the previous year, going up from 64,266 to 119,500; this was mainly due to four large transactions, of more than 20,000 units each (LBBW, DKB, Baubecon and Speymill).[12]
According to Savills' figures, approximately 80% of investment activity in the first half of 2012 involved local investors. Listed real estate companies and REITs were by a long way the most active buyers with a 43% share of transaction volumes during the first six months of the year. Insurance companies and pension funds, and private equity funds, followed with a share of 26% and 18%, respectively.
Berlin alone accounted for 22% of the total number of units exchanged. Stuttgart and Hamburg followed with a share of 6.2% and 3.5% respectively.

1.2.5 Real Estate Funds

According to the Scenari Immobiliari Report[13], real estate funds and real estate investment trusts (REITs) worldwide ended 2011 with global assets of more than 1,550 billion euro and growing. 2012 is proving to be in line with the previous year. Between the end of 2012 and 2013 the expectations are for a recovery of real estate in many countries. This, again according to Scenari Immobiliari, will give a new boost to the market for funds and to REITs, above all if specialised in urban regeneration. In Europe, Italy excluded, real estate funds showed a Net Asset Value of approximately 331 billion euro, recording an increase of 6.7% in a year.
The Italian market has grown fifteen-fold in a decade and, in the opinion of Scenari Immobiliari, is still the most interesting at the European level. The change in NAV with respect to 2010 was +6.1% compared with +6.7% in Europe as a whole. The greatest increase was seen in reserved funds (+9.3%) while the NAV of retail funds fell by 9%. The forecasts for 2012 indicate further growth in assets to 38 billion euro even though the number of funds is expected to decline from 312 to 290 owing to the closure of many "family" funds penalised by the tax legislation. The average performance of real estate funds, during 2011, slowed, going at the ROE level from a return of 3.5% to one of 0.7%. As regards the composition of the funds, offices account for 60%, commercial 19%, logistics and industrial 6%, residential 3% and development funds 12%.

[12] Europe RE, Savills: German residential portfolios market on target to hit 10 billion euro by year end (DE), July 2012
[13] Scenari Immobiliari, *I Fondi immobiliari in Italia e all'estero* (Real Estate Funds in Italy and Abroad) – 2012 Report, May 2012

Description	2007	2008	2009	2010	2011	2012°
No. operating funds[1]	186	238	270	305	312	290
NAV[2]	23,940	27,600	31,200	34,000	36,100	38,000
Real estate assets held directly	32,350	34,700	40,600	43,500	46,400	47,800
Weakening exercised[3]	14,280	15,900	22,700	24,800	28,500	...
Performance (ROE)[4] (val.%)	*6.2*	*4.9*	*2.6*	*3.5*	*0.7*	...

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

Source: SCENARI IMMOBILIARI®

The total return of listed real estate funds (at July 6th, 2012)

	total return
at 1 month	+0.27%
at 3 months	-13.84%
at 6 months	-20.80%
at 1 year	-35.97%
at 2 years	-33.33%
at 3 years	-25.93%
at 5 years	-43.38%
from the start	-23.05%

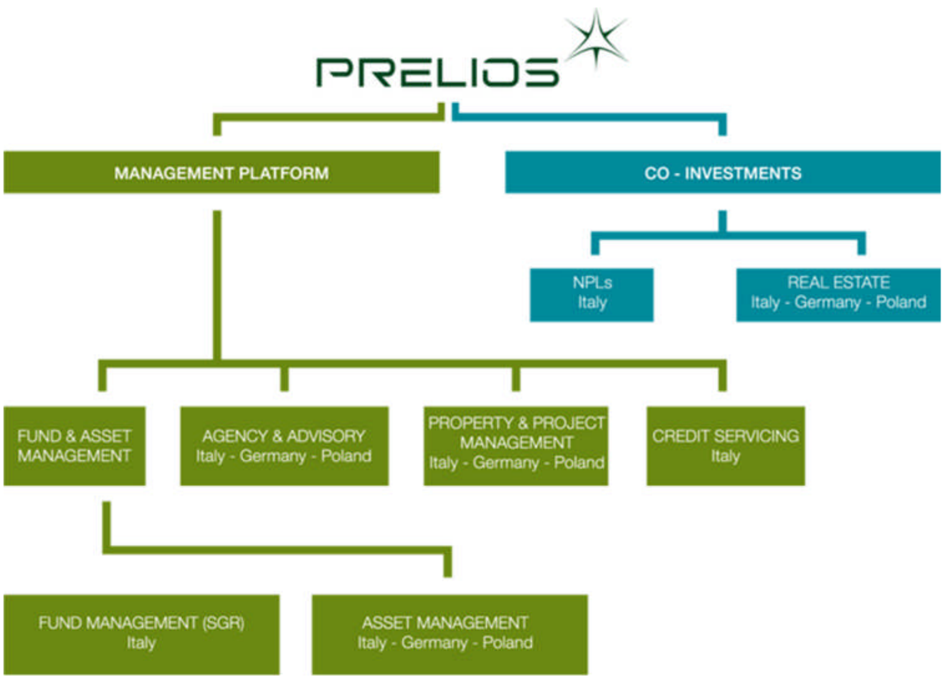
Source: Tradingsystem

1.3 Group Profile

Prelios has been listed on the Italian Stock Exchange since 2002 and is one of the leading Italian operators in the real estate sector. It is active in Italy, Germany and Poland.

Prelios, which is consolidating its repositioning as a “pure management company”, enhances and manages
real estate portfolios also for third-party investors under a distinctive model based on specialist real estate services (Agency, Property & Project Management), on services connected with the management of non-performing loans (Credit Servicing) and on management (Fund & Asset Management).

In the past, Prelios took on mainly minority stakes in the investments managed (Real Estate and Non-Performing Loans), with the aim of seizing opportunities for revaluation; today, following the new strategy oriented to a pure management model, the Company pursues a gradual reduction in invested capital offset by an increase in assets managed on behalf of third parties.



Total assets under management (or AUM) at June 30th, 2012 amounted to approximately 11.7[14] billion euro (market value). Of these, the real estate portfolio has reached 10.6 billion euro, while the remainder (1.1 billion euro) consists of Non-Performing Loans (in- and out-of-court management to recover non-performing receivables on behalf of banks and investors).

[14] Assets managed, with the exception of non-performing loans stated at book value, are stated at market value on the basis of appraisals by independent experts. The market values established by independent experts do not take account of lower values recognised on specific portfolios on the basis of possible strategies involving an acceleration of the sales plan with respect to an otherwise reasonable time that would be needed for selling at the appraised values, considering the type of asset and the market situation, as well as any discounts for en-bloc sales or deriving from sales mandates.

As far as the geographical distribution of real estate assets is concerned, as of June 30th, 2012 approximately 5.1 billion euro is in Italy, mainly managed through real estate funds (approximately 4.5 billion euro through 22 real estate funds) by the subsidiary Prelios SGR, which is one of the leaders in the domestic market.
The remainder of the portfolio is located in Germany (5.4 billion euro) and in Poland (0.1 billion euro in development projects).

Today Prelios can count on approximately 900 employees in Italy and abroad. An extremely well-qualified structure, with significant professional skills in the sector and a track record of excellence accrued in an international competitive context; an example is the orientation to eco-sustainability, both for new construction projects on behalf of third parties and for the improvement and renovation of existing buildings (so-called “green retrofitting”).

Italy

In Italy, the Group operates through dedicated companies in Agency services, Property & Project Management and Credit Servicing, as well as in the core business of Fund Management through Prelios SGR, one of the leading real estate asset management companies in Italy in terms of assets managed. Its two real estate funds are listed on the MIV segment of the Italian Stock Exchange: – Tecla Fondo Uffici and Olinda Fondo Shops. In the last three years, the Cloe, Clarice and FIPRS funds have been recognized as best performers winning the prestigious IPD European Property Awards.

In Italy, Prelios mainly manages properties intended for non-residential use: the commercial sector (retail, offices, logistics) represents the majority of assets managed. The features of this portfolio are location in the major cities, high occupancy rates and long-term partnerships with tenants of high standing (e.g. Telecom, Region of Sicily, Prada, Fintecna, Vodafone, Eni and Bulgari). At June 30th, 2012 37% of assets are managed on behalf of third parties.

Germany

In only a few years Prelios has become one of the leading operators on the German real estate market, both in the commercial sector (two thirds of assets managed), and in the residential sector. Total assets managed amounted to 5.4[15] billion euro (market value) as of June 30th, 2012.

The Prelios management platform, which provides commercial, management, technical and administrative services, manages approximately 70,000 property units in the residential sector in Germany, mainly located in the area between Kiel and the capital Berlin, where properties of particular significance are found, such as the Carl Legien Estate, declared a UNESCO World Heritage Site in 2008.

[15] Assets managed, with the exception of non-performing loans stated at book value, are stated at market value on the basis of appraisals by independent experts. The market values established by independent experts do not take account of lower values recognised on specific portfolios on the basis of possible strategies involving an acceleration of the sales plan with respect to an otherwise reasonable time that would be needed for selling at the appraised values, considering the type of asset and the market situation, as well as any discounts for en-bloc sales or deriving from sales mandates.

In the commercial sector, Prelios is co-manager, with the Goldman Sachs group, of the Highstreet retail portfolio, which includes approximately 90 properties in commercial locations in cities such as Hamburg, Munich and Berlin, occupied by the Karstadt retail chain: among these is the KaDeWe, one of the most prestigious department stores in continental Europe.

Poland

Prelios operates in Poland through Pirelli Pekao Real Estate (75% Prelios, 25% Bank Pekao SA - Unicredit group), which manages assets of 0.1[16] billion euro (as of June 30th, 2012) in development projects (0.8 million sqm), mainly in the residential sector, in the cities of Warsaw and Danzig.

1.4 Activities and services

Prelios's activities can essentially be divided into two areas: the first involves management of co-investments, that is of capital initiatives still in the portfolio deriving from the former business model; the second consists of providing integrated services for the management and improvement of real estate assets and is the main business following the repositioning of Prelios as a pure management company.
Prelios's "management platform" groups together all its specialist services and comprises asset & fund management, agency services, property & project management and credit servicing.

Asset & Fund Management

Prelios's core business is managing real estate portfolios through funds or special purpose entities. In Italy, Prelios operates in the real estate sector through Prelios SGR, a leader in the domestic market. Founded in 2003, the Prelios Group's management company, howned by 10% by Intesa SanPaolo bank, has actively contributed to the development and success of the real estate funds sector in Italy.

Prelios SGR works with retail and institutional investors, in Italy and abroad, selecting and managing their property investments, with an approach that aims to gradually increase the value of assets held in the funds, through active management of the real estate portfolios.

The asset management strategies guide the investment along the entire lifecycle of a fund and may include increasing the occupancy rate for non-residential properties; dividing and selling residential property units originating in large portfolios; structural and energy enhancement of buildings (so-called "green retrofitting"): everything which, as the case may

[16] Assets managed, with the exception of non-performing loans stated at book value, are stated at market value on the basis of appraisals by independent experts. The market values established by independent experts do not take account of lower values recognised on specific portfolios on the basis of possible strategies involving an acceleration of the sales plan with respect to an otherwise reasonable time that would be needed for selling at the appraised values, considering the type of asset and the market situation, as well as any discounts for en-bloc sales or deriving from sales mandates.

be, can contribute to improving a real estate portfolio for investors, with a responsible approach attentive to the needs of the territory in which the company works.

All funds managed by Prelios SGR are specialized funds: specialization is an important element of the company's culture and way of working, which are based on profound knowledge of the various real estate areas thanks to the specific skills of Prelios SGR's professionals in their respective fields.

Agency

In the commercial services sector, the Group works through Prelios Agency. This company is one of the most important Italian operators in the real estate agency sector. It offers specific professional assistance in the improvement, valuation and financing of office, residential, industrial and logistic portfolios, as well as highly-specialized segments such as high street retail.

Prelios Agency offers brokerage and advisory services for public and private investors and also for real estate funds and institutional operators. The company also provides advanced appraisal solutions, valuing single assets or entire property portfolios independently. Commercial expertise is accompanied by credit broking functions, identifying the financing solutions most suitable for the specific needs.

Prelios Agency can count on a distinctive “network” organization capable of covering the whole country in a capillary manner. It is Knight Frank's exclusive correspondent for Italy, for commercial real estate. Knight Frank, in partnership with Newmark, is an international leader in real estate consultancy and present in five continents.

Property & Project Management

Prelios Property & Project Management is one of the leading Italian operators in the sector of integrated technical and administrative services for management of real estate properties and for development and implementation of projects. With 80 professionals the company offers its customers an integrated and complete range of services in relation to the entire lifecycle of a project or a property.
In 20 years of doing business it has operated in the design, construction and management of large projects for private and public customers.
The property management business includes: administrative and documentary management; due diligence processes; sales support; integrated building management with complete supervision of services provided to the property; but also highly specialized services such as developing and improving shopping centres with operational management of services, administrative management of and responsibility for relations with retailers, and finally strategic optimization of the tenant mix.

The project management business is developed from the concept finalization stage, assessing the best strategy to improve an area or a property; it then includes all later functions of analysing the planning, building, economic and practical feasibility and all the construction stages, from the master plan to project management. In the field of sustainability, the company has unique expertise and a complete portfolio of services, from analysing environmental impact to green retrofitting and energy certification.

Pitecna, a 50-50 commercial partnership between Prelios Property & Project Management and Impresa Percassi, has recently been created. This company, which works in the retail and small office segments, offers itself to the market as a new player, with a range of integrated “turnkey” engineering & contracting services. A product of Prelios Property & Project Management's track record in managing and enhancing properties, and of Impresa Percassi's many years of experience in building or restoring them, the new brand aims to work with operators, owners and tenants proposing a solution for every need; technical and administrative services for project development and implementation; the construction and maintenance services, space planning and move-in management activities, and property management services.

Credit Servicing

As well as the “core” real estate businesses, Prelios operates in the NPL sector with its credit servicing division. A 20% stake in Prelios Credit Servicing is held, indirectly, by CA CIB (Crédit Agricole Corporate & Investment Bank, Crédit Agricole group).

Registered in the Special List of Financial Intermediaries provided for in Art. 107 of Italy's Consolidated Banking Law, it specialises in the management of Non-Performing Loan (NPL) portfolios. It is a privileged agent for those large financial institutions with which it works and over the years has obtained a highly regarded opinion from the leading rating agencies.

Its presence in some of the major Italian cities enables it to oversee the whole country through a network of professionals with financial, real estate (technical and valuation) and legal skills.

Among its main activities, the company offers: valuation/due diligence of non-performing loans; complete management of in-and out-of-court recovery processes, in both secured and unsecured cases; master servicing, that is the administrative management of the vehicle company receivables (costs and expenses, invoicing, accounting...) with guarantee functions for correct completion of securitization in the interest of security holders and in general of the market, for operations in accordance with Italian Law 130 and the prospectus; portfolio management; administration and accounting activities, in line with the Bank of Italy directives and with amortized cost logic; the role of back up servicer in order to ensure that another servicer is quickly replaced if necessary. Prelios Credit Servicing also provides advice and coordination services in relation to the disposal of properties owned by banks and advisory services for the securitization of NPL portfolios.

1.5 Financial highlights

Income statement (milion euro)	June 2012	June 2011
Consolidated revenues	**64.8**	**86.3**
of which services	*61.4*	*80.1*
of which others	*3.4*	*6.2*
Operating result	**(28.5)**	**28.1**
of which management platform	*6.2*	*12.9*
of which investments	*(34.7)*	*15.2*
One-off property tax	-	(8.9)
Restructuring costs	(12.7)	(2.0)
Property (writedowns)/revaluations	(52.2)	(3.6)
Consolidated net income	**(125.7)**	**0.5**
Return on equity ROE (*)	-49%	0%
Balance sheet (milion euro)	**June 2012**	**December 2011**
Equity	199.9	326.2
of which group equity	*191.5*	*318.8*
Net Financial position	(497.5)	(488.0)
Ratios		
Gearing (**)	2.49	1.50
Emplyees at period end (***)	911	974

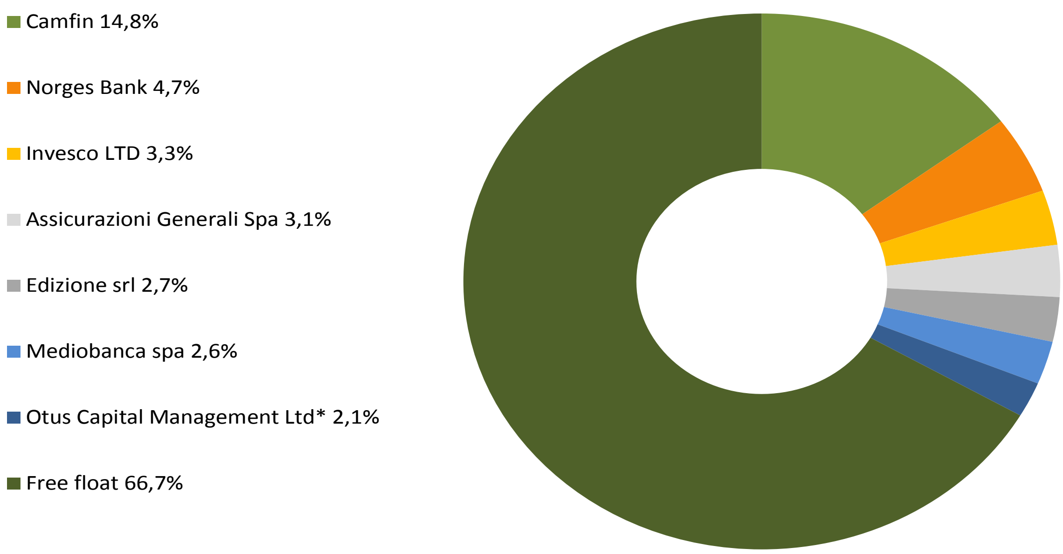
(*) Return on Equity (ROE) was determined as the ratio between consolidated net income (loss) for the period and the average of opening and closing equity pertaining to the group in the period.

(**) Gearing indicates the Group's ability to satisfy the needs of its business with its own resources rather than with third-party financial debt. Gearing is calculated as the ratio between net financial position and equity.

(***) The total number of employees at 30 june 2012 was 911 to which must be added 11 resources with temporary contracts

1.6 Shareholders

As of June 30th, 2012, on the basis of the Shareholders' Register, and disclosures made to Consob and to the Company, there were the following significant interests in the share capital of Prelios S.p.A..

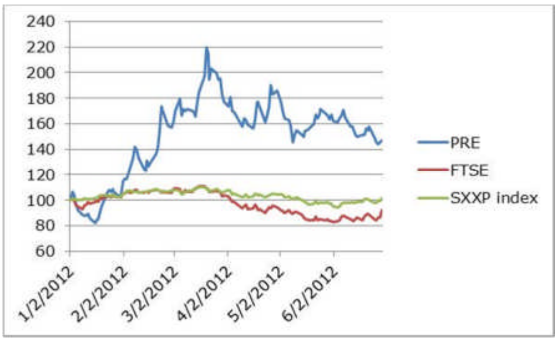


* On August 20 th, 2012 Otus Capital Management Ltd. reduced its stake in Prelios to 1.55%

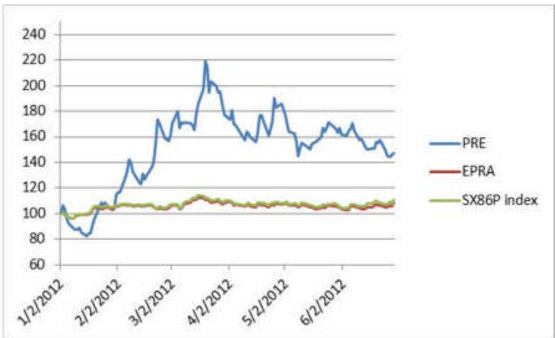
On March 28th, 2012 the shareholders' agreement between Assicurazioni Generali, Camfin, Edizione, Intesa Sanpaolo, Massimo Moratti and Mediobanca, concerning Prelios shares, amounting to approximately 21.3% of the capital, was renewed for an additional 18 months, thus until October 25th, 2013.

1.7 Prelios stock performance

Since the start of the year Prelios stock has outperformed the European indices of the reference sectors (EPRA and STOXX Europe 600 Real Estate) and the FTSE MIB index, recording a rise at June 30th, 2012 of 54% to a reference price of 0.126 euro for a stock market capitalization of 106 million euro.



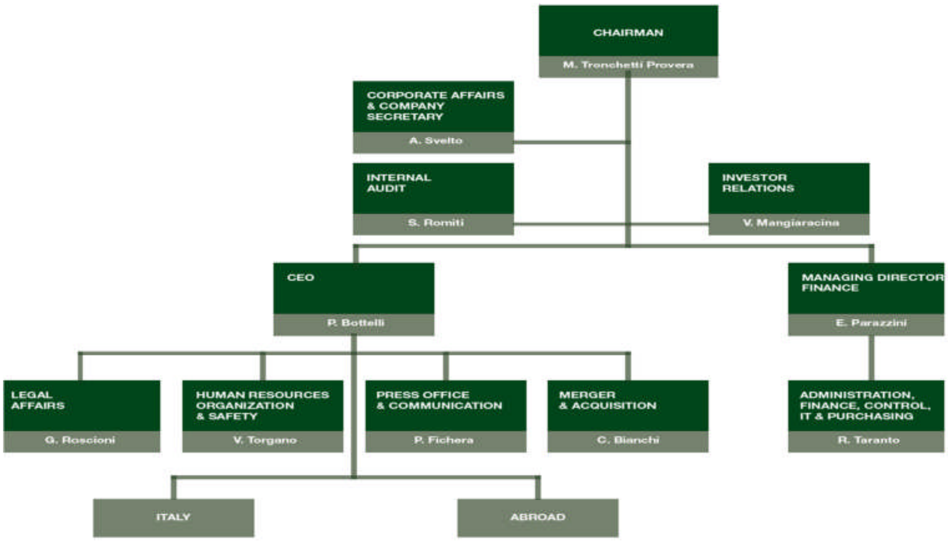
Prelios stock (PRS) performance in relation to the performance of the FTSE MIB and of the general index of the European market.



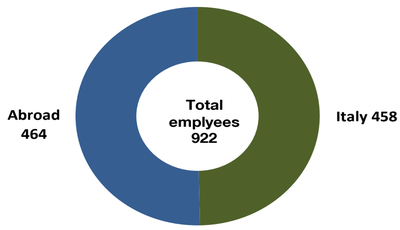
Prelios stock (PRS) performance in relation to the performance of sector indices (EPRA and STOXX Europe 600)

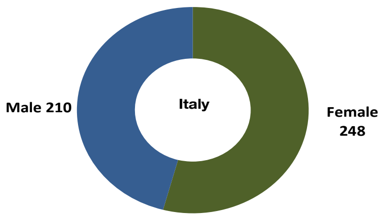
1.8 Management and Workforce

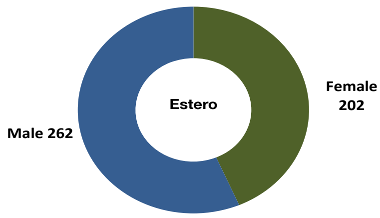
Executive team

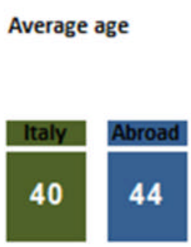


Workforce[17]









[17] Including temporary staff

2. CORPORATE OFFICERS

Board of Directors [18]

Marco Tronchetti Provera	Chairman
Paolo Massimiliano Bottelli	Chief Executive Officer – CEO
Enrico Parazzini	Managing Director Finance
Giuseppe Angiolini	Independent Director
Marina Brogi	Independent Director
Carlo Emilio Croce	Independent Director
Giovanni Fiori	Independent Director
Jacopo Franzan	Director
Valter Lazzari	Independent Director
Davide Malacalza	Director
Amedeo Nodari	Director
Dario Trevisan	Independent Director
Giorgio Valerio	Independent Director
Giovanni Jody Vender	Independent Director
Anna Chiara Svelto	Board Secretary

Internal Control and Corporate Governance Committee

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

[18] The shareholders' meeting held on April 21st, 2011 appointed a new Board of Directors, setting the duration of its mandate at three years, meaning until the date of approving the financial statements for the year ended December 31st, 2013. On completion of the shareholders' meeting, the Board of Directors appointed the Company's officers, established the Board sub-committees and appointed the Supervisory Board's members.
On April 17th, 2012 the Shareholders' Meeting resolved to reduce the number of directors from 15 to 14, by not replacing Giulio Malfatto, who resigned from the office of Director and Vice Chairman of the Company on November 11th, 2011.

Compensation Committee

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

Risk Committee

Dario Trevisan	Independent Director - Chairman
Marina Brogi	Independent Director
Paolo Massimiliano Bottelli	Chief Executive Officer – CEO
Enrico Parazzini	Managing Director Finance

Board of Statutory Auditors [19]

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

Supervisory Board

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

Financial Reporting Officer

Riccardo Taranto	Chief Financial Officer

Independent Auditors

Reconta Ernst & Young S.p.A.[20]

Via della Chiusa, 2

20123 Milan

[19] The shareholders' meeting of April 19th, 2010 appointed the Board of Statutory Auditors to serve until the date of approving the financial statements as at December 31st, 2012.

[20] Engaged by the shareholders' meeting held on April 14th, 2008.

3. PRELIOS IN THE FIRST HALF OF 2012

Following the financial turbulence which continues to affect the Eurozone, a weak market situation persists in a macroeconomic scenario marked by great uncertainties and downward revisions in the outlook for economic growth.

More specifically, as already noted, the real estate industry in Italy suffered a new setback in the early months of the year with falling sales as a result of a reduced ability to obtain credit and wider repricing expectations. The continuation of the crisis does not make it possible to forecast a change in the trend over the short-medium term, with financial costs that will remain elevated and market conditions that are still extremely weak. In Germany there has been a drop in investments in commercial properties while the residential market is bucking the trend and showing a growing volume of transactions thanks also to loans at accessible rates.

In view of the difficulties on the reference market the Group is mainly affected by the negative effects associated with future prospects in Italy which are reflected in deteriorating profiles of cash flows expected from real estate assets and a significant slowdown in sales. This new scenario will inevitably have a notable impact on the selling prices of properties if they are sold in the near future. Although in this difficult context and despite the significant contraction, during the period the Group managed to keep the operating margins of the management platform positive while waiting for growth opportunities to arise in the sector of real estate funds, which are showing an interesting trend.

Prelios therefore confirms its strategic objective to reposition itself as a pure management company with a special focus on the domestic market, by relaunching the SGR and increasingly developing the business of asset management for third-parties. In the scenario outlined, also in the first half of 2012, writedowns of real estate equity interests and investments affected the Group's accounts, which closed with a net loss of 125.7 million euro after breaking even in the first half of 2011. The net result was influenced by restructuring expenses of 12.7 million euro and writedowns of 52.2 million euro on real estate equity interests and investments in view of the worsening economic conditions in Italy under which real estate transactions can be concluded over the short-medium term, thus also leaded independent external valuers to reduce further properties market value..

Considering the continuing difficulties of the real estate and financial market, and the putting off of the distributions by investee Funds (as better explained in section 8.8 “Tax Risk”), Prelios expressed the need for greater operating flexibility to the Club Deal Banks and to Pirelli & C. An overall agreement to revise certain terms of the respective loan contracts signed on December 28th, 2011 was therefore concluded with the lending banks and with Pirelli & C. This agreement provides in particular for: (a) Suspension of the Financial Covenants, determined as a maximum amount of Net Financial Position and a minimum level of Equity, for both contracts as of June 30th and December 31st, 2012, it remaining understood that these covenants will be in force again starting from the test provided for on June 30th, 2013; (b) Deferment to December 31st, 2012 of payment, to the Club Deal banks, of the first instalment of interest of approximately Euro 14.8 million, originally envisaged at June 30th, 2012; (c) Deferment to June 30th, 2013 of payment, to Pirelli & C., of the first two six-monthly instalments of interest originally due on June 30th, 2012 and December 31st,

2012. Prelios will continue however to provide to its lenders evidence of the trend in Net Financial Position and Net Equity for purely informative purposes.

4. NOTES ON THE GROUP'S MAIN ECONOMIC AND FINANCIAL DATA

This section will examine the Group's results, financial position and balance sheet at June 30th, 2012. The review of operating results in section 4.1 uses Non-GAAP performance measures, generally used by management to monitor and assess the Group's performance. The purpose is to present the result of the Group's ordinary continuing operations, net of the impact of transactions that are unusual in nature or amount, and net of changes in the value of its property portfolio, and in this way ensure that its results and reporting over time are more comparable with other major players using similar Non-GAAP measures.

These measures are obtained by aggregating or reclassifying figures in the IFRS financial statements, as indicated in Appendix A to this report. Such performance measures have been adopted to analyze the economic results according to the nature of the events originating them. Section 5 contains an analysis of the results as reported in the IFRS income statement. The reviews of the balance sheet and financial position in section 4.2 also include Non-GAAP measures, whose composition is defined in Appendix A to this report. Since, in the case of balance-sheet amounts, these measures are generally adopted for financial communication purposes, and are easily reconciled to figures reported in the primary financial statements, it has not been necessary to supplement the performance analysis with a specific commentary on the latter.

In particular, the Non-GAAP measures indicated below have been determined by isolating the following aspects, both of which are fully reconciled to amounts reported in the IFRS financial statements in Appendix A: “Restructuring costs," and "Property writedowns/revaluations," as better illustrated in the next section.

The indicator which best reflects the performance of the Group's Management Platform and Investment Activities is EBIT including income from investments and income from shareholders' loans before restructuring costs and property writedowns/revaluations (operating result).

4.1 Income Statement

(million euro)	JUNE 2012	JUNE 2011
Consolidated revenues:	64.8	86.3
of which services	*61.4*	*80.1*
of which others	*3.4*	*6.2*
Management platform: EBIT before restructuring costs and property writedowns/revaluations	5.5	12.0
Management platform: net income from investments before restructuring costs and property writedowns/revaluations	0.7	0.9
Total management platform: Operating result	**6.2**	**12.9**
Investment activities: EBIT before restructuring costs and property writedowns/revaluations	(8.6)	(7.6)
Investment activities: net income from investments before restructuring costs and property writedowns/revaluations	(32.0)	8.9
Investment activities: Income from shareholder loans (1)	5.9	13.9
Total investment activities: Operating result	**(34.7)**	**15.2**
Operating result	**(28.5)**	**28.1**
Financial expenses	(25.2)	(14.0)
Profit (loss) before restructuring costs, property writedowns/revaluations and income taxes	**(53.7)**	**14.1**
One-off property tax	0.0	(8.9)
Restructuring costs	(12.7)	(2.0)
Property writedowns/revaluations	(52.2)	(3.6)
Profit (loss) before taxes	**(118.6)**	**(0.4)**
Income taxes	(6.3)	0.2
Net income (loss) before minority interests	**(124.9)**	**(0.2)**
Minority interests	(0.8)	0.7
Consolidated net income (loss)	**(125.7)**	**0.5**

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

Consolidated revenues as of June 30th, 2012 amounted to 64.8 million euro with respect to 86.3 million euro in the first half of 2011. In particular, the revenues from the Management Platform, foreign and Italian, totalled 61.4 million euro in the first half of 2012, a decrease of 18.7 million euro with respect to the 80.1 million euro recorded at June 30th, 2011. The contraction regards 13.9 million euro to agency and property & project management specialist services, 9.1 million euro and 4.8 million euro respectively, and 3.8 million euro to fund management services.

The operating result came out at a negative 28.5 million euro compared with a positive 28.1 million euro for the first half of 2011, which benefited for both the Management Platform and Investment Activities, from the positive results of a number of transactions such as the sale of the historic building entirely rented to La Rinascente and located in Piazza Duomo in Milan (by the Retail & Entertainment Fund in which the Group has an interest) and the contribution, of 9.9 million euro relating only to Investment Activities, of operating management of the "Highstreet" project. It should also be noted that most of the contraction was due to the Non-Performing Loan business which recognised writedowns of approximately 25.5 million euro.

The item "Restructuring costs" generally includes voluntary redundancy costs, expenses for rationalising the Group and its offices, charges arising from large settlements for tax litigation, and support, including with waiver of receivables, of investee companies as going concerns in the context of financial restructuring plans previously agreed on or at an advanced stage of negotiation with lending institutions or partners; this is to demonstrate how such restructuring costs differ from the Group's ordinary operating activities.

In the first half of 2012 the item, for 12.7 million euro, consists mainly of losses on receivables as part of the restructuring programme of a number of investees, expenses associated with rationalising the Group's offices and costs deriving from settlements of tax disputes.

The item "Property writedowns/revaluations", totalling 52.2 million euro in the first half of 2012, includes value adjustments of almost exclusively Italian assets in the Real Estate component, therefore excluding Non-Performing Loans.

Income taxes, came to a total of 6,3 million euro.

Net income pertaining to the Group in the first half of 2012 was a negative 125.7 million euro compared with a break-even result recorded at June 30th, 2011 of 0.5 million euro.

Management Platform [21]

Fund and asset management activities and property and project management and agency services, as well as those connected to credit servicing, with inclusion of general and administrative expenses, led to a positive operating result of 6.2 million euro at June 30th, 2012, compared to 12.9 million euro in the first quarter of 2011.

Investment Activities[22]

During the first half of 2012 investment activities reported a negative operating result of 34.6 million euro compared with a positive result of 15.2 million euro in the same period of 2011, which included the aforementioned positive contributions of some property sales and a positive effect of 9.9 million euro attributable to the contribution to operating income of the Highstreet initiative. The worsening is partly attributable to impairment losses recognised in the Non-Performing Loan sector (25.5 million euro), in consideration of the different recovery s resulting from the financial and specific sector scenarios which were deteriorating rapidly and heavily. This method of determining the operating result is based on criteria decided by management aimed at presenting the contribution from asset management activities on a consistent basis over time and in line with the figures relating to the Group's Assets Under Management.

***

During the first half of 2012, real estate sales[23] amounted to 277.7 million euro (Prelios's share 81 million), compared to 1,109.3[24] million euro at June 30th, 2011 (Prelios's share 311.5 million). On its own real estate transactions the company made an average sales

[21] Management Platform results means those generated by the Company through fund and asset management activities, property and project management and agency services, services connected to NPL (credit servicing), as well as general and administrative expenses.
[22] Investment activities means that generated by Prelios through its investment in funds and companies that hold real estate and Non-Performing Loans.
[23] This figure is determined adding together real estate sales by consolidated companies and 100% real estate sales by associates, joint ventures, and funds in which the Group has an interest of at least 5%.
[24] Of which 472 million euro connected to sale of the Rinascente building in Piazza Duomo in Milan.

margin of around 1% with respect to book value at June 30th, 2012 (about 5% in the same period of 2011).

Total rents[25] came to 196.4 million euro in the first half of 2012, compared with the 284 million recorded at June 30th, 2011. Prelios's share of rents was 47.9 million euro (77.3 million euro in the first half of 2011).

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

Devaluations of equity investments and real estate investments in the first half of 2012 contributed a total of 52.2 million euro, of which 43.4 million euro from the Italy real estate portfolio and 8.8 million euro from the Germany real estate portfolio.

4.2 Review of the balance sheet and financial position

(million euro)	JUNE 2012	DECEMBER 2011
Fixed assets	**715.4**	**820.4**
of which investments in real estate funds and investment companies and shareholder loans granted **(1)**	*550.6*	*651.6*
of which goodwill	*148.1*	*148.1*
Net working capital	**42.2**	**70.4**
Net invested capital	**757.6**	**890.8**
Equity	**199.9**	**326.2**
of which group equity	191.5	318.8
Provisions	**60.2**	**76.6**
Net Financial Position	**497.5**	**488.0**
Total covering Net Invested Capital	**757.6**	**890.8**
Gearing	**2.49**	**1.50**

(1) The figure includes investments in associates, joint ventures and other investments (272.1 million euro), receivables for shareholder loans (269.6 million euro), investments in real estate funds (12.7 million euro, reported under "Other financial assets" in the consolidated balance sheet) and junior notes (0.2 million euro, reported in "Other financial assets" in the consolidated balance sheet). The figures for June 2012 and December 2011 include provisions for risks on investments of 4.0 million euro and 7.1 million euro respectively.

Fixed assets amounted to 715.4 million euro at June 30th, 2012 compared with 820.4 million euro at December 31st, 2011. The reduction was mostly due to writedowns of investee companies and to distributions of reserves and retained profits.

Net Working Capital at June 30th, 2012 totalled 42.2 million euro, a decrease of 28.2 million euro from the figure recorded at December 31st, 2011, of 70.4 million. The decrease in working assets was attributable mainly to a reduction in receivables determined by collections and value adjustments.

[25] This figure is determined adding together rents earned by consolidated companies and 100% of the rents earned by associates, joint ventures, and funds in which the Group has at least a 5% interest as at June 30th, 2012.

Group equity amounted to 199.9 million euro, while group equity pertaining to Prelios totalled 191.5 million euro, compared with 318.8 million euro at December 31st, 2011. The change is mainly attributable to the result for the period (-125.7 million euro).

The Net Financial Position showed debt of 497.5 million euro at June 30th, 2012 compared to 488 million euro at December 31st, 2011.

Gearing was 2.49, compared with 1.50 at December 31st, 2011.

At June 30th, 2012 Prelios had 539 million euro in committed credit lines (of which 20 million not maked use), of which 379 million euro in bank facilities and 160 million euro in facilities provided by Pirelli & C. S.p.A.

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

The negative change with respect to December 31st, 2011, totalling 9.5 million euro, can be traced to the combined effect of a decrease of 35 million euro deriving from cash flow generated by sales and distributions by investee investment companies and funds and an increase attributable to accrued interest expense and other financial charges associated with the existing loans (24.7 million euro), to the contribution of equity to the investee investment companies and funds (6 million euro), to payment of restructuring costs (5.9 million euro), as well as to payment of income taxes (5 million euro), and to other changes in net working capital (2.9 million euro).

(million euro)

The following table presents the principal movements in the Net Financial Position during the period.

(million euro)

	June 2012	June 2011
Net Financial Position at the beginning of the period (A)	**488.0**	**424.0**
EBIT before restructuring costs and property writedowns/revaluations	**(3.1)**	**4.4**
Depreciation	1.2	1.6
Change in investments and shareholder loans granted	13.5	(31.3)
Change in other fixed assets	(0.7)	(0.7)
Change in net working capital, provisions and other	(6.3)	(18.9)
Free cash flow	**4.6**	**(44.9)**
Other changes	(5.9)	(6.5)
Interest income/expenses and taxes	(8.6)	2.6
Cash flow before dividends	**(9.9)**	**(48.8)**
Capital Increase / (Dividends) (*)	0.4	(1.3)
Net cash flow (B)	**(9.5)**	**(50.1)**
Net Financial Position at the end of the period (A-B)	**497.5**	**474.1**

(*) third party portion of Prelios Credit Servicing for +0.6 milion euro net of dividends to 10% SGR-Banca Intesa for -0.2 milion euro

4.3 Net bank debt of funds and investment companies

The total share pertaining to Prelios in the net bank debt of funds and investment companies participated of 1.5 billion euro is divided into approximately 1.2 billion euro used in the real estate component and approximately 0.3 billion euro in NPLs against a net bank debt at 100% of 5.9 billion euro[26] referring for 4.9 billion euro to real estate and for 1.0 billion euro to NPLs.

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

- a limited amount of recourse guarantees (the Prelios share is 46.6 million euro);

- a high level of interest rate hedging (73%) and an average residual life of approximately 1.8 years (Prelios share is 1.7 years).

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

Average bank leverage (excluding NPLs) represents 62 % (Prelios share) of the market value of the assets, generally providing a margin of safety in relation to existing covenants.

The amount of debt by cluster is discussed in the paragraph on "representation of the real estate portfolio," while Appendix B to this report provides information on the technical form of the debt, its average contractual maturity, as well as particular situations being negotiated following failure to observe certain covenants.

[26] This does not include 0.4 billion euro relative to the Cloe, Armilla, and Fedora funds classified as third-party funds, as Prelios' interest is less than 5%.

5. REVIEW OF IFRS CONSOLIDATED INCOME STATEMENT

The following is a summary of the income statement (financial tables)

(million euro)	JUNE 2012	JUNE 2011
Revenues from sales and services	64.8	86.3
Changes in inventories of work in progress, semi-finished and finished products	-	0.3
Other income	11.3	8.3
TOTAL OPERATING REVENUES	**76.1**	**94.9**
Raw and consumable materials used (net of change in inventories)	(2.7)	(3.5)
Personnel costs	(34.8)	(37.5)
Depreciation, amortization and impairment	(1.2)	(1.6)
Other costs	(52.5)	(49.8)
TOTAL OPERATING COSTS	**(91.2)**	**(92.4)**
EARNINGS BEFORE INTEREST AND TAX (EBIT)	**(15.1)**	**2.5**
Net income from investments	(81.6)	(6.2)
- net profit share from investments in associates and joint ventures	*(80.6)*	*(8.2)*
- dividends	*1.0*	*1.4*
- gains on investments	*1.8*	*0.6*
- losses on investments	*(3.8)*	*0.0*
Financial income	7.9	20.8
Financial expenses	(29.7)	(14.9)
RESULT BEFORE INCOME TAXES	**(118.6)**	**2.2**
Income taxes	(6.3)	(2.4)
NET INCOME (LOSS) FOR THE PERIOD	**(125.0)**	**(0.2)**
attributable to minority interests	0.8	(0.7)
CONSOLIDATED NET INCOME (LOSS) FOR THE PERIOD	**(125.7)**	**0.5**

During the first half of 2012 revenues from sales and services amounted to 64.8 million euro, of which 35.5 million euro from Italy and 29.3 million euro abroad, compared with 86.3 million euro of the same period of 2011. The contraction is mainly attributed to consolidated revenues of the Italy area (-19.6 million euro).

At June 30th, 2012 other income came to 11.3 million euro, compared with the 8.3 million euro recorded in the first half of 2011. About one third of this refers to income attributed to the positive outcome of disputes and the remainder to recharging tenants for management costs relating to the Group's own property or property managed on behalf of third parties, the latter mainly in the context of property management activities.

Purchases of raw and consumable materials used (net of change in inventories) amounted to 2.7 million euro compared with 3.5 million euro at June 30th, 2011.

During the first half of 2012 personnel costs came to 34.8 million euro, compared with 37.5 million euro in the same period of 2011, which included restructuring expenses of 2 million euro.

In the first half of 2012 other costs came to 52.5 million euro, compared with 49.8 million euro in the first half of 2011. Other costs includes costs for maintenance services, commissions, consulting, office rental, provisions for risks, and other operating expenses. The increase in impairment of receivables (recognised also with a view to providing support for investees to ensure that they continue as going concerns in the context of financial restructuring plans previously agreed on or at an advanced stage of negotiation with lending institutions and partners) and in provisions for future expenses to cover the finalisation of a umber of existing transactions more than offset the sharp reduction in costs for services, in particular in commissions and consulting fees paid to third parties.

At June 30th, 2012 EBIT was a negative 15.1 million euro, compared with the positive figure recorded in the first half of 2011, of 2.5 million euro.

In the first half of 2012 net income from investments was a negative 81.6 million euro and was mainly made up of writedowns, compared with the negative figure of 6.2 million euro recorded in the first half of 2011, which had benefited from the positive contribution of the Retail & Entertainment Fund (indirectly owned by Prelios S.p.A. with a minority stake) following the sale of the historical building rented entirely to La Rinascente and located in Piazza Duomo in Milan..

At June 30th, 2012 financial income amounted to 7.9 million euro compared with an amount of 20.8 million euro in the first half of 2011 which had benefited from the positive contribution of 11.4 million euro of the "Highstreet" initiative. Net of this item there was a decrease in financial income of 1.5 million euro due to the reduction of the accrued interests on financial receivables from *joint venture*.

The increase in financial expenses is mainly attributable to the effect of the increase in interest due to banks and to Pirelli & C. S.p.A. following the refinancing agreed in December 2011.

6. PORTFOLIO MANAGED AND REAL ESTATE NET ASSET VALUE AT JUNE 30TH, 2012

6.1 Real Estate Assets Under Management

The information provided below, relating to portfolios managed by the Group at June 30th, 2012, is taken from valuations performed by CB Richard Ellis for the entire portfolio, with the exception of:

- the Armilla Fund, Manifatture Milano, Tizian Wohnen 1, Tizian Wohnen 2 and Mistral Real Estate, all valued by Reag;
- the assets of DGAG, valued by Jones Lang La Salle;
- the Immobiliare Pubblico Regione Siciliana-FIPRS Fund, Olinda Fund, and Diomira Fund, valued by Scenari Immobiliari;
- "the Enasarco, Fedora, Monteverdi, Anastasia, Tecla, Raissa and Spazio Funds, valued by Patrigest;
- the Cloe, Vivaldi, Hospitality & Leisure and Clarice Funds, valued by K2REAL;
- Coimpex, by Cushman & Wakefield;
- Resident Sachsen, Resident Berlin, Resident Baltic, and Resident West by NAI Apollo
- Highstreet, valued by Cushman & Wakefield.

In relation to the BauBeCon portfolio, in which the Group no longer has an interest, but still manages, reference was made to a valuation by Jones Lang La Salle available on the assets at June 30th, 2011.

The valuations were performed on each property using different methods.

The Discounted Cash Flow method, which discounts cash flow from rents using a discount factor reflecting the specific risks associated with the investment (the terminal value at the end of the letting period is obtained by capitalizing market rents for business and/or commercial properties), is the most widely used for commercial and residential property in Germany; for residential property in Italy the method most used and recognised as best valuation practice is the comparative or market method: the value of the property is determined by comparison with recent transactions or transactions in progress involving assets which are similar in terms of type, position and location, and physical/technical features, applying adequate adjustments in relation to the specific intrinsic and extrinsic characteristics of the asset being valued. As regards initiatives in progress and land for development the valuation involves using the transformation method, a particular Discounted Cash Flow model, which discounts future costs and revenues deriving from the development project with a discounting factor that reflects the specific risks connected with the initiative.

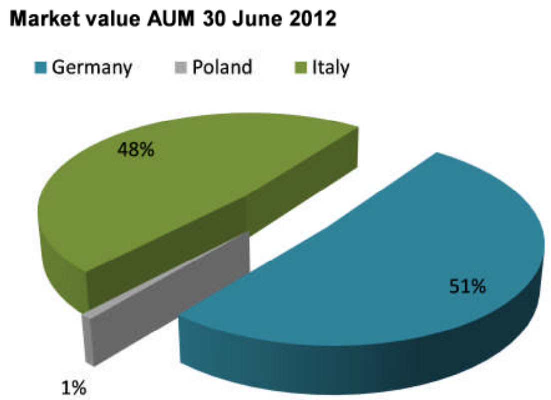
At June 30th, 2012 assets under management[27] amounted to 11.7 billion euro (12.4 billion euro at December 31st, 2011), of which Prelios's share was 2.3 billion euro (2.5 billion euro

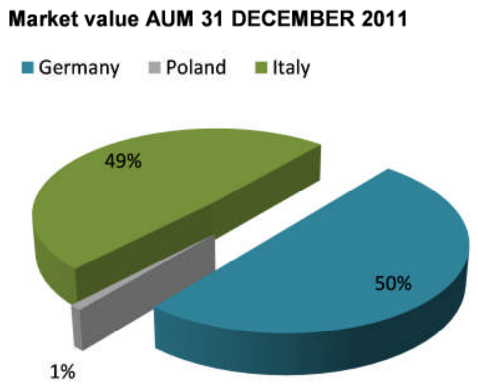
[27] Assets managed, with the exception of non-performing loans stated at book value, are stated at market value on the basis of appraisals by independent experts. The market values established by independent experts do not take account of lower values recognised on specific portfolios on the basis of possible strategies involving an acceleration of the sales plan with respect to an otherwise reasonable time that would be needed for selling at the appraised values, considering the type of asset and the market situation, as well as any discounts for en-bloc sales or deriving from sales mandates.

at December 31st, 2011). Assets under management comprise 10.6 billion euro in real estate (11.2 billion euro at December 31st, 2011) and 1.1 billion euro in Non-Performing Loans (1.2 billion euro at December 31st, 2011). In terms of asset allocation by geographical area, of the 10.6 billion euro in real estate, 48% is managed in Italy, 51% in Germany, and 1% in Poland. The proportion of non-investee real estate amount to 3.3 billion euro in June 2012 compared with a figure of 3.4 billion euro[28] at December 2011, representing 30% of the total value of real estate assets under management.

On the basis of independent appraisals and net of downward adjustments deriving from any sales discounts instructed to intermediaries, like-for-like market values of investee assets have been written down by an average of 2.0% in the period. More specifically, we can note that the Italy real estate portfolio was written down by an average of 3.5%, while in Germany and Poland the average writedown was 1.5%.

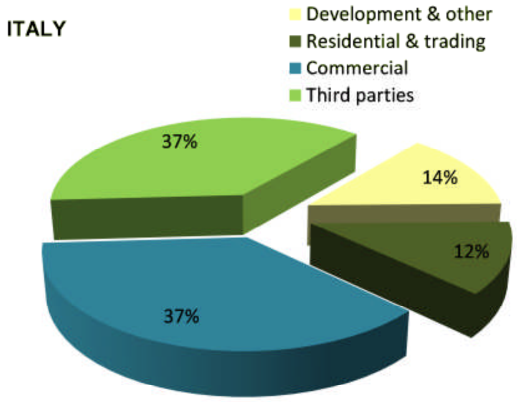
As shown in the tables below, the division of asset allocation expressed at market value by geographical area at June 30th, 2012 is in line with that of December 2011 (amounts at 100%).

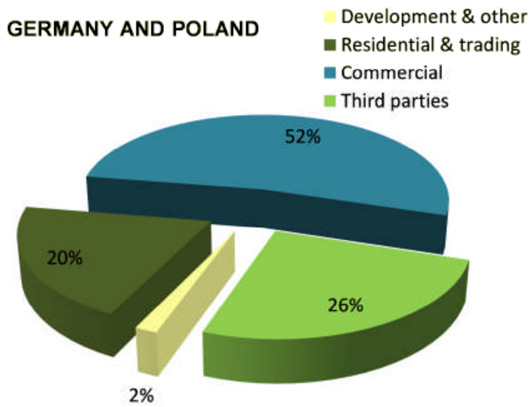




The following charts show how Assets Under Management at market value are broken down by product at June 30th, 2012 (100% amounts):

[28] The figure includes the Cloe, Armilla and Fedora Funds (in which Prelios holds a stake of less than 5%), and the BauBeCon real estate portfolio, an investee until November 2011 and still managed.





Development projects and land

Assets under management in development projects and land are valued at 775 million euro at June 2012 of which 503 million euro refers to land and 272 million euro to development (amounts at 100%). The total Prelios share is approximately 38%, corresponding to roughly 298 million euro out of total assets under management relating to investee funds and investment companies, excluding Non-Performing Loans, of 1.9 billion euro. Development and land activities therefore represent around 16% of Prelios's pro-rata total investments.

The Group takes part in land and development projects by investing with sizeable minority stakes in joint ventures with major national and international partners, providing asset management, property & project management, and agency services.

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

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

The principal projects currently in progress are:

- Manifatture Milano (Prelios 50%): land adjoining the Bicocca area (North Milan). A total of 68,000 sqm will be developed for the following purposes: Residential, Hotel, Commercial The development activity is managed in a joint venture with Fintecna Immobiliare and the first residential plot is at the construction stage.
- Trixia (Prelios 36%): construction of the last lot has been completed and sale continues of the last lot of the Malaspina housing development in Pioltello. The cost at June 30th, 2012 is 26.1 million euro, against a market value of 32.4 million euro.

- Inim 2 (Prelios 25%): Having completed the section for RCS, the investment company is left with a partially built area of around 40,000 sq m in gross floor space for productive, tertiary and commercial use.

The ex-Lucchini land in Warsaw, Poland, with a book value of about 46 million euro, in which the Prelios interest is 34%. At the moment approval of the master plan is being awaited.

6.2 Real Estate Net Asset Value as per independent appraisals

The Net Asset Value of Prelios's investments at June 30th, 2012, has been valued at around 0.7 billion euro, excluding Non-Performing Loans (which are stated at book value), compared with a figure of 0.8 billion euro at December 31st, 2011. This value is the difference between the Prelios share of asset value determined by independent experts (1.9 billion euro) and its share of the net bank debt of investee funds and investment companies (1.2 billion euro).

Of the total book value of 6.9 billion euro relating to investee funds and investment companies (of which Prelios's share is 1.8 billion euro), approximately 2.5 billion euro (Prelios's share 0.9 billion euro) refers to investment property held for rental or appreciation and carried at fair value (IAS 40).

The table below shows the Net Asset Value at 100% and Prelios's share at June 30th, 2012 and at December 31st, 2011.

in billions of euro	JUNE 2012 - 100%				DECEMBER 2011 - 100%			
	Market value	Book value	Net Bank Debt	Net Asset Value	Market value	Book value	Net Bank Debt	Net Asset Value
Investee real estate investment companies and funds	7.3	6.9	4.9	**2.4**	7.8	7.5	5.2	**2.6**
Non-investee real estate investment companies and funds	3.3	3.1			3.4	3.2		
TOTAL REAL ESTATE	**10.6**	**10.0**	**4.9**		**11.2**	**10.7**	**5.2**	
NPL (*)	*1.1*	*1.1*	*1.0*		*1.2*	*1.2*	*1.0*	
TOTAL ASSETS UNDER MANAGEMENT	**11.7**	**11.1**	**5.9**		**12.4**	**11.9**	**6.2**	

	JUNE 2012 - PRO RATA -				DECEMBER 2011 - PRO RATA -			
	Market value	Book value	Net Bank Debt	Net Asset Value**	Market value	Book value	Net Bank Debt	Net Asset Value**
Investee real estate investment companies and funds	1.9	1.8	1.2	**0.7**	2.1	2.0	1.3	**0.8**
Non-investee real estate investment companies and funds	0.0	0.0			0.0	0.0		
TOTAL REAL ESTATE	**1.9**	**1.8**	**1.2**		**2.1**	**2.0**	**1.3**	
NPL (*)	*0.4*	*0.4*	*0.3*		*0.4*	*0.4*	*0.4*	
TOTAL ASSETS UNDER MANAGEMENT	**2.3**	**2.2**	**1.5**		**2.5**	**2.4**	**1.6**	

(*) For non-performing loans the amount included in the "market value" columns corresponds to the purchase cost net of any impairment recognised.
(**) For calculation purposes, consolidated assets have been treated as entirely funded by own resources.

6.3 Representation of the real estate portfolio

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

Profitability and AUM of investee funds and investment companies – amounts at 100% (thousand euro)

	PRE portion	Passing Rent	Passing Yield	Vacancy	Book Value	Market value	Net bank debt
Tecla Fund	44.8%	26,378	6.2%	15.7%	424,979	432,363	263,829
Fiprs Fund	22.0%	20,960	7.5%		280,141	283,590	172,141
Raissa Fund	35.0%	17,823	7.9%		225,853	232,213	54,540
Olinda Fund	11.3%	28,199	8.4%	14.7%	335,609	486,040	219,462
Gromis S.r.l.	33.0%	1,000	7.7%		12,966	16,320	10,667
Monteverdi Fund	49.3%	5,239	7.2%	68.0%	73,049	77,842	21,857
Spazio Industriale Fund	22.1%	20,683	7.0%	15.6%	296,473	300,574	162,813
Hospitality & Leasure Fund	35.0%	3,650	6.0%	22.1%	61,018	61,900	80,754
Commercial Italy		**123,932**	**7.2%**	**17.1%**	**1,710,088**	**1,890,842**	**986,063**
Mistral Properties	41.0%	4,826	6.3%	11.1%	76,729	77,041	33,550
DGAG - Special Properties	100.0%	-			13,771	13,771	(7,259)
Commercial Germany		**4,826**	**5.3%**	**11.1%**	**90,500**	**90,812**	**26,291**
Highstreet	12.1%	165,107	6.0%	1.5%	2,729,724	2,729,724	2,305,097
Highstreet		**165,107**	**6.0%**	**1.5%**	**2,729,724**	**2,729,724**	**2,305,097**
SIG (West, Baltic, Sachsen)	50.0%	7,788	6.6%	8.0%	118,343	120,125	86,462
Small Assets (Tizian 1&2)	40.0%	5,148	8.7%	2.0%	59,237	70,753	42,046
Residential Small Deals		**12,936**	**7.3%**	**5.6%**	**177,580**	**190,879**	**128,508**
DGAG - Residential	40.0%	67,088	7.3%	2.4%	921,262	924,268	657,967
Residential Germany		**67,088**	**7.3%**	**2.4%**	**921,262**	**924,268**	**657,967**
TOTAL "YIELDING" PORTFOLIO		**373,889**	**6.6%**	**8.6%**	**5,629,154**	**5,826,525**	**4,103,926**
Trading Italy		**7,941**	**n.m.**	**n.m.**	**537,850**	**617,550**	**435,502**
Development Italy		**-**	**n.m.**	**n.m.**	**247,431**	**271,640**	**102,410**
Land Italy		**342**	**n.m.**	**n.m.**	**378,719**	**412,397**	**212,358**
Other Germany		**1,233**	**n.m.**	**n.m.**	**47,220**	**48,425**	**15,411**
Land Poland		**116**	**n.m.**	**n.m.**	**45,653**	**91,296**	**(1,021)**
TOTAL "OTHER" PORTFOLIO		**9,632**			**1,256,874**	**1,441,308**	**764,659**
INVESTEE REAL ESTATE PORTFOLIO		**383,521**	**5.6%**		**6,886,027**	**7,267,833**	**4,868,585**

Profitability and AUM of investee funds and investment companies – Prelios's share (thousand euro)

	PRE portion	Passing Rent	Passing Yield	Vacancy	Pro-rata book value	Pro-rata market value	Pro-rata net bank debt
Tecla Fund	44.8%	11,817	6.2%	15.7%	190,391	193,699	121,558
Fiprs Fund	22.0%	4,603	7.5%		61,519	62,276	44,233
Raissa Fund	35.0%	6,238	7.9%		79,048	81,275	19,089
Olinda Fund	11.3%	3,186	8.4%	14.7%	37,924	54,923	24,799
Gromis S.r.l.	33.0%	330	7.7%		4,279	5,386	3,520
Monteverdi Fund	49.3%	2,581	7.2%	68.0%	35,981	38,342	10,766
Spazio Industriale Fund	22.1%	4,575	7.0%	15.6%	65,580	66,487	36,009
Hospitality & Leasure Fund	35.0%	1,278	6.0%	22.1%	21,356	21,665	28,264
Commercial Italy		**34,608**	**7.0%**	**21.9%**	**496,078**	**524,051**	**288,239**
Mistral Properties	41.0%	3,734	11.9%	10.3%	31,481	31,992	14,917
DGAG - Special Properties	100.0%	-			13,772	13,771	(7,259)
Commercial Germany		**3,734**	**8.3%**	**10.3%**	**45,252**	**45,763**	**7,658**
Highstreet	12.1%	19,978	6.0%	1.5%	330,297	330,297	278,504
Highstreet		**19,978**	**6.0%**	**1.5%**	**330,297**	**330,297**	**278,504**
SIG (West, Baltic, Sachsen)	50.0%	3,890	6.6%	8.0%	59,108	60,003	43,531
Small Assets (Tizian 1&2)	40.0%	2,059	8.7%	2.0%	23,695	28,301	16,818
Residential Small Deals		**5,949**	**7.2%**	**5.9%**	**82,802**	**88,304**	**60,349**
DGAG - Residential	40.0%	26,835	7.1%	2.4%	376,768	369,707	267,542
Residential Germany		**26,835**	**7.1%**	**2.4%**	**376,768**	**369,707**	**267,542**
TOTAL "YIELDING" PORTFOLIO		**91,104**	**6.8%**	**11.7%**	**1,331,197**	**1,358,122**	**902,292**
Trading Italy		**2,742**	**n.m**	**n.m**	**190,092**	**219,672**	**146,142**
Development Italy		**-**	**n.m**	**n.m**	**96,141**	**104,297**	**44,387**
Land Italy		**-**	**n.m**	**n.m**	**147,154**	**162,727**	**75,365**
Other Germany		**658**	**n.m.**	**n.m.**	**20,681**	**20,711**	**6,376**
Land Poland		**44**	**n.m**	**n.m**	**15,545**	**31,041**	**(524)**
TOTAL "OTHER" PORTFOLIO		**3,444**			**469,613**	**538,447**	**271,747**
INVESTEE REAL ESTATE PORTFOLIO		**94,548**	**5.3%**		**1,800,810**	**1,896,569**	**1,174,039**

The Prelios Group's income-generating real estate portfolio has a market value of 5.8 billion euro (of which Prelios's share is 1.4 billion euro) and a book value of 5.6 billion euro (of which Prelios's share is 1.3 billion euro), and generates annual pro-rata rental income of approximately 91 million euro (approximately 374 million euro at 100%). The portfolio's ten principal tenants, accounting for 49% of rents attributable to Prelios are: Karstadt (Highstreet), Telecom, the Sicily Region, Valtur, Conforama Italia, Eni, Uci Italia, Vodafone, Virgin Active Italia and Alston Power.

Investee Assets Under Management are presented below divided on the basis of IAS 2 and IAS40 accounting criteria (thousands of euro).

	Book value 100%	Market value 100%	Pro-rata book value	Pro-rata market value
IAS 2	356,611	652,110	59,336	122,520
IAS 40	1,353,477	1,238,732	436,742	401,531
Commercial Italy	**1,710,088**	**1,890,842**	**496,078**	**524,051**
IAS 2	90,500	90,812	45,252	45,763
IAS 40		-	-	-
Commercial Germany	**90,500**	**90,812**	**45,252**	**45,763**
IAS 2	2,729,724	2,729,724	330,297	330,297
IAS 40				
Highstreet	**2,729,724**	**2,729,724**	**330,297**	**330,297**
IAS 2	10,504	13,788	4,812	6,309
IAS 40	167,076	177,091	77,990	81,995
Residential Small Deals	**177,580**	**190,879**	**82,802**	**88,304**
IAS 2	14,729	17,735	5,892	7,094
IAS 40	906,533	906,533	370,876	362,613
Residential Germany	**921,262**	**924,268**	**376,768**	**369,707**
IAS 2	458,839	524,890	167,605	193,301
IAS 40	79,011	92,660	22,487	26,371
Trading Italy	**537,850**	**617,550**	**190,092**	**219,672**
IAS 2	247,431	271,640	96,141	104,297
IAS 40				
Development Italy	**247,431**	**271,640**	**96,141**	**104,297**
IAS 2	378,719	412,397	147,154	162,727
IAS 40				
Land Italy	**378,719**	**412,397**	**147,154**	**162,727**
IAS 2	47,220	48,425	20,681	20,711
IAS 40				
Other Germany	**47,220**	**48,425**	**20,681**	**20,711**
IAS 2	45,653	91,296	15,545	31,041
IAS 40				
Development Poland	**45,653**	**91,296**	**15,545**	**31,041**
Total Investee real estate portfolio	**6,886,027**	**7,267,833**	**1,800,810**	**1,896,569**

7. DIVISIONAL PERFORMANCE

This section outlines the economic performance of both the Real Estate component (by geographical area) and NPLs, distinguishing between income/costs from the management platform and income/costs from investment activities[29]. The operating result included in and commented on in the following tables correspond to that defined in section 4 of this report.

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

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

	Italy		Germany		Poland		NPL		M&A		Total	
	June 2012	June 2011	June 2012	June 2011	June 2012	June 2011	June 2012	June 2011	June 2012	June 2011	June 2012	June 2011
Management platform	7.9	17.0	3.9	5.3		(1.8)	(0.2)	(2.6)	(5.3)	(5.0)	**6.2**	**12.9**
Investment activities	(10.1)	7.0	1.6	12.4	(0.1)	(1.2)	(26.1)	(3.0)			**(34.7)**	**15.2**
Operating result	**(2.2)**	**24.0**	**5.5**	**17.7**	**(0.1)**	**(3.0)**	**(26.3)**	**(5.6)**	**(5.3)**	**(5.0)**	**(28.5)**	**28.1**

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

7.1 Italy Real Estate

The Italy real estate operating result (Management Platform and Investment Activities) in the first half of 2012 was a negative 2.2 million euro compared with the positive amount of 24 million euro of the same period in 2011. This figure comprised, in particular, the positive results associated with commissions on the sale of the historic building entirely rented to La Rinascente and located in Piazza Duomo in Milan.

Management Platform

The operating result in the first half of 2012 is positive for 7.9 million euro with respect to the positive value of 17 million euro of the same period of 2011, comprising the contribution of 3.6 million euro deriving from sale of just one property mentioned above.

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

[29] Results from investment activities mean the net income generated by Prelios from its investments in funds and companies that hold real estate portfolios; results from the Management Platform mean the net income generated from the fund and asset management activities and specialized real estate services (property & project, agency and facility in Germany), and from credit servicing for NPLs, inclusive of general and administrative expenses.

Fund management	30 June 2012	30 June 2011
Revenues (million euro)	11.7	15.5
Operating result (million euro)	4.3	9.7
Return on Sales (ROS)	37%	63%
Number of funds under management	22	22
Number of employees	66	53

Prelios Società di Gestione del Risparmio S.p.A. ("Prelios SGR"), 90% owned by Prelios S.p.A. and 10% owned by Intesa Sanpaolo S.p.A., is specialized in the establishment and management of closed-end real estate investment funds.
At June 30th, 2012, the Company managed a total of 22 funds, of which 9 are ordinary (2 of these listed) and 13 are speculative, in addition to a contract to manage the process of divesting a real estate portfolio.

In the first half of 2012 revenues, mainly represented by fixed management fees, totalled 11.7 million euro, a decrease in comparison to the same period in 2011 due to the effect of the progressive decrease in Assets Under Management which the Company, following the restrictive measure referred to above, has not, as of today, been able to offset with fees relating to newly-established funds.

The Company's operating result was 4.3 million euro in the first half of 2012, compared with the 9.7 million euro of the previous period.
On June 26th, 2012 the Bank of Italy communicated to the Company the removal of the measure that prevented the launch of new mutual investment funds, confirming that the initiatives taken by the Company had been in the direction of overcoming the alleged organizational shortcomings and that the Company had begun to solve the financial imbalances of the funds managed or had laid the foundations for an orderly closure of the initiatives for which no other solutions were possible. The Company is therefore once again fully operational.

Agency	30 June 2012	30 June 2011
Revenues (million euro)	5.3	14.4
Operating result (million euro)	-1.5	2.1
Return on Sales (ROS)	-28%	15%
Number of employees	44	74

Prelios Agency S.p.A. is the Prelios Group company specialized in consultancy for the purchase, sale and rental of properties for industrial, commercial and residential use. The company also offers a series of services ranging from analysing the customer's needs to monitoring the market, managing negotiations and assisting with contracts.
During the first half of 2012, the process of transforming the company from one mainly dedicated to captive clients to a Broker & Advisor format continued. The aim is to be able to

provide third-party clients with highly specialized services, and to be a strategic partner in real estate agency activity for public or private investors, as well as for real estate Funds and institutional operators. In line with this strategy the activities considered no longer core businesses have been sold off.

Specifically on April 2nd, the sale to third parties of 80% of the shares of Prelios Finance S.p.A. was completed, with no substantial effects on earnings, and on June 25th, 2012 the Board of Directors resolved to sell, to the company Brand for Agency Services S.r.l. (formerly Newco Re 1 S.r.l., a company controlled by the parent company Prelios S.p.A.), the "franchising" business unit consisting of an organized set of legal relationships, dedicated people and assets functional to the performance of management activities and services in the specific segment of estate agency management operating all over Italy. The sale was completed on June 27th with effective transfer of the unit on July 1st, 2012, franchising company operates now on the market with trade-mark "La Casa".

As regards estate agency work in the first half of 2012 we can note that it was affected by the negative trend on the property market: the results achieved were not in line with expectations owing also to postponement of earnings relating to sale of a retail property completed later in July. It should be recalled that in the corresponding uniform period of the previous year the company had benefited from the fees deriving from agency work related to the sale of the Rinascente-Duomo property on behalf of the Retail & Entertainment Fund managed by Prelios SGR S.p.A.

At June 30th, 2012 the portfolio of sales mandates from third-party customers amounted to 1,745 million euro (list prices), of which 704.5 million euro was acquired in the first half of 2012.

The negative Agency result in the first half of 2012 is substantially due to the continued crisis in Italy's real estate sector, which has led to a significant decrease in the number and amount of transactions. In this environment Agency was nonetheless able to keep the leadership in the market.

Property & Project Management	30 June 2012	30 June 2011	
Revenues (million euro)	8.1	12.9	
Operating result (million euro)	5.1	5.2	
Return on Sales (ROS)	63%	40%	
AUM (billion euro)	5.6	8.2	(*)
Sq m Managed (millions)	4.1	5.1	(*)
Units managed	29,397.0	28,700.0	(*)
Rental contracts managed	3,075.0	2,724.0	(*)
Passing Rent (million euro)	275.0	312.0	(*)
AUM (billion euro)	0.4		
Capex first half (million euro) (***)	4.0		
Pipeline Capex over entire life (million euro) (****)	304.0		
Number of employees	74	91	

(*) figures for June 2011 stated net of the contribution of the Telecom project completed precisely on June 30th.
(**) Value of assets under project management mostly already managed by property management unit
(***) project management activities carried out in the first half of the year
(****) project management activities potentially performable on the basis of existing mandates

Prelios Property & Project Management S.p.A. is a company of the Prelios Group that offers integrated technical and administrative services for the management and improvement of real estate assets. It is the result of a combination of two already strong groups: Prelios Property Management and Prelios's Development & Project Management department. In the context of property management activities, it offers administrative and document management services, real estate assets due diligence services, sales support, and specialized services such as the development and improvement of shopping centres.
In the context of development and project management activities, it offers assistance during the concept development and execution stages, urban-planning and construction feasibility assistance, and support for all aspects related to energy efficiency of real estate.

All the services listed above are aimed at both Group companies and third-parties.
The main areas in which the company is currently busy are the following:
- relations with the construction industry (companies and architectural studios) for the project management part aimed at taking part in tenders, both private and public;
- relations with procurement units in the real estate world (I Faber and Bravosolutions);
- cross selling with other Property and Project Management units.

On May 31st, 2012 the Temporary Consortium - made up of Prelios Property & Project Management S.p.A., which is also the lead agent, with 32%, Abaco Servizi (Gabetti Group) with 18%, EXITone (STI Group) with 20% and Siram S.p.A., (Veolia Group, listed on the Paris Stock Exchange) with 30% - was provisionally awarded the contract, in a competitive procedure organised by INPS, for the provision of management services for its properties. On June 14th, 2012 the final award communication was also received, but it will only become effective after the pensions agency has checked the requisites declared by the consortium on bidding, a procedure which is still in progress.

The real estate assets of the pensions agency covered by the management mandate, have a mixed planning use as offices, shops and residential, and consist of approximately 13,000 property units. The contract will have a three-year term.

At June 30th, 2012, the company managed real estate assets divided into more than 3,000 rental contracts. The main Group's non-investee clients are Duemme SGR (Aries Fund), INPS Lots 1 and 3, Prisma SGR, RCS, Stam Europe, Foppolo Risorse (CIR Group) and Al Rajhi Group.

In the first half of 2012, operating result benefited in particular of 3.7 million euro from a favourable arbitration solution regarding a previous development project in the public sector in the context of project financing.

Investment Activities

The operating result in the first half of 2012 was a negative 10.1 million euro compared to the positive value of 7 million euro of the last period, which included, as stated earlier, the positive results of some significant transactions.

In spite of the positive sales margin in the first half, the reduction in volumes and the size of transactions has had a a negative impact on results, not permitting the remuneration of operating costs and financial expenses of investment companies and funds.

Real estate sales in the first half of 2012 (considering 100% of the properties of associates, joint ventures and funds in which the Group has interests) amounted to 100.2 million euro (627.6 million euro in the same period of 2011, including, among other things, sale of the building in Piazza Duomo rented to La Rinascente for 472 million euro, as mentioned above). The gross sales margin[30]made in the first half of 2012 was 2.2% (7.4 % in the same period of 2011). Rents[31] totalled 65.4 million euro (87 million euro in the same period of 2011).

7.2 Germany Real Estate

The Germany real estate operating result (Management Platform and Investment Activities) in the first half of 2012 was a positive 5.5 million euro compared with a figure of 17.7 million euro in the same period of 2011. This amount included, among other things, a positive effect of 9.9 million euro due to the contribution of operating management of the Highstreet initiative. The contraction was mainly attributable to alignment of the value of an Investment Activity asset with a view to its sale.

[30] This expresses the related gross capital gains as a percentage of sales. The capital gains are realized by subsidiaries, associates, joint ventures, and funds in which the Group has at least a 5% interest.

[31] This is the sum of rents earned by consolidated companies, and rents earned by associates, joint ventures, and funds in which the Group has interests.

Management Platform

Germany

	30 June 2012	30 June 2011
Revenues (million euro)	27.8	28.7
Operating result (million euro)	3.9	5.3
Return on Sales (ROS)	14%	18%
Sq m Managed (millions) (**)	6.3	6.6
Number of rental units managed (**)	70,911	71,043
AUM (*)	5.4	6.1
Number of employees	424	425

(*) market value in billions of euro expressed at 100% and inclusive of BauBeCon property portfolio
(**) Not including units / areas relating to car parks

In the first half of 2012 the operating result was 3.9 million euro, compared with the figure of 5.3 million euro in the same period of the previous financial year.

Specifically, lesser sales volumes for the Highstreet retail portfolio and the residential portfolios have led to a decline in revenues. Management offset the impact with actions focused on cost reductions.
During the course of the first quarter of 2012 an agreement was signed with Barclays Bank, the current owner of the BauBeCon portfolio, which has extended the term of the management mandates as the term month of May, 2013..

Investment Activities

In the first half of 2012 the operating result was a positive 1.6 million euro, compared with the figure of 12.4 million euro in the same period of the previous financial year. The result of the first half of 2011 included a positive effect of 9.9 million euro due to the contribution of operating management of the Highstreet initiative.

Resident Berlin 1 P&K GmbH, a joint venture in which Prelios has an interest, signed a contract for the sale of 1,503 residential units to a German institutional investor. The properties are located in Berlin and have vacancy rate of less than 2%. The transaction was completed at a price of 93 million euro and generated a positive impact on Prelios's Net Financial Position of approximately 10 million euro.

Real estate sales in the first half of 2012 (considering 100% of the properties of associates, joint ventures and funds in which the Group has interests) amounted to 177.1 million euro compared with 478.7 million euro in the same period of 2011. This figure included the sale of "Blankenese", an important development company in Hamburg. The contraction derives from lesser volumes tied to sales of the Highstreet portfolio.

The gross sales margin[32]made in the first half of 2012 was approximately 2% (2.7 % in the same period of 2011). Rents[33] totalled 130.9 million euro (196.9 million euro in the same period of 2011).

[32] This expresses the related gross capital gains as a percentage of sales. The capital gains are realized by subsidiaries, associates, joint ventures, and funds in which the Group has interests.
[33] This is the sum of rents earned by consolidated companies, and rents earned by associates, and joint ventures in which the Group has interests.

7.3 Poland Real Estate

The Poland real estate operating result (Management Platform and Investment Activities) in the first half of 2012 was substantially at break-even point compared with the negative figure of 3 million euro in the same period of 2011.

Management Platform

Poland

	30 June 2012	30 June 2011
Revenues (million euro)	0.7	0.8
Operating result (million euro)	0	-1.8
Sq m Managed (millions)	0.8	1.1
AUM (*)	0.1	0.2
Number of employees	24	31

(*) market value in billions of euro expressed at 100%

The operating result was at break-even point compared with the negative figure of 1.8 million euro in the same period of the previous financial year.

The results above reflect the essential conclusion of the sales process of the stock of real estate subject to development, while the urban improvement of certain areas still in the portfolio is still under way.
The break-even in operating result of the first half of 2012 was also obtained following redefinition of the trading development investment activities implemented in the previous financial year, which led to a considerable reduction in the operating costs of the Polish platform.

Investment Activities
The operating result was a negative 0.1 million euro compared with the negative figure of 1.2 million euro in the same period of the previous financial year. The result of the first half of 2011 suffered from losses related to initiatives which have subsequently been transferred or are no longer within the scope of management.
In the first half of 2012 real estate and land sales (considering 100% of the properties of associates, joint ventures and funds in which the Group has an interest) amounted to 0.5 million euro, while in the same period of 2011 they came to 3 million euro.

7.4 Non-Performing Loans

The operating result of Non-Performing Loans (Management Platform and Investment Activities) in the first half of 2012 was a negative 26.3 million euro compared with the positive figure of 5.6 million euro in the same period of 2011.

Management Platform

NPL

	30 June 2012	30 June 2011
Revenues (million euro)	6.8	5.6
Operating result (million euro)	-0.2	-2.6
Return on Sales (ROS)	-3%	-46%
Amounts collected (million euro)	91.3	97.3
Gross book value (billion euro) (*)	8.8	7.9
Number of employees	122	188

(*) The comparative value of 2011 refers to December 31st

Although it was a negative 0.2 million euro in the first half of 2012 (a negative 2.6 million euro in the first half of the previous period), the Management Platform operating result is gradually improving because it has begun to benefit from the positive effects of the restructuring plan currently in progress. The recovery of revenues, which grew by more than 20% from the same period of the previous year, should be noted. The growth in revenues is mostly due to the revision of the fees structure, which has been revised and made more coherent with market standards, based upon agreements with the main investors of managed portfolios. In the first half of 2012 the value of NPL collections[34] amounted to 91.3 million euro, compared with collections of 97.3 million euro in the same period of 2011.

Investment Activities

	30 June 2012	30 June 2011
Portfolio yield	2.3	9.0
Capital loss on disposal of portfolios	(2.9)	
Impairment of portfolios	(25.5)	(12.0)
Operating result (million euro)	(26.1)	(3.0)

The operating result was a negative 26.1 million euro compared with a negative 3.0 million euro in the same period of 2011. The results include impairment of 25.5 million euro at June 30th, 2012 and 12 million euro at June 30th, 2011, respectively.

The negative result was mainly affected by impairment of the loan portfolio of the securitisation vehicle ICR8, held in a joint-venture with Morgan Stanley, following remodulation of the collection forecasts and the risk profile, before proceeding to a new securitisation of the same which will enable an increase in financial leverage (thus diluting the group's interest in keeping with the objective of reducing the invested capital), and to simplifying the corporate structure.

The capital loss on the disposal of portfolios derived from the en-bloc sale of a number of mortgage and unsecured loans held by the subsidiary CFT.

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

8. RISKS AND UNCERTAINTIES

Despite the difficult macroeconomic situation, with particularly severe impacts on the real estate sector, the company believes that, at this time, thanks also to the evolution of relations with the potential investors, the directors have adopted the going concern assumption on the basis of the criteria and assessments outlined in section 6.1 of the explanatory notes to the consolidated financial statements.

8.1 Liquidity risk

The principal instruments used by the Group for managing the risk that available financial resources will be insufficient for meeting financial and trade obligations in the agreed manner on the agreed due date are annual and three-year financial plans and treasury plans, which allow cash receipts and payments to be fully and properly identified and measured. Such plans are heavily influenced by the realization of disposal plans in the time and at an amount that is consistent with forecast cash outflows for repaying loans contracted in support of investments. Any differences between actual and plan figures are always analyzed.

Prudent management of liquidity risk implies the maintenance of an adequate level of cash and/or readily sold short-term securities and/or access to funds in the form of a sufficient amount of credit lines. Given the dynamic nature of the business in which it operates, the Group prefers flexible sources of finance in the form of credit facilities.

The Group has implemented a centralized system for managing receipts and payments which complies with local currency and tax regulations. Bank relationships are negotiated and managed centrally in order to ensure that short and medium-term financial needs are satisfied at the lowest possible cost. The raising of medium/long-term funds on capital markets is also optimized through centralized management.

The Group has also implemented a monitoring system for risks linked to the aforementioned recourse guarantees released by the investee initiatives; this system allows the Management to be informed to act necessary support measures.

The current competitive and financial environment, characterised by persistent tension on the value of real estate assets, by the credit squeeze and by slowing sales determines a significant increase in risks for the Group associated with maintaining adequate cash-flow levels, required to finance its financial needs.

Liquidity risk is also closely connected and constantly monitored in relation to the terms laid down in the loan agreement signed by Prelios in December 2011 ("Club Deal"), which provides for: i) repayment according to an amortisation schedule the first instalment of which, 30 million euro, is due at December 31st, 2012, ii) six-monthly payment of financial charges, iii) observance of financial covenants associated with maintenance of certain levels of net financial position and net equity. However, as described in section 3 above, some of these terms were amended by the revision agreement signed with the lenders in order to temporarily suspend measurement of the covenants and to postpone payment of the interest, mitigating only in the short term situations of shortage of cash and cash equivalents required to finance the group's financial needs.

8.2 Financial Risks

The Group is exposed to risks of a financial nature, primarily associated with raising financial resources on the market, with the sustainability of the financial debt in terms of its cost and of observing the commitments associated with repayment of the instalments and with the covenants agreed, fluctuations in interest rates and the ability of its customers to meet their obligations to the Group and with the possibility of having the necessary resources available to finance development of the business.

The management of financial risks is an essential part of the Group's activity and is carried out centrally on the basis of guidelines defined by the Administration, Finance, Control, IT, and Purchasing departments, aimed at assuring that financial risk (identification, valuation, and management) is governed through appropriate policies and procedures, in line with the Group's attitude towards risk.

8.3 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. This risk is managed by Group Treasury and relates solely to receivables for shareholder loans to joint ventures for real estate projects in Poland.

8.4 Interest rate risk

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

The Group manages interest rate risk related to its floating-rate debt by offsetting it through natural hedging (about 42%) with floating-rate financial receivables (that is shareholder loans granted to investee initiatives).

Exposure to investee initiatives is hedged at 79% (Group share 73%) using derivative contracts.

8.5 Price risk

The Group is exposed to price risk on its investment activities in relation to real estate market price trends and on service activities in relation to the competitive environment

8.6 Credit risk

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

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

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

The Group has significant concentrations of credit risk referred to real estate clients (company and funds).

8.7 Risks associated with human resources

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

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

8.8 Tax risks

At the date of approving this Interim Management Report, tax inspections contested by Italian tax authorities against Prelios S.p.A. and some of its subsidiaries still pending are for a total of 3 million euro in tax (excluding penalties and interest) compared with the 16 million euro at December 31st, 2011. The reduction is mainly attributed to the closure through findings with the subsidiary company Prelios Netherlands B.V. joining in the dispute.

As regards the companies in which Prelios S.p.A., or its subsidiaries, have invested with qualified minority shares with third-party investors (associates and joint ventures), since a dispute related to contribution to real estate funds ended positively, the total of the claims by Italian tax authorities comes to roughly 406 million euro in tax (excluding penalties and interest), of which nearly 71% is related to a company in liquidation.

Thus, as of the date of the current meeting of the Board of Directors, notices of findings issued after tax inspections total 409 million euro (excluding penalties and interest), of which the Prelios share is 109 million euro.

Based on the opinions of its advisers, all of whom are highly-reputed professionals, and the information currently in its possession, the Company believes that all these disputes will end without further costs for the targets of such claims. The same conclusion reached with the advisers has been reached by the Boards of Directors of the joint ventures concerned.

As already indicated in the annual financial report as of December 31st, 2011, note that the company was informed by Prelios Società di Gestione del Risparmio S.p.A. that Italian Tax Authority, upon the request of the Guardia di Finanza, had assigned a tax ID code to the nine funds managed by them, specifically to the "Retail and Entertainment Fund", “Fondo immobiliare Pubblico Regione Siciliana (FIPRS); “Portafogli misti”,“Progetti Residenza” “Patrimonio Uffici” “Raissa”; “Hospitality & Leisure”; “Social & Public Initiatives” and “Diomira” (the "Funds").

The measure of assigning a tax ID code on the part of Italian Tax Authority (the "Measure") was based on the asserted claim that the activities of the fund had constantly dissimulated, as of establishment, true exercising of a company in associate form.

Prelios Società di Gestione del Risparmio S.p.A. holds, supported in their opinion by authoritative experts in the sector, that the Measure goes against the basic nature of the legal form of the real estate funds, with the activities effectively carried out by the Funds as of establishment, as confirmed by the fact that no findings or exceptions in regards to the same were ever found by the Authority specifically established to supervise the sector.

Through the assignment of tax ID codes, the SGR filed a claim with the Regional Administrative Court (TAR) of Lazio in November 2011, claiming that the tax authority had exceeded its jurisdiction, in addition to noting a lack of motivation for its action on assigning said tax ID codes. The Lazio TAR ruled negatively on the application for relief, declining jurisdiction without expressing an opinion on the merits. On December 9th, 2011 the company also filed an appeal to the Provincial Tax Commission of Milan, and a hearing was held on April 26th, 2012.
The Provincial Tax Commission decided not to judge on the merits of the case, issuing an order with which it declared that the case is concurrent with that in progress before the Administrative Court. Consequently Prelios Sgr presented an appeal to the Court of Cassation to define jurisdiction definitively.
In the month of December 2011, the SGR filed a claim with the Council of State, requesting annulment and revision of the ordinance of the Lazio TAR, on the basis of the same reasons already indicated for the claim filed with the latter. The Council of State rejected the appeal, but noted "…that, even leaving aside the question raised about the existence, or lack thereof, of jurisdiction for the administrative court regarding the matter dealt with", this matter must be dealt with "suitably at the time of defining the merits of the case …".
The first level case therefore continued before the Lazio TAR (Regional Court of Appeal) which with a Judgement on July 31st, 2012 highlighted two orders of consequences:

- attribution of a tax code does not constitute a prejudicial event for the fund; from a fiscal point of view, no repressive activity (in terms of inspections or assessments) derives directly from attribution of the code;
- the appeal presented by Prelios Sgr must be interpreted as an ascertainment action aimed at demonstrating that the legal nature of the fund, as a result of the legal rules governing the subject, "cannot withstand attribution of a tax code".

In relation to the above, the Lazio TAR declined to accept jurisdiction indicating that it lay with the ordinary courts.

8.9 Tenants risk

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

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

8.10 Risks connected to the competitive environment

As regards the competitive environment, in general the group is not exposed to risks different from those of its competitors or of other organizations operating in the same sector. The negative trend in terms of demand has led to a decrease of the market prices of real estate, which was reflected in the devaluations of real estate at 30.06.2012. The devaluations made in the management portfolio make it possible to express the most appropriate market prices at the moment, nonetheless, a framework that is at base very difficult continues, including in relation to the notable decrease in financing of possible operations on the part of credit institutions.

8.11 Risks associated with trends in demand

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

8.12 Legal risks

The situations in which the companies of the Prelios Group are part of legal proceedings (civil or administrative) mainly deal with:

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

In terms of risk control strategies, note (i) management and monitoring of disputes, including with the assistance of external legal consultants, (ii) evaluation of the degree of risk and determination of provisions made through internal analysis and with the assistance of the opinions of external legal consults that help the Company. The provisions for risk established at June 30th, 2012 are held adequate and it is not believed that the existing proceedings could have a significant negative impact on the economic results and financial situation of the Group.

8.13 Risks associated with changes in the legislation - Italian Law Decree 95/2012 (“spending review”)

On July 6th, 2012 – with effect from July 7th, 2012 – Italian Law Decree 95/2012 (the “*spending review*”), was published. Art. 3 “Rationalisation of public assets and reduction of rental costs paid”, considering the current crisis situation, stated that (i) for the years 2012, 2013 and 2014, the revision relating to the change in the ISTAT indices, provided for in the current legislation will not apply to rents payable by administrations included in the consolidated income statement of the public administration for properties used for institutional purposes, (ii) for contracts in progress the Regions and Local Authorities have the right to withdraw from the contract, by December 31st, 2012, also by way of exception to the terms of notice set forth in the contract and (iii) the rents paid, regarding properties for institutional use signed by Central Administrations, and by Independent Authorities, including Consob, shall be reduced starting from January 1st, 2013 by 15 per cent of the amount currently paid.

These measures, however, do not apply (i) directly, to the Regions and autonomous provinces and to the national health service agencies for which they constitute principles for the purposes of coordinating public finance and (ii) to real estate mutual investment funds already established under the terms of article 4 of Italian Law Decree No. 351 of September 25th, 2001, converted, with amendments, by Italian Law No. 410 of November 23rd, 2001 (so-called funds established for the disposal of public assets).
On the basis of a first analysis of the law decree and considering the fact that the law converting the decree still has to be issued and could make changes to the same, the Group has a limited exposure to rental contracts with tenants that could be in the lists pursuant to the measures described above, for which however no significant impacts are expected, taking into account also that as regards the Sicilian Region, the only tenant of properties of the FIPRS Fund, these rules do not seem to apply directly.

9. SUBSEQUENT EVENTS

- Pitecna, the new commercial partnership agreed between Prelios Property and Project Management and Impresa Percassi, received the contract from Autogrill to carry out completion work on the Autogrill sales outlets of Villoresi Est on the A8 Milan-Lakes motorway, very near the Rho trade fair and Expo areas. Twenty-three thousand square metres of total area and two thousand four hundred square metres of building which will anticipate the future of motorway services in the whole of Italy.

- On July 26, 2012 the Retail & Entertainment fund, managed by the subsidiary Prelios SGR and in which the Company indirectly has a qualified minority interest, sold a historical building located in the centre of Rome, between Via del Tritone and Via Due Macelli to an institutional investor. The building, which will be restored, with work planned to be completed by the middle of 2015, comprises a commercial area of approximately 17,500 sq m spread over seven floors (six commercial and one occupied by a restaurant) and is destined to become the main department store in Rome of the large retail chain La Rinascente. The completion of this operation depends on the Ministry of Cultural Assets not exercising its pre-emption right, as the building is listed by the Heritage Commission.

- After the end of the period, the Company received expressions of interest, from major Italian investors (Merloni-Caputi) and foreign investors (Fortress), in relation to possible extraordinary operations - including the recapitalization of the Company functional to their entry as new shareholders which may be able to ensure strengthening of the equity and the overall financial structure recovery also through the involvement of the Company's lenders. With both subjects discussions and preliminary due diligence then continued, following which, prior to today's board meeting, the potential investors confirmed their interest in pursuing the activities aimed at carrying out the extraordinary transactions.

10. FORECAST BUSINESS OUTLOOK

The macroeconomic scenario is still marked by signs of uncertainty as to the timing and nature of a general economic recovery. Also, in particular, for the real estate market, conditions of weakness continue with a reduction in the number and size of transactions, negatively impacted by high financial costs.

In this context, the Company, involved in negotiations with the potential partners described above, believes that the targets disclosed to the market last November lose significance in view of current developments and, therefore, cannot be confirmed, specifying that new targets will only be able to be prepared and disclosed once the extraordinary transactions have been carried out.

At the moment, despite the willingness shown by the banking industry and by Pirelli & C. S.p.A. to support the Company by granting the extended terms of payment of the interest instalments and measurement of the covenants as described above, failure to carry out the transactions initially provided for in the cash flow plans - owing to an on-going negative market scenario - determined, at the reporting date of June 30, a higher financial exposure than that envisaged and, therefore, one no longer in line with the short-term financial commitments. The Company's ability to continue as a going concern, is however founded on the basis of extraordinary transactions that modify the current financial structure or produce further cash flows with respect to those that can currently be provided by the core business.

In view of the above, and after having made the necessary checks, the directors have also gained - on the basis of the initiatives launched and of the expressions of interest in industrial partnerships received - the reasonable expectation that, in a time compatible with the Company’s current situation, a transaction may be defined which would strengthen the equity by recapitalising the Company and financial structure recovery, as well as re-launch the Group's growth and industrial development prospects. On the basis of these elements therefore, in preparing the present Half-Year Financial Report, it has been assumed that the company will continue as a going concern.

11. REPORT ON HALF-YEAR CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

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

12. OTHER INFORMATION

12.1 Extraordinary shareholders' meeting

On April 17th, 2012 the Shareholders' Meeting, during the extraordinary session, resolved to amend the Articles of Association under the terms of Art. 2446 of the Italian Civil Code, eliminating the face value of the shares, originally 0.50 euro, and approving a reduction of the share capital from 420,585,888.50 euro to 218,877,613.14 euro. The change in the share capital was registered in the relevant Companies Register on May 11th, 2012. The Shareholders' Meeting also resolved full use of available net equity reserves at December 31st, 2011 to cover the loss recorded in the financial year.

12.2 Treasury shares

At June 30th, 2012, the Group held a total of 1,189,662 treasury shares , corresponding to about 0.141% of subscribed and paid-up share capital.

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

12.3 Group Tax Election

As from financial year 2010 the Company, as the consolidator, has elected to file for tax on a group basis under art. 117 et seq of the Italian Income Tax Code. Participants in the consolidation are required to adopt a specific set of “Regulations”, involving common procedures for applying tax rules and regulations.The adoption of a group tax filing will allow the group parent Prelios S.p.A. to offset its own taxable profits or losses against those of its Italian resident subsidiaries which have made the group tax election.

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

13. THE PARENT COMPANY PRELIOS S.P.A. IN THE FIRST HALF OF 2012

The Board of Directors of Prelios S.p.A. also examined and approved the Company's income statement and balance sheet at June 30, 2012.

Operating revenues amounted to 8.2 million euro, while the operating result was a negative 17.8 million euro. The net result for the period was a negative 116.2 million, as a result of, among other things, impairment losses on equity investments of 98.5 million euro only partially offset by dividends of 12.3 million euro.

Net equity amounted to 101.7 million euro, compared with 218.7 million at December 31, 2011. This change was mainly due to the loss for the period.

The Board of Directors has noted that, on the basis of the Company's equity and economic position at June 30, 2012, Prelios S.p.A.'s capital has decreased by more than one third, and the company is thus in the situation described by paragraph 1 of Art. 2446 of the Italian Civil Code. The Board of Directors has consequently resolved to convene, in accordance with the law, the Shareholders' Meeting to take all the necessary steps, granting a mandate to the Chairman and Chief Executive Officers, also in the light of the events subsequent to the end of the half-year period, to fix the date and the agenda for the meeting, with all powers necessary to this end. The income statement and balance sheet of reference and the report provided for under the terms of the law will be made public within the prescribed terms.

14. APPENDICES

APPENDIX A

Non-GAAP Measures
The Non-GAAP Measures used are as follows:

- **Operating result** (-28.5 million euro): determined as EBIT (-15.1 million euro) plus net losses from investments (-81.7 million euro) - these amounts are reported in EBIT and "Net income from investments" in the consolidated income statement - plus income from shareholders' loans (5.9 million euro). This amount is then adjusted for restructuring costs (12.7 million euro), and property writedowns/revaluations (49.7 million).

- **Profit/(loss) before restructuring costs, property writedowns/revaluations and income taxes** (-53.7 million euro)**:** this amount is obtained by adding financial expenses (-25.2 million euro) to the aforementioned operating result (-28.5 million euro).

- **Income from shareholder loans** (5.9 million euro): this measure comprises the interest income on financial receivables from associates and joint ventures and income from securities, both of which reported in "Financial income" in the income statement; it is stated net of any impairment of junior notes, classified in "Financial expenses" in the income statement.

- **Financial expenses** (-25.2 million euro): this measure comprises the item "Financial expenses" (adjusted by any impairment of junior notes or financial receivables) and the accounting item "Financial income" net of the amount of income from shareholder loans.

- **Investments in real estate funds and investment companies**: this measure reports investments in associates and joint ventures, in closed-end real estate funds and investments in other companies and junior notes (reported in "Other financial assets" in the balance sheet).

- **Net Working Capital**: this represents the amount of resources comprising a business' net operating assets and is used to verify its short-term financial equilibrium. This measure comprises all the short-term assets and liabilities of a non-financial nature.

- **Provisions**: this measure, representing the sum of "Provisions for future risks and expenses (current and non-current" Employee benefit obligations" and "Deferred tax provisions," is stated net of provisions for future risks on equity-accounted investments classified in "Investments in real estate funds and investment companies."

Net Financial Position: this measure is a valid indicator of the ability to meet obligations of a financial nature. Net financial position is represented by gross financial debt less cash and other cash equivalents and other financial receivables.

- **Gross Bank Debt**: means the aggregate debts of each initiative to the banking industry.

- **Net Bank Debt**: means the Gross Bank Debt of each initiative reduced by cash and cash equivalents

- **Return on Equity (ROE):** this is an indicator of the results for the period relative to the capital invested by shareholders and is determined as the ratio between consolidated net income (loss) for the period and the average of opening and closing equity.

- **Return on Sales (ROS):** determined by the ratio of EBIT to revenues

- **Gearing:** this measure indicates the Group's ability to satisfy the needs of its business with its own resources rather than with third-party financial debt. Gearing is calculated as the ratio between Net Financial Position and equity.

- **Basic earnings (loss) per share:** is an indicator of the remuneration per share from results in the period and is calculated as the ratio between net income (loss) for the period and the number of shares issued and outstanding at the end of the period.

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

Operating result	**30 June 2012**	**30 June 2011**
Earnings before interest and tax (EBIT)	(15.1)	2.5
Net income from investments	(81.7)	(6.2)
Income from writebacks of receivables		6.0
Income from shareholder loans (1)	5.9	13.9
Property tax (proportion included in net income from equity investments)		6.3
Restructuring costs	12.7	2.0
Property writedowns/revaluations (2)	49.7	3.6
Total	**(28.5)**	**28.1**

Profit (loss) before restructuring costs, property writedowns/revaluations and income taxes	**30 June 2012**	**30 June 2011**
Operating result	(28.5)	28.1
Financial expenses	(25.2)	(14.0)
Total	**(53.7)**	**14.1**

Financial expenses	**30 June 2012**	**30 June 2011**
Financial expenses	(29.7)	(14.9)
Financial income	7.9	20.8
Income from writebacks of receivables		(6.0)
Income from shareholder loans	(5.9)	(13.9)
Property writedowns/revaluations (2)	2.5	
Total	**(25.2)**	**(14.0)**

NOTES

(1) Interest income from financial receivables from associates and joint ventures included in the item "Financial income"

(2) Property writedowns/revaluations amounted to 52.2 mln euro: 0.5 mln euro included in EBIT, 49.2 mln euro in net income from investments and 2.5 mln euro in financial expenses (borrowing costs)

APPENDIX B

Information about debt of investment companies and funds

	Net Financial Position	Net bank debt	Maturity (years)*
Commercial Italy	1,041,292	986,063	1.3
Commercial Germany	47,524	26,291	1.5
Commercial Germany - Highstreet -	2,664,588	2,305,097	2.1
Residential Germany - Small Deals -	151,009	128,508	3.2
Residential Germany - DGAG -	785,840	657,967	1.5
TOTAL "YIELDING" PORTFOLIO	**4,690,254**	**4,103,926**	
Trading Italy	542,382	435,502	1.9
Development Italy	159,456	102,410	1.8
Land Italy	294,953	212,358	0.2
Other Germany	15,411	15,411	5.3
Development Poland	64,488	(1,021)	0.0
TOTAL "OTHER" PORTFOLIO	**1,076,691**	**764,659**	
TOTAL REAL ESTATE	**5,766,945**	**4,868,585**	**1.8**

(*) the average maturity is calculated considering the gross bank debt of each initiative

Principal contractual clauses relating to the debt

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

The principal financial covenants applying to the funds and investment companies are as follows:
- LTV (Loan To Value): ratio between (i) bank debt and (ii) appraised value of the portfolio
- LTC (Loan To Cost): ratio between (i) bank debt and (ii) book value of the portfolio
- ISCR (Interest Service Cover Ratio): ratio between (i) rental income net of operating costs and (ii) financial expenses
- DSCR (Debt Service Cover Ratio): ratio between (i) rental and sale income net of operating costs and (ii) financial expenses and repayments of principal

At June 30th, 2012 some funds and invested companies invested in by Prelios S.p.A. had covenants that were not in line with those contractually envisaged. In particular, in regards to the LTV covenant, note: Aree Urbane s.r.l. (whose debt is partially past due at the end of 2011), Golfo Aranci S.p.A. and the Fondo Patrimonio Uffici, and in regards to ISCR: Trinacria Capital S.à.r.l and Sicily Investments S.à.r.l (as a co-debtor) and the Hospitality & Leisure Fund.

Negotiations have started with the various financial counterparties in respect of all the above positions in order to formalise and finalise solutions. As regards the Patrimonio Uffici Fund, note that the debt has been renewed. For Riva dei Ronchi s.r.l., with expiry of the moratorium agreement signed in 2011, informal agreements exist that are expected to lead to a review of the contractual terms. Finally, we can note that the loans for Aree Urbane and the Vivaldi Fund have expired.

APPENDIX C
Glossary

- **Assets Under Management:** Assets Under Management correspond to the value of assets managed and are recognised, except for non-performing loans which are reported at book value, at the values appraised by independent experts at period end. The Prelios share expresses the Group's interest in the market value of the assets and the book value of non-performing loans owned by the Group.

- **Investment Activities:** refers to Prelios Group activities carried through its own investments in funds and company which hold real estate portfolios.

- **Cash Generating Unit:** this is the smallest identifiable group of assets that generates incoming financial flows which are largely independent of incoming financial flows generated by other assets or groups of assets in conformance with that envisaged by international accounting principles.

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

- **Highstreet**: investment initiative developed in consortium with the RREEF funds, Generali, and Borletti in 2008, relative to the acquisition of 49% of a real estate portfolio, located throughout Germany and rented to the Karstadt department stores.

- **LTI** (Long Term Incentive): medium-long term incentive.

- **MBO** (Management By Objectives): indicates the variable component in remuneration which can be obtained by meeting pre-set company targets.

- **Net Asset Value (NAV):** this measure makes it possible to quantify the unrealized implicit capital gain in the real estate portfolio managed and invested in by the Group. Prelios's share of Net Asset Value is calculated as the difference between Prelios's share of asset value appraised by independent experts and Prelios's share of net bank debt of the investment companies and funds in which the Group has invested. For calculation purposes, consolidated assets are treated as entirely funded by own resources.

- **Non Performing Loan (NPL):** portfolio of mortgage-backed non-performing loans coming from banks or from mortgage-backed loans for real estate that is involved in legal disputes.

- **Passing Rent:** this indicator corresponds to rents annualized on the basis of contracts existing at the end of the period for assets belonging to a specific fund/company and represents a useful indicator of the annual volume of rents.

- **Passing Yield:** this measure, which is reported by each individual company/fund, is an indicator of the profitability of rent from assets belonging to a certain company/fund; it is calculated at the ratio between the book value of the company/fund assets and the corresponding amount of passing rent.

- **Management Platform:** this refers to the activities that the Prelios Group carries out through its fund and asset management activities and specialized real estate services (property & project, agency, and facility in Germany), and from credit servicing for NPLs, inclusive of related general and administrative expenses.

- **Tracking Shares:** shares numbered and assigned so as to create a direct correlation between them and certain investee companies both in terms of contribution to the results and as a control exercise.

- **Vacancy:** indicates the portion of real estate that does not generate revenues in the form of rent; it is calculated based on the ratio of unrented sqm to total sqm.

B. PRELIOS GROUP – HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED BALANCE SHEET

(in thousands of euro)

Note	ASSETS	06.30.2012	12.31.2011
	NON-CURRENT ASSETS		
1	Property, plant and equipment	4.685	4.804
2	Intangible assets	157.080	157.411
3	Investments in associates and joint ventures	269.453	327.036
	- of which available for sale	*3.751*	*7.165*
4	Other financial assets	18.642	24.706
5	Deferred tax assets	24.868	26.407
7	Other receivables	275.079	319.359
	- of which with related parties	*271.940*	*313.491*
	TOTAL NON-CURRENT ASSETS	**749.807**	**859.723**
	CURRENT ASSETS		
9	Inventories	52.824	55.301
6	Trade receivables	63.242	78.074
	- of which with related parties	*43.195*	*45.520*
7	Other receivables	38.507	45.988
	- of which with related parties	*6.035*	*6.287*
10	Cash and cash equivalents	41.780	37.684
8	Tax receivables	10.617	11.048
	TOTAL CURRENT ASSETS	**206.970**	**228.095**
	TOTAL ASSETS	**956.777**	**1.087.818**

	EQUITY	06.30.2012	12.31.2011
	GROUP EQUITY		
11	Share capital	218.283	419.991
12	Other reserves	(16.968)	94.223
13	Retained earnings	115.904	94.261
	Net income (loss) for the period	(125.716)	(289.641)
	TOTAL GROUP EQUITY	**191.503**	**318.834**
14	**MINORITY INTERESTS**	**8.410**	**7.348**
	TOTAL EQUITY	**199.913**	**326.182**

	LIABILITIES	06.30.2012	12.31.2011
	NON-CURRENT LIABILITIES		
15	Bank borrowings and payables to other financial institutions	483.719	488.802
	- of which with related parties	*156.689*	*160.038*
17	Other payables	1.018	3.849
	- of which with related parties	-	*2.608*
18	Provisions for future risks and expenses	20.633	35.814
5	Deferred tax provision	2.226	2.243
19	Employee benefit obligations	10.733	11.125
20	Tax payables	10.231	-
	TOTAL NON-CURRENT LIABILITIES	**528.560**	**541.833**
	CURRENT LIABILITIES		
15	Bank borrowings and payables to other financial institutions	55.655	36.958
	- of which with related parties	*8.136*	*1.102*
16	Trade payables	62.300	74.852
	- of which with related parties	*8.165*	*8.185*
17	Other payables	62.574	62.144
	- of which with related parties	*18.663*	*18.618*
18	Provisions for future risks and expenses	30.584	34.569
	- of which with related parties	*4.037*	*7.131*
20	Tax payables	16.084	11.280
	- of which with related parties	*1.353*	*1.080*
21	Derivative financial instruments	1.107	-
	TOTAL CURRENT LIABILITIES	**228.304**	**219.803**
	TOTAL LIABILITIES	**756.864**	**761.636**
	TOTAL LIABILITIES AND EQUITY	**956.777**	**1.087.818**

Balances relating to transactions with related parties are described in Section 6.7 of the Explanatory Notes to the consolidated financial statements.

2. CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

Note		01.01.2012-06.30.2012	01.01.2011-06.30.2011
22	Revenues from sales and services	64,839	86,315
23	Changes in inventories of work in progress, semi-finished and finished products	44	270
24	Other income	11,173	8,294
	TOTAL OPERATING REVENUES	**76,056**	**94,879**
	- of which with related parties	*36,661*	*51,427*
25	Raw and consumable materials used (net of change in inventories)	(2,719)	(3,510)
25	Personnel costs	(34,764)	(37,542)
25	Depreciation, amortization and impairment	(1,160)	(1,571)
25	Other costs	(52,534)	(49,764)
25	**TOTAL OPERATING COSTS**	**(91,177)**	**(92,387)**
	- of which with related parties	*(4,501)*	*(7,255)*
	- of which non-recurring events	*(11,597)*	*(1,995)*
	Earnings before interest and tax (EBIT)	**(15,121)**	**2,492**
26	Net income from investments:	(81,587)	(6,193)
	- of which from related parties	*(80,658)*	*(800)*
	- of which non-recurring events	*(1,120)*	*(6,295)*
	- net profit share from investments in associates and joint ventures	(80,626)	(8,215)
	- dividends	1,027	1,434
	- gains on investments	1,767	588
	- losses on investments	(3,755)	-
27	Financial income	7,863	20,794
	of which with related parties	*6,464*	*14,379*
28	Financial expenses	(29,748)	(14,936)
	of which with related parties	*(11,114)*	*(4,891)*
	RESULT BEFORE INCOME TAXES AND MINORITY INTERESTS	**(118,593)**	**2,157**
29	Income taxes	(6,308)	(2,403)
	- of which non-recurring events	-	*(2,566)*
	NET INCOME (LOSS) FOR THE PERIOD	**(124,901)**	**(246)**
	attributable to minority interests	815	(703)
	CONSOLIDATED NET INCOME (LOSS) FOR THE PERIOD	**(125,716)**	**457**
30	**EARNINGS/(LOSS) PER SHARE (euro)**		
	Basic		
	Basic earnings/(loss) per share	*(0.15)*	*0.00*

Balances relating to transactions with related parties are described in Section 6.7 of the Explanatory Notes to the consolidated financial statements.

3. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euro)

	Note 12	01.01.2012-06.30.2012			Attributable to:	
		Gross	Tax	Net	Group	Minority interests
A	**Net income (loss) for the period**			**(124,901)**	**(125,716)**	**815**
	Other components of income recognized in equity:					
	Exchange differences on translating foreign financial statements	220	-	220	165	55
	Total cash flow hedge	(1,107)	304	(803)	(803)	-
	- Fair value adjustment of derivatives designated as cash flow hedge	(1,107)	304	(803)	(803)	-
	Total available for sale financial assets	(2,222)	611	(1,611)	(1,450)	(161)
	- Fair value adjustment of available for sale financial assets	(2,222)	611	(1,611)	(1,450)	(161)
	Prelios share of other components of income recognized in equity by associates and joint ventures	893	(97)	796	796	-
	- Prelios share of (gains) / losses previously recognized directly in equity now transferred to the income statement	533	-	533	533	-
	- Prelios share of (gains) / losses recognized in equity	360	(97)	263	263	-
B	**Total other components of income recognized in equity**	**(2,216)**	**818**	**(1,398)**	**(1,292)**	**(106)**
A+B	**Total comprehensive income (losses) for the period**			**(126,299)**	**(127,008)**	**709**

	Note 12	01.01.2011-06.30.2011			Attributable to:	
		Gross	Tax	Net	Group	Minority interests
A	**Net income (loss) for the period**			**(246)**	**457**	**(703)**
	Other components of income recognized in equity:					
	Exchange differences on translating foreign financial statements	(16)	-	(16)	(12)	(4)
	Total available for sale financial assets	1,953	(1,053)	900	943	(43)
	- Fair value adjustment of available for sale financial assets	1,953	(1,053)	900	943	(43)
	Net actuarial gains / (losses) on employee benefits	158	-	158	158	-
	Prelios share of other components of income recognized in equity by associates and joint ventures	11,070	(248)	10,822	10,822	-
	- Prelios share of (gains) / losses previously recognized directly in equity now transferred to the income statement	689	-	689	689	-
	- Prelios share of (gains) / losses recognized in equity	10,381	(248)	10,133	10,133	-
B	**Total other components of income recognized in equity**	**13,165**	**(1,301)**	**11,864**	**11,911**	**(47)**
A+B	**Total comprehensive income (losses) for the period**			**11,618**	**12,368**	**(750)**

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euro)

	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	Currency translation reserve	Reserve for fair value measurement of available for sale financial assets	Cash flow hedge reserve	Reserve for actuarial gains/(losses)	Reserve for equity-settled stock options	Reserve for tax on items credited/debited to equity	Other reserves	Retained earnings / (losses)	Net income/ (loss) for the period	**Group equity**	**Minority interests in equity**	**Total equity**
Equity at December 31st, 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 of income recognized in equity	**-**	**-**	**-**	**-**	**165**	**(2,000)**	**(214)**	**-**	**-**	**757**	**-**	**-**	**-**	**(1,292)**	**(106)**	**(1,398)**
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	-	-	-	-	-	(12)	-	(96)	-	4	-	(228)	-	(332)	353	21
Net income (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	(125,716)	(125,716)	815	(124,901)
Equity at June 30th, 2012	**218,283**	**0**	**0**	**0**	**(1,679)**	**(4,767)**	**(12,318)**	**257**	**0**	**2,538**	**(999)**	**115,904**	**(125,716)**	**191,503**	**8,410**	**199,913**

	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	Currency translation reserve	Reserve for fair value measurement of available for sale financial assets	Cash flow hedge reserve	Reserve for actuarial gains/(losses)	Reserve for equity-settled stock options	Reserve for tax on items credited/debited to equity	Other reserves	Retained earnings / (losses)	Net income/ (loss) for the period	**Group equity**	**Minority interests in equity**	**Total equity**
Equity at December 31st, 2010	**419,991**	**158,336**	**15**	**4,265**	**(1,309)**	**556**	**(43,754)**	**(62)**	**5,503**	**2,894**	**12,151**	**116,491**	**(95,312)**	**579,765**	**9,828**	**589,593**
Total other components of income recognized in equity	**-**	**-**	**-**	**-**	**(12)**	**2,012**	**10,916**	**312**	**-**	**(1,317)**	**-**	**-**	**-**	**11,911**	**(47)**	**11,864**
Allocation of 2010 results	-	(53,687)	-	-	-	-	-	-	-	-	(19,069)	(22,556)	95,312	-	-	-
Cost of equity transactions	-	-	-	-	-	-	-	-	-	(2)	11	-	-	9	(4)	5
Other changes	-	-	-	-	-	(14)	(112)	438	(347)	168	-	(300)	-	(167)	(100)	(267)
Net income (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	457	457	(703)	(246)
Equity at June 30th, 2011	**419,991**	**104,649**	**15**	**4,265**	**(1,321)**	**2,554**	**(32,950)**	**688**	**5,156**	**1,743**	**(6,907)**	**93,635**	**457**	**591,975**	**8,974**	**600,949**

5. CONSOLIDATED CASH FLOW STATEMENT

(in thousands of euro)

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Result before income taxes and minority interests	(118,593)	2,157
Depreciation, amortization and impairment/impairment reversal intangible assets & property, plant & equipment	1,160	1,571
Impairment of receivables	7,417	2,493
Gains/Losses on sale of property, plant and equipment and investment property	(44)	32
Net income from investments net of dividends	86,729	25,279
Financial expenses	29,748	14,936
Financial income	(7,863)	(20,794)
Change in inventories	2,477	3,166
Change in trade receivables/payables	(4,717)	4,490
Change in other receivables/payables	20,350	(26,232)
Change in employee benefit obligations and other provisions	(16,464)	(4,178)
Taxes	(3,864)	(2,583)
Other changes	(5)	(105)
Net cash flow generated / (absorbed) by operating activities (A)	**(3,669)**	**232**
Purchase of property, plant and equipment	(476)	(207)
Disposal of property, plant and equipment	105	5
Purchase of intangible assets	(295)	(526)
Disposal of intangible assets	-	12
Net cash flow generated by transactions in subsidiaries	1,324	-
Disposal of investments in subsidiaries	-	588
Purchase of investments in associates and joint ventures	(5,292)	(24,933)
Disposal of investments in associates and joint ventures and other movements	(29)	931
Dividends received	1,027	1,434
Disposal of other financial assets	3,829	613
Net cash flow generated by non-current assets held for sale	(296)	-
Net cash flow generated / (absorbed) by investing activities (B)	**(103)**	**(22,083)**
Other changes in equity	240	(287)
Change in financial receivables	23,067	(13,244)
Change in financial payables	(15,167)	49,775
Cash flow generated by financial income	695	128
Cash flow absorbed by financial expenses	(887)	(10,000)
Net cash flow generated / (absorbed) by financing activities (C)	**7,948**	**26,372**
Total net cash flow generated / (absorbed) in the period (D=A+B+C)	**4,176**	**4,521**
Cash and cash equivalents + bank overdrafts at the beginning of the period (E)	**37,604**	**16,968**
Cash and cash equivalents + bank overdrafts at the end of the period (D+E)	**41,780**	**21,489**
of which:		
- cash and cash equivalents	41,780	24,345
- bank overdrafts	-	(2,856)

Cash flows relating to transactions with related parties are described in Section 6.7 of the Explanatory Notes to consolidated financial statements.

6. HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - EXPLANATORY NOTES

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

Starting from September 2011, the macroeconomic scenario, which changed significantly and unforeseeably in August, had led the Company to review its prospects in keeping with the ongoing negative situation on the real estate market, taking the following main actions:

- early refinancing, with respect to the contractual expiry of July 2012, of the corporate debt ("Club Deal"), extending its expiry to 2014, and of the loan granted by Pirelli & C. S.p.A., with expiry extended to July 2017;
- in the context of the 2012-2014 Trend, preparation of a detailed financial plan, which identified, among other things, as a fundamental element supporting the maintenance of the financial and equity balance the sale of a number of assets, with timing and amounts in keeping with the levels of the covenants and with the deadlines provided for in the corporate debt repayment schedule; and
- acceleration of operations to dispose of a number of assets, if necessary also at prices lower than the book values, in order to give priority to cash generation by the company.

As already described above in greater detail, the first six months of financial year 2012 were however characterised by a further worsening of the market context, above all in Italy, which affected the economic results in terms of deteriorating profiles of cash flows expected from real estate assets and from NPL, and by a slowdown in sales (owing also to less willingness on the part of the banking industry to finance transactions), and a reduction in the prices at which property transactions can be concluded, with a consequent negative effect on the asset values of some of the Group's activities. Consequently, also in the first six months of financial year 2012 the Group suffered significant economic losses.

Only a few of the operations provided for to reduce the debt in the 2012-14 Trend for the first half of the year were actually completed, while, although various structured processes were activated to carry them out, most were not achieved, owing initially to the market difficulties, and, later, to the interest which had been expressed by a number of important other operators in entering the Prelios Group's capital, provided that the current business structure did not change substantially.

In this new scenario, the Parent Company asked for and obtained from its lenders a waiver which in particular postponed to December 31st, 2012 payment to the Club Deal banks of the first instalment of interest (originally envisaged at June 2012) and postponed to June 30th, 2013 payment to Pirelli & C. S.p.A. of the two instalments provided for in 2012, and suspended - for both - measurement of the financial covenants until June 30th, 2013.

At the moment, despite the willingness shown by the banking industry and by Pirelli & C. S.p.A. to support the company by granting the extended terms of payment of the interest instalments and measurement of the covenants as described above, failure to carry out the transactions initially provided for in the cash flow plans - owing, as stated, to an ongoing negative market scenario - determined, at the reporting date of June 30th, a higher financial exposure than that envisaged and, therefore, one no longer in line with the short-term financial commitments, producing uncertainties as to the company's ability to continue as a going concern, in the absence of extraordinary transactions that modify the current financial structure or produce further cash flows with respect to those that can be provided by the envisaged core business. Restoring the economic and financial balance depends, therefore, on the success of the actions that the directors have set in motion or plan to carry out.

In view of the above, and after having made the necessary checks, the directors have also gained - on the basis of the initiatives launched and of the expressions of interest in industrial partnerships presented by a number of important investors for possible extraordinary operations currently being assessed and negotiated - the reasonable expectation that, in a time compatible with the Company's current situation, a transaction may be defined which would, with terms and conditions yet to be defined, strengthen the equity by recapitalising the Company and recovery balance to the financial structure, as well as re-launch the Group's growth and industrial development prospects. On the basis of these elements therefore, in preparing the present Half-year Financial Report, it has been assumed that the company will continue as a going concern.

The directors note, however, the uncertainties naturally associated with full completion of the aforesaid extraordinary project, including the necessary involvement of the current lenders, which represents - at the moment and according to the route considered foreseeable as of now - the condition to enable the Group to maintain its equity and financial balance over time.

6.2. Accounting standards and policies

Pursuant to art. 154-ter of Legislative Decree 58/1998, the Prelios Group has drawn up its half-year consolidated financial statements in a condensed format in accordance with IAS 34 on interim financial reporting.

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

In accordance with art. 5, par. 2 of Legislative Decree 38 of February 28th, 2005, the reporting currency is the euro.

The accounting standards adopted are the same as those used for preparing the consolidated financial statements at December 31st, 2011, except for the following standards and interpretations which became effective from January 1st, 2012. These new standards/interpretations had no impact on the present interim financial report.

6.2.1. Accounting standards and interpretations endorsed and in force from January 1st, 2012

- Amendments to IAS 1 – Presentation of Financial Statements – presentation of other components recognised in equity

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

The standard retains 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 that shows the profit (loss) components of the period (separate income statement) and a second statement that starts from the profit (loss) for the period and shows the items of the OCI statement. The Standard requires, instead, the OCI items to be grouped together in two categories, according to whether they can be reclassified, or not, in profit or loss in a future period.

These amendments, which came into force on July 1st, 2012, were endorsed by the European Union with Regulation No. 475/2012 of June 6th, 2012. No significant impacts are expected from future application of the above amendments.

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

  In June 2011 the IASB issued the new standard which replaces the current IAS 19 "Employee Benefits". The new standard was endorsed by the European Union with Regulation No. 475/2012 of June 6th, 2012 and is applicable starting from January 1st, 2013. Application is retrospective and involves restatement of the comparative data (in particular see point 2).

  These amendments are part of a wider project launched by the IASB to deal with the numerous criticisms made over the years (above all as regards deferred recognition of actuarial gains/losses and inadequacy of the measurement model) in relation to accounting for post-employment benefits and to the difficulties in comparing financial statements prepared according to the different options recognised as applicable.

  The main amendments to the previous IAS 19 regard:

  1) Recognition of actuarial gains and losses relating to defined-benefit plans

  2) Recognition of actuarial gains and losses relating to other long-term benefits (e.g. long-service bonuses)

  3) Measurement of costs relating to funded defined-benefit pension funds

  4) Presentation

  5) Disclosure

  6) Termination benefits

  No significant quantitative effects on the consolidated financial statements are expected following future application of the above amendments.

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

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

None of these Standards and Interpretations has been adopted by the Group in advance.

See the explanatory notes to the financial report at December 31st, 2011 for the following new Standards or Interpretations already issued at that date, in particular:

- Amendments to the revised IFRS 1 – First-time adoption of the IFRSs – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Amendments to IFRS 7 – "Financial Instruments: Disclosures
- IFRS 9 – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- Amendments to IAS 12 – Income Taxes – Deferred Tax: Recovery of Underlying Assets
- Amendments to IAS 28 - Investments in Associates and Joint Ventures
- Amendments to IAS 32 and IFRS 7: "Offsetting Financial Assets and Financial Liabilities"

It should also be noted that, in addition to the above, during 2012 the following new Standards or Interpretations have been issued:

- Amendments to IFRS 1 – First-time adoption of the IFRSs – Government Loans

The amendments give the option, on first-time adoption of the IFRSs, of not applying retrospective adoption of the provisions of IFRS 9 - Financial Instruments and of IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance on public loans received at a below-market rate of interest. These amendments give the option, on first-time adoption of the IFRSs, of adopting the same accounting treatment envisaged for reporting entities that have already adopted the IFRSs. These amendments, which are due to come into force on January 1st, 2013, have not yet been endorsed by the European Union and are not applicable to the Group.

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

  As part of the project begun in 2009, the IASB has issued a series of amendments to 5 standards in force.

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

IFRS	Subject of the amendment
Amendments to IFRS 1 – First-time Adoption of the IFRSs	• Repeated application of IFRS 1 • Financial expenses
IAS 1 – Presentation of Financial Statements	Clarification of the minimum requirements for comparative information
IAS 16 – Property, Plant and Equipment	Clarification of accounting for servicing equipment
IAS 32 – Financial Instruments: Presentation	Tax effect of distributions to holders of equity instruments

IAS 34 – Interim Financial Reporting	Interim financial reports and segment information for total assets and liabilities

These changes, which will come into force on January 1st, 2013, have not yet been endorsed by the European Union and are not expected to have any significant effect on the Group's consolidated financial statements.

6.2.3. Reporting formats

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

The consolidated financial statements at June 30th, 2012 comprise a balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and explanatory notes, and are accompanied by the directors' report on operations.

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

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

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

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

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

6.2.4. Consolidation area

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

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

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

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

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

In particular it can be noted that on March 7th, 2012 Prelios S.p.A. acquired from third parties the not-yet-operational German-law company Vindusvisker Vermögensverwaltungsgesellschaft GmbH which subsequently changed its company name to Prelios Investments Deutschland GmbH.

In addition on April 2nd, 2012, Prelios Agency S.p.A. sold to third parties 80% of the share capital held in Prelios Finance S.p.A. which, therefore, following the said sale, considering the agreements associated with the sale which determine the existance of a significant influence, at June 30th, 2012 was measured at equity.

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 Accounting estimates and assumptions

Preparation of the consolidated financial statements requires management to make estimates and assumptions which, in some cases, are based on difficult, subjective judgements and past experience, and assumptions thought to be reasonable and realistic according to the circumstances, with particular reference to forecasts on disposal transactions envisaged in the business plans, the timing and estimated realisable values of which are necessary conditions for achieving the net financial position and capitalisation levels envisaged in the new Corporate loan agreement.

The reliability of such estimates has an effect on adoption of the going concern assumption in preparing the financial statements, on the values of balance-sheet assets and liabilities and on the disclosure of contingent assets and liabilities at the reporting date, as well as on the amount of revenues and costs in the reference period. Actual results could therefore differ from such estimates. The estimates and assumptions are regularly reviewed and the effects of any change are reflected in the income statement of the period of the change if the change affects that period only, or also in future periods if the change affects both the current and future periods.

On this point it must be noted that the situation caused by the current economic and financial crisis has made it necessary to make assumptions regarding a highly uncertain future, in which actual results in the next year may differ from the estimates, thus involving adjustments, even significant ones, to the carrying amount of the items concerned and which cannot be currently estimated or predicted.

The estimates and assumptions required of the management mainly regard:

- assessing the recoverability of intangible assets and defining their useful lives;
- evaluating investments in associates and joint ventures, and assessing the recoverability of financial receivables that such companies might owe;
- determining the fair value of properties and the realisable value of inventories;
- estimating potential liabilities for outstanding legal and tax disputes as described in more detail in paragraphs 8.8 and 8.12 of the report on operations;
- quantifying impairment of receivables (particularly with reference to determining the amortized cost of non-performing receivables) and financial assets and estimate of liabilities considered probable and booked as future risks and expenses;
- estimating and making assumptions on the recoverability of deferred tax assets.

Estimates and assumptions involving a significant risk of variation in the carrying amount of assets and liabilities mainly relate to goodwill and to the valuation of the property portfolio with its associated impact on the value of investments in associates and joint ventures. In accordance with the accounting standards, the Group must test its goodwill for impairment at least once a year, or whenever there are specific indications of impairment. The value of the property portfolio is verified on the basis of independent appraisals.

The financial and specific industrial scenario in further deterioration entailed the need to review, in the present interim report, also in the absence of updates of plan elements, the key external variables and the capital cost configuration used at December 31st, 2011 to determine the estimate of the values in use of goodwill recognised in the balance sheet. As no significant differences were noted between the results and the corporate plans nor any further elements indicating impairment risks, the results of the macro-analysis performed by the management confirmed the sustainability and reliability of the impairment test carried out for the financial statements at December 31st, 2011 without making any updates necessary. In fact, the proposed sales of single assets or business units are also, at the moment, not very likely to be concluded at the terms that have emerged as of today from the negotiations in progress, and therefore any impairment indicators have been recognised with reference to the value in use.

Recoverable amounts are defined as the higher of an asset's fair value, less costs to sell, and its "value in use", with the exception of any asset items which are expected to be sold in the near future and the carrying amount of which has been aligned to the estimated selling price, if less.

With regard to the Highstreet investment, it should be recalled that it was involved in a major restructuring from 2010 as part of the agreements reached with the tenant which entailed redefining investment strategies, as well as making new agreements with the banks that financed the venture. These agreements establish, substantially, a preferential claim over other creditors in the distribution of the remaining financial resources to shareholders, making it possible therefore to foresee a greater recovery of financial assets than with a mere pro-rata allocation of the remaining equity. The changed investment management scenario, from an ongoing operating strategy to a strategy of exiting the initiative, therefore led, in accounting for it, starting from financial year 2010, to ceasing to measure it with the equity method aimed at recognising pro-rata operating results, which become, substantially, irrelevant for the purposes of measuring the net invested capital now limited only to the financial receivable. This makes more congruent to the nature of the accounting item a measurement of the recoverability of the remaining financial receivable by analysing the cash flows expected from termination of the joint venture, possible on completion of disposal of the Highstreet assets.

6.4. Seasonal trends

Revenues are not particularly influenced by seasonal trends.

6.5. 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 balance sheet and income statement found in sections 1. and 2.

ASSETS

Note 1. PROPERTY, PLANT AND EQUIPMENT

These amount to 4,685 thousand euro, a net decrease of 119 thousand euro since December 31st, 2011, and are made up as follows:

	06.30.2012			12.31.2011		
	Historical cost	**Accum. depreciation /impairment**	**Net value**	**Historical cost**	**Accum. depreciation/ impairment**	**Net value**
Buildings	6,239	(3,903)	2,336	6,290	(3,705)	2,585
Plant and machinery	2,321	(2,024)	297	2,277	(1,976)	301
Production and commercial equipment	241	(111)	130	115	(104)	11
Other assets, of which:	15,283	(13,361)	1,922	15,802	(13,895)	1,907
- vehicles	*224*	(224)	-	*336*	*(336)*	-
- furniture, office equipment and other	*15,036*	*(13,137)*	*1,899*	*15,443*	*(13,559)*	*1,884*
- works of art	*23*	-	*23*	*23*	-	*23*
Total	**24,084**	**(19,399)**	**4,685**	**24,484**	**(19,680)**	**4,804**

The following table shows movements in historical costs and accumulated depreciation during 2012:

Historical cost	12.31.2011	Change in consolidation area/other	Increases	Decreases	06.30.2012
Buildings	6,290	-	-	(51)	6,239
Plant and machinery	2,277	-	44	-	2,321
Production and commercial equipment	115	-	126	-	241
Other assets, of which:	15,802	3	324	(846)	15,283
- vehicles	*336*	-	-	*(112)*	*224*
- furniture, office equipment and other	*15,443*	*3*	*324*	*(734)*	*15,036*
- works of art	*23*	-	-	-	*23*
Total	**24,484**	**3**	**494**	**(897)**	**24,084**

Accumulated depreciation/impairment	12.31.2011	Change in consolidation area/other	Depreciation/ Impairment	Decreases	06.30.2012
Buildings	(3,705)	-	(207)	9	(3,903)
Plant and machinery	(1,976)	(1)	(47)	-	(2,024)
Production and commercial equipment	(104)	-	(7)	-	(111)
Other assets, of which:	(13,895)	(20)	(273)	827	(13,361)
- vehicles	*(336)*	-	-	*112*	*(224)*
- furniture, office equipment and other	*(13,559)*	*(20)*	(273)	715	*(13,137)*
Total	**(19,680)**	**(21)**	**(534)**	**836**	**(19,399)**

Note 2. INTANGIBLE ASSETS

These amount to 157,080 thousand euro, a net decrease of 331 thousand euro compared with December 31st, 2011.

The changes which occurred during the first six months of 2012 were as follows:

	12.31.2011	Impairment	Amortization	06.30.2012
Concessions, licenses, trademarks and similar rights	7.750	-	(188)	7.562
Application software	1.532	295	(438)	1.389
Goodwill	148.129	-	-	148.129
Total	**157.411**	**295**	**(626)**	**157.080**

Goodwill

This amounts to 148,129 thousand euro at June 30th, 2012, the same as in the previous year 2011.

As already noted above, as regards the goodwill of the services business, a macro-analysis of the main external variables and of the capital cost configuration carried out by the management concluded that there were no indications such as to make necessary an update of the impairment test positively passed on closing the accounts at December 31st, 2011.

Note 3. EQUITY INVESTMENTS

Equity investments in associates and joint ventures are accounted for using the equity method and amounted to 269,453 thousand euro, a net decrease of 57,583 thousand euro since December 31st, 2011.

Changes were as follows:

	01.01.2011-06.30.2012				01.01.2011-12.31.2011			
	Total	**Associates**	**Joint ventures**	**Held for sale**	**Total**	**Associates**	**Joint ventures**	**Held for sale**
Opening balance	**327,036**	**65,713**	**254,158**	**7,165**	**409,274**	**106,056**	**303,218**	**-**
Acquisitions, changes in share capital and reserves/other	5,588	61	5,527	-	23,398	28	23,370	-
Share of other components recognized in equity	803	107	696	-	31,607	239	31,368	-
Reclassifications/ Other	-	-	-	-	7,949	(19,730)	7,949	19,730
Distribution of dividends and reserves	(5,142)	(1,070)	(3,776)	(296)	(51,091)	(10,306)	(40,785)	-
Disposals and liquidations	29	-	29	-	(2,207)	-	(1,012)	(1,195)
Net profit share/impairment	(80,806)	(4,029)	(76,777)	-	(173,335)	(10,584)	(162,751)	-
Fair value adjustment	(3,118)	-	-	(3,118)	(11,370)	-	-	(11,370)
Net (increase)/ decrease in financial receivables	28,157	1	28,156	-	94,366	1	94,365	-
Changes in provisions for future risks and expenses	(3,094)	(1)	(3,093)	-	(1,555)	9	(1,564)	-
Closing balance	**269,453**	**60,782**	**204,920**	**3,751**	**327,036**	**65,713**	**254,158**	**7,165**

The changes in the item under discussion are attributable mainly to the result recorded by the investee companies, a negative 80,806 thousand euro overall, and to capital contributions made in the period, distributions of dividends and reserves and changes occurring in other components recognised directly in equity, in particular in the cash flow hedging reserve. Net profit share of the investee companies also includes a pro-rata net negative effect for the Prelios Group of 49.2 million euro deriving from property writedowns.

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 equity investments.

Changes in provisions for future risks and expenses include, where there is a legal or constructive obligation, provisions for making good the losses of associates and joint ventures in excess of their carrying amounts plus any financial receivables owed by such companies.

It should be noted that equity investments "held for sale" refer exclusively to the portion of the Olinda fund held by Prelios Netherlands B.V. which, during 2011, was reclassified as a "non-current asset held for sale", because the Group believes it can recover the related carrying amount essentially through a sale operation, which is expected to be completed, if market conditions allow, in the near future, instead of keeping it in the portfolio. As such the same was measured at the lower of carrying amount and fair value less costs to sell, equal to the stock exchange price.

The *lock-up* portion of the Olinda Fund held by Prelios Società di Gestione del Risparmio S.p.A., instead, is still recognised in equity investments in associates and measured at equity in virtue of the significant influence exercised over the fund.

Note 4. OTHER FINANCIAL ASSETS

These amount to 18,642 thousand euro, a net decrease of 6,064 thousand euro compared with December 31st, 2011. They can be broken down as follows:

	06.30.2012	12.31.2011
Available for sale financial assets at fair value through equity	**15,398**	**17,933**
Closed-end real estate funds	12,737	15,272
Investments in other companies	2,661	2,661
Other financial assets at amortized cost	**193**	**193**
Junior notes	193	193
Tied deposits	**3,051**	**6,580**
Total	**18,642**	**24,706**

Fair value hierarchy

During the first half of 2012, as in the comparative period, there were no transfers between fair value hierarchical levels, nor 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 June 30th, 2012:

	01.01.2012 - 06.30.2012	01.01.2011 - 12.31.2011
Opening balance	**15,272**	**16,855**
Increases	-	1,010
Decreases/Equity distribution	(300)	(304)
Fair value adjustment	(2,221)	(2,289)
(Profits)/losses previously recognized in equity, transferred to income statement upon disposal or impairment	(14)	-
Closing balance	**12,737**	**15,272**
of which:		
Cloe Fondo Uffici	8,282	9,398
Tecla Fondo Uffici	2,607	3,957
Fondo Federale Immobiliare di Lombardia	931	943
Fondo Enasarco Uno	706	749
Fedora	211	225

The item was adjusted downwards by 2,221 thousand euro to account for changes in the fair value of real estate fund units. This reduction was recognised in equity, because it was considered insignificant or temporary.

4.2 Investments in other companies

The item amounts to 2,661 thousand euro, the same as in the previous year.

4.3 Other financial assets carried at amortized cost

"*Junior notes*", amounting to 193 thousand euro at June 30th, 2012, consist entirely of a deferred redemption amount relating to the securitisation of a non-performing loan portfolio of the company Cairoli Finance S.r.l..

4.4 Tied deposits

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

In particular 2,653 thousand euro relates to amounts of the parent company tied following guarantees granted to the purchaser of the operating company Rinascente S.r.l..

At December 31st, 2011, this item included 3.721 thousand euro related to cash received following the distribution of capital amounts of the associate Spazio Investment N.V., tied to deal with the possible need to recapitalise the company. The tie decayed during the first quarter 2012.

Note 5. DEFERRED TAX ASSETS AND DEFERRED TAX PROVISION

They can be broken down as follows:

	06.30.2012	12.31.2011
Deferred tax assets	24,868	26,407
Deferred tax provision	(2,226)	(2,243)
Total	**22,642**	**24,164**

Deferred tax assets and provisions are accounted for, when the conditions are met, taking into account offsetting between legal entities; the breakdown of the same including offsets made is as follows:

	06.30.2012	12.31.2011
Deferred tax assets	27,854	29,074
Deferred tax provision	(5,212)	(4,910)
Total	**22,642**	**24,164**

Deferred tax assets relate mainly to recognition of tax effects associated with provisions for risks and impairment of inventories, to consolidated accounts, to reportable tax losses, and, finally, to further temporary tax rebates.

It was decided not to recognise deferred tax assets on most of the reportable tax losses, in part relating to periods prior to tax consolidation under the parent company Prelios S.p.A. and, therefore, recoverable only by the respective legal entities that had generated them.

Note 6. TRADE RECEIVABLES

Trade receivables amount to 63,242 thousand euro, a decrease of 14,832 thousand euro compared with December 31st, 2011.

	06.30.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Trade receivables from associates	1,980	-	1,980	1,835	-	1,835
Trade receivables from joint ventures and other Prelios Group companies	64,037	-	64,037	64,667	-	64,667
Trade receivable from other related parties	935	-	935	547	-	547
Trade receivables from third parties	34,363	-	34,363	55,760	-	55,760
Total gross trade receivables	**101,315**	**-**	**101,315**	**122,809**	**-**	**122,809**
Provisions for impairment	(38,073)	-	(38,073)	(44,735)	-	(44,735)
Total	**63,242**	**0**	**63,242**	**78,074**	**0**	**78,074**

Trade receivables mainly refer to contracts for the provision of fund & asset management services (real estate and non-performing loans) and technical and commercial services.

Services to Prelios Group companies were provided under the same terms and conditions as those applied to third parties.

In particular *trade receivables from other related parties* mainly refer to recovery of various kinds of costs.

Against total gross trade receivables of 101,315 thousand euro (122,809 thousand euro at December 31st, 2011), there are provisions for impairment of 38,073 thousand euro (44,735 thousand euro at December 31st, 2011), which adjust their face value to their estimated realisable value.

Changes in provisions for impairment of receivables are shown below:

	06.30.2012	12.31.2011
Opening balance	**44,735**	**15,229**
Additions	2,532	35,047
Provisions for reduced revenues	1,172	-
Utilizations	(12,094)	(4,012)
Release of excess allowance	(96)	(454)
Change in cons.area/other	1,824	(1,075)
Closing balance	**38,073**	**44,735**

Following the difficult property market scenario already noted in the previous year, which worsened further during the first half of 2012 owing to rising spreads on loans, liquidity tensions deriving from the substantial contraction of loans disbursed and the general slowdown in sales in relation to a number of initiatives in which the Group has taken part, it was considered opportune, on the basis of the information received from customers themselves, to write down certain positions, also with investee entities and real estate funds, with the prospect of supporting investees in their efforts to continue as going concerns in the context of financial restructuring plans already formalised or at an advanced stage of negotiation with lending institutions and partners.

In particular impairment of trade receivables amounted to 6,997 thousand euro, recognised in profit or loss under the item “Other Costs” (note 25) which also includes impairments and losses on sundry receivables amounting to 4,465 thousand euro.

Details of the total effect recognised in profit or loss of impairment of receivables are presented below:

	06.30.2012	12.31.2011
additions allowance for trade doubtful accounts	2,532	35,047
losses on trade receivables	4,465	798
Total impairment of trade receivables	**6,997**	**35,845**
additions allowance for other doubtful accounts	420	19,704
losses on other receivables	-	3
Total impairment of other receivables	**420**	**19,707**
Total impairment of receivables	**7,417**	**55,552**

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

Note 7. OTHER RECEIVABLES

These can be broken down as follows:

	06.30.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Other receivables from associates	20	-	20	107	-	107
Other receivables from joint ventures	5,105	10	5,095	5,224	5	5,219
Other receivables from other related parties	99	-	99	99	-	99
Sundry receivables of which:	44,658	5,293	39,365	82,686	5,469	77,217
- NPL portfolio	7,165	-	*7,165*	*35,027*	-	*35,027*
- other receivables from tax Authorities	5,434	*221*	*5,213*	*5,404*	*221*	*5,183*
- advances	5,430	*4,994*	*436*	*5,493*	*4,987*	*506*
- social security receivables	1,590	-	*1,590*	*1,600*	-	*1,600*
- sundry other receivables	25,039	*78*	*24,961*	*35,162*	*261*	*34,901*
Non-financial accrued income and prepaid expenses	2,954	219	2,735	1,918	272	1,646
Financial receivables	269,620	269,557	63	313,676	313,613	63
Total gross other receivables	**322,456**	**275,079**	**47,377**	**403,710**	**319,359**	**84,351**
Allowance for other doubtful accounts	(8,870)	-	(8,870)	(38,363)	-	(38,363)
Total	**313,586**	**275,079**	**38,507**	**365,347**	**319,359**	**45,988**

In order to adjust their face value to their estimated realisable value, against total gross other receivables of 322,456 thousand euro (403,710 thousand euro at December 31st, 2011), provisions for impairment of 8,870 thousand euro have been set aside (38,363 thousand euro at December 31st, 2011). These are mainly related to receivables for the NPL portfolio which were written down after reviews of the relevant business plans made in previous years.

Changes in provisions for the impairment of other receivables are shown below:

	06.30.2012		12.31.2011	
	Non-current	Current	Non-current	Current
Opening balance	-	**38,363**	-	**18,445**
Additions	-	420	-	19,704
Utilizations	-	(28,187)	-	-
Reclassification/Other movements	-	(1,726)	-	214
Closing balance	-	**8,870**	-	**38,363**

The impairment of other receivables, of 420 thousand euro, is recognised in the income statement under the item "Other Costs" (note 25) and was essentially due to the impairment of a number of positions, within the general context of liquidity tension which affected the property market, as described in more detail in the section on "Trade receivables" to which the reader is referred.

The provisions were reduced owing to utilizations for a total of 28,187 thousand euro, of which 20,058 thousand euro in relation to the in bulk sale of a number of NPL portfolios completed during the first half of 2012.

For other current and non-current receivables, the carrying amount is considered approximate to the fair value. In particular, as illustrated in the description of the reference accounting standards and policies, non-performing loans are measured at their amortized cost using the effective interest criterion. The carrying amount is equal to the present value of future cash flows resulting from the last available business plan at the original effective interest rate. The carrying amount of these receivables, calculated as described above, is considered approximate to their fair value at the date of June 30th, 2012, because the original effective interest rate, used to determine the present value, is still today representative of a market rate that would be applied by third parties to measure the portfolio; this rate was in fact determined considering the specific features (riskiness, reference market, etc.) of the portfolio being measured, elements that the management responsible for these assessments considers still substantially valid today.

A brief comment follows on the most significant items.

Other receivables from joint ventures

These amount to 5,105 thousand euro (5,224 thousand euro at December 31st, 2011) and include mainly receivables for dividends declared by and due from Inimm Due S.à.r.l. (834 thousand euro), and the remaining receivable owed to the parent company by Polish Investments Real Estate Holding II B.V. for the sale of 85% of the share capital of the Polish companies Coimpex Sp.z.o.o. and Relco Sp.z.o.o. (2,418 thousand euro) and the receivable owed to Prelios Società di Gestione del Risparmio S.p.A. for VAT prepaid on behalf of the Hospitality & Leisure Fund (1,753 thousand euro).

Sundry receivables

These amount to 44,658 thousand euro compared with 82,686 thousand euro at December 31st, 2011.

Receivables for NPL portfolio are referable to loan portfolios purchased by the Group. In particular the item comprises mortgage-backed and unsecured loans purchased by CFT Finanziaria S.p.A. (which incorporated Vindex S.r.l.) during previous years, mainly from Banca Popolare di Intra and Banca Antonveneta.

In relation to receivables for NPL portfolio, provisions of 4,084 thousand euro have been set aside for impairment. The net value at June 30th, 2012 was therefore 3,081 thousand euro. The reduction in the amount of receivables for NPL portfolios was due to the in bulk sale of a number of portfolios.

Other tax receivables relate to the positions of companies consolidated line-by-line which do not file for VAT on a group basis, and to receivables for indirect taxes.

Prelios S.p.A., acting as head of the tax group, and its subsidiaries have elected to make an independent group VAT tax settlement for tax period 2012 in accordance with the Italian Ministerial Decree dated December 13th, 1979.

Sundry other receivables include among other things 9,118 thousand euro for the indemnity payable to Prelios S.p.A. in relation to certain legal disputes primarily concerning maintenance and services provided to buildings managed on behalf of INPDAP, against which 7,777 thousand euro in liabilities have been recognised, as better described in note 17 “Other payables”, to which the reader is referred.

Sundry other receivables also include 2,595 thousand euro, owed to the Group by certain directors and employees for CONSOB penalties applied by the Issuers Division and the Intermediaries Division following an investigation into and proceedings against Prelios S.p.A. and its subsidiary Prelios Società di Gestione del Risparmio S.p.A. in relation to the tender offer made in 2007 by Gamma RE B.V., a company 49% owned by the Prelios Group and 51% by Morgan Stanley, for units in the Tecla and Berenice funds, both managed by Prelios Società di Gestione del Risparmio S.p.A..

After the outcome of the appeal presented to the Appeals Court, which in any case cancelled some of the penalties applied, the case has been taken to the Supreme Court.

On April 5th, 2012, following inspections carried out, the Bank of Italy notified the members of the then Board of Directors and Board of Auditors, and the former General Manager of Prelios Società di Gestione del Risparmio S.p.A. of administrative sanctions and fines for a total amount of 150 thousand euro which the company paid with the obligation to seek redress from the subjects sanctioned.

Financial receivables

At June 30th, 2012 non-current financial receivables amount to 269,557 thousand euro, a net decrease of 44,056 thousand euro since December 31st, 2011, while current financial receivables amount to 63 thousand euro, and thus were unchanged compared with December 31st, 2011. They can be broken down as follows:

		06.30.2012			12.31.2011	
	Total	Non-current	Current	Total	Non-current	Current
Financial receivables from associates	2,184	2,184	-	1,900	1,900	-
Financial receivables from joint ventures	267,308	267,245	63	311,649	311,586	63
Financial receivables from others	128	128	-	127	127	-
Total	**269,620**	**269,557**	**63**	**313,676**	**313,613**	**63**

Non-current receivables, mostly relating to shareholder loans, are classified by collection date, according to the divestment plans carried out over a medium-term timeframe for properties held directly or indirectly by associates and joint ventures. These loans are disbursed at rates in line with those applied by the main market operators, except in the case of certain companies which have been granted non-interest bearing loans.

Movements in the first half of 2012 in non-current receivables were as follows:

	12.31.2011	Increases	Decreases	Offset against provisions for equity - accounted investments	06.30.2012
Financial receivables from associates	1,900	285	-	(1)	2,184
Financial receivables from joint ventures	311,586	11,042	(27,227)	(28,156)	267,245
Financial receivables from others	127	1	-	-	128
Total	**313,613**	**11,328**	**(27,227)**	**(28,157)**	**269,557**

Of the increase in receivables from joint ventures, 3,695 thousand euro was due to the disbursement of new loans, provided in particular to the companies Austin S.à.r.l., Dallas S.à.r.l. e Nashville S.à.r.l. for a total amount of 1.020 thousand euro, Aree Urbane S.r.l. (1,000 thousand euro), Manifatture Milano S.p.A. (550 thousand euro) and Delamain S.à.r.l. (366 thousand euro), as well as to the capitalisation of interest accruing in the period, and to the effect of discounting interest-free shareholder loans to present value.

In particular during the first half of 2012 the discounting to present value of interest-free shareholder loans, net of accrued interest, increased their value by 1,019 thousand euro.

The decrease in *financial receivables from joint ventures* primarily reflects 19,775 thousand euro in repayments of shareholder loans (of which, in particular, 11.064 thousand euro from Espelha - Serviços de Consultadoria L.d.a. and 6.271 thousand euro from the joint venture Resident Berlin 1 P&K GmbH), as well as 4,952 thousand euro in loan cancellations by the lending companies for recapitalisation purposes (of which 3.600 thousand euro to Trixia S.rl.l.).

Non-current financial receivables from others amount to 128 thousand euro and consisted of senior notes relating to the “Banco di Sicilia II” securitisation portfolio.

The column “*offset against provisions for equity-accounted investments*” reports reductions in financial receivables from associates and joint ventures to absorb losses in excess of the carrying amount of the related investments.

Note 8. TAX RECEIVABLES

These amount to a total of 10,617 thousand euro, compared with 11,048 thousand euro at December 31st, 2011.

They consist of:

	06.30.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Income tax receivables	9,125	-	9,125	9,556	-	9,556
Other receivables from third parties for group tax election	1,492	-	1,492	1,492	-	1,492
Total	**10,617**	**-**	**10,617**	**11,048**	**-**	**11,048**

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 they joined the tax group.

Other receivables from third parties for group tax election

This item refers to the receivable owed to Prelios Credit Servicing S.p.A. by its previous parent company Fonspa S.p.A. for electing tax consolidation.

Note 9. INVENTORIES

	06.30.2012	12.31.2011
Trading properties held for sale	22,548	25,072
Land for development	23,058	22,986
Properties under construction/renovation	7,218	7,243
Total	**52,824**	**55,301**

Trading properties held for sale

These amount to 22,548 thousand euro, a net decrease of 2,524 thousand euro compared with December 31st, 2011, 1,296 thousand euro of which attributable to net impairment recognised for the lower estimated realisable value, determined on the basis of independent valuations or owing to lower values at which the individual subsidiaries are willing to sell on the basis of sales mandates granted after approval by their respective Board of Directors, and to sales made in the period mainly by Centrale Immobiliare S.p.A. and Orione Immobiliare Prima S.p.A..

Land for development

This amounts to 23,058 thousand euro, substantially in line with the figure for December 31st, 2011.

Properties under construction/renovation

This amounts to 7,218 thousand euro, substantially in line with the figure for December 31st, 2011.

Inventories mainly refer to properties under renovation in the Bicocca area of Milan (3,087 thousand euro) and to a property located in Magdeburg in Germany (2,544 thousand euro).

Note 10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank deposits, post office deposits and cash and valuables on hand, fully available to the holder.

They can be broken down as follows:

	06.30.2012	12.31.2011
Bank and postal deposits	41,679	37,474
Cheques	36	145
Cash on hand	65	65
Total	**41,780**	**37,684**

EQUITY

GROUP EQUITY

Note 11. SHARE CAPITAL

In accordance with the resolution of the Prelios S.p.A. extraordinary shareholders' meeting of April 17th, 2012, under the terms of Articles 2328 and 2346 of the Italian Civil Code, the face value of the shareswas eliminated.

At June 30th, 2012, the subscribed and paid-up share capital (including treasury shares held for investment and not for trading purposes and which, therefore, under the format prescribed by Art. 2424 of the Italian Civil Code, would have been classified under the item "Financial fixed assets") consists of 841,171,777 ordinary shares with no face value, for a total of 218,877,613.14 euro.

The share capital at June 30th, 2012, stated net of the 1,189,662 treasury shares, as required by IAS 32, amounts to 218,282,782 euro, compared with an amount of 419,991,057.50 euro at December 31st, 2011.

There was a loss in the first half of 2012 of 125,716 thousand euro, and the Group's net equity at June 30th, 2012 was therefore reduced to 191,503 thousand euro compared with 318,834 thousand euro at December 31st, 2011.

LTI/Stock Option Plans

At June 30th, 2012 the Group has no active LTI/Stock option plans.

Note 12. OTHER RESERVES

Information is provided below about changes which occurred during the first half of 2012 in other components recognised in equity.

	Currency translation reserve	Reserve for *fair value* measurement of available for sale financial assets	*Cash flow hedge* reserve	Reserve for tax on items credited/debited to equity	**Group equity**	**Minority interests in equity**	**Total**
- *fair value* measurement of available for sale financial assets	-	(2,000)	-	550	(1,450)	(161)	(1,611)
- cash flow hedge	-	-	(1,107)	304	(803)	-	(803)
- Prelios's share of other comprehensive income components of associates and joint ventures	-	-	893	(97)	796	-	796
- currency translation reserve	165	-	-	-	165	55	220
Total other income components recognized in equity	**165**	**(2,000)**	**(214)**	**757**	**(1,292)**	**(106)**	**(1,398)**

Share premium reserve

This item was completely used to cover the losses for financial year 2011 in accordance with the resolution of the Prelios S.p.A. extraordinary shareholders' meeting.

Legal reserve

The legal reserve in existence at December 31st, 2011 of 4,265 thousand euro was completely cancelled after being used to cover the parent company's losses as resolved by the extraordinary shareholders' meeting.

Reserve for fair value measurement of available-for-sale financial assets

This item includes a negative reserve of 4,767 thousand euro, before tax, recognized for the fair value measurement of available-for-sale financial assets, which mainly consist of units held in real estate investment funds.

During the first half of 2012 there was a negative change in the reserve for an amount of 2,000 thousand euro.

Cash flow hedge reserve

This item shows a negative balance of 12,318 thousand euro recognised following the fair value measurement of cash flow hedging instruments.

During the first half of 2012, this reserve absorbed a negative adjustment of 214 thousand euro for the fair value measurement of existing cash flow hedging instruments held by associates and joint ventures and by the parent company.

Reserve for actuarial gains/losses

This amounts to 257 thousand euro and consists of the pre-tax actuarial gains and losses on post-employment defined-benefit funds, as qualified by IAS 19.

Reserve for equity-settled stock options

This item, which at December 31st, 2011 amounted to 5,156 thousand euro, was completely used to cover the losses for financial year 2011 in accordance with the resolution of the Prelios S.p.A. extraordinary shareholders' meeting.

Reserve for tax on items credited/debited to equity

This reserve amounts to 2,538 thousand euro and reflects the tax effect of items credited/debited directly to equity. In addition it was reduced by an amount of 1,596 thousand euro after being used to cover the parent company's losses as resolved by the extraordinary shareholders' meeting.

Other reserves

The decrease recognised in the first half of 2012 was due to coverage of the loss recorded by the parent company in the previous year made through use of the reserve established in relation to the costs connected with the capital increase completed during 2009 (6,187 thousand euro), and to full use of the merger surplus reserve recognised for a positive amount of 312 thousand euro.

Note 13. RETAINED EARNINGS (LOSSES)

Retained earnings (losses) amount to 115,904 thousand euro a net increase of 21,643 thousand euro compared with December 31st, 2011.

Note 14. MINORITY INTERESTS IN EQUITY

"Minority interests in equity" consist of portions of share capital and reserves, as well as the results for the period, held by third parties for companies consolidated line-by-line.

LIABILITIES

Note 15. BANK BORROWINGS AND PAYABLES TO OTHER FINANCIAL INSTITUTIONS

Bank borrowings and payables to other financial institutions can be broken down as follows:

	06.30.2012			12.31.2011		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Bank borrowings	372,141	326,387	45,754	358,977	328,122	30,855
Other financial payables	643	643	-	642	642	-
Payables to other financial institutions	1,765	-	1,765	5,001	-	5,001
Financial payables to joint ventures	1,109	32	1,077	1,102	-	1,102
Financial payables to other related parties	163,716	156,657	7,059	160,038	160,038	-
Total	**539,374**	**483,719**	**55,655**	**525,760**	**488,802**	**36,958**

Bank borrowings

At June 30th, 2012 total bank borrowings amounted to 372,141 thousand euro, an increase of 13,164 thousand euro compared with December 31st, 2011.

The item can be broken down as follows:

	06.30.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Non-recourse loans	6,217	5,537	680	6,557	5,890	667
Fixed-term credit facilities and current accounts	365,924	320,850	45,074	352,420	322,232	30,188
Total	**372,141**	**326,387**	**45,754**	**358,977**	**328,122**	**30,855**

Non-recourse loans

The item refers to the loan granted by Banca Intesa Mediocredito S.p.A. to Parcheggi Bicocca S.p.A..

Fixed-term credit facilities and current accounts

These refer to credit facilities granted to the parent Prelios S.p.A. by eight major Italian banks.

For the Club Deal loan, for a total amount of 359,000 thousand euro, with maturity December 2014, Prelios S.p.A. has committed to maintain a maximum level of consolidated net indebtedness, declining over time, and a minimum level of consolidated Net Equity.

On December 28th, 2011, Prelios S.p.A. also signed with Banca Intesa a new revolving loan agreement for a maximum usable amount of 20 million euro, with maturity June 26th, 2013. As at June 30th, 2012, the said line had not yet been utilized.

As regards suspension of the financial covenants and deferment of interest payments accrued at June 30th, 2012, see the explanation in the Report on Operations.

Other financial payables

These mainly refer to security deposits held by consolidated companies.

Payables to other financial institutions

The item includes 438 thousand euro relating to loans granted to the company Prelios Credit Servicing S.p.A. (a decrease compared with 2.250 thousand euro at December 31st, 2011) by a minority shareholder and 1,289 thousand euro due to management of real estate contracts carried out by third parties, almost entirely offset by dedicated current accounts included under the item "Cash and cash equivalents”.

The reduction compared to the previous year is due for 1,500 thousand euro to the refund of a deposit received by Iniziative Immobiliari 3 S.p.A. for a preliminary sales contract in the Corsico area, the terms of which have lapsed, as changing the zoning of the area in question to residential was not achieved.

Financial payables to other related parties

These amount to 163,716 thousand euro and refer to use of a floating-rate credit line granted to Prelios S.p.A. by Pirelli & C. S.p.A., under the same conditions as those of the Club Deal and with maturity at July 31st, 2017.

As regards suspension of the financial covenants and deferment of interest payments accrued at June 30th, 2012, see the explanation in the Report on Operations.

Note 16. TRADE PAYABLES

They consist of:

	06.30.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Trade payables to associates	993	-	993	926	-	926
Trade payables to joint ventures and other Prelios Group companies	4,897	-	4,897	5,000	-	5,000
Trade payables to other related parties	2,275	-	2,275	2,259	-	2,259
Trade payables to third parties	54,135	-	54,135	66,667	-	66,667
Total	**62,300**	**-**	**62,300**	**74,852**	**-**	**74,852**

At June 30th, 2012, the fair value of the item approximated its carrying amount.

Trade payables to associates

These amount to 993 thousand euro and are almost entirely attributable to payables to Progetto Corsico S.r.l. and Olinda Fondo Shops, as the allottees, for urbanization charges and related ancillary costs, for sites located in the Municipality of Corsico and in an area in the Bicocca zone, respectively.

Trade payables to joint ventures and other Prelios Group companies

These mainly refer to re-charging of various kinds on the part of the joint ventures and other companies in the Prelios Group.

They amount to 4,897 thousand euro, a decrease of 103 thousand euro compared with December 2011.

In particular, 2,747 thousand euro was due to payables to Fondo Cloe, owner of the HQ2 building, for rental fees for head quarter in Milan.

Trade payables to other related parties

These amount to 2,275 thousand euro, substantially in line with December 31st, 2011.

The amount mainly refers to charges for health services, surveillance services and for certain site remediation services provided by companies in the Pirelli & C Group, as well as re-charging by Pirelli & C S.p.A. of rent for space in the HQ1 building, mainly used as archive.

Trade payables to third parties

These amount to 54,135 thousand euro, down by 12,532 thousand euro from December 31st, 2011, mainly attributable to the lower volumes in the building and maintenance of contracts managed by the Group.

The item includes 2,549 thousand euro for *trade payables to customers for contracts* (2,606 thousand euro at December 31st, 2011), related to advance payments received in excess of the percentage completion of contracts held by Lambda S.r.l. for urbanization work in Bicocca and Pioltello.

In detail, the costs incurred and the related margins on these contracts amounted to 16,576 thousand euro at June 30th, 2012 (16,489 thousand euro at December 31st, 2011), while advances received for percentage completion invoiced totalled 19,125 thousand euro (19,093 thousand euro at December 31st, 2011).

Note 17. OTHER PAYABLES

They consist of:

	06.30.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Other payables to associates	2,131	-	2,131	2,111	-	2,111
Other payables to joint ventures and other Prelios Group companies	16,489	-	16,489	19,115	2,608	16,507
Other payables to other related parties	43	-	43	-	-	-
Other payables to third parties of which:	40,243	547	39,696	41,570	744	40,826
- payables for damages	*7,777*	-	*7,777*	*7,771*	-	*7,771*
- payables to employees	*7,269*	-	*7,269*	*6,288*	-	*6,288*
- other tax payables	*5,440*	-	*5,440*	*6,516*	-	*6,516*
- social security payables	*1,623*	-	*1,623*	*2,691*	-	*2,691*
- sundry other payables	*18,134*	*547*	*17,587*	*18,304*	*744*	*17,560*
Accrued liabilities and deferred income	4,686	*471*	*4,215*	3,197	*497*	*2,700*
Total	**63,592**	**1,018**	**62,574**	**65,993**	**3,849**	**62,144**

Other payables to associates

The item refers entirely to the payable to Olinda Fondo Shops (in its capacity as allottee of the Bicocca area) for the amount collected by Iniziative Immobiliari 3 S.r.l., as contractually provided for, for work being carried out in relation to the urbanizations regarding the area possessed by the allottee itself.

Other payables to joint ventures and other Prelios Group companies

These refer mainly to a payable of a German subsidiary originating from a “profit & loss agreement” valid up to 2007 on the basis of which the associating party had the right to receive positive results achieved by the associate and in exchange had an obligation to cover any losses deriving from it, and to a payable for expenses relating to disposals of equity interests made in the past. In virtue of the shareholders' agreements with the majority shareholder in the real estate joint ventures involved, the receivables relating to the items under discussion are also to be considered exclusively attributable to Prelios.

Other payables to third parties

Payables for damages include the residual liability of Edilnord Gestioni S.r.l. (in liquidation) for damages payable to Inpdap in relation to legal action over management of certain contracts (7,777 thousand euro).

Payables to employees mostly refer to provisions for unused holiday entitlement and deferred salaries to be paid. The item also includes liabilities for restructuring plans being implemented.

Other tax payables relate to VAT positions of companies consolidated line-by-line which do not file for this tax on a Group basis, and to payables for other indirect taxes.

Social security payables relate to the amount owned by the Group to social security institutions. The item includes 1,590 thousand euro owed to the Italian Social Security Agency (INPS) and a total of 33 thousand euro due to the Italian Industrial Accident Agency (INAIL) and other welfare agencies.

Payables to Directors and Supervisory Board included under sundry other payables amounted to 764 thousand euro (compared with 746 thousand euro at December 31st, 2011), while payables to Auditors totalled 669 thousand euro (811 thousand euro at December 31st, 2011).

The item "*sundry other payables*" includes, among other things, 9,975 thousand euro for Prelios S.p.A. (amount unchanged from the previous year) deriving from the deferred contractual charges in relation to sales of investments which occurred in the past.

Accrued liabilities and deferred income

Deferred income includes 1,378 thousand euro of suspended capital gains deriving from consolidation adjustments on property sales in relation to the portion not yet realised to third parties (1,889 thousand euro at December 31st, 2011).

Note 18. PROVISIONS FOR FUTURE RISKS AND EXPENSES

These provisions totalled 51,217 thousand euro (of which 20,633 thousand euro non-current) compared with 70,383 thousand euro at December 31st, 2011 (of which 35,814 thousand euro non-current).

	06.30.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Provisions for future expenses for contractual commitments	25,913	13,328	12,585	23,261	12,590	10,671
Provisions for arbitration, lawsuits and outstanding disputes	7,839	5,840	1,999	24,061	21,369	2,692
Provisions for warranties	314	-	314	314	-	314
Provisions for other risks	6,727	1,006	5,721	7,039	1,191	5,848
Provisions for restructuring	6,387	459	5,928	8,577	664	7,913
Provisions for future risks on equity-accounted investments	4,037	-	4,037	7,131	-	7,131
Total	**51,217**	**20,633**	**30,584**	**70,383**	**35,814**	**34,569**

The changes which occurred during the first half of 2012 were as follows:

	12.31.2011	Change in consol. area/other	Increases	Movements: Decreases	06.30.2012
Provisions for future expenses for contractual commitments	23,261	-	4,455	(1,803)	25,913
Provisions for arbitration, lawsuits and outstanding disputes	24,061	100	644	(16,966)	7,839
Provisions for warranties	314	-	-	-	314
Provisions for other risks	7,039	-	252	(564)	6,727
Provisions for restructuring	8,577	(100)	75	(2,165)	6,387
Provisions for future risks on equity-accounted investments	7,131	-	-	(3,094)	4,037
Total	**70,383**	**-**	**5,426**	**(24,592)**	**51,217**

Provisions for future expenses for contractual commitments

The item includes among other things 8,792 thousand euro related to provisions for expenses set aside by the subsidiary Geolidro S.p.A. in relation to contractual commitments made to perform extraordinary maintenance work on properties sold, which was basically unchanged from the previous year, as well as 7,329 thousand euro set aside by the company Prelios S.p.A., of which 2,305 thousand euro to cover future expenses and compensation related to the forthcoming transfer of the Milan headquarters and to the consequent termination of the rental contract currently in being for the HQ2 building. The item also includes 8.002 thousand euro as an estimate of the expenses that the subsidiary Lambda S.r.l. could incur for certain development commitments.

Provisions for arbitration, lawsuits, and outstanding disputes

This item reflects the best estimate of probable risks from a number of unsettled disputes with customers, as well as provisions against specific risks relating to litigations with employees.

Note that these provisions also include the best estimate of probable expenses deriving from assessment notices received by the Prelios Group after tax inspections, also with a view to minimizing damages.

The reduction that occurred in the period was due for approximately 15 million euro to reclassification under tax liabilities of the provisions set aside at December 31st, 2011 in relation to assessment notices.

Provisions for warranties

This amount is mainly attributable to provisions for risks connected to guarantees granted by Iniziative Retail S.r.l. for the real estate placed by the latter in the“Olinda - Fondo Shops - Fondo comune di investimento immobiliare di tipo chiuso", managed by Prelios SGR S.p.A. for the indemnity provided against any claims regarding construction, town planning, systems, or environmental issues.

Provisions for other risks

This item includes provisions in relation to risks of payments to be made, in application of the tax consolidation regulations (previously held by Pirelli & C. S.p.A. and currently held by Prelios S.p.A) due to changes in the scope of reference.

Provisions for restructuring

This item refers to restructuring costsahead with internal reorganization plans already started by a number of Group companies to tackle the new scenario in the real estate sector, with the aim of simplifying organizational layers and reducing operating costs by cutting the workforce and simplifying corporate structure. The provisions also include costs of onerous contracts relating to the Group's offices.

Provisions for future risks on equity-accounted investments

Provisions for future risks on equity-accounted investments include 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. More detail can be found in the table forming part of note 3 "Investments in associates and joint ventures."

The column "Decrease in financial receivables" reports the reduction in financial receivables from associates and joint ventures for the share of losses in excess of the carrying amount of the related investments.

Note 19. EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations amount to 10,733 thousand euro, a net decrease of 392 thousand euro with respect to December 31st, 2011. The item can be broken down as follows:

	06.30.2012	12.31.2011
Provisions for employee leaving indemnity	3,582	3,892
Pension funds	6,212	6,100
Other employee benefits	939	1,133
Total	**10,733**	**11,125**

Provisions for employee leaving indemnity

Provisions for employee leaving indemnity refer only to Italian companies in the Group and essentially include the employee termination benefits accrued to staff in service at June 30th, 2012, less any advances paid.

In accordance with the national regulations, the amount due to each employee accrues based on the time worked and is disbursed at the time the employee leaves the company. The amount due on termination 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 linked to any condition or maturity period, nor are there any obligations for financial funding, there are no assets serving the fund.

In application of IAS 19, employee leaving indemnities are revised using actuarial valuation methods, with the assistance of an external appraiser, and adapted in relation to events occurring which require said adaptation.

The date of the last actuarial valuation was December 31st, 2011, using the Projected Unit Credit Method, on the basis of which the current value of the obligation is determined in relation to the benefits after termination of the employment relationship.

Changes in employee leaving indemnities during the first half of 2012 and the previous year are set out below:

	01.01.2012-06.30.2012	01.01.2011-12.31.2011
Opening balance	**3,892**	**4,313**
Amount maturing and charged to income	109	134
Amount maturing and charged to income: curtailment	-	160
Change due to personnel transferred from other related parties	-	593
Equity adjustment for actuarial gains/losses	-	111
Advances on leaving indemnity	(6)	(107)
Benefits paid	(375)	(1,289)
Other changes	(38)	(23)
Closing balance	**3,582**	**3,892**

The amounts recognized 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 during the first half of 2012 and the previous year are set out below:

	01.01.2012- 06.30.2012	01.01.2011- 12.31.2011
Opening balance	**6,100**	**6,434**
Amount maturing and charged to income	-	221
Equity adjustment for actuarial gains/losses	-	10
Benefits paid	-	(785)
Other changes	112	220
Closing balance	**6,212**	**6,100**

The amounts recognized in the income statement are included in the item “Personnel costs” (Note 25).

Other employee benefits

"Other employee benefits" include 939 thousand euro relating to the "Altersteilzeit" (Partial Retirement) Fund, a mechanism commonly adopted in Germany to grant partial retirement for employees who have reached 55 years of age.

Other employee benefits also include long-service bonuses and loyalty bonuses totalling 609 thousand euro.

The amounts recognized 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 911 at June 30th, 2012 (922 including temporary staff), compared with 974 at December 31st, 2011 (999 including temporary staff).

The following table provides a breakdown:

	Headcount at period end		Average headcount in period	
	06.30.2012	12.31.2011	06.30.2012	12.31.2011
Executives	81	87	82	87
Junior managers	140	148	150	164
White collar	608	657	643	692
Workmen/Auxiliary staff (*)	82	82	82	83
Total	**911**	**974**	**957**	**1.026**

(*) Variable staff according to contracts under management.

Other information

The main actuarial assumptions used at the date of the last reference valuation at December 31st, 2011 were as follows:

	Italy	Germany	Netherlands
Discount rate	4,60%	4,60%	4,60%
Inflation rate	2,00%	2,00%	2,00%
Expected salary increase (*)	3,00%	2,00%	2,00%

(*) indicators valid solely for companies with less than 50 employees.

Note 20. TAX PAYABLES

They consist of:

	06.30.2012			12.31.2011		
	Total	Non-current	Current	Total	Non-current	Current
Payables to tax Authorities	24,961	10,231	14,730	10,200	-	10,200
Payables for Group tax election	273	-	273	-	-	-
Other payables to joint ventures under tax transparency regim	1,080	-	1,080	1,080	-	1,080
Total	**26,314**	**10,231**	**16,083**	**11,280**	**0**	**11,280**

Payables to tax Authorities

The item includes, among other things, 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 amounts owed by consolidated companies with respect to periods before joining the tax group or relating to IRAP payables.

The increase recorded in the period was mainly due to reclassification of provisions for risks to cover the amount which will have to be paid to the Tax Authority following completion of an assessment with acceptance for which a payment in 12 quarterly instalments was defined.

The item includes 1,746 thousand euro reflecting the impact on companies consolidated line by line of the new tax rules for real estate investment funds introduced in 2011 for which payment in instalments is envisaged.

Other payables to joint ventures under tax transparency regime

From 2006 to 2008 the investee company Trixia S.r.l. adopted the tax transparency option allowed by Art. 115 of the Italian Income Tax Code, under which all consequent relationships are governed by a special agreement ensuring that statutory and regulatory rules are applied on a common basis.

Note 21. DERIVATIVE FINANCIAL INSTRUMENTS

The item refers to measurement at fair value of certain derivative financial instruments hedging interest-rate risk on debts entered into by the parent company during the first half of 2012.

The table below illustrates the details of financial instruments in being at June 30, 2012:

Type of instrument	*Interest rate swap*	*Interest rate swap*	*Interest rate swap*	*Interest rate swap*
Counterparty	Intesa SanPaolo	Montepaschi	Banca Popolare di Sondrio	Banca Popolare di Milano
Notional (euro)	50,000,000	50,000,000	20,000,000	50,000,000
Premium paid	-	-	-	-
Date signed	03/08/2012	04/02/2012	04/18/2012	04/18/2012
Termination date	12/31/2014	12/31/2014	12/31/2014	12/31/2013
Strike	1.21%	1.30%	1.20%	1.16%
Fair value at June 30, 2012	(357,261)	(470,049)	(137,891)	(141,415)

The *strike* indicated refers to the 6-month EURIBOR rate.
It should be noted that the total amount of the measurement at June 30th, 2012, a negative amount of 1,107 thousand euro before tax, was fully recognised in net equity because these contracts are considered for hedging and meet the requisites required by IAS 39 for verifying effective hedging.

COMMITMENTS AND CONTINGENCIES

Unsecured guarantees

Guarantees

Banks and insurance companies have issued a total of 134,257 thousand euro in guarantees to third parties in the interest of companies in the Prelios Group, mostly for contractual commitments.

The Prelios Group has also issued guarantees and letters of patronage of 45,775 thousand euro in the interests of associates and joint ventures. These consist of the following:

- insurance co-obligations of various kinds to third parties for a total of 4,782 thousand euro;
- guarantees of 13,992 thousand euro against possible future charges and for loans granted by banks to associates and joint ventures;
- guarantees issued in favour of Hypo Real Estate, the lending bank for the acquisition of the DGAG Group, to cover any tax liabilities associated with the term of the loan. These guarantees involve a net exposure for the Group of 25,000 thousand euro;
- guarantees of 1,971 thousand euro against fulfilment of the payment obligation by International Credit Recovery 8 S.r.l. for a portfolio of non-performing loans acquired.

Liens on shares

There are liens for 60,002 thousand euro over shares in associations and joint ventures.

Commitments to purchase investments/fund units/securities/loans

These amounted to 28,107 thousand euro and mainly refer to the following commitments assumed:

- by Prelios, through the subsidiary Prelios Netherland B.V. to make payments for a total maximum amount of 9,800 thousand euro to the company Gamma RE B.V.;
- by Pirelli RE Netherlands B.V. to subscribe up to 3,000 thousand euro for units in "Fondo Vivaldi - Fondo Comune di Investimento Immobiliare Speculative di Tipo chiuso" a closed-end speculative real estate investment fund;
- by Prelios S.p.A. to pay up to 2,728 thousand euro as a guarantee against future requests for return of the amounts granted for securitisation vehicles in the context of the requests for early payment of amounts held by the courts;
- by Prelios S.p.A. to pay up to 590 thousand euro to International Credit Recovery (5) S.r.l., International Credit Recovery (6) S.r.l., International Credit Recovery (123) S.r.l., and up to 2,000 thousand euro to the subsidiary Prelios Credit Servicing S.p.A., to cover potential liabilities prior to the sale of non-performing loan portfolios;
- by Prelios S.p.A. for payment of a maximum of approximately 2,073 thousand euro to Delamain S.à.r.l. to cover any liabilities that may emerge from application of the new tax regulations regarding investment funds;
- by Prelios S.p.A. to subscribe, through the companies Afrodite S.à.r.l. and Artemide S.à.r.l., up to 1,948 thousand euro in units in the "Fondo Residenziale Diomira - Fondo comune di investimento immobiliare speculativo di tipo chiuso non quotato riservato," a closed-end unlisted speculative real estate investment fund;
- by Prelios S.p.A. to subscribe a total of 1,500 thousand euro for the initial units in the Donizetti fund;
- by Prelios S.p.A. to pay its subsidiary Prelios Credit Servicing S.p.A. an amount of about 1,500 thousand euro to cover liabilities associated with the termination of consulting agreements;
- by Prelios Società di Gestione del Risparmio S.p.A. to subscribe 1,403 thousand euro for units in "Fondo Federale Immobiliare di Lombardia" (formerly Fondo Abitare Sociale 1 – Fondo Comune Chiuso di Investimento Immobiliare Etico Riservato ad Investitori Qualificati), a closed-end ethical real estate fund, reserved for accredited investors;
- by Prelios Società di Gestione del Risparmio S.p.A. to subscribe 1,000 thousand euro in units of the "Fondo Enasarco Uno - Fondo comune di investimento immobiliare speculativo di tipo chiuso," a closed-end speculative real estate investment fund.
- to subscribe, through the investees Austin S.à.r.l., Dallas S.à.r.l. and Nashville S.à.r.l., units of the "Fondo Patrimonio Uffici – Fondo comune di investimento immobiliare speculativo di tipo chiuso" a closed-end speculative real estate investment fund, for a maximum amount of 480 thousand euro.

Property purchase commitments

Property purchase commitments refer to:

- the undertaking given by the 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 297,561 thousand euro. The purchase price of these properties was contractually defined as a certain fraction of their market value. This option may be exercised by the counterparty from November 12th, 2021 to May 31st, 2022.

NET FINANCIAL POSITION

(alternative performance indicator not required by the accounting standards)

In keeping with the information provided in previous financial statements, the breakdown of the net financial position is provided below:

(in thousands of euro)

	06.30.2012	12.31.2011
CURRENT ASSETS		
Other receivables	**63**	**63**
- of which receivable from related parties	*63*	*63*
Financial receivables	63	63
- *joint ventures and other Prelios Group companies*	63	63
Cash and cash equivalents	**41,780**	**37,684**
TOTAL CURRENT ASSETS - A	**41,843**	**37,747**
CURRENT LIABILITIES		
Bank borrowings and payables to other financial institutions	**(55,655)**	**(36,958)**
- of which payable to related parties	*(9,863)*	*(1,102)*
- joint ventures and other Prelios Group companies	(1,077)	(1,102)
- other related parties	(7,059)	-
- Other financial payables	(1,727)	(2,661)
- Bank borrowings	(45,754)	(30,855)
- Payables to other financial institutions	(38)	(2,340)
TOTAL CURRENT LIABILITIES - B	**(55,655)**	**(36,958)**
NON-CURRENT LIABILITIES		
Bank borrowings and payables to other financial institutions	**(483,719)**	**(488,802)**
- of which payable to related parties	*(156,689)*	*(160,038)*
- joint ventures and other Prelios Group companies	(32)	-
- other related parties	(156,657)	(160,038)
- other financial debts	(643)	(642)
- Payables to other financial institutions	(326,387)	(328,122)
TOTAL NON-CURRENT LIABILITIES - C	**(483,719)**	**(488,802)**
NET DEBT EXCL. SHAREHOLDER LOANS GRANTED (*) = D =(A+B+C)	**(497,531)**	**(488,013)**

(*) Pursuant to the CONSOB Communication dated July 28th, 2006 and in compliance with the CESR Recommendation of February 10th, 2005 ("Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses").

INCOME STATEMENT

The Group's results in the first six months of 2012, and in the corresponding period of 2011, as well as those in the first and second quarter 2012 and 2011, are presented in the following table.

	01.01.2012-06.30.2012	01.01.2012-03.31.2012	04.01.2012-06.30.2012	01.01.2011-06.30.2011	01.01.2011-03.31.2011	04.01.2011-06.30.2011
Revenues from sales and services	64,839	32,914	31,925	86,315	46,397	39,918
Changes in inventories of work in progress, semi-finished and finished products	44	36	8	270	220	50
Other income	11,173	6,533	4,640	8,294	2,792	5,502
TOTAL OPERATING REVENUES	**76,056**	**39,483**	**36,573**	**94,879**	**49,409**	**45,470**
Raw and consumable materials used (net of change in inventories)	(2,719)	(818)	(1,901)	(3,510)	(3,168)	(342)
Personnel costs	(34,764)	(17,492)	(17,272)	(37,542)	(19,169)	(18,373)
Depreciation, amortization and impairment	(1,160)	(577)	(583)	(1,571)	(788)	(783)
Other costs	(52,534)	(18,206)	(34,328)	(49,764)	(25,526)	(24,238)
TOTAL OPERATING COSTS	**(91,177)**	**(37,093)**	**(54,084)**	**(92,387)**	**(48,651)**	**(43,736)**
Earnings before interest and tax (EBIT)	**(15,121)**	**2,390**	**(17,511)**	**2,492**	**758**	**1,734**
Net income from investments:	(81,587)	(11,827)	(69,760)	(6,193)	11,551	(17,744)
- net profit share from investments in associates and joint ventures	(80,626)	(14,018)	(66,608)	(8,215)	10,689	(18,904)
- dividends	1,027	1,027	-	1,434	1,016	418
- gains on investments	1,767	1,873	(106)	588	-	588
- losses on investments	(3,755)	*(709)*	*(3,046)*	-	*(154)*	*154*
Financial income	7,863	4,852	3,011	20,794	7,137	13,657
Financial expenses	(29,748)	(14,195)	(15,553)	(14,936)	(6,520)	(8,416)
RESULT BEFORE INCOME TAXES AND MINORITY INTERESTS	**(118,593)**	**(18,780)**	**(99,813)**	**2,157**	**12,926**	**(10,769)**
Income taxes	(6,308)	(4,259)	(2,049)	(2,403)	(3,258)	855
NET INCOME (LOSS) FOR THE PERIOD	**(124,901)**	**(23,039)**	**(101,862)**	**(246)**	**9,668**	**(9,914)**
attributable to minority interests	815	621	194	(703)	(347)	(356)
CONSOLIDATED NET INCOME (LOSS) FOR THE PERIOD	**(125,716)**	**(23,660)**	**(102,056)**	**457**	**10,015**	**(9,558)**

Note 22. REVENUES FROM SALES AND SERVICES

Revenues from sales and services amount to 64,839 thousand euro compared with an amount of 86,315 thousand euro at June 30th, 2011 and consisted of the following:

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Revenues from contracts	88	573
Revenues from sales	1,717	2,736
Revenues from services	63,034	83,006
Total	**64,839**	**86,315**

Revenues from contracts

This item amounts to 88 thousand euro compared with an amount of 573 thousand euro at June 30th, 2011. In the first half of 2012 the item included the revenues earned by Lambda S.r.l. for construction of the "Hangar Bicocca" building.

Revenues from sales

Sales completed in the first six months of 2012 mainly refer to property units sold by Centrale Immobiliare S.p.A.

Revenues from services

Revenues deriving from the provision of services can be broken down as follows:

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Revenues from services to third parties	27,446	32,230
Revenues from services to associates	5,368	7,564
Revenues from services to joint ventures and other Prelios Group companies	30,141	43,013
Revenues from services to other related parties	79	199
Total	**63,034**	**83,006**

Note 23. CHANGE IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS

The change in inventories at June 30th, 2012 was positive overall by 44 thousand euro, compared with an equally positive change of 270 thousand euro recorded at June 30th, 2011.

The change is attributable to the events described in the sections "revenues from sales" and "assets purchased" to which the reader is referred.

Note 24. OTHER INCOME

The item in question can be broken down as follows:

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Recoveries, reimbursements and other income	10,540	7,643
Other income from joint ventures and other Prelios Group companies	377	559
Other income from other related parties	256	92
Total	**11,173**	**8,294**

Recoveries, reimbursements and other income relate for approximately one third to income due to the positive outcome of litigations, as well as to management costs re-debited to tenants of company-owned properties or properties managed for third parties; in this latter case the costs re-debited relate mainly to activities carried out by the property management unit.

Note 25. OPERATING COSTS

Operating costs amount to 91,177 thousand euro compared with 92,387 thousand euro in the first half of 2011 and consisted of:

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Raw and consumable materials used of which:	2,719	3,510
a) Assets purchased	*195*	*257*
b) Change in inventories of trading properties, raw and miscellaneous materials	*2,524*	*3,253*
Personnel costs	34,764	37,542
Depreciation, amortization and impairment	1,160	1,571
Other costs	52,534	49,764
Total	**91,177**	**92,387**

Raw and consumable materials used (net of change in inventories)

The item "***Assets purchased***" of 195 thousand euro at June 30th, 2012 refers to purchase of sundry consumables.

In the first half of 2012 the item "**Change in inventories of trading properties, raw and miscellaneous materials**" was a negative 2,524 thousand euro compared with another negative amount of 3,253 thousand euro in the corresponding period of 2011 as a result of the events described in the sections "Revenues from sales" and "Assets purchased" to which the reader is referred.

Personnel costs

Personnel costs amounted to 34,764 thousand euro compared with 37,542 thousand in the first half of 2011.

The item can be broken down as follows:

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Wages and salaries	26,575	29,311
Stock options	-	(988)
Social security contributions	5,981	6,534
Employee termination benefits	109	159
Costs for defined-contribution pension funds/Other costs	2,099	2,526
Total	**34,764**	**37,542**

For the number of employees see the comment on provisions for employee benefit obligations (note 19).

Depreciation, amortization and impairment

Details of depreciation, amortization and impairment can be found in the tables accompanying the notes on property, plant and equipment and intangible assets (notes 1 and 2).

Other costs

At June 30th, 2012 these amount to 52,534 thousand euro compared with 49,764 thousand euro in the first half of 2011.

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Other costs charged by associates	90	248
Other costs charged by joint ventures and other Prelios Group companies	2,539	2,820
Other costs charged by other related parties	170	1,596
Other costs charged by third parties	49,735	45,100
Total	**52,534**	**49,764**

The item can be broken down by type as follows:

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Services	28,810	35,321
Lease and rental costs	7,411	7,453
Impairment of receivables	7,417	2,493
Provisions for risks and expenses	4,730	884
Other operating expenses	4,166	3,613
Total	**52,534**	**49,764**

Costs for services

Costs for services amount to a total of 28,810 thousand euro, compared with 35,321 thousand euro in the first six months of 2011.

Costs for services mostly consist of maintenance costs, costs for managing third-party assets, commissions and consulting and professional fees.

The item fell considerably owing mostly to lower volumes in the construction and maintenance contracts managed by the Group.

Emoluments to Directors and the Supervisory Board amounted to 1,803 thousand euro compared with 1,838 thousand euro at June 30th, 2011, and those to statutory auditors of consolidated companies were 292 thousand euro compared with an amount of 329 thousand euro in the first half of 2011.

The item includes costs for non-recurring events of 102 thousand euro accounting for approximately 0.35 % of the total item.

Lease and rental costs

These costs amount to 7,411 thousand euro compared with a total of 7,453 thousand euro in the first half of 2011 and almost entirely refer to rental of head office buildings, and to the leasing and hire of motor vehicles.

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Lease and rental costs charged by other related parties	58	73
Lease and rental costs charged by joint ventures	2,460	2,505
Lease and rental costs charged by third parties	4,893	4,875
Total	**7,411**	**7,453**

Impairment of receivables

Impairment of receivables (7,417 thousand euro compared with 2,493 thousand euro at June 30th, 2011) was recognised for potential risks of debtor default and for losses on receivables already realised in the period in question.

The item includes costs for non-recurring events of 7,490 thousand euro accounting for 101% of the total item, due to the impairment of certain significant positions, described in more detail in the sections “Trade receivables” and “Other receivables” to which the reader is referred.

Provisions for risks and expenses

At June 30th, 2012 provisions had been set aside for a total of 4,730 thousand euro compared with 884 thousand euro in the corresponding previous period.

Details of these provisions can be found in the notes on liabilities in the section “Provision for future risks and expenses ”.

The item includes costs for non-recurring events of 4,005 thousand euro accounting for 85% of the total.

Other operating expenses

These amount to 4,166 thousand euro compared with 3,613 thousand euro recognised during the first half of 2011.

The item includes, among other things, 697 thousand euro in costs for duties and other taxes, mostly involving IMU (council tax), registration taxes and non-recoverable VAT on financial transactions.

Note 26. NET INCOME FROM INVESTMENTS

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Net profit share from investments in associates and joint ventures	(80,626)	(8,215)
Dividends	1,027	1,434
Gains on investments	1,767	588
Losses on investments	(3,755)	-
Total	**(81,587)**	**(6,193)**

The item includes a pro-rata net negative effect for the Prelios Group of 49.2 million euro deriving from property writedowns/revaluations. .

The item in question also includes a negative impact of 3,118 thousand euro related to the fair value adjustment of the units held by Prelios Netherlands B.V. in Olinda fund following the intention of the company's management to recover the relevant carrying amount through a short-time sale transaction instead of by holding it.

Finally, during the period in question dividends were distributed to the Group by the Tecla (349 thousand euro) and Cloe funds (118 thousand euro), and by companies in which minority interests are held (560 thousand euro).

The item includes costs for non-recurring events of 1,120 thousand euro accounting for 1.4% of the total.

Note 27. FINANCIAL INCOME

Financial income amounts to 7,863 thousand euro, compared with 20,794 thousand euro in the corresponding period of 2011 and can be broken down as follows:

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Interest income		
a) Interest income from non-current assets:		
- Interest income on financial receivables due from associates	24	15
- Interest income on financial receivables due from joint ventures	5,834	19,849
Total interest income from non-current assets	**5,858**	**19,864**
b) Interest income from current assets:		
- Interest income from joint ventures	19	208
- Other interest	261	228
Total interest income from current assets	**280**	**436**
Other financial income		
c) Other financial income from non-current assets:		
- Income from securities	2	29
Total other financial income from non-current assets	**2**	**29**
d) Other financial income from current assets:		
- Other income from joint ventures	588	288
Total other financial income from current assets	**588**	**288**
Other/miscellaneous	**396**	**150**
Exchange gains	**739**	**27**
Total	**7,863**	**20,794**

The changes in interest income are related both to financial receivables from Group companies and to intra-group current accounts in being with associates or joint ventures, and to interest rates.

Note 28. FINANCIAL EXPENSES

These amount to 29,748 thousand euro compared with an amount of 14,936 thousand euro recorded at June 30th, 2011.

They can be broken down as follows:

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Interest due to banks	16,816	8,890
Interest due to joint ventures	913	1,675
Interest due to other related parties	7,678	3,216
Interest due to others	59	357
Other financial expenses	858	490
Other financial expenses due to joint ventures	2,523	-
Exchange losses	243	250
Fair value measurement of currency derivatives	658	58
Total	**29,748**	**14,936**

Interest due to banks refers to loans obtained from credit institutions for everyday management of the business.

Interest due to other related parties concerns the floating rate credit facility granted by Pirelli & C. S.p.A. to Prelios S.p.A.

Other financial expenses due to joint ventures relate for 2,500 thousand euro to impairment of the investment in Highstreet.

Exchange losses amount to 243 thousand euro in line with the figure for June 30th, 2011, and mostly refer to the measurement of outstanding shareholder loans in Polish currency at June 30th, 2012.

Fair value measurement of currency derivatives refers to the impact of certain exchange rate risk hedging instruments measured at fair value, and to the net incomes and losses referred to such instruments realized during the first half of 2012.

Note 29. INCOME TAXES

"Income taxes" relate to both current and deferred tax assets and liabilities, calculated on the basis of current tax rates.

The accounting item can be broken down as follows:

	01.01.2012-06.30.2012	01.01.2011-06.30.2011
Current taxes	3,864	2,583
Deferred tax assets	1,835	(240)
Deferred tax liabilities	609	60
Total	**6,308**	**2,403**

Note 30. EARNINGS/(LOSS) PER SHARE

	06.30.2012	06.30.2011
Weighted average number of shares outstanding for the calculation of earnings (loss) per share:		
- basic (A)	839,982,115	839,982,115
Net income (loss) attributable to the Group from continuing operations (B)	(125,716)	457
Earnings (loss) per share (in euro):		
- basic (B/A)	(0.15)	0.00

The diluted earnings/(loss) per share of the first half of 2012 is not reported, because there are in issue no instruments which could have dilutive effects.

6.6. 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 decisions about operating matters.

Operating segments are therefore components of a business for which discrete financial information is available and whose operating results are regularly reviewed by top management in deciding how to allocate resources and in assessing performance.

As discussed in the report on operations, the Group's organisational structure is based on three geographical areas: Italy, Germany and Poland.

The geographical areas have been identified on the basis of the country in which the businesses are located.

The results by segment at June 30th, 2012 are as follows:

JUNE 30TH, 2012	ITALY	GERMANY	POLAND	NPL	HOLDING	TOTAL	INTRAGROUP ELIMINATIONS	CONSOLIDATED TOTAL
Consolidated revenues	27,365	27,844	1,027	7,557	1,222	65,015	(176)	64,839
of which from third parties	*27,365*	*27,844*	*1,027*	*7,557*	*1,046*	*64,839*	-	*64,839*
of which from the Group	-	-	-	-	*176*	*176*	*(176)*	-
EBIT	(9,693)	3,050	263	(3,257)	(5,484)	(15,121)	-	(15,121)
Net income from investments	(47,373)	(8,312)	(1,459)	(24,616)	173	(81,587)	-	(81,587)
EBIT including net income from investments	**(57,066)**	**(5,262)**	**(1,196)**	**(27,873)**	**(5,311)**	**(96,708)**	**-**	**(96,708)**
Financial income from investments	1,112	2,119	1,049	1,580	-	5,860	-	5,860
EBIT including net income and financial income from investments	**(55,954)**	**(3,143)**	**(147)**	**(26,293)**	**(5,311)**	**(90,848)**	**-**	**(90,848)**
Other financial income/(expenses)						-	-	(27,745)
Profit (loss) before taxes						**(90,848)**	**-**	**(118,593)**
Income taxes						-	-	(6,308)
Profit (loss) before minority interests						**(90,848)**	**-**	**(124,901)**
Minority interests						-	-	815
Consolidated net income (loss)						**(90,848)**	**-**	**(125,716)**

Notes:								
Property writedowns/revaluations	(1,311)	(8,793)	-	-	-	(10,104)	-	(10,104)
Restructuring costs	(10,387)	(2,330)	-	-	-	(12,717)	-	(12,717)
Property tax	-	-	-	-	-	-	-	-
EBIT including net income and financial income from investments before restructuring costs, property writedowns/writebacks and property tax	**(44,256)**	**7,980**	**(147)**	**(26,293)**	**(5,311)**	**(68,027)**	**0**	**(68,027)**

The results by segment at June 30th, 2011 are as follows:

JUNE 30TH, 2011	ITALY	GERMANY	POLAND	NPL	HOLDING	TOTAL	INTRAGROUP ELIMINATIONS	CONSOLIDATED TOTAL
Consolidated revenues	47,551	28,673	718	7,104	3,866	87,912	(1,597)	86,315
of which from third parties	*47,551*	*28,673*	*718*	*7,104*	*2,269*	*86,315*	-	*86,315*
of which from the Group	-	-	-	-	*1,597*	*1,597*	*(1,597)*	-
EBIT	11,044	4,403	(2,231)	(5,749)	(4,975)	2,492	-	2,492
Net income from investments	(7,907)	9,284	(4,127)	(3,443)	-	(6,193)	-	(6,193)
EBIT including net income from investments	**3,137**	**13,687**	**(6,358)**	**(9,192)**	**(4,975)**	**(3,701)**	**-**	**(3,701)**
Financial income from investments	2,165	15,189	938	1,601	-	19,893	-	19,893
EBIT including net income and financial income from investments	**5,302**	**28,876**	**(5,420)**	**(7,591)**	**(4,975)**	**16,192**	**-**	**16,192**
Other financial income/(expenses)						-	-	(14,035)
Profit (loss) before taxes						**16,192**	**-**	**2,157**
Income taxes						-	-	(2,403)
Net income (loss) from continuing operations						**16,192**	**-**	**(246)**
Net income (loss) before minority interests						**16,192**	**-**	**(246)**
Minority interests						-	-	(703)
Consolidated net income (loss)						**16,192**	**-**	**457**

Notes:								
Property writedowns/revaluations	(12,433)	11,208	(2,395)	-	-	(3,620)	-	(3,620)
Restructuring costs	-	-	-	(1,995)	-	(1,995)	-	(1,995)
Property tax	(6,295)	-	-	-	-	(6,295)	-	(6,295)
EBIT including net income and financial income from investments before restructuring costs, property writedowns/revaluations and property tax	**24,030**	**17,668**	**(3,025)**	**(5,596)**	**(4,975)**	**28,102**	**0**	**28,102**

Intra-segment sales took place under the same terms and conditions as third-party sales.

6.7. Related party transactions

The following tables show transactions and balances with related parties:

	01.01.2012-06.30.2012	% share (*)	01.01.2011-06.30.2011	% share (*)
Operating revenues	36,661	48.2%	51,427	54.2%
Operating costs	(4,501)	4.9%	(7,255)	7.9%
Net income from investments	(80,658)	98.9%	(800)	12.9%
Financial income	6,464	82.2%	14,379	69.1%
Financial expenses	(11,114)	37.4%	(4,891)	32.7%

(*) The percentage share is calculated with reference to the total amount of the specific item reported in the financial statements.

	06.30.2012				12.31.2011			
	Total	% share (*)	Non-current	Current	Total	% share (*)	Non-current	Current
Trade receivables	43,195	68.3%	-	43,195	45,520	58.3%	-	45,520
Other receivables of which:	277,975	88.6%	271,940	6,035	319,778	87.5%	313,491	6,287
- financial receivables	*271,993*	*100.9%*	*271,930*	*63*	*313,549*	*100.0%*	*313,486*	*63*
Trade payables	8,165	13.1%	-	8,165	8,185	10.9%	-	8,185
Other payables	18,663	29.3%	-	18,663	21,226	32.2%	2,608	18,618
Tax payables	1,353	8.4%	-	1,353	1,080	9.6%	-	1,080
Bank borrowings and payables to other financial institutions	164,825	30.2%	156,689	8,136	161,140	30.6%	160,038	1,102
Provisions for future risks and expenses	4,037	7.9%	-	4,037	7,131	10.1%	-	7,131

(*) The percentage share is calculated with reference to the total amount of the specific item reported in the financial statements.

Transactions and balances between the Prelios Group and associates, joint ventures and other companies in the Prelios Group are detailed as follows:

Transactions and balances with associates/joint ventures and other companies		
Operating revenues	36,326	These refer to contracts with Group companies for fund and asset management services (real estate and non performing loans) and technical and commercial services.
Operating costs	(2,629)	These refer to recharges of various kinds.
Net income from investments	(80,658)	This item mainly consists of the results of these investments valued using the equity method, as well as value adjustments made to some investments held by the Group and for dividends distributed by real estate funds and companies in which a minority interest is held.
Financial income	6,464	This mostly refers to interest earned on financial receivables held by Group companies.
Financial expenses	(3,436)	
Current trade receivables	42,260	This balance includes the receivables relating to "operating revenues".
Other non-current receivables	271,940	
- of which financial receivables	*271,930*	This reflects the loans given to finance real estate projects being managed by individual Group companies. These loans are classified as non-current assets by virtue of their terms of repayment, which match the medium-term disposal programmes of the real estate portfolios owned directly or indirectly by these companies. These loans carry interest rates that are in line with those applied by the principal market participants except for some companies which have been given non-interest bearing loans.
Other current receivables	6,035	This includes 834 thousand euro in dividends that have been declared but not yet paid, as well as 2,418 thousand euro in receivables owed to Prelios S.p.A. by Polish Investments Real Estate Holding B.V. II. for the sale of 85% of the share capital in Coimpex S.p.zo.o. and Relco S.p.zo.o.
- of which financial receivables	*63*	
Current trade payables	5,890	They refer to recharges of various types, mainly traceable to rent and urbanization charges and accessory costs.
Other current payables	18,620	These refer to different kinds of recharge.
Current tax payables	1,353	This amount mainly relates to amounts owing to Trixia S.r.l. under its adoption of the "tax transparency" regime allowed by art. 115 of the Italian Income Tax Code, whereby a company's positive or negative taxable amounts are attributed to its shareholders.
Current bank borrowings and payables to other financial institutions	1,077	This includes negative balances on intercompany current accounts.
Provisions for future risks and expenses	4,037	This refers to the provision for making good the losses of associates and joint ventures in excess of their carrying amounts.

For the sake of completeness, details will now be provided of the transactions and balances at June 30th, 2012 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 and balances with Pirelli & C. S.p.A. and other Pirelli Group companies		
Operating revenues	335	These mainly relate to the recharge of various services provided by the procurement office.
Operating costs	(170)	These include costs for health services, security and technical consulting services, as well as the recharge of rent by Pirelli & C. S.p.A..
Financial expenses	(7,678)	These refer to interest payable on the drawdown of a revolving credit facility granted by Pirelli & C. S.p.A. to Prelios S.p.A..
Current trade receivables	934	These mainly refer to the recharge of various services reported in "Operating revenues".
Current trade payables	2,275	These mainly refer to payables for health and security services and for certain site remediation activities, as well as the recharge of rent for the HQ1 building and sundry other expenses by Pirelli & C. S.p.A..
Other current payables	43	
Non current bank borrowings and payables to other financial institutions	156,657	These refer to the short-term drawdown of the floating-rate credit facility granted by Pirelli & C. S.p.A. to Prelios S.p.A., under the same terms, conditions and maturity as the Club Deal.
Debiti verso banche ed altri finanziatori correnti	7,059	These refer to the interest matured on the floating-rate credit facility granted by Pirelli & C. S.p.A..

Cash flows

At June 30th, 2012 there were no material cash flows relating to related party transactions that are not directly evidenced in the financial statements or in the accompanying notes.

Key management personnel

At June 30th, 2012, the remuneration of the 18 key managers (of whom 18 were in office at June 30th, 2012), meaning those persons, including the directors (whether executive or otherwise), with the authority and responsibility, directly or indirectly, for planning, directing and controlling the activities of Prelios S.p.A., amounted to 1,702 thousand euro (2,551 thousand euro at June 30th, 2011), of which 607 thousand euro (991 thousand euro in the first half of 2011) classified in the income statement as “Personnel costs” and 1,095 thousand euro (1,560 thousand euro at June 30th, 2011) classified in the income statement as “Other costs”.

The long-term portion was zero as at June 30th, 2011.

Milan, August 28th, 2012 The Board of Directors

7. SUPPLEMENTARY TABLES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.1 Appendix 1: Consolidation area

	Business sector at 06.30.2012	Held at 06.30.2012 by	Registered office City/State	06.30.2012	Share capital	% interest & voting rights (*)	12.31.2011 % interest & voting rights (*)
Companies consolidated using line-by-line method							
Subsidiaries							
BauBeCon Treuhand GmbH	Real Estate	Prelios Immobilien Management GmbH	Hannover/Germany	€	530,000	100.00%	100.00%
Brand for Agency Services S.r.l. (formerly NewCo RE 1 S.r.l.) (1)	Real Estate	Prelios S.p.A.	Milan/Italy	€	30,000	100.00%	100.00%
Centrale Immobiliare S.p.A.	Real Estate	Prelios S.p.A.	Milan/Italy	€	5,200,000	100.00%	100.00%
CFT Finanziaria S.p.A.	NPL	Prelios S.p.A.	Milan/Italy	€	20,110,324	100.00%	100.00%
DGAG Beteiligung GmbH & Co. KG	Real Estate	Mistral Real Estate B.V.	Hamburg/Germany	€	42,118,455	94.90%	94.90%
DGAG Nordpartner GmbH & Co. KG	Real Estate	Mistral Real Estate B.V.	Hamburg/Germany	€	2,760,976	94.00%	94.00%
Edilnord Gestioni S.r.l. (in liquidation)	Real Estate	Prelios S.p.A.	Milan/Italy	€	100,000	100.00%	100.00%
Einkaufszentrum Münzstrasse GmbH & Co. KG	Real Estate	74,80% DGAG Beteiligung GmbH & Co. KG	Hamburg/Germany	DM	10,000,000	100.00%	100.00%
		25,20% Prelios Deutschland GmbH					
Erste DGAG Grundstücksgesellschaft mbH & Co. KG	Real Estate	94,00% DGAG Beteiligung GmbH & Co. KG	Hamburg/Germany	DM	1,031,915	100.00%	100.00%
		6,00% Verwaltung Erste DGAG Grundstücksgesellschaft mbH					
Geolidro S.p.A.	Real Estate	Centrale Immobiliare S.p.A.	Naples/Italy	€	3,099,096	100.00%	100.00%
Iniziative Immobiliari 3 S.r.l.	Real Estate	Prelios S.p.A.	Milan/Italy	€	10,000	100.00%	100.00%
Lambda S.r.l.	Real Estate	Prelios S.p.A.	Milan/Italy	€	578,760	100.00%	100.00%
Mistral Real Estate B.V. (*Tracking Share*) (**)	Real Estate	Prelios S.p.A.	Amsterdam/Netherlands	€	18,000	35.02%	35.02%
Mistral Real Estate B.V. (*Tracking Shares Goßlers Park*) (**)	Real Estate	Prelios S.p.A.	Amsterdam/Netherlands	€	18,000	35.02%	35.02%
Mistral Real Estate B.V. (*Tracking Shares Osnabruck*) (**)	Real Estate	Prelios S.p.A.	Amsterdam/Netherlands	€	18,000	35.02%	35.02%
Mistral Real Estate B.V. (*Tracking Shares Dresden*) (**)	Real Estate	Prelios S.p.A.	Amsterdam/Netherlands	€	18,000	35.02%	35.02%
Orione Immobiliare Prima S.p.A.	Real Estate	Prelios S.p.A.	Milan/Italy	€	104,000	100.00%	100.00%
Parcheggi Bicocca S.r.l.	Real Estate	Prelios S.p.A.	Milan/Italy	€	1,500,000	100.00%	100.00%
P.B.S. Società consortile a r.l. (in liquidation) (2)	Real Estate	Prelios Property Management S.p.A.	Milan/Italy	€	100,000	60.00%	60.00%
Prelios Bulgaria AD	Real Estate	Prelios Netherlands B.V.	Sofia/Bulgaria	BGN	1,090,000	75.00%	75.00%
Pirelli Pekao Real Estate Sp.z o.o.	Real Estate	Prelios S.p.A.	Warsaw/Poland	PLN	35,430,000	75.00%	75.00%
Prelios Agency S.p.A.	Real Estate	Prelios S.p.A.	Milan/Italy	€	1,000,000	100.00%	100.00%
Prelios Agency Deutschland GmbH	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	€	25,000	100.00%	100.00%
Prelios Asset Management Deutschland GmbH	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	€	25,000	100.00%	100.00%
Prelios Credit Servicing S.p.A.	Real Estate	Prelios S.p.A.	Milan/Italy	€	11,250,000	80.00%	80.00%
Prelios Deutschland GmbH	Real Estate	Prelios S.p.A.	Hamburg/Germany	€	5,000,000	100.00%	100.00%
Prelios Facility Management Deutschland GmbH	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	€	25,600	100.00%	100.00%
Prelios Finance S.p.A. (3)	Real Estate	Prelios Agency S.p.A.	Milan/Italy	€	120,000	100.00%	100.00%
Prelios Hausmeister Service Deutschland GmbH	Real Estate	Prelios Facility Management Deutschland GmbH	Kiel/Germany	€	25,000	100.00%	100.00%
Prelios Immobilien Management GmbH	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	€	25,000	100.00%	100.00%
Prelios Investments Deutschland GmbH (4)	Real Estate	Prelios S.p.A.	Hamburg/Germany	€	25,000	100.00%	0.00%
Prelios Management Services Deutschland GmbH	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	€	25,000	100.00%	100.00%
Prelios Netherlands B.V.	Real Estate	Prelios S.p.A.	Amsterdam/Netherlands	€	21,000	100.00%	100.00%
Prelios Property & Project Management S.p.A	Real Estate	Prelios S.p.A.	Milan/Italy	€	114,400	100.00%	100.00%
Prelios Residential Investments GmbH	Real Estate	Prelios S.p.A.	Hamburg/Germany	€	570,000	100.00%	100.00%
Prelios Società di Gestione del Risparmio S.p.A.	Real Estate	Prelios S.p.A.	Milan/Italy	€	24,558,763	90.00%	90.00%
Prelios Valuations & e-Services S.p.A	Real Estate	Prelios Agency S.p.A.	Milan/Italy	€	298,999	100.00%	100.00%
Progetto Vallata S.r.l.	Real Estate	Prelios S.p.A.	Milan/Italy	€	1,500,000	80.00%	80.00%
Projekt Bahnhof Hamburg-Altona Verwaltungs GmbH	Real Estate	Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG	Hamburg/Germany	€	25,000	100.00%	100.00%
Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	€	8,000,000	74.90%	74.90%
Servizi Amministrativi Real Estate S.p.A.	Other	Prelios S.p.A.	Milan/Italy	€	520,000	100.00%	100.00%
SIB S.r.l.	Real Estate	Prelios Credit Servicing S.p.A.	Milan/Italy	€	10,100	100.00%	100.00%
Sustainable Energy S.r.l.	Real Estate	Prelios S.p.A.	Milan/Italy	€	10,000	100.00%	100.00%
Tau S.r.l. (in liquidation) (5)	Real Estate	Orione Immobiliare Prima S.p.A.	Milan/Italy	€	-	-	100.00%
Verwaltung Einkaufszentrum Münzstrasse GmbH	Real Estate	74,80% DGAG Beteiligung GmbH & Co. KG	Hamburg/Germany	DM	50,000	100.00%	100.00%
		25,20% Prelios Deutschland GmbH					
Verwaltung Erste DGAG Grundstücksgesellschaft mbH	Real Estate	DGAG Beteiligung GmbH & Co. KG	Hamburg/Germany	€	25,000	100.00%	100.00%
Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau mbH	Real Estate	DGAG Beteiligung GmbH & Co. KG	Hamburg/Germany	€	26,100	100.00%	100.00%

	Business sector at 06.30.2012	Held at 06.30.2012 by	Registered office City/State		06.30.2012 Share capital	06.30.2012 % interest & voting rights (*)	12.31.2011 % interest & voting rights (*)
Società valutate con il metodo del patrimonio netto							
Collegate							
Cairoli Finance S.r.l. (in liquidation)	NPL	Prelios S.p.A.	Milan/Italy	€	10,000	35.00%	35.00%
Dixia S.r.l.	Real Estate	Prelios S.p.A.	Milan/Italy	€	2,500,000	30.00%	30.00%
Monteverdi - Fondo comune di investimento immobiliare speculativo di tipo chiuso	Real Estate	29,84% Iniziative Immobiliari 3 S.r.l. 4,20% Prelios Società di Gestione del Risparmio S.p.A.	Milan/Italy	€	62,000,000	33.87%	33.87%
Olinda Fondo Shops - Fondo quotato ad apporto privato (*)	Real Estate	5,18% Prelios Società di Gestione del Risparmio S.p.A. 6,64% Prelios Netherlands B.V.	Milan/Italy	€	NA	5.18%	11.82%
Progetto Corsico S.r.l.	Real Estate	Prelios S.p.A.	Milan/Italy	€	100,000	49.00%	49.00%
Progetto Fontana S.r.l. (in liquidation)	Real Estate	Prelios S.p.A.	Milan/Italy	€	10,000	23.00%	23.00%
Sci Roev Texas Partners L.P.	Real Estate	Prelios S.p.A.	Dallas/USA	$	12,000,000	10.00%	10.00%
S.J. Acquisition L.P	Real Estate	Prelios S.p.A.	New York/USA	$	1,243,465	10.00%	10.00%
Spazio Investment N.V. (*)	Real Estate	22,07% Prelios Netherlands B.V. 0,23% Spazio Investment N.V.	Amsterdam/Netherlands	€	4,589,189	22.30%	22.30%
Joint venture							
Afrodite S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	4,129,475	40.00%	40.00%
Aida RE B.V.	Real Estate	Prelios Netherlands B.V.	Amsterdam/Netherlands	€	18,000	40.00%	40.00%
Alceo B.V.	Real Estate	Prelios S.p.A.	Amsterdam/Netherlands	€	18,000	33.00%	33.00%
Alimede Luxembourg S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	12,955	35.05%	35.00%
Alnitak S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	4,452,500	35.00%	35.00%
Aree Urbane S.r.l. (in liquidation)	Real Estate	Prelios S.p.A.	Milan/Italy	€	100,000	34.60%	34.60%
Artemide S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	2,857,050	35.00%	35.00%
Austin S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	125,000	28.46%	28.46%
Beteiligungsgesellschaft Einkaufszentrum Mülheim mbH	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	DM	60,000	41.17%	41.17%
Bicocca S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	12,520	35.00%	35.00%
Castello S.r.l. (in liquidation) (6)	Real Estate	Prelios S.p.A.	Milan/Italy	€	-	-	49.10%
City Center Mülheim Grundstücksgesellschaft mbH & Co. KG	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	€	47,805,791	41.18%	41.18%
Colombo S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	960,150	35.00%	35.00%
Consorzio G6 Advisor	Real Estate	Prelios Agency S.p.A.	Milan/Italy	€	50,000	42.30%	42.30%
Continuum S.r.l. (in liquidation)	Real Estate	Prelios S.p.A.	Milan/Italy	€	500,000	40.00%	40.00%
Dallas S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	125,000	28.46%	28.46%
Delamain S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	12,500	49.00%	49.00%
Doria S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	992,850	35.00%	35.00%
Einkaufszentrum Mülheim Gmbh & Co. KG	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	€	26,075,886	41.18%	41.18%
Espelha Serviços de Consultadoria L.d.A.	NPL	Prelios S.p.A.	Funchal/Madeira	€	5,000	49.00%	49.00%
European NPL S.A.	NPL	Prelios S.p.A.	Luxembourg	€	2,538,953	33.00%	33.00%
Fondo Città di Torino - Fondo comune di investimento immobiliare speculativo di tipo chiuso	Real Estate	Prelios Netherlands B.V.	Milan/Italy	€	34,500,000	36.23%	36.23%
Gamma RE B.V.	Real Estate	Prelios Netherlands B.V.	Amsterdam/Netherlands	€	18,000	49.00%	49.00%
Golfo Aranci S.p.A. - Società di trasformazione urbana	Real Estate	43,795% Prelios S.p.A. 5% Centrale Immobiliare S.p.A	Golfo Aranci (OT)/Italy	€	1,000,000	48.80%	48.80%
Grundstücksgesellschaft Königstraße mbH & Co. KG	Real Estate	44,9% DGAG Beteiligung GmbH & Co. KG 5,10% Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau mbH	Hamburg/Germany	€	1,024,629	50.00%	50.00%
Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	€	22,905,876	33.75%	33.75%
Kurpromenade 12 Timmendorfer Strand GG KG	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	€	6,237,761	50.00%	50.00%
IN Holdings I S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	2,595,725	20.50%	20.50%
Induxia S.r.l. (in liquidation)	Real Estate	18% Prelios S.p.A. 27% SI Real Estate Holding B.V.	Milan/Italy	€	40,000	24.75%	24.75%
Inimm Due S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	240,950	25.01%	25.01%
Iniziative Immobiliari S.r.l.	Real Estate	Prelios S.p.A.	Milan/Italy	€	5,000,000	49.46%	49.46%
Manifatture Milano S.p.A.	Real Estate	Prelios S.p.A.	Rome/Italia	€	11,230,000	50.00%	50.00%

	Business sector at 06.30.2012	Held at 06.30.2012 by	Registered office City/State		06.30.2012 Share capital	06.30.2012 % interest & voting rights (*)	12.31.2011 % interest & voting rights (*)
Maro S.r.l. (in liquidation)	NPL	Prelios S.p.A.	Milan/Italy	€	20,000	25.00%	25.00%
Masseto I B.V.	Real Estate	Prelios S.p.A.	Amsterdam/Netherlands	€	19,000	33.00%	33.00%
Mistral Real Estate B.V.	Real Estate	Prelios S.p.A.	Amsterdam/Netherlands	€	18,000	35.02%	35.02%
M.S.M.C. Italy Holding B.V.	Real Estate	Prelios S.p.A.	Amsterdam/Netherlands	€	20,053	25.00%	25.00%
Nashville S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	125,000	28.46%	28.46%
Polish Investments Real Estate Holding B.V.	Real Estate	Prelios S.p.A.	Amsterdam/Netherlands	€	20,000	40.00%	40.00%
Polish Investments Real Estate Holding II B.V.	Real Estate	Prelios S.p.A.	Amsterdam/Netherlands	€	18,000	40.00%	40.00%
Popoy Holding B.V.	Real Estate	Prelios S.p.A.	Rotterdam/Netherlands	€	26,550	25.00%	25.00%
Prelios Finance S.p.A. (3)	Real Estate	Prelios Agency S.p.A.	Milan/Italy	€	120,000	20.00%	0.00%
Projektentwicklung Blankenese Bahnhofsplatz GmbH & Co. KG	Real Estate	DGAG Nordpartner GmbH & Co. KG	-	€	-	-	50.00%
Projektentwicklungsgesellschaft Bahnhofsgebäude Blankenese mbH & Co. KG	Real Estate	47,40% DGAG Nordpartner GmbH & Co. KG	-	€	-	-	52.60%
		5,20% Verwaltung Blankenese Bahnhofsplatz GmbH					
Progetto Bicocca La Piazza S.r.l. (in liquidation)	Real Estate	Prelios S.p.A.	Milan/Italy	€	3,151,800	26.00%	26.00%
Progetto Bicocca Universita' S.r.l. (in liquidation)	Real Estate	Prelios S.p.A.	Cinisello Balsamo/Italy	€	50,360	50.50%	50.50%
Progetto Gioberti S.r.l. (in liquidation)	Real Estate	Prelios S.p.A.	Milan/Italy	€	100,000	50.00%	50.00%
Resident Baltic GmbH	Real Estate	5,20% Prelios Netherlands B.V.	Berlin/Germany	€	25,000	39.99%	39.99%
		94,80% S.I.G. RE B.V.					
Resident Berlin 1 P&K GmbH	Real Estate	Prelios Residential Investments GmbH	Berlin/Germany	€	125,000	40.00%	40.00%
Resident Sachsen P&K GmbH	Real Estate	5,20% Prelios Netherlands B.V.	Berlin/Germany	€	25,000	39.99%	39.99%
		94,80% S.I.G. RE B.V.					
Resident West GmbH	Real Estate	5,20% Prelios Netherlands B.V.	Hamburg/Germany	€	25,000	39.99%	39.99%
		94,80% S.I.G. RE B.V.					
Riva dei Ronchi S.r.l.	Real Estate	Prelios S.p.A.	Milan/Italy	€	100,000	50.00%	50.00%
Roca S.r.l. (in liquidation)	NPL	Prelios S.p.A.	Milan/Italy	€	20,000	25.00%	25.00%
Sicily Investments S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	12,500	40.00%	40.00%
Sigma RE B.V.	Real Estate	Prelios Netherlands B.V.	Amsterdam/Netherlands	€	18,000	24.66%	24.66%
S.I.G. RE B.V.	Real Estate	Prelios Netherlands B.V.	Amsterdam/Netherlands	€	18,000	47.20%	47.20%
SI Real Estate Holding B.V.	Real Estate	Prelios S.p.A.	Amsterdam/Netherlands	€	763,077	25.00%	25.00%
Solaia RE S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	13,000	40.00%	40.00%
Solaris S.r.l. (in liquidation)	Real Estate	Prelios S.p.A.	Milan/Italy	€	20,000	40.00%	40.00%
Tamerice Immobiliare S.r.l. (in liquidation) (7)	Real Estate	Prelios S.p.A.	Milan/Italy	€	500,000	20.00%	20.00%
Theta RE B.V.	Real Estate	Prelios Netherlands B.V.	Amsterdam/Netherlands	€	18,005	40.00%	40.00%
Tizian Wohnen 1 GmbH	Real Estate	Prelios Residential Investments GmbH	Berlin/Germany	€	1,114,400	40.00%	40.00%
Tizian Wohnen 2 GmbH	Real Estate	Prelios Residential Investments GmbH	Berlin/Germany	€	347,450	40.00%	40.00%
Trinacria Capital S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	12,500	40.00%	40.00%
Trixia S.r.l.	Real Estate	Prelios S.p.A.	Milan/Italy	€	1,209,700	36.00%	36.00%
Verwaltung Blankenese Bahnhofsplatz GmbH	Real Estate	Projektentwicklung Blankenese Bahnhofsplatz GmbH & Co. KG	Hamburg/Germany	DM	50,000	100.00%	100.00%
Verwaltung Büro- und Lichtspielhaus Hansaallee GmbH	Real Estate	27% Prelios Deutschland GmbH	Hamburg/Germany	DM	50,000	33.75%	33.75%
		20% Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG					
Verwaltung City Center Mülheim Grundstucksges.GmbH	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	DM	60,000	41.17%	41.17%
Verwaltung Kurpromenade 12 Timmendorfer Strand GG mbH	Real Estate	Prelios Deutschland GmbH	Hamburg/Germany	DM	50,000	50.00%	50.00%
Verwaltung Mercado Ottensen Grundstuecksgesellschaft mbH	Real Estate	44% Prelios Netherlands B.V.	Hamburg/Germany	DM	50,000	61.50%	61.50%
		50% Mistral Real Estate B.V.					
Vespucci S.à.r.l.	Real Estate	Prelios S.p.A.	Luxembourg	€	960,150	35.00%	35.00%
Vesta Finance S.r.l.	NPL	Prelios S.p.A.	Milan/Italy	€	10,000	35.00%	35.00%
Vivaldi - Fondo comune di investimento immobiliare speculativo di tipo chiuso	Real Estate	Prelios Netherlands B.V.	Milan/Italy	€	20,000,000	50.00%	50.00%
Other significant investments, as defined by CONSOB resolution 11971 of May 14th, 1999							
AVW Assekuranzvermittlung der Wohnungs wirts chaft GmbH & Co KG	Real Estate	10,50% Prelios Netherlands B.V.	Hamburg/Germany	€	260,000	10.70%	10.70%
		0,20% Prelios Deutschland GmbH					
Tecnocittà S.r.l. (in liquidation)	Non operative	Prelios S.p.A.	Milan/Italy	€	547,612	12.00%	12.00%
WoWi Media GmbH & Co. KG	Real Estate	Prelios Netherlands B.V.	Hamburg/Germany	€	2,500,000	18.85%	18.85%

(*) Percentages refer to the direct interest held by the company concerned, including any treasury shares held.

(**) With reference to the joint venture Mistral Real Estate B.V. the situation of joint control on the part of both partners has been extended by the parties in an agreement, in relation to certain development initiatives, through the creation of new share classes ("Tracker Shares") in the share capital of Mistral Real Estate B.V., regarding a different division of the costs, benefits and rights between the two partners. After a put and call rights mechanism had been activated, in fact, ownership of the Tracker Shares meant that Prelios S.p.A. exercised de facto control over certain companies in the Mistral Real Estate Group related to the development initiatives, even though it did not hold the majority of the share capital of these companies. This situation led to these companies being included in the consolidation scope of the Prelios S.p.A. financial statements in application of the accounting standards, given that all the risks, benefits and rights related to these development initiatives could be attributed to Prelios S.p.A. Despite the above, however, the Tracker Shares mechanism does not affect control over Mistral Real Estate B.V., which remains a company not controlled by Prelios S.p.A.

(1) On June 25, 2012 the change of company name to "Brand for Agency Services S.r.l." came into effect

(2) On May 24, 2012 the resolution of the shareholders' meeting held on May 17, 2012 was registered. With this resolution the meeting of members of the consortium P.B.S. S.c.a r.l. decided, among other things, to dissolve the company in advance. It therefore acquired the new company name: P.B.S. S.c.a r.l. in liquidation.

(3) On April 2, 2012 the company Prelios Agency S.p.A. sold 80% of the share capital held in Prelios Finance S.p.A. to third parties. Following the above operation the company Prelios Agency S.p.A. holds 20% of the share capital of Prelios Finance S.p.A.

(4) On March 7, 2012 Prelios S.p.A. acquired the German-law company Vindusvisker Vermögensverwaltungsgesellschaft GmbH from third parties which subsequently changed its company name to Prelios Investments Deutschland GmbH.

(5) On June 12, 2012 the company Tau S.r.l. (in liquidation) was removed from the Milan Companies Register.

(6) On April 11, 2012 the company Castello S.r.l. (in liquidation) was removed from the Milan Companies Register.

(7) On April 20, 2012 - after the resolution of the shareholders' meeting of April 5, 2012 had been registered in the relevant Milan Companies Register, among other things, the resolution to dissolve the company Tamerice Immobiliare S.r.l. in advance came into effect. This company therefore became: Tamerice Immobiliare S.r.l. (in liquidation)

8. CERTIFICATION OF THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNDER THE TERMS OF ART. 81-TER CONSOB REGULATION NO. 11971 DATED MAY 14TH, 1999 AS AMENDED AND SUPPLEMENTED

1. The undersigned Paolo Massimiliano Bottelli, as Chief Executive Officer, Enrico Parazzini as Managing Director Finance, and Riccardo Taranto, as Financial Reporting Officer of Prelios S.p.A. certify, taking into account also the provisions of Art. 154-*bis*, clauses 3 and 4, of Italian Legislative Decree 58 dated February 24th, 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 half-year condensed interim financial statements, during the period January 1st, 2012 – June 30th, 2012.

2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for formation of the half-year condensed financial statements at June 30th, 2012 was evaluated on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "Internal Control – Integrated Framework" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO) which is a reference framework generally accepted at the international level.

3. We also certify that:

3.1 the half-year condensed consolidated financial statements:
   a) were prepared in accordance with the applicable international accounting standards recognized in the European Union under the terms of Regulation (EC) N° 1606/2002 of the European Parliament and Council, dated July 19th, 2002;
   b) correspond to the information in the accounting books and documents;
   c) are capable of providing a true and correct picture 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 interim report on operations includes a reliable analysis of the references to the important events that occurred in the first six months of the year and their impact on the condensed interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

August 28th, 2012

The Chief Executive Officer	The Managing Director Finance	The Financial Reporting Officer
(Paolo Massimiliano Bottelli)	(Enrico Parazzini)	(Riccardo Taranto)

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Auditors' review report on the half-year condensed consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Prelios S.p.A.

1. We have reviewed the half-year condensed consolidated financial statements, 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, of Prelios S.p.A. and its subsidiaries (the "Prelios Group") as of June 30, 2012. Prelios S.p.A.'s Directors are responsible for the preparation of the half-year condensed consolidated financial statements in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue this review report based on our review.

2. We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. Our review consisted mainly of obtaining information on the accounts included in the interim condensed consolidated financial statements and the consistency of the accounting principles applied, through discussions with management, and of applying analytical procedures to the financial data presented in these consolidated financial statements. Our review did not include the application of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the half-year condensed consolidated financial statements as we expressed on the annual consolidated financial statements.

   With respect to the consolidated financial statements of the prior year and the half-year condensed consolidated financial statements of the corresponding period of the prior year, presented for comparative purposes, reference should be made to our reports issued on March 26, 2012 and on July 29, 2011, respectively.

3. Based on our review, nothing has come to our attention that causes us to believe that the half-year condensed consolidated financial statements of Prelios Group as of June 30, 2012 are not prepared, in all material respects, in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union.

4. Without qualifying our opinion, we draw the attention to the disclosure reported in Note 6.1 "Basis of preparation - adoption of the going concern assumption in preparing the financial statements" as to the significant losses incurred by the Prelios Group which, together with its financial indebtedness, represent uncertainties about the group's ability to continue as a going concern. The Directors prepared the half-year condensed consolidated financial statements as of June 30, 2012 on a going concern basis, assuming to execute the extraordinary transactions and partnerships with industry players which are currently under evaluation and discussion. The Group's economic and financial recovery depends on the outcome from these initiatives, to be finalized with the necessary involvement of the present lenders and in time compatible with the current group's situation.

Milan, August 28, 2012

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

HALF-YEAR REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES

The corporate governance structure of Prelios S.p.A. (the "**Company**" or "**PRELIOS**") is based on the "traditional" system of management and control system, in which the Board of Directors is exclusively responsible for management while the Board of Statutory Auditors acts in a supervisory role and an auditing firm, listed in the special register kept by CONSOB, performs the independent audit of the accounts.

In compliance with the recommendations by Borsa Italiana S.p.A. (the Italian Stock Exchange) on Corporate Governance Code for listed companies (the "**Code**") adopted by the Company and the corporate governance standards observed nationally and internationally and recommended by the European Union, the Board of Directors has also established a number of offshoot committees with proposal-making and advisory functions.

With specific reference to the new Corporate Governance Code for listed companies issued by Borsa Italiana S.p.A. in December 2011[1], it must be noted that issuers are invited to apply the amendments made to the Code by the end of the financial year beginning in 2012, informing the market in the corporate governance report to be published during the subsequent year. An exception are the changes affecting the composition of the board of directors or of the relevant committees, for which the Code envisages a longer transition period.

To this end, at its meeting on March 2nd, 2012 - as it was already substantially in compliance with the new rules - the Board of Directors resolved, after a favourable opinion from the Internal Control and Corporate Governance Committee, to adopt the new Code, and will provide adequate disclosure of this in the Annual Report on Corporate Governance and Ownership Structures to be published in 2013.

In this Half-Year Report on Corporate Governance and Ownership Structures (the "**Report**") we intend to describe the main updates and additions made in the current period to our corporate governance system with respect to the contents of the 2011 Annual Report on Corporate Governance and Ownership Structures, available at the Company's website *www.prelios.com* (the "**Website**") and prepared in accordance with art. 123-*bis* of Italian Legislative Decree no. 58 of February 24th, 1998 (the "**Consolidated Law on Finance**"), to which you are referred in any case for further information.

* * *

The Ordinary Shareholders' Meeting of April 17th, 2012, besides approving the annual financial statements at December 31st, 2011, resolved - following the resignation by Giulio Malfatto from the position of Director and Vice Chairman of the company - to reduce the number of Board of Directors members from fifteen to fourteen.

The current composition of the Board of Directors, which is mostly made up of Independent Directors, is presented on the Website in the corporate governance section. For the personal and professional characteristics of each director, see the respective CVs published there.

[1] *The Corporate Governance Code for listed companies issued by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A made a number of changes to the text of the Code which, with the sole exception of the rules on compensation updated in 2010, dated back to 2006 and with which the company has fully complied.*

Following the date when the provisions of Article 123-*ter* of the Italian Consolidated Law on Finance came into effect, the Shareholders' Meeting also expressed itself - with a vote in favour by 99.9% of the shareholders present - on the Company's Policy for the compensation of directors, general managers and key management personnel and on the procedures used to adopt and implement this Policy.

During the extraordinary session, the Shareholders' Meeting resolved to eliminate the indication of the face value of ordinary shares and to reduce the share capital from Euro 420,585,888.50 to Euro 218,877,613.14 considering that the loss for the year to December 31st, 2011 of Euro 311,513,824.00 (taking into account the negative pre-existing "Other reserves" of Euro 6,189,588.29 and deducting the further available reserves of a total of Euro 115,995,136.93) had exceeded one third of the share capital under the terms of art. 2446 of the Italian Civil Code.

Following the aforementioned resolutions article 5 (share capital) of the Articles of Association was consequently amended and updated.

PRELIOS's current share capital is therefore Euro 218,877,613.14, fully subscribed and paid-up, divided into a total number of 841,171,777 ordinary shares with no indication of the face value.

As illustrated in the Annual Report on Corporate Governance and Ownership Structures, the Shareholders' Meeting also approved a number of amendments to the articles of association consequent to Italian Law No. 120 of July 12th, 2011 (which modified arts. 147-*ter* and 148 of the Consolidated Law on Finance) coming into effect.

By this provision, the legislator intended to pursue the objective of encouraging the entrance by the "least represented gender" to corporate offices, forcing listed companies to ensure that shares were allocated within their respective administrative and auditing bodies that would guarantee a gender balance, in the minimum amount envisaged by said law (at least 1/5 during the first term of office and at least 1/3 in the subsequent terms of office).

In order to incorporate the provisions of the law into the Articles of Association, the Shareholders' Meeting approved the proposed amendments to articles 12 and 22, governing the related mechanisms for appointing Directors and Statutory Auditors. On this point the reader is referred to the Directors' explanatory report available at the Website in the corporate governance section.

The current Articles of Association are also available at the Website in the corporate governance section.

It should also be noted that, in the first half of 2012, 5 meetings of the Board of Directors were held, as well as 3 meetings of the Compensation Committee, 4 meetings of the Internal Control and Corporate Governance Committee and 2 meetings of the Risk Committee. The Board of Statutory Auditors attended all the meetings.

In the period, a meeting of the independent directors was also held; this was called and chaired by the Lead Independent Director.

* * *

We can also note, as regards ownership structures, the update of significant interests on the basis of the notices received pursuant to art. 120 of the Consolidated Law on Finance and of the information howsoever available.

At the date of the Report, the following shareholders possess interests of more than 2% in the PRELIOS share capital:

Declarant	Direct shareholder	% interest in ordinary share capital	% interest in voting share capital
Marco Tronchetti Provera	**Cam Partecipazioni S.p.A.** (Ownership)	0.013	0.013
	Camfin S.p.A. (Ownership)	14.801	14.801
	TOTAL	**14.814**	**14.814**
Assicurazioni Generali S.p.A.	**Alleanza Toro S.p.A.** (Ownership)	0.133	0.133
	INA Assitalia S.p.A. (Ownership)	1.134	1.134
	Generali Vie SA (Ownership)	0.621	0.621
	Generali Iard SA (Ownership)	0.003	0.003
	Assicurazioni Generali S.p.A. (Ownership)	1.231	1.231
	TOTAL	**3.122**	**3.122**
Invesco LTD	**Invesco Perpetual Global Smaller Co. Fd.** (Discretional investment management)	1.438	1.438
	Invesco Funds Series (Discretional investment management)	1.695	1.695
	Invesco Funds (Discretional investment management)	0.166	0.166
	TOTAL	**3.299**	**3.299**
Government of Norway through Norges Bank	**Norges Bank** (Ownership)	**4.740**	**4.740**
Edizione S.r.l.	**Edizione S.r.l.** (Ownership)	**2.699**	**2.699**
Mediobanca S.p.A.	**Mediobanca S.p.A.** (Ownership)	**2.606**	**2.606**

It can also be noted that, on March 25th, 2012, the term of the "Shareholders Agreement" signed by a number of shareholders was tacitly extended until October 25th, 2013. The agreement is aimed at ensuring that the PRELIOS shareholding structure remains stable.

An extract of this agreement is available at the Website in the Investor Relations section**.**

* * *

The present Report also describes the changes that have occurred from the end of the first half of the current year up to the date on which the Report itself was approved.

In this regard, we can note that the Board of Directors at its meeting on 28 August 2012 – after a favourable opinion from the Internal Control and Corporate Governance Committee which had met on July 17th, 2012 – resolved a number of adjustments in governance for full compliance with the provisions of the new Corporate Governance Code for listed companies issued by Borsa Italiana S.p.A. (December 2011 edition), in accordance with the resolution passed by the Board of Directors on March 2nd, 2012.

In particular:

a. in keeping with the principles and criteria for application indicated in art. 7 (Internal Control and Risk Management System):
   - the role of guiding and assessing the adequacy of the internal control and risk management system played by the Board of Directors was confirmed. The Board also defines the nature and level of risk compatible with the Company's strategic objectives;

- activities and duties of the current Internal Control and Corporate Governance Committee were dismissed, giving the same also the functions conferred on the Risk Committee - which, consequently, was abolished. The Committee - renamed "*Internal Control, Risk and Corporate Governance Committee*" - is entirely made up of independent, non-executive directors. On the occasion, the risk management "governance" model was made more precise and strengthened. This model - as well as for the Board of Directors and for the Internal Control, Risk and Corporate Governance Committee – provides for the activity of the "Managerial Risk Committee", which assists and supports the Director(s) responsible for the internal control and risk management system, and the Risk Officer, who coordinates the assessment process and effective implementation of the action plans adopted;
- the role of "*Director responsible for the internal control and risk management system"* was attributed to the Chief Executive Officer and to the Managing Director Finance, for the areas of their respective responsibility provided for by the powers delegated to them by the Board of Directors;

b. no Appointments Committee was set up, taking into account that – as provided for in Criterion 4.C.2 of the New Code – Independent Directors represent the majority of the Board of Directors in office. The related duties are, therefore, reserved for the entire Board which can make use of the support of the "*Internal Control, Risk and Corporate Governance Committee*".

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