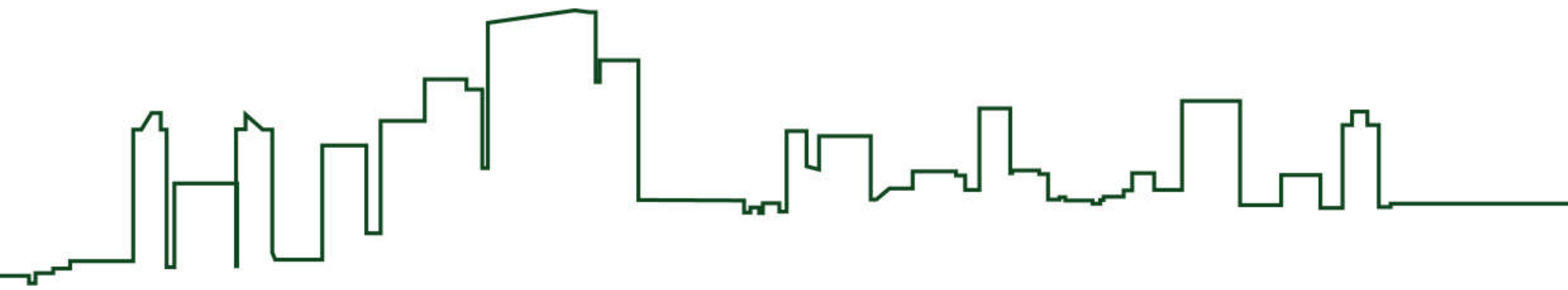
HALF-YEAR FINANCIAL REPORT

AT JUNE 30,2014



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A. DIRECTORS' REPORT ON OPERATIONS

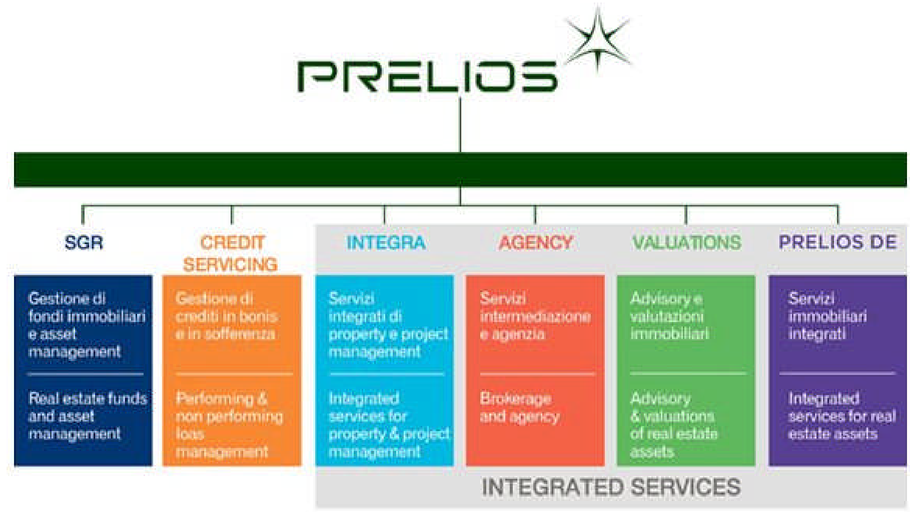
1. CORPORATE REVIEW

1.1. Group profile

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

Prelios is one of Europe's leading asset management groups, with a comprehensive range of real estate and financial services. The market value of its co-investments and third-party assets under management amounts to Euro 5.6 billion. The Group has a skilled organisation of around 500 professionals[1], with significant professional expertise and an excellent track record built up over the years in a competitive international arena.

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



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

At June 30, 2014, co-investments and third-party assets under management amounts to Euro 5.6[2] billion and include real estate assets of Euro 5.4 billion (market value) and non-performing loans (NPL) of Euro 0.2 billion (book value).

In terms of the geographical distribution of real estate assets, Italy accounts for Euro 4.1 billion, primarily in 25 real estate funds managed by the subsidiary Prelios SGR, one of the leading players in the Italian real estate market.

[1] This figure excludes the DGAG deal, described below.

[2] Co-invested and third-party assets under management, excluding NPL measured at book value, are stated at market value at June 30, 2014 on the basis of appraisals and analyses by independent experts.

The rest of the portfolio is located in Germany and Poland (Euro 1.3 billion, including around Euro 0.1 billion in Poland).

1.2. Activities and services

ITALY

The Italian Management Platform of Prelios counts on independent companies to offer a full range of services for managing and enhancing third-party real estate portfolios.

Prelios SGR – Real estate fund management

The Group works in real estate fund management through its subsidiary Prelios SGR (90% Prelios, 10% Intesa Sanpaolo) which, with 25 funds and roughly Euro 3.7[3] billion in assets under management, is one of the leading real estate asset management companies in Italy.

Prelios SGR currently has a management team with significant professional capabilities and knowledge of the real estate market, and an operating structure able to meet high standards of transparency, governance and risk management.

Prelios SGR is active in promoting and managing investment funds and separate accounts. The company also operates in the advisory business on behalf of leading national and international institutional investors, partnering with them to define real estate investment strategies.

The funds under management also include two retail real estate funds listed on the MIV segment of the Italian Stock Exchange: Tecla, the first private contribution fund in Italy launched in 2004, and Olinda Fondo Shops.

In over ten years of activity, Prelios SGR has stood out due to its return track record, leading it to receive several recognitions. For three years running, it won the prestigious IPD European Property Investment Awards (with Cloe in 2010, Clarice in 2011 and FIPRS in 2012). In 2013, the Company obtained the ISO 9001:2008 Quality Certification issued by IMQ, as confirmation of the Company's continuous commitment to setting the standard for international best practices.

Through its operating companies, the Group's Integrated Services business unit offers a full line of services covering the entire life cycle of real estate assets.

It provides asset and portfolio management, property management, project management and specialised, agency and valuation services.

Prelios Integra – Integrated property management services

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

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

Prelios Integra is an Italian leader in integrated services for real estate management and project development, with Euro 4.9 billion worth of real estate under management totalling Euro 5.4 million square metres.

Prelios Integra offers integrated, active and dynamic asset management services (asset and portfolio management and property and facility management) to enhance property value on behalf of public and private customers: from property administrative management and accounting to tenant relations, and from technical and maintenance services to analysis and sales support.

The Prelios Integra development and project management service handles all real estate and real estate complex planning and construction phases, from concept development to delivery of the turnkey finished product. Prelios Integra is particularly well known for its sustainability expertise: from the new development of eco-friendly buildings to green retrofitting, and from energy certifications to renewable energy. It has received several recognitions for its accomplishments over the years, and in 2011 it won the "Green Building" category at the Mipim Awards for the 3M Italia headquarters, a leading example of contemporary eco-architecture.

The Company's highly specialised retail division works to develop and enhance shopping centres throughout Italy, handling operations and administrative management, relations with retailers and even strategic tenant mix optimisation.

Prelios Agency – Real-estate brokerage, valuations and franchising

In Italy, real-estate brokerage and valuation services are provided by the subsidiaries Prelios Agency and Prelios Valuations. Prelios Agency is currently going through an important strategic repositioning, also in order to focus on the third-party customer market.

Prelios Agency is a leading real-estate brokerage operator in Italy, specialised in the provision of professional advisory services for the purchase, sale and lease of individual real estate properties as well as entire portfolios of real estate for office, residential, industrial and retail use.

Thanks to a team of highly skilled professionals and a network of more than 400 loyal agents all over Italy, Prelios Agency serves as a single point of contact for various kinds of clients: from the corporate world to public and private investors, and from real estate funds to institutional operators. It is a first-in-class player in the capital markets, where it has collaborated with all the major Italian and international investors.

Prelios Agency assists its clients by providing professional services in all the different phases of the value enhancement process: from the definition of the investment or disposal strategy of an asset to the implementation of the transaction, and from the analysis of tenants to the optimisation of a property's profitability. Furthermore, the Company provides highly specialised services such as data room support and due diligence and the definition of marketing plans.

Prelios Valuations – Valuations

Prelios Valuations is one of Italy's leading independent operators in valuations of individual real estate properties and real estate asset portfolios in the tertiary and residential segments. With approximately 13,000 appraisals completed in 2013, it specialised in Loan Services.

The Company has a team of professionals and a network of approximately 1,250 appraisers enrolled in the relevant professional registers, acting in compliance with the strictest international standards as well as the ABI guidelines and RICS Red Book. The Company is also a founding partner of Assovib, the Italian association for the promotion of quality and professional culture in the sector of valuations made on behalf of Banks.

The organisation has three operational areas: Mass Appraisals, i.e. valuations of large real estate asset portfolios, using statistical methods based on the proprietary Magister technology; Full Appraisals, consisting of valuations of real estate and real estate portfolios, also through economic and financial analyses; and Loan Services, i.e. loan support services by banking groups and leasing and private banking companies.

Prelios Credit Servicing – Non-performing/sub-performing loan management

Prelios Credit Servicing S.p.A. (PRECS) is a service company specialised in the management and collection of non-performing loans (loans for which collection is uncertain in terms of compliance with due dates and exposure amount) with long-term experience in servicing portfolios of non-performing mortgage-backed and unsecured loans.

The Company also appraises NPL portfolios and has participated in numerous due diligence procedures for the acquisition of significant loan portfolios by leading national and international financial institutions, with which it has developed commercial partnerships.

Through its subsidiary SIB S.r.l., the Company also offers advisory and coordination services for the disposal of properties owned by top Credit Institutions. This coordination and advisory service is also provided to Banks for out-of-court collections on mortgage-backed loans through the disposal of the real estate assets of the debtor properties.

As the Company is a financial intermediary registered in the special list pursuant to Article 107 of the Consolidated Banking Act and is subject to the supervision of the Bank of Italy, it also carries out master servicing, back-up servicer and calculation agent activities for securitisation vehicles pursuant to Law 130/99, in addition to corporate servicing and junior noteholders representative activities.

The Company also acts as an advisor in NPL portfolio securitisation transactions and for the transfer of blocks of loans on behalf of the financial institutions that own them.

Prelios Credit Servicing stands out in the market due to some considerable competitive factors:

- its specific loan valuation and management skills;
- its ability to work towards goals;
- the possibility of exploiting the synergies offered by its positioning within the Prelios Group, with its vast real estate experience;

- a strong internal control structure based on audits involving independent parties and three levels of verifications, guaranteeing full supervision over processes, procedures, rules and conduct;
- a cutting-edge proprietary computer system.

The Company, with Euro 8.5 billion[4] in loans under management, is one of the leading Italian servicers with an outstanding reputation amongst national and international financial institutions. It is also rated by the top rating agencies.

GERMANY

With approximately Euro 1.3[5] billion in assets managed, Prelios Deutschland ("Prelios DE") is one of the leading real estate services platforms in the commercial sector in Germany.

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

Thanks to its management with more than 20 years' experience in the sector, the company has gradually become the choice partner for investors and clients of high standing.

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

The excellence of the commercial department, which manages approximately 1.0 million square metres, is recognised by a broad base of loyal customers and investors under long-term mandates. Apart from the Highstreet retail real estate portfolio, including 52 units primarily rented to the German chain Karstadt, it manages shopping centres, multi-tenant retail spaces, offices and mixed-use real estate.

One of the many awards received by the German platform is first place for the "Lago" Shopping Centre in Konstanz, recognised as the "Best Shopping Centre in Germany" for two years, in 2012 and 2013[6].

POLAND

Prelios Polska ("Prelios PL") offers a full line of real estate services ranging from technical advisory services to urban planning, and from the creation of master plans to construction and turnkey delivery.

In recent years, Prelios Polska has created residential projects for over 3,000 units and commercial projects totalling 46,000 square metres, both characterised by high eco-sustainability standards. It also constructed the 34,000-square-metre Gdańsk university medical centre, which includes 300 beds.

[4] Gross book value.
[5] Excluding DGAG.
[6] Ecostra, Shopping Center Performance Report 2012-2013.

1.3 Economic and financial highlights

The net loss attributable to the Group is Euro 37.6 million, compared to a loss of Euro 64 million at June 30, 2013. The net loss is partially influenced by extraordinary items, namely:

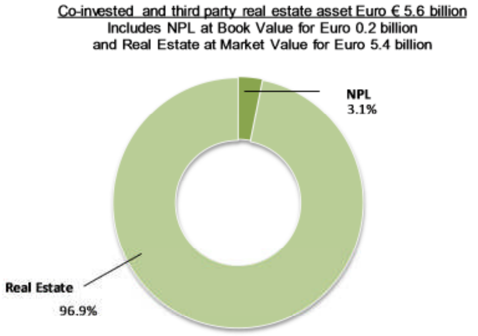
- property write-downs, which had a negative impact of Euro 21.2 million (Euro -25.6 million at June 2013);
- restructuring costs, which had a negative impact of Euro 1.8 million compared to Euro 5.3 million at June 30, 2013. This figure primarily includes losses on receivables and write-offs carried out as part of the restructuring of certain investees;
- the result of discontinued operations, which had a positive impact of Euro 4.9 million due to the divestment of the German residential portfolio known as DGAG, which was sold to BUWOG (wholly owned by the Austrian Immofinanz Group), together with the associated Prelios Deutschland residential management platform.

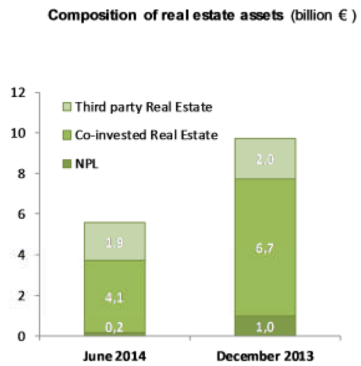
The Group's equity at June 30, 2014 amounts to Euro 131.1 million compared to a negative amount of Euro 69.1 million at December 31, 2013. On April 14, 2014, the capital increase exclusively for the purpose of the conversion of the Convertible Loan was automatically executed for a total value of Euro 236.5 million.

Income statement data		**June 2014**	**June 2013**
Consolidated revenue		**35.2**	**35.6**
	of which services	*34.9*	*32.8*
	of which other	*0.3*	*2.8*
Operating profit/(loss)		**(6.3)**	**(11.2)**
of which Management Platform & Holding		*(0.2)*	*(4.3)*
	Management Platform	*6.0*	*1.6*
	Holding	*(6.2)*	*(5.9)*
of which Investment Activities		*(6.1)*	*(6.9)*
Restructuring costs		(1.8)	(5.3)
Property (write-downs)/revaluations		(21.2)	(25.6)
Group net income/(loss) before discontinued operations		**(42.5)**	**(66.5)**
Net income (loss) from discontinued operations		4.9	2.5
Group net income/(loss) for the period		**(37.6)**	**(64.0)**
Balance sheet data		**June 2014**	**December 2013**
Equity		133.3	(66.3)
	of which Group equity	*131.1*	*(69.1)*
Net financial position		183.8	388.4

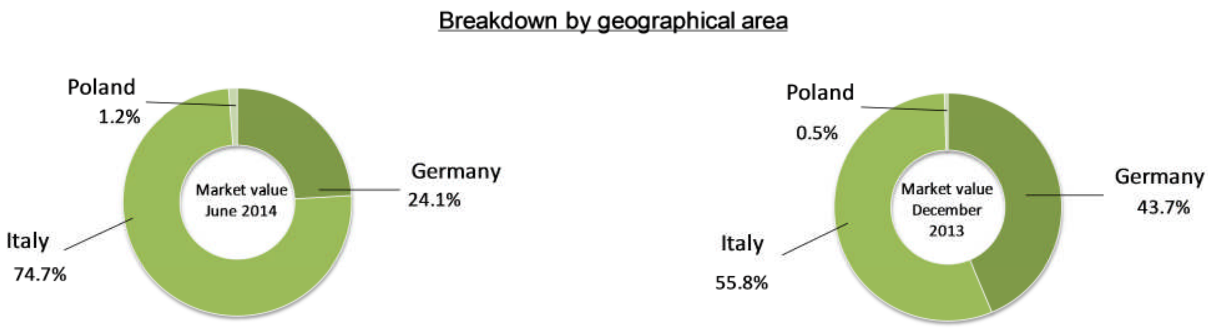
Indexes	**June 2014**	**December 2013**
Employees (*)	778	790
Co-Invested and Third Party Real Estate Assets (billion)	5.4	6.0
Pro-rata NAV (billion)	0.4	0.4

(*) The Group had 778 employees at June 30, 2014 (of which 300 will leave following the signing of agreements with BUWOG for the sale of the residential services platform), including three resources with temporary contracts, compared with 790 employees at December 31, 2013, including four resources with temporary contracts.

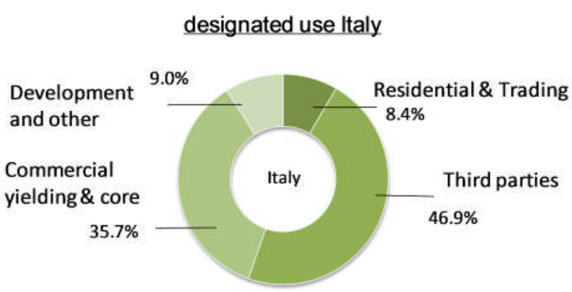


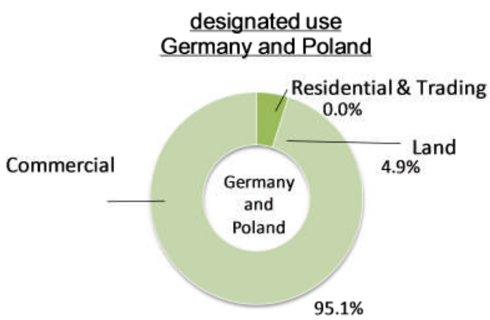


The charts below show the real estate portfolio (co-investment and of third parties) at June 2014 by geographical area compared with December 2013:



The real estate portfolio by intended use at June 30, 2014 is shown below:





1.4. Shareholding structure at June 30, 2014

The extent of the loss of Prelios S.p.A. at December 31, 2013, as one of the events set forth in Article 8 of the Loan Regulations requiring early repayment through the automatic conversion of the Bonds into Prelios shares (ordinary and Category B), triggered the repayment of the "Prelios 2013-2019 Convertible Loan" on April 14, 2014[7].

Along with the mandatory early repayment of the "Prelios 2013-2019 Convertible Loan" and the associated conversion of the Convertible Bonds, the share capital increase exclusively for the purpose of the conversion was therefore also carried out with the issue – in line with the Regulation provisions – of 229,757,292 ordinary shares and 93,390,705 Category B shares with a value of Euro 236,544,333.80 in accordance with the terms and procedures set forth in the Regulations of the Convertible Loan and on the basis of the decisions made by the Conversion and Calculation Agent Bank (BNP Paribas Securities Service), which pursuant to the Regulations are binding for the Company and the bondholders.

Also on April 14, 2014, the certification of the share capital increase carried out exclusively for the purpose of the conversion and the updated Articles of Association were filed and registered, pursuant to law, at the Companies' Register of Milan.

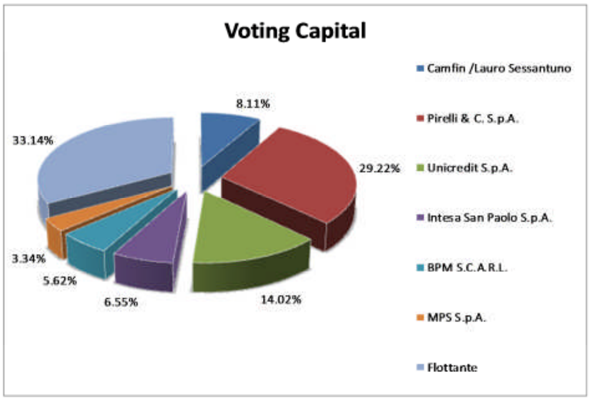
Therefore, at June 30, 2014 the Prelios S.p.A. share capital amounts to Euro 426,441,257.20 (fully subscribed and paid in), represented by 717,941,380 shares (with no par value), including 506,953,179 ordinary shares and 210,988,201 Category B shares.

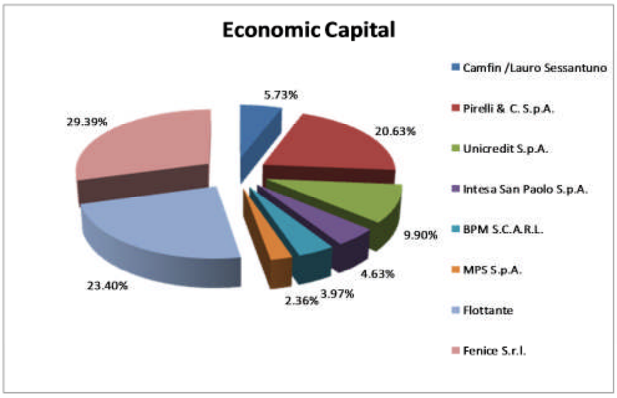
At June 30, 2014, Fenice S.r.l. – a company in which Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. hold an interest – owned all 210,988,201 Category B shares, which have no voting rights and are not listed on regulated markets.

The breakdown of the Voting Capital and the Economic Capital at June 30, 2014 for shareholders holding shares accounting for over 2% of the share capital is shown below, also in consideration of the communications received pursuant to Article 120 of the Consolidated Finance Act and available information as well as Consob publications[8]:

7 For a full and comprehensive examination of the characteristics of the "Prelios 2013-2019 Convertible Loan" and of the capital increase for the purpose of the conversion, please see the Loan Regulations available on the website www.prelios.com.

8 The percentages disclosed and taken from the Consob website concerning the voting capital of Prelios are based on shareholder notifications pursuant to Article 120 of the Consolidated Finance Act. Therefore, those percentages may be different from the figures calculated and disclosed by other sources in cases in which changes in investment did not entail shareholder communication obligations pursuant to legal and regulatory provisions in force at the time.





As regards the significant agreements for Prelios pursuant to Article 122 of the Consolidated Finance Act, please also note the following in relation to the agreements reached between the parties involved in the transaction for capital and financial strengthening via Company recapitalisation and the rebalancing of the financial structure, approved by the Extraordinary Shareholders' Meeting of May 8, 2013, and concluded last year:

a) Feidos 11 S.p.A., Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Pirelli & C. S.p.A. approved and signed a Shareholders' Agreement (hereinafter the “Fenice Agreement”) relating to Fenice S.r.l. (in which Fenice also participated). The Fenice Agreement governs the rights and obligations of the participants in relation to: (i) the governance and transferability of the investments held in Fenice S.r.l.; (ii) the disinvestment of the investment that Fenice S.r.l. acquired in Prelios; and (iii) the transferability of certain shares issued by Prelios that are or will be held by the participants. The most recent update of the Fenice Agreement was published on July 4, 2014;

b) Fenice S.r.l. entered into separate co-sale agreements relating to Prelios (hereinafter the “Co-Sale Agreements”) with Camfin S.p.A., Massimo Moratti, Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano S.c.a.r.l., Banca Popolare di Sondrio S.c.a.r.l., Banca Popolare dell'Emilia Romagna Soc. Coop., Banca Carige S.p.A. and UBI Banca Soc. Coop. p.A. (formerly Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A.) which set forth the terms and conditions under which Fenice S.r.l. granted each of the aforementioned owners co-sale rights on the Prelios securities they hold on the date on which the right is exercised. On February 18, 2014, the co-sale agreement between Fenice and Massimo Moratti was terminated by mutual consent. The most recent update of the Co-Sale Agreements was published on July 8, 2014.

Furthermore, on May 24, 2014, the shareholders' agreement between Marco Tronchetti Provera & C. S.p.A., Marco Tronchetti Provera Partecipazioni S.p.A., Gruppo Partecipazioni Industriali S.p.A., Nuove Partecipazioni S.p.A., Lauro Cinquantaquattro S.r.l., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. concerning, *inter alia*, the Prelios ordinary shares held by Camfin S.p.A., was terminated early due to a specific provision relating to the governance of Prelios. On the same date – and as part of the broader set of agreements relating to the strategic development and corporate reorganisation project involving Pirelli & C. and Camfin – Nuove Partecipazioni S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. entered into a shareholders' agreement concerning, *inter alia*, the management of the Prelios ordinary shares held to date by Camfin S.p.A.. The most recent update of this shareholders' agreement was published on July 14, 2014[9].

1.5. Prelios share performance

In the first six months of 2014, the Prelios share recorded a maximum of Euro 0.78 and a minimum of Euro 0.553, with an absolute performance of -2.68%. The FTSE MIB's absolute performance was +16.67%, the FTSE SmallCap gained 12.47% and the EPRA sector index was up by +12.47%.

Therefore, the Prelios underperformed with respect to the FTSE MIB and the broader European sector indexes.

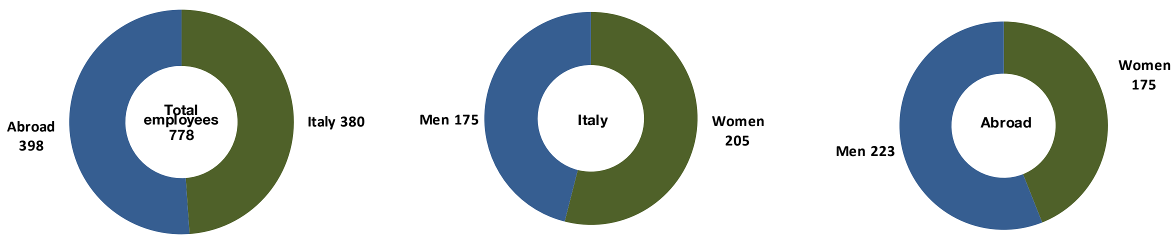
The dilution caused by the higher number of shares after the exercise of the Convertible Loan also influenced share prices; until the first week of April, the share was outperforming all reference indexes.

Performance at 3 months	-30.9%
Performance at 6 months	-26.4%
Performance at 12 months	-27.7%
Performance after ex. of convertible loan April 14 - July 29, 2014	-29.1%
Capitalisation at June 30, 2014 (ordinary shares)	Euro 284.6 million
Capitalisation at June 30 (ordinary shares + class B shares)	Euro 403.1 million
Equity at June 30, 2014	Euro 133 million
Capitalisation at July 29, 2014 (ordinary shares)	Euro 223.8 million
Capitalisation at June 29, 2014 (ordinary shares + class B shares)	Euro 316.9 million

Significant increase in volumes traded between halfway through February and halfway through March, with an average of over 3.8 million units per day, and two peaks of over 10 million on February 17 and 28.
Considerable volumes continue until halfway through April with the actual exercise of the convertible loan. New peaks of over one million units per day recorded starting halfway through June, possible further disposals by some minority shareholders.

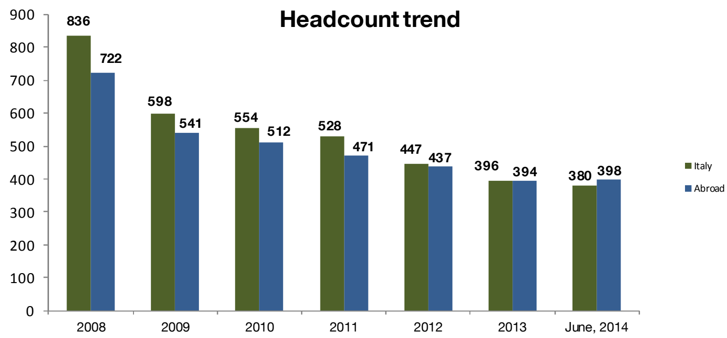
9 The notices containing abstracts of these agreements are all available, *inter alia*, on the Consob website, as well as at *www.prelios.com.*

1.6. Staff[10]



Average age

Italy	Abroad
42	45



The total staff, including resources with temporary contracts, decreased to 478 people after the DGAG disposal transaction.

[10] Including temporary staff.

2. CORPORATE BODIES

Board of Directors[11]

Giorgio Luca Bruno	Chairman
Massimo Caputi	Vice Chairman
Sergio Iasi	Chief Executive Officer – CEO
Marina Brogi	Independent Director
Claudia Bugno	Independent Director
Mirja Cartia d'Asero[12]	Independent Director
Francesco Umile Chiappetta	Director
Rosa Cipriotti	Independent Director
Carlo Emilio Croce	Independent Director
Moroello Diaz della Vittoria Pallavicini	Director
Andrea Mangoni	Independent Director
Davide Mereghetti	Director
Alessandra Patera	Director
Massimo Tezzon	Independent Director
Giovanni Jody Vender	Independent Director
Massimo Marinelli	Board Secretary

Internal Control, Risk and Corporate Governance Committee[13]

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

Remuneration Committee

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

[11] On May 8, 2013, the Shareholders' Meeting appointed the members of the Board of Directors for a term of three years, therefore until approval of the financial statements at December 31, 2015. At the end of the meeting, the Board appointed the Company officers, established the Board Committees and also appointed the members of the Supervisory Board. On February 18, 2014, Mrs. Anna Chiara Svelto resigned from the office of Director.
[12] Director appointed by the Shareholders' Meeting on June 19, 2014.
[13] On February 18, 2014, Mrs. Anna Chiara Svelto resigned from her position as member of the Internal Control, Risk and Corporate Governance Committee.

Board of Statutory Auditors[14]

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

Supervisory Board

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

Financial Reporting Officer

Marco Andreasi[15]

Independent Auditors

Reconta Ernst & Young S.p.A.[16]
Via della Chiusa 2
20123 Milan

[14] On May 8, 2013, the Shareholders' Meeting appointed the members of the Board of Statutory Auditors until the approval of the financial statements at December 31, 2015.
[15] On February 24, 2014, the Prelios S.p.A. Board of Directors appointed Marco Andreasi as the new Chief Financial Officer of the Company as well as the Financial Reporting Officer for corporate financial reporting pursuant to Article 154-*bis* of the Consolidated Finance Act.
[16] Position assigned by the Shareholders' Meeting of April 14, 2008.

3. PRELIOS IN THE FIRST HALF OF 2014

In the first half of 2014, as well as during the prior year, the reference macroeconomic scenario suffered from uncertain outlooks for Italian economic growth in general. The continuing crisis has impacted the real estate sector, resulting in long-term market weakness and credit access difficulties. However, some signs of a possible recovery have also been seen, mainly driven by the recent renewed interest in the Italian real estate sector by opportunistic foreign investors, who have been moved to action due to re-pricing and the resulting rise in gross returns.

On February 12, 2014, Solaia RE S.à.r.l., a joint venture in which a fund managed by Deutsche Asset & Wealth Management Real Estate (Deutsche Bank Group) holds a 60% interest and in which Prelios S.p.A. holds a 40% interest, reached an agreement with the company BUWOG, a wholly owned subsidiary of the Austrian Immofinanz Group, for the sale of the interests in the real estate companies that own the German residential portfolio commonly known as DGAG. This transaction contributes to the implementation of the new business model launched in 2013, according to which Prelios will act as a pure provider of integrated real estate services by concentrating its human and financial resources on higher value-added segments of the European real estate market. However, as the buyer did not confirm the current mandates, it was not possible to ensure that the subsidiary would be able to replace the mandates on the transferred portfolio in the short term. Therefore, this transaction, promoted and defined by the majority partner Deutsche Asset & Wealth Management Real Estate (Deutsche Bank Group), is also associated with the transfer of the Prelios Deutschland platform (wholly owned subsidiary of Prelios S.p.A.), which provides technical and administrative services to the above residential portfolio. As a result of this transaction, the Prelios Group's operations in Germany are now focused on the high value-added premium segment of shopping centres and Highstreet retailing. The transaction closing took place on June 27 for the real estate companies and on July 4 for the services platform. The estimated effects of the transaction, which was already in the negotiations phase at the end of last year, were accounted for under Discontinued Operations in the 2013 financial statements, as well as in the Half-Yearly Financial Report at June 30, 2014, which also incorporates the effects of the calculation of certain price components previously estimated on a temporary basis.

On April 9, 2014, at the time of approval of the draft financial statements at December 31, 2013, the Board of Directors first approved the Group Guidelines for the 2014-2016 period (the "2014-2016 Guidelines" or the "Guidelines"), which were developed on a stand-alone basis, i.e. not considering the effects of any extraordinary corporate or commercial agreements. First and foremost, this document identified the main strategic directives for the growth of the Prelios Group, also based on a detailed analysis of the reference market context and the relative positioning of Prelios.

However, the 2014-2016 Guidelines forecast new losses regardless of any additional market-induced property write-downs, which to date cannot be estimated, and cash absorption which would not be sustainable for the Group without corrective measures.

Therefore, talks were held with the main Lenders as well as the shareholders to implement initiatives to reduce and/or defer short-term financial commitments, in order to maintain cash requirements within sustainable limits for the time needed to define methods to adjust the short and medium-term financial structure to meet the forecasts set forth in the Guidelines.

Since the Group requires a suitable period of time in which to strengthen its business management in order to achieve the financial rebalancing objectives and recover profitability, it is not possible to forecast positive economic results during the planning period, and specific measures must be taken to cover cash requirements in the three-year period.

As a result of the loss at December 31, 2013, the mandatory early repayment of the "Prelios 2013-2019 Convertible Loan" was automatically executed on April 14 through the full conversion of:

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

As a result, a share capital increase was resolved upon by the Company's Board of Directors on June 10, 2013 on the basis of the right with which it had been vested by the Shareholders' Meeting of May 8, 2013, and was automatically executed exclusively for the purpose of the conversion, with the issue of 229,757,292 ordinary shares and 93,390,705 Category B shares, for a total value of Euro 236,544,333.80.

Following the share capital increase exclusively for the purpose of the conversion, the new fully subscribed and paid-in share capital amounts to Euro 426,441,257.20, broken down into:

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

Also on April 14, 2014, the certification of the share capital increase carried out exclusively for the purpose of the conversion and the updated Articles of Association were filed and registered, pursuant to law, at the Companies' Register of Milan.

On April 9, 2014, the Company Directors deemed that the Group will continue operating as a going concern based on the reasonable assumption that financial balance will be achieved to meet the needs highlighted in the Guidelines. This determination was based on the initiatives identified by the management (cost reduction measures to mitigate expected cash outflows and measures to increase revenue with respect to Guideline forecasts, to be laid out within a new systematic and precise business plan), which were presented to the Company's leading lenders and shareholders, who expressed their general willingness to support the Company (later formalised in writing) through transactions aimed at covering expected cash requirements for the time needed to define a more structured transaction with them.

The Directors' assessments concerning the measures needed to cover financial requirements take into consideration the willingness of the main lenders and the shareholders to support the Company as well as, and especially, an analysis of the main contributors to the absorption of cash and cash equivalents, namely:

- equity injections in co-investment initiatives, to enable the latter to fulfil contractual obligations to their lenders, the majority of which are also the Company's main lenders;
- the Company's obligations to the Lenders, which make up the shareholding structure of Prelios S.p.A..

In particular, the Directors based their reasonable assumptions on:

- specific actions to mitigate financial commitments (already identified) in order to meet cash requirements, involving the development of financial commitment reduction/elimination or deferment plans, for both the short- and medium-term, in order to make such commitments sustainable for the Group in line with expected improvements in its cash generation capacity and a structured rebalancing of its financial position;
- additional cost efficiency and business development actions, specified in more detail below.

On June 12, the Board of Directors approved the Group's 2014-2016 Business Plan (the "Plan") prepared on the basis of the 2014-2016 Guidelines previously defined on April 9, which also incorporated the effects of the financial commitment mitigation actions (which were further developed and refined) as well as the additional lines of action identified to reduce costs and develop the business to a greater extent than was forecast in the Fenice Plan and in the 2014-2016 Guidelines.

On June 19, the Company's Shareholders' Meeting approved the 2013 financial statements, reporting losses in excess of one third of the share capital, with reference to the Company's Balance Sheet at December 31, 2013, which was recalculated to reflect the effects of the subsequent share capital increase exclusively for the purpose of the mandatory conversion of the "Prelios 2013-2019 Convertible Loan". The same Shareholders' Meeting resolved not to adopt measures pursuant to Article 2446 of the Italian Civil Code and instead postponed their adoption (if required) to a date to be proposed by the Board of Directors and, in any event, in compliance with the provisions of paragraph 2, Article 2446 of the Italian Civil Code, also taking into consideration the planned and ongoing initiatives disclosed and described in the Directors' Report prepared in accordance with the law and submitted to the Shareholders' Meeting.

Consistent with the Group's strategic orientation and in order to boost business development outlooks, including through external investment, in early 2014 the Company and its advisors began working on initiating business partnerships. In particular, as previously disclosed to the market, talks began with the well-known international private equity fund Fortress Investment Group Ltd, controlling shareholder of Torre SGR S.p.A. and Italfondiario S.p.A. that carry out business in the real estate investment fund and non-performing loans management sectors, respectively, in order to assess the feasibility of and interest in possible partnerships with the Prelios Group, particularly in the real estate asset management and non-performing loans sectors.

Based on the activities carried out, the information exchanged and the associated negotiations, Prelios and Fortress have approved a Memorandum of Understanding relating to possible partnerships. The relative procedures and investments in the two business sectors have not yet been established. Fortress and Prelios have already submitted joint bids for new business projects which could positively impact the scope of the possible JV. Since these effects must be evaluated in detail and further assessment of the respective businesses is also required, the negotiation period has been extended.

2014-2016 BUSINESS PLAN

As noted above, on June 12 the Board of Directors approved the Group's 2014-2016 Business Plan with revised economic and financial projections, which outlines strategic objectives based on positive talks with the Company's main shareholders and lenders and in consideration of market evolutions. The associated implementation and verification activities will follow, including in relation to existing agreements with the Company's lenders. The Plan was developed as a stand-alone document which does not consider the effects of any extraordinary corporate or commercial agreements.

It also confirms the transition to a pure management company business model, which the Company plans to complete within three years' time to become the reference asset manager of international and institutional investors. The Prelios Group will concentrate on the Services Platform and on gaining strength in the market in two main areas: (i) asset management by Prelios SGR and NPL portfolio management by Prelios Credit Servicing; and (ii) real estate services through the Prelios Integrated Services hub, which offers property and technical services in Italy and Germany. The Services Platform will benefit from the gradually reduced dependence on the captive market following the co-investment divestment strategy, to the advantage of the third-party market. At the same time, the operating companies aim to increase their presence in the premium segment of their applicable markets, which features higher profit margins and long-term contracts. In addition to the intense business development under way, the Services Platform's third-party asset management and revenue growth targets were established assuming operational and business synergies with the main shareholder banks.

An extensive real estate co-investment divestment plan has also been laid out, providing for the substantial final exit from this business line by the end of 2018. In this context, an investment value enhancement project may also be considered in order to achieve this goal more quickly.

Considering the economic and financial performance improvement goals set forth in the 2014-2016 Guidelines, and aside from the new business development initiatives described (in relation to which the new commercial activities plan is already generating positive impacts), the Prelios Group has established the following lines of action:

- adoption of a set of financial measures intended to balance cash inflows and outflows to meet cash requirements initially estimated in the Guidelines;
- cost efficiency actions aimed at further streamlining the Group's cost structure, without penalising the development and retention of outstanding human resources.

More specifically, the actions identified in the 2014-2016 Business Plan to meet the cash requirements initially set forth in the Guidelines include mitigating financial commitments by reducing them and/or deferring them over time, in both the short and medium term, to ensure that they are sustainable for the Group in line with a structured rebalancing of the financial position. To this end, several actions – one of which has already been completed – have been identified, namely: (i) deferment to after 2016 of the payment of contractual charges of roughly Euro 10 million in relation to the transfer of investment units which occurred in the past; (ii) obtaining a waiver to the commitment to make an approximately Euro 5 million contribution to an investee in liquidation; (iii) possible payment after 2016 of a settlement of roughly Euro 3 million arising from a legal claim; (iv) standstill on the main equity injections (around Euro 24 million) in the initiatives in which the Group holds qualified minority interests, to be negotiated individually with each partner and with the respective lenders; and (v) obtaining a waiver to some aspects of the parent company's current loan agreements, including in particular the timing for repayment of cash flows generated by the sale of co-investments (Senior 65%-35% debt repayment mechanism), to make the amounts and due dates of such repayments consistent with the Group's capacity to generate financial resources through its activities.

With respect to revenue growth, pending increasing development and the repositioning of real estate management activities and services primarily in favour of third parties following the reorganisation of the various management and service companies and their commercial strengthening over the last year, the Group has launched several business development initiatives to obtain new mandates and/or increase the assets under management. The Group is currently involved in the following:

- participation in the most significant transactions in Italy to enhance the value of assets with underlying real estate or real estate collateral, working in each case with different management partners and equity providers, with which advanced negotiations are under way regarding the structure and management of vehicles to purchase real estate assets (for sale and leaseback transactions as well as for the disposal of non-core assets), non-performing loan portfolios and repossessed assets owned by banks and leasing companies on behalf of third-party investors;
- the structuring of new real estate funds (also by taking over the management of existing funds managed by third-party asset management companies) and/or the expansion of existing funds managed by Prelios Società di Gestione del Risparmio S.p.A.;
- the management of business development activities with a view to achieving synergy amongst the Group's various service companies in order to maximise value creation, without prejudice to the supervision and prerogatives of independence and operational autonomy typical of legal entities (also taking into consideration the rules on corporate group management and coordination activities), which particularly characterise certain Group companies as a result of applicable laws or regulations (Prelios Società di Gestione del Risparmio S.p.A. and Prelios Credit Servicing S.p.A.);
- the development of the commercial asset management services platform in

Germany, with the dual and mutually reinforcing goal of (i) sharing management know-how; (ii) providing support to Italian institutional investors in making foreign real estate investments; and (iii) conveying German institutional investors to the Italian market, all while leveraging one of the Group's most significant strengths: its presence beyond national borders.

INITIATIVES UNDERTAKEN AND IDENTIFIED FOR RECOVERY AND CONTINUATION AS A GOING CONCERN.

By way of introduction, please note that in 2013 the Company was involved in an extraordinary transaction for capital and financial strengthening via the recapitalisation and the rebalancing of the financial structure through the conversion of part of its debts and the restructuring of loan repayment and interest repayment plans on remaining financial payables, as well as the introduction of a business partner. As previously disclosed, the transaction was completed only in August 2013, which essentially put the Group on standby from the perspective of the market (the "Extraordinary Transaction").

Therefore, in terms of operations, it was not possible to develop and implement all of the initiatives needed to quickly boost the Company's outlooks in accordance with the timing established initially. This meant that the Company was not able to meet the forecasts of the plan approved as part of the Extraordinary Transaction and certified pursuant to Article 67 of the Bankruptcy Law (the "Fenice Plan"). Moreover, all of this took place against a backdrop of continuing weakness in the market and considerable uncertainties as to the timing and extent of a recovery, the initial, fragile signs of which were not seen until early 2014.

Once the Extraordinary Transaction was successfully completed, the business development consolidation initiatives described above were launched in line with the strategy to reposition the group as a reference real estate and financial asset management and services hub for third-party investors.

As noted previously, at the Board of Directors' meeting on April 9, 2014 for the approval of the draft financial statements at December 31, 2013, Prelios acknowledged the results (significantly lower than the Fenice Plan forecasts) and, pending the update and reformulation of the business plan, approved the Group Guidelines for the 2014-2016 period, which identified strategic directives for the growth of the Prelios Group's Services Platform and confirmed the gradual full divestment of co-investments.

The 2014-2016 Guidelines forecast negative economic results in the three-year period (even before any property write-downs, which cannot be estimated and depend on market conditions), as well as cash absorption which will result in unsustainable overall Group financial requirements already beginning in 2014 if no corrective measures are taken. Without the action plan, the effects of which were reflected in the 2014-2016 Business Plan, these uncertain forecasts were enough to give rise to significant doubts as to the Company's and the Group's ability to continue operating as a going concern. In response, lines of action were identified to increase revenue and reduce costs (already described above). Furthermore, to cover financial requirements, negotiations were immediately initiated with the Company's leading Lenders and shareholders, which expressed their general willingness to support the Company through transactions meant to cover forecast requirements for the time needed to define a more structured transaction with them in order to regain financial stability and enable the Group to continue operating as a going concern.

On April 9, the Company Directors deemed that the Group will continue operating as a going concern based on the reasonable assumption that financial balance will be achieved to meet the needs highlighted in the Guidelines. This determination was based on the initiatives identified by the management (cost reduction measures to mitigate expected cash outflows and measures to increase revenue with respect to Guideline forecasts, to be laid out within a new systematic and precise business plan), which were presented to the Company's leading lenders and shareholders, which formally expressed their general willingness to support the Company through transactions aimed at covering expected cash requirements for the time needed to define a more structured transaction with them. Therefore, the going-concern assumption was adopted in preparing the 2013 financial statements.

The Directors' assessments concerning the measures needed to cover financial requirements are based first and foremost on an analysis of the main contributors to the absorption of cash and cash equivalents, namely:

- equity injections in co-investment initiatives, to enable the latter to fulfil contractual obligations to their lenders, the majority of which are also the Company's main lenders;
- the Company's obligations to the Lenders, which make up the shareholding structure of Prelios S.p.A..

In particular, the Directors based their reasonable assumptions on:

- specific actions to mitigate financial commitments (already identified) in order to meet cash requirements, involving the development of financial commitment reduction/elimination or deferment plans, for both the short and medium term, in order to make such commitments sustainable for the Group in line with expected improvements in its cash generation capacity and a structural rebalancing of its financial position;
- additional cost efficiency and business development actions.

At the Board of Directors' meeting of June 12, the Company defined the 2014-2016 Business Plan based on reasonable forecasts and strategic directives consistent with the Fenice Plan. In any event, it also took into account the difficulty of preparing forecasts in the current economic and financial environment, in which it is not possible to rule out additional crises in the financial markets or an aggravation of the factors that caused the current deterioration of the general reference scenario and the real estate market in particular.

The 2014-2016 Business Plan forecasts losses over the next three years, resulting in an erosion of equity. While the Company considers the plan to be challenging, it is also deemed realistic, feasible and based on a series of reasonable assumptions (although they will of course require constant and accurate verification). The Plan has three main, linked and interdependent components:

- a series of financial mitigation and restructuring measures, representing the conditions required to guarantee the sustainability of the Plan and the Company's and Group's ability to continue operating as a going concern, as well as to meet the financial requirements forecast in the Guidelines before the expected effects of those mitigation actions;

- organic growth and estimated profitability basically in line with revenue growth targets, compared to a 2013 base that underperformed forecasts to an extent that cannot be recovered over the next three years, and the same profitability as provided for in the Fenice Plan, on a like-for-like basis, although the reference scope has changed primarily due to the sale of the German real estate portfolio DGAG and the associated residential services platform in Germany;

- gradual and consistent overhead cost reduction to align the Company's organisation with the best market benchmarks as well as in consideration of the expected reduction in administrative activities due to the disposal of the investment portfolio.

The Directors deem that the actions identified to guarantee that the Group will continue to operate as a going concern during the Plan period are adequate to face the uncertainties identified and that, on the basis of advanced-stage negotiations, particularly with the lenders – which have expressed their willingness to support the financial recovery established in the 2014-2016 Business Plan – the mitigation actions identified will be completed in a reasonably brief period of time consistent with the Company's requirements. This will enable the Company to continue operating as a going concern with the liquidity necessary to cover short- and medium-term cash requirements within limits that are sustainable for the Group. Failure to complete the actions identified and under way to the proper extent and with the necessary timing would give rise to uncertainties which could cause significant doubts as to the Group's ability to continue to operate as a going concern.

The Lenders are generally expected to approve the 2014-2016 Business Plan. Furthermore, Prelios deems that, given the advanced stage of negotiations, the requests put forward to contribute to the successful implementation and execution of the Plan (including the reduction of the current percentage of 65% as the amount of Net Income to be allocated to the early repayment of the Senior Loan) may be approved, with the completion of the resolution process by the lenders and the resulting formalisation of the relative agreements, in a reasonably brief period of time (considering the complexity of the internal procedures of the banks concerned), which is in any event consistent with the Company's needs.

In addition, in consideration of the advanced stage of talks with the parent company's primary Lenders, which are also significantly involved in many of the investment vehicles, and on the basis of negotiations under way and the general willingness they have expressed to support the Group, the Prelios Directors deem that the other corrective measures mentioned above (reduction and/or deferment of some financial commitments) may be reasonably completed to an extent and with timing that enables the Group to meet its forecast cash requirements and therefore to continue operating as a going concern.

After the approval of the 2014-2016 Business Plan, the independent expert, Mr Civetta, who previously issued the certification pursuant to Article 67 of the Bankruptcy Law, was engaged to monitor discrepancies between the new Plan and the Fenice Plan, particularly with reference to: i) the evaluation of the strategy of the "2014-2016 Business Plan" and the significance of actual and expected variances with respect to the "Fenice Plan"; ii) the impacts of the planned "cost efficiency", "revenue volume recovery", "mitigation" and "Senior Loan repayment mechanism revision" actions set forth in the "2014-2016 Business Plan" approved by the Board of Directors on June 12, 2014, in relation to the Company recovery target set forth in the "Fenice Plan"; and iii) the significance of any combined effects of the analysis of the aforementioned changes on the feasibility of the "2014-2016

Business Plan" and the assessment of substantial continuity and consistency with the "Fenice Plan".

In this regard, after carrying out his activities and in light of the Company's confirmed strategy of divestment and focusing on the core services business, the independent expert expressed the opinion that although the overall combined effects on revenue, the main income statement margins and cash flows of the variances between the "2014-2016 Business Plan" and the "Fenice Plan" are significant in absolute value, they will not substantially prevent the recovery. As highlighted in the "2014-2016 Business Plan", the full implementation of all of the corrective measures identified will result in an economic and financial rebalancing trend, although the timing will be different to that initially set forth in the Fenice Plan. Therefore, after the implementation of all measures set forth in the "2014-2016 Business Plan", including the "mitigation actions" and the "restructuring of the Senior Loan repayment", the Group, as was verified in 2013 in the certification report pursuant to Article 67 of the Bankruptcy Law, still appears to be capable of regaining economic and financial stability, provided all forecasts and actions to reach the Company recovery target, in continuity and consistent with the "Fenice Plan", actually take place.

4. NOTES ON THE MAIN GROUP ECONOMIC AND FINANCIAL DATA

This section provides an analysis of the Group's economic, financial and asset position at June 30, 2014. Some non-GAAP measures which are generally considered by management to monitor and assess Group performance have been used in the economic and operating analysis provided in paragraph 4.1. These measures demonstrate the result of the Group's ordinary operations, net of the effects of unusual transactions in terms of type or amount as well as real estate portfolio value fluctuations, thereby ensuring a greater degree of comparability between the results and disclosures of the Group and those of other leading operators that use the same non-GAAP measures.

These measures are obtained by aggregating or reclassifying accounting data on the basis of the reconciliation provided in Appendix A to this report on operations, and are adopted in order to provide a breakdown of economic results on the basis of the type of events that generated them. Please see the analysis provided in paragraph 5 for a more direct reference to the economic data as laid out in the IFRS income statement. The analysis of the balance sheet and financial position in paragraph 4.2 also includes non-GAAP measures. Their underlying criteria are also provided in Appendix A to this report on operations. The balance sheet and financial position measures are those generally adopted in financial reporting and are clearly linked to the accounting data provided in the main financial statements. Therefore, a separate analysis of the main financial statements is not provided.

To determine the non-GAAP measures indicated below, for which a detailed reconciliation with GAAP measures is provided in Appendix A, the following amounts are separated: "Restructuring Costs" and "Property write-downs/revaluations", as described in more detail in the next paragraph.

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

Following the agreement reached by the joint venture Solaia RE S.à.r.l. for the sale of the interests in the real estate companies that own the German residential portfolio known as DGAG (Deutsche Grundvermögen AG) and the transfer of part of the Prelios Deutschland GmbH platform (wholly owned subsidiary of Prelios S.p.A.) which provides technical and administrative services to the above residential portfolio, some previous balance sheet and income statement items were recalculated to show the effects of the transaction separately, in accordance with IFRS 5. In particular, the economic and balance sheet data relating to the first half of 2014 shown below and discussed in the notes do not include data ascribable to the German business unit, which was sold in the beginning of 2014 after a negotiation process that began in late 2013. These data were classified on their own line labelled discontinued operations in compliance with IFRS 5. Likewise, the economic data relating to the first half of 2013 were also classified on the separate line mentioned above.

4.1. Income Statement

(millions of euros)		JUNE 2014	JUNE 2013
Consolidated revenue:		35.2	35.6
	of which services	*34.9*	*32.8*
	of which other	*0.3*	*2.8*
Management Platform: EBIT before restructuring costs and property write-downs/revaluations		6.0	1.6
Holding: EBIT before restructuring costs and property write-downs/revaluations		(6.2)	(5.9)
Total Management Platform & Holding: Operating profit/(loss)		**(0.2)**	**(4.3)**
Investment Activities: EBIT before restructuring costs and property write-downs/revaluations		(4.2)	(3.8)
Investment Activities: net income from investments before restructuring costs and property writedowns/revaluations		(4.3)	(4.1)
Investment Activities: income from shareholder loans (1)		3.1	4.3
Investment Activities: loss on NPL portfolio valuation		(0.7)	(3.3)
Total Investment Activities: Operating profit/(loss)		**(6.1)**	**(6.9)**
Operating profit/(loss)		**(6.3)**	**(11.2)**
Financial income/(Financial expenses)		(10.9)	(21.5)
Profit/(loss) before restructuring costs, property write-downs/revaluations and income taxes		**(17.2)**	**(32.7)**
Restructuring costs		(1.8)	(5.3)
Property (writedowns)/revaluations		(21.2)	(25.6)
Profit (loss) before taxes		**(40.2)**	**(63.6)**
Income taxes		(3.0)	(3.3)
Net profit		**(43.2)**	**(66.9)**
Minority interests		0.7	0.4
Group net income/(loss) before discontinued operations		**(42.5)**	**(66.5)**
Net income (loss) from discontinued operations		4.9	2.5
Group net income/(loss) for the period		**(37.6)**	**(64.0)**

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

At June 30, 2014, consolidated revenue is Euro 35.2 million compared to Euro 35.6 million in the first half of 2013. In particular, foreign and Italian Management Platform revenue is Euro 34.9 million at June 30, 2014, an increase compared to Euro 32.8 million in the first half of the previous year.

The operating loss amounts to Euro 6.3 million, a clear improvement over the operating loss of Euro 11.2 million in the first half of 2013. This improvement partially stems from the reduction in the loss of Investment Activities, primarily due to the NPL portfolio valuation (negative by Euro 0.7 million at June 30, 2014 compared to a negative amount of Euro 3.3 million at June 30, 2013).

"Financial expenses" comes to Euro 10.9 million compared to Euro 21.5 million at June 30, 2013. This is negative for Euro 10.6 million, primarily due to the debt reduction achieved through the extraordinary capital increase and restructuring of debt transaction carried out in 2013 and for which the Convertible Loan was also converted into share capital in 2014.

At June 30, 2014, property write-downs/revaluations amounts to Euro 21.2 million compared to a negative Euro 25.6 million in the same period of 2013. This balance reflects asset value adjustments (primarily in Italy) due to the update of independent expert appraisals (particularly with respect to the interests indirectly held in the Tecla Fund) and the completion of preliminary sale agreements (such as the interests held in the Olinda Fund).

Restructuring costs amounts to Euro 1.8 million compared to Euro 5.3 million in the first half of 2013.

Income taxes amount to Euro 3 million compared to Euro 3.3 million at June 30, 2013. The majority relate to companies in Italy. This amount primarily includes the change in deferred taxes and IRAP (regional production tax).

The net loss attributable to the Group at June 30, 2014 is Euro 37.6 million, compared to a loss of Euro 64 million at June 30, 2013.

Management Platform[17]

Management activities (fund and asset management) and the specialist property and project management and agency services, as well as services relating to non-performing loan management (credit servicing) achieved a positive result of Euro 6 million at June 30, 2014, compared to Euro 1.6 million at June 30, 2013. This improvement is mainly due to the service companies in Italy, particularly for credit servicing and non-performing loan services.

The recovery in turnover seen in the first quarter for the Management Platform, the Group's core business, was confirmed, reversing the trend of the two previous years, in which there was a net decline. This improvement was also impacted by the initial results of the intense business development activity carried out during the year, which is expected to generate more significant results for the Group especially beginning in the second half of 2014 and

[17] The result of the Management Platform refers to amounts generated by the Group through fund and asset management activities, specialised real estate services (property and project management and agency) and NPL credit servicing, as well as general and administrative expenses.

early 2015, as well as the full implementation of the various initiatives and the completion of those still under way.

At June 30, 2014, general and administrative expenses amounted to Euro 6.2 million, compared to Euro 5.9 million at June 30, 2013. Overall, management activities including general and administrative expenses resulted in a loss of Euro 0.2 million, compared to a loss of Euro 4.3 million in the same period of 2013.

Investment Activities[18]

In the first half of 2014, the EBIT of investment activities before the loss from the NPL portfolio valuation was negative by Euro 5.4 million, compared to a negative amount of Euro 3.6 million in the same period of 2013. Considering the negative impact of the loss from valuation of the non-performing loan portfolio (Euro 0.7 million at June 30, 2014 and Euro 3.3 million at June 30, 2013), the operating loss is a negative amount of Euro 6.1 million compared to a negative amount of Euro 6.9 million in 2013.

***

In the course of the first half of 2014, property sales[19] amounts to Euro 312.1 million (Euro 83.6 million pro rata) compared to Euro 113.2 million at June 30, 2013 (Euro 21.6 million pro rata). The Company's real estate transactions were carried out at values that were essentially in line with the book value, as also took place at June 30, 2013.

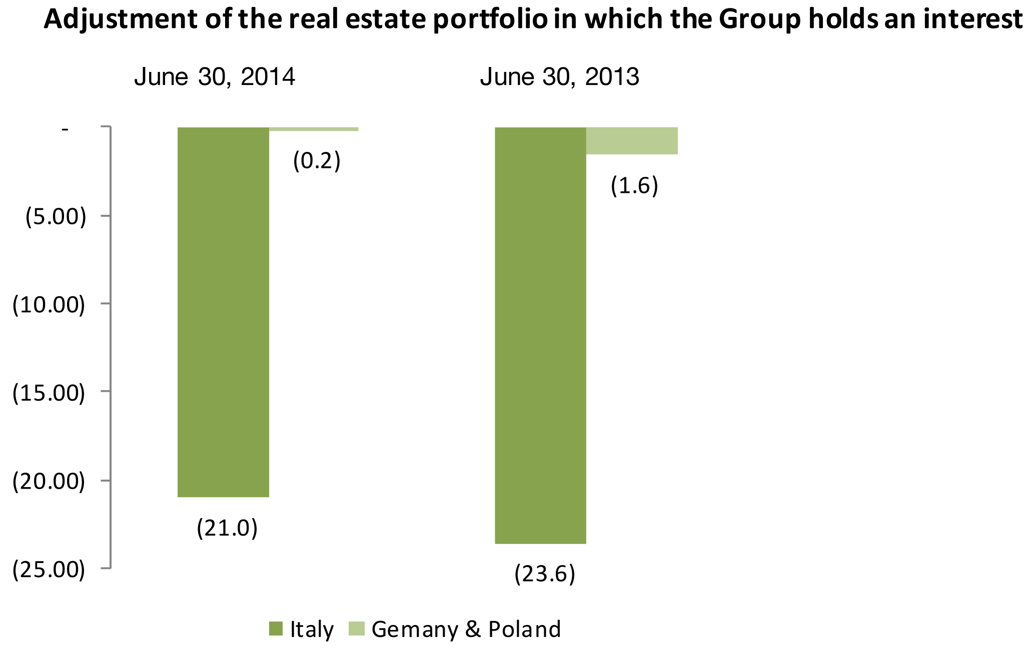
Total rents[20] amounts to Euro 109.1 million in the first half of 2014 compared to Euro 184.5 million at June 30, 2013. The pro-rata rents attributable to Prelios amount to Euro 26.9 million (Euro 45.7 million at June 30, 2013).

Please see the dedicated section for a more detailed analysis by geographical area of the results of fund and investment company activities and the Management Platform, including general and administrative expenses.

A total of Euro 21.2 million in write-downs were recorded on investments and investment property in the first half of 2014, of which Euro 21.0 million relates to the real estate portfolio in Italy and Euro 0.2 million relating to the real estate portfolio in Germany.

The chart below shows the impact of adjustments on the real estate portfolio by country and by reference period.

[18] Investment Activities refers to amounts generated by Prelios through its investments in funds and companies that hold real estate and non-performing loans.
[19] This value is determined by adding property sales made by the consolidated companies and property sales at 100% of associates, joint ventures and funds in which the Group holds an interest of at least 5% at June 30, 2014.
[20] This value is determined by adding rents earned by the consolidated companies and rents at 100% of the associates, joint ventures and funds in which the Group holds an interest of at least 5% at June 30, 2014.



4.2. Balance sheet and financial analysis

The table below shows the operating balance sheet at June 30, 2014 compared with December 31, 2013.

(Euro/milion)	JUNE 2014	DECEMBER 2013
Fixed assets	**336.3**	**353.2**
of which investments in real estate funds and investment companies and shareholder loans granted (1)	*274.0*	*290.5*
of which goodwill	*56.4*	*56.4*
Net working capital	**14.6**	**14.7**
Discontinued operations	**32.7**	**26.4**
Net invested capital	**383.6**	**394.3**
Equity	**133.3**	**(66.3)**
of which group equity	131.1	(69.1)
Provisions	**65.8**	**71.2**
Net financial position from operating activities	**183.8**	**388.4**
Net financial position from discontinued operations	**(0.4)**	**0.0**
Liabilities related to discontinued operations	**1.1**	**1.0**
Total covering net invested capital	**383.6**	**394.3**

(1) The item includes equity investments in associates, joint ventures and other equity investments (Euro 157.9 million), receivables for shareholder loans (Euro 96.2 million), investments in real estate funds (Euro 11.7 million, recognised among "Other financial assets" in the consolidated balance sheet) and junior notes (Euro 10.7 million, recognised among "Other financial assets" in the consolidated balance sheet). The figures for June 2014 and December 2013 include provisions for equity investment writedowns of Euro 2.5 million and Euro 12.6 million respectively.

At June 30, 2014, fixed assets amount to Euro 336.3 million, compared to Euro 353.2 million at December 31, 2013. This reduction is primarily due to the final result of the investees, which includes a pro-rata net negative effect for the Prelios Group of Euro 20.3 million deriving from property write-downs.

Net working capital amounts to Euro 14.6 million at June 30, 2014, in line with the value at December 31, 2013.

Discontinued operations represent the estimated effect of cash distributions expected from the sale of the DGAG Group, net of working capital items that will be transferred to the buyer, equal to the sale price net of sales costs.

Consolidated equity is Euro 133.3 million and equity attributable to the Group is Euro 131.1 million, up compared to the previous year by Euro 200.2 million, including Euro 236.5 million due to the capital increase resulting from the execution of the mandatory early repayment of the "Prelios 2013-2019 Convertible Loan", which was partially offset by the loss attributable to the Group of Euro 37.6 million.

At June 30, 2014, the net financial position is a negative Euro 183.8 million. This figure clearly improved compared to Euro 388.4 million at December 31, 2013, due to the capital increase associated with the conversion of the Convertible Loan, which was partially offset by the net cash absorption for the period.

The chart shows the combined effect of the events impacting the change in the net financial position in the first half of 2014.

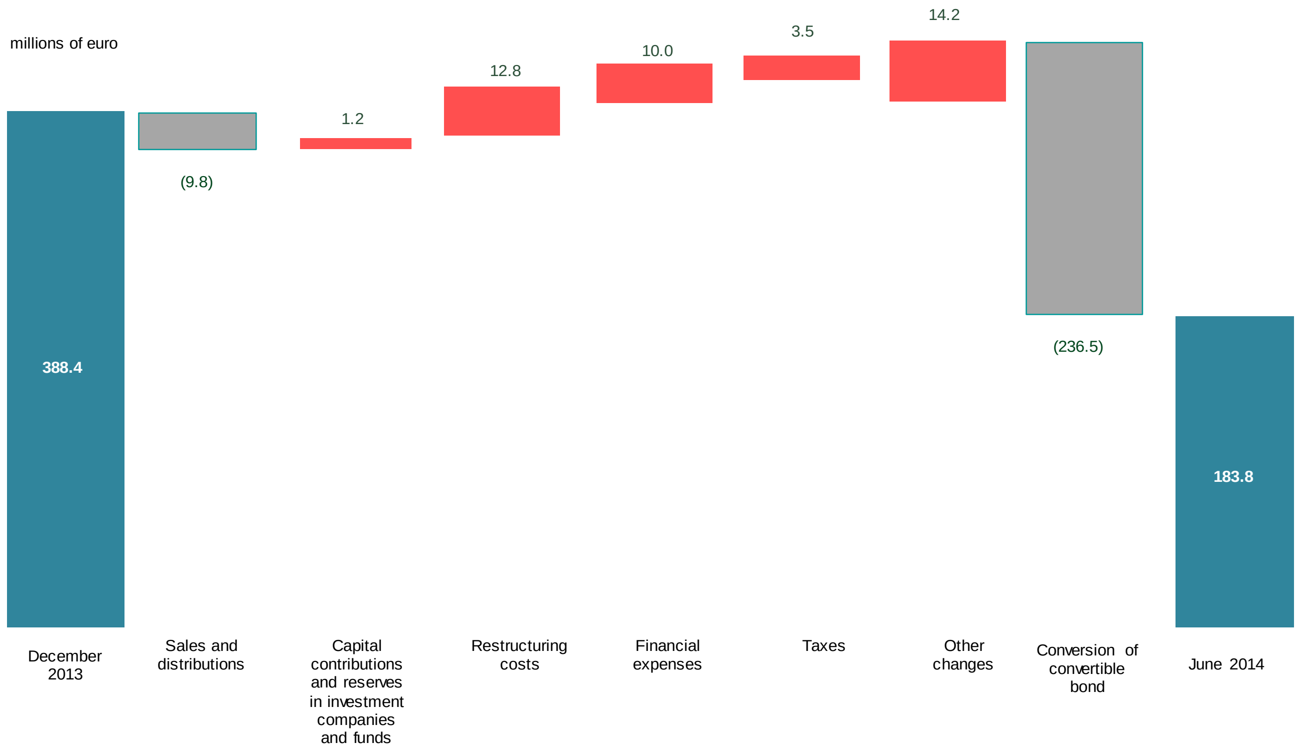
The Euro 204.6 million improvement compared to December 31, 2013 is primarily ascribable to the following:

- the share capital increase resulting from the automatic mandatory early repayment of the "Prelios 2013-2019 Convertible Loan", for Euro 236.5 million;
- cash flows generated by sales activities and distribution by the investment companies for Euro 9.8 million.

The following events negatively impacted the net financial position:

- equity injections of Euro 1.2 million in investment companies and in funds in which the Company holds an interest;
- financial expenses of Euro 10.0 million;
- payment of restructuring costs of Euro 12.8 million;
- Euro 3.5 million tax payment;
- other events, some linked to changes in net working capital, for Euro 14.2 million.

The table below shows the main changes in the net financial position during the period.



4.3. Net bank debt of the funds and investment companies

While 100% of the real estate component of the funds and investment companies in which the Group holds an interest has a market value of Euro 3.6 billion, the relative net debt amounts to Euro 2.0[21] billion: the Prelios average bank leverage for the real estate component is 56% (57% pro rata Prelios) compared to the asset market value.

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

- a limited presence of recourse guarantees of Prelios S.p.A. (Euro 12.4[22] million);

- a high degree of coverage of interest rate risk (48%) and an average maturity of approximately 0.8 years (values at 100%).

Please see Appendix B of this report for additional details.

The book value of non-performing loans at 100% is roughly Euro 0.2 billion[23] compared to net bank debt of Euro 0.2 billion.

Please note that the average maturity of net bank debt is 0.8 years (of which 0.2 years in Italy and 2 years in Germany).

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[21] Not including Euro 0.3 billion relating to Funds classified as third-party funds since Prelios holds an interest of less than 5%.
[22] Includes Euro 4.9 million relating to a commitment already recognised in financial payables.
[23] The gross book value of the portfolio is Euro 8.5 billion.

5. CONSOLIDATED INCOME STATEMENT

The net loss attributable to the Group is Euro 37.6 million, compared to a loss of Euro 64 million at June 30, 2013. The net loss was greatly influenced by extraordinary items, namely:

- the divestment of the German residential portfolio known as DGAG, which was sold to BUWOG (wholly owned by the Austrian Immofinanz Group), together with the associated Prelios Deutschland residential management platform. This transaction, the effects of which were recognised as discontinued operations, had a positive impact of Euro 4.9 million, incorporating the effects of the calculation of certain price components that were previously estimated on a temporary basis;
- restructuring costs, which had a negative impact of Euro 1.8 million. This figure includes losses on receivables and write-offs carried out as part of the restructuring of certain investees;
- property write-downs, which had a negative impact of Euro 21.2 million (Euro -25.6 million at June 2013), including the capital loss realised after the disposal of Olinda, for which the preliminary agreement was signed in July.

Following the automatic conversion of the entire mandatory convertible bond recorded in the financial statements at December 31, 2013 in the amount of Euro 235.9 million and the loss of Euro 37.6 million posted in the first half of 2014, the Group's equity at June 30, 2014 amounts to Euro 131.1 million, compared to a negative amount of Euro 69.1 million at December 31, 2013.

The income statement is provided below.

(millions of euro)	JUNE 2014	JUNE 2013
Revenue from sales and services	35.2	35.6
Changes in inventories of work in progress, semi-finished and finished products	(0.2)	(0.5)
Other income	3.8	5.3
TOTAL OPERATING REVENUE	**38.8**	**40.4**
Raw and consumable materials used (net of change in inventories)	(1.3)	(2.1)
Personnel costs	(18.3)	(21.3)
Depreciation, amortisation and impairment	(0.4)	(0.7)
Other costs	(25.9)	(31.9)
TOTAL OPERATING COSTS	**(45.9)**	**(56.0)**
EBIT	**(7.1)**	**(15.6)**
Net income from investments	(24.6)	(30.9)
- net profit share from investments in associates and joint ventures	*(23.2)*	*(30.7)*
- gains on investments	*0.1*	*0.3*
- losses on investments	*(1.5)*	*(0.5)*
Financial income	3.7	6.5
Financial expenses	(12.2)	(23.6)
NET PROFIT BEFORE TAX	**(40.2)**	**(63.6)**
Taxes	(3.0)	(3.3)
NET INCOME FROM CONTINUING OPERATIONS	**(43.2)**	**(66.9)**
attributable to minority interests	(0.7)	(0.4)
Net income from discontinued operations	4.9	2.5
NET PROFIT/(LOSS) ATTRIBUTABLE TO THE GROUP	**(37.6)**	**(64.0)**

Revenue from sales and services is Euro 35.2 million in the first half of 2014 and is essentially in line with first half of 2013.

Other income amounts to Euro 3.8 million at June 30, 2014 compared to Euro 5.3 million in the first half of 2013. This income comes from chargebacks to tenants of the management costs of owned and managed properties, the latter mainly associated with property management activities, as well as the intervening termination or positive evolution of disputes that had generated risks and uncertainties and, therefore, increased provisions for risks.

Purchases of raw and consumable materials used (net of changes in inventories) amounts to Euro 1.3 million compared to Euro 2.1 million at June 30, 2013. The change recorded in the first half of 2014 also includes Euro 0.7 million in net write-downs recognised due to the lower presumed realisable value determined on the basis of independent appraisals prepared at June 30, 2014 or due to lower values at which the individual subsidiaries are willing to sell in light of sale mandates granted with the approval of the respective Boards of Directors, as well as the sales made during the period, primarily by Centrale Immobiliare S.r.l., Geolidro S.p.A. and Orione Immobiliare Prima S.p.A..

In the first half of 2014, personnel costs amount to Euro 18.3 million, compared to Euro 21.3 million in the same period of 2013. This item decreased primarily due to the reduction in average headcount during the period (784 employees compared to 837 in the same period of 2013).

Other costs amount to Euro 25.9 million at June 30, 2014 compared to Euro 31.9 million in the first half of 2013. This item includes costs for maintenance, procurement, advisory and professional services, costs for the rental of head office buildings, other operating costs and provisions for risks and the impairment of receivables. The item fell considerably, owing mostly to lower volumes of construction and maintenance contracts managed by the Group, a decrease in consultancy concerning the Group's business and lower impairment of receivables recognised compared to the same period of 2013.

The EBIT at June 30, 2014 is a loss of Euro 7.1 million, compared to a loss of Euro 15.6 million at June 30, 2013.

In the first half of 2014, the loss from investments amounts to Euro 24.6 million, compared to a loss of Euro 30.9 million at June 30, 2013. This item includes, *inter alia*, the negative impact of write-downs of Euro 20.3 million on investments and investment property (write-downs of Euro 25.6 million at June 30, 2013).

Financial income is Euro 3.7 million at June 30, 2014, compared to Euro 6.5 million in the first half of 2013. The changes in interest income relate both to financial receivables from Group companies and to intra-group current accounts in place with associates or joint ventures, and to interest rates.

Financial expenses amount to Euro 12.2 million at June 30, 2014, compared to Euro 23.6 million in the same period of 2013. This item is down compared to the first half of 2013 primarily because of the decrease in borrowings resulting from the extraordinary capital increase and debt restructuring transaction completed in 2013.

6. CO-INVESTED AND THIRD-PARTY REAL ESTATE PORTFOLIO AND NET ASSET VALUE AT JUNE 30, 2014

Analyses are provided below concerning the Group's co-investments (values at 100% and values relating to the Group's interest) through investment companies or real estate funds and the third-party assets under management. Co-invested and third-party real estate asset values are based on appraisals by independent experts at the period closing date[24], with the exception of non-performing loans which are stated at book value[25].

Pro rata, this figure refers the Group's share of the market value of the assets and the book value of the non-performing loans held.

6.1. Co-invested real estate portfolio

The information below concerning the portfolio of the Group's real estate co-investments at June 30, 2014 is based on valuations carried out by CB Richard Ellis on the entire portfolio, with the exception of:

- the Patrimonio Uffici and Manifatture Milano Funds, the Social & Public Fund and Mistral Real Estate, appraised by REAG;
- the Hospitality & Leisure Fund, appraised by JLL;
- the Diomira Fund, appraised by Scenari Immobiliari;
- Centrale, Geolidro, Orione and the Raissa, Città di Torino and Spazio Industriale Funds, appraised by Patrigest;
- the Vivaldi Funds, appraised by K2Real;
- Iniziative Retail and Olinda Fund, appraised at exit value;

[24] The values calculated in this manner exclude the deduction of any discounts arising from sale mandates aimed at accelerating the real estate portfolio disposal process.
[25] Figures expressed at purchase cost net of any write-downs.

- Coimpex, appraised by AK Expert;
- Highstreet, appraised by Cushman & Wakefield;
- the Portafogli Misti Fund, appraised by Avalon.

The assessments are conducted using generally accepted valuation criteria, i.e. each investment property is appraised using different methodological criteria defined by the independent appraiser.

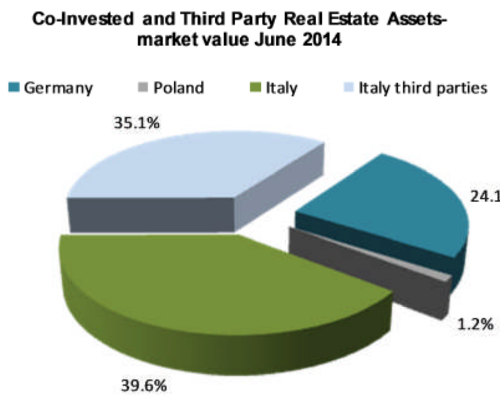
In the German commercial real estate sector, the most commonly used method is the discounted cash flow method, whereby cash flows arising from leases are discounted at a rate that reflects the specific risks associated with the investment (the terminal value at the end of the lease term is obtained by capitalising market rental costs for corporate and/or tertiary properties). The comparative method is used to obtain the terminal value for residential real estate in Italy. The transformation method is used for projects in progress and land to be developed, which discounts the costs and revenue arising from the development project and also takes into account project progress.

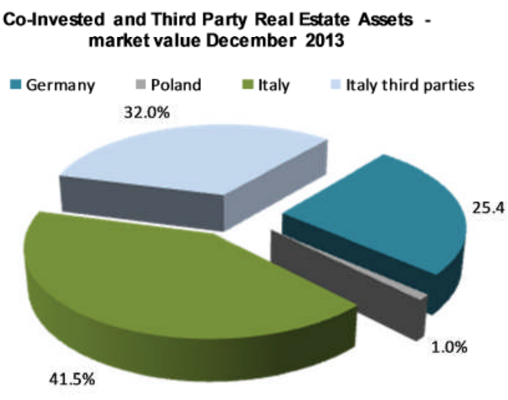
Also with reference to the Consob recommendation of July 18, 2013, in recent years various appraisers have been engaged to assess the Group's real estate assets, including Cushman & Wakefield, Patrigest, CB Richard Ellis, John Lang LaSalle, K2Real, REAG and other top companies in the sector which, as independent experts, offer specialised investment property valuation services. This is done in compliance with specific sector regulations and to ensure that real estate asset appraisals are more objective and independent. The average engagement lasts for approximately 4 years. The Group seeks to achieve the utmost transparency in its selection and reassignment process by evaluating the expert's adequacy with respect to the specific real estate portfolio to be appraised. In particular, independent appraisers are selected in light of their specific professional skills as well as the engagement type. The following are also taken into account specifically for real estate funds: years of experience in real estate asset appraisals, registration in the registry of court-appointed experts of an Italian court, at least one appraisal conducted on assets held by a single party worth over Euro 25 million, an adequate process quality certification, suitable technical and organisational standards and the absence of conflicts of interest.
Please note that, in compliance with the joint Bank of Italy-Consob communication of July 29, 2010, the assumptions used by independent experts to prepare their appraisals of the real estate portfolio managed by Prelios SGR are audited in accordance with internal procedures establishing guidelines, roles, the responsibilities of the various departments concerned and interactions with independent experts. In compliance with the Consob recommendation of July 18, 2013, the Group has also applied those procedures to the other operating companies with the appropriate timing and methods.

Co-invested[26] and third-party assets under management at June 30, 2014 amount to Euro 5.6 billion (Euro 6.2 billion at December 31, 2013). The interest of Prelios comes to Euro 1.0 billion (Euro 1.2 billion at December 31, 2013). The assets include Euro 5.4 billion in real estate (Euro 6 billion at December 31, 2013) and Euro 0.2 billion in non-performing loans (Euro 0.2 billion at December 31, 2013). As regards the asset allocation by geographical area, of the Euro 5.4 billion in real estate assets, 74.7% is in Italy, 24.1% is in Germany and 1.2% is in Poland.

Real estate assets in which the Group does not hold an interest amount to Euro 1.9[27] billion at June 2014, essentially in line with December 2013. These assets account for roughly 34.0% of the total value of the real estate portfolio.

The independent expert appraisals that the Prelios Group typically requests every six months on the entire portfolio determined that the like-for-like market values of assets in which the Group holds an interest were impaired by an average of roughly 1% during the period, net of any sale mandates given to intermediaries. In Italy, write-downs in the first half of 2014 on certain funds and co-invested real estate portfolios reflected the slight deterioration of the investment property sector risk scenario. As shown in the tables below, at June 30, 2014 Italy accounted for approximately the same percentage of the geographical asset allocation stated at market value as at December 31, 2013. The Italy co-invested real estate assets accounted for a slightly lower percentage, while the Italy third-party assets increased.

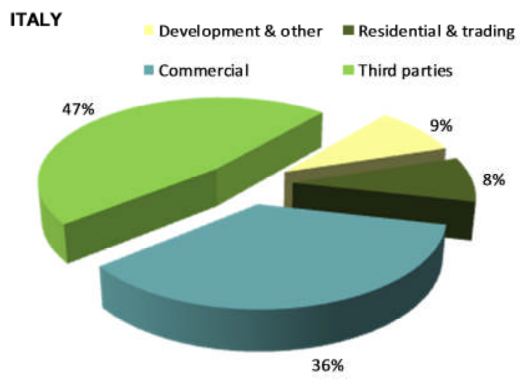


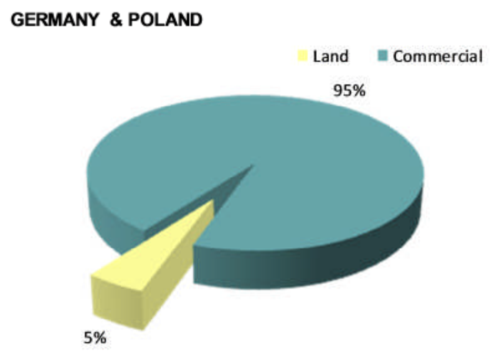


The tables below show assets by type stated at market value at June 30, 2014 (values at 100%).

[26] Assets under management, excluding NPL measured at book value, are stated at market value on the basis of appraisals and analyses by independent experts. The market values established by independent experts do not take into consideration any acceleration in the sales plan with respect to the reasonable period of time that would be needed for marketing, considering the asset type and the market situation, as well as any discounts for bulk sales or arising from sale mandates.

[27] This also includes initiatives in which the Group holds an interest of less than 5%.





Development and land activities

Co-investments in development and land activities at June 2014 are valued at Euro 433.0 million, of which Euro 303.7 million for land and Euro 129.3 million for development. The Prelios share comes to 43%, equal to Euro 186.8 million.

Therefore, development and land activities account for approximately 20% of the total co-invested real estate portfolio (Euro 915.8 million pro rata).

Please note that the Group generally holds qualified minority interests in joint ventures with leading domestic and international partners for development and land initiatives. It provides asset management, property and project management and agency services.

The development and land activities of the various joint ventures in which Prelios holds an interest are covered by financing, with 50%-70% originally provided by leading domestic and international credit institutions and the rest provided by shareholders in the form of equity and shareholder loans.

The non-recourse bank loan is typically structured into two lines with property pledged as collateral: the first to purchase the land and the second to be disbursed as works progress (capitalisation line).

The following main projects are currently under way:

- Manifatture Milano (Prelios 50%): land adjacent to the Bicocca area (northern part of Milan). Approximately 72,000 square metres of land to be developed with the following intended uses: Private and subsidised housing, university residences, commercial, green and social housing. The land's market value is around Euro 103.6 million. Development is managed by a joint venture with Fintecna. The renovation of one of the existing residential buildings (building 2) is currently being completed.
- Trixia (Prelios 36%): partially developed land intended for real estate development, located in areas adjacent to the Municipality of Milan. The company's real estate assets include:

- Zibido Land and Farmstead – real estate complex consisting of land and farmhouses to be renovated;
- Malaspina Expansion – semi-urban area intended for predominantly residential use;
- Cusago Expansion – non-urban area for tertiary use
- Castello di Tolcinasco – portion of Castello di Tolcinasco
- Malaspina Residences – residential complex located in the Municipality of Pioltello, consisting of three lots and one commercial complex: development works which began in 2004 have been completed and the initiative is in the marketing phase.

The market value of the entire real estate asset portfolio at June 30, 2014 is Euro 80.4 million.

- Inim 2 (Prelios 25%): in the segment dedicated to RCS, a partially built-up area with a gross floor area of roughly 44,500 square metres for production/tertiary and commercial use remains available to the investment initiative. The market value at June 30, 2014 is Euro 29.1 million.
- The former Lucchini area, around 90 hectares situated in the northern immediate outskirts of Warsaw with estimated potential for the construction of over 400,000 square metres, has a market value in excess of Euro 65 million (Prelios holds a 40% interest). A new Master Plan was approved in December, completing the urban planning process on part of the area (for retail and office use).

6.2. Independent third-party appraisals of real estate net asset value

The pro-rata net asset value of the Prelios investments is Euro 0.4 billion at June 30, 2014 (net of non-performing loans, which are stated at book value), in line with the figure at December 31, 2013. This value is the balance between the pro-rata value based on independent expert appraisals of co-invested assets (Euro 0.9 billion) and the pro-rata net bank debt of the investment companies and funds in which Prelios holds an interest (Euro 0.5 billion).

Of the total book value of the real estate portfolio associated with investment companies and funds in which the Group holds an interest of Euro 3.4 billion (Euro 0.9 billion pro rata), roughly Euro 1.1 billion (Euro 0.3 billion pro rata) refers to investment property measured at fair value (IAS 40).

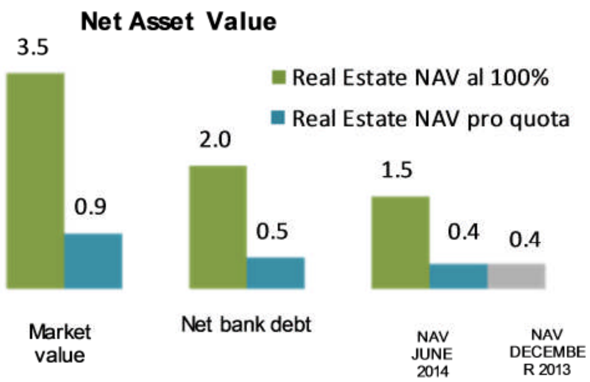
The Company's net asset value at June 30, 2014 is presented below.

Co-Invested and Third Party Real Estate Assets

(in billions of euro)	JUNE 2014 - 100% -				DECEMBER 2013 - 100% -			
	Market value	Book value	Net Bank Debt	Net Asset Value	Market value	Book value	Net Bank Debt	Net Asset Value
Real estate investment companies and funds in which the Group holds an interest	3.5	3.4	2.0	**1.5**	4.1	3.9	2.4	**1.7**
Real estate investment companies and funds in which the Group does not hold an interest (*)	1.9	1.9			1.9	1.9		
TOTAL REAL ESTATE	**5.4**	**5.3**	**2.0**		**6.0**	**5.8**	**2.4**	
NPL (**)	*0.2*	*0.2*	*0.2*		*0.2*	*0.2*	*0.2*	
CO-INVESTED AND THIRD PARTY REAL ESTATE ASSETS (***)	**5.6**	**5.5**	**2.2**		**6.2**	**6.0**	**2.6**	

	JUNE 2014 - PRO QUOTA -				DECEMBER 2013 - PRO QUOTA -			
	Market value	Book value	Net Bank Debt	Net Asset Value***	Market value	Book value	Net Bank Debt	Net Asset Value***
Real estate investment companies and funds in which the Group holds an interest	0.9	0.9	0.5	**0.4**	1.1	1.0	0.7	**0.4**
Real estate investment companies and funds in which the Group does not hold an interest (*)	0.0	0.0			0.0	0.0		
TOTAL REAL ESTATE	**0.9**	**0.9**	**0.5**		**1.1**	**1.0**	**0.7**	
NPL (**)	*0.1*	*0.1*	*0.1*		*0.1*	*0.1*	*0.1*	
CO-INVESTED AND THIRD PARTY REAL ESTATE ASSETS (***)	**1.0**	**1.0**	**0.6**		**1.2**	**1.1**	**0.8**	

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



Net bank debt does not incorporate the borrowings of certain initiatives in liquidation or similar, for which the net invested capital is null since there are no legal obligations to make additional significant capital injections (Portafogli Misti Fund, Riva dei Ronchi, Induxia, Lupicaia, Maro, Roca Tamerice and Aree Urbane for a par value at June 30, 2014 of around Euro 272.6 million at 100% and around Euro 93.9 million pro rata). The tables above also do not include the asset values of such initiatives.

6.3. Presentation of the real estate portfolio

The tables below provide profitability information by cluster with values at 100% as well as pro rata, in addition to the details of rental income items and the relative vacancy percentages. Please note that passing rent corresponds to annualised rents on the basis of contracts existing at the end of the reporting period for assets belonging to the initiative. Passing yield is the ratio between passing rent and the book value of the initiative assets. The vacancy rate is the ratio between the vacant surface area and the total surface area of the initiative assets.

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

	% PRE	Passing Rent	Passing Yield	Vacancy	Book value	Market value	Net debt
Fondo Tecla	44.8%	23,671	6.8%	14.8%	347,510	353,380	266,801
Fondo FIPRS	22.0%	20,337	8.3%		244,719	244,719	152,776
Fondo Raissa	35.0%	12,730	6.4%	1.5%	199,997	206,561	20,606
Fondo Olinda	10.6%	24,646	8.5%	8.4%	288,360	288,360	220,754
Dolcetto Tre S.r.l.	33.0%	1,000	8.2%		12,216	12,020	10,191
Fondo Monteverdi	48.8%	4,431	9.2%	89.8%	48,398	59,890	12,976
Fondo Spazio Industriale	22.1%	19,024	7.6%	20.9%	249,629	283,775	155,473
Commercial Italy		**105,839**	**7.6%**	**20.3%**	**1,390,829**	**1,448,705**	**839,576**
Commercial and other Germany		**2,453**	**7.2%**	**7.2%**	**34,054**	**36,220**	**(2,064)**
Mistral Properties	40.6%	2,453	7.2%	7.2%	34,054	36,220	(2,064)
Highstreet (Commercial)		**89,108**	**7.3%**		**1,225,340**	**1,225,340**	**534,094**
Residential Small Deals		**-**			**-**	**-**	**(130)**
TOTAL Germany		**91,561**	**7.3%**	**0.1%**	**1,259,394**	**1,261,560**	**531,900**
Total portfolio YIELDING		**197,400**	**7.4%**	**14.3%**	**2,650,223**	**2,710,265**	**1,371,476**
Trading Italy		**4,351**	**n.m.**	**n.m.**	**335,581**	**341,636**	**375,174**
Development Italy		**-**	**n.m.**	**n.m.**	**127,126**	**129,251**	**85,415**
Land Italy		**342**	**n.m.**	**n.m.**	**224,529**	**236,579**	**138,039**
Commercial and other Germany		**1,530**	**n.m.**	**n.m.**	**39,617**	**47,532**	**14,836**
Land Poland		**11**	**n.m.**	**n.m.**	**18,331**	**67,120**	**(372)**
Total Other		**6,234**			**745,184**	**822,118**	**613,092**
Total portfolio in which the Group holds an interest		**203,634**	**6.0%**		**3,395,407**	**3,532,383**	**1,984,568**

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

	% PRE	Passing Rent	Passing Yield	Vacancy	Book value pro rata	Market value pro rata	Net debt pro rata
Fondo Tecla	44.8%	10,605	6.8%	14.8%	155,684	158,314	124,262
Fondo FIPRS	22.0%	4,466	8.3%		53,740	53,740	40,615
Fondo Raissa	35.0%	4,456	6.4%	1.5%	69,999	72,296	7,212
Fondo Olinda	10.6%	2,611	8.5%	8.4%	30,543	30,543	23,365
Dolcetto Tre S.r.l.	33.0%	330	8.2%		4,031	3,967	3,363
Fondo Monteverdi	48.8%	2,162	9.2%	89.8%	23,618	29,226	6,332
Fondo Spazio Industriale	22.1%	4,208	7.6%	20.9%	55,219	62,772	34,294
Commercial Italy		**28,837**	**7.3%**	**27.7%**	**392,834**	**410,858**	**239,443**
Commercial and other Germany		**1,936**	**11.6%**	**9.9%**	**16,622**	**17,501**	**2,733**
Mistral Properties	40.6%	1,936	11.6%	9.9%	16,622	17,501	2,733
Highstreet (Commercial)		**10,782**	**7.3%**		**148,266**	**148,266**	**64,439**
Residential Small Deals		**-**			**-**	**-**	**(52)**
TOTAL Germany		**12,718**	**7.7%**	**1.1%**	**164,888**	**165,767**	**67,121**
Total portfolio YIELDING		**41,555**	**7.5%**	**23.3%**	**557,722**	**576,625**	**306,564**
Trading Italy		**1,531**	**n.m**	**n.m**	**123,951**	**127,432**	**126,974**
Development Italy		**-**	**n.m**	**n.m**	**60,079**	**61,027**	**39,187**
Land Italy		**-**	**n.m**	**n.m**	**94,319**	**98,872**	**49,196**
Commercial and other Germany		**687**	**n.m.**	**n.m.**	**22,158**	**24,950**	**5,906**
Land Poland		**5**	**n.m**	**n.m**	**7,333**	**26,849**	**(133)**
Total Other		**2,222**			**307,840**	**339,130**	**221,130**
Total portfolio in which the Group holds an interest		**43,777**	**5.1%**		**865,562**	**915,755**	**527,694**

The Prelios Group's real estate yielding portfolio has a market value of Euro 2.7 billion (Euro 0.6 billion pro rata) and a book value of Euro 2.7 billion (Euro 0.6 billion pro rata). It generates pro-rata turnover from rents of approximately Euro 41.6 million (total turnover of around Euro 197.4 million). The ten main tenants of the portfolio, representing 64% of the rents attributable to Prelios, are: Karstadt (Highstreet), Telecom Italia, Regione Sicilia, Valtur, Conforama Italia, Virgin Active Italia, Alstom Power, GS S.p.A. – Carrefour Group, Olivetti and UCI Italia.

The co-invested portfolio broken down on the basis of IAS 2 and IAS 40 is presented below by country.

	Book value 100%		Market value 100%	Book value pro rata		Market value pro rata
IAS 2	352,844		364,259	59,048		64,618
IAS 40	1,037,985		1,084,446	333,786		346,240
Commercial Italy	**1,390,829**		**1,448,705**	**392,834**		**410,858**
IAS 2	34,054		36,220	16,622		17,501
IAS 40	-		-	-		-
Commercial Germany	**34,054**		**36,220**	**16,622**		**17,501**
IAS 2	1,225,340		1,225,340	148,266		148,266
IAS 40	-		-	-		-
Highstreet	**1,225,340**	(*)	**1,225,340**	**148,266**	(*)	**148,266**
IAS 2	335,581		341,636	123,951		127,432
IAS 40	-		-	-		-
Trading Italy	**335,581**		**341,636**	**123,951**		**127,432**
IAS 2	80,829		82,954	46,903		47,851
IAS 40	46,297		46,297	13,176		13,176
Development Italy	**127,126**		**129,251**	**60,079**		**61,027**
IAS 2	224,529		236,579	94,319		98,872
IAS 40	-		-	-		-
Land Italy	**224,529**		**236,579**	**94,319**		**98,872**
IAS 2	39,617		47,532	22,158		24,950
IAS 40	-		-	-		-
Other Germany	**39,617**		**47,532**	**22,158**		**24,950**
IAS 2	18,331		67,120	7,333		26,849
IAS 40	-		-	-		-
Land Poland	**18,331**		**67,120**	**7,333**		**26,849**
Total portfolio in which the Group holds an interest	**3,395,407**		**3,532,383**	**865,562**		**915,755**

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

7. BUSINESS DIVISION PERFORMANCE

This section describes the financial performance of the Real Estate (by geographical areas) and NPL components, broken down between income/costs from the Management Platform and income/costs from Investment Activities[28]. The operating profit (loss) presented and described below corresponds to the definition provided in paragraph 4 of this report.

All amounts are in millions of euro unless specified otherwise.

The table below shows the operating profit (loss) by geographical area.

	Italy		Germany		Poland		NPL		G&A		Total	
	June 2014	June 2013	June 2014	June 2013	June 2014	June 2013	June 2014	June 2013	June 2014	June 2013	June 2014	June 2013
Management platform	4.7	3.6	1.3	0.2	(0.2)	(0.1)	0.2	(2.1)	(6.2)	(5.9)	**(0.2)**	**(4.3)**
Investment activities	(4.6)	(6.8)	(0.1)	0.6	(0.7)	(0.7)	0.0	3.3	0.0	0.0	**(5.4)**	**(3.6)**
Loss on NPL portfolio valuation	0.0	0.0	0.0	0.0	0.0	0.0	(0.7)	(3.3)	0.0	0.0	**(0.7)**	**(3.3)**
Operating profit/(loss)	**0.1**	**(3.2)**	**1.2**	**0.8**	**(0.9)**	**(0.8)**	**(0.5)**	**(2.1)**	**(6.2)**	**(5.9)**	**(6.3)**	**(11.2)**

In the following tables presented by country, revenue refers to the fully consolidated service companies and does not include the consolidated revenue of investment initiatives.

7.1. Italy Real Estate

The operating profit of Italy Real Estate (Management Platform and Investment Activities) is Euro 0.1 million at June 30, 2014, compared to a loss of Euro 3.2 million in the same period of 2013.

Management Platform

The operating profit at June 30, 2014 is Euro 4.7 million, a slight increase with respect to the profit of Euro 3.6 million in the same period of 2013.

The main events involving the individual cash-generating units of the Management Platform are described below.

[28] The result of investment activities refers to amounts generated by Prelios through its investments in funds and companies that hold real estate portfolios. The result of the Management Platform refers to amounts generated through fund and asset management activities and specialised real estate services (property and project, agency and facility) and NPL credit servicing, including general and administrative expenses.

Fund Management	June 30, 2014	June 30, 2013
Revenue (millions of euro)	10.3	11.1
Operating profit/(loss) (millions of euro)	3.7	4.7
ROS	36%	42%
Number of funds managed	25	23
AUM (*)	3.7	4.1
Number of employees	72	63

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

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

At June 30, 2014, Prelios SGR manages a total of 25 funds, of which 12 are ordinary (2 of which are listed) and 13 are speculative, in addition to a real estate portfolio disposal management contract.

Revenue, essentially consisting of fixed management commissions, amounted to Euro 10.3 million in the first half of 2014, a decrease of roughly 7% compared to the same figure at June 30, 2013. This was mainly because the Spazio Industriale fund is no longer managed (resulting in reduced fees) and because the fees of some funds undergoing financing restructuring have been changed, with a total impact of over Euro 0.6 million.

With respect to new initiative development launched by the new management, the Company has established new ordinary real estate funds ("PAI – Parchi Agroalimentari Italiani" Fund, "IGEA" Fund and "Primo RE" Fund) and now manages a total of 25 funds.

- The PAI – Parchi Agroalimentari Italiani Fund, promoted in support of the F.I.CO. (Fabbrica Italiana Contadina) project, will result in the creation of a complex in the Bologna Agricultural and Food Market which will act as a hub for Italian eno-gastronomic excellence. The Fund was established via the contribution by the Bologna Agricultural and Food Market (CAAB) of the project development area and the subscription by several qualified investors of shares to be paid up in cash in the amount of Euro 40.5 million, for a total minimum amount of at least Euro 95 million.
- The IGEA Fund is dedicated to investments in initiatives with a significant real estate development and renovation component. For this transaction, the Fund will acquire ownership over land (through contributions and/or purchase) to be used for the development of real estate projects or properties to be converted/renovated. Institutional investors will make financial contributions to the Fund, and other qualified investors will contribute assets in kind (land or real estate). Prelios SGR has already obtained Euro 25 million in cash subscriptions from an important social security institution for the development of a residential project on land previously contributed to the Fund.
- The "Primo RE" Fund will receive an initial contribution of Euro 50 million from the Italian Accountants' National Pension Fund (CNPADC), which retains the right to increase this contribution to Euro 300 million. At least 90% is to be invested in real estate assets and real estate property rights located in Italy mainly for commercial, tertiary or office use, in any event excluding residential real estate.

Furthermore, during the reference period a significant agreement was entered into by the asset management company and Secondcap Ltd – a company authorised by the FCA in London and which manages a transaction platform on the secondary market of closed-end funds – in order to boost the liquidity of investments in reserved real estate funds managed by the asset management company. Under this agreement, Secondcap will make its platform available to international investors and provide support services to investors in the reserved funds managed by the asset management company, which will therefore be able to increase unit liquidity and the value of their investments even before the fund's natural maturity.

Agency	**June 30, 2014**	**June 30, 2013**
Revenue (millions of euro)	1.3	0.8
Operating profit/(loss) (millions of euro)	(0.6)	(1.9)
Volume of business (in millions of euro)	18.9	22.3
Renegotiated rents (in millions of euro)	8.8	1.6
Renegotiated rents (in m^2)	67,825	15,491
Number of employees	20	24

In Italy, real-estate brokerage and valuation services are provided by the subsidiaries Prelios Agency S.p.A. and Prelios Valuations & e-Services S.p.A..

Prelios Agency S.p.A. is the Prelios Group company specialised in the provision of professional advisory services for the purchase, sale and lease of individual real estate properties as well as entire portfolios of real estate for office, residential, industrial, logistics and retail use. The company offers a wide variety of purchase, sale and lease brokerage and advisory services, ranging from customer requirements analysis to market monitoring, handling negotiations and contractual support.

Revenue rose from Euro 0.8 million in the first half of 2013 to Euro 1.3 million in the first half of 2014. Activities associated with new mandates for the renegotiation of rentals were the primary driver of this improvement. In the first half of 2014, the Company leased approximately 68,000 square metres, compared to around 15,000 square metres in the same period of last year. Rentals managed by the Company amounts to roughly Euro 9 million, compared to Euro 1.6 million in the first half of 2013. However, the number of real estate transactions further declined during the half. The Company brokered volumes with a total value of around Euro 19 million, compared to Euro 22 million in the first half of 2013.

The loss of Euro 0.6 million in the first half of 2014 reflects the continuing real estate crisis in Italy, which triggered a considerable slowdown in transaction volumes and size. However, the cost reduction initiatives launched in 2013 have generated benefits with respect to the first half of 2013.

The portfolio of sale mandates from third-party clients amounts to Euro 1,618[29] million at June 30, 2014.

Valuations	**June 30, 2014**	**June 30, 2013**
Revenue (millions of euro)	2.5	2.1
Operating profit/(loss) (millions of euro)	0.6	0.4
ROS	24%	19%
Number of Loan Service valuations	approx. 3.200	approx. 7.900
Number of employees	11	11

[29] List price.

The subsidiary Prelios Valuations & e-Services S.p.A. is one of Italy's leading independent operators in appraisals of individual real estate properties and real estate asset portfolios in the tertiary and residential segments. With approximately 13,000 appraisals completed in 2013, it is also among the leading firms in Italy for Loan Services.

In the first half of 2014, revenue amounts to Euro 2.5 million, compared to Euro 2.1 million in the same period of 2013.

The minimum Loan Services volumes recorded in the previous half were maintained.

Service volumes also declined for the ING Direct Contract.

Turnover in the Full Appraisals segment, dedicated to companies, institutional investors and real estate funds, was on the rise in the first half of 2014 compared to the second half of 2013 due to new clients as well as services provided to existing clients.

Signs of growth were also seen in the Mass Appraisals segment compared to the same period of 2013 due to the statistical revaluation of large real estate portfolios.

Appealing opportunities to participate in tenders for the valuation of real estate collateral for important Italian banks also emerged at the end of the half.

During the period, the Company was awarded a contract in the tender called by the Bank of Italy for the asset quality review of the portfolios of leading Italian banks, as part of the comprehensive assessment activities launched by the ECB.

Integra	**June 30, 2014**	**June 30, 2013**
Revenue (millions of euro)	9.6	7.6
Operating profit/(loss) (millions of euro)	1.1	0.8
ROS	11%	11%
Value of assets under management (billions of euro)	4.6	4.9
Floor area managed (in millions of m^2)	5.4	4.1
Rental units managed	approx. 29.000	approx. 29.000
Leases managed	approx. 2.900	over 2.800
Passing Rent (millions of euro)	237	over 259

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

Prelios Integra is an Italian leader in integrated services for real estate management and project development, with Euro 4.6 billion worth of real estate under management totalling roughly Euro 5.4 million square metres.

Prelios Integra offers integrated, active and dynamic asset management services (asset, property and facility management) to enhance property value on behalf of public and private customers, from property administrative management and accounting to tenant relations, and from technical and maintenance services to analysis and sales support.

The company handles project management activities, encompassing all property planning and construction phases, with distinctive sustainability expertise from the new development of eco-friendly buildings to green retrofitting, and from energy certifications to renewable energy.

The Company's highly specialised retail division works to develop and enhance shopping centres throughout Italy, handling operations and administrative management, relations with retailers and even strategic tenant mix optimisation.

The company currently provides the following services:

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

At June 30, 2014, revenue is Euro 9.6 million, marking an increase with respect to Euro 7.6 million in the same period of 2013, mainly resulting from global servicing activities on the Scarmagno property and the Ivrea district. The operating profit is Euro 1.1 million, up compared to Euro 0.8 million at June 30, 2013.

In the first half of 2014, the company managed real estate assets equivalent to roughly 2,900 lease agreements. The main third-party clients are: INPS, Telecom Italia, Sisal, UBI Banca Group, Excelsia 9, SR3 Certosa (Stam Europe), Duemme SGR and Prisma SGR.

In the first half of 2014, the company also obtained new mandates, particularly from third-party clients such as Sisal, Namira, Wind, Mediolanum SGR, Reed SGR and Stam Europe.

Investment Activities

Investment activities, which are currently held for disposal, continue to be impacted by negative trends in the Italian real estate market. The investments held by Prelios in funds and companies that hold real estate and non-performing loan portfolios are also often subject to the decisions of the majority partners.

The operating loss at June 30, 2014 is Euro 4.6 million, compared to a loss of Euro 6.8 million in the same period of 2013.

Continuing weakness in the market, with lower transaction volumes and plummeting prices, makes it impossible to cover the operating and financial costs of the investment companies. Therefore, even though costs decreased compared to 2013, the results of Investment Activities are negative once again.

Property sales in the first half of 2014 (values of the property assets of associates, joint ventures and funds in which the Group holds an interest, considered at 100%) totalled Euro 67.3[30] million (Euro 33.4[31] million in the same period of 2013). Real estate transaction values

[30] Including Euro 60.6 million relating to Funds/vehicles under stop loss.

[31] Including Euro 11 million relating to Funds/vehicles under stop loss.

were basically in line with book values (gross margins of 2.6% on sales[32] made in the first half of 2013). Total rents[33] amount to Euro 56.2 million (Euro 62.3 million at June 30, 2013).

7.2. Germany Real Estate

Germany Real Estate (Management Platform and Investment Activities) posted a positive EBIT of Euro 1.2 million in the first half of 2014 compared to Euro 0.8 million in the same period of 2013.

Management Platform

Germany	June 30, 2014	June 30, 2013
Revenue (millions of euro)	6.1	6.7
Operating profit/(loss) (millions of euro)	1.3	0.2
ROS	21%	3%
Floor area managed (in millions of m^2) (*)	1.1	1.7
Number of rental units managed (*)	78	108
AUM (**)	1.3	2.6
Number of employees	80	81

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

The services platform alone records an operating profit of Euro 1.3 million at June 30, 2014, compared to Euro 0.2 million at June 30, 2013.

Revenue declined from Euro 6.7 million at June 30, 2013 to Euro 6.1 million in the first half of 2014. This decrease mainly stemmed from reduced fees from the Highstreet portfolio management in 2014 due to lower volumes managed as a result of sales made in 2013.

The platform alone records an operating profit of Euro 1.3 million at June 30, 2014, compared to Euro 0.2 million at June 30, 2013. This improvement is the result of significant cost reduction in this specific business unit.

Investment Activities

The EBIT of this business area is negative by Euro 0.1 million at June 30, 2014, compared to a positive amount of Euro 0.6 million in the first half of 2013.

Property sales in the first half of 2014 (values of the property of associates, joint ventures and funds in which the Group holds an interest, considered at 100%) are equal to Euro 244.8 million. The significant increase compared to Euro 79.8 million in the same period of 2013 resulted primarily from the sale of the "Small Deal" German residential portfolio. In the first half of 2014, real estate transaction values were in line with book values, as was also the

[32] The value is the ratio between the value of sales and the associated gross capital gains. These are made by the consolidated companies, associates, joint ventures and funds in which the Group holds an interest of at least 5%.
[33] This value is determined by adding rents earned by the consolidated investment companies and rents of the associates, joint ventures and funds in which the Group holds an interest.

case in the same period of 2013. Total rents are equal to Euro 51.2 million, compared to Euro 122.1 million in the first half of 2013.

7.3. Poland Real Estate

The EBIT of Poland Real Estate (Management Platform and Investment Activities) is a negative Euro 0.9 million at June 30, 2014 compared to a negative amount of Euro 0.8 million in the same period of 2013.

Management Platform

Poland	June 30, 2014	June 30, 2013
Revenue (millions of euro)	0.1	0.2
Operating profit/(loss) (millions of euro)	(0.2)	(0.1)
Floor area managed (in millions of m^2) (*)	0.4	0.4
Number of employees	10	15

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

The Management Platform's EBIT is a negative Euro 0.2 million, compared to a negative Euro 0.1 million in the same period of 2013.

These results reflect the conclusion of the sale of the inventory of real estate under development, while the urban development of some land still in the portfolio is currently being completed.

Investment Activities

The operating loss amounts to Euro 0.7 million, in line with the same period of 2013. Work continues on the urban planning procedure, which will result in a potential buildable area of at least 400,000 square metres at the former Lucchini site in Warsaw, in which Prelios holds a 40% interest. The result was impacted by operating and financial costs linked to land development activities.

7.4. Non-Performing Loans

In the first half of 2014, non-performing loans (Management Platform and Investment Activities) posted an operating loss of Euro 0.4 million compared to a loss of Euro 2.1 million in the same period of 2013. The negative NPL portfolio valuation at Euro 0.7 million (a negative amount of Euro 3.3 million at June 30, 2013) contributes to the operating loss in the first half of 2014.

Management Platform

NPL	June 30, 2014	June 30, 2013
Revenue (millions of euro)	4.9	4.2
Operating profit/(loss) (millions of euro)	0.2	(2.1)
ROS	4%	-50%
Collections (millions of euro)	31.6	51.5
Gross book value (billions of euro)	8.5	8.5
Number of NPL managed	over 75.000	over 73.000
Number of employees	59	112

Prelios Credit Servicing is one of the leading Italian managers of non-performing loans by volume, with a portfolio under management of approximately Euro 8.5 billion (gross book value).

Revenue amounts to Euro 4.9 million, an increase compared to Euro 4.2 million in the same period of the previous year. Turnover during the period benefitted from some non-recurring revenue components as well as the improved performance of existing portfolios.

Total costs are equal to Euro 4.8 million, a clear improvement with respect to Euro 6.3 million in the first half of 2013. This performance was achieved as a result of the restructuring plan completed late last year, which entailed savings of around Euro 1.5 million in personnel costs alone, while overhead costs essentially remained stable.

Operating profit in the first half of 2014 is Euro 0.2 million, compared to an operating loss of Euro 2.1 million at June 30, 2013.

In the first half of 2014, the first signs were seen of a slight narrowing of the gap between the book value of non-performing loans and the prices that potential investors are willing to offer. This phenomenon was driven by a range of factors: (i) increased coverage rates as the result of significant write-downs recognised by the banks in their year-end financial statements; (ii) reduced uncertainty as to the value of underlying assets due to economic improvement; (iii) decreasing spreads on government bonds; and (iv) the greater propensity of foreign investors to invest in Italy, including in risk assets, thereby favouring the meeting between supply and demand in the form of disposal transactions.

Therefore, during the half there was a slight trend reversal in debt collection through the most widely used channels – judicial, out-of-court and disposal of small and medium-sized blocks. In this particular context, the Company's revenue surpassed expectations in the first half, while cost management also significantly outperformed forecasts. During the half, collections on behalf of client counterparties amounted to roughly Euro 31.6 million, compared to Euro 51.5 million in the first half of 2013.

Business development continues to focus on four primary areas:

1. Reinforcing visibility within the banking industry by branding the Company as an institutional and independent special servicer;
2. Taking part in transactions for the establishment of securitisation vehicles for the derecognition of bank loans;
3. Providing advisory services and managing special situations;
4. Strengthening master and corporate servicing services.

With respect to the first point, various special servicing mandates have been successfully established and others are currently being negotiated.

The Company has also entered into agreements for the management of real estate underlying non-performing loans, particularly: (i) the collection of rent and building expenses; (ii) support for participation in judicial auctions; and (iii) the facilitation of the sales process by using the real estate network if a voluntary disposal agreement is made with the debtor.

The second aspect of development involved the participation in initiatives to structure transactions enabling Banks to derecognise their loans.

The Company has also supported various counterparties in the due diligence phase to evaluate receivables and identify the best collection strategy.

In terms of advisory and special situation activities, the Company managed the entire sale process of a portfolio of mortgage-backed and unsecured loans on behalf of a leading domestic Bank.

As a Master Servicer, the company is rated by two rating agencies, Standard & Poor's and Fitch, which provided positive ratings in 2014 as well, of Above Average and RSS2/CSS2 respectively.

Investment Activities

The loss from the NPL portfolio valuation refers to the impairment of a junior note held by the parent company, relating to a loan portfolio held by a joint venture with Morgan Stanley.

8. RISKS AND UNCERTAINTIES

Despite the difficult macroeconomic environment, which has hit the real estate sector with particular force, and additional losses and financial requirements forecast in the coming three years, the directors have applied the going concern assumption in preparing the financial statements, based on the assumptions and verifications discussed in the "Initiatives for continuation as a going concern" section and the "adoption of the going-concern assumption in preparing the financial statements" section of the notes, primarily due to the Lenders' willingness to support a series of actions to mitigate cash requirements and review the medium-term financial structure within sustainable limits for the Group, in addition to further initiatives already specified and described in the above paragraphs.

8.1. Risks related to the Group's financial structure

The Group is exposed to financial risk primarily associated with obtaining financial resources, the sustainability of financial debt in terms of complying with repayment obligations, the ability of its customers to meet their obligations to the Group and obtaining the resources needed to finance business development.

Financial risk management is an essential part of the activity of the Prelios Group. The Group's financial risk management policies work towards attenuating the interest rate exposure of vehicles and funds in which the Group holds an interest, including with the use of certain derivatives.

As described above, an action plan has been established to deal with the cash requirements forecast by the management, the effects of which are reflected in the 2014-2016 Business Plan. The goal of the action plan is to renegotiate and restructure short-term commitments, which have already been negotiated with the banking sector, as well as to modify the corporate debt repayment mechanism established in the restructuring agreements of 2013, in order to regain financial rebalancing over the planning period and reach a level of debt that is sustainable for the Group, as described below.

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

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

8.1.1. Risks related to financial debt

The 2014-2016 Business Plan estimates that Group cash requirements will not be sustainable without planned initiatives and actions to adjust currently forecast obligations, which require the willingness of both Lenders and shareholders to support the Company. The Lenders are generally expected to approve the 2014-2016 Business Plan. In order to contribute to the successful implementation and execution of the Plan, Prelios deems that, given the advanced stage of the negotiations, the requests put forward (including the reduction of the current percentage of 65% as the amount of Net Income to be allocated to the early repayment of the Senior Loan) may be approved, with the completion of the resolution process by the lenders and the resulting formalisation of the relative agreements, in a reasonably brief period of time (considering the complexity of the internal procedures of the banks concerned), which is in any event consistent with the Company's needs.

In addition, in consideration of the advanced stage of talks with the parent company's primary Lenders, which are also significantly involved in many of the investment vehicles, and on the basis of negotiations under way and the maximum willingness they have expressed to support the Group, the Prelios Directors deem that the other corrective measures mentioned above (reduction and/or deferment of certain financial commitments) may be reasonably completed to an extent and with timing that enables the Group to meet its forecast cash requirements and therefore to continue operating as a going concern.

8.1.2. Risks related to failure to comply with financial covenants and commitments, representations and warranties

The Restructuring Agreement does not require the Company to comply with financial covenants. However, it does provide for periodic disclosure requirements.

Failure to comply with these periodic disclosure requirements is not in and of itself grounds for the termination of the agreement. However, the violation of those obligations would enable the Lending Banks to apply the acceleration clause. At the date of this report, the Company has fulfilled its disclosure obligations to the Lending Banks.

8.1.3. Risk related to interest rate fluctuations

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

Please note that risk of interest rate fluctuations is expected to be basically nil for the borrowings subject to the Restructuring Agreement.

In fact, the Restructuring Agreement provided for the conversion of the debt from floating to fixed rate. Interest rate risk is therefore limited to the portion of the Senior Loan which, from January 1, 2017 to maturity (December 31, 2018), will be subject to an interest rate equal to the Euribor plus an annual spread to be defined in good faith between the parent company and the Lending Banks.

It should be noted that 34% (Prelios pro rata) of the total borrowings (bank and non-bank) of investee vehicles is protected from interest rate fluctuations above a certain level or through fixed-rate loans or via recourse to hedging derivative instruments.

8.1.4. Currency risk

The Group is active internationally in Europe and has a minimal exposure to currency risk arising from exposure to currencies other the euro, i.e. the Polish zloty. The Group treasury manages this risk, which relates exclusively to shareholder loans given to joint ventures for real estate projects in Poland.

8.2. Risks related to the Group's business activity

8.2.1. Risk related to negative Group performance

The continuation of the crisis in the financial markets in general and the real estate segment in particular has also negatively impacted the results of Prelios in recent years.

In response to this market scenario, Prelios has optimised its business model and has started to carry out the actions established in the 2014-2016 Business Plan. The possible extension of the crisis in this sector, which is expected to post negative results in 2014 and in the next few years, could give rise to uncertainties as to whether the goals of the 2014-2016 Business Plan can be achieved, despite the fact that they have been revised and are even more conservative than those laid out in the previous "Fenice" plan. This could result in debt repayment difficulties, additional investment impairment and a further gradual weakening of the Group's economic, asset and financial structure.

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

On June 12, 2014, the Company approved the 2014-2016 Business Plan based on reasonable forecasts, while also taking into account the difficulty of preparing forecasts in the current economic and financial environment, in which it is not possible to rule out additional crises in the financial markets or an aggravation of the factors that caused the current deterioration of the general reference scenario and the real estate market in particular.

The 2014-2016 Business Plan forecasts losses also over the next three years, resulting in an erosion of equity. While the Company considers the plan to be challenging, it is also deemed realistic, feasible and based on a series of reasonable assumptions (although they will of course require constant and accurate verification). The Directors deem that the actions identified to guarantee that the Group will continue to operate as a going concern during the Plan period are adequate to face the uncertainties identified and that, on the basis of advanced-stage negotiations, particularly with the lenders – which have expressed their willingness to support the financial recovery established in the 2014-2016 Business Plan – the mitigation actions identified will be completed in a reasonably brief period of time consistent with the Company's requirements. This will enable the Company to continue operating as a going concern with the liquidity necessary to cover short- and medium-term cash requirements within limits that are sustainable for the Group. The failure to complete the actions identified and still being negotiated with the counterparties concerned to adequately mitigate and deal with the above financial risks to the proper extent and with the necessary timing may give rise to uncertainties which could cause significant doubts as to the Group's ability to continue to operate as a going concern.

8.2.3. Liquidity risk

To manage the risk of insufficient financial resources being available to meet financial and trade obligations under the terms and by the deadlines established, the Group primarily uses annual and long-term financial plans and treasury plans to fully and accurately report and measure cash inflows and outflows. These plans depend to a significant extent on achieving sales timing and value forecasts, which are correlated with repayment plans on the financial debt taken out to support investments. Any differences between actual and plan figures are constantly analysed so that appropriate and timely corrective actions may be taken as required.

Prudently managing this risk described above requires an adequate level of cash and cash equivalents and/or easily cashable short-term instruments and/or available funds obtainable through an adequate amount of credit facilities. Due to the dynamic nature of its business, the Group prioritises flexibility in obtaining funds by using credit facilities.

The Group has used a centralised collection and payment management system for years, in compliance with various 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. Obtaining medium-/long-term resources on the capital market is also optimised through centralised management.

Similarly, the Group has had a system in place for some time for monitoring the risks linked to recourse guarantees issued to investees, which provides the management with the information needed to take the appropriate measures.

In the current competitive and financial context, characterised by continuing pressure on real estate asset values, the credit crunch and a slowdown in sales, the Group's risk associated with maintaining the levels of cash needed to cover its financial requirements has risen significantly.

Liquidity risk, subject to continuous monitoring, is also closely connected with the Company's requirements and is also evaluated in relation to the initiatives for recovery and continuation as a going concern, described above. Please see the previous sections concerning estimated financial requirements and the corrective actions implemented to meet them.

8.2.4. Legal risks linked to civil and administrative disputes

Prelios Group companies are party to legal proceedings (civil and administrative), some of which have arisen in recent months. These primarily include:

- disputes relating to property sales (e.g. failure to respect pre-emption rights, breach of contract and/or property defects);
- disputes relating to management services provided to tenants, clients and suppliers.

The risk control strategies include (i) continuous dispute management and monitoring with the support of external legal advisors and (ii) the assessment of the degree of risk and any provisions to be recognised based on internal analyses prepared in light of the opinions of external legal advisors that support the Company. The disputes may conclude in favour of the Group and, in any event, in line with the assessments made and amounts set aside in the risk provision.

This being said, due to the uncertain nature of legal proceedings, there is still the risk that the disputes may not turn out as forecast, with possible negative repercussions on the Prelios Group's economic and financial position.

Some of the Group's legal risks include:

Polish Investment Real Estate Holding II B.V., a Dutch company in which Prelios S.p.A. holds a qualified minority interest in a joint venture with investment funds belonging to the Grove funds, and which directly holds the entire share capital of Coimpex Sp.Zo.o., which, including through subsidiary vehicles, holds land currently undergoing urban development in Warsaw. The land was acquired indirectly by Prelios S.p.A. by purchasing Coimpex Sp.Zo.o. and Relco Sp.Zo.o. (which subsequently merged into Coimpex Sp.Zo.o.) in 2008 and were later sold to Polish Investment Real Estate Holding II B.V.. With regard to the above, Grove raised certain objections concerning the methods whereby Prelios S.p.A. conducted the negotiation for the sale of the companies that originally owned the land to Polish Investment Real Estate Holding II B.V.. On July 3, 2013, it notified the Company of the initiation of an international arbitration procedure and alleged that the above transaction was carried out under conditions that did not coincide with those presented and, in any event, in a manner that was inconsistent with the principles set out in the investment agreements between the parties. In particular, Grove is essentially requesting the payment of the difference between the purchase price paid for the land by the joint venture and the amount paid for the previous purchase made indirectly by Prelios S.p.A.. On the basis of the preliminary statements of the dispute, this would amount to around Euro 17 million in addition to legal costs. Grove would also allege a possible conflict of interests relating to the company Prelios Polska Sp.Zo.o. (subsidiary of Prelios S.p.A.), which it claims did not act with the required diligence in providing urban development services in the area, for the purpose of privileging Prelios S.p.A.. The preliminary phase was complete and the arbitration is currently pending. In light of the opinions provided by our legal advisors, it is not likely that this dispute will result in liabilities.

Furthermore, in 2009 Relco was merged into Coimpex. As part of the merger, the land subject to perpetual usufruct in favour of Relco was transferred to Coimpex. However, at the time some of this land was intended for forestry and agricultural use, and the transfer required the approval of the Polish Ministry of the Interior.

However, this consent was not requested. In the meantime, the land was developed and today it is used for offices. Coimpex is preparing a motion to be submitted before the applicable ministry to request the *ex-post* consent to the transfer. The risk consists of the possible revocation of perpetual usufruct, which is currently held by Coimpex. In this context, the partner of Prelios in this initiative, the Grove funds, could possibly deem that the failure to request consent was caused by the negligence of the subsidiary Prelios Polska Sp.Zo.o., which provided asset management services to the merged companies at the time of the events.

With respect to civil and administrative disputes involving the investment companies in which the Group holds qualified minority interests, please note that, due to the legal status of such investment companies, legal risk assessments and the recognition of any contingent liabilities take place at the individual company level with involvement and monitoring by the internal departments of Prelios. However, some information is presented below concerning the initiative relating to the G6 Advisor Consortium, which provides management activities for the disposal of certain securitised real estate portfolios, in which the subsidiary Prelios Agency S.p.A. holds a 42.3% interest. In fact, on the basis of the consortium's legal status, all consortium members bear joint and several liability. Should a decision be made against the consortium in pending proceedings, the consortium members may be directly called upon to pay for amounts not covered by the consortium fund. The total *petitum* of the disputes to which the consortium is a party is Euro 28.2 million.

CILE S.p.A. has also initiated arbitration against Prelios S.p.A. for an alleged breach of the latter in former contractual relationships. Although the dispute is still in the preliminary phase, the *petitum* is estimated at around Euro 1.5 million. Prelios S.p.A. intends to appear before the arbitration board and contest the claims of the opposing party. The risk of liabilities is currently deemed unlikely.

Lastly, in February 2005, Prelios and some Group companies, specifically Prelios Property & Project Management, Prelios Agency and Prelios Credit Servicing, entered into an agreement with Capitalia (now UniCredit) and certain companies belonging to the Group of the same name. Under the agreement, Prelios, on its own behalf or through the Group companies, committed to providing Capitalia with services relating to the purchase, management and sale of specific properties subject to enforcement procedures associated with debts owed to Capitalia, to support Capitalia in order to assist the latter with credit protection by safeguarding and realising real estate assets.

In January 2011, UniCredit withdrew from the Agreement and requested all documentation held by the Prelios Group. The other UniCredit Group companies subsequently withdrew as well.

In 2011, when the agreement was no longer in force, UniCredit sent Prelios three communications contesting its actions and those of the Group companies (specifically Prelios Property & Project Management) relating to the asset management activities. The documentation concerning the properties subject to the agreement was delivered in September 2011.

On December 14, 2012, UniCredit submitted a formal request for compensation for claimed damages of Euro 82 million.

The Company rejected all requests submitted by UniCredit and simultaneously requested the payment of Euro 560 thousand for services rendered by Prelios Property & Project Management that had not been paid for.

Prelios contested the request for compensation not only because the amount is deemed groundless, but also because the request was submitted late, when the agreement was no longer in force as a result of the withdrawal.

Talks between the parties, which began in 2013, continued in the first half of 2014 to examine the arguments of both sides and consider possible amicable solutions to the dispute. During the meetings, it came to light that the request may have been only partially late, although this has not yet been properly verified. The relative portion of the compensation has also not yet been determined. In any event, it was deemed prudent to recognise a proper provision for risks at December 31, 2013, which was also confirmed at June 30, 2014.

As regards the Group controlled by Prelios Deutschland ("Prelios DE"), a wholly owned subsidiary of Prelios, the process of selling the residential services platform to BUWOG was completed. This company also purchased the "DGAG" real estate portfolio held by the joint venture between Prelios and GO II Luxembourg S.a.r.l..

When the aforementioned platform was transferred, Prelios DE decided to continue managing certain service agreements, concerning which analyses are under way to determine whether any breaches in management have taken place. A working group has been established with leading external consultants to conduct all necessary verifications. It is not currently possible to determine whether any breaches have taken place or what consequences they may have.

8.2.5. Tax risks

Tax disputes relating to roughly Euro 2.5 million in taxes (excluding penalties and interest) brought against Prelios S.p.A. (the "Company") and some of its subsidiaries by the Tax Authorities were pending at the approval date of this Half-Yearly Financial Report.

The tax disputes mainly concern the following topics which are currently before the Tax Commissions:

- claimed higher income and disputed costs for IRES and IRAP tax purposes;
- application of the arm's length principle on property sales;
- VAT and registration tax disputes;
- other minor disputes.

The Company's advisors, all professionals of recognised standing, and information held by the Company to date indicate that the disputes can be resolved with no significant impact on the financial statements for the parties charged.

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With a view to providing full disclosure, please note that the Tax Authorities have brought charges relating to approximately Euro 50 million in taxes (excluding penalties and interest) against companies in which Prelios S.p.A., or its subsidiaries, hold qualified minority interests with third-party investors (associates and joint ventures). In this regard, Tamerice Immobiliare S.r.l. in liquidation ("Tamerice") signed a tax settlement deed (debt restructuring agreement pursuant to Articles 182-*bis* and 182-*ter* of the Bankruptcy Law) with the Italian Revenue Agency (Agenzia delle Entrate) and with the Collection Agent Equitalia Nord S.p.A. on March 12, 2014, thereby settling the dispute. On June 13, after obtaining the Court's approval of the debt restructuring agreement, Tamerice made the payments to the Italian Revenue Agency and the Collection Agent.

The most significant situations are as follows:

(a) Spazio Investment N.V., in which Prelios indirectly holds 22% of the share capital.

Following the audit by the Guardia di Finanza (Italian Financial Police) for the years 2006 to 2009, the Italian Revenue Agency sent tax assessment notices to Spazio Investment N.V. for the first two years (2006 and 2007) relating to total taxes of Euro 9.4 million and for 2008 relating to total taxes of Euro 11.8 million (plus penalties equal to 120% of the taxes and interest for all years).

In the view of the Tax Authorities, Spazio Investment N.V. is only technically headquartered in the Netherlands and should consider itself to be a *de facto* resident of Italy for tax purposes.

Separate appeals against the tax assessments sent to the company for the years 2006 and 2007 were lodged in March 2013. The Provincial Tax Commission approved the petition for suspension and set the hearing for the discussion of the merits of the case for October 14, 2013. The company and the Italian Revenue Agency have submitted a settlement petition. On July 25, the company signed the settlement proposal which resolves the dispute for the years from 2006 to 2008 with the payment of a total of around Euro 14 million. The dispute will be deemed resolved with the payment of the first instalment due on July 31, 2014.

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

In 2008, the Company was subject to a tax audit for the tax periods from 2004 to 2008. In the report on the findings, the Guardia di Finanza criticised the 2003 merger involving Iniziative Immobiliari S.r.l. for anti-evasion reasons.

The Guardia di Finanza's findings were set out in four tax assessments claiming higher taxes (IRES and IRAP) of Euro 17.2 million for the years from 2004 to 2006 (in addition to penalties equal to 100% of the taxes, plus interest) and, for 2007, an adjustment of losses for the year (from Euro 1.7 million to Euro 0.8 million) and the elimination of losses relating to previous tax periods, totalling roughly Euro 13.9 million.

The disputes relating to the tax assessments from 2004 to 2006 (combined in the first instance) were settled in favour of the Company by the Provincial Tax Commission and by the Regional Tax Commission. The Italian Revenue Agency appealed that decision before the Supreme Court. In April 2013 the Company submitted its own statement of defence. The oral hearing of the case before the Supreme Court has not yet been scheduled.

The Provincial Tax Commission accepted the Company's appeal of the notice of assessment for IRES and IRAP for the 2007 tax year, and the terms for the Italian Revenue Agency to lodge an appeal have lapsed.

The Italian Revenue Agency sent the Company a request for information and documentation concerning property sale transactions carried out in the 2008 and 2009 tax years, with which it complied.

No notices of assessment have been received following the request for information.

(c) Social & Public Initiatives Fund (managed by Prelios SGR), in which Prelios S.p.A. indirectly holds a 35% interest.

On May 10, 2013, the Italian Revenue Agency sent Prelios SGR a tax assessment notice relating to some contributions to the real estate investment fund named Social & Public Initiatives made in 2008. These transactions were reclassified as property sales, and as such are subject to proportional registration tax (in addition to mortgage and land use taxes, also proportional).

On this basis, the Agency requested payment for higher taxes amounting to approximately Euro 5.2 million (plus penalties, equal to 120% of the taxes and interest).

On June 12, 2013, the Italian Revenue Agency sent Prelios SGR a tax assessment for an additional contribution to the same real estate fund. Payment was made for higher taxes amounting to approximately Euro 2 million (plus penalties, equal to 120% of the taxes and interest).

The two above tax assessments amount to approximately Euro 7.2 million (plus penalties, equal to 120% of the taxes and interest).

Prelios SGR, in the name and on behalf of the fund, appealed against these assessments before the Provincial Tax Commission, which ruled in favour of Prelios SGR. The Italian Revenue Agency appealed this decision.

On March 21, 2014, Prelios SGR received a Euro 20.1 million payment order relating to the above tax assessments. Prelios SGR's appeal against the payment order was accepted.

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In addition to the above, an audit launched by the Guardia di Finanza in May 2012 on some real estate investment funds managed by Prelios SGR, which had received tax code assignments from the Italian Revenue Agency (namely, Retail & Entertainment Fund, Progetti Residenza Fund, Portafogli Misti Fund, Social & Public Initiatives Fund, Hospitality & Leisure Fund, Immobiliare Pubblico Regione Siciliana Fund, Immobiliare Raissa Fund, Patrimonio Uffici Fund and Diomira Fund, hereinafter the "Funds"), was completed on January 24, 2013.

Prelios S.p.A. holds minority interests in these Funds.

In the conclusions of the reports on findings resulting from the audits, the Guardia di Finanza mainly claims that the Funds have been misrepresenting their business operations since their date of establishment.

The reports on findings claimed that the Funds (i) had an IRES and IRAP tax base of Euro 484 million and (ii) owed Euro 187 million in indirect taxes.

In the reports on findings no charge was made directly against Prelios SGR, which received the above notices in its capacity as management company of the aforementioned Funds.

In relation to the reports on findings, Prelios SGR, as the Fund manager, submitted requests for internal review to the applicable offices of the Italian Revenue Agency in 2013 in order to obtain the full waiver of the tax charged to the Funds.

At the end of the proceedings, the Italian Revenue Agency notified Prelios SGR that the preliminary check resulting from the internal review requests had been completed. The taxation waiver request was accepted and, therefore, the tax claims resulting from the report on findings will not be formally brought against the Funds.

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The same Funds were also assigned tax codes by the Italian Revenue Agency in October 2011. In the interest of the Funds, Prelios SGR in turn appealed before the Tax Commission, the Supreme Court, the Lazio Regional Administrative Court and the Council of State. At the public hearing held on July 11, 2013, the Regional Tax Commission handed down its decision on the case, whereby it accepted all objections of Prelios SGR and cancelled all tax code assignments made to the nine Funds.

On March 17, 2014, the Attorney General's Office, representing the Italian Revenue Agency, lodged petitions before the Supreme Court against the decision made by the Lombardy Regional Tax Commission to cancel the Fund tax code assignments. The asset management company appeared before the court to present its own defence pleadings in this respect.

The asset management company and its advisors believe that regardless of the outcome of the dispute pending before the Supreme Court, it should not impact the decisions already made by the Italian Revenue Agency in response to the applications for internal review.

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Tax audits are also under way on the Group's German companies, particularly the joint ventures in the Solaia Group. Most concern topics which were analysed when the portfolio was acquired, and therefore are covered by guarantees from the original sellers.

8.2.6. Risks related to Group real estate asset write-downs

Despite the property write-downs recognised by the Group to date, continuing significant weakness in the real estate market cannot be ruled out. Other negative events that may involve the real estate portfolios held by the Prelios Group (for example, a drop in possible realisable values, a slowdown in sales, further deterioration of reference market conditions or reduced income generated by rentals) may push down the market value of the Group's real estate assets, with consequent negative effects on the Group's income statement and balance sheet.

Moreover, Prelios holds qualified minority interests and therefore does not make decisions concerning the various investment strategies on its own. As a result, the strategies and operational decisions influenced by the Group's partners may have negative impacts on its economic, asset and financial position.

Investment property disposal conditions may also be affected by the strategic objectives of the 2014-2016 Plan described above, which involves other variables beyond the maximisation of economic values.

In addition, the value of the real estate assets owned by the companies in which the Group holds qualified minority interests is relevant for the purposes of the financial covenants set forth in the loan agreements of those companies. Failure to comply with the financial covenants could give the Lending Banks the right to demand early loan repayment by the companies, which may not have sufficient liquidity and would therefore need to liquidate their real estate assets quickly and for less than market value.

Additional write-downs on non-performing loans cannot be ruled out, primarily due to a possible extension in debt collection times.

8.2.7. Tenant concentration risk

Any breach by the tenants would negatively impact the economic and financial results of the assets in which Prelios holds co-investments, and therefore the results of the Prelios Group, also considering that income deriving from rentals constitutes (i) the primary source of cash for the payment of interest required under the various loan agreements and (ii) one of the primary guarantees issued to the Lending Banks of the real estate funds and the initiatives in which the Group holds an interest.

As regards the valuation of the real estate portfolio, particularly with reference to rental income which is mostly received by equity-accounted companies (mainly in relation to investment property), there is limited risk that the vacancy rate will increase significantly in the near future, since the properties are subject to binding, long-term contracts, except in particular cases in which the tenant is having economic difficulties.

Karstadt, the long-standing tenant of the Highstreet portfolio (Prelios share 12%), is currently having financial problems. The company already overcame a financial crisis in 2009 by changing ownership and undergoing a group restructuring process, which led to the negotiation of reduced rentals.

Should Karstadt go through an additional financial crisis, it may not be able to pay the rent and/or may vacate the properties, impacting their sale prices and the timing of the disposal plan established in the Business Plan. Furthermore, as Prelios Deutschland provides Highstreet with real estate services, Karstadt's cash problems may result in non-payment for services.

8.2.8. Risks related to qualified minority interests in investment initiatives

The Prelios Group companies provide a series of services (asset management, property and project management, agency, etc.) to the initiatives in which the Group holds interests.

As a result, negative events impacting those initiatives could have negative effects on the Group's economic, financial and asset situation, essentially with regard to: (i) its interest in the initiative; (ii) the value of such interest; (iii) the possibility of being repaid for shareholder loans along with the associated interest; (iv) the payment of trade receivables accrued for services rendered (which in some cases were subject to postponement/subordination with respect to the payment of other payables of client companies); (v) net income from investments; and (vi) possible reductions in income from specialised real estate services, also due to the failure to renew mandates for the management as a result of the investment exit strategy.

In addition to the above, should the companies default on the payment of the loans they have been granted, it is possible that the Lending Banks could take legal action against the shareholders (although there are no specific clauses setting forth this action in the loan agreements), and therefore also against the Group for its qualified minority interest, in order to demand the return of any amounts received by the shareholders for the repayment of the shareholder loan and/or capital or for distribution (clawback), with consequent negative effects on the Group's economic, asset and financial position.

Lastly, the investment exit strategy may result in the failure to renew mandates for the management, with a possible reduction in income from specialised real estate services.

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

The Company has entered into shareholders' agreements with the other shareholders of the vehicle companies used to make investments in order to control their corporate governance system. Although mechanisms have been established to resolve any disputes between the agreement participants (such as reciprocal call and/or put options), also concerning management or decision-making stalemates, it cannot be ruled out that (i) those events may entail significant limitations for the investment vehicles in carrying out their activities and for the Company in pursuing its investment objectives, and (ii) existing shareholders' agreements may not govern all possible disputes that could arise between the partners in the various initiatives, meaning that lack of agreement amongst the shareholders could trigger complex international disputes the result of which, by their very nature, is uncertain.

In addition to the above, the shareholders may not provide equal economic support to the initiatives, even under ordinary circumstances. This may result in liquidity risks for the investee companies as well as risks linked to the performance provided for in the plan.

These situations could have negative repercussions on the Group's economic, asset and financial position.

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

8.3.1. Risks related to real estate market performance

The general market crisis could impact the capacity of tenants to pay the rent or increase property vacancy rates. In fact, due to reductions in their own businesses, tenants could (i) request rent reductions or (ii) decide or be forced to withdraw from the lease agreements. Furthermore, the current scenario could cause rental payment difficulties and generate payment delays and/or non-payment, negatively impacting the properties. Lastly, the macroeconomic scenario could act as a deterrent for potential clients interested in leasing new spaces, increasing the time required to re-lease the properties or to sign new agreements.

Additional write-downs on the non-performing loan portfolios cannot be ruled out, primarily due to further extensions in debt collection timing. This is possible in the case of judicial recovery, in which the number of void auction sales is continuously on the rise, and in the case of out-of-court collections, since scarce liquidity, partially resulting from difficulties in obtaining new loans, prevents amicable agreements.

8.3.2. Risks related to tenders called by government authorities

Some of the Prelios Group's services are provided and may be provided to government authorities and/or Public Bodies though participation in public procedures, either individually or in temporary consortia established for that purpose.

These public procedures are characterised by continuous uncertainty due to the increasing competitiveness of sector operators as well as rising recourse to contestations of legitimacy and petitions for cancellation of the award procedure by competitors that are excluded or are not awarded the contract.

These circumstances could influence the capacity of Prelios Group companies to plan their business objectives.

Furthermore, relations with government authorities, in particular any conduct in violation of applicable regulations, could result in significant situations such as predicate offences for the purpose of the application of Legislative Decree 231/2001 on the administrative liability of legal persons. All Group companies concerned have adopted a 231 Organisational Model in compliance with applicable laws.

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

The Prelios Group carries on its business primarily in the Italian, German and, to a lesser extent, Polish, markets. In those areas, activities are essentially concentrated around investment property held by real estate funds and vehicle companies in which Prelios and Group companies hold qualified minority interests, as well as investments in trading properties. The results of such initiatives could be negatively influenced by economic downturns in those countries.

8.3.4. 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.

To limit this risk, the Group continuously monitors the positions of individual clients and analyses forecast and actual cash flows in order to promptly implement collection activities.

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 credit risk concentrations with respect to clients (companies and investment funds), including those in which co-investments are held, in the real estate sector, which have suffered from the market context in recent years. This has had and could continue to have an impact on the recoverability of Group receivables.

8.3.5. Risks related to human resources

The Group is exposed to the risk of losing key resources, which could negatively affect future results and make it more difficult to achieve objectives. This risk is especially significant in light of the Prelios Group's business, which is increasingly and primarily focused on management activities and services in line with the pure management company model. A great deal of this model's success hinges on the quality, skills and capabilities of human resources.

One way the Group handles this risk, *inter alia*, is by applying adequate incentive systems consistent with the Company's remuneration policy.

In addition, the Group has had to implement a restructuring plan involving a headcount reduction in order to streamline and optimise the organisation and human resources dedicated to the various departments in line with the Group's new needs. However, the effectiveness of these actions could be limited by restrictions established by law or trade unions in the countries in which the Group carries on business, thereby preventing the achievement of targets.

8.3.6. Risk related to the completion of contracted works

The Prelios Group companies that work under contract are subject to the typical risks of that activity: (i) risks relating to the need to remedy defects deriving from malfunctions and/or non-conformities in the work carried out; (ii) risk of failure to comply with deadlines, resulting in the application of penalties; and (iii) risk related to non-payment for work in progress.

Under the Prelios Group business model, this work is typically carried out through qualified sub-contractors which must be able to face these risks outlined in points (i) and (ii). However, on the basis of applicable laws, the Prelios Group companies would in any case be held directly liable with respect to the principal and may only bring an action for recovery against the sub-contractor, since in most cases the contract is between the final customer and the Prelios Group companies.

Therefore, any breach by the sub-contractor could require the Prelios Group companies that are party to the contract to advance the sums requested for compensation, entailing the risk that such amounts may not be recovered.

8.3.7. Other risks

As part of the recognised process of disposing of real estate assets in line with the residual life of the Tecla and Olinda Funds, Prelios SGR, with the support of leading advisors, has evaluated the possibility of amending the duration of the Funds and their management regulations due to the continuing decreased absorption capacity of the market and the absence of signs of short-term recovery. This option takes into account the forecast increased market absorption capacity in the coming years. This process, which has been analysed in order to safeguard real estate values in the interest of Fund investors and creditors, is still being discussed with the Banks. Although a solution for orderly and balanced Fund management is expected to be reached, if it is not reached in the coming months, there would be significant uncertainty as to the Funds' ability to proceed with an orderly disposal of the real estate assets, with negative impacts also on realisation values. The Company will take the most appropriate strategic and real estate management decisions on the basis of the response it receives on the issues noted above.

Please note that an agreement was reached in July for the disposal of the entire real estate portfolio of the Olinda Fund.

9. SUBSEQUENT EVENTS

On July 16, after a long due diligence process, Fortress (in its capacity as Investor) and Prelios (in its capacity as Operating Partner), which had previously entered into a collaboration agreement, submitted a bid for the acquisition and management of a significant portfolio of non-performing loans from UniCredit Credit Management Bank (UCCMB), which will identify an exclusive buyer for the transaction in the coming weeks.

10. BUSINESS OUTLOOK

As is well known, the reference macroeconomic scenario continues to suffer from uncertain outlooks for growth in the Italian economy. The continuing crisis has impacted the real estate sector, resulting in long-term market weakness and high borrowing costs. However, some signs of a possible recovery have also been seen, mainly driven by the recent renewed interest in the Italian real estate sector by opportunistic foreign investors, who have been moved to action due to re-pricing and the resulting increase in gross returns.

In any event, as confirmation of its strategic objective of repositioning as a pure management company, Prelios has identified and is implementing a series of initiatives for recovery and continuation as a going concern.

In the meantime, a range of actions and initiatives already identified and in some cases already completed are continuing to generate benefits, namely:

- streamlining and control of holding company costs, with greater autonomy afforded to the operating companies and disposal of the investment portfolio;
- various cash flow mitigation actions favouring a balance between cash inflows and outflows;
- increased revenue by implementing the projects in the business development pipeline;
- evaluation of possible disposals of assets in the portfolio.

From a management perspective, 2014 is a year of transition. This year the Company management is focused on the actions needed to meet the 2014-2016 Business Plan objectives, by consolidating business development, particularly services, in line with the Group's strategy for transformation into a pure management company.

The Prelios Group has set the following economic and financial targets:

- Services Platform EBIT with an expected CAGR (2013-2016) around 40% (2013: Euro 6.3 million);
- 2016 net financial position: less than Euro 200 million (2013: Euro 388.4 million).

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

Please see Section D for the report on corporate governance and ownership structure.

12. OTHER INFORMATION

12.1. Extraordinary Shareholders' Meeting

The Ordinary Shareholders' Meeting (the "Shareholders' Meeting") held on single call on June 19, 2014 approved the financial statements for the year at December 31, 2013, which reported a loss of Euro 299,772,019.

Therefore, the Shareholders' Meeting acknowledged:

- that due to the loss for the year, the mandatory early repayment of the mandatory convertible bond named "Prelios 2013-2019 Convertible Loan" was automatically and immediately executed, as was the resulting share capital increase exclusively for the purpose of the conversion;
- the Company's balance sheet at December 31, 2013, recalculated as a result of the conversion and the share capital increase exclusively for the purpose of the conversion and, therefore, the Restated Balance Sheet which takes into account the above-mentioned conversion of the "Prelios 2013-2019 Convertible Loan" into Company Equity;
- the Directors' Report prepared in accordance with Article 2446 of the Italian Civil Code and Article 74, paragraph 1 of the Consob Issuers' Regulations;
- the observations of the Board of Statutory Auditors;

and resolved, pursuant to Article 2446 of the Italian Civil Code, to postpone the adoption of the relative measures (if required) to a date to be proposed by the Board of Directors and, in any event, in compliance with the provisions of Article 2446, paragraph 2 of the Italian Civil Code.

In addition, following the resignation of Mrs. Anna Chiara Svelto from the position of Director, the Shareholders' Meeting appointed Mrs. Mirja Cartia d'Asero (who declared herself to be independent) as the Company's new Director based on the proposal submitted by the shareholder Camfin S.p.A.. She will remain in office until the end of the term of the current Board of Directors. The Board of Directors therefore has a total of fifteen members.

Lastly, in consideration of the provisions of Article 123-*ter* of the Consolidated Finance Act and Article 84-*quater* of the Consob Issuers' Regulations, the Shareholders' Meeting approved the Company Policy on the remuneration of directors, general managers and key management personnel as well as the procedures for adopting and implementing that Policy.

12.2. Treasury shares

At December 31, 2013, the Company held 1,788 ordinary treasury shares out of a total of 506,953,179 ordinary shares.

In compliance with IAS/IFRS, the book value of treasury shares has been recognised in the Prelios separate financial statements and the consolidated financial statements as a reduction to equity. Therefore, stock exchange price fluctuations have no impact on the Company's income statement.

12.3. Tax consolidation

In 2010, the Company opted for tax consolidation with Prelios S.p.A. as the consolidating company pursuant to Articles 117 *et seq.* of the Italian Income Tax Act. The relationships arising from the consolidation are governed in "Regulations", which establish a common procedure for the application of legal and regulatory provisions.

The adoption of a Group tax filing will allow the parent company Prelios S.p.A. to offset its own taxable profits or losses against those of its Italian resident subsidiaries which have opted for the scheme.

Since the three-year period covered by the 2010-2012 tax consolidation option has concluded and the Group intends to continue to apply this system, on June 14, 2013 the consolidating company Prelios S.p.A. and its subsidiaries, which fulfil legal requirements, renewed the tax consolidation option also for the three-year period 2013-2015.

The renewal is effective for the 2013-2015 three-year period unless it is interrupted early due, for example, to loss of control over the consolidated company or if the financial years of the consolidated company and the consolidating company do not coincide.

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

12.4. Group VAT tax settlement

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

12.5. Publication of disclosure documents

Pursuant to Article 70, paragraph 8 and Article 71, paragraph 1-*bis* of the Consob Issuers' Regulations, the Company has exercised the right to exemption from the disclosure publication obligations for significant merger or spin-off transactions, share capital increases via the contribution of assets in kind, acquisitions and disposals.

13. APPENDICES

APPENDIX A – Non-GAAP Measures

The following non-GAAP Measures are used:

- **Operating profit (loss)** (Euro -6.3 million): EBIT (Euro -7.1 million) plus net income from investments (Euro -24.6 million) (values identified as "EBIT" and "net income from investments", respectively, in the consolidated income statement), plus income from shareholder loans (Euro 2.4 million) (identified as financial income of Euro 3.1 million less the write-down of Euro 0.7 million on the NPL portfolio, classified as financial expenses), adjusted for restructuring costs (Euro 1.8 million) and property write-downs/revaluations (Euro 21.2 million).
- **Profit (loss) before restructuring costs, property write-downs/revaluations and income taxes** (Euro -17.2 million): operating profit (loss), mentioned above (Euro -6.3 million), plus financial expenses (Euro -10.9 million).
- **Income from shareholder loans** (Euro 2.4 million): this figure includes interest income from loans to associates and joint ventures and the value of any income from securities contained in the item "financial income"; it is reported net of any loss in value of junior notes included in the item "financial expenses".
- **Financial income (Financial expenses)** (Euro 10.9 million): this includes the item "Financial expenses" (adjusted for impairment of junior notes or financial receivables) and the item "Financial income", net of income from shareholder loans.
- **Investments in real estate funds and investment companies:** this includes investments in associates and joint ventures, in closed-end real estate funds, investments in other companies and junior notes (as per the item "Other financial assets").

- **Net working capital:** amount of resources comprising a business's operating assets. This measure is used to verify the short-term financial balance of the Company. It consists of all short-term assets and liabilities that are not financial in nature and is presented net of junior notes included in investments in real estate funds and investment companies.
- **Funds:** this measure consists of the sum of the items "Provisions for future risks and expenses (current and non-current)", "Employee benefit obligations" and "Deferred tax provision" and is stated net of provisions for risks on equity-accounted investments that are included in "Investments in real estate funds and investment companies".
- **Net Financial Position:** this measure represents a valid indicator of the ability to meet financial commitments. Net Financial Position is represented by the gross financial debt less cash and other cash equivalents and current financial receivables.
- **Gross Bank Debt:** represented by the total debts of each initiative towards the banking system.
- **Net Bank Debt:** represented by the Gross Bank Debt of each initiative less cash and cash equivalents.
- **Return on Sales (ROS):** determined by the impact of EBIT on revenue.
- **Basic net earnings (loss) per share:** an indicator of the earnings per share based on the results for the period and calculated as the ratio between net profit for the period and the number of shares issued and certified at the end of the period.

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

Operating profit/(loss)	June 30, 2014	June 30, 2013
EBIT	(7.1)	(15.6)
Net income from investments	(24.6)	(30.8)
Income from shareholder loans (1)	2.4	4.3
Restructuring costs	1.8	5.3
Property (write-downs)/revaluations (2)	21.2	25.6
Total	**(6.3)**	**(11.2)**

Profit/(loss) before restructuring costs, property write-downs/revaluations and income taxes	June 30, 2014	June 30, 2013
Operating profit/(loss)	(6.3)	(11.2)
Financial expenses	(10.9)	(21.5)
Total	**(17.2)**	**(32.7)**

Income from shareholder loans	June 30, 2014	June 30, 2013
Interest income on financial receivables due from joint ventures (1)	2.4	4.3
Total	**2.4**	**4.3**

Financial expenses	June 30, 2014	June 30, 2013
Financial expenses	(12.2)	(23.7)
Financial income	3.7	6.5
Income on shareholder loan	(2.4)	(4.3)
Total	**(10.9)**	**(21.5)**

NOTES

(1) Interest income on financial receivables due from associates and joint ventures included in financial income for Euro 3.1 million, net of loss on NPL portfolio valuation for Euro 0.7 million.

(2) Property (write-downs)/revaluations in June 2014 totalled Euro 21.2 million (pro-rata share attributable to the Group): of which Euro 0.9 million included in EBIT of fully consolidated companies and Euro 20.3 million recorded in net income from investments in companies accounted for using the equity method.

APPENDIX B

Detail of real estate debt of investment companies and funds

	Net financial position	Net bank debt	Maturity (years)*
Commercial Italy	873,372	839,576	0.2
Commercial Germany	20,038	(2,064)	0.4
Commercial Germany - Highstreet -	880,576	534,094	2.1
Residential Germany - Small Deals	(130)	(130)	-
TOTAL PORTFOLIO "YIELDING"	**1,773,855**	**1,371,476**	
Trading Italy	472,145	375,174	0.1
Development Italy	90,017	85,415	1.4
Lands Italy	154,176	138,039	0.1
Other Germany	34,039	14,836	3.6
Lands Poland	66,862	(372)	-
TOTAL PORTFOLIO "OTHER"	**817,239**	**613,092**	
TOTAL REAL ESTATE	**2,591,094**	**1,984,568**	**0.8**

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

Key contractual clauses related to debt[34]

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

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

- LTV (Loan to Value): ratio between (i) bank debt and (ii) the appraised value of the portfolio;

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

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

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

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

At June 30, 2014, certain investment companies and funds in which Prelios holds an interest have covenants which are not in line with those provided for in the agreement. In particular, the following should be noted:

- LTV: Gamma RE BV, Città di Torino Fund; Monteverdi Fund (breach later remedied in July through a partial early repayment of the loan);
- Maximum Outstanding Amount of the Monteverdi Fund.

For Gamma RE BV, the margin to loan (ratio between (i) stock exchange value of the Tecla Fund units held by Gamma RE BV and (ii) bank debt) is not aligned with the contractual limit.

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

In addition, the Città di Torino Fund has not complied with certain contractual provisions concerning payment obligations to financial counterparties.

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

Lastly, it should be noted that there are certain positions relating to Solaris and Aree Urbane (both companies in liquidation), Golfo Aranci, Trinacria Capital and Sicily Investments, and the following Funds: Immobili Pubblici Regione Sicilia, Patrimonio Uffici, Iniziative Immobiliari Due, Olinda (although the agreement reached by the Fund for the sale of the entire real estate portfolio will hopefully result in the full repayment of the loan by the end of 2014), Vivaldi, Tecla, Social & Public Initiatives and Gromis (the last three expired at June 30, 2014), for which new agreements are being negotiated with financial counterparties in respect of the expired debt.

APPENDIX C

Glossary

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

- **Co-invested assets:** real estate assets and non-performing loans in which the Group holds an interest via funds and investment companies, stated at the market value at the reporting date; real estate asset values are based on appraisals by independent experts and non-performing loans are stated at book value. Pro rata, these figures (market or book value, depending on the case) refer to the Group's share of the market value of the assets and the book value of the non-performing loans held.

- **Third-party assets under management:** Real estate assets under management expressed at market value at the reporting date, on the basis of appraisals by independent experts. This includes, *inter alia*, initiatives in which the Group holds an interest of less than 5%.

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

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

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

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

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

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

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

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

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

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

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

- **Group or Prelios Group:** the Company and its subsidiaries in accordance with Article 93 of the Consolidated Finance Act.

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

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

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

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

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

- **MBO** (Management By Objective): the annual variable component of remuneration that may be obtained if predefined business objectives are met.

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

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

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

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

- **Business Plan:** the Group's new 2014-2016 plan established based on the 2014-2016 Guidelines approved on June 12, 2014 and previously approved by the Board of Directors on April 9, 2014.

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

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

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

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

B. THE PRELIOS GROUP – CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

1. CONSOLIDATED BALANCE SHEET

(thousands of euro)

	ASSETS	06.30.2014	12.31.2013
	NON-CURRENT ASSETS		
1	Property, plant and equipment	864	1,031
2	Intangible assets	60,579	60,714
3	Investments	157,180	169,180
	of which investments held for sale	*3,294*	*3,294*
4	Other financial assets	23,903	24,189
5	Deferred tax assets	9,601	11,070
7	Other receivables	101,514	115,980
	of which from related parties	*96,883*	*110,675*
	TOTAL NON-CURRENT ASSETS	**353,641**	**382,164**
	CURRENT ASSETS		
9	Inventories	47,027	48,406
6	Trade receivables	37,699	35,055
	of which from related parties	*21,454*	*22,230*
7	Other receivables	25,179	23,560
	of which from related parties	*6,299*	*7,516*
10	Cash and cash equivalents	62,380	85,609
8	Tax receivables	6,218	6,453
	TOTAL CURRENT ASSETS	**178,503**	**199,083**
29	**DISCONTINUED OPERATIONS**	**34,620**	**27,781**
	of which from related parties	*29,267*	*18,800*
	TOTAL ASSETS	**566,764**	**609,028**

	EQUITY	06.30.2014	12.31.2013
	GROUP EQUITY		
11	Share capital	426,432	189,888
12	Other reserves	(13,225)	(14,529)
13	Retained earnings (losses)	(244,528)	88,366
	Net profit (loss) for the period	(37,579)	(332,838)
	TOTAL GROUP EQUITY	**131,100**	**(69,113)**
14	**MINORITY INTERESTS**	**2,246**	**2,778**
	TOTAL EQUITY	**133,346**	**(66,335)**

	LIABILITIES	06.30.2014	12.31.2013
	NON-CURRENT LIABILITIES		
15	Bank borrowings and payables to other lenders	237,392	465,101
	of which to related parties	-	*149,876*
17	Other payables	890	915
18	Provisions for future risks and expenses	36,860	39,269
5	Deferred tax provision	3,005	1,723
19	Employee benefit obligations	9,946	10,255
20	Tax payables	-	1,464
	TOTAL NON-CURRENT LIABILITIES	**288,093**	**518,727**
	CURRENT LIABILITIES		
15	Bank borrowings and payables to other lenders	8,915	8,988
	of which to related parties	*6,576*	*6,576*
16	Trade payables	48,644	48,116
	of which to related parties	*3,419*	*3,720*
17	Other payables	54,605	52,529
	of which to related parties	*18,800*	*18,746*
18	Provisions for future risks and expenses	18,528	32,615
	of which to related parties	*2,524*	*12,623*
20	Tax payables	12,002	11,983
	of which to related parties	*1,080*	*1,080*
	TOTAL CURRENT LIABILITIES	**142,694**	**154,231**
29	**LIABILITIES RELATED TO DISCONTINUED OPERATIONS**	**2,631**	**2,405**
	TOTAL LIABILITIES	**433,418**	**675,363**
	TOTAL LIABILITIES AND EQUITY	**566,764**	**609,028**

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

2. CONSOLIDATED INCOME STATEMENT

(thousands of euro)

		01.01.2014-06.30.2014	01.01.2013-06.30.2013
21	Revenue from sales and services	35,175	35,641
22	Changes in inventories of work in progress, semi-finished and finished products	(190)	(462)
23	Other income	3,787	5,253
	TOTAL OPERATING REVENUE	**38,772**	**40,432**
	of which from related parties	*13,187*	*20,893*
	of which non-recurring events	*182*	-
	Raw and consumable materials used (net of change in inventories)	(1,291)	(2,125)
	Personnel costs	(18,349)	(21,285)
	Depreciation, amortisation and impairment	(333)	(705)
	Other costs	(25,889)	(31,942)
24	**TOTAL OPERATING COSTS**	**(45,862)**	**(56,057)**
	of which to related parties	*(3,412)*	*(3,442)*
	of which non-recurring events	*(1,997)*	*(5,383)*
	EBIT	**(7,090)**	**(15,625)**
25	Net income from investments:	(24,654)	(30,843)
	of which from related parties	*(24,689)*	*(31,108)*
	- net profit share from investments in associates and joint ventures	*(23,172)*	*(30,713)*
	- gains on investments	*35*	*313*
	- losses on investments	*(1,517)*	*(443)*
26	Financial income	3,737	6,520
	of which from related parties	*3,150*	*4,875*
27	Financial expenses	(12,196)	(23,604)
	of which to related parties	*(500)*	*(7,122)*
	PROFIT (LOSS) BEFORE TAXES	**(40,203)**	**(63,552)**
28	Taxes	(2,953)	(3,337)
	of which to related parties	-	-
	NET INCOME FROM CONTINUING OPERATIONS	**(43,156)**	**(66,889)**
	attributable to minority interests	(665)	(403)
29	**NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS**	**4,912**	**2,504**
	of which from related parties	*8,758*	*8,281*
	GROUP NET INCOME/(LOSS)	**(37,579)**	**(63,982)**
30	**PROFIT (LOSS) PER SHARE (in euro):**		
	basic earnings	(0.07)	(0.76)
	basic earnings		

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

3. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousands of euro)

		01.01.2014-06.30.2014			of which attributable	
		gross	taxes	net	Group	Minority interests
A	**Net profit (loss) for the period**			**(38,244)**	**(37,579)**	**(665)**
	Other components recorded under equity that can be reclassified in the income statement in a future period:	**1,915**	**(488)**	**1,427**	**1,299**	**128**
	Exchange differences from the translation of foreign financial statements	(2)	-	(2)	(2)	-
	Total available-for-sale financial assets	1,771	(488)	1,283	1,155	128
	- Adjustment of available-for-sale financial assets to fair value	734	(202)	532	479	53
	- portion of (profit)/losses transferred to the income statement that were previously recorded directly under equity	1,037	(286)	751	676	75
	Share of other equity components related to associates and joint ventures	146	-	146	146	-
	- portion of profit/(losses) recorded directly under equity	146	-	146	146	-
B	**Total other components recorded under equity**	**1,915**	**(488)**	**1,427**	**1,299**	**128**
A+B	**Total comprehensive income/(losses) for the period**			**(36,817)**	**(36,280)**	**(537)**

		01.01.2013-06.30.2013			of which attributable	
		gross	taxes	net	Group	Minority interests
A	**Net profit (loss) for the period**			**(64,385)**	**(63,982)**	**(403)**
	Other components recorded under equity that can be reclassified in the income statement in a future period:	**6,442**	**(245)**	**6,197**	**6,204**	**(7)**
	Exchange differences from the translation of foreign financial statements	(228)	-	(228)	(228)	-
	Total available-for-sale financial assets	(101)	28	(73)	(66)	(7)
	- Adjustment of available-for-sale financial assets to fair value	(101)	28	(73)	(66)	(7)
	Share of other equity components related to associates and joint ventures	6,771	(273)	(6,498)	6,498	-
	- portion of (profit)/losses transferred to the income statement that were previously recorded directly under equity	2,949	-	(2,949)	2,949	-
	- portion of profit/(losses) recorded directly under equity	3,882	(273)	(3,549)	3,549	-
B	**Total other components recorded under equity**	**6,442**	**(245)**	**6,197**	**6,204**	**(7)**
A+B	**Total comprehensive income/(losses) for the period**			**(58,188)**	**(57,778)**	**(410)**

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousands of euro)

	Share capital	Currency translation reserve	Reserve for fair value measurement of available-for-sale financial assets	Cash flow hedge reserve	Reserve for actuarial gains/losses	Reserve for tax on items credited/debited to equity	Other reserves	Retained earnings (losses)	Net income (loss) for the period	**Group Equity**	**Minority interests in equity**	**Total**
Equity at 12.31.2013	**189,888**	**(5,712)**	**(5,191)**	**(168)**	**(1,111)**	**4,223**	**(6,570)**	**88,366**	**(332,838)**	**(69,113)**	**2,778**	**(66,335)**
Total other components recorded under equity	**-**	**(24)**	**1,594**	**168**	**-**	**(439)**	**-**	**-**	**-**	**1,299**	**128**	**1,427**
Allocation of 2013 results	-	-	-	-	-	-	-	(332,838)	332,838	-	-	-
Share capital increase	236,544	-	-	-	-	-	-	-	-	236,544	-	236,544
Other changes	-	-	-	-	-	(1)	6	(56)	-	(51)	5	(46)
Net profit (loss) for the perio	-	-	-	-	-	-	-	-	(37,579)	(37,579)	(665)	(38,244)
Equity at 06.30.2014	**426,432**	**(5,736)**	**(3,597)**	**0**	**(1,111)**	**3,783**	**(6,564)**	**(244,528)**	**(37,579)**	**131,100**	**2,246**	**133,346**

	Share capital	Currency translation reserve	Reserve for fair value measurement of available for sale financial assets	Cash flow hedge reserve	Reserve for actuarial gains/ (losses)	Reserve for tax on items credited/debited to equity	Other reserves	Retained earnings (losses)	Net income (loss) for the period	**Group equity**	**Minority interests in equity**	**Total**
Equity at 12.31.2012	**218,283**	**(2,064)**	**(6,211)**	**(10,233)**	**(1,818)**	**3,067**	**(999)**	**115,887**	**(241,734)**	**74,178**	**6,213**	**80,391**
Total other components recorded under equity	**-**	**(228)**	**(91)**	**6,771**	**-**	**(248)**	**-**	**-**	**-**	**6,204**	**(7)**	**6,197**
Cancellation of own shares	586	-	-	-	-	-	(586)	-	-		-	-
Allocation of 2012 results	(213,996)	-	-	-	-	-	-	(27,738)	241,734	-	-	-
Other changes	-	-	180	-	-	(38)	-	(274)	-	(132)	(402)	(534)
Net profit (loss) for the period	-	-	-	-	-	-	-	-	(63,982)	(63,982)	(403)	(64,385)
Equity at 06.30.2013	**4,873**	**(2,292)**	**(6,122)**	**(3,462)**	**(1,818)**	**2,781**	**(1,585)**	**87,875**	**(63,982)**	**16,268**	**5,401**	**21,669**

5. CONSOLIDATED CASH FLOW STATEMENT

(thousands of euro)

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Result before income taxes and minority interests	(40,203)	(63,552)
Net income (loss) from discontinued operations	4,912	2,504
Depreciation, amortisation and impairment/impairment reversal intangible assets & property, plant & equipment	333	779
Impairment of receivables	2,654	6,803
Gains/Losses on sale of property, plant and equipment and investment property	9	(18)
Net income from investments net of dividends	24,654	30,843
Financial expenses	12,196	23,604
Financial income	(3,737)	(6,520)
Change in inventories	1,379	2,477
Change in trade receivables/payables	(7,247)	6,879
Change in other receivables/payables	(877)	(6,230)
Change in employee benefit obligations and other provisions	(6,661)	(9,412)
Taxes	(923)	(1,099)
Net cash flow generated by discontinued operations	(1,207)	(2,504)
Other changes	233	92
Net cash flow generated / (absorbed) by operating activities (A)	**(14,485)**	**(15,354)**
Purchase of property, plant and equipment	-	(505)
Disposal of property, plant and equipment	52	54
Purchase of intangible assets	(113)	(82)
Disposal of intangible assets	21	-
Net cash flow generated by disposal of investments in subsidiaries	35	265
Increases of investments in associates and joint ventures	(10,603)	(6,411)
Disposal of interests in associates and joint ventures and other changes	-	63
Purchase of other financial assets	(200)	(200)
Disposal/reimbursement of other financial assets	556	1,166
Net cash flow generated / (absorbed) by investing activities (B)	**(10,252)**	**(5,650)**
Other changes in equity	(46)	(762)
Change in financial receivables	4,064	2,890
Change in financial payables	(1,619)	(2,850)
Cash flow generated by financial income	260	604
Cash flow absorbed by financial expenses	(1,151)	(1,273)
Net cash flow generated / (absorbed) by financing activities (C)	**1,508**	**(1,391)**
Total net cash flow generated / (absorbed) in the period (D=A+B+C)	**(23,229)**	**(22,395)**
Cash and cash equivalents + bank overdrafts at the beginning of the period (E)	**85,609**	**37,604**
Cash and cash equivalents + bank overdrafts at the end of the period (D+E)	**62,380**	**15,209**
of which:		
- cash and cash equivalents	**62,380**	**15,209**
- bank overdrafts	**-**	**-**

See section 6.8 for a description of cash flows regarding related-party transactions.

6. CONDENSED HALF-YEARLY FINANCIAL STATEMENTS – EXPLANATORY NOTES

6.1. General information

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

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

In the past, Prelios acquired minority interests in the investment initiatives it managed, with the aim of grasping revaluation opportunities; now the Group is consolidating its position as “pure manager”.

It should be noted that, in the first half of 2014, the Group did not carry out atypical or unusual transactions.

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

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

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

The Board of Directors approved the consolidated half-yearly financial report on July 30, 2014.

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

As described in more detail in the “Prelios in the first half of 2014”, “2014-2016 Business Plan” and “Initiativesundertaken and identified for recovery and continuation as a going concern” sections of the directors’ report on operations, discrepancies as regards to “Fenice Plan” forecasts have been noticed since the end of 2013. The lower revenue, lower income statement margins and negative net cash flows meant that already in 2014 the Group’s cash requirements would be unsustainable if the corrective actions and improvements identified and under way were not completed.

In this context and acknowledging that, for the reasons highlighted previously, it will not be possible to recover the significant differences between the actual results and Fenice Plan during the Plan period, the Prelios Board of Directors approved the 2014-2016 Group Guidelines on April 9, 2014, pending the preparation of the 2014-2016 Business Plan. These guidelines identify the updated strategic directives for the growth of the Prelios Group as well as economic and financial projections for the next three years. Despite expected cash flows from ordinary operations and planned disinvestments, the

Guidelines forecast losses and cash outflows to meet overall financial requirements exceeding cash and credit facilities to an extent that is not sustainable for the Group in the absence of suitable corrective measures. Failure to complete the corrective and improvement actions already identified and described below, which are currently under way, to the extent and with the timing required, would give rise in uncertainties that could seriously call into question the Group's ability to continue to operate as a going concern.

At the Board of Directors' meeting of June 12, the Company defined the 2014-2016 Business Plan based on reasonable forecasts and strategic directives consistent with the Fenice Plan. This plan took into account the difficulty of preparing forecasts in the current economic and financial environment, in which it is not possible to rule out additional crises that could impact the financial markets or an aggravation of the factors that caused the current deterioration of the general reference scenario and the real estate market in particular. The Plan incorporates the effects of the actions planned by the Directors to improve the economic results forecast in the Guidelines, although losses are still expected, and to cover financial requirements with mitigation actions and by postponing payments originally planned in the short term, as well as by restructuring the bank debt repayment mechanisms (65%-35%) defined in the debt restructuring completed in 2013.

The 2014-2016 Business Plan forecasts losses over the next three years, resulting in an erosion of equity. While the Company considers the plan to be challenging, it is also deemed realistic and feasible, although the assumptions on which it is based will of course require constant and accurate verification. The Business Plan was developed on a stand-alone basis, therefore without considering the effects of any corporate or commercial agreements that may be entered into with third parties. This document identifies the strategic directives for the growth of the Prelios Group's Services Platform and confirms the gradual full divestment of co-investments in the Investment area.

The main objectives of the 2014-2016 Business Plan are:

(i) the Company's financial recovery, with a set of <u>financial measures</u> and additional <u>cost efficiency actions</u>, or a series of mitigation and financial restructuring measures, which represent the conditions required to guarantee the sustainability of the Plan and the Company's and Group's ability to continue operating as a going concern;

(ii) further revenue performance improvement through the business development initiatives launched, or organic growth and estimated profitability basically in line with the revenue and profitability targets of the Fenice Plan.

Specifically with respect to the first point, the <u>financial measures</u> include (i) mitigation actions, mainly based on negotiations with the applicable counterparties for the postponement and/or reduction of certain cash outflow commitments and (ii) the amendment of the Senior Loan early repayment mechanism currently established in the Debt Restructuring Agreement in force with the pool of banks (currently 65% of net income from the sale of real estate assets) to apply mechanisms that take Group cash requirements into consideration.

Various financial mitigation actions have been identified, the first of which has already been definitively formalised, namely: (i) deferment to after 2016 of the payment of contractual charges in relation to the transfer of investment units which occurred in the past (cash benefit of roughly Euro 10 million during the planning period); (ii) obtaining a waiver to the commitment to make a contribution to an investee in liquidation (cash benefit of approximately Euro 5 million during the planning period); (iii) possible payment after 2016 of a settlement arising from a legal claim (cash benefit of roughly Euro 3 million during the planning period); and (iv) standstill on the main equity injections in the initiatives in which the Group holds qualified minority interests to negotiate individually with each partner and with the respective Lending Banks (permanent cash benefit of around Euro 24 million).

When these actions are completed, it will be possible to meet short-term cash requirements pending the renegotiation of the senior debt repayment mechanism (65%-35%), which should generate financial benefits essentially in the subsequent two years of the plan.

Some of the above-mentioned short-term mitigation actions for which the counterparties have already expressed their approval have been partially completed or are currently being defined in detailed plans, while others are still in the negotiation phase to identify technical arrangements that are satisfactory to both parties.

The cost efficiency actions established in the Plan aim to streamline the Group's and particularly the holding company's cost structure, which will become more agile over time due to the planned divestment of the real estate asset portfolios, without hindering development and the retention of outstanding human resources. Cost savings are expected to be generated by: i) reduced personnel costs; ii) the selective suspension of variable incentives (MBO) over the Plan period; and iii) streamlined general costs and advisory expenses.

The Directors deem that the actions identified to guarantee that the Group will continue to operate as a going concern during the Plan period are adequate to face the uncertainties identified and that, on the basis of advanced-stage negotiations, particularly with the lenders – which have expressed their willingness to support the financial recovery established in the 2014-2016 Business Plan – in light of the actions and initiatives presented above, the Senior Loan repayment mechanism revision and the mitigation actions identified will be completed in a reasonably brief period of time consistent with the Company's requirements. This will enable the Company to continue operating as a going concern with the liquidity necessary to cover short- and medium-term cash requirements within limits that are sustainable for the Group.

6.3. Accounting standards and policies

Pursuant to Article 154-*ter* of Legislative Decree 58/1998, the Prelios Group has prepared the condensed consolidated half-yearly financial statements in summary form on the basis of IAS 34 on interim financial reporting.

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

In accordance with the provisions of Article 5, paragraph 2 of Legislative Decree 38 of February 28, 2005, these financial statements were prepared using the euro as the reporting currency.

The accounting standards and policies adopted are consistent with those used in the preparation of the financial statements at December 31, 2013. The exceptions are in respect of the new standards/interpretations adopted by the Group starting from January 1, 2014. These new standards/interpretations had no impact on the present half-yearly financial report.

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

- IFRS 10 – Consolidated Financial Statements

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

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

The introduction of this new standard had no significant impact on the consolidated financial statements.

- IFRS 11 – Joint Arrangements

IFRS 11 supersedes the previous IAS 31 – Interests in Joint Ventures and SIC 13 – Jointly-Controlled Entities – Non-Monetary Contributions by Venturers and defines the reference principles for the presentation of all "joint arrangements" using a principle-based approach whereby the entity reports the contractual rights and obligations deriving from the arrangement in its financial statements.

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

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

The application of this new standard had no significant impact on the consolidated financial statements, as the Group already applied the consolidation method required under the new standard.

- IFRS 12 – Disclosure of Interests in Other Entities

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

The introduction of this new standard had no significant impact on the consolidated financial statements.

- IAS 27 – Separate Financial Statements

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

The application of this new standard had no impact on the consolidated financial statements.

- IAS 28 – Investments in Associates and Joint Ventures

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

The application of this new standard had no significant impact on the consolidated financial statements.

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

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

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

The application of these amendments had no significant impact on the consolidated financial statements.

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

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

They also limit the obligation to provide pro-forma comparative data to only the comparative period preceding first-time application of IFRS 10, 11 and 12. In regard to the disclosures required by IFRS 12 concerning interests held in other entities, these amendments eliminate the obligation of providing comparative information for periods prior to the application of IFRS 12. The application of these amendments had no significant impact on the consolidated financial statements.

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

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

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

The application of these amendments had no significant impact on the consolidated financial statements.

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

This amendment clarifies that disclosures must be provided on the recoverable amount of impaired assets only if that amount is based on fair value net of sales costs.

The application of these amendments had no significant impact on the consolidated financial statements.

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

These amendments make it possible to continue hedge accounting when a hedging derivative is novated for clearing with a central counterparty where that novation is required by legislation/regulations, if specific conditions are satisfied.

In this context, novation refers to when the parties to a contract commit to replacing their original counterparty with a new one. This amendment was introduced in response to legislative amendments impacting multiple jurisdictions, which will result in the widespread novation of derivative contracts.

The application of these amendments had no significant impact on the consolidated financial statements.

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

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

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

- Amendments to IFRS 7 – Financial Instruments: Disclosures – first-time application of IFRS 9.

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

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

- IFRS 9 – Financial Instruments

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

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

The main elements introduced regard:

- amendments to the type of transactions eligible for hedge accounting, particularly expanding the risks of non-financial assets/liabilities eligible for management using hedge accounting;
- different methods for accounting for forward contracts and derivative options included in a hedge-accounting relationship in order to reduce income statement volatility;
- amendments to the effectiveness test since the current form will be replaced with the principle of the “economic relationship” between the hedged item and the hedging instrument; in addition, a retrospective effectiveness assessment of the hedging relationship will no longer be required.

The second stage of the project, which concerns the impairment of financial instruments and the third stage, which concerns hedge accounting, initially resulted in the issue of two Exposure Drafts in November 2009 and December 2010, respectively. A new Exposure Draft was issued concerning the impairment of financial instruments (Financial Instruments: Expected Credit Losses) in March 2013.

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

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

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

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

The process of endorsement of IFRS 9 has been suspended for the time being. On February 20, 2014, the IASB decided that IFRS 9 will enter into effect on January 1, 2018.

The initially established effective date of January 1, 2013 had already been postponed to January 1, 2015. In November 2013, the IASB brought that date up for discussion again, to ensure that it coincides with the completion of all project phases, therefore at the time of issue of the definitive version of the IFRS. January 1, 2018 was decided upon to align the effective dates of IFRS 9 and the new standard on insurance contracts. Should the latter project be postponed, specific solutions for such contracts will be adopted.

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

- IFRS 14 – Regulatory Deferral Accounts

The IASB published IFRS 14 – Regulatory Deferral Accounts on January 30, 2014. IFRS 14 enables only first-time adopters of IFRS to continue to recognise amounts relating to rate regulation according to the accounting standards previously adopted. To improve comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires the effect of the rate regulation to be reported separately from other items. This standard, which has not yet been endorsed by the European Union, applies beginning on January 1, 2016, although early adoption is permitted. This standard is not applicable to the Group.

- IFRS 15 – Revenue from Contracts with Customers

The IASB published IFRS 15 – Revenue from Contracts with Customers on May 28, 2014. One of the project's primary goals is to define rules consistent with US GAAP. This convergence should improve the ability of the financial community to understand financial statements.

This standard replaces IAS 18 – Revenue, IAS 11 – Construction Contracts and a series of associated interpretations.

The standard establishes a five-step model that applies (with few exceptions) to all sale agreements regardless of transaction type or industry. It also provides a model for recognising and measuring the associated revenue in the case of certain non-financial assets that are not generated by the entity's ordinary activities (e.g. disposal of property, plant and equipment and intangible assets). In detail, the standard defines the following five steps:

1. identify the contract with the customer, i.e. a written or verbal commercial agreement between two or more parties that creates enforceable rights and obligations;
2. identify the (separately identifiable) performance obligations in the contract: these are identified based on whether a good/service is distinct, or if the customer can benefit from it alone or in a bundle. Each distinct good or service will be subject to a separate performance obligation;
3. determine the transaction price, or the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, in line with the techniques established by the standard and depending on the presence of financial components such as the time value of money or the fair value of any non-cash consideration;
4. allocate the transaction price to each performance obligation; if this is not possible, the entity must use estimates;
5. recognise revenue when the entity satisfies a performance obligation, or when control over the good or service is transferred, considering that services may be rendered not at one specific time, but rather over the course of time. Control of an asset is defined as the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. The benefits related to the asset are the potential cash flows that may be obtained directly or indirectly from the use of the asset. In this regard, there are new instructions concerning whether the revenue must be recognised at a given point in time or over time, replacing the previous distinction between goods and services.

This standard, which has not yet been endorsed by the European Union, will apply beginning on January 1, 2017, although early adoption is permitted. The impact of the introduction of this new standard on the consolidated financial statements in the year in which it is first applied cannot currently be forecast.

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

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

The IASB has clarified that an amortisation methodology based on the revenue generated by the asset (revenue-based method) is not appropriate, since it reflects exclusively the flow of revenue generated by the assets and not the pattern of consumption of the future economic benefits embodied in the asset.

This assumption may not be valid in limited cases in the presence of intangible assets.

The orientation introduced in both standards explains that future reductions of sale prices may be indicative of a high rate of consumption of the future economic benefits embodied in the asset.

These amendments, which have not yet been endorsed by the European Union, will enter into force on January 1, 2016. The application of these amendments is not expected to have a significant impact on the consolidated financial statements.

- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

These amendments were published on May 6, 2014. They specify that the acquisition of interests in a joint operation that is a business should be recognised in compliance with IFRS 3 – Business Combinations, i.e. using the purchase price allocation method.

These amendments, which have not yet been endorsed by the European Union, will enter into force on January 1, 2016. They are not expected to have a significant impact on the consolidated financial statements.

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

These amendments are meant to simplify accounting for employee or third-party contributions to defined-benefit plans that are not dependent on years of service, such as contributions that are calculated as a fixed percentage of the salary.

These amendments, which will apply beginning on July 1, 2014, have not yet been endorsed by the European Union and are not expected to have significant impacts on the consolidated financial statements.

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

The IASB issued a series of amendments to some standards in force in response to issues that arose during the 2010-2012 cycle of annual improvements to IFRSs.

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

IFRS	Subject of the amendment
IFRS 2 – Share-Based Payments	Definition of vesting condition
IFRS 3 – Business Combinations	Accounting for adjustments to the cost of a business combination which are subject to future events
IFRS 8 - Operating Segments	• Aggregation of operating segments • Reconciliation of the total of the reportable segments' assets to the entity's assets
IFRS 13 – Fair Value Measurement	Short-term receivables and payables
IAS 16 – Property, Plant and Equipment	Revaluation method – proportionate restatement of accumulated depreciation
IAS 24 – Related Party Disclosures	Key management personnel

IAS 38 – Intangible Assets	Revaluation method – proportionate restatement of accumulated amortisation

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

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

The IASB issued a series of amendments to some standards in force in response to issues that arose during the 2010-2012 cycle of annual improvements to IFRSs.

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

IFRS	Subject of the amendment
IFRS 1 – First-time Adoption of International Financial Reporting Standards	Meaning of "effective IFRSs"
IFRS 3 – Business Combinations	Scope of application for joint ventures
IFRS 13 – Fair Value Measurement	Scope of paragraph 52 (portfolio exception)
IAS 40 – Investment Property	Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

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

- IFRIC Interpretation 21 – Levies

This interpretation, published on May 20, 2013, deals with when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 and those where the timing and amount of the levy is uncertain. This interpretation has been endorsed by the European Union (Regulation (EU) No 634/2014) and applies starting from financial years beginning on June 17, 2014. The introduction of this interpretation is not expected to have a significant impact on the consolidated financial statements.

6.3.3 Reporting formats

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

The consolidated financial statements at June 30, 2014 comprise a balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and explanatory notes, and are accompanied by the directors' report on operations.

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

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

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

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

In the cash flow statement, cash flows from operating activities are presented using the indirect method, by which net profit 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.

Following the agreement reached by the joint venture Solaia RE S.à.r.l. for the sale of the interests in the real estate companies that own the German residential portfolio known as DGAG (Deutsche Grundvermögen AG) and the transfer of part of the Prelios Deutschland GmbH (wholly owned subsidiary of Prelios S.p.A.) platform which provides technical and administrative services to the above residential portfolio, the effects of this transaction on the income statement and balance sheet, with regard to the asset and service components, have been recognised as discontinued operations in compliance with IFRS 5 since December 31, 2013.

6.3.4. Consolidation area

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

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

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

As defined by the new IAS 11, joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture implies the establishment of a legal entity that controls assets, assumes liabilities and enters into contracts on its own behalf.

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

Please note that the companies associated with the DGAG residential portfolio have not been included within the consolidation area since June 27, 2014, when they were sold to BUWOG Immobilien Management GmbH. As mentioned previously, the result of that sale has been recognised in compliance with IFRS 5 since December 2013.

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

6.4. Estimates and assumptions

Preparation of the consolidated financial statements requires management to make estimates and assumptions which, in some cases, are based on difficult, subjective judgements and past experience, and assumptions thought to be reasonable and realistic according to the circumstances, with particular reference to forecasts regarding timing and the values of the transfers set forth in Company plans.

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

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

The estimates and assumptions required of the management mainly regard:

- assessment of the recoverability of intangible assets and defining their useful lives;
- valuation of the investments in associates and joint ventures, and assessment of the recoverability of financial receivables that such companies might owe;
- determination of the fair value of properties and the realisable value of inventories;
- estimation of the potential liabilities for outstanding legal and tax disputes as described in more detail in paragraphs 8.2.4 and 8.2.5 of the report on operations;
- quantification of the impairment of receivables (particularly with reference to determining the amount of securities with underlying non-performing loans) and financial assets and the estimation of the liabilities deemed likely and recorded under provisions for future risks and expenses;
- estimates and assumptions on the recoverability of deferred taxes.

Estimates and assumptions involving a significant risk of variation in the carrying amount of assets and liabilities mainly relate to goodwill, the valuation of the real estate portfolio and the valuation of loans in relation to the effects this can have on the value of investments in associates and joint ventures. In accordance with the accounting standards, the Group must test its goodwill for impairment at least once a year, or whenever there are specific indications of impairment. The value of the real estate portfolio is verified at least half-yearly on the basis of independent appraisals and the value of non-performing loans is based on the periodic updating of estimated expected cash flows.

The values of assets relating to real estate portfolios and to non-performing loans, or to the value of the investments of proprietary vehicle companies, are measured on the basis of the respective appraisals or valuation models, in the assumption of a process of development and sale on the market as part of a normal company cycle. Furthermore, with respect to the valuation of the real estate portfolio, considering that set forth in the regulations in force, the Group makes use of experts (who fulfil the requirements set out in Article 17 of Ministerial Decree 228/1999) for the valuation of real estate and assets and real estate property rights. The results of their valuations are also subject to validation processes.
Analysis and control activities are carried out with a view to verifying:

- the suitability, completeness and accuracy of the data and information contained in the appraisals;
- the correct application by the experts of asset valuation criteria.

The Investment Portfolio Management Unit is responsible for providing the updated data and information (sizes, intended uses, occupancy, lease agreements, etc.) needed for the valuation of real estate assets in the portfolio near the reporting date.

The mandate given to the experts responsible for the periodic valuation (half-yearly and annually) of real estate assets lasts for no longer than four years, except in specific cases. It cannot be renewed or reassigned less than three years before the previous engagement came to an end.

The Group is committed to ensuring that experts are periodically rotated through the real estate asset portfolio and that each individual appraiser does not certify more than 50% of the overall value of the real estate portfolio.

When selecting experts, the presence of any conflicts of interest is also assessed to verify whether their independence may be compromised.

The experts are third parties independent of the Group. Their valuations must be based on current regulations and on the best international standards in order to determine the correct property value.

The Risk Management Unit, possibly with the professional support of third parties specialised in real estate valuations, verifies the consistency and correct application of the asset valuation criteria used by experts. This verification process is carried out on a sample basis and aims to ascertain that a generally accepted valuation methodology has been applied for the appraisal. All audits are conducted, including with the assistance of experts and the involvement of Investment Portfolio Management, as applicable, if significant discrepancies that could considerably alter the valuation are detected.

Please note that the Highstreet investment is subject to a periodic valuation of the recoverability of the remaining financial receivable, which entails the analysis of cash flows expected from termination of the joint venture, possible on completion of disposal of the real estate assets. This measurement of recoverability is based on estimated cash flows deriving from future portfolio sales, which will depend on the actual realisation of sales within the prescribed terms; any different sales conditions are capable of significantly affecting the value of the receivable recorded in the financial statements.

6.5. Seasonal trends

Revenues are not significantly influenced by seasonal trends.

6.6. Information on the consolidated balance sheet and consolidated income statement

All figures are presented in thousands of euro, unless otherwise specified.

The following explanatory notes refer to the consolidated balance sheet and consolidated income statement found in sections 1 and 2.

ASSETS

Note 1. PROPERTY, PLANT AND EQUIPMENT

These amount to Euro 864 thousand, a net decrease of Euro 167 thousand since December 31, 2013, and are made up as follows:

	06.30.2014			12.31.2013		
	Historical cost	**Accumulated depreciation/ write-downs**	**Net value**	**Historical cost**	**Accumulated depreciation/ write-downs**	**Net value**
Buildings	985	(862)	123	970	(848)	122
Plant and machinery	1,428	(1,237)	191	1,428	(1,210)	218
Industrial and commercial equipment	116	(107)	9	116	(105)	11
Other assets, of which:	12,047	(11,506)	541	13,051	(12,371)	680
- vehicles	78	(78)	-	78	(78)	-
- furniture, office equipment and other	11,946	(11,428)	*518*	12,950	(12,293)	*657*
- works of art	23	-	*23*	23	-	*23*
Total	**14,576**	**(13,712)**	**864**	**15,565**	**(14,534)**	**1,031**

The following table shows the movements in historical costs and accumulated depreciation in the first half of 2014:

Historical cost	12.31.2013	Increases	Decreases	06.30.2014
Buildings	970	15	-	985
Plant and machinery	1,428	-	-	1,428
Industrial and commercial equipment	116	-	-	116
Other assets, of which:	13,051	16	(1,020)	12,047
- vehicles	78	-	-	78
- furniture, office equipment and other	12,950	16	(1,020)	*11,946*
- works of art	23	-	-	*23*
Total	**15,565**	**31**	**(1,020)**	**14,576**

Accumulated depreciation/write-downs	12.31.2013	Depreciation/ Write-downs	Uses	06.30.2014
Buildings	(848)	(14)	-	(862)
Plant and machinery	(1,210)	(27)	-	(1,237)
Industrial and commercial equipment	(105)	(2)	-	(107)
Other assets, of which:	(12,371)	(103)	968	(11,506)
- vehicles	(78)	-	-	*(78)*
- furniture, office equipment and other	(12,293)	*(103)*	*968*	*(11,428)*
Total	**(14,534)**	**(146)**	**968**	**(13,712)**

Note 2. INTANGIBLE ASSETS

These amount to Euro 60,579 thousand, and posted a net increase of Euro 135 thousand compared to December 31, 2013.

	12.31.2013	Increases	Decreases	Amortisation/ other	06.30.2014
Concessions, licences and trademarl	3,577	-	-	7	3,584
Software	752	127	(21)	(248)	610
Goodwill	56,385	-	-	-	56,385
Total	**60,714**	**127**	**(21)**	**(241)**	**60,579**

Concessions

The amount recognised in the financial statements primarily refers to the concession granted by the Municipality of Milan to the subsidiary Parcheggi Bicocca S.r.l. for managing car parks in the Bicocca area until 2032.

This value was supported by the valuation conducted by an independent expert, who determined the value of the concessions in a range defined through the discounting of future cash flows that presumably will be generated by using the concessions.

Goodwill

This amounts to Euro 56,385 thousand at June 30, 2014, unchanged with respect to December 31, 2013.

Goodwill is allocated to the cash-generating units shown in the table below, all belonging to the services platform:

	06.30.2014	12.31.2013
ITALY	**39,495**	**39,495**
Property	13,356	13,356
Fund management	26,139	26,139
GERMANY	**16,890**	**16,890**
Total	**56,385**	**56,385**

Pursuant to IAS 36, the Group carries out an impairment test at December 31 each year. Therefore, pursuant to IAS 36.12, a check was carried out at the end of the half to identify internal and external indicators of impairment. No elements were identified that would require the impairment test to be updated on a half-yearly basis.

In particular, as regards external indicators:

- at June 30, 2014, the Company's market capitalisation is considerably higher than its equity;
- however, the market value of Prelios ordinary shares was lower at June 30, 2014 than at December 31, 2013;
- the weighted average cost of capital updated in order to calculate the recoverable amount of the services platform CGUs decreased by 42 basis points for the CGUs operating in Italy and by 66 basis points for the German CGU between December 31, 2013 and June 30, 2014.

As regards internal indicators:

- economic forecasts for December 31, 2014 updated on the basis of actual first-half results are basically aligned with the forecasts set forth for the first year of the plan. In the first half, some CGUs have slightly lower revenue than forecast, but this is expected to be recovered during the year;
- as regards the German CGU, one client has reported that it does not intend to renew the mandate on some agreements expiring at the end of 2014. This will not change the results for 2014. It will be possible to estimate the effects on subsequent years only at the end of the year when responses are received to bids to obtain new mandates. As regards impairment indicators, it should be noted that the result could decline by a maximum of Euro 0.5 million (worst scenario) due to the termination of existing contracts. For the impairment test at December 31, 2013, the risk of non-renewal of certain contracts and/or less new business development (new contracts with new clients) was prudently taken into consideration to an extent essentially corresponding to the actual decrease. The 2014-2016 Plan also incorporates new business development forecasts for 2015 and 2016 that offset the effects of termination of the contracts in question.

Therefore, since margins from new business set forth in the plan offset the net impact of the termination of the contracts, a risk element which was also already considered in the test carried out at the end of 2013, and since the German CGU's cost of capital declined, there are no impairment indicators at June 30, 2014.

Note 3. EQUITY INVESTMENTS

Equity investments in associates and joint ventures are accounted for using the equity method and amount to Euro 157,180 thousand, a net decrease of Euro 12,000 thousand since December 31, 2013.

Movements during the year are as follows:

	01.01.2014-06.30.2014				01.01.2013-12.31.2013			
	Total	associates	joint ventures	held for sale	Total	associates	joint ventures	held for sale
Opening balance	**169,180**	**42,961**	**122,925**	**3,294**	**236,770**	**53,625**	**179,774**	**3,371**
Acquisitions/contributions of capital and reserves/other	49,112	-	49,112	-	48,675	(33)	48,708	-
Portions of other components recorded under equity	145	-	145	-	6,175	66	6,109	-
Reclassification/Other changes	(158)	-	(158)	-	-	-	-	-
Disposals and liquidations	-	-	-	-	(63)	(63)	-	-
Share of income/losses on investments	(23,652)	(5,767)	(17,885)	-	(112,463)	(10,536)	(101,927)	-
Assets held for sale	-	-	-	-	(43,835)	-	(43,835)	-
Fair value adjustment	-	-	-	-	(77)	-	-	(77)
Net (increase)/decrease in financial receivables	(27,348)	-	(27,348)	-	24,175	(56)	24,231	-
Change in provisions for risks and expenses	(10,099)	-	(10,099)	-	9,823	(42)	9,865	-
Closing balance	**157,180**	**37,194**	**116,692**	**3,294**	**169,180**	**42,961**	**122,925**	**3,294**

The changes in the item under discussion are attributable mainly to the final result of the investees, a negative total of Euro 23,652 thousand, partially offset by grants during the period. The final result of the investees also includes a pro-rata net negative effect for the Prelios Group of Euro 20,315 million deriving from property write-downs.

The item “Net (increase)/decrease in financial receivables” includes in the period under discussion the decrease in net financial receivables owed by associates and joint ventures, in relation to the portions of losses made by the same, exceeding the carrying amounts of the investments.

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

It should be noted that investments “held for sale” refer exclusively to the portion of the Olinda Fund held by Prelios Netherlands B.V., because the Group believed it could recover the related carrying amount essentially through a sale operation. And in fact, Prelios Società di Gestione del Risparmio S.p.A. accepted an offer to purchase the entire real estate portfolio held by the fund in July. Therefore, the units were measured at the lower of the carrying amount and fair value less sales costs, determined on the basis of the real estate asset sale price agreed with the counterparty, as specified in more detail in Note 25, to which the reader is referred.

Likewise, an impairment was recognised on the locked-up portion of the Olinda Fund held by Prelios Società di Gestione del Risparmio S.p.A., which was recognised as an investment in associates and measured using the equity method due to the significant influence exercised over the fund, to align it with the amounts to be settled following the sale of the real estate portfolio.

It should be noted, finally, that there is a lien for Euro 42,025 thousand over shares in associates and joint ventures.

Note 4. OTHER FINANCIAL ASSETS

These amount to Euro 23,903 thousand, a net decrease of Euro 286 thousand over December 31, 2013. They are composed as follows:

	06.30.2014	12.31.2013
Available-for-sale financial assets measured at fair value in equity	**12,434**	**11,994**
Closed-end real estate funds	11,685	11,245
Investments in other companies	749	749
Other financial assets measured at fair value	**10,459**	**11,123**
Bonds – junior notes	10,459	11,123
Other financial assets measured at amortised cost	**193**	**193**
Bonds – junior notes	193	193
Restricted deposits	**817**	**879**
Total	**23,903**	**24,189**

Fair value – hierarchy

During the first half of 2014, as in the comparative period, there were no transfers between fair value hierarchical levels, or changes in the allocation of financial assets entailing a different classification of said assets.

4.1 Closed-end real estate funds

These show the following movements at June 30, 2014:

	01.01.2014 - 06.30.2014	01.01.2012 - 12.31.2013
Opening balance	**11,245**	**11,921**
Increases	200	200
Decreases/Repayment of capital	(494)	(9)
Fair value adjustment	734	(867)
Profit/(losses) previously recorded under equity, transferred to the income statement upon disposal or due to impairment	1,037	-
Impairment	(1,037)	-
Closing balance	**11,685**	**11,245**
of which:		
Cloe Office Fund	6,301	6,783
Tecla Office Fund	2,890	2,053
Enasarco One Fund	1,402	1,460
Federale Immobiliare di Lombardia Fund	944	949
Parchi Agroalimentari Italiani Fund	148	-

The item was adjusted upwards by Euro 734 thousand to account for changes in the fair value of real estate fund units. Please note that during the half, a total of Euro 1,037 thousand in losses deriving from the fair value measurement of units held in Tecla Fondo Uffici accumulated at June 30, 2014 were transferred to the income statement, as they were deemed significant and long-lasting based on the parameters set by the subsidiary Prelios Società di Gestione del Risparmio S.p.A..

4.2 Investments in other companies

This item totals Euro 749 thousand and did not change compared to the previous year.

4.3 Other financial assets at fair value

At June 30, 2014, this item amounts to Euro 10,459 thousand and relates to the class D junior notes that the joint venture Espelha – Serviços de Consultadoria L.d.a. assigned to its shareholders on December 23, 2013. The amount is stated net of impairment of Euro 664 thousand recognised at June 30, 2014.

Prelios S.p.A. also holds the class B junior notes relating to the securitisation of a portfolio of non-performing loans of the company Vesta Finance S.r.l., the value of which was eliminated in the 2011 financial statements after the adjustment in estimated expected cash flows, which make a value recovery seem unlikely.

4.4 Other financial assets at amortised cost

The amount of Euro 193 thousand consists of a deferred redemption amount relating to the securitisation of a non-performing loan portfolio of the company Cairoli Finance S.r.l..

4.5 Tied deposits

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

Note 5. DEFERRED TAX ASSETS AND DEFERRED TAX PROVISION

These are composed as follows:

	06.30.2014	12.31.2013
Deferred tax assets	9,601	11,070
Deferred tax provision	(3,005)	(1,723)
Total	**6,596**	**9,347**

Deferred and prepaid taxes are accounted for, when the conditions are met, taking into account offsetting between legal entities. The breakdown of the same including offsets made is as follows:

	06.30.2014	12.31.2013
Deferred tax assets	13,319	16,089
Deferred tax provision	(6,723)	(6,742)
Total	**6,596**	**9,347**

The decision was taken not to recognise prepaid taxes on most of the tax losses that can be carried forward, in part relating to periods prior to tax consolidation under the parent company Prelios S.p.A. and, therefore, recoverable by the respective legal entities that had generated them.

Note 6. TRADE RECEIVABLES

Trade receivables amount to Euro 37,699 thousand, an increase of Euro 2,644 thousand compared with December 31, 2013.

	06.30.2014				12.31.2013		
	Total	non-current	current	discontinued operations	Total	non-current	current
Trade receivables from associates	3,966	-	3,966	-	2,375	-	2,375
Trade receivables from joint ventures and other Prelios Group companies	56,324	-	56,324	-	56,188	-	56,188
Trade receivables from other related parties	16	-	16	-	176	-	176
Trade receivables from third parties	23,900	-	24,043	(143)	20,432	-	20,432
Receivables for contracts	73	-	73	-	62	-	62
Total gross trade receivables	**84,279**	**-**	**84,422**	**(143)**	**79,233**	**-**	**79,233**
Allowance for doubtful accounts	(46,580)	-	(46,674)	94	(44,178)	-	(44,178)
Total	**37,699**	**0**	**37,748**	**(49)**	**35,055**	**0**	**35,055**

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.

Trade receivables from other related parties, amounting to Euro 16 thousand, mainly refer to receivables due from the Pirelli Group for the recovery of costs relating to the HQ and HQ2 buildings.

Against gross trade receivables, there are provisions for impairment of Euro 46,580 thousand (Euro 44,178 thousand at December 31, 2013), which adjust their par value to their presumed realisable value.

Receivables written down include both significant single positions subject to individual impairment based on particular risk elements, and positions with characteristics similar from the point of view of credit risk grouped together and written down on a collective basis.

Allocations to the allowance for doubtful accounts are made specifically on credit positions that present particular risk elements. By contrast, on credit positions that do not present these characteristics, allocations are made on the basis of the estimated average non-collectability.

Movements in the allowance for doubtful accounts are shown below:

	06.30.2014	12.31.2013
Opening balance	**44,178**	**25,040**
Provisions	2,508	22,869
Provisions as a reduction to revenue	1,532	2,951
Uses	(1,439)	(4,188)
Release of excess allowance	(104)	(173)
Changes in consolidation area/reclassifications/other	(1)	(2,321)
Discontinued operations	(94)	-
Closing balance	**46,580**	**44,178**

Following the difficult property market scenario already noted in previous years, increasing liquidity tensions arising 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 appropriate, on the basis of the information received from customers themselves, to write down certain positions, also with investee entities and real estate funds, with a view to supporting investees in their efforts to continue as going concerns in the context of financial restructuring plans already formalised or at an advanced stage of negotiation with lending institutions and partners.

In particular, impairment of trade receivables amounts to Euro 2,570 thousand, recognised in the income statement under the item "Other Costs" (Note 24) which also includes impairments and losses on sundry receivables amounting to Euro 110 thousand.

Details of the total effect recognised in the income statement following impairment of receivables are presented below.

	06.30.2014	12.31.2013
provisions for doubtful trade receivables	2,508	22,869
losses on trade receivables	62	2,419
total impairment of trade receivables	**2,570**	**25,288**
provisions for other doubtful receivables	110	5,631
losses on other receivables	-	-
total impairment of other receivables	**110**	**5,631**
Net income (loss) from discontinued operations	**(26)**	**-**
Total impairment of receivables	**2,654**	**30,919**

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

Note 7. OTHER RECEIVABLES

These are broken down as follows:

	06.30.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Other receivables from associates	33	-	33	26	-	26
Other receivables from joint ventures	6,804	-	6,804	7,413	10	7,403
Other receivables from other related parties	1,650	-	1,650	2,250	-	2,250
Sundry receivables	27,484	5,243	22,241	25,326	5,244	20,082
Accrued income and prepaid expenses, of which:	1,847	10	1,837	1,140	61	1,079
- in relation to other related parties	69	-	69	69	-	69
- in relation to joint ventures	48	-	48	72	-	72
- in relation to third parties	1,730	10	1,720	999	61	938
Financial receivables	96,374	96,261	113	110,779	110,665	114
Total other gross receivables	**134,192**	**101,514**	**32,678**	**146,934**	**115,980**	**30,954**
Allowance for doubtful accounts for other receivables, of which:	**(7,499)**	**-**	**(7,499)**	**(7,394)**	**-**	**(7,394)**
- from joint ventures	(2,418)	-	(2,418)	(2,418)	-	(2,418)
- from third parties	(5,081)	-	(5,081)	(4,976)	-	(4,976)
Total	**126,693**	**101,514**	**25,179**	**139,540**	**115,980**	**23,560**

In order to realign the par value with the presumed realisable value, against gross other receivables of Euro 134,192 thousand (Euro 146,934 thousand at December 31, 2013), there are provisions for impairment of Euro 7,499 thousand (Euro 7,394 thousand at December 31, 2013), attributable mainly to receivables for the NPL portfolio which were written down in respect of reviews of the reference business plans.

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

	06.30.2014	12.31.2013
Opening balance	**7,394**	**9,165**
Provisions	110	5,631
Uses	(6)	(7,466)
Reclassifications/other changes	1	64
Closing balance	**7,499**	**7,394**

The impairment of other receivables, totalling Euro 110 thousand, is recorded in the income statement under the item "Other costs" (Note 24), essentially due to the impairment of a number of positions within the general context of liquidity tension, as described in more detail in the section on "Trade receivables" to which the reader is referred.

For other current and non-current receivables, the carrying amount is considered approximate to the fair value.

Below is a brief comment on the more significant items included in "Other receivables".

Other receivables from joint ventures

The net value of this item is Euro 4,386 thousand (Euro 4,995 thousand at December 31, 2013). It mainly includes receivables for dividends declared by and due from Inimm Due S.à.r.l. (Euro 834 thousand), and the remaining receivable owed to the parent company by Polish Investments Real Estate Holding II B.V. for the sale of 85% of the share capital of the Polish companies Coimpex Sp.z.o.o. and Relco Sp.z.o.o. (Euro 2,418 thousand, fully written down in 2013).

Other receivables from other related parties

The item refers mostly to the guarantee deposit paid to Pirelli & C. S.p.A. for the rental of the R&D building, as well as the rent prepayment.

Sundry receivables

These amount to Euro 27,484 thousand compared with Euro 25,326 thousand at December 31, 2013.

	06.30.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Sundry receivables, of which:						
- Advances	5,589	4,987	602	5,338	4,987	351
- Receivables in NPL portfolio	4,168	-	4,168	4,168	-	4,168
- Other tax receivables	3,106	221	2,885	1,869	221	1,648
- Receivables from social security institutions	1,467	-	1,467	1,525	-	1,525
- Other sundry receivables	13,154	35	13,119	12,426	36	12,390
Total	**27,484**	**5,243**	**22,241**	**25,326**	**5,244**	**20,082**

Advances include Euro 4,987 thousand in prepaid expenses relating to urbanisation works in the ex Besta-Ansaldo area assigned to third parties, which will be recognised by the allottees on the basis of mandates entered into.

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

In relation to receivables for non-performing loans, provisions of Euro 4,168 thousand have been set aside for impairment and their value, already written off at December 31, 2013, has not changed at June 30, 2014.

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

In this regard, it should be noted that for the 2014 tax period, Prelios S.p.A., acting as parent company, and its subsidiaries, have elected to make an independent Group VAT tax settlement, in accordance with the Ministerial Decree of December 13, 1979.

Other sundry receivables include, *inter alia*, Euro 7,254 thousand for the indemnity payable to parent company Prelios S.p.A. in relation to certain legal disputes primarily concerning maintenance and services provided to buildings managed on behalf of Inpdap, against which Euro 5,906 thousand in liabilities have been recognised, as better described in Note 17 "Other payables", to which the reader is referred.

Other sundry receivables also include Euro 1,267 thousand owed to the Group by certain directors and employees for Consob penalties applied by the Issuers Division and the Intermediaries Division following an investigation 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 at the time by Prelios Società di Gestione del Risparmio S.p.A..

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

On April 5, 2012, as a result of the investigations performed, the Bank of Italy notified the members of the then Board of Directors, Board of Statutory Auditors and former General Manager of Prelios Società di Gestione del Risparmio S.p.A. administrative and pecuniary penalties totalling Euro 150 thousand that the company paid with the obligation of exercising recourse against the sanctioned parties. As at June 30, 2014, the Group is due a residual receivable of Euro 15 thousand from said parties.

The item also includes the amount due to Prelios Società di Gestione del Risparmio S.p.A. for VAT paid in advance on behalf of the Hospitality & Leisure Fund (Euro 1,157 thousand).

Financial receivables

At June 30, 2014, non-current financial receivables amount to Euro 96,261 thousand, marking a net decrease of Euro 14,404 thousand compared to December 31, 2013, while current financial receivables come to Euro 113 thousand. These are broken down as follows:

	06.30.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Receivables from associates	631	631	-	631	631	-
Receivables from joint ventures	95,743	95,630	113	110,148	110,034	114
Total	**96,374**	**96,261**	**113**	**110,779**	**110,665**	**114**

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 given at rates that are in line with those applied by the market's principal participants, except in the case of certain companies which have been granted non-interest-bearing loans.

Movements over the first half of 2014 in non-current receivables are as follows:

	12.31.2013	Increases	Decreases	Offset of provision for risks on investments	Discontinued operations	06.30.2014
Financial receivables from associates	631	-	-	-	-	631
Financial receivables from joint ventures	110,034	4,270	(43,207)	27,348	(2,815)	95,630
Total	**110,665**	**4,270**	**(43,207)**	**27,348**	**(2,815)**	**96,261**

The increase in receivables from joint ventures is due for an amount of Euro 676 thousand to new loans, provided in particular to the companies Aree Urbane S.r.l. in liquidation (Euro 400 thousand) and Polish Investments Real Estate Holding II B.V. (Euro 191 thousand), as well as to the capitalisation of interest accrued in the period and the effect of discounting non-interest-bearing shareholder loans to present value.

In particular, during the year under review, the discounting to present value of non-interest-bearing shareholder loans involved an increase in receivables by Euro 766 thousand.

The decrease in *receivables from joint ventures* primarily reflects Euro 31,581 thousand in cancellations of shareholder loans, particularly Euro 18,521 thousand in favour of Aida RE B.V., Euro 7,250 thousand in favour of Manifatture Milano S.p.A. and Euro 5,393 thousand in favour of Alceo B.V., as well as the Euro 11,700 thousand repayment of shareholder loans, almost completely associated with the completion of the sale of the company SIG RE B.V. and its subsidiaries.

The column “Offset of provision for risks on 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 Euro 6,218 thousand, compared with Euro 6,453 thousand at December 31, 2013.

These comprise:

	06.30.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Income tax receivables	4,552	-	4,552	4,961	-	4,961
Other receivables from third parties for tax consolidation	1,666	-	1,666	1,492	-	1,492
Total	**6,218**	**0**	**6,218**	**6,453**	**0**	**6,453**

Income tax receivables

These relate to income taxes of companies consolidated on a line-by-line basis that have not opted to file for income tax on a Group basis or to taxes of companies in the tax group that arose before joining the tax group.

Other receivables from third parties for tax consolidation

This item refers to the receivable owed to Prelios Credit Servicing S.p.A. by its previous parent company Fonspa S.p.A. for electing tax consolidation, plus the relative interest. The receivable was collected in July 2014.

Note 9. INVENTORIES

	06.30.2014	12.31.2013
Trading properties held for sale	17,432	18,620
Land for development	22,198	22,551
Properties under construction/renovation	7,397	7,235
Total	**47,027**	**48,406**

Trading properties held for sale

These amount to Euro 17,432 thousand, a net decrease of Euro 1,188 thousand compared with December 31, 2013, Euro 706 thousand of which is attributable to net write-downs recognised for the lower presumed realisable value, determined on the basis of independent appraisals as at June 30, 2014 or lower values at which the individual subsidiaries are willing to sell on the basis of sales mandates granted after approval by their respective Board of Directors, and to sales made in the period, primarily by Centrale Immobiliare S.r.l., Geolidro S.p.A. and Orione Immobiliare Prima S.p.A..

Land for development

This amounts to Euro 22,198 thousand. The change recorded with respect to the value at December 31, 2013 is ascribable primarily to net write-downs of Euro 189 thousand recognised due to the lower presumed realisable value determined on the basis of independent appraisals prepared at June 30, 2014 or due to lower values at which the individual subsidiaries are willing to sell in light of sale mandates granted with the approval of the respective Boards of Directors.

Properties under construction/renovation

This item comes to Euro 7,397 thousand, basically in line with the amount reported at December 31, 2013.

The inventories mainly refer to properties under renovation in the Bicocca area of Milan (Euro 4,214 thousand) and to a property located in Magdeburg in Germany (Euro 2,350 thousand).

Note 10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank deposits, post office deposits and cash and cash equivalents in hand, fully available to the holder. Part of cash and cash equivalents is allocated to the bank current accounts of some subsidiaries to cover their financial requirements and is not part of the cash pooling system.

They are broken down as follows:

	06.30.2014	12.31.2013
Bank and post office current accounts	62,256	85,534
Cheques	50	-
Cash and cash equivalents in hand	74	75
Total	**62,380**	**85,609**

Bank and post office current accounts are held with leading banks and financial institutions with high credit ratings. Cash held in bank current accounts accrues interest at the rates agreed, from time to time, with the banking system.

Please note that Euro 904 thousand has been reclassified to “Discontinued operations” since it relates to bank current accounts of the part of the Prelios Deutschland GmbH services platform that was sold on July 4, 2014 as part of the sale of the units of the real estate companies that own the German DGAG residential portfolio, as specified in more detail in Note 29 of the income statement, to which the reader is referred.

EQUITY

GROUP EQUITY

Note 11. SHARE CAPITAL

The mandatory early repayment of the “Prelios 2013-2019 Convertible Loan” was automatically executed on April 14, 2014 through the full conversion of:

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

As a result of this conversion, a share capital increase was resolved upon by the Company’s Board of Directors on June 10, 2013 on the basis of the right with which it had been vested by the Shareholders’ Meeting of May 8, 2013, and was automatically executed exclusively for the purpose of the conversion, with the issue of 229,757,292 ordinary shares and 93,390,705 Category B shares, for a total value of Euro 236,544,333.80.

Following the share capital increase exclusively for the purpose of the conversion, the new fully subscribed and paid-in share capital amounts to Euro 426,441,257.20, broken down into:

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

Net of treasury shares in the portfolio (1,788), as required under IAS 32, the share capital at June 30, 2014 totals Euro 426,432 thousand.

Following the loss of Euro 37,579 thousand in the first half of 2014, the Group’s equity at June 30, 2014 is positive at Euro 131,100 thousand, compared to a negative amount of Euro 69,113 thousand at December 31, 2013.

LTI/Stock option plans

The Group does not have any active LTI/Stock option plans as at June 30, 2014.

Note 12. OTHER RESERVES

Other reserves come to a total negative amount of Euro 13,225 thousand, compared to a negative amount of Euro 14,529 thousand at December 31, 2013.

Information is provided below on the changes that occurred during the first half of 2014 with regard to other components recognised in equity.

	Currency translation reserve	Reserve for fair value measurement of available-for-sale financial assets	Cash flow hedges reserve	Reserve for tax on items credited/debited to equity	**Group equity**	**Minority interests in equity**	**Total**
- Fair value measurement of available-for-sale financial assets	-	661	-	(182)	479	53	532
'- portion of (profit)/losses transferred to the income statement that were previously recorded directly under equity	-	933	-	(257)	676	75	751
Prelios share of items of other comprehensive income relating to associates and joint ventures	(22)	-	168		146	-	146
- currency translation reserve	(2)	-	-	-	(2)	-	(2)
Total other components recorded under equity	**(24)**	**1,594**	**168**	**(439)**	**1,299**	**128**	**1,427**

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

This negative item, totalling Euro 3,597 thousand before tax, classified in a separate reserve, was recognised for the fair value measurement of available-for-sale financial assets, which mainly comprise units held in real estate investment funds.

In 2014 a write-back was recognised for those units, which increased the reserve by Euro 1,594 thousand, of which Euro 933 thousand pro rata related to losses transferred to the income statement associated with the valuation of the units held in the Tecla Fund by Prelios Società di Gestione del Risparmio S.p.A..

Cash flow hedge reserve

This reserve, which includes the effective portion of profits or losses arising from the adjustment to fair value of derivatives designated to hedge exposure to the variability of cash flows of assets or liabilities recognised in the financial statements (cash flow hedge), increased by Euro 168 thousand in 2014 due to the valuation of existing cash flow hedges held by associates and joint ventures. At June 30, 2014 the reserve therefore has a balance of zero.

Reserve for actuarial gains/(losses)

This reserve shows a negative balance of Euro 1,111 thousand, unchanged with respect to the previous year, and includes the net actuarial losses on post-employment defined benefits under IAS 19, before taxes.

Reserve for tax on items credited/debited to equity

This reserve amounts to a positive Euro 3,783 thousand and reflects the tax effect of items credited/debited directly to equity.

Note 13. RETAINED EARNINGS/(LOSSES)

These amount to a total negative amount of Euro 244,528 thousand, posting a net decrease of Euro 332,894 thousand compared to December 31, 2013, essentially due to the allocation of the result for 2013.

Note 14. MINORITY INTERESTS

"Minority interests" come to Euro 2,246 thousand and consist of interests in share capital and reserves, as well as in the result for the period of the companies consolidated on a line-by-line basis.

Equity attributable to minority shareholders is down by Euro 532 thousand compared to December 31, 2013 due primarily to the net loss for the period of Euro 665 thousand.

LIABILITIES

Note 15. BANK BORROWINGS AND PAYABLES TO OTHER LENDERS

Bank borrowings and payables to other lenders are analysed as follows:

	06.30.2014				12.31.2013			
	Total	non-current	current	liabilities related to discontinued operations	Total	non-current	current	liabilities related to discontinued operations
Bank borrowings	238,045	237,300	745	-	229,989	229,141	848	-
Convertible bond	-	-	-	-	235,902	235,902	-	-
Other financial payables	1,588	624	1,496	(532)	1,524	628	1,466	(570)
Payables to other lenders	98	-	98	-	98	-	98	-
Financial payables to joint ventures	6,576	-	6,576	-	6,576	-	6,576	-
Total	**246,307**	**237,924**	**8,915**	**(532)**	**474,089**	**465,671**	**8,988**	**(570)**

Bank borrowings

Bank borrowings amount to Euro 238,045 thousand at June 30, 2014, marking an increase of Euro 8,056 thousand compared to December 31, 2013.

The item is broken down as follows:

	06.30.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Non-recourse loans	4,824	4,079	745	5,178	4,440	738
Fixed-term credit facilities – Senior and Super Senior loans and current accounts	233,221	233,221	-	224,811	224,701	110
Total	**238,045**	**237,300**	**745**	**229,989**	**229,141**	**848**

Non-recourse loans

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

Fixed-term credit facilities – Senior and Super Senior Loans and current accounts

This item refers to the balance at June 30, 2014 of the Senior and Super Senior Loans granted to Prelios S.p.A. by leading Italian banks formerly belonging to the "Club Deal" pool, following the Debt Restructuring Agreement entered into on May 7, 2013.

The new Senior and Super Senior credit facilities were recorded at fair value calculated using the measurement methodologies deemed appropriate with respect to the characteristics of each component of the new debt. The financial liabilities are recognised at amortised cost at June 30, 2014.

Both lines of the loan are non-current: the Senior Loan matures on December 31, 2018, although there is an early repayment obligation in the amount of 65% of collections from the sale of real estate assets. The Super Senior Loan matures on December 31, 2017.

Please note that interest payable accrued on the Senior Loan during the half is classified as non-current, since interest is capitalised on the Senior Loan and repaid after the loan matures. Interest on the Super Senior Loan is paid on a half-yearly basis. The interest accrued during the period of Euro 1,006 thousand was paid on June 30, 2014.

Please note that there are no financial covenants for both of these loans.

Convertible bond

This item includes the balance at December 31, 2013 of the mandatory convertible bond subscribed by Pirelli & C. S.p.A. and the Lending Banks following the completion of the capital increase, for a total par value of Euro 233,534 thousand.

The mandatory early repayment of the “Prelios 2013-2019 Convertible Loan” was automatically executed on April 14, 2014 through full conversion into share capital, as described in more detail in Note 11 “Share capital”.

Other financial payables

“Other current financial payables” include Euro 1,485 thousand attributable mainly to the management of real estate contracts carried out for third parties, almost entirely offset by dedicated current accounts included under the item “Cash and cash equivalents”.

Financial payables to joint ventures

The item, amounting to Euro 6,576 thousand, includes residual negative intercompany current account balances as well as certain financial payables due to the parent company in respect of the obligations to give grants to the investees Aree Urbane S.r.l. in liquidation (Euro 4,892 thousand) and Solaia RE S.à.r.l. (Euro 634 thousand).

Note 16. TRADE PAYABLES

These comprise:

	06.30.2014				12.31.2013		
	Total	non-current	current	liabilities related to discontinued operations	Total	non-current	current
Trade payables to associates	1,208	-	1,208	-	1,182	-	1,182
Trade payables to joint ventures and other Prelios Group companies	1,805	-	1,805	-	1,991	-	1,991
Trade payables to other related parties	406	-	406	-	547	-	547
Trade payables to third parties	45,225	-	45,493	(268)	44,396	-	44,396
Total	**48,644**	**0**	**48,912**	**(268)**	**48,116**	**0**	**48,116**

At June 30, 2014, the fair value of the item in question approximates its carrying amount.

Trade payables include the portion of payables to third parties past due for more than 90 days for an amount at June 30, 2014 of approximately Euro 5.5 million (Euro 3.2 million at December 31, 2013).

Trade payables to associates

These amount to Euro 1,208 thousand and are almost entirely attributable to payables to Progetto Corsico S.r.l. and Olinda Fondo Shops, as the allottees, for urbanisation charges and the relative accessory costs, for an area located in the Municipality of Corsico and an area in the Bicocca zone, respectively.

Trade payables to joint ventures and other Prelios Group companies

These mainly refer to chargebacks of various types by joint ventures and other companies in the Prelios Group, primarily for rentals, urbanisation charges and accessory costs.

These amount to Euro 1,805 thousand, marking a drop of Euro 186 thousand.

Trade payables to other related parties

These total Euro 406 thousand, down by Euro 141 thousand with respect to December 31.

These include primarily the payables due to Pirelli & C. S.p.A. for rental and to Pirelli Tyre for the chargeback of utilities and R&D building expenses. They also refer to payables for health services provided by Poliambulatorio Bicocca S.r.l..

Trade payables to third parties

This item amounts to Euro 45,225 thousand, up by Euro 829 thousand compared to December 31, 2013, offset by Euro 268 thousand reclassified to the item “liabilities related to discontinued operations”.

The item includes Euro 3,303 thousand in *trade payables to customers for contracts* (Euro 3,305 thousand as at December 31, 2013), generated by advances above the percentage completion relating to contracts with Lambda S.r.l. for urbanisation initiatives in Bicocca and Pioltello.

In particular, the costs incurred and the related margins on these contracts amount to Euro 16,602 thousand at June 30, 2014 (Euro 16,601 thousand at December 31, 2013), while amounts invoiced for percentage completion total Euro 19,905 thousand (Euro 19,906 thousand at December 31, 2013).

Note 17. OTHER PAYABLES

These comprise:

	06.30.2014				12.31.2013			
	Total	**non-current**	**current**	**liabilities related to discontinued operations**	**Total**	**non-current**	**current**	**liabilities related to discontinued operations**
Other payables to associates	2,162	-	2,162	-	2,159	-	2,159	-
Other payables to joint ventures and other Prelios Group companie	16,594	-	16,594	-	16,587	-	16,587	-
Other payables to other related parties	44	-	44		-	-	-	
Other payables to third parties, of which:	35,100	521	35,358	(779)	33,001	523	33,306	(828)
- damages payable	*5,906*	-	*5,906*	-	*5,906*	-	*5,906*	-
- payables to employees	*4,705*	-	*5,484*	*(779)*	*4,198*	-	*4,861*	*(663)*
- other tax payables	*3,097*	-	*3,097*	-	*3,362*	-	*3,527*	*(165)*
- payables to social security institutions	*1,514*	-	*1,514*	-	*2,011*	-	*2,011*	-
- other sundry payables	*19,878*	*521*	*19,357*	-	*17,524*	*523*	*17,001*	-
Accrued liabilities and deferred income	1,595	*369*	*1,226*	-	1,697	*392*	*1,305*	-
Total	**55,495**	**890**	**55,384**	**(779)**	**53,444**	**915**	**53,357**	**(828)**

Other payables to associates

The payable, due almost entirely to Olinda Fondo Shops (as allottee of the Bicocca area), refers to the amount collected from Iniziative Immobiliari 3 S.r.l., as provided for in the contract, for urbanisation works in the area owned by said allottee.

Other payables to joint ventures and other Prelios Group companies

These refer mainly to a payable due to a German subsidiary originating from a “profit & loss agreement” active up until 2007, on the basis of which the associating party had the right to receive income generated by the associated party and, on the other hand, the obligation of covering any losses arising from it, as well as a payable for expenses relating to the sale of investment units made in the past. Based on the agreements and shareholder agreements with the majority shareholder in the real estate joint venture involved, the receivables concerning the items in question also relate exclusively to Prelios.

Other payables to third parties

Damages payable includes the residual liability of Edilnord Gestioni S.r.l. (in liquidation) for damages payable to Inpdap in relation to legal action over management of certain contracts (Euro 5,906 thousand). These expenses are subject to guarantee by the previous company shareholder, and are therefore essentially offset by receivables classified in the item “Other receivables”.

Payables to employees mostly refer to provisions for unused holiday entitlement and deferred salaries. It also includes contractualised liabilities for the restructuring plans being implemented.

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

Payables to social security institutions relate to the amount owed by the Group to social security institutions. The item includes Euro 1,289 thousand owed to the Italian Social Welfare Institution (INPS) and Euro 225 thousand to the Italian Workers' Compensation Authority (INAIL) and other social security institutions, in relation to contributions accrued that will be paid on the respective maturity dates.

Payables to Directors and the Supervisory Board included under other sundry payables amount to Euro 1,029 thousand (in comparison to Euro 1,780 thousand at December 31, 2013), while payables to statutory auditors total Euro 602 thousand (Euro 542 thousand at December 31, 2013).

The item “*other sundry payables*” includes, *inter alia*, Euro 9,975 thousand of Prelios S.p.A. (amount unchanged with respect to the previous year) deriving from deferred contractual charges in relation to the transfer of investment units which occurred in the past.

Lastly, this item also includes the net debt of Euro 3,165 thousand owed to the Municipality of Milan by Lambda S.r.l. for valuation, in place of the realisation, of some underground car parks originally planned for the Bicocca area.

Accrued liabilities and deferred income

Deferred income includes Euro 1,080 thousand in consolidation adjustments to defer the portion of capital gains on property sales that have not yet been realised outside the

Group.

Note 18. PROVISIONS FOR FUTURE RISKS AND EXPENSES

These provisions total Euro 55,388 thousand (of which the non-current portion is Euro 36,860 thousand) compared with Euro 71,884 thousand at December 31, 2013 (of which the non-current portion was Euro 39,269 thousand).

	06.30.2014			12.31.2013		
	Total	non-current	current	Total	non-current	current
Provision for future expenses for contractual commitments	27,725	27,052	673	33,062	28,184	4,878
Provision for arbitration, lawsuits and outstanding disputes	14,866	7,540	7,326	14,475	7,538	6,937
Provision for guarantees	2,620	1,739	881	2,154	1,748	406
Provisions for other risks	2,513	529	1,984	2,485	559	1,926
Restructuring provision	5,140	-	5,140	7,085	1,240	5,845
Provision for future risks on equity-accounted investments	2,524	-	2,524	12,623	-	12,623
Total	**55,388**	**36,860**	**18,528**	**71,884**	**39,269**	**32,615**

The changes which occurred in the first half of 2014 are as follows:

	12.31.2013	Decrease in financial receivables	Change in consol. area/other	Changes		liabilities related to discontinued operations	06.30.2014
				Increase	Decrease		
Provision for future expenses for contractual commitments	33,062	-	100	-	(5,437)	-	27,725
Provision for arbitration, lawsuits and outstanding disputes	14,475	-	(70)	1,512	(1,051)	-	14,866
Provision for guarantees	2,154	-	-	500	(34)	-	2,620
Provisions for other risks	2,485	-	(30)	140	(82)	-	2,513
Restructuring provision	7,085	-	-	73	(2,018)	-	5,140
Provision for future risks on equity-accounted investments	12,623	27,731	-	6,003	(43,833)	-	2,524
Total	**71,884**	**27,731**	**0**	**8,228**	**(52,455)**	**0**	**55,388**

Provision for future expenses for contractual commitments

This provision includes, among other things, Euro 11,716 thousand concerning the provision for expenses set aside by subsidiary Geolidro S.p.A. in relation to contractual commitments to perform extraordinary maintenance works on properties sold, as well as Euro 2,248 thousand for future expenses in relation to the transfer of the Milan office and early termination of the rental contract for the HQ2 building. Euro 215 thousand of this provision was used to cover additional rentals paid during the half.

The item also includes Euro 12,891 thousand for the estimated costs that subsidiary Lambda S.r.l. could incur for certain urbanisation work commitments. In particular, the item (Euro 2,492 thousand) refers to liabilities estimated by the company for the construction of the crèche/nursery school. The provision was used for the progress of works during the half, amounting to Euro 19 thousand. In addition, Euro 9,100 thousand relates to provisions for expenses for commitments made with the Municipality of Milan for the construction of some car parks in the Bicocca area. In this respect, during the half the Company reclassified Euro 4.2 million from the provision for risks recognised in 2013 to debt on the basis of agreements reached with the Municipality. The provision also includes Euro 1,099 thousand for the prudential estimate of some urbanisation commitments assumed by the Company in the past concerning the areas transferred in previous years.

Provision for arbitration, lawsuits and outstanding disputes

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

This provision also includes, where the conditions are met, the best estimate of probable charges deriving from assessment notices received by Prelios Group companies after tax inspections.

A provision of Euro 3,000 thousand has been recognised by Prelios S.p.A. for probable expenses to be borne by the Company for the termination of a contract in the past. Roughly Euro 2,377 thousand has been set aside by Centrale Immobiliare S.p.A. for the probable liability associated with the outcome of a preliminary technical assessment received concerning a request for damages for claimed construction defects on certain properties. That dispute relates to real estate development by the company, which sold newly built property units. The company is conducting analyses as to the possible liability of the construction firms and the real estate development contractors and will lodge an action for recovery if required.

Provisions for guarantees

This amount is mainly attributable to provisions for risks connected to guarantees issued to Iniziative Retail S.r.l. for the real estate placed by them in the "Olinda – Fondo Shops – Fondo comune di investimento immobiliare di tipo chiuso" (closed-end real estate investment fund) managed by Prelios Società di Gestione del Risparmio S.p.A. and for the Moncalieri Center entertainment centre constructed and sold to the Olinda Fund, for the indemnity given in the face of any claims in terms of construction, town planning, systems and environmental issues.

Provisions for other risks

This item mainly includes a potential tax risk as a result of changes to the legislation regarding the sales of investments in German companies in the "Mistral" Group, and provisions in relation to risks of payments to be made, in application of the tax consolidation regulations (previously held by Pirelli & C. S.p.A.) due to changes in the scope of reference.

Restructuring provision

This refers to restructuring costs, in relation to internal reorganisation plans, already resolved and put in place by a number of Group companies to tackle the new scenario in the real estate sector, with the aim of simplifying organisational levels and reducing operating costs by downsizing the workforce and simplifying corporate structures. The provision also includes costs of onerous contracts relating to the Group's offices.

Provision for future risks on equity-accounted investments

The provision for future risks on equity-accounted investments reflects provisions against legal or constructive obligations to cover losses of associates or joint ventures that exceed their carrying amount plus the amount of any financial receivables owed by them.

Note 19. EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations amount to Euro 9,946 thousand, a net decrease of Euro 309 thousand with respect to December 31, 2013. The item breaks down as follows:

	06.30.2014	12.31.2013
Provision for employee severance indemnity	3,049	3,269
Pension funds	6,250	6,372
Other employee benefits	647	614
Total	**9,946**	**10,255**

Provision for employee severance indemnity

The provision for employee severance indemnity refers only to Italian companies in the Group and essentially includes the employee severance indemnity accrued by staff in service at June 30, less any advances granted to employees.

In accordance with the provisions of national regulations, the amount due to each employee accrues on the basis of the time worked and is disbursed when the employee leaves the Company. The amount due at the conclusion of the employment relationship is calculated on the basis of its duration and the taxable remuneration of each employee. This liability is revalued on an annual basis using the official cost of living index and the legal interest rate. As it is not connected to any condition or maturity period, nor are there any obligations for financial funds, there are no assets that serve the fund.

The regulations were supplemented by Legislative Decree 252/2005 and Law 296/2006 (2007 Finance Law) which, for companies with at least 50 employees, established that, as regards amounts accrued from 2007, employees have the option of allocating these to either the INPS Treasury Fund or to forms of supplementary pension, therefore assuming the nature of “defined-contribution plans”.

In application of IAS 19, the employee severance indemnity is revised using actuarial evaluation methods, with the assistance of an external appraiser, and adapted in relation to events occurring which require said adaptation.

The date of the last actuarial valuation was December 31, 2013.

Movements in the provision for employee severance indemnity as at June 30, 2014 and in the previous year are set out below:

	01.01.2014-06.30.2014	01.01.2013-12.31.2013
Opening balance	**3,269**	**3,932**
Accrued portion allocated to income statement	66	148
Equity adjustment for actuarial gains/losses	-	(60)
Employee severance indemnity advances	(34)	(86)
Benefits paid	(258)	(629)
Other changes	6	(36)
Closing balance	**3,049**	**3,269**

The provision for employee severance indemnity changed mainly as a result of uses in the year for payments to personnel that have left.

The amounts recognised in the income statement are included in the item "Personnel costs" (Note 25).

Pension funds

These are defined-benefit plans, mainly relating to German service companies.

Movements in pension funds in the first half of 2014 and in the previous year are set out below:

	01.01.2014-06.30.2014	01.01.2013-12.31.2013
Opening balance	**6,372**	**7,800**
Accrued portion allocated to income statement	137	181
Equity adjustment for actuarial gains/losses	-	(467)
Benefits paid	(163)	(829)
Liabilities held for sale	(96)	(956)
Other changes	-	643
Closing balance	**6,250**	**6,372**

This item is recognised net of Euro 1,052 thousand which has been reclassified to liabilities related to discontinued operations as described in Note 29 of the income statement, to which the reader is referred.

The amounts recognised in the income statement are included in the item "Personnel costs" (Note 25).

Other employee benefits

"Other employee benefits" include Euro 53 thousand relating to the "Altersteilzeit Fund", a mechanism commonly adopted in Germany to agree early retirement for employees who have reached the age of 55.

Other employee benefits also include length-of-service bonuses and loyalty bonuses totalling Euro 594 thousand.

The amounts recognised in the income statement are included in the item "Personnel costs" (Note 25).

Employees

The total number of employees, including auxiliary staff working in buildings, was 775 at June 30, 2014 (778 including temporary staff), compared with 786 at December 31, 2013 (790 including temporary staff).

The total staff, including resources with temporary contracts, decreased to 478 after the DGAG disposal transaction, from 500 at December 31, 2013.

The table below shows the breakdown considering the effects of the sale of the German residential platform, for which the closing took place in July 2014:

	06.30.2014	12.31.2013
managers	60	64
corporate officers	121	127
office workers	290	300
manual worker/auxiliary staff (*)	5	5
temporary staff	2	4
total	**478**	**500**

(*) Staff number varies in relation to operations tied to contracts managed.

Other information

The main actuarial assumptions used at the date of the last reference valuation of December 31, 2013 are as follows:

	Italy	Germany	Netherlands
discount rate	3.50%	3.50%	3.50%
inflation rate	2.00%	2.00%	2.00%

Note 20. TAX PAYABLES

These comprise:

	06.30.2014			12.31.213		
	Total	non-current	current	Total	non-current	current
Tax payables	10,922	-	10,922	12,367	1,464	10,903
Other payables to joint ventures under tax transparency regime	1,080	-	1,080	1,080	-	1,080
Total	**12,002**	**0**	**12,002**	**13,447**	**1,464**	**11,983**

Tax payables

Tax payables include, *inter alia*, the amounts owed for current taxes by companies which are not in the tax group headed by the parent company Prelios S.p.A., as well as income tax owed by foreign companies and amounts owed by companies with respect to periods before joining the tax group or relative to IRAP amounts.

Other payables to joint ventures under tax transparency regime

From 2006 to 2008, the investee Trixia S.r.l. opted for tax transparency pursuant to Articles 117 *et seq.* of the Italian Income Tax Act. The relationships arising from participation in tax transparency are governed by an agreement which establishes a common procedure for the application of legal and regulatory provisions.

COMMITMENTS AND GUARANTEES

Personal guarantees

Guarantees

Banks and insurance companies have issued a total of Euro 94,321 thousand in guarantees to third parties and in the interest of companies in the Prelios Group, mostly for contractual obligations.

The Prelios Group has also issued Euro 19,520 thousand in guarantees and letters of patronage in the interests of associates and joint ventures, broken down as follows:

- insurance co-obligations of various kinds to third parties for a total of Euro 4,420 thousand;
- guarantees of Euro 7,100 thousand against possible future charges and loans granted by credit institutions to associates and joint ventures;
- total guarantees of Euro 8,000 thousand issued in favour of partners and buyers for potential claims associated with the aforementioned sale of the "DGAG" portfolio and its management platform.

Liens on shares

Liens totalling Euro 42,025 thousand on shares in associates and joint ventures were established. The item mainly includes the lien taken out on shares by the subsidiary Prelios Netherlands B.V. in favour of Morgan Stanley Real Estate Special Situation Fund III, L.P., to secure the loan granted by the latter to the company Gamma RE B.V..

Commitments to purchase investments/fund units/securities/loans/cover losses

These amount to Euro 5,255 thousand and refer to the following commitments given by:

- Prelios S.p.A., through its subsidiary Prelios Netherlands B.V. to make payments for a total maximum amount of Euro 2,562 thousand to the company Gamma RE B.V.;
- Prelios Società di Gestione del Risparmio S.p.A. to subscribe Euro 1,403 thousand for units in "Fondo Federale Immobiliare di Lombardia" (formerly Fondo Abitare Sociale 1 – Fondo Comune Chiuso di Investimento Immobiliare Etico Riservato ad Investitori Qualificati, a closed-end ethical real estate investment fund reserved for qualified investors);
- Prelios Società di Gestione del Risparmio S.p.A. to subscribe a total maximum amount of Euro 800 thousand for the initial units in the PAI – Parchi Agroalimentari Italiani Fund;
- Prelios S.p.A., to pay up to Euro 490 thousand to Espelha Serviços de Consultadoria L.d.a., to cover contingent liabilities.

The parent company has also given a commitment to cover losses by cancelling the existing loan of and possibly making an equity contribution to the company Manifatture Milano S.p.A..

Property purchase commitments

Property purchase commitments refer to the undertakings given by parent company Prelios S.p.A. to purchase certain properties owned by Imser 60 S.r.l., which might end up being unsold, for a maximum amount of Euro 284,120 thousand. The purchase price of these properties is contractually defined as a certain fraction of their market value. This option may be exercised by the counterparty from November 12, 2021 to May 31, 2022.

NET FINANCIAL POSITION

(alternative performance indicator not required by IFRS)

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

(thousands euro)

	06.30.2014	12.31.2013
CURRENT ASSETS		
Other receivables	**113**	**114**
- of which receivable from related parties	*113*	*114*
Financial receivables	113	114
- *third parties*	-	-
- *joint ventures and other Prelios Group companies*	113	114
Cash and cash equivalents	**62,380**	**85,609**
TOTAL CURRENT ASSETS - A	**62,493**	**85,723**
CURRENT LIABILITIES		
Bank borrowings and payables to other lenders	**(8,915)**	**(8,988)**
- of which payable to related parties	*(6,576)*	*(6,576)*
- joint ventures and other Prelios Group companies	(6,576)	(6,576)
- other financial payables	(1,496)	(1,466)
- bank borrowings	(745)	(848)
- payables to other lenders	(98)	(98)
TOTAL CURRENT LIABILITIES - B	**(8,915)**	**(8,988)**
NON-CURRENT LIABILITIES		
Bank borrowings and payables to other lenders	**(237,392)**	**(465,101)**
- of which payable to related parties	-	*(149,876)*
- other financial payables	(92)	(58)
- convertible bond (*)	-	(235,902)
- Payables to other lenders	(237,300)	(229,141)
TOTAL NON-CURRENT LIABILITIES - C	**(237,392)**	**(465,101)**
NET FINANCIAL POSITION FROM CONTINUING OPERATIONS EXCL. SHAREHOLDER LOANS GRANTED	**(183,814)**	**(388,366)**
NET FINANCIAL POSITION FROM DISCONTINUED OPERATIONS EXCL. SHAREHOLDER LOANS GRANTED	**372**	**-**
NET FINANCIAL POSITION EXCL. SHAREHOLDER LOANS GRANTED	**(183,442)**	**(388,366)**

((*) On April 14, 2014 the compulsory early repayment of the Convertible Bond was automatically and directly executed through the full conversion of the Convertible Bonds and, therefore, the capital increase for the exclusive service of the conversion was also automatically implemented through the issue of 229,757,292 ordinary shares and 93,390,705 class B shares.

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

INCOME STATEMENT

The table below shows the Group's economic performance over the first six months of 2014 and in the corresponding period of 2013, as well as for the first and second quarters of 2014 and 2013.

	01.01.2014-06.30.2014	01.01.2014-03.31.2014	04.01.2014-06.30.2014	01.01.2013-06.30.2013	01.01.2013-03.31.2013	04.01.2013-06.30.2013
Revenue from sales and services	35,175	17,054	18,121	35,641	17,600	18,041
Changes in inventories of work in progress, semi-finished and finished products	(190)	9	(199)	(462)	(3)	(459)
Other income	3,787	681	3,106	5,253	1,437	3,816
TOTAL OPERATING REVENUE	**38,772**	**17,744**	**21,028**	**40,432**	**19,034**	**21,398**
Raw and consumable materials used (net of change in inventories)	(1,291)	(90)	(1,201)	(2,125)	(105)	(2,020)
Personnel costs	(18,349)	(10,033)	(8,316)	(21,285)	(10,499)	(10,786)
Depreciation, amortisation and impairment	(333)	(113)	(220)	(705)	(369)	(336)
Other costs	(25,889)	(11,889)	(14,000)	(31,942)	(12,961)	(18,981)
TOTAL OPERATING COSTS	**(45,862)**	**(22,125)**	**(23,737)**	**(56,057)**	**(23,934)**	**(32,123)**
EBIT	**(7,090)**	**(4,381)**	**(2,709)**	**(15,625)**	**(4,900)**	**(10,725)**
Net income from investments:	(24,654)	(2,821)	(21,833)	(30,843)	(4,725)	(26,118)
- net profit share from investments in associates and joint ventures	*(23,172)*	*(4,413)*	*(18,759)*	*(30,713)*	*(4,499)*	*(26,214)*
- gains on investments	*35*	*1,729*	*(1,694)*	*313*	*14*	*299*
- losses on investments	*(1,517)*	*(137)*	*(1,380)*	*(443)*	*(240)*	*(203)*
Financial income	3,737	2,193	1,544	6,520	2,993	3,527
Financial expenses	(12,196)	(6,117)	(6,079)	(23,604)	(11,535)	(12,069)
PROFIT (LOSS) BEFORE TAXES	**(40,203)**	**(11,126)**	**(29,077)**	**(63,552)**	**(18,167)**	**(45,385)**
Taxes	(2,953)	(1,320)	(1,633)	(3,337)	(2,280)	(1,057)
NET INCOME FROM CONTINUING OPERATIONS	**(43,156)**	**(12,446)**	**(30,710)**	**(66,889)**	**(20,447)**	**(46,442)**
attributable to minority interests	(665)	49	(714)	(403)	(87)	(316)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**4,912**	**(858)**	**5,770**	**2,504**	**1,879**	**625**
GROUP NET INCOME/(LOSS)	**(37,579)**	**(13,353)**	**(24,226)**	**(63,982)**	**(18,481)**	**(45,501)**

Note 21. REVENUE FROM SALES AND SERVICES

Revenue from sales and services amount to Euro 35,175 thousand, compared with Euro 35,641 thousand at June 30, 2013, and is composed as follows:

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Revenue from contracts	13	713
Revenue from sales	560	390
- sales of residential property	*560*	*390*
Revenue from services	34,602	34,538
Total	**35,175**	**35,641**

Revenue from contracts

The item amounts to Euro 13 thousand, compared with Euro 713 thousand at June 30, 2013. This item primarily relates to revenue generated by Lambda S.r.l. for some urbanisation works currently under way on behalf of the companies involved in developing the Milan Bicocca and Pioltello areas.

Revenue from sales

Sales completed in the first half of 2014 mainly refer to property units sold by Centrale Immobiliare S.r.l., Geolidro S.p.A. and Orione Immobiliare Prima S.p.A..

Revenue from services

Revenue deriving from the rendering of services can be broken down as follows:

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Revenue from services to third parties	21,619	14,248
Revenue from services to associates	4,044	4,690
Revenue from services to joint ventures and other Prelios Group companies	8,910	15,582
Revenue from services to other related parties	29	18
Total	**34,602**	**34,538**

Note 22. CHANGES IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS

The item of inventories as at June 30, 2014 was negative overall by Euro 190 thousand, compared with a decrease of Euro 462 thousand in the first half of 2013. Euro 189 thousand relates to net write-downs recognised due to the lower presumed realisable value determined on the basis of independent appraisals prepared at June 30, 2014 or due to lower values at which the individual subsidiaries are willing to sell in light of sale mandates granted with the approval of the respective Boards of Directors.

Note 23. OTHER INCOME

The item in question can be broken down as follows:

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Recoveries, reimbursements and other income	3,583	4,650
Other income from associates, joint ventures and other Prelios Group companies	199	512
Other income from other related parties	5	91
Total	**3,787**	**5,253**

Recoveries, reimbursements and other income refers to chargebacks to tenants of the management costs of owned or managed real estate, particularly relating to property management activities, as well as income from the termination or positive evolution of disputes that had generated risks and uncertainties and, therefore, increased provisions for risks.

Other income from other related parties primarily includes the recovery of costs relating to the HQ2 building in Milan.

The item includes non-recurring items of Euro 182 thousand, accounting for approximately 4.8% of the total item.

Note 24. OPERATING COSTS

Operating costs, shown in the table below, come to Euro 45,862 thousand compared to Euro 56,057 thousand at June 30, 2013, and are broken down as follows:

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Raw and consumable materials used of which:	1,291	2,125
a) Assets purchased	*100*	*113*
b) Change in inventories of trading properties, raw and miscellaneous materials	*1,191*	*2,012*
Personnel costs	18,349	21,285
Depreciation, amortisation and impairment	333	705
Other costs	25,889	31,942
Total	**45,862**	**56,057**

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

"Assets purchased" amount to Euro 100 thousand at June 30, 2014 and relate to the purchase of various consumable materials.

In the first half of 2014, *"Change in inventories of trading properties, raw and miscellaneous materials"* is a negative Euro 1,191 thousand, compared with another negative amount of Euro 2,012 thousand in the same period of 2013. The change recorded in the first half of 2014 also includes Euro 706 thousand in net write-downs recognised due to the lower presumed realisable value determined on the basis of independent appraisals prepared at June 30, 2014 or due to lower values at which the individual subsidiaries are willing to sell in light of sale mandates granted with the approval of the respective Boards of Directors, as well as the sales made during the period, primarily by Centrale Immobiliare S.r.l., Geolidro S.p.A. and Orione Immobiliare Prima S.p.A..

Personnel costs

Personnel costs amount to Euro 18,349 thousand, compared with Euro 21,285 thousand as at June 30, 2013.

The item is broken down as follows:

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Wages and salaries	12,941	15,348
Social security contributions	3,904	4,128
Employee severance indemnity	66	91
Costs for defined-contribution pension funds/Other costs	1,438	1,718
Total	**18,349**	**21,285**

In the first half of 2014, personnel costs decreased primarily due to the reduction in average headcount during the period (784 employees compared to 837 in the same period of 2013).

For the number of employees see the notes on employee benefit obligations (Note 19).

This item includes a total of Euro 211 thousand in non-recurring events, with a negative impact of around 1.1% on the total item.

Depreciation, amortisation and impairment

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

Other costs

At June 30, 2014, other costs total Euro 25,889 thousand, compared to Euro 31,942 thousand in the same period of 2013.

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Other costs charged by associates	26	56
Other costs charged by joint ventures and other Prelios Group companies	367	250
Other costs charged by other related parties	1,237	1,201
Other costs charged by third parties	24,259	30,435
Total	**25,889**	**31,942**

The item is broken down by type as follows:

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Services	17,797	18,179
Lease and rental cost	2,583	3,903
Impairment of receivables	2,654	5,934
Provisions for risks	1,187	2,050
Other operating expenses	1,668	1,876
Total	**25,889**	**31,942**

Services

Costs for services consist mostly of maintenance costs, costs for managing third-party assets, commission payable and consultancy and professional fees and amount to Euro 17,797 thousand, compared to Euro 18,179 thousand in the first half of 2013.

The item fell owing mostly to lower volumes of construction and maintenance contracts managed by the Group, and a decrease in consultancy concerning the Group's operating business.

Emoluments paid to directors and the Supervisory Board amount to Euro 1,861 thousand, compared with Euro 2,541 thousand at June 30, 2013, and fees paid to statutory auditors of consolidated companies amount to Euro 259 thousand, compared with Euro 257 thousand in the first half of 2013.

Lease and rental cost

These costs amount to Euro 2,583 thousand, compared with a total of Euro 3,903 thousand accounted for at June 30, 2013, and refer almost entirely to the rental of head office buildings, and to the lease and hire of motor vehicles.

Impairment of receivables

Impairment of receivables (Euro 2,654 thousand at June 30, 2014) was recognised for potential risks of debtor default and for bad debts incurred in the period in question.

The item includes costs for non-recurring events of Euro 2,208 thousand, accounting for roughly 83% of the total item, due to the write-down of certain significant positions, to ensure that certain investee companies continue as going concerns, as part of the financial restructuring plans already formalised or at an advanced stage of negotiation, as described in more detail under the items “Trade receivables” and “Other receivables” to which the reader is referred.

Provisions for risks and expenses

At June 30, 2014, a total of Euro 1,187 thousand in provisions were recognised, compared to Euro 2,050 thousand in the same period of 2013.

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

Other operating expenses

This item amounts to Euro 1,668 thousand, compared to Euro 1,876 thousand at June 30, 2013.

The item includes, among other things, Euro 716 thousand in costs for stamps, duties and other taxes, mostly involving IMU (municipal property tax), registration tax and non-recoverable VAT on financial transactions.

Note 25. NET INCOME FROM INVESTMENTS

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Net profit share from investments in associates and joint ventures	(23,172)	(30,713)
Gains on investments	35	313
Losses on investments	(1,517)	(443)
Total	**(24,654)**	**(30,843)**

The item includes a pro-rata net negative effect for the Prelios Group of Euro 20.3 million deriving from property write-downs.

Losses on investments include Euro 1,037 thousand in losses reversed to the income statement for the reserve previously recognised in equity relating to the fair value measurement of Tecla Fund units held by the company Prelios Società di Gestione del Risparmio S.p.A..

Note 26. FINANCIAL INCOME

Financial income amounts to Euro 3,737 thousand, compared with Euro 6,520 thousand in the same period of 2013, and breaks down as follows:

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Interest income		
a) Interest income from non-current assets:		
- Interest income on financial receivables due from joint ventures	3,106	4,285
Total interest income from non-current assets	**3,106**	**4,285**
b) Interest income from current assets:		
- Interest income from joint ventures	44	19
- Other interest	330	180
Total interest income from current assets	**374**	**199**
Other financial income		
c) Financial income from non-current assets:		
- Income from securities	-	1
Total financial income from non-current assets	**0**	**1**
d) Financial income from current assets:		
- Other income from joint ventures	-	573
Total financial income from current assets	**0**	**573**
Other/miscellaneous	**255**	**210**
Exchange gains	**2**	**697**
Fair value measurement of derivatives	**0**	**555**
Total	**3,737**	**6,520**

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

Note 27. FINANCIAL EXPENSES

These amount to Euro 12,196 thousand, compared with an amount of Euro 23,604 thousand recorded at June 30, 2013.

Financial expenses were down compared to the first half of 2013 primarily because of the decrease in borrowings resulting from the extraordinary capital increase and debt restructuring transaction completed in 2013.

They break down as follows:

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Interest due to banks	9,942	14,011
Interest due to associates	10	-
Interest due to joint ventures	80	548
Interest due to other related parties	-	6,515
Interest due to third parties on convertible bond	234	-
Interest due to other related parties on convertible bond	408	-
Interest due to others	190	59
Other financial expenses	1,240	977
Other financial expenses due to joint ventures	2	59
Exchange losses	90	1,435
Total	**12,196**	**23,604**

Interest due to banks refers primarily to the Senior and Super Senior Loans taken out from credit institutions for everyday management of the business.

Exchange losses amount to Euro 90 thousand, compared to Euro 1,435 thousand in the first half of 2013. They mainly refer to the valuation of shareholder loans in Polish currency at period-end exchange rates (June 30, 2014).

Note 28. TAXES

The item "Taxes" relates to current taxes, deferred and prepaid taxes calculated on the basis of applicable tax rates, and amount to Euro 2,953 thousand, compared to Euro 3,337 thousand in the first half of 2013.

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Current taxes	923	1,099
Deferred tax assets	2,014	2,172
Deferred tax liabilities	16	66
Total	**2,953**	**3,337**

Note 29. NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

On February 12, 2014, the company Solaia RE S.à.r.l., a joint venture in which a fund managed by Deutsche Asset & Wealth Management Real Estate (Deutsche Bank Group) holds a 60% interest and in which Prelios S.p.A. holds a 40% interest, reached an agreement with the company BUWOG, a wholly owned subsidiary of the Austrian Immofinanz Group, for the sale of the interests in the real estate companies that own the German residential portfolio commonly known as DGAG. This transaction, promoted and defined by the majority partner Deutsche Asset & Wealth Management Real Estate (Deutsche Bank Group), is also associated with the transfer of part of the Prelios Deutschland GmbH (wholly owned subsidiary of Prelios S.p.A.) platform, which provides technical and administrative services to the above residential portfolio. This transaction contributes to the implementation of the new business model, according to which Prelios will act as a pure provider of integrated real estate services by concentrating its human and financial resources on higher value-added segments of the European real estate market. As a result of this transaction, the Prelios Group's operations in Germany are now more focused on the high value-added premium segment of shopping centres and Highstreet retailing.

The "net income (loss) from discontinued operations" includes the net income (loss) at June 30, 2014 of the residential part of the Prelios Deutschland GmbH (wholly owned subsidiary of Prelios S.p.A.) platform which provides technical and administrative services to the above residential portfolio and the investment result. The amount ascribable to the Group comes to a loss of Euro 680 thousand.

The "net income (loss) from discontinued operations" is broken down below:

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Revenue from sales and services	13,521	15,381
Other income	1,103	1,541
TOTAL OPERATING REVENUE	**14,624**	**16,922**
of which from related parties	*7,271*	*6,642*
Raw and consumable materials used (net of change in inventories)	(55)	(63)
Personnel costs	(9,350)	(9,973)
Depreciation, amortisation and impairment	(54)	(74)
Other costs	(8,513)	(6,345)
TOTAL OPERATING COSTS	**(17,972)**	**(16,455)**
of which to related parties	*9*	-
of which non-recurring events	-	*(963)*
EBIT	**(3,348)**	**467**
Net income from investments:	542	868
of which from related parties	-	*470*
- net profit share from investments in associates and joint ventures	-	470
- dividends	542	398
Financial income	1,496	1,169
of which from related parties	*1,496*	*1,169*
PROFIT (LOSS) BEFORE TAXES	**(1,310)**	**2,504**
Realised capital gain	**6,222**	**-**
NET INCOME/(LOSS) FROM DISCONTINUED OPERATIONS	**4,912**	**2,504**

Net income from investments includes Euro 3.5 million for the valuation in accordance with the equity method of assets sold on June 27, 2014 associated with the DGAG Investment. This amount is included in the valuation at sale price net of sales costs, which was lower than the original carrying amount of the assets sold.

The main classes of assets and liabilities classified as discontinued operations are as follows at June 30, 2014:

	06.30.2014				
	Value at 12.31.2013	Changes of the period	Fair value adjustment	Value at 06.30.2014	of which from related parties
Investments	8,411	(4,011)	66	4,400	-
Other non-current financial receivables	18,800		6,156	29,267	29,267
Trade receivables	-	49	-	49	
Cash and cash equivalents	570	334	-	904	-
Discontinued operations	**27,781**	**(3,628)**	**6,222**	**34,620**	**29,267**
Non-current bank borrowings and payables to other lender	570	(38)	-	532	-
Employee benefit obligations	1,007	45	-	1,052	-
Trade payables	-	268	-	268	-
Other payables	828	(49)	-	779	-
Liabilities related to discontinued operations	**2,405**	**226**	**0**	**2,631**	**0**
Net income (loss) from discontinued operations	**-**		**6,222**	**-**	**29,267**

The estimated value of net assets sold net of disposal costs, amounting to Euro 37.7 million, includes estimated expenses associated with guarantees given to the buyer as well as disposal costs totalling Euro 29.6 million.

The following tables show transactions and balances with related parties by the companies sold:

	01.01.2014-06.30.2014	01.01.2013-06.30.2013
Operating revenue	7,271	6,642
Operating costs	9	-
Net income from investments	-	470
Financial income	1,496	1,169

Revenue from related parties mainly regards facility and project management activities to offer integrated solutions for residential real estate users. These include space services (space planning and space management, specialised management of electronic and hard copy records and move in/move out), building services (energy management, design, installation and maintenance of cogeneration and photovoltaic plants, management and ordinary and extraordinary maintenance of properties and the related plants), people services (desktop management, reception and switchboard, guard and security, postal services and environmental hygiene) and governance & consulting activities (coordination and consulting services, feasibility analyses and optimisation of outsourced activities).

Net income from investments in the first half of 2013 primarily regards the ordinary income of the joint venture Solaia RE S.à.r.l..

Financial income instead refers to income accrued on shareholder loans given to the joint ventures Solaia Real Estate B.V. and Jamesmail B.V. by Prelios Netherland B.V..

Note 30. EARNINGS/(LOSS) PER SHARE

	06.30.2014	06.30.2013
Consolidated net profit (loss)	(37,579)	(63,982)
Weighted average number of shares outstanding for the calculation of profit (loss) per share:	557,258,267	83,998,212
Profit (loss) per share (in euro):	(0.07)	(0.76)

6.7. Segment information

The Group has applied IFRS 8 for its segment reporting. This standard focuses on the reporting used internally by Company management and requires companies to base their segment information on components used by management to make operational decisions.

Operating segments are therefore components of an entity for which discrete financial information is available and for which operating results are regularly reviewed by top management for the purposes of deciding how to allocate resources and for performance assessment.

As discussed in the interim directors' 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 30, 2014 are as follows:

JUNE 30, 2014

	ITALY	GERMANY	POLAND	NPL	HOLDING COMPANY	TOTAL	ELIMINATIONS	CONSOLIDATED
Consolidated revenue	25,529	6,092	130	4,931	5,301	41,983	(6,808)	35,175
of which from third parties	*24,022*	*6,092*	*130*	*4,931*	*-*	*35,175*	*-*	*35,175*
of which from the Group	*1,507*	*-*	*-*	*-*	*5,301*	*6,808*	*(6,808)*	*-*
EBIT	(1,373)	562	(403)	358	(6,234)	(7,090)	-	(7,090)
Net income from investments	(2,979)	(20,226)	(1,355)	(98)	-	(24,658)	-	(24,658)
EBIT including net income from investments	**(4,352)**	**(19,664)**	**(1,758)**	**260**	**(6,234)**	**(31,748)**	**-**	**(31,748)**
Financial income from investments	2,031	279	796	(664)	-	2,442	-	2,442
EBIT including net income and financial income from investments (a)	**(2,321)**	**(19,385)**	**(962)**	**(404)**	**(6,234)**	**(29,306)**	**-**	**(29,306)**
Other financial income/expenses								(10,901)
Profit (loss) before taxes								**(40,207)**
Income taxes								(2,953)
Net profit (loss) for the period								**(43,160)**
attributable to minority interests								(665)
Income (loss) from discontinued operations								**4,912**
Consolidated net profit (loss) for the period								**(37,583)**

Notes:

Property write-downs/revaluations (b)	(700)	(20,510)	-	-	-	(21,210)	-	(21,210)
Restructuring costs (c)	(1,788)	-	-	-	(27)	(1,815)	-	(1,815)
EBIT including net income and financial income from investments before restructuring costs and property write-downs/revaluations (d) = (a) - (b) - (c)	**167**	**1,125**	**(962)**	**(404)**	**(6,207)**	**(6,281)**	**-**	**(6,281)**

The results by segment at June 30, 2013 are as follows:

JUNE 30, 2013

	ITALY	GERMANY	POLAND	NPL	HOLDING COMPANY	TOTAL	ELIMINATIONS	CONSOLIDATED
Consolidated revenue	24,261	6,725	196	4,457	6,472	42,111	(6,470)	35,641
of which from third parties	*24,261*	*6,725*	*196*	*4,457*	*2*	*35,641*	*-*	*35,641*
of which from the Group	*-*	*-*	*-*	*-*	*6,470*	*6,470*	*(6,470)*	*-*
EBIT	(6,362)	907	(350)	(2,880)	(6,940)	(15,625)	-	(15,625)
Net income from investments	(26,356)	(2,835)	(1,320)	(332)	-	(30,843)	-	(30,843)
EBIT including net income from investments	**(32,718)**	**(1,928)**	**(1,670)**	**(3,212)**	**(6,940)**	**(46,468)**	**-**	**(46,468)**
Financial income from investments	2,135	601	807	743	-	4,286	-	4,286
EBIT including net income and financial income from investments (a)	**(30,583)**	**(1,327)**	**(863)**	**(2,469)**	**(6,940)**	**(42,182)**	**-**	**(42,182)**
Other financial income/expenses								(21,370)
Profit (loss) before taxes								**(63,552)**
Income taxes								(3,337)
Net profit (loss) for the period								**(66,889)**
attributable to minority interests								(403)
Income (loss) from discontinued operations								**2,504**
Consolidated net profit (loss) for the period								**(63,982)**

Notes:

Property write-downs/revaluations (b)	(23,566)	(2,065)	-	-	-	(25,631)	-	(25,631)
Restructuring costs (c)	(3,849)	(52)	-	(426)	(1,056)	(5,383)	-	(5,383)
EBIT including net income and financial income from investments before restructuring costs and property write-downs/revaluations (d) = (a) - (b) - (c)	**(3,168)**	**790**	**(863)**	**(2,043)**	**(5,884)**	**(11,168)**	**-**	**(11,168)**

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

The significant assets and liabilities for management accounting purposes are obtained by aggregating or reclassifying the IFRS accounting balances and can therefore be reconciled back indirectly to the IFRS financial statement formats, as shown in the notes at the foot of the tables.

Assets and liabilities by geographical area are as follows at June 30, 2014:

JUNE 30, 2014	ITALY	GERMANY	POLAND	NPL	TOTAL	ELIMINATIONS	CONSOLIDATED	
Non-current assets:	**199,334**	**29,758**	**53**	**10,857**	**240,002**	**-**	**240,002**	
Property, plant and equipment	395	426	35	8	864	-	864	
Intangible assets, of which	43,334	17,048	-	197	60,579	-	60,579	
Goodwill	*39,495*	*16,890*	-	-	56,385	-	*56,385*	
Investments in real estate funds and investment companies and other financial assets	155,605	12,284	18	10,652	178,559	-	178,559	1)
Net working capital	**29,341**	**(15,595)**	**(878)**	**1,855**	**14,723**	**-**	**14,723**	
Inventories	44,676	2,350	1	-	47,027	-	47,027	
Other components of net working capital	(15,335)	(17,945)	(879)	1,855	(32,304)	-	(32,304)	2)
NET INVESTED CAPITAL	**228,675**	**14,163**	**(825)**	**12,712**	**254,725**	**-**	**254,725**	

Notes

The balances indicated by notes 1) and 2) have been obtained as follows:

1)	TOTAL CONSOLIDATED not included in NFP	TOTAL from financial statements	of which amounts included in NFP
Investments in associates	37,194	37,194	-
Investments in joint ventures	119,986	119,986	-
Other financial assets	23,903	23,903	-
Provision for future risks on equity-accounted investments reclassified from "Current provisions for future risks and expenses"	(2,524)	(2,524)	-
Total investments in real estate funds and investment companies	**178,559**	**178,559**	**-**

2)	TOTAL CONSOLIDATED not included in NFP	TOTAL from financial statements	of which amounts included in NFP
Deferred tax assets	9,601	9,601	-
Other non-current receivables	5,253	101,514	96,261
Current trade receivables	37,699	37,699	
Other current receivables	25,066	25,179	113
Current tax receivables	6,218	6,218	
Other non-current payables	(890)	(890)	-
Non-current tax payables	-	-	-
			-
Current trade payables	(48,644)	(48,644)	-
Other current payables	(54,605)	(54,605)	-
Current tax payables	(12,002)	(12,002)	-
Derivative financial instruments	-	-	
Other components of net working capital	**(32,304)**	**64,070**	**96,374**

6.8. Related-party transactions

The following tables show transactions and balances with related parties:

	01.01.2014-06.30.2014	% (*)	01.01.2013-06.30.2013	% (*)
Operating revenue	13,187	34.0%	20,893	51.7%
Operating costs	(3,412)	7.4%	(3,442)	6.1%
Net income from investments	(24,689)	100.1%	(31,108)	100.9%
Financial income	3,150	84.3%	4,875	74.8%
Financial expenses	(500)	4.1%	(7,122)	30.2%
Income (loss) from discontinued operations	8,758	178.3%	8,281	330.7%

(*) The percentage is calculated with reference to the total financial statement item.

	06.30.2014				12.31.2013			
	Total	% (*)	non-current	current	Total	% (*)	non-current	current
Trade receivables	21,454	56.9%	-	21,454	22,230	63.4%	-	22,230
Other receivables, of which:	103,182	81.4%	96,883	6,299	118,191	84.7%	110,675	7,516
- financial receivables	*96,996*	100.6%	*96,883*	*113*	*110,779*	*100.0%*	*110,665*	*114*
Discontinued operations	29,267	84.5%	29,267	-	18,800	67.7%	18,800	-
- financial receivables	*29,267*	*100.0%*	*29,267*	-	*18,800*	100.0%	*18,800*	-
Trade payables	(3,419)	-7.0%	-	(3,419)	(3,720)	-7.7%	-	(3,720)
Other payables	(18,800)	-33.9%	-	(18,800)	(18,746)	-35.1%	-	(18,746)
Tax payables	(1,080)	-9.0%	-	(1,080)	(1,080)	-8.0%	-	(1,080)
Bank borrowings and payables to other lenders	(6,576)	-2.7%	-	(6,576)	(156,452)	-33.0%	(149,876)	(6,576)
Provisions for future risks and expenses	(2,524)	-4.6%	-	(2,524)	(12,623)	-17.6%	-	(12,623)

(*) The percentage is calculated with reference to the total financial statement item.

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

Transactions and balances with associates/ joint ventures and other companies

Operating revenue	13,153	The item refers to Group company mandates for fund and asset management services (real estate and non performing loans) and technical and commercial services.
Operating costs	(393)	These refer to chargebacks of various kinds.
Net income from investments	(24,689)	The item mainly refers to the equity method valuation of Group investments, as well as other investment adjustments.
Financial income	3,150	This mostly refers to interest earned on financial receivables held by Group companies.
Financial expenses	(92)	This item mainly refers to the "discounting" effects on receivables due from Group companies not consolidated line-by-line.
Net income (loss) from discontinued operations	8,758	The item refers to the transactions with related parties reclassified in compliance with International Financial Reporting Standards (IFRS 5).

Current trade receivables	21,438	This balance includes receivables arising from "operating revenue".
Other non-current receivables	96,883	
- of which financial receivables	*96,883*	Loans granted to Group real estate projects. These loans are classified as non-current assets with reference of their terms of repayment, which match the medium-term disposal plans of the real estate portfolios owned directly or indirectly by these companies. These loans are granted at market interest rates except for non-interest bearing loans granted to some companies
Other current receivables	4,580	This includes, among other, dividends that have been declared but not yet paid and other receivables
- of which financial receivables	*113*	
Discontinued operations/asset held for sale	29,267	
- of which financial receivables	*29,267*	The item refers to the shareholders' loans granted to the joint ventures Solaia RE B.V. and Jamesmail B.V. that, further to the DGAG portfolio sale agreement, will be reimbursed at the closing date. These amounts are shown as "Discontinued operations/asset held for sale" in compliance with International Financial Reporting Standards (IFRS 5).
Current trade payables	(3,013)	They refer to various chargebacks, mainly rent, urbanisation charges and accessory costs.
Other current payables	(18,756)	These refer to various chargebacks.
Current tax payables	(1,080)	Amounts due to Trixia S.r.l. further its adoption of the "tax transparency" regime allowed by art. 115 of the Italian Income Tax Code, whereby a company's positive or negative taxable amounts are attributed to its shareholders.
Current bank borrowings and payables to other lenders	(6,576)	These include negative balances on intercompany current accounts and other financial payables arising from capital contributions in Aree Urbane S.r.l. (in liquidation) for Euro 4,892 thousand of euro and Solaia RE S.à.r.l. for Euro 634 thousand.
Provisions for future risks and expenses	(2,524)	This refers to the provision accrued to cover the losses of associates and joint ventures in excess of their carrying amounts.

For the sake of completeness, details will now be provided of the transactions and balances at June 30, 2014 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., other Pirelli Group companies and other related parties through the directors		
Operating revenue	34	The item mainly refers to a new agreement with Pirelli Tyres S.p.A. relating to the Bicocca area parking.
Operating costs	(1,237)	The item includes costs for renting and expenses for the R&D building charged by Pirelli Group, and the costs for the services provided by the company Poliambulatorio Bicocca S.r.l..
Financial expenses	(408)	These relate to the interest accrued on the convertible bond subscribed by Pirelli & C. S.p.A. from January 1 to April 8, 2014.
Current trade receivables	16	These mainly refer to receivables from Pirelli Group for the recovery of costs paid for HQ and HQ2 buildings.
Other current receivables	1,719	The item mainly includes the guarantee deposit paid to Pirelli & C. S.p.A. for the rental of the R&D building and prepaid expenses related to the rental of that building.
Current trade payables	(406)	These mainly refer to the payable to Pirelli Tyre S.p.A. for the chargeback of utilities and expenses related to R&D building. They also include payables for health services provided by the company Poliambulatorio Bicocca S.r.l..
Other current payables	(44)	These refer to cash collections to be transferred to Pirelli & C. S.p.A..

Cash flows

At June 30, 2014 there are no 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 30, 2014, the remuneration of the 21 key managers (of whom 19 are in office as at June 30, 2014), meaning those persons, including the Directors (whether executive or otherwise), with the authority and responsibility, directly or indirectly, for planning, managing and controlling the activities of Prelios S.p.A., amounts to Euro 1,782 thousand (Euro 1,935 thousand at June 30, 2013), of which Euro 615 thousand (Euro 61 thousand at June 30, 2013) classified in the income statement as “Personnel costs” and Euro 1,167 thousand (Euro 1,874 thousand at June 30, 2013) recognised in the income statement as “Other costs”. The long-term portion is zero, as it was in the first half of 2013.

Milan, July 30, 2014 The Board of Directors

7. SUPPLEMENTARY TABLES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.1 Appendix 1: Consolidation area

	Business at 06.30.2014	Registered office City, Country	Share capital		Held at 06.30.2014 by	06.30.2014 % ownership and voting rights (*)	12.31.2013 % ownership and voting rights (*)
Fully consolidated companies Subsidiaries							
BauBeCon Treuhand GmbH	Real Estate	Hamburg, Germany	€	530,000	Prelios Immobilien Management GmbH	100.00%	100.00%
Centrale Immobiliare S.r.l. (1)	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	100.00%	100.00%
CFT Finanziaria S.p.A.	NPL	Milan, Italy	€	20,110,324	Prelios S.p.A.	100.00%	100.00%
DGAG Beteiligung GmbH & Co. KG (**)	Real Estate	Hamburg, Germany	€	42,118,455	Mistral Real Estate B.V.	94.90%	94.90%
DGAG Nordpartner GmbH & Co. KG (**)	Real Estate	Hamburg, Germany	€	2,760,976	Mistral Real Estate B.V.	94.00%	94.00%
Edilnord Gestioni S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	100.00%	100.00%
Einkaufszentrum Münzstrasse GmbH & Co. KG (**)	Real Estate	Hamburg, Germany	DM	10,000,000	DGAG Beteiligung GmbH & Co. KG	74.80%	74.80%
					Prelios Deutschland GmbH	25.20%	25.20%
Erste DGAG Grundstücksgesellschaft mbH & Co. KG (**)	Real Estate	Hamburg, Germany	DM+€	970000+31.700	DGAG Beteiligung GmbH & Co. KG	94.00%	94.00%
					Verwaltung Erste DGAG Grundstücksgesellschaft mbH	6.00%	6.00%
Geolidro S.p.A. (2)	Real Estate	Naples, Italy	€	120,000	Centrale Immobiliare S.p.A.	100.00%	100.00%
Iniziative Immobiliari 3 S.r.l.	Real Estate	Milan, Italy	€	10,000	Prelios S.p.A.	100.00%	100.00%
Lambda S.r.l.	Real Estate	Milan, Italy	€	578,760	Prelios S.p.A.	100.00%	100.00%
Mistral Real Estate B.V. (*Tracking Share*) (**)	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	35.02%	35.02%
Mistral Real Estate B.V. (*Tracking Shares Goßlers Park*) (**)	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	35.02%	35.02%
Mistral Real Estate B.V. (*Tracking Shares Osnabruck*) (**)	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	35.02%	35.02%
Mistral Real Estate B.V. (*Tracking Shares Dresden*) (**)	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	35.02%	35.02%
Orione Immobiliare Prima S.p.A.	Real Estate	Milan, Italy	€	104,000	Prelios S.p.A.	100.00%	100.00%
Parcheggi Bicocca S.r.l.	Real Estate	Milan, Italy	€	1,500,000	Prelios S.p.A.	100.00%	100.00%
P.B.S. Società consortile a r.l. (in liquidation)	Real Estate	Milan, Italy	€	100,000	Prelios Property Management S.p.A.	60.00%	60.00%
Prelios Agency S.p.A.	Real Estate	Milan, Italy	€	1,000,000	Prelios S.p.A.	100.00%	100.00%
Prelios Agency Deutschland GmbH	Real Estate	Hamburg, Germany	€	25,000	Prelios Deutschland GmbH	100.00%	100.00%
Prelios Asset Management Deutschland GmbH	Real Estate	Hamburg, Germany	€	25,000	Prelios Deutschland GmbH	100.00%	100.00%
Prelios Credit Servicing S.p.A. (3)	NPL	Milan, Italy	€	4,510,568	Prelios S.p.A.	100.00%	100.00%
Prelios Deutschland GmbH	Real Estate	Hamburg, Germany	€	5,000,000	Prelios S.p.A.	100.00%	100.00%
Prelios Facility Management Deutschland GmbH	Real Estate	Hamburg, Germany	€	25,600	Prelios Deutschland GmbH	100.00%	100.00%
Prelios Hausmeister Service Deutschland GmbH	Real Estate	Kiel, Germany	€	25,000	Prelios Facility Management Deutschland GmbH	100.00%	100.00%
Prelios Immobilien Management GmbH	Real Estate	Hamburg, Germany	€	25,000	Prelios Deutschland GmbH	100.00%	100.00%
Prelios INTEGRA S.p.A.	Real Estate	Milan, Italy	€	124,400	Prelios S.p.A.	100.00%	100.00%
Prelios Investments Deutschland GmbH	Real Estate	Hamburg, Germany	€	25,000	Prelios S.p.A.	100.00%	100.00%
Prelios Management Services Deutschland GmbH	Real Estate	Hamburg, Germany	€	25,000	Prelios Deutschland GmbH	100.00%	100.00%
Prelios Netherlands B.V.	Real Estate	Amsterdam, Netherlands	€	21,000	Prelios S.p.A.	100.00%	100.00%
Prelios Polska Sp.z.o.o.	Real Estate	Warsaw, Poland	PLN	35,430,000	Prelios S.p.A.	100.00%	100.00%
Prelios Residential Investments GmbH	Real Estate	Hamburg, Germany	€	570,000	Prelios S.p.A.	100.00%	100.00%
Prelios Società di Gestione del Risparmio S.p.A.	Real Estate	Milan, Italy	€	24,558,763	Prelios S.p.A.	90.00%	90.00%
Prelios Valuations & e-Services S.p.A	Real Estate	Milan, Italy	€	298,999	Prelios Agency S.p.A.	100.00%	100.00%
Projekt Bahnhof Hamburg-Altona Verwaltungs GmbH (in liquidation)	Real Estate	Milan, Italy	€	25,000	Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG	100.00%	100.00%
Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG (in liquidation)	Real Estate	Hamburg, Germany	€	8,000,000	Prelios Deutschland GmbH	74.90%	74.90%
Servizi Amministrativi Real Estate S.p.A.	Altro	Milan, Italy	€	520,000	Prelios S.p.A.	100.00%	100.00%
SIB S.r.l.	Real Estate	Milan, Italy	€	10,100	Prelios Credit Servicing S.p.A.	100.00%	100.00%
Sustainable Energy S.r.l.	Real Estate	Milan, Italy	€	10,000	Prelios S.p.A.	100.00%	100.00%
Verwaltung Einkaufszentrum Münzstrasse GmbH (**)	Real Estate	Hamburg, Germany	DM	50,000	DGAG Beteiligung GmbH & Co. KG	74.80%	74.80%
					Prelios Deutschland GmbH	25.20%	25.20%
Verwaltung Erste DGAG Grundstücksgesellschaft mbH (**)	Real Estate	Hamburg, Germany	€	25,000	DGAG Beteiligung GmbH & Co. KG	100.00%	100.00%
Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau mbH (**)	Real Estate	Hamburg, Germany	€	26,100	DGAG Beteiligung GmbH & Co. KG	100.00%	100.00%

	Business at 06.30.2014	Registered office City, Country		Share capital	Held at 06.30.2014 by	06.30.2014 % ownership and voting rights (*)	12.31.2013 % ownership and voting rights (*)
Equity-accounted companies							
Associates							
Cairoli Finance S.r.l. (in liquidation)	NPL	Milan, Italy	€	10,000	Prelios S.p.A.	35.00%	35.00%
Monteverdi - Speculative closed-end real estate investment fund	Real Estate	Milan, Italy	€	62,000,000	Iniziative Immobiliari 3 S.r.l.	29.84%	29.84%
					Prelios Società di Gestione del Risparmio S.p.A.	4.03%	4.03%
					Tiglio I S.r.l.	66.13%	66.13%
Olinda Fondo Shops - Listed fund with private contributions (*)	Real Estate	Milan, Italy	€	NA	Prelios Società di Gestione del Risparmio S.p.A.	5.18%	5.18%
					Prelios Netherlands B.V.	6.64%	6.64%
Progetto Corsico S.r.l.	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	49.00%	49.00%
Progetto Fontana S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	10,000	Prelios S.p.A.	23.00%	23.00%
Sci Roev Texas Partners L.P.	Real Estate	Dallas, USA	$	12,000,000	Prelios S.p.A.	10.00%	10.00%
Spazio Investment N.V. (*)	Real Estate	Amsterdam, Netherlands	€	4,589,189	Prelios Netherlands B.V.	22.07%	22.07%
					Spazio Investment N.V.	0.23%	0.23%
Joint ventures							
Afrodite S.à.r.l.	Real Estate	Luxembourg	€	4,129,475	Prelios S.p.A.	40.00%	40.00%
Aida RE B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios Netherlands B.V.	40.00%	40.00%
Alceo B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	33.00%	33.00%
Alimede Luxembourg S.à.r.l.	Real Estate	Luxembourg	€	12,955	Prelios S.p.A.	35.05%	35.05%
Alnitak S.à.r.l. (4)	Real Estate	Luxembourg	€	--	Prelios S.p.A.	--	35.00%
Aree Urbane S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	34.60%	34.60%
Artemide S.à.r.l.	Real Estate	Luxembourg	€	2,857,050	Prelios S.p.A.	35.00%	35.00%
Austin S.à.r.l.	Real Estate	Luxembourg	€	125,000	Prelios S.p.A.	28.46%	28.46%
Beteiligungsgesellschaft Einkaufszentrum Mülheim mbH	Real Estate	Hamburg, Germany	DM	60,000	Prelios Deutschland GmbH	41.17%	41.17%
Bicocca S.à.r.l.	Real Estate	Luxembourg	€	12,520	Prelios S.p.A.	35.00%	35.00%
City Center Mülheim Grundstücksgesellschaft mbH & Co. KG	Real Estate	Hamburg, Germany	€	47,805,790	Prelios Deutschland GmbH	41.18%	41.18%
Colombo S.à.r.l.	Real Estate	Luxembourg	€	960,150	Prelios S.p.A.	35.00%	35.00%
Consorzio G6 Advisor	Real Estate	Milan, Italy	€	50,000	Prelios Agency S.p.A.	42.30%	42.30%
Continuum S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	20,000	Prelios S.p.A.	40.00%	40.00%
Dallas S.à.r.l.	Real Estate	Luxembourg	€	125,000	Prelios S.p.A.	28.46%	28.46%
Delamain S.à.r.l.	Real Estate	Luxembourg	€	12,500	Prelios S.p.A.	49.00%	49.00%
Doria S.à.r.l.	Real Estate	Luxembourg	€	992,850	Prelios S.p.A.	35.00%	35.00%
Einkaufszentrum Mülheim Gmbh & Co. KG	Real Estate	Hamburg, Germany	€	26,075,886	Prelios Deutschland GmbH	41.18%	41.18%
Espelha Serviços de Consultadoria L.d.A.	NPL	Funchal, Madeira	€	5,000	Prelios S.p.A.	49.00%	49.00%
Fondo Città di Torino - Speculative closed-end real estate investment fund	Real Estate	Milan, Italy	€	34,500,000	Prelios Netherlands B.V.	36.23%	36.23%
Gamma RE B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios Netherlands B.V.	49.00%	49.00%
Gemeinnützige Wohnungsgesellschaft für den Kreis Herzogtum Lauenburg mbH (5)	Real Estate	Lübeck, Germany	€	--	Prelios S.p.A.	--	2.05%
					Solaia Real Estate B.V.	--	94.87%
Gesellschaft für Wohnungsbau Lübeck mbH (5)	Real Estate	Lübeck, Germany	€	--	Prelios S.p.A.	--	2.04%
					Prelios DGAG Deutsche Grundvermögen GmbH	--	94.90%
Golfo Aranci S.p.A. (6)	Real Estate	Golfo Aranci (OT), Italy	€	1,000,000	Prelios S.p.A.	43.80%	43.80%
					Centrale Immobiliare S.p.A	6.21%	5.00%
Grundstücksgesellschaft Königstraße mbH & Co. KG	Real Estate	Hamburg, Germany	€	1,024,629	DGAG Beteiligung GmbH & Co. KG	44.90%	44.90%
					Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau mbH	5.10%	5.10%
Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG	Real Estate	Hamburg, Germany	€	22,905,876	Prelios Deutschland GmbH	33.75%	33.75%
GWL Wohnungsbetreuungsgesellschaft mbH (5)	Real Estate	Lübeck, Germany	€	--	Prelios S.p.A.	--	1.99%
					Gesellschaft für Wohnungsbau Lübeck mbH	--	94.80%
GWK Braunschweig GmbH (5)	Real Estate	Braunschweig, Germany	€	--	Prelios S.p.A.	--	2.99%
					Prelios DGAG Deutsche Grundvermögen GmbH	--	92.50%
Heimstätten Lübeck GmbH (5)	Real Estate	Lübeck, Germany	€	--	Prelios S.p.A.	--	2.04%
					Solaia Real Estate B.V.	--	94.90%
Kurpromenade 12 Timmendorfer Strand GG KG	Real Estate	Hamburg, Germany	€	6,237,761	Prelios Deutschland GmbH	50.00%	50.00%
IN Holdings I S.à.r.l.	Real Estate	Luxembourg	€	2,595,725	Prelios S.p.A.	20.50%	20.50%
Induxia S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	40,000	Prelios S.p.A.	24.75%	24.75%
Inimm Due S.à.r.l.	Real Estate	Luxembourg	€	240,950	Prelios S.p.A.	25.01%	25.01%
Iniziative Immobiliari S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	5,000,000	Prelios S.p.A.	49.46%	49.46%

	Business at 06.30.2014	Registered office City, Country	Share capital		Held at 06.30.2014 by	06.30.2014 % ownership and voting rights (*)	12.31.2013 % ownership and voting rights (*)
Manifatture Milano S.p.A.	Real Estate	Rome, Italy	€	11,230,000	Prelios S.p.A.	50.00%	50.00%
Maro S.r.l. (in liquidation)	NPL	Milan, Italy	€	20,000	Prelios S.p.A.	25.00%	25.00%
Masseto I B.V.	Real Estate	Amsterdam, Netherlands	€	19,000	Prelios S.p.A.	33.00%	33.00%
Mistral Real Estate B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	35.02%	35.02%
M.S.M.C. Italy Holding B.V.	Real Estate	Amsterdam, Netherlands	€	20,053	Prelios S.p.A.	25.00%	25.00%
Nashville S.à.r.l.	Real Estate	Luxembourg	€	125,000	Prelios S.p.A.	28.46%	28.46%
Polish Investments Real Estate Holding II B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios S.p.A.	40.00%	40.00%
Popoy Holding B.V.	Real Estate	Rotterdam, Netherlands	€	26,550	Prelios S.p.A.	25.00%	25.00%
Progetto Bicocca La Piazza S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	3,151,800	Prelios S.p.A.	26.00%	26.00%
Progetto Bicocca Universita' S.r.l. (in liquidation)	Real Estate	Cinisello Balsamo, Italy	€	50,360	Prelios S.p.A.	50.50%	50.50%
Progetto Gioberti S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	50.00%	50.00%
Projekt Northwind GmbH & Co. KG	Real Estate	Hamburg, Germany	€	1,000	Prelios S.p.A.	2.04%	2.04%
RAMS-Rome Art Mind Society S.r.l.	Real Estate	Rome, Italy	€	50,000	Prelios Integra S.p.A.	40.00%	40.00%
Resident Baltic GmbH	Real Estate	Berlin, Germany	€	25,000	Prelios Netherlands B.V.	5.20%	5.20%
					S.I.G. RE B.V.	94.80%	94.80%
Resident Berlin 1 P&K GmbH	Real Estate	Berlin, Germany	€	125,000	Prelios Residential Investments GmbH	40.00%	40.00%
Resident Sachsen P&K GmbH	Real Estate	Berlin, Germany	€	25,000	Prelios Netherlands B.V.	5.20%	5.20%
					S.I.G. RE B.V.	94.80%	94.80%
Resident West GmbH (7)	Real Estate	Hamburg, Germany	€	--	Prelios Netherlands B.V.	--	5.20%
					S.I.G. RE B.V.	--	94.80%
Riva dei Ronchi S.r.l.	Real Estate	Milan, Italy	€	100,000	Prelios S.p.A.	50.00%	50.00%
Roca S.r.l. (in liquidation)	NPL	Milan, Italy	€	20,000	Prelios S.p.A.	25.00%	25.00%
Sicily Investments S.à.r.l.	Real Estate	Luxembourg	€	12,500	Prelios S.p.A.	40.00%	40.00%
Sigma RE B.V.	Real Estate	Amsterdam, Netherlands	€	18,000	Prelios Netherlands B.V.	24.66%	24.66%
S.I.G. RE B.V. (7)	Real Estate	Amsterdam, Netherlands	€	--	Prelios Netherlands B.V.	--	47.20%
SI Real Estate Holding B.V. (in liquidation)	Real Estate	Amsterdam, Netherlands	€	763,077	Prelios S.p.A.	25.00%	25.00%
Solaia RE S.à.r.l.	Real Estate	Luxembourg	€	13,000	Prelios S.p.A.	40.00%	40.00%
Solaris S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	20,000	Prelios S.p.A.	40.00%	40.00%
Tamerice Immobiliare S.r.l. (in liquidation)	Real Estate	Milan, Italy	€	500,000	Prelios S.p.A.	20.00%	20.00%
Theta RE B.V.	Real Estate	Amsterdam, Netherlands	€	18,005	Prelios Netherlands B.V.	40.00%	40.00%
Trinacria Capital S.à.r.l.	Real Estate	Luxembourg	€	12,500	Prelios S.p.A.	40.00%	40.00%
Trixia S.r.l.	Real Estate	Milan, Italy	€	1,209,700	Prelios S.p.A.	36.00%	36.00%
Verwaltung Büro- und Lichtspielhaus Hansaallee GmbH	Real Estate	Hamburg, Germany	DM	50,000	Prelios Deutschland GmbH	27.00%	27.00%
					Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG	20.00%	20.00%
Verwaltung Kurpromenade 12 Timmendorfer Strand GG mbH	Real Estate	Hamburg, Germany	DM	50,000	Prelios Deutschland GmbH	50.00%	50.00%
Verwaltung Mercado Ottensen Grundstuecksgesellschaft mbH	Real Estate	Hamburg, Germany	DM	50,000	Prelios Netherlands B.V.	44.00%	44.00%
					Mistral Real Estate B.V.	50.00%	50.00%
Vespucci S.à.r.l.	Real Estate	Luxembourg	€	960,150	Prelios S.p.A.	35.00%	35.00%
Vesta Finance S.r.l.	NPL	Milan, Italy	€	10,000	Prelios S.p.A.	35.00%	35.00%
Vivaldi - Speculative closed-end real estate investment fund	Real Estate	Milan, Italy	€	22,000,000	Prelios Netherlands B.V.	50.00%	50.00%
Other significant investments pursuant to CONSOB Resolution 11971 of May 14, 1999							
AWW Assekuranzvermittlung der Wohnungs wirts chaft GmbH & Co KG	Real Estate	Hamburg, Germany	€	260,000	Prelios Netherlands B.V.	10.50%	10.50%
					Prelios Deutschland GmbH	0.20%	0.20%

(*) The percentages indicated refer to the direct percentage ownership held by the company indicated taking into account any treasury shares held.

(**) With regard to the joint venture Mistral Real Estate B.V., the joint control of both partners was waived contractually by the parties in relation to certain development projects through the creation of new share classes ("Tracker Shares") in the share capital of Mistral Real Estate B.V., entailing a different division of costs, benefits and rights between the two partners. In fact, based on the activation of a put and call rights mechanism, the ownership of Tracker Shares led to the exercise of de facto control by Prelios S.p.A. over certain companies of the Mistral Real Estate group involved in development projects even though it does not hold a majority interest in them. This situation led to the inclusion of these investments in the consolidation scope in the financial statements of Prelios S.p.A. in accordance with accounting standards, since all risks, benefits and rights related to these development projects rest with Prelios S.p.A. Despite the above, the Tracker Shares mechanism has no effect on the control of Mistral Real Estate B.V., and the latter is still not a subsidiary of Prelios S.p.A..

(1) On February 4, 2014 went into effect the reduction of share capital of the company Centrale Immobiliare S.r.l. from Euro 2.426.652 to Euro 100.000 as approved by the shareholders' meeting dated October 16, 2013.

(2) On May 26, 2014 went into effect the reduction of share capital to Euro 120.000.

(3) On May 14, 2014 went into effect the reduction of share capital of the company Prelios Credit Servicing S.p.A. from Euro 14.250.000 to Euro 4.510.568.

(4) On May 23, 2014 Prelios S.p.A. sold to third parties the entire investment held in Alnitak S.à.r.l..

(5) On February 12, 2014 the entire investment held by Prelios S.p.A. in Gemeinnützige Wohnungsgesellschaft für den Kreis Herzogtum Lauenburg mbH, Gesellschaft für Wohnungsbau Lübeck mbH, GWL Wohnungsbetreuungsgesellschaft mbH, GWK Braunschweig GmbH e Heimstätten Lübeck GmbH were sold to third parties.

(6) Following some share transfers on May 13, 2014 on the reporting date the Group holds 50% of the company through Prelios (43,795%) and Centrale Immobiliare S.r.l. (6,205%).

(7) On February 17, 2014 Prelios Netherlands B.V. sold to third parties the investments held in SIG RE B.V. (47.2% interest) and Resident West GmbH (5.2% interest).

8. CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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 Sergio Iasi, as Chief Executive Officer, and Marco Andreasi, 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, 2014 – June 30th, 2014.

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, 2014 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 Directors’ 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 Directors’ report on operations also includes a reliable analysis of the information on significant transactions with related parties.

July 30, 2014

The Chief Executive Officer	The Financial Reporting Officer
(Sergio Iasi)	(Marco Andreasi)

9. INDEPENDENT AUDITORS' REPORT

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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, 2014. 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 April 30, 2014 and on August 29, 2013, respectively.

3. Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Prelios Group as of June 30, 2014 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. Having considered the 2013 results deviating from the Strategic Plan which had been subject to review pursuant to Article 67 of Decree 267/1942 (Bankruptcy Legislation), the Board of Directors approved, during the half-year, the 2014-2016 *Guidelines* and, subsequently, a new Business Plan for the same period. The 2014-2016 *Guidelines* forecasted further losses in the next three years and cash flow absorption resulting, already in 2014, in indebtedness not sustainable by the Group in absence of specific remediations. The new Business Plan reflects the expected effects from the strategies identified by the Directors in order to deal with this situation, in terms of increased revenues, cost saving and mitigation of financial needs. The implementation of such actions is ongoing and by its completion in accordance with the timeline and the values planned in the Business Plan, the Directors, whilst confirming further negative results, expect to achieve the financial rebalance necessary to allow the Group to continue to operate as a going concern.

Reconta Ernst & Young S.p.A.
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As disclosed in the Explanatory Note 6.2, which also makes reference to information included in the Interim Directors' Report on operations, the Directors have described the uncertainties that could cast significant doubts over the Group's ability to continue to operate as a going concern and the reasons why the Board of Directors believes that it is appropriate to issue the half - year condensed consolidated financial statements as of 30 June 2014 on a going concern basis, which mainly depends on the availability demonstrated by the main lenders and shareholders of Prelios S.p.A. to support the Group in the execution of the identified remediation and in the implementation of a financial structure adequate with respect to the Group need, consistent with the financial needs identified in the Business Plan.

Milan, August 1, 2014

Reconta Ernst & Young S.p.A.
Signed by: Alberto Romeo, Partner

This report has been translated into the English language solely for the convenience of international readers

C. HALF-YEARLY REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

HALF-YEARLY REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

The corporate governance structure of Prelios S.p.A. (hereinafter the "**Company**" or "**PRELIOS**") is based on the “traditional” management and control system, in which management is the exclusive responsibility of the Board of Directors, the Board of Statutory Auditors is responsible for supervision and auditing is assigned to Independent Auditors duly registered with Consob.

In compliance with the recommendations of the Borsa Italiana Self-Governance Code for listed companies currently in force (hereinafter the “**Code**” or the “**Self-Governance Code**”), published on the website *www.borsaitaliana.it* and applied by the Company, and the corporate governance principles observed at the national and international level and recommended within the European Union, the Board has also established Board Committees responsible for making proposals and providing advice.

The PRELIOS corporate governance system has always aimed to govern the Company's management and control in line with best market practices by specifically assigning roles and authorities to the different Company bodies in order to ensure compliance with laws, regulations, codes of conduct and Company procedures and rules.

Some of the fundamental documents of the PRELIOS governance system include:

- the Articles of Association;
- the Shareholders’ Meeting Regulations;
- the Code of Ethics and the Lines of Conduct, an integral part of the Organisational Model adopted pursuant to Legislative Decree 231/01;
- the Procedure for related-party transactions;
- the Procedure on information flows to directors and statutory auditors;
- the Real estate transaction code of conduct;
- the Procedure for management and public disclosure of privileged information and the associated register of people with access to such information;
- the Internal dealing memorandum.

The above documents are available on the Company’s website *www.prelios.com* (hereinafter the “**Website**”) in the Corporate Governance section.

This Half-Yearly Report on corporate governance and ownership structure (hereinafter the “**Report**”) is a voluntary description of the main updates and additions made to the corporate governance system during the year with respect to the 2013 Annual Report on corporate governance and ownership structure approved by the Board of Directors at its meeting on April 9, 2014, available on the Website and prepared pursuant to Article 123-*bis* of Legislative Decree 58 of February 24, 1998 (hereinafter the “**Consolidated Finance Act**”), which the reader should refer to for additional details.

* * *

The extent of the loss of Prelios S.p.A. at December 31, 2013, as one of the events set forth in Article 8 of the Loan Regulations requiring early repayment through the automatic conversion of the Bonds into PRELIOS shares (ordinary and Category B), triggered the repayment of the "Prelios 2013-2019 Convertible Loan" on April 14, 2014[1].

For a full and comprehensive examination of the characteristics of the "Prelios 2013-2019 Convertible Loan" and of the capital increase for the purpose of the conversion, please refer to the Loan Regulations and the Articles of Association available on the Website.

Along with the mandatory early repayment of the "Prelios 2013-2019 Convertible Loan" and the associated conversion of the Convertible Bonds, the share capital increase exclusively for the purpose of the conversion was also carried out with the issue – in line with the Regulation provisions – of 229,757,292 ordinary shares and 93,390,705 Category B shares with a total value of Euro 236,544,333.80 in accordance with the terms and procedures set forth in the Regulations of the Convertible Loan and on the basis of the decisions made by the Conversion and Calculation Agent Bank (BNP Paribas Securities Service) which are binding, pursuant to the Regulations, for the Company and the bondholders.

Also on April 14, 2014, the certification of the share capital increase carried out exclusively for the purpose of the conversion and the updated Articles of Association were filed and registered, pursuant to law, at the Companies' Register of Milan.

As a result of the above, the share capital is equal to Euro 426,441,257.20, broken down as shown in the table below.

SHARE CATEGORY	NO OF SHARES	% OF SHARE CAPITAL	LISTED
Ordinary shares (ISIN IT0004923022)	506,953,179	70.612	Listed on the MTA market organised and managed by Borsa Italiana S.p.A. – Small Cap Segment
Category B shares (ISIN IT0004936024)	210,988,201	29.388	Unlisted

At the reporting date, Fenice S.r.l. – a company in which Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. hold an interest – owns all 210,988,201 Category B shares, which have no voting rights and are not listed on regulated markets.

On the basis of communications received pursuant to Article 120 of the Consolidated Finance Act and available information as well as according to Consob publications[2], the following shareholders hold ordinary shares representing more than 2% of the PRELIOS voting capital:

	SHAREHOLDER/DECLARANT	NUMBER OF SHARES	% OF VOTING CAPITAL
1	**PIRELLI & C. S.P.A.**	**148,127,621**	**29.219%**

[1] *See press releases dated April 9, 2014 and April 14, 2014.*

[2] *The percentages disclosed and taken from the Consob website are based on shareholder notifications pursuant to Article 120 of the Consolidated Finance Act. Therefore, those percentages may be different from the figures calculated and disclosed by other sources in cases in which changes in investment did not entail shareholder communication obligations pursuant to legal and regulatory provisions in force at the time.*

2	**UNICREDIT S.P.A.**	**71,074,865**	**14.020%**
3	**LAURO SESSANTUNO S.P.A.** indirectly through CAMFIN S.P.A – no of shares 41,085,132 (8.104%) CAM PARTECIPAZIONI S.P.A – no of shares 36,505 (0.007%)	**41,121,637**	**8.111%**
4	**INTESA SANPAOLO S.P.A.**	**33,226,035**	**6.554%**
5	**BANCA POPOLARE DI MILANO SCARL**	**28,501,066**	**5.622%**
6	**BANCA MONTE DEI PASCHI DI SIENA S.P.A.**	**16,917,099**	**3.337%**

The Company holds 1,788 ordinary treasury shares. No ordinary shares are held by the subsidiaries.

As regards the significant agreements for PRELIOS pursuant to Article 122 of the Consolidated Finance Act, please note the following in relation to the agreements reached between the parties involved in the transaction for capital and financial strengthening via Company recapitalisation and the rebalancing of the financial structure, approved by the Extraordinary Shareholders' Meeting of May 8, 2013 and concluded last year:

a) Feidos 11 S.p.A., Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Pirelli & C. S.p.A. approved and signed a Shareholders' Agreement (hereinafter the "**Fenice Agreement**") relating to Fenice S.r.l. (in which Fenice also participated).

   The Fenice Agreement governs the rights and obligations of the participants in relation to: (i) the governance and transferability of the investments held in Fenice S.r.l.; (ii) the disinvestment of the investment that Fenice S.r.l. acquired in PRELIOS; and (iii) the transferability of certain shares issued by PRELIOS that are or will be held by the participants.

   On June 30, 2014, in implementation of the Fenice Agreement, Pirelli & C. S.p.A. contributed to Fenice S.r.l. all 93,390,705 Category B shares that Pirelli & C. S.p.A. had previously subscribed following the aforementioned conversion of the "Prelios 2013-2019 Convertible Loan". As a result, Pirelli & C. S.p.A. no longer holds Category B shares.

   The most recent update of the Fenice Agreement was published on July 4, 2014;

b) Fenice S.r.l. entered into separate co-sale agreements relating to PRELIOS (hereinafter the "**Co-Sale Agreements**") with Camfin S.p.A., Massimo Moratti, Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano S.c.a.r.l., Banca Popolare di Sondrio S.c.a.r.l., Banca Popolare dell'Emilia Romagna Soc. Coop., Banca Carige S.p.A. and UBI Banca Soc. Coop. p.A. (formerly Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A.) which set forth the terms and conditions under which Fenice S.r.l. granted each of the aforementioned owners co-sale rights on the PRELIOS securities they hold on the date on which the right is exercised.

   On February 18, 2014, the co-sale agreement between Fenice and Massimo Moratti was terminated by mutual consent.

The most recent update of the Co-Sale Agreements was published on July 8, 2014.

Furthermore, on May 24, 2014, the shareholders' agreement between Marco Tronchetti Provera & C. S.p.A., Marco Tronchetti Provera Partecipazioni S.p.A., Gruppo Partecipazioni Industriali S.p.A., Nuove Partecipazioni S.p.A., Lauro Cinquantaquattro S.r.l., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. concerning, *inter alia*, the PRELIOS ordinary shares held by Camfin S.p.A., was terminated early due to a specific provision relating to the governance of PRELIOS. On the same date – and as part of the broader set of agreements relating to the strategic development and corporate reorganisation project involving Pirelli & C. and Camfin – Nuove Partecipazioni S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. entered into a shareholders' agreement concerning, *inter alia*, the management of the PRELIOS ordinary shares held to date by Camfin S.p.A.. The most recent update of this shareholders' agreement was published on July 14, 2014.

The notices containing abstracts of these agreements are all available, *inter alia*, on the Consob website, as well as on the Website.

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On June 19, 2014, the Ordinary Shareholders' Meeting (the "**Shareholders' Meeting**") was held on single call.

Aside from approving the 2013 financial statements, the Shareholders' Meeting resolved, pursuant to Article 2446 of the Italian Civil Code, to postpone the adoption of the relative measures (if required) to a date to be proposed by the Board of Directors and, in any event, in compliance with the provisions of Article 2446, paragraph 2 of the Italian Civil Code.

Over 99.99% of the share capital represented at the Shareholders' Meeting approved both agenda topics.

In addition, following the resignation of Mrs Anna Chiara Svelto from the position of Director, the Shareholders' Meeting appointed Mrs Mirja Cartia d'Asero as the Company's new Director based on the proposal submitted by the shareholder Camfin S.p.A.. She will remain in office until the end of the term of the current Board of Directors. The Board of Directors therefore has a total of fifteen members.

The aforementioned proposal was provided to the public in advance on June 16, 2014 together with the candidate profile, which made it possible to assess her personal and professional characteristics as well as the fulfilment of independence requirements.

Over 95.54% of the share capital represented at the Shareholders' Meeting approved the shareholder's proposal.

The Director thus appointed by the Shareholders' Meeting is therefore recognised the portion of remuneration due (Euro 30,000 per year), taking into consideration the resolutions of the Shareholders' Meeting on May 8, 2013 and of the Board of Directors on May 30, 2013.

Please note that at the first regularly scheduled meeting subsequent to the appointment, the Board of Directors verified that the above Independent Director fulfils the independence requirements set forth by the Code, also with respect to the additional requirements pursuant to Article 147-*ter*, paragraph 4 of the Consolidated Finance Act. Pursuant to Article 3.C.4 of the Self-Governance Code, the outcome of this assessment was disclosed to the market.

The current Board of Directors, which has 15 members, the majority of whom are non-executive and independent, complies with the balance between genders required by applicable regulations and the Articles of Association. The Directors are listed on the

Website in the Corporate Governance section, along with their CVs that set out their personal and professional information.

Lastly, in consideration of the provisions of Article 123-*ter* of the Consolidated Finance Act and Article 84-*quater* of the Consob Issuers' Regulations, the Shareholders' Meeting voted on the Company Policy on the remuneration of directors, general managers and key management personnel as well as the procedures for adopting and implementing that Policy.

Over 95.59% of the share capital represented at the Shareholders' Meeting approved the Board of Directors' proposal.

The Remuneration Report, including the Remuneration Policy, is available on the Website in the Corporate Governance section.

Furthermore, five Board of Directors meetings were held in the first half of 2014, in addition to three Remuneration Committee meetings and six Internal Control, Risk and Corporate Governance Committee meetings.

The Board of Statutory Auditors always participated in these meetings.

* * *

Lastly, on July 30, 2014, the Board of Directors approved the appointment of Director Mirja Cartia d'Asero to the Internal Control, Risk and Corporate Governance Committee.

As a result, this Committee currently has four non-executive and Independent Directors: Massimo Tezzon (Chairman – Lead Independent Director), Marina Brogi, Mirja Cartia d'Asero and Andrea Mangoni.

Milan, July 30, 2014

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