



PRELIOS S.P.A.

**Registered office in Milan, Viale Piero e Alberto Pirelli no. 27
Milan Register of Companies no. 02473170153**

www.prelios.com

Annual report on corporate governance and ownership structures - 2012 financial year -

- **Prepared in compliance with the provisions of Italian Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act) and with the Regulations issued by Consob with resolution no. 11971 of 1999 (Issuers' Regulation).
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- **Approved by the Board of Directors of the Company on March 27, 2013.**

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GLOSSARY

Code/Code of Conduct: the Code of Conduct for listed companies approved in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A. The Code is available to the public on the Borsa Italiana S.p.A. website *www.borsaitaliana.it*.

Civil Code/C.C.: the Italian Civil Code.

Board of Statutory Auditors: the Board of Statutory Auditors of PRELIOS S.p.A.

Board of Directors: the Board of Directors of PRELIOS S.p.A.

Date of the Report: the meeting of March 27, 2013 of the Board of Directors that approved this Report

Manager Responsible for Corporate Financial Reporting: the Manager responsible for preparing the corporate accounting documents provided for by Art. 154-bis of the CFA.

Issuer: PRELIOS S.p.A. or PRELIOS or the Company.

Financial year: the financial year to which the Report relates.

PRELIOS Group or Group: the Issuer and the companies controlled by it pursuant to Art. 93 of the CFA.

Extraordinary Transaction: the extraordinary transaction aimed at equity strengthening through the recapitalisation of the company and the rebalancing of the financial structure, as well as the revival of the industrial development prospects of the Group, announced to the market several times.

RPT Procedure: the Procedure for related party transactions, approved by the Board of Directors on November 3, 2010 (and subsequently amended on November 11, 2011), prepared under the terms and for the purposes of Art. 2391-bis of the Italian Civil Code and the “Regulation on Transactions with Related Parties” adopted with Consob Resolution no. 17221 of March 12, 2010 (as amended by Consob Resolution no. 17389 of June 23, 2010) taking into account the instructions and explanations provided by Consob with Notice no. DEM/10078683 of September 24, 2010.

Issuers’ Regulation: the Regulations concerning the provisions on issuers, adopted by Consob with Resolution no. 11971 of May 14, 1999 as subsequently amended and supplemented.

Market Regulations: the Regulations on markets adopted by Consob with Resolution no. 16191 of October 29, 2007 as subsequently amended and supplemented.

Report: the Report on Corporate Governance and Ownership Structures that the companies are required to prepare pursuant to the CFA and the Issuers’ Regulation.

Website: the Company’s website *www.prelios.com*.

Articles of Association: the Issuer’s Articles of Association.

Consolidated External Audit Act: Italian Legislative Decree no. 39 of January 27, 2010, which transposes Directive 2006/43/EC on the external auditing of annual accounts and consolidated accounts.

CFA/Consolidated Finance Act: Italian Legislative Decree no. 58 of February 24, 1998 as subsequently amended and supplemented.

1. PROFILE OF THE ISSUER

The Company's corporate governance structure is organised according to a so-called traditional administration and control system in which management is the exclusive responsibility of the Board of Directors, the supervisory duties of the Board of Statutory Auditors and the external audit of the independent auditors entered in the special register kept by Consob.

In accordance with the recommendations of the Code of Conduct and the principles of corporate governance observed internationally and recommended at the European Union level, the Board has also set up internal committees with propositional and advisory functions.

The Shareholders' Meeting of PRELIOS, held on April 21, 2011, appointed the Company's **Board of Directors**, who would remain in office for three financial years, and mainly, until the approval of the financial statements as at December 31, 2013.

The appointment of one-fifth of the directors to be elected is reserved for a qualified minority of shareholders submitting a list of candidates¹, in accordance with the provisions of the law and of the articles of association.

The Board currently in office was appointed on the basis of a single list presented by the shareholders Camfin S.p.A., Mediobanca S.p.A., Edizione S.r.l., Assicurazioni Generali S.p.A., Intesa SanPaolo S.p.A. and Massimo Moratti, signatories of the shareholders' agreement on Prelios shares signed on October 25, 2010 for a period of 18 months and renewed, on March 25, 2012, for a further 18 months, from April 25, 2012 to October 25, 2013.

As pointed out later, following the final approval by the Board of the Extraordinary Transaction, all the Directors of Prelios decided to resign on March 27, 2013, effective as from the end of the next Shareholders' Meeting called, among other things, to approve the financial statements as at December 31, 2012.

The Board is the body granted the widest powers for ordinary and extraordinary administration² and performs all the duties provided for in Art. 1.C.1. of the Code.

The **Board of Statutory Auditors** is the body appointed to supervise observance of the law and the Articles of Association, compliance with the principles of correct administration, adequacy of the internal control system and of the organisational, administrative and accounting structure and its reliability.

It is also called upon to supervise correct implementation of the corporate governance rules adopted by the Company and to submit a reasoned proposal to the Shareholders' Meeting on assignment of the external auditing task, ensuring the independence of the independent auditors. In particular, following the coming into force of the Consolidated External Audit Act, the Board of Statutory Auditors must carry out further and/or reinforced supervisory tasks as "Internal Control and Audit Committee", as better described below.

¹ Pursuant to the Articles of Association (art. 12), the Company is managed by a Board of Directors composed of from 5 to 19 members who remain in office for three financial years (unless a shorter period is established by the Shareholders' Meeting at the time of appointment) and may be re-elected. The Shareholders' Meeting determines the number of members of the Board of Directors, a number that remains fixed until resolved otherwise. The Board of Directors is appointed by list vote and the Directors are subject to the causes for ineligibility for election and forfeiture laid down by law.

² See Art. 18 of the Articles of Association for the responsibilities they assign to the Board.

Pursuant to the Articles of Association, the Board of Statutory Auditors is composed of three standing auditors and two alternate auditors, appointed for a period of three financial years and they can be re-elected. The appointment of one standing auditor and one alternate auditor is reserved for a qualified minority of shareholders submitting a list of candidates, in accordance with the provisions of the law and of the articles of association, and the Auditor appointed by the minority chairs the Board of Statutory Auditors³.

The Board of Statutory Auditors currently in office was appointed without the submission of minority lists.

The **Shareholders' Meeting** is the body representing all the shareholders whose task is to resolve (i) in ordinary meetings, on approving the annual financial statements, appointing and dismissing members of the Board of Directors, appointing members of the Board of Statutory Auditors and their Chairman, determining the fees of Directors and Auditors, appointing independent auditors, on the responsibility of Directors and Auditors and on any further matters over which it has powers; (ii) in extraordinary meetings, on amendments to the Articles of Association and extraordinary transactions such as increases in capital, and mergers and demergers, unless the Board of Directors have such powers under the articles of association and pursuant to the law.

Independent auditors, entered in the special register kept by Consob, carried out the independent auditing activities, pursuant to the law. The independent auditors are appointed by the Shareholders' Meeting, on the reasoned proposal of the Board of Statutory Auditors⁴.

2. INFORMATION on OWNERSHIP STRUCTURES (pursuant to Art. 123-bis, paragraph 1, of the CFA) [on the Date of Report]

➤ Structure of the share capital

Amount of **share capital**, subscribed and paid-up: 218,877,613.14 euro⁵.

Categories of shares forming the share capital: ordinary, registered and freely transferable without a face value. There are no other categories of shares.

No financial instruments attributing the right to subscribe newly issued shares have been issued. At the date of the Report, the Company has in being no financial-instrument-based incentive plans.

	No. of shares	% of share capital	Listed	Rights and obligations
Ordinary shares	841,171,777	100%	Italian Stock Exchange MTA	=

There are no restrictions on the transfer of shares.

*

³ See article 22 of the Articles of Association.

⁴ On the reasoned proposal of the Board of Statutory Auditors, the Shareholders' Meeting of April 14, 2008 appointed Reconta Ernst & Young S.p.A. to carry out independent audits for the nine-year period 2008-2016.

⁵ The Extraordinary Shareholders' Meeting on April 17, 2012, resolved to change the Articles of Association, among other things, by eliminating the face value of the shares, originally 0.5 euro, and by approving the proposal of reduction of the share capital from 420,585,888.50 euro to 218,877,613.14 euro pursuant to art. 2446 of the Italian Civil Code;

At its meeting on March 27, 2013 the Board of Directors, among other things, resolved, in relation to the Extraordinary Transaction, to propose to the Shareholders' Meeting approving the 2012 financial statements:

- a. the reduction, by grouping, in the number of ordinary shares in the ratio of 1 new ordinary share each 10 ordinary shares owned, subject to the cancellation of ordinary shares owned by the Company to allow the overall balancing of the operation, without reducing the share capital;
- b. the reduction of the share capital due to losses pursuant to Art. 2446 of the Italian Civil Code;
- c. a capital increase of up to a maximum of approximately 185 million euro according to the following terms: (i) the first tranche of 70,005,789.37 euro, by payment, without splitting shares, reserved for a special purpose vehicle ("NewCo") – invested in by Feidos 11 S.p.A., Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A. – by issuing 117,597,496 category B shares convertible in ordinary shares; (ii) the second tranche of maximum 115,009,511.53 euro, through splitting shares, offered under option to the shareholders, by issuing maximum 193,195,887 ordinary shares, bearing regular dividend and with the same characteristics as those outstanding at the time of their issue;
- d. assigning the Board of Directors, pursuant to Art. 2420-ter, paragraph 2, of the Italian Civil Code, the right to issue, up to a maximum of 269 million euro, mandatory convertible bonds into ordinary shares and/or category B shares, resulting in share capital increase, through splitting shares, for a maximum amount of 269 million euro in addition to the amount of capitalised interests (to maximum maturity) to service exclusively the conversion of bonds, subject to set conditions and in accordance with specific terms;
- e. the consequent amendments to the Articles of Association under Articles 5 and 6 and the addition of a new art. 6-bis in the Articles of Association.

It should be noted in this regard that: (i) category B shares deriving from the said reserved capital increase are special shares without voting rights and are not intended initially to the price, convertible in ordinary shares, as may be required by the new Articles of Association of Prelios, in case of transfers to third parties (which do not already own directly category B shares) or the launch by third parties of a takeover bid and public swap offer (TOB and/or PSO) on Prelios shares; (ii) the newly issued ordinary shares deriving from the said reserved capital increase offered under option to the shareholders will bear regular dividend and ensure their holders equal rights compared to the Prelios ordinary shares already outstanding at the time of issue.

On this point, the reader is referred to the directors' explanatory report available on the Company's website in the corporate governance section.

➤ Significant interests in the capital

Based on the notices received pursuant to Article 120 of the CFA and the information howsoever available, at the date of the Report, the shareholders holding interests in excess of 2% of the share capital of PRELIOS are as follows:

Declarant	Direct shareholder	% interest in ordinary share capital	% interest in voting share capital
Tronchetti Provera Marco	Cam Partecipazioni S.p.A. (Ownership)	0.013	0.013
	Camfin S.p.A. (Ownership)	14.801	14.801
TOTAL		14.814	14.814

Assicurazioni Generali S.p.A.	Alleanza Toro S.p.A. (Ownership)	0.133	0.133
	INA Assitalia S.p.A. (Ownership)	1.134	1.134
	Generali Vie SA (Ownership)	0.621	0.621
	Generali Iard SA (Ownership)	0.003	0.003
	Assicurazioni Generali S.p.A. (Ownership)	1.231	1.231
TOTAL		3.122	3.122
Invesco LTD	Invesco Fund Managers LTD	1.676	1.676
	Invesco Advisers Inc.	0.298	0.298
	Invesco Global Asset Management Ltd	1.991	1.991
	Invesco Asset Management S.A.	0.679	0.679
	Invesco Asset Management Limited	0.445	0.445
TOTAL		5.089	5.089
Edizione S.r.l.	Edizione S.r.l. (Ownership)	2.699	2.699
Mediobanca S.p.A.	Mediobanca S.p.A. (Ownership)	2.606	2.606

There are no securities that confer special rights of control or special powers nor restrictions on voting rights. Moreover, as a result of the carrying-out of the Extraordinary Transaction, category B shares are expected to be issued, without voting rights, as well as the issue of mandatory convertible bonds into ordinary shares and/or category B shares mentioned in the previous paragraph (*Share capital structure*).

In the case of shares held by employees, there are no mechanisms for exercising votes if they are not exercised directly by the latter.

It should also be noted, moreover, that, pursuant to Art. 2428, paragraph 3, numbers 3) and 4), of the Italian Civil Code:

- there are no controlling companies with reference to which it is necessary to provide disclosure on any shares held at December 31, 2012 and/or their purchases/sales during the 2012 financial year by the Company;
- at December 31, 2012, the Company holds a total of 1,189,662 treasury shares, with no change compared with December 31, 2011 owing to purchase/sale transactions during 2012.

➤ Agreements among shareholders

Following the demerger of PRELIOS from the Pirelli Group, a number of shareholders signed a “Shareholders’ Agreement” aimed at ensuring the stability of the PRELIOS shareholding structure. An extract of this agreement can be obtained on the Company’s website in the Investor Relations section.

The list of subjects participating in the “Shareholders’ Agreement” and the relevant proportion of each are shown in the table below:

Shareholder	No. of shares	% of share capital
Assicurazioni Generali S.p.A. (*)	20,977,269	2.49%
CAMFIN S.p.A.	100,940,614	12%
Edizione S.r.l.	21,921,364	2.61%
Intesa Sanpaolo S.p.A.	7,683,568	0.91%
Massimo Moratti (**)	5,673,392	0.67%
Mediobanca – Banca di Credito Finanziario S.p.A.	21,922,205	2.61%
Total	179,118,412	21.29%

(*) of which 5,218,181 shares through Generali Vie S.A. and 7,525,388 shares through Ina Assitalia S.p.A.

(**) of which 3,401,850 shares through CMC S.p.A. and 1,221,413 shares held in trust by Istifid S.p.A.

*

Note that, as part of the agreements reached between the subjects involved in the mentioned Extraordinary Transaction, Prelios received formal notifications by Camfin S.p.A., Assicurazioni Generali S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A. and Intesa Sanpaolo S.p.A., which confirmed their commitment to sign, in case of approval by the Extraordinary Shareholders' Meeting, the aforementioned capital increase offered under option for a total amount of approximately 25 million euro.

On March 27, 2013, Feidos 11 S.p.A., Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Pirelli & C. S.p.A. informed the Company that they signed a term sheet with which they acknowledged the essential conditions to be negotiated in good faith in order to enter into a subsequent agreement in relation to the establishment and capitalisation of NewCo and to their subsequent participation in the Extraordinary Transaction and, in particular, in case of approval by the Extraordinary Shareholders' Meeting, for what concerns the subscription of the reserved capital increase for a share of a total of approximately 70 million euro, of which 20 million euro by Feidos 11 S.p.A. and the remaining 50 million euro by UniCredit S.p.A. (approximately 19 million euro), Intesa Sanpaolo S.p.A. (approximately 8 million euro) and Pirelli & C S.p.A. (approximately 23 million euro), respectively.

The extract of the aforementioned term sheet is available on the Company's website, in the Investor Relations section.

➤ **Change of control clauses and provisions established by the Articles of Association on the takeover bid (pursuant to Art. 104, paragraph 1-ter, and 104-bis, paragraph 1, CFA)**

There is no subject that may, directly or indirectly, even under shareholders' agreements, alone or jointly with other subjects signing agreements, exercise control over PRELIOS.

Consequently, at present, neither the Company nor its subsidiaries have significant agreements in existence that would become effective, be amended or extinguished in the event of a change of control, intended in the technical sense. It is noted, however, that with reference to the loan contract for a total maximum of 359 million euro granted to the Company by a pool of banks (hereinafter the "Club Deal"⁶) a new change of control (rather than "change in shareholdings") clause was defined which, although it could not refer to a situation of control, had nevertheless established that this circumstance would apply in the event that, without the prior written consent of the Club Deal (which may not be unreasonably denied or delayed), Camfin S.p.A. had ceased to hold, directly or indirectly, an interest in the share capital of the Company of at least 12% thereof, with the consequent obligation for the Company to repay the existing loan in full and to make payment of any other amount owed pursuant to the relevant contract.

In this regard, on the basis of the debt restructuring agreements with the financial backers of the Company, which will be defined within the Extraordinary Transaction already mentioned before, there are specific agreements on the subject and, therefore, the above mentioned provision is already out-dated.

⁶ Club Deal lending banks: Banca IMI S.p.A. (in its capacity as "Agent Bank"), Intesa Sanpaolo S.p.A., Unicredit S.p.A., Banca Monte dei Paschi di Siena S.p.A., Banca Popolare di Milano Soc. Coop. a r.l., Banca Popolare di Sondrio Soc. Coop. p.a., Banca Popolare dell'Emilia Romagna Soc. Coop., Banca Carige S.p.A. – Cassa di Risparmio di Genova e Imperia, Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A., (all in their capacities as "Original Lending Banks").

*

On the subject of takeover bids, the Articles of the Association do not provide for: (i) rules making exception to the passivity rules provided for by Art. 104, paragraphs 1 and 2, of the CFA; (ii) application of the neutralisation rules laid down by Art. 104, paragraphs 2 and 3, of the CFA.

➤ **Delegated powers to increase the share capital and authorisations to purchase treasury shares**

There are no powers delegated to the directors to increase the share capital, by payment, in one or more separate instalments, nor is the right granted to issue shares.

As previously mentioned, within what is provided by the Extraordinary Transaction, the Extraordinary Shareholders' Meeting will be asked to grant the Board of Directors, pursuant to Art. 2420-ter, paragraph 2, Italian Civil Code, the right to issue up to a maximum nominal amount of 269,000,000.00 euro mandatory convertible bonds into ordinary shares and/or category B shares, with the exclusion of the right of option pursuant to Art. 2441, paragraph 5, Italian Civil Code, resulting in share capital increase, through splitting shares, for a maximum amount of 297,644,375.01 euro, which may be carried out within a maximum period of seven years, except for the extension for further three years from the bond issue (the so-called "Convertendo").

This right, in case of approval of the Extraordinary Shareholders' Meeting, may be exercised after carrying out the already mentioned reserved capital increase offered under option, and any way, within a maximum period of one year from the date of the resolution, with the further right of the Board of Directors to fix the rate and the duration of the instrument, as well as all other terms and conditions thereof, and of the share capital increase needed for the conversion, on the basis of the agreements that will be defined with the financial backers of the Company to which such instruments will be offered, with the exclusion of the right of option.

On this point, the reader is referred to the directors' explanatory report available on the Company's website, in the Corporate Governance section.

*

As indicated above, the Company currently holds 1,189,662 treasury shares, equal to around 0.141% of the share capital.

Note that with the Shareholders' Meeting of April 17, 2012 that approved the 2011 Financial Statements, the authorisation to purchase – and the relevant method of allocation – of (ordinary) treasury shares up to the limit of 10% of the *pro tempore* share capital, taking into account the treasury shares already held by the Company and any share held by the subsidiaries. The mentioned authorisation was not carried out. The authorisation was not renewed.

➤ **Management and co-ordination activities (pursuant to Art. 2497 et seq. of the Italian Civil Code)**

There is no subject that may, directly or indirectly, even under shareholders' agreements, alone or jointly with other subjects signing agreements, exercise control over PRELIOS. Nor is the

Company subject, pursuant to Article 2497 Italian Civil Code, to management and coordination by other companies or entities.

Instead, PRELIOS itself carries out management and coordination activities pursuant to the provisions of the Italian Civil Code over several subsidiaries, having provided the disclosure required by Art. 2497-bis of the Italian Civil Code.

* *

The information required by Art. 123-bis, paragraph 1, letter i), of CFA on “*agreements between the company and directors ...which provide for indemnities in the event of resignation or dismissal without just cause or if the employer-employee relationship is terminated as the result of a takeover bid*”, is contained in the Remuneration Report published pursuant to Art. 123-ter of the CFA.

The information required by Art. 123-bis, paragraph 1, letter l), of the CFA on the “*rules applicable to the appointment and replacement of directors ...and to the amendment of the Articles of Association, if different from the legislative and regulatory rules applicable in a supplementary manner*”, are illustrated in the section of the present Report for the Board.

3. COMPLIANCE (pursuant to Art. 123-bis, paragraph 2, letter a) CFA)

Since its establishment, PRELIOS has had a corporate governance system designed to monitor the management and control of the Company, in line with the market best practice, specifically defining the distribution of roles and rights among the various corporate bodies in order to guarantee the observance of laws, regulations, codes of conduct, procedures and company rules.

On May 3, 2002, the Company informed the market that it had fully complied with the Code of Conduct for listed companies of Borsa Italiana (Italian Stock Exchange), and it has since adopted subsequent revised versions, giving notice of implementation of adjustments necessary each time.

In accordance with the applicable laws and regulations in force, this Report also aims to illustrate fully the corporate governance model adopted by the Company at the date of its publication, also making it possible to check specifically the actual state of adaptation to the provisions of the Code.

In this regard, it should be noted that - periodically and at least once a year at the Board of Directors' meeting called to examine the draft annual financial statements just ended - a suitable document is submitted to the Board of Directors, prior to approval of the Report, which, analytically and for each individual provision of the Code, verifies the state of compliance therewith, indicating any action in progress or planned.

It should also be noted that PRELIOS or its subsidiaries of strategic significance are not subject to non-Italian law provisions that would affect the Company's corporate governance structure. It is noted, however, that the subsidiaries, Prelios SGR S.p.A. (asset management company) and Prelios Credit Servicing S.p.A. (financial intermediary enrolled in the list set forth in Art. 107 of the Consolidated Banking Law) are supervised by the Bank of Italy and as such apply the specific regulations in force - also on governance - for such companies.

With specific reference to the new Code of Conduct for listed companies issued by Borsa Italiana S.p.A. in December 2011, the issuers were invited to apply the amendments made to

the Code by the end of the 2012 financial year, informing the market in the corporate governance report to be published during the subsequent financial year.

An exception is the amendments affecting the composition of the board of directors or of the relevant committees, for which the Code envisages a longer transition period.

In this regard, at the meeting of March 2, 2012, the Board of Directors - noting the already prevailing and substantial compliance of the corporate governance model applied with the new provisions - resolved to adopt the new Code by approving, during the financial year, adjustments to the governance for a full compliance to the innovations introduced by the Code itself.

PRELIOS' key corporate governance documents include the following:

- the Articles of Association;
- the Rules of the Shareholders' Meeting;
- the Code of Ethics and Lines of Conduct, which form an integral part of the Organisational Model adopted pursuant to Italian Legislative Decree 231/01;
- the Procedure on transactions with related parties;
- the Procedure for information flows to directors and auditors;
- the Code of conduct on property transactions;
- the Procedure for handling and notifying the public of inside information and the relevant register of persons having access to inside information;
- the Memorandum on Internal dealing.

In order to facilitate the broadest possible knowledge of the corporate governance model adopted by the Company, the documents indicated above are all available on the Company's website, in the Corporate Governance section.

Finally, in the interim financial report the company - voluntarily - provides information on the updates and additions to its corporate governance system with respect to the contents of the annual report.

4. BOARD OF DIRECTORS

4.1. APPOINTMENT AND REPLACEMENT (pursuant to Art. 123-bis, paragraph 1, letter I, CFA)

For the appointment of members of the Board of Directors, since 2004 the Articles of Association have provided for the so-called "list voting mechanism" - according to a transparent procedure compliant with the provisions of Art. 147-ter of the CFA - for the purpose of facilitating an ever-increasing participation of persons indicated by the so-called minority in corporate life, reserving for the latter, in fact, one fifth of directors.

It should be noted that following entry into force of Law 120 of July 12, 2011 (which modified Art. 147-ter of the CFA), from August 2012 onwards, the division of directors to be

elected in listed companies must be done on the basis of a criterion that ensures observance of the gender balance.⁷

In this regard, the Extraordinary Shareholders' Meeting of April 17, 2012 approved amendments to the articles of association in order to ensure compliance with this principle. In particular, in order to ensure gender balance in compliance with the pro tempore regulations in force, each list presenting a number of candidates equal to or greater than three, at least one third (rounding up, if necessary, to the higher integer) of such candidates is expected to belong to the least represented gender. It should be noted that the Company applied in advance the minimum percentage required by the current regulations.

The lists may be presented by shareholders who, alone or together with others, hold a total number of shares representing at least 2% of the share capital with voting rights at the ordinary Shareholders' Meeting or the lower amount required by the regulations issued by Consob⁸ and must be filed at the registered office at least 25 days prior to the date fixed for the Shareholders' Meeting on single call.

At the time of submission of the list, besides the candidacy acceptance declarations, the CVs of the individual candidates must be submitted, certifying the non-existence of causes for ineligibility for election or incompatibility, and the existence of the requirements laid down for the position, and the possible indication of their suitability to be classified as independent directors.

The Board of Directors is elected as follows:

- a) four-fifths of the directors to be elected will be taken from the list obtaining the majority of votes cast by the shareholders, in the order in which they appear in the list itself, rounded down in the event of a fraction;
- b) the remaining Directors will be taken from the other lists, to which end the votes obtained by the said lists will be subsequently divided by whole progressive numbers from one up to the number of Directors still to be elected.

The Directors referred to in letter b) above are elected by making a specific calculation by quotients and those obtaining the highest quotients are elected.

If several candidates have obtained the same quotient, the candidate on the list from which no Director has yet been elected, or from which the lowest number of Directors has been elected, will be elected.

If none of these lists has elected a director or if all of them have elected the same number of directors, within the scope of such lists, the candidate obtaining the highest number of votes will be elected.

In the event of a tie in the number of list votes and in the event of an equal quotient, the full Shareholders' Meeting will vote again and the candidate obtaining the simple majority of votes will be elected.

If the application of the list voting mechanism does not ensure the minimum number of directors belonging to the least represented gender laid down by law and/or regulations, the candidate belonging to the most represented gender elected with the highest progressive number in the list obtaining the highest number of votes will be replaced by the candidate

⁷ With Resolution No. 18098 of February 8, 2012, Consob issued the related implementing regulation amending the Issuers' Regulation.

⁸ Pursuant to art. 144-quarter of the Issuers' Regulation, Consob - with Resolution no. 18452 of January 30, 2013 - set at 4.5% the equity interest applicable to the company.

belonging to the least represented gender not elected from the same list in the order of presentation and so on, list by list, until the minimum number of directors belonging to the least represented gender is complete.

If the application of the list voting mechanism does not ensure the minimum number of independent directors laid down by law and/or regulations, the non-independent candidate elected with the highest progressive number in the list obtaining the highest number of votes will be replaced by the independent candidate not elected from the same list according to the order of submission and so on, list by list, until the minimum number of independent directors is complete, without prejudice in any case to the observance of the gender balance laid down by pro tempore law and/or regulations in force.

Loss of the requirements of independence of a director does not constitute a reason for termination of the office if the minimum number of members, laid down by law or by regulation and satisfying the requirements of independence, remains on the Board of Directors.

Finally, note that the Company is not subject to special field regulations with a special reference to the representation of minorities or to the number and characteristics of the independent directors.

Succession plans

During the 2012 financial year, the Board - subject to the examination of the “Internal Control, Risk and Corporate Governance Committee” - decided not to adopt a succession plan for executive directors, as requested by the Code of Conduct (Art. 5.C.2) considering the importance of the Extraordinary Transaction and of the consequent effects that may be expected on the current shareholdings of the Company and, in general, on the company organisation also with reference to management.

4.2. COMPOSITION (pursuant to Art. 123-bis, paragraph 2, letter d) CFA)

The Board of Directors in office - appointed by the Shareholders’ Meeting on April 21, 2011 and the expression of a single list presented by the shareholders Camfin S.p.A., Mediobanca S.p.A., Edizione S.r.l., Assicurazioni Generali S.p.A., Intesa SanPaolo S.p.A. and Massimo Moratti, signatories of the shareholders’ agreement on Prelios shares signed on October 25, 2010 and subsequently renewed until October 25, 2013 - is currently composed of 13 members.

All the Directors holding office were appointed for the first time by the Shareholders’ Meeting of April 21, 2011 except for the Chairman, Marco Tronchetti Provera, (appointed for the first time on May 16, 1991), of the Deputy Chairman, Enrico Parazzini, (appointed for the first time on May 28, 2010), of the Chief Executive Officer, Sergio Iasi, (appointed for the first time on November 13, 2012), of the Independent Directors, Carlo Emilio Croce, Valter Lazzari and Dario Trevisan (appointed for the first time on January 25, 2006, March 5, 2009 and May 6, 2003, respectively) and of the non-executive Director, Jacopo Franzan (appointed for the first time on April 14, 2008).

Following the resignation on November 11, 2011, of Giulio Malfatto, the Shareholders’ Meeting of April 17, 2012 resolved to reduce from 15 to 14 the number of members of the Board of Directors.

Then, following the subsequent resignation on October 11, 2012, of Davide Malacalza and on November 13, 2012, of Paolo Massimiliano Bottelli, the Board of Directors - pursuant to Art.

2386, paragraph 1, of the Italian Civil Code - appointed on November 13, 2012, Sergio Iasi as Director of the Company referring any decision on the further vacant position within the Board to the Shareholders' Meeting convened on December 18, 2012.

Therefore, the Board, on December 3, 2012, assigned new company positions entrusting Enrico Parazzini (former Chief Managing Director Finance) with the office of Deputy Chairman and Sergio Iasi with the office of Chief Executive Officer.

The Shareholders' Meeting of December 18, 2012 resolved to further reduce to 13 the number of members of the Board of Directors confirming the appointment of Sergio Iasi. On the same date, the latter was also confirmed Chief Executive Officer by the Board of Directors.

The composition of the Board is shown in Table 1 attached to the Report, which also indicates, among other things, the office of each member (executive, non-executive, independent) and the position held within the Board.

For the personal and professional characteristics of each director, see the respective CVs published on the website.

Following the final approval by the Board of the Extraordinary Transaction, all the Directors of Prelios decided to resign on March 27, 2013, effective as from the end of the next Shareholders' Meeting called, among other things, to approve the financial statements as at December 31, 2012.

This decision ensued from the circumstance for which the carrying out of the said Extraordinary Transaction would result in a change of the current company structure of Prelios and, therefore, the Directors considered that it was in the best interest of the Company to allow its shareholders to appoint the members of the administrative body without waiting for the natural expiry of the mandate that would have occurred with the approval of the financial statements for the year ending December 31, 2013.

Note that - in order to facilitate the shareholders when presenting the lists and for the subsequent appointment of the directors - the Directors' Report on the specific item on the agenda of the next Shareholders' Meeting (published on the website, corporate governance sector) expresses, among other things, the opinion of the resigning Directors on the ideal Composition of the Board and the professional characteristics that the candidates should have in relation to the business model of the Company, the complexity and specificity of the sector in which it operates, taking into account the conditions set for completion of the Extraordinary Transaction, including the appointment of Sergio Iasi and Massimo Caputi, as Chief Executive Officer and Deputy Chairman (with responsibility for development), respectively, in compliance in any case with the regulation of the gender balance.

Maximum accumulation of positions held in other companies

In relation to the provisions laid down in Art. 1.C.3. of the Code, on November 7, 2007, the PRELIOS Board defined (and subsequently confirmed) the general criteria on the maximum number of positions that may be held by directors, considering in principle that the position of Company Director is not compatible with the position of director or auditor in more than five companies, apart from those subject to PRELIOS's management and coordination or controlled by it or associated with it, in the case of companies:

- (i) listed and included in the FTSE MIB index (or also in equivalent foreign indices);
- (ii) mainly operating in the financial sector in respect of the public (entered in the Sole Register of Financial Intermediaries pursuant to Article 106 of Italian Legislative

Decree no. 385 of September 1, 1993), including asset management companies;
(iii) carrying out banking or insurance activities.

The Board of Directors also considered the same Director holding more than 3 executive positions in companies referred to in points (i), (ii) and (iii) to be incompatible with the position of Company Director.

Positions held in several companies belonging to the same group are considered to be just one position, an executive position taking precedence over a non-executive position.

In any event, the Board of Directors is entitled to make a different assessment, which is published in the annual report on corporate governance and ownership structures; to that end, positions of director or auditor in companies, including foreign companies, may be taken into consideration, or positions not having the aforesaid characteristics, taking into account the size, organisation and shareholding relationships existing between the various companies and the participation of directors in the committees set up within the Board of Directors.

According to the information provided by the interested parties, all the Directors in office comply with the criteria adopted.

On the occasion of renewal of the Board of Directors by Shareholders' Meeting on April 21, 2011, the Shareholders (if they intend to present lists for appointment of Directors under the terms of the Articles of Association) have been opportunely invited to read the aforementioned orientation.

This invitation was also renewed in anticipation of the next Shareholders' Meeting of May 8, 2013, called upon to express itself on the appointment of the members forming the new Board of Directors of the Company.

The main positions held by the Directors in companies other than those belonging to the PRELIOS Group are indicated in the attachment to the Report (Art. 1.C.2. of the Code).

Induction Program

Within the scope of the provisions of the application principle 2.C.2. of the Code, specific meetings were held between the Directors in office, after their appointment, and the PRELIOS Group's management, with the aim of providing adequate knowledge of the business segment in which the Group operates, the business trends and their development and the legislative framework of reference. In particular, the high frequency of the number of meetings and committees held in 2012 (all-in-all 13 board meetings, 5 meetings of the Remuneration Committee, 9 meetings of the Internal Control, Risk and Corporate Governance Committee as well as 3 meetings of the Risk Committee), allowed the Directors to continue and deepen, during their mandate, this knowledge, with a special reference to the business trend and to applicable regulations.

4.3. ROLE OF THE BOARD OF DIRECTORS (pursuant to Art. 123-bis, paragraph 2, letter d), CFA)

The Board of Directors plays a central and strategic guiding role in managing the Company and therefore performs all the tasks laid down for it by Article 1.C.1. of the Code.

In particular, the Board of Directors:

- examines and approves the strategic, industrial and financial plans of the issuer and of the group it heads, monitoring its implementation on a regular basis, as a rule, when examining the accounting data for the period; defines the corporate governance system of

the issuer and the structure of the group. In this regard, the Board approved the 2013-2016 Strategic Plan and, during the 2012 financial year, examined and took each time the consequent decisions with reference to the Extraordinary Transaction;

- defines the nature and level of risk that is compatible with the strategic objectives of the issuer. In 2012 and until the Date of the Report, this activity was carried out with the support of the Risk Committee (until it was abandoned on August 28, 2012 indicated below) and of the Internal Control, Risk and Corporate Governance Committee, during the frequent board meetings held. It should be noted that, with the start of the Extraordinary Transaction, the activity focused on the development of this transaction, considering the key importance with reference to the main risk areas, relating to the necessity of equity strengthening of the Prelios Group and redressing the overall financial structure;
- assesses the adequacy of the organisational, administrative and accounting structure of the issuer and of the subsidiaries of strategic significance, with particular reference to the internal control and risk management system; the subsidiaries of strategic significance are Prelios SGR, Prelios Credit Servicing, Prelios Property & Project Management and Prelios Agency. With reference to the 2012 financial year and until the Date of the Report, this activity is carried out and is still being implemented and refined, taking into account the Extraordinary Transaction and its effects;
- examines on a regular basis, as a rule, at least on a quarterly basis, the activity carried out by the executive directors when exercising the powers conferred on them. In 2012, this activity was carried out on average on a monthly basis during the board meetings (during 2012, 13 meetings were held, indicated below). Finally, note that the Board has long defined a special internal Procedure in order to promote, in general, an orderly organisation of the information flows to the Directors and Auditors. (In this regard, refer to par. 4 of the Report);
- evaluates the general performance, taking into account, in particular, the information received by the delegated bodies, as well as comparing the results achieved with those planned on a regular basis. Before examining the 2012 draft financial statements, the Board, during the meeting held on March 27, 2013, has also examined the Impairment of goodwill and of intangibles – based on the *ad hoc* procedure adopted, if necessary, and taking into account the activity already carried out during the approval of the results as at September 30, 2012, when the Impairment Test has been carried out on the basis of the assumptions of the guidelines of the 2013-2016 Strategic Plan – subject to the prior favourable opinion of the Internal Control, Risk and Corporate Governance Committee. For more details, refer to the explanatory notes to the financial statements;
- resolves on the operations of the issuer and of its subsidiaries, when such operations have a significant strategic, economic, equity or financial importance for the issuer; to this end, it established general criteria for identifying significant transactions, as defined in the Procedure on information flows to directors and auditors;
- expresses to the shareholders, before the appointment of the new board, guidelines on the professional figures whose presence in the board is deemed appropriate. Within the annual Board Performance Review for 2012, the Directors were explicitly requested to express their guidelines on the professional figures whose presence is considered appropriate within the Board, which showed that the composition of the Board is considered balanced for what concerns the skill profiles currently present, pointing out only the advisability of a greater gender balance;

- provides information in the Report: (i) on its own composition, by indicating the qualification of each member (executive, non-executive, independent), position held within the Board (for example, chairman or chief executive officer), the main professional characteristics as well as the length of office from the first appointment; (ii) on the number and average duration of the meetings of the board and of the executive committee, if any, held during the financial year as well as on the relevant proportion of each director; (iii) on the methods of execution of the evaluation process of the Board Performance Evaluation;
- in order to ensure the proper management of corporate information, it adopts, upon proposal by the Chief Executive Officer or by the Chairman of the Board of Directors, a procedure for the internal management and the external notification of documents and information concerning the issuer, with a special reference to privileged information. (Refer for further details to par. 5 of the Report);
- carries out, at least once a year, an evaluation on the performance of the Board and of its committees as well as on their size and composition, also considering the elements such as professional characteristics, experience, managerial or otherwise, and gender of its members, as well as their length of office (Board Performance Evaluation). With regard to this last point, the Board commenced the relevant activity for the 2012 financial year, the results of which were evaluated by the Internal Control, Risk and Corporate Governance Committee and, on March 27, 2013, by the Board of Directors itself. In this regard, note that for 2012 the Internal Control, Risk and Corporate Governance Committee carried out directly the Board Performance Evaluation. The activity was carried out by (i) preparing a questionnaire, focusing on important issues resulting from previous self-assessments; (ii) collecting the questionnaires filled in by the Directors ensuring that their answers will remain anonymous; (iii) preparing an analysis report by the Internal Audit Department, also by comparing the results of the previous self-assessments. Therefore, the results were submitted as usual during the meeting of the Board of Directors that examined the 2012 draft financial statements subject to the evaluation of the Internal Control, Risk and Corporate Governance Committee, which showed very briefly: (i) the composition of the Board was considered balanced in general, by pointing out, however, the need to increase the share of the least represented gender⁹; (ii) a very positive opinion on the performance of the Board; (iii) a more than positive evaluation of the effectiveness of the discussion of strategic issues; (iv) a broad satisfaction with regard to the compliance with the Code and with the methods for handling and managing Corporate Governance issues; (v) a more than positive opinion on the activity of the Committees.

* * *

The Articles of Association (Articles 14, 15, 16 and 17) lay down the rules on the operation and organisation of Board meetings¹⁰. Although a minimum number of meetings is not

⁹ As shown previously, the Extraordinary Shareholders' Meeting of April 17, 2012, approved the amendments to the Articles of Association necessary to ensure the observance of the gender balance principle, envisaging that each list presenting a number of candidates for the position of Statutory Auditor equal to or greater than three of such candidates (rounding up, if necessary, to the higher integer) must belong to the least represented gender, thereby applying in advance the minimum percentage required by the current regulations.

¹⁰The Chairman calls the Board of Directors and regulates the development of its work, ensuring that the Directors are provided with reasonable notice, if possible and not when cases of necessity and urgency arise, with the necessary documents and information to enable them to give their opinion with knowledge of the items placed on the agenda, and also, making use of the competent internal departments, to inform the Directors and, where appropriate, discuss the main legislative and

contemplated, according to normal practice the Board is called in compliance with the provisions of Borsa Italiana (Italian Stock Exchange)¹¹ and at least 4 times a year, for the approval of the accounting statements for the period. The Directors are also convened, on the initiative of the Chairman or at the request of the Directors themselves, for informal meetings dealing with specific topics that make it appropriate to hold specific meetings for a more in-depth examination, also in order to improve the Directors' knowledge of the Company's business, changes in scenarios and markets of reference and specific business trends.

Notice of Board meetings is given by registered letter, telegram, fax or e-mail sent at least 5 days in advance (or in cases of urgency, at least 6 hours in advance), to each Director and Standing Auditor.

The meetings of the Board may be held by means of telecommunication, except in cases in which - for reasons of confidentiality - the Chairman makes use of the right to hold the meetings only in person, by notifying it beforehand. In this case, the following must be ensured: (i) participation in the discussion and (ii) equality of information among all participants. The meeting is deemed to be held in the place where the Chairman and the Secretary are present at the same time. For the Board's resolutions to be valid, a majority of Directors in office must be present and the favourable vote of the majority of votes cast is required. In the event of an equal number of votes, the Chairman will have the casting vote.

The Directors - together with the Board of Statutory Auditors - normally receive, in good time and sufficiently in advance, the documents and information necessary to enable them to express themselves knowledgeably on the matters submitted for them to examine. Usually, the documents are sent when the board meeting is convened¹², with the sole exception of documents that - owing to the particular confidentiality of the relevant matters for the fact that they refer to activities still in progress or for other extraordinary reasons - cannot be made available by that date.

In this regard, exhaustive and clear information is in any case always ensured on the matters to be discussed (including in summary notes when the documents made available are voluminous or complex) to ensure that informed decisions can be taken.

Board meetings are attended, on invitation, by managers of the Company and/or of the main subsidiaries of strategic significance (usually Chief Executive Officers, General Managers and other Managers) or third parties (normally Company advisers) whose participation is necessary or appropriate each time with regard to the items on the agenda, in order to provide the Board with any information or details requested for resolutions falling within the powers of the Board of Directors.

It is established by practice that all meetings are attended by the Manager responsible for Corporate Financial Reporting of the Company.

The Board's resolutions, even if taken during meetings held by means of telecommunication, are entered in the appropriate register; each minute is signed by the Chairman and by the

regulatory changes concerning the Company and the corporate bodies. In particular, the Board meets on the initiative of the Chairman or the person acting in his or her place in the Company's registered office or in any other place fixed by the letter of invitation (provided it is in Italy or in Countries of the European Union), whenever he or she considers it to be in the company's interests, or when so requested by one of the Chief Executive Officers or by one-fifth of the Directors in office or by at least two statutory auditors. However, the Board may take valid decisions even in the absence of a formal notice, if all its members and all the statutory auditors in office are present.)

¹¹ See Article 2.6.2, paragraph 1, letter c), of the Stock Exchange Regulations.

¹² Pursuant to the Articles of Association (art 14.4), the Board is convened at least 5 days before (or, in case of emergency, at least six hours before) the meeting.

Secretary of the meeting. Any relevant copy and extract not authenticated by a notary are certified as true copy by the Chairman.

In the year 2012, a total of 13 meetings of the Board of Directors were held. The overall relevant proportion of Directors at the meetings was equal to approximately 94.64%. The average duration of the meetings was around 1 hour and a half.

During 2013, at least 4 board meetings are planned as per the calendar published through the press release of January 30, 2013.

* * *

With regard to the performance of possible competing activities by the Directors, bearing in mind that Art. 12.16 of PRELIOS's current Articles of Association state that "*unless resolved otherwise by the shareholders' meeting, the directors are not bound by the prohibition laid down by Art. 2390 of the Italian Civil Code*", it has been established that each Director will inform the Board, at the time of acceptance of the appointment, of any activities carried out in competition with the Company and, subsequently, of any significant change, for the resulting assessments and initiatives.

During 2012, no cases falling under this provision were reported or noted.

4.4. DELEGATED BODIES

Chief Executive Officers

As indicated above, following the resignation on November 13, 2012 of Paolo Massimiliano Bottelli from the office of Director, Chief Executive Officer and General Manager of the Company, the Board of Directors identified the Director, Sergio Iasi, as the new Chief Executive Officer of the Company.

In accordance with the provisions of the Code and in line with best practice, the Board of Directors resolved to:

- delegate all the powers of ordinary and extraordinary administration to the Chief Executive Officer, Sergio Iasi (with the sole exception of (i) matters for which authority may not be delegated pursuant to Art. 2381, paragraph 4, of the Italian Civil Code and (ii) those indicated under Art. 18, paragraph 2, of the Articles of Association), by setting - only for internal purposes in relation with the Board of Directors, and therefore, with no importance in relations with third parties - some maximum limits (according to the type of operation), which, if exceeded, will require the responsibility of the Board of Directors of the Company or the joint signature with the Deputy Chairman, if appointed (in short, with reference to sale and purchase of financial instruments and investments in companies; purchase and sale of real estate; mortgages, loans and credit lines; funding, payments and capital increase operations in favour of investee companies; issue of collateral securities and/or personal guarantees; in general, with a maximum limit of 30 million euro);
- identify Sergio Iasi, in his capacity as Chief Executive Officer, as "*Director in charge of the Internal control and risk management system*", with the tasks of the relevant responsibilities contemplated by the Code of Conduct (Art. 7.C.4.).

The structure of powers defined above, in guaranteeing the centrality of the role of the Board of Directors, is aimed at implementing an appropriate system of powers in line with the Company's business model, with a suitable distribution of responsibilities and able to ensure operational efficacy in a reference market where speed of action is a necessary requirement to be able to make the most of the best business opportunities.

The Chief Executive Officer Sergio Iasi was also:

- identified as the Employer of the Company's subordinate employees, with the associated responsibilities deriving from the Consolidated Law on Safety (both as regards subordinate employees and with reference to construction sites);
- identified as the delegate on environmental and town planning matters (both for work done by the Company at all property units owned or used by it and for property assets of third parties or used by third parties for which the company has acquired mandates);
- designated as the legal representative on the subject of privacy (both with respect to personal data of which the Company is the controller and for those which have been entrusted to the Company by third-party controllers),

with full and unlimited management and spending autonomy. The relating functions were delegated - in compliance with the applicable regulations - to the persons in charge of specific operational areas, with the necessary requirements.

Finally, in line with the recommendations of the Code (Art. 2.C.5), note that the Chief Executive Officer holding office is not a director of another issuing company whose Chief Executive Officer is a Director of the Company (the so-called interlocking directorate).

Chairman

A Chairman is appointed within the Board, if he or she has not already been appointed by the Shareholders' Meeting, together with one or more Deputy Chairmen. In the absence of the Chairman, meetings are chaired, in order, by the Deputy Chairman and Chief Executive Officer, if appointed, by a Deputy Chairman or by a Chief Executive Officer; if there are two or more Deputy Chairmen or Chief Executive Officers, meetings are chaired by the most senior member. The Board appoints a Secretary who need not be one of its members.

The current Chairman, Marco Tronchetti Provera - in line with international and community best practice, adopted also by the Code (Art. 2.P.4.) - has not been assigned managerial powers and is therefore classified as a "non-executive director", pursuant to Article 2 of the Code, but "non-independent" (pursuant to Art. 3 of the Code) in view of the office of Chairman, with operational powers, held in Camfin S.p.A. and the interest held in the said Camfin S.p.A., the Company's first reference shareholder.

Deputy Chairman

The Board of Directors, on December 3, 2012, also resolved to appoint Enrico Parazzini (subject to the removal of the office of the Managing Director Finance and of the powers conferred) Deputy Chairman of the Board of Directors, entrusting him with the task of following the development of the Extraordinary Transaction.

Disclosure to the Board

As provided for in Art. 18 of the Articles of Association (which includes, in the wording, the provisions of Art. 150, paragraph 1, of the CFA), the Board of Directors and the Board of Statutory Auditors, without prejudice to cases in which some transactions or activities are initially submitted for approval to the Board of Directors, are recipients of an ongoing and timely information flow, at least once a quarter, on the activities carried out, the general business performance, its foreseeable development and transactions of greatest economic and financial significance carried out by the Company and by subsidiaries, and of atypical, unusual transactions with related parties, or any with a potential conflict of interest, providing all necessary information for an assessment of the transactions themselves.

In order to facilitate ordered organisation of the information flow, since 2002 the Company has adopted a suitable Procedure (*“Procedure for fulfilment of obligations referred to in Art. 150, paragraph one, Italian Legislative Decree no. 58 of 1998”*) which defines the rules to be followed for the quarterly fulfilment of the disclosure obligations referred to in the aforesaid Art. 150 of the CFA, on the activities carried out by the Executive Directors, both exercising the powers conferred on them and within the scope of execution of transactions resolved by the Board itself, and more generally on the activities carried out.

In this connection, on March 4, 2011, following a favourable opinion of the Internal Control and Corporate Governance Committee, the Board of Directors duly adapted the Procedure (now renamed *“Procedure on information flows to directors and auditors”*), to take into account the adoption (on November 3, 2010) of the independent procedure on transactions with related parties described below.

The full wording of the Procedure on information flows to directors and auditors is available on the Company’s website, in the Corporate Governance section.

4.5. OTHER EXECUTIVE DIRECTORS

In Article 2.C.1. the Code defines cases in which a director should be classified as an “executive director”.

In the light of the aforesaid definition, the Board considered that, in addition to the Chief Executive Officer, Sergio Iasi, the Deputy Chairman, Enrico Parazzini, must also be considered as executive in relation to the activity carried out as Managing Director Finance and currently as Deputy Chairman, by virtue of the specific mandate assigned.

4.6. INDEPENDENT DIRECTORS

In Article 3.C.1., the Code defines cases in which a director should be classified as an “independent director”.

In the light of the aforesaid definition, on the occasion of appointment of each director concerned, the Board considered that 8 Non-Executive Directors (Giuseppe Angiolini, Marina Brogi, Carlo Emilio Croce, Giovanni Fiori, Valter Lazzari, Dario Trevisan, Giorgio Valerio and Giovanni Jody Vender) are classifiable as Independent Directors.

It follows that Independent Directors represent the majority of Directors in office (8 out of a total of 13 members of the Board).

The Board of Directors, at the meeting immediately following its appointment, verified existence of the independence requirements provided for in the Code for the aforementioned Independent Directors, and considered also the further requirements pursuant to Art. 147-ter, paragraph 4, of the CFA. The result of these assessments was disclosed to the market.¹³

In compliance with the 3.P.2 principle of the Code, the said verification is carried out every year by the Board of Directors, the result of which is disclosed as part of the annual Report. The last verification was carried out by the Board on March 27, 2013.

Note that, with reference to the Director Dario Trevisan, the evaluation to confirm the qualification of independent, despite being the Director of the Company for more than 9 years, was carried out considering: (i) the professional and personal characteristics of the

¹³ Cf. Press Release of April 21, 2011.

Director in relation to his specific activity, (ii) his actual behaviour during the different mandates and (iii) the self-assessment made in this sense by the person concerned, considering also the benefit to the works of the Board and of the Committees in virtue of the considerable experience gained with reference to the activities of the Company and to the business trends. Moreover, the change in the management represented an element of discontinuity liable to strengthen further, in substance, the absence of possible conditions of influence of the autonomy of judgement.

With regard to the procedure adopted, it is noted that (i) the verification took place based on the information howsoever notified to the Board and the specific written declarations made by the interested parties - who undertook to inform the Company immediately in the event of any change compared to what was declared - and that (ii) the Board of Statutory Auditors verified correct application of the assessment criteria and procedures for evaluating independence, providing specific feedback at that said Board meeting.

The Company has always considered fundamental the function of Independent Directors, in order to ensure that the top management and supervisory duties typical of the Board of Directors are carried out effectively.

Owing to their number and respective skills, the independent directors are considered to be adequate in relation to the size of the Board of Directors and the activities carried out by the Company and such as to allow the formation of Committees within the Board of Directors, as indicated by the Code.

It is noted in this connection that the Internal Control, Risk and Corporate Governance Committee and the Remuneration Committee are both made up of independent directors only.

Note that, in line with the recommendations of the Code (Art. 3.C.6.), a meeting of the Independent Directors was held during the financial year, on February 2, 2012, in which the main innovations of the new Code of Conduct and the most important aspects of governance of the Company have been dealt with, in particular.

4.7. LEAD INDEPENDENT DIRECTOR

In order to take full advantage of the role of the Independent Directors, on March 9, 2006 the Board resolved to introduce the figure of Lead Independent Director.

Although the conditions provided for in the Code had not been fulfilled¹⁴, it was considered appropriate to appoint this figure - identified as the Chairman of the Internal Control, Risk and Corporate Governance Committee, Dario Trevisan - as a contact person and coordinator of the requests and contributions of the independent directors.

The Lead Independent Director may also convene - autonomously or at the request of other Directors - specific meetings of only Independent Directors (the so-called Independent Directors' executive sessions) to discuss matters considered to be of interest each time with regard to performance of the Board or management of the company.

¹⁴ The Application principle 2.C.3 states that: *The Board of Directors appoints an independent director as lead independent director, in the following cases: (i) if the chairman of the board of directors is the chief executive officer of the company; (ii) if the office of the chairman is held by the person that controls the issuer.*

5. HANDLING OF CORPORATE INFORMATION

Confidential information, with particular reference to inside (i.e. “price-sensitive”) information, is handled directly by the Chief Executive Officer and with the support of the competent company departments.

External notification of documents and information relating to the Company and its subsidiaries is carried out, again in agreement with the Chief Executive Officer, by the Secretary of the Board of Directors and by Corporate Affairs and Company Secretary (for notifications to the Authorities and to the shareholders), by the Communication Department (for press releases) and by the Investor Relations Department (for notifications addressed to institutional investors and financial analysts).

The Chief Executive Officer and the managers of the aforesaid departments are constantly able to link together in order to deal with any urgent external communication requirement.

For external notification of documents and information, constant reference is made to the laws and regulations in force on corporate disclosure and press releases are drawn up in accordance with the prescriptions of Borsa Italiana (Italian Stock Exchange), which has set the criteria for defining the structure and the minimum content thereof.

Moreover, taking into account the provisions resulting from transposition in Italy of the Community Directives on market abuse, on March 9, 2006 the Board adopted a specific “Procedure for management and disclosure to the public of inside information”, whose wording is available on the Company’s website, Corporate Governance section.

This Procedure, subsequently updated by the Board of Directors also in the light of the application experience gained, defines:

- requirements and responsibilities for the classification of inside information;
- procedures for tracing access to inside information;
- instruments and rules on the protection of confidentiality of inside information;
- operating provisions on communication to the market of inside information and on the times of communication to the public and/or to analysts/investors. Pursuant to Article 115-bis of the CFA, the aforesaid Procedure provides for the keeping of a specific “Register of persons having access to inside information”, fixing the relevant criteria for keeping it and the method of processing and searching for data, which is handled electronically.

With specific reference to the legal provisions on Internal dealing, it is noted that the Company has:

- (i) identified in the Company’s so-called Key Managers the relevant persons bound by the disclosure obligations, being deemed to mean key managers such as the General Managers or other persons specifically identified, each time, by the Board of Directors based on the position held;
- (ii) introduced, in the absence of legal or regulatory requirements, the provision for a so-called black-out period, which involves for the relevant persons referred to in point i) above refraining from performing transactions on shares issued by the Company, or other financial instruments connected with them, and on other listed financial instruments issued within the scope of the PRELIOS Group, during the 20 days preceding the circulation of periodic accounting figures.

Finally, the Company has sent specific notification to the aforesaid relevant persons, bound by the disclosure obligations, to provide all necessary information to fulfil such obligations, also drawing up a suitable “*Memorandum on Internal dealing*”, and has identified the

Corporate Affairs and Company Secretary as the contact for the “relevant persons” for any need on the matter and as the recipients of notices relating to transactions to be subsequently reported to the market.

6. INTERNAL BOARD COMMITTEES

(pursuant to Art. 123-bis, paragraph 2, letter d), CFA)

Implementing the provisions of the Code (Art. 4) and making use of the right provided for in Art. 19.3 of the Articles of Association, the Company has set up the following Committees within the Board itself:

- Remuneration Committee;
- Internal Control, Risk and Corporate Governance Committee,

having proposing and advisory functions whose composition and operating procedures comply with the provisions laid down by the Code (Art. 4.C.1.).

Note that, on August 28, 2012, the Board redefined the activities and tasks of the “Internal Control and Corporate Governance Committee” (now called “Internal Control, Risk and Corporate Governance Committee”) by assigning it the functions granted to the Risk Committee that, as a result, has been outdated.

For the Committees, rules of procedure and formalities similar to those provided for the Board of Directors have been defined, particularly with regard to the procedure for providing information on matters to be discussed, on operations (formation, resolutions and relevant minutes) and on participation of external persons, always reporting to the Board at its first meeting following the meeting of the Committee itself.

The Committees’ resolutions, even if taken at meetings held by means of telecommunications, are entered in the relevant register; each minute is signed by the Chairman and by the Secretary of the meeting.

7. APPOINTMENT COMMITTEE

The Board has so far not considered it necessary to set up an Appointment Committee within it, considering that – as provided by the 4.C.2 principle¹⁵ of the Code – the Independent Directors represent the majority of the Board of Directors holding office and in view of the ownership structure and the capacity of the list vote to ensure a transparent procedure for the selection and appointment of candidates. Therefore, the relevant functions were reserved for the entire Board that can make use of the support of the “Internal Control, Risk and Corporate Governance Committee”.

¹⁵ The Application principle 4.C.2 states that: “*The establishment of one or more committees may be avoided reserving the relevant duties to the entire board, coordinated by the chairman and provided that: (i) the independent directors represent at least half the board of directors, rounding down to the nearest unit if the board is made up of an odd number of people; (ii) adequate room is given, at board meetings, to performance of the duties that the Code assigns to the said committees and an account of this is provided in the report on corporate governance; (iii) limited to the control and risks committee, the issuer is not controlled by another listed company, or subject to management and coordination. The board of directors illustrates in detail in the report on corporate governance the reasons behind the decision not to establish one or more committees; in particular, it will provide adequate reasons for the decision not to establish the control and risks committee in relation to the issuer’s degree of complexity and to the industry in which it works. The board will also proceed regularly to reassess the decision taken*”.

8. REMUNERATION COMMITTEE

In full compliance and indeed reinforcing the recommendations of Art. 6.P.3. of the Code, the Remuneration Committee is composed of 3 Directors, all independent:

- **Giovanni Jody Vender** (Chairman);
- **Carlo Emilio Croce**;
- **Giorgio Valerio**,

in possession of adequate knowledge and experience of accounting and finance or of remuneration policies.

The Board has identified the tasks assigned to the Remuneration Committee in order to make them fully compliant with the provisions of the Code, stating in particular that:

- it will assist the Board in defining a Group Remuneration Policy and the related criteria for its implementation, if adopted;
- it will regularly assess the adequacy, overall consistency and concrete application of the Remuneration Policy and of the related criteria for its implementation, if adopted;
- with reference to directors entrusted with special duties, general managers and key managers, it will formulate proposals to the Board:
 - for their remuneration, in keeping with the Remuneration Policy and the related criteria for its implementation, if adopted;
 - for setting performance targets related to the variable component of such remunerations;
 - for defining any non-competition agreement;
 - for defining any agreement for termination of the relationship also on the basis of the principles laid down in the Remuneration Policy and in the related criteria for its implementation, if adopted;
- it will assist the Board in examining proposals to the Shareholders' Meeting on the adoption of any share-based payment scheme;
- it will monitor application of the decisions adopted by the Board checking that the performance targets set have effectively been achieved;
- it will examine and submit to the Board an annual remuneration report that, by name, for members of administration and auditing bodies, for general managers and in an aggregate form for key managers:
 - provides an adequate picture of each of the items making up the remuneration in keeping with the Remuneration Policy;
 - illustrates in detail the fees paid during the financial year for any reason and in any form by the company and its subsidiaries and/or associates.

The Board of Directors has also assigned the Remuneration Committee a specific duty to give its opinion on remuneration matters pertaining to transactions with parties related to the Company in accordance with the specific procedure adopted by PRELIOS indicated below.

As regards the work of the Remuneration Committee, it is envisaged that it will meet every time its Chairman considers it appropriate, or when a request is made by at least one member,

by the Chairman of the Board of Directors or, if appointed, by the Chief Executive Officer and in any case as often as is adequate for the correct performance of its duties.

The Secretary of the Board of Directors acts as Secretary of the Committee.

Normally, meetings of the Committee are convened with a notice sent, also by the Secretary, on the instructions of the Chairman of the Committee.

The documents and information available (and in any case, that necessary) will be transmitted to all members of the Committee sufficiently in advance for them to express an opinion at the meeting, usually at the same time as the notice of convocation.

For Committee meetings to be valid, the majority of members in office must be in attendance and decisions shall be taken by the absolute majority of the members in attendance.

The Board of Statutory Auditors always attends the Committee meetings, along with other Company representatives, if considered advisable, invited each time if useful or necessary for the matters to be discussed.

Pursuant to the recommendations of Art. 6.C.6 of the Code, no Director takes part in Committee meetings at which proposals are made to the Board regarding their own remuneration.

The Committee is provided with adequate financial resources to carry out its duties, with full spending autonomy.

In carrying out its duties, it may avail itself of external consultants after checking that there are no situations such as might compromise the independence of their judgements.

The Committee has the right to access the Company information and departments necessary to perform its duties, making use to this end of the Secretary's support.

In 2012, five meetings were held, attended also by the Board of Statutory Auditors. They lasted an average of around one hour each.

For the relevant proportion of the members of the Committee at the meetings, reference is made to Table 1.

During these meetings, the following main subjects were examined and assessed, submitting the relevant proposals to the Board:

- the Remuneration Report, prepared in compliance with the provisions laid down by law and/or regulations and broken down as follows: (i) Remuneration Policy subsequently approved by the Board and submitted to the advisory vote of the Meeting of April 17, 2012 that approved the 2011 Financial Statements; (ii) Statement of remuneration for the 2011 financial year of members of administrative and auditing bodies, general managers and key managers. The said Report is published on the Company's website;
- variable, annual and multi-annual incentive criteria, for management and the reasons for which they were not adopted;
- the remuneration package relating to the Chairman and Chief Executive Officer on the occasion of their respective appointments as well as the agreements reached with Paolo Massimiliano Bottelli (former Chief Executive Officer and General Manager of the Company) following the resignation on November 13, 2012, also on the basis of a special benchmark and opinion prepared by specialised independent consultants/professionals in this field.

In 2013 and until the Date of the Report, the Remuneration Committee held one meeting.

9. DIRECTORS' REMUNERATION

In the last few years – also following the financial crisis on the markets – the subject of the remuneration of Directors of listed companies (especially those with executive functions) has been under more and more scrutiny on the part of regulators, both at the national level and in terms of international coordination, with a view to extending shareholder involvement in defining remuneration policies and strengthening the transparency of the contents of such policies and their actual implementation.

There have been several Community initiatives at European level, in particular through the issue of Recommendations over the years, which have been transposed for the most part, first through self-regulation and secondly through the initiation of a legislative process on the matter.

As already indicated in the Report for the 2011 financial year, in compliance with the provisions of Art. 123-ter of CFA, the Board of Directors: on March 2, 2012, following a favourable opinion of the Remuneration Committee, approved the Remuneration Report, inclusive of the Remuneration Policy submitted later to the advisory vote of the Shareholders' Meeting of April 17, 2012, which approved the 2011 Financial Statements as well.

Moreover, it should also be noted that the Company - in accordance with the provisions of the Code as well - had already, at the Board meeting held on November 11, 2011, approved a General remuneration policy compliant with the requirements of the Code. This was subsequently revised and integrated into the wider Remuneration Report now required by provisions of the law and regulations.

With specific reference to the 2012 financial year, the Board of Directors on March 27, 2013, following a favourable opinion of the Remuneration Committee, approved the Remuneration Report broken down in two sections, and mainly shows:

- a) the Company's Policy for the remuneration of the members of the administrative bodies, general managers and key managers, in addition to the procedures used to adopt and implement said policy. The Policy, pointing out the changes compared to the one approved in the previous financial year, will be submitted to the advisory vote of the Shareholders' Meeting for the approval of the 2012 Financial Statements;
- b) the Statement of remuneration for the 2012 financial year of the members of the administrative and auditing bodies, general managers and key managers, providing a suitable representation of each of the items that make up the remuneration, by showing their consistency with the Policy approved in the previous financial year and providing a detailed breakdown of the fees paid for any reason and in any form by the Company and by its subsidiaries and/or associates.

The aforementioned Remuneration Report is published on the Company's website in the corporate governance section.

General remuneration policy.

As mentioned above, the Board of Directors on March 27, 2013, following the favourable opinion of the Remuneration Committee, approved the Remuneration Report to be submitted to the Shareholders' Meeting for the approval of the 2012 financial statements.

In referring readers for all further details to the said Report published on the website, it should be noted that the Remuneration Policy it contains is aimed at attracting, motivating and retaining resources in possession of the professional qualities required to pursue effectively

the PRELIOS Group's objectives.

The Policy has been defined in order to align the management's interests with those of the shareholders pursuing the primary objective of sustainable value creation in the medium-long term, through a link between individuals' and the Group's remuneration and performance. In particular, it defines the guidelines in keeping with the criteria indicated below:

- a. the fixed component and the variable component are adequately balanced in accordance with the Company's strategic objectives and risk management policy, taking into account also the business segment in which it works and the features of the business activities actually carried on;
- b. maximum limits are envisaged for the variable components;
- c. the fixed component is sufficient to remunerate the director's services if the variable component is not paid owing to failure to achieve the performance targets;
- d. the performance targets are pre-set, measurable and linked to value creation for shareholders over a medium/long-term horizon;
- e. payment of a significant portion of the variable component of the remuneration (if multi-annual incentive systems are in place) is deferred by an adequate time lapse with respect to the moment of accrual; the amount of this portion and the duration of deferment are in keeping with the features of the business activities carried on and with the associated risk profiles;
- f. any indemnity envisaged for early termination of the administration or employment relationship, or owing to its non-renewal, is defined following the provisions of case laws on the matter and in line with the reference benchmarks and best practices on the matter and, therefore, also in such a way that its total does not exceed a certain amount or a certain number of years of remuneration.

Share-based remuneration schemes.

At the Date of the Report, no Share-based remuneration schemes are in being.

Remuneration of Executive Directors.

As specified in the Remuneration Report, to which the reader is referred, the remuneration of directors vested with special duties may be made up of the following elements:

- a Fixed Component (gross fixed annual fee);
- an Annual Variable Component (annual variable incentive, the so-called MBO);
- a Multi-annual Variable Component (multi-annual variable incentive, the so-called LTI);
- Company benefits generally provided for Managers, in accordance with the policies adopted.

In determining the remuneration of its individual members, the Board of Directors takes into account whether the director entrusted with special duties has also been given specific management powers (executive directors).

In general, the total remuneration provides for a balance between fixed and variable elements, which take into consideration the Company's strategic objectives and risk profile, with respect to the industry in which Prelios operates and with the features of the business carried on. As a general rule, it is the Group's policy to set the fixed component of remuneration not to exceed 50% of total target remuneration.

If directors entrusted with special duties are not vested with specific powers, their remuneration will not include a variable component, but only a fixed component.

Remuneration of key managers

At least once a year, the Board of Directors, with the assistance of the Internal Control, Risk and Corporate Governance Committee, checks whether other “key managers” meet the requirements to be classified as such and whether such requirements continue to be met by those already classified as such, within the Company and/or the Group. In general, those appointed to the position of General Manager are always considered key managers.

Generally speaking, the remuneration of key managers consists of the following components:

- a Fixed Component (gross annual fixed remuneration, the so-called GAR);
- an Annual Variable Component (annual variable incentive, the so-called MBO);
- a Multi-annual Variable Component (multi-annual variable incentive, the so-called LTI);
- Company benefits, according to the policies adopted.

In general, as for directors vested with special duties, also for key managers total remuneration involves a balance between fixed and variable elements, which take into consideration the Company’s strategic objectives and risk profile, with respect to the industry in which Prelios operates and with the features of the business carried on. As a general rule, it is the Group’s policy to set the fixed component of remuneration not to exceed 50% of total target remuneration.

Incentive mechanisms for the Head of Internal Audit and the Manager Responsible for Corporate Financial Reporting

In keeping with the provisions of the Remuneration Policy, the incentive mechanisms for the Head of Internal Audit and the Manager Responsible for Corporate Financial Reporting are consistent with the tasks assigned to them.

The remuneration structure of the Head of Internal Audit was defined, in keeping with the Remuneration Policy, by the Board of Directors on the proposal of the director in charge of the internal control and risk management system and after hearing the favourable opinion both of the Internal Control, Risk and Corporate Governance Committee and of the Board of Statutory Auditors. (Art. 7.C.1 of the Code).

With particular reference to variable incentives, it should be specified that these do not depend on economic and financial indicators, but instead on determination and calculation mechanisms based on qualitative rather than quantitative criteria.

The remuneration structure of the Manager Responsible for Corporate Financial Reporting is in keeping with the tasks assigned to him.

Remuneration of non-executive directors.

In line with the Remuneration Policy, the fees of non-executive Directors are made up only of a gross annual fixed component as no variable component is provided for.

Non-executive directors are not rewarded with financial-instrument-based incentive plans.

*

In accordance with the provisions of the Code, the aforesaid Directors’ remuneration is considered suitable - and in line with that applied by the market in similar situations - as well as sufficient to attract, keep and motivate directors equipped with the professional qualities required to manage the Company successfully.

Directors' indemnity in the event of resignations, dismissal or termination of employment following a takeover bid (pursuant to Art. 123-bis, paragraph 1, letter i, CFA).

The Chief Executive Officer, Sergio Iasi, is entitled, in the event of early termination of the office at the Company's initiative - without prejudice to the cases of removal from the office due to just cause governed by the law - or in case of non-renewal upon termination, early or otherwise, a gross all-inclusive indemnity equal to: (i) a fixed or variable annual fee, until 4 months after appointment as Chief Executive Officer, and (ii) two fixed and variable annual fees, after such period. Moreover, this indemnity pertains to the Chief Executive Officer also if the latter resigns due to just cause.

The variable fee would be calculated with reference to the amount received in the previous year on the effective date of termination, upon the occurrence of the related assumptions and without prejudice to the cases of removal from the office due to just cause governed by the law

The above was evaluated, also on the basis of a special "Remuneration benchmark for the position of Chief Executive Officer" prepared by Hay Group, company specialised on remuneration.

It is specified that the acknowledgement of an agreement that pays the salary in advance in case of termination of the employment is in compliance with the "Remuneration Policy" approved, pursuant to the law, by the Company. In fact, Sergio Iasi has the professional requirements and solid experience gained also in business turnaround processes and in the property sector

For more details, see in this regard the "Remuneration Report" for the 2012 financial year published on the Company's website in the corporate governance section.

No specific agreements contemplating fees for non-competition commitments, the maintenance of non-monetary benefits or the signing of consultancy contracts for a period following the termination of the employment relationship are expected.

10. INTERNAL CONTROL, RISK AND CORPORATE GOVERNANCE COMMITTEE

The Internal Control, Risk and Corporate Governance Committee - with a reinforcing provision compared to what is recommended by Art. 8.P.4. of the Code - is currently made up of 4 Directors, all independent:

- **Dario Trevisan** (Chairman);
- **Marina Brogi**
- **Giovanni Fiori**
- **Valter Lazzari**

three of whom having adequate experience in accounting and financial matters.

As indicated above, on August 28, 2012, the Board redefined the activities and tasks of the "Internal Control and Corporate Governance Committee" (now called "Internal Control, Risk and Corporate Governance Committee") by assigning it the functions granted to the Risk Committee that, as a result, has been outdated.

On this occasion, the “governance” model on risk management was specified and strengthened as well; this model contemplates - in addition to the Board of Directors and the Internal Control, Risk and Corporate Governance Committee - the activity of the “Managerial Risk Committee” that assists and supports the “*Director in charge of the Internal control and risk management system*”, and the Risk Officer, who coordinates the assessment process and the actual implementation of the adopted business plans

The Board determined the tasks and related operating rules of the Committee, in full compliance with the provisions of the Code, envisaging that it has the mission to guarantee, with an appropriate investigation on the system of governance of risks, the efficiency, effectiveness and correctness, on the one hand, of the internal control system and, on the other, of the corporate governance structure in general.

Regarding internal control and risk management, the Committee:

a. expresses its own opinion and/or sets forth its proposals to the Board of Directors when the latter:

- defines the guidelines of the internal control and risk management system;
- evaluates, at least every year, the adequacy and efficiency of the internal control system in compliance with the assumed risk profile;
- approves, at least every year, the work plan prepared by the Head of Internal Audit, after hearing the board of statutory auditors and the Director/s in charge of the Internal control and risk management system;
- describes, in the corporate governance report, the main characteristics of the internal control and risk management system, evaluating its adequacy;
- evaluates, after hearing the board of statutory auditors, the results reported by the external auditors in the suggestion letter, if any, and in the report on basic issues emerged during the external audit;
- appoints and removes - on the proposal of the Director/s in charge of the Internal control and risk management system and after hearing the board of statutory auditors - the Head of Internal Audit, making sure that he has the adequate resources to carry out his responsibilities, and defines his remuneration in compliance with the remuneration policy adopted by the Company.

If the Director/s in charge of the Internal control and risk management system is/are vested with the operational powers, the proposals related to the appointment, removal or remuneration of the Head of Internal Audit must be shared with the Chairman of the Board of Directors, in that he is not in turn vested with the operational powers;

b. when supporting the Board of Directors:

- evaluates, assesses, together with the Manager Responsible for Corporate Financial Reporting after hearing the external auditor and the board of statutory auditors, the adequacy of the accounting principles used and their homogeneity for the purposes of preparing the consolidated financial statements;
- expresses its own evaluation:
 - a) in regularly identifying and assessing, at least once a year, the most significant risks affecting the company and its subsidiaries so as to ensure that they are correctly monitored (annual risk assessment);

- b) in defining and, at least once a year, regularly updating the mitigation plans and in general the “risk governance” (annual risk management plan) in order to maintain the levels of exposure to total risk below the threshold assessed by the Board of Directors, on the proposal of the Committee itself, as “acceptable” (the so-called risk appetite);
- examines the regular reports covering the evaluation of the internal control and risk management system, and those of particular relevance prepared by the internal audit department;
 - monitors the independence, adequacy, effectiveness and efficiency of the internal audit department;
 - it can ask the internal audit department to carry out inspections on specific operational areas, by informing at the same time the Chairman of the Board of Statutory Auditors;
 - refers to the Board of Directors, at least on a half-yearly basis, upon approval of the annual and half-yearly financial statements, on the activities carried out and on the adequacy of the internal control and risk management system.

The Committee is informed:

- by the “*Director in charge of the Internal control and risk management system*”, of issues and problems in the carrying-out of its work or of which he was informed, so that the Committee can take appropriate actions;
- by the Manager Responsible for Corporate Financial Reporting on the work done at least on a yearly basis.

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Regarding corporate governance, the Committee:

- monitors observance and periodic updating of the corporate governance rules and observance of any principle of conduct adopted by the Company and by its subsidiaries;
- proposes methods and timings for carrying out the annual self-assessment of the Board of Directors;
- proposes applicants to the Board for co-opting if an Independent Director is replaced;
- carries out an investigation in order to prepare a succession plan for executive directors, if adopted by the Board of Directors.

The Committee, finally, has been assigned the responsibilities of the “*Committee for Related Party Transactions*” - within the limits set by the current legislative and regulatory provisions and by the Procedure for Related Party Transactions adopted by the company as described below - with reference to related party transactions, of the Company or its subsidiaries, with the sole exception of questions concerning remuneration of directors and key managers that are the responsibility of the Remuneration Committee.

In this regard, the Committee:

- assesses regularly (and in any case at least every three years) any change to the Procedure for Related Party Transactions, providing opinions on the subject to the Board of Directors;

- for Transactions of Greater Significance, has the right to request information and formulate observations to the persons appointed to conduct negotiations or arrange transactions;
- in the case of related party transactions of Greater or Lesser Significance, formulates reasoned opinions on the Company's interest in performing the transaction and on the convenience and substantial correctness of their conditions, on the proposal to adopt "Framework Resolutions of Greater Significance" and of "Framework Resolutions of Lesser Significance".

As regards the work of the Committee, it is envisaged that it will meet every time its Chairman considers it appropriate, or when a request is made by at least one member, by the Chairman of the Board of Directors or, if appointed, by the Chief Executive Officer and in any case as often as is adequate for the correct performance of its duties.

The Secretary of the Board of Directors acts as Secretary of the Committee.

Normally, meetings of the Committee are convened with a notice sent, also by the Secretary, on the instructions of the Chairman of the Committee.

The documents and information available (and in any case, that necessary) will be transmitted to all members of the Committee sufficiently in advance for them to express an opinion at the meeting, usually at the same time as the notice of convocation.

For Committee meetings to be valid, the majority of members in office must be present and decisions are taken with an absolute majority of the members present.

Committee meetings are attended as a rule by the Board of Statutory Auditors and, if it is considered advisable, by other Company representatives invited each time if useful or necessary for the matters to be discussed, including the Head of Internal Audit and the Manager Responsible for Corporate Financial Reporting.

In this connection, with the entry into force of the Consolidated External Audit Act, in order to enable the Company's Board of Statutory Auditors to best perform its supervisory role based on the new responsibilities provided by the said regulation, the Board of Statutory Auditors and the Internal Control, Risk and Corporate Governance Committee also deal with the following specific matters, at the respective Committee meetings and observing the responsibilities and tasks assigned to them:

- the financial disclosure process;
- effectiveness of the internal control, internal audit and risk management systems;
- the external audit of the annual accounts and consolidated accounts;
- independence of the independent auditors.

The Committee - which in performing its duties may make use of external advice - is provided with adequate financial resources to fulfil its tasks, with full spending autonomy.

The Committee has the right to access the information and company departments necessary to perform its duties, making use to this end of the Secretary's support.

In 2012, 9 meetings - attended also by the Board of Statutory Auditors - were held, lasting on average for approximately one hour and a half. For the relevant proportion of the members of the Committee at the meetings, reference is made to Table 1. During such meetings, the following matters, among others, were examined and assessed:

- the impairment test in relation to the 2011 draft financial statements and their compliance with the prescriptions of the IAS 36 accounting standard;
- the interim impairment test, carried out voluntarily and out of prudence, as at September 30, 2012;
- the guidelines of the new 2013 – 2016 Strategic Plan;
- updates of the Organisational Model pursuant to Italian Legislative Decree 231/2001 as a consequence of the recent laws with particular reference to environmental crimes, and of further improvements and refinements deriving from the experience gained in the practical application of the Model, in order to ensure that it was capable of fulfilling with ever-increasing effectiveness the purposes for which it was designed with specific reference to mapping and identifying areas of risk and the associated monitoring procedures;
- the proposed amendments to the Articles of Association following regulatory provisions;
- the new regulations introduced by the so-called “Salva Italia” Law Decree, carrying out the required inspections on the so-called interlocking - which contemplates a system of incompatibility of offices among competing companies or groups of companies working in the credit, insurance and financial market - by excluding, also on the basis of opinions acquired, the possibility to apply the regulations to PRELIOS;
- the state of compliance with respect to the Code of Conduct for listed companies of Borsa Italiana (Italian Stock Exchange) (2006 edition) and the amendments made to it by the new Code considering the proposed adjustment measures to be implemented within the 2012 financial year;
- the results of the work done in 2011 by the *Key2People* company in the area of Board Performance Evaluation and the evaluation methods for the 2012 financial year;
- the possibility of not adopting a succession plan for executive directors, considering the importance of the Extraordinary Transaction and of the consequent effects that may be expected on the current shareholdings of the Company and, in general, on the company organisation also with reference to management;
- the investigation concerning the annual verification of the existence of the independence requirements of the Directors;
- the variable remuneration for 2011 of the Head of Internal Audit, based on the remuneration structure defined by the Board;
- the inspections carried out by the Bank of Italy at the subsidiary Prelios SGR and consequent developments on the basis of the communications received regularly from the said subsidiary, which began to introduce the improvements indicated by the Supervisory Board. In this regard, the Committee supports PRELIOS’s Board in the work of continuously monitoring implementation of the measures communicated to the Bank of Italy by the subsidiary;
- the main risks and tax subjects of PRELIOS and of its subsidiaries and investees.

As part of its work, the Committee examined and assessed the reports:

- of the Head of Internal Audit on the 2011 financial year and the 2012 Audit Plan, as well as periodic reports on the operations and development of activities;
- of the Manager Responsible for Corporate Financial Reporting on the work done;
- of the independent auditors sent to the Board of Statutory Auditors under the terms of Art. 19 of the Consolidated External Audit Act;
- on Corporate Governance and Ownership Structures for the 2011 financial year and for the first half of 2012;

- on the work done, every six months, by the Committee itself,

The Committee also examined the audit plan for the PRELIOS Group prepared by the independent auditors Reconta Ernst & Young for the 2012 financial year.

The Committee, finally, in its capacity as “*Committee for Related Party Transactions*” examined and assessed related party transactions including, in particular: (i) the signing of a lease agreement with Pirelli & C. S.p.A. (a related party of the Company) of a property called “R&D” that will become the new premises of the Company; (ii) the development of the Extraordinary Transaction, in relation to the involvement of the financial backers of Prelios - and therefore of Pirelli & C. S.p.A. - in anticipation of a review of the financial structure - and relating terms and conditions - of the corporate debt of Prelios, which completes the requirements for a related party transaction of “Greater Significance”.

Moreover, note that the “*Committee for Related Party Transactions*” was the recipient of an ongoing and timely information flow on the Extraordinary Transaction, in relation to the involvement of the financial backers of Prelios - and therefore of Pirelli & C. S.p.A. as well - in anticipation of a review of the financial structure - and relating terms and conditions - of the corporate debt of Prelios.

Since, with reference to Pirelli & C. S.p.A., the debt restructuring agreement of the loan granted by it completes the requirements for a related party transaction of “Greater Significance”, pursuant to the Procedure on the matter adopted by the Company, the “*Committee for Related Party Transactions*” examined the mentioned transaction in several meetings in which the relevant updates were provided by the persons appointed to conduct negotiations in order to allow the “*Committee for Related Party Transactions*” itself to express its own binding opinion on the convenience and substantial correctness of their conditions, issued, without abstentions or unfavourable votes, on March 14, 2013 and further confirmed on March 27, 2013.

For further details, refer to the Prospectus ¹⁶ published on the website.

In 2013 until the Date of the Report, the Internal Control, Risk and Corporate Governance Committee held 4 meetings.

Finally, note that the Risk Committee, before being eliminated, held 3 meetings - attended also by the Board of Statutory Auditors - during which the Committee followed the risk assessment activity, by examining, considering the scenario of reference, the main business risks in order to manage them in terms of prevention and mitigation with respect to the achievement of company objectives. Subsequently, also considering (i) the absorption of the Risk Committee in the Internal Control, Risk and Corporate Governance Committee; (ii) the concentration of the importance of risks within the development of the Extraordinary Transaction and (iii) the considerable frequency of the board meetings, averaging more than one per month, the monitoring, analysis and management of risks was carried out at the level of the Board of Directors, as well.

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In addition to the information provided above with regard to the specific operation of the Internal Control, Risk and Corporate Governance Committee, the Company’s internal control

¹⁶ Prospectus drawn up pursuant to the “*Regulations on Related Party Transactions*” adopted with Consob Resolution no. 17221 of March 12, 2010, as subsequently modified by Consob Resolution no. 17389 of June 23, 2010 and of the RPT Procedure.

system is structured to ensure correct information and adequate “coverage” of control over all the activities of the PRELIOS Group, with special emphasis on the areas considered to be potentially at risk.

Responsibility for the internal control system falls upon the Board, which fixes the guidelines and periodically checks the adequacy and effective operation thereof, so that the main risks relating to the Company and its subsidiaries are correctly identified and adequately measured, managed and monitored, (as indicated in the related Annexe 1, with a special reference to the risk management and internal control system relating to the financial reporting process) by also determining the degree of compatibility of such risks with the management of the company in line with the identified strategic objectives. In 2012, this activity has been carried out and monitored with a special attention to the overall financial structure and the level of sustainable debt.

To this end, the Board has chosen one of its members as “*Director in charge of the Internal control and risk management system*” and avails itself of the Internal Control, Risk and Corporate Governance Committee.

The Board also set up an Internal Audit Department and chose its manager charged with checking the operation and adequacy of the system.

The Committees and the Head of Internal Audit interact with the Board of Statutory Auditors and the appointed independent auditors, exchanging information on the respective activities carried out, for the purposes of more efficient operation of the internal control system.

The Board evaluates, after hearing the Board of Statutory Auditors, the results reported by the external auditor in the suggestion letter, if any, and in the report on issues emerged during the external audit pursuant to Art. 19 of the Consolidated External Audit Act.

With specific reference to evaluation of the internal control system, within the scope of its activities providing effective protection from the typical risks of the main activities exercised by the Company and its subsidiaries, as well as monitoring the economic and financial situation of the Company and of the PRELIOS Group, it is considered by the Internal Control, Risk and Corporate Governance Committee, also based on the information received from the Board of Statutory Auditors, to be largely adequate and therefore capable of protecting the company’s interests and fulfilling the purposes for which it was set up.

11.1. EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In accordance with the guidelines contained in Art. 7.P.3., let. a), of the Code, the Board appointed the *pro tempore* Chief Executive Officer holding office as “*Director in charge of the Internal control and risk management system*”, and assigned him the tasks described in detail in point 7.C.4. of the said Code - which he carried out, supported by the work of the Internal Control, Risk and Corporate Governance Committee, by the Head of Internal Audit and by the Risk Committee, before it was eliminated - as well as the resulting appropriate/required powers, also for implementing further initiatives and measures necessary for full compliance with the provisions on self-regulation of listed companies.

11.2. HEAD OF INTERNAL AUDIT

The Chief Executive Officer, in agreement with the Board of Directors, performed his duties of implementation, management and monitoring of the internal control system. He also set up

a specific “internal audit department” and appointed as its manager Sergio Romiti, Head of Internal Audit of PRELIOS, who is not responsible for any operating area and reports directly to the Board of Directors.

In particular, on May 4, 2011 - on the proposal of the Director in charge of the Internal control and risk management system and after hearing the favourable opinion of the then Internal Control and Corporate Governance Committee - the Board of Directors appointed the Head of Internal Audit currently in office Sergio Romiti, also defining his remuneration in keeping with the relevant Policy adopted by the Company.

The Head of Internal Audit is assisted by an independent structure with specific experience in the field, as well as adequate financial resources to fulfil its tasks made available, if necessary, without specific limits.

The Head of Internal Audit prepares the “work plan” for the auditing, checks the internal control and risk management system and verifies the reliability of the information systems including the accounting systems. In particular, he checks the observance and efficacy of all the rules, procedures and structures adopted by the Company to achieve the objectives set, liaising with the Corporate Affairs and Company Secretary for appropriate coordination and collaboration within his purview and reporting periodically on his work to the Chief Executive Officer for decisions within his purview, as well as to the Internal Control, Risk and Corporate Governance Committee and the Auditors.

During 2012, the Head of Internal Audit - who has free access to all useful information for the performance of his task and powers to access and request with regard to all company departments - reported periodically on his work to the Director in charge of the Internal control and risk management system and four times to the Internal Control, Risk and Corporate Governance Committee, which has always been attended by the Board of Statutory Auditors and the Manager responsible for Corporate Financial Reporting.

The auditing on the Internal Control System for 2012 was carried out by controlling and evaluating the policies, systems and processes required for the purposes of the above-mentioned position entrusted to the Internal Audit Department.

Based on the results of the verifications carried out and the information made available by the competent company departments, the Head of Internal Audit reported to the Internal Control, Risk and Corporate Governance Committee, in the mentioned meetings, that he has not identified shortcomings that could affect significantly the level of adequacy of the Internal Control and Risk Management System of the Group.

This opinion is also based on the results of the verifications carried out on the subsidiaries submitted to the supervision of the Bank of Italy (i.e. Prelios Società di Gestione del Risparmio S.p.A. and Prelios Credit Servicing S.p.A.) by the independent and autonomous Internal Audit departments, with which the Internal Audit Department of Prelios interacts, without prejudice to the full autonomy of the mentioned departments, in compliance with the regulations in force.

During the work done in 2012, what was determined on a regular basis and the suggestions for measures deemed necessary to the improvement of the Internal Control System were shown in specific auditing reports (sent to the Chairmen of the Board of Statutory Auditors, of the Internal Control, Risk and Corporate Governance Committee, of the Board of Directors as well as to the Director in charge of the Internal control and risk management system).

Such measures were shared by the management with specific action plans that were the subject-matter of follow-ups to make sure that the shared actions were actually implemented,

and the subsequent improvement of the Internal control and risk management system, in order to pursue the objectives of effectiveness and efficiency of operations, information reliability, safeguard of corporate assets and compliance with current legislation.

Among the other activities carried out in 2012, the support activity that the Internal Audit Department provides to the Supervisory Board of Prelios as part of the Organisational Model adopted by the Company pursuant to Italian Legislative Decree 231/2001 (indicated below) is pointed out, in particular and among other things, as a preparation in order to guarantee its constant and efficient implementation also in relation to its updates as required, in accordance with, among other things, the most recent regulatory innovations.

The Head of Internal Audit prepared immediately the reports on particularly important events and carried out the required audits not contemplated by the 2012 inspection plan. In this regard, the following is pointed out, in particular:

- the audit carried out with the purpose of analysing the level of adequacy of the infrastructure of internal controls, in relation to the process of managing information flows to Directors and Auditors with reference to figures and information concerning the Interim Financial Report as at June 30, 2012, without finding any element that may compromise the correct management of information flows;
- the audit carried out following the improper publication of confidential information on the Internet, without finding problems on the control systems concerning the internal management processes of information and the internal processes relating to the IT security system monitoring the phenomena of improper intrusion into the systems of the Prelios Group. In particular, no problems were reported on the internal control infrastructure in force to prevent computer crimes.

The mentioned audits were shown to the Board of Statutory Auditors, to the Internal Control, Risk and Corporate Governance Committee, to the Supervisory Board and reported to the Board of Directors of the Company.

During 2012, the Head of Internal Audit submitted the audit plan scheduled for 2012 to the Internal Control, Risk and Corporate Governance Committee, which was then approved by Board of Directors at the meeting held on March 2, 2012. During the financial year, the state of progress of the audit plan was reported each quarter.

On February 1, 2013, the Head of Internal Audit submitted the audit plan scheduled for 2013 to the Internal Control, Risk and Corporate Governance Committee, which was then approved by the Board of Directors at the meeting held on March 27, 2013 [Art. 7.C.1, letter c), of the Code].

11.3. ORGANISATIONAL MODEL pursuant to Italian Legislative Decree 231/2001

The internal control system is, among other things, reinforced by adoption of a specific organisational model (hereinafter also the “Organisational Model” or “Model”), approved by the Board on July 29, 2003 and subsequently updated several times on March 9, 2007, November 7, 2007, March 6, 2008, November 5, 2008, March 5, 2009, November 4, 2009, March 4, 2011 and March 2, 2012. The Organisational Model is published on the Company’s website, in the Corporate Governance section.

This Organisational Model, which aims to ensure the development of a system modulated on specific requirements determined by the entry into force of Italian Legislative Decree no. 231/2001 concerning the administrative liability of companies for offences committed by

senior or subordinate persons in the interest or for the benefit thereof, takes the form of a complex pyramidal system of principles and procedures that, starting from the base, can be defined as follows:

- Group Code of Ethics, which contains the general principles (transparency, correctness, loyalty) inspiring the development and conduct of business as part of a more general process of sustainable growth ensuring, at the same time, the efficiency and effectiveness of the Internal Control System;
- Internal Control System, i.e. all the processes aimed at providing a reasonable guarantee of achievement of the objectives of efficiency and operational effectiveness, reliability of the financial and operating information, observance of the laws and regulations, and protection of the corporate assets also against possible fraud. The internal control system is based on and classified according to several general principles, specifically defined within the scope of the Organisational Model whose field of application extends across all the different organisational levels (Business Units, Central Departments and Company);
- Lines of conduct, which introduce specific rules in order to avoid the occurrence of environmental situations conducive to the commission of offences in general, including in particular offences pursuant to Italian Legislative Decree 231/2001. Some rules are also specific for managing relationships with representatives of the Public Administration and with third parties in general, and for corporate formalities and activities and communication to the market;
- Internal control plans, which have been prepared for all high- and medium-risk operating processes and instrumental processes. These plans present a similar structure, which is based on a set of rules aimed at identifying the main stages of each process, the specific control activities to prevent reasonably the related offence risks, and specific information flows to the Supervisory Board in order to highlight any situation of non-observance of the procedures laid down in the organisational models. The internal control plans have been prepared in the light of three cardinal rules and more specifically:
 - separation of roles in carrying out activities relating to the processes;
 - the so-called traceability of choices, i.e. constant visibility thereof (e.g. by suitable documentary evidence) to allow identification of specific points of responsibility and reasoning for the choices made;
 - making the decision-making processes more objective, in the sense of envisaging that, in taking decisions, any merely subjective evaluations are disregarded and pre-established criteria are referred to.

The Company has also appointed a Supervisory Board, with independent powers of initiative and control, responsible for monitoring the effectiveness, adequacy, operation and observance of the Model itself, ensuring that it is constantly updated. This Board is currently made up of Dario Trevisan, Independent Director and Chairman of the Internal Control and Corporate Governance Committee; Lelio Fornabaio, Standing Auditor; Sergio Beretta, university lecturer and expert on the subject of corporate controls, and Sergio Romiti, Head of Internal Audit for the Prelios Group. As things stand, the functions of the Supervisory Board were not assigned to the Board of Statutory Auditors, considering it better for its tasks to be carried out by a body working exclusively for these activities and taking into account that the presence among its members of an Auditor ensures the effectiveness of the action and an appropriate coordination with the Board of Statutory Auditors.

The Organisational Model is completed by a section dedicated to transactions carried out

directly by the Company's "senior personnel", a section dedicated to the disciplinary system introduced in order to sanction the non-observance of the measures laid down in the Organisational Model, and a section on disclosure of the Model and the relevant training.

Finally, two annexes are provided: (i) the first on offences pursuant to Italian Legislative Decree 231/2001, providing a brief description of offences that may be of significance to the Company, and some possible means of committing them; (ii) the second contains an illustrative description of Public Administration.

Art. 6 paragraph 2, let. d) of Italian Legislative Decree 231/2001, identifies specific disclosure obligations on the body appointed to supervise operation and observance of the models. This operation is facilitated by systematic and structured reporting on subjects/events at risk, whose significance and analysis constitute the so-called red flag giving rise to checks and investigations by the Body of any irregular situation and/or offence.

The main types of offences that the Model aims to prevent are as follows:

- a. Crimes against the Public Administration:
 - i. Unlawful collection of sums allotted, fraud against the State or a public entity or to obtain public money and computer fraud against the State or a public entity (Art. 24 of Italian Legislative Decree 231/2001);
 - ii. Extortion and corruption (Art. 25 of Italian Legislative Decree 231/2001);
- b. Computer crimes and unlawful processing of data (Art. 24-bis of Italian Legislative Decree 231/2001);
- c. Corporate crimes; (Art. 25-ter of Italian Legislative Decree 231/2001);
- d. Market abuse (Art. 25-sexies of Italian Legislative Decree 231/2001);
- e. Offences of manslaughter or serious or very serious injury committed through infringements of the rules on the protection of health and safety at work (Art. 25-septies of Italian Legislative Decree 231/2001);
- f. Offences of handling, laundering and use of stolen goods, money or benefits of unlawful origin (Art. 25-octies of Italian Legislative Decree 231/2001);
- g. Environmental offences (Art. 25-undecies of Italian Legislative Decree 231/2001).

The Company, in agreement with the Supervisory Board, at the beginning of 2013 started, through appropriate internal structures and with the support of external professionals, a risk mapping activity compared to the new regulation set forth in Art. 25-duodecies (Employment of third-country nationals with unlawful residence permit) and related monitoring, as well as compared to the new predicate offences of Legislative Decree 231/2001 introduced by Law 190/2012 (Provisions for the prevention and repression of corruption and wrongdoing in Public Administration) in order to check the advisability of updating the Organisational Model in keeping with the Company's specific activities.

The Italian subsidiaries of strategic significance all have their own organisational model and supervisory board; for each one, the Supervisory Board was identified by looking for the technical and operational solution that, while observing the mandate and powers reserved for it by the regulations, is adequate for the size and organisational context of each company.

Finally, for the sake of completeness, it is important to note that the Company has also adopted an internal operating rule known as Whistleblowing that regulates a procedure for reporting infringements, suspected infringements and inducement to infringements of laws

and regulations, principles laid down in the Code of Ethics, internal control principles, rules and company procedures.

In particular, this rule, being supplemented and coordinated with the provisions of the Organisational Model pursuant to Legislative Decree 231/2001 adopted by the Company, provides that employees who become aware of potential or real situations of infringement are encouraged to report them immediately, with the guarantee of being fully protected by the utmost confidentiality and of not suffering retaliation of any kind.

The reports may concern directors, auditors, management or employees of the Prelios Group and, in general, all subjects operating in Italy and abroad for the Prelios Group or maintaining business relations with the Group, including auditing firms, partners, customers, suppliers, advisers, collaborators, institutions and public entities.

The analysis and verification of these reports is assigned to the Internal Audit Department, which carries out the relevant activities through a function specifically set up and reporting quarterly to the Internal Control, Risk and Corporate Governance Committee.

11.4. INDEPENDENT AUDITORS

On the reasoned proposal of the Board of Statutory Auditors, the Shareholders' Meeting of April 14, 2008 appointed *Reconta Ernst & Young S.p.A.* to carry out independent audits for the 2008-2016 nine-year period.

Reconta Ernst&Young S.p.A. is the Italian organisation of the *Ernst&Young network* that was also appointed, through the organisations present in the various countries in which the Group operates, to audit the financial statements of the major PRELIOS Group companies.

In order to safeguard the independence requirements of firms appointed to audit the accounts, the Company adopted a specific Procedure that governs the matter coherently in relation to:

- the methods of assigning the external auditing appointment to the independent auditors appointed under the terms of the CFA by PRELIOS;
- the methods of assigning the external auditing appointment by companies controlled by PRELIOS;
- the methods of conferring on the external auditor, or on subjects that are part of its network, any other appointment (Other Audit Services, Audit Related Services and Non-Audit Services) by PRELIOS and its subsidiaries.

For each category of services, conferment powers and limits are set together with procedural methods for approval and obligations to disclose the final data.

It should be noted, finally, that with reference to the subsidiary Prelios SGR, in view of the specific rules to which the same is subject, it has been decided that the Procedure will be applied within the limits of compatibility with the said special rules.

11.5. MANAGER RESPONSIBLE FOR CORPORATE FINANCIAL REPORTING AND OTHER COMPANY ROLES AND POSITIONS

In compliance with the provisions of Art. 154-bis of the CFA and pursuant to Art. 19.4 of the Articles of Association, on November 11, 2011, after hearing the opinion of the Board of Statutory Auditors, the Board appointed Riccardo Taranto (the company's Chief Financial Officer) as the Manager Responsible for Corporate Financial Reporting, who has the integrity requirements laid down for Directors and is an expert in administration, finance and control,

identifying him also as “Key manager” as defined by the *pro tempore* current legislation and regulations and by the Procedures adopted by the Company.

Following the resignation of Riccardo Taranto, on March 27, 2013 the Board appointed, after hearing the opinion of the Board of Statutory Auditors, Angelo Cattaneo – former Administration and Financial reporting Manager – as Manager Responsible for Corporate Financial Reporting, who also has the above-mentioned requirements and expert in administration, finance and control.

The Manager Responsible for Corporate Financial Reporting is assigned certain specific duties and responsibilities by law, summarised below, with regard to specific application to the Company:

- a. to accompany any Company acts and notices disseminated to the market, concerning accounting information, including interim information, on the Company itself, with a written declaration made by him certifying that the information corresponds to the documentary results, books and accounting entries;
- b. to prepare suitable administrative and accounting procedures for preparation of the annual financial statements and the consolidated financial statements and any other financial notice;
- c. to certify, together with the Chief Executive Officer, by means of a suitable report attached to the annual financial statements, the condensed interim financial statements and the consolidated financial statements, (i) the suitability and effective application of the procedures referred to in letter b. above during the course of the period to which the documents relate; (ii) that the documents are prepared in accordance with the applicable international accounting standards recognised in the European Community; (iii) that they correspond with the results in the books and accounting entries; (iv) their suitability for providing a true and fair view of the capital, economic and financial situation of the Company and all the companies included in the consolidation; (v) that the reports on the annual financial statements, the consolidated financial statements and the condensed interim financial statements include the information required by law for such documents;
- d. in performing the duty and tasks assigned, application of the provisions governing the responsibility of the Directors is extended to the Manager Responsible for Corporate Financial Reporting, apart from those measures that may be exercised based on employment with the Company.

The Board of Directors checks that the Manager Responsible for Corporate Financial Reporting has adequate powers and resources for performing the tasks assigned, and actual observance of the administrative and accounting procedures adopted.

During the meeting of the Internal Control, Risk and Corporate Governance Committee held on February 1, 2013, Riccardo Taranto as Manager Responsible for Corporate Financial Reporting reported to the Committee members on (i) suitability of the powers conferred; (ii) suitability and use of the means and resources made available; (iii) declarations and certifications pursuant to Art. 154-bis of the CFA; (iv) adoption, implementation and use of the administrative/accounting procedures; (v) mapping of the company and its processes; (vi) System 262 – 2012 Activity; and (vii) a summary of any critical issue emerging and of the actions taken to overcome the respective problems.

No critical points or issues worthy of in-depth study emerged from the report, demonstrating that the controls overall reflected proper application of administrative/accounting procedures, with improvement and adherence thereto also by subsidiaries operating abroad, as also

confirmed by Angelo Cattaneo, appointed new Manager Responsible for Corporate Financial Reporting, for the work done after Taranto left the Company. The Chairman of the Committee then reported to the Board to that effect.

11.6 COORDINATION BETWEEN THE PARTIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Internal Control and Risk Management System provides an organisational structure consistent in size, nature and complexity of the work done both in terms of definition of roles and assigning responsibilities.

The said System is based on: (i) separation of roles in carrying out the main activities relating to each operating process; (ii) traceability and constant visibility of choices; (iii) the management of decision-making processes based on objective criteria.

The Company contemplated methods of coordination among the different subjects involved in the internal control and risk management system that interact with each other within their respective competences, with a special reference to their attendance to the meetings of the different bodies and to the existing information flow system.

As shown in this Report, the Board has chosen one of its members as “Director in charge of the Internal control and risk management system” and avails itself of the Internal Control, Risk and Corporate Governance Committee, whose meetings are attended, as a rule, also by the Board of Statutory Auditors and the outcome of which the Committee will report to the immediately following board meeting.

The Committees and the Head of Internal Audit interact with the Board of Statutory Auditors and the appointed independent auditors, exchanging information on the respective activities carried out, for the purposes of a more efficient operation of the internal control system.

As a rule, the meetings of the Board and of the Committee are attended also by the Manager Responsible for Corporate Financial Reporting.

12. DIRECTORS’ INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

Significant transactions and transactions with related parties, including intra-group transactions and property transactions, are governed by internal procedures that the Company has adopted in order to guarantee effective correctness and substantial and procedural transparency in order to facilitate, if necessary, full and joint responsibility of the Board of Directors for the relevant decisions.

In particular, it is noted that - following the favourable assessment of the “Internal Control, Risk and Corporate Governance Committee” (in its capacity as “Committee for Related Party Transactions”) - the Board of Directors approved the procedure (including its updates) for transactions with related parties (the “RPT Procedure”) following entry into force of the relevant provisions issued by Consob.¹⁷

In this regard, the choices adopted by the Company are more stringent compared to the mentioned regulations requiring that, in particular and among other things, the opinion of the

¹⁷ Procedure adopted pursuant to and for the purposes of Article 2391-bis of the Italian Civil Code and the “Regulation on transactions with related parties” adopted by Consob with Resolution no. 17221 of March 12, 2010 as amended by Consob Resolution no. 17389 of June 23, 2010 taking into account the instructions and explanations provided by Consob in Notice no. DEM/10078683 of September 24, 2010.

“Committee for Related Party Transactions” is binding also in the case of “Transactions of Lesser Significance”. Moreover, the Company – in reiterating the importance given to the role of the Independent Directors – provided that the Committee asked to express itself on related party transactions must always be composed entirely of Independent Directors.

The Board considered that the established Committees have the responsibilities and requirements provided by the regulations issued by Consob and acknowledged by the RPT Procedure and therefore assigned the responsibilities of the “Committee for Related Party Transactions” to the “Internal Control, Risk and Corporate Governance Committee”, with the exception of responsibilities concerning remuneration of directors and key managers entrusted to the “Remuneration Committee”.

For a more effective and easy identification and subsequent management of situations in which a director – and, in general, a related party – has an interest, on his/her own behalf or on behalf of third parties, the parties concerned are requested, every quarterly, to notify the related parties to the Company through them, which feed a reserved “data bank”, to which reference must be made according to the RPT Procedure before concluding a transaction, in order to check the possible existence of a correlation with the Company, regardless of the notifications by the parties directly involved.

Finally, note that – in accordance with the provisions of the regulations in force – the RPT Procedure is expected to be reviewed at least every three years.

The RPT Procedure is published on the Company’s website, in the Corporate Governance section.

Following entry into force of the aforesaid RPT Procedure, the appropriate and necessary amendments were made to the provisions of the current “*Procedure for fulfilment of the obligations laid down in Art. 150, paragraph one, of Italian Legislative Decree no. 58 of 1998*” (now renamed “*Procedure on information flows to directors and auditors*”) and of the “*Principles of conduct for carrying out transactions with related parties. Principles of conduct concerning property transactions*” (the latter now renamed “*Code of conduct concerning property transactions*”), for which the RPT Procedure already provides suitable rules on coordination.

The aforesaid amendments were approved by the Board of Directors on March 4, 2011, following the favourable assessment of the then Internal Control and Corporate Governance Committee.

Both the aforesaid documents (“*Procedure on information flows to directors and auditors*” and “*Code of conduct concerning property transactions*”) are published on the Company’s website, in the Corporate Governance section.

13. APPOINTMENT OF STATUTORY AUDITORS

The appointment of members of the Board of Statutory Auditors is based on criteria of procedural transparency in accordance with the provisions of Art. 8.P.1. of the Code and provides for the presentation of lists of candidates, in accordance with the provisions of the laws and regulations in force. These principles were incorporated into Art. 22 of the Articles of Association.

The Shareholders’ Meeting elects the Board of Statutory Auditors and determines their fees. Under the terms laid down below, the minority is entitled to elect one Standing Auditor and one Alternate Auditor.

As stated, the Board of Statutory Auditors is appointed on the basis of lists presented by the shareholders in which the candidates are listed by progressive number. Shareholders who, along or together with other shareholders, represent at least 1.5% of the shares with voting rights at the Ordinary Shareholders' Meeting or any lower percentage required by the regulatory provisions issued by Consob¹⁸ are entitled to present a list.

It should be noted that following entry into force of Law 120 of July 12, 2011 (which modified Art. 147-ter of the CFA), from August 2012 onwards, the division of the members of the Board of Statutory Auditors to be elected in listed companies must be done on the basis of a criterion that ensures observance of the gender balance.¹⁹

In this regard, the Extraordinary Shareholders' Meeting of April 17, 2012 approved amendments to the articles of association in order to ensure compliance with this principle.

Note that, in order to enable the compliance with the regulations in force on gender balance, both during the appointment of the Statutory Auditors and in case they are replaced during their mandate, by adopting more flexible criteria in the formation of the lists, further amendments to Art. 22 (board of statutory auditors) of the Articles of Association will be proposed at the next Shareholders' Meeting, compared to what was already resolved on April 17, 2012. On this occasion, considering that Art. 126-bis of the CFA introduced the right of the shareholders who represent at least one fortieth of the share capital to submit further draft resolutions on points already on the agenda (in addition to the right already indicated in the aforesaid article to request, in the cases and within the limits established by law, the inclusion in the list of issues to be discussed at the Meeting), the relevant amendments to article 7 of the Articles of Association will be proposed for an appropriate alignment with the provision.

In this regard, the reader is referred to the Directors' report available on the Company's website, in the Corporate Governance section.

The lists of candidates, signed by the persons presenting them, must be filed at the Company's registered office, available to anyone so requesting, at least 25 days prior to the day fixed for the Shareholders' Meeting in single call.

In addition to the lists, CVs must be provided relating to the personal and professional characteristics of the persons designated, indicating the administration and control offices held in other companies and, without prejudice to any further documents required by the applicable provisions, including any regulatory provisions, declarations in which the individual candidates:

- accept the application;
- certify, under their own responsibility, that there are no causes for ineligibility for election or incompatibility and that the requirements laid down by the applicable provisions, including regulatory provisions, and by the Articles of Association for the position are satisfied.

Any changes occurring up to the day on which the General Meeting is actually held must be duly reported to the Company.

Any list presented without observing the foregoing instructions will be deemed to be not submitted.

¹⁸ Pursuant to art. 144-quarter of the Issuers' Regulation, Consob - with Resolution no. 18452 of January 30, 2013 - set at 4.5% the equity interest applicable to the Company.

¹⁹ With Resolution no. 18098 of February 8, 2012 Consob issued the related implementing regulation amending the Issuers' Regulation.

Each candidate may be included in one list only on pain of ineligibility. The lists are divided into two sections: one for candidates for the position of Standing Auditor and the other for candidates for the position of Alternate Auditor. The first of the candidates in each section must be appointed from those entered in the Register of Statutory Auditors who have carried out the statutory auditing on accounts for a period of not less than three years.

In order to ensure gender balance in compliance with the pro tempore regulations in force, each list presenting a number of candidates for the position of Standing Auditor equal to or greater than three, must indicate, in the first section, the candidate of the least represented gender at the second progressive number and also, in the second section, a candidate of the least represented gender in the same first section.

Any party entitled to vote may vote on one list only.

The members of the Board of Statutory Auditors are elected as follows:

- a) two standing auditors and one alternate auditor are appointed from the list obtaining the highest number of votes (so-called majority list), in the order in which they are listed in the list itself;
- b) the remaining standing auditor and the other alternate auditor are appointed from the list obtaining the highest number of votes at the Shareholders' Meeting after the first (so-called minority list), in the order in which they are listed in the list itself; if several lists obtain the same number of votes, a further ballot is held among such lists by all shareholders present at the Shareholders' Meeting, the candidates on the list obtaining the simple majority of votes being elected.

The Board of Statutory Auditors is chaired by the standing auditor indicated as the first candidate in the list referred to in letter b) of the foregoing section. In the event of the death, relinquishment or forfeiture of an Auditor, the alternate auditor belonging to the same list as the former Auditor takes over, in the order that ensures in any case the observance of the gender balance laid down by pro tempore law and/or regulations in force.

If the Chairman of the Board of Statutory Auditors is replaced, however, his or her position is taken by the candidate elected from the list to which the former Chairman belonged, in the order of the list itself; if it is not possible to make the replacements according to the aforesaid criteria, a Shareholders' Meeting is called to complete the Board of Statutory Auditors resolving by a relative majority.

When, pursuant to the Articles of Association or pursuant to the law, the Shareholders' Meeting has to appoint the Standing Auditors and/or Alternate Auditors necessary to complete the Board of Statutory Auditors, it acts as follows: if the Auditors elected from the majority list have to be replaced, the appointment is made with a relative majority vote without any list limitation, without prejudice in any case to the observance of the gender balance laid down by pro tempore law and/or regulations in force.

If the Auditors elected from the minority list have to be replaced, instead, the Shareholders' Meeting replaces them with a relative majority vote, where possible selecting candidates from the list to which the Auditor to be replaced belonged.

If only one list has been submitted, the Shareholders' Meeting votes thereon; if the list obtains a relative majority, the candidates indicated in the respective section of the list are elected Standing Auditors and Alternate Auditors; the Board of Statutory Auditors is chaired by the person indicated first in the aforesaid list.

For the appointment of Auditors not nominated according to the procedure laid down herein for any reason, the Shareholders' Meeting resolves with the legal majorities, without prejudice in any case to the observance of the gender balance laid down by pro tempore law and/or regulations in force.

14. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (pursuant to Art. 123-bis, paragraph 2, letter d) CFA)

The Company's Board of Statutory Auditors is composed of three Standing Auditors and two Alternate Auditors who must satisfy the requirements laid down by the current rules, including regulatory provisions.²⁰ In accordance with the law, members of the Board remain in office for 3 years and may be re-elected.

Pursuant to Art. 149 of the CFA, the Board of Statutory Auditors has the task of monitoring:

- observance of the law and of the Articles of Association;
- observance of the principles of correct administration;
- adequacy of the Company's organisational structure for aspects falling within its purview, of the internal control system and of the administrative and accounting system and the reliability of the latter in correctly representing the operating events;
- methods for specific implementation of the rules on corporate governance laid down by the Code, which the Company has adopted;
- adequacy of the instructions given by the Company to its subsidiaries with regard to the obligations to report inside information.

Among other things, the Board's tasks include further supervision, including over correct application of the assessment criteria and procedures adopted by the Board to assess the independence of its members (Art. 3.C.5. of the Code).

Finally, it should be noted that the Consolidated External Audit Act further specified and extended the duties of the Board of Statutory Auditors, assigning it the task of supervising the following in its capacity as "*Internal Control and Audit Committee*":

- (i) the financial disclosure process;
- (ii) effectiveness of the internal control, internal audit, if applicable, and risk management systems;
- (iii) the external audit of the annual accounts and consolidated accounts;
- (iv) independence of the external auditor or of the auditing firm, particularly with regard to the provision of non-auditing services.

It is also required to make a reasoned proposal to the Shareholders' Meeting on appointment of the auditing firm, also defining the criteria for possible increases in fees during the course of the mandate.

²⁰ Pursuant to art. 22 of the Articles of Association for matters and sectors closely related to those of the Company, to which reference is made in the choice of members of the Board of Statutory Auditors, those indicated in the Company purpose will be deemed to apply (Article 4 of the Articles of Association), with particular reference to companies or entities operating in the financial, industrial, banking, insurance, property and services field in general.

The Board of Statutory Auditors performs its task exercising all powers conferred on it by law and relying on a constant and detailed information flow from the Company, even outside the periodic meetings of the Board of Directors, and in the context of relations with other entities or subjects with control functions.

In particular, this aspect is specifically implemented, for example, during:

- (i) quarterly checks carried out by the Board of Statutory Auditors, at meetings to which Company representatives are invited to report on specific aspects falling within their purview;
- (ii) meetings of the Committees generally attended by the whole Board of Statutory Auditors and at which it also receives the regular reports of the Head of Internal Audit;
- (iii) meetings with the representatives of the appointed independent auditors (at least when the annual audit plan is presented and in view of approval of the draft financial statements) from whom it also receives the envisaged report (pursuant to Art. 19 of the Consolidated External Audit Act) on the key issues arising from the external audit;
- (iv) periodic meetings that the Company organises whenever it is advisable to inform the Board of Statutory Auditors.

In the light of the “Rules of conduct of the Board of Statutory Auditors” issued by the National Council of Chartered Accountants and Accounting Experts, which underline the importance of the relations with the Supervisory Board, the information flows with the Board of Statutory Auditors will also be subject to further scrutiny, although the current composition of the Supervisory Board - one member of which is an Auditor - is already adequate for communication.

In any event, a further strengthening of such relations will be evaluated, possibly by also arranging specific meetings between the two bodies, in particular, with the purpose of (i) more effectively verifying aspects relating to the autonomy, independence and professionalism required in order to efficiently perform the activity of the Supervisory Board; (ii) acquiring from it information pertaining to the Organisational Model adopted and its operation and (iii) assessing the operations of the Supervisory Board and the congruity of assessments and adequacy of guidelines adopted by the latter and, in any event, (iv) ensuring a constant and more effective exchange of information between the two bodies.

The period of office of the current Board of Statutory Auditors - whose members were appointed following proposals submitted by Pirelli & C. S.p.A., the controlling shareholder at the time, since, at the moment of its appointment, which was at the Shareholders’ Meeting of April 19, 2010, no minority lists were submitted, and whose CVs are published on the Company’s website, in the Corporate Governance section - expires at the Shareholders’ Meeting called to approve the financial statements for the year ended December 31, 2012.

The current composition is shown in Table 2 attached to the Report.

During 2012, 13 meetings of the Board of Statutory Auditors were held, lasting for an average of approximately 2 hours. The Auditors’ attendance at meetings of the Board of Statutory Auditors during 2012 totalled 100% and at meetings of the Board of Directors amounted to 92.30% for all auditors.

The Board of Statutory Auditors reported to the Shareholders’ Meeting of April 17, 2012 on the activity carried out and expressed, for all that is within its purview, its own opinion on the proposals made at the Meeting by the Board of Directors.

Moreover, the Board of Statutory Auditors formulated its own observations on the directors' report on the financial situation of the Company as at September 30, 2012, approved by the Shareholder's Meeting of December 18, 2012 convened pursuant to Art. 2446 of the Italian Civil Code.

Furthermore, during 2012, the Board of Statutory Auditors issued opinions pursuant to Art. 2389 of the Italian Civil Code.

The Board of Statutory Auditors, together with the Board of Directors, based on the information known and the written declarations expressly made by the interested parties, assessed the independence of its members on the first useful opportunity following their appointment and subsequently every year, prior to approval of the draft financial statements, with regard to all the criteria laid down by the Code with reference to the independence of directors. Moreover, in the light of the provisions laid down in Consob Notice no. 8067632²¹ of July 17, 2008, the members of the Board of Statutory Auditors confirmed to the Company that the requirements of independence existed, also in the light of the content of that notice.

The Board of Statutory Auditors assessed the independence of its members for the last time during the meeting held on February 7, 2013.

Within the scope of the provisions of the application principle 2.C.2. of the Code, specific meetings were held between the Board of Statutory Auditors in office, after its appointment, and the PRELIOS Group's management, with the aim of providing adequate knowledge of the business segment in which the Group operates, the business trends and their development and the legislative framework of reference. The high frequency of the number of board and committee meetings, attended as a rule by the Board of Statutory Auditors, held during 2012, allowed, among other things, the members of the Board to continue and deepen, also during their mandate, this knowledge.

With regard to the further provisions of the Code concerning Auditors, reference is made to the information provided above, in the specific parts in which the relevant subjects have been dealt with, with particular reference to: transactions with related parties; supervision over the independence of the independent auditors and coordination with the Internal Audit Department, with the Internal Control, Risk and Corporate Governance Committee and the Risk Committee (before being eliminated).

Finally, it is considered advisable to point out that, at the Date of the Report, no members of the Board of Statutory Auditors informed the Company that they exceeded the limits of accumulation of administration and control offices laid down by Article 144-terdecies of the Issuers' Regulation. The list of the position is published by Consob on its own website.

15. RELATIONS WITH SHAREHOLDERS

The Company endeavours to establish an ongoing dialogue with shareholders and institutional investors, based on an understanding of their reciprocal roles, not failing to promote periodically meetings with representatives of not just the Italian financial community, fully observing the provisions in force on the matter and concerning the handling of inside information. In this connection, the Company has appointed an Investor relations manager, and set up a suitable company structure (reporting directly to the Chairman) to which an appropriate section of the website is dedicated, the Investor Relations section.

²¹ CONSOB Notice no. DEM/DCL/DSG/8067632 of July 17, 2008 concerning "Situations of incompatibility of members of the governing bodies pursuant to art. 148, paragraph 3, let. c) of the CFA"

On the website, investors can find all useful documents published by the Company, whether accounting (such as financial statements, half-yearly reports, quarterly reports/interim management reports), or corporate (minutes of shareholders' meetings, information documents, extraordinary transactions, etc.) in nature, and on its corporate governance system (such as the Code of Ethics and the Lines of Conduct; the Procedure concerning transactions with related parties, the Procedure on information flows to directors and auditors, the Code of conduct on property transactions, the Procedure for management and disclosure to the public of inside information and the relevant register of persons having access to inside information).

In the same section, investors can also access the documents made available to analysts and/or financial investors during Company presentations and/or meetings with them and find all useful information on the composition of the share capital and on the shareholders.

The investor relations department may be contacted by shareholders and investors at the following addresses:

Viale Piero e Alberto Pirelli, 27 – 20126 Milan;
Tel: +39 02.6281.4057
Fax: +39.02.6281.4387
E-mail: vincenzo.mangiaracina@prelios.com

16. SHAREHOLDERS' MEETINGS

(pursuant to Art. 123-bis, paragraph 2, letter a) CFA)

Without prejudice to the constant flow of information that the Company provides to the market, the Shareholders' Meeting is considered to be the place in which to establish a profitable and effective relationship with shareholders.

It is here, in fact, that it is easiest to hold real time discussions, being able to respond fully to requests for information from the shareholders themselves, always in compliance with the regulations on inside information.

In this sense, the Board of Directors encourages and facilitates the fullest possible attendance of shareholders at Shareholders' Meetings, taking care to select a place, date and time in order to facilitate such attendance and exercise of shareholders' rights; moreover, as far as possible, all Directors and Auditors are generally present at the Shareholders' Meetings, particularly Directors who, owing to the positions they hold, may provide a useful contribution to discussions at the meeting.

It should be noted that during 2012, two Shareholders' Meetings were held on April 17, and December 18, respectively, attended by the majority of Directors. On the occasion of the Meeting of April 17, 2012, during which the Remuneration Report was submitted to the shareholders, the Chairman informed that the Report indicated the ways in which the functions of the Remuneration Committee were carried out.

The place of convocation, which can be anywhere in Italy, even outside the registered office, participation rights and representation at Shareholders' Meetings are governed by law and by the Articles of Association.

Regular constitution of the Shareholders' Meeting and validity of the resolutions are governed by law.

The organisation of Shareholders' Meetings is regulated by law and the Articles of Association and by the Regulations on Shareholders' Meetings (whose wording is published

on the Company's website), approved by a resolution of the Company's Ordinary Shareholders' Meeting in order to regulate the orderly and functional running of Ordinary and Extraordinary Shareholders' Meetings and in order to guarantee the right of each shareholder to speak on matters discussed.

The Shareholders' Meeting is chaired, in order, by the Chairman of the Board of Directors, by the Deputy Chairman and Chief Executive Officer, by a Deputy Chairman or by a Chief Executive Officer; if there are two or more Deputy Chairmen or Chief Executive Officers, the Meeting is chaired by the most senior member. In the event of absence of the aforesaid persons, the Meeting will be chaired by another person selected by the Shareholders' Meeting with the vote of the majority of capital represented at the Shareholders' Meeting.

The Chairman is assisted by a Secretary appointed by the Shareholders' Meeting, who need not be a shareholder; attendance of the Secretary is not necessary when a notary is appointed to take the relevant minutes.

The Chairman of the Shareholders' Meeting is responsible for checking whether it is regularly constituted; checking the identity of those present and their right to take part, even by proxy; checking the quorum for passing resolutions; managing discussions, even establishing a different order of discussion of the matters included in the notice of calling; taking the relevant measures to ensure that discussions and voting are held in an orderly manner, defining the procedures and establishing the results thereof.

Resolutions of the Shareholders' Meeting are recorded in minutes signed by the Chairman and by the Secretary of the Shareholders' Meeting or by the notary. The minutes of the Extraordinary Shareholders' Meeting must be drawn up by a notary appointed by the Chairman. The Shareholders' Meeting resolves on the matters on the agenda, taking into account those matters reserved for it by law.

17. FURTHER CORPORATE GOVERNANCE PRACTICES (pursuant to Art. 123-bis, paragraph 2, letter a) CFA)

There are corporate governance practices – in addition to those already mentioned in the previous paragraphs – applied by the Company, beyond the obligations established by laws and regulations.

18. CHANGES SINCE THE END OF THE REFERENCE FINANCIAL YEAR

The Report takes into account changes since the end of the reference year up to the Date of the Report itself.

In this connection, there have been no substantial changes to the Company's corporate governance structure.

ANNEX 1:

“MAIN CHARACTERISTICS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS EXISTING IN RELATION TO THE FINANCIAL REPORTING PROCESS” PURSUANT TO ART. 123-BIS, PARAGRAPH 2, LET. B), CFA

The Company has implemented a structured risk management and internal control system - supported by a dedicated computer application - in relation to the process of preparing financial reporting (interim/annual).

As a rule, the internal control system set up by the Company is aimed at guaranteeing protection of the corporate assets, observance of laws and regulations, efficiency and effectiveness of the Company transactions and operations in addition to reliability, accuracy and timing of the financial reporting.

In particular, the process of preparing the financial reporting takes place by means of suitable administrative and accounting procedures drawn up in accordance with criteria laid down by the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Tradeday Commission.

The administrative/accounting procedures for preparing the financial statements and any other financial disclosure are drawn up under the responsibility of the Manager Responsible for Corporate Financial Reporting who, together with the Chief Executive Officer, certifies the adequacy and effective application thereof at the time of preparing the annual/consolidated financial statements and the half-yearly financial report.

In order to allow certification by the Manager responsible for corporate financial reporting, the significant companies/processes that feed and generate the economic/capital or financial information have been mapped. The significant companies and processes are identified annually based on quantitative and qualitative criteria; the quantitative criteria consist of identifying those companies in the PRELIOS Group that, with regard to the processes selected, represent an aggregate value above a certain tangible threshold. The qualitative criteria consist of examining those processes and those companies that, according to the evaluation of the Chief Executive Officers/Chief Financial Officers of the business sectors, may present potential areas of risk, while not falling within the quantitative parameters described above.

For each process, the risks/control objectives connected with the preparation of the financial statements and the effectiveness/efficiency of the internal control system in general have been identified.

For each control objective, specific checks have been provided for and specific responsibilities have been assigned.

A system of supervising controls carried out has been implemented by means of a chain certification mechanism; any critical aspects emerging in the evaluation process form the subject of action plans whose implementation is checked on subsequent closures.

Finally, every six months, it is planned that the Chief Executive Officers and the Chief Financial Officers of joint-stock subsidiary companies and selected significant companies will submit a declaration of reliability and accuracy of the data sent for the purposes of preparing the Group’s consolidated financial statements.

Shortly before the dates of the Board of Directors’ meetings approving the consolidated figures at June 30 and at December 31, the results of the checks are discussed with the Manager responsible for corporate financial reporting.

In short, a continuing and systematic control system has been adopted that is able to provide reasonable certainty as to the reliability of the information and economic and financial reporting.

The Internal Audit Department carries out periodic audits with the aim of verifying the adequacy of the design and operation of the controls on companies and processes using samples selected on the basis of their importance.

Based on periodic reporting, the Manager responsible for corporate financial reporting reported on the effectiveness of the System, through the Internal Control, Risk and Corporate Governance Committee, to the Board of Directors. The same Manager responsible for corporate financial reporting, together with the Chief Executive Officers, also provided the certification laid down in section 5 of article 154-bis of the CFA.

TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors											Internal Control Committee		Remuneration Committee		Risk Committee ²² (until August 28, 2012)	
Position	Members	In office from	In office to	List (M/m) *	Exec.	Non-exec.	Indep. as per Code	Indep. as per CFA	(%) **	Number of other positions ***	****	**	****	**	****	**
Chairman	Tronchetti Provera Marco	04/21/11	Appr. 2013 Financial Statements	M		X			100%	6						
Deputy Chairman	Parazzini Enrico ²³	04/21/11	Appr. 2013 Financial Statements	M	X				100%	1					X	100%
Chief Executive Officer	Sergio Iasi ²⁴	12/18/12	Appr. 2013 Financial Statements	n/a	X				100%	2						
Director	Angiolini Giuseppe	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	76.92%	3						
Director	Brogi Marina	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	92.30%	3	X	88.88%			X	100%
Director	Croce Carlo Emilio	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	84.61%	-			X	100%		

²² On August 28, 2012, the activities and tasks of the “Internal Control and Corporate Governance Committee” were redefined by assigning it the functions granted to the “Risk Committee” that, as a result, has been outdated.

²³ Appointed Deputy Chairman by the Board of Directors held on December 3, 2012.

²⁴ On December 18, 2012, the Shareholders’ Meeting confirmed the appointment of Mr. Sergio Iasi as Director, resolved, pursuant to Art. 2386 of the Italian Civil Code, by the Board of Directors on November 13, 2012. At the end of the Shareholders’ Meeting, the Board of Directors appointed Mr. Sergio Iasi as Chief Executive Officer, confirming the appointment and the powers already vested in him on December 3, 2012.

Director	Fiori Giovanni	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	100%	-	X	100%				
Director	Franzan Jacopo	04/21/11	Appr. 2013 Financial Statements	M		X			100%	-						
Director	Lazzari Valter	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	92.30%	2	X	88.88%				
Director	Nodari Amedeo	04/21/11	Appr. 2013 Financial Statements	M		X			92.30%	-						
Director Lead Independent Director	Trevisan Dario	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	92.30%	-	X	100%			X	100%
Director	Valerio Giorgio	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	100%	-			X	100%		
Director	Vender Giovanni Jody	04/21/11	Appr. 2013 Financial Statements	M		X	X	X	100%	-			X	100%		

-----DIRECTORS TERMINATED DURING THE FINANCIAL YEAR OF REFERENCE-----																
Director	Davide Malacalza ²⁵	04/21/11	10/11/12	M		X			88.88%							
Chief Executive Officer	Paolo Massimiliano Bottelli ²⁶	04/21/11	11/13/12	M	X				100%					X	66.66%	
Indicate the quorum required for the presentation of the lists at the time of the last appointment: 2%																
No. meetings held during the Financial Year of reference:									BoD: 13		ICRCG: 9		RC: 5		Risk C.: 3	

NOTES

- * This column indicates M/m depending on whether the member was elected from the list voted in by the majority (M) or by a minority (m).
- ** This column indicates the relevant proportion of directors at Board of Directors and committee meetings, respectively (no. of attendances/no. of meetings held during the actual period in office of the individual involved).
- *** This column indicates the number of director or auditor positions held by the individual in question in other companies listed on regulated markets, including foreign ones, financial, banking, insurance or large-sized companies. Attached to the Report is a list of such companies with reference to each director, specifying whether the company in which the position is held is or is not part of the Prelios Group.
- **** This column indicates with an "X" a Board member's committee membership.

²⁵ Davide Malacalza resigned from his office of Director of the Company effective as from November 11, 2012.

²⁶ Paolo Massimiliano Bottelli resigned from his office of Director, Chief Executive Officer and General Manager of the Company effective as from November 13, 2012.

TABLE 2: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

BOARD OF STATUTORY AUDITORS							
Position	Members	In office from	In office to	List (M/m) *	Independence as per Code	** (%)	Number of other positions ***
Chairman	Laghi Enrico	04/19/2010	Approval 2012 Financial Statements	M	X	100%	10
Standing Auditor	Bracchetti Roberto	04/19/2010	Approval 2012 Financial Statements	M	X	100%	20
Standing Auditor	Fornabaio Lelio	04/19/2010	Approval 2012 Financial Statements	M	X	100%	14
Alternate Auditor	Ghiringhelli Franco	04/19/2010	Approval 2012 Financial Statements	M	X	//	19
Alternate Auditor	Giudici Paola	04/19/2010	Approval 2012 Financial Statements	M	X	//	10
-----AUDITORS TERMINATED DURING THE YEAR OF REFERENCE-----							
=	=	=	=	=	=	=	=
Indicate the quorum required for the presentation of the lists at the time of the last appointment: 1.5%							
No. meetings held during the Financial Year of reference: 13							

* This column indicates M/m depending on whether the member was elected from the list voted in by the majority (M) or by a minority (m).

** This column indicates percentage of attendance by statutory auditors at the meetings of the B.o.A. (no. of attendances/no. of meetings held during the actual period in office of the individual involved).

*** This column is to indicate the number of relevant director or auditor positions held by the individual pursuant to Art. 148-bis CFA. The complete list of positions is published by Consob on its website under the terms of Art. 144-quinquiesdecies of the Consob Issuers' Regulation.

ANNEX 2: LIST OF DIRECTORS' MAIN OFFICES

Name	Position	In office from	Other positions
Tronchetti Provera Marco	Chairman	04/21/2011	<ul style="list-style-type: none"> • Marco Tronchetti Provera & C. S.p.A., Chairman • Camfin S.p.A., Chairman • Gruppo Partecipazioni Industriali S.p.A., Chairman • Pirelli & C. S.p.A., Chairman and Chief Executive Officer • Mediobanca S.p.A., Deputy Chairman • F.C. Internazionale Milano S.p.A., Director
Parazzini Enrico	Deputy Chairman	04/21/2011	<ul style="list-style-type: none"> • Pininfarina S.p.A., Director
Iasi Sergio	Chief Executive Officer		<ul style="list-style-type: none"> • Prelios Credit Servicing S.p.A., Director (*) • Gemina S.p.A., Director
Angiolini Giuseppe	Director	04/21/2011	<ul style="list-style-type: none"> • Fondiaria – SAI S.p.A., Chairman of the Board of Statutory Auditors; • Milano Assicurazioni S.p.A. (Fondiaria – SAI S.p.A. Group), Chairman of the Board of Statutory Auditors; • Gemina S.p.A., Independent Director
Brogi Marina	Director	04/21/2011	<ul style="list-style-type: none"> • A2A, Supervisory Director • Banco Desio e della Brianza, Director • Impregilo S.p.A., Director
Croce Carlo Emilio	Director	04/21/2011	==
Fiori Giovanni	Director	04/21/2011	==
Franzan Jacopo	Director	04/21/2011	==
Lazzari Valter	Director	04/21/2011	<ul style="list-style-type: none"> • Prelios Società di Gestione del Risparmio S.p.A. (*), Deputy Chairman • Banco Popolare Società Cooperativa, Director
Nodari Amedeo	Director	04/21/2011	==
Trevisan Dario	Director	04/21/2011	==
Valerio Giorgio	Director	04/21/2011	==
Vender Giovanni Jody	Director	04/21/2011	==

(*) Companies belonging to the Prelios Group