



PRELIOS S.P.A.

**Registered Office in Milan, Italy at Viale Piero e Alberto Pirelli no. 27 (*)
Milan Register of Companies no. 02473170153**

www.prelios.com

Explanatory report drawn up by the Directors pursuant to Art. 125-ter of Italian Legislative Decree no. 58 of 24 February 1998 and subsequent amendments and supplements according to the resolution proposals on item 2 of the agenda for the Ordinary session of the Ordinary and Extraordinary Shareholders' Meeting called for 8 May 2013.

() Please note that as of 1 April 2013 the registered office of the Company is located in Milan at Viale Piero e Alberto Pirelli no. 27.*

Explanatory report drawn up by the Directors pursuant to Art. 125-ter of Italian Legislative Decree no. 58 of 24 February 1998 and subsequent amendments and supplements.

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Appointment of the Board of Directors:

- **determining the number of members of the Board of Directors;**
- **determining the term of office of the Board of Directors;**
- **appointment of the Board Members;**
- **determining the annual fee of the members of the Board of Directors;**

Shareholders,

Following the Board of the Directors' final approval of the transaction set out in the Framework Agreement signed by Prelios S.p.A. ("**Prelios**" or "**Company**") and Feidos 11 S.p.A. (special purpose vehicle controlled by Feidos S.p.A.) as industrial investor whose purpose, as everyone knows, is to strengthen the capital by recapitalising the Company and to redress the financial structure and provide it with new growth and development prospects (the "**Transaction**"), all Directors of Prelios decided to resign on 27 March 2013. Their resignation will take effect starting from the end of the next Shareholders' Meeting called to, among other things, approve the financial statements for the year ended 31 December 2012.

This decision was taken because executing the aforesaid extraordinary transaction will lead to a change in the current shareholding structure of Prelios. The Directors therefore thought that letting the Company's shareholders appoint the board of directors members without waiting for the natural expiry of the mandate upon approval of the financial statements for the year ending 31 December 2013 to be in the best interests of the Company.

Following the resignation of all Directors pursuant to Art. 12 of the Articles of Association (provided in full at the end of this report), the entire Board of Directors is to be considered fallen from office from the moment it is reformed. The Shareholders' Meeting is therefore called pursuant to the law and regulations in force at this time and to Art. 12 of the Articles of Association to:

- decide on the number of members of the Board of Directors;
- decide on the term of office of the Board of Directors;
- appoint the Board Members;
- decide on the annual fee of the members of the Board of Directors.

To this regard, please note that the basic strategic position of the Company and Prelios Group - aimed at consolidating its repositioning as a pure management company by appreciating and managing real estate portfolios also on behalf of third-party investors using a distinctive model based on both specialised real estate services (Agency, Property & Project Management) and management activities (Fund & Asset Management), in addition to services tied to managing Non Performing Loans (Credit Servicing) - requires that the Board of Directors be made up of members possessing a wide range of general and specialised experience, particularly with regard to the real estate, financial and professional sectors.

The size of the Company and Group, as well as the complexity and specificity of the sector in which they do business, indeed require an appropriate mixture of expertise and professional skills. This is an essential prerequisite for the Board of Directors, i.e., having adequate experience and capabilities so that board discussion is more incisive and is therefore able to best express itself as a body, and address Prelios' business more effectively.

In determining the number and in selecting the members, the new Board of Directors therefore believes it has to take into account both the afore-mentioned focusing of the Company's business model and the conditions established for completing the Transaction, including the appointment of Mr Sergio Iasi and Mr Massimo Caputi to the offices of Chief Executive Officer and Deputy Chairperson with Responsibility for Development, respectively.

Having independent directors on the board is an essential element that guarantees the interests of all shareholders and third parties. The contribution given by directors having these characteristics is also necessary for the formation and functioning of the Committees whose duties are to make proposals and give advice to the Board of Directors.

To this regard, Art. 12 of the Articles of Association establishes that the Board of Directors of the Company be made up of a number of members ranging between 5 (five) and 19 (nineteen), and also establishes that their term of office is three financial years (unless the Shareholders' Meeting sets a shorter term at the time of appointment). They can be re-elected.

The Board of Directors is appointed on the basis of lists submitted by the shareholders, in which the candidates are listed by progressive number.

With reference to the requisites the shareholders planning to present lists for the election of the Board of Directors must have, and to those the candidates must have in order to be appointed the office of director, attention is called to observance of the provisions of Consob Regulation 11971 of 14 May 1999 (Articles 144-*quater* and 144-*undecies*.1) implementing the provisions of Art. 147-*ter* of Italian Legislative Decree 58 of 24 February 1998 (the "**Consolidated Finance Act**").

To this regard, it is particularly pointed out that in compliance with the provisions of Art. 147-*ter*, paragraph 3 of the Consolidated Finance Act and pursuant to Art. 12 of the Articles of Association, one-fifth of the members of the Board of Directors must from the names on the minority lists, and are in no way, not even indirectly, connected with the shareholders that presented or voted the list first elected by number of votes.

Shareholders that alone, or together with other shareholders, represent at least 2% of the share capital with voting rights at the Ordinary Shareholders' Meeting (threshold established in the Articles of Association and a percentage lower than that set by Consob Resolution 18452 of 30 January 2013) are entitled to present the lists in accordance with procedures and terms specified in above-mentioned Art. 12 of the Articles of Association and also referred to in the Shareholders' Meeting notice of call.

The lists of candidates listed by progressive number - endorsed by the shareholders presenting them with their identity and relevant proportion of the ordinary share capital of the Company - must be filed with the registered office of the Company at least twenty-five days before the date set for the Shareholders' Meeting.

Shareholders can file the lists of candidates by sending them and the relevant supporting documentation to the following certified e-mail address: assemblea@pec.prelios.it.

Each list must be complete with the documents required by Art. 12 of the Articles of Association and applicable legislation and regulations.

More specifically, the declarations with which the individual candidates accept their candidacy and certify, under their responsibility, that there are no reasons for ineligibility for election or incompatibility, and that they have the requisites, if any, laid down for the respective offices, must be filed together with each list.

A *curriculum vitae* of each candidate containing personal and professional information must also be filed with the declarations. The administration and control offices held at other companies and eligibility to qualify as an independent director based on the criteria laid down in Art. 3.C.1 of the Code of Conduct of listed companies issued by Borsa Italiana S.p.A. (also provided at the end of this report) to which Prelios has adhered and/or pursuant to the law must be indicated.

To this regard, please note the provisions of Art. 147-ter, paragraph 4, of the Consolidated Finance Act with reference to at least one of the members of the board of directors, or at least two if there are more than seven members, having the independence requirements established for statutory auditors by Art. 148, paragraph 3 of the Consolidated Finance Act.

It is also pointed out that the Extraordinary Shareholders' Meeting of 17 April 2012 resolved to amend Articles 12 and 22 of the Articles of Association regulating the mechanisms for appointing Directors and members of the Board of Statutory Auditors in order to implement the principles provided for by Italian Law 120 of 12 July 2011 that amended the articles of the Consolidated Finance Act concerning the composition of boards of directors (Art. 147-ter) and internal control bodies (Art. 148), requiring that at least one-third of the least represented gender is in the company bodies.

Every shareholder may present or take part in presenting a single list, and every candidate may appear on a single list, under penalty of ineligibility for election.

Lists presented without abiding by the provisions set out in Art. 12 of the Articles of Association shall be considered not presented.

The company shall make the lists of candidates presented available to the public together with the information required by applicable regulations at its registered office, at Borsa Italiana S.p.A., and published on the website www.prelios.com.

Those shareholders planning to present lists to nominate members of the Board of Directors are asked to review the relevant documents published on the Company's website www.prelios.com and, more specifically, the criteria established by the Board of Directors for determining the maximum number of offices of its members and the recommendations given in Consob Communication DEM/9017893 of 26 February 2009.

The Shareholders' Meeting must also decide on the term of office of the Board of Directors and the fee due to the new Directors, presently set at a gross total of Euro 650,000.00 per year.

All that being stated, pursuant to the provisions of the Articles of Association, and the applicable law and regulations on the subject, the Board of Directors asks you to present lists of candidates for appointing members of the Board of Directors and proposals concerning the term of office and determination of their fees, and to resolve on:

- the appointment of the members of the Board of Director by voting on the lists of candidates presented after determining their number and term of office;

- the determination of the fee due to the members of the Board of Directors.

* * *

Article 12 of the Articles of Association, application criterion 3.C.1 of the Code of Conduct of listed companies and Articles 147-ter and 148, paragraph 3 of the Consolidated Finance Act are provided below.

Article 12 of the Articles of Association - Management

12.1 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.

12.2 The Shareholders' Meeting determines the number of members of the Board of Directors, a number which remains fixed until resolved otherwise.

12.3 The Board of Directors is appointed on the basis of lists submitted by the shareholders, pursuant to the following paragraphs, in which the candidates must be listed by progressive number.

12.4 The lists submitted by the shareholders, signed by the persons submitting them, must be filed at the registered office of the company so they are at the disposal of whoever requests them; they must be filed at least twenty-five days before the date set for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors. They are made available to the public at the registered office, on the website and with the other procedures provided for by Consob regulations at least twenty-one days before the date of the Shareholders' Meeting.

12.5 Every shareholder may present or take part in presenting a single list, and every candidate may appear on a single list, under penalty of ineligibility for election.

12.6 The lists may be submitted by only those shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 2 percent of the share capital with voting rights at the ordinary Shareholders' Meeting or the lower amount required by the regulations issued by Consob, with the obligation to demonstrate ownership of the number of shares necessary for submitting the lists by the deadline set for the Company to publish them.

12.7 Each list must be submitted together with the acceptances of candidacy by the individual candidates and the declarations with which they certify, under their responsibility, that there are no reasons for ineligibility for election or incompatibility, and that they have the requisites, if any, laid down for the respective offices. The declarations must be filed together with a curriculum vitae for each candidate that contains personal and professional information, with the administration and control offices held at other companies and possession of the independence requisites required for directors of listed companies indicated, pursuant to the law or by the code of conduct adopted by the Company. So that a balance between genders is ensured in conformity with the regulations currently in force, at least one-third (rounded off to the highest figure if there is no whole number) of said candidates must belong to the least represented gender on each list submitted bearing a number of candidates equal to or greater than three.

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

12.8 Any lists submitted without observing the foregoing provisions shall be deemed to be not submitted.

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

12.10 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 eligible shareholders, in the order in which they appear in the list itself, rounded

down in the event of a fraction;

b) the remaining Directors are taken from the other lists, to which end the votes obtained by the said lists are subsequently divided by whole progressive numbers from one up to the number of Directors still to be elected.

The quotients obtained in this way are progressively assigned to the candidates of each of said lists, in the order they respectively foresee.

The quotients assigned to the candidates of the various lists following this procedure are arranged in a single descending classification. Those who obtain 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, is 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 is 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 votes again and the candidate obtaining the simple majority of votes will be elected.

12.11 The Board of Directors must be appointed in conformity with the regulations currently in force on balance between genders. If application of the list vote system 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 least represented gender elected with the highest progressive number on the list obtaining the highest number of votes will be replaced by the candidate belonging to the least represented gender not elected from the same list according to the progressive order of submission and so on, list by list, until the minimum number of independent directors is complete.

12.12 If application of the list vote system 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 on the list obtaining the highest number of votes will be replaced by the independent candidate not elected from the same list according to the progressive order of submission and so on, list by list, until the minimum number of independent directors is complete. without prejudice in any case to observance of the balance between genders laid down by law and/or regulations currently in effect.

12.13 For appointing directors for any reason not appointed pursuant to the procedure described herein, the Shareholders' Meeting resolves with the legal majorities, without prejudice in any case to observing the balance between genders laid down by law and/or regulations currently in effect.

12.14 If during the financial year one or more directors should leave office, they shall be replaced pursuant to Art. 2386 of the Italian Civil Code, without prejudice in any case to observing the balance between genders provided for by the law and/or regulations currently in effect.

12.15 Loss of the requirements of independence of a director does not constitute a reason for forfeiture of the position 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.

12.16 If because of renunciation or for any other reason more than half of the directors leave office, the entire Board of Directors is considered fallen from office with effect from the moment it is reformed.

12.17 The directors are not bound by the prohibition pursuant to Article 2390 of the Italian Civil Code unless otherwise resolved by the Shareholders' Meeting.

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Code of Conduct

Art. 3 - Independent directors

Application criterion 3.C.1

The board of directors assesses the independence of its non-executive members by focussing more on substance than on form, and bearing in mind that a director usually does not seem to be independent in the following cases, to be considered non-binding:

a) if he or she controls the issuer or is able to exert considerable influence on it or takes part in a shareholders' agreement through which one or more parties may exert control or considerable influence on the issuer either directly or indirectly, even through subsidiaries, fiduciaries or third parties;

b) if he or she holds, or has held during the last three financial years, a prominent position with the issuer, with one of its subsidiaries having strategic importance or with a company subject to joint control with the issuer, or a company or body that controls the issuer or is able to exert considerable influence on it, even together with others through a shareholders' agreement;

c) if he or she has, or has had during the previous financial year, a significant commercial, financial or professional relationship either directly or indirectly (through subsidiaries or in which he or she holds a prominent position, or as a partner of a professional firm or of a consulting firm) with:

- the issuer, one of its subsidiaries, or with any of the relevant people holding prominent positions;

- a party that, even together with others through a shareholders' agreement, controls the issuer or

- as it is a company or body - with the relevant people holding prominent positions;
or is, or has been during the previous three financial years, an employee of one of the aforesaid parties;

d) if he or she receives, or has received during the previous three financial years, a significant additional remuneration from the issuer, a subsidiary or a parent company (over and above the "fixed" fee of non-executive director of the issuer and the fee for participating in committees recommended by this Code), also in the form of participating in incentive plans linked to company performance, even share-based;

e) if he or she has been a director of the issuer for more than nine out of the last twelve years;

f) if he or she holds the office of executive director in another company in which an executive director of the issuer holds an office of director;

g) if he or she is shareholder or director of a company or body belonging to the network of the company appointed to perform the regulatory audit of the issuer;

h) if he or she is a close family member of a person in one of the situations listed under the foregoing paragraphs.

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CONSOLIDATED FINANCE ACT

PART IV - TITLE III - ITEM II

SECTION IV-bis Boards of directors

Art. 147-ter

(Election and composition of the board of directors)

1. The articles of association establish that the members of the board of directors are to be elected based on lists of candidates and determines the minimum relevant proportion required for submitting them, to be no greater than one-fortieth of the share capital or another measure established by a Consob regulation, bearing the capitalisation, floating capital and ownership structures of the listed companies in mind. The lists specify which directors are in possession of the independence requisites established by law and the articles of association. The Articles of

Association may require that lists that have not attained a percentage of votes at least half of that required by the Articles of Association for their presentation not be taken into account for dividing the directors to be elected; for cooperatives, the measure is established by the Articles of Association, also in departure from Article 135.

1-bis. The lists are filed with the issuer, also by remote medium, in observance of the requirements (if any) strictly necessary for identifying company-indicated applicants by and no later than the twenty-fifth day before the date of the shareholders' meeting called to resolve the appointment of the members of the board of directors and are made available to the public at the registered office of the company, on the website and with other procedures provided for by Consob regulations at least twenty-one days before the date of the shareholders' meeting. Ownership of the minimum relevant proportion required by paragraph 1 is determined considering the shares registered to the shareholder on the day on which the lists are filed with the issuer. The relevant certification may also be produced after filing, provided that it is done by and no later than the deadline set for the issuer to publish the lists.

1-ter. The Articles of Association also require that directors to be elected be divided up based on a criterion that ensures balance between genders. The least represented gender must make up at least one-third of the elected directors. This distribution criterion applies for three consecutive mandates. If the composition of the board of directors resulting from the election not abide by the distribution criterion set forth in this paragraph, Consob warns the company concerned to come into line no later than the maximum deadline of four months from the warning. Should the company disregard the warning, Consob applies an administrative financial penalty ranging from Euro 100,000 to Euro 1,000,000, according to criteria and procedures established in its regulations, and sets a new three-month deadline to meet. Should the new warning go unheeded, the elected members fall from office. The Articles of Association governs the methods for compiling lists and the cases of replacement during the mandate in order to guarantee that the distribution criterion this paragraph provides for is observed. Consob rules on the violation, application and observance of the gender portion provisions, also with reference to the investigation phase and the procedures to adopt, based on its regulations, to adopt no later than six months from the date the provisions set forth in this paragraph go into force. The provisions of this paragraph also apply to the companies set up according to the monistic system.

2. ...omitted...

3. Except for what Article 2409-septiesdecies of the Italian Civil Code provides for, at least one of the members of the board of directors is elected from minority list obtaining the highest number of votes and not connected in any way whatsoever, not even indirectly, with the shareholders that submitted or voted the list with the highest number of votes. In companies set up according to the monistic system, the member elected from the minority list must have the requisites of reputation, professional competence and independence defined in Article 148, paragraphs 3 and 4. Lack of said requisites causes the member to fall from office.

4. In addition to the provisions of paragraph 3, at least one of the members of the board of directors, or two if the board of directors is made up of more than members, must possess the independence requisites established for statutory auditors by Article 148, paragraph 3, and, if the Articles of Association so require, the additional requisites listed in the codes of conduct drawn up by management companies of regulated markets or by trade associations. This paragraph does not apply to the board of directors of companies set up according to the monistic system, for which the provisions set forth in Article 2409-septiesdecies, paragraph 2 of the Italian Civil Code remain firm. The independent director who loses the independence requisites after appointment must immediately report the fact to the board of the directors and, in any case, falls from office.

SECTION V Internal control bodies

Art. 148

(Composition)

...Omitted...

3. The following cannot be elected statutory auditors and if elected, they fall from office:

a) those who meet the conditions set forth in Article 2382 of the Italian Civil Code;

b) the spouse, relatives and like within the fourth degree of kinship of the directors of the company, the directors, spouse, relatives and like within the fourth degree of kinship of directors of the company's subsidiaries, companies that control the company and those subject to joint control;

c) those tied to the company, to the subsidiaries, to the companies that control it or to those subject to joint control, or to the directors of the company and to the parties listed under letter b) by non-subordinate or subordinate employment, or by other relations financial or professional in nature that compromise his or her independence.