



PRELIOS S.P.A.

**Registered Office in Milan, Italy at Viale Piero e Alberto Pirelli no. 25 ^(*)
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 3 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.*

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 Statutory Auditors:

- **appointment of the statutory and alternate auditors;**
- **appointment of the Chairman of the Board of Statutory Auditors;**
- **determination of the fees of the members of the Board of Statutory Auditors.**

Shareholders,

The three-year mandate of the Board of Statutory Auditors the Shareholders' Meeting of 19 April 2010 granted expires with the Shareholders' Meeting called to approve the financial statements for the year ending 31 December 2012.

The Shareholders' Meeting is therefore called pursuant to the law and regulations in force at this time and to Art. 22 of the Articles of Association (provided in full at the end of this report) to:

- appoint the statutory and alternate auditors;
- appoint the Chairman of the Board of Statutory Auditors if it is impossible to do so by applying the list vote system;
- determine the fees of the members of the Board of Statutory Auditors.

The statutory and alternate auditors will be appointed by list vote; 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 Statutory Auditors must have, and to those the candidates must have in order to be appointed the office of statutory auditor, attention is called to observance of the provisions of Consob Regulation 11971 of 14 May 1999 (Articles 144-*quinquies* et seq) implementing the provisions of Articles 148 and 148-*bis* of Italian Legislative Decree 58 of 24 February 1998 (the "**Consolidated Finance Act**").

Please note that pursuant to the current Code of Conduct of listed companies of Borsa Italiana S.p.A. (the "**Code of Conduct**") to which the Company has adhered the statutory auditors must be selected from people who can be qualified as independent, also on the basis of the criteria set forth in the Code of Conduct with reference to the directors. Therefore, those entitled and that plan to submit the lists are asked to bear this in mind when selecting candidates to propose.

Shareholders that alone, or together with other shareholders, represent at least 1.5% 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. 22 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.

If a single list or only lists connected to each other according to applicable law and regulations are submitted by the above-mentioned deadline, additional lists can be submitted up until the third day following said date; in this case, the threshold of 1.5% previously specified for submitting lists is reduced to 0.75%.

Each list must be complete with the documents required by Art. 22 of the Articles of Association and applicable legislation and regulations.

More specifically, 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 laid down for taking office.

The declarations must be filed together with a curriculum vitae for each candidate that contains full personal and professional information, with the administration and control offices held at other companies indicated.

The lists of candidates must be broken down into two distinct sections: one lists the candidates (marked by a progressive number) for the office of statutory auditor, and the other lists the candidates (marked by a progressive number) for the office of alternate auditor. The first of the candidates in each section shall be appointed from those entered in the Register of Statutory Auditors who have carried out auditing activities on accounts for a period of not less than three years.

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.

Because of what is set out above, each list bearing no fewer than three candidates for the office of statutory auditor must indicate the candidate of the least represented gender in the first section under the second progressive number and also a candidate of the least represented gender in the first section in the second section.

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. 22 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 Statutory Auditors are asked to review the relevant documents published on the Company's website www.prelios.com and, more specifically, the recommendations given in Consob Communication DEM/9017893 of 26 February 2009.

In addition to appointing the Board of Statutory Auditors, it is also necessary to resolve allocation of the annual fee of the members of the Board of Statutory Auditors currently set at the gross amounts of Euro 55.5 thousand a year for the Chairman of the Board of

Statutory Auditors and Euro 37 thousand a year for each of the statutory auditors (an additional gross fee of Euro 15 thousand is presently set for the member of the Board of Statutory Auditors called upon to sit on the Company's Oversight Committee).

In determining the fee to allocate to the members of the Board of Statutory Auditors, we ask that you also consider the additional duties that Italian Legislative Decree 39 of 27 January 2010, *"Implementation of Directive 2006/43/EC regarding regulatory audits of the annual and consolidated accounts, which amends Directives 78/660/EEC and 83/349/EEC and repeals Directive 84/253/EEC"*, assigns to this body and the circumstance that the Board of Statutory Auditors may be assigned the functions of Oversight Committee set out in amended Art. 6, paragraph 4-bis of Italian Legislative Decree 231 of 8 June 2011, *"Provisions on administrative liability of legal personalities in accordance with Article 11 of Italian Law 300 of 29 September 2000"*.

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 Statutory Auditors and proposals concerning determination of their fees, and to resolve on:

- the appointment of the members of the Board of Statutory Auditors (three Statutory Auditors and two Alternate Auditors) by voting the lists of candidates submitted, if any;
- the appointment of the Chairman of the Board of Statutory Auditors unless he or she can be appointed following the procedures set out in the Articles of Association;
- the determination of the fee due to the members of the Board of Statutory Auditors.

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Article 22 of the Articles of Association currently in force and application criteria 8.C.1 and 8.C.2 of the Code of Conduct are provided below.

Articles of Association

Board of Statutory Auditors

Art. 22

22.1 The Board of Statutory Auditors is made up of three statutory auditors and two alternate auditors having the requisites required by current law and regulations; for this purpose, it will be taken into consideration that subjects and sectors of activity strictly pertaining to those of the company are those specified in the corporate purpose, with particular reference to companies or entities operating in the financial, industrial, banking, insurance, real estate and general services field.

22.2 The Ordinary Shareholders' Meeting elects the Board of Statutory Auditors and determines their fees. The minority is entitled to elect one statutory auditor and one alternate auditor.

22.3 The provisions of paragraph 17 of Article 22 hereof excepted, the Board of Statutory Auditors is appointed in observance of the law and regulations on the basis of lists submitted by the shareholders, on which the candidates are listed by progressive number.

22.4 Each list contains a number of candidates no higher than the number of members to be elected.

22.5 A list can be submitted by shareholders who, alone or together with other shareholders, represent at least 1.5 percent of the shares with voting rights at the Ordinary Shareholders'

Meeting or the lower amount required by the regulations issued by Consob for submitting lists of candidates for appointment to the Board of Directors, with the obligation to demonstrate ownership of the number of shares necessary submitting the lists of statutory auditor candidates within the terms set by law and/or regulations.

22.6 Each shareholder may present or take part in presenting a single list.

22.7 The lists of candidates, 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 Statutory Auditors, unless extended in those cases provided for by law and/or regulations.

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.

However without prejudice to any additional documentation required by the law and/or regulations, the lists must be complete with a curriculum vitae containing the personal and professional information of the parties designated, indicating the administration and control offices held at other companies, and the declarations with which the individual candidates:

- accept their candidacy, and*
- certify, under their own responsibility, that there are no cases of ineligibility 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.

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

22.9 Each candidate may be included in one list only on pain of ineligibility.

22.10 The lists will be divided into two sections: one for candidates for the position of Statutory Auditor and the other for candidates for the position of Alternate Auditor. The first of the candidates in each section shall be appointed from those entered in the Register of Statutory Auditors who have carried out statutory auditing activities on accounts for a period of not less than three years. In order to ensure a balance between genders in conformity with the regulations currently in force, each list bearing a number of candidates for the office of statutory auditor equal to or greater than three must indicate the candidate of the least represented gender in the first section under the second progressive number and also a candidate of the least represented gender in the first section in the second section.

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

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

- a) two statutory members and one alternate member 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 regular member and the other alternate member 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 entitled to vote present at the Shareholders' Meeting, the candidates on the list obtaining the simple majority of votes being elected.*

22.13 The Board of Statutory Auditors is chaired by the statutory member indicated as first candidate on the minority list.

22.14 In the case of an auditor's death, renouncement or falling from office, the alternate auditor belonging to the same list as the one who has left following the progressive order succeeds him or

her, in any case ensuring that the balance between genders required by the law and/or regulations currently in force is observed. However, should the chairman of the Board of Statutory Auditors be replaced, the candidate listed on the list to which the chairman who has left belonged takes the chair, following the order of the list. If it is impossible to make the replacements following the criteria above, a Shareholders' Meeting will be called to complete the Board of Statutory Auditors and it will resolve with relative majority.

22.15 When, pursuant to the foregoing paragraph or the law the Shareholders' Meeting has to appoint the Statutory Auditors and/or Alternate Auditors necessary to complete the Board of Auditors, it acts as follows: if statutory auditors on the majority list have to be replaced, the appointment is by relative majority vote without list limitation, in any case without prejudice to observing the balance between genders provided for by the law and/or regulations currently in force. If, on the other hand, it is necessary to replace the statutory auditors on the minority list, the Shareholders' Meeting replaces them with relative majority, if possible selecting them from the candidates indicated on the list to which the auditor to be replaced belonged and however in observance of the principle of necessary representation of minorities, whose right to participate in the appointment of the Board of Statutory Auditors is ensured by these Articles of Association, in any case without prejudice to observing the balance between genders provided for by the law and/or regulations currently in force. The principle of necessary representation of minorities is considered observed if auditors who were previously on the minority list or on lists other than the list that received the highest number of votes at the time the Board of Statutory Auditors was appointed are appointed.

22.16 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 Regular Auditors and Alternate Auditors; the Board of Auditors is chaired by the person indicated first in the aforesaid list.

22.17 For appointing auditors 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.

22.18 The outgoing auditors can be re-elected.

22.19 Should the Chairman or whoever else is in his or her stead ascertains the need for it, the Board of Statutory Auditors meetings may be attended using telecommunication media that permit taking part in discussions and equal information given to all attendees.

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Code of Conduct

Auditors

Application criteria 8.C.1 and 8.C.2 -

8.C.1. The auditors are selected from people who qualify as independent, also on the basis of the criteria set forth herein with reference to the directors. The Board verifies observance of said criteria following appointment and afterwards once a year, and presents the result of said verification in its report on corporate governance with methods compliant with those required for the directors.

8.C.2. The auditors accept their office when they believe they are able to devote the time necessary for diligently performing their duties.