PRESS RELEASE

CLOSED PHASE ONE OF THE AGREEMENT ANNOUNCED LAST AUGUST BETWEEN PIRELLI RE AND MORGAN STANLEY REAL ESTATE FUNDS (MSREF) IN THE FIELD OF NON-PERFORMING LOANS (NPLs)

• PIRELLI RE ACQUIRES FROM MSREF 15% OF THE EQUITY IN A PORTFOLIO OF NPLs WITH A GROSS BOOK VALUE OF APPROXIMATELY 2.1 BILLION EURO, WITH AN OPTION TO PURCHASE UP TO 25% WITHIN FEBRUARY 2005

• A JOINT VENTURE FOR THE ACQUISITION OF NEW PORTFOLIOS OF NPLs IS NOW OPERATIONAL BETWEEN MSREF AND PIRELLI RE (75% / 25%)

• MSREF BUYS 2.1% OF THE SHARE CAPITAL OF PIRELLI RE AT THE TERMS AND CONDITIONS AGREED IN AUGUST 2004 (28.9 EURO PER SHARE, WITH A 1.37% DISCOUNT TO THE PREVIOUS MONTH AVERAGE PRICE)

• CLOSING OF PHASE TWO OF THE DEAL, SUBJECT TO ANTITRUST AND BANK OF ITALY, IS EXPECTED WITHIN FEBRUARY 2005 AND WILL LEAD TO THE MERGER BETWEEN SIB AND PIRELLI RE CREDIT SERVICING

• CREATION OF THE MARKET LEADER IN THE FIELD OF NPL MANAGEMENT WITH 4.8 BILLION EURO GROSS BOOK VALUE UNDER MANAGEMENT

Milan, December 22nd, 2004 – Pirelli RE and Morgan Stanley Real Estate Funds (MSREF) announce the closing of phase one of the agreement announced in August 2004 that leads to the creation a joint platform for the acquisition and servicing of non-performing mortgage loans in Italy.

Based on the agreement, Pirelli RE acquired 15% of the equity in the NPL portfolios owned by MSREF, with a gross book value of approximately 2.1 billion euro, for a
cash purchase price of 33.5 million euro, plus an earn-out up to 6.5 million euro, based on portfolio performance. The agreement signed today also provides Pirelli RE with the option to increase its stake up to 25% at the same terms and conditions, to be exercised by February 28th, 2005.

At the same time, MSREF acquired today 857,500 Pirelli RE shares, equal to 2.1% of its share capital, at a price of 28.9 euro each, as agreed in August. This price represents a 1.37% discount to the previous month average price. MSREF has agreed to a 12-month lock-up for the Pirelli RE stock.

Pirelli RE and MSREF will pursue together the acquisition of new large portfolios of NPLs, with MSREF investing 75% and Pirelli RE 25% of the required capital. The joint venture intends to acquire portfolios with gross book value in excess of 5 billion euro over the next few years.

The August 2004 agreement also provides for the merger between Servizi Immobiliari Banche - SIB SpA, 100% owned by MSREF/Fonspa, and Pirelli RE Credit Servicing SpA, wholly owned by Pirelli RE. This merger will create a new company, 53% owned by MSREF/Fonspa and 47% owned by Pirelli RE, which will be a national leader in terms of portfolio under management (4.8 billion Euro gross book value) in the highly specialized and growing sector of NPLs. The agreement also provides for a put&call option, under which Pirelli RE can buy 100% starting from January 1st, 2007.

In addition the agreement provides for the acquisition by Pirelli RE of 5% of Credito Fondiario e Industriale SpA (Fonspa), a bank owned by MSREF, with a call option on a further 10% to be exercised by the end of 2007.

Closing of the whole deal is scheduled by end of February 2005 and is subject to the approval of antitrust and Bank of Italy.

Lazard acted as financial advisor and Freshfield Bruckhaus Deringer as legal advisor to Pirelli RE. Bonelli Erede Pappalardo and Jones Day Reavis Pogue acted as legal advisors to Morgan Stanley.

For further information please contact:

Pirelli RE Press Office - Tel +39/02/8535.4270
Investor Relations Pirelli RE – Tel +39/02/8535.4057
www.pirellirealestate.com

For Morgan Stanley
Giuliana Paoletti/Cristina Fossati
Image Building - phone +39/02/89011300