



PRESS RELEASE

STRATEGIC AGREEMENT BETWEEN PIRELLI RE/MORGAN STANLEY IN THE NON-PERFORMING LOANS (NPLS) SECTOR

- **EXCLUSIVE RIGHT FOR ACQUISITION AND MANAGEMENT OF NEW NPLS PORTFOLIOS OF CONSIDERABLE DIMENSIONS**
- **ACQUISITION BY PIRELLI RE OF THE 15% OF EQUITY OF THE NPLS PORTFOLIO OF APPROXIMATELY 2.5 BILLION EURO VALUE (GROSS BOOK VALUE) OWNED BY MORGAN STANLEY REAL ESTATE FUNDS**
- **ACQUISITION BY PIRELLI RE OF THE 49% OF SIB, WITH A PUT & CALL OPTION ON THE REMAINING 51%, A RATED SERVICING COMPANY SPECIALIZED IN THE MANAGEMENT OF NPLS**
- **SIB WILL PROVIDE MANAGING SERVICES FOR THE NEW PORTFOLIOS ACQUIRED BY PIRELLI RE AND MORGAN STANLEY; SIB WILL WORK TOGETHER WITH PIRELLI RE'S CREDIT SERVICING COMPANY IN THE MANAGEMENT OF PORTFOLIOS ON BEHALF OF THIRD PARTIES**

Milan, April 2nd, 2004 – Pirelli RE and Morgan Stanley signed an agreement-in-principle for the setting up of a dedicated **strategic platform** for the **acquisition and management of non-performing loans** (disputed credits guaranteed by mortgage loans).

The agreement will take place with an exclusive right for acquisition of new portfolios of considerable dimensions in which Pirelli RE will participate – according to its business model – with a 20-25% significant minority stake.

Furthermore Pirelli RE will acquire a significant minority equity stake – equal to 15% - in the credit **portfolio** owned by Morgan Stanley Real Estate Funds, which has already been securitised and which has a gross book value remaining of approximately **2.5 billion Euro**.

At the same time Pirelli RE will take a stake of **49%** in **SIB SpA** (Servizi Immobiliari Banche), a Rated Servicer company dedicated to **special servicing** (management of executive procedures, out-of-court agreements and real estate underlying assets) of non-performing loan portfolios, including those featured in the Agreement, and market

leader amongst independent operators. The agreement features a **put & call option on the remaining 51%** starting from June, 2006.

In the end, Pirelli RE will acquire from Morgan Stanley **5%** of **FONSPA** (Credito Fondiario Industriale SpA), a credit institute specialised in **master servicing** (loan accounting, administration and reporting) and in the granting of loans, with a call option for taking on a further 10% (up to the legal maximum limit of 15%) by June 2006.

In this first phase of the operation the investment of Pirelli RE will be approximately **36 million Euro** plus any earn-outs arising from the performance of investments.

The non performing loans **market** is poised to experience **strong growth** over the next few years. According to Banca d'Italia and ABI figures, non-securitised defaults on bank loans in Italy totalled **approximately 50 billion Euro** at the end of November, 2003. Against this backdrop, the next introduction of IAS (International Accounting Standards) Principles may well lead credit institutions to dispose of their portfolios of non-performing loans or to seek the support of specialised operators able to improve performance in credit recovery, not least through the real estate auctions so as to maintain the value of the underlying assets.

Pirelli RE, who already manages a **portfolio** of non-performing loans (with a gross book value in excess of **900 million Euro**) in which the company also holds stakes as a minority investor, owns a rated specialist company (**master and special servicing**) for credit recovery **Pirelli RE Credit Servicing**. The company intervenes in the market, sometimes on behalf of third parties, with a dedicated structure comprising almost 50 people and can draw upon the staff of the specialised services companies and asset management business units of the Pirelli RE Group. Following the agreement, Pirelli RE Credit Servicing will focus on the management on behalf of third parties, eventually establishing joint ventures with banks owning non performing loans.

SIB manages, together with Morgan Stanley, non performing loan portfolios with a gross book value of approximately **4.6 billion Euro** (including those on behalf of third parties) and has branches across the country, with six offices in Italy, and a staff of approximately 280 people, as well as having a network of 160 external agencies. In addition to continuing the management of its credit portfolio, and in accordance with the new agreement, **SIB** will focus on the provision of special servicing services for the portfolios which will be acquired by Morgan Stanley Real Estate Funds and Pirelli RE. **SIB** will also work together with Pirelli RE Credit Servicing for the management of third party portfolios.

Fonspa specialises in **master servicing** of portfolios of performing and non-performing loans, in the granting of mortgage loans and in the restructuring of securitised debts. The company has a portfolio under management of **5.5 billion Euro** (of which 2.5 billion are non performing loans entrusted to **SIB** for the special servicing, while 3.0 billion are performing loans) with staff of more than 150 people.

Lazard acted as financial advisors and Freshfield Bruckhaus Deringer as legal advisors to Pirelli RE. Bonelli Erede and Pappalardo acted as legal advisors to Morgan Stanley.

The closing of the operation is projected for this summer and the agreement is, among others, subject to approval by the Fair Trading and Markets Authority and by Banca d'Italia.

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