



PIRELLI & C. REAL ESTATE PRESS RELEASE

BOARD APPROVES FIGURES FOR YEAR TO 30 SEPTEMBER, STRONG GROWTH TREND CONFIRMED THROUGH THIRD QUARTER

- **AGGREGATE VALUE OF PRODUCTION AS AT 30
SEPTEMBER: 3,594.2 MILLION EUROS**
- **EBIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS:
57.2 MILLION EUROS, +101%**
- **CONSOLIDATED NET PROFIT: 79.8 MILLION EUROS
COMPARED WITH 18.2 MILLION IN THE FIRST NINE MONTHS
OF 2001**
- **CONSOLIDATED NET PROFIT FROM RECURRING
ACTIVITIES: 41.1 MILLION EUROS AS AGAINST 20 MILLION IN
THE FIRST NINE MONTHS OF 2001, +106%**
- **SHAREHOLDERS EQUITY: INCREASES TO 322.6 MILLION
EUROS FROM 131 MILLION AT THE END OF 2001**
- **NET FINANCIAL POSITION IMPROVED: DOWN TO -32.7
MILLION EUROS AS COMPARED WITH -141.6 MILLION AT
YEAR-END 2001**
- **RECURRING PROFIT CONFIRMED UP STRONGLY FOR THE
2002 FINANCIAL YEAR**

Milan, November 8th, 2002 – The Board of Directors of Pirelli & C. Real Estate met today to examine and approve the results for the Group for the quarter ending as at September 30th.

Before examining the figures, it should be noted that Pirelli & C. Real Estate is a management company that invests in real estate portfolios managed predominantly

through companies in which the company holds a qualified minority equity stake. It follows that the **aggregate value of production and operating income inclusive of equity participation results** should be considered the most significant indicators of the volume of business managed and of operating results and performance.

Group operational performance as at September 30th, 2002

The **aggregate value of production** during the first nine months of 2002 was equal to **3,594.2 million euros**, as against 474.2 million euros during the first nine months of 2001. The increase stems principally from significant new acquisitions made. Excluding these acquisitions, the aggregate value of production amounted to 696.6 million euros, corresponding to growth of 77% with respect to 393.2 million euros recorded during the first nine months of 2001. **Consolidated production value** as at 30 September was **305 million euros**, as against 241.4 million euros during the first nine months of 2001.

The third quarter aggregate value of production amounted to 254.3 million euros, compared with 116.3 million euros for the third quarter of 2001.

Ebit including income from equity participations amounted to **57.2 million euros**, as against 28.5 million euros during the first nine months of 2001 (+101%). This result breaks down as 41.1 million euros from consolidated companies (36 million during the first nine months of 2001), and 16.1 million euros after taxes from companies consolidated by the equity method, as against a negative figure of 7.5 million euros in the same period during the previous year (see appendix 2).

Ebit from recurring activities including results from equity participations was **60.5 million euros**, as against 36 million euros during the first nine months of 2001, registering growth of **68%**.

Third quarter Ebit including results from equity participations as regards recurring activities was 15.2 million euros compared with 7.7 million euros in the third quarter of 2001.

Profit before tax was **106.2 million euros**, as against 28.1 million euros during the first nine months of 2001; PBT from recurring activities amounted to **58.7 million euros**, as against 30.8 million euros during the first nine months of 2001, representing growth of **91%**.

Net income was equal to **79.8 million euros**, as against 18.2 million euros during the first nine months of 2001; as regards recurring activities, this amounted to **41.1 million euros**, compared with 20 million euros during the first nine months of 2001, registering growth of **106%**.

Third quarter net income amounted to 8.4 million euros, compared with 5.1 million euros in the third quarter of 2001.

Shareholders' equity as at September 30th, 2002 amounted to **322.6 million euros**, a 131 million euro increase over the year-end 2001 figure. This in part reflected the increase in share capital arising from quotation on the Stock Exchange (105 million).

The **net financial position** corresponded to a negative figure of **32.7 million euros**, compared with minus 54.8 million euros in June and minus 141.6 million euros at the end of 2001. The 108.9 million euro improvement compared with December 31st, 2001 may be attributed to completion of the disposal of securities held in the portfolio, and to the above-mentioned capital increase associated with the stock market listing, which more than offset major investments in real estate assets and in services companies.

The financial position, gross of shareholder loans to companies in which a minority stake is held, was negative for **243.7 million euros**, as compared with the negative value of 380.7 million euros recorded at the end of 2001, for a ratio to shareholders equity of 0.75 (as against 2.9 on December 31st, 2001).

Performance in main areas of activity during the first nine months of 2002

Asset Management Activities

In the first nine months of 2002 the aggregate **Asset Management** portfolio and development activities registered a total **value of production** of **3,453.2 million euros** (compared with 396.4 million euros over the preceding period on equivalent terms), of which 148.3 million euros from consolidated ventures, 3,283 million from ventures undertaken through significant minority shareholdings, and 21.9 million euros from asset management fees.

Asset Management operations continued to pursue the realization of value from assets under management, generating revenues from sales of **669.6 million euros** (+86% compared with the first nine months of 2001), with capital gains of **209.2 million euros**. **New acquisitions** worth **2.9 billion euros** were also undertaken during this period (predominantly in the centre of Milan and Rome).

Profit before tax from these operations, at the aggregate level, amounted to **142.1 million euros**, as against 28.9 million euros during the first nine months of 2001. Pirelli & C. Real Estate's share of this was equal to 49.5 million euros, compared with 29.1 million euros during the first nine months of 2001.

Service Provider Activities

In the first nine months of 2002 the fully consolidated **value of production** from **Service Provider** operations was equal to **136.1 million euros**, as against 65.6 million over the same period during the preceding year, registering growth of **107%**, of which around 31% was generated by internal growth, and the remainder by acquisitions.

Profit before tax was equal to **17.2 million euros**, compared with 9.2 million euros over the preceding period on equivalent terms, representing growth of 87%.

Significant events over the period

- In July **Pirelli & C. Real Estate** and **Soros Real Estate Investors** set up a **joint venture** for investing in **light industry and logistics**; as per its unique business model, Pirelli & C. Real Estate has taken a **25%** qualified minority shareholding and is undertaking full management of the venture. This joint venture, which is poised to **invest over 300 million euros** over the three-year period 2002-2004 in existing portfolios and in development ventures, has already pledged 58 million euros.
- In July and August Pirelli & C. Real Estate continued **to make acquisitions for its predominantly residential portfolio** for a value exceeding **100 million euros**, in which it is taking its customary significant minority equity stake.

Events occurring after September 30th, 2002

- On 29 October operations were completed to **concentrate** tertiary sector real estate assets owned from the joint ventures between Morgan Stanley Real Estate Funds (75%) and Pirelli & C. Real Estate (25%) on one hand, and from Olivetti and Telecom Italia Groups on the other, into two vehicles **Tiglio I** and **Tiglio II**, which are controlled indirectly by the Morgan Stanley Real Estate Funds. The overall value of the portfolio (exceeding 2.5 million squares of property) has been valued on a building by building basis by CB Richard Ellis at around **4 billion** euros. The Olivetti and Telecom Italia Groups have also transferred to Pirelli & C. Real Estate their property, project and agency services companies valued at around 18 million euros. At the same time contracts between the Pirelli & C. Real Estate Group and the Tiglio I and Tiglio II companies, as well as with Telecom Italia and Olivetti, have been implemented for the provision of asset management and specialist services with regard to instrumental real estate assets that are not part of the Tiglio project. As a result of this operation, Pirelli & C. Real Estate is set to benefit from increased turnover from services estimated to exceed **30 million euros**.

- At the end of October, as provided in the original agreements, 25% of the real estate assets formerly belonging to RAS, indirectly held by the Company through the joint venture with the Morgan Stanley Real Estate Funds, was disposed of to Progestim (SAI Group) and Norman 95.
- Also in October, as part of non-performing loans activity, **CFT Finanziaria**, a subsidiary of the Cassa di Risparmio di Firenze, in which Pirelli & C. Real Estate has a minority equity stake, began **securitization of a portfolio of unrecoverable mortgage loans** worth around **200 million euros**. Completion of this transaction, in which Pirelli & C. Real Estate is acting as portfolio servicer, is scheduled for the first quarter of 2003.

Outlook

On the basis of the information available, it is reasonable to forecast for 2002 as a whole a **significant improvement in the net result from recurring activities**.

The Code of Behavior with regard to insider dealing is adopted

The Board of Directors has also adopted a Company Code of Behavior with regard to insider dealing.

The Code of Behavior has been prepared in compliance with regulations introduced recently by the Italian Stock Exchange, which, as is commonly known, include the obligation for listed companies to make periodical disclosure regarding operations undertaken on listed securities belonging to the issuer and to its subsidiaries by parties who may have access to price sensitive information, with effect from 1 January 2003. The document responds to the framework regulations published by the Italian Stock Exchange in the following ways:

- A flexible approach to identifying the pool of persons who are subject to disclosure obligations, in order to be able to take into account contingent situations requiring access to confidential information.
- Extension of the obligation to provide notification to include operations carried out on listed financial instruments issued by parent companies (in addition to subsidiary companies).
- A significant reduction in the quantitative threshold regarding the size of operations subject to market notification on a quarterly basis (from 50,000 to 30,000 euros) or immediately at the time of execution (from 250,000 to 80,000 euros).
- Obligation for transparency for all operations regarding financial instruments issued by Pirelli Group companies, even when realized within the framework of management relations on an individual basis regarding investment portfolios.

- Obligation to communicate Significant Transactions if the relative ceiling has been exceeded, not during the ongoing calendar quarter, but during the course of the three months preceding the transaction just concluded;

- “Black-out periods”, that is to say predetermined periods during which persons who are subject to the provisions of the Code may not undertake dealings. The Code of Behavior also provides for a system of strict sanctions, which, for Directors and Auditors, includes the option of seeking removal from office from the Shareholders’ Meeting.

The Code is being brought into effect in advance of the compulsory date set out in the Stock Market Regulations (1 December 2002 as opposed to 1 January 2003). For notification purposes, dealings undertaken in the month of December 2002 shall be presented together with those undertaken during the first quarter of 2003.

A full version of the Code of Behavior will soon be available on the www.pirellirealestate.com website.

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Appendices: Balance Sheet/Income Statement highlights for the nine month period ended September 30th 2002, neither audited by the Independent Auditors nor by the Board of Statutory Auditors.

Consolidated profit and loss analysis

million euros

	CONSOLIDATED SITUATION			CONSOLIDATED SITUATION		
	First three quarters 2002			First three quarters 2001		
	Total	Recurring activities	Non-recurring activities *	Total	Recurring activities	Non-recurring activities *
Value of production	305.0	304.4	0.6	241.4	228.8	12.6
<i>of which acquisitions</i>	28.8	28.8	0.0	64.4	64.4	0.0
Ebit	41.1	44.4	(3.3)	36.0	38.5	(2.5)
Ebit from equity participations	16.1	16.1	0.0	(7.5)	(2.5)	(5.0)
Ebit including equity participations	57.2	60.5	(3.3)	28.5	36.0	(7.5)
Revenues from equity participations	9.6	9.1	0.5	10.0	8.5	1.5
Other investment revenues and charges	(12.0)	(11.1)	(0.9)	(12.4)	(12.8)	0.4
Profit before fin. charges and extraord. revenues	54.8	58.5	(3.7)	26.1	31.7	(5.6)
Extraordinary charges and revenues	51.4	0.2	51.2	2.0	(0.9)	2.9
P.B.T.	106.2	58.7	47.5	28.1	30.8	(2.7)
Taxation	(26.3)	(17.5)	(8.8)	(10.1)	(11.0)	0.9
Net profit	79.9	41.2	38.7	18.0	19.8	(1.8)
Net profit minorities	(0.1)	(0.1)	0.0	0.2	0.2	0.0
Net profit for period	79.8	41.1	38.7	18.2	20.0	(1.8)

million euros

	CONSOLIDATED SITUATION			CONSOLIDATED SITUATION		
	THIRD QUARTER 2002			THIRD QUARTER 2001		
	Total	Recurring activities	Non-recurring activities *	Total	Recurring activities	Non-recurring activities *
Value of production	88.1	88.1	0.0	57.1	52.3	4.8
<i>of which acquisitions</i>	0.9	0.9	0.0	8.2	8.2	0.0
Ebit	12.0	12.7	(0.7)	7.7	7.6	0.1
Ebit from equity participations	3.2	3.2	0.0	0.0	2.4	(2.4)
Ebit including income from equity participations	15.2	15.9	(0.7)	7.7	10.0	(2.3)
Revenues from equity participations	3.1	3.1	0.0	3.4	2.8	0.6
Other investment revenues and charges	(3.8)	(3.8)	0.0	(2.6)	(3.9)	1.3
Profit before fin. charges and extraord. revenues	14.5	15.2	(0.7)	8.5	8.9	(0.4)
Extraordinary charges and revenues	0.1	0.1	0.0	(0.2)	(0.2)	0.0
P.B.T.	14.6	15.3	(0.7)	8.3	8.7	(0.4)
Taxation	(6.1)	(6.1)	0.0	(3.2)	(3.3)	0.1
Net profit	8.5	9.2	(0.7)	5.1	5.4	(0.3)
Net profit minorities	(0.1)	(0.1)	0.0	0.0	0.0	0.0

* The non-recurring items of greatest significance to the above results as at September 30th, 2002 regard former Unim bills of exchange, essentially attributable to disposal of the final tranche of securities held in the portfolio (with a positive impact on net profit corresponding to 40.5 million euros), completion of construction on the Arcimboldi Theatre, which

was disposed of to the Milan Town Council without payment for the portion exceeding urbanization costs, and reconversion of the Casaclick open portal (aggregate negative impact on net profit equal to 2.9 million euros), in addition to the positive item of 1.1 million euros generated by gains from the disposal of the long-term investment in Eurostazioni.

Balance sheet analysis

million euros	<u>30 September 2002</u>	<u>30-Jun-02</u>	<u>31 December 2001</u>
Assets	186.6	182.2	74.2
of which shareholders' equity	105.7	101.0	55.2
Net working capital	215.3	232.7	249.4
of which inventories	397.8	396.8	346.0
Net Invested Capital	401.9	414.9	323.6
Net assets	324.1	315.3	132.1
of which minority holdings	1.5	1.4	1.1
Funds	45.1	44.8	49.9
Net financial position	32.7	54.8	141.6
of which cash/short-term financial assets	(40.0)	(71.3)	(41.4)
of which shareholder loans	(211.0)	(212.7)	(239.1)
of which other medium/long term assets	(0.2)	(0.2)	(0.2)
of which short term financial liabilities	68.7	322.4	401.9
of which medium/long-term financial liabilities	215.2	16.6	20.4
Total covering net invested capital	401.9	414.9	323.6

Appendix 2

Contribution of companies consolidated at equity

(figures in million euros)

		First three quarters 2002	First three quarters 2001
Companies consolidated at equity			
<u>Ebit</u>		232.1	99.9
Net profit		51.3	(17.6)
P&CRE pro quota net profit	(A)	16.1	(7.5)
<u>Ebit of fully consolidated companies</u>	(B)	41.1	36.0
P&CRE Ebit including equity participations	(A)+(B)	57.2	28.5