PROJECT TIGLIO TAKES OFF:


THE TWO TIGLIO VEHICLES TO BE INDIRECTLY CONTROLLED BY THE MORGAN STANLEY REAL ESTATE FUNDS

TOTAL ASSETS VALUED AT ABOUT 4 BILLION EUROS, COMPRISING OVER 2.5 MILLION SQM, LOCATED MAINLY IN ROME AND MILAN

PORTFOLIO WITH SIGNIFICANT CRITICAL MASS, AN ATTRACTIVE RISK/RETURN PROFILE AND COMPLEMENTARY MIX IN TERMS OF GEOGRAPHIC LOCATION, LEASE DURATION AND TENANT PROFILE

PIRELLI & C. REAL ESTATE IS AWARDED ASSET MANAGEMENT AND REAL ESTATE SERVICES MANDATES

Milan, 29 October 2002 – Today, the joint ventures between the Morgan Stanley Real Estate Funds (75%) and Pirelli & C. Real Estate (25%) and the Olivetti and Telecom Italia Groups finalised the combination of a portion of their respective office properties into two vehicles, Tiglio I and Tiglio II, each indirectly controlled by The Morgan Stanley Real Estate Funds. Properties contributed were selected on the basis of their complementary characteristics.

This transaction represents the execution of the agreement signed in May of this year by the respective parties following the satisfaction of all conditions precedent to the closing of this transaction.

The combination of these office properties in Tiglio I and Tiglio II represents one of the most significant real estate transactions in Europe.
The combined portfolio, which consists of over **2.5 million sqm** of space, has been **valued at 4 billion Euros** by CB Richard Ellis, an independent real estate appraiser.

The properties comprised in Tiglio I and Tiglio II are **complementary** in terms of risk/return profile, geographic location (most properties are located in Rome and Milan, in key strategic locations or key urban development areas), duration of lease contracts and tenant profile. This **diversified** portfolio with its **critical mass, attractive risk/return profile** and **long-term stable cash flows** represents an **optimal portfolio** for a **medium to long-term real estate investment**.

Simultaneously with the combination of the properties, the **Olivetti and Telecom Italia Groups** have sold their **real estate services divisions** (except for facility management) to Pirelli & C. Real Estate, which will integrate such divisions into its own services platform. The sale involves the property management, project management and agency divisions (which employ approximately 170 people) of Telecom Italia and Olivetti Multiservices. The value of these divisions is approximately **15 million Euros** for **Telecom Italia** and about **3 million Euros** for **Olivetti Multiservices**, based on a valuation performed by KPMG.

Pirelli & C. Real Estate has been **awarded contracts to provide real estate services and asset management** to Tiglio I and Tiglio II as well as to Telecom Italia and Olivetti with respect to their assets that are not part of the Tiglio project. These contracts will be for **five years** to be extended for another three years on the same terms and conditions as those applied by Pirelli & C. Real Estate to leading institutional investors. Overall Pirelli & C. Real Estate should benefit from an increase in turnover from services of about 30 million Euros **per annum**.

In addition, Pirelli & C. Real Estate and the Olivetti-Telecom Italia Group are currently studying a project to combine their respective **facility management services** divisions into a single company, which, in terms of size and expertise, would have a leadership position in Italy.

With the creation of Tiglio I and Tiglio II, the shareholders believe to have formed a basis for the further development of the Italian property market.

Potential future strategies of Tiglio I and Tiglio II may include:

- **Private placement** with institutional investors, both Italian and International;
- The creation, during 2003, of **one or more real estate investment funds**, governed by Italian or foreign legislation;
- **Securitization** of a portion of the portfolio;
- **Rotation** of the property portfolio.
Shareholding in Tiglio I and Tiglio II will be as follows:

**TIGLIO I**
MSMC Italy Holding BV (1) 51,59%
Telecom Italia SpA 36,85%
Olivetti SpA 8,84%
Seat PG SpA 2,10%
Pirelli SpA 0,61%

(1) The Morgan Stanley Real Estate Fund III International 75%
- Pirelli & C. Real Estate 25%

**TIGLIO II**
Popoy Holding B.V. (2) 50,53%
Telecom Italia SpA 49,47%

(2) The Morgan Stanley Real Estate Fund IV International 75%
- Pirelli & C. Real Estate 25%

The property portfolios were transferred in bulk to the respective vehicles at a total value of **3.3 billion Euros**, which represents a **17% discount** to the appraised value of **4 billion Euros**, which was based on an individual asset-by-asset valuation.

The vehicles are financed for 25% through shareholder’s funds and for the remaining 75% through mortgage financing arranged by IntesaBci and Capitalia.

Lazard Real Estate acted as financial adviser to Olivetti and Telecom Italia, while Morgan Stanley acted as financial adviser to the joint ventures between The Morgan Stanley Real Estate Funds and Pirelli & C Real Estate. Studio Chiomenti acted as legal adviser to the transaction.