PIRELLI & C. REAL ESTATE PRESS RELEASE

BOARD EXAMINES THREE-YEAR PLAN 2003- 2005:

- **CONSOLIDATED EBIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS: AVERAGE ANNUAL GROWTH BETWEEN 20% AND 25%**

- **ASSET MANAGEMENT: 60% INCREASE IN ASSETS UNDER MANAGEMENT, UP FROM 7 TO 11 BILLION EURO (BOOK VALUE); AVERAGE EBIT GROWTH RATE INCLUDING INCOME FROM EQUITY PARTICIPATIONS BETWEEN 14% AND 16%**

- **NEW STRATEGY FOR LAUNCHING VARIOUS REAL ESTATE FUNDS SPECIALIZED BY PRODUCT AND DESTINED FOR INSTITUTIONAL AND RETAIL INVESTORS**

- **SERVICE PROVIDER ACTIVITIES: AVERAGE GROWTH IN REVENUES BETWEEN 30 AND 33%; AVERAGE EBIT GROWTH RATE 33% - 36%**

- **NET FINANCIAL POSITION SUBSTANTIALLY STABLE OVER THE PERIOD**

Milan, 8 April 2003 – The Board of Directors of Pirelli & C. Real Estate met today to examine the three-year plan 2003-2005.

Market scenario

The current Italian real estate market is characterized as follows:

- in the **residential** sector, the **strong propensity for first home purchases** continues against a background of substantial shortages in new products for sale;
- in the **service provider** sector, following a slow-down in the real estate cycle due to stock exchange trends on an international scale, liquidity is

still high and there continues to be **strong interest in the central areas of Milan and Rome**, here too with substantial shortages in available property;
- in the sector of **non performing loans** guaranteed by mortgages, there is an increasing **demand for top professional skills** in distressed debt management, whereas banks are starting to transfer their portfolios to specialized operators;
- the **service provider** sector features good prospects for growth as the **market moves** towards the **efficiency standards** already in force in **other European countries**.

In this market context, Pirelli & C. Real Estate is basing its growth and development prospects particularly on:
- absolute **leadership** in **residential** portfolio management in terms of size and managerial skills in the process of purchasing, fractioning and selling;
- a **commercial** portfolio concentrated in the central areas of Milan and Rome, greater selectivity in opportunist (short-term) investments and the **development of real estate funds specialized per product type** which will increasingly connote the Company as a fund manager;
- a **competitive edge in non performing loans management** due to the combination of experience gained in the real estate sector and financial expertise;
- the ability to offer a full **range of real estate services** through a series of specialized companies, each occupying a leading position in the sector, backed by the sizeable portfolio managed by the Group, and the ability to leverage **cross selling** possibilities to exploit opportunities offered by an expanding market.

Three-year plan 2003-2005

The three-year plan aims to achieve a consolidated **average yearly growth rate on EBIT including Income from Equity Participations** of about **20-25%** (102 million euro in 2002).

The development of the Group will be largely self-financed; the net financial position remains substantially stable over the period; the financial position including Shareholders' Loans will enable a stable gearing to be maintained over the period – around 0.5-0.6 **-** providing the possibility to exploit new opportunities not foreseen in the Plan.

Asset management

For the **asset management** business as a whole there is expected to be:

- an increase of about **60%** in the mass of **assets under management**, up from the current **7 billion** euro (book value) to about **11 billion** euro;
- an average annual growth rate on EBIT including Income from Equity Participations of between **14%** and **16%** (90 million euro in 2002).

Following are the forecasts for the individual sectors:

<u>Residential portfolio</u>
This sphere of activity, which is characterized by maintaining **short-term investment horizon** and **portfolio rotation**, will see annual sales of about 0.8-1 billion euro and acquisitions on a yearly basis worth about 0.6-0.8 billion euro; a boost in development in order to increase the availability of both new urban property and second homes.

<u>Commercial portfolio</u>
The Group's plan in this sector is to **maintain** traditional **asset management** in a **short-term** rationale, and alongside this to follow a strategy based on promoting, establishing and managing several long-term real estate investment funds, destined for both retail and institutional investors differentiated by asset type (offices, ertail, light industrial/logistics, hotels).

This strategy will be achieved by:

- re-defining and **re-segmenting the existing portfolio**,
- continuing with **acquisitions,**
- **adding** new **third-party** real estate assets

At the end of the above-mentioned process, Pirelli & C. Real Estate will hold a **2-3%** share in the various funds promoted, **through its majority participation in an SGR** (fund management company), along with **exclusive mandates** for **fund management** and for the supply of specialized **services**.

In this way, the different investment stake, along with asset management and fund management fees and the fees from service provider activities, will allow Pirelli & C. Real Estate to maintain the **same return** of **25%-35% per year**, and to stabilize it over a much greater length of time, namely **10-15 years**.

<u>Area and urban development portfolio</u>
In this business sector the plan is basically to maintain the current size of the portfolio, with 40 developed areas spread around the country. This business unit's strategy – based on a "time to market" approach – involves converting and planning building development in the various areas, according to indications

provided by the Group's product managers (offices, retail, residential, etc.) and according to the demands of the market; downstream from such conversion, the above-mentioned areas will be **transferred** to the Group's **business units** or to third parties. To complete the process, further acquisitions are planned in order to keep the size of the portfolio unchanged.

<u>Non performing loans portfolio</u>
In this context, the plan is to increase assets under management from the current 0.2 billion euro to 1.8 billion euro by the end of 2005 by means of an **intense acquisition campaign**, flanked by **securitization** operations and the underwriting of junior bond issues.

Service Provider activities

For the **service provider** activities **as a whole** there will be:

- an average annual growth rate in **revenues** of between **30-33%** (200 million euro in 2002);
- an average annual growth rate on **EBIT** of between **33-36%** (28.8 million euro in 2002).

As an operator covering the whole range of specialised services, Pirelli & C. Real Estate can count on a sizeable portfolio stemming from its asset management activities. For the period 2003-2005, by leveraging its cross selling capabilities, the company plans to take advantage of a number of specific strengths in the various sectors. For instance:

- for the **residential agency**, availability of a portfolio featuring **significant volumes and fast rotation**, with assets located in Italy's strategically most important cities;
- for the **commercial agency**, a specialized structure per product type; exclusive assignments both for opportunist portfolios and for long-term portfolios; formation of **new partnerships** with European firms to be considered as a potential means for entering new markets abroad;
- **acquisition** and integration, in the area of **property management** services, of **other operators in the sector**; important **investments** made in the Information Technology sector; the strong **strategic connection** with the asset management structure;
- **consolidation** of the company's **leadership** position in **facility management** services by acquiring new enterprises operating in the market (the most recent Olivetti Multiservices Facility) in order to provide an increasingly **wide** and **qualified range of services**;

- a further and significant increase in **project management** services in view of the Group's pivotal growth-oriented projects and initiatives, as well as the acquisition of **new commissions** from outside clients as a consequence of project financing operations.

Particular importance is attributed to the plan to set up a network of real estate agencies which will operate under the **Pirelli RE** brand name. The goal is to have **1,000 such outlets** up and running **in 2005**. Thanks to agreements to be concluded with leading banking and insurance groups, they will be able to offer a full range of real estate and financial services and products, including placement of stakes in real estate funds promoted by Pirelli & C. Real Estate itself. The project is expected to involve an investment of **20 million** euro and to reach break-even point in 2005.

§

When presenting the Three-Year Plan for 2003–2005, Carlo Puri Negri, CEO of Pirelli & C. Real Estate, had this to say: "We are currently in a market phase characterized by a high propensity among households to achieve ownership of their home, the commercial sector nearing the upper zone of the cycle, the new steps taken by the banks with the sale of portfolios of non performing loans and a gradual progression towards European standards in the sector of specialised services. Pirelli & C. Real Estate has adopted a flexible approach and has succeeded in diversifying its mix of activities: it has speeded up acquisitions in the residential sector, it has acquired a portfolio perceived as ideal for the roll-out of long-term business successes, it now has some preliminary solid experience in the non performing loans sector and it has achieved a marked increase in services provided. It is therefore extremely well placed to continue along the path to growth and to take up the challenges the changing real-estate market will present in the coming years".

For further information:
Pirelli Press Office tel. +39/02/8535.4270
www.pirellirealestate.com