



*Financial Statements*  
*September 30, 2002*



(Translation from the Italian original which remains the definitive version)

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## **BOARD OF DIRECTORS, BOARD OF STATUTORY AUDITORS, INDEPENDENT AUDITORS**

### **BOARD OF DIRECTORS**

Marco Tronchetti Provera	Chairman
Carlo A. Puri Negri	Deputy chairman and CEO
Giovanni Nassi	Deputy chairman
Reginald Bartholomew	Director
Carlo Bianco	Director
Emilio Biffi	Director
Carlo Buora	Director
Sergio Lamacchia	Director
Giulio Malfatto	Director
Giampietro Nattino	Director
Claudio Recchi	Director
Vincenzo Sozzani	Director
Livio Strazzera	Director

### **BOARD OF STATUTORY AUDITORS**

Roberto Bracchetti	Chairman
Paolo Carrara	Standing auditor
Gianfranco Polerani	Standing auditor
Franco Ghiringhelli	Alternate
Paola Giudici	Alternate

### **GENERAL MANAGERS**

Carlo Bianco	General manager - Residential Portfolio
Emilio Biffi	General manager - Commercial and Land portfolio
Giulio Malfatto	General manager - Services and Corporate Development

### **INDEPENDENT AUDITORS**

PriceWaterhouseCoopers S.p.A.  
Via Vittor Pisani 2  
20124 Milan

## **DIRECTORS' REPORT ON OPERATIONS FOR THE FIRST NINE MONTHS OF 2002**

Pirelli & C. Real Estate S.p.A., part of Pirelli & C. group, is active in the asset management of real estate properties sector, mainly managed via companies in which it has minority holdings.

During the period under review, it completed the project for its stock market listing. The objective was to provide it with new funding necessary for growth, to consolidate its market position in Italy and abroad and fully maximise its value. The listing procedure led to an increase in share capital of Euro 105 million with outstanding shares up by more than 35%.

As in previous years, in order to provide a clearer picture of the company's performance, the consolidated statement of income is divided into "recurring" and "non-recurring" activities. This allows a better representation of the results generated by the development of the group.

The consolidated financial schedules at September 30, 2002 show net income of Euro 79.8 million compared to Euro 18.2 million for the first nine months of 2001. The net result from its recurring activities is Euro 41.1 million, up 106% on the result at September 30, 2001 (Euro 20.0 million). The net result of its non-recurring activities, mainly capital gains on the sale of securities, is Euro 38.7 million (September 30, 2001: -Euro 1.8 million).

### **Significant events of the nine months**

Pirelli & C. Real Estate group undertook a number of significant transactions during the nine months, as follows:

- Pirelli & C. Real Estate S.p.A. acquired full control of Pirelli & C. Credit Servicing S.p.A., the non performing loans management company, from its parent Pirelli & C. A.p.A. for Euro 5.3 million; it thus entered a new business sector expanding its range of services.
- It also finalized the agreement, signed in November 2001, for the acquisition of three service companies (Edilnord Progetti S.p.A., Edilnord Gestioni S.p.A. and Servizi Immobiliari Edilnord S.p.A.) from Edilnord 2000 group as well as the acquisition of minority holdings, in line with its usual *modus operandi*, in special purpose vehicles which own land suitable for building in the Milan area - these are managed by Pirelli & C. Real Estate S.p.A.. This transaction was worth approximately Euro 220 million.

- In order to concentrate on the recurring business, the company sold its minority investment in Eurostazioni S.p.A. to Pirelli & C. A.p.A. in March.
- At the end of March, the group acquired Immobiliare San Babila S.p.A. together with the Morgan Stanley funds for approximately Euro 240 million from Investimenti e Gesioni S.p.A. (Fiat group). The real estate company has a non-strategic portfolio of great value, mostly located in Milan and Rome.
- In April, Pirelli & C. Real Estate S.p.A. concluded two acquisitions in the Facility Management services sector: Cam Energia e Servizi S.r.l. (now Pirelli & C. Real Estate Facility Management S.p.A.) from Cam Finanziaria S.p.A. and Altair Facilities Management S.p.A.. It acquired full control of the latter from companies owned by a group of private entrepreneurs with the aim of building up the group's share of this market sector.
- Again in April, the group acquired a minority stake in CFT Finanziaia S.p.A., a special purpose vehicle that owns a portfolio of non performing mortgage loans worth Euro 137 million. The vehicle subsequently acquired modestly-sized portfolios from certain Tuscan banks for Euro 28 million.
- In May, together with the Morgan Stanley funds, it finalized acquisition of property worth Euro 553 million from Banca di Roma, which maintained a minority interest in the project.
- In the same month, Pirelli & C. Real Estate S.p.A. concluded the acquisition of non-strategic properties from RAS group, consisting of 107 properties, most of which of great value and over 50% of which located in Milan downtown, worth more than Euro 1,720 million. This transaction was performed with the Morgan Stanley funds and other partners. The company also acquired the property and facility management service division.
- Again in May, M.S.M.C. (controlled by the Morgan Stanley funds and in which Pirelli & C. Real Estate has a 25% interest) signed a binding master agreement with Pirelli S.p.A., Olivetti, Telecom Italia and Seat Pagine Gialle called Progetto Tiglio. The objective is to increase the value of a group of properties, valued at Euro 4.0 billion by CB Richard Ellis, to be transferred to jointly owned vehicles for Euro 3.3 billion with an average discount of 17%. As part of the agreement, the service businesses related to the Olivetti and Telecom properties are to be acquired by Pirelli & C. Real Estate for Euro 18 million.
- Pirelli & C. Real Estate and Soros Real Estate Investors set up a joint venture in July to invest in the light construction industry and logistics. In line with its usual *modus operandi*, Pirelli & C. Real Estate has a minority interest of 25% in the newco with full management powers. The joint venture will invest more than Euro 300 million, Euro 58 million of which has already been committed, in the three years from 2002 to 2004 in existing portfolios and projects under development.
  - The company continued to purchase mainly residential properties in July and August worth more than Euro 100 million and in which it holds its customary minority holding.

## Review of results of operations

In millions of Euros

### CONSOLIDATED RESULTS

	First nine months 2002			First nine months 2001		
	Total	Core activities	Non-core activities (*)	Total	Core activities	Non-core activities (*)
<b>Production value</b>	<b>305.0</b>	<b>304.4</b>	<b>0.6</b>	<b>241.4</b>	<b>228.8</b>	<b>12.6</b>
<i>purchases</i>	<i>28.8</i>	<i>28.8</i>	<i>0.0</i>	<i>64.4</i>	<i>64.4</i>	<i>0.0</i>
<b>Gross operating profit</b>	<b>47.6</b>	<b>50.2</b>	<b>(2.6)</b>	<b>38.9</b>	<b>41.4</b>	<b>(2.5)</b>
<i>Amortization and depreciation</i>	<i>(6.5)</i>	<i>(5.8)</i>	<i>(0.7)</i>	<i>(2.9)</i>	<i>(2.9)</i>	<i>0.0</i>
<b>Operating profit (loss)</b>	<b>41.1</b>	<b>44.4</b>	<b>(3.3)</b>	<b>36.0</b>	<b>38.5</b>	<b>(2.5)</b>
Net income (loss) from equity investments (**)	16.1	16.1	0.0	(7.5)	(2.5)	(5.0)
<b>Operating profit (loss) after net income (loss) from equity investments</b>	<b>57.2</b>	<b>60.5</b>	<b>(3.3)</b>	<b>28.5</b>	<b>36.0</b>	<b>(7.5)</b>
Financial income from equity investments	9.6	9.1	0.5	10.0	8.5	1.5
Other financial income and expenses, net	(12.0)	(11.1)	(0.9)	(12.4)	(12.8)	0.4
<b>Income (loss) before extraordinary items</b>	<b>54.8</b>	<b>58.5</b>	<b>(3.7)</b>	<b>26.1</b>	<b>31.7</b>	<b>(5.6)</b>
Extraordinary items	51.4	0.2	51.2	2.0	(0.9)	2.9
<b>Income before income taxes and minority interests</b>	<b>106.2</b>	<b>58.7</b>	<b>47.5</b>	<b>28.1</b>	<b>30.8</b>	<b>(2.7)</b>
Income taxes	(26.3)	(17.5)	(8.8)	(10.1)	(11.0)	0.9
<b>Income before minority interests</b>	<b>79.9</b>	<b>41.2</b>	<b>38.7</b>	<b>18.0</b>	<b>19.8</b>	<b>(1.8)</b>
Minority interests	(0.1)	(0.1)	0.0	0.2	0.2	0.0
<b>Net income</b>	<b>79.8</b>	<b>41.1</b>	<b>38.7</b>	<b>18.2</b>	<b>20.0</b>	<b>(1.8)</b>

\* The more significant non-recurring activity items that contributed to the above results at September 30, 2002 related to former Unim, mainly the sale of the last installment of securities (positive impact on net income of Euro 40.5 million), completion of work on Teatro degli Arcimboldi, transferred free of charge to the Milan Municipality for the part not related to urbanization costs, and modification of the Casalick portal (negative effect of Euro 2.9 million on net income) together with the capital gain of Euro 1.1 million generated by the sale of the financial investment in Eurostazioni.

(\*\*) Figures net of income taxes as they relate to the companies valued using the equity method.

The consolidated statement of income for the 2002 third quarter is attached with comparative 2001 figures.

The company's activities are fully reflected in the combined production value (which also includes the results of minority investments) and operating result after net income (loss) from equity investments. These are the key figures as the first shows the volume of business performed and the second, trends in the group's results.

Combined production value for the first nine months of 2002 is Euro 3,594.2 million compared to Euro 474.2 million for the same period of 2001, mainly due to the significant purchases made. Net of these purchases, combined production value totals Euro 696.6 million, up 77% on the 2001 nine-month figure (Euro 393.2 million). Consolidated production value is Euro 305 million for the nine months against Euro 241.4 million for the first nine months of 2001.

Combined production value for the third quarter amounts to Euro 254.3 million compared to the 2001 figure of Euro 116.3 million.

The operating profit after net income (loss) from equity investments increased 101% to Euro 57.2 million (first nine months of 2001: Euro 28.5 million). It may be split

as follows: Euro 41.1 million from the fully consolidated companies (Euro 36 million), Euro 16.1 million from the companies consolidated using the equity method, net of income taxes (-Euro 7.5 million). With respect to the recurring activities, the operating profit after net income (loss) from equity investments amounts to Euro 60.5 million, a 68% increase on the first nine months of 2001 (Euro 36 million).

The operating profit after net income (loss) from equity investments for the third quarter amounts to Euro 15.2 million compared to the 2001 figure of Euro 7.7 million.

The following table gives a breakdown of the operating profit after net income (loss) from equity investments:

(in millions of Euros)		<b>First nine months 2002</b>	<b>First nine months 2001</b>
<u>Companies consolidated using the equity method</u>			
Operating profit (Ebit)		232.1	99.9
Net income (loss)		51.3	(17.6)
Pro quota net income (loss) pertaining to P&CRE	(A)	16.1	(7.5)
Operating profit (Ebit) <u>of fully consolidated companies</u>	(B)	41.1	36.0
P&CRE operating profit including results of investments	(A)+(B)	57.2	28.5

Income before income taxes and minority interests is Euro 106.2 million (first nine months of 2001: Euro 28.1 million). It amounts to Euro 58.7 million for the recurring activities, up 91% on the first nine months of 2001 (Euro 30.8 million).

Net income increased to Euro 79.8 million compared to Euro 18.2 million in the first nine months of 2001. The recurring activities' contribution was Euro 41.1 million, up 106% on the Euro 20 million of the first nine months of 2001.

Net income for the third quarter is Euro 8.4 million compared to the 2001 third quarter figure of Euro 5.1 million.

### **Performance of the main business sectors in the first nine months of 2002**

Comments on the individual business areas are set out below with combined figures. This allows representation of the results of the fully consolidated companies showing their pro quota contribution to the group's consolidated results. The figures of the business units are given in the schedules attached hereto.

### A. Asset Management

This business' portfolios and asset management development activities recorded combined production value of Euro 3,453.2 million (first nine months of 2001: Euro 396.4 million), Euro 148.3 million of which for consolidated companies, Euro 3.283 million for companies in which the group has minority interests and Euro 21.9 million of asset management fees.

The business also continued to increase the value of its portfolio under management, generating profits on sales of Euro 669.6 million (+86% on the first nine months of 2001) and capital gains of Euro 209.2 million. It also purchased assets for Euro 2.9 billion, mainly in Milan and Rome downtown.

Income before income taxes and minority interests of the activities managed by the asset management business amounts to Euro 142.1 million compared to Euro 28.9 million in the first nine months of 2001. The portion attributable to Pirelli & C. Real Estate is Euro 49.5 million compared to Euro 29.1 million in 2001.

Comments on the performance of the individual business units are given below:

- The Residential Asset Management business unit recorded production value of Euro 1,041.1 million (first nine months of 2001: Euro 144.1 million), Euro 18.6 million of which for consolidated companies, Euro 1,016.2 million for companies in which it has a minority interest and Euro 6.3 million for asset management fees.

The business unit generated profits on sales of Euro 418.6 million compared to Euro 220.2 million in the first nine months of 2001, an increase of Euro 198.4 million or 90%.

Capital gains total Euro 119.0 million, Euro 45.2 million of which generated by Pirelli & C. Real Estate, on sales of more than 2,500 units. The unit also purchased real estate for Euro 837.4 million, Euro 798.2 million of which related to portfolios with an average price of approximately Euro 2,100 per square meter. The average involvement of Pirelli & C. Real Estate in the new acquisitions was roughly 24%.

The result before income taxes and minority interests of the activities managed by the business unit amounts to Euro 66.2 million compared to a negative Euro 2.5 million in the first nine months of 2001.

- The Commercial Asset Management business unit recorded production value of Euro 2,288.4 million (first nine months of 2001: Euro 214.0 million), Euro 87.5 million of which for consolidated companies, Euro 2,187.6 million for companies in which it has a minority interest and Euro 13.3 million of asset management fees.

The business unit generated profits on sales of Euro 210.9 million compared to Euro 120.4 million in the first nine months of 2001, an increase of Euro 90.5 million or 75%.

Capital gains total Euro 68.8 million, Euro 20.5 million of which generated by Pirelli & C. Real Estate. The unit also purchased real estate for Euro 1,991.8 million, Euro 1,853.6 million of which related to portfolios with an average price

of approximately Euro 2,850 per square meter. The average involvement of Pirelli & C. Real Estate in the new acquisitions was roughly 26%. Income before income taxes and minority interests of the activities amounts to Euro 57.0 million compared to Euro 21.3 million of the first nine months of 2001.

- The Land and Urbanization Asset Management business unit recorded production value of Euro 115.0 million (first nine months of 2001: Euro 38.2 million), Euro 42.2 million of which for consolidated companies, Euro 71.5 million for companies in which it has a minority interest and Euro 1.3 million for asset management fees.

The business unit generated profits on sales of Euro 40.1 million compared to Euro 19.4 million in the first nine months of 2001, an increase of Euro 20.7 million or 107%.

Capital gains total Euro 21.4 million generated by Pirelli & C. Real Estate. The unit also purchased land in the Milan area, earmarked for industrial use, for Euro 68.4 million at an average price of approximately Euro 170 per square meter. The current average share of Pirelli & C. Real Estate at 40% will be decreased to approximately 31% following the entry of new institutional investors.

Income before income taxes and minority interests of the activities amounts to Euro 14.0 million compared to Euro 10.1 million of the first nine months of 2001(+39%).

- The Asset Management Non Performing Loans business unit recorded production value of Euro 8.6 million, Euro 7.7 million of which for companies in which it has a minority interest and Euro 0.9 million for asset management fees.

The unit acquired a portfolio of non performing loans from Credito Fondiario Toscano with a gross book value of Euro 137 million for Euro 62 million (45% of the gross book value) together with other less significant portfolios with a gross book value of Euro 28 million. The total gross book value of the non performing loans fully managed by Pirelli & C. Real Estate in which it has a minority interest thus increases to Euro 220 million. The current average interest of Pirelli & C. Real Estate, equal to 41% of the acquisition price, will be decreased to roughly 25% when securitization of the loans takes place, planned for before the end of the year.

Income before income taxes and minority interests of the activities amounts to Euro 4.9 million.

### B. Service Provider business

The production value of the fully consolidated business amounts to Euro 136.1 million for the first nine months of 2002 compared to Euro 65.6 million for the same period of 2001, an increase of approximately 107%, roughly 31% of which due to internal growth and the remainder to new acquisitions.

The business unit recorded income before income taxes and minority interests of Euro 17.2 million compared to Euro 9.2 million at June 30, 2001 (+87%).

This increase, which is not in line with the rise in production value, is mainly due to expansion of the facility and property management business which is less profitable

and incurred integration costs, which were of a strategic nature and, in particular, related to the property management business, useful for the asset management business.

The services are provided by specialist companies, controlled by Pirelli & C. Real Estate, and their performance during the period may be summarized as follows:

- *Residential agency*: consolidated production value amounts to Euro 23.5 million, Euro 1.1 million of which related to new acquisitions (+114%, Euro 11.0 million at September 30, 2001). During the period, the agency stipulated agreements for Euro 464.1 million, mainly on behalf of the residential Asset Management business, compared to Euro 241.3 million in the first nine months of 2001 (+92%).

Income before income taxes and minority interests of the business unit amounts to Euro 6.2 million, up 343% on the Euro 1.4 million recorded for the first nine months of 2001. The growth, more than in line with the rise in production value, is due to certain high profit transactions performed during the nine months.

- *Commercial agency*: consolidated production value amounts to Euro 16.4 million (+62%, Euro 10.1 million at September 30, 2001). During the period, the agency agreed sales for Euro 438.6 million (2001: Euro 319.6 million), lease installments of Euro 22.3 million (2001: Euro 18.4 million) and performed appraisals of 937 properties for a total value of Euro 2,739 million (2001: Euro 4,041 million).

Income before income taxes and minority interests of the business unit amounts to Euro 5.6 million, up 51% on the Euro 3.7 million recorded for the first nine months of 2001. The growth, which is not in line with the rise in production value, is due to certain high profit transactions performed in 2001 and due diligences and appraisals performed during the period which were less profitable.

- *Project Management*: consolidated production value amounts to Euro 17.0 million, up 24% on the same period of 2001 (Euro 13.7 million). The unit acquired new projects for Euro 2.6 million. Pirelli & C. Project Management managed contracts for Euro 109.1 million compared to Euro 101.7 million in the first half of 2001.

Income before income taxes and minority interests is Euro 2.2 million (+16%, first nine months of 2001: Euro 1.9 million).

- *Property Management*: consolidated production value amounts to Euro 40.0 million, Euro 20.2 million of which related to new acquisitions, compared to Euro 16.9 million in the first nine months of 2001 (+137%). Together with other partners, the unit acquired new contracts, in addition to the new contracts from Asset Management, from INPDAP (lot 1, lot 3, lot 9, lot 10) for the management of roughly 20,000 property units, from INPDAI (lot 1 and lot 3) for a total of 11,500 property units and from the Milan Municipality for the management of approximately 8,000 property units, beginning from 2003.

Income before income taxes and minority interests is Euro 1.8 million (first nine months of 2001: Euro 1.7 million), up Euro 0.1 million or 6%.

- *Facility Management*: consolidated production value amounts to Euro 36.6 million, Euro 21.8 million of which related to new acquisitions, compared to Euro

13.9 million in the first nine months of 2001 (+163%). Further to the acquisition of some companies, the business unit won the tender for the master agreement from Consip (Treasury Ministry) together with Dalkia and two other major operators in the sector. They will provide global services to Consip for a maximum amount of Euro 314 million. Pirelli & C. Real Estate's interest in the consortium is 26%.

Income before income taxes and minority interests of the business unit is Euro 0.8 million, up 33% on the Euro 0.6 million recorded for the first nine months of 2001. The growth, which is not in line with the rise in production value, is due to the integration of the new acquisitions.

- *Credit Servicing*: this business, commenced during the period, recorded consolidated production value of Euro 2.6 million. Pirelli & C. Credit Servicing managed non performing loans with a total gross book value of Euro 897 million during the nine months, Euro 220 million of which on behalf of the non performing loans asset management business and Euro 677 million related to the credit servicing businesses. Once the securitization transaction takes place, Pirelli & C. Real Estate intends to invest the capital in minority investments. Income before income taxes and minority interests amounts to Euro 0.6 million.

## Review of the financial position

(in millions of Euros)	<b>September 30, 2002</b>	<b>June 30, 2002</b>	<b>December 31, 2001</b>
<b>Fixed assets</b>	<b>186.6</b>	<b>182.2</b>	<b>74.2</b>
including investments in companies valued using the equity method	105.7	101.0	55.2
<b>Net working capital</b>	<b>215.3</b>	<b>232.7</b>	<b>249.4</b>
including inventories	397.8	396.8	346.0
<b>Net invested capital</b>	<b>401.9</b>	<b>414.9</b>	<b>323.6</b>
<b>Shareholders' equity</b>	<b>324.1</b>	<b>315.3</b>	<b>132.1</b>
including minority interests	1.5	1.4	1.1
<b>Provisions and financing</b>	<b>45.1</b>	<b>44.8</b>	<b>49.9</b>
<b>Net financial position</b>	<b>32.7</b>	<b>54.8</b>	<b>141.6</b>
including liquidity/short term financial assets	(40.0)	(71.3)	(41.4)
including shareholders' loans	(211.0)	(212.7)	(239.1)
including other medium to long term assets	(0.2)	(0.2)	(0.2)
including short term financial payables	68.7	322.4	401.9
including medium to long term financial payables	215.2	16.6	20.4
<b>Total covered net invested capital</b>	<b>401.9</b>	<b>414.9</b>	<b>323.6</b>

N.B. Like in previous periods, the net financial position does not include a payable due to Deutsche Bank for a project financing contract (Euro 84.8 million) following execution of the preliminary agreement for the sale of a property under construction which is effectively an advance for work in progress.

Shareholders' equity attributable to the group amounts to Euro 322.6 million at September 30, 2002, an increase on the Euro 131.0 million recorded at the end of 2001. This is partly due to the share capital increase made for the purposes of the stock market listing (Euro 105 million).

The net financial position is a negative Euro 32.7 million (June 30,2002: -Euro 54.8 million, December 31, 2001: - Euro 141.6 million). The Euro 108.9 million improvement on the 2001 year-end figure is due to both the sale of securities and liquidity generated by the stock market listing which more than offset the considerable investments in real estate and service companies.

Considering the financing given to companies in which the group has minority interests, the net financial position is a negative Euro 243.7 million compared to - Euro 380.7 million at the end of 2001 giving a leverage ratio of 0.75% (December 31, 2001: 2.9%).

Fixed assets total Euro 186.6 million, up Euro 112.4 million on the end of 2001 (Euro 74.2 million).

The increase is due to investments in companies with minority interests (Euro 50.5 million), in treasury shares (Euro 42.2 million) and in greater tangible and intangible assets for the rest due to changes in the consolidation area and listing expenses.

Net working capital amounts to Euro 215.3 million compared to Euro 249.4 million at the end of 2001. The decrease is due to sales of the remaining securities partly offset by the increase in inventories following new acquisitions and progress on the construction of several large properties.

### **Subsequent events**

- The transactions for the concentration of the commercial agencies of The Morgan Stanley Real Estate Funds and Pirelli & C. Real Estate joint venture (75%:25%) with those of the Olivetti group and Telecom Italia group into Tiglio I and Tiglio II were finalised on October 29. The latter two companies are indirectly controlled by The Morgan Stanley Real Estate Funds. The total value of the portfolio (more than 2.5 million square metres of properties) was appraised by CB Richard Ellis, property by property, in approximately Euro 4 billion. Olivetti group and Telecom Italia group also transferred their property, project and agency service business units for approximately Euro 18 million to Pirelli & C. Real Estate. Pirelli & C. Real Estate group concurrently agreed asset management and specialist services contracts with Tiglio I and Tiglio II as well as with Telecom Italia and Olivetti for the core properties excluded from the Tiglio project. Following this transaction, Pirelli & C. Real Estate's turnover from services should increase by an estimated Euro 30 million.
- As provided for in the original purchase contracts, 25% of the former RAS real estate assets were sold to SAI group at the end of October by means of the transfer of IS;
- Again in October, with respect to the non performing loans business, CFT Finanziaria S.p.A. (a Cassa di Risparmio di Firenze S.p.A. subsidiary in

which Pirelli & C. Real Estate has a minority interest) started the securitization of a non performing mortgage loans portfolio for approximately Euro 200 million. The transaction should be finalised during the first quarter of 2003 and Pirelli & C. Real Estate is acting as servicer.

## **Outlook**

Based on the available information, we believe that it can reasonably be expected that the group will record year-end income significantly better than that of the previous year.

## **Transactions with group and related companies**

During the period, the directors approved a procedure establishing ethical standards for the performance of significant transactions with related parties. They concurrently redefined and fine-tuned internal guidelines for the collection of more complete information to be provided to the boards of directors and statutory auditors pursuant to paragraph 1, article 150 of the Consolidated Finance Act about transactions with related parties, transactions of particular economic or financial importance, with other group companies and unusual transactions. All the transactions, including with the ultimate parent company and its subsidiaries and associated companies, relate to the group's ordinary activities, take place at market conditions, are not of an unusual nature and do not create conflicts of interest.

The following table shows transactions performed by Pirelli & C. Real Estate group with its parent Pirelli & C. A.p.A. and its subsidiaries.

	<b>Parent company Pirelli &amp; C. A.p.A.</b>	<b>Subsidiaries of Pirelli &amp; C. A.p.A.</b>	<b>Total</b>
Trade and other receivables	14.1	5.5	19.6
Trade and other payables	(1.0)	(7.5)	(8.5)
Financial receivables	0.0	0.0	0.0
Financial payables	(46.9)	(16.8)	(63.7)
Revenues from sales and services	12.5	9.8	22.3
Purchases and service expenses	(0.9)	(7.2)	(8.1)
Financial income	0.0	0.9	0.9
Financial expenses	(0.1)	(7.3)	(7.4)
Extraordinary income	1.5	0.0	1.5
Extraordinary expenses	0.0	0.0	0.0

- Transactions undertaken by Pirelli & C. Real Estate S.p.A. and its subsidiaries with Pirelli & C. A.p.A. mainly relate to:
  1. trade receivables for the recharging of costs incurred for the stock market listing and consolidated VAT credits;
  2. financial payables related to two loans obtained by Holdim S.r.l. and Pirelli & C. Real Estate S.p.A.;
  3. revenues for goods and services mainly related to the recharging of costs incurred for the stock market listing;
  4. extraordinary income related to the sale of the investment in Eurostazioni S.p.A..
  
- Transactions undertaken by Pirelli & C. Real Estate S.p.A. and its subsidiaries with companies controlled by Pirelli & C. A.p.A. mainly relate to:
  1. trade receivables for asset and facility management services provided to Pirelli S.p.A. group;
  2. trade payables principally arising from management of suspense positions to be credited to Localto S.p.A. by Pirelli & C. Credit Servicing S.p.A. (more than Euro 6 million);
  3. financial receivables related to negative balances on the joint current account held by Pirelli & C. Real Estate S.p.A. with Pisefi S.p.A.;
  4. revenues for goods and services principally consisting of asset and facility management services provided to Pirelli S.p.A. group;
  5. costs for services including Euro 4.5 million for a property in Paris to be used for commercial purposes sold by Pirelli Energie Cables et Systemes France SA to Projet Saint Maurice;
  6. financial charges related to interest accrued on the joint current accounts with Pisefi S.p.A. and Pirelli International Ltd.

## **Introduction of a Code of Conduct for Insider Dealing**

The board of directors also adopted a Code of Conduct for insider dealing.

The Code was drawn up in accordance with the newly introduced Borsa Italiana regulations which, as noted, require listed companies to make periodic disclosures beginning from 1 January 2003 about transactions involving listed shares of issuers and their subsidiaries by persons who have access to price sensitive information.

With respect to the requirements of Borsa Italiana, the document contains the following qualifying conditions:

- flexibility with the identification of a number of the persons obliged to make disclosures so as to also consider other situations with access to confidential information;
- extending of the requirement to communicate transactions involving listed financial instruments issued by the parent companies (as well as subsidiaries);
- significant decrease in the quantitative materiality threshold of transactions to be communicated to the market every three months (from Euro 50,000 to Euro 35,000) or immediately they are performed (from Euro 250,000 to Euro 80,000);
- transparency requirement for all transactions involving financial instruments issued by Pirelli group companies, even if agreed as part of the individual management of investment portfolios;
- obligation to immediately communicate Material Transactions even if the related threshold is exceeded during the last three months before the transaction rather than during the current calendar quarter;
- providing for black-out periods, ie, periods when employees subject to the Code's requirements may not perform transactions.

The Code also establishes strict disciplinary measures which include the possible revocation of the term of office of the directors and statutory auditors if approved by the shareholders' meeting.

Its implementation has been brought forward with respect to the obligatory date established by the Stock Exchange Rules (December 1, 2002 instead of January 1, 2003). Transactions performed in December 2002 will be communicated with those of the first quarter of 2003.

## **Other information**

•The stock market listing has made it necessary to provide the group with a more independent financial structure compared to the existing system where the finances were managed by Pisefi S.p.A. (the financial Pirelli S.p.A. group company). Therefore, beginning from 1 September 2002, the group implemented a new structure with one current account for Pirelli & C. Real Estate S.p.A. and Pisefi and others for Pirelli & C. Real Estate S.p.A. and its subsidiaries, bearing interest at market conditions.

Pirelli & C. Real Estate S.p.A. obtained financing of Euro 200 million from banks and a loan of Euro 45 million from its parent company Pirelli & C. A.p.A. to support this new financial structure.

## **Pirelli & C. Real Estate group**

# CONSOLIDATED FINANCIAL SCHEDULES

## RECLASSIFIED CONSOLIDATED BALANCE SHEET

*In thousands of Euros*

	09.30.2002	06.30.2002	12.31.2001
Intangible assets, net	29,921	30,424	12,235
Property, plant and equipment, net	5,510	5,519	3,445
Financial assets	151,128	146,307	58,496
<b>Fixed assets - (A)</b>	<b>186,559</b>	<b>182,250</b>	<b>74,176</b>
Inventories	397,779	396,849	346,029
Trade receivables	200,028	212,120	143,282
Other assets	123,947	124,961	131,954
Accrued income and prepaid expenses	1,925	2,186	1,493
<b>Current assets - (B)</b>	<b>723,679</b>	<b>736,116</b>	<b>622,758</b>
Trade payables	(147,626)	(173,097)	(115,965)
Advances	(105,707)	(92,803)	(57,608)
Taxes payable	(41,236)	(37,260)	(34,160)
Other liabilities	(191,132)	(176,844)	(150,772)
Accrued liabilities and deferred income	(22,558)	(23,411)	(14,860)
<b>Current liabilities - (C)</b>	<b>(508,259)</b>	<b>(503,415)</b>	<b>(373,365)</b>
<b>Net invested capital - (D) = (A+B+C)</b>	<b>401,979</b>	<b>414,951</b>	<b>323,569</b>
Provision for employees' leaving indemnity	(10,941)	(10,449)	(7,955)
Provisions for liabilities and expenses	(32,939)	(32,656)	(40,217)
Shareholders' equity - group	(322,613)	(313,945)	(130,991)
Minority interests in share capital and reserves	(1,522)	(1,404)	(1,086)
Capital contributions	(1,291)	(1,679)	(1,678)
Net financial indebtedness	(32,673)	(54,818)	(141,642)
<b>Total covered net invested capital</b>	<b>(401,979)</b>	<b>(414,951)</b>	<b>(323,569)</b>

## RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

*In thousands of Euros*

	First nine months 2002	First nine months 2001
Revenues from sales and services	223,267	168,915
Change in inventories	50,549	56,571
Other revenues and income	31,208	15,962
<b>Total production value</b>	<b>305,024</b>	<b>241,448</b>
Purchases of properties and land	(28,820)	(64,541)
Purchases of assets	(5,506)	(170)
Service expenses	(165,565)	(94,266)
Lease and rent expenses	(4,016)	(3,645)
Personnel expenses	(46,052)	(27,907)
Provisions and writedowns	(2,918)	(5,732)
Change in raw materials, consumables and supplies	398	0
Other operating expenses	(5,002)	(5,982)
<b>Gross operating profit</b>	<b>47,543</b>	<b>39,205</b>
Amortization and depreciation	(6,479)	(3,174)
<b>Operating profit</b>	<b>41,064</b>	<b>36,031</b>
Net income (loss) from equity investments (*)	16,101	(7,540)
<b>Operating profit after net income (loss) from equity investments</b>	<b>57,165</b>	<b>28,491</b>
Financial income and expenses, net	(2,348)	(2,423)
<b>Income before extraordinary items</b>	<b>54,817</b>	<b>26,068</b>
Extraordinary items	51,413	2,006
<b>Income before income taxes and minority interests</b>	<b>106,230</b>	<b>28,074</b>
Income taxes	(26,327)	(10,086)
<b>Income before minority interests</b>	<b>79,903</b>	<b>17,988</b>
Minority interests	(146)	174
<b>Net income</b>	<b>79,757</b>	<b>18,162</b>

(\*) Figures net of income taxes as they relate to the companies valued using the equity method.

## **NOTES TO THE CONSOLIDATED FINANCIAL SCHEDULES AT SEPTEMBER 30, 2002**

### **BASIS OF CONSOLIDATION AND ACCOUNTING POLICIES**

The consolidation criteria and accounting policies applied to prepare the consolidated financial schedules at September 30, 2002 are consistent with those used to draw up the financial statements at December 31, 2001 to which reference should be made.

In accordance with the resolution of the extraordinary shareholders' meeting of October 10, 2001, the year end of the parent company, Pirelli & C. Real Estate S.p.A., has been moved from June 30 to December 31. Therefore, the consolidated financial statements at December 31, 2001 refer to six months only.

Moreover, certain balance sheet captions of the previous year have been reclassified in order to allow their correct comparison.

The consolidation area is set out in the attached schedules.

The consolidated financial schedules have been drawn up using specially prepared financial schedules of the subsidiaries and associated companies at September 30, 2002. Where these companies have year ends different to the calendar year, only the statement of income has been used.

### **BALANCE SHEET ANALYSIS**

All amounts are expressed in thousands of Euro unless otherwise indicated.

Tables showing changes in financial assets, net financial position and shareholders' equity are set out below.

#### **Financial assets**

This caption increased from Euro 58,496 thousand at December 31, 2001 to Euro 151,128 thousand at September 30, 2002 after net adjustments of Euro 16,101 thousand to account for the share of the results of the companies valued using the equity method, as better described in the notes to the statement of income.

Changes in this caption may be analyzed as follows:

<i>In thousands of Euros</i>	<b>09.30.02</b>	<b>06.30.02</b>	<b>12.31.01</b>
Investments in subsidiaries	464	310	450
Investments in associated companies	105,665	100,969	55,206
Investments in other companies	1,446	1,446	1,415
<b><i>Total investments</i></b>	<b>107,575</b>	<b>102,725</b>	<b>57,071</b>
Receivables from others	1,306	1,335	1,425
Treasury shares	42,247	42,247	-
<b><i>Total financial assets</i></b>	<b>151,128</b>	<b>146,307</b>	<b>58,496</b>

### Investments in subsidiaries

These investments include:

#### ***Investments in subsidiaries***

*In thousands of Euros*

	<b>09.30.02</b>	<b>06.30.02</b>	<b>12.31.01</b>
Beta S.r.l.	293	-	-
Pirelli & C. Ltd.	100	100	-
Parceggi Bicocca S.r.l.	64	64	64
Tintoretto Srl	7	-	-
Delta S.p.A.	-	146	136
Fin Zeta S.r.l.	-	-	-
P. Salute Bollate (già P.B. Le Torri S.r.l.)	-	-	64
Popoy B.V.	-	-	32
Progetto Moncalieri S.r.l.	-	-	90
Project Saint Maurices	-	-	38
Robino B.V.	-	-	26
<b><i>Total</i></b>	<b>464</b>	<b>310</b>	<b>450</b>

On September 30, 2002, Beta S.r.l. was consolidated using the equity method as control thereof was sold on October 24, 2002.

On May 20, 2002, Pirelli & C. Real Estate S.p.A. acquired 100% of Pirelli & C. Real Estate Limited, with its head office in the UK, from Pirelli & C. A.p.A..

It sold 52.5% of the share capital of Delta S.p.A. to third parties on July 26, 2002. This company had become operative as it purchased property for residential and other use in Milan on July 29, 2002. Therefore, it was consolidated using the equity method at September 30, 2002.

The company sold its investment in Popoy Holding BV (75% of its share capital) on March 21, 2001. This special purpose vehicle has thus been reclassified as an associated company. Pirelli & C. Real Estate S.p.A. subsequently made a capital injection to assist its new projects. The vehicle has acquired real estate portfolios for commercial use through its subsidiaries from Banca di Roma and a Fiat group company.

Projet Saint Maurice S.a.s., Progetto Salute Bollate S.r.l. and Progetto Moncalieri S.r.l., which already belonged to the group, are now consolidated on a line-by-line basis as they have become operative.

### Investments in associated companies

These investments include:

#### *Investments in associated companies*

<i>In thousands of Euros</i>	<b>09.30.02</b>	<b>06.30.02</b>	<b>12.31.01</b>
M.S.M.C. Holding, B.V.	21,675	19,846	15,017
Auriga Immobiliare S.r.l.	20,868	18,551	10,683
CFT	15,176	14,551	-
Masseto I	7,856	7,564	-
Trixia	7,346	15,318	-
Dixia	7,195	7,242	-
Induxia S.r.l.	5,260	-	-
Iniziativa Immobiliari S.r.l.	4,613	5,180	3,138
Immobiliare Prizia S.r.l.	4,221	1,362	4
Sci Roev Texas Partners L.P.	2,596	2,541	2,405
Popoy B.V.	2,237	2,524	-
Inim Due S.a.r.l.	1,618	1,526	1,420
IN Holding Italy S.a.r.l.	1,505	1,413	1,970
Bernini Immobiliare	977	767	-
Regus Business Centre Italia S.r.l.	559	598	655
P.B. La Piazza S.r.l.	477	544	650
Domogest	349	503	-
P.G.B. Multisala S.r.l.	317	348	136
MSMC Solferino S.a.r.l.	300	346	437
Spazio Industriale B.V.	188	-	-
Progetto Lainate S.r.l.	116	71	81
Delta S.p.A.	62	-	-
Orione S.r.l.	57	58	58
Elle Nove	35	35	-
Progetto Gioberti	30	39	-
Progetto Corsico	18	31	-
Altair Zander Italia Srl	14	11	-
A.G.I.E.D. S.r.l.	-	-	426
Casaclick S.p.A.	-	-	-
Eurostazioni S.p.A.	-	-	18,126
Progetto Fontana S.r.l.	-	-	-
<b>Total</b>	<b>105,665</b>	<b>100,969</b>	<b>55,206</b>

On May 21, 2002, Partecipazioni Real Estate S.p.A. acquired 46.98% of CFT Finanziaria S.p.A., active in the non performing loans secured on real property management sector, from Cassa di Risparmio di Firenze S.p.A. and Cassa di Risparmio di Pistoia e Pescia S.p.A..

The 33% investment in Masseto I B.V., with its head office in Amsterdam, was acquired on May 21, 2002. Via its subsidiaries, this company acquired Società Proprietà Immobiliari S.r.l. from Ras S.p.A.. Ras had transferred its non-strategic

real estate portfolio consisting of more than 100 properties (of which approximately two thirds for commercial use and approximately one third for residential use) together with its property and facility management services to this special purpose vehicle.

On January 22, 2002, Pirelli & C. Real Estate S.p.A. acquired interests in Dixia S.r.l. and Trixia S.r.l., as part of the Edilnord transaction.

Following the partial demerger of Trixia S.r.l., Induxia S.r.l. was set up on July 11, 2002.

On April 22, 2002, Pirelli & C. Real Estate S.p.A. acquired 14% of Bernini Immobiliare S.r.l., the vehicle that acquired several residential properties for trading purposes from Banca di Roma.

Domogest S.r.l., in which Centrale Immobiliare S.p.A. has a 50% share, was set up with third parties to manage a trading project of properties in Florence, most of which are for residential use.

Progetto Gioberti S.r.l. was set up on March 8, 2002 for the renovation of a property in the Florence area which it acquired on April 4, 2002.

Progetto Corsico S.r.l. was incorporated on February 27, 2002 for the development of an unused industrial estate (former Burgo) in the Corsico area which it purchased on April 29, 2002.

Following acquisition of the remaining 70% of A.G.I.E.D. S.r.l. on March 22, 2002, this company is now consolidated on a line-by-line basis.

The investment in Eurostazioni S.p.A. was sold to Pirelli & C. A.p.A. in March generating a capital gain of Euro 1,477 thousand. This company holds 40% of Grandi Stazioni S.p.A. which is involved in the renovation of the thirteen largest train stations in Italy.

#### Investments in other companies

These investments include:

**Investments in other companies**

<i>In thousands of Euros</i>	<b>09.30.02</b>	<b>06.30.02</b>	<b>12.31.01</b>
Ceat	1	1	10
Consorzio Census	16	16	-
Consorzio GSPA	15	15	-
Efi Banca	560	560	560
I.G.E.I.	744	744	744
Instambul Rea	10	10	1
Rita S.r.l.	66	66	66
Serv. Aziend. Pirelli S.p.A.	3	3	3
Sif	1	1	1
SVI Lombardia S.p.A.	29	29	29
Tecnocittà S.r.l.	-	-	-
Tirrena Assicurazioni	1	1	1
<b>Total</b>	<b>1,446</b>	<b>1,446</b>	<b>1,415</b>

The subsidiary Altair Building Services S.r.l. has an interest of 15% in Consorzio GSPA.

A.G.I.E.D S.r.l. is involved in Consorzio Census.

## Net financial position

The captions making up the group's net financial position may be summarized as follows:

*In thousands of Euros*

	09.30.2002	06.30.2002	12.31.2001
- bank and postal deposits, checks, cash on hand	38,990	28,933	10,151
- current account with group companies	-	41,566	28,815
- financial receivables from others	570	345	382
- other securities	331	487	823
- other receivables/accrued income	131	-	1,205
<b>Current financial assets - (A)</b>	<b>40,022</b>	<b>71,331</b>	<b>41,376</b>
- bank borrowings - within 1 year	(4,598)	(2,771)	(19,294)
- payables to other financial institutions	(145)	(23)	(75,970)
- payables to parent and other companies	(46,920)	(1,877)	(1,864)
- payables to associated companies	(211)	-	-
- payables to Pirelli Servizi Finanziari S.p.A.	(16,813)	(317,844)	(303,927)
- other payables/accrued liabilities	-	-	(847)
<b>Current financial payables - (B)</b>	<b>(68,687)</b>	<b>(322,515)</b>	<b>(401,902)</b>
<b>Short-term net financial indebtedness - C = (A+B)</b>	<b>(28,665)</b>	<b>(251,184)</b>	<b>(360,526)</b>
- financial receivables due from subsidiary, associated and other c	210,983	212,746	239,100
- other securities	215	214	203
<b>Medium to long term financial assets - (D)</b>	<b>211,198</b>	<b>212,960</b>	<b>239,303</b>
- bank borrowings - beyond 1 year	(215,206)	(16,594)	(20,419)
- payables to minority shareholders for loans	-	-	-
<b>Medium to long term financial payables - (E)</b>	<b>(215,206)</b>	<b>(16,594)</b>	<b>(20,419)</b>
<b>Net financial position- F = (C+D+E)</b>	<b>(32,673)</b>	<b>(54,818)</b>	<b>(141,642)</b>

Like in previous periods, the net financial position does not include a payable due to Deutsche Bank for a project financing contract following execution of the preliminary agreement for the sale of a property under construction which is effectively an advance for work in progress.

The positive change in the group's net financial position at September 30, 2002 compared to the 2001 year end is due to sale of the former UNIM securities (held in the portfolio at December 31, 2002), related to the equity swap transaction with Morgan Stanley and Merrill Lynch and the subsequent repayment of the payable due to them, and the liquidity generated by the stock market listing. These more than offset the considerable investments.

## Shareholders' equity

Changes in shareholders' equity are as follows:

	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	Cumulative translation adjustments	Reserve for treasury shares	Reserve for non-repayable contributions	Retained earnings	Undistributed dividends	Net income (loss)		Shareholders' equity
										Dividends	Result	
Shareholders' equity - group at December 31, 2001	17,307	28,936	15	3,438	(7)	0	0	42,119	0	(109,168)	148,351	130,991
Reclassification of dividends										109,168	(109,168)	0
<i>Measures taken after resolutions of ordinary shareholders' meeting of December 27, 2001</i>												0
- Share capital increase	515											515
- Share premium		2,636										2,636
Creation of reserve for treasury shares		(18,502)				18,502						0
<i>Resolutions of ordinary and extraordinary shareholders' meetings of April 2, 2002</i>												
Allocation of net income for the year												
-to legal reserve				23							(23)	0
-to undistributed dividends									9,401		(9,401)	0
Altair transfer												
-share capital increase	208											208
-share premium reserve		1,818										1,818
Creation of reserve for treasury shares		(10,434)				23,745		(13,311)				0
<i>Difference between the statutory and consolidated result</i>												
Cames transfer												
-share capital increase	247											247
-share premium reserve		1,515										1,515
<i>Ordinary shareholders' meeting of May 20, 2002</i>												
-distribution of dividends								(9,668)	(9,401)			(19,069)
contributions							19,069					19,069
<i>Share capital increase for stock market listing - subscription on June 25, 2002</i>	2,025	103,275										105,300
Reclassification of reserve for treasury shares		(13,311)						13,311				0
Other changes					(56)			(318)				(374)
Net income											79,757	79,757
Shareholders' equity - group at September 30, 2002	20,302	95,933	15	3,461	(63)	42,247	19,069	61,892	0	0	79,757	322,613
Minority interests - share capital and reserves at September 30, 2002												1,376
Minority interests - net income (loss)												146
<b>Total shareholders' equity at September 30, 2002</b>	<b>20,302</b>	<b>95,933</b>	<b>15</b>	<b>3,461</b>	<b>(63)</b>	<b>42,247</b>	<b>19,069</b>	<b>61,892</b>	<b>0</b>	<b>0</b>	<b>79,757</b>	<b>324,135</b>

At September 30, 2002, the subscribed and paid-up share capital amounts to Euro 20,302,491 (December 31, 2002: Euro 17,307,056). Approved share capital amounts to Euro 22,402,491.

The share capital consists of 40,604,982 ordinary shares with a par value of Euro 0.50 each at September 30, 2002.

## STATEMENT OF INCOME ANALYSIS

In analyzing and monitoring the results of operations, management uses criteria for classification purposes based upon a subdivision between core and non-core activities. The rationale behind this subdivision is to present the results from the typical development transactions of the group separately from the results of specific non-recurring transactions.

The following table presents the performance of the group during the first nine months of 2002, the third quarter of 2002 and similar 2001 figures showing core and non-core activities separately.

	First nine months 2002			First nine months 2001			2002 third quarter			2001 third quarter		
	Total	Core activities	Non-core activities	Total	Core activities	Non-core activities	Total	Core activities	Non-core activities	Total	Core activities	Non-core activities
<b>Production value</b>	<b>305,024</b>	<b>304,468</b>	<b>556</b>	<b>241,448</b>	<b>228,875</b>	<b>12,573</b>	<b>88,172</b>	<b>88,168</b>	<b>4</b>	<b>57,148</b>	<b>52,325</b>	<b>4,823</b>
Production costs	(263,960)	(260,105)	(3,855)	(205,417)	(190,351)	(15,066)	(76,198)	(75,463)	(735)	(49,401)	(44,685)	(4,716)
<b>Operating profit (loss)</b>	<b>41,064</b>	<b>44,363</b>	<b>(3,299)</b>	<b>36,031</b>	<b>38,524</b>	<b>(2,493)</b>	<b>11,974</b>	<b>12,705</b>	<b>(731)</b>	<b>7,747</b>	<b>7,640</b>	<b>107</b>
Net income (loss) from equity investments (*)	16,101	16,101	-	(7,540)	(2,524)	(5,016.00)	3,208	3,208	-	(31)	2,341	(2,372)
<b>Operating profit (loss) after income (loss) from equity investments</b>	<b>57,165</b>	<b>60,464</b>	<b>(3,299)</b>	<b>28,491</b>	<b>36,000</b>	<b>(7,509)</b>	<b>15,182</b>	<b>15,913</b>	<b>(731)</b>	<b>7,716</b>	<b>9,981</b>	<b>(2,265)</b>
Financial income from equity investments	9,644	9,135	509	10,046	8,525	1,521	3,139	3,139	-	3,474	2,894	580
Other financial income and expenses, net	(11,992)	(11,091)	(901)	(12,469)	(12,844)	375	(3,781)	(3,793)	12	(2,741)	(3,996)	1,255
<b>Income (loss) before extraordinary items</b>	<b>54,817</b>	<b>58,508</b>	<b>(3,691)</b>	<b>26,068</b>	<b>31,681</b>	<b>(5,613)</b>	<b>14,540</b>	<b>15,259</b>	<b>(719)</b>	<b>8,449</b>	<b>8,879</b>	<b>(430)</b>
Extraordinary items	51,413	242	51,171	2,006	(914)	2,920	122	104	18	(169)	(169)	-
<b>Income (loss) before income taxes and minority interest</b>	<b>106,230</b>	<b>58,750</b>	<b>47,480</b>	<b>28,074</b>	<b>30,767</b>	<b>(2,693)</b>	<b>14,662</b>	<b>15,363</b>	<b>(701)</b>	<b>8,280</b>	<b>8,710</b>	<b>(430)</b>
Income taxes	(26,327)	(17,520)	(8,807)	(10,086)	(10,983)	897	(6,108)	(6,108)	-	(3,198)	(3,295)	97
<b>Income before minority interests</b>	<b>79,903</b>	<b>41,230</b>	<b>38,673</b>	<b>17,988</b>	<b>19,784</b>	<b>(1,796)</b>	<b>8,554</b>	<b>9,255</b>	<b>(701)</b>	<b>5,082</b>	<b>5,415</b>	<b>(333)</b>
Minority interests	(146)	(146)	-	174	174	-	(129)	(129)	-	20	20	-
<b>Net income</b>	<b>79,757</b>	<b>41,084</b>	<b>38,673</b>	<b>18,162</b>	<b>19,958</b>	<b>(1,796)</b>	<b>8,425</b>	<b>9,126</b>	<b>(701)</b>	<b>5,102</b>	<b>5,435</b>	<b>(333)</b>

\* Net of income taxes as the figures relate to companies consolidated using the equity method.

In particular, non-core activities include:

- a) **Internet activities** almost entirely directed at the development and subsequent reconversion of an open portal.
- b) **Eurostazioni**, a financial investment sold to Pirelli & C. A.p.A. in March 2002.
- c) **The effects connected with** the securities portfolio acquired from UNIM.
- d) **Construction of the Teatro degli Arcimboldi** for the Milan Municipality and the Fondazione Teatro alla Scala, carried out as a social and cultural non-profit project.

The activities of Pirelli & C. Real Estate mainly consist of the acquisition of minority investments in companies with real estate portfolios that are managed by it. As the minority investments are consolidated using the equity method, the development in activities is not reflected in the consolidated production value or consolidated EBIT, the growth rates of which do thus not represent the upturn in

business volumes managed. Brief comments on production value and the operating result after net income (loss) of equity investments are thus given below.

### **Production value**

Given the importance in volume terms of the purchases of properties and land performed during the nine months, comments on changes in production value net of purchases, which do not normally have a significant impact on the period in which they take place, are given below.

*In thousands of Euros*

	First nine months 2002	% (*)	First nine months 2001	% (*)
<i>Asset Management:</i>				
- Residential	24,893	8.2%	58,252	25.5%
- Commercial	100,838	33.1%	71,858	31.4%
- Land and urbanization	43,497	14.3%	38,243	16.7%
- Non performing loans	921	0.3%	-	0.0%
<b>Total</b>	<b>170,149</b>	<b>55.9%</b>	<b>168,353</b>	<b>73.6%</b>
<i>net of purchases</i>	<b>141,329</b>	<b>46.4%</b>	<b>103,812</b>	<b>45.4%</b>
<i>Services provider:</i>				
- Residential agency	23,504	7.7%	11,046	4.8%
- Commercial agency	16,433	5.4%	10,052	4.4%
- Project Management	17,030	5.6%	13,735	6.0%
- Property Management	39,985	13.1%	16,912	7.4%
- Facility Management	36,575	12.0%	13,859	6.1%
- Credit Servicing	2,568	0.8%	-	0.0%
<b>Total</b>	<b>136,095</b>	<b>44.7%</b>	<b>65,604</b>	<b>28.7%</b>
<i>Intercompany and other</i>	<i>(1,776)</i>	<i>(0.6%)</i>	<i>(5,082)</i>	<i>(2.2%)</i>
<b>Total core activities</b>	<b>304,468</b>	<b>100%</b>	<b>228,875</b>	<b>100%</b>
<i>net of purchases</i>	<b>275,648</b>		<b>164,334</b>	
<i>Non-core activities</i>				
- Internet activities	14		0	
- Teatro degli Arcimboldi	542		12,573	
<b>Total non-core activities</b>	<b>556</b>		<b>12,573</b>	
<b>Total production value</b>	<b>305,024</b>		<b>241,448</b>	
<i>net of purchases</i>	<b>276,204</b>		<b>176,907</b>	

(\*) Percentage calculated on total production value of core activities.

Production value increased from Euro 241,448 thousand in the first nine months of 2001 to Euro 305,024 thousand for the same period of 2002. The change is due to the performance of the service providers, especially the property and facility

management business that benefited from the acquisitions of 100% of companies finalized in the second quarter of 2002.

"Intercompany and other" amounts to a negative Euro 1,776 thousand compared to a negative Euro 5,082 thousand for the first nine months of 2001. The increase is due to the recharging of the stock market listing costs and higher recharges of costs incurred by staff functions to third parties.

Non-core activities decreased by Euro 12,017 thousand following completion of work on the Teatro degli Arcimboldi.

A breakdown of production value by core and non-core activities is as follows.

### ***Core activities***

Production value of the core activities increased by 33% from Euro 228,875 thousand to Euro 304,467 thousand. Net of purchases, it went from Euro 164,334 thousand to Euro 275,648 thousand (+67.7%).

The asset management business was a key contributor to this result and grew Euro 37,517 thousand net of purchases, especially for the land and urbanization and commercial sectors. Another contributor was the specialist services which increased by Euro 70,491 thousand. The latter figure was positively impacted by both the effects of the residential agency services (+Euro 12,458 thousand) for due diligence services and portfolio trading fees and the positive performance of the property management (+Euro 23,073 thousand) and facility management (+Euro 22,716 thousand) businesses. These increases, also seen in the project management business, were partly due to the acquisition of the former Edilnord service companies on January 22, 2002, Cames S.p.A. facility companies (now Pirelli & C. Real Estate Facility Management S.p.A.) and Altair group companies.

### ***Non-core activities***

Following completion of work on the Teatro degli Arcimboldi, the production value of the non-core activities for the first nine months of 2002 amounted to Euro 556 thousand compared to Euro 12,573 thousand for the same period of 2001, related to the change in inventories for the construction of the theatre.

## **Net income (loss) from equity investments**

A breakdown of the net income (loss) from equity investments by business segment is set out below. The figures are shown net of income taxes as the companies are consolidated using the equity method.

*In thousands of Euros*

	First nine months 2002	First nine months 2001
<i>Asset Management:</i>		
- Residential	10,248	(3,762)
- Commercial	4,263	1,607
- Land and urbanization	(336)	-
- Non performing loans	1,453	-
<b>Total</b>	<b>15,628</b>	<b>(2,155)</b>
<i>Services provider:</i>		
- Facility Management	439	(212)
<b>Total</b>	<b>439</b>	<b>(212)</b>
<i>Intercompany and other</i>	<b>34</b>	<b>(157)</b>
<b>Total core activities</b>	<b>16,101</b>	<b>(2,524)</b>
<i>Non-core activities</i>		
- Internet activities		(892)
- Teatro degli Arcimboldi		(4,124)
<b>Total non-core activities</b>	<b>0</b>	<b>(5,016)</b>
<b>Net income (loss) from equity investments</b>	<b>16,101</b>	<b>(7,540)</b>

### **Operating profit including the results of the companies valued using the equity method**

The operating profit including the results of companies in which the group has minority investments valued using the equity method is as follows by business segment.

*In thousands of Euros*

	<b>First nine months 2002</b>	<b>First nine months 2001</b>
<i>Asset Management:</i>		
- Residential	14,900	6,764
- Commercial	16,804	14,021
- Land and urbanization	16,434	11,660
- Non performing loans	1,400	-
<b>Total</b>	<b>49,538</b>	<b>32,445</b>
<i>Services provider:</i>		
- Residential agency	6,454	1,333
- Commercial agency	5,964	3,843
- Project Management	2,318	2,008
- Property Management	2,063	1,411
- Facility Management	1,322	700
- Credit Servicing	511	-
<b>Total</b>	<b>18,632</b>	<b>9,295</b>
<i>Centralized costs</i>	<i>(7,706)</i>	<i>(5,740)</i>
<b>Total core activities</b>	<b>60,464</b>	<b>36,000</b>
<i>Non-core activities</i>		
- Eurostazioni S.p.A.		(892)
- Internet activities	(2,314)	(4,124)
- Teatro degli Arcimboldi	(985)	(2,493)
<b>Total non-core activities</b>	<b>(3,299)</b>	<b>(7,509)</b>
<b>Operating profit after net income (loss) of the equity investments</b>	<b>57,165</b>	<b>28,491</b>

The operating profit after the results of equity investments increased from Euro 28,491 thousand in the first nine months of 2001 to Euro 57,165 thousand. The Euro 28,674 thousand increase is due to the positive performance of the residential and land and urbanization asset management business (+Euro 12,910 thousand) and the service providers (+Euro 9,337 thousand).

### ***Core activities***

The operating result including the results of investments in companies performing core activities increased from Euro 36,000 thousand to Euro 60,464 thousand. The change is mainly due to the positive contribution of the residential (+Euro 8,136 thousand) and land and urbanization (+Euro 4,774 thousand) asset management businesses.

*Non-core activities*

The other non-core activities contributed negatively to the nine-month operating profit including the results of the investments for Euro 3,299 thousand compared to a negative Euro 7,509 thousand for the first nine months of 2001.

# SUPPLEMENTARY INFORMATION

## CONSOLIDATION AREA

(in thousands of Euros)	Business sector	Head office	City/country	Year end	30.09.2002		30.06.2002		Held by
					Share capital	% of holding	Share capital	% of holding	
<b>Fully consolidated companies</b>									
<b>Subsidiaries</b>									
Aquario S.r.l. In liquidazione	Land & urbanization	Via Brigata Liguria 1-18	Genoa/Italy	3/12	255	100.00%	255	100.00%	Pirelli & C. Real Estate
A.G.I.E.D. S.r.l.	Services	Via G. Negri, 10	Milan/Italy	3/12	100	92.00%	100	32.00%	100% Pirelli & C. Property Management Sp.A.
Alfa Due S.p.A.	Residential	Via G. Negri, 10	Milan/Italy	3/12	1,300	100.00%	1,300	100.00%	Pirelli & C. Real Estate Sp.A.
Alfa S.r.l.	Residential/commercial	Via G. Negri, 10	Milan/Italy	3/09	2,600	100.00%	2,600	100.00%	Pirelli & C. Real Estate Sp.A.
Altair Facility Management S.p.A.	Services	Via G. Majno 19	Milan/Italy	3/12	2,064	100.00%	2,064	100.00%	Pirelli & C. Real Estate Sp.A.
Altair Building Services S.r.l.	Services	Via De Marini 1	Genoa/Italy	3/12	500	80.00%	500	75.00%	Altair Facility Management Sp.A.
Cagisa S.p.A.	Services	Via G. Negri, 10	Milan/Italy	3/12	624	92.00%	624	92.00%	100% Pirelli & C. Property Management Sp.A.
Casadick S.p.A.	Services	Galleria Passarella 1	Milan/Italy	3/12	5,413	93.06%	5,413	93.06%	P&C Casa S.p.A.
Centrale Immobiliare S.p.A.	Residential	Via G. Negri, 10	Milan/Italy	3/12	5,200	100.00%	5,200	100.00%	Pirelli & C. Real Estate Sp.A.
Edilnord Gestioni S.p.A.	Services	Via G. Negri, 10	Milan/Italy	3/12	517	100.00%	517	100.00%	Pirelli & C. Real Estate Sp.A.
Edilnord Progetti S.p.A.	Services	Via G. Negri, 10	Milan/Italy	3/12	250	100.00%	250	100.00%	Pirelli & C. Real Estate Sp.A.
Elle Uno Società Consortile a.r.l.	Services	Via G. Negri, 10	Milan/Italy	3/12	100	60.00%	100	60.00%	Edilnord Gestioni S.p.A.
Elle Tre Società Consortile a.r.l.	Services	Via G. Negri, 10	Milan/Italy	3/12	100	82.80%	100	82.80%	40% Pirelli & C. Property Management Sp.A. 50% Agied S.r.l.
Elle Dieci Società Consortile a.r.l.	Services	Via G. Negri, 10	Milan/Italy	3/12	100	82.80%	100	82.80%	40% Pirelli & C. Property Management Sp.A. 50% Agied S.r.l.
Holdim S.r.l.	Residential	Via G. Negri, 10	Milan/Italy	3/09	14	100.00%	14	100.00%	Pirelli & C. Real Estate Sp.A.
Iota S.r.l.	Residential/commercial	Via G. Negri, 10	Milan/Italy	3/12	94	100.00%	94	100.00%	Pirelli & C. Real Estate Sp.A.
Kappa S.r.l.	Residential	Via G. Negri, 10	Milan/Italy	3/09	10	100.00%	10	100.00%	Pirelli & C. Real Estate Sp.A.
Lambda S.r.l.	Commercial/Land & urb.	Via G. Negri, 10	Milan/Italy	3/12	579	100.00%	579	100.00%	Pirelli & C. Real Estate Sp.A.
Partecipazioni Real Estate S.p.A.	Asset Immobiliare	Via G. Negri, 10	Milan/Italy	3/12	1,360	100.00%	1,360	100.00%	Pirelli & C. Real Estate Sp.A.
Pirelli & C. RE Commercial Agency S.p.A.	Services	Via G. Negri, 10	Milan/Italy	3/12	832	100.00%	832	100.00%	Pirelli & C. Real Estate Sp.A.
Pirelli & C. Agenzia Residenziale (già P&C Casa S.p.A.)	Services	Via G. Negri, 10	Milan/Italy	3/12	520	100.00%	520	100.00%	Pirelli & C. Real Estate Sp.A.
Pirelli & C. RE Credit Servicing S.p.A.	Services	Via G. Negri, 10	Milan/Italy	3/12	5,200	100.00%	5,200	100.00%	Pirelli & C. Real Estate Sp.A.
Pirelli & C. RE Facility Management S.p.A.	Services	Via G. Negri, 10	Milan/Italy	3/12	561	100.00%	561	100.00%	Pirelli & C. Real Estate Sp.A.
Pirelli & C. Opere Generali S.p.A.	Area	Via G. Negri, 10	Milan/Italy	3/09	104	100.00%	104	100.00%	Pirelli & C. Real Estate Sp.A.
Pirelli & C. RE Project Management S.p.A.	Services	Via G. Negri, 10	Milan/Italy	3/12	520	100.00%	520	100.00%	Pirelli & C. Real Estate Sp.A.
Pirelli & C. RE Property Management S.p.A.	Services	Via G. Negri, 10	Milan/Italy	3/12	114	92.00%	114	92.00%	Pirelli & C. Real Estate Sp.A.
Pirelli & C. Real Estate L.t.d.a.	Commercial	Rod. Pres. Castello Branco	Santo André/Brazil	3/12	521	60.00%	704	60.00%	Pirelli & C. Real Estate Sp.A.
Progetti Creativi S.r.l.	Services	Via G. Negri, 10	Milan/Italy	3/12	51	100.00%	51	100.00%	Pirelli & C. Commercial Agency S.p.A.
Progetto Bicocca Centro Tecnologico S.r.l.	Area e Urb.	Via G. Negri, 10	Milan/Italy	3/12	94	100.00%	94	100.00%	Pirelli & C. Real Estate Sp.A.
Progetto Bicocca Esplanade S.p.A.	Land & urb. / residential	Via G. Negri, 10	Milan/Italy	3/12	2,500	100.00%	2,500	100.00%	Pirelli & C. Real Estate Sp.A.
Progetto Bicocca Il Centro S.r.l.	Commercial	Via G. Negri, 10	Milan/Italy	3/12	93	100.00%	93	100.00%	Pirelli & C. Real Estate Sp.A.
Progetto Grande Bicocca S.r.l.	Land & urbanization	Via G. Negri, 10	Milan/Italy	3/12	94	100.00%	94	100.00%	Pirelli & C. Real Estate Sp.A.
Progetto Moncalieri S.r.l.	Commercial	Via G. Negri, 10	Milan/Italy	3/12	90	100.00%	90	100.00%	Pirelli & C. Real Estate Sp.A.
Progetto Salute Bollate S.r.l.	Commercial	Via G. Negri, 10	Milan/Italy	3/12	100	100.00%	100	100.00%	Pirelli & C. Real Estate Sp.A.
Progetto Saint Maurice S.a.s.	Commercial	Rue De Colonel Moll 3	Paris/France	3/12	38	100.00%	38	100.00%	Pirelli & C. Real Estate Sp.A.
Fromedil '94 S.r.l.	Land & urbanization	Via G. Negri, 10	Milan/Italy	3/09	10	100.00%	10	100.00%	Pirelli & C. Real Estate Sp.A.
Servizi Amministrativi Real Estate S.p.A.	Services	Via G. Negri, 10	Milan/Italy	3/12	520	100.00%	520	100.00%	Pirelli & C. Real Estate Sp.A.
P&C RE Servizi di Rete S.p.A. (già SIE S.p.A.)	Services	Via G. Negri, 10	Milan/Italy	3/12	500	100.00%	500	100.00%	Pirelli & C. Real Estate Sp.A.
Somogi S.r.l.	Services	Via Guido Rossa 12	Vimodrone/Italy	3/12	90	88.00%	90	88.00%	Altair Facility Management S.p.A.
Stella Polare S.r.l. (in liquidazione)	Residential	Piazza Nicola Amore, 10	Naples/Italy	3/12	289	100.00%	289	100.00%	Pirelli & C. Real Estate Sp.A.
Tau S.r.l.	Residential	Via G. Negri, 10	Milan/Italy	3/09	94	100.00%	94	100.00%	Pirelli & C. Real Estate Sp.A.
<b>Companies consolidated using the equity method</b>									
<b>Associated companies</b>									
Altair Zander Italia S.r.l.	Services	Via G. Majno 19	Milan/Italy	3/12	10	50.00%	10	50.00%	Altair Facility Management Sp.A.
Auriga Immobiliare S.r.l.	Residential	Via G. Negri, 10	Milan/Italy	3/12	25,602	36.02%	25,602	36.02%	Pirelli & C. Real Estate Sp.A.
Bernini Immobiliare S.r.l.	Residential	Via G. Negri, 10	Milan/Italy	3/12	500	14.00%	500	14.00%	Pirelli & C. Real Estate Sp.A.
Beta S.r.l.	Residential	Via G. Negri, 10	Milan/Italy	3/12	26	100.00%	26	100.00%	Pirelli & C. Real Estate Sp.A.
CFT Finanziaria S.p.A.	Asset management	Via L. Da Vinci 22	Florence/Italy	3/12	23,660	48.38%	23,660	48.38%	Partecipazioni Real Estate Sp.A.
Ditta S.r.l.	Residential/commercial	Via G. Negri, 10	Milan/Italy	3/12	2,500	30.00%	2,500	30.00%	Pirelli & C. Real Estate Sp.A.
Domogest S.r.l.	Residential	Via P.za Indipendenza 28	Florence/Italy	3/12	1,050	50.00%	1,050	50.00%	Centrale Immobiliare S.p.A.
Elle Nove Società Consortile a.r.l.	Services	Via G. Negri, 10	Milan/Italy	3/12	100	34.90%	100	34.90%	Edilnord Gestioni S.p.A.
Immobiliare Prizia S.r.l.	Residential	Via G. Negri, 10	Milan/Italy	3/12	469	36.00%	15,000	36.00%	Pirelli & C. Real Estate Sp.A.
Indusia S.r.l.	Commercial	Via G. Negri, 10	Milan/Italy	3/12	836	36.00%	-	-	Pirelli & C. Real Estate Sp.A.
IN Holdings I S.a.r.l.	Commercial	Route D'Esch L-1014 398	Luxembourg	3/12	3,768	25.00%	3,768	25.00%	Pirelli & C. Real Estate Sp.A.
Inim Due S.a.r.l.	Commercial	Rue Richard Coudenhove	Luxembourg	3/12	241	25.01%	241	25.01%	Pirelli & C. Real Estate Sp.A.
Iniziativa Immobiliari S.r.l.	Residential	Via G. Negri, 10	Milan/Italy	3/12	4,313	38.45%	4,313	38.45%	Pirelli & C. Real Estate Sp.A.
M.S.M.C. Italg Holding B.V.	Commercial	Drentestraat, 20	Amsterdam/Holland	3/12	18	25.00%	18	25.00%	Pirelli & C. Real Estate Sp.A.
M.S.M.C. Solferino S.a.r.l.	Commercial	Rue Richard Coudenhove	Luxembourg	3/12	137	31.25%	137	31.25%	Pirelli & C. Real Estate Sp.A.
Massetto 1BV	Residential/commercial	Strawinskylaan 1011	Amsterdam/Holland	3/12	19	33.00%	19	33.00%	Pirelli & C. Real Estate Sp.A.
Orione Immobiliare Prima S.p.A.	Residential	Via G. Negri, 10	Milan/Italy	3/05	104	25.00%	104	25.00%	Pirelli & C. Real Estate Sp.A.
Popog Holding B.V.	Commercial	Aert van Nesstraat, 45	Rotterdam/Holland	3/12	24	25.05%	24	25.05%	Pirelli & C. Real Estate Sp.A.
Progetto Bicocca La Piazza S.r.l.	Residential/commercial	Via G. Negri, 10	Milan/Italy	3/09	3,152	26.00%	3,152	26.00%	Pirelli & C. Real Estate Sp.A.
Progetto Corsico S.r.l.	Land & urbanization	Via G. Negri, 10	Milan/Italy	3/12	100	49.00%	100	49.00%	Pirelli & C. Real Estate Sp.A.
Progetto Fontana S.r.l.	Commercial	Via G. Negri, 10	Milan/Italy	3/12	500	23.00%	500	23.00%	Pirelli & C. Real Estate Sp.A.
Progetto Gioberti S.r.l.	Residential	Via G. Negri, 10	Milan/Italy	3/12	100	50.00%	100	50.00%	Pirelli & C. Real Estate Sp.A.
Progetto Grande Bicocca Multisala S.r.l.	Commercial	Via G. Negri, 10	Milan/Italy	3/12	1,530	33.00%	1,530	33.00%	Pirelli & C. Real Estate Sp.A.
Progetto Lainate S.r.l.	Commercial	Via G. Negri, 10	Milan/Italy	3/12	26	25.00%	26	25.00%	Pirelli & C. Real Estate Sp.A.
Regus Business Centres Italia S.p.A.	Services	Via Vittor Pisani 27	Milan/Italy	3/12	2,500	35.00%	2,500	35.00%	Pirelli & C. Real Estate Sp.A.
S.C.I. Fioev Texas Partners L.P.	Commercial	1445 Ross Avenue	Dallas/USA	3/12	12,170	10.00%	12,030	10.00%	Pirelli & C. Real Estate Sp.A.
Spazio Industriale BV	Commercial	Naritaaweg 165	Amsterdam/Holland	3/12	30	25.00%	-	-	Pirelli & C. Real Estate Sp.A.
Tintoretto S.r.l.	Residential	Via Largo Donegani, 2	Milan/Italy	3/12	10	100.00%	-	-	Partecipazioni Real Estate Sp.A.
Trisita S.r.l.	Residential/commercial	Via G. Negri, 10	Milan/Italy	3/12	1,209	36.00%	2,500	36.00%	Pirelli & C. Real Estate Sp.A.
<b>Companies consolidated using the proportionate method</b>									
<b>Associated companies</b>									
Progetto Bicocca Universita' S.r.l.	Commercial	Via G. Negri, 10	Milan/Italy	3/12	874	34.00%	874	34.00%	Pirelli & C. Real Estate Sp.A.
G6 Advisor	Services	Via G. Negri, 10	Milan/Italy	3/12	50	42.30%	50	42.30%	Pirelli & C. Commercial Agency Sp.A.
<b>Unconsolidated subsidiaries</b>									
Parcaggi Bicocca S.r.l.	Inactive	Via G. Negri, 10	Milan/Italy	3/12	25	75.00%	25	75.00%	Pirelli & C. Real Estate Sp.A.
Pirelli & C. Real Estate Ltd.	Inactive	15 Grosvenor Street	London/UK	3/12	100	100.00%	100	100.00%	Pirelli & C. Real Estate Sp.A.
<b>Other significant investments as per Consob resolution no. 11571 of May 14, 1998</b>									
Tecnocittà S.r.l.	Inactive	Via Cesare Cantù, 1	Milan/Italy	3/12	548	12.00%	548	12.00%	Pirelli & C. Real Estate Sp.A.