

Upgrade

HOLD (prev. *REDUCE*)

Target: € 0.68 (unchanged)

Risk: High

STOCK DATA

| | |
|--------------------|-------------|
| Price € | 0.58 |
| Bloomberg Code | PRS IM |
| Market Cap. (€ mn) | 487 |
| Free Float | 42% |
| Shares Out. (mn) | 841 |
| 52-week range | 0.28 - 1.89 |
| Daily Volumes (mn) | 11,7 |

PERFORMANCE

| | 1M | 3M | 12M |
|-------------------------|--------|-------|--------|
| Absolute | -12.4% | 7.3% | -11.2% |
| Rel. To FTSE all shares | -9.6% | -4.8% | -28.5% |

MAIN METRICS

| | 2009E | 2010E | 2011E |
|-------------------|-------|-------|-------|
| Revenues (€ mn) | 266 | 253 | 321 |
| EBIT + SPV (€ mn) | -76 | -4 | 49 |
| Net Income (€ mn) | -79 | -1 | 35 |
| Adj. EPS (€ cent) | -16.9 | 0.0 | 4.7 |
| DPS (€ cent) | 0.0 | 0.0 | 2.0 |
| NAV PS (€) | 1.04 | 0.99 | 1.08 |

MULTIPLES

| | 2009E | 2010E | 2011E |
|---------|--------|--------|--------|
| PNAV | 0.56 x | 0.59 x | 0.54 x |
| PE Adj. | n.m. | n.m. | 12.4 x |

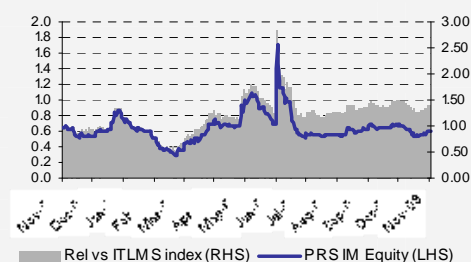
REMUNERATION

| | 2009E | 2010E | 2011E |
|----------------|--------|-------|-------|
| Dividend Yield | 0.0% | 0.0% | 3.4% |
| Fcf Yield | -25.3% | -6.1% | 3.3% |

INDEBTNESS

| | 2009E | 2010E | 2011E |
|-----------------------|-------|--------|--------|
| NFP incl. SHL | -464 | -483 | -473 |
| Debt/EBITDA incl. SHL | n.m. | 35.2 x | 18.1 x |
| Interest Coverage | n.m. | n.m. | n.m. |

PRICE ORD. LAST 365 DAYS



ANALYSTS

Martino De Ambroggi

+39026204238;

m.deambroggi@equitasim.it

November 17, 2009

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M&A DEAL CLOSER THAN EXPECTED

On 12 November we upgraded Pirelli RE (PRE) to HOLD (market closing € 0.56 PS) due to the official confirmation of an M&A project in the pipeline (that could materialise much earlier than expected with positive industrial implications), the weak YTD stock performance (-38% vs FTSE MIB index), and the high discount to NAV (40%+).

■ Pirelli RE – FIMIT merger feasibility study

On 11 November Pirelli & C. (PC) officially announced that a feasibility study for the merger of PRE and the Italian asset management company FIMIT had started. This does not come as a surprise to us as we think many clues pointed in the PRE spin-off direction (see also our short note no. 338 dated October 2nd on PC). Now, however, **it seems this could materialise much earlier than we had expected**: potentially by the end of 1H10, whereas we had thought not earlier than 2H10 (pending greater visibility on PRE restructuring plan).

■ Plan rumoured

According to the business daily Il Sole 24 Ore (November 12th edition), **the plan would involve:**

- **Proportional spin-off of 58% of PRE held by PC** (i.e. PC shareholders will receive pro-quota shares of PRE);
- **Simultaneous merger of PRE and FIMIT.**

■ Probability in excess of 50%

We do not know whether this will be the actual technicality chosen but a similar solution **is reasonable**. We think **probability is in excess of 50% because**

- **The move seems to have the “political” support** of the banks involved;
- **The 2 CEOs have long known each other** and were also partners in another asset management company;
- **There are business benefits for both parties**, i.e. economies of scale and synergies;
- **The deal would strengthen PRE’s AM division and services businesses** (benefiting from increased captive business).

■ Some uncertainties still exist

If the deal were to go ahead, **it would be positive, but feature some significant uncertainties** in terms of:

- **Merger ratio** (given that PRE is still in full-scale restructuring mode)
- **Governance**, not knowing what FIMIT shareholders require in this respect.

■ Upgrade to neutral stance

Although we still think that **visibility for the PRE restructuring plan is not high** (3Q09 results were not supportive), on November 12th **we upgraded our recommendation from Reduce to HOLD** because of the

- **Closer-than-expected M&A deal**, potentially offering new synergy opportunities and a little speculative upside potential;
- **Stock’s very weak performance** (YTD -38% vs. Italian FTSE MIB index);
- **Large discount to NAV** (over 40%).

Updated NAV is € 1.04 PS (-1%), target price unchanged at € 0.68 PS, still applying 35% discount due to the risks of both property portfolio write-down (penalised by very high vis-à-vis lever: 4.4x), swap ratio uncertainty and, the **inevitable overhang immediately following the spin-off**.

| MAIN FIGURES € mn | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
|--------------------------|-------------|-------------|-------------|--------------|--------------|--------------|
| Revenues | 702 | 853 | 776 | 266 | 253 | 321 |
| Growth | 0% | 22% | -9% | -66% | -5% | 27% |
| Ebitda | 113 | 62 | -50 | -9 | 14 | 26 |
| Growth | 22% | -45% | -181% | -82% | -251% | 90% |
| Ebit | 104 | 50 | -60 | -16 | 6 | 19 |
| Growth | 24% | -51% | n.m. | n.m. | n.m. | 192% |
| Ebit + SPV | 214 | 237 | -240 | -76 | -4 | 49 |
| Growth | 15% | 10% | n.m. | n.m. | n.m. | n.m. |
| Profit before tax | 211 | 195 | -266 | -73 | 6 | 49 |
| Growth | 13% | -8% | n.m. | n.m. | n.m. | 662% |
| Net income | 160 | 151 | -195 | -79 | -1 | 35 |
| Growth | 10% | -5% | n.m. | n.m. | n.m. | n.m. |
| Adj. net income | 171 | 182 | -209 | -75 | 0 | 40 |
| Growth | 11% | 7% | n.m. | n.m. | n.m. | 25808% |
| MARGIN | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
| Ebitda margin | 16.1% | 7.2% | -6.5% | -3.4% | 5.4% | 8.1% |
| Ebit Margin | 14.8% | 5.9% | -7.7% | -6.1% | 2.5% | 5.8% |
| Ebit + SPV Margin | 30.5% | 27.7% | -30.9% | -28.5% | -1.4% | 15.1% |
| Profit before tax Margin | 30.1% | 22.9% | -34.3% | -27.5% | 2.5% | 15.1% |
| Net income Margin | 22.7% | 17.7% | -25.1% | -29.8% | -0.4% | 10.8% |
| Adj. net income Margin | 24.3% | 21.3% | -27.0% | -28.1% | 0.1% | 12.3% |
| SHARE DATA | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
| NAV - € | 50.2 | 41.6 | 10.6 | 1.04 | 0.99 | 1.08 |
| Eps - € cents | 376.7 | 355.0 | -457.8 | -17.9 | -0.1 | 4.1 |
| Growth | 7.9% | -6% | n.m. | n.m. | n.m. | n.m. |
| Adj. Eps - € cents | 402.9 | 427.2 | -490.9 | -16.9 | 0.0 | 4.7 |
| Growth | 9.2% | 6% | n.m. | n.m. | n.m. | n.m. |
| Dps ord - € cents | 206.0 | 206.0 | 0.0 | 0.0 | 0.0 | 2.0 |
| Bvps - € | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| VARIOUS - € mn | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
| Capital Employed | 1,139 | 1,536 | 1,228 | 1,150 | 1,168 | 1,193 |
| Fcf | 199 | -119 | -41 | -124 | -30 | 16 |
| Capex | 10 | 10 | 7 | 10 | 11 | 11 |
| Working Capital | 262 | 183 | 136 | 151 | 126 | 129 |
| INDEBTNESS - €mn | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
| NFP | -96 | -290 | -289 | -4 | -23 | -13 |
| NFP incl. SHL | -431 | -816 | -862 | -464 | -483 | -473 |
| D/E incl. SHL | 0.14 x | 0.40 x | 0.79 x | 0.01 x | 0.03 x | 0.02 x |
| Debt/Ebitda incl. SHL | 0.85 x | 4.69 x | n.m. | n.m. | 1.68 x | 0.49 x |
| Interests cov. | 36.47 x | 1.48 x | n.m. | n.m. | n.m. | n.m. |
| MARKET RATIOS | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
| PNAV | 1.03 x | 0.64 x | 0.34 x | 0.56 x | 0.59 x | 0.54 x |
| P/E rep | 13.8 x | 7.5 x | n.m. | n.m. | n.m. | 14.0 x |
| P/E adj | 12.9 x | 6.2 x | n.m. | n.m. | n.m. | 12.4 x |
| P/Bv | 3.1 x | 1.6 x | 0.4 x | 0.7 x | 0.7 x | 0.7 x |
| EV FIGURES | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
| EV/Sales | 3.28 x | 1.66 x | 0.57 x | 1.85 x | 2.03 x | 1.56 x |
| EV/Ebitda | 20.4 x | 22.9 x | n.m. | n.m. | 37.4 x | 19.3 x |
| EV/Ebit | 22.2 x | 28.1 x | n.m. | n.m. | 80.4 x | 27.0 x |
| EV/Ce | 2.0 x | 0.9 x | 0.4 x | 0.4 x | 0.4 x | 0.4 x |
| REMUNERATION | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
| Div. yield | 4.0% | 7.8% | 0.0% | 0.0% | 0.0% | 3.4% |
| Fcf yield | 9.0% | -10.6% | -27.2% | -25.3% | -6.1% | 3.3% |
| Roe | 25.3% | 21.2% | -35.9% | -15.1% | -0.2% | 5.0% |

SHL = Shareholder loans

Source: EQUITA SIM estimates and company data

FIMIT: POSSIBLE DEVELOPMENTS

FIMIT is the second largest Italian real-estate fund management company (after PRE). It has 13 funds with total AUM amounting to € 4.7 bn at the end of June 2009, with the aim of coming close to € 5 bn in the next few months (see also Appendix 1).

Fimit’s extremely strong growth in recent years is also due to several important deals, including IMMIT (the property spin-off of IntesaSanpaolo with a market value of € 1+ bn, after failing the IPO in 2008), and Unicredito (for € 0.8 bn). More recently Fimit agreed to contribute in new funds the property portfolio of:

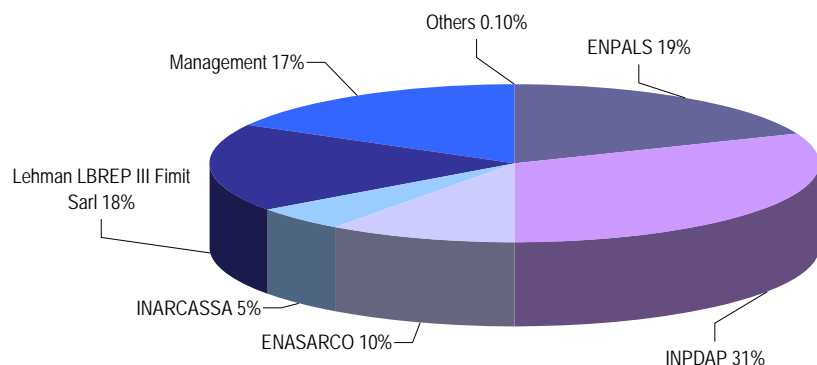
- Enel: € 0.6 bn by year-end;
- UniCredit: a new € 0.6-bn contribution within year-end;
- Fondiaria-SAI: € 0.3 bn to be finalised by year-end.

Although we do not have information enabling us to express an opinion, we believe that – **given the standing of the main originators of the assets contributed to the funds – the quality of portfolios should be medium-high.**

The main hurdles to overcome in order to make the M&A deal happen are:

- **The swap ratio**, which we believe may also be influenced by not purely economic considerations
- **Governance**, knowing that FIMIT’s shareholder base is somewhat variegated, with some major public pension & welfare agencies owning the outright majority.

FIMIT SHAREHOLDING STRUCTURE

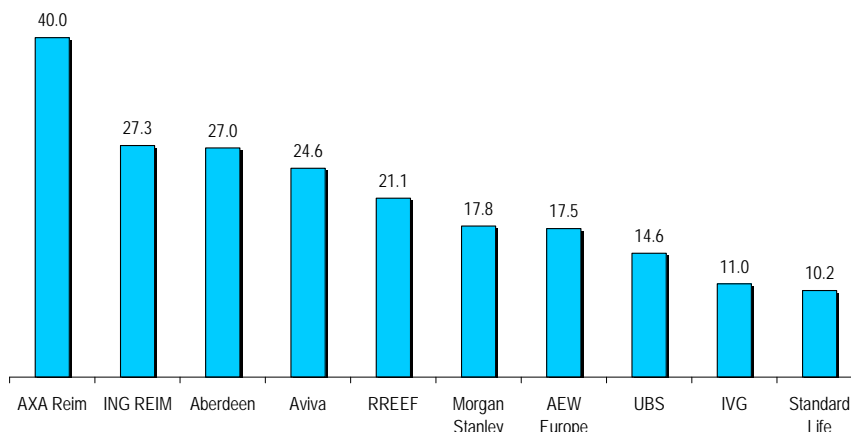


*Pension & welfare agencies:
 ENPALS - Show-business workers
 INPDAP – Public Administration employees
 ENASARCO – Sales agents and representatives
 INARCASSA – Engineers and architects
 Source: company data*

Although it is difficult to identify a priori what the technicality will be, **we believe it is more than 50% probable that the deal will materialise because:**

- **It would create a major asset manager with € 10+ bn of AUM** (No. 1 by far in Italy and around No. 10 in Europe) with evident benefits for both players in terms of economies of scale.

TOP TEN EUROPEAN REAL ESTATE ASSET MANAGERS (€ bn)



Source: Europroperty / INREV fund managers survey

- **We believe it has the support of the banking industry:**
 - In our view it is not a coincidence that IntesaSanpaolo (ISP) has recently acquired 10% of PRE's asset management company
 - All the funds feature high gearing, which we imagine has been funded by the main Italian banks (ISP and UniCredit - UCG)
- **The two CEOs (Giulio Malfatto of PRE and Massimo Caputi of FIMIT) know each other well**, as they were partners in Zero SGR, a private real-estate fund management company from which Mr. Malfatto withdrew in April this year following his appointment as PRE's CEO.

From the business standpoint the deal would be positive because:

- **PRE could become by far the largest asset management company in Italy**, with opportunities for economies of scale and also becoming the top-of-mind choice for those wanting to contribute properties to new funds;
- **PRE would increase by 30% the assets managed** (from € 15 bn as of today to about € 20 bn) **to which it could provide captive services** (agency and property management).

The unknown factor, i.e. **the swap ratio, might, however, may limit these considerations.**

TRYING TO WORK OUT A POSSIBLE SCENARIO

Solely by way of example – given the lack of updated information on FIMIT:

| PIRELLI RE – FIMIT MERGER | | |
|-----------------------------|-----------|-----|
| PC controlling stake in PRE | a | 58% |
| Pirelli RE valuation* | b | 570 |
| Fimit SGR valuation | c | 200 |
| Combined entity mkt cap | d=b+c | 770 |
| Fimit stake | e=c/d | 26% |
| PC stake | f=(b*a)/d | 43% |

* equivalent to 35% discount to our NAV
Source: Equita SIM estimates

- **If we assume merger of FIMIT with Pirelli RE SGR** where:
 - FIMIT shareholders are paid with PRE shares
 - PRE is valued at our target price (or 35% discount to NAV)
 - FIMIT SGR is valued on a part with PRE SGR (€ 200 mn for 100% of equity) as it tends to have the same amount of AUM ...**... PC would dilute from 58% to 43% of capital and Fimit shareholders would receive about 26% of the combined entity.**
- **with subsequent spin-off of PRE** (with proportional distribution of shares), **with Camfin (PC parent co.) receiving about 11% of capital**

3Q09 RESULTS STILL WEAK

Although results are improving, **as expected 3Q09 was another weak quarter for PRE**, and fell short of our estimates at all levels. We confirm our view that visibility will not improve until 2010.

Management has confirmed FY09E EBIT+SPV guidance (before restructuring costs and portfolio write-downs) **negative at €-25/-35mn** (from €-30 mn in 9M09). Our estimate of €-26 mn has been adjusted towards the low end of guidance range (€-35 mn), albeit recognising that it may differ depending on some possible non-recurring items.

In our view **FY09 guidance quality is not high** since it has been confirmed despite:

- **The one-off capital gain** on disposal of 10% of the AM business of ISP (€ 12 mn), o/w 50% expected in 4Q09 (after 50% already recorded in 3Q);
- **Higher cost savings than initially planned** (increased from € 45 mn to € 65 mn) of which € 47 mn already achieved in 9M09 – but they of course will have a positive impact in future years.

As far as year-end net loss is concerned, we have worsened our previous estimate of €-70 mn to €-79 mn (following €-58 mn reported in 9M09) after having included:

- **Roughly €20 mn real estate portfolio impairment** (following approximately € 12 mn YTD);
- **Restructuring costs of €20+ mn** (after around € 13 mn YTD).

3Q09 in detail:

- **EBIT+SPV (before restructuring costs and impairment):** €-7 mn (vs. loss of €-1 mn in 3Q08) vs. our expectation of €-2 mn and consensus of €-9 mn;
- **Net loss:** €-16 mn (vs. loss of €-22 mn in 3Q08) vs. estimate €-7 mn and consensus €-13 mn;
- **Net debt (including shareholders' loans):** €-447 mn (€-828 mn in June), benefiting from the €339-mn rights issue completed in July, vs. our estimate of €-430 mn.

| Group/€ mn | PRE QUARTERLY RESULTS | | | | | | | | | | | | | | | |
|---------------------------------|-----------------------|-------|---------|--------|---------|-------|---------|--------|---------|-------|---------|--------|---------|--------|---------|-------|
| | 1Q08 | % | 1Q09 | % | 2Q08 | % | 2Q09 | % | 3Q08 | % | 3Q09 | % | 4Q08 | % | 4Q09E | % |
| Revenues | 189.5 | 100.0 | 53.8 | 100.0 | 210.0 | 100.0 | 62.0 | 100.0 | 127.6 | 100.0 | 83.4 | 100.0 | 248.5 | 100.0 | 66.8 | 100.0 |
| Incr. % | -6% | | -76% | | 110% | | -38% | | 28% | | -35% | | -42% | | -73% | |
| EBITDA | 26.9 | 14.2 | (.5) | (.9) | (7.8) | -3.7 | (9.6) | (15.5) | 1.8 | 1.4 | 1.0 | 1.2 | (71.1) | -28.6 | 0.0 | 0.1 |
| Incr. % | -27% | | n.m. | | n.m. | | n.m. | | -80% | | -42% | | n.m. | | -100% | |
| EBIT | 24.5 | 12.9 | (2.2) | (4.1) | (11.3) | -5.4 | (11.3) | (18.3) | (0.8) | -0.6 | (1.0) | (1.2) | (72.1) | -29.0 | (1.8) | -2.6 |
| Incr. % | -29% | | n.m. | | n.m. | | n.m. | | n.m. | | n.m. | | n.m. | | n.m. | |
| SPVs @ equity | .5 | .3 | (12.5) | (23.2) | 13.6 | 6.5 | (8.4) | (13.6) | (11.1) | -8.7 | (8.0) | (9.6) | (47.2) | -19.0 | (30.6) | -45.8 |
| Property assets write-up (down) | .0 | .0 | .0 | .0 | 5.7 | 2.7 | (4.8) | (7.7) | (5.7) | -4.5 | (7.1) | (8.5) | (265.7) | -106.9 | (9.1) | -13.6 |
| EBIT before rest./write-down | 25.0 | 13.2 | (12.5) | (23.2) | 18.5 | 8.8 | (10.5) | (16.9) | (10.5) | -8.2 | (7.2) | (8.7) | (94.9) | -38.2 | (4.6) | -6.8 |
| Incr. % | 11533% | | n.m. | | 40% | | n.m. | | n.m. | | n.m. | | n.m. | | n.m. | |
| EBIT incl. SPVs | 25.0 | 13.2 | (14.7) | (27.3) | 8.0 | 3.8 | (24.6) | (39.6) | (17.6) | -13.8 | (16.0) | (19.2) | (255.1) | -102.7 | (20.5) | -30.6 |
| Incr. % | -47% | | n.m. | | -39% | | n.m. | | n.m. | | n.m. | | n.m. | | n.m. | |
| Pre-tax profit | 20.5 | 10.8 | (14.5) | (27.0) | 2.5 | 1.2 | (25.8) | (41.6) | (20.3) | -15.9 | (13.2) | (15.9) | (268.4) | -108.0 | -19.8 | -29.6 |
| Incr. % | -36% | | n.m. | | -77% | | n.m. | | n.m. | | n.m. | | n.m. | | n.m. | |
| Net Income | 11.6 | 6.1 | (15.8) | (29.4) | (1.5) | -0.7 | (26.5) | (42.7) | (21.9) | -17.1 | (15.6) | (18.7) | (183.2) | -73.7 | (21.4) | -32.0 |
| Incr. % | n.m. | | n.m. | | n.m. | | n.m. | | n.m. | | n.m. | | n.m. | | n.m. | |
| NF Position | (807.8) | | (898.4) | | (809.8) | | (828.5) | | (934.5) | | (447.4) | | (862.0) | | (463.6) | |

Source: company data and EQUITA SIM estimates

VALUATION AND SENSITIVITY

Updated SoTP is € 1.04 PS (about -1%), assuming -2% for property assets valuation referring to both 2H09 and FY10.

| PIRELLI & C. REAL ESTATE: SOTP | | | | | | |
|--|---------|----------|------|-------------|-------------|--|
| Asset | Stake % | # shares | € PS | € mn | % | Valuation method |
| Treasury shares | 0.2% | 1,300 | 0.58 | 1 | 0% | Market price |
| TOTAL LISTED ASSETS (1) | | | | 1 | 0% | |
| Property assets valuation (pro-quota) | | | | 3,814 | 432% | As of Jun-09 (*) -2%, or € -78 mn estimated for 2H09-FY10E |
| Attributable net debt (including shareholders' loans) | | | | -3,114 | -353% | As of Jun-09 |
| Mandatory capital increase (based on covenant) | | | | -20 | -2% | 2009E cash injection due to existing covenant |
| Taxes on property capital gains | | | | -38 | -4% | Assuming tax-rate = 15% |
| TOTAL PROPERTY NAV (2) | | | | 642 | 73% | |
| Attributable equity to NPL business | 33% | | | 40 | 5% | Estimated as of Jun-09 |
| SGR - Asset and fund management | 90% | | | 180 | 21% | IntesaSanPaolo M&A deal (Sep-09), or 3.4% of AUM |
| EV Services & Asset Management | (a) | | | 100 | 11% | 2009/10E EV/Sales 0.4/0.5x |
| ATTRIBUTABLE VALUE OF SERVICES (3) | | | | 320 | 36% | |
| HOLDING ATTRIBUTABLE NET DEBT + HOLDING COSTS (4) | | | | -131 | -106 | |
| OTHER ASSETS (LA RINASCENTE-UPIM) (5) | 20% | | | 20 | 2% | Estimated market value |
| STOCK OPTION PLAN DILUTION (6) | 5.3% | 2,269 | 0.0 | 0 | 0% | Existing plans with strike price at € 26,75 / 46,5 PS |
| TOTAL (1+2+3+4+5+6) | | | | 877 | 100% | |
| Nr. Shares (mn) | | | | 841.2 | | |
| NAV per share € | | | | 1.04 | | |
| Current discount / (premium) | | | | 44% | | |

(*) based on independent valuation as of Jun-09 (mainly Richard Ellis)

(a) including 100% of Property management, Agency and facility management (Germany and Poland) + 80% of credit servicing

Source: Equita SIM estimates

In fixing our target price of € 0.68 PS (unchanged), so far we confirm the application of a 35% discount to our SoTP, underlying the risk of

- property portfolio write-down knowing the high vis-à-vis lever (4.4x)
- still high SPVs LTV (0.77x) and related covenant issues
- uncertainty concerning the swap ratio.

| PIRELLI & C. REAL ESTATE - SENSITIVITY TO PROPERTY ASSETS VALUE (€ mn) | | | | | | |
|--|--------------|---------|------------|--------------|------------|-------------------------|
| Properties Discount | Properties a | Other b | SOTP c=a+b | NR. shares d | SOTP e=c/d | Resulting disc. to SOTP |
| 0% | 642 | 235 | 877 | 841.2 | 1.04 | 0% |
| 5% | 610 | 235 | 845 | 841.2 | 1.00 | -4% |
| 10% | 578 | 235 | 813 | 841.2 | 0.97 | -7% |
| 15% | 546 | 235 | 781 | 841.2 | 0.93 | -11% |
| 20% | 514 | 235 | 748 | 841.2 | 0.89 | -15% |
| 25% | 482 | 235 | 716 | 841.2 | 0.85 | -18% |
| 30% | 450 | 235 | 684 | 841.2 | 0.81 | -22% |
| 35% | 417 | 235 | 652 | 841.2 | 0.78 | -26% |
| 40% | 385 | 235 | 620 | 841.2 | 0.74 | -29% |
| 45% | 353 | 235 | 588 | 841.2 | 0.70 | -33% |

Source: EQUITA SIM estimates

STATEMENT OF RISKS

The primary elements that **could positively impact the stock include:**

- Significant improvement in the reference macroeconomic scenario
- Stabilisation of short-term interest rates at current low levels
- Property market recovery and increase in number of transactions
- Restore of property deal normal banking financing
- Positive changes in Italian and/or German property market legislation
- Accretive M&A deals

- Upwards revision of management guidance

The primary elements that **could negatively impact the stock include:**

- Significant deterioration in the reference macroeconomic scenario
- Significant increase in short-term interest rates
- Property market stagnation and decrease in number of transactions
- Missing restoring of property deal normal banking financing
- Negative changes in Italian and/or German property market legislation
- M&A deal at unfavourable conditions
- Downwards revision of management guidance

APPENDIX 1: FIMIT SGR BRIEF OVERVIEW

FIMIT SGR is an **Asset Managing Company** dealing with real estate **investment funds** for **institutional clients** and **private savers**.

Its mission is to **promote, develop** and **structure** real estate assets by managing real estate funds, whereas its goal is to **meet** the technical, administrative and financial **requirements** of Italian and foreign investors. FIMIT SGR was created in **1998** by the Italian state-owned **Mediocredito Centrale bank** and the **INPDAP** pension fund, to speed up and enhance the divestiture and management of significant public real estate assets by setting up the first **public-contribution real estate funds**.

The funds are set up through contribution from Public Institutions: public real estate portfolio are converted into fund units, leading to **reduced management costs, tax breaks**, streamlined procedures and **maximum return**. The **Alpha** and **Beta** funds were the first retail funds created (in 2001 and 2004 respectively) and listed, offering constant and growing results over the years. Retail contribution funds were then joined by reserved funds for qualified investors.

10 years after its inception, FIMIT SGR is currently n. 2 in Italy in the real estate property funds sector, thanks to its marked **capacity for innovation** and development, and to the **sound reputation** established over the years. It currently manages 13 real estate funds for an overall capital of over € **4,7 bn**. Fimit manages funds placed to about **55.000 retail investors** and over **15 Institutional Investors**. Including the agreements already signed (for instance the second tranche with Unicredito) we estimate the AUM should grow to above €5 bn

REAL ESTATE FUNDS FOR QUALIFIED INVESTORS AND RETAIL CLIENT

| Fund Name | Type | Call of commitments | Call of commitments |
|------------|---------------------|---------------------|---------------------|
| Alpha Fund | Public contribution | 01/03/2001 | 15 years |
| Beta Fund | Public contribution | 01/01/2004 | 8 years |
| Delta Fund | Ordinary collection | 22/12/2006 | 8 years |

Source: fimit official site

REAL ESTATE FUNDS RESERVED FOR QUALIFIED INVESTORS

| Fund Name | Type | Start Date | Indicative duration |
|-----------------------|---|------------|---------------------|
| Gamma Fund | Ordinary with multiple closings | 09/06/2004 | 15 years |
| Sigma Fund | Private contribution with multiple closings | 15/02/2005 | 5 years |
| Theta Fund | Ordinary with multiple closings | 19/12/2006 | 30 years |
| Omicron Sviluppo Fund | Private contribution with multiple closings | 01/08/2007 | 30 years |
| Eta Fund | Private contribution with multiple closings | 27/07/2006 | 30 years |
| Tau Fund | Ordinary with multiple closings | 03/06/2008 | 30 years |
| Omicron Plus Fund | Private contribution with multiple closings | 12/04/2007 | 15 years |
| Omega Fund | Private contribution with multiple closings | 28/08/2008 | 15 years |
| Senior Fund | Private contribution with multiple closings | 30/04/2008 | 30 years |
| Rho Fund | Private contribution with multiple closings | 27/03/2008 | 10 years |

Source: Fimit official site

| PIRELLI RE: MAIN FIGURES (€ mn) * | | | | | | |
|--|-------------|-------------|-------------|--------------|--------------|--------------|
| P&L | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
| Revenues | 702 | 853 | 776 | 266 | 253 | 321 |
| Growth | 0% | 22% | -9% | -66% | -5% | 27% |
| Total opex | -589 | -791 | -826 | -275 | -239 | -295 |
| o/w restructuring costs | 0 | 0 | -42 | -20 | 0 | 0 |
| EBITDA | 113 | 62 | -50 | -9 | 14 | 26 |
| Growth | 22% | -45% | -181% | -82% | -251% | 90% |
| Margin | 16.1% | 7.2% | -6.5% | -3.4% | 5.4% | 8.1% |
| EBIT | 104 | 50 | -60 | -16 | 6 | 19 |
| Growth | 24% | -51% | n.m. | n.m. | n.m. | 192% |
| Margin | 15% | 6% | -8% | -6% | 3% | 6% |
| Shareholdings at equity (SPVs) | 111 | 186 | -44 | -39 | 0 | 30 |
| Property assets write-up/(down) | 0 | 0 | -136 | -21 | -10 | 0 |
| EBIT before restructuring & write-down | 214 | 237 | -62 | -35 | 6 | 49 |
| Growth | 15% | 10% | n.m. | n.m. | n.m. | 662% |
| Margin | 30.5% | 27.7% | -8.0% | -13.1% | 2.5% | 15.1% |
| EBIT + SPV | 214 | 237 | -240 | -76 | -4 | 49 |
| Growth | 15% | 10% | n.m. | n.m. | n.m. | n.m. |
| Margin | 30.5% | 27.7% | -30.9% | -28.5% | -1.4% | 15.1% |
| Total financial expenses | -3 | -42 | -26 | 3 | 0 | 0 |
| Profit before tax | 211 | 195 | -266 | -73 | 6 | 49 |
| Growth | 13% | -8% | n.m. | n.m. | n.m. | 662% |
| Margin | 30.1% | 22.9% | -34.3% | -27.5% | 2.5% | 15.1% |
| Taxes | -49 | -34 | -2 | -7 | -7 | -12 |
| Tax rate | 23% | 17% | n.m. | n.m. | 117% | 24% |
| Minority interests | -3 | -10 | -2 | 1 | 0 | -2 |
| Non recurring post tax | 0 | 0 | 75 | 0 | 0 | 0 |
| Net income | 160 | 151 | -195 | -79 | -1 | 35 |
| Growth | 10% | -5% | n.m. | n.m. | n.m. | n.m. |
| Margin | 22.7% | 17.7% | -25.1% | -29.8% | -0.4% | 10.8% |
| Adj. net income | 171 | 182 | -209 | -75 | 0 | 40 |
| Growth | 11% | 7% | n.m. | n.m. | n.m. | 25808% |
| Margin | 24.3% | 21.3% | -27.0% | -28.1% | 0.1% | 12.3% |
| CF Statement | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
| Cash Flow from Operations | 171 | 172 | -192 | -106 | -14 | 44 |
| (Increase) decrease in OWC | -9 | 79 | 47 | -15 | 25 | -3 |
| (Purchase of fixed assets) | -10 | -10 | -7 | -10 | -11 | -11 |
| (Other net investments) | -214 | -657 | 60 | -23 | 0 | 0 |
| (Distribution of dividends) | -77 | -88 | -84 | 0 | 0 | 0 |
| Rights issue | 26 | 0 | 0 | 399 | 0 | 0 |
| Other | 47 | 311 | 177 | 40 | -20 | -20 |

* including € 0.4 bn rights issue but not including any divestitures and M&A deals
Source: EQUITA SIM estimates and company data

INFORMATION PURSUANT TO ARTICLE 69 ET SEQ. OF CONSOB (Italian securities & exchange commission) REGULATION no. 11971/1999

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In the past EQUITA SIM has published studies on Pirelli Real Estate

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EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE

| RECOMMENDATION/RATING | Low Risk | Medium Risk | High Risk |
|-----------------------|----------------|---------------|--------------|
| BUY | ETR >= 7.5% | ETR >= 10% | ETR >= 15% |
| HOLD | -5% <ETR< 7.5% | -5% <ETR< 10% | 0% <ETR< 15% |
| REDUCE | ETR <= -5% | ETR <= -5% | ETR <= 0% |

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MOST RECENT CHANGES IN RECOMMENDATION AND/OR IN TARGET PRICE (OLD ONES IN BRACKETS):

| Date | Rec. | Target Price (€) | Risk | Comment |
|------------------|-----------------|------------------|------|--|
| 16 February 2009 | REDUCE (HOLD) | 3.0 (5.3) | High | change in estimates/valuation and capital increase effects |
| 24 February 2009 | REDUCE (REDUCE) | 2.3 (3.0) | High | change in estimates/valuation |
| 29 May 2009 | REDUCE (REDUCE) | 3.6 (2.3) | High | change in estimates/valuation |
| 15 June 2009 | REDUCE (REDUCE) | 0.65 (3.6) | High | capital increase |

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| | COMPANIES COVERED | COMPANIES COVERED WITH BANKING RELATIONSHIP |
|-----------|-------------------|---|
| BUY | 51.2% | 54.2% |
| HOLD | 35.4% | 33.3% |
| REDUCE | 12.2% | 8.3% |
| NOT RATED | 1.2% | 4.2% |