PRESS RELEASE

BOARD EXAMINES PRELIMINARY DATA FOR FY2004:

• OPERATING PROFIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS: APPROX. €157m, + 23%

• AGGREGATE VALUE OF PRODUCTION NET OF ACQUISITIONS: APPROX. €1,973m, + 29%

• ASSET MANAGEMENT:
SALES TO THIRD PARTIES OF ASSETS UNDER MANAGEMENT AMOUNT TO APPROX. €1,711m (€1,298m AT BOOK VALUE) AND ACQUISITIONS TO APPROX. €2,110m;
ASSETS CONTRIBUTED TO FUNDS FOR APPROX. €2,387m;
OPERATING PROFIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS AMOUNTS TO APPROX. €122m, + 35%

• SERVICES:
VALUE OF PRODUCTION TOTALS APPROX. €355m, + 10%;
OPERATING PROFIT TOTALS APPROX. €57m, + 13%

• NET DEBT OF APPROX. €35m IMPROVES FROM THE END OF SEPTEMBER 2004 (€40.9m)

• FOR 2004 RESULTS IN LINE WITH TARGETS SET OUT IN THE THREE-YEAR PLAN (2003-2005)

Milan, 22 February 2005 – The Board of Directors of Pirelli & C. Real Estate met today to examine the Group’s preliminary and unaudited results for FY2004. Last year saw further growth, in line with the targets set out in the three-year strategic plan for 2003-2005.

Before examining the results in detail, it should be noted that Pirelli RE is a management company, which manages special purpose companies and funds that own real estate properties and non-performing loans, and in which it holds minority interests (asset fund management activity). It also provides a full range of property services to the above vehicles
and to other customers (service provider activity). The aggregate value of production net of acquisitions and operating profit including income from equity participations are, therefore, the most appropriate measure of the Group’s turnover and operating performance.

**Group operating performance in 2004**

At the end of 2004 the aggregate value of production, net of acquisitions, totalled approximately €1,973m, marking growth of 29% on the €1,525m of 2003. The Group’s consolidated value of production alone amounts to approximately €560m, compared with the €649m of the previous year. The decrease, which is in line with the Group’s business model, reflects the growing weight of investments in significant minority stakes.

**Operating profit including the income from equity participations** amounts to approximately €157m, up 23% on the €128,1m of 2003.

**Net debt** stands at approximately €35m at the end of 2004, decreased from the €40.9m of 30 September (€9.2m at the close of 2003).

**Adjusted net debt** (including shareholder loans to companies in which the Group holds minority stakes) totals approximately €245m, down from the €295.3m of 30 September 2004 (€223.7m at the end of 2003).

The Group’s gearing for 2004 is expected to show a slight improvement compared with the 0.53 of 31 December 2003.

**Performance of main areas of business in 2004**

**Asset Management (Residential, Commercial and Non-Performing Loans)**

The aggregate value of production net of acquisitions from Asset Management activities amounts to approximately €1,535m for 2004, up 34% on the previous year (€1,147.5m).

**Operating profit including income from equity participations** also improved from the €90.4m of 2003 to approximately €122m in 2004 (up 35%).

Property trading generated approximately €1,711m from sales to third parties in 2004, whilst assets conferred to funds totalled approximately €2,387m (amounting to a total of approximately €4,098m). This resulted in total gross capital gains of approximately €655m. Acquisitions during the period totalled approximately €2,110m, with approximately €1,120m represented by property assets and approximately €990m (book value) by non-performing loans.
At the end of 2004, Pirelli RE and Morgan Stanley Real Estate Funds (MSREF), together with Morgan Stanley’s Special Situations Group, agreed to buy a non-performing mortgage and corporate loan portfolio from BNL. The portfolio, which has a gross book value of approximately €430m, is to be securitised in 2005.

**Fund Management**

Fund management, which regarded the progressive start-up of the Tecla Offices Fund, the Cloe Offices Fund, the Olinda Shops Fund, Clarice Light Industrial and FIP (the Public Property Fund, with around a third of the property portfolio managed under contract), generated operating profit of approximately €5m.

**Property Services**

Property services generated a consolidated value of production equal to approximately €355m, up 10% on the €322m of 2003.

Operating profit rose by 13% to approximately €57m, compared with the €50.6m of 2003. ROS (return on sale) was slightly up on the previous year at 16%.

**Distribution network**

Development of the franchise network to intermediate property and distribute financial and insurance services on the retail market proceeded successfully during 2004: as already announced, Pirelli RE Franchising reached its target of 500 agencies by mid-December, a month earlier than scheduled in the three-year plan.

As at 31 December 2004 a total of 525 agencies had been signed up.

As expected, the network incurred operating costs of approximately €6m during the period.

**Subsequent events**

- On 19 January, Spazio Industriale, a joint venture between Pirelli RE (25%) and Soros Real Estate Investors (75%), completed the acquisition of 7 industrial properties owned by the Prada Group for a sum of €77m. Spazio Industriale also has an option on a further 2 industrial properties to be exercised by 19 April of this year.
- On 20 January, Pirelli RE and DB Real Estate Global Opportunities IB, L.P., the opportunistic real estate fund managed by DB Real Estate (Deutsche Bank Group), signed a binding agreement to establish an exclusive joint venture to invest in Italian retail and entertainment properties. The joint venture (35% Pirelli RE and 65% DB Real Estate Global Opportunities IB, L.P.) aims to acquire Italian assets worth over €1bn. The JV, in
consortium with the Borletti family and Investitori Associati, is currently bidding to buy the properties and assets of the Rinascente and UPIM department store chains.
• On 28 January, the Group agreed to buy two residential complexes from Generali Properties for €102m.

# # #

As of yesterday (21 February), the Company and the 100% controlled Partecipazioni Real Estate held 1,429,675 Pirelli RE shares, equal to 3.47% of the share capital, with an average per share value of €22.84.

The annual report, financial statements and consolidated financial statements as at 31 December 2004 will be examined by the Board of Directors of the Company at its meeting of 18 March.

For further information contact:
Pirelli RE Press Office Tel. +39/02/8535.4270
Pirelli RE Investor Relations Tel. +39/02/8535.4057
www.pirellire.com