



PRESS RELEASE

BOARD APPROVES DRAFT 2005 FINANCIAL STATEMENTS: IMPROVEMENT ACROSS ALL KEY PERFORMANCE INDICATORS

- **AGGREGATE REVENUES UP 29% TO €3,507.2M
(€2,714M IN 2004)**
- **OPERATING PROFIT INCLUDING INCOME FROM EQUITY
PARTICIPATIONS UP 40% TO €186.1M
(€133M IN 2004)**
 - **NET PROFIT UP 24% TO €145.4M
(€117.1M IN 2004)**
- **DIVIDEND OF €1.90 PER SHARE PROPOSED
(€1.70 IN 2004)**
- **MARKET VALUE OF ASSETS UNDER MANAGEMENT RISES TO
€13BN (€10.7BN AT END OF 2004)**
- **NET DEBT IMPROVES TO €30.5M VERSUS €40.2M AT END OF
2004 (€29.4M AT END OF SEPTEMBER 2005)**
 - **FURTHER GROWTH EXPECTED IN 2006**

Milan, 10 March 2006 – The Board of Directors of Pirelli & C. Real Estate, which met yesterday evening, has examined and approved the Company's draft financial statements for 2005.

The results show significant improvements across all the Company key performance indicators. **Operating profit including income from equity participations** has grown at an **average compound annual growth rate of 22%** over the three-year period 2003-2005, thus in line with the targets in the three-year plan announced to the market.

Before examining the figures in detail, it should be noted that Pirelli RE is a **management company**, which manages funds and special purpose companies that own properties and non-performing loans, and in which it holds minority interests (the fund and asset management businesses). It also provides a full range of property services to the above vehicles and to other customers (the property services business), either directly or via its franchise network of estate agents. **Aggregate revenues** (which according to IAS/IFRS accounting standards substantially equate with the aggregate value of production net of acquisitions used in previous financial statements) 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 2005*

Aggregate revenues amount to **€3,507.2m**, marking a **29%** improvement on the €2.714m of 2004.

Operating profit including income from equity participations amounts to **€186.1m**, which is **40%** up on the €133m of the previous year*.

Net profit for 2005 amounts to **€145.4m**, marking an increase of **24%** on the €117.1m of 2004.

The Board is to propose a dividend of **€1.90 per share** to the General Meeting, compared with €1.70 for 2004. This equates to a payout ratio of 55%, in line with the target of 50-60% in the three-year plan. If approved by the General Meeting, the dividend will be paid on 27 April 2006 (the ex dividend date is 24 April 2006).

The Group's share of **shareholders' equity** at 31 December 2005 stands at **€535.4m**, compared with €485.5m at the end of 2004. The increase of €49.9m reflects the combined effect of reductions resulting from the payment of dividends (€68.3m) and the reclassification of treasury shares to shareholders' equity (€48.5m), and increases due to net profit for the period (€145.4m) and the exercise of share options (€23.6m).

Based on the market value of non-performing loans[†], the value of **assets under management** has risen to **€12.9bn** (€10.7bn at the end of 2004). This figure also includes property portfolios managed on behalf of third parties, amounting to approximately €1.4bn. At the end of 2005 assets under management include a **trading portfolio** with a value of **€8bn** (62% of total assets) and a **core/core plus** portfolio worth **€4.9bn** (38% of total assets, and up significantly on the 26% of 2004).

At 31 December 2005, Pirelli RE's share of the managed portfolio (net of funds managed on behalf of third parties) amounts to €2.6bn, representing 23% of the total (22% at the end of 2004). 31% of this figure regards the trading portfolio and 4% the core/core plus portfolio.

* The amounts for 2005 are compared with those for 2004, which have been reclassified, for the purpose of comparison, in accordance with IAS/IFRS.

* Up 18% compared with the end of December 2004, calculated under Italian GAAP: this is the increase used by the Group in measuring its performance against the targets set out in the three-year plan for 2003-2005.

† The value of non performing loans is based on net present value (based on a discount rate of 6.9%), represented by the market value. The Net Asset Value of the traditional loan portfolios is obtained via an internal assessment carried out using a theoretical model verified by Deloitte & Touche S.p.A. and based on a statistical sample of loans selected with a confidence level of 98%. The Net Asset Value of the recent acquisition from Morgan Stanley has been verified by Reconta Ernst & Young. The value of the portfolio deriving from recent purchases from BNL and Intra, which closed in late December 2005, has not been valued for the purpose of determining NAV.

The Pirelli RE Group's **Net Asset Value**, represented by the sum of its share of shareholders' equity (€535.4m), the unrealised gain on its property portfolio (€458.5m) and the market value of the own shares held (€63.6m), is **€1,057.5m**. The Company's residual value, which represents over 50% of the total, consists of the fund and asset management businesses, directly managed property services and the franchise business, which distributes real estate and financial products.

Net debt stands at **€30.5m**, marking an improvement on the €40.2m of 31 December 2004 (€29.4m at 30 September 2005).

Adjusted net debt (before shareholder loans to companies in which the Group has minority stakes) totals **€292.5m**, compared with €250m at the end of December 2004 (€257.8m at 30 September 2005). The Group's **gearing** is **0.53** compared with 0.51 at the end of December 2004 (0.53 at 30 September 2005).

The Group employs a total of 1,596 staff at 31 December 2005 (1,537 at the end of 2004), without taking into account temporary staff numbering 18.

Performance of main areas of business in 2005

Fund and Asset Management

Aggregate revenues from fund and asset management amount to **€2,957.1m** for 2005, representing an increase of **28%** on the previous year (€2,319.1m). **Property sales** amounted to **€2,451.2m** and **contributions to managed funds** totalled **€750m**, compared with property sales of €1,679.6m and contributions to funds totalling €2,386.8m in 2004. **Gross gains** total **€704.5m**, compared with €663.8m in 2004, representing an increase in the **profit margin on sales** from 25% in 2004 to **27%** in 2005.

Purchases carried out in 2005 amount to **€3,183.7m**, with €2,727.4m regarding properties and €456.3m non-performing loan portfolios (at net book value), compared with a total of €2,124.5m in 2004. At 31 December 2005 commitments to buy property portfolios amount to a further €640.6m.

Operating profit including income from equity participations amounts to **€141.6m**, marking a **19%** improvement on the €118.9m of 2004. Non-performing loans made a positive contribution of €3m, compared with a loss of €1m recorded in 2004.

Services Operated Directly and in Franchising

Services operated directly generated consolidated **revenues** of **€352.1m**, compared with €340.5m in 2004.

Operating profit of **€63.7m** is **20%** up on the €53m of the previous year.

The **ROS** (Return On Sales) stands at **18%**, marking a significant improvement on the 16% recorded in 2004.

Development of the franchise network to distribute estate agency, banking and insurance services on the retail market proceeded successfully during 2005.

In the period under analysis, Pirelli RE Franchising exceeded **break even, with an operating profit of €1.3m**, compared with a loss of €11.9m in 2004.

Subsequent events

- On 12 January 2006, following the successful bid presented to Corpus Immobiliengruppe last October, Tizian Wohnen 1 and Tizian Wohnen 2 – investee companies of P&K Real Estate, in which Pirelli RE holds a 60% stake – completed the purchase of a portfolio of residential properties located in Berlin for €72.5m.
- On 10 February 2006 Pirelli RE purchased 51% of Geolidro from Risanamento Napoli for €9m, thus raising its stake in the company, which owns residential properties in Naples, to 100%.
- On 15 February 2006 an agreement was signed regarding the establishment of Pirelli Pekao Real Estate in Poland. The new company is 75% owned by Pirelli RE and 25% by Bank Pekao (Unicredit Group). By purchasing 75% of Pekao Development from Bank Pekao, Pirelli RE has begun its expansion into central and eastern Europe.
- On 16 February 2006 Pirelli RE completed the purchase of 35% of a portfolio of non-performing loans from BNL, which agreed to sell the loans to the Company and Morgan Stanley Corporate Credit Group on 30 December 2005 for a price of approximately €345m.
- On 20 February 2006 Pirelli RE and Merrill Lynch signed a binding agreement to set up a joint venture (35% Pirelli RE and 65% Merrill Lynch) in order to invest €1.5bn in Italian tourist resorts and hotels over 5 years.

Outlook for 2006

The Group expects to see further growth in operating profit including income from equity participations in 2006 in line with the targets set in the three-year plan for 2006-2008.

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The Board of Directors has authorised the Chairman and the Deputy Chairman and CEO to convene a General Meeting of shareholders for 12 April (in first call) and for 18 April (in second call) to approve the financial statements for 2005. The General Meeting will also be invited to pass resolutions regarding the election of a Director and renewed authorisation to purchase and sell own shares (subject to revocation of the previous resolution of 27 April 2005).

The Board of Directors has also decided to assign the role of *Lead Independent Director*, with responsibility for overseeing and coordinating the work of the Company's independent directors, to Dario Trevisan, who is already Chairman of the Internal Audit and Corporate Governance Committee.

Finally, with reference to the recent regulatory amendments adopted in compliance with EU directives regarding market abuse, the Board has approved a specific "Procedure for

managing inside information and its disclosure to the market”, in order to ensure full compliance with the new requirements.

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The Company’s Deputy Chairman and CEO, Carlo Puri Negri, will host a conference call today at 10.30am (9.30am GMT) in order to present the results for 2005 to the financial community.

The presentation slides may be downloaded from the Company’s web site before the conference call at www.pirellire.com. Journalists may follow the presentation by phone, without the possibility to place questions, by calling +39/06/33485042. The conference call will subsequently be available in audio streaming format in the Investor Relations section of the web site.

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The summary reclassified consolidated profit and loss account, balance sheet and cash flow statement are attached to this release.

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Consolidated balance sheet

(€m)	IAS/IFRS 31 Dec 2005	IAS/IFRS 31 Dec 2004
Fixed assets	410,7	375,7
of which equity participations in investment funds and companies	303,3	241,5
Net working capital	215,9	204,6
Net invested capital	626,6	580,3
Shareholders' equity	552,1	491,9
of which Equity without minority interests	535,4	485,5
Funds	44,0	48,2
Net Financial Position	30,5	40,2
of which shareholder loans	(262,0)	(209,8)
Total	626,6	580,3
Net Financial position not including shareholders' loans	292,5	250,0
Gearing Financial position not including shareholders' loans	0,53	0,51

Consolidated profit and loss account

(€m)	IAS/IFRS 2005	IAS/IFRS 2004	% increase	ITALIAN GAAP 2004	% increase
Aggregate revenues	3.507,2	2.714,0		2.737,4	
Consolidated revenues	700,2	586,2		570,1	
Operating profit	83,9	39,0		60,6	
Income from equity participations (*)	102,3	94,0		96,8	
Operating profit including income from equity participations	186,1	133,0	40%	157,5	18%
Interest income from equity participations	12,9	14,2		14,2	
Operating profit including income and interest income from equity participations	199,1	147,2		171,7	
Other interest income/(expense)	(11,7)	0,7		(9,3)	
Profit before extraordinary items	187,4	148,0		162,4	
Extraordinary items	0,0	0,0		(3,4)	
Profit before tax	187,4	148,0		159,0	
Income Tax	(40,5)	(30,5)		(31,3)	
Net profit	146,9	117,5		127,7	
Minority interests	(1,5)	(0,4)		0,3	
Net profit for the period	145,4	117,1	24%	128,0	14%

(*) the figures for 2005 and 2004 include €3.5m and €0.2m of income from funds, respectively

Consolidated cash flow statement

	IAS/IFRS 2005	IAS/IFRS 2004
(€m)		
Operating profit including income from equity participations	186,1	133,0
Depreciation	9,0	10,9
Asset changes	(71,8)	(50,8)
Changes Net Working Capital	(10,2)	(57,6)
Funds Changes	(6,4)	10,5
Free cash flow	106,8	45,9
Cash flow before dividends	70,0	1,0
- Dividends paid	(68,3)	(53,8)
Net cash flow	1,7	(52,8)
- Capital increase	23,6	19,3
- Treasury Shares increase	(15,6)	0,0
Total cash flow	9,7	(33,5)