PRESS RELEASE

THE BOARD EXAMINES PRELIMINARY DATA AT 30 JUNE: CONFIRMED PROFIT GROWTH IN LINE WITH OBJECTIVES IN THE THREE-YEAR PLAN

- aggregate value of production net of acquisitions: approximately 911 million euro compared to 693 million euro of the first half-year of 2003 (+31%)

- ebit including income from shareholdings: approximately 66 million euro compared to 53.3 million euro of the first half-year of 2003 (+24%)

- net financial position: negative for approximately 44 million euro, with an improvement of 27.4 million euro compared to 71.4 million euro at 30 June 2003 (9.2 million euro at the end of 2003)

Milan, 28 July 2004 – The Board of Directors of Pirelli & C. Real Estate, met today, examined the preliminary, unaudited results of Group operations for the six months ended 30 June 2004, which confirm the profit growth trend, in line with the objectives in the three-year plan.

Before examining the figures in detail, it is well to recall that the activity of Pirelli RE is a management company which manages special purpose vehicles and funds owner of real estate and non performing loans portfolios, investing through minority stakes (asset management and fund management activity) and providing these and other clients with real estate specialist services (service provider activity). Therefore, the aggregate value of production net of acquisitions and EBIT including income from equity participations should be considered the most significant indicators for expressing the turnover managed and the operating results, respectively.

Performance of the Pirelli RE in the first half of 2004
The aggregate value of production, net of acquisitions, totaled approximately $911 million euro, with growth of 31% with respect to the 693 million euro in the first half of 2003. The value of just consolidated production to 30 June was approximately 258 million euro, versus 282.2 million in the first half-year of 2003. This decrease was attributable, in keeping with its business model, to increased importance of activities through initiatives in which the Group holds significant minority interests.

**EBIT including income from equity participations** amounted to approximately $66 million euro, versus 53.3 millions in the first half of 2003, with an increase of +24%.

The net financial position stood at a negative approximately $44 million euro, with an improvement of 27.4 compared to 71.4 million euro at 30 June 2003 (9.2 million euro at the end of 2003). The increase respect 31 Dec 2003 reflects dividend payments (equal to approximately 54 million euro) and investment activity, offset by a reduction in net working capital.

The adjusted financial position (expressed gross of shareholder loans to affiliated companies) was a negative approximately $278 million euro, versus a negative 223.7 million euro at the end of 2003 and a negative 249.3 million euro at 30 June 2003. Expected gearing is in line with the objectives of the three-year plan and lower than June 2003 value (0.69).

**Performance of main areas of activity in the first half of 2004**

**Asset Management Activities**

In the first six months of 2004, **Asset Management** activity registered a total value of production net of acquisitions equal to approximately $709 million euro, versus 508.2 million euro in the first half of 2003, with an increase of 39%.

**EBIT including income from equity participations** was approximately $56 million euro, compared to 34.2 million euro in the first half of 2003, with an increase of 64%.

In this period, the development of property assets generated sales to third parties and contributions to funds of approximately $2,227 million euro, with gross capital gains of 290 million euro, against sales of 745.5 million euro in the first half of 2003. **Acquisitions** during the period totaled approximately $593 million euro, versus 216.6 million in the first half of 2003. A general agreement was signed to acquire from Morgan Stanley a significant minority share in a securitized loan portfolio with residual gross value of 2.5 billion euro.
**Fund Management Activities**

In addition to Tecla Fondo Uffici (consisting of 65 properties with a market value of 926 million euro), listed on 4 March 2004, the Cloe Fondo Uffici, the first real estate investment fund intended for qualified investors, instituted and managed by Pirelli RE SGR, was launched on 30 June. Cloe Fondo Uffici consists of 39 office properties with a market value of 878 millions euro.

**Service Provider Activities**

The activities of specialized real estate services registered a consolidated value of production of approximately 172 million euro, versus 144 million euro in the first half of 2003, an increase of 19%. EBIT was equal to approximately 25 million euro, versus 20.7 million euro in the first half of 2003. ROS is equal to 15%, compared to 14% of the same period of 2003.

**Franchised service distribution activities**

Partnering activity continued in the first six months to create a network for the distribution of real estate, banking and insurance services to the retail market. A total of 390 contracts had been signed by 30 June 2004. The mortgage lending and leasing activity was also launched during the period. In the first half, operating expenses for the network were approximately 4 million euro, in line with business plan.

**Events since 30 June 2004**

- On 9 July a preliminary agreement was signed to acquire five properties in Naples at a cost of 51.8 million euro, purchased from Risanamento through Orione Immobiliare Prima, a company partly owned and managed by Pirelli RE;

**Outlook for 2004**

In 2004, based on available information, it seems reasonable to expect growth in EBIT including income from equity participations with respect to the previous year, in line with projections in the three-year plan.

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The Board of Directors also approved a stock option plan affecting 11 managers and other employees of Pirelli RE SGR. The plan does not cover directors and general managers of the parent company.

The plan would assign a maximum of 170,523 options to purchase Pirelli RE SGR shares (equal to 2.07% of the share capital) at a unit exercise price of 17.47 euro, set on the basis of a specific valuation to determine the fair value of the companies. The options can be exercised from 1 April 2007 to 30 April 2007, subject, among other things, to achieving certain performance objectives. A put-and-call mechanism is also contemplated for repurchasing any shares created by exercise of the options.

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The Board of Directors report for the six months ended 30 June will be examined by the Board of Directors of Pirelli & C. Real Estate in their meeting of 9 September.

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