



PRESS RELEASE

**BOARD OF DIRECTORS APPROVES FINANCIAL STATEMENTS AS
AT JUNE 30TH: CONSOLIDATED NET INCOME 50.5 MILLION EURO,
+25%
COMPARED TO 40.3 MILLION IN THE FIRST HALF OF 2003**

**• AGGREGATE VALUE OF PRODUCTION NET OF ACQUISITIONS:
910.7 MILLION EURO, + 31% COMPARED TO 693 MILLION EURO IN
THE FIRST HALF OF 2003**

**• EBIT INCLUDING INCOME FROM PARTICIPATIONS:
66.2 MILLION EURO, +24% AGAINST 53.3 MILLION EURO
IN THE FIRST HALF OF 2003**

**• ASSETS UNDER MANAGEMENT AT MARKET VALUE OF 10
BILLION DI EURO (9.7 BILLION EURO AT END OF 2003)**

**• NET FINANCIAL POSITION: NEGATIVE AT 43.6 MILLION EURO, AN
IMPROVEMENT OF 27.8 MILLION EURO COMPARED TO 71.4
MILLION EURO IN JUNE 2003 (9.2 MILLION EURO AT END OF 2003)**

**FOR 2004 FORECAST GROWTH IN EBIT INCLUDING PRO QUOTA
INCOME FROM PARTICIPATIONS COMPARED TO 2003, IN LINE
WITH TARGETS SET DOWN IN THREE-YEAR PLAN**

Milan, September 9th, 2004 – The Board of Directors of Pirelli & C. Real Estate, met today, examined and approved the Group financial statements for the first half ending on June 30th, 2004. The results confirmed an ongoing **growth trend**, in line with the targets set out in the Three-Year Plan.

Before a detailed examination of the figures, it is worth recalling that Pirelli RE is a management company which manages companies and funds, owners of real estate and non-performing loans, investing through minority stakes (asset and fund management activities) and providing these and other clients with a full range of real estate specialist services (service provider activities). Consequently, the **aggregate value of production** net of acquisitions and **EBIT (including pro-quota income from participations)** are the most significant respective indicators of the business volume managed by the Group and results at operational level.

Performance of the Pirelli RE Group in the first half of 2004

The **aggregate value of production**, net of acquisitions, totalled **910.7 million Euro**, with **growth of 31%** as compared with 693 million Euro in the first half of 2003. As at June 30th, the value of consolidated production alone stood at 257.8 million Euro, as against 282.2 million Euro in 2003. Consistent with the Group's business model this decrease is due to the growing impact of share capital initiatives involving significant minority stakes, as opposed to initiatives involving consolidated capital.

EBIT (including pro-quota income from participations) totalled **66.2 million Euro**, as against 53.3 million Euro in the first half of 2003, representing **growth of 24%**.

Consolidated net income was **50.5 million Euro**, as compared with 40.3 million Euro in the first half of 2003, with **growth of 25%**.

Shareholders' equity as at June 30th, 2004 was **417.9 million Euro** as compared with 421.6 million Euro at the end of 2003. The decrease is largely due to the differential between the distribution of dividends (53.8 million Euro) and profit for the period (50.5 million Euro).

Assets under management, including non-performing loans at market value (and not at gross book value as in the past), amounted to **10 billion Euro**, an increase compared to the figure of 9.7 billion Euro at the end of 2003¹. The figure as at June 30th still does not include the portfolio of non-performing loans arising from the binding contract signed with Morgan Stanley Real Estate Funds after the end of the period, and thanks to which assets under management at market value rise to a figure in excess of 11 billion Euro.

Assets under management (10 billion Euro) are broken down into **8.2 billion Euro** of **opportunistic portfolio** and **1.8 billion Euro** of **long term portfolio**. Pirelli RE's stake in the opportunistic portfolio is 29% (26% at the end of 2003); in the long term portfolio, managed by Pirelli RE SGR, the figure stands at 3.8% (this business was not present in 2003). Further to the different management mix, and in line with the three-year plan, the overall stake of Pirelli RE is **2.4 billion Euro**, equal to **24%** (2.6 billion Euro, or 26%, at the end of 2003).

The **Net Asset Value**, the sum of shareholders' equity and the implicit pro-quota capital gains (equal to 664.5 million Euro), stood at **1,082.4 million Euro**. This figure represents only a part of the worth of the Company insofar as it does not include:

¹ The value of non-performing loans as at the end of 2003 is expressed in terms compatible with those used for June 30th, 2004, said value being internal and verified by Deloitte & Touche. Properties and areas are evaluated every six months by CB Richard Ellis.

- asset management services;
- the value of Pirelli RE SGR, active in fund management (managing Tecla Fondo Uffici and Cloe Fondo Uffici with assets worth 1.8 billion Euro);
- the value of Pirelli RE Agency, Pirelli RE Property Management, Pirelli RE Project Management, Pirelli RE Facility Management and Pirelli RE Credit Servicing, active in specialist services;
- the value of Pirelli RE Franchising, active in distribution services for real estate and financial products (390 affiliates as at June 30th, 2004).

The **net financial position** was negative at **43.6 million Euro**, an improvement of 27.8 million Euro compared with 71.4 million Euro as at June 30th, 2003 (9.2 million Euro at the close of 2003).

The **adjusted financial position** (gross of shareholders loans to companies where a minority stake is held) was negative at **278.5 million Euro** as compared with the negative figure of 249.3 million Euro as at June 30th, 2003 (negative at 223,7 million Euro at the end of 2003). The **gearing ratio** stood at **0.66** as against 0,69 on June 30th 2003 (0.53 as at December 31st, 2003), in line with the targets of the three-year plan...

Group headcount as at June 30th, 2004 stood at 1,530 personnel, as compared with the figure of 1,515 at the close of 2003.

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

Asset Management Activities

In the first six months of 2004 **Asset Management** activities recorded an **aggregate value of production net of acquisitions** equal to **708.9 million Euro**, as compared with 508.2 million Euro in the first half of 2003, an increase of 39%.

EBIT (including pro-quota income from participations) totalled **55.3 million Euro** as set against 34.2 million Euro in the first half of 2003, an increase of 62%.

Over the period in question the exploitation of assets allowed for the generation of **sales** to third parties and conferrals to funds for **2.227 million Euro** with gross capital gains of 289.6 million Euro, as set against sales in the first half of 2003 of 745.5 million Euro. **Acquisitions** over the period (also including non-performing loans at acquisition value and not at gross book value) equalled **578.4 million Euro**, as compared with 194 million Euro in the first half of 2003.

Fund Management Activities

Further to the setting up of the Tecla and Cloe funds, the real estate portfolio managed by Pirelli RE SGR totalled approximately 1.8 billion Euro at market value. Tecla Fondo Uffici,

listed on March 4th, 2004, consists of 64 properties for commercial-office use and has a market value as at June 30th, 2004 of 930.6 million Euro. Cloe Fondo Uffici, which started up on June 30th, 2004, is aimed at major investors and consists of 39 properties for a market value of 877.5 million Euro.

Despite being a recent start-up the result from fund management is already positive, standing at 0.2 million Euro.

Service Provider Activities

The specialist real estate **services business** recorded a **consolidated production value of 171.7 million Euro** as compared with 144 million in the first half of 2003, with an **increase of 30%**. **EBIT** was **25.5 million Euro**, as compared with 20,7 million Euro in the first half of 2003, with growth of 23%. The ROS (return on sales) was 15%, as against 14% over the same period in 2003.

Over the period 5.8 million Euro of extraordinary items were allocated with a view to accelerating the organisational efficiency programmes launched after the numerous acquisitions carried out in the preceding years.

As at June 30th, 2004 the **services portfolio** (beneficiaries of services provided by the Group's specialist companies) had a market value of **29.5 billion Euro** (including the 10 billion Euro from assets under management), in line with the figures at the end of 2003.

Franchising Services Distribution Business

The first half witnessed the ongoing affiliation drive for the setting up of a network to distribute real estate, banking and insurance services to the retail market. As at June 30th, 2004, 390 contracts had been signed. The first half also witnessed marketing of mortgage loans and leasing services.

Over the period in question, and in line with forecasts, the network bore operational costs of 4.2 million Euro.

Events further to June 30th, 2004

- On July 26th the Board of Directors of Pirelli RE SGR approved the management report of Tecla Fondo Uffici as at June 30th, 2004 and approved an overall cash repayment (dividend plus partial pro quota reimbursement of capital invested) of 30.74 Euro per stake, as set against a placement value of 505 Euro per stake. On September 8th the MTF negotiating of a stake in Fondo Tecla was 509 Euro;

- July 28th saw the successful placement by Pirelli & C. of Pirelli RE shares equal to 8.37% of the company's share capital. The operation led to the arrival of leading institutional

investors as shareholders in Pirelli RE, including Fidelity Investments with a stake of approximately 3.3%.

- August witnessed the signing of a binding agreement for a joint venture between Pirelli RE and Morgan Stanley Real Estate Funds (MSREF) in the non-performing loans sector. An outline agreement had already been defined in the first half of the year. Further to this operation, which should be completed by the end of November, MSREF will become a shareholder in Pirelli RE with a stake of approximately 2,1%;

- On September 2nd, the Ministry of Economy & Finance announced that Pirelli RE SGR will be awarded the management of one of the three portfolios into which the forthcoming investment fund for non-residential public real estate, with a market value expected from 3,5 to 4 million Euro, will be split.

Outlook for 2004

On the basis of the data currently available, all reasonable forecasts suggest that in 2004 **EBIT (inclusive of results from participations)**, will record further growth compared with 2003, in line with the three year plan.

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This afternoon, at 14.00 (13.00 GMT), Pirelli RE will present the results for the first half of the current year during a conference call to be held by Vice President and Managing Director, Carlo Puri Negri.

Journalists can listen to the presentation, without being able to ask any questions, by calling 06/33485042. The contents of the presentation will subsequently be available via audio streaming from the website www.pirellirealestate.com, within the Investor Relations section.

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Herewith attached is a summary of the income statement and balance sheet for the first halves of 2003 and 2004

Addendum 1

Highlights of Income Statement

(Amounts in millions of Euro)	1.1.04-30.6.04	1.1.03-30.6.03	
Aggregate Production Value, net of acquisitions	910,7	693,0	31%
Consolidated Production Value	257,8	282,2	
- of which, net of acquisitions	234,7	244,9	
EBIT including pro quota Income from Equity Participations	66,2	53,3	24%
Income before Extraordinary Items	68,5	53,2	
Net Income from Real Estate Activities	50,5	40,3	25%

Addendum 2

Consolidated Balance Sheet

	June 30 th , 2004	December 31 st , 2003	June 30 th , 2003
Fixed Assets	359,6	313,4	252,9
Of which equity participations in funds and real estate investment companies	187,7	149,7	118,2
Net Working Capital	143,4	162,3	234,5
Of which inventories	270,3	325,0	362,5
Net Invested Capital	503,0	475,7	487,4
Shareholders' Equity	422,9	424,8	360,2
Of which minority interests	5,0	3,2	0,4
Funds and Provisions	36,5	41,7	55,8
Net Financial Position (liquid)/owed	43,6	9,2	71,4
Total NIC coverage	503,0	475,7	487,4
Loans from shareholders	234,9	214,5	177,9
Total investments in participations, real estate investment	422,6	364,2	296,1
Adjusted financial position	278,5	223,7	249,3
Adjusted gearing position	0,66	0,53	0,69

Addendum 3

Consolidated Income Statement

Million Euro	<u>1/1/04-30/6/04</u>	<u>1/1/03-30/6/03</u>
Production Value	257,8	282,2
Of which acquisitions	23,2	37,3
Production Value, net of acquisitions	234,7	244,9
EBITDA	36,6	37,0
Depreciation	(10,4)	(7,4)
EBIT	26,2	29,5
Income from Equity Participations	40,0	23,7
EBIT including Income from Equity Participations	66,2	53,3
Financial Income from Participations	2,3	(0,1)
Income before Extraordinary Items	68,5	53,2
Extraordinary items	(5,6)	0,3
P.B.T.	62,9	53,5
Income taxes	(12,8)	(13,2)
Net Income	50,1	40,2
Minority Interests	0,4	0,1
Net income after minority interests	50,5	40,3