



PRESS RELEASE

BOARD APPROVES 2004 FINANCIAL STATEMENTS, WHICH REPORT STRONG EARNINGS GROWTH

- **CONSOLIDATED NET PROFIT UP 25% TO €128m (€102.1m IN 2003);
55% INCREASE OVER 2-YEAR PERIOD 2003-2004**
 - **DIVIDEND OF €1.70 PER SHARE PROPOSED, UP 20%
ON €1.41 OF 2003**

- **AGGREGATE VALUE OF PRODUCTION, NET OF ACQUISITIONS UP
29% TO €1,973.2m (€1,525.5m IN 2003)**
 - **OPERATING PROFIT INCLUDING INCOME FROM EQUITY
PARTICIPATIONS UP 23% TO €157.5m (€128.1m IN 2003)**
 - **MARKET VALUE OF ASSETS UNDER MANAGEMENT €10.7bn
(€9.7bn AND 26% IN 2003)**
 - **NET DEBT OF €35.4m
(€40.9m AT END OF SEPTEMBER AND €9.2m AT END OF 2003)**
 - **SHAREHOLDERS' EQUITY €510.4m (€421.6m AT END OF 2003)**

- **2005 EXPECTED GROWTH IN LINE WITH TARGETS SET IN THREE-
YEAR PLAN (2003-2005)**

Milan, 18 March 2005 – The Board of Directors of Pirelli & C. Real Estate has approved the Company's financial statements for 2004.

The results show significant improvements at both operating and net profit level.

Moreover, the Pirelli RE Group's new areas of business took off rapidly in 2004: **fund management**, which included the placement of four seeded real estate funds and the acquisition of a contract to co manage a portfolio of properties owned by FIP (the Public Property Fund); the

acquisition and management of **Non-performing loans**; and **Pirelli RE Franchising**, which in little more than a year has become Italy's third largest estate distribution network.

Before examining the figures in detail, it should be noted that Pirelli RE is a **management company**, which manages special purpose vehicles and funds that own properties and non-performing loans, and in which it holds minority interests (the asset and fund management businesses). It also provides a full range of property services to the above vehicles and to other customers (the property services business). **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

The **aggregate value of production**, net of acquisitions, totals **€1,973.2m**, marking **growth of 29%** on the €1,525m of 2003.

The Group's consolidated value of production alone amounts to approximately €59.9m, compared with the €49m 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 income from equity participations amounts to **€157.5m, up 23%** on the €128.1m of 2003. This was due to growth in income from equity participations, which have risen from the €7m of 2003 to €6.8m in 2004. Total growth in operating profit for the two-year period 2003-2004 amounts to **54%**, compared with 2002.

Consolidated net profit is up to €128m (25% up on the €102.1m of 2003). Total growth in net profit for the two-year period 2003-2004 amounts to **55%**, compared with 2002.

The Board is to propose a dividend of **€1.70 per share** to the General Meeting, representing an increase of **20%** on the €1.41 of the previous year. This represents 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 12 May 2005 (the ex dividend date is 9 May 2005).

Shareholders' equity stands at **€10.4m** as at 31 December 2004, compared with €421.6m at the end of 2003. The €88.8m increase is due to both the difference between dividends paid (€3.8m) and net profit for the period (€128m) and a €4.6m rise in shareholders' equity following the exercise of stock options.

Based on the market value of non-performing loans¹, the value of **assets under management** has risen to **€10.7bn** (€9.7bn in 2003). This amount does not include the portion of the FIP property portfolio managed by Pirelli RE SGR.

¹ (*) The value of non performing loans is based on net present value, 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

At the end of 2004, assets under management include a **trading portfolio** with a value of **€7.9bn** and a **long-term portfolio** of **€2.8bn**. The **share of the trading portfolio attributable to Pirelli RE** stood at **28%** (26% at the end of 2003), whilst the Company's share of the long-term portfolio was 3.7% (this component did not exist in 2003). Pirelli RE's total share of the two portfolios amounts to **€4.4bn** (**€2.6bn** at the end of 2003).

The Company's **Net Asset Value**, represented by the sum of shareholders' equity and the Company's share of **unrealised capital gains** totalling **€558.9m**, amounts to **€1,069.3m**. This represents only one component of Pirelli RE's value, as it does not include Company's fund management, asset management, specialist services and the distribution network.

Net debt stands at **€35.4m** at the end of 2004, compared with the **€40.9m** of 30 September and **€9.2m** at the close of 2003. The increase compared with 2003 is primarily due to investment activity and the payment of dividends for the previous year.

Adjusted net debt (including shareholder loans to companies in which the Group has minority stakes) totals **€245.2m**, compared with **€223.7m** at the end of 2003. The Group's **gearing** is **0.47**, having fallen from the 0.53 of 31 December 2003.

The Group employs a total of 1,537 staff as at 31 December 2004 (1,515 at the end of 2003), without taking into account temporary staff numbering 32.

Performance of main areas of business in 2004

Asset Management

The **aggregate value of production net of acquisitions** from **Asset Management, including fund management** (€10.2m) amounts to **€1,545.1m**, representing an increase of **35%** compared with the **€1,147.5m** of the previous year.

Operating profit including income from equity participations also improved significantly from the **€90.4m** of 2003 to **€127.2m** in 2004 (**up 41%**). This figure includes **€4.8m** from fund management (see following section).

Excluding land, the market value of **assets under management** as at 31 December 2004 amounts to **€10,364.4m** (**€9,300.6m** as at 31 December 2003), including **€9,096.8m** represented by properties (**€9,100m** in 2003) and **€1,267.6m** by non-performing loans (**€200.6m** in 2003). Acquisitions during the year amounted to **€2,124.5m**. Property trading generated **€1,711.5m** from sales to third parties, whilst assets contributed to managed funds totaled **€2,386.8m**.

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 MSREF has been verified by Ernst & Young Audit e Associados, SROC, S.A.. Properties and land are valued every six months by CB Richard Ellis.

Fund Management

The **Fund Management** business took off in 2004, with the placement of four funds. Tecla Offices Fund and the Cloe Offices Fund in the first half and in the Olinda Shops Fund and Clarice Light Industrial Fund during the last two months of the year. At the end of December, the Group signed a contract to co manage a portfolio of properties for FIP (the Public Property Fund). Despite the short period of operation, as reported above, fund management generated **operating profit of €4.8m**.

As at 31 December, **Pirelli RE SGR** manages assets worth **€4bn**, of which €2.8bn represents the market value of the four listed funds and €1.2bn assets managed under contract.

After ten months in operation, the Tecla Offices Fund has declared dividends totalling €33.45 per unit, providing an annualised return of 8.15% (based solely on dividends paid and without considering NAV growth). The Cloe Offices Fund, which has been in operation for six months, has declared a dividend of €15,107.48 per unit, representing an annualised return of 12.1% (based solely on dividends paid and without considering NAV growth). After only fifteen days in operation, the Clarice Light Industrial Fund has declared a dividend of €94.14 per unit, representing an annualised return of 8.58% (based solely on dividends paid and without considering NAV growth).

Property Services

Property services generated a consolidated **value of production** of **€354.9m** compared with €322m in 2003, representing an **increase of 10%**. **Operating profit** of **€57.4m** is **13%** up on the €50.6m of 2003.

ROS amounts to **16%**, marking a slight improvement on 2003.

As at 31 December 2004, the **portfolio for which services are provided** has a market value of **€35,136m** (including the €10,729m of assets under management), which compares with a value of €29,544.8m in 2003.

Distribution network

Development of the franchise network to distribute real estate products, banking and insurance services (related to the real estate) 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 an operating loss of €6.5m 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 set up by Pirelli RE and DB Real Estate Global Opportunities, 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 **Rinascence** and **UPIM** department store chains.
- On 28 January, the Group agreed to buy two residential complexes from Generali Properties for a price of €102m.
- On 13 March, the joint venture established by Pirelli RE and Deutsche Bank Real Estate Global Opportunities completed its first transaction in consortium with the Borletti family and Investitori Associati, agreeing to acquire **Rinascence S.p.A.** for a price of €888m. The Pirelli RE - DB Real Estate JV owns 50% of Tamerice Srl, the vehicle through which the transaction was conducted, whilst the remaining 50% is held by Investitori Associati and the Borletti family. Pirelli RE indirectly owns 20% of Rinascence S.p.A.. Subject to Antitrust Authority authorisation, the transaction is expected to be closed by June 2005.

Outlook for 2005

Having achieved a 54% increase in **operating profit including income from equity participations** in the two-year period 2003-2004, the Group expects to see growth in 2005 in line with the average annual growth target announced in the three-year plan (2003-2005).

Transition to IAS

In view of the adoption of international financial reporting standards (IAS/IFRS) as of the 2005 financial year, Pirelli RE, in line with the other companies of the Pirelli Group, is completing the transition process that will enable it to prepare its report for the first quarter of 2005 in accordance with the new standards.

The impact on the consolidated financial statements of Pirelli RE will be published and announced at the time of approval of the above quarterly report.

§

The Board of Directors has authorised the Chairman and Deputy Chairman and CEO to convene a General Meeting of shareholders for 27 April (in first call) and for 28 April (in second call) to approve the financial statements for 2004.

The General Meeting will also be invited to pass a resolution regarding renewed authorisation to elect the Board of Directors, to appoint independent auditors for the three year period 2005-2007 and to purchase and sell own shares (subject to revocation of the previous resolution of 10 May 2004).

§

The Company's Deputy Chairman and CEO, Carlo Puri Negri, will host a conference call today at 3.30pm (2.30pm GMT) in order to present the results for 2004 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.

§

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

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

Attachement 1

Summary profit and loss account

(€m)	31 December 2004	31 December 2003	Growth (%) YoY
Aggregate value of production, net of acquisitions	1.973,2	1.525,5	29%
Consolidated value of production	559,9	649,0	
Operating profit including income from equity participations	157,5 (*)	128,1	23%
Interest income from equity participations	14,2	10,2	
Operating profit including income and interest income from equity participations	171,7	138,3	24%
Profit before extraordinary items	162,4	128,9	
Net profit after minority interests	128,0	102,1	25%

(*) includes €0.2m of income from funds

Attachement 2

Summary balance sheet

(€m)	<u>31 December 2004</u>	<u>31 December 2003</u>
Fixed assets	372,1	313,4
of which equity participations in real estate investment funds and companies	225,1	149,7
Net working capital	231,6	162,3
Net capital employed	603,6	475,7
Shareholders' equity	520,0	424,8
of which minority interests	9,6	3,2
Funds and contributions	48,2	41,7
Net (liquidity)/debt	35,4	9,2

Consolidated profit and loss account

(€m)	31 December 2004	31 December 2003
Value of production	559,9	649,0
of which acquisitions	82,8	170,2
Value of production, net of acquisitions	477,1	478,8
Operating profit	60,6	61,1
Income from equity participations	96,8	67,0
Operating profit including income from equity participations	157,5 (*)	128,1
Interest income from equity participations	14,2	10,2
Operating profit including income and interest income from equity participations	171,7	138,3
Other interest income/(expense)	(9,3)	(9,4)
Profit before extraordinary items	162,4	128,9
Extraordinary income/(expense)	(3,4)	(6,2)
Profit before taxation	159,0	122,7
Taxation	(31,3)	(21,2)
Net profit	127,7	101,5
Minority interests	0,3	0,6
Net profit for the year	128,0	102,1

(*) includes €0.2m of income from funds