PIRELLI RE

PRESS RELEASE

BOARD OF DIRECTORS' MEETING TODAY

2004 FINANCIAL STATEMENTS EXAMINED ON BASIS OF IAS/IFRS STANDARDS

BOARD APPROVES Q1 RESULTS AS OF 31 MARCH 2005, PREPARED ON BASIS OF SAME ACCOUNTING STANDARDS: GROWTH CONTINUES

- **AGGREGATE VALUE OF PRODUCTION, NET OF ACQUISITIONS UP 30% TO €727.2m**
- **OPERATING PROFIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS UP 17% TO €33.8m**
- **CONSOLIDATED NET PROFIT RISES 12% TO €26.9m**
- **GROUP INTEREST IN SHAREHOLDERS' EQUITY STANDS AT €490m COMPARED WITH €485.5m AT END 2004**
- **NET FINANCIAL POSOTION NEGATIVE FOR €12.4m, IN LINE WITH THE VOLUME OF ACQUISITIONS COMPLETED DURING Q1**
- **ACQUISITION AGREEMENTS ENTERED INTO TOTAL APPROXIMATELY €1,700m, INCLUDING €384.8m COMPLETED IN Q1; PIRELLI RE'S SHARE OF TOTAL AMOUNTS TO 27%**
- **OPERATING PROFIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS EXPECTED TO GROW IN LINE WITH THREE-YEAR PLAN FOR 2003-2005**

Milan, 10 May 2005 – The Board of Directors of Pirelli & C. Real Estate met today to examine the impact of the transition to IAS/IFRS international accounting standards on the 2004 financial statements.
The auditors, PricewaterhouseCoopers, have completed their audit of the statements of reconciliation prepared in accordance with IFRS 1, which resulted in an unqualified opinion [1].

[1] In accordance with CONSOB Communication no. DEM\|5025723 of 15 April 2005, the related opinion will be published as soon as the professional bodies, after consultation with the supervisory authority, have established the technical form of the opinion.

The Board of Directors also approved the quarterly report for the three-months ended 31 March 2005, prepared in accordance with the new accounting standards.

Major impacts deriving from adoption of IAS/IFRS

The main effects of adoption of the new international accounting standards on the 2004 financial statements are described below.

Operating profit including income from equity participations is reduced from €157.5m to €133m, representing a decrease of €24.5m. This primarily derives from the reclassification of extraordinary expense of €14.3m (mainly restructuring charges) to operating costs, without any effect on net income. The remaining €10.2m is primarily due to put and call options and non-capitalised costs (principally advertising for the launch of the distribution network), which are recoverable in coming years either through increased revenues or as reduced amortisation.

Net profit for 2004 is reduced from €128m to €117.1m, representing a decline of €10.9m mainly due to the above effects after taxation.

The Group's share of **shareholders' equity** is reduced from €510.4m a €451.9m as at 1 January 2005. The decrease of €58.5m includes a reduction of €33.6m generated by the reclassification of the treasury shares held at such date. The remaining decrease of €24.9m is due to the above-mentioned cut in net income for 2004, the impact on shareholders' equity relating to years prior to 2004, put and call options and to non-capitalised costs, which are recoverable in coming years either through increased revenues or as reduced amortisation.

Net Financial Position as at 31 December 2004 has risen from negative €35.4m to €40.2m. The increase of €4.8m primarily relates to amounts payable to other lenders as a result of put and call options.

Group operating performance in Q1 2005

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. **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.

The figures for the first quarter of 2005 are compared with those for the same period of 2004, after reclassification in accordance with international accounting standards.

The **aggregate value of production, net of acquisitions**, totals **€727.2m**, representing a **30% improvement** on the €560.3m of the first quarter of 2004, mainly due to an increase volumes in sales. The Group's consolidated value of production alone amounts to €121.3m, compared with the €104.6m of the previous year.

Operating profit including income from equity participations amounts to **€33.8m**, rising **17%** on the €28.8m of the first quarter of 2004.

Consolidated net profit is up 12% to €26.9m, compared with the €24.1m of the same period of 2004**.**

Shareholders' equity stands at **€490m**, compared with €485.5m at the end of 2004. The increase is due to net profit for the period, the capital increase carried out as part of the stock option plan (€11.2m) and an overall €33.6m reduction in shareholders' equity following application of IAS from 1 January 2005.

Net Financial Position improved from negative €40.2m as at 31 December 2004 to negative €12.4m as at 31 March 2005, in line with the volume of acquisition completed during the first quarter.

Adjusted Net Financial Position (including shareholder loans to companies in which the Group has minority stakes) was negative fot **€200.1m**, compared with negative €250m at the end of 2004, in line with the volume of acquisitions completed during the first quarter. The Group's **gearing** is 0.40, compared with the 0.51 at the close of 2004.

Performance of main areas of business in Q1 2005

Fund and Asset Management

The **aggregate value of production net of acquisitions** from **Fund and Asset Management** amounts to **€609.1m**, representing an increase of **30%** compared with the €468.1m of the previous year. This reflects the increased volume of sales during the period.

Property trading activities during the period resulted in **sales** totalling **€463.2m**, generating a gross gain of €122.5m, compared with sales of €235.9m in the first quarter of 2004 (a gross gain of €61.4m). No contributions to funds were carried out during the first quarter, unlike the corresponding period of the previous year when asset contributions amounted to €786.9m.

As a result of the above, **operating profit including income from equity participations** totalled €28.3m, substantially in line with the first quarter of 2003 (€28.1m).

Acquisition agreements worth a total of approximately **€1,700m** have been entered into to date, with transactions amounting to €384.8m completed during the first quarter of the year, compared with €16.2m in the same period of 2004. Pirelli RE's share of the total stands at 27%.

Property Services

Property services generated a consolidated **value of production** of **€83.2m**, compared with €79.9m in the first quarter of 2004, representing an **increase** of **4%**. **Operating profit** of **€12.3m** is **54%** up on the €8m of the same period of the previous year. This result was helped by the good performance of the agency network and improvements in property management efficiency, following the restructuring that took place last year.

ROS amounts to **15%,** marking an improvement on the first quarter of 2004 (10%).

Services franchise

Development of the franchise network to distribute estate agency, banking and insurance services on the retail market proceeded successfully during the first quarter of 2005: **Pirelli RE Franchising** has now signed agreements with 601 agencies, compared with 525 at the end of 2004.

In line with the start-up plan, the network incurred an operating loss of €2.1m.

Subsequent events

- On 22 April, Pirelli RE announced that it had won the auction of a portion of the real estate assets owned by ENPAM (the National Doctors' Pension Fund). The properties, which are primarily for residential use, have a total value of €157m.
- On 29 April, Pirelli RE acquired a further 10% of Morgan Stanley Real Estate Funds' non-performing loans portfolio, worth around €1bn (net book value), for a total of €22.8m. The assets managed and owned by Pirelli RE, which has a share of about 27%, amount to €1.2bn.
- On 29 April, the joint venture between Pirelli RE and Morgan Stanley Real Estate Funds (MSREF) entered into a binding agreement with Glenbrook Operae regarding the purchase of 131 properties primarily for office use with a value of €255m, with the purchase of properties worth €82.3m already having been completed.
- On 6 May, the consortium established by Pirelli RE, Deutsche Bank Real Estate Global Opportunities, Investitori Associati and the Borletti Group acquired **Rinascente S.p.A.** from Eurofind Textil SA for a price of €888m, having received formal approval from the Antitrust Authority. Pirelli RE indirectly owns 20% of Rinascente S.p.A..

Outlook for 2005

Based on the results achieved in the first quarter of the year and the information available, the Group expects growth in operating profit including income from equity participations in 2005 to be on target to meet the objectives established in the three-year plan for 2003-2005.

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The Company's Deputy Chairman and CEO, Carlo Puri Negri, will host a conference call today at 4.45pm (3.45pm GMT) in order to present the principal effects of the adoption of IAS/IFRS on the consolidated financial statements of Pirelli RE to the financial community.

The presentation slides, regarding the principal effects of the adoption of IAS/IFRS on the 2004 consolidated financial statements, 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 and balance sheet as at and for the three months ended 31 March 2005 are attached to this release.

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Consolidated Balance Sheet

(€m)	IAS/IFRS 31 Mar 2005	IAS/IFRS 31 Dec 2004	ITALIAN GAAP 31 Dec 2004
Fixed assets	**343,9**	**375,7**	**372,1**
of which equity participations in real estate investment funds and companies	*241,6*	*241,5*	*225,1*
Net working capital	**211,6**	**204,6**	**231,6**
Net capital employed	**555,5**	**580,3**	**603,6**
Shareholders' equity	**496,5**	**491,9**	**520,0**
of which minority interests	6,5	6,3	9,6
Provisions and contributions	**46,6**	**48,2**	**48,2**
NFP	**12,4**	**40,2**	**35,4**
Total shareholders' equity and debt	**555,5**	**580,3**	**603,6**
Adjusted NFP	200,1	250,0	245,2
Adjusted gearing	0,40	0,51	0,47

Consolidated Profit and Loss Account

(€m)	IAS/IFRS 31 Mar 2005	IAS/IFRS 31 Mar 2004	ITALIAN GAAP 31 Mar 2004
Aggregate value of production	**727,2**	**560,2**	**418,8**
Consolidated value of production	121,8	104,6	104,4
Operating profit	14,3	7,8	9,9
Income from equity participations	19,6	21,1	20,7
Operating profit including income from equity participations	**33,8 (*)**	**28,8**	**30,6**
Interest income from equity participations	3,2	3,1	3,1
Operating profit including income and interest income from equity participations	**37,0**	**31,9**	**33,7**
Other interest income/(expense)	(2,8)	(3,0)	(2,8)
Profit before extraordinary items	34,1	29,0	31,0
Extraordinary income/(expense)	0,0	0,0	(1,7)
Profit before taxation	34,1	29,0	**29,3**
Taxation	(7,0)	(4,9)	(4,6)
Net profit	27,1	24,1	24,7
Minority interests	(0,2)	0,0	0,3
Net profit for the period	**26,9**	**24,1**	**25,0**

Consolidated Profit and Loss Account 2004

(€m)	IAS/IFRS 1/1/2004 - 31/12/2004	ITALIAN GAAP 1/1/2004- 31/12/2004
Consolidated value of production	**605,2**	**559,9**
Operating profit	39,0	60,7
Income from equity participations	94,0	96,8
Operating profit including income from equity participations	**133,0**	**157,5**
Interest income from equity participations	14,2	14,2
Operating profit including income and interest income from equity participations	**147,2**	**171,7**
Other interest income/(expense)	0,8	(9,3)
Profit before extraordinary items	148,0	162,4
Extraordinary income/(expense)	0,0	(3,4)
Profit before taxation	148,0	159,0
Taxation	(30,4)	(31,3)
Net profit	117,6	127,7
Minority interests	(0,5)	0,3
Net profit for the period	**117,1**	**128,0**