



PRESS RELEASE

BOARD APPROVES H1 RESULTS AS AT 30 JUNE 2005: CONSOLIDATED NET PROFIT UP 25% SHOWS COMPANY ON COURSE TO MEET FULL-YEAR GROWTH TARGETS

- **CONSOLIDATED NET PROFIT: €59.8M (€48M IN H1 2004)**
- **AGGREGATE REVENUES UP 44% TO €1,741.7M (€1,213.5M IN H1 2004)**
- **OPERATING PROFIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS UP 38% TO €80.3M (€58.2M IN H1 2004)**
- **MARKET VALUE OF ASSETS UNDER MANAGEMENT TOTALS €12.1BN (€10.7BN AT END OF 2004)**
- **NET DEBT OF €42.6M DOWN FROM €46.3M AT 30 JUNE 2004 (€12.4M AT 31 MARCH 2005)**
- **THREE-YEAR PLAN FOR 2006-2008 TO BE EXAMINED BY BOARD AT MEETING TO BE HELD ON 18 OCTOBER**

Milan, 9 September 2005 – The Board of Directors of Pirelli & C. Real Estate met today to examine and approve the Group's operating results for the six months ended 30 June 2005, which report **another set of strong results**.

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 previously used 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 H1 2005

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

Aggregate revenues amount to **€1,741.7m**, marking a **44% improvement** on the €1.213.5m of the first half of 2004.

Operating profit including income from equity participations amounts to **€80.3m**, rising **38%** on the €58.2m of the previous first half (up 21% on the figure for the same period of 2004 based on Italian GAAP, which forms the basis on which the Company measures its performance against the targets set out in its three-year plan for 2003-2005).

Net profit for the first half of 2005 has risen to **€59.8m**, up **25%** on the first six months of 2004.

The Group's share of **shareholders' equity** amounts to **€454m** as at 30 June 2005 compared with €485.5m at the end of 2004. The decline is substantially due to the combined impact of the reductions resulting from the payment of dividends (€68.3m) and the reclassification of own shares held, and the increases due to both net profit for the period and the paid-in capital increase carried out as part of the stock option plan (€11.8m).

Based on the market value of non-performing loans*, the value of **assets under management** has risen to **€12.1bn** compared with **€10.7bn** at the end of 2004. That amount includes a €1.1bn portion of the FIP portfolio in which Pirelli RE has a minority share.

As at 30 June 2005, **69%** of assets under management regard the **trading portfolio** (€8.4bn) and **31%** the **long-term portfolio** (€3.7bn). This breakdown does not yet take account of the July placement of shares in the Berenice Offices Fund (with a market value of approximately €860m), which generated an increase in the long-term portion (up to €4.6bn) compared with a decrease in the trading portfolio.

As at 30 June 2005, Pirelli RE's share of managed assets (excluding the FIP portfolio) amounts to €2.5bn, representing 23% of the total (22% at the end of 2004), including 29% of the trading and 3.7% of the long-term portfolio.

The Group's **Net Asset Value**, represented by the sum of its share of shareholders' equity calculated according to international accounting standards, the value of own shares held and its share of unrealised capital gains, amounts to **€1,045m**. This is substantially in line with the end

* (*) The value of non performing loans is based on net present value (at a rate of 6.9%). 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 MSREF has been verified by Reconta Ernst & Young. Properties and land are valued every six months by CB Richard Ellis.

of 2004. The assets deriving from fund management, asset management, specialist services and the distribution of estate agency and financial services, which are not included in NAV, account for over 50% of the value of Pirelli RE and have risen strongly, as shown below.

Net debt stands at **€42.6m**, representing an improvement compared with the €46.3m of June 2004 (€12.4m at 31 March 2005).

Adjusted net debt (before shareholder loans to companies in which the Group has minority stakes) totals **€273.3m**, compared with €281.2m at 30 June 2004 (€200.1m at the end of March 2005). The Group's **gearing** is **0.60** compared with the 0.69 of June 2004.

The Group employs a total of 1,523 staff as at 30 June 2005 (1,530 during the first half of 2004), without taking into account temporary staff numbering 19.

Performance of main areas of business in H1 2005

Fund and Asset Management

Aggregate revenues from fund and asset management amount to **€1,495.6m** for the first six months of 2005, representing a rise of **45%** compared with the same period of 2004 (€1,028m). **Property sales** amounted to **€1,265.5m**, resulting in **gross gains of €356.9m**, compared with sales of €673.5m during the first half of 2004 (realising gross gains of €150.6m). No contributions to funds were carried out during the first half, unlike the corresponding period of the previous year when asset contributions amounted to €1,532.9m. The results for the period under examination do not yet take account of the placement of shares in the Berenice Offices Fund.

Operating profit including income from equity participations amounts to **€62.7m** for the first half of 2005, up **18%** on the €53m of the same period of the previous year. This was primarily thanks to management fees of €16.4m (€4.5m in the first half of the previous year). For the first time, non-performing loans made a positive contribution of approximately €2.2m, compared with a loss of €0.7m recorded in the first half of 2004.

Purchase agreements worth a total of approximately **€2,061m** have been entered into to date, with transactions amounting to **€1,491.5m** completed during the first half of the year, compared with €578.4m in the same period of 2004. Pirelli RE's share of the total stands at around 29%.

Property Services

Property services generated consolidated **revenues of €167.4m**, compared with €164.6m in the first half of 2004, representing an **increase of 2%**.

Operating profit of €32.4m is **49%** up on the €21.8m of the same period of the previous year, thanks to improvements in profitability deriving from greater operating efficiency.

ROS (Return on Sales) stands at **19%**, marking a significant improvement on the 13% recorded in the first half of 2004.

As at 30 June 2004, the **portfolio for which services are provided** has a market value of **€39.6bn** (including €12.1bn of assets under management), which is up on the €35.1bn reported at the end of 2004.

Services franchise

Development of the franchise network to distribute estate agency, banking and insurance services on the retail market proceeded successfully during the first half of 2005: **Pirelli RE Franchising** has now signed agreements with 700 agencies, of which 408 are already open for business.

In line with expectations, the network incurred an operating loss of €1.2m during the first half of 2005, compared with a loss of €5.2m for the first six months of 2004.

Subsequent events

- The Global Offering of shares in the Berenice Offices Fund was closed on 14 July, well ahead of the original closing date of 26 July. The third listed fund to be launched by Pirelli RE SGR specialises in properties that are either for commercial or office use or that may be converted for such use. Applications amounted to approximately 142% of the shares on offer and the Offer Price has been set at €505 per share.
- On 14 July Pirelli RE announced that it had presented the winning bid for the former Tobacco Factory in Milan, having offered a price of approximately €56m. Transaction closing is expected to take place by the end of the year, with Pirelli RE acquiring 50% of the company that owns the area, and which is currently a wholly-owned subsidiary of Fintecna.
- On 19 July the Group completed its first purchase of residential property for trading purposes using the real estate fund tool, with a view to increasing its real estate activities in regulated markets. To this end the Diomira Fund has been established via the contribution of 19 properties with a value of €149m by Enpam. The Fund intends to complete purchases with a similar value over the next three months. All the shares, with a value of approximately €70m, have been subscribed by institutional investors, including the joint venture set up by Pirelli RE and Lehman Brothers to invest in the residential sector. Pirelli RE owns approximately 32% of the Fund.
- On 28 July 2005 the joint venture between Pirelli RE and Lehman Brothers, together with Roev Italia, completed the acquisition of Castello Srl (formerly Immobiliare Serico), a Banche Popolari Unite Group company that owns 150 mainly residential properties, for a sum of approximately €150m; the purchased properties are to be transferred to the Diomira Fund.

- On 28 July 2005 Pirelli RE purchased building land of approximately 1.5 million square metres in the Portogruaro area of the Province of Venice, which is to be the site for an integrated industrial park. Work is scheduled to start during the first quarter of 2006 and will require investment of an estimated €150m over the next four years. A seeded real estate fund targeted at institutional investors is to be set up in order to develop the project, with Pirelli RE holding between 30% and 35% of the fund.
- On 28 July 2005 Orione Immobiliare Prima signed a preliminary agreement regarding the purchase of a number of primarily commercial properties from Spinoffer Real Estate for a price of approximately €29m. The transaction is expected to be closed by 31 October 2005.
- On 29 July the Group agreed to acquire an interest in Turismo&Immobiliare, which owns 49% of Italia Turismo, by purchasing stakes of 8.3% from each of the existing shareholders (Banca Intesa, the Ifil Group and the Marcegaglia Group); on completion of the transaction, Pirelli RE will have paid a total of €3.4m for a 25% stake in Turismo&Immobiliare. Implementation of the agreement is subject to authorization from the Antitrust Authority.
- On 3 August Pirelli RE signed a contract with a syndicate of 12 overseas and 6 Italian banks for a 5-year revolving credit facility of €450m. As a result of this loan, overall bank debt has an average duration of 4 years.

Outlook for 2005

Based on the results achieved in the first half of the year and the information available, the Group expects growth in operating profit including income from equity participations in 2005 to be in line with the guidance previously given to the market.

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The three-year plan for 2006-2008 will be examined by Pirelli & C. Real Estate's Board of Directors at a meeting to be held on 18 October.

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In accordance with Consob Comunicé no. DEM/5025723 of 15 April 2005, PricewaterhouseCoopers have issued an unqualified opinion on the statements of reconciliation required by IFRS.

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The Company's Deputy Chairman and CEO, Carlo Puri Negri, will host a conference call at 11.00am (9.00am GMT) on Monday, 12 September in order to present the results for the first half of 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 and balance sheet are attached to this release.

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Attachment 1

Consolidated Balance Sheet

(€m)	IAS/IFRS 30 June 2005	IAS/IFRS 31 Dec 2004	IAS/IFRS 30 June 2004
Fixed assets	360,8	375,7	377,2
of which equity participations in investment funds and companies	258,6	241,5	218,5
Net working capital	186,2	204,6	109,7
Net capital employed	547,0	580,3	486,9
Shareholders' equity	459,2	491,9	404,6
of which Group's share	454,0	485,5	400,3
Provisions and contributions	45,2	48,2	36,0
Net (liquidity)/debt	42,6	40,2	46,3
of which shareholder loans	(230,7)	(209,8)	(234,9)
Total shareholders' equity and debt	547,0	580,3	486,9
Net (liquidity)/debt before shareholder loans	273,3	250,0	281,1
Gearing before shareholder loans	0,60	0,51	0,69

Attachment 2

Consolidated Profit and Loss Account

(€m)	IAS/IFRS 30 June 2005	IAS/IFRS 30 June 2004	% Growth rate	ITALIAN GAAP 30 June 2004	% Growth rate
Aggregate revenues	1.741,7	1.213,5		1.229,3	
Consolidated revenues	363,0	297,4		291,3	
Operating profit	35,7	17,7		26,2	
Income from equity participations	44,6	40,5		40,0	
Operating profit including income from equity participations (*)	80,3	58,2	38%	66,2	21%
Interest income from equity participations	6,5	6,7		6,7	
Operating profit including income and interest income from equity participations	86,8	65,0		72,8	
Other interest income/(expense)	(6,4)	(3,8)		(4,4)	
Profit before extraordinary items	80,4	61,1		68,5	
Extraordinary income/(expense)	0,0	0,0		(5,6)	
Profit before taxation	80,4	61,1		62,9	
Taxation	(20,0)	(13,1)		(12,8)	
Net profit	60,3	48,1		50,1	
Minority interests	(0,5)	0,0		0,4	
Net profit for the period	59,8	48,0	25%	50,5	18%

(**) the figure for 2005 includes €1.1m of income from funds

