



## PRESS RELEASE

- **BOARD APPROVES 9M RESULTS AS AT 30 SEPTEMBER 2005:**
  - **AGGREGATE REVENUES UP 50% TO €2,381.1M  
(€1,584.5M IN 2004)**
  - **OPERATING PROFIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS UP 31% TO €104.5M  
(€79.6M IN 2004)**
  - **NET PROFIT UP 25% TO €78M (€62.4M IN 2004)**
  - **ASSET AND FUND MANAGEMENT**
  - **OPERATING PROFIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS UP 18% TO €81.8M**
    - **Acquisitions: €1,831.1M**
    - **SALES: €1,645.1M**
    - **CONTRIBUTIONS TO MANAGED FUNDS: €750M;  
LONG-TERM COMPONENT OF PROPERTY ASSETS  
RISES TO APPROX. 40%**
  - **PROPERTY SERVICES**
    - **OPERATING PROFIT UP 26% TO €42.9M**
    - **ROS AT 18% (14% IN SEPTEMBER 2004)**
- **NET DEBT AMOUNTS TO €29.4M (€43.2M IN SEPTEMBER 2004)**
- **PERFORMANCE FOR 2005 IN LINE WITH GUIDANCE  
PREVIOUSLY GIVEN TO THE MARKET**

*Milan, 7 November 2005* – The Board of Directors of Pirelli & C. Real Estate met today to examine and approve the Group's operating results for the nine months ended 30 September 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. **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 9M 2005**

The figures for the first nine months of 2005 are compared with those for the same period of 2004, after reclassification in accordance with international accounting standards (IAS/IFRS).

**Aggregate revenues** amount to **€2,381.1m**, marking a **50% improvement** on the €1.584.5m of the first nine months of 2004.

**Operating profit including income from equity participations** amounts to **€104.5m**, rising **31%** on the €79.6m of the previous first nine months (up 21% on the figure for the same period of 2004 based on Italian GAAP, which forms the basis on which the Group measures its performance against the targets set out in its three-year plan for 2003-2005). Asset and fund management fees and services accounted for more than 40% of this result, compared with 25% at the end of September 2004.

**Net profit** after minorities for the first nine months of 2005 amounts to **€78m**, **up 25%** on the first nine months of 2004 (€62.4m).

The Group's share of **shareholders' equity** amounts to **€481.6m** as at 30 September 2005 compared with €485.5m at the end of 2004. The decline reflects the combined effect of reductions resulting from the payment of dividends (€68.3m) and the reclassification of treasury shares held (€32.9m), and increases due to net profit for the period (€78m) and the paid-in capital increase carried out as part of the stock option plan (€21.6m).

**Net debt** stands at **€29.4m**, representing an improvement compared with the €43.2m of 30 September 2004 (€40.2m at the end of December 2004 and €42.6m at 30 June 2005).

**Adjusted net debt** (before shareholder loans to companies in which the Group has minority stakes) totals **€257.8m**, compared with €297.6m at 30 September 2004 (€250m at 31 December 2004 and €273.3m at the end of June 2005). The Group's **gearing** is **0.53** compared with 0.69 at the end of September 2004.

## Performance of main areas of business in 9M 2005

### Asset and Fund Management

**Aggregate revenues from asset and fund management** amount to **€2,014.8m** for the first nine months of 2005, representing a rise of **51%** compared with the same period of 2004 (€1,331.9m). **Property sales** amounted to **€1,645.1m** and **contributions to managed funds** (the Berenice Offices Fund) **totalled €750m**, compared with property sales of €868.8m and contributions to funds (the Tecla Offices Fund and Cloe Offices Fund) totalling €1,532.9m in the first nine months of 2004. The long-term component of property assets has thus risen from 28% at the end of December 2004 to approximately 40% at 30 September 2005. Gross gains in the first nine months of 2005 amounted to €468.2m, compared with €358.5m in the same period of 2004.

**Operating profit including income from equity participations** amounts to **€81.8m** for the first nine months of 2005, up **18%** on the €69.6m of the same period of the previous year. This was primarily thanks to **management fees**, which are up from €9m to €20.6m for the first nine months of 2005. Non-performing loans made a positive contribution of €4.7m, compared with a loss of €1.4m recorded in the first nine months of 2004.

**Purchase agreements** worth a total of **€2,135.3m** have been entered into to date, with transactions amounting to **€1,831.1m** completed during the first nine months of the year, compared with €726.3m in the same period of 2004. Pirelli RE's share of the total stands at around 29%.

### Services Operated Directly and in Franchising

**Services operated directly** generated consolidated **revenues of €240.6m**, compared with €237.7m in the first nine months of 2004.

**Operating profit of €42.9m** is **26%** up on the €34m of the same period of the previous year, thanks to the good performances registered by the Group's affiliate agencies and facility management activities and the greater efficiency of property services.

The **ROS (Return On Sales)** stands at **18%**, marking a significant improvement on the 14% recorded in the first nine months of 2004.

Development of the franchise network to distribute estate agency, banking and insurance services on the retail market proceeded successfully during the first nine months of 2005: **Pirelli RE Franchising** has now signed agreements with 803 agencies, of which 444 are already open for business.

In line with expectations, the network incurred an operating loss of €0.8m during the first nine months of 2005, compared with a loss of €6.7m for the same period of 2004.

## **Subsequent events**

- On 10 October 2005 P&K Real Estate GmbH, a company 60% owned by Pirelli RE and 40% by the Kronberg Group, successfully bid for a portfolio of properties in Berlin being sold by Corpus Immobiliengruppe and valued at €72.5m. P&K Real Estate will invest in the portfolio in partnership with Lehman Brothers and will manage and develop the real estate acquired, supplying specialist property services.
- On 17 October 2005 Teodora, a mixed seeded real estate and cash fund specialising in office properties and aimed at institutional investors, was launched. The new fund will have a duration of ten years. The Teodora fund consists of 10 primarily office properties, with a value of €152m, contributed by Roev Italia, Adar Holding and Schiavonetti, companies that belong to the Haggiag property group.
- On 18 October 2005 Pirelli RE's Board of Directors approved the three-year for the period 2006-2008. Whilst net debt will remain substantially stable over the three years, average compound annual growth in operating profit including income from equity participations is expected to grow by between 10% and 15%. Asset and fund management activities are projected to achieve a 10% to 14% CAGR in operating profit including income from equity participations, whilst operating profit from the provision of services operated directly and in franchising is expected to grow at an average annual rate of 14% to 18%. Assets under management are estimated to increase from a book value of €9.9bn at 30 June 2005 to €16-18bn by the end of 2008.
- On 3 November 2005, following a green light from the Italian Antitrust Authority, Pirelli RE's acquisition of an equity interest in Turismo&Immobiliare was completed. Pirelli RE has purchased a 25% stake from the current private shareholders, Banca Intesa, Ifil Group and Marcegaglia Group, for a total outlay of €3.4m.

## **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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## Financial calendar

The calendar of board meetings and general meetings of shareholders for 2006 is as follows:

**10 March 2006:** Board of Directors meeting to examine financial statements and consolidated financial statements for the year ended 31 December 2005. The above documents will be published within 90 days of the end of the financial year and, pursuant to art. 82 of CONSOB Resolution 11971/99, the quarterly report for the last quarter of 2005 will not therefore be prepared.

**19 April 2006:** General Meeting of shareholders called to approve financial statements.

**10 May 2006:** Board of Directors meeting to examine consolidated results for the first quarter of 2006.

**26 July 2006:** Board of Directors meeting to examine preliminary results for the six months ended 30 June 2006.

**11 September 2006:** Board of Directors meeting to examine the interim report for the six months ended 30 June 2006. The above document will be published within 75 days of the end of the first half and, pursuant to art. 82 of CONSOB Resolution 11971/99, the quarterly report for the second quarter of 2006 will not therefore be prepared.

**8 November 2006:** Board of Directors meeting to examine consolidated results for the third quarter of 2006.

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

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**CONSOLIDATED BALANCE SHEET**

| (€m)   | IAS/IFRS<br>30 Sept 2005 | IAS/IFRS<br>31 Dec 2004 | IAS/IFRS<br>30 Sept 2004 |
|--|--------------------------|-------------------------|--------------------------|
| <b>Fixed assets</b>  | <b>352,6</b>             | <b>375,7</b>            | <b>383,9</b>             |
| of which equity participations in investment funds and companies | 250,2                    | 241,5                   | 210,4                    |
| <b>Net working capital</b>                                       | <b>210,4</b>             | <b>204,6</b>            | <b>128,0</b>             |
| <b>Net capital employed</b>                                      | <b>563,0</b>             | <b>580,3</b>            | <b>511,9</b>             |
| <b>Shareholders' equity</b>                                      | <b>487,2</b>             | <b>491,9</b>            | <b>433,3</b>             |
| of which Group's share   | 481,6                    | 485,5                   | 427,4                    |
| <b>Provisions and contributions</b>                              | <b>46,4</b>              | <b>48,2</b>             | <b>35,4</b>              |
| <b>Net (liquidity)/debt</b>                                      | <b>29,4</b>              | <b>40,2</b>             | <b>43,2</b>              |
| of which shareholder loans                                       | (228,4)                  | (209,8)                 | (254,3)                  |
| <b>Total shareholders' equity and debt</b>                       | <b>563,0</b>             | <b>580,3</b>            | <b>511,9</b>             |
| <b>Net (liquidity)/debt before shareholder loans</b>             | <b>257,8</b>             | <b>250,0</b>            | <b>297,6</b>             |
| <b>Gearing before shareholder loans</b>                          | <b>0,53</b>              | <b>0,51</b>             | <b>0,69</b>              |

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
for the nine months ended

(€m)

|   | IAS/IFRS<br>30 Sept 2005 | IAS/IFRS<br>30 Sept 2004 | %<br>increase | ITALIAN GAAP<br>30 Sept 2004 | %<br>increase |
|---|--------------------------|--------------------------|---------------|------------------------------|---------------|
| <b>Aggregate revenues</b>   | <b>2.381,1</b>           | <b>1.584,5</b>           |               | <b>1.603,4</b>               |               |
| Consolidated revenues   | 458,8                    | 391,9                    |               | 383,5                        |               |
| Operating profit  | 41,9                     | 27,2                     |               | 36,0                         |               |
| Income from equity participations (*)   | 62,6                     | 52,4                     |               | 52,4                         |               |
| <b>Operating profit including income from equity participations</b>                     | <b>104,5</b>             | <b>79,6</b>              | <b>31%</b>    | <b>88,4</b>                  | <b>18%</b>    |
| Interest income from equity participations  | 9,8                      | 10,3                     |               | 10,3                         |               |
| <b>Operating profit including income and interest income from equity participations</b> | <b>114,3</b>             | <b>89,9</b>              |               | <b>98,7</b>                  |               |
| Other interest income/(expense)   | (9,0)                    | (6,2)                    |               | (7,2)                        |               |
| Profit before extraordinary items   | 105,3                    | 83,7                     |               | 91,5                         |               |
| Extraordinary income/(expense)  | 0,0                      | 0,0                      |               | (6,2)                        |               |
| Profit before taxation  | 105,3                    | 83,7                     |               | 85,3                         |               |
| Taxation  | (26,3)                   | (21,2)                   |               | (20,0)                       |               |
| Net profit  | 78,9                     | 62,5                     |               | 65,3                         |               |
| Minority interests  | (0,9)                    | (0,1)                    |               | 0,6                          |               |
| <b>Net profit for the period</b>  | <b>78,0</b>              | <b>62,4</b>              | <b>25%</b>    | <b>65,9</b>                  | <b>18%</b>    |

(\*) the figures for 2005 and 2004 include €3.5m and €0.2m of income from funds, respectively