



PRESS RELEASE

BOARD OF DIRECTORS APPROVES FINANCIAL STATEMENTS AS AT SEPTEMBER 30TH: GROWTH TREND CONTINUES

- **CONSOLIDATED NET INCOME : 65.9 MILLION EURO, +26% AS AGAINST 52.1 MILLION EURO FOR FIRST NINE MONTHS OF 2003**
- **AGGREGATE PRODUCTION VALUE NET OF ACQUISITIONS: 1,228.6 MILLION EURO, + 25% AS AGAINST 982.4 MILLION EURO IN 2003**
- **EBIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS: 88.4 MILLION EURO, +23% AS AGAINST 71.7 MILLION EURO IN 2003**
- **NET FINANCIAL POSITION: DEBT OF 40.9 MILLION EURO, DOWN 7.8 MILLION EURO ON 48.7 MILLION EURO IN SEPTEMBER 2003 (NET DEBT AT YEAR-END 2003 WAS 9.2 MILLION EURO)**

FORECAST GROWTH IN EBIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS FOR 2004, ACCORDING TO TARGETS IN THREE-YEAR PLAN

Milan, 10th November 2004 – The Board of Directors of Pirelli & C. Real Estate, met today, examined and approved the Group financial statements as of 30th September 2003.

Before a detailed examination of the figures, it is worth recalling that Pirelli RE is a management company which manages special purpose vehicles and funds owner of real estate and non performing loans portfolios, investing through minority stakes (asset management and fund management activity) and providing these and other clients with a full range of real estate specialist services (service provider activity). Accordingly, the **aggregate value of production**, net of acquisitions, and **EBIT (including pro-quota income from participations)** may be viewed as the most meaningful indicators for measuring the business volume managed by the Group and its results at the operating level.

The Pirelli RE Group

The **aggregate value of production** in the first nine months, net of acquisitions, totalled **1,228.6 million** Euro, up **25%** as compared with 982.4 million Euro for the same period in 2003. The tilting balance towards share capital initiatives involving significant minority stakes, rather than initiatives involving consolidated capital, a trend that is consistent with the Group's business model, resulted in a reduction in production - though only at the consolidated level – down from 388.9 million Euro in the first nine months of 2003 to 354.5 million Euro.

Ebit (including pro-quota income from participations) totalled **88.4 million** Euro, as against 71.7 million Euro in the first nine months of 2003, representing **growth** of **23%**.

Consolidated net income was **65.9 million** Euro and compares with 52.1 million Euro in the first nine months of 2003, representing **growth** of **26%**.

Shareholders' equity at 30th September 2004 stood at **445.7 million** Euro as against 421.6 million Euro at year-end 2003 and 417.9 million Euro at 30th June 2004. The increase as compared with year-end 2003 is due both to the difference between the dividend distribution (53.8 million Euro) and profit for the period (65.9 million Euro) and to the increase in capital with a premium share price (11.9 million Euro) as a result of stock options being exercised.

The **net financial position** shows debt of **40.9 million** Euro, down by 7.8 million Euro on indebtedness of 48.7 million Euro at 30th September 2003 (net debt at year-end 2003 was 9.2 million Euro).

The **adjusted financial position** (expressed gross of shareholder loans to companies in which the Group has minority holdings) shows debt of **295.3 million** Euro as compared with debt of 248 million Euro at 30th September 2003 and 223.7 million Euro at year-end 2003. The **gearing ratio** is 0.65, and compares with 0.67 at 30th September 2003 and 0.53 at year-end 2003. This level of gearing is in line with the targets of the Three-Year Plan.

Performance of the main business areas in the first nine months of 2004

Asset Management Activities

At 30th September 2004 the **aggregated value of production** by the Asset Management activities, net of acquisitions, was **942.8 million** Euro as against 717.9 million Euro in the first nine months of 2003, an increase of **31%**.

Over the period in question the work of bringing out and developing the value of the business's assets resulted in **sales** to third parties and **contributions to funds** of **2,426.3 million** Euro, generating a gross capital gain of 350.7 million Euro, as compared with sales in the first nine months of 2003 worth 983.9 million Euro. **Acquisitions** over the period (accounting for non-performing loans at acquisition value and not at gross book value) totalled **726.3 million** Euro. The corresponding figure at 30th September 2003 was 207.4 million Euro.

EBIT (including pro-quota income from participations) was **71 million** Euro as against 47.6 million Euro at 30th September 2003, an increase of 49%.

Fund Management Activities

Following the setting up of the Tecla and Cloe funds, the real estate portfolio managed by Pirelli RE SGR is worth 1.8 billion Euro, at market value. Tecla Fondo Uffici, which was listed on 4th March 2004, consists of properties for commercial and office use having a market value of 930.6 million Euro at 30th June 2004. Cloe Fondo Uffici, which started up on 30th June 2004 and is aimed at institutional investors, likewise consists of properties for commercial and office use for a market value of 877.5 million Euro.

Despite its recent start-up, the fund management business is already generating a positive result of 1.8 million Euro.

Service Provider Activities

In the first nine months of 2004 the **production value** of the **service provider** business was **247.5 million** Euro as against 212.5 million Euro over the same period in the previous year, a rise of **16%**. **EBIT** totalled **36.8 million** Euro as compared with 29.1 million Euro in the first nine months of 2003, up by **26%**. **ROS** (return on sales) stood at 15%, while in 2003 it was 14%.

During the first nine months of 2004 an extraordinary charge of 5.8 million Euro was taken to accelerate the organisational efficiency programmes, launched mainly in technical services, following the spate of acquisitions over the previous years.

Franchising Service Distribution Business

Work continued on the recruitment of franchisees to form a network for distributing real-estate, banking, and insurance services to the retail market: at 30th September 2004 the number of contracts concluded was 449 (against an end-of-year target of 500 in the Three-Year Plan).

In the period in question, and in line with forecasts, the network sustained operating costs of 5.5 million Euro.

Significant events during the period

- On 28th July 2004 Orione Immobiliare Prima, a company specialized in trading and in which Pirelli RE has a minority stake, completed the purchase from Risanamento & Sviluppo Napoli of 5 properties in Naples for a price of 51.8 million Euro;
- On 2nd September the Ministry of Economy and Finance gave notice that Pirelli RE SGR would be awarded a mandate to manage one of the three portfolios that will make up the investment fund in public-sector buildings for non-residential use. The investment fund, which is soon to be set up, is expected to have a market value of between 3.5 billion Euro and 4 billion Euro.
- On 30th September 2004, Spazio Industriale 2, a joint venture between Pirelli RE (25%) and Soros Real Estate Investors (75%), finalised the purchase from New Real (a vehicle controlled both by the Deutsche-Bank managed fund, DB Real Estate Global Opportunities, and by CDC-IXIS) of 26 properties formerly belonging to Enel. The purchase price was about 93 million Euro.

Events further to 30th September 2004

- In October, following a tendering procedure, Pirelli RE together with Morgan Stanley Real Estate Funds, secured exclusive rights to carry through a valorisation project for some of the non-strategic property assets of the UniCredit Group, concentrated in the company named Cordusio Immobiliare. The bulk of these properties is in Northern Italy;
- On 21st of October the Group, in partnership with other investors, acquired 4 properties for residential use in Rome and Milan. The purchase was made at a cost of 22.2 million Euro;
- On 27th October the Pirelli RE (25%)/Soros Real Estate Investors (75%) joint venture carried through the purchase of an industrial property in Turate (Como province) costing 14 million Euro;
- On 28th October the facility management arms of Telecom Italia and of Emsa (Telecom Italia Group) were absorbed into MP Facility SpA (a company owned 50/50 by Pirelli RE and the Manutencoop Group). On the basis of a 6-year contract MP Facility will provide facility management services for all Telecom Italia properties, corresponding to a total surface area of over 7.5 million square metres;

- On 29th October the Group completed the purchase from GS of six shopping centres in Northern Italy for a total of 47.5 million Euro;
- On 4th November Pirelli RE SGR received clearance from Consob to publish the prospectus for the public sale, subscription, and quotation of Olinda Fondo Shops, a real-estate seeded fund specialising in shops, commercial facilities, and entertainment centres. The sale was launched today, 10th November, and shall end (barring early termination or an extension) on 6th December 2004. The value of the fund is EUR 261 million. The assets of the funds, following contributions and planned acquisitions, shall consist in 44 properties with a total market value topping 740 million Euro.

The outlook for 2004

On the basis of the data currently available, all reasonable forecasts suggest that in 2004 **EBIT (inclusive of results from equity participations)**, will record further growth compared with 2003, according to targets in the Three Year Plan.

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Scheduled board meetings and shareholder meetings in 2005

Shown below are the dates for the scheduled meetings of the Board of Directors and of the members of the Company in 2005:

18th February 2005: Meeting of the Board of Directors to examine the preliminary results at 31st December 2004.

18th March 2005: Meeting of the Board of Directors to examine the draft company financial statements and consolidated financial statements at 31st December 2004. These financial statements shall be made available to the public within 90 days of the end of the financial year. For this reason, pursuant to Article 82 of Consob Resolution 11971/99, the report for the fourth quarter of 2004 will not be prepared.

27/28th April 2005: Meeting of the Shareholders to approve the financial statements.

10th May 2005: Meeting of the Board of Directors to examine the consolidated results for the first quarter of 2005.

27th July 2005: Meeting of the Board of Directors to examine the preliminary results at 30th June 2005.

12th September 2005: Meeting of the Board of Directors to examine the half-year report at 30th June 2005. The report shall be made available to the public within 75 days of the end of the first half of the financial year. For this reason, pursuant to

Article 82 of Consob Resolution 11971/99, the report for the second quarter of 2005 will not be prepared.

7th November 2005: Meeting of the Board of Directors to examine the consolidated results for the third quarter of 2005.

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Summary data on the income statement and balance sheet for the first nine months of 2003 and 2004 is appended

Highlights of Income Statement

(Amounts in millions of euros)	1.1.04-30.9.04	1.1.03-30.9.03	
Aggregate Production Value, net of acquisitions	1,228.6	982.4	25%
Consolidated production value	354.5	388.9	
- of which, net of acquisitions	329.7	348.2	
EBIT including pro quota income from Equity Participations	88.4	71.7	23%
Income before Extraordinary Items.	91.5	71.8	
Net Income after minority interests	65.9	52.1	26%

Consolidated Balance Sheet

	<u>30th September 2004</u>	<u>31st December 2003</u>	<u>30th September 2003</u>
Fixed Assets	368.1	313.4	266.1
of which equity participations in real estate investment funds and companies	183.2	149.7	126.6
Net Working Capital	160.5	162.3	207.7
of which inventories	273.3	325.0	331.6
Net Invested Capital	528.6	475.7	473.8
Shareholders' Equity	452.2	424.8	372.2
of which minority interests	6.5	3.2	0.7
Funds and Contributions	35.5	41.7	52.9
Net Financial Position (positive)/negative	40.9	9.2	48.7
Total NIC coverage	528.6	475.7	473.8
Loans from shareholders	254.4	214.5	199.2
Adjusted financial position	295.3	223.7	248
Adjusted gearing position	0.65	0.53	0.67

Consolidated Income Statement

Millions of euros	<u>1/1/04-30/9/04</u>	<u>1/1/03-30/9/03</u>
Production Value	354.5	388.9
of which acquisitions	24.8	40.7
Production Value, net of acquisitions	329.7	348.2
EBIDTA.	51.7	53.7
Depreciation	(15.7)	(11.6)
EBIT	36.0	42.1
Income from Equity Participations	52.4	29.6
EBIT including income from Equity Participations	88.4	71.7
Financial Income	3.1	0.1
Income before Extraordinary Items	91.5	71.8
Extraordinary Items	(6.2)	(0.2)
P.B.T.	85.3	71.5
Income taxes	(20.0)	(19.5)
Net income	65.3	52.0
Minority Interests	0.6	0.1
Net Income after minority interests	65.9	52.1