2003 Annual Report

CONTENTS

A. PRELIMINARY INFORMATION

1) CALL TO GENERAL ANNUAL SHAREHOLDERS' MEETING

PIRELLI & C. REAL ESTATE S.P.A.

Head office at via Gaetano Negri 10, Milan
share capital € 20,302,491.00 fully paid
Milan Company Register no. 02473170153
Tax Code and VAT no. 02473170153

NOTICE OF MEETING

The shareholders of PIRELLI & C. REAL ESTATE S.p.A. are called to an ordinary and extraordinary Meeting to be held at 4 p.m. at Viale Sarca 214, Milan, on:

— Friday, 7th May 2004 in first calling
— Monday, 10th May 2004 in second calling

to discuss and resolve on the following

AGENDA

In ordinary session

1. Directors' report on operations; report of the Board of Statutory Auditors; financial statements as of 31st December 2003; allocation of net profit.
2. Appointment of the Board of Directors after determining the number of members to be elected; fixing the remuneration of the Directors.
3. Appointment of the Board of Statutory Auditors and its Chairman; fixing the remuneration of the serving Auditors.
4. Proposal to purchase and ways to deploy own shares, revoking the shareholders' resolution adopted on 6th May 2003, to the extent not utilised.

   Related and consequent resolutions. Conferral of powers.
5. Fixing the remuneration of the members of the Supervisory Body appointed pursuant to Decree 231 dated 8th June 2001.
6. Proposal to adopt Rules for Shareholders' Meetings.

In extraordinary session

1. Changes to the following articles of the Articles of Association: 2 (place of business), 3 (duration), 5 (share capital), 6 (shares), 7 (calling of shareholders' meetings), 9 (quorums), 10 (meeting procedures), 11 (minutes of shareholders' meetings), 12 (administration of the Company), 13 (Chairman and Secretary of the Board of Directors), 14 (calling of Board of Directors' meetings), 16 (resolutions of the Board of Directors), 17 (minutes of Board resolutions), 18 (powers of the Board of Directors), 19 (delegation of powers by the Board of Directors), 21 (remuneration of directors), 22 (Board of Statutory Auditors) and 26 (references).

   Related resolutions. Conferral of powers.
2. Granting of powers to the Directors, pursuant to art. 2443 of the Italian Civil Code, to increase share capital on one of more occasions, by up to a maximum total par value of Euro 15 million, via the issue of ordinary shares to be offered to shareholders and holders of convertible bonds, with the ability to exclude the exercise of pre-emption rights, pursuant to the combined effect of the final paragraph of art. 2441 of the Italian Civil Code

and art. 134.2 of Decree 58/1998, if the shares are offered for subscription by the employees of Pirelli & C. Real Estate S.p.A. or its subsidiary companies.

Granting of powers to the Directors, pursuant to art. 2420-ter of the Italian Civil Code, to issue, on one or more occasions, up to a maximum nominal value of Euro 15 million, bonds that are convertible into ordinary shares or which carry warrants for subscription to such shares, to be offered to shareholders and holders of convertible bonds.

Consequent further change to art. 5 (share capital) of the Articles of Association.

Related and consequent resolutions. Conferral of powers.

Holders of ordinary shares may attend the Shareholders' Meeting if they are in possession of the related certificate issued by their brokers in accordance with legal requirements.

The financial statements and consolidated financial statements as of 31st December 2003, together with the related Directors' report, are available to the public at the registered place of business and at Borsa Italiana S.p.A. from 30th March 2004.

The reports of the Board of Statutory Auditors and the Independent Auditors, together with the documentation regarding the other items on the agenda, will be made available to the public on the same basis before the legal deadline.

BOARD OF STATUTORY AUDITORS

Pursuant to art. 22 of the Articles of Association, the Board of Statutory Auditors will be appointed on the basis of lists, containing a number of candidates that is not greater than the number of members to be elected, presented by shareholders who, alone or together with other shareholders, represent at least 2 per cent of the shares with voting rights at the Ordinary Meeting.

The lists of candidates (listed in numerical sequence) must be signed by those who present them and deposited at the Company's registered place of business, at least 10 days prior to the date fixed for the Shareholders' Meeting in first calling, together with a description of the professional curricula of the nominated persons and declarations from the individual candidates accepting their candidature and certifying, under their own responsibility, that no causes of ineligibility or incompatibility exist and that they comply with the requirements for the position prescribed by law or by the Articles of Association.

Milan, 31st March 2004

for The Board of Directors
The Deputy Chairman and Managing Director

(Carlo Alessandro Puri Negri)

2) BOARD OF DIRECTORS, BOARD OF STATUTORY AUDITORS, GENERAL MANAGERS, COMMITTEE FOR INTERNAL AUDIT AND CORPORATE GOVERNANCE, REMUNERATION COMMITTEE, INDEPENDENT AUDITING COMPANY

Board of Directors

Marco Tronchetti Provera	*Chairman*
Carlo A. Puri Negri	*Deputy Chairman and Chief Executive Officer*
Giovanni Nassi	*Deputy Chairman*
Carlo Bianco	*Chief Executive for Residential Asset Management and Trading* (1)
Emilio Biffi	*Chief Executive for Land & Development* (2)
Reginald Bartholomew	*Director (Independent)*
Carlo Buora	*Director*
William Dale Crist	*Director (Independent)* (3)
Sergio Lamacchia	*Director*
Giulio Malfatto	*Director*
Claudio Recchi	*Director (Independent)*
Vincenzo Sozzani	*Director*
Livio Strazzera	*Director (Independent)*
Dario Trevisan	*Director (Independent)* (4)
Gianluca Grea	*Board Secretary*

Board of Statutory Auditors

Roberto Bracchetti	*Chairman*
Paolo Carrara	*Standing Auditor*
Gianfranco Polerani	*Standing Auditor*
Franco Ghiringhelli	*Alternate Auditor*
Paola Giudici	*Alternate Auditor*

General Managers

Emilio Biffi	*General Manager Land & Development* (2)
Olivier de Poulpiquet	*General Manager Commercial Sector and Non Performing Loans* (5)
Giorgio Fantoni	*General Manager Services*
Marc Petit	*General Manager Finance*

Committee for Internal Audit and Corporate Governance

Dario Trevisan	*Chairman (Independent)*
William Dale Crist	*(Independent)*
Livio Strazzera	*(Independent)*

Remuneration Committee

Claudio Recchi	*(Independent)*
Reginald Bartholomew	*(Independent)*
Sergio Lamacchia	

Independent Auditing Company

PricewaterhouseCoopers S.p.A.
Via Vittor Pisani, 2
20124 Milan

(1) Appointed by the Board of Directors on January 29th, 2004, effective February 1st, 2004. By taking on the title of Chief Executive of Residential Asset Management and Trading, he resigned from his previous position (held up until January 31st, 2004) of General Manager Residential.

(2) Appointed by the Board of Directors on January 29th, 2004, effective February 1st 2004. He continued to maintain the position of General Manager while modifying his entrusted tasks.

(3) Appointed, as an integration of the consulting organ, by the Shareholders' Meeting on May 6th, 2003.

(4) Appointed by co-optation, in substitution of the resigning Director Giampietro Nattino, by the Board of Directors on May 6th, 2003.

(5) Appointed by the Board of Directors on January 29th, 2004, effective February 1st, 2004.

3) SUMMARY OF SELECTED CONSOLIDATED DATA

(euro/million)	2003	2002	2001	2000	1999
Balance Sheet Data					
Fixed Assets	313.4	218.8	74.2	168.0	11.0
Net Working Capital	162.3	190.5	249.4	324.3	108.7
Net Invested Capital	475.7	409.3	323.6	492.3	119.7
Shareholders' equity	424.8	368.8	132.1	75.9	31.7
Provisions	41.7	52.8	49.9	51.9	10.0
Net Financial Position	9.2	(12.3)	141.6	364.5	78.0
Net Financial Position gross of Shareholders Loans	223.7	166.7	380.7	571.1	99,1
Economic Data					
Aggregated Production Value net of Acquisitions	1,525.5	1,297.3	607.6	n.a.	n.a.
Consolidated Production Value	649.0	491.5	326.2	244.4	203.2
Operating Result including income from equity participations	128.1	102.2	47.2	34.3	19.5
Net income from real estate activities	102.1	82.6	33.5	20.6	11.0
Net income from other Items (1)	–	42.7	127.9	131.8	–
Indices					
ROE (2)	26%	33%	33%	40%	41%
Gearing gross of Shareholders Loans	0.53	0.45	2.88	7.53	3.13
Other Data					
Shares (number)	40,604,982	40,604,982	332,828	307,115	307,115
Treasury Shares (number)	2,186,111	2,154,720	–	–	–
% treasury shares out of total shares	5.4%	5.3%	–	–	–
Share price on December 31st	25.11	17.90	–	–	–
Real Estate Activities — Net Profit per share (euro)	2.51	2.03	n.s.	n.s.	n.s.
Employees (on December 31st)	1,515 (3)	1,208	562	496	188

(1) Montly resulting from transfer of securities ex Unim.

(2) The return on equity (ROE) was determined by the ratio between net income from real estate activities and the average Shareholders' equity value throughout the period.

(3) Including temporary workers. Employees number reached 1,544.

4) GROUP PROFILE

Pirelli RE is a management company dealing with special investment companies, real estate funds and non-performing loans; it invests in the latter through qualified minority stakes (asset and fund management activities) and it supplies to them, as well as to other clients, all specialized real estate services (service provider activities).

In twelve years of business, Pirelli RE is known as one of the leading Italian real estate market leaders. It has introduced an innovative business model and the most sophisticated professional standards in the market.

Pirelli RE is today a recognized brand for its tradition, solidity and reliability: the experience and focalization of management, together with the areas of expertise developed with large-scale operations constitute its key factors of success.

The mission of Pirelli RE can be summarized as follows:

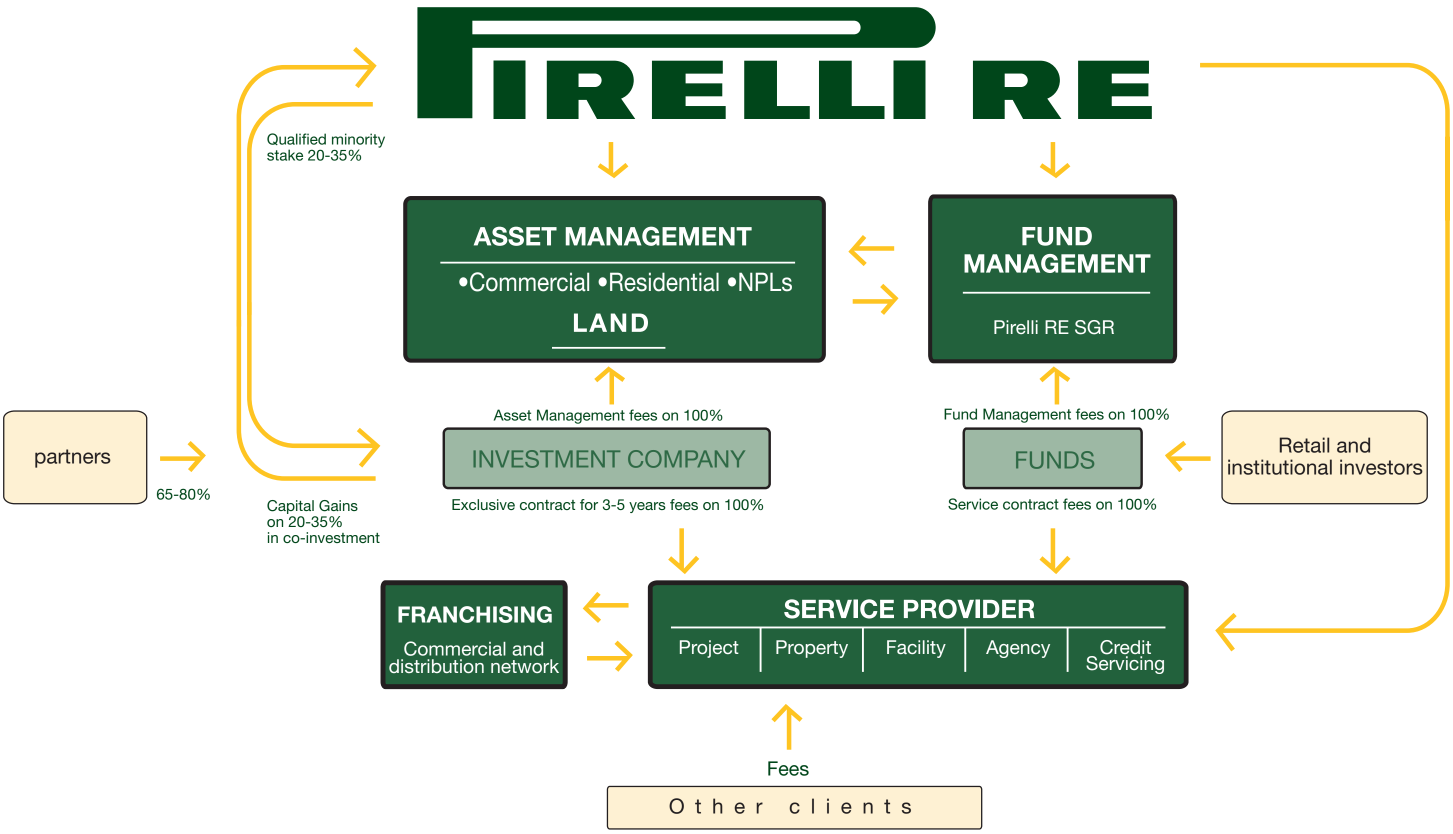
- create value for its shareholders;
- confirm itself as the main reference point for the real estate market in Italy, contributing to the development towards the highest professional standards;
- innovate real estate assets as a qualitative response to the needs of end users and investors;
- create and spread an high-level culture in the real estate business;
- direct all company behaviours towards corporate social responsibility.

The Group as at December 31st, 2003 holds a total assets under management of 10.5 billion euro, at market value, including non-performing loans for 0.9 billion euro, and relays its services to a portfolio of assets whose value equals 30.3 billion euro.

With its three operational centers in Milan, Rome and Naples, considered to be the three most significant domestic real estate markets, and a qualified network of sales agents, the Group is able to operate nationwide across the Italian national territory employing over 1,500 people.

The ability to present itself as the primary intermediator for the whole property cycle (from the purchase, to the management, to the sale of goods), along with a high-quality know-how in the various business sectors, has allowed the Group to consolidate trustfulness with the major Italian bodies and entrepreneurial groups, as well as attracting the most important international investment funds which have identified Pirelli RE as the preferential strategic partner for investment opportunities in the Italian market.

The Group's activities extend across many specific business units allowing it to operate with efficiency and flexibility in different sectors of Asset Management and Fund Management. It currently operates in all areas of the real estate business through the use of specialized service companies and the distribution network which offers real estate products and financial related products.


PIRELLI RE
Qualified minority stake 20-35%
ASSET MANAGEMENT
•Commercial •Residential •NPLs
LAND
FUND MANAGEMENT
Pirelli RE SGR
Asset Management fees on 100%
Fund Management fees on 100%
partners
65-80%
INVESTMENT COMPANY
FUNDS
Retail and institutional investors
Capital Gains on 20-35% in co-investment
Exclusive contract for 3-5 years fees on 100%
Service contract fees on 100%
FRANCHISING
Commercial and distribution network
SERVICE PROVIDER
Project
Property
Facility
Agency
Credit Servicing
Fees
Other clients

5) LETTER FROM THE C.E.O.

Dear Shareholders,

The past year has seen a growth in the Italian real estate market once again, despite a forecasted downturn. This positive trend was due partly to a continue flows of investments from abroad and partly to the limited availability of property assets.

Thanks also to its entrepreneurial flair, in 2003 the company has successfully achieved the targets stated in the 2003-2005 plan, presented to the financial community in April 2003. The 25% growth in operating results (including income from equity participations) reached the top of the projected 20%-25% range announced in the 3 year plan.

During 2003, both commercial and residential properties, worth in excess of euro 2 billion, were sold, generating a capital gains in excess of euro 400 million. In addition, Assets and Non-Performing Loans were purchased for approximately euro 1.6 billion. Asset Management generated fees of approximately euro 50 million while services posted total sales in excess of euro 320 million.

Our share price performed well throughout the year recording a 40% increase with a significant increase in volumes traded. This growth has continued in the first part of the current year, reflecting the market's appreciation of our business model, which is clearly capable of producing highly significant results.

The company has also demonstrated its commitment to develop into new business sectors. Since communicating its commitment at the beginning of 2003, the Fund Management business has now started. This business is necessary to manage the balance between short-term opportunistic investments and the long-term core ones. The Non-Performing Loans showed a further improvement. This sector is crucial to future development and will allow exploitation of synergies with other Group sectors. The Franchising Network has successfully launched into the retail market and underwrote over 250 contracts during the period, while Real Estate development is set to generate significant cash flows and has already started evaluating operations both in the Milan area and the city of Rome.

The year 2004 opened with the successful placement of Tecla, the first specialized seeded funds launched in the Italian market. Looking back over recent years and also to the future, I can say that we are on track with our plan but still see many opportunities ahead to pursue in fulfilling our mission to create shareholder value and spread a new “culture” throughout the real estate sector. We continue to build this “culture” through our daily activities and close links with the major Italian universities in addition to recognizing our responsibilities to the community we are present in.

In closing, my sincere and dutiful thanks go to the people who have made all this possible.
Achieving targeted objectives has been and always will be possible only with commitment, outstanding abilities and expertise of a team that knows how to develop its entrepreneurial skills and dedication.

Carlo Alessandro Puri Negri

B. DIRECTORS' MANAGEMENT REPORT

1) THE ITALIAN REAL ESTATE MARKET

On a worldwide level, it does not seem the real estate market was affected by the small economic growth that has affected many other sectors, continuing to produce interesting income flows, both in terms of direct investments in Europe and with respect to rents contracts.

In order to analyze the Italian real estate market, it is necessary to keep in mind the late recovery of the sector with respect to the United States and other European countries.

This allows our market to be one of the few still registering a positive trend within the cycle and therefore of great interest for international investors, whose activity has been regularly growing over the last few years.

The lasting growth phase of the real estate market, despite worries expressed by some, does not seem destined to reverse its trend.

One of the key factors in the changed market conditions has certainly been the introduction of the euro which, while facilitating exchanges amongst various European countries, has also granted greater stability to the Italian market from foreign investors' perspective.

The great interest these investors have into the Italian real estate market could actually prove to be the main reason of the predictable positive trend of this market.

During 2003, all cross-border transactions reached a total of 38.4 billion euro (a 10% increase versus the previous year).

Italy ranks fourth, after UK, France and Sweden, amongst the European countries boasting the greatest ability to attract foreign investment, with about 6%, and registering a growth rate of about 20% with respect to the previous year.

Prices

During 2003, an average price growth of 10.7% has been registered in the main Italian cities for the residential market, while the offices sector, despite the weak economic trend, has grown by 9% with respect to the previous year. Within the sector of retail and department stores, prices increased on average by 8.3%, while in the logistics sector prices increased by 6.9% on a yearly basis.

Returns

In terms of returns, property investments in 2003 have registered a positive and competitive performance with respect to alternatives.

	%
Houses (1)	16.3
Offices (1)	15.2
Stores (1)	16.7
Industrial buildings (1)	15.2
Shares	16.4
Listed real estate funds	11.6
Gold	11.5
Government bonds (3 months)	2.2
Bank deposits	0.9

(1) Total gross returns calculated by the algebraic sum of the variations in capital accounts and yield returns.

Source: Nomisma.

Leases

Residential

With regards to the residential market rental contracts have been regularly increased, on average, by 3.3% versus 2002. Such a phenomenon has pushed more families to give up rental contracts in favour of real estate ownership: most of them have actually converted their rents into mortgages. 2003 has therefore been characterized by a slight decrease (–2.2%) of the total number of transactions with respect to the strong increase registered in 2002.

Offices

With regards to rental contracts, the strong growth in prices, the simultaneous fall of interest rates, combined with the expectations for falling inflation and, most importantly, the difficult macroeconomic scenery, have contributed to a slight decrease in tenancy returns. However, the values of the returns are still competitive with a percentage value hovering around 6%.

Commercial Sector

The tenancy sector keeps growing with respect to 2002 as far as rental contracts (+9.6%) while returns are stable at about 8.3%. As far as large-scale distribution, Italian market keeps showing a positive trend: new stores have been opened (32 new openings during 2003) and rental contracts have increased on average by 7.3%.

Industrial sector

As far as industrial building market, please refer to the above-mentioned considerations relating to offices. In this sector, prices have grown by about 6.9% on an annual basis and returns remain positive, at around 8.2%. However, growing values have been detected in the average selling times (going from 5.1 months in 2002 to 5.8 months in 2003), and in the average difference between requested and effective prices (going from 10.9% in 2002 to 12% in 2003).

Real Estate Leasing

Although in 2003 all tax benefits granted from Tremonti law (bis) have ended, real estate leasing, according to the data available in the first half of 2003, has contributed to financing over 7,200 operations generating 5.5 billion euro. A decrease, equal to 15.6%, is noted with respect to 2002, and forecasted by operators, given the boom in real estate leasing generated within the timeframe allowed by the above-mentioned law.

Real Estate Financing

During 2003, the residential credit market has increased both in terms of value and volumes; Italian families are overall the least indebted in Europe: the ratio between issued mortgages and the “PIL” (Gross Domestic Product) is still below 10%, versus 65-70% in Holland and Denmark.

The residential housing loans represents about 88% of the market, and are divided as follows: 71% of financing are requested for the purchase of the first house, 14% for the purchase of other residential properties, 6% for restructuring works, while only 9% for new constructions.

As far as their length, the general reimbursement terms are gradually increasing: such an increase is furtherly showed by the growing market share being destined to financing overexceeding 10 years. In terms of rates, the variable rate still represents the best choice 56% of the times, versus 25% for fixed rate and 19% for mixed rate.

Non residential property financing is mainly destined to the commercial sector (38%) and offices (35%).

As regard to the type of financing previously analyzed, please note almost half of them do last less than 10 years and variable rate proves to be once again the best choice 64% of the times.

Real Estate Funds

The real estate funds market in Italy has remarkably changed during the past year: the new legislation has provided the whole sector with a new strong boost.

The most significant changes provided are:

- the possibility to underwrite the shares of a fund with the contribution of real estate assets from non-public parties;
- the increase of debt limits up to a 60% over the property's value.

Also the tax laws changes have proved to be quite significant, since the introduction of an income taxation system derived from Investement Funds and no longer at the maturity of the fund but through end cash flow for the participants (through the application of a substitute tax on income following the redemption on shares equal to 12.5% for Italian citizens and waived for foreign investors).

The overall positive progress of the real estate markets and the uncertainties of the Stock Exchanges are supporting the real estate funds market more than expected: the total fund asset value have now surpassed 4 billion euro.

2) PIRELLI RE: BUSINESS MODEL

Pirelli RE has developed an innovative and unique business model thanks to its own internal specialized expertise developed over the years and a management team of proven experience.

The business model integrates investment management activity (the acquisition and valuation of real estate assets and the realization of new property projects, both destined to sale — an asset management activity) with the delivery of a wide range of specialized services in the property sectors (service provider) and the allocation and management of specialized property funds on a long term basis (fund management). A distribution network of real estate services has also been implemented to cover the retail market.

- Strategic management of investments is carried out through the identification of investment opportunities in different sectors (residential, commercial, land and non performing loans) and through the coordination of specialized services aimed at creating value for and subsequently disposing portfolios.

  These operations are finalized with institutional investors through the creation of investment companies which finance the ventures by contributing 20-25% of the required capital.

  Pirelli RE participates with equity participations on average of about 28%; debt is financed through national and international credit institutions for up to 75-80% of the debt. The shareholders of these companies typically draft five-year governance pacts which usually require the created companies to close contracts with Pirelli RE regarding the management of property assets and their relative services.

  Such a business model considerably differentiates the Group from property firms which invest with majority shares and from pure Asset Management companies which generally do not participate in operations with their own risk capital.

- Fund management activity aims at promoting, establishing and managing real estate investment funds targeted at both retail and institutional investors. The mission of Pirelli RE S.G.R. is to become the leader in the real estate funds sector in Italy, contributing to the evolution and the development of this market through products in line with the best international practices.

  The specialization choice of funds is vital in order to guarantee an improved management through specific Asset Management expertise and know-how, aimed at overseeing the various real estate markets with specialized units (residential, office, industrial, retail & entertainment, hotel).

  The “specialized” funds that Pirelli RE S.G.R. plans to bring to the market are of the “closed and seeded type”; these are created through the contribution of existing real estate portfolio. The potential investors can therefore understand and evaluate, in advance, the initial Fund portfolio and its return.

- The active management of portfolios (residential, commercial, non-performing loans) is expressed through a strong specialized culture of the product itself one of the major factors for the attractiveness of the Pirelli RE model which, due to the experience generated in international markets, has created internal innovation and culture.

  As a service provider, Pirelli RE maximizes the value of its service delivery by being able to offer, as the only national provider, all the specialized services connected to the acquisition, realization, management and sale of real estate assets to both private and public clients.

  The specialized services offered by the leading companies in their respective market segments allow the active management of investments with an improvement in operations margins.

  The Service companies also allow the coordination of the various property development phases by allocating direct and specific responsibilities for each phase.

- Pirelli RE has created a Corporate Development structure to serve all business units.

  This structure — composed of a qualified team — primarily aims at structuring operations and it represents an organizational component that is highly competitive with respect to the market.

  Finalizing acquisition operations is in fact specific and complex: from the research and selection of institutional partners to the identification of the company type and the financial structure; from the governance rules which regulate relationships with shareholders up to the point of investment exit strategies, to the realization of the business plan which must show the management of the business unit the coherence between actions and the overall strategy of the Group for the evaluation of a specific service intervention.

  The existence of such a qualified internal structure allows a verticalization of investment screening activities, and drives profit maximization for all operations through the capitalization of the technical modalities in which the Pirelli RE model is expressed.

In brief, the business model allows several competitive advantages to be combined:

- Attract the most qualified investors and international operators which can delegate management of all phases of their investments to a single party; in the last few years specialized investors have created investment inflows which have increased the real estate portfolio managed by the Group;
- Reduce the overall risk of investments through qualified minority shareholdings in several companies specialized by type and usage;
- Increase the investment opportunities by participating, at equal levels of invested capital, in a greater number of operations;
- Manage assets whose value is considerably greater than the directly invested amount, due to asset management and service provider mandates;
- Increase operational margins through the use of asset management and specialized service companies.

3) PIRELLI RE IN 2003

The previous year has also been of significance for our Company, which has reached the highest established objectives for the first year in the three-year plan (2003-2005) presented in April of the previous year, and posted a 25% growth at operating level (including income from equity participations).

The net profit of real estate activities was equal to 102.1 million euro, compared to 82.6 million euro in 2002, with a growth rate of 24%. In 2002, other non property income sources were also present (mostly connected to the sale of the securities portfolio arising from Unim) and totalled 42.7 million euro.

2003 Highlights

The Pirelli Group RE concluded a number of important operations during the year:

- High-value property portfolios were acquired for 1,447.1 million euro for a subsequent valorization;
- Sales reached 2,041.1 million euro;
- It was structured the sector for the management and investment in the non-performing loans, a necessary prerequisite for a development in future years of this type of activity. During the year portfolio acquisitions totalled 140.3 million euro;
- Pirelli RE Franchising was established for the distribution of property services to the retail market: in the month of October was launched the affiliation campaign of Pirelli RE Franchising, a network of property agencies targeting the retail market, and closed in 2003 with over 250 contracts and over 150 opened agencies;
- The new fund management activity was established along with the traditional asset management and service provider activities in order to ensure a balance between the opportunistic and long-term market approaches; in the month of December the authorization for the initial public offering and listing of the first listed seeded real estate fund managed by Pirelli Real Estate Società di Gestione del Risparmio, known as “Tecla Fondo Uffici” was completed;
- Turnover and an operating result have been developed for the service companies.

4) FINANCIAL AND ECONOMIC HIGHLIGHTS

4.1 Economic Analysis

Pirelli RE is a management company which manages real estate companies and non-performing loans; it invests in the latter through qualified minority stakes (asset and fund management activities) and it supplies to them, as well as to other clients, all specialized real estate services (service provider activities).

Therefore, the aggregate production value net of acquisitions, and the operating result, including income from equity participations, have to be considered as the two most significant indicators for understanding business volume and the overall operational results.

(euro/million)	1.01.2003/ 12.31.2003	1.01.2002/ 12.31.2002	
Aggregate Production Value net of Acquisitions	**1,525.5**	**1,297.3**	**18%**
Consolidated Production Value	649.0	491.5	
Operating Result including income from equity participations	**128.1**	**102.2**	**25%**
Results before extraordinary items	128.9	99.9	
Net income from real estate activities	**102.1**	**82.6**	**24%**
Other Items (*)	–	42.7	
Net income	**102.1**	**125.3**	

(*) Related to the transfer of the last tranche of securities portfolio from Unim.

The aggregate production value, net of acquisitions, totalled 1,525.5 million euro with an 18% growth rate compared to the 1,297.3 million euro generated in 2002. The consolidated production value in 2003 is 649.0 million euro, compared to 491,5 million euro in 2002 (+32%).

The operating result including income from equity participations, totalled 128.1 million euro compared to 102.2 million euro in 2002 (+25%).

The net income from real estate totalled 102.1 million euro, compared to 82.6 million euro in 2002, with a growth rate of 24%.

In 2002, non-property income sources were still present (mostly connected to the transfer of the securities portfolio from Unim), totalling 42.7 million euro.

4.2 Financial Asset Analysis

(euro/million)	12.31.2003	12.31.2002
Fixed assets	**313.4**	**218.8**
of which participations in equity companies	149.7	109.1
Net Working Capital	**162.3**	**190.5**
of which inventory	325.0	383.7
Net Invested Capital	**475.7**	**409.3**
Shareholders' Equity	**424.8**	**368.8**
of which minority interests	3.2	0.9
Funds & Contributions	**41.7**	**52.8**
Net Financial Position	**9.2**	**(12.3)**
Free Cash Flow	**42.1**	**4.7**
Net Cash Flow before Dividend Distribution	**27.2**	**48.7** (*)
Net Cash Flow	**(21.5)**	**154.0** (**)

(*) Benefit of about 70 million euro in extraordinary items.

(**) Includes share capital increase of 105.3 million euro.

The Groups Shareholders equity on December 31st, 2003, totalled 421.6 million euro with respect to 367.9 million euro in 2002. The increase of 53.7 million euro is primarily due to the difference between the distributed dividends (48.7 million euro) and the profit of the period (102.1 million euro).

The net financial position has a negative value of 9.2 million euro with respect to the positive value of 12.3 million euro at the end of 2002. The change can be attributed to investment activity and the dividend payments coupled with a significant reduction in net working capital, realized in the context of a general growth in business volumes.

The financial position gross of shareholders' loans, to companies in which the Group has minority interests has a negative balance of 223.7 million euro compared with a negative value of 166.7 million euro at the end of 2002.

The gearing ratio was 0.53 with respect to 0.45 on December 31st, 2002.

Fixed assets totalled 313.4 million euro versus 218.8 million euro at the end of 2002, with a growth of 94.6 million euro, of which 40.6 million euro include participations in equity companies.

The increase in both tangible and intangible fixed assets is largely due to new acquisitions in the consolidation area within Facility Management sector. The growth of the participations is instead traceable to all areas of Asset Management (Residential, Commercial, and Non-Performing Loans).

The net working capital was equal to 162.3 million euro, compared to 190.5 million euro at the end of 2002 (–15%), and given an increase of 32% in the production value for the period.

4.3 Net Asset Value

(euro/million)	December 31st, 2003: CB Richard Ellis Evaluation for Property Part and Land				
	Book value 100%	Book value pro-quota	Market value 100%	Market value pro-quota	Implicit capital gain
Residential	**1,490.0**	**541.7**	**2,271.3**	**832.3**	**290.7**
Portfolio	1,350.1	477.9	2,099.9	755.6	277.7
Development	139.9	63.7	171.4	76.7	13.0
Commercial	**5,050.1**	**1,099.7**	**6,828.7**	**1,485.9**	**386.2**
Portfolio	4,761.7	965.1	6,514.7	1,340.1	375.0
Development	288.3	134.6	314.0	145.8	11.2
Land	**361.4**	**151.7**	**448.5**	**188.8**	**37.1**
NPL (*)	**925.2**	**414.6**	**925.2**	**414.6**	**–**
Total Asset under Management	**7,826.7**	**2,207.7**	**10,473.7**	**2,921.6**	**713.9**
Total Shareholder's equity					**421.6**
Total NAV Pirelli & C. Real Estate					**1,135.5**

(*) GBV Value corresponding to 200.6 million euro.

Asset under Manangement, at market value, were equal to 10.5 billion euro, with an increase of 7% with respect to the previous year.

The pro-quota of Pirelli RE was 2.9 billion euro (28% of the total) and includes a gross implicit capital gain of 713.9 million euro on asset book value.

The net asset value does not take into account:

- Investment activities in Non-performing loans, currently subjected to an independent valuation;
- Asset management services, fund management, specialized services and distribution of real estate and financial services.

5) TREND OF THE MAIN BUSINESS SECTORS IN 2003

5.1 Asset Management

I. Introduction

As the primary driver in the Pirelli RE business model, Asset Management oversees the whole property cycle with a strong vertical level of expertise and is responsible for the identification of investment opportunities in the different sectors (residential, commercial, and non-performing loans), as well as for the realization of ex-novo properties in developmental initiatives and for the strategic management of acquired portfolios in order to valorize and divest them.

Asset Management business is organized in the three specific divisions mentioned above in order to preside over all segments of the real estate market. A deep knowledge about each single product ensures maximum focus on the specific needs of the different types of clients.

II. Assets under management

(euro/million)	Asset Management 12.31.2003				Asset Management 12.31.2002			
	Residential	Commercial	Non Performing loans	Total	Residential	Commercial	Non Perfoming loans	Total
Asset under management								
Inventory, 100% at book value	1,484.5	5,050.1	5.5 (**)	6,540.1	1,607.9	4,847.3	–	6,455.2
Inventory, 100% at market value	2,265.2	6,828.7	6.1 (**)	9,100.0	2,457.3	6,595.1	–	9,052.4
Credit Porfolio at Gross Book Value	–	–	925.2	925.2	–	–	231.0	231.0
Sales	980.4	1,121.4	–	2,037.7 (*)	585.7	378.3	–	964.0
Acquisitions	571.5	973.3	5.0	1,447.1 (*)	948.0	3,513.7	–	4,461.7
Credit Porfolio Acquisitions	–	–	140.3	140.3	–	–	79.4	79.4
Gross Capital Gains	238.1	197.0	–	435.1	158.7	84.9	–	243.6

(*) Net of infragroup eliminations.

(**) Inserted in the Residential Portfolio in the table “Net Asset Value”.

Assets under management, on December 31st, 2003, at market value, and according to CB Richard Ellis, were equal to 10,025.2 million euro of which 925.2 referred to the gross book value of credit portfolios. During the year, acquisitions totalled 1,587.4 million euro of which 140.3 million euro refer to acquisitions of Non-performing loans; Sales at market value for 2,037.7 million euro (book value 1,602.6 million euro) were also completed.

III. Economic trends

(euro/million)	Asset Management 1.01.2003/12.31.2003				Asset Management 1.01.2002/12.31.2002			
	Residential	Commercial	Non Performing loans	Total	Residential	Commercial	Non Perfoming loans	Total
Economic data								
Aggregate Production Value Net of Acquisitions	373.7	772.7	1.6	1,147.5	284.6	717.5	18.0	1,020.1
Consolidated Production Value	97.9	195.6	2.9	296.4	77.0	152.5	1.0	230.5
Operating Result including income from equity participations	**32.1**	**58.7**	**(0.4)**	**90.4**	**20.9**	**52.2**	**1.9**	**74.9**
Gross Result	32.9	60.5	1.0	94.4	23.1	49.1	2.1	74.3

In 2003, aggregate Asset Management business registered an aggregate production value, net of acquisitions, equal to 1,147.5 million euro, compared to 1,020.1 million euro in 2002.

The operating result, including income from equity participations, was equal to 90.4 million euro, compared to 74.9 million euro in 2002.

Asset management business has generated fees for 46.0 million euro with respect to 27.9 million euro in 2002 (+65%).

The operating result of this business was equal to 13.4 million euro with respect to 9.8 million euro in 2002 (+37%).

5.1.1 Residential Asset Management

I. Introduction

Residential Asset Management identifies and promotes residential property portfolio acquisitions and development operations through the realization of new housing or through the upgrade of those already existing.

This activity is expressed through property acquisitions and subsequent market allocation through the fractional sale (trading) or through the management of the process which begins with the identification of favorable property operations, continues with the creation of the product and ends with the sale of the residential properties realized (development).

II. Main events

- On March 14th, 2003, properties located in Naples were acquired for a total value of 41.7 million euro through the acquisition of 49% of the shares of Geolidro S.r.l..
- In July 2003, Pirelli RE, in a joint venture with Morgan Stanley Real Estate Funds, won the bid for the acquisition of part of the non-instrumental property assets of the Fondiaria-SAI Group, primarily with commercial scope, and with one residential component worth 95.4 million euro. This operation is fully described within the “Main Events” section of the “Commercial” business unit.
- On December 19th, 2003, an acquisition contract has been signed through Esedra S.r.l. (35% Pirelli RE, 45% Lehman Brothers Ltd., 20% Risanamento Napoli) with Generali Properties, for a total amount of 65 million euro, related to a residential property complex in Rome (the Poggio Ameno area) totalling 48,000 sq.mt.

- On December 23rd, 2003, Generali Properties, Pirelli RE and Lehman Brothers acquired, through the partly owned Continuum S.r.l., a portfolio of 43 properties, mainly located in Milan and Rome and part of the overall property assets of Assitalia — for a total value of 158 million euro and 106,000 sqm. Continuum's shareholding is composed as follows: 40% Generali Properties, 40% Pirelli RE and 20% Lehman Brothers. These properties — primarily destined for residential use — will be divested in the short to medium term after being valorized.

- Within the process of company reorganization, on December 29th, 2003, following the registration in the Italian Companies' Register of the merger agreement between Auriga Immobiliare (capital assets derived from Unim and Fondiaria) and Iniziative Immobiliari (capital assets derived from Risanamento Napoli), a new company called Iniziative Immobiliari was established.

III. Asset under management

(euro/million)	AM Residential 12.31.2003	AM Residential 12.31.2002	% Growth
Asset under management			
Inventory 100% at Book Value	1,484.5	1,607.9	
Inventory 100% at Market Value	2,265.2	2,457.3	
Sales	980.4	585.7	67%
Acquisitions	571.5	948.0	
Gross Capital Gains	238.1	158.7	50%

Assets under management, on December 31st, 2003, at market value, and according to CB Richard Ellis, were equal to 2,265.2 million euro versus 2,457.3 million euro on December 31st 2002. During the year, acquisitions for 571.5 million euro; sales at market value for 980.4 million euro (book value 742.3 million euro) were also undertaken. It should be noted that this value is 67% higher than that of the previous year.

IV. Economic Trends

(euro/million)	AM Residential 1.01.2003/12.31.2003			AM Residential 1.01.2002/12.31.2002		
	Capital venture	Fees AM	Total	Capital venture	Fees AM	Total
Economic data						
Aggregate Production Value Net of Acquisitions	356.6	17.1	373.7	275.3	9.4	284.6
Consolidated Production Value	80.8	17.1	97.9	67.6	9.4	77.0
Operating Result including income from equity participations	**27.7**	**4.4**	**32.1**	**17.4**	**3.4**	**20.9**
Gross Result	28.5	4.4	32.9	19.5	3.6	23.1

In 2003, the aggregate production value, net of acquisitions, for Residential Asset Management business was equal to 373.7 million euro versus 284.6 million euro in 2002.

This growth is primarily due to an higher gross capital gains (from 158.7 million euro in 2002 to 238.1 million euro in 2003). In detail, the main contributors to the gross capital gains were

Iniziative Immobiliari (assets derived from Risanamento Napoli), Aida (assets derived from RAS) and Bernini Immobiliare (assets derived from Banca di Roma) with 133.9 million euro, 51 million euro and 12.9 million euro, respectively. Within the time frame taken into exam, the contribution of various developmental initiatives also proved to be useful.

The operating result, including income from equity participations, was equal to 32.1 million euro, compared to 20.9 million euro in 2002 (+54%).

It was very important the increase in results obtained from income from equity participations, moving from 13.1 million in 2003 to 27.5 million euro in 2003. The most significant contributors in 2003 were Iniziative Immobiliari and Aida which generated income from equity participations equal to 17.5 million euro and 4.5 million euro, respectively.

Residential asset management business generated fees for 17.1 million euro with respect to 9.4 million euro in 2002 (+82%).

5.1.2 Commercial Asset Management

I. Introduction

Commercial Asset Management identifies and coordinates investment initiatives in the property sectors destined for commercial (non residential) use.

Similarly to what happens in the residential sector, this division conducts valorization operations whose aim is to reposition the properties on the market, as well as developmental operations through the completion of new complexes designed for commercial purposes. The business unit is organized by specialized teams in accordance with the nature of the asset (offices, retail & entertainment, industry, hotels) and therefore in relation to the client, as well as to the public sector (which is further subdivided into health care, universities and research).

II. Main Events

- In March, was completed the transfer — to the property funds of the Deka Group — of a portfolio of four high-value properties located in central Milan, primarily destined for office use, totalling 30,000 sq.mt., and part of the property assets of ex RAS (AIDA) that were acquired in 2002. The operation was worth about 130 million euro, including a gross capital gains of about 20 million euro, of which 6.6 million euro pertain to Pirelli RE.

- At the end of March, a 50% stake in Prime Properties, from M.S.M.C. Immobiliare Due, a Company in which Pirelli RE holds indirect shares of 25% (the remaining 75% is owned by companies that are part of the Morgan Stanley Real Estate Fund III), was sold to Aedes, which already owned the other 50%. Prime Properties holds a property portfolio of an approximate value of 150 million euro located in Milan and Rome. The operation which closed at a value of 25 million euro created a gross capital gains of about 7.7 million euro, of which 2 million euro are pertain to Pirelli RE.

- On March 31st, Pirelli RE and The Peabody Fund (a joint venture between O'Connor Capital Partners e JP Morgan-Chase) reached an agreement for the development of two new initiatives in the retail and entertainment sector. Following the traditional business model, Pirelli RE, with a qualified minority investment (25%), will provide asset management and specialized serivices. The initiatives being actually accomplished thanks to the agreements between Pirelli RE and The Peabody Fund relate to entertainment centers which Pirelli RE has already started the development in Milan (Bicocca Area) and Turin (Moncalieri), for a total investment of about 200 million euro.

- At the end of June, a new residence for the elderly in Bollate, valued at 10.4 million euro, was sold to Investietico, the first ethical and closed property fund of the Banca Popolare di Milano. The entire operation — the first of Pirelli RE in the social service sector — was conducted by the Health Care Asset Management Division of Pirelli RE. The latter, through the contribution of project management and agency companies within the Group, was capable of completing the structure, identifying a health care manager and finally completing the sale of the property within 18 months time frame.

- At the end of June, Pirelli RE undersigned a contract with Morgan Stanley with the aim of extending the team as well as expanding the implementation range of the current joint venture which during the years created an office property portfolio of over 6 billion euro in value. The joint venture in the next three years will involve, in addition to participation in current bids, an equity investment of about 400 million euro, which will allow new investments both in portfolios, as well as in developmental initiatives for office uses, and totalling more than 1,500 milion euro — using the usual combination of in-house resources and non-recourse financing which characterizes the property investments of the Company.

- On July 15th, the Genovese ASL 3 (local national health care provider) approved a plan for the project financing of the new Vallata Hospital in the province of Genova. The architectural and financial project, proposed by Pirelli RE and declared by this ASL of public Interest, will be open to bidding based on the best offer criteria in order to identify the party most capable of taking on the project. Pirelli RE will have a pre-emption right since it is promoting the initiative. The operation, which is part of a general restructuring of the health care system in Genova, is the first in Italy to take advantage of the potentials derived from the recent modifications in the so-called Merloni-Quater (Law 109/94), which allows project financing in public utility sectors. Pirelli RE — one of the few operators in Italy today which combines specialized project and facility qualifications with those in the financial expertise necessary to complete complex financial operations — has presented a proposal for the completion and (non health care) the management of the new hospital in the next 30 years.

- On July 16th Popoy Holding BV, a joint venture between Pirelli RE (25%) and Morgan Stanley Real Estate Funds IV (75%), won the bidding (with a 980 million euro bid) for the acquisition of part of the non instrumental property assets of the Fondiaria-SAI Group. The acquired portfolio is composed of 87 properties of primarily commercial nature, totalling 460,000 sq.mt. and primarily mainly in Milano, Florence and Rome. In the beginning of August, the joint venture undersigned an agreement between Alerion Industries for the assignment of about 20% of the acquired property portfolio valued at 200 million euro. On October 31st, the joint venture formally acquired all the shares of Ganimede, a company holding 68 properties valued at 780 million euro (book value) of which 684.6 million euro are primarily of commercial type. The operation with Fondiaria-SAI was closed on October 31st, 2003.

- On December 3rd, 2003, Tiglio II (50,53% shareholding by Popoy Holding B.V.) conferred a branch of the company composed of twelve, primarily commercial-use properties, to the subsidiary Immobiliare Piemonte S.r.l.; these properties were transferred for a total value of 115 million euro. On the same date, 80% of its share capital of Immobiliare Piemonte was assigned to M.C.C..

- On December 4th, 2003 RCS MediaGroup and the joint venture Pirelli RE/The Morgan Stanley Real Estate Funds signed an agreement for the reacquisition, on the part of RCS MediaGroup and for a total value of 15.5 million euro, of 49% of the share capital of Immobiliare Solferino 28 — a company established within the agreement conditions signed between the two companies in 2000, and aimed at valorizing the property assets of RCS MediaGroup. With this agreement, RCS MediaGroup returned to 100% ownership of the property located in Via Solferino, the historical head office and symbol of the daily newspapers, “Corriere della Sera” and “La Gazzetta dello Sport”.

- In the last weeks of 2003, The Peabody Fund contributed four commercial galleries to the joint venture with Pirelli RE (20% Pirelli RE — 80% The Peabody Fund), which were rented to Rinascente for a total value of 46 million euro.
- At the end of 2003, Centrale Immobiliare (100% Pirelli RE) acquired nine properties for office use for a total value of 85 million euro from Banca di Roma — Gruppo Capitalia. The portfolio has locations in Florence, Bologna, Roma, Naples, Bari, Ancona, Palermo and Mestre.
- In the last days of 2003, an industrial site composed of properties for office use and areas for development in the outskirt of Milan was acquired by Italtel together with a group of Tuscan investors that are part of the Arduino Casprini industrial group (Pirelli RE 30%, other shareholders 70%); the value of the operation was 80 million euro. The agreement also foresees the potential acquisition, in a later phase, of the industrial complex in Settimo Milanese (MI).

III. Asset under management

(euro/million)	AM Commercial 12.31.2003	AM Commercial 12.31.2002	% Growth
Asset under management			
Inventory 100% at Book Value	5,050.1	4,847.3	
Inventory 100% at Market Value	6,828.7	6,595.1	
Sales	1,121.4	378.3	196%
Acquisitions	973.3	3,513.7	
Gross Capital Gains	197.0	84.9	132%

Assets under management, on December 31st, 2003, at market value, and according to CB Richard Ellis, were equal to 6,828.7 million euro versus 6,595.1 million euro on December 31st 2002. During the year, acquisitions totalled 973.3 million euro; sales at market value for 1,121.4 million euro (book value 924.4 million euro) were also completed.

New acquisitions reached 973.3 million euro, including the acquisition of Fondiaria-SAI’s property assets for commercial use which were valued at 684.6 million euro.

IV. Economic Trends

(euro/million)	AM Commercial 1.01.2003/12.31.2003			AM Commercial 1.01.2002/12.31.2002		
	Capital venture	Fees AM	Total	Capital venture	Fees AM	Total
Economic data						
Aggregate Production Value Net of Acquisitions	744.9	27.7	772.7	700.0	17.5	717.5
Consolidated Production Value	167.9	27.7	195.6	135.0	17.5	152.5
Operating Result including income from equity participations	**49.3**	**9.4**	**58.7**	**45.8**	**6.4**	**52.2**
Gross Result	51.1	9.4	60.5	42.7	6.4	49.1

The Commercial Asset Management business unit registered an aggregate production value, net of acquisitions, equal to 772.7 million euro versus 717.5 million euro in 2002; the increase of 55.2 million euro was realized through higher sales volumes of office property portfolios and new developmental activities in the retail & entertainment sector.

The operating result, including income from equity participations, was equal to 58.7 million euro, compared to 52.2 million euro in 2002; the 6.5 million euro increase derived from the higher sales of portfolios acquired in past years and the increases in asset management fees.

The increase in the gross result, amounting to 11.4 million euro (+23%), is affected by minor financial charges and extraordinary items with respect to the previous year, in addition to the improved operating result.

Commercial asset management business generated fees for 27.7 million euro with respect to 17.5 million euro in 2002 (a 58% growth rate).

5.1.3 Non-Performing Loans (NPL) Asset Management

I. Introduction

Non-Performing Loans Asset Management plans and coordinates the financial operations connected to the acquisition and management of portfolios of mortgage credits in default originated from banks — in other words credits derived from financing guaranteed with mortgages on disputed properties.

The recovery of these credits, guaranteed by the properties, is strictly connected to the value of the underlying asset. The recovery activity is entrusted to the company Pirelli RE Credit Servicing which is entirely controlled by Pirelli RE.

The credit portfolios are then acquired by companies which partner with national and international shareholders who hold majorities in the companies themselves.

II. Main events

- On April 28th, 2003, with the public offering of shares for a total value of 79.4 million euro (already completely placed), the securitization of the defaulted mortgage credit portfolios (non-performing loans) was concluded at gross book value of about 200 million euro. The owner, CFT Finanziaria, was a company controlled by Pirelli RE Group, Cassa di Risparmio di Firenze (equal shareholding at 47%) and by Cassa di Risparmio di San Miniato (with a 6% share quota). In the operation, Pirelli RE Group was offering service provider activities through the controlled company Pirelli RE Credit Servicing.

- In the month of June 2003, an agreement with Citigroup was concluded, bringing the American bank in control of 65% of the share capital of Localto as an investment in portfolios of credits in default — thereby establishing a joint venture with Pirelli RE.

- On November 28th, 2003, the Group concluded the acquisition, from Deutsche Bank A.G., of a portfolio of primarily mortgage credits in default, through Localto S.p.A. (65% Citigroup — 35% Pirelli RE); these originated from the Banca Nazionale del Lavoro, and were valued for a total of 98 million euro versus a nominal value of about 520 million euro. Once the first optimization has been accomplished, the acquired portfolio, in conjunction with new portfolios that are under negotiation for acquisition by the Group, will become the part of a securitization operation valued at about 150 million euro. The combination of the operations described above will allow a greater valorization of the acquired assets and the income streams flows from them.

- In the month of December 2003, the Group completed the acquisition of a portfolio of securitized credits of Italfondiario for a total value of about 16 million euro (versus a gross book value of about 36 million euro); this was conducted through the company LSF (67% Credit Agricole Indosuez — 33% Pirelli RE).

  Pirelli RE Credit Servicing will be the manager of recently acquired credits in default, and the servicer in the next securitization. In the month of October this company was acknowledged an "above average" evaluation from Standard & Poor's (a rating assigned to the leaders of sector).

III. Asset under management

(euro/million)	AM NPL 12.31.2003	AM NPL 12.31.2002
Asset under management		
Gross Book Value of Credit Portfolio	925.2	231.0
Property Inventory at Book Value (*)	5.5	–
Property Inventory at Market Value (*)	6.1	–
Acquisitions	140.3	79.4
Acquisitions at Gross Book Value	762.5	199.0

(*) Inserted in the Residential Portfolio in the "Net Asset Value".

The credit portfolio under management, as of December 31st, 2003, at gross book values, was equal to 925.2 million euro with respect to 231.0 million euro on December 31st, 2002.

During the year, total acquisitions of credit portfolios reached 140.3 million euro, and acquisitions of properties set as guarantees for credits in default, primarily for residential use, were about 5 million euro.

IV. Economic Trends

(euro/million)	AM NPL 1.01.2003/12.31.2003			AM NPL 1.01.2003/12.31.2003			% Growth
	Capital venture	Fees AM	Total	Capital venture	Fees AM	Total	
Economic data							
Aggregate Production Value Net of Acquisitions	0.4	1.2	1.6	17.0	1.0	18.0	–91%
Consolidated Production Value	1.7	1.2	2.9	0.0	1.0	1.0	
Operating Result including income from equity participations	**(0.1)**	**(0.3)**	**(0.4)**	**2.1**	**(0.2)**	**1.9**	
Gross Results	1.3	(0.3)	1.0	2.3	(0.2)	2.1	–52%

The reduction in the aggregate production value and the Operating Result including income from equity participations is linked to the delay in portfolio acquisitions which were conducted in the last months of the year; as a result, the economic effects will impact the following financial year.

5.2 Land

I. Introduction

The Land business unit deals with territorial transformation and requalification ventures through a valorization approach that is integrated with urban, social and economic concerns, while monitoring the evolution of urban plans of the main Italian cities.

The objective is to identify those areas that could potentially undergo medium to long term development projects, as well as the acquisition opportunities Pirelli RE might be directly interested into.

The division initially oversees — in cooperation with the Project Management structure — the evaluation of the environmental situation and estimates the reconversion costs, which are later submitted to the Public Administration for the start-up of developmental projects in order to finally assign the product to asset management (residential, office, retail & entertainment) or third parties for its completion.

II. Main Events

On July 21st, 2003, in compliance with the agreement signed on December 23rd, 2002, the former Tiglio building areas were concentrated in a single company in which the Gruppo Marzotto areas had already been transferred.

The total value of the assets is equal to about 200 million euro with a total building capacity of over 1 million square meters of Gross Floor Surface Area (“Superficie Lorda di Pavimento”, SLP).

On July 25th, the concert party composed of Unicredit, Vianini Lavori, Roma Ovest Costruzioni Edilizie (Gruppo Caltagirone) and Pirelli RE (file leader) prequalified in the international bidding for the assignment and requalification of the Polo Urbano of the Fiera Milano. The project has been entrusted to Renzo Piano.

III. Asset under management

(euro/million)	Land 12.31.2003	Land 12.31.2002	% Growth
Asset under management			
Inventory 100% at Book Value	361.4	360.5	
Inventory 100% at Market Value	448.5	472.8	
Sales (*)	41.9	67.9	–38%
Acquisitions	–	259.8	
Gross Capital Gains	6.1	29.4	–79%

(*) Including infragroup value of 38.5 and 3.4 to third parties.

Asset under management as at December 31st, 2003, at market value, and according to a CB Richard Ellis, were equal to 448.5 million euro versus 472.8 million euro on December 31st 2002.

The total area was approximately 5 million square meters with around 1.8 million square meters buildable.

During the year, sales at market value totalled 41.9 million euro of which 3.4 million euro with respect to third parties, while no acquisitions were completed.

IV. Economic Trends

(euro/million)	Land 1.01.2003/12.31.2003			Land 1.01.2003/12.31.2003			% Growth
	Capital venture	Fees AM	Total	Capital venture	Fees AM	Total	
Economic data							
Aggregated Production Value Net of Acquisitions	53.8	3.3	57.1	62.3	2.1	64.4	–11%
Consolidated Production Value	42.8	3.3	46.1	56.3	2.1	58.4	
Operating Result including income from equity participations	**7.8**	**0.3**	**8.2**	**15.5**	**(0.1)**	**15.5**	**–47%**
Gross Result	7.2	0.3	7.6	13.3	(0.1)	13.3	

The results from the valorization activities of the building areas show highly variable but typical characteristics, according to the different phases of urbanization, that do not allow a proper indication of the performance of this business unit if the 2002 result is compared to that of 2003. This variability is due to the process of capital asset valorization which can require several years, while the appreciation is recognized only at the end of the process. In particular, the 2002 result includes the appreciation of the Navigli operation while the 2003 result does not include the effects of the valorization of the Aree Urbane assets.

5.3 Fund Management

This sector, completed in 2003, concluded the allocation of its first fund “Tecla Fondo Uffici” in March 2004 (as shown in the “Subsequent Events” paragraph).

The opportunities offered by Fund Management to Pirelli RE include:

- The possibility of managing capital assets on a long term basis in addition to the opportunistic approach;
- The increase in the total asset under management (also for cross-selling purposes);
- The consolidation in the long term of Asset Management and Specialized (Service Provider) services.

Fund management business is managed by Pirelli RE S.G.R., a company controlled by Pirelli RE. This company was acquired in July 2003 by Lazard Investments for a total value of 2.3 million euro.

On October 22nd, Pirelli RE S.G.R. obtained a fund regulations approval from Banca d’Italia in contribution to Tecla Fondo Uffici targeted at the public. On October 23rd, 2003, an initial public offering (IPO) form was presented to Borsa Italiana (“Italian Stock Exchange”) and, on the same date, the relative summary was submitted to Consob in order to obtain authorization for publication.

On December 12th, 2003, Consob released a “Nulla Osta” (authorization document) for the publication of the informational memorandum, thereby concluding the authorization practices associated with the Initial Public Offering of the first property fund in contribution to Pirelli RE.

Admission to official public trading of Tecla Fondo Uffici was decreed on December 3rd, 2003 by Borsa Italiana S.p.A..

Tecla Fondo Uffici includes 65 properties whose main use is commercial or office, or reconvertible for this use; the total value amounts to 926 million euro, plus 25 million euro in cash.

The value of the properties was determined on October 31st, 2003, by a CB Richard Ellis.

Fund management business will begin to generate results in 2004 as soon as the first fund (Tecla Fondo Uffici, described above) is placed. Other 6/7 contributed property funds of different types shall be constituted and finally targeted for retail and institutional investors.

5.4 Service Provider

I. Introduction

With the establishment of companies for specialized services, Pirelli RE has internally developed all qualifications for the completion and operational support of Asset Management activities.

Service Provider activities represent a critical step in the valorization of acquired assets and are targeted at both investment companies of which the Group has equity participations, as well as at other third party clients, whether private or public.

The structural organization of the service companies was developed on a matrix format, and includes: hierarchical reporting to the Services General Management, which identifies solutions and appropriate operational models, while planning the intervention in a synergetic and integrated format; and functional reporting to the Residential, Commercial and Non-Performing Loans and Land General Management (in relation to the different business sectors).

II. Asset under management

The portfolio as at December 31st, 2003, had a total market value — according to a CB Richard Ellis — equal to 30.3 billion euro (including 10.5 billion euro of managed assets) with respect to a value of 27.9 billion euro on December 31st, 2002.

III. Economic Trends

(euro/million)	1.01.2003/ 12.31.2003	1.01.2002/ 12.31.2002	% Growth
Economic data			
Production Value	322.0	199.8	61%
Operating Result	**50.6**	**28.9**	**75%**
Gross Result	47.2	28.8	
ROS	16%	14%	

The Services business registered a production value equal to 322.0 million euro with respect to 199.8 million euro in 2002 — a 61% increase.

The operating result was equal to 50.6 million euro compared to 28.9 million euro in 2002, with a 75% growth rate. The Return on Sales (ROS) was almost 16%, compared to 14% in 2002.

The increased profitability is primarily due to the positive contribution of the agency activities (+42% margin in 2003) and to the mix of services with a greater contribution in the property area (margin grew from 5% to 7%).

Services are delivered by specialized companies controlled by Pirelli RE, and whose economic performance on the period is commented below.

5.4.1 Agency

I. Introduction

The Agency delivers consultancy services related to the marketing, buying and selling, as well as rental and valuation of real estate assets, for office, industrial, commercial or residential use.

The structure is organized by type of asset and client and operates nationwide across the whole country by providing services to the major international operators in this sector. In Italy, it represents the English Group Knight Frank, the global partner of U.S.-based Grubb & Ellis.

Pirelli RE Agency offered its services, in 2003, to residential activities: about 95% based on mandates received from real estate investment companies in which Pirelli RE had minority shareholding and about 5% based on mandates received by other third party clients. Commercial activities were directed to property investment companies in which Pirelli RE had minority stake (68%) and to third party clients (32%).

II. Main Events

- In the month of July 2003, with the purpose of creating one agency while maintaining areas of specialization, an agreement for the merger of Pirelli RE Residential Agency (residential sector) into Pirelli RE Commercial Agency (office sector) was endorsed; the new company was named Pirelli RE Agency.

- In the period under review, the company acquired two important contracts for the sale of about 650 million euro in real estates:
  - The first, on July 30th, in the form of a Temporary Company Association (70% Pirelli RE Agency, 30% Ipi) involved the marketing of 29 properties, primarily for residential use in Rome, owned by Initium, a joint venture between Generali Properties and Lehman Brothers, for a total value of about 350 million euro;
  - The second, on September 17th, is based on a mandate assigned by Investire Immobiliare S.G.R. for the marketing of 14 properties of the Fondo Investire Residenziale 2 (a residential fund), for the total value of about 300 million euro.

- Towards the end of September 2003, the Group concluded the acquisition of about 33% of the share capital of Fabbrica Italiana di Mediazione (“Fim”), a company specialized in the marketing, buying and selling of commercial businesses in the ”Fashion Quadrangle” of Milan. The acquisition is aimed at strengthening the “store” product line with a prestigious segment. The agreement allows Pirelli RE Agency to acquire the remaining 67% of FIM within the end of 2004.

III. Economic Trends

(euro/million)	Agency 1.01.2003/12.31.2003			Agency 1.01.2003/12.31.2003			% Growth
	Resi dential	Commer-cial	Total	Resi-dential	Commer-cial	Total	
Economic data							
Production value	41.3	39.6	80.9	31.4	27.2	58.6	38%
Operating Result	**13.3**	**20.6**	**33.8**	**8.2**	**9.8**	**17.9**	**89%**
Gross Result	13.0	20.4	33.5	7.8	9.3	17.1	
ROS	32%	52%	42%	26%	36%	31%	

Production value was equal to 80.9 million euro, compared to 58.6 million euro in 2002 and with an operating result of this business unit equal to 33.8 million euro — a 89% growth with respect to the previous year.

This result was also achieved through commercial synergies that derived from the integration of the three above-mentioned sectors.

In particular, the residential sector had a consolidated production value equal to 41.3 million euro, compared to 31.4 million euro in 2002 and with an operating result equal to 13.3 million euro (compared to 8.2 million euro in 2002 — +63%).

During the year, special agreements — achieved through Residential Asset Management — for a total of 1,030.8 million euro (compared to 630.3 million euro in 2002, a 63.5% growth rate) were also signed.

In the commercial sector, the consolidated production value was equal to 39.6 million euro compared to 27.2 million euro in 2002 and with an operating result of 20.6 million euro, compared to 9.8 million euro in the previous year (a 110% growth), primarily due to growth in sales volumes.

During the year, sales for 1,250.8 million euro (compared to 727.1 million euro in the previous year) were accomplished through intermediaries; rental contracts for 34 million euro were negotiated, including 9.1 in renegotiations (compared to 27.3 million euro of the previous year); and valuations for a total equivalent value of 3,791 million euro (versus 3,439 million euro in the previous year) were conducted.

5.4.2 Property

I. Introduction

The Property Management activity is addressed to the property owner with the aim of profit maximization. This activity provides consultancy services as well as the management of property assets or single complexes for residential, industrial or commercial use.

The company has introduced a global vision of services aiming at increasing property value. In addition to managing the Pirelli RE equity participations and the property assets of the Pirellli Group, Property Management lends its services to the major Industrial Groups and public and private Companies in over eighty Italian cities.

Pirelli RE Property Management delivered services in 2003 to third party clients in 72% of cases and to companies with Pirelli RE shareholding in 28% of cases.

II. Economic Trends

(euro/million)	Property 1.01.2003/ 12.31.2003	Property 1.01.2002/ 12.31.2002	% Growth
Economic data			
Production value	79.8	55.5	44%
Operating Result	**6.0**	**2.8**	**114%**
Gross Result	5.1	2.7	
ROS	7%	5%	

Production value was 79.8 million euro compared to 55.5 million euro in 2002 with a 44% growth rate.

The operating result was 6.0 million euro compared to 2.8 million euro in the previous year — a 114% growth.

This result was achieved thanks to the acquisition of several new contracts with clients such as Tiglio (a company controlled by Morgan Stanley), Carlyle, G.E. Capital, as well as the agreement reached with INPS (National Social Security Company) for assistance provided on sales of former INPDAI capital assets.

It should also be added a greater cost efficiency and an implementation of services offered to clients that generated improved margins.

Profitability (Return On Sale) was equal to 7%, with a 5% growth rate compared to the previous year.

5.4.3 Project

I. Introduction

Pirelli RE Project Management is the company specialized in the integrated management of planning, requalification and completion activities of new property complexes for commercial, residential and mixed use and the corresponding urbanization work.

Pirelli RE Project Management operates in connection with linked Asset Management structures and with third party clients from whom it receives mandates for the operational management of property projects. These services include differentiated sectors that vary from the engineering, environmental and security area (in which the valuation of environmental liabilities is undertaken) to area development and urbanization.

Pirelli RE Project Management delivered services in 2003 to companies with property ventures and Pirelli RE equity participations in about 65% of cases, and to third party clients in about 35% of cases.

II. Main events

In December 2003, for the purposes of an overall rationalization of activities, the company's environmental branch, including its sanitization, digging and demolition activities, was transferred to Pirelli Ambiente since it was more complementary to the latter's core business.

III. Economic Trends

(euro/million)	Project 1.01.2003/ 12.31.2003	Project 1.01.2002/ 12.31.2002	% Growth
Economic data			
Production value	25.6	22.0	17%
Operating Result	**4.0**	**3.4**	**17%**
Gross Result	3.1	3.3	
ROS	16%	16%	

Production value was 25.6 million euro compared to 22.0 million euro in 2002 with a 17% growth rate due to the greater volume of activities carried out in the area of building promotion and project coordinations.

The operating result was 4.0 million euro compared to 3.4 million euro in the previous year — a 17% growth with respect to 2002, which benefited from a portion of revenues derived from extraordinary maintenance work at a high level of profitability.

The company managed work for a total of 171 million euro compared to 170 million euro in the previous year.

5.4.4 Facility

I. Introduction

Facility Management business operates in the service supply sector targeted at property users with primarily commercial use, improving their quality and optimizing their efficiency.

By taking on the role of unique reference point for all activities conducted within a property, Pirelli RE Facility Management is capable of optimizing the economic, logistic, technological and organizational processes, thereby guaranteeing maximum cost saving and flexibility.

Pirelli RE Facility Management delivered services in 2003 to companies with Pirelli RE equity participations in 15% of cases and to third party clients in 85% of cases.

II. Main Events

Pirelli RE and Olivetti (now Telecom Italia), in the first days of April 2003 and in accordance with what was agreed in the Tiglio project, determined the terms for the integration of facility management activities under Olivetti Multiservices and Pirelli RE Facility Management. The operation was concluded through the allotment of treasury shares to Olivetti, which conferred its facility activities.

During the year, the concentration of facility management activities in a single company (Pirelli RE Facility Management) was continued, allowing the new company to position itself as a leader in the Italian facility management sector thanks to a regular business volume of about 150 million euro. The companies acquired in 2002 and 2003 and already integrated as at December 31st, 2003, into Pirelli RE Facility Management (already known as Cam Energy and Services) are: Altair Facilities Management, the Service Division of RAS, Altair Building Services, OMS Facility and E.S.T. ("Erogazione Servizi e Tecnologie"). This activity is also conducted through the shareholding companies Somogi and Altair Zander.

III. Economic Trends

(euro/million)	Facility 1.01.2003/ 12.31.2003	Facility 1.01.2002/ 12.31.2002	% Growth
Economic data			
Production value	130.9	59.3	121%
Operating Result	**6.5**	**3.3**	**95%**
Gross Result	5.1	2.8	
ROS	5%	6%	

Production value in 2003 was 130.9 million euro compared to 59.3 million euro in 2002 with a 121% growth rate. This result was achieved both through an increase in revenue from new acquisitions and revenue created through previously acquired job orders and totalling about 61 million euro, and from acquisitions of new third-party job orders for about 10 million euro.

The operating result was equal to 6.5 million euro compared to 3.3 million euro in the previous year — a 95% growth.

Profitability (Return On Sale) was equal to 5% and therefore lower than the previous year due to costs beared for the integration of various acquired structures.

5.4.5 Credit Servicing

I. Introduction

Credit Servicing business consists in the valuation of mortgage credit portfolios and the management of credit recovery processes for both judicial and extrajudicial settlements. Pirelli RE Credit Servicing also conducts Service Provider activities related to credit management and the securitization of mortgage loans.

Pirelli RE Facility Management delivered services in 2003 to firms with Pirelli RE equity participations in 31% of cases and to third party clients in 69% of cases.

II. Main Events

In October 2003, the rating company Standard & Poor’s assigned an “Above Average” rating to Pirelli RE Credit Servicing. This judgement, specifically for the evaluation of companies specialized in credit management (servicing), acknowledges the company as one of the best players in the business.

III. Economic Trends

(euro/million)	Credit Servicing 1.01.2003/ 12.31.2003	Credit Servicing 1.01.2002/ 12.31.2002	% Growth
Economic data			
Production value	4.8	4.4	9%
Operating Result	**0.3**	**1.3**	**–77%**
Gross Result	0.4	1.3	
ROS	6%	29%	

Production value was 4.8 million euro compared to 4.4 million euro in 2002 with a 9% growth rate compared to the previous year due to a greater volume of activities.

The operating result was 0.3 million euro compared to 1.3 million euro in the previous year — primarily due to the implementation of a structure for property auctions where there has been a fall in activity with respect to forecasts.

The value of the managed portfolio in terms of gross book value on December 31st, 2003, was overall equal to 925.2 million euro compared to 231 million euro on December 31st, 2002.

5.5 Distribution of franchising services

During the year, a new project relating to the establishment of a new extended franchising network was initiated on the whole national territory. The agencies of Pirelli RE Franchising, in addition to offering the traditional agency services in the property intermediation market to the retail markets, also offer their clients — through the partnerships with SelmaBipiemme Leasing, Unicredit and Assicurazioni Generali — a wide range of banking and insurance products.

In the month of October, the affiliation campaign known as “Pirelli RE Franchising” and a press campaign aimed at promoting affiliation, were undertaken.

The Company has signed, within the end of 2003, 258 contracts. The development plan is aimed at reaching 500 affiliates by the end of 2004.

Over the period under review, the network incurred financial charges — in line with forecasts — totalling 5.2 million euro.

6) SUBSEQUENT EVENTS

On March 1st, 2004, the Initial Public Offering of Tecla Fondo Uffici, was completed; this fund is the first fund promoted by Pirelli RE S.G.R., with over 37,000 subscriptions, a demand that exceeded the supply offer by 44%. The offer price was set at 505 euro per share. On Friday, March 19th, the share value of Tecla Fondo Uffici on the Mercato Telematico was equal to 510 euro (a 1% increase with respect to the placement price).

7) OPERATIONAL DEVELOPMENT

Given the available information, it is reasonable to assume that the growth of the operating results, including shareholders' results, will grow in accordance with the three-year plan from 2003 to 2005.

8) INTRAGROUP AND RELATED PARTIES OPERATIONS

It should be noted that all operations, whether those within the Parent Company and its subsidiary or associated companies, as well as those of the subsidiaries themselves, are part of the typical management of the Group and are regulated by market conditions; no operations with unusual or atypical characteristics nor with potential conflicts of interest were highlighted.

In the following summary, are reported the relationships, as at December 31st, 2003, that Gruppo Pirelli RE had with its Parent Company Pirelli & C. S.p.A., as well as with the companies controlled by the latter.

It should also be noted that, following the merger by incorporation of Pirelli S.p.A. into Pirelli & C. A.p.A. (which has modified its Company name to Pirelli & C. S.p.A.) on August 4th, 2003, effective from January 1st, 2003, the following summary reports (when analyzing the relationships with the companies of Gruppo Pirelli & C. S.p.A.) include the relationships which in the previous financial statements were separately classified in relation to Gruppo Pirelli S.p.A and to Pirelli & C. A.p.A. and now have been reclassified as a single entry.

(euro/million)	Versus parent company Pirelli & C. S.p.A.	Versus subsidiaries of Pirelli & C. S.p.A.	Total
Trade and other receivables	2.2	2.5	4.7
Trade and other payables	(1.1)	(0.3)	(1.4)
Intangible Financial Receivables	–	–	–
Financial Receivables	–	1.7	1.7
Financial Payables	–	–	–
Revenues from Goods & Services	3.5	8.0	11.5
Costs for Assets & Services	(1.8)	(19.2)	(21.0)
Financial Income	–	–	–
Financial Charges	(0.8)	(0.3)	(1.1)
Extraordinary Income	–	–	–
Extraordinary Charges	–	–	–

The relationship between Pirelli RE and its subsidiaries with respect to the Parent Company is primarily characterized by:

1. receivables: this entry includes 1.1 million euro for miscellaneous receivables and 1.1 million euro for receivables as consolidated IVA (Value Added Tax);
2. payables: these primarily refer to the recharges for the brand on the part of Pirelli & C.

The relationship of Pirelli RE and its subsidiaries with respect to subsidiaries of Pirelli & C. are characterized by:

1. receivables: these are related to property and facility management services provided to Pirelli & C.;
2. financial receivables: these are related to the active balance in the bank account created by Pirelli RE and Pisefi, the financer of Gruppo Pirelli & C.;
3. revenue for income and services: primarily related to asset and facility management services provided to Gruppo Pirelli & C.;
4. costs for income and services: equal to 19.2 million euro, of which 16.4 million euro are derived from the cost of two properties for commercial use, located in Milan, and transferred from Pirelli Cavi and Sistemi Energia to Kappa.

The relationship between Pirelli RE and its subsidiaries with associated or related companies can be summarized as follows:

(euro/million)	Versus non consolidated subsidiaries	Versus associated	Versus related	Total
Trade and other receivables	1.7	34.6	85.8	122.1
Trade and other payables	(0.3)	(16.7)	(14.3)	(31.3)
Intangible Financial Receivables	–	194.8	19.7	214.5
Financial Receivables	18.4	0.3	–	18.7
Financial Payables	(4.8)	(0.4)	–	(5.2)
Revenues form Assets & Services	1.3	148.7	109.1	259.1
Costs for Assets & Services	–	(2.5)	(11.7)	(14.2)
Financial income	0.7	8.7	1.6	11.0
Financial charges	–	–	–	–
Extraordinary income	–	–	–	–
Extraordinary Charges	–	–	–	–

1. Receivables and revenues for services versus subsidiary and associated companies refer to mandates subscribed with service companies handling the following: asset management, property, facility, project, residential agency, commercial agency and administrative services.
2. Receivables from related companies include 31.8 million euro and are connected, for the most part, to the transfer of certain areas located in Bicocca to the companies Kappa and "Spazio Industriale I" as well as 32.6 million euro in receivables from the related company "Tiglio I" partially deriving from services related to the development of the "Funds Project".
3. Financial receivables with respect to subsidiaries primarily refer to direct bank account relationships held with Pirelli RE.
4. Financial receivables versus associated companies refer to financing provided for the individual property ventures managed by single companies within the Group.

   These credits are provided at normal market conditions — except for certain non-operational companies or companies in transition to which non-interest capital bearing was provided (total value as at December 31st, 2003, was 12.2 million euro).
5. Financial debts versus subsidiaries are primarily composed of the bank account balances between Alfa Due and Pirelli RE.
6. Payables versus associated companies are primarily derived from advances on financial charges received for urbanization from the subsidiary Pirelli & C. Opere Generali and for the completion of the urbanization projects in the areas of Bicocca and Pioltello.
7. Payables versus related companies refer to 8.5 million euro in debt for the acquisition of a property in Rome with the company Tiglio I; 2.5 million euro in debt versus the associated firm Aida for the residual price of the "Service Division Ras" branch acquired in 2003 from Pirelli RE Facility Management. The residual value refers to debt associated with rents and the recharging of costs for employees.

Operations with Related Parties

During the year, the following operations — which follow prescribed rules of information release and are typical and usual — were conducted:

- On April 4th, 2003 Pirelli RE acquired the entire share capital of Olivetti Multiservices Facility from Olivetti (now Telecom Italia). The contract was signed under the form of a swap. Pirelli RE, as the counterpart in the acquisition of these shares, transferred 809,946 treasury shares to Olivetti for a total value of euro 18,389,964.

The acquisition contract was subject to two equalizations: the first, calculated on the basis of Pirelli RE's and Olivetti Multiservices Facility's consolidated shareholders' equity values on March 31st, 2003, as reviewed by KPMG (independent auditor), was balanced in the month of October 2003 with the transfer of an additional 2,140 treasury shares; the second was calculated on the basis of the share price performance of Pirelli RE in the second half of 2005. Rirelli RE shall recognize a price integration resulting from the difference, if positive, between the assigned share value from the first equalization and the resulting value of the average share price in the second half of 2005 (this value will be replaced by the average share value in the month of March 2003, if higher).

The value of the acquired share capital was booked at euro 20,928,201.

- On July 16th, 2003, a supply contract between Pirelli RE Facility Management and CAM GAS was undersigned: in accordance with the above-mentioned agreement, the latter shall provide a regular supply of natural gas for civilian use to the clients of Pirelli RE Facility Management. The contracts shall apply to the following locations: Milan, Basiglio (MI), Rome and Genova. The contract has one-year validity and shall be automatically renewed unless previous notice is given; as far as the average supply of gas provided, it is possible to estimate a contract value overexceeding 500,000 euro (the maximum forecasted amount for the first years is 3,300,000 euro).
- In relation to the contract signed on March 15th, 2002, between Pirelli RE and Camfin for the transfer of equity participations in Cam Energia e Servizi (completed through the conferment of shares representative of the entire share capital), and to the occurrence of some contingencies, the contract warranty was activated, on the basis of which Pirelli RE has the right to receive a total payment of 580,000 euro from Camfin.

  This value was determined through an analytical identification of contingency entries verified by both parties.
- Pirelli RE Property Management has issued, in the name and on behalf of the mandating companies, open orders to Cam Petroli for a total of about 2.1 million euro, while the actual issued supply orders were equal to about 318,000 euro.

In order to provide full and accurate information, the current relationships between Pirelli RE Group and the Telecom Group should be highlighted. These relationships primarily refer to contracts being undersigned in the previous years and are part of ordinary management, as well as regulated by market conditions. No unusual or atypical operations were detected (i.e. potential conflicts of interest):

1. revenue from assets and services: these are related to agency, property, facility and project services (29 million euro);
2. costs for assets and services: these are mainly related to utilities such as telephone services (6.2 million euro);
3. extraordinary income for 0.1 million euro;
4. receivables: these are related to the above-mentioned services (15.4 million euro);
5. payables totalling 3.9 million euro.

9) OTHER INFORMATION

9.1 Corporate Governance

Introduction

On May 3rd, 2002, the company announced to the market that was adhering to the "Self-discipline Code" prepared by the Corporate Governance Committee of Publicly Traded Companies (henceforth known as "Codice") and also adopting the subsequent version that was revised in July 2002.

In addition, in order to further strengthen the possibility for shareholders of Pirelli & C. Real Estate to participate in the life of the company — thereby conferring the attention paid by the latter in creating a correct and transparent relationship with investors — the Board of Directors has resolved, on March 22nd, 2004, to present a number of Charter modifications to be approved in the next Shareholders' Meeting, aimed at creating increasingly greater participation of all shareholders in the life of the company and in the decisions that affect the success of the company (1).

In compliance with the Regulations Instructions of the markets organized and managed by Borsa Italiana (Italian Stock Exchange) and keeping in mind the indications contained in the "Guidelines for the Content Writing of the Annual Report on *Corporate Governance*" developed by Borsa Italiana and in the "Guide for the Compilation of the *Corporate Governance* Report" prepared by Assonime, the paragraphs that follow describe the most relevant features of the *corporate governance* system of the company currently being followed as well as planned developments.

PART I

Governance Structure of the Company

1. Board of Directors

The company is managed by a Board of Directors composed of five to nineteen members who shall remain in office for at least 3 years (unless a shorter term is established in the Meeting at the time of making) and may be re-elected. (article 12 of the Charter).

The appointment of the members of the Board of Directors is done in accordance with Article 7 of the Civil Code, which requires the presentation of proposals that follow the characteristics required by the Code; to be deposited in the corporate head office of the company 10 days before the date set for the Meeting. In addition, the Board of Directors, on March 22nd, 2004, resolved to submit — for approval in the next shareholders' meeting — a proposal for the addition of a procedure required by the Code into the Charter as well as the mechanism (2) of voting by list.

In accordance with the Charter (article 18), the Board manages the company and is, as a result, entrusted with the widest administrative powers, with the exception of those relegated to the Shareholders meeting by law or according to the Charter. The Board exercises its powers in accordance with article 1.2 of the Code — as better explained in paragraph 1.1 that follows.

In addition, for the management of shareholders' activities, the Board can delegate these powers, provided they are not expressly reserved, to one or more members, potentially with the titles of Chief Executives — or to an Executive Committee composed of some of its members and having the right to appoint one or more committees with consulting functions (Article 19 of the Charter).

(1) On this point, see the following paragraph 5 of Part II.

(2) See preceding note below.

2. Board of Statutory Auditors

The Board of Statutory Auditors is composed of three Standing Auditors and two substitute auditors who must possess the prerequisites required by current laws (and also by regulations) and for whom the subjects and activity sectors that are closely related to the company must be in accordance with those stated in the Company purpose (article 4 of the Charter), paying particular attention to companies or bodies operating in the financial, industrial, banking, insurance, property or general services areas (article 22 of the Charter).

The members of the Board of Statutory Auditors, in accordance with the law, have terms lasting three years and are re-eligible. Their appointment is done through a list voting mechanism and on the basis of the procedure that allow the election of an effective member or a substitute member by the minority.

Individuals who can not be elected as auditors include those that do not possess the prerequisites required by law or those already holding office as standing auditors in more than five companies publicly traded on Italian regulated markets, with the exception of controlling companies and subsidiaries to Pirelli & C. Real Estate S.p.A..

The Board of Statutory Auditors shall oversee the following:
- Observance of the law and the Company's Charter;
- Respect for the principles of correct management;
- Adequacy of the organizational structure of the company related to competencies, the internal audit system and the administrative-accounting system, as well as the reliability of the latter in correctly representing the facts;
- Adequacy of the provisions decreed by the company to subsidiary companies in relation to communication obbligations relating to price sensitive information.

The Board of Statutory Auditors fulfils its duties by exercising all its powers that have been conferred to it by law: the Board can also rely upon a constant analytical information flow from the company, even outside the regular meetings of the Board of Directors.

In fulfilling these functions, the Board of Statutory Auditors, in addition to participating to all the Board of Directors and Shareholders' Meetings, will always take part in the work conducted by the Remuneration Committee and the Committee for Internal Audit and *Corporate Governance*.

3. Shareholders' Meeting

The shareholders' meeting — provided that the flow of information originating from the company towards the market is regular although the price sensitive requirements do not demand it — is considered to be the best place for the company to create a profitable relationship with shareholders.

The Meeting actually allows shareholders to entertain a real-time dialogue: all information requests can be easily met while the nature of *price sensitive* is always respected.

In this sense, the directors encourage and facilitate the widest possible participation of shareholders in the Meeting and pay great attention to the choice of the meeting's location, date and time in order to make it easier for everybody to attend it.

The notice of the meeting — that can take place in Italy, even outside the corporate Head office — and the right to intervention and representation in the meeting are regulated by law [(3)]. The regular Meeting's setting up and the validity of the resolutions are also regulated by law.

(3) The Charter modifications that are subject to approval by the shareholder's meeting (see below for paragraph 5 of Part II) also require the postponement of the Charter provisions and the adoption of the Meeting Regulations.

The Shareholders' meeting is presided over, in order, by the Chairman of the Board of Directors, by the Deputy Chairman or by a Chief Executive: should there be two or more Deputy Chairmen or Chief Executives, the presidency is given to the most senior of age. The Chairman is assisted by a Secretary appointed by the meeting; the Secretary's assistance is not necessary when the preparation of the meeting minutes is undertaken by a public notary.

It is the Chairman's responsibility to: determine the right to intervention, even by delegation; to ascertain that the meeting is regularly constituted and attendees' number is in compliance with law; manage and regulate the discussion; determine the voting order and procedures, as well the outcomes of the latter.

The resolutions of the meeting are set in the minutes undersigned by the Chairman and the Meeting's Secretary or by the public notary. The extraordinary meeting minutes shall be prepared by a public notary appointed by the meeting's Chairman.

The meeting shall go through the agenda while keeping in mind the subjects that have to be discussed in compliance with law.

In case of need the meeting can be called within six months from the closing of the fiscal year.

4. Share capital and Shareholding within the Company

The share capital of the company, undersigned and paid up, is equal to euro 20,302,491, divided into 40,604,982 shares at the par value of euro 0.5 each. The shares of the company are all ordinary and nominative. There are no other share categories.

The Company is under the legal control of Pirelli & C. S.p.A. whose equity participations are equal to 61.143% of the share capital. There is no syndacate pact.

In relation to the controlling shares held by Pirelli & C. S.p.A., and in accordance with the evaluations that were conducted — and from which it came up that the latter company does not perform a key role in the determination of strategic multi-year plans and annual budgets, as well as investment choices, nor does it define *policy* for the acquisition of assets and services on the market, nor does it coordinate initiatives and business action in the various sectors in which the company (or its subsidiaries) operates, and because the company is endowed with its own organizational and managerial autonomy — Article 2497 *sexies* of the Civil Code was deemed irrelevant and it was concluded that Pirelli & C. S.p.A. does not exert executive management nor coordination activities with respect to the Company.

PART II

Information on the Implementation of the Self-discipline Code

1. Board of Directors

1.1 Distribution of Areas of Expertise and Proxies

Role of the Board of Directors

The Board of Directors covers a central and strategic role in the management of the company and therefore:

- examines and approves strategic, corporate, industrial and financial plans of the companies and company structure which it heads;
- assigns and revokes proxies to directors while defining the limits and procedures of their operating power;

- determines, once it has examined the proposals of the remuneration committee and consulted the Board of Statutory Auditors, the remuneration of the directors and those in charge of particular functions as well as the subdivision of the global compensation to each individual member of the Board (in the case this was not previously done by the meeting itself);
- controls the overall course of management, with particular attention paid to situations involving conflicts of interest, and keeping in mind the information received by the chief executives and the Committee for Internal Audit and Corporate Governance, as well as periodically comparing forecasted with actual results;
- examines and approves the operations of significant economic or financial caliber, in particular those relating to operations with related parties, and regularly briefing the Board during the latter's meetings or at least quarterly — through the relevant bodies delegated to the Board of Statutory Auditors — on the most significant operations undertaken by the company or its subsidiaries;
- verifies the adequacy of the general organizational and administrative condition of the company and the group chosen by the chief executives;
- briefs the shareholders during meetings.

Chairman of the Board of Directors and Representation

Within the Board, a Chairman and eventually one or more Deputy Chairmen are appointed. Shouldn't the Chairman be present, the chair is assigned, in order, to a Deputy Chairman or to a Chief Executive; in case there are two or more Deputy Chairmen or Chief Executives, the Chair is assigned to the most senior individual. The Board appoints a Secretary that can be chosen even outside the Board's members.

In accordance with article 19 of the Charter, legal representation of the company versus third Parties, and in court, is separately assigned to the Chairman of the Board of Directors and, if appointed, to the Deputy Chairmen and the Chief Executives, within the limits of the powers assigned to them by the Board of Directors. Each of the above-mentioned individuals will in any case have wide latitude in the following: promoting actions and appeals in a legal setting and to any degree of jurisdiction, even in cases of repeals and cassation; presenting petitions and lawsuits in a penal setting; presenting themselves as a civil party in penal judgement cases; promoting actions and appeals for administrative jurisdictions; intervening and resisting in cases involving actions and appeals that affect the company and conferring, as necessary, the required mandates and powers of attorney. The Board and the Chairman — and, if appointed, the Deputy Chairmen and the Chief Executives, within in the limits of the powers conferred to them by the Board of Directors — are authorized to transfer the representation of the company versus third parties to directors and generally to employees and third parties.

Mr. Marco Tronchetti Provera, Chairman of the Board of Directors, was not assigned any operational proxies and should therefore be considered a non-executive director, in accordance with Article 1 of the Civil Code, but not "independent" due to the office and titles held as Chairman and Chief Executive Officer in the controlling company Pirelli & C. S.p.A..

Investment Committee

According to article 19 of the Charter, the Board of Directors, on May 3rd, 2002, created an "Investment Committee", composed of the following individuals:

- Marco Tronchetti Provera
- Carlo Alessandro Puri Negri
- Carlo Buora
- Claudio Recchi
- Vincenzo Sozzani.

The Investment Committee has been entrusted with the following powers:

- the acquisition of real estate assets whose price, for each operation, does not exceed euro 150,000,000;
- the acquisition of equity participations on the condition that the financial investment does not exceed a total of euro 150,000,000 for each operation;
- the assumption of mortgages and financing from third parties; financing to companies that are party owned by the company; the release of real or personal securities versus associated companies and/or third parties; all the above is allowed within a euro 150,000,000 total spending limit per operation.

Investment Committee meetings are regularly constituted when the majority of its Members intervene; resolutions are taken by absolute majority vote of those intervening and, in case of parity, the party in which the Chairman presides will win.

The execution of the resolution of the Investment Committee will take place, in through the Chairman or the Deputy Chairman and Chief Executive Officer, who has the power to appoint a substitute; these resolutions are then presented in the minutes prepared in the relative book, undersigned by the Chairman and by the Secretary; the Secretary of the Committee is the same, if appointed, as the Board of Directors'.

Other proxy organs

On May 3rd, 2002, the Board of Directors resolved, amongst other items, to assign:

- ordinary and extraordinary administrative powers, with single signature, and with the limits shown below for each single operation (if applicable) (later modified for certain areas after a resolution of the Board of Directors on April 8th, 2003) to the Deputy Chairman and Chief Executive Officer Mr. Carlo Alessandro Puri Negri:
  1. investment of risk capital up to euro 50 million;
  2. sales of shares up to euro 50 million;
  3. the acquisition and swap of properties up to euro 50 million;
  4. contracts dealing with the acquisition of companies or branches of companies, receivables and payables up to euro 50 million;
  5. contracts dealing with the disposal of companies or branches of companies, receivables and payables up to euro 50 million;
  6. the assumption of share capital financing up to euro 50 million;
  7. the assumption of mortgages and financing up to euro 25 million;
  8. the concession of financing to companies with company shareholding for up to euro 25 million;
  9. the request for guarantees for the company or its subsidiaries for up to euro 50 million;
  10. the issue of personal or real securities (guarantees, patronage etc.) for (i) the company and its subsidiaries, without limits, (ii) associated companies up to euro 25 million, and (iii) third parties up to euro 10 million;
- the following powers, with single signature, to the directors Mr. Carlo Bianco and Emilio Biffi (appointed on February 1st as Chief Executives for the Residential and Trading and Land & Development sectors), respectively:
  1. undersign offers and stipulate the related contracts, as well as modify, integrate and revoke them, and whose subject involves the execution of acts and/or the delivery of services in the activity area of the company; all of the above relative to mandates or jobs for which the value of the activities or provided services is not superior to euro 1,500,000 per year or for a single contract;

2. stipulate preliminary or definitive contracts, with all necessary clauses, as well as modify, resolve, assign or acquire by assignment, or terminate by cancellation these contracts for: (i) the conferment and sub-mandates and sub-jobs for the execution (totally or in part) of the mandates and or jobs taken on by the company for which the total value of activities or acquired service does not exceed euro 500,000 per contract; (ii) the acquisition of contracts of services within the general limit of euro 500,000 per contract; (iii) the acquisition of marketing, promotion and publicity services within the general limit of euro 150,000 per single contract; (iv) the acquisition of professional services for firms, consultancies, valuations, and surveys within the general limit of euro 500,000 per contract; (v) the acquisition, sale, or swap of materials, equipment, plants and moveable property, excluding registered moveable property, within the general limit of euro 150,000 per contract; (vi) the assumption or concession of real estate assets for rent even ultranovennial and for gratuitous loans, within the limit of euro 500,000 per contract; (vii) the establishment of both active and passive usage, surface and servant rights; (viii) the insuring of individuals and moveable and real estate assets against all damages and risks within the limit of euro 150,000 per contract;
3. undersign all acts relating to the ordinary activity of the company within the property business.

It should be noted that the powers conferred to the directors Bianco and Biffi and assigned on occasion to the director Giulio Malfatto were later revoked from the latter, based on a resolution of the Board of Directors on July 19th, 2003, and in conjunction with assumption of the Chief Executive title on behalf of Malfatto himself in the controlling company Pirelli & C Real Estate S.G.R. S.p.A. and together with his simultaneous resignation as General Manager of Specialized Services and *Corporate Development* of the Company.

During the same meeting on May 3rd, 2002, the Board of Directors further resolved to entrust the director Emilio Biffi with the specific duties of:

(i) implementing all necessary and required activities concerning employee security, including prevention issues, in addition to work hygiene, internal and external environmental issues, and the control of the urbanization and building activities in accordance with current laws, rules and regulations;

(ii) ensuring the execution of duties required by Law 675/96 (now Government Decree 196/03) and later modifications relating to personal data handling (privacy). In order to fulfil these duties, Emilio Biffi is authorized to delegate these conferred powers to his collaborators.

Specific and more limited proxies — to be used within the appropriate areas of expertise — are at the same time conferred to other Executives and Managers within the Company.

During 2003, both the Deputy Chairman/Chief Executive Officer and the Managing Directors/General Executives, both the Executives and the Managers have used the powers conferred to them for the normal management of corporate activities (on which the Directors have been regularly informed), renouncing to these powers in the case of operations considered significant in terms of quality or economic/financial value, and relegating them to the Board of Directors.

Information provided to the Board of Directors

In accordance with Article 18 of the Charter (which is textually adapted from Article 150, paragraph 1, of the Government Decree n.58 of 1998), the Board of Directors, through its delegated bodies, has always briefed the Board of Statutory Auditors — each quarter — on the activities and operations of major economic and financial relevance conducted by the company and its subsidiaries, as well as those of atypical or unusual character, or related to related parties or, in any case, with potential conflicts of interest, supplying all the necessary elements for evaluation of the activities themselves.

In order to ensure an orderly flow of information, the Company has adopted, since July 29th, 2002, a Procedure (whose text is reported as an attachment to the current report and published on the web site of the Company) which precisely defines the rules to be followed in relation to the requirements on information disclosure as per Article 150 and in connection to the activities conducted by the executive directors — both in terms of the proxies attributed to them and for the execution of the operations resolved by the Board itself.

Code of Conduct for Operations with Related Parties

The Company has also established a Code of Conduct (whose text is reported as an attachment to the current report and published on the web site of the Company) for the implementation of operations with related parties — including those within the Group.

These principles aim to guarantee an effective integrity and transparency, both in substance and in procedure, of these principles, favoring the full co-responsibilization of the Board of Directors in its resolutions.

On the basis of these principles, the Board is called to preventively approve both the operations with related parties and those within the Group, with the exception of typical or usual operations that are concluded in standard format.

For this purpose, the Board receives an adequate information flow on the nature of the correlation, on the executive procedures of the operation, on the conditions — including economic — for its completion and on the valuation process followed, as well as the underlying interests and motivations and potential risks for the company.

Should the correlation occur with a Director or with a related party connected to the Director, the first shall only provide clarifications and shall exempt himself from the Board meeting at the time of resolution.

According to the nature, the value and other characteristics of the operation, the Board of Directors, in order to avoid that the operation itself is completed under incongrous conditions, is assisted by one or more experts that express an opinion — depending on the case itself — on the economic conditions and/or the legittimacy and/or the technical aspects of the operations.

From the combination of the above mentioned Procedure and the Code of Conduct, it is possible to identify: the operations of major economic and financial caliber; the atypical or unusual operations or those others which must be further scrutinized according to these principles; and the rules to follow in terms of information flow and pre-emptive approval of operations.

In addition, the conclusions derived above demonstrate how the Board of Directors — while taking advantage of the procedures described above — has, in fact, exercised its powers in accordance with Article 1.2 of the Civil Code.

Meetings of the Board of Directors

The Charter does not require a minimum number of meetings to be held; however, in accordance with standard practise, the Board is called at least six times per year (for the review of preliminary data on June 30th and December 31st, as well as a review of the consolidated financial statements and the quarterly and bi-yearly reports).

In 2003, nine meetings were held; the overall Directors' attendance percentage was about 84%; the equivalent value for independent directors was about 83%.

Save for few exceptions, all necessary documentation and information were provided to the Directors with reasonable advance in order to allow the Board to properly express itself on the topics under review.

In 2004, three meetings have already been held and at least other five are forecasted.

1.2 Composition of the Board of Directors

The Board of Directors includes, since May 30th, 2001, the following individuals:

- Marco Tronchetti Provera, Chairman;
- Carlo Alessandro Puri Negri, Deputy Chairman and Chief Executive Officer;
- Giovanni Nassi, Deputy Chairman;
- Carlo Bianco;
- Emilio Biffi;
- Carlo Buora;
- Giulio Malfatto;
- Giampietro Nattino;
- Vincenzo Sozzani.

Since May 3rd, 2002 the following individuals have become members of the Board of Directors:

- Reginald Bartholomew;
- Sergio Lamacchia;
- Claudio Recchi;
- Livio Strazzera.

Finally, since May 6th, 2003 the following individuals have also become members of the Board:

- William Dale Crist;
- Dario Trevisan (as a substitute of Giampietro Nattino, who resigned).

The current Board of Directors, now composed of 14 members, expires its term in May 2004 on the occasion of the Meeting being held for the approval of the consolidated financial statements ending December 31st, 2003.

Below are reported all the offices of director or auditor held by the directors in other publicly traded companies in regulated markets (even foreign), or in financial, banking, or insurance companies, or other large-sized companies.

<u>Marco Tronchetti Provera:</u>

- Pirelli & C. S.p.A., Chairman.
- Camfin S.p.A., Chairman.
- G.P.I. – Gruppo Partecipazioni Industriali S.p.A., Chairman.
- Marco Tronchetti Provera & C. S.a.p.A., Chairman.
- Olimpia S.p.A., Chairman.
- Telecom Italia S.p.A., Chairman.

<u>Carlo Alessandro Puri Negri</u>:

- Camfin S.p.A., Deputy Chairman.
- GPI – Gruppo Partecipazioni Industriali S.p.A., Chief Executive Officer.
- Aon Italia S.p.A., Director.
- Olimpia S.p.A., Director.
- Permasteelisa S.p.A., Director.
- Pirelli & C. S.p.A., Deputy Chairman.
- Telecom Italia S.p.A., Director.
- Capitalia S.p.A., Director.
- Grandi Stazioni S.p.A., Director.
- Istituto Europeo di Oncologia S.r.l., Director.

Reginald Bartholomew:
— Benetton Group S.p.A., Director.

Carlo Buora:
— Tim S.p.A., Chairman.
— Pirelli & C. S.p.A., Chief Executive Officer.
— Telecom Italia S.p.A., Chief Executive Officer.
— Mediobanca S.p.A., Director.
— Olimpia S.p.A., Director.
— RAS S.p.A., Director.
— RCS Mediagroup S.p.A., Director.

Giulio Malfatto:
— Pirelli & C. Real Estate S.G.R. S.p.A., Chief Executive Officer.

Claudio Recchi:
— CIR S.p.A., Director.
— AON Italia S.p.A., Director.
— Albertini Syz & C. S.G.R. S.p.A., Director.

Vincenzo Sozzani:
— Banco di Desio e della Brianza S.p.A., Director.
— Pirelli & C. S.p.A., Director.
— Pirelli & C. Real Estate S.G.R. S.p.A., Director.
— Pirelli & C. Credit Servicing S.p.A., Director.

Livio Strazzera:
— Italmobiliare S.p.A., Director.
— Banca Regionale Europea, Director.
— Serfis S.p.A., Governing Director.
— Intesa BCI E-LAB, Standing Auditor.
— Intesa BCI Riscossione Tributi, Standing Auditor.
— Vittoria Assicurazioni, Common Bondholders Representative.
Bipielle Riscossioni, Standing Auditor.

Dario Trevisan:
— Ing. Olivetti S.p.A. (now Telecom S.p.A.), Director (up until April 2003).

1.3 Non-executive and independent Directors

The current Board is composed of 14 directors of which 4 executive directors, by this meaning — according to article 2.1 of the Code — the Deputy Chairman and Chief Executive Officer Carlo A. Puri Negri, the Deputy Chairman Giovanni Nassi (who is an executive in the health care area) and the Directors Carlo Bianco (already a General Manager and now Chief Executive for the Residential Asset Management and Trading) and Emilio Biffi (now the Chief Executive for Land & Development in addition to the General Manager title).

The Civil Code requires — in accordance with Article 3.1 — the *independent directors* to be those who:

a) Do not entertain, directly nor indirectly, (or through third parties) nor have recently entertained, economic relations with the Company, its subsidiaries, the chief executives, or a shareholder or group of shareholders that control the Company to an extent that might compromise the judgement autonomy;
b) Are not direct nor indirect (or through third parties) shareholders to the extent that would allow them to exert control or noticeable influence over the Company, nor do they take part in partner agreements for the control of the Company itself;
c) They are not close relatives of the chief executives of the Company or individuals that may find themselves in the situations described in points (a) and (b) above.

The above definition given, the Board of Directors has evaluated that five of the ten non-executive directors left (Reginald Bartholomew, William Dale Crist, Claudio Recchi, Livio Strazzera and Dario Trevisan) qualify as *independent directors*.

Finally, the following individuals are not considered independent directors: Mr. Marco Tronchetti Provera and Mr. Carlo Buora, given the executive offices held by the latter within the Pirelli & C. Group, and — only due to the long period in which these titles have been held in the latter group — Mr. Sergio Lamacchia and Mr. Vincenzo Sozzani, as well as Mr. Giulio Malfatto, considering the recent title held by the latter as General Manager of the Company and current Chief Executive Officer in the controlled company Pirelli & C. Real Estate S.G.R. S.p.A..

It should be noted that the non-executive directors are by number and authority capable of intervening significantly in meetings' resolutions, and that the number of directors which qualify as being independent is certainly adequate. In accordance with the above-mentioned, since the exact criteria for the evaluation of the adequacy of the relationship between executive and non-executive/independent directors have not been determined, also the criteria used for the STAR segment have been taken into account. These criteria set the number of non-executive and independent directors at 3 if the Board of Directors is composed of 9 to 14 members.

1.4 Committees

In accordance with the Code, the Company has established within its Board of Directors two committees with consulting and propositional functions:

— Remuneration Committee;
— Committee for Internal Audit and *Corporate Governance*.

The Board of Directors did not deem it necessary to establish a Committee for proposals for the appointment of the title of director, given the lack of general difficulties in drawing up the proposals for appointments and the preconditions on which the Code is based and, in particular, based on the current ownership structure.

In fact, these proposals are presented by the controlling shareholder after a prior selection of candidates and takes into account rigorous evaluation criteria as far as personal and professional characteristics of the candidate, as well as the authority and experience and — for some — the necessary independence required to significantly contribute to the decisions of the Board.

Finally, should the meeting be called to approve the consolidated financial statements as at December 31st, 2003 — and should it approve, in an extraordinary meeting, the adoption of the so-called list voting mechanism [4], the constituency of this Committee would be even less necessary, given the ability of this appointment mechanism to provide transparency for the selection procedure of candidates.

(4) See subsequent note 5.

Remuneration Committee

The Remuneration Committee — fully in compliance with article 8.1 of the Civil Code — is composed of three non-executive directors: Mr. Sergio Lamacchia and the independent directors Mr. Reginald Bartholomew and Mr. Claudio Recchi, who holds the office of Chairman; each member of the Remuneration Committee is given a compensation of 10,000 euro for the functions being covered.

With reference to the Remuneration Committee, the Board has determined that:

a) with regards to its functions:
   - it shall formulate proposals to the Board regarding the remuneration of directors who are entrusted with particular titles, in accordance with article 2389 of the Civil Code (part of which is linked to the economic results attained by the Group and, eventually, with the attainment of specific objectives) in addition to determining, if indicated by the Deputy Chairman and Chief Executive Officer, the criteria for the remuneration of high level management in the Company;
   - it shall carry out a preliminary examination of the proposals for adoption of stock option plans;

b) with regards to its composition:
   - it shall be generally composed exclusively of non-executive directors (totalling not less than three) who then appoint a Chairman and, outside of the latter, a Secretary;
   - its meetings shall be attended by the Board of Statutory Auditors and the Deputy Chairman and Chief Executive Officer, so long as the latter remains committed to leaving the meetings in case of conflicts of interest;

c) with regards to its functioning:
   - it shall meet everytime the Chairman deems it necessary or when a request is made by another member or by a chief executive.

In 2003, three meetings were held and the following topics were examined and evaluated. Here to follow the proposals later prepared for the Board of Directors:

- The gross annual compensation, a variable compensation based on the achievement of objectives linked to the activities and results of the annual plan (MBO), and the Long Term Incentive (LTI) plan linked to the objectives set in the three-year plan of the Chief Executives and General Managers;
- The adoption of stock option plans for employees and directors of certain service companies controlled by the Company.

Both the Board of Statutory Auditors and the Deputy Chairman/Chief Executive Officer attended all meetings; the latter always left the meetings whenever topics directly relating to his office were discussed.

Some external consultants also attended in some of the meetings and provided collaboration in the research and drawing up phases of some of the more technical aspects of the subjects under scrutiny by the Committee; they provided clarifications and the necessary support for a clear and correct evaluation on the part of the Committee on the analyzed topics.

In relation to the remuneration of the directors, and in accordance with article 21 of the Charter stating that the latter must be reimbursed for expenses generated as a result of their office, the Shareholders Meeting set, on May 3rd, 2002, a compensation of 25,000 euro per year for each member of the Board of Directors; the committee is also entitled to determine any additional remuneration for directors entrusted with particular tasks, including the Deputy Chairman and Chief Executive Officer, the Deputy Chairman and the members of the committees that the Board deems appropriate to appoint.

In particular, the remuneration of the Deputy Chairman and Chief Executive Officer (in addition to Chief Executives' by sectors, Mr. Carlo Bianco and Emilio Biffi, appointed since February 1st, 2004, as well as the General Managers') is significantly linked to the economic results of the

Company and to the objectives set by the Board of Directors (MBO and LTI, in addition to the participation in stock option plans).

For an analytical identification of the compensation provided to the directors entrusted with particular tasks, during 2003, please see the attached table included in the Notes to the Consolidated Financial Statements of 2003.

Finally, with reference to the participation of chief executives in incentive plans, see the appropriate table found within the 2003 Annual Report and financial statements.

Committee for Internal Audit and Corporate Governance

The Committee for Internal Audit and *Corporate Governance* — fully in accordance with Article 10.1 of the Code — is composed of three independent directors: Mr. William Dale Crist, Livio Strazzera and Dario Trevisan, the latter holds the office of Chairman. Each member of the Committee for Internal Audit and *Corporate Governance* receives an annual compensation, for tasks undertaken as part of this committee, equal to euro 10,000.

With reference to the Committee for Internal Audit and *Corporate Governance,* the Board of Directors has determined that:

a) with regards to its functions:
  - it shall provide consulting and propositional support with respect to the Board of Directors, and in particular:
  - it shall assists the Board in determining the guidelines for the internal audit system, and in the regular verification of its adequacy and effective functioning in order to ensure that all corporate risks are properly managed;
  - it shall evaluate, in conjunction with the financial executives of the Company and its Auditors, the adequacy of the main accounting principles used;
  - it shall evaluate the work plan developed by those responsible for internal audit and shall receive regular reports from the latter;
  - it shall evaluate the proposals formulated by the Auditing Company in order to be entrusted with its task as well as the work plan prepared for the audit and the results exposed in the report and suggestion letter;
  - it shall brief the Board at least bi-yearly — at the time of the approval of the financial statements and the half-year report — on the activities conducted and the adequacy of the internal audit system;
  - it shall accomplish any further task assigned to it by the Board of Directors, particularly in relation to relationships with the independent Auditing Company;
  - it shall oversee the observance and regular updating of the *corporate governance* rules, as well as the respect for the codes of conduct eventually adopted by the Company and its subsidiaries;

b) with regards to its composition:
  - it shall generally be composed exclusively of non-executive and independent directors (totalling not less than three) who then appoint a Chairman and, outside of the latter, a Secretary;
  - its meetings shall be attended by the Board of Statutory Auditors and the Deputy Chairman and Chief Executive Officer, and, on invitation, one or more General Managers;

c) with regards to its functioning:
  - it shall meet at least twice a year, before the Board meetings are held for the approval of the financial statements or the half-year report — or every time the Chairman deems it necessary or when a request is made by another member or by a chief executive.

The Board of Statutory Auditors and the Deputy Chairman and Chief Executive Officer attend the meetings, as well as any parties whose attendance is necessary or useful in conjunction with the topics under discussion (for example, the Manager of the Auditing Division of Pirelli & C. S.p.A.).

In 2003, during the three meetings being held the finalized and programmatic activity of the Internal Audit Head Responsible was evaluated including the substantial adequacy of the internal audit system of the Company.

2. Company Functions and Procedures

2.1 Internal Procedures of Board of Directors and the Committees

Board of Directors

The Charter (articles 14, 15, 16 and 17) determines the rules for the proper functioning and progress of the Board of Directors' meetings.

The Chairman shall call the Board's meeting and regulates the course of the discussion, ensuring that the directors receive — with reasonable advance — all necessary documentation and information needed for them to express themselves on the agenda topics of the day, and communicating — even with the aid of qualified internal resources — any legislative and regulatory news to the directors which may affect the Company and its Constituents. This way, the flow of information to the members of the Board of Directors is both adequate and quick.

In particular, it should be noted that the Board meets, upon invitation of the Chairman or a proxy of the latter, in the company head office or in the location specified in the invitation letter (so long as in Italy or in a European Union member state), everytime the former deems it appropriate for the company, or when a request is made by one of the Chief Executives or by at least two standing auditors (5).

Although the Charter does not require a minimum number of meetings, and it is customary that at least six meeting are held throughout the year, (for the examination of the preliminary data on June 30th and on December 31st, the financial statements review and the quarterly and bi-yearly reports), in accordance with the dispositions of Borsa Italiana ("Italian Stock Exchange" — article 2.6.2, paragraph 1, letter (C) of the Stock Exchange Regulations), the time schedule of the major company events forecasted in the upcoming year (in other words, Board meetings and shareholders' meetings) is immediately communicated to the market after each Board meeting. Any change within the schedule is rapidly communicated to the market.

The Board of Directors notifies of a call through registered letter, telegram, telex, telefax or email sent at least five days before (or, in urgent cases, with telegram, telex, telefax or email sent at least six hours before) the time of meeting, to the home address of each director and Standing Auditor.

Meetings of the Board can be held through video conferencing. In this case, the following must be ensured:

a) The identification of all participants in each connection's spot;

b) The possibility for each of the participants to intervene and verbally express their opinion, as well as view, receive and transmit all the documentation, as well as the minutes, of the discussion and its resolutions.

The meeting is to be held in the same location where, simultaneously, both the Chairman and the Secretary are.

In order for the resolutions of the Board to be valid, the majority of directors holding office must be present and the favorable vote of the absolute voting majority of those intervening is required. In case of parity, the party that includes the Chairman will prevail.

(5) With regards to the notice ability of a number of directors equal to one fifth the total number of directors in office, see paragraph 5 below.

The resolutions of the Board, although they were resolved through teleconference or videoconference, are registered in the relative book signed by the Chairman and the Secretary. The copies and extracts that have not been notarized are certified as true by the Chairman.

At the Board meetings, company managers (usually General Managers or other Executives) or third parties (normally consultants to the company), whose attendance may be necessary or convenient in relation to the agenda topics of the day, may take part, upon invitation, in order to provide the Board of Directors with the information or details required for resolutions on topics subject to their deliberation.

Committees

With reference to Committees, although specific regulations have not been formalized, it should be noted that these units operate in compliance with the procedures and formalites required for the Board of Directors and in particular with regards to the following: the notice, the information on topics to be discussed, committee functioning (constituency and resolutions) and the participation by third parties. In addition, the Board is briefed, on the occasion of its next meeting, after each meeting of the Committee itself was held.

2.2 Procedures for Handling Confidential Information

External communication of documents and information

Management of confidential information, and in particular *price sensitive* information, is directly handled by the Deputy Chairman and Chief Executive Officer.

External communication of documents and information related to the Company and its subsidiaries is conducted by the Board or company Secretary Office — and always in conjunction with the Deputy Chairman and Chief Executive Officer — for all communication to relevant authorities and the shareholders, from the Office of External Communication of Pirelli & C. S.p.A. (6) for press releases and by the company's *Investor Relation* function for communication with institutional investors.

The Deputy Chairman and Chief Executive Officer and those responsible for the functions described above are constantly capable of collaborating in order to respond to any urgent needs for external communications.

For external communication of documents and information, constant reference is made to the principles set in the Guide for Market Information — written by Forum ref. on company information flow.

Insider Dealing

In accordance with current regulations (article 2.6.3 of Borsa Italiana's Regulations), and starting from December 1st, 2002, the Company adopted a "Code of Conduct for Insider Dealing" (the "Insider Dealing" Code) which regulates communication of operations relating to the Group's Ufficio Stampa. In March 2004, a Public Relations office was officially constituted within the firm. Financial Instruments (in brief, ordinary and savings shares of Pirelli & C. S.p.A., Pirelli & C. Real Estate S.p.A. shares, financial instruments that give the right to buy or undersign the above-mentioned shares, as well as shares in common property investment funds promoted and managed by Pirelli & C. Real Estate S.G.R. S.p.A.) conducted by "Relevant Individuals".

(6) Ufficio Stampa. In March 2004, a Public Relations office was officially constituted within the firm.

By “Relevant Individuals”, we refer to those people who, according to tasks within the company, may have accesss to information on facts or events that can cause significant variations in economic or financial forecasts of the Company and the Group and is likely, if made public, to considerably influence the price of listed financial instruments.

For a better understanding of the parties involved, as well as the definition of Financial Instruments considered relevant in relation to communication requirements, please refer to the *Insider Dealing* Code (whose text is attached to this report and is published on the web site of the Company).

This Code, whose primary goal is to ensure maximum transparency with respect to the market on all operations undertaken by parties that have a special relationship with the Company and its subsidiaries, as well as regulate the periods during which these parties can operate on the securities in question, can be broken down into the following provisions:

1) Identification of the number of individuals subject to *disclosure* obligations;
2) Immediate communication to the market on operations involving Financial Instruments of significant financial caliber — in other words those whose value, even if cumulative with other operations of the quarter, exceed euro 80,000;
3) Quarterly mandatory communication to the market on operations involving Financial Instruments whose cumulative total ranges between euro 80,000 and euro 35,000;
4) Forecasts on certain periods during which the Relevant Individuals may not undertake operations with the Financial Instruments.

The *Insider Dealing* Code requires, in case of violation of the specified duties, a rigorous system of fines which — for Directors and Auditors — also includes the possibility of proposing a revocation of the latter’s title to the Meeting.

In particular, it should be highlighted that, with respect to Borsa Italiana (Italian Stock Exchange), *Insider Dealing* Code has voluntarily adopted stricter communication rules, having fixed a 35,000 euro value for quarterly communication and an 80,000 euro threshold for immediate communication.

2.3 Procedures for the Appointment of Directors and Auditors

Appointment of Directors

For the appointment of members of the Board of Directors, in accordance with Article 7 of the Code, and although not required by the Charter, the basic procedure shall be followed: proposals containing exhaustive information relating to the personal and professional characteristics of the candidates, as well as indication on their potential qualification as independent (in accoradance with article 3 of the Code) shall be submitted. These proposals shall then be deposited at the corporate head office — generally at least 10 days before the date fixed for the Meeting.

The Charter does not require, at the moment, a list voting mechanism for the appointment of directors (7). The current Board of Directors was appointed on the basis of proposals presented by the controlling shareholder Pirelli & C. S.p.A..

(7) With regards to the proposal for the introduction of the so-called list voting mechanism — with an obbligatory advance notice, as required by the Charter, at least 10 days before the Shareholders Meeting which must appoint them — and the presentation of exhaustive information regarding the personal and professional characteristics of the candidates, see paragraph 5 below.

Appointment of Auditors

As far as the appointment of the members of the Board of Statutory Auditors is concerned — in accordance with specific lists and with a procedure for the election of an effective member and substitute member on the part of the minority, with the obbligation to submit the proposals to the corporate head office at least ten days before the date fixed for the Meeting on first call, and to which is attached a professional curriculum of the designated candidates — please see paragraph 4 below for a detailed analysis of the procedure.

2.4 Internal Audit System

Internal Audit

The Internal Audit System of Pirelli & C. Real Estate S.p.A. and the group that it heads is structured to ensure a proper information flow and an adequate coverage of control on all the activities of the group, with particular attention to the areas considered at risk.

The responsibility for the Internal Audit System falls upon the Board of Directors which fixes its guidelines and regularly verifies its adequacy and effective functioning. For this purpose, the Board makes use of the Committee for Internal Audit and Corporate Governance as well as the Auditing Management division of the controlling company Pirelli & C. S.p.A.. This division has the primary duty of overseeing the dynamics and adequacy, both in terms of efficiency as well as effectiveness, of the Internal Audit system of the whole group under Pirelli & C. S.p.A..

The Chief Executive Officer, in accordance with the Board of Directors, has completed his functions of implementation, management and monitoring of the internal audit system and has constituted a specific "internal audit function" for which Mr. Sergio Romiti, Head of Auditing Management at Pirelli & C. S.p.A., has been nominated a Head Responsible and therefore is not hierachically subordinate to any operational area head of the company.

The Head Responsible for internal audit prepares a "working plan" for the auditing activities and verifies the observance and efficacy of the overall directives, procedures and techniques adopted by the company for the attainment of pre-set objectives, periodically briefing the Deputy Chairman and Chief Executive Officer on conducted activities and for any decisions requiring the latter's expertise, as well as the Committee for Internal Audit and *Corporate Governance* and the Auditors.

During 2003, the Head Responsible for internal audit, on average, briefed the Deputy Chairman and Chief Executive Officer on a monthly basis, and the Committee for Internal Audit and *Corporate Governance* twice.

There is also a planning and control system by sector and operational unit which, on a monthly basis, produces a detailed report to the General Management so that the latter are endowed with a useful tool to oversee specific activities.

For the attainment of the strategies and goals adopted by the group head, General Managers and Managers of each sector and function will sit on the Boards of the main subsidiary companies.

Organizational Model 231

In 2003, the Internal Audit System described above was further strengthened by the adoption of an organizational model, approved by the Board of Directors on July 29th, 2003. This model — which aims to ensure the creation of a system molded on the specific requirements of Law Decree n. 231/2001 concerning the administrative responsibility of the company for offences committed by its employees — is based on a pyramidal system of principles and procedures described delineated as follows:

— Ethical code of the Group, representing the general principles that inspire the conduct of business (transparency, integrity, loyalty);

— Internal Audit System, in other words the totality of "instruments" aimed at supplying a reasonable guarantee for the attainment of operational efficiency and effectiveness objectives, reliability of financial and managerial information, the compliance with laws and regulations, as well as the safeguarding of the share capital against possible fraud. The Internal Audit System is based upon certain general principles and purposely defined within the organizational model, whose application extends transversally along all organizational levels (*Business Unit*, Central Functions, Company);

— Guidelines for conduct, which introduce specific rules for the relationships with public administration representatives and which are substantiated into active "dos" and passive "don'ts", translating the concepts expressed in the Ethical Code of the Group into operational ideas;

— Internal audit schemes, elaborated for all high and medium risk operational processes and for instrumental processes. These schemes present a similar structure and are substantiated in a series of rules aimed at identifying the main principles of each phase, the offences that could be committed in relation to individual processes, the specific control activities used to reasonably prevent the related risks of offences, as well as the information flows versus the *Supervisory Authority* in order to highlight situations where the procedures set in the organizational models are not observed. The internal audit schemes are elaborated according to three cardinal rules, and include:

  1. separation of roles in conducting activities inherent in the processes;
  2. the so-called "traceability" of choices — in other words the visibility of the latter (for example through documental evidence) in order to allow the identification of precise points of "responsibility" and the "motivation" of the choices themselves;
  3. the objectification of the decision-making processes, in the sense of understanding that, when making decisions, one avoids making purely subjective evaluations and refers to pre-set criteria.

The organizational model finally includes the *Supervisory Authority,* endowed with autonomous powers of initative and control, and set to oversee the functioning and observance of the organizational model itself and taking care of the latter's constant upgrading. This Authority, appointed by the Board of Directors on July 29th, 2003, is composed of Mr. Dario Trevisan, an independent Director and Chairman of the Committee for Internal Audit and *Corporate Governance,* Mr. Roberto Bracchetti, Chairman of the Board of Statutory Auditors and Mr. Nicolas Marchi of the Auditing Management division of Pirelli & C. S.p.A..

With reference to the other Italian companies of the Group that are not listed, the Supervisory Authority has been identified through the research of a technical/operational solution which, while respecting the mandates and powers reserved by law, was deemed adequate for the size and organizational context of each company.

Finally, a disciplinary system — suitable for imposing sanctions for disrespect of the measures indicated in the organizational, management and control models — will be introduced.

In 2004, the operational processes for the activation of specific information flows versus the Supervisory Authority will be consolidated, in accordance with Article 6, paragarph 2, letter d) of the Government Decree 231/2001 and which identifies precise obligations of information disclosure with respect to the Authority set to oversee the functionality and observance of the models.

Evalution of the Internal Audit System

With reference to the evaluation of the Internal Audit System, and as far as the efficient presiding over the typical risks of the principal company activities and its subsidiaries is concerned, as well as the monitoring of the economic-financial situation of the company and the Group, the Committee for Internal Audit and *Corporate Governance* and the Board of Directors — also on the basis of the recommendations provided by the Board of Statutory Auditors — considered the Internal Audit System to be substantially adequate and, therefore, suitable for the protection of company interests and the goals for which it was created.

2.5 The Investor Relations Unit

The company works to create a constant dialogue with shareholders and institutional investors, based on an understanding of reciprocal roles, and never failing to periodically promote meetings with members of the financial community (not only Italian) and in full respect of the standars regulating the matter and in relation to the handling of *price sensitive* information.

For this purpose, the company has appointed an *Investor Relations Manager*, and established the related company structure within the Central Management Division for Administration and Control, and to whom the relative section of the company's website, *www.pirellirealestate.com*, is dedicated.

In this section, investors can find all useful documents published by the company, both financial (such as, for example, half-year reports, quarterly reports) and regarding its *Corporate Governance* System (such as, for example, the Code of Conduct for the implementation of operations with correlated parties, the Procedure for the fulfillment of obligations in accordance with Article 150, paragraph 1, Legislative Decree 58/1998, or the *Insider Dealing* Code). In this section it is also possible to access documentation made available by analysts and/or financial investors in the course of presentations and/or company meetings with the latter and find all forms of useful information related to the composition of the share capital and shareholding.

Shareholders and investors may contact the *Investor Relations* Unit at the following address:
— address: Via Negri, 10 - Milano;
— tel. 02/85354057;
— fax 02/85354387;
— e-mail: dario.fumagalli@pirellirealestate.com.

The company, in conducting investor relations activities, refers to the recommendations contained in the Guide for Market Information, written by Forum ref. On company information flows.

3. Shareholders meeting

It is a constant company policy to use meetings to communicate to shareholders information related to the company and its prospects — obviously while respecting the regulations on price sensitive information — and, where appropriate, proceeding to a simultaneous diffusion of this information to the market.

In addition, attention is paid to the choice of location, date and time of call in order to favor, as much as possible, shareholders' attendance to meetings; in addition, all Directors and auditors attend — by rule — meetings, particularly those Directors who, due to their roles, may provide useful feedback to the meeting discussions [8].

(8) For more information on the proposed Shareholders Meeting, see paragraph 5 below.

4. Auditors

Appointment of auditors is based on procedurally transparent criteria in accordance with Art. 14 of the Self-discipline Code and requires the presentation of lists that allow the election of a standing auditor and an alternate auditor by the minority, in compliance with Art. 148 of the Finance Consolidation Act (Government Decree 58/99). These principles are incorporated in Art. 22 of company's by-laws.

The Board of Statutory Auditors is made up of three standing auditors and two alternate auditors all of whom must be qualified in accordance with current standards and regulations, and to that end the subjects and business sectors must be closely related to the company's purpose, particularly with reference to companies or entities operating in the financial, industrial, banking, insurance, property or general services fields.

The ordinary shareholders' meeting elects the Board of Statutory Auditors and determines its compensation. The election of one Standing auditor and one alternate auditor is reserved to minority investors.

The appointment of the Board of Statutory Auditors — with the exception of the requirements illustrated in the second-to-last paragraph of the aforesaid Article — takes place on the basis of lists submitted by the partners on which the candidates are progressively numbered.

Each list shall contain a number of candidates not exceeding the number of members to be elected. Partners who — either alone or with other partners — detain at least 2% of voting shares in the ordinary shareholders' meeting may present a list.

The preference lists, signed by those who submit them, must be filed at the company's head office at least ten days prior to the date fixed for the meeting on first call. A description of the candidates' professional qualifications of the designated subjects and the declarations in which they accept their candidacy must be attached to the lists; the declaration must confirm, under personal responsibility, the absence of causes of inelegibility or incompatibility as well as the existence of the prerequisites required by law or by the current by-laws.

Any lists that fail to observe the above conditions will be treated as they were never submitted.

Each candidate may be inserted in one list only — violation of this principle will result in inelegibility.

In addition, persons who do not fill the required prerequisites or who already hold the title of Standing auditor at more than five companies with shares listen on official Italian markets — with excluding parent companies or subsidiaries of Pirelli & C. Real Estate S.p.A. — may not be elected as auditors.

Each party with a right to vote may vote for just one list.

The election of the Board of Statutory Auditors will proceed as follows: two standing and one alternate member are taken from the list obtaining the highest number of votes and in the progressive order in which they are presented in the list. The remaining standing and the other alternate member are taken from the list obtaining the second highest number of votes in the meeting, and in the progressive order in which they are presented in the list itself. If more than one list receives the same number of votes, a new voting session for the remaining lists on the part of all partners attending the meeting is conducted; the candidates in the list obtaining a simple majority of votes will be elected.

The chairmanship of the Board of Statutory Auditors is reserved for the standing member indicated as the first candidate on the list obtaining the highest number of votes.

An auditor who dies, resigns or becomes ineligible is replaced by the alternate auditor belonging to the same preference list. If the Chairman of the Board of Statutory Auditors is replaced, the chairmanship is assumed by another standing auditor taken from the list to which the outgoing Chairman belonged; if a replacement cannot be made in this manner, a shareholders' meeting shall be called to complete the Board of Statutory Auditors by relative majority vote.

When the shareholders' meeting is asked to elect standing and/or alternate auditors to integrate the Board of Statutory Auditors, in accordance with the preceding paragraph of the law, the procedure is as follows: if the auditors elected in the majority list must be replaced, the appointment takes place through relative majority voting with no list constraints; if auditors elected by the minority must be replaced, the shareholders' meeting elects them by relative majority, taking them, if possible, from the candidates indicated in the list of the outgoing auditor.

If only one list is presented, the shareholders' meeting votes it; if the list obtains a relative majority, the first three candidates listed in progressive order will be elected as standing auditors and the fourth and fifth candidates will be elected as alternate auditors. The chairmanship of the Board of Statutory Auditors is assumed by the candidate obtaining the highest number of votes in the presented list; if an auditor dies, resigns or becomes ineligible, or if the Chairman of the Board of Statutory Auditors needs to be replaced, the alternate auditor and the standing auditor from the progressive order of the list itself will replace the auditor or Chairman, respectively.

If there are no lists, the shareholders' meeting elects the Board of Statutory Auditors and its Chairman by legal majorities. Outgoing auditors may be re-elected.

The shareholders' meeting on May 30^{th}, 2001, elected the following as standing auditors: Mr. Roberto Bracchetti, Chairman, Mr. Paolo Carrara and Mr. Gianfranco Polerani. Mr. Franco Ghiringhelli and Mrs. Paola Giudici were appointed as alternate auditors.

The current Board of Statutory Auditors, expressing the proposals presented by the controlling shareholder, expires its term in May 2004 on the date of the meeting for the approval of the consolidated financial statements closed on December 31^{st}, 2003, since at the time of appointment the company was not publicly listed and the list voting procedure was not required.

With regards to the other titles of Director or auditor held by the Auditors in other financial, banking, insurance or significantly large companies listed on regulated (including foreign) markets. Companies in which these auditors hold the following titles are listed below:

Roberto Bracchetti, Chairman of the Board of Statutory Auditors:

- Ratti S.p.A., Chairman of the Board of Statutory Auditors.
- Pirelli & C. S.p.A., Chairman of the Board of Statutory Auditors.
- Viscontea Coface S.p.A., Standing Auditor.
- ABB S.p.A., Standing Auditor.
- Intesa Fiduciaria SIM S.p.A., Standing Auditor.
- Olimpia S.p.A., Standing Auditor.
- Pirelli & C. Real Estate S.G.R. S.p.A., Standing Auditor.

Paolo Carrara, Standing Auditor:

- Zirifich Investments Life S.p.A., Standing Auditor.
- Sicurtà 1879 Assicurazioni S.p.A., Standing Auditor.
- Zurigo SIM S.p.A., Standing Auditor.
- Peg Perego S.p.A., Standing Auditor.

Franco Ghiringhelli, Alternate Auditor:

- Mondadori Pubblicità S.p.A., Chairman of the Board of Statutory Auditors.
- Camfin S.p.A., Standing Auditor.

— CFT Finanziaria S.p.A., Standing Auditor.
— Grifogest S.G.R. S.p.A., Standing Auditor.
— I Grandi Viaggi S.p.A., Standing Auditor.
— Localto S.p.A., Standing Auditor.
— Partecipazioni Real Estate S.p.A., Standing Auditor.
— Pirelli & C. Real Estate Credit Servicing S.p.A., Standing Auditor.
— Pirelli & C. S.p.A., alternate Auditor.

Auditors' attendance in meetings of the Board of Statutory Auditors in 2003 was equal to 100% for all regular Auditors and, as far as the meetings of the Board of Directors are concerned, was equal to:

— 89% for Chairman Roberto Bracchetti;
— 67% for Auditor Gianfranco Polerani;
— 56% for Auditor Paolo Carrara,

with an overall partecipation percentage of 71%.

5. By-laws Amendments Submitted for Shareholders' approval

On March 22nd, 2003, the Board of Directors resolved to submit for Shareholders' Meeting approval a number of proposals which aimed at further improving the company's *corporate governance* system favoring the ever increasing participation of all shareholders in corporate life and decisions determining the success of the company. In this light, the Board resolved, amongst other things, to propose the following to the Shareholders' Meeting:

- the introduction of the so-called *list voting* procedure into the by-laws, related to the appointment of the members of the Board of Directors. This provision aimed at ensuring that — if the partners use their faculties to submit, in accordance with the specified procedures, at least two lists — one fifth of the members of the Board are elected from the individuals indicated in the so-called *minority*. The lists must be submitted by partners who, alone or in conjunction with others, own at least 2% of the voting shares in the ordinary shareholders' meeting, these must be filed at the company's head office at least ten days prior to the date fixed for the shareholders' meeting on first call. At the time of submission, descriptions of the candidates' professional qualifications of the individual candidates must be presented;
- to add, in addition to the current requirements for the call of the Board, a further request made by one fifth of the Directors holding office. The proposal intends to assign greater value — on corporate life and through the call of this administrative authority — to Directors from the so-called *minority* (in fact, one fifth of the total number);
- the adoption of the Meeting's Regulations — a document aimed at regulating, as recommended by the Self-discipline Code of listed firms, the orderly and functional course of ordinary and extraordinary shareholders' meetings and to guarantee the right of speech to each partner in relation to the discussed topics.

* * *

The following attached tables summarize the adoption procedures of the main Code recommendations on behalf of the company:

1. Structure of the Board of Directors, the Committe for Internal Audit and *Corporate Governance* and the Remuneration Committee.
2. Structure of the Board of Statutory Auditors.
3. Other provisions of the Self-discipline Code.

Table 1: Structure of the Board of Directors and Committees

Board of directors

Title	Members	Executive	Non-executive	Independent		Number of other Titles/ Offices	Committee for Internal audit •		Remuneration committee ♦		Potential appointment committee ◊		Investment committee from 05.03.2002	
					(****)	(**)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)
Chairman	Tronchetti Provera Marco		X		75%	6							X	33.33%
Deputy Chairman and Chief Executive	Puri Negri Carlo Alessandro	X			100%	10							X	100%
Deputy Chairman	Nassi Giovanni	X			100%	–								
Chief Executive	Bianco Carlo	X			87.50%	–								
Chief Executive	Biffi Emilio	X			100%	–								
Director	Bartholomew Reginald		X	X	62.50%	1			X *(from 05.06.03)*	66.66%				
Director	Buora Carlo		X		25%	7	X *(up until 05.06.03)*	100%					X	66.66%
Director *(appointed 05.06.03)*	Crist William Dale		X	X	60%	–	X *(from 05.06.03)*	50%						
Director	Lamacchia Sergio		X		87.50%	–			X	80%				
Director	Malfatto Giulio		X		100%	1								
Director *(resigned on 04.22.03 effective 05.06.03)*	Nattino Giampietro		X	X	100%	–	X *(up until 05.06.03)*	100%	X *(up until 05.06.03)*	100%				
Director	Recchi Claudio		X	X	100%	3			X	100%			X	66.66%
Director	Sozzani Vincenzo		X		87.50%	4							X	100%
Director	Strazzera Livio		X	X	100%	7	X	100%						
Director (appointed 05.06.03)	Trevisan Dario		X	X	75%	1	X *(from 05.06.03)*	100%						

• Summary of the reasons of the potential absence or different composition of the Committee with respect to Code requirements.

♦ Summary of the reasons of the potential absence or different composition of the Committee with respect to Code requirements.

◊ Summary of the reasons of the potential different composition of the Committee with respect to Code requirements.

Number of meetings held during the year of reference	Board of directors: 9	Committee for internal audit: 3	Remuneration committee: 5	Appointment committee: –	Investment committee: 3

NOTE

(*) The presence of the asterisk denotes whether the Director was elected through list presented by minority.

(**) This column lists the number of director or auditor titles held by the party in question in other listed financial, banking, industrial, or large firms in regulated markets (including foreign). In Corporate Governance the titles are fully written out.

(***) In this column an X indicates that the Board member is also part of the Committee.

(****) This column lists the % participation of directors in Board and Committee meetings, respectively.

Table 2 - Board of Statutory Auditors

Title	Members	% of attendance at the meetings	Number of other titles (**)
Chairman	Bracchetti Roberto	100%	2
Standing Auditor	Carrara Paolo	100%	–
Standing Auditor	Polerani Gianfranco	100%	–
Alternate Auditor	Ghiringhelli Franco	–	3
Alternate Auditor	Giudici Paola	–	–
Number of meetings held during the year of reference: 5			
Indicate the quorum required for presentation of lists by the minority and for the election of one or more effective members (ex art. 148 TUF): 2%			

NOTE

(*) The asterisk denotes whether the auditor has been elected through lists presented by minority.

(**) This column indicates the number of director or auditor held by the party in question in other listed financial, banking, industrial, or large companies in regulated markets (including foreign) In the Corporate Governance Report the titles are fully written out.

Table 3: Other provisions of the self-discipline code

	YES	NO	Summary of the reasons of a potential deviation from Code requirements
System for Proxies and Operations with Related Parties			
The Board of Directors has assigned proxies, defining their:			
a) limits	X		
b) executive procedures	X		
c) and timing of information flow?	X		
The Board reserved, for itself, the examination and approval of significant economic and financial operations (including operations with related parties)?	X		
Has the Board defined guidelines and criteria for the identification of "significant" operations?	X		
Are the guidelines and the criteria mentioned above described in the report?	X		
Has the Board specified particular procedures for the evaluation and approval of operations with correlated parties?	X		
Are the procedures for the approval of operations with related parties described in the report?	X		
Procedures for the most recent appointment of directors and auditors.			
Were the candidacies for the office of director submitted at least ten days of advance?		X	The current Board of Directors was appointed in 2001 before the IPO. With the meeting for approval of the 2003 financial statements, the Board will be renewed in accordance with Article 7.1 of the Self-discipline Code. In the same meeting, the shareholders will approve the by-laws amendments in order to insert the list voting system.
Were director candidate proposals accompanied by comprehensive documentation?		–	–
Were director candidate proposals accompanied by indications of qualification as independent?		–	–
Were candidate proposals for auditors submitted at least ten days in advance?		X	The current Statutory Board of Auditors was appointed in 2001 before the IPO. With the meeting for approval of the 2003 financial statements, the Board will be renewed in accordance with Article 14.1 of the Self-discipline Code and Article 22 of the by-laws.
Were auditor candidate proposals accompanied by comprehensive documentation?		–	–

	YES	NO	Summary of the reasons of a potential deviation from Code requirements
Meeting			
Has the company approved the Meeting Regulations?		X	Motivations are presented in the Report. With the meeting for the approval of the consolidated financial statements of 2003, the adoption of Meeting Regulations will be presented to the shareholders for approval.
Are the Regulations attached to the report (or is it indicated where the former may be obtained/downloaded?)		–	
Internal Audit			
Has the company appointed responsibles for internal audit?	X		
Are the responsibles hierarchically not subordinate to operational area managers?	X		
Organizational unit for internal audit (ex.Article 9.3 of the Code)	Central Management for Auditing of the parent company Pirelli & C. S.p.A.		
Investor relations			
Has the company appointed an Investor Relations Manager?	X		
Organizational unit and references (address/telephone/fax/email) of the Investor Relations Manager	Investor Relations – address: Via Negri, 10 - Milano; – tel. 02/85354057; – fax 02/85354387; – e.mail: dario.fumagalli@pirellirealestate.com		

9.2 Equity participations of Directors, Auditors and General Managers

In accordance with Article 79 of the Consob Regulations approved with resolution n. 11971 on 14/05/1999, the equity participations owned in Pirelli & C. Real Estate and its subsidiaries by Directors, Auditors and General Managers, as well as the non-legally separated spouses or underage children, either directly or through a subsidiary, trust company or third party, as at December 31st, 2003 — and derived from the shareholders' register, received communications or other information acquired by the Directors, Auditors and General Managers — are listed below:

Name and Surname	Company	Share-holdings possessed at 12.31.2002	Share-holdings bought	Share-holdings sold	Share-holdings possessed at 12.31.2003
Marco Tronchetti Provera	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Giovanni Nassi	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Carlo Alessandro Puri Negri (*)	Pirelli & C. Real Estate S.p.A.	1,185,121	–	–	1,185,121
Carlo Bianco	Pirelli & C. Real Estate S.p.A.	128,520	150	4,205	124,465
Emilio Biffi	Pirelli & C. Real Estate S.p.A.	47,686	–	–	47,686
Carlo Buora	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Giulio Malfatto	Pirelli & C. Real Estate S.p.A.	62,525	–	–	62,525
Giampietro Nattino	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Vincenzo Sozzani	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Reginald Bartholomew	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Sergio Lamacchia	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Claudio Recchi	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Livio Strazzera	Pirelli & C. Real Estate S.p.A.	–	–	–	–
William Dale Crist	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Dario Trevisan	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Marc Petit	Pirelli & C. Real Estate S.p.A.	–	100	–	100
Giorgio Fantoni	Pirelli & C. Real Estate S.p.A.	–	170	–	170
Olivier De Poulpiquet (**)	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Roberto Bracchetti	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Paolo Carrara	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Gianfranco Polerani	Pirelli & C. Real Estate S.p.A.	500	–	–	500
Franco Ghiringhelli	Pirelli & C. Real Estate S.p.A.	–	–	–	–
Paola Giudici	Pirelli & C. Real Estate S.p.A.	–	–	–	–

(*) 605.710 directly possessed and 579.411 through Partecipazioni Finanziarie S.r.l.

(**) General Director employed since February 1st, 2004.

9.3 Stock Option Plans

In 2000 and 2001, the stock option plans named Plan 2000 and Plan 2001 were both respectively launched.

Both plans included the option of acceleration and re-purchase in favor of the parent company single pre-planned program for the stable involvement of employees and management in the growth of Pirelli Re's value, once the phase of activity reorganization and personnel aggregation — started in 2000 — would be finished.

Since these conditions were fulfilled, the company approved a stock option plan on May 9th, 2002 (henceforth referred to as “Plan 2002”) with these characteristics and Pirelli & C. took advantage of its faculty in accelerating and re-purchasing all the shares assigned to the beneficiaries of the Plan 2000 and Plan 2001.

For the sake of completeness, it should be noted that on February 24th, 2004, the Company — given the expiration of the periods set in Plan 2002 — approved a new stock options plan (henceforth referred to as “Plan 2004”) in favor of directors and employees of the Group, aimed at further motivating and stimulating loyalty of the latter, as a consequence of the development of new business areas — including the allocation of common funds and the non-performing credit activities — that the Group plans to follow in the short and medium term.

PLAN 2002

Plan characteristics: allocation of stock rights, non-transferable to third parties, for the undersigning of ordinary Pirelli RE shares.

Beneficiaries: 88 individuals (Directors, Executives and First-Line Managers) of Pirelli RE and its subsidiaries.

Conditions for exercise of the option:

a. Continued working relationship with one of the companies mentioned above;
b. Continued status of the company — for which the individual works or is an administrator — as a subsidiary of Pirelli RE;
c. Achievement — for the three-year period 2002-2005 — of specific objectives assigned to each beneficiary.

Subscription price: euro 26 per share; this price may vary in the case of operations on the capital not connected to the Plan — or for mergers, break-ups or by-laws amendment operations affecting the rights of Beneficiaries.

Exercise period for the options: partially exercisable (50%) from July 1st 2004 to December 15th 2006 and for the remaining 50% from July 1st 2005 to December 15th 2006, and with no possibility of delay within December 15th 2006.

Maximum number of shares the stock options: 2,150,000.

The schematic shown below — in accordance with Table 2 of Attachment 3C of Regulations n. 11971/1999 — indicates the stock options assigned to Directors, Auditors and General Managers of Pirelli RE:

		Options held at beginning of calendar year			Options assigned during the year			Options exercised during the year			Options expired during the year	Options held at the end of the year		
(A)	(B)	*(1)	*(2)	*(3)	*(4)	*(5)	*(6)	*(7)	*(8)	*(9)	*(10)	*(11)=1+4-(7)-(10)	*(12)	*(13)
Name & Surname	Office Held	Number of options	Average exer-cise price	Average expira-tion date	Number of options	Average exer-cise Price	Average expira-tion date	Number of options	Average Exer-cise price	Average market price at time of exer-cise	Number of options	Number of options	Average exer-cise price	Average expira-tion date
Carlo Alessandro Puri Negri	Deputy Chairman Chief Executive Officer	855,000	26.00	12.15.05	–	–	–	–	–	–	–	855,000	26.00	12.15.05
Carlo Bianco	Director// General Manager	124,000	26.00	12.15.05		–	–	–	–	–	–	124,000	26.00	12.15.05
Emilio Biffi	Director/ General Manager	124,000	26.00	12.15.05	–	–	–	–	–	–	–	124,000	26.00	12.15.05
Giulio Malfatto	Director/ General Manager (up until 06.17.03)	154,000	26.00	12.15.05	–	–	–	–	–	–	(154,000) (1)	–	–	–
Marc Petit	General Manager	–	–	–	29,000	26.00	12.15.05	–	–	–	–	29,000	26.00	12.15.05
Giorgio Fantoni	General Manager	–	–	–	83,000	26.00	12.15.05	–	–	–	–	83,000	26.00	12.15.05

(1) Expired options since no longer an employee from June 18th, 2003.

STOCK OPTION PLAN 2004

Plan characteristics: allocation of stock rights, non-transferable to third parties, for the undersigning of ordinary Pirelli RE shares held by the Company itself (treasury shares).

Beneficiaries: 50 individuals (Directors, Executives and First-Line Managers) of Pirelli RE and its subsidiaries.

Conditions for exercise of the option:

a. Continued working relationship or status as director with Pirelli RE or other direct or indirect subsidiary of the Company;

b. A performance of the Pirelli RE share price superior to that registered by the European Public Real Estate Association (EPRA), Europe Return Index, and specifically for the two year reference periods that are part of the Plan.

Unitary subscription price: euro 26.75, corrisponding to the "nominal value" of the share on the offer date; this price may vary in the case of operations on capital, or with extraordinary operations, but ensuring the rights held by Beneficiaries equivalent to those held before such operations.

Exercise period for the options: partially exercisable (50%) from July 1st, 2006 to December 15th, 2007 and for the remaining 50% from July 1st, 2007 to December 15th, 2007, and with no possibility of delay within December 15th, 2007.

Maximum number of shares in plan: 1,000,000.

Beneficiaries	Plan 2002	Plan 2004	Cumulative plan sums
Carlo A. Puri Negri V.P. and A.D.	N. Options 855,000	N. Options 255,000	N. Options 1,110,000
Carlo Bianco A.D. Residential Asset Management	N. Options 124,000	N. Options 86,000	N. Options 210,000
Emilio Biffi A.D. Land & Development	N. Options 124,000	N. Options 86,000	N. Options 210,000
Olivier de Poulpiquet D.G. Commercial Asset Management and NPL	No Option	N. Options 200,000	N. Options 200,000
Giorgio Fantoni D.G. Specialized Services	N. Options 83,000	N. Options 30,000	N. Options 113,000
Marc Petit D.G. Finance	N. Options 29,000	–	N. Options 29,000

PLANS FOR SUBSIDIARIES

- On July 31st, 2003, an option for the purchase of ordinary shares representing 3% of Pirelli Re S.G.R. share capital was offered to Giulio Malfatto, Board Director of Pirelli RE, to be executed through a capital increase for the above-mentioned option. The option is an integral part of the compensation attributed to Giulio Malfatto as Chief Executive Officer of Pirelli RE S.G.R..

The option can be exercized:

a. at the end of the third year from the appointment as CEO of Pirelli RE S.G.R. and for the following six months; or

b. from the previous date in the case of revocation without just cause, i.e. from the resignation with just cause from the office of CEO of Pirelli RE S.G.R. up until the expiration as per point a), or

c. within three months from December 31st, 2005, in the case that the corporatel assets of Pirelli RE are below three billion euro.

Exercise of the option, as per letter a) above, depends on the achievement of certain objectives (in terms of profitability, corporatel assets, etc..) determined by the Board of Directors of Pirelli RE S.G.R..

The options exercise price is equal to the value of 3% of the shares of Pirelli RE S.G.R. on July 31st, 2003, as resulting from the related survey. This price may vary in relation to further capital increases that are approved and undersigned for the purpose of maintaining a 3% right of option for the CEO on the date of exercising the option itself.

- The Board of Directors has also approved, on November 7th, 2003, the stock option plans for 33 managers and directors of service companies that are entirely controlled by Pirelli RE. It should be noted that these plans do not include Directors and General Managers of the Group Parent Company.

The stock option plan for the subsidiary company Pirelli RE Project Management was established for nine managers and/or directors and includes the allocation of a total of 28,927 options for the purchase of shares of Pirelli RE Project Management itself (equal to 5.56% of the share capital) at a unitary exercise price of euro 64.22.

The stock option plan for the controlled company Pirelli RE Property Management was established for eight managers and/or directors and includes the allocation of a total of 3,657 options for the purchase of shares of Pirelli RE Property Management itself (equal to 3.20% of the share capital) at a unitary exercise price of euro 552.29.

The stock option plan for the controlled company Pirelli RE Facility Management was established for five managers and/or directors and includes the allocationt of a total of 22,997 options for the purchase of shares of Pirelli RE Facility Management itself (equal to 4.10% of the share capital) at a unitary exercise price of euro 143.04.

The stock options plan for the controlled company Pirelli RE Agency was established for eleven managers and/or directors and includes the allocation of a total of 36,250 options for the purchase of shares of Pirelli RE Agency itself (equal to 4.36% of the share capital) at a unitary exercise price of euro 285.85.

For all approved plans, the exercise prices are determined on the basis of specific surveys that have determined the fair value of the companies. The options may be exercised in the months of April 2005 and April 2006, and conditionally to the attainment of performance objectives exceeding those of the 2003-2005 plan. In addition, a put and call procedure for the re-purchase of the shares from an eventual exercising of the options is also provided for.

9.4 Treasury shares

As at December 31st, 2003 the company owned 2,186,111 shares at the par value of euro 0.50 and included in the financial statements for a total value of 49.6 million euro; as at December 31st, 2002 the company owned 2,154,720 shares included in the financial statements for a total value of 50.1 million euro.

The positive change in this period was equal to 31,391 shares deriving from the combined effect of the decrease detected as a result of the transfer of 812,086 shares to Olivetti for the purchase of shareholding in OMS Facility — as previously described — and from the buy-back operations completed in the period for a total of 843,477 treasury shares.

These shares were included in the financial statements of December 31st, 2003 for an average unit value of 22.68 euro per share, versus an average Stock Exchange quote for the month of December of euro 24.98 and a reference price of euro 25.11 per share as at December 31st, 2003 with an overall latent appreciation on 30th December equal to 5.3 million euro.

Following the completed acquisitions, and in accordance with Art. 2357*ter* of the Italian Civil Code, a reserve of equal value was created.

9.5 Introduction of International Accounting Principles

With reference to the recommendations of CESR (Committee of European Securities Regulators) published on December 30th, 2003 and containing the guidelines — for companies listed within the EU — for the transition to IAS/IFRS, the overall description of standards is described below, as well as Pirelli RE's process of adoption of the international accounting principles.

Starting from 2005, companies with securities admitted for negotiation in regulated markets of European Union member states will have to adjust their consolidated financial statements in accordance with international accounting principles and in compliance with European Community Regulations n. 1606/2002 of the European Parliament and the Board of July 19th, 2002.

In 2003, the Pirelli Group set up a working group aiming at understanding IAS accounting principles. The task of the Group is to identify the modifications and integrations of the main accounting principles.

A program of information disclosure and resource training for the Group has been initiated in order to share the innovations deriving from the new international principles, as well as their operational implications and proposed solutions.

According to the analyses carried out so far, and keeping in mind that the international accounting principles have always represented a valid technical reference point for the development of new Group principles — where they do not clash with Italian law — the most innovative aspects with respect to current criteria are summarized as follows:

- *goodwill and differences from consolidation*: these entries will no longer be systematically depreciated in the income statement but will be subject to an evaluation, conducted at least yearly, in order to identify any potential impairment (impairment test):
- *treasury shares*: the value of treasury shares must be reduced by shareholder's equity;
- *impairment:* the IAS provides more objective and more detailed indications for measuring impairment;
- *stock options***:** equity-settled stock options must be valued at the moment of their grant date and at fair value, while determining a P&L cost that is balanced by an increase in shareholder's equity reserves; this cost must be distributed throughout the vesting period;
- *pension funds and retirement indemnity***:** these fall within the type of definite benefit plans that are subject to actuarial evaluations;
- *extraordinary items:* according to IAS/IFRS principles, items of extraordinary nature are valued less than in the current acceptation prevalent in Italy.

With regards to financial instruments, discussed in IAS 32 "*Financial Instruments: Disclosure and Presentation"* and in IAS 39 "*Financial Instruments: Recognition and Measurement*", there are still some uncertainties regarding their adoption in 2005. In particular, the European Commission, in Regulation 1725 of September 29th, 2003, did not adopt these principles since they were still subject to discussion and possible editing.

The financial statements as at December 31st, 2005, will be the first annual financial statements presented in accordance with IAS/IFRS and will include, for comparison, the financial statements as at December 31st, 2004. The balance sheet position on the date of the transition (January 1st, 2004) will be reviewed in compliance with the IFRS requirements (*"First time adoption of International Financial Reporting Standards"*).

9.6 Fiscal Consolidation

As is known, the Taxation Reform on companies introduced the possibility of taxing — starting in 2004 — income on a consolidated basis.

Consolidated taxation can affect, in addition to the Group Head, each subsidiary company located in Italy which is controlled by 50% or more in shareholding, while keeping in mind the demultiplicative effect derived from the chain of control. This option lasts for three years.

Our Company, after having carried out the appropriate evaluations, intends to adhere to the consolidation. From this consolidation, the following will be derived:

- All results, whether positive or negative, of our company will be directly transferred to the controlling company Pirelli & C.;
- The overall income subject to taxation will be composed of the sum of the taxable incomes of the parent company and its subsidiaries — including our own — with the resultant possibility of a partial or total compensation of any tax losses.

The application procedures and the contractual conditions between the parties adhering to the fiscal consolidation will be defined after the issue of the regulatory standars on the part of the Ministerial authorities.

In relation to this final point, Pirelli & C. and the companies participating in the consolidation will commit to immediately adopting the consolidation principles in the spirit of neutrality and equity — particularly with reference to the definition of compensations given on the basis of advantages obtained and applied from/to the companies adhering to the procedure.

In accordance with the law, the conjoint controlling/subsidiary option for group taxation will be communicated to the Agenzia delle Entrate (Italian Tax Authority) by June 30th.

9.7 Organizational Model from Government Decree 231/01

The Board of Directors approved the organizational model in accordance with Government Decree 231/01. The new model is based on a pyramidal system of principles and procedures contained and disciplined within the related internal audit schemes and elaborated in light of the Ethical Code and the adopted Codes of Conduct. This project has called for a specific mapping of risks and a verification of the adequacy — versus current regulations — of the current set-up of rigorous organizational systems that are already in place.

9.8 Supervisory Authority

A Supervisory Authority has been appointed and will remain in office until the end of the term of the current Board of Directors, composed of Dario Trevisan, the independent Director and the Chairman of the Committee for Internal Audit and Corporate Governance, Roberto Bracchetti, Chairman of the Board of Statutory Auditors, and Nicolas Marchi, a member of the Auditing Management division of Pirelli & C. S.p.A.. This composition ensures the presence of all the various professional areas of expertise related to the control of company management within this organ, as well as ensuring that type of autonomy required by law.

The Supervisory Authority has been entrusted with all the necessary powers needed to ensure a punctual and efficient control on the functionality and observance of the organizational model and the management of the company as a whole.

9.9 Safeguarding of Privacy and Data Protection

Once again in 2003, the Pirelli & C. Real Estate Group has taken major steps to guarantee compliance with current regulations on the protection of personal information.

From an organisational point of view, the Central Human Resources and Systems Department is responsible for the following tasks:

- Coordinating application of the regulations governing the protection of personal information at Pirelli & C. Real Estate Group level, monitoring the related progress and verifying the results achieved;
- Coordinating and looking after relations with third parties (e.g. administering requests from third parties, in the event that they exercise the right to access their personal information guaranteed by current legislation).

In addition, Pirelli & C. Real Estate S.p.A. is implementing procedures concerning the planning and making of improvements to apply properly the instructions introduced, with effect from 1st January 2004, by Decree 196 dated 30th June 2003 (“**Privacy Code**”), which “consolidates” all the legislative requirements regarding the protection of personal data.

Furthermore, in compliance with Decree 318/1999, Pirelli & C. Real Estate S.p.A. has also prepared a Security Planning Document (SPD).

Based on an assessment of risks, the SPD describes, inter alia, the technical and organisational criteria adopted for the protection of sensitive personal information processed by Pirelli & C. Real Estate S.p.A. using IT support.

Completion of the 2004 update to the 2003 SPD is mentioned here, pursuant to paragraph 26, Attachment B of the Privacy Code.

9.10 Deadline for Call of Shareholders' Meeting

Organizational needs related to the meetings — particularly with reference to the preparation of documents subject to advance submission, as per Art. 2429 of the Italian Civil Code — have caused a delay in the call of the shareholders' meeting for the analysis of the financial statements after April. This way it is possible to avoid — amongst other things — holding the Shareholders' Meeting in a period that is particularly critical for meetings of listed companies.

In addition, the postponement is of minor scale since the Meeting for the approval of the financial statements is fixed for the 7^{th} and 10^{th} of May, 2004.

10) SUSTAINABILITY REPORT

The City of the Future: Elements of a Vision

The culture of strong product specialization generates constant research on new planning and implementation standards with constant activity aimed at improving products.

Within the commercial area, advanced analyses have been carried out on the planning and adoption of solutions for each type of offer (from universities, to stores or chains, to city hotels or tourism centers, or offices, regardless of their medium or long term development processes) and referred to state-of-the-art international experiences and integrated in the Italian market. This has produced a high advisory capacity of functional value with respect to the needs of the different types of end users.

The "Build to suit" philosophy focuses on the needs of the end user, who is the user of the Real Estate.

Organizational studies, functional analyses, and flexibility criteria have produced new "cultural claims" that are extremely innovative for the Italian market.

An example for all: as far as office rentals per square meter paradigm, Pirelli & C. Real Estate decided over the time to determine the rental cost of the office on the basis of a series of efficiency indicators of the real estate, such as the space per number of people, space per workstation, real estate management costs, elements of architectural flexibility, and general identifying factors of overall efficiency in accordance with the specific needs of the client.

In the area of Residential Development, intervention standards based on the evolution of market needs have also been defined.

The business unit itself (Asset Management) carries out, in its planning activity, a constant monitoring of the best international practices, integrating them with the indications that the "Services" business unit (Project Management and Agency) draws from the direct contact with clients.

This leads to the definition of Pirelli RE's style and planning procedure and to its integration with that of the "Architect", thus increasing the company's overall planning efficiency.

It is therefore possible to combine the aspects of urban planning with the commercial ones, improving the main building parameters (high value outdoor environments, high level architecture, functionality and flexibility of the environment, quality of works and materials, active and passive security, utilities, maintenance costs) and trying to deliver customized products with constant attention to the management of customer relations in all phases.

Capitalizing upon the experience of the "Bicocca Project", which was one of the broadest and most comprehensive interventions of urban restructuring, combined with those derived from recent strategic acquisitions (experiences in Milano 2 and Milano 3 developed by EdilNord and now fully integrated into Pirelli RE), the goal is to widen the planning of new residential areas by highlighting their social, environmental, cultural and service value according to multiple life-styles.

The development of great urban areas requires comprehensive measures in the whole sector to add value to the territory.

The "Bicocca Project" was one of the broadest and most comprehensive interventions of requalification and urban restructuring undertaken in Europe in the last 30 years and probably one of the most strategic for the Milan area.

The objective has been to re-use the main divested industrial areas of the Pirelli plants and subsequently those of the former Ansaldo plants in order to establish a central hub in the Northern area of Milan.

As in Milan, the territory surrounding the main Italian cities is undergoing a phase of evolution and re-definition of the relationship between "city and countryside".

What was once the "spirit of the village" is now "a new connected territory, a new and complex network with different functions according to type, whether commerce, service, entertainment and which leaves space for closed agricultural areas, deserted areas, parking areas and warehouses" (*).

Pirelli RE, is currently carrying out 12 development projects in urban areas in Italy and has acquired a very deep and potentially unique experience in planning complex interventions on the territory, communicating with the institutional parties, identifying specific territorial needs and comparing its strong "product specialization" with the players of the territory in order to determine the feasibility of each real estate project.

In the future, this activity area will increasingly become an integral part of the planning and development process of the territory, with respect to the relationships with public parties.

For the creation of this city of the future, Pirelli RE is involving the expertise of its staff in the various specialist divisions, its best planning forces and the most advanced technologies. But also something else: a passion and a desire to look ahead in order to transfer this know-how and its implementation to mark the new urban settings for the real needs of the territory.

Human Capital

Pirelli RE's unique business model, together with the strong growth of the Group, represents the main factors that must be governed through human resources management.

The strong specialization in each market sector combined with internal areas of expertise, the selection of the best resources, their training both in terms of sectorial as well as role expertise, and rewards to new managers are some of the new guidelines of human resources policies.

The project plan and the activities conducted with respect to employees are vast and divided into homogenous categories.

The constant development of Pirelli RE, highlighted by the company acquisitions in the course of 2001/2002 (Edilnord, Altair, Cames, Telecom) and continued through 2003 (OMS, Ras, FIM), will challenge the Human Resources Division in its organizational efficiency and particularly in the integration of structures.

This integration objective is the re-organization of the companies of the Pirelli & C. Real Estate Group by making them functional for business, training the personnel hired from different environments and levels of experience and spreading common areas of expertise.

Pirelli RE is a steadily growing company whose dynamic nature is proven by the increase in the number of employees rising from 20 in 1991 up to over 1,500 in 2003. In the last four years, Pirelli RE has governed and structured this growth by means of an increase in the management and in the number of people with executive and control tasks.

(*) Sources: "Notes on Bicocca".

PERSONNEL SELECTION

The Group approaches human resources recruitment in a very structured and articulated fashion, in particular with regard to newly graduated employees—a very important segment in the new hirings of the Group.

Usual recruitment channels include individual applications, website ads and career days in the most important, academic and non, Italian institutions.

The assessment criteria followed in the recruitment process are based on written tests and interviews aimed at evaluting the profile of each candidate with respect to those skills that are considered to be critical for the company: flexibility, analysis, focus on results and leadership.

TRAINING AND DEVELOPMENT

The training of human resources plays a key role in Pirelli & C. Real Estate due to the company's culture and its unique business model. For this reason it is the subject to articulated initiatives.

As far as new graduates are concerned, their professional growth follows the double track of a "compulsory" institutional training based on a policy of interfunctionality as well as specific paths for the acquisition of specialized skills related to the various business units of the Group. Internal career ladders are developed according to the strategy of the Company.

Other training pathways are targeted to the development of the expertise and skills required to effectively cover the roles assigned in the various structures (asset, commercial agencies, other service companies) and are conducted in collaboration with major universities, such as SDA Bocconi, with which Pirelli & C. Real Estate is developing *ad hoc* courses.

In the last few years, with regard to the personnel already within the company, Pirelli & C. Real Estate has implemented a policy involving the rewarding and strengthening of human resources through ongoing professional training in the major Italian management schools with internationally recognized certificates.

These individually obtained certificates represent a critical factor for the Group in addition to representing a valuable element of the human capital in itself, since they are more and more required by public bodies even in light of the evolution of the law.

Other training programs and development plans focus on executive functions and "high potential" resources in order to identify functional and appropriate career paths by means of specific external assessment methods.

The human resources management is planning training days that should be carried out by key internal figures within the various divisions in order to guarantee a wide diffusion of know-how (competence sharing), tailor-made training, rewarding of internal capacities and optimized training time.

In the first months of 2003 an analysis of the company's environment involving all employees of the Group was carried out. This analysis will be conducted periodically in order to better understand the experience and expectations of the employees and therefore identify tailor-made career plans, in addition to training policies that respond to the expectations and needs of the employees of Pirelli & C. Real Estate.

All these initiatives are aimed at favoring the professional growth of human resources, promoting the diffusion of key competencies within the Group and using management and communication methods aiming at promoting and developing the human capital—the real asset of Pirelli & C. Real Estate.

Environmental responsibility and job security

ENVIRONMENT

Pirelli & C. Real Estate has always paid special attention to environmental issues. For this purpose, a unit within the Project Management Group has been created, in order to carry out investigations on environmental due diligence and coordinate the executive phases of redevelopment operations.

These activities are carried out both on behalf of the Group, as well as for third parties, and are aimed at the assessment of environmental “liabilities” (a state of soil and office contamination) as well as decontamination measures on the various sites involved in real estate operations.

The task force entrusted with these activities is composed of a group of highly qualified specialists co-operating with engineering companies of proven reliability, as well as independent chemical laboratories and major Universities. It acts on the whole national territory and has carried out over 50 decontamination interventions and 500 estimates on real estate related environmental liabilities.

It should be noted that all controls done by the relevant Authorities in the course of 2002 and 2003 on the restoration works undertaken by Pirelli & C. Real Estate have highlighted the full respect and in compliance with the current laws on the subject.

In particular, the Grande Bicocca Project, which extends over an area of about 947,000 square meters, should be noted. The main redevelopment operations carried out in 2002 within this project include: removal of the asbestos insulation of over 5,000 meters of tubing; removal and processing of over 50,000 square meters of asbestos concrete coverings; removal, processing and/or treatment of over 90,000 tons of contaminated earth and the subsequent recovery of over 60,000 square meters of ground; and environmental investigations and decontamination of several divested plants.

In the course of 2003, new ongoing projects were undertaken.

Pirelli & C. Real Estate has recovered over 350,000 square meters of industrial areas, including the locations of Livorno Ferraris (Cavi Pirelli Plant), the ex Ansaldo area in Milan, and the optic fiber plant in San Donato Milanese (Mi).

Redevelopment projects are currently being assessed or planned for the areas of Saronno (former Isotta Fraschini of about 120,000 square meters), the Corsico area (former Cartiere Burgo of 250,000 square meters), the Settimo Torinese area (former Ceat Cavi of 220,000 square meters) and the Somma Lombardo area (former Itala of 40,000 square meters).

The redevelopment of the aforesaid areas is still undergoing and will continue in the future.

PROTECTION OF WORKERS

In order to ensure the protection workers in terms of security and hygiene in the workplace, as well as increase the quality of life of its employees, Pirelli & C. Real Estate constantly monitors environmental issues and promotes information campaigns and regular training periods.

In order to cover all these aspects, the Group created an internal series of operational standards in compliance with the current laws on the subject (Government Decree 626/94).

Security management for all companies of the Pirelli & C. Real Estate Group include organizational activities for prevention and protection services, as well as risk estimate, emergency management and sanitary surveillance.

Special attention is paid to the training of workers—particularly for operational personnel working in building-yards and in real estate management, specific training aimed at improving the knowledge of the standards that regulating their working activities, are carried out for these employees.

Other training activities are focused on professionals with specific responsibilities related to the compliance with the laws on real estate security.

Social Responsibility

Social Responsibility is becoming a permanent feature destined to affect the behaviour of the Company of the future, and through which the valorization of the relationship between the Company and society will be expressed—thus not only with respect to shareholders but also with respect to all elements of society that interact and get in contact with the Company.

This is also one of the objectives of the European Union which, together with the Green Book on the social responsibility of companies, tends to reconnect the objective of profit maximization with a positive impact on society.

The Company is evaluated not only on the basis of its production of wealth, but also for its social function: from quality job creation to the promotion of social networks; attention to employment; and training of human resources and environmental concerns.

In addition to taking on this new direction of total responsibility of the company, Pirelli RE is also fully aware of the specific responsibility deriving from its position of market leader.

Not only is Pirelli RE involved in the respect of fundamental "ethical" standards but also plays an active promotional role in the positive change of the professional and ethical standards of the sector. In addition to the vision and programs described in other sections of this document ("The City of the Future", "Human Capital" and "Environmental Responsibility") Pirelli RE has identified, in 2002, three specific areas of strategic importance.

The connecting thread of all these ventures is their connection with the real estate sector:

- cultural measures: improvements in structrues and buildings or support for initiatives that involve the world of construction and are rooted in the territory;
- social measures in which the home or home assistance are clearly present or identifiable; interventions in sport to provide sport associations with new structures or to improve existing ones.

Property is thus the aggregating factor in the interventions decided by Pirelli RE, whether it be the origin or source of a social issue that is tackled and solved.

The intervention path has been undertaken in 2003 and is characterized by a high number of unexpensive single actions that are able to solve problems or specific social issues.

In order to provide visibility for the undertaken initiatives, Pirelli RE has published a photographic book called the "Invisible Hand" by Carlo Gavazzeni showing images of social issues. The book was presented in a photography exhibition during which further funds were collected—through both book and photo sales; these funds were then integrated by Pirelli RE for other interventions to be undertaken in the course of 2004.

The company paid particular attention to small shareholders. A bimonthly newsletter is published on the website, www.pirellirealestate.com, receivable by email after registration, and designed for small savers with the objective of making the complex Pirelli RE's overall activities —which have made the company the leader of the Italian real estate market— more understandable.

In December 2003, the Shareholder's Guide was published for the first time in Italy together with Borsa Italiana—this document describes the rights of the small saver as shareholder of Pirelli RE and how to exercise these rights.

The Guide is distributed through Borsa Italiana, which is determined to make this Guide the benchmark reference for the Italian stock market, the Pirelli RE Internet site and attached in 40,000 copies to one of the main financial magazines.

Milan, March 22nd 2004

The Board of Directors

11. RESOLUTIONS

11.1 Ordinary items

1) Management Report of the Directors; Report of the Board of Statutory Auditors; Financial Statements on December 31st, 2003; Allocation of profits.

The financial year ending December 31st, 2003, closed with a consolidated net income of euro 102,067,000 and euro 74,710,427 of civilistic net income.

The Board proposes the distribution of a dividend, gross of any tax withholdings, of euro 1.41 per each ordinary share.

By effect of the fiscal reform come into force on January 1st, 2004, the proposed dividends are not subject to any tax credits, with the exception of what specified below.

The tax credit is only applicable if the dividends are perceived in the course of the accounting period that does not coincide with the current calendar year up until December 31st, 2003— from resident corporations or commercial entities, or non-resident ones if subject to international conventions preventing double taxation.

In this case a tax credit of 51.51% is applicable.

The tax credit is ordinary, with a right to refund on the dividend quota equal to Euro 0.90 and is limited, without right to refund, to the dividend quota equal to Euro 0.51.

If you agree with our proposal, we would invite you to approve the following:

RESOLUTION

The shareholders' meeting:

- having considered the relevant management report of the Board of Directors;
- having considered the report of the Board of Statutory Auditors;
- having examined the financial statements of December 31st, 2003, which closed with a consolidated net income of Euro 102,067,000 and Euro 74,710,427 of civilistic net income;

RESOLVES

1) to approve:
   a) the management report of the Board of Directors;
   b) the financial statements for January 1st, December 31st, 2003, composed of the balance sheet, income statements and integration notes, as presented by the Board of Directors, and with their individual records and proposed allocations;
2) to allocate the profits of the year of Euro 74,710,427 as follows:
   a) Euro 1.41 to shareholders for each of ordinary circulating share on the date of dividend issuing, and with the allocation of a tax credit within the terms proposed above by the Board of Directors;
   b) Carry forward residual net income, since the legal reserve has already reached one fifth of the share capital.

3) To authorize the Directors— in case that before the dividend issuing as per the preceding point 2) a) treasury shares are purchased— to allocate the value of the dividend of these shares to the profit carried forward, as well as allocate to the same entry the balance of any rounding that would take place during payment of the dividend.

* * *

2) Appointment of the Board of Directors after determining the number of members to be elected; fixing the remuneration of the directors.

Shareholders,

The Shareholders' Meeting is called to appoint a new Board of Directors, after determining the number of members to be elected, since the current Board, appointed at the Ordinary Meeting held on 30th May 2001, ceases to serve at the Shareholders' Meeting held to approve the financial statements for 2003.

In this regard, art. 12 of the Articles of Association establishes that the Board of Directors of the Company must comprise between 5 (five) and 19 (nineteen) members, that they will remain in office for three financial years (unless a shorter period is established at the Shareholders' Meeting that appoints them) and that they may be re-elected.

In order to appoint the new Board of Directors in accordance with the provisions of art. 7.1 of the Code of Conduct for Listed Companies, which has been adopted by the Company, the Shareholders are invited to deposit their proposals for appointments to the position of director, accompanied by detailed information on the personal traits and professional qualifications of the candidates (with an indication where appropriate of their eligibility to qualify as independent directors as defined in art. 3.1 of the above Code), at the Company's registered offices at least 10 days before the date fixed for the Shareholders' Meeting.

The Shareholders' Meeting must also fix the remuneration of the new directors.

Arts. 3.1 and 7.1 of the Code of Conduct for Listed Companies are transcribed below.

Art. 3 of the Code of Conduct for List Companies – Independent Directors

3.1 An adequate number of non-executive directors shall be independent, in the sense that they:

a) do not entertain, directly or indirectly or on behalf of third parties, nor have recently entertained business relationships with the company, its subsidiaries, the executive directors or the shareholder or group of shareholders who controls the company of a significance able to influence their autonomous judgement;

b) neither own, directly or indirectly or on behalf of third parties, a quantity of shares enabling them to control the company or exercise a considerable influence over it nor participate in shareholders' agreements to control the company;

c) are not immediate family members of executive directors of the company or of persons in the situations referred to in points a) and b).

Art. 7 of the Code of Conduct for Listed Companies – Appointment of Directors

7.1 Proposals for appointments to the position of director, accompanied by detailed information on the personal traits and professional qualifications of the candidates, with an indication where appropriate of their eligibility to qualify as independent directors as defined in art. 3, shall be deposited at the company's registered offices at least 10 days before the date fixed for the shareholders' meeting, or at the time the election lists, if provided for, are deposited.

* * *

3) Appointment of the Board of Statutory Auditors and its Chairman; fixing of the remuneration of the serving Auditors.

Shareholders,

The Shareholders' Meeting is called to appoint a new Board of Statutory Auditors since the current Board, appointed at the Ordinary Meeting held on 30th May 2001, ceases to serve at the Shareholders' Meeting held to approve the financial statements for 2003.

In this regard, art. 22 of the Articles of Association establishes that the Board of Statutory Auditors is elected on the basis of lists, containing a number of candidates that is not greater than the number of members to be elected, presented by shareholders who, alone or together with other shareholders, represent at least 2 per cent of the shares with voting rights at the Ordinary Meeting.

The lists of candidates (listed in numerical sequence) must be signed by those who present them and deposited at the registered offices of the Company, at least 10 days prior to the date fixed for the Shareholders' Meeting in first calling, together with a description of the professional curricula of the nominated persons and declarations from the individual candidates accepting their candidature and certifying, under their own responsibility, that no causes of ineligibility or incompatibility exist and that they comply with the requirements for the position prescribed by law or by the Articles of Association.

Art. 22 of the Articles of Association is transcribed below.

Art. 22 of the Articles of Association – Board of Statutory Auditors

The Board of Statutory Auditors is made up of three acting statutory auditors and two alternate statutory auditors who meet the requirements laid down in the rules and regulations currently in force; to this end, it will be borne in mind that the subjects and sectors of activity closely related to those of the company are those shown in the company's purpose, with particular reference to companies or entities operating in the financial, industrial, banking, insurance and real estate fields and in services in general.
An ordinary shareholders' meeting elects the Board of Statutory Auditors and decides on their compensation. One acting statutory auditor and one alternate statutory auditor are to be elected by the minority shareholders.
Except as envisaged in the penultimate paragraph of this article, the Board of Statutory Auditors is appointed on the basis of lists presented by the shareholders in which the candidates are listed in numerical sequence.
Each list contains a number of candidates that is not greater than the number of members to be elected. Only shareholders who on their own or together with other shareholders represent at least 2 percent of the share capital with voting rights at ordinary shareholders' meetings are entitled to present voting lists.
The list of candidates, signed by those who present it, must be registered at the company's registered place of business at least ten days prior to the date set for the meeting at first calling. Declarations must be attached to the list confirming that each candidate accepts their candidature and certifies, under their own responsibility, that there are no reasons for ineligibility or incompatibility and that they have the requisites for office as prescribed.
Lists that fail to comply with these instructions will be considered as though they had not been presented.
Each candidate can only be included on one list; otherwise, the person will be considered ineligible.
Those who do not have the requisites laid down in the rules or who already hold the position of statutory auditor in more than five listed companies on Italian regulated markets, with the exclusion of Pirelli & C. Real Estate S.p.A.'s parent and subsidiary companies, cannot be elected as statutory auditors.
Those entitled to vote can only vote for one list at a time.
The procedure for the election of the members of the Board of Auditors is as follows: two acting auditors and one alternate auditor are taken, in the numerical sequence in which they are listed, from the list that obtained the greatest number of votes; the remaining acting auditor and the other alternate auditor are taken, in the numerical sequence in which they are listed, from the list that obtained the next greatest number of votes at the shareholders' meeting; in the case that more than one list has obtained the same number of votes, a new ballot vote is taken between these lists by all the shareholders present at the meeting, with the candidates of the list that obtains the simple majority of votes being elected.
The acting member indicated as the first candidate in the list that obtained the highest number of votes is entitled to be chairman of the Board of Auditors.
In the event of death, renunciation or forfeiture of an auditor, they are to be replaced by an alternate auditor belonging to the same list. If the chairman of the Board of Auditors has to be replaced, the other acting member on the same list as the chairman takes over the chair; if it is not possible to make replacements according to these criteria, a shareholders' meeting will be called to integrate the Board of Statutory Auditors, passing the resolution with a relative majority of the votes cast.
If, in accordance with the previous paragraph or as required by law, the Shareholders' Meeting is called on to appoint new Acting and/or Alternate Auditors to the Board of Statutory Auditors, the following procedure is adopted: if auditors

elected from the majority list have to be replaced, the appointment is made by the relative majority of votes cast without the need for lists; if, however, auditors designated by the minority shareholders have to be replaced, the Shareholders' Meeting replaces them by electing, where possible, by a simple majority of the votes cast, persons on the same list as the auditor to be replaced.

When the shareholders' meeting has to provide, in accordance with the previous paragraph or in accordance with the law, for the appointment of acting and/or alternate statutory auditors needed to integrate the Board of Statutory Auditors, the following procedure has to be followed: if auditors elected in the majority list have to be replaced, the appointment is made by voting with a relative majority without being tied to a particular list; if, however, auditors designated by the minority have to be replaced, the shareholders' meeting replaces them with a vote by relative majority, choosing them where possible from the candidates indicated in the list to which the auditor to be replaced belonged.

In the absence of lists, the Board of Statutory Auditors and its Chairman are appointed at the Shareholders' Meeting by the majorities required by law.

Outgoing Statutory Auditors may be re-elected.

Report of the directors on the proposals to authorise the purchase and/or sale of own shares pursuant to art. 73 of Consob Regulation 11971 dated 14th May 1999, and subsequent amendments.

* * *

4) Proposal to purchase and ways to deploy own shares, revoking the shareholders' resolution adopted on 6th May 2003, to the extent not utilised. Related and consequent resolutions. Conferral of powers.

Shareholders,

By resolution adopted on 6th May 2003, you authorised the purchase of own shares (ordinary) representing not more than 10% of share capital, having regard for the own shares already held by the Company and any that may be held by subsidiary companies, during a period of 18 months from the date of the resolution, as well as their subsequent deployment, if appropriate.

The above authorisation will expire on 5th November 2004.

With regard to the purchase of own shares, the reasons that induced the Directors to propose the resolution in May 2003 still apply i.e. the utility of being able to intervene (in accordance with the law and ensuring equal treatment for all shareholders) in unusual market situations, in order to take stabilising action that improves the liquidity of the market, encourages normal trading and facilitates the overall consistency of market prices with the intrinsic value of the shares. In order to avoid calling a specific meeting closer to the above expiry date, we therefore consider it useful to propose that today's meeting should grant a new authorisation on this subject, revoking the current authorisation to the extent not already utilised; the following proposed resolution sets out how purchases and sales should be carried out, and the basis for selling the own shares already held.

* *

If you agree with us, we invite you to approve the following

RESOLUTION

The shareholders' meeting:

- having noted the Directors' proposal;
- having regard for the requirements of arts. 2357 and 2357-ter of the Italian Civil Code;
- noting that, as of 19th March 2004, the Company and its subsidiary Progetto Grande Bicocca S.r.l. hold, in total, 2,322,900 ordinary shares representing about 5.7% of share capital which totals Euro 20,302,491.00;

HEREBY RESOLVES:

1) to revoke the resolution adopted by the ordinary shareholders' meeting on 6th May 2003 which authorised the purchase and ways to deploy own shares, confirming the purchases and deployments carried out to date;

2) to authorise the purchase of a maximum number of own shares (ordinary), par value Euro 0.50 each, not exceeding 10% of share capital having regard for the own shares already held by the Company and any that may be held by subsidiary companies, establishing that:
   - purchases may be made on one or more occasions during the period of 18 months from the date of this resolution;
   - purchases must be made on the basis agreed with the company that administers the market in order to ensure equality of treatment for shareholders pursuant to art. 132 of Decree 58 dated 24th February 1998;
   - the purchase price of each share must not be 15% lower than or 15% greater than the average of the official prices recorded on the official market administered by Borsa Italiana for the three trading sessions prior to each transaction, exception with regard to purchases as a result of withdrawal;
   - purchases must be made from the distributable profits and/or distributable reserves reported in the latest officially approved financial statements, establishing a reserve for own shares held as and to the extent required by law;

3) to authorise the Board of Directors—and for it the Chairman and the Deputy Chairman and Managing Director, acting independently—to deploy without time limit the own shares already held or purchased pursuant to the resolution described in point 2), even before having completed all the purchases; disposals may take place on one or more occasions; shares may be transferred by sale or exchange (including offers to the public, to the shareholders and to the employees of and/or directors of and/or collaborators with the Company or its subsidiaries, including for the service of any share incentive plans - "stock options"); in the event of sale, the price must not be lower than the lowest purchase price; this price limit will not apply if the transfer of shares is made to the employees of and/or directors of and/or collaborators with the Company or its subsidiaries, as part of any stock option plans; the shares may also be transferred by attachment to bonds or warrants on the exercise of such instruments;

4) to confer on the Board of Directors—and for it on the Chairman and the Deputy Chairman and Managing Director, acting independently—all necessary powers to make purchases and sales, including by transactions that follow each other, and in any case to implement the above resolutions, directly or via appointed agents, complying with any requests made by the competent authorities.

* * *

5) Fixing the remuneration of the members of the Supervisory Body appointed pursuant to Decree 231 dated 8th June 2001.

Shareholders,

Decree 231 dated 8th June 2001 ("The administrative responsibilities of legal persons, companies and associations, including those without legal personality, pursuant to art. 11 of Law 300 dated 29th September 2000") introduced the possibility of recognising a direct company responsibility for specific illegal acts against the public administration (corruption, abuse of official position, misappropriation, computer fraud, falsification of coins, notes and stamps)—together with the recent addition of corporate illegal acts and those linked with terrorism—committed by individual physical persons in the interests of the company.

Such responsibility can only be excluded on condition that companies demonstrate, in any penal proceedings held in relation to one of the illegal acts identified, that suitable organisational models were adopted to prevent the perpetration of the above illegal acts.

With regard to the above, at the meeting held on 29th July 2003, the Board of Directors of Pirelli & C. Real Estate S.p.A. approved its own "Organisational Model 231"—prepared in accordance with the "Guidelines" issued in February 2002 by Confindustria and submitted to the Justice Ministry—and also established a specific Supervisory Body comprising:

- an independent director who is a member of the Internal Audit and Corporate Governance Committee;
- the Chairman of the Board of Statutory Auditors;
- a representative of the Audit Department of Pirelli & C. S.p.A..

The Board granted the Supervisory Body all the widest powers necessary to ensure timely and efficient supervision of the functioning of and compliance with the above Organisational Model.

Given this introduction, it seems appropriate that the remuneration of the Supervisory Body should be fixed by this Meeting, especially considering that the Board of Directors that you have just appointed during this Meeting envisages calling on members of the Board and/or the Board of Statutory Auditors to be part of the above Supervisory Body.

Accordingly, you are invited to adopt the appropriate resolutions with regard to such remuneration.

* * *

6) Proposal to adopt Rules for Shareholders' Meetings.

Shareholders,

Pursuant to art. 2364.1. 6) of the Italian Civil Code, as modified by Decree 6 of 17 January 2003 (so-called Vietti Reform), the powers reserved for the shareholders in general meeting include the approval of rules for the conduct of their meetings.

This requirement adopts recommendations included in the Code of Conduct for the companies listed by Borsa Italiana (so-called Preda Code), which contemplates the adoption of a regulation to govern the orderly and functional conduct of ordinary and extraordinary meetings.

As you know, the Board of Directors of Pirelli & C. Real Estate S.p.A. considered the requirements set down in the Articles of Association concerning the functioning of general meetings to be, per se, sufficient to guarantee their conduct in a proper and orderly fashion.

However, the Board has taken note of the preference expressed over time by investors with regard to the adoption of this instrument by listed companies, as useful support for the conduct of business at general meetings.

In view of the above, your directors—with the intention of facilitating the ever increasing participation of shareholders in the life of the company—have prepared rules for shareholders' meetings which, pursuant to art. 2364 of the Italian Civil Code are presented for your approval.

* * *

If you agree with us, we invite you to approve the following

RESOLUTION

The shareholders' meeting:

- having noted the Directors' proposal;
- taking account of the requirements of art. 2364.1.6) of the Italian Civil Code;

HEREBY RESOLVES:

to approve and adopt the Rules for Shareholders' Meetings of Pirelli & C. Real Estate S.p.A. containing the following text which comprises 14 articles:

RULES FOR SHAREHOLDERS' MEETINGS
Pirelli & C. Real Estate S.p.A.

Article 1

— These Rules apply to the Company's ordinary and extraordinary shareholders' meetings.

Article 2

— To the extent not specified in the Rules, the Chairman of the meeting (hereafter "the Chairman") ensures the proper conduct of business at general meetings, adopting—as provided for by law and in the Articles of Association—the measures and practices deemed most appropriate.

Article 3

— Attendance at the Shareholders' Meeting with a right to intervene in the discussions and to vote is reserved for those so entitled pursuant to the applicable regulations (hereafter "the Participants").

— Unless specified otherwise in the notice of meeting, checking of identities and of the right to participate at the Shareholders' Meeting begins, at the meeting location, at least one hour before the scheduled time. Under supervision from the Chairman, the support staff made available by the Company identify the Participants, verify their right to attend and give them a meeting pass to be used for voting and vote-checking purposes.

— Participants are guaranteed the right to follow and intervene in the debate, as well as to cast their vote, in accordance with the procedures determined from time to time by the Chairman.

— Following admission to the Shareholders' Meeting, Participants who leave the meeting place for any reason must inform the support staff.

Article 4

— The meeting may be attended by the Directors, by the managers and employees of the Company or Group companies and by other persons whose presence is deemed useful in relation to the business to be discussed.

— With consent from the Chairman, professional advisors, consultants, experts, financial analysts and specialised journalists, specifically accredited for each Meeting, may observe the proceedings and may be allocated a specific area in which to gather.

— Persons accredited to observe the proceedings must identify themselves to Company personnel at the entrance to the Meeting location and collect a Meeting pass, which must be exhibited upon request.

Article 5

— In accordance with current legislation and the Articles of Association, the Chairman directs business and ensures optimal conditions for the orderly and effective conduct of the Meeting.

— The Chairman may authorise the use of audio-video recording and transmission equipment.

Article 6

- The Chairman is assisted by a Secretary in the conduct of business and the preparation of the minutes, unless the presence of a Public Notary is required. The Secretary and the Public Notary may, in turn, be assisted by persons in their trust.
- With regard to the administration of voting, the Chairman is assisted by scrutineers; support staff may also be used to provide the necessary technical support and security services.

Article 7

- If the attendance required to establish a quorum for the Meeting is not reached after an appropriate time interval, the Participants are informed of the situation and discussion of the items on the agenda is deferred to the next calling, if applicable.
- If considered appropriate by the Chairman and not opposed by a majority of the capital represented at the Meeting, the discussion of business during the Meeting may be suspended for a period that does not exceed three hours.

Article 8

- The Chairman establishes the order of discussion for the business to be conducted, which may differ from the order indicated in the notice of meeting.
- The Chairman may decide to unite the discussion of several items on the agenda, or hold separate discussions for each item on the agenda.
- The Chairman and, on his invitation, those following the meeting pursuant to art. 4.1 above, describe the items on the agenda.

Article 9

- The Chairman is responsible for directing and moderating discussion, ensuring proper debate and preventing disturbances to the normal conduct of the Meeting.
- At the start of the meeting, having regard for the subject matter and the importance of each item on the agenda, the Chairman may fix the time available for the contribution from each orator which, in any case, shall not be less than 15 minutes.
- The Chairman calls on Participants to respect the time limits set for contributions at the start of the Meeting, as well as to keep to the subject of the items on the agenda. In the event of exaggeration and/or abuse of the right to speak, the Chairman removes this right from the person concerned.

Article 10

- Those intending to speak must first apply to the Chairman or the Secretary, indicating the subject matter of their contribution. This application may be presented at any time until the Chairman declares the discussion closed on the matter to which the request to contribute relates.
- Participants may ask to speak for a second time during the same discussion, for a period of not more than five minutes, solely to reply to other contributions or to declare their voting intentions.

Article 11

- The Board of Directors and the Participants may present, together with their reasons, proposals for alternative resolutions or for amendments or additions to those, if applicable, originally proposed by the Board of Directors. The Chairman assesses the compatibility of these proposals with the items on the agenda for the Meeting.

Article 12

— The members of the Board of Directors and the Statutory Auditors may intervene in the discussions; observers pursuant to art. 4.1 above may also take the floor, on invitation from the Chairman, in order, for example, to answer any requests for clarification.

Article 13

— The Chairman adopts appropriate measures to ensure that voting is conducted in an orderly manner, determining that voting on a matter shall either take place immediately following the closure of the related discussion, or after discussion of all items on the agenda.
— The Chairman establishes how each vote shall be conducted, as well as how votes shall be identified and counted, and is responsible for checking the results of voting.

Article 14

— On the completion of voting and the necessary counting, with help from the scrutineers and the Secretary, the results of voting are announced to the Meeting.

* * *

11.2 Extraordinary part

Directors' report on the proposals to amend the Articles of Association pursuant to art. 72.1 of CONSOB Regulation no. 11971 of 14th May 1999, and subsequent amendments.

*

Shareholders,

We have called an extraordinary meeting to submit to you two proposals, one regarding amendments to the company's Articles of Association, mainly concerning the matters dealt with in Decree no. 6 of 17th January 2003 — *An organic reform of the law governing joint-stock companies and cooperatives* — (as subsequently amended by Decree no. 37 of 6th February 2004) and the other to confer powers to the Directors to increase the share capital and issue convertible bonds. The individual resolutions and the reasons behind them are explained below.

* *

As regards the first proposal:

Point 1)
Amendments to articles 2 (place of business), 3 (duration), 5 (share capital), 6 (shares), 7 (calling of shareholders' meeting), 9 (quorums), 10 (meeting procedures), 11 (minutes of shareholders' meetings), 12 (administration of the Company), 13 (chairman and secretary to the Board of Directors), 14 (calling of Board of Directors' meetings), 16 (resolutions of the Board of Directors), 17 (minutes of Board resolutions), 18 (functions of the Board of Directors), 19 (delegation of powers by the Board of Directors), 21 (remuneration of directors), 22 (Board of Statutory Auditors) and 26 (references) of the Articles of Association.
Related resolutions. Conferral of powers.

1. Reasons for the proposal

As is generally known, Decree no. 6 of 17 January 2003 amended, among other things, the articles of the Italian Civil Code that regulate the life of joint-stock companies, requiring legal entities to revise their Articles of Association, bringing them into line with the new provisions of corporate law. This because the delegating law (Law no. 366 of 3rd October 2001) envisaged an extension to the area of autonomy of company by-laws as one of the general objectives of the reform.

Drawing inspiration from the proposals made by Parliament, the Directors of Pirelli & C. Real Estate S.p.A. decided to initiate a wider examination of the current Articles of Association with a view to establishing a series of objectives.

The first, of a technical nature, consists of evaluating the provisions introduced by the new law with the possibility of reproposing them in the new text of the company's Articles of Association. This includes the proposals to amend art. 3 to extend the duration of the company, art. 5 on rights issues with the exclusion of pre-emption rights for up to ten percent of the existing share capital, art. 6 regarding the consequences of introducing or limiting restrictions on the circulation of shares, art. 7 concerning the rules on who can take part in shareholders' meetings and the time limits within which a meeting can be called, art. 10 on the powers of the person who chairs shareholders' meetings, art. 14 on information regarding the matters on the agenda for Board meetings and art. 18 on the powers of the Board and its obligations to provide information.

The second, and perhaps the more important, relates to the constant attention paid by the Board of Directors to the adoption of provisions that encourage a growing participation on the part of all the shareholders in the life of the company and in making the decisions that can determine the success of the enterprise. In view of the above, the company wishes to submit for your approval an amendment to art. 12, introducing the so-called list voting system to appoint members of the Board of Directors. The purpose of this is to ensure that 1/5th of the members of the Board are chosen from candidates nominated by the so-called "minority shareholders", providing, of course, the shareholders take advantage of this right, presenting at least two lists as laid down in art. 12.
To integrate and strengthen this measure, the Board of Directors proposes to add another circumstance in which a Board meeting can be called, making this possible, in art. 14, whenever one is requested in writing by 1/5th of the Directors currently in office. If this proposal is accepted, the Directors nominated by the minority shareholders (1/5th of the total, as we said) would be given more of a chance to have an impact on the life of the company by giving them the right to call Board meetings.

The proposal to amend art. 9 responds to similar needs: by introducing a new second paragraph, it offers the possibility of adopting Regulations for shareholders' meetings, a document designed to regulate the proceedings of Ordinary and extraordinary shareholders' meetings and to involve shareholders in the debate on the matters under discussion. This is as recommended by the Code of Conduct for Listed Companies drawn up by Borsa Italiana S.p.A..

Lastly, we would point out that the proposal relating to art. 7, in the part where it governs the right of attendance, reiterates the Board of Directors' attention to the needs expressed by investors. In fact, in proposing a system of checking investors' rights to attend shareholders' meetings that is totally in line with that mentioned in art. 2370 of the Civil Code, we decided not to take advantage of the possibility to ask for a so-called "share freeze", with a view to encouraging participation also on the part of those shareholders who up to now considered the previous attendance right system excessively onerous.

The third objective—a relatively minor one, but still useful to make shareholders' proceedings more efficient—concerns the adjustment of certain practices that have become obsolete or which can, in any case, be improved. These include the provision in art. 14 regarding the ways in which Board meetings are to be called and the possibility of making more flexible use of modern telecommunications in the way meetings can be held (a point that is reiterated in art. 22 for the Board of Statutory Auditors). Art. 22 also discusses in greater detail the ways in which the lists for the appointment of the Board of Statutory Auditors should be presented.

Lastly, we took the opportunity to carry out a general review of the Articles of Association to bring some structural amendments, to improve the wording of the existing text, to make it more precise or to adjust the terminology or format (including the use of prepositions, upper case or lower case, punctuation, etc.), as shown in the comparison between the existing text and the proposed one.

The following paragraphs explain in detail the impact that the above changes—those of substance—will have on the individual Articles of Association.

Article 2 – Place of business

In accordance with art. 2328 of the Civil Code, mention is made of the municipality in which the place of business is located, without indicating the street name or number and eliminating the word “registered”, in line with the literal text of the law.

Article 3 – Duration

A new second paragraph has introduced the faculty (as per art. 2437.2.a of the Civil Code) to exclude the shareholders’ right of withdrawal (“recession” in legal terminology) in the event that the Company’s duration is extended.

Article 5 – Share capital

We would like to propose the following changes.

The first is to clarify that share capital is understood as meaning the share capital that has been subscribed and paid in.

The second is to introduce a new second paragraph which grants the faculty envisaged by art. 2441.4 of the Civil Code to exclude the pre-emption right up to a maximum limit of ten percent of the existing share capital, provided that the issue price of the shares corresponds to their market value and this is confirmed by a specific report issued by the independent auditors. We would remind you that, if this amendment to the Articles of Association is approved, excluding pre-emption rights up to the maximum limit mentioned above (ten percent of the existing share capital), this will have to be approved by an extraordinary shareholders’ meeting, with resolutions being passed by the majorities laid down in articles 2368 and 2369 of the Civil Code, while the exclusion of pre-emption rights for a percentage higher than that will still require a qualified quorum according to art. 2441.5 of the Civil Code.

The third introduces an indication in letters, not just in figures, of the par value and number of shares involved in the resolution of the extraordinary shareholders’ meeting held on 2nd April 2002.

Article 6 – Shares

By introducing a new third paragraph, the company adopts the faculty under art. 2437.2.b of the Civil Code to exclude the right of withdrawal in the event that restrictions on the circulation of shares are introduced or removed.

Article 7 – Calling of shareholders’ meeting

The amendments proposed relate to: (i) in the first paragraph, a more precise reference to the provisions of the Articles of Association in question; (ii) the introduction of a new second paragraph regarding the possibility of a third notice of calling to extraordinary shareholders’ meetings, in compliance with the provisions of art. 2369.6 of the Civil Code; (iii) the introduction of a new third paragraph concerning the right of attendance at shareholders’ meetings, according to art. 2370.2 of the Civil Code, and (iv) the reallocation, in a new fourth paragraph, of the term within which an ordinary shareholders’ meeting has to be called, using the new approach governed by art. 2364.2 of the Civil Code, previously contained in art. 11 of the Articles of Association and now replaced by another provision.

Article 9 – Quorums

We would like to propose a new second paragraph which, while emphasising the fact that shareholders' meetings are governed by the law and by the Articles of Association, also provides for the adoption of Regulations for Shareholders' Meetings, a document aimed at regulating the proceedings of ordinary and extraordinary shareholders' meetings and how shareholders can join in the debate on the matters under discussion.

Article 10 – Meeting procedures

The amendments proposed relate to: (i) the introduction of a new second paragraph, which regulates how the chairman of the meeting is to be appointed if the persons mentioned in the first paragraph are not present; (ii) an explanation in the third paragraph of the way in which the Secretary to the meeting should be appointed, along the same lines as what art. 2371 lays down for the Chairman; (iii) the rewording in a new fourth paragraph, again in accordance with art. 2371.1 of the Civil Code, of the powers held by the Chairman of the shareholders' meeting, previously contained in the third paragraph; (iv) reallocation of the current fourth paragraph, without any modification, in art. 11 of the Articles of Association.

Article 11 – Minutes of shareholders' meetings

The contents of the previous fourth paragraph of art. 10 of the Articles of Association—regarding the keeping of minutes of shareholders' meetings and from which art. 11 derives its title—has been transferred to this article without any modification, eliminating the current content relating to the term for the notice of calling to shareholders' meetings, now contained, with new wording, in the new fourth paragraph of art. 7 of the Articles of Association.

Article 12 – Administration of the Company

We would like to propose the following changes.

The first introduces clarification regarding the power of the shareholders' meeting to establish the number of members of the Board of Directors.

The second concerns the adoption of the so-called "voting list" system for the appointment of members of the Board of Directors. As mentioned previously, this proposal is designed to encourage further participation of persons nominated by the so-called "minority shareholders" in the life of the company, reserving for them 1/5th of the directors, providing at least two lists of candidates are presented as laid down in art. 12.

The third provides for the reallocation, without any modification, from the last paragraph of the existing text to the penultimate paragraph of the proposed text, of the rules governing the Board's falling from office in the event that more than half of the directors cease to be in office.

Article 13 – Chairman and Secretary to the Board of Directors

The first paragraph establishes that it is up to the Board of Directors to appoint the Chairman of the Board if the shareholders' meeting has not already done so.

Article 14 – Calling of Board of Directors' meetings

The amendments proposed relate to: (i) the provision, in the first paragraph, that a Board meeting also has to be called whenever one is requested in writing by at least 1/5th of the directors currently in office; (ii) the introduction of a new second paragraph governing the information that the Directors have to be sent prior to the meeting on the matters to be discussed, bearing in mind the circumstances in question; (iii) better and more succinct wording—in the third paragraph—of the ways in which Board meetings can be called; (iv) the introduction of a new fourth paragraph to provide for the possibility of "general" Board meetings (i.e. with 100% attendance); (v) the rewording of the current third and fourth paragraphs in a new fifth paragraph, laying down the rules for a more efficient use of modern telecommunications techniques for holding Board meetings.

Article 16 – Resolutions of the Board of Directors

It is clarified that Board resolutions are passed by a majority of the votes cast.

Article 17 – Minutes of resolutions

We would like to propose a better wording for the ways in which Board resolutions are to be minuted.

Article 18 – Functions of the Board of Directors

The amendments proposed concern two main aspects.

The first, which involves the insertion of a new second paragraph, relates to the attribution to the Board of Directors of the power in some of the circumstances mentioned in art. 2365.2 of the Civil Code, and in particular in resolutions concerning mergers in the cases envisaged in arts. 2505 and 2505-bis of the Civil Code, the opening or closing of secondary branches, reduction of the share capital in the event of withdrawal by a shareholder, amendments to the Articles of Association to bring them into line with regulatory dispositions and the transfer of the company's place of business within Italy.

The second concerns the regulation of information flows, as regards dealings between the Board of Directors, the Board of Statutory Auditors and delegated bodies (art. 2381.5 of the Civil Code and art. 150.1 of Decree 58 of 24th February 1998), by rewording the current second and third paragraphs and transferring them to the new third and fourth paragraphs.

Article 19 – Delegation of powers by the Board of Directors

Two amendments are proposed.

The first, in paragraph two, clarifies that the committees that the Board of Directors can appoint have both a consultative and a propositive function, among other things with a view to bringing the corporate governance structure into line with the recommendations made periodically by the pertinent authorities.

The second, in paragraph three, expressly provides for the possibility that the Board of Directors, the Managing Directors or the General Managers can delegate powers to individual representatives to carry out single deeds or categories of deeds, laying down their powers and duties.

Article 21 – Remuneration of Directors

We would like to propose rewording the rules governing the remuneration of the members of the Board of Directors, in line with the provisions of art. 2389 of the Civil Code, stating that they are to receive an annual fee established by the shareholders' meeting, in addition to reimbursement of any out-of-pocket expenses incurred in performing their duties, and that the remuneration of directors holding particular offices is to be set by the Board of Directors, having consulted with the Board of Statutory Auditors.

Article 22 – Board of Statutory Auditors

The amendments proposed relate to: (i) a more precise wording of the ways in which ownership of the minimum number of shares needed to present voting lists is to be proved, in accordance with art. 2370.2 of the Civil Code; (ii) a provision to split voting lists into two sections (one for the acting auditors, the other for the alternate auditors) so as to verify with greater punctuality that candidates have the requisites laid down in the Ministry of Justice Decree 162 of 30th March 2000 and art. 2397 of the Civil Code; (iii) rewording of the provision regarding the ways in which statutory auditors are to be appointed if, for whatever reason, it is impossible to follow the usual procedure; (iv) an express provision of the possibility to hold meetings of the Board of Statutory Auditors using modern telecommunications techniques, in the same way as already established for Board meetings.

Article 26 – References

References to the civil code and special laws concerning aspects not contemplated in the Articles of Association are replaced with wider references to all provisions of law.

2. *Comparative texts of the Articles of Association to be amended*

Comparison of the existing text of the Articles of Association with the amendments that you are being asked to approve is contained in the following motion.

3. *Board of Directors' considerations regarding possible use of the right of withdrawal*

The Board of Directors of Pirelli & C. Real Estate S.p.A. is of the opinion that these amendments to the Articles of Association, as well as those that will be explained later on in connection with the granting of powers to the Directors for the increase in share capital and the issue of convertible bonds, do not give rise to a shareholders' right of withdrawal pursuant to art. 2437 of the Civil Code.

* *

If you agree, we invite you to approve the following

RESOLUTION

"The extraordinary shareholders' meeting,

- having taken note of the Directors' Report explaining their proposed amendments to articles 2 (registered place of business), 3 (duration), 5 (share capital), 6 (shares), 7 (calling of shareholders' meeting), 9 (quorums to hold meetings and to vote), 10 (meeting procedures), 11 (minutes of shareholders' meetings), 12 (administration of the Company), 13 (chairman and secretary to the Board of Directors), 14 (calling of Board of Directors' meetings), 16 (resolutions of the Board of Directors), 17 (minutes of Board resolutions), 18 (functions of the Board of Directors), 19 (delegation of powers by the Board of Directors), 21 (remuneration of directors), 22 (Board of Statutory Auditors) and 26 (references) of the Articles of Association.

HEREBY RESOLVES:

a) to amend art. 2 of the Articles of Association as follows:

CURRENT TEXT	***PROPOSED TEXT***
Article 2	**Article 2**
The ~~registered~~ place of business of the company is in Milan ~~, via Gaetano Negri, 10~~. It can open and close sub-offices, agencies, branches and representative offices, in Italy and abroad.	The company's place of business in Milan. It can open and close sub-offices, agencies, branches and representative offices, in Italy and abroad.

b) to amend art. 3 of the Articles of Association as follows:

CURRENT TEXT	***PROPOSED TEXT***
Article 3	**Article 3**
The duration of the company will be until 31st (thirty-first) December 2100 (two thousand one hundred).	The duration of the company will be until 31st (thirty-first) December 2100 (two thousand one hundred). **<u>An extension of the duration does not give any right of withdrawal to shareholders who did not vote the resolution.</u>**

c) to amend art. 5 of the Articles of Association as follows:

CURRENT TEXT	*PROPOSED TEXT*
Article 5	**Article 5**
The share capital amounts to Euro 20,302,491 (twenty million three hundred and two thousand four hundred and ninety one) divided into 40,604,982 (forty million six hundred and four thousand nine hundred and eighty-two) shares with a par value of Euro 0.5 (zero point five) each.	The share capital, **subscribed and paid-in**, **is equal to** Euro 20,302,491 (twenty million three hundred and two thousand four hundred and ninety-one) divided into 40,604,982 (forty million six hundred and four thousand nine hundred and eighty-two) shares with a par value of Euro 0.5 (zero point five) each. **In resolutions to increase the share capital by means of a rights issue (for payment), pre-emption rights may be excluded up to a maximum limit of ten percent of the existing share capital, provided that the issue price of the shares corresponds to their market value and this is confirmed by a specific report issued by the independent auditors.**
The extraordinary shareholders' meeting passed another resolution on 2nd April 2002 to increase the share capital for payment, splittable, for a maximum amount at par of Euro 2,100,000 (two million one hundred thousand), by issuing, in one or more tranches, a maximum of 4,200,000 (four million two hundred thousand) ordinary shares, with a par value of 0.5 (zero point five) each, with normal dividend and voting rights, at a share premium, excluding pre-emption rights in accordance with art. 2441.6 & 8 of the Civil Code; shares to be reserved for directors and employees of the company and/or of its subsidiaries to service one or more stock option plans, the increase to be carried out by 31st December 2006 at latest.	The extraordinary shareholders' meeting passed another resolution on 2nd April 2002 to increase the share capital for payment, splittable, for a maximum amount at par of Euro 2,100,000 (**two million one hundred thousand**), by issuing, in one or more tranches, a maximum of 4,200,000 (**four million two hundred thousand**) ordinary shares, with a par value of 0.5 (**zero point five**) each, with normal dividend and voting rights, at a share premium, excluding pre-emption rights in accordance with art. 2441.6 & 8 of the Civil Code; shares to be reserved for directors and employees of the company and/or of its subsidiaries to service one or more stock option plans, the increase to be carried out by 31st December 2006 at latest.

d) to amend art. 6 of the Articles of Association as follows:

CURRENT TEXT	*PROPOSED TEXT*
Article 6	**Article 6**
Shares are ordinary and registered. The company may increase the share capital by means of contributions other than of money and may issue categories of shares with particular rights. within the limits of what is allowed by the rules and regulations currently in force.	Shares are ordinary and registered. The company may increase the share capital by means of contributions other than of money and may issue categories of shares with particular rights. within the limits of what is allowed by the rules and regulations currently in force. **The introduction or removal of any restrictions on the circulation of shares does not give a right of withdrawal to the shareholders that did not vote the resolution.**

e) to amend art. 7 of the Articles of Association as follows:

CURRENT TEXT	*PROPOSED TEXT*
Article 7	**Article 7**
The calling of the meeting, which may take place in Italy, including outside the registered place of business, the right of attendance and representation at the shareholders' meeting are regulated by the law.	The calling of the meeting, which may take place in Italy, including outside the company's place of business, the right of attendance and representation at the shareholders' meeting are regulated by the law and by the **Articles of Association.** **The notice of calling for extraordinary shareholders' meetings can provide for a third calling.** **Shareholders can attend shareholders' meetings if they have received from the company the communication foreseen in art. 2370.2 of the Civil Code at least two days before the date of the**

	meeting and providing they have the necessary certification on the date of the meeting. **A shareholders' meeting has to be called within 120 days or, in particular circumstances, within 180 days of the company's financial year end; if it is called within 180 days, the directors have to explain the reasons for the extension in their report accompanying the financial statements.**

f) to amend art. 9 of the Articles of Association as follows:

CURRENT TEXT	*PROPOSED TEXT*
Article 9	**Article 9**
Proper constitution of the meeting and the validity of shareholders' resolutions are regulated by law.	Proper constitution of the meeting and the validity of shareholders' resolutions are regulated by law. **In addition to the law and the Articles of Association, the proceedings at shareholders' meetings are also governed by the Regulations for Shareholders' Meetings approved by resolution of the shareholders in ordinary general meeting.**

g) to amend art. 10 of the Articles of Association as follows:

CURRENT TEXT	*PROPOSED TEXT*
Article 10	**Article 10**
Shareholders' meetings are chaired by the Chairman of the Board of Directors, by a Deputy Chairman or by a Managing Director, in that order of preference: if two or more Deputy Chairmen or Managing Directors are present, the more senior one in terms of age takes the chair, again respecting the order of preference.	Shareholders' meetings are chaired by the Chairman of the Board of Directors, by a Deputy Chairman or by a Managing Director, in that order of preference: if two or more Deputy Chairmen or Managing Directors are present, the more senior one in terms of age takes the chair, again respecting the order of preference. **In the absence of all of the persons mentioned above, the chair will be taken by another person chosen by the shareholders' meeting with a majority vote of the share capital represented at the shareholders' meeting.**
The Chairman is assisted by a Secretary appointed by the share-holders' meeting; the assistance of a Secretary is not necessary when a notary has been appointed to draw up the minutes of the meeting.	The Chairman of the shareholders' meeting is assisted by a Secretary appointed by the shareholders' meeting **with the vote of a majority of the share capital represented in shareholders' meeting**. **The Secretary does not have to be a shareholder;** the assistance of a Secretary is not necessary when a notary has been appointed to draw up the minutes of the meeting.
~~It is the duty of the Chairman of the Meeting to ascertain the right of attendance, including by proxy; to ascertain that the meeting has been properly constituted and has a quorum to pass resolutions; to direct and regulate discussions; to establish the order and methods of voting as well as to proclaim the result.~~	**The Chairman of the shareholders' meeting runs the meeting and manages the proceedings as required by law and by these Articles of Association. To this end, the Chairman verifies — among other things — that the meeting has been properly constituted; ascertains the identity of all participants, including proxies; ascertains that there is a quorum to pass resolutions; runs the debate, even establishing a different order of discussion of the matters listed in the notice of calling. The Chairman also adopts suitable ways of ensuring an orderly debate and lays down the voting procedures, ascertaining the results.**
~~Resolutions passed by shareholders' meetings are to be minuted and signed by the Chairman and the Secretary of the meeting or by the notary public.~~ ~~The minutes of the extraordinary shareholders' meeting must be drawn up by a notary appointed by the Chairman.~~ ~~Copies and extracts that have not been notarized will be certified as true by the Chairman of the Board of Directors.~~	*Paragraphs transferred to Art. 11*

h) to amend art. 11 of the Articles of Association as follows:

CURRENT TEXT

Article 11

~~Given the nature of the company's purpose and the special requirements that can result from this, the shareholders' meeting may be called within six months of the company's financial year end.~~

PROPOSED TEXT

Article 11

Resolutions passed by share-holders' meetings are to be minuted and signed by the Chairman and the Secretary of the meeting or by the notary public. Minutes of extraordinary share-holders' meetings must be drawn up by a notary public appointed by the Chairman of the meeting.
Copies and extracts that have not been notarized will be certified as true by the Chairman of the Board of Directors.

i) to amend art. 12 of the Articles of Association as follows:

CURRENT TEXT

Article 12

The company is administered by a Board of Directors made up of between 5 and 19 members who remain in office for three company years (save a shorter period established by the shareholders' meeting on appointment) and they may be re-elected.

PROPOSED TEXT

Article 12

The company is administered by a Board of Directors made up of between 5 and 19 members who remain in office for three company years (save a shorter period established by the shareholders' meeting on appointment) and they may be re-elected.
The shareholders' meeting establishes the number of the members of the Board of Directors. This number stays the same until another resolution is passed to change it.
The appointment of the Board of Directors takes place on the basis of lists presented by the shareholders (as explained below) in which the candidates are listed in numerical sequence.
The lists of candidates, signed by those who present them, must be registered at the company's place of business at least ten days prior to the date set for the meeting at first calling and made available to anyone who asks to see them.
Each shareholder can only present or be involved in presenting one list of candidates, while each candidate can only feature on a single list, otherwise they will be banned from the election.
Only shareholders who on their own or together with other shareholders represent at least 2 percent of the share capital with voting rights at ordinary shareholders' meetings are entitled to present voting lists. They have to prove that they possess a sufficient number of shares to present their list at least two days prior to the date of the meeting at first calling.
Declarations must be attached to the list confirming that each candidate accepts their candidature and certifies, under their own responsibility, that there are no reasons for ineligibility or incompatibility and that they have the requisites for office as prescribed. Each candidate also has to attach to their declaration a *curriculum vitae* regarding their personal and professional characteristics, with an indication of whether they would qualify as independent.
Lists that fail to comply with these instructions will be considered as though they had not been presented.
Each person entitled to vote can only vote for one list.

Until the shareholders' meeting passes a resolution to the contrary, the directors are not subject to the ban mentioned in article 2390 of the Civil Code.
~~If due to resignation or for any other reason more than half the directors fall from office, the whole Board is understood as remaining in office until such time that it is reconstituted.~~

The election of the Board of Directors will take place as follows:

a) 4/5ths of the Directors to be elected are to be taken from the list that obtains the highest number of votes, in the same order in which they were listed, rounding down to the nearest whole number if necessary;
b) the other directors will be taken from the other lists; to this end, the votes obtained by the various lists will be divided successively by one, two, three, four, etc., depending on the number of directors to be elected.
The quotients thus obtained will then be assigned progressively to the candidates on each of the lists, in the order in which they are listed.
The quotients assigned in this way to the various candidates on the lists will then be ranked all together in descending order. Those with the highest quotients will be elected.
If more than one list has the same quotient, the candidate on the list that has not yet elected any director or the one that has elected fewer directors will be elected.
If none of these lists has yet elected a director or all of them have elected the same number of directors, within these lists, the one that obtained the higher number of votes will be elected. In the event of a tied vote between lists and also with the same quotients, the whole meeting will vote again and the candidate with a straight majority of the votes will win.

If for whatever reason directors are appointed without following this procedure, the shareholders' meeting has to pass the resolution approving the appointment by the majorities required by law.
If one or more directors fall from office during the year, steps have to be taken in accordance with art. 2386 of the Civil Code.
If due to resignation or for any other reason more than half the directors fall from office, the whole Board is understood as remaining in office until such time that it is reconstituted.
Until the shareholders' meeting passes a resolution to the contrary, the directors are not subject to the ban mentioned in article 2390 of the Civil Code.

j) to amend art. 13 of the Articles of Association as follows:

CURRENT TEXT

Article 13

A Chairman and, where applicable, one or more Deputy Chairmen are appointed ~~from the Board.~~

If the Chairman is absent, the chair is taken by a Deputy Chairman or by a Managing Director, in that order of preference; if two or more Deputy Chairmen or Managing Directors are present, the more senior one in terms of age takes the chair, again respecting the order of preference. The Board appoints a Secretary, who does not have to be a member of the Board.

PROPOSED TEXT

Article 13

The Board of Directors appoints a Chairman, if the shareholders' meeting has not already done so, and, if necessary, one or more Deputy Chairmen.
If the Chairman is absent, the chair is taken by a Deputy Chairman or by a Managing Director, in that order of preference; if two or more Deputy Chairmen or Managing Directors are present, the more senior one in terms of age takes the chair, again respecting the order of preference. The Board appoints a Secretary, who does not have to be a member of the Board.

k) to amend art. 14 of the Articles of Association as follows:

CURRENT TEXT	*PROPOSED TEXT*
Article 14	**Article 14**
The Board is called by the Chairman or whoever is acting as his deputy, at the company's place of business or in any other place that will be established by the letter of invitation, whenever he deems it opportune in the interest of the company or when requested by one of the Managing Directors or by at least two acting statutory auditors.	The Board meets on the invitation of the Chairman or whoever is acting as his deputy, at the company's place of business or in any other place that will be established by the letter of invitation, whenever he deems it opportune in the interest of the company or when requested in **writing** by one of the Managing Directors, **by 1/5th of the directors currently in office**, or by at least two acting statutory auditors. **The Chairman communicates in advance the matters to be discussed during the meeting and ensures that adequate information on them is provided to all directors, bearing in mind the circumstances.**
Board meetings are convened by registered letter, telegram, ~~telex,~~ fax or e-mail sent at least five days (or in an emergency, ~~by telegram, telex, fax or e-mail~~ at least six hours) prior to the date of the meeting to the domicile of each director and acting statutory auditor.	Board meetings are convened by registered letter, telegram, fax or e-mail sent at least five days (or in an emergency, at least six hours) prior to the date of the meeting to the domicile of each director and acting statutory auditor. **However, the Board of Directors can pass valid resolutions, even if not formally convened, if all its members and all of the acting statutory auditors currently in office are present.**
~~The meetings of the Board of Directors and those of the Executive Committee, as per art. 19 here below, may be held by teleconference or by videoconference.~~	**Attendance at board meetings, and meetings of the Executive Committee, if appointed, can take place—if the Chairman or his deputy ascertains the necessity—by telecommunications techniques which allow all participants to take part in the debate and to have access to the same amount of information.**
~~In this case, the following must be ensured:~~ ~~a) the identity of all participants at each connection point;~~ ~~b) the possibility for each of the participants to intervene, to orally express their opinion, to examine, receive or transmit all of the documentation, with the debate and voting taking place simultaneously for all.~~	
Meetings of the Board of Directors—or of the Executive Committee—are considered as being held in the place where the Chairman and the Secretary have to be simultaneously.	Meetings of the Board of Directors—or of the Executive Committee, **if appointed**—are considered as being held in the place where the Chairman and the Secretary have to be simultaneously.

l) to amend art. 16 of the Articles of Association as follows:

CURRENT TEXT	*PROPOSED TEXT*
Article 16	**Article 16**
Board meetings are properly constituted if the majority of the Directors currently in office are present and resolutions are passed by a majority of the votes cast. If the vote is tied, the Chairman has a casting vote.	Board meetings are properly constituted if the majority of the Directors currently in office are present and resolutions are passed by a majority of the votes cast. If the vote is tied, the Chairman has a casting vote.

m) to amend art. 17 of the Articles of Association as follows:

CURRENT TEXT	*PROPOSED TEXT*
Article 17	**Article 17**
The Board's resolutions, even if taken in meetings held ~~by teleconference or by videoconference~~, are ~~recorded in~~ a special book signed by the Chairman and by the Secretary.	Board resolutions are **recorded in the** pertinent minute book, even if passed at meetings held **by telecommunications techniques**; **all minutes** have to be signed by the Chairman and by the Secretary **of the meeting**.

Copies and extracts that have not been notarized will be certified as true by the Chairman.	Copies and extracts that have not been notarized will be certified as true by the Chairman.

n) to amend art. 18 of the Articles of Association as follows:

CURRENT TEXT	*PROPOSED TEXT*
Article 18	**Article 18**
The Board of Directors has the widest possible powers of ordinary and extraordinary administration of the company, with the right to carry out, without any limitation, all deeds considered opportune to implement and achieve the company's purpose, excluding only those that are obligatorily reserved to the shareholders' meeting by law and the Articles of Association.	The Board of Directors has the widest possible powers of ordinary and extraordinary administration of the company, with the right to carry out, without any limitation, all deeds considered opportune to implement and achieve the company's purpose, excluding only those that are obligatorily reserved to the shareholders' meeting by law and the Articles of Association. **Within the limits laid down by law, the Board of Directors has the power to decide to merge any of the companies of which Pirelli & C. Real Estate S.p.A. owns at least 90 percent of the shares or quotas, reduction of the share capital in the event of withdrawal by a shareholder, amendments to the Articles of Association to bring them into line with regulatory dispositions, the transfer of the company's place of business within Italy and the opening or closing of sub-offices.**
The Board of Directors, ~~directly or through the delegated bodies, refers promptly to the Board of Auditors on the activities performed and on particularly important transactions from an economic or financial point of view carried out by the company or by its subsidiaries; In particular, it reports on all operations involving a potential conflict of interest.~~	The Board of Directors **and the Board of Statutory Auditors are informed, directly or through delegated bodies, on the activities performed, on the general trend in operations, on the outlook for operations and on particularly important transactions from an economic or financial point of view carried out by the company or by its subsidiaries; in particular, the delegated bodies report on transactions in which they might have an interest, either directly or through third parties, or which could be influenced by the person involved in managing or coordinating the transaction, if such a person exists.**
The information is given, on at least a quarterly basis, at the Board meetings or at the meetings of the Executive Committee or by written notification to the Board of Auditors.	The information is given, on at least a quarterly basis, at the Board meetings or at the meetings of the Executive Committee—**if appointed**—or by written notification to the Board of Auditors.

o) to amend art. 19 of the Articles of Association as follows:

CURRENT TEXT	*PROPOSED TEXT*
Article 19	**Article 19**
For management purposes, the Board is authorized to delegate powers, as appropriate, to one or more of its members, possibly giving them the qualification of Managing Directors, together with single or joint signature power, again as appropriate. It may also delegate its duties to an Executive Committee made up of some of its members, whose compensation will be established by the shareholders' meeting; it can also appoint one or more ~~c~~ommittees with consultative functions.	For management purposes, the Board is authorized to delegate powers, as appropriate, to one or more of its members, possibly giving them the qualification of Managing Directors, together with single or joint signature power, again as appropriate. It may also delegate its duties to an Executive Committee made up of some of its members, whose compensation will be established by the shareholders' meeting. It can also appoint **C**ommittees with consultative **and propositive functions, among other things with a view to bringing the corporate governance structure into line with the recommendations made periodically by the pertinent authorities.**
~~It~~ can also appoint General Managers, Deputy General Managers, Directors ~~or~~ Deputy Directors. The appointment of the Directors and of the Deputy Directors may also be deferred by the Board of Directors to the Managing Directors and General Managers.	**Lastly the Board** can also appoint General Managers, Deputy General Managers, Directors, Deputy Directors and **representatives to carry out single deeds or categories of deeds, laying down their powers and duties**. The appointment of Directors, Deputy Directors **and representatives for individual deeds, or categories of deeds,** may also be delegated by the Board of Directors to the Managing Directors and General Managers.

p) to amend art. 21 of the Articles of Association as follows:

CURRENT TEXT

Article 21

~~The Directors are entitled to the reimbursement of any out-of-pocket expenses incurred in performing their duties.~~

~~The shareholders' meeting may establish with its own resolution, to pay annual compensation to the Board of Directors and to the Executive Committee, which will establish the distribution of this amongst their members. The remuneration of directors holding particular offices are established in accordance with art. 2389.2 of the Civil Code.~~

PROPOSED TEXT

Article 21

The members of the Board of Directors are entitled to receive an annual fee established by the shareholders' meeting, in addition to reimbursement of any out-of-pocket expenses incurred in performing their duties. The remuneration of directors holding particular offices is to be set by the Board of Directors, having consulted with the Board of Statutory Auditors.

q) to amend art. 22 of the Articles of Association as follows:

CURRENT TEXT

Article 22

The Board of Statutory Auditors is made up of three acting statutory auditors and two alternate statutory auditors who meet the requirements laid down in the rules and regulations currently in force; to this end, it will be borne in mind that the subjects and sectors of activity closely related to those of the company are those shown in the company's purpose, with particular reference to companies or entities operating in the financial, industrial, banking, insurance and real estate fields and in services in general.
An ordinary shareholders' meeting elects the Board of Statutory Auditors and decides on their compensation. One acting statutory auditor and one alternate statutory auditor are to be elected by the minority shareholders. Except as envisaged in the ~~penultimate~~ paragraph of this article, the Board of Statutory Auditors is appointed on the basis of lists presented by the shareholders in which the candidates are listed in numerical sequence. Each list contains a number of candidates that is not greater than the number of members to be elected. Only shareholders who on their own or together with other shareholders represent at least 2 percent of the share capital with voting rights at ordinary shareholders' meetings are entitled to present voting lists.

The list of candidates, signed by those who present it, must be registered at the company's ~~registered~~ place of business at least ten days prior to the date set for the meeting at first calling.

Declarations must be attached to the list confirming that each candidate accepts their candidature and certifies, under their own responsibility, that there are no reasons for ineligibility or incompatibility and that they have the requisites for office as prescribed.
Lists that fail to comply with these instructions will be considered as though they had not been presented. Each candidate can only be included on one list; otherwise, the person will be considered ineligible.
Those who do not have the requisites laid down in the rules or who already hold the position of statutory auditor in more than five listed companies on Italian regulated markets, with the exclusion of Pirelli & C. Real

PROPOSED TEXT

Article 22

The Board of Statutory Auditors is made up of three acting statutory auditors and two alternate statutory auditors who meet the requirements laid down in the rules and regulations currently in force; to this end, it will be borne in mind that the subjects and sectors of activity closely related to those of the company are those shown in the company's purpose, with particular reference to companies or entities operating in the financial, industrial, banking, insurance and real estate fields and in services in general.
An ordinary shareholders' meeting elects the Board of Statutory Auditors and decides on their compensation. One acting statutory auditor and one alternate statutory auditor are to be elected by the minority shareholders. Except as envisaged in the **third last** paragraph of this article, the Board of Statutory Auditors is appointed on the basis of lists presented by the shareholders in which the candidates are listed in numerical sequence.
Only shareholders who on their own or together with other shareholders represent at least 2 percent of the share capital with voting rights at ordinary shareholders' meetings are entitled to present voting lists. **They have to prove that they possess a sufficient number of shares to present their list at least two days prior to the date of the meeting at first calling.**
Each shareholder can only present or be involved in presenting one list of candidates.
The lists of candidates, signed by those who present them, must be registered at the company's place of business at least ten days prior to the date set for the meeting at first calling **and made available to anyone who asks to see them.**
Declarations must be attached to the list confirming that each candidate accepts their candidature and certifies, under their own responsibility, that there are no reasons for ineligibility or incompatibility and that they have the requisites for office as prescribed.
Lists that fail to comply with these instructions will be considered as though they had not been presented. Each candidate can only be included on one list; otherwise, the person will be considered ineligible.
Those who do not have the requisites laid down in the rules or who already hold the position of statutory auditor in more than five listed companies on Italian regulated markets, with the exclusion of Pirelli & C. Real

Estate S.p.A.'s parent and subsidiary companies, cannot be elected as statutory auditors.

Those entitled to vote can only vote for one list at a time.

The procedure for the election of the members of the Board of Auditors is as follows: two acting auditors and one alternate auditor are taken, in the numerical sequence in which they are listed, from the list that obtained the greatest number of votes; the remaining acting auditor and the other alternate auditor are taken, in the numerical sequence in which they are listed, from the list that obtained the next greatest number of votes at the shareholders' meeting; in the case that more than one list has obtained the same number of votes, a new ballot vote is taken between these lists by all the shareholders present at the meeting, with the candidates of the list that obtains the simple majority of votes being elected.

The acting member indicated as the first candidate in the list that obtained the highest number of votes is entitled to be chairman of the Board of Auditors.

In the event of death, renunciation or forfeiture of an auditor, they are to be replaced by an alternate auditor belonging to the same list. If the chairman of the Board of Auditors has to be replaced, the other acting member on the same list as the chairman takes over the chair; if it is not possible to make replacements according to these criteria, a shareholders' meeting will be called to integrate the Board of Statutory Auditors, passing the resolution with a relative majority of the votes cast.

When the shareholders' meeting has to provide, in accordance with the previous paragraph or in accordance with the law, for the appointment of acting and/or alternate statutory auditors needed to integrate the Board of Statutory Auditors, the following procedure has to be followed: if auditors elected in the majority list have to be replaced, the appointment is made by voting with a relative majority without being tied to a particular list; if, however, auditors ~~designated by the minority shareholders~~ have to be replaced, the shareholders' meeting replaces them with a vote by relative majority, choosing them where possible from the candidates indicated in the list to which the auditor to be replaced belonged.

~~In the event that only one list is presented, the shareholders' meeting expresses its vote on it; in the event that the list obtains the relative majority, the first three candidates shown in progressive order are elected as acting auditors and the fourth and fifth candidate are elected as alternate auditors; the auditor who features as the leading candidate on the list is elected chairman of the Board of Statutory Auditors; in the event of death, resignation or forfeiture of a Statutory Auditor or if it is necessary to replace the Chairman of the Board of Statutory Auditors, these persons will be replaced, respectively, by the alternate auditor and the acting auditor next in numerical sequence on the list.~~

~~In the absence of lists, the Board of Statutory Auditors and its Chairman are appointed at the Shareholders' Meeting by the majorities required by law.~~

Estate S.p.A.'s parent and subsidiary companies, cannot be elected as statutory auditors.

The lists will consist of two sections: one for the candidates standing as acting statutory auditor, and the other for the candidates standing as alternate statutory auditor. The first candidate on each list has to be a registered member of the Institute of Auditors with a minimum of three years' experience.

Those entitled to vote can only vote for one list at a time.

The procedure for electing the Board of Statutory Auditors is as follows:

a) two acting statutory auditors and one alternate statutory auditor are taken, in the numerical sequence in which they are listed, from the list that obtained the highest number of votes **(the so-called "majority list");**

b) the other acting statutory auditor and the other alternate statutory auditor are taken, in the numerical sequence in which they are listed, from the list that obtained the next highest number of votes at the shareholders' meeting **(the so-called "minority list");** in the case that more than one list has obtained the same number of votes, a new ballot vote is taken between these lists by all the shareholders present at the meeting, with the candidates of the list that obtains the simple majority of votes being elected.

The acting member indicated as the first candidate in the list that obtained the highest number of votes is entitled to be chairman of the Board of Auditors.

In the event of death, renunciation or forfeiture of an auditor, they are to be replaced by an alternate auditor belonging to the same list. If the chairman of the Board of Auditors has to be replaced, the other acting member on the same list as the chairman takes over the chair; if it is not possible to make replacements according to these criteria, a shareholders' meeting will be called to integrate the Board of Statutory Auditors, passing the resolution with a relative majority of the votes cast.

When the shareholders' meeting has to provide, in accordance with the previous paragraph or in accordance with the law, for the appointment of acting and/or alternate statutory auditors needed to integrate the Board of Statutory Auditors, the following procedure has to be followed: if auditors elected in the majority list have to be replaced, the appointment is made by voting with a relative majority without being tied to a particular list; if, however, auditors **elected from the minority list** have to be replaced, the shareholders' meeting replaces them with a vote by relative majority, choosing them where possible from the candidates on the same list as the auditor being replaced.

If statutory auditors are appointed without following this procedure, the shareholders' meeting has to

	<u>**pass the resolution approving the appointment by the majorities required by law.**</u>
Outgoing Statutory Auditors may be re-elected.	Outgoing Statutory Auditors may be re-elected. <u>**Attendance at meetings of the Board of Statutory Auditors can take place—if the Chairman or his deputy ascertains the necessity—by telecommunications techniques which allow all participants to take part in the debate and to have access to the same amount of information.**</u>

r) **to amend art. 26 of the Articles of Association as follows:**

CURRENT TEXT	***PROPOSED TEXT***
Article 26	**Article 26**
For all matters not envisaged in these Articles of Association, reference is to be made to the provisions ~~of the Civil Code and to special laws on the subject.~~	For all matters not envisaged in these Articles of Association, reference should be made to the provisions <u>**of law.**</u>

s) **to confer on the Board of Directors—as represented by the Chairman, Deputy Chairman and Managing Director, severally—all powers that may be needed to comply with any formality needed for the resolutions to be recorded in the Companies Register, accepting and introducing into the resolutions any amendments, additions or eliminations of a formal and non-substantial nature, that may be requested by the pertinent Authorities.**

* * *

As regards the second proposal:

Point 2)
Granting of powers to the Directors, pursuant to art. 2443 of the Civil Code, to increase share capital on one of more occasions, by up to a maximum total par value of Euro 15 million, via the issue of ordinary shares to be offered to shareholders and holders of convertible bonds, with the faculty to exclude the exercise of pre-emption rights, pursuant to the combined effect of the final paragraph of art. 2441 of the Civil Code and art. 134.2 of Decree 58/1998, if the shares are offered for subscription by the employees of Pirelli & C. Real Estate S.p.A. or its subsidiary companies.
Granting of powers to the Directors, pursuant to art. 2420-ter of the Italian Civil Code, to issue, on one or more occasions, up to a maximum nominal value of Euro 15 million, bonds that are convertible into ordinary shares or which carry warrants for subscription to such shares, to be offered to shareholders and holders of convertible bonds.
Consequent further change to art. 5 (share capital) of the Articles of Association.
Related resolutions.
Conferral of powers

1. <u>*Reasons for the proposal*</u>

In order to have greater flexibility in handling market opportunities, we would like to make what we think is a reasonable proposal, namely that you should grant the Directors—for a period of up to five years—the power to increase the share capital and to issue convertible bonds for a fixed maximum amount.
In particular, we believe that these authorisations could be usefully employed to reduce as much as possible, where suitable, the time needed to raise fresh finance for the company's needs, especially when speed is of the essence. In other words, these authorisations should help us exploit the best opportunities that the market has to offer.

Note, by the way, that as things stand, the company does not have any plans to use these powers.
We also think it opportune to propose that the maximum limits for these powers should be set at Euro 15 million, both for increases in capital and for issues of convertible bonds, bearing in mind the Group's present corporate structure and foreseeable plans for the future.
As regards the increase in capital, we would also propose that you grant the Directors the faculty to exclude the exercise of pre-emption rights, pursuant to the combined effect of the final paragraph of art. 58 of the Civil Code and art. 134.2 of Decree 58/1998, if the shares are offered for subscription by the employees of Pirelli & C. Real Estate S.p.A. or its subsidiary companies.

* *

If you agree, we invite you to approve the following

RESOLUTION

"The shareholders' meeting, having noted the Directors' proposal

HEREBY RESOLVES:

a) to grant powers to the Directors, pursuant to art. 2443 of the Civil Code, to increase share capital on one of more occasions, by up to a maximum total par value of Euro 15 million for a period of up to five years from the date of this resolution.
The Directors may exercise this faculty by approving increases in share capital to be carried out by issuing ordinary shares, to be offered to shareholders and to holders of convertible bonds.
The Directors can also decide that the issue should take place with a share premium, establishing its amount; a Board resolution can also foresee that, if the increase approved is not fully subscribed within the term set from time to time, the capital will be increased by the amount of the subscriptions received to date.
The Directors are also granted the faculty to exclude the exercise of pre-emption rights, pursuant to the combined effect of the final paragraph of art. 58 of the Civil Code and art. 134.2 of Decree 58/1998, if the shares are offered for subscription by the employees of Pirelli & C. Real Estate S.p.A. or its subsidiary companies;

b) to grant the Directors, according to art. 2420-ter of the Civil Code, the faculty to issue, on one or more occasions, up to a maximum total nominal amount of Euro 15 million, bonds that are convertible into ordinary shares, or with warrants valid for the subscription of such shares, for a maximum period of five years from the date of this resolution, with the faculty to establish the interest rate and duration of the loan and all other terms and conditions.
The convertible bonds will be offered under option to shareholders and holders of convertible bonds.
In exercising this faculty, the Directors must ensure that any rules setting limits on the issuance of bonds be respected.
The Directors will have to pass resolutions in compliance with the provisions of art. 2420-bis of the Civil Code and, in particular, to determine the exchange ratio, period and methods of conversion and at the same time to decide the increase in share capital of an amount corresponding to the total par value of the shares to be allocated to service the conversion, with the possibility to establishing a share premium;

c) to further amend article 5 of the Articles of Association, adding the following paragraphs after the last one:
"By resolution of the extraordinary shareholders' meeting of……….. the Directors were granted the power to increase the share capital on one of more occasions, by (date)……….. at latest, by up to a maximum total par value of Euro 15 million, via the issue of 30,000,000 (thirty million) ordinary shares to be offered to shareholders and holders of convertible bonds, with the faculty to exclude the exercise of pre-emption rights, pursuant to the combined effect of the final paragraph of art. 2441 of the Civil Code and art. 134.2 of Decree 58/1998, if the shares are offered for subscription by the employees of Pirelli & C. Real Estate S.p.A. or its subsidiary companies";

"By resolution of the extraordinary shareholders' meetings of ……….. the Directors were granted the power to issue, by (date)……….. at latest, on one or more occasions, bonds convertible into ordinary shares, or with warrants valid for the subscription of such shares to be offered under option to shareholders and to holders of convertible bonds, for a maximum nominal amount of Euro 15 million within the limits permitted from time to time by current regulations, with a consequent increase in share capital to service conversion of the bonds and/or the exercise of warrants.

The Board resolutions approving the increase in share capital passed by the Directors in the exercise of their powers, as mentioned above, set the subscription price (including any share premium) as well as the deadline by which shares should be subscribed;

they can also decide that if the increase approved is not fully subscribed within the term set from time to time, the capital will be increased by the amount of the subscriptions received to date";

d) to confer on the Board of Directors—as represented by the Chairman, Deputy Chairman and Managing Director, severally—all powers that may be needed to comply with any formality needed for the resolutions to be recorded in the Companies Register, accepting and introducing into the resolutions any amendments, additions or eliminations of a formal and non-substantial nature, that may be requested by the pertinent Authorities.

* * *

The entire text of the Articles of Association is given below, with a comparison between the current text and the proposed one.

CURRENT TEXT	*PROPOSED TEXT*
NAME – REGISTERED PLACE OF BUSINESS – PURPOSE – DURATION	**NAME – PLACE OF BUSINESS – PURPOSE – DURATION**
Article 1 The name of the company is "Pirelli & C. Real Estate S.p.A.".	**Article 1** The name of the company is "Pirelli & C. Real Estate S.p.A.".
Article 2 The ~~registered~~ place of business of the company is in Milan~~, via Gaetano Negri, 10~~. It can open and close sub-offices, agencies, branches and representative offices, in Italy and abroad.	**Article 2** The company's place of business in Milan. It can open and close sub-offices, agencies, branches and representative offices, in Italy and abroad.
Article 3 The duration of the company will be until 31st (thirty-first) December 2100 (two thousand one hundred).	**Article 3** The duration of the company will be until 31st (thirty-first) December 2100 (two thousand one hundred). **An extension of the duration does not give any right of withdrawal to shareholders who did not vote the resolution.**
Article 4 The company's purpose is: — the promotion and participation in operations and investments in the real estate sector; — the coordination and the management of operations and investments in the real estate sector; — taking on shareholdings in other companies or entities, both in Italy and abroad; — the financing, technical and financial coordination of the companies or entities in which it has a shareholding. In particular the company's purpose includes: the purchase, sale, exchange and lease of real estate of all types and in all areas; the design, construction, demolition and maintenance of buildings and construction work in general; the design and performance of urban renewal	**Article 4** The company's purpose is: — the promotion and participation in operations and investments in the real estate sector; — the coordination and the management of operations and investments in the real estate sector; — taking on shareholdings in other companies or entities, both in Italy and abroad; — the financing, technical and financial coordination of the companies or entities in which it has a shareholding. In particular the company's purpose includes: the purchase, sale, exchange and lease of real estate of all types and in all areas; the design, construction, demolition and maintenance of buildings and construction work in general; the design and performance of urban renewal

and development works; carrying out contract work in these areas and providing services in the real estate sector.
The company may also carry out all types of commercial and industrial transactions and those relating to movable property and to real estate needed or of use to achieve the company's purpose (including the issue of personal guarantees or collateral, also in the interest of third parties and the taking on of loans and financing including mortgage loans), with the obligatory exclusion of all financial services involving the general public and any other activities that are restricted under current regulations.

Article 5
The share capital amounts to Euro 20,302,491 (twenty million three hundred and two thousand four hundred and ninety one) divided into 40,604,982 (forty million six hundred and four thousand nine hundred and eighty-two) shares with a par value of Euro 0.5 (zero point five) each.

The extraordinary shareholders' meeting passed another resolution on 2nd April 2002 to increase the share capital for payment, splittable, for a maximum amount at par of Euro 2,100,000 (two million one hundred thousand), by issuing, in one or more tranches, a maximum of 4,200,000 (four million two hundred thousand) ordinary shares, with a par value of 0,5 (zero point five) each, with normal dividend and voting rights, at a share premium, excluding pre-emption rights in accordance with art. 2441.6 & 8 of the Civil Code; shares to be reserved for directors and employees of the company and/or of its subsidiaries to service one or more stock option plans, the increase to be carried out by 31st December 2006 at latest.

and development works; carrying out contract work in these areas and providing services in the real estate sector.
The company may also carry out all types of commercial and industrial transactions and those relating to movable property and to real estate needed or of use to achieve the company's purpose (including the issue of personal guarantees or collateral, also in the interest of third parties and the taking on of loans and financing including mortgage loans), with the obligatory exclusion of all financial services involving the general public and any other activities that are restricted under current regulations.

SHARE CAPITAL AND SHARES

Article 5
The share capital**, subscribed and paid-in**, is **equal to** Euro 20,302,491 (twenty million three hundred and two thousand four hundred and ninety-one) divided into 40,604,982 (forty million six hundred and four thousand nine hundred and eighty-two) shares with a par value of Euro 0.5 (zero point five) each.
In resolutions to increase the share capital by means of a rights issue (for payment), pre-emption rights may be excluded up to a maximum limit of ten percent of the existing share capital, provided that the issue price of the shares corresponds to their market value and this is confirmed by a specific report issued by the independent auditors.
The extraordinary shareholders' meeting passed another resolution on 2nd April 2002 to increase the share capital for payment, splittable, for a maximum amount at par of Euro 2,100,000 (**two million one hundred thousand**), by issuing, in one or more tranches, a maximum of 4,200,000 (**four million two hundred thousand**) ordinary shares, with a par value of 0,5 (**zero point five**) each, with normal dividend and voting rights, at a share premium, excluding pre-emption rights in accordance with art. 2441.6 & 8 of the Civil Code; shares to be reserved for directors and employees of the company and/or of its subsidiaries to service one or more stock option plans, the increase to be carried out by 31st December 2006 at latest.
"By resolution of the extraordinary shareholders' meeting of ……….. the Directors were granted the power to increase the share capital on one of more occasions, by (date) ……….. at latest, by up to a maximum total par value of Euro 15 million, via the issue of 30,000,000 (thirty million) ordinary shares to be offered to shareholders and holders of convertible bonds, with the faculty to exclude the exercise of pre-emption rights, pursuant to the combined effect of the final paragraph of art. 2441 of the Civil Code and art. 134.2 of Decree 58/1998, if the shares are offered for subscription by the employees of Pirelli & C. Real Estate S.p.A. or its subsidiary companies;
"By resolution of the extraordinary shareholders' meetings of ……….. the Directors were granted the power to issue, by (date) ……….. at latest, on one or more occasions, bonds convertible into ordinary shares, or with warrants valid for the subscription of such shares to be offered under option to shareholders and to holders of convertible bonds, for a maximum nominal amount of Euro 15 million within the limits permitted from time to time by current regulations, with a consequent increase in share capital to service conversion of the bonds and/or the exercise of warrants.

The Board resolutions approving the increase in share capital passed by the Directors in the exercise of their powers, as mentioned above, set the subscription price (including any share premium) as well as the deadline by which shares should be subscribed; they can also decide that if the increase approved is not fully subscribed within the term set from time to time, the capital will be increased by the amount of the subscriptions received to date".

Article 6
Shares are ordinary and registered.
The company may increase the share capital by means of contributions other than of money and may issue categories of shares with particular rights. within the limits of what is allowed by the rules and regulations currently in force.

Article 6
Shares are ordinary and registered.
The company may increase the share capital by means of contributions other than of money and may issue categories of shares with particular rights. within the limits of what is allowed by the rules and regulations currently in force.
The introduction or removal of any restrictions on the circulation of shares does not give a right of withdrawal to the shareholders that did not vote the resolution.

SHAREHOLDERS' MEETINGS

Article 7
The calling of the meeting, which may take place in Italy, including outside the registered place of business, the right of attendance and representation at the shareholders' meeting are regulated by the law.

Article 8
Each shareholder has the right to one vote in the meeting for each share owned.

Article 9
Proper constitution of the meeting and the validity of shareholders' resolutions are regulated by law.

Article 10
Shareholders' meetings are chaired by the Chairman of the Board of Directors, by a Deputy Chairman or by a Managing Director, in that order of preference: if two or more Deputy Chairmen or Managing Directors are present, the more senior one in terms of age takes the chair, again respecting the order of preference.

SHAREHOLDERS' MEETINGS

Article 7
The calling of the meeting, which may take place in Italy, including outside the company's place of business, the right of attendance and representation at the shareholders' meeting are regulated by the law **and by the Articles of Association.**
The notice of calling for extra-ordinary shareholders' meetings can provide for a third calling.
Shareholders can attend share-holders' meetings if they have received from the company the communication foreseen in art. 2370.2 of the Civil Code at least two days before the date of the meeting and providing they have the necessary certification on the date of the meeting.
A shareholders' meeting has to be called within 120 days or, in particular circumstances, within 180 days of the company's financial year end. if it is called within 180 days, the directors have to explain the reasons for the extension in their report accompanying the financial statements.

Article 8
Each shareholder has the right to one vote in the meeting for each share owned.

Article 9
Proper constitution of the meeting and the validity of shareholders' resolutions are regulated by law.
In addition to the law and the Articles of Association, the proceedings at shareholders' meetings are also governed by the Regulations for Shareholders' Meetings approved by resolution of the shareholders in ordinary general meeting.

Article 10
Shareholders' meetings are chaired by the Chairman of the Board of Directors, by a Deputy Chairman or by a Managing Director, in that order of preference: if two or more Deputy Chairmen or Managing Directors are present, the more senior one in terms of age takes the chair, again respecting the order of preference.
In the absence of all of the persons mentioned above, the chair will be taken by another person chosen by the shareholders' meeting with a majority vote of the share capital represented at the shareholders' meeting.

The Chairman is assisted by a Secretary appointed by the shareholders' meeting; the assistance of a Secretary is not necessary when a notary has been appointed to draw up the minutes of the meeting.

The Chairman **of the shareholders' meeting** is assisted by a Secretary appointed by the shareholders' meeting **with the vote of a majority of the share capital represented in shareholders' meeting**. **The Secretary does not have to be a shareholder;** the assistance of a Secretary is not necessary when a notary has been appointed to draw up the minutes of the meeting.

~~It is the duty of the Chairman of the Meeting to ascertain the right of attendance, including by proxy; to ascertain that the meeting has been properly constituted and has a quorum to pass resolutions; to direct and regulate discussions; to establish the order and methods of voting as well as to proclaim the result.~~

The Chairman of the shareholders' meeting runs the meeting and manages the proceedings as required by law and by these Articles of Association. To this end, the Chairman verifies—among other things—that the meeting has been properly constituted; ascertains the identity of all participants, including proxies; ascertains that there is a quorum to pass resolutions; runs the debate, even establishing a different order of discussion of the matters listed in the notice of calling. The Chairman also adopts suitable ways of ensuring an orderly debate and lays down the voting procedures, ascertaining the results.

~~Resolutions passed by shareholders' meetings are to be minuted and signed by the Chairman and the Secretary of the meeting or by the notary public.~~
~~The minutes of the extraordinary shareholders' meeting must be drawn up by a notary appointed by the Chairman.~~
~~Copies and extracts that have not been notarized will be certified as true by the Chairman of the Board of Directors.~~

PARAGRAPHS TRANSFERRED TO ART. 11

Article 11

~~Given the nature of the company's purpose and the special requirements that can result from this, the shareholders' meeting may be called within six months of the company's financial year end.~~

Article 11

Resolutions passed by shareholders' meetings are to be minuted and signed by the Chairman and the Secretary of the meeting or by the notary public.

Minutes of extraordinary share-holders' meetings must be drawn up by a notary public appointed by the Chairman of the meeting.
Copies and extracts that have not been notarized will be certified as true by the Chairman **of the Board of Directors**.

ADMINISTRATION

Article 12

The company is administered by a Board of Directors made up of between 5 and 19 members who remain in office for three company years (save a shorter period established by the shareholders' meeting on appointment) and they may be re-elected.

ADMINISTRATION

Article 12

The company is administered by a Board of Directors made up of between 5 and 19 members who remain in office for three company years (save a shorter period established by the shareholders' meeting on appointment) and they may be re-elected.
The shareholders' meeting establishes the number of the members of the Board of Directors. This number stays the same until another resolution is passed to change it.
The appointment of the Board of Directors takes place on the basis of lists presented by the shareholders (as explained below) in which the candidates are listed in numerical sequence.
The lists of candidates, signed by those who present them, must be registered at the company's place of business at least ten days prior to the date set for the meeting at first calling and made available to anyone who asks to see them.
Each shareholder can only present or be involved in presenting one list of candidates, while each candidate can only feature on a single list, otherwise they will be banned from the election.
Only shareholders who on their own or together with other shareholders represent at least 2 percent of the share capital with voting rights at ordinary

Until the shareholders' meeting passes a resolution to the contrary, the directors are not subject to the ban mentioned in article 2390 of the Civil Code.

~~If due to resignation or for any other reason more than half the directors fall from office, the whole Board is understood as remaining in office until such time that it is reconstituted~~.

share-holders' meetings are entitled to present voting lists. They have to prove that they possess a sufficient number of shares to present their list at least two days prior to the date of the meeting at first calling.

Only shareholders who on their own or together with other shareholders represent at least 2 percent of the share capital with voting rights at ordinary share-holders' meetings are entitled to present voting lists. They have to prove that they possess a sufficient number of shares to present their list at least two days prior to the date of the meeting at first calling. Each candidate also has to attach to their declaration a curriculum vitae regarding their personal and professional characteristics, with an indication of whether they would qualify as independent.

Lists that fail to comply with these instructions will be considered as though they had not been presented.

Each person entitled to vote can only vote for one list.

The election of the Board of Directors will take place as follows:

a) 4/5ths of the Directors to be elected are to be taken from the list that obtains the highest number of votes, in the same order in which they were listed, rounding down to the nearest whole number if necessary;

b) the other directors will be taken from the other lists; to this end, the votes obtained by the various lists will be divided successively by one, two, three, four, etc., depending on the number of directors to be elected.

   The quotients thus obtained will then be assigned progressively to the candidates on each of the lists, in the order in which they are listed.

   The quotients assigned in this way to the various candidates on the lists will then be ranked all together in descending order. Those with the highest quotients will be elected.

   If more than one list has the same quotient, the candidate on the list that has not yet elected any director or the one that has elected fewer directors will be elected.

   If none of these lists has yet elected a director or all of them have elected the same number of directors, within these lists, the one that obtained the higher number of votes will be elected. In the event of a tied vote between lists and also with the same quotients, the whole meeting will vote again and the candidate with a straight majority of the votes will win.

If for whatever reason directors are appointed without following this procedure, the shareholders' meeting has to pass the resolution approving the appointment by the majorities required by law.

If one or more directors fall from office during the year, steps have to be taken in accordance with art. 2386 of the Civil Code.

If due to resignation or for any other reason more than half the directors fall from office, the whole Board is understood as remaining in office until such time that it is reconstituted.

Until the shareholders' meeting passes a resolution to the contrary, the directors are not subject to the ban mentioned in article 2390 of the Civil Code.

Article 13
A Chairman and, where applicable, one or more Deputy Chairmen are appointed from the Board.

If the Chairman is absent, the chair is taken by a Deputy Chairman or by a Managing Director, in that order of preference; if two or more Deputy Chairmen or Managing Directors are present, the more senior one in terms of age takes the chair, again respecting the order of preference. The Board appoints a Secretary, who does not have to be a member of the Board.

Article 14
The Board is called by the Chairman or whoever is acting as his deputy, at the company's place of business or in any other place that will be established by the letter of invitation, whenever he deems it opportune in the interest of the company or when requested by one of the Managing Directors or by at least two acting statutory auditors.

Board meetings are convened by registered letter, telegram, ~~telex~~, fax or e-mail sent at least five days (or in an emergency, ~~by telegram, telex, fax or e-mail~~ at least six hours) prior to the date of the meeting to ~~the domicile~~ of each director and acting statutory auditor.

~~The meetings of the Board of Directors and those of the Executive Committee, as per art. 19 here below, may be held by teleconference or by videoconference.~~

~~In this case, the following must be ensured:~~
~~a) the identity of all participants at each connection point;~~
~~b) the possibility for each of the participants to intervene, to orally express their opinion, to examine, receive or transmit all of the documentation, with the debate and voting taking place simultaneously for all.~~

Meetings of the Board of Directors - or of the Executive Committee are considered as being held in the place where the Chairman and the Secretary have to be simultaneously.

Article 15
Board meetings can also take place outside the registered place of business, on condition that they are held in Italy or in another country belonging to the European Union.

Article 16
Board meetings are properly constituted if the majority of the Directors currently in office are present and resolutions are passed by a majority of the votes cast. If the vote is tied, the Chairman has a casting vote.

Article 17
The Board's resolutions, even if taken in meetings held ~~by teleconference or by videoconference~~, are ~~recorded in~~ a special book signed by the Chairman and by the Secretary.

Article 13
The Board of Directors appoints a Chairman, **if the shareholders' meeting has not already done so**, and, if necessary, one or more Deputy Chairmen.
If the Chairman is absent, the chair is taken by a Deputy Chairman or by a Managing Director, in that order of preference; if two or more Deputy Chairmen or Managing Directors are present, the more senior one in terms of age takes the chair, again respecting the order of preference. The Board appoints a Secretary, who does not have to be a member of the Board.

Article 14
The Board of Directors meets on the invitation of the Chairman or whoever is acting as his deputy, at the company's place of business or in any other place that will be established by the letter of invitation, whenever he deems it opportune in the interest of the company or when requested **in writing** by one of the Managing Directors, **by 1/5 of the directors currently in office**, or by at least two acting statutory auditors.
The Chairman communicates in advance the matters to be discussed during the meeting and ensures that adequate information on them is provided to all directors, bearing in mind the circumstances.
Board meetings are convened by registered letter, telegram, fax or e-mail **sent** at least five days (or in an emergency, at least six hours) prior to the date of the meeting to the domicile of each director and acting statutory auditor.
However, the Board of Directors can pass valid resolutions, even if not formally convened, if all its members and all of the acting statutory auditors currently in office are present.
Attendance at board meetings, and meetings of the Executive Committee, if appointed, can take place—if the Chairman or his deputy ascertains the necessity—by telecommunications techniques which allow all participants to take part in the debate and to have access to the same amount of information.

Meetings of the Board of Directors—or of the Executive Committee, **if appointed**—are considered as being held in the place where the Chairman and the Secretary have to be simultaneously.

Article 15
Board meetings can also take place outside the place of business, on condition that they are held in Italy or in another country belonging to the European Union.

Article 16
Board meetings are properly constituted if the majority of the Directors currently in office are present and resolutions are passed by a majority of the votes cast. If the vote is tied, the Chairman has a casting vote.

Article 17
Board resolutions are **recorded in** the pertinent minute book, even if passed at meetings held **by telecommunications techniques**; **all minutes have to be** signed by the Chairman and by the Secretary **of the meeting**.

Copies and extracts that have not been notarized will be certified as true by the Chairman.

Article 18

The Board of Directors has the widest possible powers of ordinary and extraordinary administration of the company, with the right to carry out, without any limitation, all deeds considered opportune to implement and achieve the company's purpose, excluding only those that are obligatorily reserved to the shareholders' meeting by law and the Articles of Association.

The Board of Directors, ~~directly or through the delegated bodies, refers promptly to the Board of Auditors on the activities performed and on particularly important transactions from an economic or financial point of view carried out by the company or by its subsidiaries; In particular, it reports on all operations involving a potential conflict of interest.~~

The information is given, on at least a quarterly basis, at the Board meetings or at the meetings of the Executive Committee or by written notification to the Board of Auditors.

Article 19

For management purposes, the Board is authorized to delegate powers, as appropriate, to one or more of its members, possibly giving them the qualification of Managing Directors, together with single or joint signature power, again as appropriate.

It may also delegate its duties to an Executive Committee made up of some of its members, whose compensation will be established by the shareholders' meeting; it can also appoint one or more committees with consultative functions.

It may also appoint General Managers, Deputy General Managers, Directors or Deputy Directors. The appointment of the Directors and of the Deputy Directors may also be deferred by the Board of Directors to the Managing Directors and General Managers.

Article 20

The representation of the company regarding third parties and in courts of law falls jointly under the competence of the Chairman of the Board of Directors and, if appointed, the Deputy Chairmen and the Managing Directors, within the limits of the powers attributed to them by the Board of Directors.

Copies and extracts that have not been notarized will be certified as true by the Chairman.

Article 18

The Board of Directors has the widest possible powers of ordinary and extraordinary administration of the company, with the right to carry out, without any limitation, all deeds considered opportune to implement and achieve the company's purpose, excluding only those that are obligatorily reserved to the shareholders' meeting by law and the Articles of Association.

Within the limits laid down by law, the Board of Directors has the power to decide to merge any of the companies of which Pirelli & C. Real Estate S.p.A. owns at least 90 percent of the shares or quotas, reduction of the share capital in the event of withdrawal by a shareholder, amendments to the Articles of Association to bring them into line with regulatory dispositions, the transfer of the company's place of business within Italy and the opening or closing of sub-offices.

The Board of Directors **and the Board of Statutory Auditors are informed, directly or through delegated bodies, on the activities performed, on the general trend in operations, on the outlook for operations and on particularly important transactions from an economic or financial point of view carried out by the company or by its subsidiaries; in particular, the delegated bodies report on transactions in which they might have an interest, either directly or through third parties, or which could be influenced by the person involved in managing or coordinating the transaction, if such a person exists.**

The information is given, on at least a quarterly basis, at the Board meetings or at the meetings of the Executive Committee—**if appointed**—or by written notification to the Board of Auditors

Article 19

For management purposes, the Board **of Directors** is authorized to delegate powers, as appropriate, to one or more of its members, possibly giving them the qualification of Managing Directors, together with single or joint signature power, again as appropriate.

It may also delegate its duties to an Executive Committee made up of some of its members, whose compensation will be established by the shareholders' meeting. **It can also** appoint **C**ommittees with consultative **and propositive functions, among other things with a view to bringing the corporate governance structure into line with the recommendations made periodically by the pertinent authorities.**

Lastly the Board can also appoint General Managers, Deputy General Managers, Directors, Deputy Directors **and representatives to carry out single deeds or categories of deeds, laying down their powers and duties**. The appointment of Directors, Deputy Directors **and representatives for individual deeds, or categories of deeds**, may also be delegated by the Board of Directors to the Managing Directors and General Managers.

Article 20

The representation of the company regarding third parties and in courts of law falls jointly under the competence of the Chairman of the Board of Directors and, if appointed, the Deputy Chairmen and the Managing Directors, within the limits of the powers attributed to them by the Board of Directors.

Each of the aforementioned shall nevertheless have a wide faculty of taking legal action and petitions to court and at any degree of jurisdiction, including in proceedings of new suits and at the Supreme Court, presenting petitions and filing charges in a criminal court, taking legal action to sue on behalf of the company in penal proceedings, taking legal action and petitions before all administrative jurisdictions, intervening and opposing in cases of suits and appeals that concern the company, conferring upon them if necessary all the necessary powers and warrants of attorney.
The Board and, within the limits of the powers conferred upon him by the Board, the Chairman, as well as, if appointed, the Deputy Chairmen and the Managing Directors, are authorized to confer the representation of the company regarding third parties and in courts of law to directors and employees in general and, if necessary, to third parties.

Article 21

~~The Directors are entitled to the reimbursement of any out-of-pocket expenses incurred in performing their duties.~~

~~The shareholders' meeting may establish with its own resolution, to pay annual compensation to the Board of Directors and to the Executive Committee, which will establish the distribution of this amongst their members. The remuneration of directors holding particular offices are established in accordance with art. 2389.2 of the Civil Code.~~

BOARD OF STATUTORY AUDITORS

Article 22

The Board of Statutory Auditors is made up of three acting statutory auditors and two alternate statutory auditors who meet the requirements laid down in the rules and regulations currently in force; to this end, it will be borne in mind that the subjects and sectors of activity closely related to those of the company are those shown in the company's purpose, with particular reference to companies or entities operating in the financial, industrial, banking, insurance and real estate fields and in services in general.
An ordinary shareholders' meeting elects the Board of Statutory Auditors and decides on their compensation. One acting statutory auditor and one alternate statutory auditor are to be elected by the minority shareholders. Except as envisaged in the ~~penultimate~~ paragraph of this article, the Board of Statutory Auditors is appointed on the basis of lists presented by the shareholders in which the candidates are listed in numerical sequence.
Each list contains a number of candidates that is not greater than the number of members to be elected. Only shareholders who on their own or together with other shareholders represent at least 2 percent of the share capital with voting rights at ordinary shareholders' meetings are entitled to present voting lists.

The list of candidates, signed by those who present it, must be registered at the company's place of business at least ten days prior to the date set for the meeting at first calling.

Each of the aforementioned shall nevertheless have a wide faculty of taking legal action and petitions to court and at any degree of jurisdiction, including in proceedings of new suits and at the Supreme Court, presenting petitions and filing charges in a criminal court, taking legal action to sue on behalf of the company in penal proceedings, taking legal action and petitions before all administrative jurisdictions, intervening and opposing in cases of suits and appeals that concern the company, conferring upon them if necessary all the necessary powers and warrants of attorney.
The Board and, within the limits of the powers conferred upon him by the Board, the Chairman, as well as, if appointed, the Deputy Chairmen and the Managing Directors, are authorized to confer the representation of the company regarding third parties and in courts of law to directors and employees in general and, if necessary, to third parties.

Article 21

The members of the Board of Directors are entitled to receive an annual fee established by the shareholders' meeting, in addition to reimbursement of any out-of-pocket expenses incurred in performing their duties.
The remuneration of directors holding particular offices is to be set by the Board of Directors, having consulted with the Board of Statutory Auditors.

BOARD OF STATUTORY AUDITORS

Article 22

The Board of Statutory Auditors is made up of three acting statutory auditors and two alternate statutory auditors who meet the requirements laid down in the rules and regulations currently in force; to this end, it will be borne in mind that the subjects and sectors of activity closely related to those of the company are those shown in the company's purpose, with particular reference to companies or entities operating in the financial, industrial, banking, insurance and real estate fields and in services in general.
An ordinary shareholders' meeting elects the Board of Statutory Auditors and decides on their compensation. One acting statutory auditor and one alternate statutory auditor are to be elected by the minority shareholders. Except as envisaged in the **third last** paragraph of this article, the Board of Statutory Auditors is appointed on the basis of lists presented by the shareholders in which the candidates are listed in numerical sequence.
Each list contains a number of candidates that is not greater than the number of members to be elected. Only shareholders who on their own or together with other shareholders represent at least 2 percent of the share capital with voting rights at ordinary shareholders' meetings are entitled to present voting lists. **They have to prove that they possess a sufficient number of shares to present their list at least two days prior to the date of the meeting at first calling.**
Each shareholder can only present or be involved in presenting one list of candidates.
The lists of candidates, signed by those who present them, must be registered at the company's place of business at least ten days prior to the date set for the meeting at first calling **and made available to anyone who asks to see them**.

Declarations must be attached to the list confirming that each candidate accepts their candidature and certifies, under their own responsibility, that there are no reasons for ineligibility or incompatibility and that they have the requisites for office as prescribed.
Lists that fail to comply with these instructions will be considered as though they had not been presented. Each candidate can only be included on one list; otherwise, the person will be considered ineligible.
Those who do not have the requisites laid down in the rules or who already hold the position of statutory auditor in more than five listed companies on Italian regulated markets, with the exclusion of Pirelli & C. Real Estate S.p.A.'s parent and subsidiary companies, cannot be elected as statutory auditors.

Those entitled to vote can only vote for one list at a time.
The procedure for the election of the members of the Board of Auditors is as follows: two acting auditors and one alternate auditor are taken, in the numerical sequence in which they are listed, from the list that obtained the greatest number of votes; the remaining acting auditor and the other alternate auditor are taken, in the numerical sequence in which they are listed, from the list that obtained the next greatest number of votes at the shareholders' meeting; in the case that more than one list has obtained the same number of votes, a new ballot vote is taken between these lists by all the shareholders present at the meeting, with the candidates of the list that obtains the simple majority of votes being elected.

The acting member indicated as the first candidate in the list that obtained the highest number of votes is entitled to be chairman of the Board of Auditors.
In the event of death, renunciation or forfeiture of an auditor, they are to be replaced by an alternate auditor belonging to the same list.
If the chairman of the Board of Auditors has to be replaced, the other acting member on the same list as the chairman takes over the chair;
if it is not possible to make replacements according to these criteria, a shareholders' meeting will be called to integrate the Board of Statutory Auditors, passing the resolution with a relative majority of the votes cast.
When the shareholders' meeting has to provide, in accordance with the previous paragraph or in accordance with the law, for the appointment of acting and/or alternate statutory auditors needed to integrate the Board of Statutory Auditors, the following procedure has to be followed:
if auditors elected in the majority list have to be replaced, the appointment is made by voting with a relative majority without being tied to a particular list; if, however, auditors ~~designated by the minority shareholders~~ have to be replaced, the shareholders' meeting replaces them with a vote by relative majority, choosing them where possible from the candidates indicated in the list to which the auditor to be replaced belonged.

Declarations must be attached to the list confirming that each candidate accepts their candidature and certifies, under their own responsibility, that there are no reasons for ineligibility or incompatibility and that they have the requisites for office as prescribed.
Lists that fail to comply with these instructions will be considered as though they had not been presented. Each candidate can only be included on one list; otherwise, the person will be considered ineligible.
Those who do not have the requisites laid down in the rules or who already hold the position of statutory auditor in more than five listed companies on Italian regulated markets, with the exclusion of Pirelli & C. Real Estate S.p.A.'s parent and subsidiary companies, cannot be elected as statutory auditors.
The lists will consist of two sections: one for the candidates standing as acting statutory auditor, and the other for the candidates standing as alternate statutory auditor.
The first candidate on each list has to be a registered member of the Institute of Auditors with a minimum of three years' experience.
Those entitled to vote can only vote for one list at a time.
The procedure for electing the Board of Statutory Auditors is as follows:

a) two acting statutory auditors and one alternate statutory auditor are taken, in the numerical sequence in which they are listed, from the list that obtained the highest number of votes (**the so-called "majority list"**);
b) the other acting statutory auditor and the other alternate statutory auditor are taken, in the numerical sequence in which they are listed, from the list that obtained the next highest number of votes at the shareholders' meeting (**the so-called "minority list"**); in the case that more than one list has obtained the same number of votes, a new ballot vote is taken between these lists by all the shareholders present at the meeting, with the candidates of the list that obtains the simple majority of votes being elected.

The acting member indicated as the first candidate in the list that obtained the highest number of votes is entitled to be chairman of the Board of Auditors.
In the event of death, renunciation or forfeiture of an auditor, they are to be replaced by an alternate auditor belonging to the same list.
If the chairman of the Board of Auditors has to be replaced, the other acting member on the same list as the chairman takes over the chair;
if it is not possible to make replacements according to these criteria, a shareholders' meeting will be called to integrate the Board of Statutory Auditors, passing the resolution with a relative majority of the votes cast.
When the shareholders' meeting has to provide, in accordance with the previous paragraph or in accordance with the law, for the appointment of acting and/or alternate statutory auditors needed to integrate the Board of Statutory Auditors, the following procedure has to be followed:
if auditors elected in the majority list have to be replaced, the appointment is made by voting with a relative majority without being tied to a particular list; if, however, auditors **elected from the minority list** have to be replaced, the shareholders' meeting replaces them with a vote by relative majority, choosing them where possible from the candidates indicated in the list to which the auditor to be replaced belonged.

~~In the event that only one list is presented, the shareholders' meeting expresses its vote on it;~~
~~in the event that the list obtains the relative majority, the first three candidates shown in progressive order are elected as acting auditors and the fourth and fifth candidate are elected as alternate auditors;~~
~~the auditor who features as the leading candidate on the list is elected chairman of the Board of Statutory Auditors;~~
~~In the absence of lists, the Board of Auditors and its Chairman are appointed by the Shareholders' Meeting with the legal majority.~~

Outgoing Statutory Auditors may be re-elected.

FINANCIAL STATEMENTS
AND DISTRIBUTION OF PROFIT

Article 23
The financial year closes on 31st December of each year.

Article 24
The year's profits, after the allocation of 5% (five percent) to the legal reserve until this has reached one-fifth of the capital are, unless their use is determined otherwise by the shareholders' meeting, distributed to the shareholders in proportion to the shares they own.
Dividends not collected within the fifth anniversary of the day on which they became collectable fall into prescription in favour of the company.
Where the legal conditions exist, the company can pay interim dividends.

GENERAL PROVISIONS

Article 25
For all dealings between the company and the shareholders, and for all legal purposes, the shareholders are considered domiciled at the address given in the shareholders' register.

REFERENCES

Article 26
For all matters not envisaged in these Articles of Association, reference is to be made to the provisions ~~of the Civil Code and to special laws on the subject.~~

If statutory auditors are appointed without following this procedure, the shareholders' meeting has to pass the resolution approving the appointment by the majorities required by law.
Outgoing Statutory Auditors may be re-elected.
Attendance at meetings of the Board of Statutory Auditors can take place—if the Chairman or his deputy ascertains the necessity—by telecommunications techniques which allow all participants to take part in the debate and to have access to the same amount of information.

FINANCIAL STATEMENTS
AND DISTRIBUTION OF PROFIT

Article 23
The financial year closes on 31st December of each year.

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The year's profits, after the allocation of 5% (five percent) to the legal reserve until this has reached one-fifth of the capital are, unless their use is determined otherwise by the shareholders' meeting, distributed to the shareholders in proportion to the shares they own.
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GENERAL PROVISIONS

Article 25
For all dealings between the company and the shareholders, and for all legal purposes, the shareholders are considered domiciled at the address given in the shareholders' register.

REFERENCES

Article 26
For all matters not envisaged in these Articles of Association, reference should be made to the provisions **of law.**

Milan, March 22nd 2004

The Board of Directors

12. ATTACHMENTS

12.1 Management Tables

Details on Consolidated Activity

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Activity broken down by business unit

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16. Residential Asset Management – Aggregate Income Statement (100%)
17. Residential Asset Management – Pro-Quota Income Statement
18. Commercial Asset Management – Consolidated Income Statement
19. Commercial Asset Management – Aggregate Income Statement (100%)
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21. Non Performing Loans Asset Management – Consolidated Income Statement
22. Non Performing Loans Asset Management – Aggregate Income Statement (100%)
23. Non Performing Loans Asset Management – Pro-Quota Income Statement
24. Land – Consolidated Income Statement
25. Land – Aggregate Income Statement (100%)
26. Land – Pro-Quota Income Statement

1. Pirelli RE – Consolidated Income Statement

(euro/million)	December 2003 Actual Total	December 2002 Actual Total
1. Production Value	**649.0**	**491.5**
2. of which acquisitions	*170.2*	*91.2*
3. Production value net of Acquisitions	**478.8**	**400.3**
4. E.B.I.T.D.A.	79.1	51.8
5. Depreciation and Amortization	(18.0)	(9.6)
6. E.B.I.T.	61.1	42.1
7. Income from equity participations	67.0	60.1
8. E.B.I.T. including income from equity participations	**128.1**	**102.2**
9. Interests from equity participations	10.2	13.1
10. Other interests income/(expense)	(9.4)	(15.4)
11. Profit before extraordinary income/(expense)	**128.9**	**99.9**
12. Extraordinary items	(6.2)	49.9
13. Profit Before Taxes	122.7	149.8
14. Income taxes	(21.2)	(24.3)
15. Net income before minority interests	101.5	125.5
16. Minority interests	0.6	(0.2)
17. Net income	102.1	125.3
18. Net Income Real Estate Activities	**102.1**	**82.6**

2. Pirelli RE – Consolidated Balance Sheet

(euro/million)	December 2003 Actual	June 2003 Actual	December 2002 Actual
1. Fixed Assets	**313.4**	**252.9**	**218.8**
Property-plant and equipment/Intangible assets	109.6	90.8	56.8
Participations/Others	203.8	162.1	162.0
of which equity participations in companies valued at equity	*149.7*	*118.2*	*109.1*
2. Net Working Capital	**162.3**	**234.5**	**190.5**
Inventories	325.0	362.5	383.7
Receivables from third parties	246.7	265.4	163.6
Trade payables from third parties	(193.5)	(196.3)	(139.1)
Third parties payables for properties	(106.9)	(17.9)	(71.9)
Payments for down payments/advances	(49.4)	(105.3)	(94.9)
Other payables/receivables	(59.6)	(73.9)	(50.9)
3. Net Invested Capital	**475.7**	**487.4**	**409.3**
4. Shareholders' Equity	**424.8**	**360.2**	**368.8**
of which minority interests	*3.2*	*0.4*	*0.9*
5. Provisions for contingency	**41.7**	**55.8**	**52.8**
6. Net Financial Position	**9.2**	**71.4**	**(12.3)**
of which cash, short term financial assets	*(54.0)*	*(112.1)*	*(74.2)*
of which shareholders' loans	*(214.5)*	*(177.9)*	*(179.0)*
of which other short-medium term assets	*(0.2)*	*(0.2)*	*(0.2)*
of which short-term financial liabilities	*194.0*	*161.2*	*31.2*
of which medium and long-term financial liabilities	*83.9*	*200.4*	*209.9*
7. Total covered net invested capital	**475.7**	**487.4**	**409.3**
8. Financial position excluding shareholder loans	**223.7**	**249.3**	**166.7**
9. Financial position excluding shareholder loans/equity	**0.53**	**0.69**	**0.45**

3. Pirelli RE – Consolidated Net Cash Flow

(euro/million)	Actual December 2003	Actual December 2002
1. E.B.I.T. including income from equity participations	**128.1**	**102.2**
2. Depreciation and amortization	18.0	9.6
3. Fixed Asset Investments	(112.6)	(154.2)
4. Changes in net working capital and provisions	8.6	47.1
5. Free Cash Flow	**42.1**	**4.7**
6. Financial, Fiscal and extraordinary (income), expense	(14.9)	43.9
7. Cash Flow before Dividends	**27.2**	**48.7**
8. Dividend payments	(48.7)	0.0
9. Increase in share capital	0.0	105.3
10. Net Cash Flow	**(21.5)**	**154.0**

4. Pirelli RE – Consolidated Income Statement: breakdown by activity

(euro/million)	Actual December 2003					
	Total	Capital Invest-ments	Asset Mana-gement Fees	Service Provider	Franchi-sing Network	Holding Costs
1. Production value	**649.0**	**293.2**	**49.3**	**322.0**	**1.7**	**(17.2)**
2. *of which acquisitions*	*170.2*	*170.2*	*0.0*	*0.0*	*0.0*	*0.0*
3. Production value net of Acquisitions	**478.8**	**123.0**	**49.3**	**322.0**	**1.7**	**(17.2)**
4. E.B.I.T.D.A.	79.1	18.1	15.0	62.4	(3.4)	(12.9)
5. Depreciation and amortization	(18.0)	(0.4)	(1.2)	(11.8)	(1.8)	(2.8)
6. E.B.I.T.	61.1	17.7	13.8	50.6	(5.2)	(15.7)
7. Income from equity participations	67.0	67.1	0.0	0.0	0.0	(0.2)
8. E.B.I.T. including income from equity participations	**128.1**	**84.8**	**13.8**	**50.6**	**(5.2)**	**(15.8)**
9. Financial income from equity participations	10.2	10.1	0.0	0.0	0.0	0.0
10. Other interests income/(expense)	(9.4)	(7.0)	0.0	(2.2)	(0.2)	(0.1)
11. Profit before extraordinary income/(expense)	**128.9**	**88.0**	**13.8**	**48.4**	**(5.4)**	**(15.9)**
12. Extraordinary income/(expense)	(6.2)	0.2	0.0	(1.3)	0.6	(5.7)
13. Profit Before Taxes	**122.7**	**88.2**	**13.8**	**47.2**	**(4.8)**	**(21.6)**
14. ASSET MANAGEMENT PROFIT BEFORE TAXES		**101.9**				
15. of which Residential AM, Commercial Sector AM, Non Performing Loans AM		**94.4**				
16. of which Land AM		**7.6**				

(euro/million)	Actual December 2002				
	Total	Capital Invest-ments	Asset Mana-gement Fees	Service Provider	Holding Costs
1. Production value	**491.3**	**259.0**	**29.9**	**199.8**	**2.7**
2. *of which acquisitions*	*91.2*	*91.2*	*0.0*	*0.0*	*0.0*
3. Production value net of Acquisitions	**400.1**	**167.8**	**29.9**	**199.8**	**2.7**
4. E.B.I.T.D.A.	54.1	20.9	10.2	34.9	(11.8)
5. Depreciation and amortization	(8.7)	(0.3)	(0.6)	(6.0)	(1.8)
6. E.B.I.T.	45.4	20.6	9.6	28.9	(13.6)
7. Income from equity participations	60.1	60.2	0.0	(0.1)	0.0
8. E.B.I.T. including income from equity participations	**105.5**	**80.8**	**9.6**	**28.8**	**(13.6)**
9. Financial income from equity participations	12.6	12.6	0.0	0.0	0.0
10. Other interests income/(expense)	(14.5)	(12.5)	0.0	(2.1)	0.1
11. Profit before extraordinary income/(expense)	**103.6**	**80.9**	**9.6**	**26.7**	**(13.6)**
12. Extraordinary income/(expense)	(2.5)	(3.1)	0.2	0.5	(0.0)
13. Profit Before Taxes	**101.1**	**77.8**	**9.7**	**27.2**	**(13.6)**
14. ASSET MANAGEMENT PROFIT BEFORE TAXES			**87.6**		
15. of which Residential AM, Commercial Sector AM, Non Performing Loans AM			**74.3**		
16. of which Land AM			**13.3**		

5. Pirelli RE – Asset Management Consolidated Income Statement: breakdown by Business Unit

(euro/million)	Consolidated Statement December 2003				Consolidated Statement December 2002			
	Total	Residential A.M.	Commercial Sector A.M.	NPL A.M.	Total	Residential A.M.	Commercial Sector A.M.	NPL A.M.
1. Production value	**296.4**	**97.9**	**195.6**	**2.9**	**230.5**	**77.0**	**152.5**	**1.0**
2. of which acquisitions	*170.2*	*65.1*	*103.4*	*1.7*	*90.3*	*39.1*	*51.3*	*0.0*
3. Production value net of Acquisitions	**126.3**	**32.8**	**92.3**	**1.2**	**140.2**	**37.9**	**101.2**	**1.0**
6. E.B.I.T.	22.7	4.6	18.7	(0.5)	14.3	7.7	6.8	(0.2)
7. Income from equity participations	67.6	27.5	40.0	0.1	60.6	13.1	45.3	2.1
8. E.B.I.T. including income from equity participations	**90.4**	**32.1**	**58.7**	**(0.4)**	**74.9**	**20.9**	**52.2**	**1.9**
9. Financial income from equity participations	8.9	4.0	4.4	0.4	12.5	8.0	4.3	0.2
10. Other interests income/(expense)	(5.4)	(2.1)	(3.6)	0.3	(10.3)	(4.8)	(5.4)	0.0
11. Profit before extraordinary income/(expense)	**93.8**	**34.0**	**59.5**	**0.3**	**77.1**	**24.0**	**51.1**	**2.1**
12. Extraordinary income/(expense)	0.6	(1.0)	1.0	0.6	(2.9)	(0.9)	(2.0)	0.0
13. Profit Before Taxes	**94.4**	**32.9**	**60.5**	**1.0**	**74.3**	**23.1**	**49.1**	**2.1**

6. Pirelli RE – Service Provider and Franchising Consolidated Income Statement: breakdown by Business Unit

(euro/million)	Consolidated Income Statement December 2003						Franchising network
	Total	Agency	Property	Project	Facility	Credit servicing	
1. Production value	**322.0**	**80.9**	**79.8**	**25.6**	**130.9**	**4.8**	**1.7**
2. of which acquisitions	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
3. Production value net of Acquisitions	**322.0**	**80.9**	**79.8**	**25.6**	**130.9**	**4.8**	**1.7**
4. E.B.I.T.D.A.	62.4	35.9	9.8	5.4	10.8	0.5	(3.4)
5. Depreciation and amortization	(11.8)	(2.1)	(3.9)	(1.4)	(4.3)	(0.2)	(1.8)
6. E.B.I.T.	50.6	33.8	6.0	4.0	6.5	0.3	(5.2)
7. Income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**50.6**	**33.8**	**6.0**	**4.0**	**6.5**	**0.3**	**(5.2)**
9. Financial income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10. Other interests income/(expense)	(2.2)	(0.4)	(0.7)	(0.2)	(1.0)	0.1	(0.2)
11. Profit before extraordinary income/(expense)	**48.4**	**33.5**	**5.3**	**3.8**	**5.5**	**0.4**	**(5.4)**
12. Extraordinary income/(expense)	(1.3)	0.0	(0.2)	(0.7)	(0.4)	0.0	0.6
13. Profit Before Taxes	**47.2**	**33.5**	**5.1**	**3.1**	**5.1**	**0.4**	**(4.8)**
14. ROS	**16%**	**42%**	**7%**	**16%**	**5%**	**6%**	**N/A**

(euro/million)	Consolidated Statement December 2002					
	Total	Agency	Property	Project	Facility	Credit servicing
1. Revenue Production value	**199.8**	**58.6**	**55.5**	**22.0**	**59.3**	**4.4**
2. of which acquisitions	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
3. Revenue Production value net of Acquisitions	**199.8**	**58.6**	**55.5**	**22.0**	**59.3**	**4.4**
4. E.B.I.T.D.A.	34.9	19.9	5.3	4.1	4.1	1.4
5. Depreciation and amortization	(6.0)	(2.0)	(2.5)	(0.7)	(0.6)	(0.1)
6. E.B.I.T.	28.9	17.9	2.8	3.4	3.4	1.3
7. Income from equity participations	(0.1)	0.0	0.0	0.0	(0.1)	0.0
8. E.B.I.T. including income from equity participations	**28.8**	**17.9**	**2.8**	**3.4**	**3.3**	**1.3**
9. Financial income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0
10. Other interests income/(expense)	(2.1)	(1.0)	(0.3)	(0.1)	(0.7)	(0.0)
11. Profit before extraordinary income/(expense)	**26.7**	**16.9**	**2.5**	**3.3**	**2.6**	**1.3**
12. Extraordinary income/(expense)	0.5	0.2	0.2	(0.0)	0.1	0.0
13. Profit Before Taxes	**27.2**	**17.1**	**2.7**	**3.3**	**2.8**	**1.3**
14. ROS	**14%**	**31%**	**5%**	**16%**	**6%**	**29%**

7. Pirelli RE – Aggregate Income Statement (100%)

(euro/million)	Actual December 2003			Actual December 2002		
	Total	Consolidated Companies	Participated Companies	Total (**)	Consolidated Companies	Participated Companies
1. Production value	**2,972.6**	**649.0**	**2,323.5**	**6,018.6**	**491.4**	**5,527.3**
2. of which acquisitions	*1,447.1*	*170.2*	*1,276.9*	*4,721.5*	*91.2*	*4,630.3*
3. Production value net of Acquisitions	**1,525.5**	**478.9**	**1,046.6**	**1,297.1**	**400.2**	**896.9**
4. E.B.I.T.D.A.	706.2	79.2	627.1	611.0	54.1	557.0
5. Depreciation and amortization	(52.5)	(18.0)	(34.5)	(29.8)	(8.7)	(21.1)
6. E.B.I.T.	653.7	61.1	592.6	581.3	45.4	535.9
7. Income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**653.7**	**61.1**	**592.6**	**581.3**	**45.4**	**535.9**
9. Financial income from equity participations	(19.9)	10.1	(30.1)	(24.1)	12.6	(36.8)
10. Other interests income/(expense)	(233.8)	(9.4)	(224.4)	(189.2)	(14.6)	(174.7)
11. Profit before extraordinary income/(expense)	**400.0**	**61.9**	**338.1**	**368.0**	**43.5**	**324.5**
12. Extraordinary income/(expense)	(8.1)	(6.1)	(1.9)	12.9	(2.5)	15.3
13. Profit Before Taxes (*)	**391.9**	**55.7**	**336.2**	**380.8**	**41.0**	**339.8**
14. Net Income (100%)			211.3			223.0
15. Income from PRE equity participations			67.0			60.1
OTHER DATA						
16. Sales	2.041.1	208.8	1.832.2	1.031.9	221.8	810.2
17. Gross Capital Gains	441.2	17.4	423.8	273.0	38.3	234.7
18. Book Value of inventories (***)	6,992.1	325.0	6,667.1	6,924.1	383.7	6,540.4
19. Non performing Loans Portfolio (GBV)	925.2	138.9	786.3	231.0	0.0	231.0

(*) PROFIT BEFORE TAXES RECONCILIATION WITH CONSOLIDATED STATEMENT	2003	2002
20. Total managed Profit Before Taxes activity	**391.9**	**380.8**
21. Profit Before Taxes 100% Participated Companies	(336.2)	(339.8)
22. Participated Companies Net Profit per Share	67.0	60.1
23. Consolidated Income	**122.7**	**101.1**

(**) Only includes property or real estate assets

(***) Also includes about 70 milion for Sci Roev and 20.6 milion for urbanization work.

8. Pirelli RE – Aggregate Production Value Detail (100%)

(euro/million)	Actual December 2003			Actual December 2002		
	Total	Consolidated Companies	Participated Companies	Total	Consolidated Companies	Participated Companies
1. Sales	2,041.1	208.8	1,832.2	1,031.9	221.8	810.2
2. Rental income	347.4	4.7	342.8	228.5	2.7	225.8
3. Fees	40.1	40.1	0.0	29.9	29.9	0.0
4. Other revenues	425.5	320.9	104.6	271.2	210.8	60.4
5. Total Revenues	**2,854.1**	**574.5**	**2,279.6**	**1,561.6**	**465.2**	**1,096.4**
6. Cost of sales	(1.599.9)	(191.5)	(1.408.4)	(758.9)	(183.4)	(575.5)
7. Acquisitions of real estate assets	1.447.1	170.2	1.276.9	4.721.5	91.2	4.630.3
8. Other capital costs	214.5	77.8	136.8	211.5	113.2	98.3
9. Capitalized interest expenses	13.9	1.5	12.4	16.7	3.9	12.8
10. Revaluation Margin	42.9	16.7	26.2	266.3	1.4	264.9
11. Changes in inventories	**118.5**	**74.6**	**43.9**	**4,457.1**	**26.2**	**4,430.9**
12. Production value	**2,972.6**	**649.0**	**2,323.5**	**6,018.6**	**491.4**	**5,527.3**
13. Gross Capital Gains	441.2	17.4	423.8	273.0	38.3	234.7
14. Pirelli & C. Real Estates' Share	146.9	17.4	129.5	114.0	38.3	75.7

9. Pirelli RE – Asset Management Aggregate Income Statement (100%): breakdown by consolidated and associated initiatives, fees

(euro/million)	Actual December 2003				Actual December 2002			
	Total	Consolidated Companies	Participated Companies	Asset Management Fees	Total (**)	Consolidated Companies	Participated Companies	Asset Management Fees
1. Production value	**2,594.6**	**250.4**	**2,298.2**	**46.0**	**5,481.9**	**202.6**	**5,251.4**	**27.9**
2. of which acquisitions	*1,447.1*	*170.2*	*1.276.9*	*0.0*	*4,461.7*	*90.3*	*4,371.4*	*0.0*
3. Production value net of Acquisitions	**1,147.5**	**80.3**	**1,021.2**	**46.0**	**1,020.2**	**112.3**	**880.1**	**27.9**
4. E.B.I.T.D.A.	646.8	9.6	622.8	14.5	570.4	4.9	555.3	10.1
5. Depreciation and amortization	(35.2)	(0.2)	(33.9)	(1.1)	(21.3)	(0.2)	(20.5)	(0.5)
6. E.B.I.T.	611.6	9.3	588.9	13.4	549.1	4.7	534.8	9.6
7. Income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**611.6**	**9.3**	**588.9**	**13.4**	**549.1**	**4.7**	**534.8**	**9.6**
9. Financial income from equity participations	(21.2)	8.8	(30.1)	0.0	(23.7)	12.5	(36.2)	0.0
10. Other interests income/(expense)	(222.7)	(5.4)	(217.3)	0.0	(182.8)	(10.3)	(172.5)	0.0
11. Profit before extraordinary income/(expense)	**367.7**	**12.8**	**341.5**	**13.4**	**342.6**	**6.9**	**326.1**	**9.6**
12. Extraordinary income/(expense)	(1.4)	0.6	(1.9)	0.0	12.5	(3.0)	15.3	0.2
13. Profit Before Taxes (*)	**366.3**	**13.3**	**339.6**	**13.4**	**355.1**	**3.9**	**341.4**	**9.8**
14. Net income			215.4				224.5	
15. Income from PRE equity participations			67.6				60.6	
OTHER DATA								
16. Sales	2,037.7	170.3	1,867.4		964.1	154.0	810.1	
17. Gross Capital Gains	435.1	11.9	423.2		243.7	9.0	234.7	
18. Book Value of inventories (***)	6,610.1	207.8	6,402.4		6,537.8	240.2	6,297.6	
19. Non Performing Loans Portfolio (GBV)	925.2	138.9	786.3		231.0	0.0	231.0	

(*) PROFIT BEFORE TAXES RECONCILIATION WITH CONSOLIDATED STATEMENT

	2003	2002
20. Total managed Profit Before Taxes activity	**366.3**	**355.1**
21. Profit Before Taxes 100% Participated Companies	(339.6)	(341.4)
22. Pro Quota Net Income Participated Companies	67.6	60.6
23. Consolidated Result	**94.4**	**74.3**

(**) Only includes property/or estate activity.

(***) Also includes around 70 milion for Sci Roev.

10. Pirelli RE – Asset Management Production Value Detail (100%): breakdown by consolidated and associated initiatives, fees

(euro/million)	Actual December 2003				Actual December 2002			
	Total	Consolidated Companies	Participated Companies	Asset Management Fees	Total	Consolidated Companies	Participated Companies	Asset Management Fees
1. Sales	2,037.7	170.3	1,867.4	0.0	964.1	154.0	810.1	0.0
2. Rental income	342.3	4.5	337.7	0.0	228.4	2.6	225.8	0.0
3. Fees	36.7	0.0	0.0	36.7	27.9	0.0	0.0	27.9
4. Other Revenues	108.0	4.2	94.6	9.3	58.6	8.3	50.3	0.0
5. Total Revenues	**2,524.7**	**179.1**	**2,299.7**	**46.0**	**1,278.9**	**164.9**	**1,086.2**	**27.9**
6. Cost of sales	(1,602.6)	(158.4)	(1,444.2)	0.0	(720.4)	(145.0)	(575.3)	0.0
7. Acquisition of real estate assets	1,447.1	170.2	1,276.9	0.0	4,461.7	90.3	4,371.4	0.0
8. Other capitalized costs	191.9	58.3	133.7	0.0	177.7	82.3	95.4	0.0
9. Capitalized interest expenses	6.7	0.9	5.8	0.0	14.4	3.5	10.9	0.0
10. Revaluation margin	26.7	0.4	26.2	0.0	269.6	6.6	262.9	0.0
11. Changes in inventories	**69.9**	**71.4**	**(1.5)**	**0.0**	**4,203.0**	**37.8**	**4,165.3**	**0.0**
12. Production value	**2,594.6**	**250.4**	**2,298.2**	**46.0**	**5,481.9**	**202.6**	**5,251.4**	**27.9**
13. Gross Capital Gains	435.1	11.9	423.2		243.7	9.0	234.7	
14. Pirelli & C. Real Estates' Share	**141.3**	**11.9**	**129.4**		**84.6**	**9.0**	**75.7**	

11. Pirelli RE – Pro-Quota Income Statement

(euro/million)	Actual December 2003			Actual December 2002		
	Total	Consolidated Companies	Participated Companies	Total (**)	Consolidated Companies	Participated Companies
1. Production value	**1,322.4**	**649.0**	**673.4**	**1,826.6**	**491.3**	**1,335.2**
2. of which acquisitions	*554.9*	*170.2*	*384.7*	*1,205.2*	*91.2*	*1,114.0*
3. Production value net of Acquisitions	**767.6**	**478.9**	**288.7**	**621.4**	**400.1**	**221.2**
4. E.B.I.T.D.A.	246.0	79.2	166.8	207.9	54.1	153.8
5. Depreciation and amortization	(26.1)	(18.0)	(8.0)	(14.2)	(8.7)	(5.5)
6. E.B.I.T.	219.9	61.1	158.8	193.7	45.4	148.3
7. Income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**219.9**	**61.1**	**158.8**	**193.7**	**45.4**	**148.2**
9. Financial income from equity participations	0.0	10.1	(10.1)	0.0	12.6	(12.6)
10. Other interests income/(expense)	(56.5)	(9.4)	(47.1)	(60.9)	(14.5)	(46.4)
11. Profit before extraordinary income/(expense)	**163.4**	**61.9**	**101.5**	**132.9**	**43.5**	**89.4**
12. Extraordinary income/(expense)	(5.8)	(6.1)	0.4	2.0	(2.5)	4.4
13. Profit Before Taxes (*)	**157.6**	**55.7**	**101.9**	**134.8**	**41.0**	**93.8**
14. Net Income			67.0			60.1
15. Income from PRE equity participations			67.0			60.1

(*) PROFIT BEFORE TAXES RECONCILIATION WITH CONSOLIDATED STATEMENT

	2003	2002
16. Total managed Profit Before Taxes activity	**157.6**	**134.8**
17. Profit Before Taxes 100% Participated Companies	(101.9)	(93.8)
18. Pro Quota Net Profit for Participated Companies	67.0	60.1
19. Consolidated Result	**122.7**	**101.1**

(**) Only includes property or estate activity.

12. Pirelli RE – Pro-Quota Production Value Detail: consolidated and associated initiatives

(euro/million)	Actual December 2003			Actual December 2002		
	Total	Consolidated Companies	Participated Companies	Total	Consolidated Companies	Participated Companies
1. Sales	733.3	208.8	524.4	485.1	221.8	263.3
2. Rental income	70.4	4.7	65.8	57.1	2.7	54.4
3. Fees	40.1	40.1	0.0	29.9	29.9	0.0
4. Other revenues	355.2	320.9	34.4	203.7	210.8	(7.1)
5. Total Revenues	**1,199.0**	**574.5**	**624.5**	**775.9**	**465.2**	**310.7**
6. Cost of sales	(586.4)	(191.5)	(394.9)	(371.0)	(183.4)	(187.6)
7. Acquisition of real estate assets	554.9	170.2	384.7	1.205.2	91.2	1.114.0
8. Other capitalized costs	124.6	77.8	46.9	141.0	113.1	27.8
9. Capitalized interest expenses	6.0	1.5	4.6	7.1	3.9	3.1
10. Revaluation margin	24.3	16.7	7.7	68.6	1.4	67.2
11. Changes in inventories	**123.4**	**74.6**	**48.9**	**1,050.8**	**26.2**	**1,024.6**
12. Production value	**1,322.4**	**649.0**	**673.4**	**1,826.6**	**491.3**	**1,335,2**

13. Pirelli RE – Pro-Quota Asset Management Income Statement: breakdown by consolidated and associated initiatives, fees

(euro/million)	Actual December 2003				Actual December 2002			
	Total	Consolidated Companies	Participated Companies	Asset Management Fees	Total (**)	Consolidated Companies	Participated Companies	Asset Management Fees
1. Production value	**962.3**	**250.4**	**665.9**	**46.0**	**1,504.3**	**202.6**	**1,273.8**	**27.9**
2. of which acquisitions	*554.9*	*170.2*	*384.7*	*0.0*	*1,148.5*	*90.3*	*1,058.1*	*0.0*
3. Production value net of Acquisitions	**407.4**	**80.3**	**281.2**	**46.0**	**355.8**	**112.3**	**215.6**	**27.9**
4. E.B.I.T.D.A.	189.5	9.6	165.5	14.5	168.4	4.9	153.3	10.1
5. Depreciation and amortization	(9.1)	(0.2)	(7.8)	(1.1)	(6.2)	(0.2)	(5.4)	(0.5)
6. E.B.I.T.	180.4	9.3	157.7	13.4	162.2	4.7	147.9	9.6
7. Income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**180.4**	**9.3**	**157.7**	**13.4**	**162.2**	**4.7**	**147.9**	**9.6**
9. Financial income from equity participations	0.0	8.8	(8.8)	0.0	0.0	12.5	(12.5)	0.0
10. Other interests income/(expense)	(52.3)	(5.4)	(46.9)	0.0	(55.8)	(10.3)	(45.5)	0.0
11. Profit before extraordinary income/(expense)	**128.1**	**12.8**	**102.0**	**13.4**	**106.4**	**6.9**	**89.9**	**9.6**
12. Extraordinary income/(expense)	0.9	0.6	0.3	0.0	1.6	(3.0)	4.4	0.2
13. Profit Before Taxes (*)	**129.0**	**13.3**	**102.3**	**13.4**	**108.0**	**3.9**	**94.3**	**9.8**
14. Net Income			67.6				60.6	
15. Income from PRE equity participations			67.6				60.6	
(*) PROFIT BEFORE TAXES RECONCILIATION WITH CONSOLIDATED STATEMENT								
16. P.B.T. Total Managed Activity	**129.0**				**108.0**			
17. Profit Before Taxes 100% Participated Companies	(102.3)				(94.3)			
18. Pro Quota Net Profit Participated Companies	67.6				60.6			
19. Consolidated Result	**94.4**				**74.3**			

(**) Only includes property or estate assets.

14. Pirelli RE – Pro-Quota Asset Management Production Value Detail: breakdown by consolidated and associated initiatives, fees

(euro/million)	Actual December 2003				Actual December 2002			
	Total	Consolidated Companies	Participated Companies	Asset Management Fees	Total	Consolidated Companies	Participated Companies	Asset Management Fees
1. Sales	703.8	170.3	533.5	0.0	417.3	154.0	263.3	0.0
2. Rental income	68.6	4.5	64.1	0.0	57.0	2.6	54.4	0.0
3. Fees	36.7	0.0	0.0	36.7	27.9	0.0	0.0	27.9
4. Other revenues	44.1	4.2	30.7	9.3	(2.5)	8.3	(10.8)	0.0
5. Total Revenues	**853.3**	**179.1**	**628.2**	**46.0**	**499.6**	**164.9**	**306.9**	**27.9**
6. Cost of sales	(562.5)	(158.4)	(404.1)	0.0	(332.6)	(145.0)	(187.6)	0.0
7. Acquisition of buildings	554.9	170.2	384.7	0.0	1,148.5	90.3	1,058.1	0.0
8. Other capitalized costs	104.5	58.3	46.2	0.0	109.1	82.3	26.8	0.0
9. Capitalized interest expenses	4.1	0.9	3.2	0.0	6.0	3.5	2.5	0.0
10. Revaluation Margin	8.1	0.4	7.7	0.0	73.6	6.6	67.0	0.0
11. Changes in Inventories	**109.0**	**71.4**	**37.6**	**0.0**	**1,004.6**	**37.8**	**966.9**	**0.0**
12. Production value	**962.3**	**250.4**	**665.9**	**46.0**	**1,504.3**	**202.6**	**1,273.8**	**27.9**

15. Residential Asset Management – Consolidated Income Statement

(euro/million)	Residential AM actual December 2003			Residential AM actual December 2002		
	Total	Investments	Asset Management Fees	Total	Investments	Asset Management Fees
1. Production value	**97.9**	**80.8**	**17.1**	**77.0**	**67.6**	**9.4**
2. *of which acquisitions*	*65.1*	*65.1*	*0.0*	*39.1*	*39.1*	*0.0*
3. Production value net of Acquisition	**32.8**	**15.7**	**17.1**	**37.9**	**28.6**	**9.4**
4. E.B.I.T.D.A.	5.1	0.4	4.8	7.9	4.4	3.5
5. Depreciation and amortization	(0.6)	(0.2)	(0.3)	(0.2)	(0.1)	(0.1)
6. E.B.I.T.	4.6	0.2	4.4	7.7	4.3	3.4
7. Income from equity participations	27.5	27.5	0.0	13.1	13.1	0.0
8. E.B.I.T. including income from equity participations	**32.1**	**27.7**	**4.4**	**20.9**	**17.4**	**3.4**
9. Financial income from equity participations	4.0	4.0	0.0	8.0	8.0	0.0
10. Other interests income/(expense)	(2.1)	(2.1)	0.0	(4.8)	(4.8)	0.0
11. Profit before extraordinary income/(expense)	**34.0**	**29.6**	**4.4**	**24.0**	**20.5**	**3.4**
12. Extraordinary income/(expense)	(1.0)	(1.0)	0.0	(0.9)	(1.0)	0.2
13. Profit Before Taxes	**32.9**	**28.5**	**4.4**	**23.1**	**19.5**	**3.6**

16. Residential Asset Management – Aggregate Income Statement (100%)

(euro/million)	Actual December 2003				Actual December 2002			
	Total	Consolidated Companies	Participated Companies	Asset Management Fees	Total	Consolidated Companies	Participated Companies	Asset Management Fees
1. Production value	**945.2**	**80.8**	**847.3**	**17.1**	**1,232.6**	**67.6**	**1,155.6**	**9.4**
2. *of which acquisitions*	*571.5*	*65.1*	*506.3*	*0.0*	*948.0*	*39.1*	*909.0*	*0.0*
3. Production value net of Acquisitions	**373.7**	**15.7**	**340.9**	**17.1**	**284.6**	**28.6**	**246.7**	**9.4**
4. E.B.I.T.D.A.	207.3	0.4	202.2	4.8	160.2	4.4	152.3	3.5
5. Depreciations and amortization	(9.7)	(0.2)	(9.1)	(0.3)	(6.9)	(0.1)	(6.7)	(0.1)
6. E.B.I.T.	197.6	0.2	193.1	4.4	153.3	4.3	145.6	3.4
7. Income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**197.6**	**0.2**	**193.1**	**4.4**	**153.3**	**4.3**	**145.6**	**3.4**
9. Income/(expense) from shareholders' loans	(6.6)	4.0	(10.6)	0.0	(12.9)	8.0	(20.8)	0.0
10. Other interests income/(expense)	(47.4)	(2.1)	(45.3)	0.0	(53.0)	(4.8)	(48.1)	0.0
11. Profit before extraordinary income/(expense)	**143.6**	**2.0**	**137.2**	**4.4**	**87.4**	**7.4**	**76.6**	**3.4**
12. Extraordinary income/(expense)	(0.5)	(1.0)	0.5	0.0	(3.1)	(1.0)	(2.2)	0.2
13. Profit Before Taxes (*)	**143.1**	**1.0**	**137.7**	**4.4**	**84.3**	**6.4**	**74.4**	**3.6**
14. Net income			77.6				37.1	
15. Income from PRE equity participations			27.5				13.1	
OTHER DATA								
16. Sales	980.4	34.8	945.6		585.7	30.7	554.9	
17. Gross Capital Gains	238.1	2.6	235.5		158.7	5.1	153.6	
18. Margin % (excluded development)	25%	20%	25%		27%	19%	28%	
19. Pro-quota Capital Gains	85.5	2.6	82.9		61.1	5.1	56.0	
20. Book Value of Inventories	1,484.5	66.6	1,417.9		1,607.9	115.6	1,492.3	

(*) PROFIT BEFORE TAXES RECONCILIATION WITH CONSOLIDATED STATEMENT

	2003	2002
21. P.B.T. Total Managed Activity	**143.1**	**84.3**
22. Profit Before Taxes 100% Participated Companies	(137.7)	(74.4)
23. Pro Quota Net Profit Participated Companies	27.5	13.1
24. Consolidated Result	**32.9**	**23.1**

17. Residential Asset Management – Pro-Quota Income Statement

(euro/million)	Actual December 2003				Actual December 2002			
	Total	Consolidated Companies	Participated Companies	Asset Management Fees	Total	Consolidated Companies	Participated Companies	Asset Management Fees
1. Production value	**397.7**	**80.8**	**299.7**	**17.1**	**448.3**	**67.6**	**371.3**	**9.4**
2. of which acquisitions	*246.5*	*65.1*	*181.4*	*0.0*	*323.5*	*39.1*	*284.4*	*0.0*
3. Production value net of Acquisitions	**151.1**	**15.7**	**118.3**	**17.1**	**124.9**	**28.6**	**86.9**	**9.4**
4. E.B.I.T.D.A.	76.1	0.4	70.9	4.8	62.5	4.4	54.6	3.5
5. Depreciation and amortization	(3.7)	(0.2)	(3.1)	(0.3)	(2.6)	(0.1)	(2.4)	(0.1)
6. E.B.I.T.	72.4	0.2	67.8	4.4	60.0	4.3	52.2	3.4
7. Income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**72.4**	**0.2**	**67.8**	**4.4**	**60.0**	**4.3**	**52.2**	**3.4**
9. Income/(expense) from shareholders' loans	0.0	4.0	(4.0)	0.0	(0.0)	8.0	(8.0)	0.0
10. Other interests income/(expense)	(17.7)	(2.1)	(15.5)	0.0	(21.7)	(4.8)	(16.8)	0.0
11. Profit before extraordinary income/(expense)	**54.8**	**2.0**	**48.3**	**4.4**	**38.3**	**7.4**	**27.5**	**3.4**
12. Extraordinary income/(expense)	(0.8)	(1.0)	0.3	0.0	(1.7)	(1.0)	(0.8)	0.2
13. Profit Before Taxes (*)	**54.0**	**1.0**	**48.6**	**4.4**	**36.6**	**6.4**	**26.6**	**3.6**
14. Income from PRE equity participations			27.5				13.1	

(*) PROFIT BEFORE TAXES RECONCILIATION WITH CONSOLIDATED STATEMENT

	2003	2002
15. Total proquota Profit Before Taxes	**54.0**	**36.6**
16. Profit Before Taxes 100% Participated Companies	(48.6)	(26.6)
17. Pro Quota Net Profit for Participated Companies	27.5	13.1
18. Consolidated Result	**32.9**	**23.1**

18. Commercial Asset Management – Consolidated Income Statement

(euro/million)	Commercial AM actual December 2003			Commercial AM actual December 2002		
	Total	Investments	Asset Management Fees	Total	Investments	Asset Management Fees
1. Production value	**195.6**	**167.9**	**27.7**	**152.5**	**135.0**	**17.5**
2. of which acquisitions	*103.4*	*103.4*	*0.0*	*51.3*	*51.3*	*0.0*
3. Production value net of Acquisitions	**92.3**	**64.5**	**27.7**	**101.2**	**83.7**	**17.5**
4. E.B.I.T.D.A.	19.4	9.3	10.0	7.4	0.6	6.7
5. Depreciation and amortization	(0.7)	(0.0)	(0.7)	(0.5)	(0.2)	(0.3)
6. E.B.I.T.	18.7	9.3	9.4	6.8	0.4	6.4
7. Income form equity participations	40.0	40.0	0.0	45.3	45.3	0.0
8. E.B.I.T. including income from equity participations	**58.7**	**49.3**	**9.4**	**52.2**	**45.8**	**6.4**
9. Financial income from equity participations	4.4	4.4	0.0	4.3	4.3	0.0
10. Other interests income/(expense)	(3.6)	(3.6)	0.0	(5.4)	(5.4)	0.0
11. Profit before extraordinary income/(expense)	**59.5**	**50.2**	**9.4**	**51.1**	**44.7**	**6.4**
12. Extraordinary income/(expense)	1.0	1.0	0.0	(2.0)	(2.0)	0.0
13. Profit Before Taxes	**60.5**	**51.1**	**9.4**	**49.1**	**42.7**	**6.4**

19. Commercial Asset Management – Aggregate Income Statement (100%)

(euro/million)	Actual December 2003				Actual December 2002			
	Total	Consolidated Companies	Participated Companies	Asset Management Fees	Total	Consolidated Companies	Participated Companies	Asset Management Fees
1. Production value	**1,746.0**	**167.9**	**1,550.4**	**27.7**	**4,231.2**	**135.0**	**4,078.8**	**17.5**
2. of which *acquisitions*	*973.3*	*103.4*	*869.9*	*0.0*	*3,513.7*	*51.3*	*3,462.4*	*0.0*
3. Production value net of Acquisitions	**772.7**	**64.5**	**680.4**	**27.7**	**717.5**	**83.7**	**616.3**	**17.5**
4. E.B.I.T.D.A.	438.9	9.3	419.5	10.0	404.4	0.6	397.0	6.7
5. Depreciation and amortization	(23.7)	(0.0)	(23.0)	(0.7)	(14.4)	(0.2)	(13.8)	(0.3)
6. E.B.I.T.	415.2	9.3	396.5	9.4	390.0	0.4	383.2	6.4
7. Income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**415.2**	**9.3**	**396.5**	**9.4**	**390.0**	**0.4**	**383.2**	**6.4**
9. Income/(expense) from shareholders' loans	(15.1)	4.4	(19.5)	0.0	(10.8)	4.3	(15.1)	0.0
10. Other interests income/(expense)	(177.6)	(3.6)	(174.0)	0.0	(129.0)	(5.4)	(123.5)	0.0
11. Profit before extraordinary income/(expense)	**222.5**	**10.2**	**203.0**	**9.4**	**250.3**	**(0.7)**	**244.5**	**6.4**
12. Extraordinary income/(expense)	(1.5)	1.0	(2.5)	0.0	12.4	(2.0)	14.4	0.0
13. Profit Before Taxes (*)	**221.0**	**11.1**	**200.5**	**9.4**	**262.6**	**(2.7)**	**258.9**	**6.4**
14. Net Income			136.1				182.8	
15. Income from PRE equity participations			40.0				45.3	
OTHER DATA								
16. Sales	1.121.4	135.5	985.9		378.4	123.3	255.1	
17. Gross Capital Gains	197.0	9.3	187.7		84.9	3.9	81.1	
18. Margin % (excluded development)	19%	n.a.	19%		32%	43%	32%	
19. Pro-quota Capital Gains	55.8	9.3	46.5		23.6	3.9	19.7	
20. Book Value of Inventories (**)	5,120.1	139.4	4,980.7		4,931.5	126.2	4,805.3	

(*) PROFIT BEFORE TAXES RECONCILIATION WITH CONSOLIDATED STATEMENT

	2003	2002
21. P.B.T. Total Managed Activity	**221.0**	**262.6**
22. Profit Before Taxes 100% Participated Companies	(200.5)	(258.9)
23. Pro Quota Net Profit for Participated Companies	40.0	45.3
24. Consolidated Result	**60.5**	**49.1**

(**) Also includes about 70 milion for Sci Roev.

20. Commercial Asset Management – Pro-Quota Income Statement

(euro/million)	Actual December 2003				Actual December 2002			
	Total	Consolidated Companies	Participated Companies	Asset Management Fees	Total	Consolidated Companies	Participated Companies	Asset Management Fees
1. Production Value	**589.3**	**167.9**	**393.7**	**27.7**	**1,074.0**	**135.0**	**921.5**	**17.5**
2. *of which acquisitions*	*334.2*	*103.4*	*230.9*	*0.0*	*825.0*	*51.3*	*773.7*	*0.0*
3. Production Value net of Acquisitions	**255.1**	**64.5**	**162.8**	**27.7**	**248.9**	**83.7**	**147.8**	**17.5**
4. E.B.I.T.D.A.	114.3	9.3	94.9	10.0	103.2	0.6	95.8	6.7
5. Depreciation and amortization	(4.9)	(0.0)	(4.2)	(0.7)	(3.5)	(0.2)	(3.0)	(0.3)
6. E.B.I.T.	109.4	9.3	90.7	9.4	99.7	0.4	92.9	6.4
7. Income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**109.4**	**9.3**	**90.7**	**9.4**	**99.7**	**0.4**	**92.9**	**6.4**
9. Income/(expense) from shareholders' loans	0.0	4.4	(4.4)	0.0	(0.0)	4.3	(4.3)	0.0
10. Other interests income/(expense)	(36.3)	(3.6)	(32.7)	0.0	(33.8)	(5.4)	(28.4)	0.0
11. Profit before extraordinary income/(expense)	**73.1**	**10.2**	**53.6**	**9.4**	**65.9**	**(0.7)**	**60.2**	**6.4**
12. Extraordinary income/(expense)	0.9	1.0	(0.1)	0.0	1.7	(2.0)	3.7	0.0
13. Profit Before Taxes (*)	**74.0**	**11.1**	**53.5**	**9.4**	**67.6**	**(2.7)**	**63.9**	**6.4**
14. Income from PRE equity participations			40.0				45.3	

(*) PROFIT BEFORE TAXES RECONCILIATION WITH CONSOLIDATED STATEMENT

	2003	2002
15. Total proquota Profit Before Taxes	**74.0**	**67.6**
16. Profit Before Taxes 100% Participated Companies	(53.5)	(63.9)
17. Pro Quota Net Profit Participated Companies	40.0	45.3
18. Consolidated Result	**60.5**	**49.1**

21. Non Performing Loans Asset Management – Consolidated Income Statement

(euro/million)	Non Performing Loans AM actual December 2003			Non Performing Loans AM actual December 2002		
	Total	Investments	Asset Management Fees	Total	Investments	Asset Management Fees
1. Production value	**2.9**	**1.7**	**1.2**	**1.0**	**0.0**	**1.0**
2. of which acquisitions	*1.7*	*1.7*	*0.0*	*0.0*	*0.0*	*0.0*
3. Production value net of Acquisitions	**1.2**	**0.0**	**1.2**	**1.0**	**0.0**	**1.0**
4. E.B.I.T.D.A.	(0.5)	(0.2)	(0.3)	(0.2)	(0.0)	(0.2)
5. Depreciation and amortization	(0.1)	(0.0)	(0.1)	(0.0)	0.0	(0.0)
6. E.B.I.T.	(0.5)	(0.2)	(0.3)	(0.2)	(0.0)	(0.2)
7. Income from equity participations	0.1	0.1	0.0	2.1	2.1	0.0
8. E.B.I.T. including income from equity participations	**(0.4)**	**(0.1)**	**(0.3)**	**1.9**	**2.1**	**(0.2)**
9. Financial income from equity participations	0.4	0.4	0.0	0.2	0.2	0.0
10. Other interests income/(expense)	0.3	0.3	0.0	0.0	0.0	0.0
11. Profit before extraordinary income/(expense)	**0.3**	**0.7**	**(0.3)**	**2.1**	**2.3**	**(0.2)**
12. Extraordinary income/(expense)	0.6	0.6	(0.0)	0.0	0.0	0.0
13. Profit Before Taxes	**1.0**	**1.3**	**(0.3)**	**2.1**	**2.3**	**(0.2)**

22. Non Performing Loans Asset Management – Aggregate Income Statement (100%)

(euro/million)	Actual December 2003				Actual December 2002			
	Total	Consolidated Companies	Participated Companies	Asset Management Fees	Total	Consolidated Companies	Participated Companies	Asset Management Fees
1. Production Value	**6.6**	**1.7**	**3.8**	**1.2**	**18.0**	**0.0**	**17.0**	**1.0**
2. of which acquisitions	*5.0*	*1.7*	*3.3*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
3. Production value net of Acquisitions	**1.6**	**0.0**	**0.4**	**1.2**	**18.0**	**0.0**	**17.0**	**1.0**
4. E.B.I.T.D.A.	(2.1)	(0.2)	(1.7)	(0.3)	5.8	(0.0)	6.0	(0.2)
5. Depreciation and amortization	(0.1)	(0.0)	0.0	(0.1)	(0.1)	0.0	0.0	0.0
6. E.B.I.T.	(2.2)	(0.2)	(1.7)	(0.3)	5.8	0.0	6.0	(0.2)
7. Income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**(2.2)**	**(0.2)**	**(1.7)**	**(0.3)**	**5.8**	**0.0**	**6.0**	**(0.2)**
9. Income/(expense) from shareholders' loans	0.4	0.4	0.0	0.0	0.0	0.2	(0.2)	0.0
10. Other interests income/(expense)	2.0	0.3	1.7	0.0	(0.9)	0.0	(0.9)	0.0
11. Profit before extraordinary income/(expense)	**0.3**	**0.6**	**0.0**	**(0.3)**	**4.9**	**0.2**	**4.9**	**(0.2)**
12. Extraordinary income/(expense)	0.7	0.6	0.1	(0.0)	3.2	0.0	3.2	0.0
13. Profit Before Taxes (*)	**1.0**	**1.2**	**0.1**	**(0.3)**	**8.1**	**0.2**	**8.1**	**(0.2)**
14. Net income			0.1				4.6	
15. Income from PRE equity participations			0.1				2.1	
<u>OTHER DATA</u>								
16. Book Value of Inventories	5.5	1.8	3.7		0.0	0.0	0.0	
17. Non performing Loans Portfolio (GBV)	925.2	138.9	786.3		231.0	0.0	231.0	

(*) <u>PROFIT BEFORE TAXES RECONCILIATION WITH CONSOLIDATED STATEMENT</u>

	2003	2002
18. P.B.T. Total Managed Activity	**1.0**	**8.1**
19. Profit Before Taxes 100% Participated Companies	(0.1)	(8.1)
20. Pro Quota Net Profit for Participated Companies	0.1	2.1
21. Consolidated Result	**1.0**	**2.1**

23. Non Performing Loans Asset Management – Pro-Quota Income Statement

(euro/million)	Actual December 2003				Actual December 2002			
	Total	Consolidated Companies	Participated Companies	Asset Management Fees	Total	Consolidated Companies	Participated Companies	Asset Management Fees
1. Production value	**4.6**	**1.7**	**1.7**	**1.2**	**9.0**	**0.0**	**8.0**	**1.0**
2. of which acquisitions	*3.2*	*1.7*	*1.6*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
3. Production value net of Acquisitions	**1.4**	**0.0**	**0.2**	**1.2**	**9.0**	**0.0**	**8.0**	**1.0**
4. E.B.I.T.D.A.	(1.1)	(0.2)	(0.7)	(0.3)	2.6	(0.0)	2.8	(0.2)
5. Depreciation and amortization	(0.1)	(0.0)	0.0	(0.1)	(0.1)	0.0	0.0	(0.0)
6. E.B.I.T.	(1.2)	(0.2)	(0.7)	(0.3)	2.6	(0.0)	2.8	(0.2)
7. Income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**(1.2)**	**(0.2)**	**(0.7)**	**(0.3)**	**2.6**	**(0.0)**	**2.8**	**(0.2)**
9. Income/(expense) from shareholders' loans	0.0	0.4	(0.4)	0.0	0.0	0.2	(0.2)	0.0
10. Other interests income/(expense)	1.6	0.3	1.3	0.0	(0.3)	0.0	(0.3)	0.0
11. Profit before extraordinary income/(expense)	**0.4**	**0.6**	**0.1**	**(0.3)**	**2.3**	**0.2**	**2.3**	**(0.2)**
12. Extraordinary income/(expense)	0.7	0.6	0.0	(0.0)	1.5	0.0	1.5	0.0
13. Profit Before Taxes (*)	**1.0**	**1.2**	**0.2**	**(0.3)**	**3.8**	**0.2**	**3.8**	**(0.2)**
14. Income from PRE equity participations			0.1				2.1	

(*) PROFIT BEFORE TAXES RECONCILIATION WITH CONSOLIDATED STATEMENT

	2003	2002
15. Total proquota Profit Before Taxes	**1.0**	**3.8**
16. Profit Before Taxes 100% Participated Companies	(0.2)	(3.8)
17. Pro Quota Net Profit Participated Companies	0.1	2.1
18. Consolidated Result	**1.0**	**2.1**

24. Land – Consolidated Income Statement

(euro/million)	AM Land actual December 2003			AM Land actual December 2002		
	Total	Investments	Asset Management Fees	Total	Investments	Asset Management Fees
1. Production value	**46.1**	**42.8**	**3.3**	**58.4**	**56.3**	**2.1**
2. of which acquisitions	*0.0*	*0.0*	*0.0*	*0.9*	*0.9*	*0.0*
3. Production value net of Acquisitions	**46.1**	**42.8**	**3.3**	**57.5**	**55.5**	**2.1**
4. E.B.I.T.D.A.	9.0	8.5	0.5	16.0	15.9	0.1
5. Depreciation and amortization	(0.3)	(0.2)	(0.2)	(0.1)	(0.0)	(0.1)
6. E.B.I.T.	8.7	8.3	0.3	15.9	15.9	(0.1)
7. Income from equity participations	(0.5)	(0.5)	0.0	(0.4)	(0.4)	0.0
8. E.B.I.T. including income from equity participations	**8.2**	**7.8**	**0.3**	**15.5**	**15.5**	**(0.1)**
9. Financial income from equity participations	1.3	1.3	0.0	0.2	0.2	0.0
10. Other interests income/(expense)	(1.5)	(1.5)	0.0	(2.3)	(2.3)	0.0
11. Profit before extraordinary income/(expense)	**7.9**	**7.6**	**0.3**	**13.4**	**13.4**	**(0.1)**
12. Extraordinary income/(expense)	(0.3)	(0.3)	0.0	(0.1)	(0.1)	0.0
13 Profit Before Taxes	**7.6**	**7.2**	**0.3**	**13.3**	**13.3**	**(0.1)**

25. Land – Aggregate Income Statement (100%)

(euro/million)	Actual December 2003				Actual December 2002			
	Total	Consolidated Companies	Participated Companies	Asset Management Fees	Total	Consolidated Companies	Participated Companies	Asset Management Fees
1. Production value	**57.1**	**42.8**	**11.0**	**3.3**	**324.2**	**56.3**	**265.8**	**2.1**
2. of which acquisitions	*0.0*	*0.0*	*0.0*	*0.0*	*259.8*	*0.9*	*259.0*	*0.0*
3. Production value net of Acquisitions	**57.1**	**42.8**	**11.0**	**3.3**	**64.4**	**55.5**	**6.8**	**2.1**
4. E.B.I.T.D.A.	14.6	8.5	5.6	0.5	17.5	15.9	1.5	0.1
5. Depreciation and amortization	(0.5)	(0.2)	(0.2)	(0.2)	(0.1)	(0.0)	(0.0)	(0.1)
6. E.B.I.T.	14.1	8.3	5.4	0.3	17.3	15.9	1.5	(0.1)
7. Results from equity participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**14.1**	**8.3**	**5.4**	**0.3**	**17.3**	**15.9**	**1.5**	**(0.1)**
9. Income and charges from shareholders' loans	1.3	1.3	0.0	0.0	(0.4)	0.2	(0.6)	0.0
10. Other interests income/(expense)	(8.5)	(1.5)	(7.0)	0.0	(4.4)	(2.3)	(2.1)	0.0
11. Profit before extraordinary income/(expense)	**6.9**	**8.1**	**(1.5)**	**0.3**	**12.5**	**13.8**	**(1.2)**	**(0.1)**
12. Extraordinary income/(expense)	(0.3)	(0.3)	(0.0)	0.0	(0.1)	(0.1)	0.0	0.0
13. Profit Before Taxes (*)	**6.5**	**7.7**	**(1.5)**	**0.3**	**12.5**	**13.7**	**(1.2)**	**(0.1)**
14. Net income			(1.9)				(1.2)	
15. Income from PRE equity participations			(0.5)				(0.4)	
OTHER DATA								
16. Sales	41.9	38.5	3.4		67.9	67.8	0.1	
17. Gross Capital Gains	6.1	5.4	0.6		29.4	29.4	0.0	
18. Margin %	14%	14%	18%		43%	43%	0%	
19. Pro-quota Capital Gains	5.6	5.4	0.1		29.4	29.4	0.0	
20. Book Value of Inventories (**)	361.4	96.7	264.7		360.5	117.7	242.8	

(*) PROFIT BEFORE TAXES RECONCILIATION WITH CONSOLIDATED STATEMENT

	2003	2002
21. P.B.T. Total Managed Activity	**6.5**	**12.5**
22. Profit Before Taxes 100% Participated Companies	1.5	1.2
23. Pro Quota Net Profit Participated Companies	(0.5)	(0.4)
24. Consolidated Result	**7.6**	**13.3**

(**) Also includes about 70 milion for Sci Roev.

26. Land – Pro-Quota Income Statement

(euro/million)	Actual December 2003				Actual December 2002			
	Total	Consolidated Companies	Participated Companies	Asset Management Fees	Total	Consolidated Companies	Participated Companies	Asset Management Fees
1. Production value	**48.4**	**42.8**	**2.3**	**3.3**	**116.2**	**56.3**	**57.8**	**2.1**
2. of which acquisitions	*0.0*	*0.0*	*0.0*	*0.0*	*56.7*	*0.9*	*55.9*	*0.0*
3. Production value net of Acquisitions	**48.4**	**42.8**	**2.3**	**3.3**	**59.4**	**55.5**	**1.9**	**2.1**
4. E.B.I.T.D.A.	10.1	8.5	1.1	0.5	16.4	15.9	0.4	0.1
5. Depreciation and amortization	(0.4)	(0.2)	(0.0)	(0.2)	(0.1)	(0.0)	(0.0)	(0.1)
6. E.B.I.T.	9.7	8.3	1.1	0.3	16.3	15.9	0.4	(0.1)
7. Income from equity participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. E.B.I.T. including income from equity participations	**9.7**	**8.3**	**1.1**	**0.3**	**16.3**	**15.9**	**0.4**	**(0.1)**
9. Income/(expense) from shareholders' loans	0.0	1.3	(1.3)	0.0	0.0	0.2	(0.2)	0.0
10. Other interests income/ (expense)	(1.8)	(1.5)	(0.2)	0.0	(3.0)	(2.3)	(0.7)	0.0
11. Profit before extraordinary income/(expense)	**8.0**	**8.1**	**(0.4)**	**0.3**	**13.4**	**13.8**	**(0.4)**	**(0.1)**
12. Extraordinary income/(expense)	(0.3)	(0.3)	(0.0)	0.0	(0.1)	(0.1)	0.0	0.0
13. Profit Before Taxes (*)	**7.6**	**7.7**	**(0.4)**	**0.3**	**13.3**	**13.7**	**(0.4)**	**(0.1)**
14. Income from PRE equity participations			(0.5)				(0.4)	

(*) PROFIT BEFORE TAXES RECONCILIATION WITH CONSOLIDATED STATEMENT

	2003	2002
15. P.B.T. Total Managed Activity	**7.6**	**13.3**
16. Profit Before Taxes 100% Participated Companies	0.4	0.4
17. Pro Quota Net Profit Participated Companies	(0.5)	(0.4)
18. Consolidated Result	**7.6**	**13.3**

12.2 Ethical Code and Behavioral Guidelines for the Pirelli & C. Real Estate Group

Ethical Code

ARTICLE 1 – Introduction

The Pirelli & C. Real Estate Group conducts its internal and external activities in line with the principles contained in this Code which is based on the concept that ethics in business must be pursued for the success of the company.

ARTICLE 2 – Objectives and Values

The main objective of the Group companies is to create shareholder value. All industrial and financial strategies and the resulting operational conduct are directed towards this goal through the efficient use of resources.

In pursuing this objective, the Group companies unerringly adopt the following behavioral principles:

- as active and responsible members of the community in which they operate, they work towards respecting and ensuring respect of the laws in the countries in which they operate and follow the ethical principles commonly accepted for running a business: transparency, fairness and loyalty;
- they reject and stigmatize the use of illegitimate or otherwise unfair behavior towards the community, public authorities, clients, workers, investors or competitors, to achieve their economic objectives. Instead they exclusively pursue them through excellence in performance in terms of quality and convenience of products and services, based on experience, customer service and innovation;
- create organizational instruments aimed at preventing the violation of the principles of legality, transparency, fairness and loyalty on the part of their employees and partners, ensuring the latter's observance and compliance;
- they ensure complete transparency in their actions towards the market, investors and the general community—while protecting their companies' competitiveness;
- they actively encourage loyal competition—which they consider functional for their own self interest as well as for that of all market operators, clients and shareholders in general;
- they pursue excellence and competitiveness in the market, offering quality services to their clients that respond efficiently to their needs;
- they protect and value their employees;
- they use environmental resources responsibly and protect the rights of future generations to sustain development.

ARTICLE 3 – Shareholders

The Group's companies are committed to guaranteeing to treating all categories of Shareholders equally, thereby avoiding preferential behavior. Reciprocal advantages derived from belonging to a group of companies are pursued while respecting the applicable norms and the autonomous interest of each company to create value.

ARTICLE 4 – Clients

The Group's companies base the excellence of their products and services on the needs of their customers and their ability to satisfy their requests. The pursued objective is to guarantee an immediate, qualified and competent response appropriate to the needs of clients, through fair, courteous and cooperative behavior.

ARTICLE 5 – Community

The Group's companies plan to contribute to the overall economic wealth and growth of the communities in which they operate through the delivery of efficient and technologically advanced services.

In line with these objectives and the responsibilities taken on by the various stakeholders, the Group's companies consider research and innovation to be a priority prerequisite for growth and success.

The Group's companies maintain close, effective and transparent relationships with local, national and international public authorities while respecting reciprocal autonomies, economic objectives and the values contained in this Code.

The Group's companies focus on social, cultural and educational initiatives directed towards the individual and the favorable improvement of the latter's quality of life and providing support for the former in certain cases.

The Group's companies do not make contributions, take advantage of or offer favors to political parties and labor organizations, nor to their representatives or candidates unless in accordance with applicable law.

ARTICLE 6 – Human Resources

The Group's companies recognize the central role of its employees. The Group believes that each company's success is based on loyalty, reciprocal trust and the professional contribution of the people working in it.

The Group's companies protect the health and safety of working areas and consider employees' rights to be fundamental in the business operation. The management of working relationships is focused on equal opportunity in the interest and professional growth of everyone.

ARTICLE 7 – Environment

The Group's companies believe in sustainable global growth for the common interest of both current and future stake holdings. Their choice of investment and business therefore take account of the environment and public health.

Given the respect for specific applicable laws, the Group's companies keep in mind the environmental issues in their selection criteria, even adopting—where operationally and economically feasible—technologies and production methods that are eco-compatible, with the objective of reducing the environmental impact of their activities.

ARTICLE 8 – Information

The Group's companies are aware of the importance correct information has on their activities for all of the market, investors and the community in general.

Aware of the need for confidentiality in conducting business, the Group's companies, however, set transparency as their goal in relationships with all shareholders. In particular, the Group's companies communicate with the market and the investors to respect the principles of fairness, clarity and parity of access to information.

ARTICLE 9 – Respect of the Code

All staff, management and employees in the Group's companies, as well as all external business partners, such as agents, suppliers, etc. are held accountable to the current Code.

The Group's companies are committed to the implementation of the necessary procedures, regulations and instructions to ensure that the Code's values are implemented in each company and complied with by their respective employees and partners, applying where necessary, appropriate disciplinary procedures for any violations.

Behavioral Guidelines

This document aims to describe the Behavioral Guidelines to follow to avoid creating environmental situations which facilitate malpractice, in particular that of *ex decreto* 231/2001.

Although not exhaustive, the Behavioral Guidelines split conduct into two areas, "to-do's" and "not to-do's", forming a basis— from an operational viewpoint—for the Pirelli & C. Real Estate Group's Ethical Code.

1. "To do areas"

— All employees are committed to respecting the laws and current norms applicable in the countries in which the companies operate.

— The Heads of Functional Divisions must ensure the following:
  - All employees must be knowledgeable of the laws and the conduct required by them. In cases of doubt, the employee must be given adequate guidance;
  - Regular training and an awareness program of the issues relevant to the ethical code must be implemented. When participating in competitions established by the Public Administration and in all negotiations with the latter, employees must adhere to the law and correct commercial practice.

— The Heads of Functional Divisions that currently have contact with the Public Administration must:
  - Supply their business partners with details of operational conduct to follow in formal and informal situations with different public parties, depending on the requirements of one's activity area using knowledge of the law and awareness of high crime risk situations;
  - Create adequate mechanisms to trace official information flows to the Public Administration.

— All consultants, suppliers, clients and anyone with relationships with the company are committed to respecting the laws and regulations existing in the countries in which the company operates; no relationship will be initiated or pursued with anyone who does not intend to commit to this principle. The tasks entrusted to these parties in representing and/or operating in the interest of the Group in Public Administration matters must be submitted in writing and include a specific clause that binds them to observe the ethical-behavioral principles adopted by the Group.

— When contributions, grants or financing are requested from State, a public entity or the European community, all employees involved in these procedures must:
  - Uphold fairness and truth, using and presenting statements and complete documents concerning the activities for which the benefits may be legitimately obtained;
  - Once obtained, the grants must be used for the purposes for which they were requested and approved.

— All the Heads of Administrative/Accounting functions must ensure that each operation and transaction is:
  - Legitimate, coherent, congruent, authorized and verifiable,

- Correctly and adequately registered in order to allow verification of the process of decision, authorization and implementation,
- Accompanied by appropriate documentation in order to allow spot controls of the type and movement of the transaction, as well as the identification of the persons who authorized, implemented, registered and verified the operation itself.

— All employees involved in the preparation of financial statements or other similar documents must act in a correct fashion, co-operate fully, guarantee the completeness and clarity of the supplied information, as well as the accuracy of data and its elaboration, and point out any conflicts of interest, etc.

— The Directors and their business partners:
- In preparing the financial statements, market communications or other similar documents, must present a truthful, clear and complete economic and financial picture,
- must punctually respect the requests for information on the part of the Board of Statutory Auditors and facilitate, in every possible way, the control or auditing activities that are legally assigned to business partners, other corporate bodies or auditing companies,
- must present complete documents and acts/deeds -with corresponding accounting entries—to the Shareholders meeting,
- provide the supervisory authorities with correct and complete information on the economic and financial situation.

— Only authorized employees may have contact with the press. Such employees must give out only information about the company which is truthful and in accordance with current laws and regulations.

— All employees and external business partners are obliged to report any violation or suspected violation of the Organizational Model [(9)] to the Supervisory Authority [(10)]. These reports can not be submitted anonymously. The Supervisory Authority protects all employees and external business partners from any prejudiced effect that could arise from a report. The Supervisory Authority ensures the confidentiality of those reporting, unless legally required to do otherwise by law.

All reporting tools will be available through the Group's intranet:

— Function heads must report details of all acts of misconduct and malpractice arising in their operational areas of expertise, or of which they have become aware either directly or through information received from their business partners.

Particularly, in the case of an attempted extortion by a public official with respect to an employee (or other business partners) the following procedure should be adopted:

- Do not carry out the request,
- Advise the supervisor immediately,
- Activate formal reporting procedure, through one's supervisor, to the Supervisory Authority.

2. "Not to-do areas"

— In relationships with intermediaries that are part of the Public Administration (managers, officers or employees of the Public Administration, henceforth referred to as "employees of the Public Administration") as well as private commercial intermediaries representing public service licensee entities, whether Italian or from other countries, it is prohibited to:
- promise or offer them (or their relatives, friends, etc.) money, gifts or gift certificates unless they are gifts of negligible value (i.e. not trips, subscriptions to associations, etc.)

(9) Conducted in conformity with law decree 231/2001.

(10) Established in conformity with law decree 231/2001.

- examine or propose job opportunities to Public Administration employees (or their relatives, friends, etc.) and/or commercial opportunities or other activity that may give personal advantage,
- promise or offer consulting services,
- incur unjustified entertainment costs and with aims that differ from the mere promotion of company image,
- promise or supply, even through third party companies, work or services for personal use (for example restructuring work for buildings that they own or use — or owned or used by their relatives, friends, etc.),
- supply or promise to supply, or urge or obtain information and/or documents that are confidential or could compromise the integrity or reputation of one or both parties,
- favor purchases from suppliers or sub-suppliers recommended by Public Administration employees to ensure future orders (e.g. assignment of a job order, concessions of favorable financing, license concessions).

  These actions and procedures are prohibited if done both directly by the company through its employees or through individuals who are not employees but are acting on behalf of the company.

— In addition, with respect to the Public Administration, it is prohibited to:
- exhibit false or altered documents or data,
- hide or omit true documents,
- engage in deceitful behavior which may lead the Public Administration to wrongly evaluate the technical-economic status of products and services that are offered/supplied,
- omit required information for the purpose of favorably influencing the decisions of the Public Administration,
- engage in any type of behavior aimed at influencing the decisions of the Public Administration,
- be represented by consultants or "third parties" when conflicts of interest may arise,
- abuse the position of public service for personal use or advantage, or for the company's advantage.

— In general, it is prohibited to hire ex-Public Administration employees who may have personally and actively participated in business dealings or have turned down requests made by the company to the Public Administration.

— In the course of civil, penal or administrative trials, it is prohibited to directly or indirectly engage in any illegal actions that may favor or damage either of the parties in conflict.

— It is prohibited to use IT or telematic systems to access unauthorized IT systems used by the Public Administration or alter the former's functionality, or to intervene in any way with the data, information or programs within these or related systems and to which one does not have right of access, and for the purpose of obtaining or modifying information to the advantage of the company or third parties, or in any case for the purpose of obtaining undue advantage for the company or third parties.

— It is prohibited for Directors to:
- return underwriting sums to partners or free them from these obligations — with the exception of cases of legitimate reductions in share capital — and to conduct reductions in share capital or mergers or break-ups with other companies in violation of the laws protecting creditors,
- distribute net income or advances of net income if the latter is not actually achieved or if set aside by law in the reserve, or distribute reserves that are not legally disposable,
- make the company acquire or undersign shares or shareholdings that are issued by the company or its controlling company, with the exception of the cases allowable by law,
- create or fictitiously increase share capital through unlawful operations.

3. Sanctions

Conduct which does not conform to the provisions of the Ethical Code and its Behavioral Guidelines will result in the violator being subject to disciplinary proceedings in accordance with the current laws and/or rules of collective bargaining, as per the disciplinary system which forms an integral part of the Organizational Model. If necessary, the violator may be subject to external, independent penal procedures and charged accordingly.

12.3 Procedure for performance of obligations in accordance with Article 150, part one, Government Decree n. 58 of 1998

(In attachment to the Report on Corporate Governance)

Introduction

In accordance with Article 150, part one, Government Decree n. 58 of 1998 (henceforth, "Single Text of Finance"), "as established in the articles of incorporation, and at least quarterly, the directors must brief the Board of Statutory Directors on all conducted activities and any operations of major economic and financial caliber that are undertaken by the company or its subsidiaries and, in particular, briefings on operations of potential conflicts of interest."

In compliance with the above-mentioned decree, now recalled, and the Consob guidelines for internal audit (11), the current procedure defines the subjects and operations involved in the information flow directed at Auditors of Pirelli & C. Real Estate S.p.A. (henceforth "P&C. R.E." or "the Company"), as well as the phases and the timelines that characterize these flows. In particular, the procedure defines:

1. the procedures, the timing and the information content.
2. the information gathering.

An illustrated report is attached to the procedure which takes into account the issues related to the information flow as well as the affected choices.

The aim of this procedure is firstly to supply the Board of Statutory Auditors with the practical information required by the Single Text of Finance (article 149) to carry out the supervisory activities.

Secondly, the procedure makes it possible to implement the corporate governance instruments and recommendations contained in the Autodiscipline Code; this Code was created by the Committee for the corporate governance of listed companies and of which P&C. R.E. is a part.

In particular, this procedure allows for an increase in the management transparency of the company permitting each director to become more informed on management activities. In addition, the procedure activates information flows between the delegated directors and the Board of Directors as recommended by the Autodiscipline Code, whose aim is to sanction the "centrality" of the management body of the whole company and reinforce the internal control functions. Procedures, timing and information content.

The Board of Directors, even through proxy bodies, briefs the Board of Statutory Auditors every quarter with a written report on:

a) Conducted activities,
b) Operations of major economic and financial caliber,
c) Operations with potential conflicts of interest; meaning:
    c1) Intragroup operations,

(11) Consob Communication n. 97001574 of February 20th, 1997; Consob Communication n. 1025564 of April 6th, 2001.

c2) Operations with related parties that are not intragroup operations,

d) Atypical or unusual operations and or any activity or operation that is deemed relevant for communication to the Board of Statutory Auditors.

The information supplied refers to conducted activities and the operations undertaken in the period of time following the previous report.

The report in question is simultaneously transmitted to all Board directors and effective Auditors.

1. Business Activities

The information refers to executive activities and the development of operations carried out by the Board of Directors, in addition to the activities of the Committees (Committee for Internal Control; Remuneration Committee and other internal committees). In particular, it focuses on the activities carried out by the executive directors in terms of the powers granted to them and must include any initiatives taken and projects started.

2. Operations of major economic and financial caliber

The information deals with operations of major economic and financial caliber, highlighting in particular their strategic goals, their coherence with the management plan, the three-year plan and executive procedures. They include the terms and the economic conditions required for their completion and cover the developments, effects and implications that these will have on the P&C. R.E. Group activities.

For the purposes of this procedure, operations of major economic and financial caliber conducted by P&C. R.E. and its subsidiaries—in addition to the operations reserved by the Board of Directors in accordance with Article 2381 of the Civil Code and the By-laws—include the following:

1) the issue of financial instruments for a total exchange value exceeding 100 million euro,
2) the issue of personal guarantees or collateral, i.e. financing in the interest of controlled companies (as well as in the interest of P&C. R.E. for collateral) by means of bonds with unitary value exceeding 25 million euro,
3) the granting of finance or favorable securities, i.e. in the interest of third parties for amounts exceeding 10 million euro,
4) investment and disinvestment operations, including property, and operations for the acquisition or transfer of shareholdings, company or company branches, assets or other activities, for amounts exceeding a value of 25 million euro;
5) merger or break up operations involving subsidiaries in cases when one of the parameters indicated below is equal to or greater than 15%:

   a. Total assets of the incorporated (merged) company i.e. of all assets that are subject to a break up/total assets of the company (taken from the consolidated financial statements);

   b. The result before tax and extraordinary items of the incorporated (merged) company, i.e. break-up assets/result before tax and extraordinary items of the incorporated (merged) company (taken from the consolidated financial statements);

   c. Total shareholder's equity of the incorporate (merged) company i.e. of the company branch subject to break-up/total shareholder's equity of the company (taken from the consolidated financial statements).

Merger operations (by incorporation or union) between listed companies, as well those involving the merger by union between a listed and non-listed company, or by incorporation of the listed company into a non-listed company, are not considered operations of major economic and financial caliber for the purposes of this procedure.

This information also deals with the operations which, despite being singularly inferior to the quantitative thresholds described above or those which are exclusively within the province of the Board of Directors, may turn out to be linked within the same strategic or executive structure and therefore, from a global standpoint, pass the threshold of relevancy.

3. Operations with potential conflicts of interest

3a) Intragroup operations

Information relating to intragroup operations illustrates the underlying interest and logic within the context of the Group, as well as the executive operating procedures which include the economic terms and conditions for completion, with particular attention being paid to the evaluation procedures that are undertaken.

Operations whose value exceeds 50 million euro together with those of lower value concluded under non-standard conditions (12) are highlighted. Despite being singularly lower than the indicated quantitative threshold, the operations may turn out to be linked within the same strategic or executive structure and therefore, from a global standpoint, pass the threshold of relevancy.

For the purposes of this procedure, intragroup operations (13) are those undertaken by P&C. R.E., or its subsidiaries, with:

a) Companies which directly or indirectly, i.e. also through trustee companies or third party interposition, control P&C. R.E. in accordance with Article 2359, parts 1 and 2, of the Civil Code and Article 93 of the Single Text of Finance;

b) Companies which directly or indirectly, i.e. also through trustee companies or third party interposition, are controlled by P&C. R.E. in accordance with Article 2359, parts 1 and 2, of the Civil Code and Article 93 of the Single Text of Finance;

c) Companies which directly or indirectly, i.e. also through trustee companies or third party interposition, are controlled by the same companies that control P&C. R.E. in accordance with Article 2359, parts 1 and 2, of the Civil Code and Article 93 of the Single Text of Finance;

d) Companies associated with P&C. R.E. in accordance with Article 2359, part 3, of the Civil Code and those which exert considerable influence on P&C. R.E.; there is no association with the associated company of the associated company.

3b) Operations with related parties that are not intragroup operations

The information dealing with operations with related parties that are not intragroup operations highlights the underlying interest and illustrates the executive procedures of the operations (including the terms and conditions and the economic ones, for their completion). Particular attention is also paid to the evaluation procedures that are undertaken.

For the purposes of this procedure, operations with related parties (14) are those undertaken by P&C. R.E. or by its subsidiaries with parties that are directly or indirectly connected to P&C. R.E..

(12) For the purposes of this procedure, the operations concluded under standard conditions are those concluded in the same conditions applied by the company to any party.

(13) For the purposes of this procedure, the operations with regards to work and services performance, the lending or obtainment of financing and guarantees, business performance agreements and business development, shall follow the regulations, also free of charge, of both tangible and untangible assets or, eventually, they shall follow any available business-content regulation.

(14) See previous note.

Parties that are directly connected with P&C. R.E. include:

a) Individuals who directly or indirectly, i.e. also through trustee companies or third party interposition, hold shareholdings equal to or superior to 10% of the share capital represented by the ordinary shares of P&C. R.E.;
b) Individuals who directly or indirectly, i.e. also through trustee companies or third party interposition or partner agreements, are capable of appointing the majority of the members of the Board of Directors of P&C. R.E., either alone or in conjunction with other parties adhering to these agreements;
c) Individuals who directly or indirectly, i.e. also through trustee companies or third party interposition, and despite shareholdings which are lower than the quota indicated in a), own a majority of exercisable votes in the ordinary shareholders meeting of P&C. R.E. either alone or in conjunction with other parties adhering to these agreements;
d) The Directors of the Board and the Effective Auditors of P&C. R.E.;
e) The General Managers and the Secretary of the Board of Directors and the Managers of Business Units/Central Functions/Operational Activities of P&C. R.E. who report directly to the Deputy Chairman and Chief Executive Officer or to the General Managers (so-called first reporting).

Parties that are indirectly connected with P&C. R.E. include:

f) the non-separated spouses of the individuals indicated in letters a) through e);
g) the relatives and kin up to second generation of the individuals indicated in letters a) through e);
h) the companies in which the individuals indicated in letters a) through g) directly or indirectly, i.e. also through trustee companies or third party interposition, hold shareholdings equal to or superior to 10% (for a listed company) or 20% (for a non-listed company) of the share capital represented by shares with voting rights in the ordinary assembly;
i) the company in which the individuals indicated in letters a) through g) despite owning shareholdings lower than the quotas indicated in letter h), are capable—due to partner agreements, and either alone or in conjunction with other parties adhering to these agreements—of appointing the majority of the members of the Board of Directors of the company itself;
j) the companies in which the individuals indicated in letters a) through g) despite owning shareholdings lower than the quotas indicated in letter h), own—either alone or in conjunction with other parties adhering to these agreements—a majority of exercisable votes in the ordinary assembly of the company itself;
k) the companies in which the individuals indicated in letters a) through g) have a strategic role in the company itself or its subsidiaries;
l) the companies which have a majority of directors in common within P&C. R.E..

Those belonging, even indirectly, to the partner agreements, in accordance with Article 122, part 1, of the Government Decree no. 58/9 which deals with the right to vote, are also related parties if these agreements are conferred with an overall shareholding control.

Operations whose value exceeds 500 thousand euro and those, even if of lower value, concluded in non-standard conditions, or conducted (with third-party interposition) with parties directly or indirectly connected with P&C. R.E. are subjects of this information flow. Operations are also highlighted, which despite being singularly inferior to the indicated quantitative threshold, may turn out to be linked within the same strategic or executive structure and therefore, from a global standpoint, pass the threshold of relevancy.

4. Atypical or unusual or other operations

Information on atypical or unusual operations, even if undertaken by subsidiaries, and on any other activity or operation on which it is considered necessary to provide information, highlights the underlying interest and illustrates the executive procedures of the operations, including the terms and conditions and economic for their completion. Particular attention is paid to the evaluation procedures that are undertaken.

For the purposes of this procedure, atypical or unusual operations are those in which the objective or nature of the operation is extraneous to the company's normal business and those which represent particular critical elements due to their characteristics, inherent risks, the nature of the counterparty or the timing of their completion (15).

Procedure for Information Gathering

The Board of Directors briefs the Board of Statutory Auditors through proxy bodies. In order to complete the relative report, information must be delivered to the Deputy Chairman and Chief Executive Officer in accordance with the following procedure:

1. Information on ongoing business, operations of major economic and financial caliber, intragroup operations and atypical or unusual operations.

The General Managers and the Secretary of the Board of Directors and the Managers of Business Units/Central Functions/Operational Activities of P&C. R.E., who report directly to the Deputy Chairman and Chief Executive Officer or to the General Managers (so-called first reporting) through Central Management for Administration of Controls and Systems, must communicate the business to date from their structural area monthly to the Deputy Chairman and Chief Executive Officer, with the appropriate note. Operations of major economic and financial caliber, intragroup operations that exceed a value of 50 million euro or are concluded in non-standard conditions, as well as atypical or unusual operations and the executive activities and operational developments resolved by the Board of Directors must be highlighted as well as the main activities conducted under the proxies attributed to directors and including the most important started projects and most significant initiatives undertaken.

Operations which may turn out to be linked within the same strategic or executive structure or which are within the exclusive province of the Board of Directors, and therefore, from a global position, pass the threshold of relevancy, must also be communicated despite being singularly lower than the required quantitative threshold (16).

Information on the activities of the Committee for Internal Control, the Remuneration Committee and the various internal committees is supplied by their respective Chairmen.

The Central Management for Administration of Controls and Systems prepares and transmits quarterly summary reports to the Deputy Chairman and Chief Executive Officer which contain aggregate data on the operations described above and carried out since the last communication.

Emphasis must also be placed on the operations which, despite being singularly inferior to the indicated quantitative threshold, may turn out to be linked within the same strategic or executive structure and therefore, from a global standpoint, pass the cited threshold of relevancy (17).

2. Information on non-intragroup operations with related parties

2.1 Using the same procedures and the same timing as per the preceding point 1) General Managers and the Secretary of the Board of Directors and the Managers of Business Units/Central Functions/Operational Activities of P&C. R.E. who report directly to the Deputy Chairman and Chief Executive Officer and to the General Managers (so-called first reporting) must advise of transactions which exceed 500 thousand euro, as well as those

(15) Operations undertaken just before the close or right after the opening of the year.

(16) See preceding note.

(17) In that case operations should be communicated also in case they were carried out through a period of time exceeding the quarter being considered.

completed in non-standard conditions [18] even if of lower value through the relative note, the list of non-intragroup operations undertaken by P&C. R.E. or its subsidiaries with related parties to the Central Management for Administration of Controls and Systems.

The Directors and the Standing Auditors, the Secretary of the Board of Directors, the General Managers and the Secretary of the Board of Directors and the Managers of Business Units/Central Functions/Operational Activities of P&C. R.E. who report directly to the Deputy Chairman and Chief Executive Officer and to the General Managers (so-called first reporting) must communicate to the Central Management for Administration of Controls and Systems, through the use of the form in Attachment A, and within fifteen days of their completion, information on operations undertaken by P&C. R.E. or its subsidiaries, or by parties indirectly correlated to P&C. R.E., whose value exceeds 500 thousand euro, as well as those completed in non-standard conditions [18] even if of lower value.

2.2 In supplying the information on operations, as per point 2.1, with related parties that are different from intragroup operations, emphasis must also be placed on those operations which, despite being singularly inferior to the indicated quantitative threshold, may turn out to be linked within the same relationship and therefore, from a global standpoint, pass the cited threshold of relevancy [19].

2.3 The Central Management for Administration of Controls and Systems, on the basis of the information received as per points 2.1 and 2.2 above, transmits a summary report quarterly to the Deputy Chairman and Chief Executive Officer containing all the necessary elements to meet the information flow obligations for the operations in question.

12.4 Behavioral operating principles with related parties

(Attachment to the Corporate Governance Report)

1. The Board of Directors approves operations with related parties, including intragroup operations, with the exception of typical or usual operations or those concluded in standard conditions.

2. Typical or usual operations are those defined by objective or by their nature, are not extraneous to the company's normal course of business and those which, by their nature do not present particular critical elements. Standard operations are those concluded in line with the company's standard procedures.

3. The Board of Directors must receive adequate information on the nature of the connection including the operating procedures, all the conditions including the economic for completion, details of the evaluation procedure, the interests and motivations of those involved and any potential risks for the company. In the case that the connection is through a Director or a related party through a Director, the Director in question must exit for the decision.

4. In order to avoid that the operation is realized in suspicious circumstances, the Board of Directors is assisted by one or more experts that express an opinion on the economic conditions, and/or legitimacy, and/or technical aspects of the operation.

5. For operations with related parties, including intragroup operations, that are not submitted to the Board of Directors because they are typical or usual and/or fall under standard conditions, the proxy Directors or the managers responsible for the completion of the operation—while in accordance with the appropriate procedure as per Article 150, part 1, Single Text on Finance, collect and conserve, even by type or group of operations, adequate information on the nature of the correlation, the executive modalities of the operation, the conditions (even economic) for their completion, the evaluation procedure

(18) This statement is requested primarily because of the difficulty, if not impossibility, for P&C. R.E. to know or identify with certainty the parties indirectly connected through the individuals described above. Nor did it seem just, for confidentiality reasons, to request from each of these individuals a list of the possible parties.

(19) See note n. 16.

that was conducted, the interests and motivations of those involved and any potential risks for the company. One or more experts may be appointed even for these operations, as described above.

6. In the choice of experts, individuals with recognized professionalism and competence on the subjects of interest — and who will be subject to careful scrutiny with regards to their independence and lack of conflicts of interest — must be chosen.

12.5 Code of Conduct for Pirelli & C. Real Estate in relation to insider dealing

(Attachment to the Corporate Governance Report)

(The provisions of the Code became effective on December 1st, 2002)

1. Introduction

Given the provisions in Article 180 e ss. of the Government Decree n. 58/1998 concerning the abuse of privileged information, the current Code of Conduct for Pirelli & C. Real Estate (the "Code") focuses on discipline, with possible legal action, and obligations regarding information flow and the procedures to be adopted by Relevant Individuals and their communications with respect to the market.

2. Definitions

For the purposes of the Code, the following definitions are provided:

A. Relevant Individuals: members of the Board of Directors (executive and non-executive), Current Auditors, General Managers, the Secretary of the Board of Directors and the Management Heads. The following also fall under this definition: organizational heads including General Finance Management, Central Management for Administration & Control, Central Management For Legal & Corporate Affairs, Central Management for Advisory and Corporate Development and the Public Relations Office.

The following company heads of function in Pirelli & C. S.p.A. are also considered relevant individuals: Central Management for Administration & Control, General Finance Management, Central Management For Legal & Corporate Affairs, External Communications Management and Central Auditing Management.

Each relevant individual must advise other Relevant Individuals about the business undertaken or the assigned task. Notification within imposed limits must be communicated immediately to the interested party.

B. Financial Instruments: (i) financial instruments issued by Pirelli & C. Real Estate and its controlling companies and subsidiaries, excluding non-convertible bonds and submitted for negotiation in Italian and foreign regulated markets, (ii) financial instruments, even if not listed, that ascribe the right to undersign, acquire or sell the instruments as described in (i) as well as representative certificates of the instruments in part (i), (iii) derivative financial instruments. In addition, they include covered warrants, whose underlying activity includes the financial instruments as per point (i), even when their exercising occurs through a payment with a cash differential. Included in the definition of financial instruments, as per point (i) are the shares in common property investment funds that are promoted and managed by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., given the latter's status as the savings management company.

C. Operation(s): any type of act constituting, modifying or withdrawing the rights on financial instruments, even in the area of management, on an individual basis, of an investment portfolio. This category also includes procedures for exercising stock options or pre-emption rights relative to Financial Instruments.

D. A significant Operation is any Operation whose value or 3 month cumulative value exceeds 80,000 euro. For derivatives or covered warrants, the notional value is calculated on the number of shares and the official closing price on the day of operation.

E. The Referee is the Secretary of the Board of Directors of Pirelli & C. Real Estate. They are recipient of all communications and manage the information on the operations undertaken by the Relevant Individuals and will handle disclosures to the market in accordance with the Code procedures.

3. Statement Obligations for Relevant Individuals

Relevant individuals must send the Referee a list of operations conducted in the quarter related to Financial Instruments, whose total value is equal to or exceeds 35,000 euro by the seventh calendar day after each of calendar quarter.

In the case that a Significant Operation is undertaken, the Relevant Individual must communicate this without hesitation to the Referee together with a list of all operations conducted in the last three months and which are still not an object of communication to the company.

Operations undertaken by a non-legally separated spouse or the underage children of the Relevant Individual, or by third parties, whether individuals, trustee companies or subsidiaries, are also subject to this obligation.

The statement made to the Referee must be done through the use of a form suggested by Borsa Italiana S.p.A. in its Regulations for Markets Organized and Managed by Borsa Italiana concerning the communication of information.

4. Exemptions from Statement Obligations on Operations

The Operations undertaken between the Relevant Individual and spouse or minors are exempt from statement obligations.

Securities loan operations are also exempt. Such a case is when the Relevant Individual, directly or indirectly, or the non-legally separated spouse or minors become borrowers including Operations requiring liens or life interest.

5. Limitations on the Implementation of Operations

The implementation of operations on the part of Relevant Individuals that are different from non-executive members of the Board of Directors or Auditors is allowed only after the disclosure of the definite economic/financial data for the period relative to each quarter [(20)] and up until the closing of the quarter. The non-executive members of the Board of Directors and the Auditors must abstain from executing Operations from the day when the Board calls the Auditors to examine the above-mentioned economic/financial data or from the moment of knowledge of the latter and up until its disclosure.

The Relevant Individuals can execute Operations outside of the restricted period only in exceptional cases when suitable proof of need must be shown. The evaluation of this subjective need is delegated to the Chairman of the Board of Directors.

The exercise of stock options or pre-emption rights concerning Financial Instruments and their consequent Operations are not subject to the limitations of this Article as long as the latter is simultaneously executed at the time of exercise.

It is within the right of the Board of Directors to identify any further periods or circumstances in which the execution of Operations is subject to limits and conditions. These must be immediately communicated to the Referee and the Relevant Individuals.

6. Communication of Operations to the Market

The Referee advises the market of all the information communicated by the Relevant Individuals by the tenth day of open markets following each calendar quarter by sending a communication to Borsa Italiana in accordance with the Regulations for Markets Organized and Managed by Borsa Italiana.

(20) Or at half-year or yearly, in the case of exoneration from publishing of the second or fourth quarterly report.

Significant Operations are communicated to the market immediately in accordance with procedures mentioned in the previous paragraph.

7. Sanctions

With the exception of the possibility of Pirelli & C. Real Estate to recover all damages and/or responsibilities resulting from violations of the Code, non-adherence to statement obligations or the limitations on the execution of Operations results in: (i) enforcement of applicable disciplinary procedures for employees, (ii) immediate termination of any agreements for business partners; (iii) dismissal at the next Shareholders meeting in the case of Board member or an Auditor.

8. Acceptance

Each Relevant Individual accepts the terms of the Code by signing the attached form.

9. Code Updates and Handling of Personal Data

The Referee is entrusted with monitoring compliance of the Code and may submit potential modifications to the Board of Directors for approval.

The Referee must keep all written statements from the Relevant Individuals which attest to their full knowledge and acceptance of the Code and give their consent to the handling of requested personal data in accordance with Government Decree n. 196/2003.

ATTACHMENT

Statement of full knowledge and acceptance of the Code and authorization for the handling of personal data in accordance with Government Decree n. 196/2003.

The undersigned ______________________________,

born in ______________________________,

resident in ____________________, St/Piazza ____________________,

holding the title of, acknowledging inclusion into the class of Relevant Individuals in accordance with the Code of Conduct on Insider Dealing of Pirelli & C. Real Estate (the “Code”), attests to having received a copy of the aforementioned Code and to have understood and accepted its contents.

____

(signature)

In accordance with Government Decree n. 196/2003, the undersigned gives specific consent to the handling (even if effected through third parties) of personal data required to comply with the Code and fulfill the requirements of the regulatory rules issued by Borsa Italiana S.p.A..

____

(signature)

C. PIRELLI & C. REAL ESTATE GROUP

BALANCE SHEET

ASSETS (in thousands of euro)	within 1 year	beyond 1 year	12.31.2003	12.31.2002
A) SHARE CAPITAL PROCEEDS TO BE RECEIVED				
1) Portion called			–	–
2) Portion uncalled			–	–
Share capital proceeds to be received (A)			**–**	**–**
B) FIXED ASSETS				
I. Intangible assets				
1) Start-up and capital costs			10,750	7,844
2) Research, development and advertising costs			–	–
3) Industrial patents and similar rights			–	–
4) Licenses, trademarks and similar rights			22,060	5,496
5) Goodwill			31,950	22,869
6) Difference on consolidation			18,125	8,224
7) Assets under development and payments on account			1,166	3,537
8) Other intangible assets			7,050	2,797
Intangible assets			**91,101**	**50,767**
II. Property, plant and equipment				
1) Land and buildings			2,869	48
2) Plant and machinery			7,079	611
3) Industrial and commercial equipment			282	–
4) Other assets			7,385	5,420
5) Assets under construction and payments on account			846	–
Property, plant and equipment			**18,461**	**6,079**
III. Financial assets				
1) Equity participations				
a. Equity participations in subsidiaries			4,522	449
b. Equity participations in associated companies			145,304	108,923
c. Equity participations in other companies			1,619	1,419
Equity participations			**151,445**	**110,791**
	within 1 year	*beyond 1 year*		
2) Financial receivables				
a. Receivables from subsidiaries	–	–	–	9,092
b. Receivables from associated companies	–	194,805	194,805	142,801
c. Receivables from related companies	–	19,709	19,709	23,104
d. Receivables from others	3,247	1,795	5,042	1,318
Financial receivables	**3,247**	**216,309**	**219,556**	**176,315**
3) Other securities			240	4,216
4) Treasury shares			49,581	50,139
Financial assets			**420,822**	**341,461**
Total fixed assets (B)			**530,384**	**398,307**

ASSETS (in thousands of euro)			12.31.2003	12.31.2002
C) CURRENT ASSETS				
I. Inventories				
1) a. Raw and ancillary materials and consumables			1,126	1,008
b. Land to be developed/properties to be renovated			22,520	40,012
2) Properties under construction/renovation			66,603	134,205
3) Work in progress on orders			87,251	103,161
4) a. Properties held for sale			–	–
b. Trading properties			147,175	96,982
5) Advances			360	8,334
Inventories			**325,035**	**383,702**
	within 1 year	*beyond 1 year*		
II. Accounts Receivable				
1) Receivables from third parties	122,866	–	122,866	87,634
2) Receivables from subsidiaries	20,092	–	20,092	2,202
3) Receivables from associated companies	34,982	–	34,982	28,311
4) Receivables from related companies	85,883	–	85,883	37,951
5) Receivables from other Group companies	22	–	22	140
6) Receivables from Pirelli & C. S.p.A. (ultimate parent company)	2,227	–	2,227	4,202
7) Receivables from Pirelli & C. S.p.A. Group companies	4,185	–	4,185	21,015
8) Other receivables	84,584	3,083	87,667	85,383
Accounts Receivables	**354,841**	**3,083**	**357,924**	**266,838**
III. Current financial assets				
1) Equity participations in subsidiaries			–	–
2) Equity participations in associated companies			–	–
3) Equity participations in parent companies			–	–
4) Other equity participations			–	–
5) Treasury shares			–	–
6) Marketable securities			5,300	280
Current financial assets			**5,300**	**280**
IV. Cash and banks				
1) Bank and postal deposits			25,707	55,452
2) Checks			230	189
3) Cash on hand			74	75
Cash and banks			**26,011**	**55,716**
Total current assets (C)			**714,270**	**706,536**
D) ACCRUED INCOME AND PREPAID EXPENSES				
I. Accrued income and prepaid expenses				
1) Accrued income			96	166
2) Prepaid expenses			1,995	1,318
3) Discount on loans			–	–
4) Accrued income and prepaid expenses - Group			2	148
Total accrued income and prepaid expenses (D)			**2,093**	**1,632**
TOTAL ASSETS			**1,246,747**	**1,106,475**

LIABILITIES AND SHAREHOLDERS' EQUITY (in thousands of euro)			12.31.2003	12.31.2002
A) SHAREHOLDERS' EQUITY				
I. Share capital			20,302	20,302
II. Share premium reserve			88,599	88,041
III. Revaluation reserve			15	15
IV. Legal reserve			4,060	3,461
V. Reserve for treasury shares			49,581	50,139
VI. Statutory reserves			–	–
VII. Other reserves				
a. Cumulative translation adjustments			–	–
b. Other reserves			19,069	19,069
VIII. Retained earnings			137,868	61,535
IX. Net income (loss) for the period				
a. Dividends distributed			–	–
b. Net income			102,067	125,339
Group Shareholders' equity			**421,561**	**367,901**
Minority interests in share capital and reserves			3,783	752
Minority interests in net income (loss)			(549)	131
Minority interests			**3,234**	**883**
Total shareholders' equity (A)			**424,795**	**368,784**
B) PROVISIONS FOR LIABILITIES AND EXPENSES				
1) Pension and similar provisions			–	–
2) Provisions for taxes			3,235	12,622
3) Provision for future risks and expenses				
a. Provision for future expenses			14,443	20,953
b. Provision for risks			3,013	3,305
Total provisions for liabilities and expenses (B)			**20,691**	**36,880**
C) PROVISION FOR EMPLOYEES' LEAVING INDEMNITY			**21,046**	**14,591**
D) PAYABLES				
	within 1 year	*beyond 1 year*		
1) Bonds	–	–	–	–
2) Convertible bonds	–	–	–	–
3) Bank borrowings	167,606	83,872	251,478	213,374
4) Payables to other financial institutions	12,455	1,759	14,214	1,314
5) Advances from customers	44,831	–	44,831	94,945
6) Trade payables	271,711	–	271,711	194,737
7) Payables to subsidiaries	5,139	–	5,139	123
8) Payables to associated companies	17,083	–	17,083	12,752
9) Payables to related companies	14,338	–	14,338	528
10) Payables to other Group companies	–	–	–	27
11) Payables to Pirelli & C. S.p.A. (ultimate parent company)	1,046	–	1,046	2,635
12) Payables to Pirelli & C. Group companies	298	–	298	27,909
13) Taxes payables	43,742	–	43,742	22,065
14) Social security contributions payables	4,963	–	4,963	3,654
15) Urbanization fees payables	31,966	–	31,966	32,147
16) Other payables	56,501	520	57,021	63,553
Total payables (D)	**671,679**	**86,151**	**757,830**	**669,763**

LIABILITIES AND SHAREHOLDERS' EQUITY (in thousands of euro)	**12.31.2003**	**12.31.2002**
E) ACCRUED LIABILITIES AND DEFERRED INCOME		
I. Accrued liabilities and deferred income		
1) Accrued liabilities	4,269	1,183
2) Deferred income	17,991	15,250
3) Premiun on loans	–	–
4) Accrued liabilities and deferred income - Group	125	24
Total accrued liabilities and deferred income (E)	**22,385**	**16,457**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,246,747**	**1,106,475**

MEMORANDUM ACCOUNTS	**12.31.2003**	**12.31.2002**
Guarantees granted	188,051	142,320
Securities held by third parties as guarantees	48,448	35,778
Commitments for the acquisition of equity participations	40,948	–
Hedging transactions	–	760
Commitments to buy properties	506,133	555,333
Other guarantees	45,156	36,862

Milan, March 22nd 2004

The Board of Directors

INCOME STATEMENT

INCOME STATEMENT (n thousands of euro)	**01.01.2003/ 12.31.2003**	**01.01.2002/ 12.31.2002**
A) PRODUCTION VALUE		
1) Revenues from sales and services		
a. Revenues from sales of land for development	–	240
b. Revenues from sales of land for development - Group	9,308	–
c. Revenues from sales of properties	137,865	154,311
d. Revenues from sales of properties - Group	91,640	–
e. Revenues from sales of land/properties through sale of shares	40,508	63,538
f. Revenues from sales of work in progress	35,382	5,560
g. Revenues from services	155,462	88,346
h. Revenues from services to P&C. R.E. Group companies	156,572	95,869
i. Revenues from services to Pirelli & C. S.p.A. Group companies	11,237	13,501
l. Rental revenues	6,641	2,517
m. Rental revenues from Pirelli & C. S.p.A. Group companies	145	168
Total revenues from sales and services	**644,760**	**424,050**
2) Change in inventories of land and properties	(34,889)	(1,133)
3) Change in inventories of work in progress on orders	1,367	29,354
4) Change in internal work capitalized under fixed assets	1,912	–
5) Other revenues and income		
a. Recoveries and reimbursements	34,110	26,502
b. Recoveries and reimbursements from P&C. R.E. Group companies	1,599	1,062
c. Recoveries and reimbursements from Pirelli & C S.p.A. Group companies	152	11,646
d. Income from joint ventures	32	–
Total other revenues and income	**35.893**	**39.210**
Total production value (1 + 2 + 3 + 4 + 5)	**649.043**	**491.481**
B) PRODUCTION COSTS		
6) Purchases		
a. Purchases of land	(45)	(7,519)
b. Purchases of land from P&C. R.E. Group companies	–	(136)
c. Purchases of properties	(145,976)	(79,066)
d. Purchases of properties from P&C. R.E. Group companies	(7,810)	–
e. Purchases of properties from Pirelli & C. S.p.A. Group companies	(16,400)	(4,469)
f. Purchases of other assets	(14,391)	(13,842)
Total purchases	**(184,622)**	**(105,032)**

INCOME STATEMENT (in thousands of euro)	**01.01.2003/ 12.31.2003**	**01.01.2002/ 12.31.2002**
7) Service expenses		
a. Services from third parties	(257,287)	(236,882)
b. Services from P&C. R.E. Group companies	(3,738)	(1,460)
c. Services from Pirelli & C. S.p.A. Group companies	(3,948)	(4,317)
Total service expenses	**(264,973)**	**(242,659)**
8) Lease and rent expenses		
a. Lease and rent expenses from third parties	(9,064)	(4,693)
b. Lease and rent expenses from P&C. R.E. Group companies	(2,701)	(296)
c. Lease and rent expenses from Pirelli & C. S.p.A. Group companies	(770)	(650)
Total lease and rent expenses	**(12,535)**	**(5,639)**
9) Personnel expenses		
a. Wages and salaries	(66,675)	(50,094)
b. Social security contributions	(21,529)	(13,270)
c. Employees' leaving indemnity	(4,906)	(3,332)
d. Pension and similar costs	(1,243)	(1,169)
e. Other personnel expenses	(850)	(610)
Total personnel expenses	**(95,203)**	**(68,475)**
10) Amortization, depreciation and writedowns		
a. Amortization of intangible assets	(12,534)	(6,768)
b. Amortization of difference on consolidation	(2,036)	(876)
c. Depreciation of property, plant and equipment	(3,470)	(2,000)
d. Other writedowns of fixed assets	–	(1,629)
e. Write downs of current receivables and cash and banks	(2,801)	(3,220)
Total amortization, depreciation and writedowns	**(20,841)**	**(14,493)**
11) Change in inventories of raw and ancillary materials, consumables and goods	117	1,008
12) Accruals to provisions for liabilities and expenses	(5,496)	(8,207)
13) Other accruals	–	–
14) Other operating expenses		
a. Other taxes	(1,469)	(1,920)
b. Taxes, duties and permits	(827)	(419)
c. Other expenses	(2,069)	(3,377)
d. Other expenses - joint ventures	(14)	(125)
Total other operating expenses	**(4,379)**	**(5,841)**
Total production costs (6 + 7 + 8 + 9 + 10 + 11 + 12 + 13 + 14)	**(587,932)**	**(449,338)**
Difference between production value and costs (A – B)	**61,111**	**42,143**

INCOME STATEMENT (in thousands of euro)	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
C) FINANCIAL INCOME AND EXPENSES		
15) Income from equity participations		
a. From subsidiaries	–	–
b. From associated companies	–	–
c. From related companies	–	–
d. From other companies	–	–
Total income from equity participations	**–**	**–**
16) Other financial income		
a. Income from receivables recorded in fixed assets		
From subsidiaries	60	163
From associated companies	8,263	11,250
From related companies	1,576	1,656
From others	–	–
Total other financial income	**9,899**	**13,069**
b. Income from securities recorded in fixed assets	–	–
c. Income from marketable securities recorded in current assets	–	364
d. Other income		
Interest income from banks	757	493
Interest income from subsidiaries	604	11
Interest income from associated companies	464	38
Interest income from Pirelli & C. S.p.A. Group companies	–	1,157
Interest income from tax office	52	2
Sundry income	796	859
Total other income	**2,673**	**2,560**
Total financial income	**12,572**	**15,993**
17) Interest and other financial expenses		
Interest expense to banks	(8,724)	(6,990)
Interest expense to ultimate parent company	–	(421)
Interest expense to subsidiaries	(7)	–
Interest expense to associated companies	(36)	(2)
Interest expense to related companies	(2)	(342)
Interest expense to Pirelli & C. S.p.A. Group companies	(1,153)	(7,570)
Interest expense to others	(392)	(662)
Other financial expenses	(1,490)	(2,274)
Total interest and other financial expenses	**(11,804)**	**(18,261)**
Total net financial income/(expenses) (15 + 16 – 17)	**768**	**(2,268)**

INCOME STATEMENT (in thousands of euro)	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS		
18) Revaluations		
a. Revaluation of equity participations	70,616	67,232
Total revaluations	**70,616**	**67,232**
19) Writedowns		
a. Writedowns of equity participations	(3,638)	(7,165)
Total writedowns	**(3,638)**	**(7,165)**
Total valuation adjustments (18 – 19)	**66,978**	**60,067**
E) EXTRAORDINARY ITEMS		
20) Extraordinary income		
a. Gains on sales of assets	130	26
b. Gains on sales of securities	309	53,611
c. Gains on sales of equity participations	1,487	1,551
d. Other extraordinary income	7,716	3,276
Total extraordinary income	**9,642**	**58,464**
21) Extraordinary expenses		
a. Losses on sales of assets	–	(31)
b. Losses on sales of equity participations	–	(2)
c. Other extraordinary expenses	(15,753)	(8,578)
Total extraordinary expenses	**(15,753)**	**(8,611)**
Total extraordinary items (20 – 21)	**(6,111)**	**49,853**
Income before income taxes and Minority interests (A + B + C + D + E)	**122,746**	**149,795**
22) Income taxes	(21,228)	(24,325)
Net income (loss) for the year before Minority interests	**101,518**	**125,470**
Minority interests	549	(131)
Consolidated net income for the year	**102,067**	**125,339**

Milan, 22nd March 2004

The Board of Directors

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31ST, 2003

FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the relevant law (Government Decree 127 of April 9th, 1991) and are expressed in thousands of euro.

For the purpose of providing more meaningful information, attached to these notes are the consolidated statement of cash flows and the reconciliation between the net income and shareholders' equity of the parent company net result and the consolidated financial statement.

All Group companies have business purposes similar or complementary to that of the parent company.

The preparation criteria and form of the balance sheet and income statement are set out in the parent company financial statement.

For more complete information on the nature and developments of the Group's operations during the period, as well as subsequent events, reference should be made to the directors' Management Report for year 2003.

CONSOLIDATION AREA

The consolidated financial statements as at December 31st, 2003 include the balance sheet and income statement of Pirelli & C. Real Estate S.p.A. (the parent company) and the companies listed below consolidated using the line-by-line method, in which the parent company directly or indirectly holds more than 50% of the share capital.

The equity participations in Consorzio G6 Advisor (42.3%) and Progetto Bicocca Università S.r.l. (34%) are consolidated using the proportionate method due to the particular nature of the type of control over them.

Equity participations in associated companies, other than those indicated above, are valued using the equity method.

The equity participations in Aree Urbane S.r.l. (16.71%), Bernini Immobiliare S.r.l. (14%) and Sci Roev Texas Partners L.P. (10%) are also valued using the equity method due to the significant influence exercised over them.

In compliance with article 30 of Government Decree 127/1991, the financial statements used in consolidation have the same closing date as the parent company's. For those companies whose financial year ends on a different date to the parent company's, specific financial statements have been drawn up in accordance with generally accepted accounting principles.

The following table lists the companies included in the consolidation area.

	Business sector at 12.31.2003	Held at 12.31.2003 by	12.31.2003			12.31.2002		
			Share capital paid in		% interest & voting rights	Share capital paid in		% interest & voting rights
Companies consolidated using line by line method								
Subsidiaries								
Acquario S.r.l. (in liquidation)	Land	Pirelli & C. Real Estate S.p.A.	€/000	255	100.00%	€/000	255	100.00%
Agied S.r.l. (1)	Property S.P.	–	–	–	–	€/000	100	100.00%
Alfa S.r.l.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	2,600	100.00%	€/000	2,600	100.00%
Alfa Due S.r.l.	Commercial A.M.	–	–	–	–	€/000	1,300	100.00%
Altair Building Services S.r.l.	Facility S.P.	–	–	–	–	€/000	500	80.00%
Cagisa S.p.A.	Property S.P.	–	–	–	–	€/000	624	100.00%
Casaclick S.p.A.	Agency S.P.	Pirelli & C. R.E. Agency S.p.A.	€/000	1,635	99.08%	€/000	5,413	99.08%
Centrale Immobiliare S.p.A.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	5,200	100.00%	€/000	5,200	100.00%
Edilnord Gestioni S.p.A.	Property S.P.	Pirelli & C. Real Estate S.p.A.	€/000	517	100.00%	€/000	517	100.00%
Edilnord Progetti S.p.A.	Project S.P.	Pirelli & C. Real Estate S.p.A.	€/000	250	100.00%	€/000	250	100.00%
Elle Uno Società Consortile a.r.l.	Property S.P.	Edilnord Gestioni S.p.A.	€/000	100	60.00%	€/000	100	60.00%
Elle Tre Società Consortile a.r.l. (1)	Property S.P.	–	–	–	–	€/000	100	90.00%
Elle Dieci Società Consortile a.r.l. (1)	Property S.P.	–	–	–	–	€/000	100	90.00%
Emmegiesse S.p.A.	Facility S.P.	Pirelli & C. R.E. Facility . Management S.p.A	€/000	250	51.00%	–	–	–
Erato Finance S.r.l.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	500	53.85%	–	–	–
Holdim S.r.l. (2)	Commercial A.M.	–	–	–	–	€/000	14	100.00%
Iota S.r.l.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	94	100.00%	€/000	94	100.00%
Kappa S.r.l. (3)	Commercial A.M.	–	–	–	–	€/000	10	100.00%
Lambda S.r.l.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	579	100.00%	€/000	579	100.00%
Parcheggi Bicocca S.r.l.	Land	Pirelli & C. Real Estate S.p.A.	€/000	1,500	75.00%	–	–	–
Partecipazioni Real Estate S.p.A.	NPL A.M.	Pirelli & C. Real Estate S.p.A.	€/000	1,360	100.00%	€/000	1,360	100.00%
P.B.S. Società consortile a r.l.	Property S.P.	Edilnord Gestioni S.p.A.	€/000	100	60.00%	–	–	–
Pirelli & C. R.E. Agenzia Residenziale S.p.A.	Agency S.P.	–	–	–	–	€/000	520	100.00%
Pirelli & C. R.E. Agency S.p.A.	Agency S.P.	Pirelli & C. Real Estate S.p.A.	€/000	832	100.00%	€/000	832	100.00%
Pirelli & C. R.E. Credit Servicing S.p.A.	Credit Serv. S.P.	Pirelli & C. Real Estate S.p.A.	€/000	2,000	100.00%	€/000	5,200	100.00%
Pirelli & C. R.E. Facility Management S.p.A.	Facility S.P.	Pirelli & C. Real Estate S.p.A.	€/000	561	100.00%	€/000	561	100.00%
Pirelli & C. R.E. Franchising Agenzia Assicurativa S.r.l.	Franchising	Pirelli & C. R.E. Franchising Holding S.r.l.	€/000	10	100.00%	–	–	–
Pirelli & C. R.E. Franchising Holding S.r.l.	Franchising	Pirelli & C. Real Estate S.p.A.	€/000	10	80.00%	–	–	–
Pirelli & C. Opere Generali S.p.A.	Land	Pirelli & C. Real Estate S.p.A.	€/000	104	100.00%	€/000	104	100.00%
Pirelli & C. R.E. Project Management S.p.A.	Project S.P.	Pirelli & C. Real Estate S.p.A.	€/000	520	100.00%	€/000	520	100.00%
Pirelli & C. R.E. Property Management S.p.A.	Property S.P.	Pirelli & C. Real Estate S.p.A.	€/000	114	100.00%	€/000	114	100.00%

			12.31.2003			12.31.2002		
	Business sector at 12.31.2003	Held at 12.31.2003 by		Share capital paid in	% interest & voting rights		Share capital paid in	% interest & voting rights
Pirelli & C. Real Estate Ltda	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	Real/000	2,000	60.00%	Real/000	2,000	60.00%
Pirelli & C. R.E. Servizi di Rete S.p.A.	Franchising	Pirelli & C. R.E. Franchising Holding S.r.l.	€/000	500	100.00%	€/000	500	100.00%
Pirelli & C. R.E. Società di Gestione del Risparmio S.p.A.	Fund Management	Pirelli & C. Real Estate S.p.A.	€/000	1,500	100.00%	–	–	–
P.I.T.-Promozione Imprese e Territorio S.c.r.l.	Facility S.P.	Pirelli & C. R.E. Facility Management S.p.A.	€/000	26	100.00%	–	–	–
Progetti Creativi S.r.l.	Agency S.P.	–	–	–	–	€/000	51	100.00%
Progetto Bicocca Centro Tecnologico S.r.l.	Land	–	–	–	–	€/000	94	100.00%
Progetto Bicocca Esplanade S.p.A.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	2,500	100.00%	€/000	2,500	100.00%
Progetto Bicocca Il Centro S.r.l.	Land	–	–	–	–	€/000	93	100.00%
Progetto Grande Bicocca S.r.l.	Land	Pirelli & C. Real Estate S.p.A.	€/000	94	100.00%	€/000	94	100.00%
Progetto Moncalieri S.r.l.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	90	100.00%	€/000	90	100.00%
Progetto Salute Bollate S.r.l.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	100	100.00%	€/000	100	100.00%
Projet Saint Maurice S.a.s.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	38	100.00%	€/000	38	100.00%
Repeg Italian Finance S.r.l.	NPL A.M.	Partecipazioni Real Estate S.p.A.	€/000	10	100.00%	–	–	–
Servizi Amministrativi Real Estate S.p.A.	Other S.P.	Pirelli & C. Real Estate S.p.A.	€/000	520	100.00%	€/000	520	100.00%
Somogi S.r.l.	Facility S.P.	Pirelli & C. R.E. Facility Management S.p.A.	€/000	90	88.00%	€/000	90	88.00%
Stella Polare S.r.l. (in liquidation)	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	289	100.00%	€/000	289	100.00%
Tau S.r.l.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	94	100.00%	€/000	94	100.00%
Tintoretto S.r.l.	NPL A.M.	Partecipazioni Real Estate S.p.A.	€/000	10	100.00%	–	–	–
Companies consolidated using the proportionate method Associated								
Progetto Bicocca Università S.r.l.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	874	34.00%	€/000	874	34.00%
Consorzio G6 Advisor	Agency S.P.	Pirelli & C. R.E. Agency S.p.A.	€/000	50	42.30%	€/000	50	42.30%

The above table does not include the company E.S.T. Erogazione Servizi e Tecnologie S.p.A. as it entered 2003, due to the acquisition of its parent company OMS Facility S.r.l., and was absorbed by Pirelli & C. Real Estate Facility S.p.A. with effect for accounting and tax purposes from January 1st, 2003.

(1) The company Agied S.r.l. was sold to third parties during the fourth quarter of 2003, so this financial statement incorporate, on a line-by-line basis, only its income statement through September 30th, 2003. The same accounting treatment applies to Elle Tre S.c.a.r.l. and Elle Dieci S.c.a.r.l., in which the Group's equity participations have fallen below the threshold of control due to the sale of Agied S.r.l., a shareholder in both ventures.

(2) The participation in Holdim S.r.l. has decreased from 100% to 30% due to the capital increase resolved at year end by the company's shareholders' meeting and subscribed primarily by third parties. Therefore, the financial statements incorporate on a line-by-line basis only its income statement up to the date the held percentage was changed.

(3) The company Kappa S.r.l. was sold on June 26th, 2003 to Popoy Holding B.V. and Robino Holding Amsterdam B.V., so the financial statements incorporate on a line-by-line basis only its income statement for the first half of the year.

	Business sector at 12.31.2003	Held at 12.31.2003 by	12.31.2003 Share capital paid in		12.31.2003 % interest & voting rights	12.31.2002 Share capital paid in		12.31.2002 % interest & voting rights
Companies consolidated using the equity method Subsidiaries								
Alfa Due S.r.l. [4]	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	1,300	100.00%	–	–	–
Bicocca Center S.r.l.	Commercial A.M.	Progetto Grande Bicocca Multisala S.r.l.	€/000	51	100.00%	–	–	–
Progetto Grande Bicocca Multisala S.r.l. [4]	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	1,530	100.00%	€/000	1,530	33.00%
Tintoretto S.r.l.	NPL A.M.	–	–	–	–	€/000	10	100.00%
Associated companies								
Altair Zander Italia S.r.l.	Facility S.P.	Pirelli & C. R.E. Facility Management S.p.A.	€/000	10	50.00%	€/000	10	50.00%
Aree Urbane S.r.l. (formerly Ortensia S.r.l.)	Land	Pirelli & C. Real Estate S.p.A.	€/000	100	16.71%	€/000	100	20.00%
Auriga Immobiliare S.r.l.	Residential A.M.	–	–	–	–	€/000	25,602	36.02%
Bernini Immobiliare S.r.l.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	500	14.00%	€/000	500	14.00%
Beta S.r.l.	NPL A.M.	Partecipazioni Real Estate S.p.A.	€/000	26	47.00%	€/000	26	49.00%
CFT Finanziaria S.p.A.	NPL A.M.	Partecipazioni Real Estate S.p.A.	€/000	23,660	46.98%	€/000	23,660	46.98%
Consorzio Italiano Facility Management	Facility S.P.	Pirelli & C. R.E. Facility Management S.p.A.	€/000	100	49.00%	–	–	–
Continuum S.r.l.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	20	40.00%	–	–	–
Delta S.p.A.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	153	47,50%	€/000	153	47,50%
Dixia S.r.l.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	2,500	30.00%	€/000	2,500	30.00%
Domogest S.r.l.	Residential A.M.	Centrale Immobiliare S.p.A.	€/000	1,050	50.00%	€/000	1,050	50.00%
Elle Tre Società Consortile a.r.l.	Property S.P.	Pirelli & C. R.E. Property . Management S.p.A	€/000	100	40.00%	–	–	–
Elle Dieci Società Consortile a.r.l.	Property S.P.	Pirelli & C. R.E. Property Management S.p.A.	€/000	100	40.00%	–	–	–
Elle Nove Società Consortile a.r.l.	Property S.P.	Edilnord Gestioni S.p.A.	€/000	100	34.90%	€/000	100	34.90%
Esedra S.r.l.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	2,376	35.00%	–	–	–
FIM-Fabbrica Italiana di Mediazione S.r.l.	Agency S.P.	Pirelli & C. R.E. Agency S.p.A.	€/000	100	33.00%	–	–	–
Geolidro S.p.A.	Residential A.M.	Centrale Immobiliare S.p.A.	€/000	3,099	49.00%	–	–	–
Holdim S.r.l. [2]	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	1,000	30.00%	–	–	–
Immobiliare Prizia S.r.l.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	469	36.00%	€/000	469	36.00%
IN Holdings I S.a.r.l.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	3,768	25.00%	€/000	3,768	25.00%
Induxia S.r.l.	Commercial A.M.	18% Pirelli & C. Real Estate S.p.A. 27% Spazio Industriale B.V.	€/000	836	24.75%	€/000	836	24.75%
Inimm Due S.a.r.l.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	241	25.01%	€/000	241	25.01%
Iniziative Immobiliari S.r.l.	Residential A.M.	–	–	–	–	€/000	4,313	38.45%
Iniziative Immobiliari S.r.l. (new company)	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	5,000	37.07%	–	–	–
Localto S.p.A.	NPL A.M.	Partecipazioni Real Estate S.p.A.	€/000	5,200	35.00%	–	–	–
LSF Italian Finance Company S.r.l.	NPL A.M.	Partecipazioni Real Estate S.p.A.	€/000	10	33.00%	–	–	–
M.S.M.C. Italy Holding B.V.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	20	25.00%	€/000	18	25.00%
M.S.M.C. Solferino S.a.r.l.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	137	31.25%	€/000	137	31.25%
Masseto I B.V.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	19	33.00%	€/000	19	33.00%
Moncalieri Center S.r.l.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	22	25.00%	–	–	–
Orione Immobiliare Prima S.p.A.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	104	35.00%	€/000	104	29.00%

	Business sector at 12.31.2003	Held at 12.31.2003 by	12.31.2003			12.31.2002		
				Share capital paid in	% interest & voting rights		Share capital paid in	% interest & voting rights
Popoy Holding B.V.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	27	25.05%	€/000	27	25.05%
Progetto Bicocca La Piazza S.r.l.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	3.152	26.00%	€/000	3,152	26.00%
Progetto Corsico S.r.l.	Land	Pirelli & C. Real Estate S.p.A.	€/000	100	49.00%	€/000	100	49.00%
Progetto Fontana S.r.l.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	500	23.00%	€/000	500	23.00%
Progetto Gioberti S.r.l.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	100	50.00%	€/000	100	50.00%
Progetto Lainate S.r.l.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	26	25.00%	€/000	26	25.00%
Regus Business Centres Italia S.p.A.	Facility S.P.	Pirelli & C. Real Estate S.p.A.	€/000	661	35.00%	€/000	2,500	35.00%
Sci Roev Texas Partners L.P.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	$/000	12,000	10.00%	$/000	12,000	10.00%
Spazio Industriale B.V.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	763	25.00%	€/000	763	25.00%
Trixia S.r.l.	Commercial A.M.	Pirelli & C. Real Estate S.p.A.	€/000	1.210	36.00%	€/000	1,210	36.00%
Verdi S.r.l.	Residential A.M.	Pirelli & C. Real Estate S.p.A.	€/000	20	43.74%	€/000	20	100.00%
Vindex S.r.l.	NPL A.M.	16% Partecipazioni Real Estate S.p.A. 37% CFT Finanziaria S.p.A.	€/000	12	33.38%	–	–	–
Unconsolidated subsidiaries								
LSF Italian Finance Company S.r.l.	–	–	–	–	–	€/000	100	100.00%
NewCo RE 1 S.r.l.	Dormant	Pirelli & C. Real Estate S.p.A.	€/000	30	100.00%	–	–	–
NewCo RE 2 S.r.l.	Dormant	Pirelli & C. Real Estate S.p.A.	€/000	10	100.00%	–	–	–
NewCo RE 3 S.r.l.	Dormant	Pirelli & C. Real Estate S.p.A.	€/000	10	100.00%	–	–	–
NewCo RE 4 S.r.l.	Dormant	Pirelli & C. Real Estate S.p.A.	€/000	10	100.00%	–	–	–
Parcheggi Bicocca S.r.l.	–	–	–	–	–	€/000	25	75.00%
Pirelli & C. Real Estate Ltd	Dormant	Pirelli & C. Real Estate S.p.A.	€/000	100	100.00%	€/000	100	100.00%
Other significant equity participations, according to CONSOB resolution 11971 of May 14, 1999								
Consorzio GSPA	Facility S.P.	Pirelli & C. R.E. Facility Management S.p.A.	€/000	103	15.00%	–	–	–
Gestione Beni Stabili S.r.l.	Facility S.P.	Pirelli & C. R.E. Facility Management S.p.A.	€/000	10	10.00%	–	–	–
Tecnocittà S.r.l. (in liquidation)	Dormant	Pirelli & C. Real Estate S.p.A.	€/000	548	12.00%	€/000	548	12.00%

(2) The participation in Holdim S.r.l. has decreased from 100% to 30% due to the capital increase resolved at year end by the company's shareholders' meeting and subscribed primarily by third parties. Therefore, the financial statements incorporate on a line-by-line basis only its income statement up to the date the held percentage was changed.

(4) The companies Progetto Grande Bicocca Multisala S.r.l. and Alfa Due S.r.l., although subsidiaries, have been consolidated using the equity method because the deeds for the sale of their operating arms to the newly established companies Moncalieri Center S.r.l. and Bicocca Center S.r.l. were finalized during the year the majority participation in the former was transferred to third parties in 2003 and the majority participation in the latter will be sold during the first quarter of 2004, on the basis of signed agreements.

The following companies have been excluded from consolidation since they are planned to manage new activities that are not yet operational:

- Newco Re 1 S.r.l.
- Newco Re 2 S.r.l.
- Newco Re 3 S.r.l.
- Newco Re 4 S.r.l.
- Pirelli & C. Real Estate Ltd.

There now follows a brief description of the activities of the operating companies included in the consolidation area.

Unless otherwise indicated the equity participations are assumed to be 100% held by Pirelli & C. Real Estate S.p.A..

Asset management activities are performed directly by the parent company Pirelli & C. Real Estate S.p.A..

ASSET MANAGEMENT

Residential Asset Management

The main business purpose of the companies detailed below is the development and/or sale of projects involving residential properties.

Subsidiary companies

— *Alfa S.r.l.*: the company trades in real estate located primarily in Milan. Currently the company working on a contract for the completion of the Deutsche Bank offices, which were released to the client at the end of 2002;

— *Centrale Immobiliare S.p.A.*: the company operates in the trading sector; in line with the corporate structures streamlining, the company has been chosen to promote wholly-owned residential trading ventures; during the first half of 2003, it purchased the real estate all properties of Alfa S.r.l. and Iota S.r.l. not yet subject to an offer. On December 17th, 2003 the company purchased a property located in Rome, in Via S. Eufemia 13, from Tiglio I S.r.l. (51.59% owned by the associated company M.S.M.C. Italy Holding B.V.) for a total consideration of 7.8 million euro; on December 23rd, 2003, it purchased a portfolio consisting of 9 properties from Banca di Roma S.p.A. — Capitalia Group — for a corresponding value of 85 million euro plus tax;

— *Erato Finance S.r.l.*: 53.85% of the company is held by Pirelli & C. Real Estate S.p.A.; it is filed in the general list pursuant to article 106 of the Banking Act and finances the company Continuum S.r.l.;

— *Iota S.r.l.*: this company operates in the trading sector, with specific reference to properties in Milan and Trieste;

— *Progetto Bicocca Esplanade S.p.A.*: the company is completing the development of some residential properties in the Bicocca area; as of December 31st, 2002, the company owned a site for commercial use in the Bicocca area, sold in the first half of 2003 to Kappa S.r.l. and Spazio Industriale I S.r.l., both related companies;

— *Stella Polare S.r.l. in voluntary liquidation*: the company is completing the sale of a real estate complex located in the city of Naples;

— *Tau S.r.l.*: through a joint venture, the company is handling the disposal of a residential real estate portfolio located in Novara; the properties were acquired from Banca Popolare di Novara S.p.A. and the venture is near completion.

Associated companies

— *Bernini Immobiliare S.r.l.*: the stake in the company amounts to 14%; the company is active in enhancing the value of residential property portfolio with specific reference to the assets acquired from the Capitalia Group in 2002;

— *Continuum S.r.l.:* the company was set up on December 16th, 2003, 40% is owned by Pirelli & C. Real Estate S.p.A., 40% by Generali Properties and 20% by Lehman Brothers. On December 22nd, 2003 it purchased. a portfolio of 43 properties from Assitalia S.p.A., at a price of 158 million euro, plus tax;

— *Delta S.p.A.*: the stake in the company amounts to 47.5%; the purpose of the company is to increase the value and achieve the transfer of the real estate complex acquired from Irnerio S.p.A. in 2002;

— *Dixia S.r.l.*: the stake in the company amounts to 30%; the company has a portfolio including residential and service real estate and a majority interest in the share capital of *Golf Tolcinasco S.r.l*. and *Immobiliare SportingMilano 3 S.p.A.*, all acquired from the Edilnord 2000 Group during 2002;

— *Domogest S.r.l.*: the company was set up on March 21st, 2002, 50% of this company is held by the subsidiary Centrale Immobiliare S.p.A.. The company purpose is to increase the value and sell a number of properties in the city of Florence;

— *Esedra S.r.l.*: 35% of this company is held by Pirelli & C. Real Estate S.p.A. and on December 19th, 2003, the company purchased from Generali Properties a real estate complex of 48,000 square-meters located in Rome and known as Poggio Ameno for 65 million euro;

— *Geolidro S.p.A.:* the subsidiary Centrale Immobiliare S.p.A. purchased a 49% of this company on March 14th, 2003; the vehicle company has taken over part on the former Risanamento Napoli S.p.A. real estate portfolio, including properties located in Naples;

— *Immobiliare Prizia S.r.l.*: the stake in the company amounts to 36%; the company, which already owns certain properties forming part of Castello di Tolcinasco, in Basiglio (Milan), in 2002 following the spin-off from Trixia S.r.l. received land for development in Zibido (Milan) and Pioltello (Milan) including a number of development activities in Cusago (Milan);

— *Iniziative Immobiliari S.r.l. (new company)*: this company (37.074% stake) was set up on December 29th, 2003 following the merger of Iniziative Immobiliari S.r.l. (company operates in the trading sector with reference to the real estate portfolio purchased from Società pel Risanamento di Napoli S.p.A.) with *Auriga Immobiliare S.r.l.* (which received a number of residential properties from Fondiaria S.p.A. and following the Unim transaction);

— *Orione Immobiliare Prima S.p.A.*: the stake in the company amounts to 35%; the company owns properties deriving from portfolios formerly belonging to Allianz (Milan), Zunino (Naples), Impresol (Milan), and Unipol-Meie (Milan, Forlì and Malnate), the latter of which were formerly owned by Centrale Immobiliare S.p.A.;

— *Progetto Bicocca La Piazza S.r.l.*: the stake in the company amounts to 26%; the company operates in the residential development sector and partly in the service sector, and participates in the more extensive Bicocca Project;

— *Progetto Gioberti S.r.l.*: the stake in the company amounts to 50%; this company operates in the residential development sector and renovation of properties for trading purposes, with particular reference to real estate located in the city of Florence;

— *Verdi S.r.l.*: the company acquired a property located in the city of Naples from third parties on October 9th, 2003; as of December 31st, 2002, Pirelli & C. Real Estate S.p.A. owned 100% of the company; on February 26th, 2003 a 56.26% stake was sold to third parties.

Commercial Asset Management

The main purpose of the companies listed below is the development and/or sale of commercial real estate portfolios.

<u>*Subsidiaries*</u>

— *Alfa Due S.r.l.*: the company conferred its operations relating to the development of a multi-screen cinema in the municipality Moncalieri (Turin) to the subsidiary *Moncalieri Center S.r.l.* during the first half of 2003. A 75% interest in the share capital of Moncalieri Center S.r.l. was sold to PI Europe S.a.r.l. on September 30th, 2003; the remaining 25% was transferred to Pirelli & C. Real Estate S.p.A.;

— *Lambda S.r.l.*: during the year the company completed several projects part of the Bicocca Project concerning the construction of the second Siemens building lot and the new head office of the Pirelli & C. Real Estate Group; the company is also owner of a real estate complex formerly belonging to Pirelli Cavi S.p.A.;

— *Progetto Grande Bicocca Multisala S.r.l.*: Pirelli & C. Real Estate S.p.A. acquired the residual 67% stake in Progetto Grande Bicocca Multisala S.r.l. on April 8th, 2003, becoming the sole shareholder. During the first half of 2003, the company transferred the business relating to the development of a multi-screen cinema in Bicocca (Milan) to the subsidiary *Bicocca Center S.r.l.*; *Bicocca Center* is a new real estate company and the majority interest will be sold to third parties in compliance with a undersigned agreement;

— *Progetto Moncalieri S.r.l.*: the company is a real estate investment venture for the construction of a multi-purpose building to be used as a multi-screen cinema in the city of Perugia;

— *Progetto Salute Bollate S.r.l.*: the company sold the residential home located in Bollate (Milan) to third parties in the first half of 2003; it purchased the hotel Novotel Cà Granda, located in Milan in Viale Suzzani, from Progetto Grande Bicocca S.r.l. on December 31st, 2003;

— *Projet Saint Maurice S.a.s.*: the company operates in commercial property development with specific reference to property located in Paris; it was sold to third parties at the end of 2003 for a consideration of 37,150 thousand euro;

— *Pirelli & C. Real Estate Ltda*: the stake in the company amounts to 60%; the company operates in commercial land development, specifically in Santo André, near San Paolo (Brazil).

<u>*Associated companies*</u>

A number of the commercial companies in which Pirelli & C. Real Estate S.p.A. has invested are holding companies themselves, the company structure is detailed below:

— *Holdim S.r.l.*: the stake in the company decreased from 100% to 30% following the entrance of third-party investors in the share capital. At year-end the company purchased under lease and subsequently leased real estate comprising office buildings and land for reclamation in the hinterland of Milan;

— *Inimm Due S.a.r.l.:* the stake in the company amounts to 25.01%; the company incorporated under Luxembourg law controls directly and indirectly through *Inimm Due Sub S.a.r.l.* the following companies:

- *Iniziativa Immobiliare Due S.r.l.*: the company owns portion of the real estate portfolio formerly belonging to Rizzoli-Corriere della Sera;

— *M.S.M.C. Italy Holding B.V.*: the stake in the company amounts to 25%; the company incorporated under Dutch law controls a number of companies directly and indirectly through: *M.S.M.C. Italy Sub Holding B.V.*, the following are the most significant:

- *Tiglio I S.r.l.*: (51.59% stake, and 12.90%, Pirelli & C. Real Estate S.p.A. indirect equity participations) the company is one of the two real estate investment companies through which the “Tiglio Project” was carried out in 2002. The project involved the integration, concentration and enhancement of the value of real estate belonging to the groups of Pirelli & C. Real Estate, Pirelli S.p.A., Morgan Stanley Real Estate Fund III, Telecom and Olivetti, with the subsequent aim of creating one or more real estate investment funds based in Italy or abroad.

In July 2003 the plan concerning the spin-off of the real estate held by Tiglio I S.r.l. was completed as part of the real estate investment venture in Aree Urbane S.r.l. (former Ortensia S.r.l.).

During the second half of 2003, the company was involved in the "Progetto Fondi", described in greater detail in the Directors' management report; the outcome of the project was the establishment of the first private equity real estate fund in Italy, known as "Tecla Fondo Uffici".

In order to allow Merrill Lynch Capital Markets Bank to participate in financing Tiglio I S.r.l., an act of subrogation and the related financing agreement were signed in December 2003 by Tiglio I S.r.l. and Merrill Lynch Capital Markets Bank, and pertained to 50% of the credit standing of Banca Intesa S.p.A., which amounted to approximately 486 million euro.

On December 18th, 2003, Tiglio I S.r.l., Banca Intesa S.p.A., Capitalia S.p.A. and Merrill Lynch Capital Markets Bank signed a new financing agreement for a total of 124 million euro and an amendment to the previous financing in use aimed, among others, at ensuring adequate financial leverage.

Preparations are in progress for transferring some of the company properties to new real estate investment funds;

- *M.S.M.C. Immobiliare Due S.r.l.*: the stake in the company amounts to 100%; the company operates in the portfolio valorization sector for the commercial market, with special reference to a portion of the assets acquired from Compart S.p.A.;
- *Prime Properties S.r.l.*: a real estate investment venture, as of December 31st, 2002 the equity participations amounted to 50%; the company was sold to Aedes Immobiliare S.r.l. at the end of March 2003 for approximately euro 25 million;

— *M.S.M.C. Solferino S.a.r.l.*: the stake in the company amounts to 31.25%; the company incorporated under Luxembourg law, sold its 49% equity participations in *Immobiliare Solferino 28 S.r.l.,* the owner of the property in Via Solferino (Milan) housing Corriere della Sera, to R.C.S. MediaGroup S.p.A. for a sum of approximatly 15.5 million euro on December 3rd, 2003;

— *Popoy Holding B.V.*: the stake in the company amounts to 25.046%; the company incorporated under Dutch law holds direct and indirect controlling interest through *Robino Holding Amsterdam B.V.* in a number of companies; the most significant are he following:

- *M.S.M.C. Immobiliare 4 S.r.l.*: the stake in the company amounts to 100%; the company owns a property portfolio purchased from the Fiat Group;
- *Tiglio II S.r.l.*: (50.53% stake, Pirelli & C. Real Estate S.p.A. has a 12.66% indirect stake) the company is the second of the two real estate investment companies involved in the "Tiglio Project" in 2002. This involved the integration, concentration and enhancement of the value of real estate belonging to the groups of Pirelli & C. Real Estate, Morgan Stanley Real Estate Fund IV, and Telecom, with the aim to create one or more real estate investment funds based in Italy or abroad.

In July 2003 the plan concerning the spin-off of the properties held by Tiglio II S.r.l. was completed as part of the real estate investment venture in Aree Urbane S.r.l. (former Ortensia S.r.l.).

On March 31st, 2003 Tiglio II S.r.l. transferred some of the former Banca di Roma Real estate to Dolcetto Due S.r.l.; in return the company acquired two properties located in Milan and formerly belonging to the RAS portfolio.

In addition, on December 4th, 2003 Tiglio II S.r.l. conferred the company division including twelve properties primarily for services to the subsidiary *Immobiliare Piemonte S.r.l.*.

The value of the properties conferred amounted to 115 million euro. On the same date, Tiglio II S.r.l. sold 80% of its interest in the share capital of Immobiliare Piemonte S.r.l. to the financial institution Medio Credito Centrale S.p.A..

In order to allow Merrill Lynch Capital Markets Bank to participate in financing Tiglio II S.r.l., an act of subrogation and the related financing agreement were signed on December 5th, 2003, by Tiglio II S.r.l. and Merrill Lynch Capital Markets Bank, and pertained to 50% of the credit standing of Banca Intesa S.p.A., which amounted to approximately 121 million euro;

- *Kappa S.r.l.*: the company, formerly a subsidiary of Pirelli & C. Real Estate S.p.A. as of December 31st, 2002, was purchased, by Popoy Holding B.V. (75%) and Robino Holding Amsterdam B.V. (25%) on June 26th, 2003. During the first half of 2003, Kappa S.r.l. acquired a site located in Bicocca from Progetto Bicocca Esplanade S.p.A.;
- *Dolcetto Due S.r.l.:* the company was purchased from third parties on March 20th, 2003; on March 31st, 2003, Dolcetto Due S.r.l. purchased also several properties from Tiglio II S.r.l. formerly belonging to the former Banca di Roma;
- *Dolcetto S.r.l.*: the stake in the company amounts to 100%; the company holds the 100% controlling interest in *Ganimede S.r.l.*, which received, in 2003, the core R.E. assets real estate portfolio of the Fondiaria-SAI Group;

— *IN Holdings I S.a.r.l.*: the stake in the company amounts to 25%; the holding company incorporated under Luxembourg law has direct and indirect stakes in the following companies through *IN Holdings II S.a.r.l.*:

- *Iniziative Retail S.r.l.*: (81.50% stake, the indirect holding of Pirelli & C. Real Estate S.p.A. corresponds to 20.375%) the company was set up on December 17th, 2003 following the merger of *Iniziative Negozi S.r.l.* (a company operating in shopping center facility management derived from Unim real estate portfolio), Peabody Bergamo Retail S.r.l., Peabody Merate Retail S.r.l., Peabody Mugnano Retail S.r.l. and Peabody Torino Retail S.r.l.; the last four own four commercial properties leased to La Rinascente S.p.A.;

— *Masseto I B.V.*: the stake in the company amounts to 33%; is an holding incorporated under Dutch laws which controls either a number of companies directly or indirectly through *Masseto II B.V.;* the most significant are:

- *Aida S.r.l.*: the stake in the company amounts to 100%; in May 2002 the company received the residential and commercial real estate purchased from RAS S.p.A.;

— *Spazio Industriale B.V.*: the stake in the company amounts to 25%; the company incorporated under Dutch law has direct and indirect interests through *Rohaco B.V.* in the following companies:

- *Induxia S.r.l.*: the stake in the company amounts to 27%; the company was the beneficiary of the assets and liabilities pertaining to the industrial land in Binasco (Milan) and Lacchiarella (Milan), purchased from the Edilnord 2000 Group in 2002. Pirelli & C. Real Estate S.p.A. directly hold an 18% stake in the company. Consequently, the Pirelli & C. Real Estate Group has a total stake amounting to 24.75% in the company;
- *Spazio Industriale I S.r.l.*: the stake in the company amounts to 100%; the purpose of the company is to acquire and develop projects involving office space; in the first half of 2003 the company acquired a site located in Bicocca (Milan) from Progetto Bicocca Esplanade S.p.A.;

— *Progetto Bicocca Università S.r.l.*: the stake in the company amounts to 34%; the company developed a number of university buildings in the Bicocca area, which are now in the final stages of inspection;

— *Progetto Fontana S.r.l.*: the stake in the company amounts to 23%; the company owns a portion of an office property located in Rome;

— *Progetto Lainate S.r.l.*: the stake in the company amounts to 25%; the purpose of the company is to develop a multi functional complex in Lainate (Milan);

— *Sci Roev Texas Partners L.P.*: the stake in the company amounts to 10%; the company is involved in managing, enhancing the value and selling a number of estate assets perties in Texas (USA);

— *Trixia S.r.l.*: the stake in the company amounts to 36%; the purpose of the company is to develop buildings for offices in Pioltello (Milan), Basiglio (Milan) and Cusago (Milan).

Non performing loans

Companies operating in this sector manage non performing loans portfolios, that is to say disputed receivables arising on loans secured by mortgages on properties. Special venture companies, in which the Pirelli & C. Real Estate Group usually holds a minority interest, are also used to take part in property auctions to support of this activity.

The Group invests in these venture through *Partecipazioni Real Estate S.p.A.*, a fully-owned subsidiary of Pirelli & C. Real Estate S.p.A..

Subsidiaries

- *Repeg S.r.l.*: the company, acquired in December 2003, purchased without recourse on December 29th, 2003 the loan given by Capitalia S.p.A. to La Golfo degli Aranci S.r.l. (book value of 32.1 million euro); the loan was sold by Capitalia S.p.A. to Repeg for the sum of 7.5 million euro;
- *Tintoretto S.r.l.*: the purpose of the company is to take part in court-ordered auctions in order to purchase properties to be enhanced and then sold.

Associated companies

- *Beta S.r.l.*: the purpose of the company, 47% owned by Partecipazioni Real Estate S.p.A., is to take part in court-ordered auctions in order to purchase properties to be enhanced and then sold;
- *CFT Finanziaria S.p.A.*: the stake in the company amounts to 46.98% held by Partecipazioni Real Estate S.p.A.; the company managed a loan portfolio from Cassa di Risparmio di Firenze, due to be securitized;
- *LSF Italian Finance Company S.r.l.*: as of December 19th, 2003, a 67% stake of this company's share capital was sold to Credit Agricole Indosuez S.A.; this company, set up in accordance with Law 130/99, acquired a portfolio of non performing loans at the end of 2003 from the bank Italfondiario S.p.A. for an amount of euro 15.8 million;
- *Localto S.p.A.*: in April 2003, Partecipazioni Real Estate S.p.A. purchased 100% of the Localto S.p.A. share capital in from Pirelli & C. S.p.A., becoming its sole shareholder. On June 19th, 2003, Partecipazioni Real Estate S.p.A. subsequently sold a 65% stake in the company to Citigroup Financial Products Inc.. On November 28th, 2003 the company purchased from Deutsche Bank A.G. a portfolio of mostly non performing mortgage loans for the sum of euro 96 million against a book value of aproximatly euro 520 million;
- *Vindex S.r.l.*: Partecipazioni Real Estate S.p.A. purchased a 47% stake in the share capital of *Vindex S.r.l.* from Zenith Italia S.p.A. on March 4th, 2003. Partecipazioni Real Estate S.p.A. sold a 31% stake in Vindex to Zenith Holding S.r.l. on May 19th, 2003; The company now holds a 16% stake. CFT Finanziaria S.p.A. also owns a 37% stake in Vindex. The Group's overall share in the company as of December 31st, 2003 amounted to 33.38%. The company was set up in accordance with Law 130/99 and will be used for securitization activities.

LAND

The companies listed below either own sites for reclamation/development or perform activities in relation to urbanization work:

Subsidiary companies

- *Acquario S.r.l. (in liquidation)*: the company, which is currently winding-up on a voluntary basis, owns a plot of commercial land in Pero (Milan);
- *Parcheggi Bicocca S.r.l.*: the stake in the company amounts to 75%; this company will be responsible for managing a number of car parks in the Bicocca area. Under the provisions

of the agreement of July 23rd, 2003, which regulates the assumption by company of all the commitments given by Pirelli & C. Opere Generali S.p.A to the Municipality of Milan and to the holder of land for the construction of covered car parks known as P7, P8, P5 and P11, Pirelli & C. Opere Generali S.p.A. completed the delivery of car parks P7 and P8 in October 2003. As a result, Parcheggi Bicocca S.r.l. is operative and is consolidated using the line-by-line method;

— *Pirelli & C. Opere Generali S.p.A.*: the purpose of the company is to carry out urbanization work with specific reference to land located in the Bicocca zone;

— *Progetto Grande Bicocca S.r.l.*: the company owns a residual part-quota of the Ansaldo area site in Bicocca. On December 3rd, 2003, the subsidiary companies *Progetto Bicocca Centro Tecnologico S.r.l.* (owner of a number of land in Vimercate (Milan) and Rome) and *Progetto Bicocca Il Centro S.r.l.* (owner of a property designated for use as a hotel and parking facilities) were merged into Progetto Grande Bicocca S.r.l..

<u>*Associated companies*</u>

— *Aree Urbane S.r.l. (former Ortensia S.r.l.)*: Pirelli & C. Real Estate S.p.A. holds a 10.75% stake in the company, while the associated company M.S.M.C. Italy Holding B.V. owns a 23.84% stake. Consequently, as of December 31st, 2003, the overall holding of the Group amounted to 16.71%. The company owns land purchased from the Marzotto Group in addition to the sites from the assets of Tiglio I S.r.l. and Tiglio II S.r.l. which were included in the company following the partial spin-off of Tiglio I S.r.l. and Tiglio II S.r.l. in July 2003. The spin-off was carried out in order to concentrate reclaimed land for development in a single real estate investment company

— *Progetto Corsico S.r.l.*: the stake in the company amounts to 49%. The company will begin work to enhance the value of a site for residential and business use purchased in Corsico (Milan) in 2002. The company will carry out the implement urbanization, decontamination and demolition work; subsequently the plots will be split up, in relation their designated use, and sold to third parties who will carry out the property development.

FUND MANAGEMENT

This activity relates to the management of a number of real estate funds that will become placed in 2004. The above activities will be performed by *Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.*, that was purchased on July 21st, 2003.

SERVICE PROVIDER

Agency: the agency business divides into the following:

Residential Agency: this business mainly consists of breaking up apartment blocks and selling high-end residential properties, with a specific focus on facilitating purchase by tenants, if applicable.

Commercial Agency: this business consists of advisory services associated with the sale, purchase, value-enhancement and lease of properties mostly for office, industrial and commercial use.

The residential agency activities were performed by *Pirelli & C. Real Estate Agenzia Residenziale S.p.A*. in 2003.

Pirelli & C. Real Estate Agenzia Residenziale S.p.A. and Progetti Creativi S.r.l. were merged into *Pirelli & C. Real Estate Commercial Agency S.p.A*. on July 21st, 2003, after which residential and commercial agency activities were concentrated under the latter, which changed its company name into *Pirelli & C. Real Estate Agency S.p.A.*.

Progetti Creativi S.r.l. was a wholly-owned subsidiary of Pirelli & C. Real Estate Agency S.p.A. as of December 31st, 2002.

Following the above and other transactions during the year, *Pirelli & C. Real Estate Agency S.p.A.* now holds the following equity participations:

- *Casaclick S.p.A.*: the stake held in the company amounts to 99.08%; the company provides support to property sales activity and distributes real estate advertising products through internet;
- *Consorzio G6 Advisor:* the stake held in the company amounts to 42.30% stake; the consortium coordinates and organizes the member activities deals with the principal bidding for the process on real estate assets owned by Social Security bodies;
- *FIM-Fabbrica Italiana di Mediazione S.r.l.*: the 33% stake in this company was purchased on September 22nd, 2003; the company specializes in the purchase and sale of retail outlets and is market leader in the “fashion district” of Milan.

Project Management: the aim of this business is to organize the entire property development process, from urban planning to obtaining necessary authorizations to issue the end user. The following companies operate in the sector:

— *Pirelli & C. Real Estate Project Management S.p.A.*;

— *Edilnord Progetti S.p.A.*: the company was acquired from the Edilnord 2000 Group at the beginning of 2002.

Property Management: this activity is carried out on behalf of owners or property asset managers with a view to optimizing returns. The services include traditional services (such as rent collection and maintenance work management) and innovative services, aimed at enhancing real estate value. The following companies operate in the sector:

— *Pirelli & C. Real Estate Property Management S.p.A.*: the company incorporated the subsidiary *Cagisa S.p.A.* during 2003.

On December 23rd, 2003, the company also sold its entire share capital in *Agied S.r.l.* to third parties.

As of December 31st, 2003 the company owns the following equity participations in companies operating in the sector:

- *Elle Tre S.c.a.r.l.*: the company holds 40% stake; a consortium for the management of contracts with INPDAP (public-sector employees pension fund);
- *Elle Dieci S.c.a.r.l.*: the company holds a 40% stake; a consortium for the management of contracts with INPDAP (public-sector employees pension fund);

— *Edilnord Gestioni S.p.A.*: the company was purchased at the beginning of 2002 from the Edilnord 2000 Group and has equity participations in the following companies:

- *Elle Uno S.c.a.r.l.*: the company holds a 60% stake; a consortium for the management of contracts with INPDAP (public-sector employees pension fund);
- *Elle Nove S.c.a.r.l.*: the company holds a 34.9% stake; a consortium for the management of contracts with INPDAP (public-sector employees pension fund);
- *P.B.S. S.c.a.r.l.*: the company holds 60% stake; this company was formed on November 12th, 2003 for the management of properties owned by the City of Milan.

Facility Management: services include providing logistics and organizational support to property users to optimize property management activities.

The above activity is managed by the following companies:

— *Pirelli & C. Real Estate Facility Management S.p.A.*: as part of the process to streamline facility management activities, the company incorporated the following other companies during the year:

- Altair Building Services S.r.l. on May 23rd, 2003; an 80% interest was already held in the company while the residual 20% was purchased on April 8th, 2003;

- OMS Facility S.r.l. on July 24th, 2003; the company was purchased by Pirelli & C. Real Estate S.p.A. on April 4th, 2003 and sold to Pirelli & C. Real Estate Facility Management S.p.A. on July 15th, 2003;
- E.S.T. Erogazione Servizi e Tecnologie S.p.A. incorporated on December 22nd, 2003; the equity participations was acquired following the merger of OMS Facility S.r.l.;

As a result of transactions which took place in the past and previous years, the company now owns share capital in the following companies:

- *Altair Zander Italia S.r.l.*: the stake is of 50%; the company provides integrated, high-tech-services and was acquired through the incoporated company Altair Building Services S.r.l.;
- *Consorzio Italiano Facility Management:* the stake is of 49% stake; this consortium was set up on May 28th, 2003; the deed to wind up the consortium was signed on March 3rd, 2004;
- *Emmegiesse S.p.A.*: the stake is of 51%; the company was acquired through the incorporated company OMS Facility S.r.l.;
- *PIT - Promozione Imprese e Territorio S.*c.r.l.: the stake is of 100%; this company was acquired through the incorporated company OMS Facility S.r.l.;
- *Somogi S.r.l.:* the stake is of 88%; the company provides direct technological services and systems; it was acquired through the incorporated company Altair Building Services S.r.l.;

— *Regus Business Centres Italia S.p.A.* the stake is of 35% stake; the company operates in the office space rentals sector.

Credit servicing: the Pirelli & C. Real Estate Group's recent venture into this sector support its asset management activities on non performing loans. The activities include mortgage loan portfolios valuation and credit recovery management through both legal auctions and out-of-court settlements. The activity is performed by:

— *Pirelli & C. Real Estate Credit Servicing S.p.A.*: a company registered under article 107 of the Banking Act.

Administrative services: the activity supplies administrative services to subsidiary and associated companies. Activities include drafting financial statements, the maintenance of general ledgers and statutory records and tax compliancy requirements management. Activities are performed by:

— *Servizi Amministrativi Real Estate S.p.A.*.

FRANCHISING

The activity is still in the start-up phase and it is aimed to entails develop a network of franchised agencies. This activity is performed by:

— *Pirelli & C. Real Estate Franchising Holding S.r.l.*: the company was purchased on July 18th, 2003 to develop the franchise sector in the retail market. Pirelli & C. Real Estate Franchising Holding S.r.l. were created as a strategic extension of the Pirelli Real Estate business model, and benefited from the Group know-how and the experience of the Edilnord network. The goal is to create a real estate network that stands out for the quality and innovative services offered and the knowledge and expertise of its members. On November 26th, 2003 a 20% stake in the company was sold in equal shares to Selma BPM Leasing S.p.A. and Assicurazioni Generali S.p.A. Consequently, as of December 31st, 2003, Pirelli & C. Real Estate S.p.A. owned 80% of the company.

The company owns 100% of:

- *Pirelli & C. Real Estate Franchising Agenzia Assicurativa S.r.l.:* a company established on September 30th, 2003;
- *Pirelli & C. Real Estate Servizi di Rete S.p.A.*: acquired in 2002 from the Edilnord 2000 Group by Pirelli & C. Real Estate S.p.A. and sold on September 30th, 2003 to Pirelli & C. Real Estate Franchising Holding S.r.l..

BASIS OF CONSOLIDATION

The consolidation principles are compliant with the formal and substantial contents of Law Decree of the 9th April 1991, no. 127 and with the Accounting Standards approved by the *Consiglio Nazionale dei Dottori Commercialisti e Ragionieri* (collectively, “Italian GAAP”).

The line-by-line consolidation of the companies in which the parent company owns more than 50% of the stake and exercises control is summarized as follows:

— the inclusion of the amounts of total assets, liabilities, costs and revenues without taking into consideration the amount of net shareholders’ equity owned; in the appropriate entries the minority Shareholders, if any, are assigned their portion of net shareholder’s equity and operating result;

— the book value of equity participations included in the consolidation area is eliminated against the relating quotas of net shareholder’s equity at the date of acquisition and/or formation;

— any differences between the book value and the net shareholders’ equity held by consolidated companies, if not pertaining to the assets and liabilities of the controlled companies, if negative, are booked in the consolidation reserve unless the same are linked to future charges and losses of the subsidiary company, in which case they are recorded in a appropriate fund including reserves for charges and restructuring. If positive, the differences are booked under assets under “differences on consolidation” and amortized on straight line basis.

— the elimination of receivables and payables, as well as of costs and revenues between the consolidated companies;

— the elimination of gains arising from transactions between consolidated companies if not yet realized with third parties;

— minority interests in shareholders’ equity are duly recorded under liabilities. The quota of third party gains or losses are recorded in the income statement under a separate entry.

EVALUATION CRITERIA AND ACCOUNTING PRINCIPLES

The accounting policies comply with the provisions of article 2426 of the Italian Civil in force up to January 1st, 2004, included in the provisions issued by Consob (Italian Commission for Listed Companies and the Stock Exchange) and with the Accounting Standards approved by the *Consiglio Nazionale dei Dottori Commercialisti e Ragionieri* (collectively, “Italian GAAP”).

The accounting policies are consistent with those applied in the previous year. Unless otherwise indicated, the accounting policies used for valuing the consolidated financial statements are consistent with the policies used to draft the parent company financial statements.

Intangible fixed assets

Intangible assets are stated at purchase cost, net of accumulated amortization. Their value is amortized on a straight-line basis taking into account the residual possibility of utilization and, in any case, not over more than five years, unless stated otherwise.

Set-up and expansion costs, costs for advertising and goodwill are recorded under assets with the prior consent of Board of Auditors of each individual company.

Goodwill and positive differences on consolidation are amortized over a period appropriate to the expected future earnings of the participated companies. In some cases the amortization period is of 10 years, depending on the expected returns on the investments made. If the value of the residual utilization at year-end is permanently lower than the value originally estimated, the residual value is adjusted accordingly.

The appropriate depreciation of the intangible assets is carried out if a full recovery of the investment is not foreseen. The original value is reinstated in the reasons for the writedown cease to exist.

Fixed assets in progress are booked at purchase cost and are not amortized.

Tangible fixed assets

Tangible fixed assets are recorded at their purchase or production cost, including direct accessory charges, and are systematically amortized taking into account the residual possibility of utilization. Depreciation charged to the income statement is calculated on a straight-line basis at rates deemed appropriate to cover the estimated useful live of the asset.

The rate of amortization is reduced by 50% for assets purchased during the year. The depreciation rates used are detailed in the notes on tangible fixed assets.

The appropriate depreciation is carried out if a full recovery of the investment is not foreseen. The original value is reinstated in the reasons for the writedown cease to exist.

Tangible fixed assets recorded in the financial statements do not include any monetary or economic revaluations.

Financial assets

Equity participations

Equity participations in subsidiary and affiliated companies which are not included in the consolidation area and not valued with the net equity method and the equity participations in other companies are valued at cost.

The purchase or subscription cost is adjusted in case of permanent loss of value. The original value is reinstated whenever the reasons for the adjustment no longer exist.

Financial receivables

Financial receivables are stated at their estimated realizable value.

Other securities recorded in fixed assets

Other securities are stated at purchase cost, reduced to take into account any permanent impairment in value.

- Senior bonds and junior bonds

Income is recorded on an accruals basis in accordance with the provisions of the contract signed at the time of purchase.

- Other non-marketable securities

The purchase cost is increased by the part-quota pertaining to the difference between the book value and the nominal return value. A counter entry is duly recorded under interest income.

Treasury shares recorded in fixed assets

These are valued at average cost, adjusted for permanent loss in value.

Receivables booked in current assets

Receivables are stated at their estimated realizable value.

Inventories

Inventories include consumables, buildings areas, properties to be renovated, properties under construction or renovation, properties completed and held for sale, trading properties, contract work in progress and advances.

Consumables are valued at the lower of cost and market value at year end.

Buildings areas is stated at the lower of purchase cost and the corresponding realizable value. The cost is increased by incremental expenses and by the interest actually charged to the period from the date of purchase to the onset of building activities.

Properties under construction and/or renovation, which are covered by preliminary sale agreements, are recorded taking into account the commission margin accrued. This margin is quantified in proportion to compensations agreed upon calculated on a a work-in-progress basis, which is determined by relating the accumulated costs at year-end to the costs estimated for the completion of the project.

In the absence of a preliminary sales agreement, properties under construction and/or renovation are valued at the lower of cost plus incremental and interest expenses and the corresponding realizable value.

Trading properties are valued at the lower of cost and market value, calculated with reference to recent transactions for similar properties in terms of area and type. The purchase cost includes any pre-sale incremental expenses.

Work-in-progress is valued on the basis of the compensation agreed upon in relation to the project advancement.

Any losses are fully charged in the period in which they become known.

Any requests for additional advances due to greater costs incurred for the construction of University buildings are included in inventories, on the basis of a prudential estimate.

Penalties for late-delivery of property are accrued if such delays are attributable to the contractor and not the principal.

Advances are paid upfront to suppliers for the performance of work or purchase of goods.

Securities not classified as fixed assets

They are stated at the lower of cost and market value which, in the case of unlisted securities, is assumed to be the presumed realizable value computed by comparing the same with similar listed securities and, if not available, by evaluating the net shareholders’ equity of the issuing company.

Cash and banks

Cash and banks are stated at their nominal value.

Accruals and deferrals

They are calculated on the principle of economic competence and accrual in application of the correlation principal for costs and revenues for the period.

Provisions for risks and charges

The provisions include the accruals for identified losses and liabilities that are not associated with specific asset items. Such losses and liabilities are certain or likely to be incurred but their amount and timing are not known at the closure of the financial statements.

These entry includes adjustments for permanent losses in value of equity participations in excess of the book value of the investments valued at cost or with the net equity method or on amounts or to cover risks on guarantees given on behalf of third parties.

Requests by contractors for additional compensation are valued on a prudential basis.

Provision for employees' leaving indemnity

The provision for employees' leaving indemnity is calculated for each single employee on the basis of lenght of services and collective national labor contracts in accordance with laws.

Payables

Payables are stated at their nominal value.

Purchase options – Derivative contracts

Commitments concerning purchase options, assimilable to derivative contracts, are booked under "other payables" and valued using appropriate mathematical models. If additional charges emerge as a result of updating the model of the balance sheet date, the payable is increased by the corresponding amount; conversely, if the model produces a valuation with lower charges, the value of the liability is left unchanged for prudential reasons.

Commitments and guarantees

Commitments and guarantees are posted in the in the memorandum accounts at either their contractual and/or face value, net of any amounts already booked as liabilities.

Recognition of costs and revenues

Costs and revenues are recorded in the financial statements in accordance with the principles of prudence and accruals-based accounting.

Revenues from the sale of properties are recognized at the time of the notarized deed of title is transferred.

Revenues from the performance of services are recognized with the principles of accruals-based accounting.

Income taxes

Current income tax liabilities are calculated by each consolidated company on the basis of a realistic estimate of the tax due under current tax legislation.

Deferred tax and advance taxation are calculated on the temporary timing differences between the value of the assets and liabilities in the balance sheet and the fiscal value of the same.

Advance taxation is recorded only when it is reasonably the amounts will be recovered against future taxable income.

Advance taxation are not recorded if there is any uncertainty as to when they will reverse.

Deferred taxes are calculated using current tax rates and recorded in the provision for income taxes and classified under "Provisions for liabilities and expenses".

Transaction in foreign currency

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction. Regarding year-end payables and receivables in foreign currency, the overall net translation differences resulting form year-end currency translations is recorded, for medium and long-term transactions only if they are negative, and if either positive or negative in the case of short-term transactions.

Translation of financial statements of consolidated foreign companies

The financial statements of companies expressed in currencies other than the euro have been translated at year-end rates for the balance sheet and at average annual exchange rates for the income statement.

Waivers under article 2423 of the Italian Civil Code

The financial statements contain no waivers provided for by article 2423 of the Italian Civil Code, nor are there any balance sheet items for which exceptions have been made in the past.

Other information

For the purpose of additional disclosure, these notes include the "Consolidated statement of cash flows" and the "Reconciliation between the net income and the shareholders' equity of the parent company and the corresponding consolidated figures".

In relation to the merger by incorporation of Pirelli S.p.A. into by Pirelli & C. A.p.A. (which changed the company name to Pirelli & C. S.p.A.) of August 4th, 2003, backdated to January 1st, 2003 for accounting purposes, the notes include relations with companies in the Pirelli & C. S.p.A. Group which in the previous financial statements were recorded separately as pertaining to either Pirelli S.p.A. Group and Pirelli & C. A.p.A. Group. In the present financial statements the items are reclassified in one single item.

NOTES TO THE BALANCE SHEET

All amounts are expressed in thousand of euro, unless otherwise indicated.

ASSETS

B. FIXED ASSETS

B I. Intangible assets

The caption includes the following charges benefiting future periods:

	12.31.2003	12.31.2002
Start-up and capital costs	10,750	7,844
Licenses, trademarks and similar rights	22,060	5,496
Goodwill	31,950	22,869
Difference on consolidation	18,125	8,224
Assets under development and payments on account	1,166	3,537
Other intangible assets	7,050	2,797
Total	**91,101**	**50,767**

Changes in intangible assets are shown in the following table:

	12.31.2002	Change in consol. area	Reclass.	Increase	Decrease	Amort.	12.31.2003
Start-up and capital costs	7,844	12	1,498	3,624	–	(2,228)	10,750
Licenses, trademarks and similar rights	5,496	–	409	20,081	(7)	(3,919)	22,060
Goodwill	22,869	43	–	13,245	–	(4,207)	31,950
Difference on consolidation	8,224	–	–	13,434	(1,497)	(2,036)	18,125
Assets under development and payments on account	3,537	–	(3,267)	896	–	–	1,166
Other intangible assets	2,797	315	1,360	4,771	(13)	(2,180)	7,050
Total	**50,767**	**370**	**–**	**56,051**	**(1,517)**	**(14,570)**	**91,101**

1. Start-up and capital costs

Start-up and capital costs refer to expenses incurred for share capital increase, capital injections, mergers, spin-off, the launch of new project and for the listing of the parent company on the Stock Market.

The increase is mainly due to start-up costs for the franchising network.

The Stock Market listing costs are being amortized on a straight-line over 5 years starting from July 2002 and, as of December 31st, 2003, amounted to 5,991 thousand euro.

4. Licenses, trademarks and similar rights

The caption mainly includes costs incurred for software applications, usually being amortized in 3 years.

The euro 18,854 thousand increase during the year is due to capitalization of costs incurred for providing infrastructure for car parks P7 and P9 in the Bicocca area; the subsidiary Parcheggi Bicocca S.r.l. obtained a management license until July 2032 from the City of Milan. The relating costs are being amortized over the duration of the concession.

5. Goodwill

The breakdown of the caption is as follows:

	12.31.2002	Change in consol. area	Reclass.	Increase	Amort.	12.31.2003
Altair Building Services S.r.l.	426	–	(426)	–	–	–
P&C. R.E. Agency S.p.A. (ex-P&C. R.E. Agenzia Residenziale S.p.A.)	1,122	–	–	–	(560)	562
P&C. R.E. Agency S.p.A.	1,973	–	–	–	(200)	1,773
P&C. R.E. Facility Management S.p.A.	635	43	426	13,245	(1,541)	12,808
P&C. R.E. Project Management S.p.A.	6,124	–	–	–	(624)	5,500
P&C. R.E. Property Management S.p.A.	12,589	–	–	–	(1,282)	11,307
Total	**22,869**	**43**	**–**	**13,245**	**(4,207)**	**31,950**

The goodwill booked in the financial statements of Altair Building Services S.r.l. as of December 31st, 2002 has been allocated to Pirelli & C. Real Estate Facility Management S.p.A. following the merger of Altair Building Services S.r.l. into Pirelli & C. Real Estate Facility Management S.p.A. which became effective since January 1st, 2003, for fiscal and accounting purposes.

The breakdown of the increase in goodwill recorded by Pirelli & C. Real Estate Facility Management S.p.A. is as follows: 12,744 thousand euro concerns goodwill on the acquisition of the facility management branch of RAS from Aida S.r.l., on January 31st, 2003 and 501 thousand euro concerns goodwill on the merger with Altair Building Services S.r.l. as of May 23rd, 2003.

Change in consolidation area, which amounts to 43 thousand euro, concerns goodwill recorded in the financial statements of OMS Facility S.r.l., acquired in 2003 and merged into Pirelli & C. Real Estate Facility Management S.p.A., as described in detail below.

6. Difference on consolidation

The difference on consolidation concerns the positive difference, not allocated to other assets in the financial statements of subsidiaries, between the carrying value of the equity participations and net shareholders' equity of consolidated companies at their date of acquisition.

The caption, which amounted to 18,125 thousand euro as of December 31st, 2003 and to 8,224 thousand euro as of December 31st, 2002, includes 2,036 thousand euro for amortization and 13,434 thousand euro for increases. The breakdown is as follows:

	Changes in gross value				Accumulated amortization				Net book value	
	12.31.02	Increase	Decrease	12.31.03	12.31.02	Amort.	Decrease	12.31.03	12.31.03	12.31.02
Agied S.r.l.	1,871	–	(1,871)	–	(187)	(187)	374	–	–	1,684
Edilnord Progetti S.p.A.	621	–	–	621	(62)	(62)	–	(124)	497	559
P&C. R.E. Facility Man. S.p.A.	2,264	–	–	2,264	(170)	(226)	–	(396)	1,868	2,094
P&C. R.E. Facility Man. S.p.A. (ex-OMS)	–	11,487	–	11,487	–	(862)	–	(862)	10,625	–
P&C. R.E. S.G.R. S.p.A.	–	1,947	–	1,947	–	(97)	–	(97)	1,850	–
P&C. R.E. Property Man. S.p.A. (ex-Cagisa S.p.A.)	1,555	–	–	1,555	(622)	(156)	–	(778)	777	933
P&C. R.E. Property Man. S.p.A.	1,921	–	–	1,921	(48)	(192)	–	(240)	1,681	1,873
P&C. R.E. Servizi di Rete S.p.A.	531	–	–	531	(53)	(53)	–	(106)	425	478
P&C. R.E. Agency S.p.A. (ex-Progetti Creativi S.r.l.)	1,004	–	–	1,004	(401)	(201)	–	(602)	402	603
Total	**9,767**	**13,434**	**(1,871)**	**21,330**	**(1,543)**	**(2,036)**	**374**	**(3,205)**	**18,125**	**8,224**

The increases during the year concern the following transactions:

- Pirelli & C. Real Estate Facility Management S.p.A. (former OMS Facility S.r.l.): the difference on consolidation was generated following the first-time consolidation of the equity participation in OMS Facility S.r.l.; the company included the facility management activities pertaining to the Olivetti Group.

  This equity participation was acquired by Pirelli & C. Real Estate S.p.A. on April 4th, 2003 through a contract of exchange with Olivetti S.p.A.. Under this contract, Pirelli & C. Real Estate S.p.A. transferred no. 812,086 of its treasury shares against the acquisition of the entire share capital of OMS Facility S.r.l.. The number of these shares was determined on the basis of a provisional exchange ratio derived from the valuation of the economic capital of OMS Facility S.r.l. and Pirelli & C. Real Estate S.p.A..

These appraisals were drawn up by independent experts who established that no. 809,946 of its treasury share were to be transferred. This amount was subsequently integrated with a further no. 2,140 shares, as a balancing calculated on the basis of the consolidated financial statement of OMS Facility S.r.l. and Pirelli & C. Real Estate as of March 31st, 2003.

Regarding treasury shares transferred, Pirelli & C. Real Estate S.p.A. was subject to provide Olivetti S.p.A. with a partial indemnity against the future performance of Pirelli & C. Real Estate S.p.A. share, by paying an amount to be determined on December 31st, 2005 in accordance with contractually agreed procedures. Any charges arising from this contractual commitment are booked under “Other payables”, to which reference should be made.

The equity partecipation in OMS Facility S.r.l. was subsequently transferred to Pirelli & C. Real Estate Facility Management S.p.A., and incorporated by way of merger as of July 24th, 2003;

- Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., was purchased on July 21st, 2003, in order to manage the real estate funds as of 2004.

Following the mergers which took place during the year, previously detailed in the section describing the business of Group companies, the differences on consolidation relating to Cagisa S.p.A. and Progetti Creativi S.r.l. have been charged to the respective incorporating companies.

The equity participation in Agied S.r.l. was sold to third parties in December 2003.

The difference on consolidation is amortized over a period in line with the potential profitability of the respective subsidiaries. The amortisation period has been estimated in 10 for the following companies: Pirelli & C. Real Estate Property Management S.p.A. (ex-Cagisa S.p.A.), Pirelli & C. Real Estate Facility Management S.p.A., Edilnord Progetti S.p.A., Pirelli & C. Real Estate Services di ReteS.p.A., Pirelli & C. Real Estate Facility Management (former OMS Facility S.r.l.) and Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. in relation to the estimated economic returns on these equity partecipations. All other companies are being amortized over a five year period.

7. Assets under development and payments on account

Costs relating to projects completed during the year are reclassified to the related captions and amortized accordingly.

Assets under development as of December 31st, 2003, mostly refer to the development of an integrated management system for associated companies in the franchising network (208 thousand euro), and costs incurred for implementing new computerized reporting systems (887 thousand euro).

8. Other intangible assets

Other intangible fixed assets include tax charges relating to registration taxes and improvements to third-party premises. The caption also includes costs incurred by Casaclick S.p.A. for the design of internet site and the related software.

Change in consolidation area reflects the combined effect caused by the exit of Agied from the consolidation perimeter, following the assignment of the company to third parties, and the entrance of OMS Facility S.r.l. and E.S.T. Erogazione Servizi e Tecnologie S.p.A.; the companies were merged by incorporation into Pirelli & C. Real Estate Facility Management S.p.A. during 2003.

The increase during the year includes the following: 2,108 thousand euro for improvements to the leasehold premises in the Bicocca area in Milan, the new Group head office, operational of August 1st, 2003, and 1,915 thousand euro for substitute tax related the freing-up of the merger deficits involving Pirelli & C. Real Estate Facility Management S.p.A., described above.

B II. Property, plant and equipment

The caption net of accumulated depreciation amounts to 18,461 thousand euro as of December 31st, 2003, and to 6,079 thousand euro as of December 31st, 2002; the breakdown is shown as follows:

	12.31.2003			12.31.2002		
	Gross value	Amortization fund	Net value	Gross value	Amortization fund	Net value
Land and buildings	3,030	(161)	2,869	105	(57)	48
Plant and machinery	8,266	(1,187)	7,079	1,143	(532)	611
Production and commercial equipment	695	(413)	282	–	–	–
Other assets:	16,569	(9,184)	7,385	11,230	(5,810)	5,420
– *vehicles*	*3,575*	*(1,422)*	*2,153*	*2,189*	*(911)*	*1,278*
– *office equipment*	*8,534*	*(5,866)*	*2,668*	*5,396*	*(3,695)*	*1,701*
– *furniture and fittings*	*4,460*	*(1,896)*	*2,564*	*3,645*	*(1,204)*	*2,441*
Asset under construction and payments on account	846	–	846	–	–	–
Total	**29,406**	**(10,945)**	**18,461**	**12,478**	**(6,399)**	**6,079**

The table below shows the changes in historic costs and depreciation fund for the period:

	Changes in gross value					
	12.31.2002	Change in consol. area	Reclass.	Extraord. transac-tions and increases	Decrease	12.31.2003
Land and buildings	105	885	2,040	–	–	3,030
Plant and machinery	1,143	606	6,356	168	(7)	8,266
Production and commercial equipment	–	99	421	175	–	695
Other assets:	11,230	2,950	(334)	3,289	(566)	16,569
– *vehicles*	*2,189*	*115*	*87*	*1,602*	*(418)*	*3,575*
– *office equipment*	*5,396*	*2,835*	*(542)*	*860*	*(15)*	*8,534*
– *furniture and fittings*	*3,645*	*–*	*121*	*827*	*(133)*	*4,460*
Assets under construction and payment on account	–	8,499	(8,483)	830	–	846
Total	**12,478**	**13,039**	**–**	**4,462**	**(573)**	**29,406**

	Changes in amortization fund					
	12.31.2002	Change in consol. area	Reclass.	Deprec.	Decrease	12.31.2003
Land and buildings	(57)	(103)	51	(52)	–	(161)
Plant and machinery	(532)	(65)	–	(595)	5	(1,187)
Production and commercial equipment	–	(7)	(343)	(63)	–	(413)
Other assets:	(5,810)	(1,145)	292	(2,760)	239	(9,184)
– *vehicles*	*(911)*	*(89)*	*(21)*	*(619)*	*218*	*(1,422)*
– *office equipment*	*(3,695)*	*(1,030)*	*372*	*(1,522)*	*9*	*(5,866)*
– *furniture and fittings*	*(1,204)*	*(26)*	*(59)*	*(619)*	*12*	*(1,896)*
Total	**(6,399)**	**(1,320)**	**–**	**(3,470)**	**244**	**(10,945)**

Change in consolidation area is due to the companies which were consolidated with the line-by-line method for the first time in 2003, in particular to OMS Facility S.r.l. and E.S.T. Erogazioni e Servizi e Tecnologie S.p.A..

Investments made during the period mostly include the purchase of vehicles, fittings and new IT equipment, mainly for the new head office in Milan.

Ordinary depreciation is calculated using rates representing the estimated useful lives of the single assets.

	Depreciation rate
Plant and machinery	20%
Production and commercial equipment	20%
Other assets:	
– vehicles	25%
– office equipment	20% - 50%
– furniture and fittings	12%

B III. Financial assets

1. Equity participations

These have increased from 110,791 thousand euro as of December 31st, 2002 to 151,445 thousand euro as of December 31st, 2003; the breakdown is as follows:

	2003	2002
Opening balance	**110,791**	**57,071**
Change in consolidation area	2,897	(182)
Acquisitions/changes in share capital and reserves	37,083	55,726
Distribution of dividends/reserves	(62,053)	(40,737)
Disposals	(4,238)	(20,960)
Equity results	66,978	60,067
Other	(13)	(194)
Year end balance	**151,445**	**110,791**

A description of the activities and main events in 2003 involving companies valued using the Net equity method is contained in the introduction to these notes, in the section concerning the consolidation area.

The breakdown of the changes in equity participations is detailed below:

	12.31.2002	Change in consol. area	Acquisitions changes in share capital and reserves	Reclassif.	Dividends/ reserves distribution	Disposals	Share of earnings or losses	Provisions for risks		12.31.2003
								Constitu-tion	Utilization	
Equity participations in Subsidiary companies										
Alfa Due S.r.l.	–	2,744	100	–	–	–	(362)	–	–	2,482
LSF Italian Finance Company S.p.A.	100	–	(96)	(4)	–	–	–	–	–	–
Newco Re 1 S.r.l.	–	–	30	–	–	–	–	–	–	30
Newco Re 2 S.r.l.	–	–	10	–	–	–	–	–	–	10
Newco Re 3 S.r.l.	–	–	10	–	–	–	–	–	–	10
Newco Re 4 S.r.l.	–	–	10	–	–	–	–	–	–	10
Parcheggi Bicocca S.r.l.	64	(64)	–	–	–	–	–	–	–	–
Pirelli & C. Real Estate Ltd	100	–	–	–	–	–	–	–	–	100
Progetto Grande Bicocca Multisala S.r.l.	–	–	2,669	307	–	–	(1,096)	–	–	1,880
Tintoretto S.r.l.	55	(55)	–	–	–	–	–	–	–	–
Verdi S.r.l.	130	–	–	(130)	–	–	–	–	–	–
Total	**449**	**2,625**	**2,733**	**173**	**–**	**–**	**(1,458)**	**–**	**–**	**4,522**
Equity participations in Associated companies										
Altair Zander Italia S.r.l.	–	–	–	–	–	–	41	–	(15)	26
Aree Urbane S.r.l. (formerly Ortensia S.r.l.)	1,272	–	1,562	–	–	–	(104)	–	–	2,730
Auriga Immobiliare S.r.l.	23,818	–	–	(7,576)	(16,242)	–	–	–	–	–
Bernini Immobiliare S.r.l.	1,061	–	–	–	–	–	707	–	–	1,768
Beta S.r.l.	42	–	–	–	–	(3)	(75)	36	–	–
CFT Finanziaria S.p.A.	15,915	–	–	–	(3,380)	–	398	–	–	12,933
Consorzio Italiano Facility Management	–	–	49	–	–	–	–	–	–	49
Continuum S.r.l.	–	–	4.633	–	–	(926)	(74)	–	–	3.633
Delta S.p.A.	59	–	–	–	–	–	2.109	–	–	2.168
Dixia S.r.l.	6,780	–	11	–	–	–	(349)	–	–	6,442
Domogest S.r.l.	1,006	–	14	–	(400)	–	968	–	–	1,588
Elle Nove S.c.a.r.l.	35	–	–	–	–	–	–	–	–	35
Elle Tre S.c.a.r.l.	–	40	–	–	–	–	–	–	–	40
Elle Dieci S.c.a.r.l.	–	40	–	–	–	–	–	–	–	40
Esedra S.r.l.	–	–	832	–	–	–	1,792	–	–	2,624
FIM- Fabbrica Italiana di Mediazione S.r.l.	–	–	1,202	–	–	–	(15)	–	–	1,187
Geolidro S.r.l.	–	–	2,115	–	–	–	118	–	–	2,233
Holdim S.r.l.	–	(5)	336	–	–	–	–	–	–	331
Immobiliare Prizia S.r.l.	4,230	–	7	–	–	–	44	–	–	4,281
IN Holdings I S.a.r.l.	2,352	–	481	–	–	–	3,662	–	–	6,495
Induxia S.r.l.	2,576	–	158	–	–	–	(225)	–	–	2,509
Inimm Due S.a.r.l.	2,040	–	–	–	–	–	1,057	–	–	3,097
Iniziative Immobiliari S.r.l.	4,929	–	9,665	(11,518)	(3,076)	–	–	–	–	–
Iniziative Immobiliari S.r.l. (new company)	–	–	–	19,094	–	–	17,495	–	–	36,589
LSF Italian Finance Company S.p.A.	–	–	–	4	–	–	–	–	–	4
Localto S.p.A.	–	–	5,217	–	–	(3,303)	(217)	–	–	1,697
Masseto I B.V.	5,092	–	51	–	–	–	9,768	–	–	14,911
M.S.M.C. Italy Holding B.V.	23,089	–	–	–	(38,862)	–	27,413	–	–	11,640

	12.31.2002	Change in consol. area	Acquisitions changes in share capital and reserves	Reclassif.	Dividends/ reserves distribution	Disposals	Share of earnings or losses	Provisions for risks		12.31.2003
								Constitu-tion	Utilization	
M.S.M.C. Solferino S.a.r.l.	245	–	–	–	–	–	1,975	–	–	2,220
Moncalieri Center S.r.l.	–	–	302	–	–	–	(25)	–	–	277
Orione Immobiliare Prima S.p.A.	52	–	475	–	–	–	348	–	–	875
P.B. La Piazza S.r.l.	616	–	–	–	–	–	(16)	–	–	600
Popoy Holding B.V.	2,757	–	6,008	–	–	–	2,684	–	–	11,449
Progetto Corsico S.r.l.	46	–	157	–	–	–	(181)	–	–	22
Progetto Fontana S.r.l.	–	–	230	–	–	–	(79)	–	(34)	117
Progetto Gioberti S.r.l.	21	–	229	–	–	–	(48)	–	–	202
Progetto Grande Bicocca Multisala S.r.l.	307	–	–	(307)	–	–	–	–	–	–
Progetto Lainate S.r.l.	111	–	230	–	–	–	(34)	–	–	307
Regus Business Centres Italia S.p.A.	548	–	–	–	–	–	(174)	–	–	374
Sci Roev Texas Partners L.P.	2,572	–	–	–	(93)	–	37	–	–	2,516
Spazio Industriale B.V.	180	–	–	–	–	–	(9)	–	–	171
Trixia S.r.l.	7,172	–	11	–	–	–	(184)	–	–	6,999
Verdi S.r.l.	–	–	364	130	–	–	(371)	–	–	123
Vindex S.r.l.	–	–	6	–	–	(4)	–	–	–	2
Total	**108,923**	**75**	**34,345**	**(173)**	**(62,053)**	**(4,236)**	**68,436**	**36**	**(49)**	**145,304**
Equity participations in Other companies										
Ceat	1	–	–	–	–	–	–	–	–	1
C.I.S.I. S.p.A.	–	208	–	–	–	–	–	–	–	208
Consorzio Census	17	(17)	–	–	–	–	–	–	–	–
Consorzio Eubeo	–	–	–	–	–	–	–	–	–	–
Consorzio GSPA	16	–	–	–	–	–	–	–	–	16
Consorzio CIS-E	–	–	4	–	–	–	–	–	–	4
Consorzio Ingegneria Partenopea	–	5	–	–	–	–	–	–	–	5
Efi Banca	560	–	–	–	–	–	–	–	–	560
Gestione Beni Stabili	–	–	–	–	–	–	–	–	–	–
I.G.E.I. S.p.A. (in liquidation)	744	–	–	–	–	–	–	–	–	744
Istambul Rea AS	10	–	–	–	–	–	–	–	–	10
Rita S.r.l.	66	–	–	–	–	–	–	–	–	66
Servizi Aziendali Pirelli S.c.p.a.	3	–	–	–	–	–	–	–	–	3
S.F.C. S.c.p.A.	–	1	–	–	–	–	–	–	–	1
S.I.F. Southern Italian Finance S.r.l.	1	–	1	–	–	(2)	–	–	–	–
Svi Lombardia S.p.A.	–	–	–	–	–	–	–	–	–	–
Tecnocittà S.r.l. (in liquidation)	–	–	–	–	–	–	–	–	–	–
Tirrena Assicurazioni	1	–	–	–	–	–	–	–	–	1
Total	**1.419**	**197**	**5**	**–**	**–**	**(2)**	**–**	**–**	**–**	**1.619**
Total equity participations	**110,791**	**2,897**	**37,083**	**–**	**(62,053)**	**(4,238)**	**66,978**	**36**	**(49)**	**151,445**

Equity participation in subsidiaries companies

As stated above, during the period under review *Alfa Due S.r.l.* transferred the company division and business relating to the development of a multi-screen cinema in Moncalieri (Turin) to the subsidiary *Moncalieri Center S.r.l.; Moncalieri Center S.r.l.* is a newly-formed subsidiary; whose 75% of share capital on September 30th, 2003, was sold to PI Europe S.a.r.l. and the residual 25% was sold to Pirelli & C. Real Estate S.p.A..

LSF Italian Finance Company S.r.l. was dormant in 2002; on December 19th, 2003, a 67% of equity participation was transferred to third parties; consequently the participation has been reclassified in associated companies and valued with the net equity method.

The companies *Newco Re 1 S.r.l*., *Newco Re 2 S.r.l*., *Newco Re 3 S.r.l*. and *Newco Re 4 S.r.l*. were constituted at the end of 2003 and are not yet operational.

Parcheggi Bicocca S.r.l. (owned at 75%) is consolidated with line-by-line method and became operational in 2003.

Pirelli & C. Real Estate S.p.A. acquired 67% of share capital *Progetto Grande Bicocca Multisala S.r.l.* on April 8th, 2003, the sole shareholder. As a result of this acquisition this equity participation has been reclassified from equity participation in associated companies to equity participation in subsidiaries.

Tintoretto S.r.l. is consolidated line-by-line method since the Group continued to hold a controlling stake in this company throughout the year.

Pirelli & C. Real Estate S.p.A. sold a 56.26% of the share capital in *Verdi S.r.l.* to third parties on February 26th, 2003. As a result of this disposal, the residual stake held by Pirelli & C. Real Estate S.p.A. amounts to 43.74% meaning that at December 31st, 2003, the company was consolidated with the net equity method and reclassified to equity partecipation in associated companies.

Equity participation in associated companies

The partial spin-off of Tiglio I S.r.l. and Tiglio II S.r.l. to *Aree Urbane S.r.l. (former Ortensia S.r.l.)* was completed on July 25th, 2003; consequently the stake held directly by Pirelli & C. Real Estate S.p.A. decreased from 20% to 6.5%.

In the meantime, Popoy Holding B.V. sold the entire stake, amounting to 10.75%, in Aree Urbane S.r.l. to Pirelli & C. Real Estate S.p.A. and Marzotto S.p.A., which respectively acquired 4.25% and 6.5% of the company share capital. As a result, Pirelli & C. Real Estate S.p.A. now holds an overall interest of 16.71% in this company, also taking account of the 23.84% stake indirectly held through M.S.M.C. Italy Holding B.V..

On April 30th, 2003, the shareholders of *Auriga Immobiliare S.r.l.* resolved to distribute dividends for 27 million euro, distributed in May, and 18 million euro on December 18th, 2003; the payment of dividends reduced the equity participation held by Pirelli & C. Real Estate S.p.A. by 16,242 thousand euro. As stated, on December 29th, 2003 *Iniziative Immobiliari S.r.l*. and *Auriga Immobiliare S.r.l.* merged into the newly-established company *Iniziative Immobiliari S.r.l.*.

Partecipazioni Real Estate S.p.A. sold a 2% interest in *Beta S.r.l.* to third parties on March 4th, 2003.

During the year under review, the shareholders of *C.F.T. Finanziaria S.p.A.* resolved to distribute dividends for 7,195 thousand euro.

The company *Continuum S.r.l.* was constituted on December 16th, 2003. Pirelli & C. Real Estate S.p.A. holds 50% of share capital and 50% are owned by third parties. On December 22nd, 2003, Pirelli & C. Real Estate S.p.A. sold 10% stake of the share capital to third parties.

The shareholders' meeting of *Domogest S.r.l.* resolved to distribute dividends for euro 800 thousand on June 10th, 2003 of which 400 thousand euro of the shareholder Centrale Immobiliare S.p.A..

Elle Tre S.c.a.r.l. and *Elle Dieci S.c.a.r.l.* were valued using the net equity method as of October 1st, 2003 following the sale to third parties of Agied S.r.l., shareholder of both companies.

Esedra S.r.l. was constituted on November 11; Pirelli & C. Real Estate held 35% share capital and the remaining 65% was held by third parties.

Pirelli & C. Real Estate Agency S.p.A. acquired a 33% stake in the share capital in *FIM - Fabbrica Italiana di Mediazione S.r.l.* on September 22nd, 2003.

Centrale Immobiliare S.p.A. acquired a 49% stake in the share capital of *Geolidro S.p.A.* on March 14th, 2003.

As a result of the share capital increase resolved by *Holdim S.r.l.*, partially subscribed by third parties, the stake held by Pirelli & C. Real Estate S.p.A. decreased from 100% to 30%; therefore, only the income statement of the subsidiary was consolidated with the line-by-line method in the financial statements until the date of the stake decrease. The participation has therefore been reclassified as an equity participation in associated companies.

The shareholders' meeting of *Iniziative Immobiliari S.r.l*. resolved to distribute dividends amounting to 8 million euro on Arpril 8th, 2003 of which 3,076 thousand euro pertain to the Pirelli & C. Real Estate Group; the dividends were duly distributed in June. As stated previously, following the merger with *Auriga Immobliare S.r.l.*, a new company called *Iniziative Immobiliari S.r.l.* was established in December 2003.

In April 2003, Partecipazioni Real Estate S.p.A. purchased 100% of *Localto S.p.A*. from Pirelli & C. S.p.A. becoming the sole shareholder. Partecipazioni Real Estate S.p.A. sold a 65% of share capital in Localto S.p.A. to Citigroup Financial Products Inc. on June 19th, 2003.

M.S.M.C. Italy Holding B.V. distributed dividends amounting to 38,862 thousand to Pirelli & C. Real Estate S.p.A. in June and December 2003. The distributed amount includes 15,033 thousand euro for preferred shares held by Pirelli & C. Real Estate S.p.A.. Preferred shares entail an additional dividend linked to the financial performance of the portfolios held by the companies in which the associated company holds shares.

On February 17th, 2003, Pirelli & C. Real Estate S.p.A. purchased 6% of share capital of *Orione Immobiliare Prima S.p.A.* (in addition to a preceding 29% stake) held by the related party Gruppo Partecipazioni Industriali S.p.A. and by FGF Immobiliare S.r.l..

The increase in the value of the *Popoy Holding B.V.* equity partecipation is due to positive results for the year and to the payment of capital by Pirelli & C. Real Estate S.p.A. to finance the company's commitments concerning equity participations realized during the year, as described above in the notes relating to the consolidation area.

Equity participations in other companies

Pirelli & C. Real Estate Facility Management S.p.A. has a 15% interest in *Consorzio GSPA*.

Agied S.r.l. had a stake in the share capital of *Consorzio Census*; the stake in Agied S.r.l. was sold to third parties in 2003.

Pirelli & C. Real Estate Facility Management S.p.A. holds the equity participations detailed below following the merger by incorporation with *OMS Facility S.r.l.* and *E.S.T. Erogazione Servizi e Tecnologie S.p.A.* in 2003:

- 8% of the share capital in CISI S.p.A.;
- 0.22% of the share capital in SFC S.c.p.A.;

- 7.69% of the share capital in Consorzio Ingegneria Partenopea S.c.r.l.;
- 3.58% of the share capital in Consorzio Eubeo S.c.r.l..

2. *Financial receivables*

The caption amounts to 219,556 thousand euro as of December 31st, 2003, and amounted to 176,315 thousand euro as of December 31st, 2002; the breakdown is as follows:

	12.31.2003	12.31.2002
Receivables from subsidiary companies (beyond 1 year)	–	9.092
Receivables from associated companies (beyond 1 year)	194,805	142,801
Receivables from related companies (beyond 1 year)	19,709	23,104
Receivables from others	5,042	1,318
Total	**219,556**	**176,315**

The changes in financial receivables due from associated and related companies are detailed below:

	12.31.2002	Reclass.	Increase	Decrease	12.31.2003
Receivables from subsidiary companies (beyond 1 year)					
Verdi S.r.l.	9,092	(9,092)	–	–	–
Progetto Grande Bicocca Multisala S.r.l.	–	5,127	9,682	(14,809)	–
Total	**9,092**	**(3,965)**	**9,682**	**(14,809)**	**–**
Receivables from associated companies (beyond 1 year)					
Aree Urbane S.r.l.	–	–	2,056	–	2,056
Continuum S.r.l.	–	–	11,588	–	11,588
Delta S.p.A.	1,515	–	838	(2,353)	–
Domogest S.r.l.	2,246	–	99	–	2,345
Esedra S.r.l.	–	–	3,344	–	3,344
Geolidro S.p.A.	–	–	3,021	–	3,021
IN Holdings I S.a.r.l.	27	–	–	–	27
Induxia S.r.l.	–	–	313	–	313
Inimm Due S.a.r.l.	2,059	–	92	(2,151)	–
Iniziative Immobiliari S.r.l.	18,633	(166)	422	(18,889)	–
Iniziative Immobiliari S.r.l. (new company)	–	166	–	–	166
LSF Italian Finance Company S.r.l.	–	–	5,221	–	5,221
Localto S.p.A.	–	–	39,827	–	39,827
M.S.M.C. Italy Holding B.V.	24,135	–	1,266	–	25,401
M.S.M.C. Solferino S.a.r.l.	2,645	–	157	(2,802)	–
Masseto I B.V.	42,699	73	2,033	(18,541)	26,264
Moncalieri Center S.r.l.	–	–	7,945	–	7,945
Orione Immobiliare Prima S.r.l.	15,797	–	10,794	(9,597)	16,994
Popoy Holding B.V.	8,341	377	26,787	(10,596)	24,909
Progetto Bicocca La Piazza S.r.l.	6,440	–	–	–	6,440
Progetto Corsico S.r.l.	1,683	–	1,084	(637)	2,130
Progetto Fontana S.r.l.	753	–	65	(230)	588
Progetto Gioberti S.r.l.	1,168	–	409	(229)	1,348

	12.31.2002	Reclass.	Increase	Decrease	12.31.2003
Progetto Grande Bicocca Multisala S.r.l.	5,127	(5,127)	–	–	–
Progetto Lainate S.r.l.	7,020	–	1,854	(760)	8,114
Regus Business Centres Italia S.p.A.	627	–	28	(32)	623
Sci Roev Texas Partners L.P.	848	–	13	(147)	714
Spazio Industriale B.V.	1,038	–	2,520	–	3,558
Verdi S.r.l.	–	9,092	1,563	(8,786)	1,869
Total	**142,801**	**4,415**	**123,339**	**(75,750)**	**194,805**
Receivables from related companies (beyond 1 year)					
Dolcetto S.r.l.	–	–	37,282	(37,282)	–
Masseto II B.V.	13,826	24	674	(5,752)	8,772
Iniziative Retail S.r.l. (formerly Iniziative Negozi S.r.l.)	8,562	–	590	(2,626)	6,526
Robino Holding Amsterdam B.V.	85	126	4,200	–	4,411
M.S.M.C. Immobiliare 4 S.r.l.	600	(600)	–	–	–
Tiglio I S.r.l.	31	–	–	(31)	–
Total	**23,104**	**(450)**	**42,746**	**(45,691)**	**19,709**
Total Financial Receivables	**174,997**	**–**	**175,767**	**(136,250)**	**214,514**

The repayment of financial receivables due from associated and other Group companies is linked to the disposal plan of real estate assets owned directly or indirectly by these companies.

Given that the disposal plan extend over a period between 2 and 5 years, such financial receivables have been classified as due beyond one year.

These financial receivables are at market conditions, except for several companies either dormant or in a transition phase of which 12,218 thousand euro in interest-free loans were issued as of December 31st, 2003 compared to 10,126 thousand euro as of December 31st, 2002.

The receivable due from Sci Roev Texas Partners L.P. consists of a foreign currency loan of USD 800,000.

The breakdown of receivables from others is as follows:

	12.31.2003	12.31.2002
Receivables from others		
EEC funding	1,217	–
Tax advances under Law	558	552
Knight, Frank	42	42
Capital contributions	–	504
Other	3,225	220
Total	**5,042**	**1,318**

The receivables for EEC funding refer to IT projects for which the subsidiary P.I.T. S.c.r.l. has already received an EEC cash contribution, recorded under financial payables; the contribution will be finalized following the approval by EEC of the documents pertaining to the development of the investments for which financing was required; on receipt of approval, creditor and debtor positions will be closed.

Receivables from others include 2,295 thousand euro relating to the credit due following the sale of the stake in Agied S.r.l. of which 1,795 thousand euro due beyond one year.

3. Other securities classified as fixed assets

The breakdown is as follows:

	12.31.2003	12.31.2002
Progetto Grande Bicocca S.r.l. (former Progetto Bicocca Centro Tecnologico S.r.l.)	204	204
Pirelli & C. Real Estate Ltda	24	–
Partecipazioni Real Estate S.p.A.	–	4,000
P&C. R.E. Facility Management S.p.A.	12	12
Total	**240**	**4,216**

The securities as of December 31st, 2003 include 204 thousand euro in long term treasury bills falling due on February 1st, 2006, with a nominal value of 207 thousand euro held by Progetto Grande Bicocca S.r.l.

Securities held by Partecipazioni Real Estate S.p.A. as of December 31st, 2002 include class A senior bonds for 3,000 thousand euro and class B junior bonds for 1,000 thousand euro issued by S.I.F. S.p.A.. On October 17th, 2003, Partecipazioni Real Estate S.p.A. acquired from REIB the remaining 75% of the senior and junior bonds issued by the securitization company S.I.F. S.r.l. (the prior issuance included 25% of the total issue) for of 12.1 million euro. All senior and junior bonds were subsequently transferred to Localto S.p.A. against payment of 16.2 million euro, generating gross capital gains amounting to 309 thousand euro.

4. Treasury shares

As at December 31st, 2003 the Pirelli & C. Real Estate S.p.A. held no. 2,186,111 treasury shares with a par value of euro 0.50 each and recorded in the books at a total book value of euro 49,581 thousand; as of December 31st, 2002 the company held no. 2,154,720 treasury shares; with a total book value of 50,139 thousand euro.

The positive change for 31,391 shares recorded during 2003 is due to the combined effect of the decrease due to the transfer of no. 812,086 shares to Olivetti S.p.A. (now Telecom Italia S.p.A.) in exchange for equity participations in OMS Facility S.r.l., as described above, and to the buy-back of no. 843,477 treasury shares during the year.

The average book value of shares held as of December 31st, 2003 is euro 22.68 per share, compared to the average stock price of 24.98 euro recorded in the month of December and a price of 25.11 euro on December 30th, 2003.

As required by Art. 2357-ter of the Italian Civil Code, the company has set-up a restricted reserve for the same amount of the treasury shares owned.

C. CURRENT ASSETS

C I. Inventories

	12.31.2003	12.31.2002
Raw and ancillary materials and consumables	1,126	1,008
Land to be developed/Properties to be renovated	22,520	40,012
Properties under construction/renovation	66,603	134,205
Work in progress on orders	87,251	103,161
Trading properties held for sale	147,175	96,982
Advances	360	8,334
Total	**325,035**	**383,702**

1.a Raw and ancilliary materials and consumables

Raw and ancilliary materials and consumables amount to 1,126 thousand euro and include assorted materials, fuel and fuel used for maintenance work relating to facility management activities.

1.b Land to be developed/Properties to be renovated

Land to be developed/Properties to be renovated amount to 22,520 thousand euro (40,012 thousand euro as of December 31st, 2002); the assets are located in Milan in Viale Sarca (the former Ansaldo site owned by Progetto Grande Bicocca S.r.l.), Quinto Romano (owned by Pirelli & C. Real EstateS.p.A.), Pero-MolinoDorino (owned by Acquario S.r.l. — in liquidation), Vimercate (owned by Progetto Grande Bicocca S.r.l.) and Perugia (owned by Progetto Moncalieri S.r.l.).

The decrease recorded compared to the previous year is due to sales by Progetto Bicocca Esplanade S.p.A. and Progetto Salute Bollate S.r.l. during the period.

In particular, in May and June, the subsidiary Progetto Bicocca Esplanade S.p.A. sold industrial buildings sites located in Milan-Bicocca to the related companies Kappa S.r.l. and Spazio Industriale I S.r.l..

On June 30th, 2003 the subsidiary Progetto Salute Bollate S.r.l. sold to Investietico, a closed-end real estate partecipation fund, the property due to be used as a home for the elderly for a residential home in Bollate (Milan) for 10,400 thousand euro plus VAT.

2. Properties under construction/renovation

Properties under construction or renovation, amounting to 66,603 thousand euro (134,205 thousand euro as of December 31st, 2002), are located in the Bicocca area (Milan) owned by Lambda S.r.l. and Progetto Bicocca Esplanade S.p.A..

Compared to 2002, the decrease is mostly due to the conveyance from Lambda S.r.l. to Unicredit Funds of the building intended to house the new head office of Pirelli & C. Real Estate, booked in inventories for 35,884 thousand euro as of December 31st, 2002.

Further information on acquisitions and transfers during 2003, are contained in the notes to the income statement under “Revenues from sales of properties/land” and “Purchases of properties/land” and during the period.

3. *Work in progress orders*

Work in progress on orders amounting to 87,251 thousand euro (103,161 thousand euro as of December 31st, 2002), refers to contracts managed by Pirelli & C. Opere Generali S.p.A. (mostly for urbanization work).

The 2002 financial statements included 13,768 thousand euro for works on the P7 and P8 car parks, sold by Pirelli & C. Opere Generali S.p.A. to Parcheggi Bicocca S.r.l. in 2003. The concession granted to Parcheggi Bicocca Sr.l. concerning the car park management until July 2032 is capitalized under intangible assets as of December 31st, 2003 to reflect the building costs incurred. The 2002 financial statements also included 22,215 thousand euro for construction work carried out by Lambda S.r.l. on the second Siemens site, which was duly transferred at the end of 2003.

4. *Trading property for sale*

The trading property for sale, amounting to 147,175 thousand euro (96,982 thousand euro as of December 31st, 2002), are owned by Alfa S.r.l. (mainly located in Milan), Iota S.r.l. (located in Milan and Trieste), Centrale Immobiliare S.p.A. (mostly located in Pontedera, Milan and Rome), Stella Polare S.r.l. in liquidation (located in Naples), Tau S.r.l. (in Novara) and Progetto Salute Bollate S.r.l. (hotel facilities in Milan).

The increase is due to the acquisitions made during the period, which were only partially offset by disposals, amongst which the sales by Centrale Immobiliare S.p.A. to Orione Immobiliare Prima S.p.A., as described in the later notes on “Revenues”.

5. *Advances*

Advances amount to 360 thousand euro as of December 31st, 2003, against 8,334 thousand euro as of December 31st, 2002; advances mostly include early payments by Pirelli & C. Opere Generali S.p.A. to suppliers for work in progress on orders. The balance as of December 31st, 2002 included 7,747 thousand euro for advance payments made by Alfa Due S.r.l. for the purchase of a land in Moncalieri to be used for constructing a real estate complex, acquired in 2003 and transferred to Moncalieri Center S.r.l..

C II. Account receivables

Receivables amount to 357,924 thousand euro as of December 31st, 2003, against 266,838 thousand euro as of December 31st, 2002. The breakdown is as follows:

	12.31.2003	12.31.2002
Receivables from third parties	122,866	87,634
Receivables from subsidiaries	20,092	2,202
Receivables from associated companies	34,982	28,311
Receivables from related companies	85,883	37,951
Receivables from other P&C. R.E. Group companies	22	140
Receivables from Pirelli & C. S.p.A.	2,227	4,202
Receivables from Pirelli & C. S.p.A. Group companies	4,185	21,015
Other receivables	87,667	85,383
Total	**357,924**	**266,838**

1. Receivables from third parties

Receivables from third parties amount to 122,866 thousand euro (87,634 thousand euro as of December 31st, 2002); the breakdown of the companies is as follows:

	12.31.2003	12.31.2002
Agied S.r.l.	–	7,682
Acquario S.r.l. (in liquidation)	400	–
Alfa S.r.l.	747	896
Altair Building Services S.r.l.	–	5,871
Cagisa S.p.A.	–	1.159
Casaclick S.p.A.	62	27
Centrale Immobiliare S.p.A.	226	129
Consorzio G6 Advisor	1,896	2,376
E.S.T. S.p.A.	7,795	–
Edilnord Gestioni S.p.A.	4,705	3,584
Edilnord Progetti S.p.A.	1,027	539
Elle Dieci S.c.a.r.l.	–	2,016
Elle Tre S.c.a.r.l.	–	1,582
Elle Uno S.c.a.r.l.	4,216	1,717
Emmegiesse S.p.A.	2,392	–
Iota S.r.l.	2,909	469
Kappa S.r.l.	–	11
Lambda S.r.l.	147	13,217
OMS Facility S.r.l.	–	–
Partecipazioni Real Estate S.p.A.	33	–
P.B.S. S.c.a.r.l.	802	–
Pirelli & C. Opere Generali S.p.A.	339	132
Pirelli & C. Real Estate Ltda	190	42
Pirelli & C. Real Estate S.p.A.	1,902	815
Pirelli & C. R.E. Agency S.p.A.	6,622	5,717
Pirelli & C. R.E. Agenzia Residenziale S.p.A.	–	934
Progetti Creativi S.r.l.	–	22
Pirelli & C. R.E. Credit Servicing S.p.A.	600	1,838
Pirelli & C. R.E. Facility Management S.p.A.	56,217	19,650
Pirelli & C. R.E. Project Management S.p.A.	5,431	2,631
Pirelli & C. R.E. Property Management S.p.A.	13,548	10,316
Pirelli & C. R.E. Servizi di Rete S.p.A.	287	1,079
Progetto Bicocca Centro Tecnologico S.r.l.	–	36
Progetto Bicocca Esplanade S.p.A.	500	166
Progetto Bicocca Il Centro S.r.l.	–	203
Progetto Bicocca Università S.r.l.	421	304
Progetto Grande Bicocca S.r.l.	118	359
Projet Saint Maurice S.a.s.	16	–
Repeg Italian Finance S.r.l.	7,500	–
Servizi Amministrativi Real Estate S.p.A.	389	8
Somogi S.r.l.	1,314	1,444
Stella Polare S.r.l. (in liquidation)	–	13
Tau S.r.l.	115	650
Total	**122,866**	**87,634**

The caption as of December 31st, 2003 included 15,374 thousand euro due by Companies part of the Telecom Group.

The balance is shown net of an allowance for doubtful accounts for 7,854 thousand euro (6,475 thousand euro as of December 31st, 2002).

2. *Receivables from subsidiaries*

Receivables from subsidiaries amount to 20,092 thousand euro as of December 31st, 2003 (2,202 thousand euro as of December 31st, 2002) and refer to the following companies:

	12.31.2003	12.31.2002
Alfa Due S.r.l.	367	–
Bicocca Center S.r.l.	17,202	–
Parcheggi Bicocca S.r.l.	–	191
Progetto Grande Bicocca Multisala S.r.l.	2,523	–
Tintoretto S.r.l.	–	1,647
Verdi S.r.l.	–	364
Total	**20,092**	**2,202**

The caption includes 18,428 thousand euro for current account held directly with the parent company Pirelli & C. Real Estate S.p.A. and 1,300 thousand euro for trade-receivables.

As stated above, during 2003, Bicocca Center S.r.l. acquired the operating division Progetto Grande Bicocca Multisala S.r.l..

3. *Receivables from associated companies*

Receivables from associated companies amounted to 34,982 thousand euro as of December 31st, 2003 (28,311 thousand euro as of December 31st, 2002). The caption mainly relates to services provided at normal market conditions.

The caption includes 299 thousand euro in current accounts relations held directly with the parent company Pirelli & C. Real Estate S.p.A..

They refer to the following companies:

	12.31.2003	12.31.2002
Altair Zander Italia S.r.l.	74	–
Aree Urbane S.r.l. (formerly Ortensia S.r.l.)	2,649	–
Auriga Immobiliare S.r.l.	–	6,098
Bernini Immobiliare S.r.l.	3,181	3,906
Beta S.r.l.	223	36
CFT Finanziaria S.p.A.	324	1,647
Consorzio G6 Advisor	1,053	1,803
Continuum S.r.l.	150	–
Delta S.p.A.	318	1,047
Dixia S.r.l.	587	345
Domogest S.r.l.	39	213
Elle Dieci S.c.a.r.l.	146	–
Elle Nove S.c.a.r.l.	394	188
Elle Tre S.c.a.r.l.	299	–
Esedra S.r.l.	1,324	–
Geolidro S.p.A.	527	–
Holdim S.r.l.	29	–
Immobiliare Prizia S.r.l.	1,949	1,177
Induxia S.r.l.	416	511
Iniziative Immobiliari S.r.l.	–	1,191
Iniziative Immobiliari S.r.l. (new company)	5,621	–
Localto S.p.A.	1,565	–
LSF Italian Finance Company S.r.l.	195	–
M.S.M.C. Italy Holding B.V.	2,268	279
Moncalieri Center S.r.l.	638	–
Orione Immobiliare Prima S.p.A.	4,246	1,071
Popoy Holding B.V.	–	36
Progetto Bicocca La Piazza S.r.l.	510	2,441
Progetto Bicocca Università S.r.l.	62	115
Progetto Corsico S.r.l.	322	187
Progetto Fontana S.r.l.	74	61
Progetto Gioberti S.r.l.	109	24
Progetto Grande Bicocca Multisala S.r.l.	–	933
Progetto Lainate S.r.l.	392	963
Regus Business Centres Italia S.p.A.	57	–
Spazio Industriale B.V.	599	1,170
Trixia S.r.l.	3.432	2.869
Verdi S.r.l.	335	–
Vindex S.r.l.	875	–
Total	**34,982**	**28,311**

4. Receivables from related companies

The caption amounts to 85,883 thousand euro as of December 31st, 2003 (37,951 thousand euro as of December 31st, 2002).

The receivables are due from the following companies:

	12.31.2003	12.31.2002
Iniziative Negozi S.r.l.	–	1.637
Iniziative Retail S.r.l.	983	–
Total IN Holdings I S.a.r.l. Group	**983**	**1,637**
M.S.M.C. Immobiliare Due S.r.l.	3,180	1,144
M.S.M.C. Italy Sub Holding B.V.	–	34
Tiglio I S.r.l.	32,564	15,671
Total M.S.M.C. Italy Holding B.V. Group	**35,744**	**16,849**
Dolcetto Due S.r.l.	1,472	–
Dolcetto S.r.l.	1,046	–
Ganimede S.r.l.	2,278	–
Kappa S.r.l.	24,575	–
M.S.M.C. Immobiliare 4 S.r.l.	334	4,521
Prime Properties S.r.l.	–	2,448
Robino Holding Amsterdam B.V.	–	5
Tiglio II S.r.l.	4,314	2,104
Total Popoy Holding B.V. Group	**34,019**	**9,078**
Golf Tolcinasco S.r.l.	220	30
Immobiliare Sporting Milano 3 S.p.A.	–	4
Total Dixia S.r.l. Group	**220**	**34**
Aida S.r.l. - Masseto B.V. Group	6,884	9,483
Spazio Industriale I S.r.l. - Spazio Industriale B.V. Group	7,181	12
Iniziativa Immobiliare Due S.r.l. - Inimm Due S.a.r.l. Group	852	858
Total receivables from related companies	**85,883**	**37,951**

The receivables relate to trade related transactions arising from property, project, asset, agency and administration services with the above companies.

Receivables from Kappa S.r.l. and Spazio Industriale S.r.l. mostly relate to the sales of certain land located in Bicocca area.

Receivables from Tiglio I S.r.l. partially relate to services for the development of the "fund project".

5. Receivables from other P&C. R.E. Group companies

The caption amounts to 22 thousand euro as of December 31st, 2003 (140 thousand euro as of December 31st, 2002) and includes receivables from S.I.F. Southern Italian Finance S.r.l..

6. Receivables from Pirelli & C. S.p.A. (ultimate parent company)

The receivables from the ultimate parent company, Pirelli & C. S.p.A., amount to 2,227 thousand euro (4,202 thousand euro as of December 31st, 2002); the breakdown is as follows:

	12.31.2003	12.31.2002
Receivables for consolidated VAT		
Acquario S.r.l. (in liquidation)	5	–
Alfa S.r.l.	140	–
Alfa Due S.r.l.	–	464
Centrale Immobiliare S.p.A.	424	–
Holdim S.r.l	–	1
Iota S.r.l.	4	18
Kappa S.r.l.	159	6
Lambda S.p.A.	–	700
P.B. Centro Tecnologico S.r.l.	–	26
Partecipazioni Real Estate S.p.A.	–	5
Parcheggi Bicocca S.r.l.	65	–
Pirelli & C. Opere Generali S.p.A.	15	412
Pirelli & C. R.E. Credit Servicing S.p.A.	28	–
Pirelli & C. Real Estate S.p.A.	224	–
Progetto Bicocca Il Centro S.r.l.	–	1,130
Progetto Grande Bicocca S.r.l.	24	95
Progetto Moncalieri S.r.l.	5	–
Progetto Salute Bollate S.r.l.	4	60
Servizi Amministrativi Real Estate S.p.A.	10	–
Tau S.r.l.	1	–
Total	**1,108**	**2,917**
Other receivables		
Pirelli & C. R.E. Facility Management S.p.A.	304	–
Pirelli & C. R.E. Credit Servicing S.p.A.	33	105
Pirelli & C. R.E. Project Management S.p.A.	364	4
Pirelli & C. R.E. Property Management S.p.A.	8	4
Pirelli & C. Real Estate S.p.A.	410	1,172
Total	**1,119**	**1,285**
Total receivables	**2,227**	**4,202**

The receivables for consolidated VAT do not bear interest and relate to the periodic settlement of Group VAT; these receivables will become payable when utilized by Pirelli & C. S.p.A. to off set tax payables. The balance as of December 31st, 2003, does not include VAT for December, which was transferred to the ultimate parent company in January 2004.

The trade receivables booked by Pirelli & C. Real Estate S.p.A. as of December 31st, 2002 included 1,129 thousand euro (collected in full in the first half 2003) relating to the costs of the stock listing attributable to the ultimate parent company. The expense was recharged to Pirelli & C. S.p.A..

7. *Receivables from Pirelli & C. S.p.A. Group companies*

As stated above the first section of the notes, Pirelli S.p.A. was merged into Pirelli & C. A.p.A. (which changed its name to Pirelli & C. S.p.A.) on August 4th, 2003, backdated to January 1st, 2003, for accounting purposes. As a result, the below notes include relations with Pirelli & C. S.p.A. companies recorded as pertaining to Pirelli S.p.A. Group and Pirelli & C. A.p.A. Group in the previous financial statement. Both amounts have been reclassified under one single entry.

The caption amount to 4,185 thousand euro as of December 31st, 2003 and to 21,015 thousand euro as of December 31st, 2002.

	12.31.2003	12.31.2002
Altofim S.r.l.	5	255
F.O.S. S.p.A. Fibre ottiche Sud	136	5
Localto S.p.A.	–	1,650
Pirelli Ambiente S.p.A.	192	118
Pirelli Cables	141	141
Pirelli Cavi e Sistemi S.p.A.	–	551
Pirelli Cavi e Sistemi Energia Italia S.p.A.	95	–
Pirelli Cavi e Sistemi Energia S.p.A.	217	–
Pirelli Cavi e Sistemi Telecom Italia S.p.A.	16	–
Pirelli Cavi e Sistemi Telecom S.p.A.	59	–
Pirelli Hellas S.A.	24	24
Pirelli Labs S.p.A.	114	67
Pirelli Pneumatici S.p.A.	1,429	1,484
Pirelli Servizi Finanziari S.p.A.	1,673	16,009
Pirelli S.p.A.	–	464
Shared Service Center S.c.r.l. (formerly Pirelli Informatica S.p.A.)	54	119
Other Group companies	30	128
Total	**4,185**	**21,015**

The caption as of December 31st, 2002 included 1,650 thousand euro in receivables from Localto S.p.A., to Pirelli & C. Real Estate Credit Servicing S.p.A.; Localto S.p.A. was sold in the first half of 2003 by Pirelli & C. S.p.A. to Partecipazioni Real Estate S.p.A., as stated above in the notes on on “equity participations”.

Receivables also include the balance of inter-company current accounts with Pisefi S.p.A., the Pirelli & C. Group finance company, which amount to 1,673 thousand euro at the end of 2003 (16,009 thousand euro as of December 31st, 2002).

Receivables from other Pirelli & C. S.p.A. Group companies relate to real estate and facility management services provided at market conditions.

8. Other receivables

Other receivables amount to 87,667 thousand euro as of December 31st, 2003, against 85,383 thousand euro as of December 31st, 2002; the breakdown is as follows:

	12.31.2003			12.31.2002		
	Short-term	Medium-term	Total	Short-term	Medium-term	Total
Deferred tax assets	31,501	–	31,501	25,877	–	25,877
Deferred costs	15,648	–	15,648	13,711	–	13,711
Down payments on purchases	1,219	–	1,219	1,219	–	1,219
Receivables from tax office	3,247	–	3,247	6,099	402	6,501
VAT receivables	20,619	–	20,619	17,289	–	17,289
Security deposits	1,273	356	1,629	–	2,858	2,858
Receivables from principals	–	–	–	2,750	–	2,750
Withholding taxes	216	–	216	1,703	–	1,703
Leaving indemnity investment policy/insurance	–	1,219	1,219	–	1,365	1,365
Items pending	477	–	477	929	–	929
Purchase of non performing loans	3,224	–	3,224	–	–	–
Receivables due from joint ventures	–	–	–	1,062	–	1,062
Grants receivables from Campania region	1,932	–	1,932	3,906	–	3,906
Receivables form Imm.re Zima	456	–	456	889	–	889
Other receivables	4,772	1,508	6,280	5,324	–	5,324
Total	**84,584**	**3,083**	**87,667**	**80,758**	**4,625**	**85,383**

Deferred tax assets

Deferred tax assets relate to income taxes booked in advance that will be recovered in subsequent years and arising on timing differences between statutory financial statements and those used for tax purpose.

Deferred costs

Deferred costs amount to 15,648 thousand euro as of December 31st, 2003 (13,711 thousand euro as of December 31st, 2002). The breakdown is as follows:

	12.31.2003	12.31.2002
Project management costs	3,360	2,636
Property management costs	360	3,686
Facility management costs	8,026	351
‘Osservatorio’ project	–	2,601
Feasibility/asset/advisory studies costs	2,071	3,494
Marketing costs	1,793	732
Other costs	38	211
Total	**15,648**	**13,711**

Costs for project, facility and property management are deferred in order to correlate contract work revenues and costs.

The costs for feasibility studies relate to projects, monitored by asset and advisory functions, which are reasonably to produce positive returns in the coming years; if the outcome were negative, the costs will be covered.

VAT receivables

The caption relates to consolidated companies excluded from the Group VAT return and their VAT positions relating to the month of December.

Purchase of non performing loans

The caption refers to the purchase of non performing mortgage loans acquired by Partecipazioni Real Estate S.p.A. during 2003. The receivables, for an amount of 1,633 thousand euro, have a counter entry under "other payables", since the underlying sale contract entails extended payment.

Other receivables

Other receivables mostly include advance payments to suppliers for works and to amounts from the disposal of Agied S.r.l. in 2003.

There are no receivables due beyond 5 years.

C III. Financial assets

6. Other securities

The caption amounts to 5,300 thousand euro as of December 31st, 2003, against 280 thousand euro as of December 31st, 2002, relate to temporary liquidity for Projet Saint Maurice S.a.s. in offshore closed-end money-market investment funds (sicav).

C IV. Cash and banks

The caption consists of temporary liquid funds of 26,011 euro thousand as of December 31st, 2003 (55,716 thousand euro as of December 31st, 2002).

The breakdown is as follows:

	12.31.2003	12.31.2002
Bank and postal deposits	25,707	55,452
Checks	230	189
Cash on hand	74	75
Total	**26,011**	**55,716**

As at December 31st, 2002, year-end bank current account balances, include 86 thousand euro in funds deposited at Mediobanca which guarantee an endorsement credit granted by the same bank to exercise the rights provided for in article 111 (squeeze-out) of the Consolidated Finance Act in relation to the public purchase offer by Unim.

D. ACCRUED INCOME AND PREPAID EXPENSES

The breakdown of the caption which amounts to 2,093 thousand euro as of December 31st, 2003 (1,632 thousand euro as of December 31st, 2002), is as follows:

	12.31.2003	12.31.2002
Accrued income		
Financial	96	25
Other accrued income	–	141
Total	**96**	**166**
Prepaid expenses		
Financial	44	30
Other prepaid expenses	1,951	1,288
Total	**1,995**	**1,318**
Accrued income and prepaid expenses - Group		
Tiglio I S.r.l.	2	–
Regus Business Centres Italia S.p.A.	–	148
Total	**2**	**148**
Total accrued income	**2,093**	**1,632**

Other prepaid expenses include prepaid insurance premiums, fees on guarantees and prepaid rentals.

LIABILITIES AND SHAREHOLDERS' EQUITY

A. SHAREHOLDERS' EQUITY

Changes in the shareholders' equity accounts are shown in the following table:

	Share capital	Share premium reserve	Reva-luation reserve	Legal reserve	Reserve for treasury shares	Reserve for non-repayable contribu-tions	Retained earnings	Net income (loss)	Share-holders' equity
Group shareholders' equity at December 31st, 2002	20,302	88,041	15	3,461	50,139	19,069	61,535	125,339	367,901
Changes in reserve for treasury shares	–	558	–	–	(558)	–	–	–	–
Allocation of net income for the year (shareholder resolution of May 6th, 2003):									
– to the legal reserve	–	–	–	599	–	–	–	(599)	–
– dividends	–	–	–	–	–	–	–	(48,682)	(48,682)
– retained	–	–	–	–	–	–	6,745	(6,745)	–
– Difference between statutory and consolidated result	–	–	–	–	–	–	69,313	(69,313)	–
Other changes	–	–	–	–	–	–	275	–	275
Net income (loss) for the year	–	–	–	–	–	–	–	102,067	102,067
Group shareholders' equity at December 31st, 2003	20,302	88,599	15	4,060	49,581	19,069	137,868	102,067	421,561
Minority interests in share capital and reserves at December 31st, 2003	–	–	–	–	–	–	–	–	3,783
Minority interests in net income (loss) for the year	–	–	–	–	–	–	–	–	(549)
Total shareholders' equity at December 31st, 2003	**20,302**	**88,599**	**15**	**4,060**	**49,581**	**19,069**	**137,868**	**102,067**	**424,795**

A I. Share capital

Subscribed and paid-up share capital at December 31st, 2003 amounts to euro 20,302,491, the same as at December 31st, 2002; authorized share capital amounts to euro 22,402,491, consisting of 40,604,982 ordinary shares with par value euro 0.50 each.

A II. Share premium reserve

This reserve amounts to euro 88,599 thousand at December 31st, 2003, compared to euro 88,041 thousand at December 31st, 2002. The increase refers to the transfer back of euro 558 thousand from the reserve for treasury shares following the partial sale of the treasury shares held.

A III. Revaluation reserve

The revaluation reserve of euro 15 thousand is unchanged since the end of the previous year. It relates to monetary revaluations, made under Law 72 of March 19th, 1983 ("Visentini bis"), of properties since sold.

A IV. Legal reserve

The legal reserve amounts to 4,060 thousand euro, increased by 599 thousand euro compared to December 31st, 2002, in accordance with the shareholders' meeting resolution of May 6th, 2003 regarding approval of Pirelli & C. Real Estate S.p.A.'s financial statements for the year ended December 31st, 2002.

A V. Reserve for treasury shares

The reserve for treasury shares amounts to euro 49,581 thousand at December 31st, 2003, compared to 50,139 thousand euro of the previous year. It was set up as required by article 2357-ter of the Italian Civil Code with respect to treasury shares held, as described in the note on "Financial Assets".

Following the sale of some treasury shares over the period, the reserve has been reduced, with the amount being credited to the share premium reserve from which the reserve had originally been drawn.

A VII.b Other reserves

The reserve for non-repayable contributions amounts to 19,069 thousand euro and is unchanged compared to the end of the previous year. It was set up on May 27th, 2002 with a payment by parent company Pirelli & C. S.p.A.

A VIII. Retained earnings

The caption amounts to 137,868 thousand euro at December 31st, 2003 (61,535 thousand euro at December 31st, 2002) and mainly consists of undistributed income from previous years.

Minority interests

These consist of minority interests in share capital and reserves as well as in the result for the year, of companies consolidated line-by-line. The caption is analysed as follows:

	Share capital and reserves	Net income (loss)	12.31.2003	12.31.2002
Agied S.r.l.	–	–	–	(23)
Altair Building Services S.r.l.	–	–	–	395
Cagisa S.p.A.	–	–	–	(1)
Casaclick S.p.A.	20	(14)	6	21
Elle Dieci S.c.a.r.l.	–	–	–	10
Elle Tre S.c.a.r.l.	–	–	–	10
Elle Uno S.c.a.r.l.	40	–	40	40
Emmegiesse S.p.A.	140	(12)	128	–
Erato Finance S.r.l.	1,084	6	1,090	–
P&C. R.E. Franchising Holding S.p.A.	1,842	(325)	1,517	–
P&C. R.E. Property Management S.p.A.	–	–	–	202
Parcheggi Bicocca S.r.l.	375	(78)	297	–
PBS Scrl	40	–	40	–
Pirelli & C. Real Estate Ltda	185	(126)	59	180
Somogi S.r.l.	57	–	57	49
Total	**3,783**	**(549)**	**3,234**	**883**

B. PROVISIONS FOR LIABILITIES AND EXPENSES

These provisions include:

2. *Provisions for taxes*

Changes in these provisions were as follows:

	12.31.2002	Change in scope of consol.	Change		12.31.2003
			Increase	Decrease	
Deferred taxes on capital gains on sale of properties/securities	4,717	–	–	(2,573)	2,144
Other taxes	600	–	–	(600)	–
Deferred and unrealized taxes	7,305	–	–	(6,214)	1,091
Total	**12,622**	**–**	**–**	**(9,387)**	**3,235**

This caption mainly consists of deferred tax on capital gains generated from the sale of securities, resulting from spreading of the related tax charge over five years, and of other deferred and unrealized taxes mostly arising on consolidation adjustments.

The calculation of deferred and latent taxes has been adjusted to take account of changes in tax laws. The use of deferred and unrealized taxes has been recorded under “taxes” on the income statement.

3. *Provision for future risks and expenses*

a. *Provision for future expenses*

This caption amounts to euro 14,443 thousand at December 31st, 2003 (20,953 thousand euro at December 31st, 2002). Changes in this item by company were as follows:

	12.31.2002	Change in consolid. scope	Change		12.31.2002
			Increase	Decrease	
Edilnord Gestioni S.p.A.	590	–	–	(470)	120
Iota S.r.l.	65	–	–	(20)	45
P&C. Real Estate S.p.A. (contractual warranty provision)	2,391	–	–	(1,100)	1,291
P&C. Real Estate S.p.A. (arbitration provision)	1,945	–	–	–	1,945
P&C. Real EstateS.p.A. (works provision)	76	–	–	–	76
P&C. Real Estate S.p.A. (provision for future expenses)	326	–	–	–	326
P&C. Real Estate S.p.A. (restructuring provision)	1,980	–	390	(1,180)	1,190
P&C. Real Estate S.p.A. (equity P. Fontana S.r.l.)	34	–	–	(34)	–
P&C. R.E. S.p.A. (equity Altair Zander Italia S.r.l.)	15	–	–	(15)	–
P&C. R.E. S.p.A.(equity Beta S.r.l.)	–	–	36	–	36
P&C.R.E. Agency S.p.A.	4	–	25	(4)	25
P&C. R.E. Property M. S.p.A. (provision for future expenses)	1,680	–	–	(1,680)	–
P&C. R.E. Property M. S.p.A. (restructuring provision)	5,941	–	–	(5,020)	921

	12.31.2002	Change in consolid. scope	Change		12.31.2002
			Increase	Decrease	
P&C. R.E. Servizi Rete S.p.A. (provision for network restructuring)	790	–	25	(738)	77
P. Grande Bicocca Multisala S.r.l.	1,919	–	–	–	1,919
Progetto Grande Bicocca S.r.l. (Formerly-Progetto Bicocca Centro Tecnologico S.r.l.)	152	–	–	–	152
Progetto Grande Bicocca S.r.l. (Museum-decontamination)	2,998	–	3,275	–	6,273
Tau S.r.l.	47	–	–	–	47
Total	**20,953**	**–**	**3,751**	**(10,261)**	**14,443**

The provision for future expenses mainly consists of expenses to be incurred by Progetto Grande Bicocca S.r.l. for building the "Museum" (as specified below) and accruals for restructuring expenses to be incurred by Pirelli & C. Real Estate Property Management S.p.A. and Pirelli & C. Real Estate S.p.A..

Withdrawals by these companies from the restructuring provision concern operations that have been planned and nearly completed, in connection with the contribution in kind of business branches from Unim and Risanamento Napoli; they amount to 2,111 thousand euro (7,921 thousand euro at December 31st, 2002).

The arbitration provision has been made on the basis of the opinions of legal advisors and an analysis of the suits brought by both Pirelli & C. Real Estate S.p.A. and counterparties. The provision is considered adequate for covering the expected outcome of outstanding litigation.

The most significant changes in this item refer to the "Museum" and urban redevelopment provisions relating to the area in Bicocca owned by Progetto Grande Bicocca S.r.l., and the provision for restructuring costs by Pirelli & C. Real Estate S.p.A. for reorganizing its overseas activities.

The "Museum" provision covers costs to be incurred for bringing a building up to town planning legislation standards so that it may be used by the public. Such costs are the responsibility of the owners of the sites sold in the current and previous years.

b. Provision for risks

This caption amounts to 3,013 thousand euro at December 31st, 2003 (3,305 thousand euro at December 31st, 2002). Changes in this provision by company were as follows:

	12.31.2002	Change in scope of consol.	Change		12.31.2002
			Increase	Decrease	
Acquario S.r.l. (in liquidation)	–	–	150	–	150
Agied S.r.l.	350	(714)	364	–	–
Alfa S.r.l.	52	–	221	(15)	258
Casaclick S.p.A.	200	–	–	(120)	80
Edilnord Gestioni S.p.A.	193	–	186	(51)	328
Lambda S.r.l. (late delivery penalties)	258	–	–	(258)	–
P&C. Real Estate S.p.A.	516	–	138	(187)	467
P&C. R.E. Project Management S.p.A.	–	–	130	–	130
P&C. R.E. Property Management S.p.A.	349	–	454	–	803
Progetto Grande Bicocca S.r.l. (ex-P.B. Il Centro S.r.l.)/Lambda S.r.l. (guaranteed income)	1,161	–	–	(1,054)	107
Progetto Bicocca Esplanade S.p.A.	–	–	300	–	300
Progetto Bicocca Università S.r.l.	66	–	153	(4)	215
Servizi Amministrativi Real Estate S.p.A.	160	–	15	–	175
Total	**3,305**	**(714)**	**2,111**	**(1,689)**	**3,013**

The most significant increases are described below:

- 300 thousand euro provided by Progetto Bicocca Esplanade S.p.A. against likely expenses deriving from breach of contract disputes;
- 454 thousand euro provided by Pirelli & C. Real Estate Property Management S.p.A. against risk of rent default by tenants of properties managed by participated companies Elle Tre S.c.a.r.l. and Elle Dieci S.c.a.r.l.;
- 130 thousand euro provided by Pirelli & C. Real Estate Project Management S.p.A. upon sale of the "Environment" arm to Pirelli Ambiente S.p.A.

The guaranteed income provisions given to buyers on the units they purchased in prior years have been valued mainly on the basis of the leases in effect at year end.

C. PROVISION FOR EMPLOYEES' LEAVING INDEMNITY

This caption amounts to 21,046 thousand euro, compared to 14,591 thousand euro at December 31st, 2002. Changes during the period were as follows:

Balance at January 1st, 2003	**14,591**
Change scope of consolidation	4,655
Accruals	4,906
Change due to personnel received	538
Change due to personnel transferred	(274)
Other changes	(239)
Advances on leaving indemnity	(31)
Indemnities paid	(3,100)
Balance at December 31st, 2003	**21,046**

Change in consolidation scope relates to the inclusion of new companies in 2003.

The total number of employees, excluding auxiliary staff posted at properties, was 1,515 at December 31st, 2003 (1,544 including those contracted by temporary employment agencies), compared to 1,208 at December 31st, 2002, and can be analysed as follows:

	Headcount at year end		Yearly Average headcount	
	12.31.2003	12.31.2002	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Executives	153	129	141	97
Junior Mangers	228	177	203	145
White collars	909	765	837	575
Workers	225	137	181	69
Total	**1,515**	**1,208**	**1,362**	**886**

D. PAYABLES

3. Bank borrowings

These amount to 251,478 thousand euro at December 31st, 2003 (213,374 thousand euro at December 31st, 2002), and are broken down by consolidated company as follows:

	12.31.2003	12.31.2002
Short-term bank borrowings		
Acquario S.r.l. (in liquidation)	–	63
Agied S.r.l.	–	20
Altair Building Services S.r.l.	–	1,104
P&C.R.E. Credit Servicing S.p.A.	124	126
P&C.R.E. Facility Management S.p.A.	240	437
P.B. Università S.r.l.	1,052	1,008
Pirelli & C. Real Estate Ltda	21	–
Pirelli & C. Real Estate S.p.A.	165,851	508
Progetto Bicocca Esplanade S.p.A.	5	–
Progetto Grande Bicocca S.r.l.	246	–
Somogi S.r.l.	67	204
Total	**167,606**	**3,470**
Medium-term bank borrowings		
Alfa S.r.l.	–	4
Kappa S.r.l.	–	223
Parcheggi Bicocca S.r.l.	8,579	–
Pirelli & C. Real Estate S.p.A.	61,150	195,068
Progetto Bicocca Esplanade S.p.A.	–	7,591
Progetto Grande Bicocca S.r.l.	–	5,985
Progetto Salute Bollate S.r.l.	14,143	1,033
Total	**83,872**	**209,904**
Total bank borrowings	**251,478**	**213,374**

The short-term payables of Pirelli & C. Real Estate S.p.A. at December 31st, 2003 include 40,212 thousand euro that was classified under the medium-term category at December 31st, 2002. In addition to accrued interest, they also include 80,000 thousand euro and 25,000 thousand euro relating to agreements made in the first half of 2003 with Société Générale and UNIPOL Banca expiring in July 2004 and November 2004 respectively, and 20,000 thousand euro for two credit lines granted by Banca Nazionale del Lavoro S.p.A. and Credito Emiliano S.p.A.

The medium-term payables of Pirelli & C. Real Estate S.p.A. recorded on the balance sheet at December 31st, 2003 include 61,150 thousand euro for the contract signed on September 4th, 2003 with Barclays Bank Plc concerning a 75 million euro credit line to expire in March 2005.

The payables of Progetto Salute Bollate S.r.l. refer to a mortgage loan taken out against the purchase of a real estate complex in Bicocca to be used as a hotel.

4. *Payables to other financial institutions*

These amount to 14,214 thousand euro at December 31st, 2003 (1,314 thousand euro at December 31st, 2002) and are broken down by consolidated company as follows:

	12.31.2003	12.31.2002
Payables for capital contributions		
Tau S.r.l.	–	1,291
Total	**–**	**1,291**
Other loans		**–**
Alfa S.r.l.	23	23
Erato Finance S.r.l.	4,339	–
P.I.T.-Promozione Imprese e Territorio S.c.r.l.	1,343	–
Parcheggi Bicocca S.r.l.	1,759	–
Repeg Italian Finance S.r.l.	6,750	
Total	**14,214**	**23**
Total payables to other financial institutions	**14,214**	**1,314**

The payables of Erato Finance S.r.l. relate to the loan received on December 19th, 2003 from shareholder Lehman Brothers.

The long-term payables of Parcheggi Bicocca S.r.l. are owed to shareholder Saba Italia S.p.A.

P.I.T. Promozione Imprese e Territorio S.c.a.r.l. entered into the consolidation area in 2003 following the acquisition of its parent company, OMS Facility S.r.l.

The payables of Repeg Italian Finance S.r.l. consist of its exposure to Capitalia S.p.A.

5. *Advances from customers*

The caption amounts to 44,831 thousand euro at December 31st, 2003 (94,945 thousand euro at December 31st, 2002) and relates to advance payments received from customers.

They are broken down by consolidated company and business activity as follows:

	12.31.2003	12.31.2002
Commercial		
Acquario S.r.l. (in liquidation)	186	186
Alfa S.r.l.	5,967	–
Lambda S.r.l.	–	59,857
Total	**6,153**	**60,043**
Residential		
Alfa S.r.l.	–	290
Centrale Immobiliare S.p.A.	25	26
Iota S.r.l	–	75
Kappa S.r.l.	–	36
Progetto Bicocca Esplanade S.p.A.	9,041	6,456
Stella Polare S.r.l. (in liquidation)	–	2
Tau S.r.l.	–	87
Total	**9,066**	**6,972**

	12.31.2003	12.31.2002
Land		
Pirelli & C. Opere Generali S.p.A.	29,093	27,553
Total	**29,093**	**27,553**
Services		
Agied S.r.l.	–	358
Elle Uno S.c.a.r.l.	287	–
Pirelli & C. R.E. Agency S.p.A.	220	–
Pirelli & C. R.E. Facility Management S.p.A.	–	1
Pirelli & C. R.E. Servizi di Rete S.p.A.	12	18
Total	**519**	**377**
Total advances from customers	**44,831**	**94,945**

The advances received by Lambda S.r.l., recorded on the December 31st, 2002 balance sheet, include 37,133 thousand euro from Unicredit Fondi for advances agreed as part of the preliminary contract for the sale of the property due to house the head office of Pirelli & C. Real Estate S.p.A., and 22,724 thousand euro received from Finzeta S.r.l. for work in progress on the second Siemens lot. Those works were handed over in 2003.

The advances received in 2003 by Alfa S.r.l. relate to work on completing Deutsche Bank's head office.

The advances received by Progetto Bicocca Esplanade S.p.A. relate to residential buildings being erected in the Bicocca area (Milan).

The advances received by Pirelli & C. Opere Generali S.p.A. relate mainly to urbanization work in the Bicocca area.

6. Trade payables

The caption amounts to 271,711 thousand euro at December 31st, 2003 (194,737 thousand euro at December 31st, 2002), and are broken down as follows:

	12.31.2003	12.31.2002
Payables to third-party suppliers	173,337	122,777
Payables for properties	98,374	71,960
Total	**271,711**	**194,737**

The increase for the year is due to business expansion and the inclusion of new companies in the consolidation area.

Trade payables include 3,923 thousand euro due to companies of the Telecom Group.

The increase in payables to suppliers of properties is shown in the table below:

	12.31.2003			12.31.2002
	Short-term	Medium-term	Total	Total
Alfa S.r.l.	13,390	–	13,390	13,390
Iota S.r.l.	–	–	–	2,580
Centrale Immobiliare S.p.A.	84,984	–	84,984	41,490
Progetto Bicocca Il Centro S.r.l.	–	–	–	14,500
Total	**98,374**	**–**	**98,374**	**71,960**

The payables of Centrale Immobiliare S.p.A. relate to the purchase of a real estate portfolio composed of nine buildings from Banca di Roma S.p.A., a transaction that was concluded in December. The balance at December 31st, 2002 concerned buildings later sold to associated company Orione Immobiliare Prima S.p.A.

7. *Payables to subsidiaries*

These amount to 5,139 thousand euro at December 31st, 2003 (123 thousand euro at December 31, 2002). In detail:

	12.31.2003	12.31.2002
Alfa Due S.r.l.	4,834	–
Parcheggi Bicocca S.r.l.	–	123
P.G. Bicocca Multisala S.r.l.	305	–
Total	**5,139**	**123**

The payables to Alfa Due S.r.l. consist of the balance on the intercompany current account held with Pirelli & C. Real Estate S.p.A.. The subsidiary was consolidated line-by-line at December 31st, 2002 and was valued with the equity method at December 31st, 2003, as mentioned in the earlier note on “Equity participations”.

8. *Payables to associated companies*

These amount to 17,083 thousand euro at December 31st, 2003 (12,752 thousand euro at December 31st, 2002).

The item is analysed as follows:

	12.31.2003	12.31.2002
Altair Zander Italia S.r.l.	275	–
Auriga Immobiliare S.r.l.	–	36
CFT Finanziaria S.p.A.	12	–
Consorzio G6 Advisor	370	–
Consozio Italiano Facility Management	14	–
Elle Dieci S.c.a.r.l.	139	–
Elle Nove S.c.a.r.l.	614	458
Elle Tre S.c.a.r.l.	174	–
Holdim S.r.l.	775	–
Immobiliare Prizia S.r.l.	687	–
Iniziative Immobiliari S.r.l. (new company)	203	–
Localto S.p.A.	1	–
M.S.M.C. Italy Holding B.V.	–	975
Orione Immobiliare Prima S.p.A.	1,337	–
P.G. Bicocca Multisala S.r.l.	–	305
Progetto Bicocca La Piazza S.r.l.	8,273	7,862
Progetto Bicocca Università S.r.l.	2,639	3,074
Regus Business Centres Italia S.p.A.	–	25
Trixia S.r.l.	1,566	17
Vindex S.r.l.	4	–
Total	**17,083**	**12,752**

The amounts owed to Progetto Bicocca La Piazza S.r.l., Progetto Bicocca Università S.r.l. and Trixia S.r.l. relate to advances received by Pirelli & C. Opere Generali S.p.A. for urbanization work in the Bicocca and Pioltello areas.

The caption includes 370 thousand euro regarding current accounts held directly with the parent company, Pirelli & C. Real Estate S.p.A.

9. Payables to related companies

These amount to 14,338 thousand euro at December 31st, 2003 (528 thousand euro at December 31st, 2002). Of the total, 10,183 thousand euro is owed to Tiglio I S.r.l.: 8,517 thousand euro for purchase of the building in Via Sant'Eufemia in Rome and the rest for rent due and recharge of employee costs. This item also includes 1,333 thousand euro owed to Tiglio II S.r.l., mainly for recharge of staff costs to Pirelli & C. Real Estate S.p.A., and 2,809 thousand euro owed to related company Aida S.r.l., of which 2,455 thousand euro consists of the balance that Pirelli & C. Real Estate Facility Management S.p.A. paid in early 2004 for acquisition of the "RAS service division" in 2003.

11. Payables to Pirelli & C. S.p.A. (ultimate parent company)

These amount to 1,046 thousand euro at December 31st, 2003 (2,635 thousand euro at December 31st, 2002) and mostly refer to recharge of brand fees by the parent company.

12. Payables to Pirelli & C. S.p.A. Group companies

As mentioned above, because of the merger of Pirelli S.p.A. into Pirelli & C. A.p.A. on August 4th, 2003 (with accounting effect as of January 1st, 2003), balances with Pirelli & C. S.p.A. Group companies presented in these notes include balances that were split between the Pirelli S.p.A. Group and the Pirelli & C A.p.A. Group in the previous year's financial statements, which are now reclassified as a single item.

They amount to 298 thousand euro at December 31st, 2003 (27,909 thousand euro at December 31st, 2002).

	Short-term	Medium-term	Total 12.31.2003	Total 12.31.2002
Financial payables				
Pirelli & C. Luxemburg S.A.	–	–	–	25,744
Total	**–**	**–**	**–**	**25,744**
Trade payables				
Altofim S.r.l.	64	–	64	545
CEAT Cavi S.p.A.	–	–	–	54
Localto S.p.A.	–	–	–	1,167
Pir.Sub.Telecom System Italia S.p.A.	12	–	12	16
Pirelli Cavi & Sistemi Telecom Italia S.p.A.	187	–	187	–
Pirelli S.p.A.	–	–	–	63
Servizi Aziendali S.p.A.	27	–	27	19
Shared Service Center S.c.r.l. (formerly Pirelli Informatica S.p.A.)	8	–	8	6
Other group companies	–	–	–	4
Total	**298**	**–**	**298**	**1,874**
Advances for urbanization costs				
Pirelli Cavi e Sistemi S.p.A.	–	–	–	291
Total	**–**	**–**	**–**	**291**
Total payables to Pirelli & C. S.p.A. Group companies	**298**	**–**	**298**	**27,909**

The decrease is due to the effect of consolidating Localto S.p.A. as an associated company at December 31st, 2003 and to reimbursement of the loan granted by Pirelli & C. Luxembourg S.A. (now Pirelli & C. S.p.A.) to subsidiary Projet Saint Maurice S.a.s.

13. Taxes payables

These amount to 43,742 thousand euro at December 31st, 2003 (22,065 thousand euro at December 31st, 2002), broken down as follows:

	12.31.2003			12.31.2002		
	Short-term	Medium-term	Total	Short-term	Medium-term	Total
Substitute tax on 2000 contribution in kind	3,534	–	3,534	3,534	3,533	7,067
Income taxes for the year	17,247	–	17,247	12,279	–	12,279
VAT	10,350	–	10,350	1,394	–	1,394
Other taxes	12,253	–	12,253	921	–	921
Advance withholding taxes	358	–	358	404	–	404
Total	**43,742**	**–**	**43,742**	**18,532**	**3,533**	**22,065**

The balance includes current income taxes and the substitute tax on contributions in kind made by Unim in the period before its merger into Pirelli & C. Real Estate S.p.A., and VAT payables.

"Other taxes" refer mainly to deferred payments relating to the settlement of previous tax returns (integrations and amnesties under Law 289 of December 27th, 2002, supplemented by the tax amnesties introduced by Decree Law 282/02), to which the consolidated companies have adhered. The most significant amount, 8,202 thousand euro, relates to sums owed by Pirelli & C. Real Estate S.p.A. for the definitive corporate income tax and VAT amnesty, which also includes years of merged company Unione Immobiliare S.p.A. (Unim) that were still subject to tax inspections and assessments.

14. Social security contributions payables

The caption amounts to 4,963 thousand euro at December 31st, 2003 (3,654 thousand euro at December 31st, 2002). They include 3,790 thousand euro to INPS, 776 thousand euro to INPDAI/INPDAC/FASDAC/INAIL and 397 thousand euro to other social security institutions.

15. Urbanization fees payables

The caption amounts to 31,966 thousand euro at December 31st, 2003 (32,147 thousand euro at December 31st, 2002).

16. Other payables

These amount to 57,021 thousand euro at December 31st, 2003 (63,553 thousand euro at December 31st, 2002), broken down as follows:

	12.31.2003			12.31.2002		
	Short-term	Medium-term	Total	Short-term	Medium-term	Total
Payables to employees	15,196	–	15,196	12,913	–	12,913
Payables to principals	13,229	–	13,229	18,886	–	18,886
Payables for equity participation acquisitions	9,147	–	9,147	4,462	4,685	9,147
Payables for down payments	4,583	–	4,583	9,257	–	9,257
Payables to directors	3,581	–	3,581	4,768	–	4,768
Payables for derivative contract	2,538	–	2,538	–	–	–
Payables for purchase of non-performing loans	1,633	–	1,633	–	–	–
Payables for security deposits	1,219	–	1,219	1,122	–	1,122
Payables for arrears	46	520	566	–	520	520
Sundry deferred income	526	–	526	526	–	526
Items to be settled/service branch adjustment	507	–	507	1,757	–	1,757
Payables to partners in joint ventures	480	–	480	498	–	498
Payables to former Unim S.p.A. shareholders	86	–	86	86	–	86
Sundry other payables	3,730	–	3,730	4,073	–	4,073
Total	**56,501**	**520**	**57,021**	**58,348**	**5,205**	**63,553**

Payables to employees include unpaid accrued vacation pay, 14th month salary, and other bonuses.

Payables to principals relate almost entirely to asset management activity.

Payables for equity participation acquisitions relate to the remaining instalment on the consideration of the purchase of shares in Trixia S.r.l., to be settled in 2004.

Payables for down payments refer to advance payments paid by customers of residential properties on contracts still to be concluded.

Payables to directors (3,581 thousand euro) include 3,544 thousand euro in bonuses based on the Group's 2003 results.

The amount of 2,538 thousand euro recorded as "payables for derivative contract" represents the estimated expense derived from the contractual commitment given by Pirelli & C. Real Estate S.p.A. to Olivetti S.p.A. under the exchange agreement involving the acquisition of 100% of the share capital of OMS Facility S.r.l., as described above in the note to "Equity participations".
This commitment, which may not exceed a maximum theoretical amount of approximately 5 million euro, takes the form of an incorporated derivative comparable to an option, which has been valued by means of an appropriate mathematical model.

Payables for the purchase of loans refers to the acquisition, in 2003, of portfolios of non-performing mortgage loans by the subsidiary Partecipazioni Real Estate S.p.A., as mentioned in the note to "other receivables".

Payables for arrears mostly relate to Cagisa S.p.A. and refer to the seven-tenths of its share capital not yet called up by INPS Gestione Immobiliare S.r.l.

Deferred income refers to sale of land and urban promotion developments activities related to consolidation adjustments for Progetto Bicocca La Piazza S.r.l. (valued using the equity method).

Payables to partners relate to results attributable to third-party partners in the Tau S.r.l. joint venture.

E. ACCRUED LIABILITIES AND DEFERRED INCOME

These consist of:

	12.31.2003	12.31.2002
Accrued liabilities		
Financial charges	1	–
Other accrued liabilities	4,268	1,183
Total	**4,269**	**1,183**
Deferred income		
Deferred capital gains	16,601	14,124
Deferred rental income	12	9
Other deferred income	1,378	1,117
Total	**17,991**	**15,250**
Accrued liabilities and deferred income - Group		
Aida S.r.l.	27	–
Pirelli Pneumatici S.p.A.	24	24
Progetto Corsico S.r.l.	3	–
Telecom Italia Mobile S.p.A.	47	–
Telemedia Applicazioni S.p.A.	7	–
Tiglio II S.r.l.	17	–
Total	**125**	**24**
Total accrued liabilities and deferred income	**22,385**	**16,457**

Deferred income at December 31st, 2003 includes 16,601 thousand euro in deferred capital gains on uncompleted property sales to third parties (14,124 thousand euro at December 31st, 2002).

MEMORANDUM ACCOUNTS

	12.31.2003	12.31.2002
Guarantees given	188,051	142,320
Securities held by third parties as guarantees	48,448	35,778
Commitments to buy equity participations	40,948	–
Hedging transactions	–	760
Commitments to buy properties	506,133	555,333
Other guarantees	45,156	36,862
Total	**828,736**	**771,053**

Guarantees have been granted by banks mainly to third parties for commitments taken on by subsidiaries.

Securities held by third parties as guarantees amount to 48,448 thousand euro (35,778 thousand euro at December 31st, 2002) and mainly consist of liens on quotas in Iniziative Immobiliare S.r.l., Trixia S.r.l., Dixia S.r.l. and Immobiliare Prizia S.r.l. to secure loans received by these companies.

Commitments to buy equity participations amount to 40,948 thousand euro and consist of the following:

- Put & call options

  These amount to 22,690 thousand euro and refer to Pirelli & C. Real Estate S.p.A.'s commitment regarding options granted on shares of associated company Iniziative Immobiliari S.r.l. under two separate agreements with Banca Nazionale del Lavoro S.p.A. and Banca Intesa S.p.A. The options are valid until December 31st, 2005.

- Forward purchase commitments

  These consist of commitment to purchase the Peabody Group's 9.601% interest in associated company Iniziative Immobiliari S.r.l. The agreed price is 18,258 thousand euro, to be paid in three instalments.

Commitments to buy properties, at 506,133 thousand euro, are broken down as follows:

- Pirelli & C. Real Estate S.p.A.'s commitment to buy any unsold properties held by associated company Bernini Immobiliare S.r.l. as from December 31st, 2004. The amount recorded, 106,124 thousand euro, is the maximum figure provided under the contract, taking into account the value of inventories held by Bernini Immobiliare S.r.l. at December 31st, 2003. Based on the company's sales plans and other available information, the Group should not have to acquire unsold properties at the deadline;

- Pirelli & C. Real Estate S.p.A.'s commitment to purchase properties owned by Imser 60 S.r.l., for a total of 320,000 thousand euro. The contractually agreed price for these properties is approximately 20% of their market value. This option may be exercised by the counterparty up to May 31st, 2022;

- Pirelli & C. Real Estate S.p.A.'s commitment to purchase any unsold properties held by the new company Iniziative Immobiliari S.r.l. as of December 22nd, 2005, for a maximum of 30 million euro;

- Centrale Immobiliare S.p.A.'s commitment, by virtue of the framework agreement with Pirelli & C. Real Estate Agency S.p.A., regarding properties owned by third parties for which the latter company acts as agent. Based on such agreement, Centrale Immobiliare S.p.A. can evaluate those properties and, if interested, can obtain an option from the owners on any properties left unsold upon expiration of the agency contract at a price to be agreed on a case-by-case basis. The commitment amounts to 50,009 thousand euro.

Other guarantees include:

- 8,909 thousand euro in relation to revenue guarantees given by subsidiaries to third parties on the sale of commercial properties;
- 20,507 thousand euro in counter-guarantees given by Pirelli & C. Real Estate S.p.A. to some of its associated and subsidiary companies for contractual commitments undertaken by them;
- 3,417 euro for Pirelli & C. Real Estate S.p.A.'s commitment (in effect until April 30th, 2006) to cover its share of the shortfall between rental income earned and the interest expense paid by related company Ganimede S.r.l.;
- 12,091 thousand euro for Pirelli & C. Real Estate Agency S.p.A.'s commitment regarding the closed-end real estate fund "Tecla Fondo Uffici" to guarantee a gross gain of such amount on the sale of certain pre-designated properties. The guarantee was given in exchange for a service supply contract, i.e., an exclusive mandate to sell such properties. Based on the characteristics of such properties, it is unlikely that the company will incur any charge.

Other commitments

Pirelli & C. Real Estate S.p.A. has undertaken to cover its share of the difference between rental income and bank interest payable by Tiglio I S.r.l. and Tiglio II S.r.l. on loans received. This commitment is not currently quantifiable. However, based on available information, rental income is expected to be higher than the estimated interest expense.

In addition, Pirelli & C. Real Estate S.p.A. has granted an irrevocable option to Marzotto S.p.A. to take over the entire remaining amount as of December 31st, 2005, consisting of principal and interest of the shareholders loan granted by Marzotto S.p.A. itself to Aree Urbane S.r.l.. That option may be exercised from February 1st, 2006 to February 28th, 2006 for a maximum of 25 million euro plus interest. At December 31st, 2003 the amount of the option was equal to the maximum foreseen under the contract.

Other Group memorandum accounts are:

	12.31.2003	12.31.2002
Guarantees received	20,417	27,542
Total	**20,417**	**27,542**

Third-party guarantees have been issued by major banks and/or insurance companies to guarantee the proper performance of work by contractors.

INFORMATION ON THE INCOME STATEMENT

Comments on the economic performance of the Group and its various Business Units are provided in the directors' report on operation, to which we refer.

The following table illustrates the economic performance of the Group in 2003 and 2002, with other income from non-real estate activities shown separately.

(In thousand of euro)	2003	2002		
	Total (*)	Total	Real Estate asset	Other items
Production Value	**649,043**	**491,481**	**491,320**	**161**
Production Costs	(587,932)	(449,338)	(445,895)	(3,443)
EBIT	**61,111**	**42,143**	**45,425**	**(3,282)**
Net income from Equity partecipations	66,978	60,067	60,067	–
EBIT including income from equity partecipations	**128,089**	**102,210**	**105,492**	**(3,282)**
Financial income (expenses)	768	(2,268)	(1,832)	(436)
Income (loss) before extraordinary income (expenses)	**128,857**	**99,942**	**103,660**	**(3,718)**
Extraordinary income (expenses)	(6,111)	49,853	(2,519)	52,372
Income before income taxes and minority interests	**122,746**	**149,795**	**101,141**	**48,654**
Income taxes	(21,228)	(24,325)	(18,330)	(5,995)
Income before minority interests	**101,518**	**125,470**	**82,811**	**42,659**
Minority interests	549	(131)	(131)	–
Net Income	**102,067**	**125,339**	**82,680**	**42,659**

(*) Entirely represented by real estate activities.

Pirelli & C. Real Estate S.p.A. is a management company that manages real estate assets (and non-performing loans) in which it holds qualified minority equity participations (asset management and fund management business) and for which it provides, as it does for other clients, a wide range of real estate services (service provider business). Therefore, the aggregate production value net of acquisitions, and the operating result inclusive of the pro-quota result of equity participations, should be considered the most significant indicators in the description of business volume and operating results, respectively.

Aggregate production value, net of acquisitions, is 1,525.5 million euro, up 17.6% compared to 1,297.3 million euro in 2002. Consolidated production is 649.0 million euro compared to 491.5 million euro in 2002 (+32%).

This note contains a number of tables with details of results broken down by business unit; comments on these tables are contained in the directors' report on operations.

A. PRODUCTION VALUE

Given the importance of the volumes of property and land acquisitions during the period under review comments are also provided on the change in production value net of acquisition, which do not normally have a significant impact on the period in which they take place.

	2003	% (*)	2002	% (*)	Var. %
Asset Management:					
– Residential	97,932	15.1%	76,992	11.9%	21.4%
among business units	*2,018*		*1,072*		
consolidated	*95,914*		*75,920*		
– Commercial	195,633	30.1%	152,465	23.5%	22.1%
among business units	*2,411*		*2,790*		
consolidated	*193,222*		*149,675*		
– Non Performing Loans	2,873	0.4%	995	0.2%	65.4%
among business units	*179*		*375*		
consolidated	*2,694*		*620*		
Total	**296,438**	**45.7%**	**230,452**	**35.5%**	**22.3%**
among business units	*4,608*		*4,237*		
consolidated	*291,830*		*226,215*		
net of acquisitions	*126,238*		*139,263*		
– Land	46,118	7.1%	58,419	9.0%	–26.7%
among business units	*1,075*		*1,186*		
consolidated	*45,043*		*57,233*		
Services provider:					
– Agency	80,859	12.5%	58,603	9.0%	27.5%
among business units	*3,751*		*2,490*		
consolidated	*77,108*		*56,113*		
– Project Management	25,635	3.9%	21,989	3.4%	14.2%
among business units	*8,692*		*8,613*		
consolidated	*16,943*		*13,376*		
– Property Management	79,780	12.3%	55,534	8.6%	30.4%
among business units	*1,158*		*4,682*		
consolidated	*78,622*		*50,852*		
– Facility Management	130,929	20.2%	59,349	9.1%	54.7%
among business units	*7,940*		*8,211*		
consolidated	*122,989*		*51,138*		
– Credit Servicing	4,800	0.7%	4,371	0.7%	
among business units	*438*		*91*		
consolidated	*4,362*		*4,280*		
Total	**322,003**	**49.6%**	**199,846**	**30.8%**	**37.9%**
among business units	*21,979*		*24,087*		
consolidated	*300,024*		*175,759*		
– Franchising network/website	1,718	0.3%	–	0.0%	
among business units	*83*		*–*		
consolidated	*1,635*		*–*		
Other activities (***)	10,511	1.6%	32,113	4.9%	–205.5%
Total real estate activities (****)	**649,043**	**100%**	**491,320**	**76%**	**24%**
net of acquisitions	*649.043*	*100.0%*	*453.309*	*69,8%*	*–30.2%*
net of acquisitions	*478.843*	*73.8%*	*400.131*	*61.6%*	*16.4%*
Other activities:					
– Internet	–		161		
Total other activities	**–**		**161**		
Total consolidated production value	**649.043**		**491.481**		
of which net of acquisition (**)	*478.843*		*400.292*		

(*) Percentage calculated on the total production value of real estate activities.

(**) Net of acquisitions in the year included in production costs as "Acquisitions of land and properties".

(***) The account mainly includes revenues from administrative and advisory services to associated companies, as well as recharges of the portion of quotation costs to parent company Pirelli & C. S.p.A. in 2002.

(****) Amount resulting from the sum of "of which consolidated" and "Other".

Production value increased from 491,481 thousand euro in 2002 to 649,043 thousand euro in 2003.

The production value of real estate business rose from 491,320 thousand euro to 649,043 thousand euro (+32.10%), while, net of acquisitions, it rose from 400,131 thousand euro to 478,843 thousand euro as of December 31st, 2003 (+19.67%).

The increase is mainly due to the performance of the *service providers*, especially *agency*, *property* and *facility management*.

In 2003, *residential asset management* made acquisitions for 65,100 thousand euro, compared to 39,100 euro in 2002; production value net of acquisitions therefore went from 37,892 thousand euro to 32,832 thousand euro. The increase can be attributed to asset fees, which rose from 9.4 million euro in 2002 to 17.1 million euro in 2003.

Revenue from the valorisation of lands is highly variable (as normal), and depends on various stages of the urbanization process that do not allow an appropriate evaluation of the business unit's performance based on a comparison between 2002 and 2003. Such variability is due to the asset valorisation process, which may take several years, while capital gains are realized only at the conclusion of the process when the land is sold.

Service assets business had a consolidated production value of 322,003 thousand euro, compared to 199,846 thousand euro in 2002, with an increase of 61.13%. This increase, in addition to the acquisition of new contracts on the market for a value of about 50 million euro, can also be attributed to the effect of acquisitions made in 2002.

The *agency* contribution was particularly significant thanks largely to growth in sales (+37.98%), *property* (+43.66%), and *facility management* (+120.61%) volumes. In 2003, this last activity benefited from the effects of company integration and merger operations, as well as from acquisition of the companies to which the former Olivetti facility assets pertain.

With regard to *property management*, the positive result was achieved thanks to Tiglio I S.r.l. and Tiglio II S.r.l. portfolios, as well as by acquisition of a number of new contracts with important clients in the first half of 2003, in addition to reaching an agreement with INPS for assistance in the sale of the former INPDAI real estates.

The caption "Other" amounts to a positive value of 10,511 thousand euro, compared to a positive value of 32,113 thousand euro in the previous year, and was characterized, by revenues not attributable to the business units.

The following table presents the production value items.

1. Revenues from sales and services

In 2003, revenues from sales and services amount to 644,760 thousand euro, compared to a 424,050 thousand euro in 2002, and consist of the following items:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.13.2002
Revenue from sales of land for development	–	240
Revenue from sales of land for development of P&C. R.E. group	9,308	–
Revenue from sales of properties	137,865	154,311
Revenue from sales of P&C. R.E. group properties	91,640	–
Revenue from sales of land/properties through sales of share	40,508	63,538
Revenue from sales of work in progress	35,382	5,560
Total revenue from sales of properties and land	**314,703**	**223,649**
Revenue from services	323,271	197,716
Rental revenues	6,786	2,685
Total revenue from sales and services	**644,760**	**424,050**

Revenues from sales of properties and land

These consist of the following items:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Sales of land for development		
Pirelli & C. Real Estate S.p.A.	–	240
Total	**–**	**240**
Sales of land for development P&C. R.E.		
Progetto Bicocca Esplanade S.p.A.	9,308	–
Total	**9,308**	–
Sales of residential properties		
Iota S.r.l.	6,108	8,398
Centrale Immobiliare S.p.A.	2,600	3,362
Tau S.r.l.	1,829	3,052
Stella Polare S.r.l. (in liquidation)	809	8,069
Alfa S.r.l.	490	4,679
Progetto Bicocca Esplanade S.p.A.	22,035	3,196
Pirelli & C. Real Estate S.p.A.	1,187	744
Kappa S.r.l.	–	1,000
Promedil ’84 S.r.l.	–	3,402
Total	**35,058**	**35,902**
Sales of commercial properties		
Progetto Salute Bollate S.r.l.	10,400	–
Lambda S.r.l.	53,780	–
Projet Saint Maurice S.a.s.	37,150	–
Progetto Bicocca Il Centro S.r.l.	6	–
Iota S.r.l.	960	–
Pirelli & C. Real Estate S.p.A.	511	3,142
Alfa S.r.l.	–	87,585
Progetto Bicocca Il Centro S.r.l.	–	22,682
Centrale Immobiliare S.p.A.	–	5,000
Total	**102,807**	**118,409**
Sales of P&C. R.E. properties		
Centrale Immobiliare S.p.A.	91,640	–
Total	**91,640**	**–**
Total sales of properties	**229,505**	**154,311**
Sales of land through sale of Shares		
Kappa S.r.l.	40,508	–
Progetto Navigli S.r.l.	–	36,297
Promedil ’84 S.r.l.	–	27,241
Total	**40,508**	**63,538**
Work in progress		
Progetto Grande Bicocca S.r.l.	1,208	1,273
Lambda S.r.l.	34,174	4,287
Total	**35,382**	**5,560**
Total sales of properties and land	**314,703**	**223,649**

Sale of land for development P&C. R.E. group

This sale was made on June 25th, 2003 by Progetto Bicocca Esplanade S.p.A. to the related company Spazio Industriale I S.r.l. relative to land with industrial buildings located in Milano-Bicocca.

Sale of residential properties

Sales made during 2003 and 2002 refer to residential buildings sold to third-party customers, generally tenants, relative to real estate initiatives managed by the individual Group companies, described above in the presentation of the consolidated companies.

Sales of commercial properties

During the year, the subsidiary Progetto Salute Bollate S.r.l. sold a property due to be used as a home for the elderly in the municipality of Bollate (MI) to Investietico, a closed-end real estate investment fund established by Banca Popolare di Milano, for 10,400 thousand euro.

The sales made by Lambda S.r.l. regard the delivery to Unicredit Fondi of the building located in Milano-Bicocca, which will become the new head office of Pirelli & C. Real Estate Group.

In December 2003, the subsidiary Projet Saint Maurice S.a.s. sold its office building in Paris for 37,150 thousand euro.

Sales by Pirelli & C. Real Estate S.p.A. refer to deeds of consolidation adjustments arising from the release of capital gains following the sale of the former Unim properties to third parties in 2003.

Sales of real estate to P&C. R.E. Group companies

This caption refers to sales concluded during 2003 by subsidiary Centrale Immobiliare S.p.A. to the associated company Orione Immobiliare Prima S.p.A. In particular, the sales refer to properties in the cities of Milan, Forlì and Malnate purchased during 2002 and the early part of 2003 from Meie Aurora S.p.A. and Compagnia Assicuratrice Unipol S.p.A.. (57,160 thousand euro), of a building located in Milan on Via Barnaba Orioni (2,580 thousand euro) and another located in Milan at no. 74 Via Pinerolo (31,900 thousand euro).

Sales of properties and land through sales of shares

In 2003, the item “sales of land through shares” amounts to 40,508 thousand euro and refers to the sale of the entire stake in Kappa S.r.l., an operation which has already been described in the notes. In 2002, the caption amounted to 63,538 thousand euro and referred to the sale of the entire shareholding in Progetto Navigli S.r.l. and Promedil ’84 S.r.l., which had been fully consolidated in 2001.

Sales of works in progress

As of December 31st, 2003, these amount to 35,382 thousand euro, compared to 5,560 thousand euro in 2002. The caption includes 1,208 thousand euro earned by Progetto Grande

Bicocca S.r.l. on the restoration of own land, commissioned by the previous owner and 34,174 thousand euro referred to completion of the works related to the Siemens building, owned by Finzeta S.r.l., by Lambda S.r.l.

Revenues from services

Revenues from services is broken down as follows:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Services to third parties	155,462	88,346
Services to Pirelli & C. R.E. S.p.A. Group	156,572	95,869
Services to Pirelli & C. S.p.A. Group	11,237	13,501
Total	**323,271**	**197,716**

In this note, as a result of the above-mentioned merger by incorporation of Pirelli S.p.A. into Pirelli & C. A.p.A. (which changed its company name to Pirelli & C. S.p.A.), relations with companies in the Pirelli & C. S.p.A. Group include relations which were classified separated for the Pirelli S.p.A. Group and the Pirelli & C. A.p.A. Group in the previous year's financial statement, and which are therefore appropriately reclassified under a single heading.

The increase in revenues from services is attributable to the expansion of the Group's business and to the expansion of the consolidation perimeter arising mainly from acquisitions and the subsequent merger of companies operating in the facility business.

For an analysis of revenue performance, please refer to the comments in the directors' report on operations.

2./3. Change in inventories

The change in inventories for 2003 is negative for 33,522 thousand euro, compared to a positive change of 28,221 thousand euro in 2002.

This change refers to the negative movement of 34,889 thousand euro relative to land and properties and to the positive change of 1,367 thousand euro in work in progress on orders.

The changes during the year are to be attributed mainly to the events described above at "revenues from sales and services," to which reference should be made.

5. Other revenues and income

Detail of this caption is shown below:

	01.01.2003/ 12.31.2003/	01.01.2002/ 12.31.2002
Recoveries and reimbursements	34,110	26,502
Recoveries and reimbursements from P&C. R.E. S.p.A. Group	1,599	1,062
Recoveries and reimbursements from Pirelli & C. S.p.A. Group	152	11,646
Income from joint ventures	32	–
Total	**35,893**	**39,210**

Recoveries and reimbursements refer mainly to recharges to tenants for management fees for Group properties or properties managed for third parties; in the latter case the recharges mainly refers to services provided by property management business unit.

As of December 31st, 2002, recoveries and reimbursements to Pirelli & C. S.p.A. Group included 11,129 thousand euro for the costs of the listing on the Stock Market Exchange charged back to holding company Pirelli & C. S.p.A. for its share.

B. PRODUCTION COSTS

Consolidated production costs consist of the following items:

	01.01.2003/ 12.31.2003	% (*)	01.01.2002/ 12.31.2002	% (*)
Purchase of land and property	170,231	26.2%	91,190	18.6%
Purchase of other assets	14,391	2.2%	13,842	2.8%
Services expenses	264,973	40.8%	242,659	49.4%
Leases and rents expenses	12,535	1.9%	5,639	1.1%
Personnel expenses	95,203	14.7%	68,475	13.9%
Depreciation and amortization	20,841	3.2%	14,493	2.9%
Change in inventories of raw and ancillary materials/consumables/goods	(117)	0.0%	(1,008)	–0.2%
Accruals to provisions	5,496	0.8%	8,207	1.7%
Other operating expenses	4,379	0.7%	5,841	1.2%
Total production costs	**587,932**	**90.6%**	**449,338**	**91.5%**
of which real estate assets	587,932	90.6%	445,895	90.8%
of which other items	–	0.0%	3,443	0.7%

(*) Percentage calculated on the total production value of the real estate activities.

Consolidated production costs increased from 449,338 thousand euro in 2002 to 587,932 thousand euro in 2003.

The increase is related to the expansion of Group business and of the consolidation perimeter.

Production costs related to real estate activities increased from 445,895 thousand euro in 2002 to 587,932 thousand euro in 2003 (+31.85%). The increase is mainly attributable to the *service provider*, with particular reference to *facility management*, due to entrance in the consolidation perimeter of new companies acquired in 2003.

As of December 31st, 2003, production costs relative to other activities has a zero balance compared to a positive balance of 3,443 thousand euro 2002 relative to internet activities.

The following is a breakdown of consolidated production costs divided by type of cost.

6. *Purchases*

This caption is broken down by company:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Purchases of land by third parties		
Progetto Salute Bollate S.r.l.	45	1,103
Progetto Bicocca Il Centro S.r.l.	–	630
Progetto Moncalieri S.r.l.	–	5,681
Lambda S.r.l.	–	105
Total	**45**	**7,519**
Purchases of land by P&C. R.E. Group companies		
Progetto Bicocca Centro Tecnologico S.r.l.	–	136
Purchases of properties by third parties		
Centrale Immobiliare S.p.A.	142,317	43,260
Lambda S.r.l.	1,971	–
Tintoretto S.r.l.	1,686	–
Iota S.r.l.	2	–
Progetto Bicocca Esplanade S.p.A.	–	181
Progetto Bicocca Il Centro S.r.l.	–	23,500
Projet Saint Maurice S.a.s.	–	12,125
Total	**145,976**	**79,066**
Purchases of properties by P&C. R.E. Group companies		
Centrale Immobiliare S.p.A.	7,810	–
Total	**7,810**	–
Purchases of properties by Pirelli & C. S.p.A. Group companies		
Kappa S.r.l.	16,400	–
Projet Saint Maurice S.a.s.	–	4,469
Total	**16,400**	**4,469**
Total purchases of land and properties	**170,231**	**91,190**
Purchases of other assets	14,391	13,842
Total purchases	**184,622**	**105,032**

Purchases of properties and land

The cost for the purchase of properties and land increased from 91,190 thousand euro in 2002 to 170,231 thousand euro in 2003.

In 2003, significant property acquisitions were made by:

- Centrale Immobiliare S.p.A.: in early 2003, the company purchased properties located in the cities of Milan, Forlì and Malnate from Meie Aurora S.p.A. and Compagnia Assicuratrice Unipol S.p.A. for 20,870 thousand euro.
  On October 2nd, 2003, the company purchased portions of properties that were part of a real estate complex located in Milan at no. 74 Via Pinerolo, totalling about 15,000 sq. m., owned by Immobiliare Lombarda S.p.A., for a total price of 31,900 thousand euro plus VAT.
  On December 23rd, 2003 the company purchased 9 properties from Banca di Roma S.p.A. – Capitalia Group for 85,000 thousand euro plus taxes.
  Following its participation in the bankruptcy auction of Spazio Costruzioni S.r.l. at the Court of Treviso, the company was able to adjudicate 4 lots consisting of 12 properties

located in Montereale Valcellina (PN) for a total of 92 flats and 92 garages. The price for adjudication of the properties was 4,547 thousand euro.

Finally, with regard to purchases by companies of the Pirelli & C. Real Estate Group, on December 17th, 2003 the company purchased from the related company Tiglio I S.r.l. a property located in Rome at no. 13 Via S.Eufemia for a total of 7,800 thousand euro plus VAT.

- Kappa S.r.l.: on March 31st, 2003 the company purchased two properties from Pirelli Cavi e Sistemi Energia S.p.A. located in Milano-Bicocca for a total appraised value of 16,400 thousand euro plus VAT.
- Lambda S.r.l.: during the year, the company purchased property located in Milan at no. 183 Viale Sarca, from ISU (Institute for the Right to University Studies), University of Milan, for 1,971 thousand euro.
- Tintoretto S.r.l.: the amount mainly refers to the purchase of properties assigned following its participation in auctions with deed of transfer issued by the local court.

Purchases of other assets

As of December 31st, 2003 the caption amounted to 14,391 thousand euro, compared to 13,842 thousand euro in 2002, and mostly refers to purchases of materials used for facility management activities.

7. *Service expenses*

As of December 31st, 2003, this caption amounted to 264,973 thousand euro, compared to 242,659 thousand euro in 2002.

It consists of the following items:

	01.01.2003/ 12.31.2003	01.01.2002/ 31.31.2002
Services from third parties		
Expenses for management of third party assets/other costs to be recovered	83,353	45,441
Construction of building (SAL) - Urbanisation fees	75,653	99,311
Commission payable and severance indemnities	18,529	11,430
Other advisory fees	16,562	28,237
Expert advisory fees	15,485	18,396
Travel expenses - other personnel expenses fees	7,462	3,645
Directors' fees	6,505	5,608
Utilities	6,348	1,492
Advertising and promotional expenses	6,174	4,295
Software and IT support	5,395	3,800
Legal and notary advisory/assistance fees	4,143	5,757
Maintenance/insurance/cleaning	2,716	3,857
Expenses and maintenance for trading properties	2,277	1,106
Entertainment expenses - gifts	626	245
Independent auditors' fees	527	390
Statutory auditors' fees	457	444
Postal/Telegraph/Fax	363	207
Misc. expenses	4,712	3,221
Total	**257,287**	**236,882**
Services from Pirelli & C. R.E. Group companies	3,738	1,460
Services from Pirelli & C. S.p.A. Group companies	3,948	4,317
Total services expenses	**264,973**	**242,659**

As shown on the above table, there was a significant increase in service costs related to the growth of production value, in particular with regard to third party assets management costs related to property and facility management activities; especially the latter business, increased the overall turnover following the acquisition operations and subsequent merger described above in the commentary to the scope of consolidation.

As of December 31st, 2002, expert and other advisory fees included 11,129 thousand euro relative to the costs of listing on the Stock Market Exchange charged back to holding company Pirelli & C. S.p.A., with a counter entry in other income. The share of such costs assigned to the parent company was entered in deferres charges and is being amortized on a pro-rata temporis basis over a period of 5 years started in July 2002.

In 2003, Directors' and Auditors' fees amounted to 6,505 thousand euro and 457 thousand euro, respectively.

8. Lease and rent expenses

This caption amounts to 12,535 thousand euro, compared to 5,639 thousand euro in 2002, and refers almost exclusively to rentals of the company office premises and other buildings used as warehouses, as well as to leases and rental of motor vehicles.

9. Personnel expenses

Personnel costs increased from 68,475 thousand euro in 2002 to 95,203 thousand euro in 2003, showing an increase in absolute value of 26,728 thousand euro, related mainly to the larger number of employees due to acquisitions.

This caption consists of the following:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Salaries and wages	66,675	50,094
Social security contribuitions	21,529	13,270
Employee severance indemnity	4,906	3,332
Pension and similar costs	1,243	1,169
Other personnel expenses	850	610
Total	**95,203**	**68,475**

The number of employees is described in the note on the section "Provision for employees' leaving indemnity".

10. Amortization, depreciation and writedowns

This caption is broken down as follows:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Amortization of intangible assets	12,534	6,768
Amortization of difference on consolidation	2,036	876
Depreciation of property, plant and equipement	3,470	2,000
Other writedowns of fixed assets	–	1,629
Writedowns of receivables included in current assets	2,801	3,220
Total	**20,841**	**14,493**

The increase of amortization of intangible fixed assets is mainly due to the pro rata temporis amortization of stock market flotation costs of the parent company (existing for only 6 month in 2002) and to amortization of goodwill generated on the operations closed in 2003, described above in the comment to fixed assets.

For the breakdown of amortization and depreciations, reference should be mode to the tables presented in the comments on fixed asset items.

The writedowns of current receivables of the period are adequate to cover potential bad debit risks.

11. Change in inventories of raw materials/consumables/goods

In 2003, the change is positive for 117 thousand euro, compared to a positive value of 1,008 thousand euro in 2002.

12. Accruals to provisions for liabilities and expenses

As of December 31st, 2003, this caption amounts to 5,496 thousand euro, compared to 8,207 thousand euro the previous year.

This item is broken down as follows:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Agied S.r.l.	364	–
Beta S.r.l. - Promedil '84 S.r.l. - Alfa S.r.l. - Casaclick S.p.A.	21	215
Edilnord Gestioni S.p.A./Acquario S.r.l. (in liquidation)	336	50
P.B. Il Centro S.r.l. - Lambda S.r.l.	–	1,101
Pirelli & C. R.E. Agency S.p.A.	25	–
Pirelli & C. R.E. Property Management S.p.A.	454	1,680
Pirelli & C. R.E. Servizi di Rete S.p.A.	25	790
Pirelli & C. Real Estate S.p.A.	528	4,371
Progetto Bicocca Esplanade S.p.A.	300	–
Progetto Bicocca Università S.r.l.	153	–
Progetto Grande Bicocca S.r.l.	3,275	–
Servizi Amministrativi Real Estate S.p.A./Iota S.r.l.	15	–
Total	**5,496**	**8,207**

For further information on the 2003 risk provisions, reference should be made to the comment to the liabilities item entitled “provisions for future risks and expenses”.

Provisions were made on the basis of a prudent estimate of the costs that the companies expect to incur in the future.

14. Other operating expenses

As of December 31st, 2003, this item amounted to 4,379 thousand euro, compared to 5,841 thousand euro in 2002.

It refers to the following items:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Other taxes	1,469	1,920
Taxes, duties and permits	827	419
Other sundry expenses	2,069	3,377
– *Capital losses on sales of properties*	*44*	*778*
– *Penalty for delays in deliveries*	*–*	*108*
– *Other misc. expenses*	*2,025*	*2,491*
Expenses to partners in joint ventures	14	125
Total	**4,379**	**5,841**

Other taxes include 784 thousand euro for ICI (property tax), 509 thousand euro for registration tax, in part referring to acquisitions made during the year.

Sundry expenses include 1,113 thousand euro for closing of accounts relating to properties delivered in previous years.

Expenses due to partners in joint ventures refer to the deed of joint ventures in which Tau S.r.l. is active partner.

EBIT

EBIT consists of the total production value of the single businesses, net of production costs, which include costs for the purchase of goods, services, rents and leases, costs for personnel, other expenses, accruals, writedowns, amortization and depreciation.

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Asset Management:		
– Residential	4,574	7,724
– Commercial	18,694	6,831
– Non Performing Loans	(523)	(229)
Total	**22,745**	**14,326**
– Land	8,677	15,869
Services provider:		
– Agency	33,849	17,923
– Project Management	4,017	3,427
– Property Management	5,959	2,819
– Facility Management	6,451	3,441
– Credit Servicing	284	1,271
Total	**50,560**	**28,881**
– Franchising network/website	(5,206)	–
Other costs (*)	(15,665)	(13,651)
Total real estate activities	**61,111**	**45,425**
Other activities:		
– Internet activities	–	(3,282)
Total other activities	**–**	**(3,282)**
EBIT	**61,111**	**42,143**

(*) Costs non allocable to specific business units.

EBIT increases from a positive 42,143 thousand euro in 2002 to 61,111 thousand euro in 2003.

During 2003, in spite of the negative effect of costs sustained with reference to current development of the franchising network and internet portal (5,206 thousand euro), the total operating result regarding real estate activities increased from 45,425 thousand euro to 61,111 thousand euro (+35%).

The improved profitability of the *service provider* (+21,679 thousand euro, +75%) was largely due to the contribution of the agency activities and to the combination of services with higher margin in the property area.

C. FINANCIAL INCOME AND EXPENSES

16. Other financial income

Financial income in 2003 was 12,572 thousand euro, compared to 15,993 thousand euro in 2002; the details are shown below:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
16. Other financial income		
a) from receivables recorded in fixed assets		
Interest income on financial receivables due from subsidiaries		
Progetto Grande Bicocca Multisala S.r.l.	60	–
Verdi S,r,l,	–	163
Total	**60**	**163**
Interest income on financial receivables due from associated companies		
Aree Urbane S.r.l.	38	–
Auriga Immobiliare S.r.l.	–	5,540
Continuum S.r.l.	54	–
Delta S.p.A.	154	44
Domogest S.r.l.	190	110
Esedra S.r.l.	31	–
Eurostazioni S.p.A.	–	509
Induxia S.r.l.	6	–
Inimm Due S.a.r.l.	120	383
Iniziative Immobiliare S.r.l.	–	1,424
Iniziative Immobiliare S.r.l. (new company)	1,048	–
LSF Italian Finance Company S.r.l.	5	–
Locato S.p.A.	201	–
M.S.M.C. Italy Holding B.V.	1,263	809
M.S.M.C. Solferino S.a.r.l.	157	295
Masseto I B.V.	2,033	1,169
Moncalieri Center S.r.l.	113	–
Orione Immobiliare Prima S.p.A.	1,148	65
Popoy Holding B.V.	740	142
Progetto Corsico S.r.l.	–	54
Progetto Fontana S.r.l.	19	31
Progetto Gioberti S.r.l.	109	68

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Progetto Grande Bicocca Multisala S.r.l.	–	216
Progetto Lainate S.r.l.	283	332
Regus Business Centres Italia S.p.A.	28	33
Sci Roev Texas Partners L.P.	42	26
Spazio Industriale B.V.	67	–
Verdi S.r.l.	414	–
Total	**8,263**	**11,250**
Interest income on financial receivables due from related companies		
Dolcetto S.r.l.	277	–
Iniziative Negozi S.r.l. (formerly Iniziative Retail S.r.l.)	589	891
M.S.M.C. Italy Sub Holding B.V.	2	128
Masseto II B.V.	673	390
Robino Holding Amsterdam B.V.	35	26
Tiglio I S.r.l.	–	221
Total	**1,576**	**1,656**
Total interest income from receivables recorded in fixed assets	**9,899**	**13,069**
c) from securities recorded in current assets	**–**	364
d) Other income		
Interest income from banks	757	493
Interest income on trade receivables due from subsidiary companies		
Alfa Due S.r.l.	240	–
Bicocca Center S.r.l.	223	–
Parcheggi Bicocca S.r.l.	–	2
Progetto Grande Bicocca Multisala S.r.l.	141	–
Tintoretto S.r.l.	–	9
Total	**604**	**11**
Interest income on trade receivables due from associated companies		
Orione Immobiliare Prima S.p.A.	68	–
Moncalieri Center S.r.l.	391	–
Progetto Bicocca Università S.r.l.	2	–
Progetto Bicocca La Piazza S.r.l.	3	38
Total	**464**	**38**
Interest income from Pirelli & C. S.p.A. Group companies		
Pirelli Servizi Finanziari S.p.A.	–	1,157
Total	**–**	**1,157**
Interest income from others	52	2
Other financial income	796	859
Total other income	2,673	2,560
Total other financial income	**12,572**	**15,993**

The changes in interest income mainly reflect the changes in financial receivables accrued to the Group companies and in their current accounts held with the parent company, already described under the corresponding heading in the Assets section.

17. Interest and other financial expenses

Interest expenses and other financial expenses in 2003 was 11,804 thousand euro, compared to 18,261 thousand euro in 2002.

Interest and other financial expenses are illustrated in detail below:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Interst due to banks	8,724	6,990
Interest due to Pirelli & C. S.p.A.	–	421
Interest due to subsidiaries	7	–
Interest due to associated companies	36	2
Interest due to related associated companies	2	342
Interest due to Pirelli & C. S.p.A. Group companies	1,153	7,570
Interest due to others	392	662
Other financial expenses	1,490	2,274
Total	**11,804**	**18,261**

Bank interest expenses are broken down by companies follows:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Agied S.r.l.	6	42
Alfa S.r.l.	–	2,519
Altair Building Services S.r.l.	–	48
Casaclick S.p.A.	–	16
Elle Dieci S.c.a.r.l.	2	–
Elle Tre S.c.a.r.l.	1	–
Partecipazioni Real Estate S.p.A.	3	–
Pirelli & C. R.E. Credit Servicing S.p.A.	3	20
Pirelli & C. R.E. Facility Management S.p.A.	53	34
Pirelli & C. Real Estate Ltda	22	–
Pirelli & C. Real Estate S.p.A.	7,824	3,616
Progetto Bicocca Esplanade S.p.A.	111	394
Progetto Bicocca Università S.r.l.	33	55
Progetto Grande Bicocca S.r.l.	624	219
Progetto Salute Bollate S.r.l.	31	–
Somogi S.r.l.	11	23
Stella Polare S.r.l. (in liquidation)	–	4
Total	**8,724**	**6,990**

The increase in interest for loans paid to banks throughout 2003 is due to the Group's decision to use its own financial structure, thereby reducing recourse to Pirelli Servizi Finanziari S.p.A., the financial company belonging to Pirelli & C. S.p.A. Group, against the increase of bank borrowings.

In fact, the joint current accounts held by Pirelli & C. Real Estate Group companies and Pirelli Servizi Finanziari S.p.A. were closed during the second half of 2002 following the opening of intercompany current accounts with Pirelli & C. Real Estate S.p.A..

D. VALUATION ADJUSTMENTS TO FINANCIAL ASSETS

Adjustments were positive for 66,978 thousand euro compared to a positive 60,067 thousand euro for the previous year.

This caption consists of the results for the year of equity participations valued using the equity method.

The breakdown by company is shown in detail in the following table:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Profit from revaluation of equity participations		
Altair Zander Italia S.r.l.	41	–
Auriga Immobiliare S.r.l.	–	13,135
Bernini Immobiliare S.r.l.	707	128
CFT Finanziaria S.p.A.	398	2,194
Delta S.p.A.	2,109	–
Domogest S.r.l.	968	474
Esedra S.r.l.	1,792	–
Geolidro S.p.A.	118	–
Immobiliare Prizia S.r.l.	44	57
IN Holdings I S.a.r.l.	3,662	382
Inimm Due S.a.r.l.	1,057	620
Iniziative Immobiliari S.r.l. (new company)	17,495	–
Iniziative Immobiliari S.r.l.	–	1,791
M.S.M.C. Italy Holding B.V.	27,413	48,233
M.S.M.C. Solferino S.a.r.l.	1,975	–
Masseto I B.V.	9,768	–
Orione Immobiliare Prima S.p.A.	348	–
Popoy Holding B.V.	2,684	–
Sci Roev Texas Partners L.P.	37	218
Total revaluation	**70,616**	**67,232**
Losses from writedowns of equity participations		
Alfa Due S.r.l.	362	–
Altair Zander Italia S.r.l.	–	20
Aree Urbane S.r.l. (formerly Ortensia S.r.l.)	104	–
Beta S.r.l.	75	32
Continuum S.r.l.	74	–
Delta S.p.A.	–	10
Dixia S.r.l.	349	509
Eurostazioni S.p.A.	–	–
FIM-Fabbrica Italiana di Mediazione S.r.l.	15	–
Induxia S.r.l.	225	128
Localto S.p.A.	217	–
M.S.M.C. Solferino S.a.r.l.	–	192

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Masseto I B.V.	–	4,529
Moncalieri Center S.r.l.	25	–
Orione Immobiliare Prima S.p.A.	–	33
Popoy Holding B.V.	–	283
Progetto Bicocca La Piazza S.r.l.	16	223
Progetto Corsico S.r.l.	181	101
Progetto Fontana S.r.l.	79	89
Progetto Gioberti S.r.l.	48	29
Progetto Grande Bicocca Multisala S.r.l.	1,096	130
Progetto Lainate S.r.l.	34	20
Regus Business Centres Italia S.p.A.	174	107
Spazio Industriale B.V.	9	32
Tintoretto S.r.l.	–	57
Trixia S.r.l.	184	251
Verdi S.r.l.	371	390
Total writedowns	**3,638**	**7,165**
Total adjustments	**66,978**	**60,067**

The positive result for M.S.M.C. Italy Holding B.V. at December 31st, 2002 is in part due to the capital gains generated by the sale of the 100% stake in M.S.M.C. Immobiliare S.r.l. to Tiglio I S.r.l. which was subsequently merged into Tiglio I S.r.l.

The positive results for Masseto I B.V. were generated by initiatives that were in the start-up phase in 2002. At December 31st, 2002, its marketing activities (former RAS portfolio), which actually began in 2003, were still burdened by financial charges not yet covered by sales margins.

The breakdown of results of equity participations by business segment is shown below:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Asset Management:		
– Residential	27,531	13,137
– Commercial	39,998	45,331
– Non Performing Loans	106	2,137
Total	***67,635***	***60,605***
– Land	(508)	(410)
Services provider:		
– Agency	(16)	–
– Facility Management	41	(94)
Total	***25***	***(94)***
Inter-elimination and other	*(174)*	*(34)*
Total real estate activities	***66,978***	***60,067***
Total other items	–	–
Net income (loss) from equity participations	**66,978**	**60,067**

During 2003, the results of the real estate activities of equity participations showed a significant increase, rising from 60,067 thousand euro in 2002 to 66,978 thousand euro in 2003.

This change was mainly due to *residential asset management* (+14,394 thousand euro) which benefited in particular from the positive results achieved by the real estate investments of Iniziative Immobiliari S.r.l. (new company) and of Aida S.r.l. for 17.5 million euro and 4.5 million euro, respectively.

The economic results of the Business unit "Land" cannot be compared from year to year because they regard different phases of the urbanization process and only became manifest in a subsequent development phase within the business unit product.

EBIT including share of income from equity participations valued using the net equity method

The breakdown by business unit of EBIT including income from minority equity participations, valued with the net equity method, is shown below:

	01.01.2003/ 31.12.2003	01.01.2002/ 31.12.2002
Asset Management:		
– Residential	32,105	20,862
– Commercial	58,692	52,162
– Non Performing Loans	(417)	1,908
Total	***90,380***	***74,932***
– Land	8,169	15,459
Services provider:		
– Agency	33,833	17,923
– Project Management	4,017	3,427
– Property Management	5,959	2,819
– Facility Management	6,492	3,347
– Credit Servicing	284	1,271
Total	***50,585***	***28,787***
– Franchising network/portal	(5,206)	–
Central costs	*(15,839)*	*(13,686)*
Total real estate activities	**128,089**	**105,492**
Other activities:		
– Internet activities	–	(3,282)
Total other activities	***–***	***(3,282)***
EBIT including income from equity participations	**128,089**	**102,210**

EBIT, including income from equity participations, rose from 102,210 thousand euro in 2002 to 128,089 thousand euro in 2003.

Reference should be made to the Director's report on operations for comments on the most significant changes.

"Other activities" showed a nihil value in 2003 compared to a negative contribution of 3,282 thousand euro in 2002 for internet activities.

E. EXTRAORDINARY INCOME AND EXPENSES

20. Extraordinary income

Extraordinary income totalled 9,642 thousand euro in 2003 compared to 58,464 thousand euro in 2002.

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Capital gains on assets disposal		
Capital gains from sale of SIF bonds to Localto S.p.A.	309	–
Capital gains from sales of properties	–	26
Capital gains from sale of the environmental branch	130	–
Capital gains from sale of securities recorded in fixed assets	–	53,611
Capital gains from sale of equity participations in:		
– Eurostazioni S.p.A.	–	1,477
– Pirelli & C. Real Estate Franchising Holding S.p.A.	421	–
– Localto S.p.A.	327	–
– Agied S.r.l.	691	–
– Others	48	74
Total	**1,926**	**55,188**
Other extraordinary income		
– Prior years income taxes	2,683	1,411
– Use of tax provision	600	–
– Prior year income and other	4,433	1,865
Total	**7,716**	**3,276**
Total extraordinary income	**9,642**	**58,464**

Extraordinary income in 2002 resulted from significant capital gain earned on selling the remainder of the securities portfolio formerly belonging to Unim.

Extraordinary income for taxes for previous years derived from the alignment of the income taxes of the previous year with the amount calculated for tax declaration.

The “prior year income and other” caption includes 1,870 thousand euro related to provisions accrued in prior years in excess of the expenses incurred and 780 thousand euro of charges for tax amnesties recovered from the previous owners of some consolidated companies; the remaing part refers to amounts not relevant individually.

21. Extraordinary expenses

Extraordinary expenses for 2003 were 15,753 thousand euro, compared to 8,611 thousand euro in 2002. They are illustrated below in detail:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Directors' fees	–	2,134
Prior year expenses	1,036	2,286
Charges on securities' operations	–	726
Charges for outstanding arbitration	–	190
Prior years' income taxes	855	164
Amnesties	11,307	–
Other misc.	2,555	3,111
Total	**15,753**	**8,611**

Directors' fees at December 31st, 2002, listed under other extraordinary charges, pertain to fees paid in proportion to results achieved by the Group for extraordinary transactions.

Extraordinary charges concerning taxes for previous years derive from the alignment of the income taxes of the previous year with the amount calculated for the tax declaration.

Charges for amnesties include those for still-open fiscal years of the Unione Immobiliare S.p.A. (Unim) subsidiary. Costs for the amnesties were charged to the previous owners of some consolidated companies for 780 thousand euro.

22. Income taxes

"Income taxes" refers to current and deferred taxes calculated in accordance to current tax rates. In accordance with the accounting policy for equity participation in associated companies valued using the equity method, the results of these companies are included net of the related taxes. The composition is as follows:

	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Current taxes		
IRPEG/IRAP	33,474	20,540
Substituted tax on capital gains	–	10,090
Other	198	27
Total	**33,672**	**30,657**
Deferred tax assets		
Accrued	(13,947)	(18,483)
Reserved	10,291	26,089
Total	**(3,656)**	**7,606**
Deferred tax liabilities		
Accrued	–	2,390
Reserved	(8,788)	(16,328)
Total	**(8,788)**	**(13,938)**
Total income taxes	**21,228**	**24,325**

Reference should be made to our comments on the related accounts for an analysis of the variation in receivables and provisions related to deferred taxation.

Milan, March 22nd, 2004 The Board of Directors

SUPPLEMENTARY SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. RECLASSIFIED CONSOLIDATED BALANCE SHEET

(in thousands of euro)	12.31.2003	12.31.2002
Intangible assets, net	91,101	50,767
Property, plant and equipment, net	18,461	6,079
Financial assets	203,890	161,993
Fixed assets - (A)	**313,452**	**218,839**
Inventories	325,035	383,702
Receivables from third parties	246,662	163,595
Other assets	90,863	85,383
Accrued income and prepaid expenses	1,997	1,577
Current assets - (B)	**664,557**	**634,257**
Trade payables	(300,425)	(211,030)
Advances	(44,831)	(94,945)
Tax payables	(43,742)	(22,065)
Other liabilities	(90,936)	(99,354)
Accrued liabilities and deferred income	(22,385)	(16,457)
Current liabilities - (C)	**(502,319)**	**(443,851)**
Net invested capital - (D) = (A + B + C)	**475,690**	**409,245**
Shareholders' equity-Group	(421,561)	(367,901)
Minority interest	(3,234)	(883)
Provision for employees' leaving indemnity	(21,046)	(14,591)
Provisions for liabilities and expenses	(20,691)	(36,880)
Capital contributions	–	(1,292)
Net Financial Position	(9,158)	12,302
Total covered net invested capital	**(475,690)**	**(409,245)**

B. STATEMENT OF NET FINANCIAL POSITION

(in thousands of euro)	12.31.2003	12.31.2002
– bank and postal deposits, checks, cash on hand	26,011	55,716
– receivables due from Group companies	18,726	1,855
– receivables due from Pirelli Servizi Finanziari S.p.A.	1,673	16,005
– financial receivables from others	2,178	244
– other securities	5,300	280
– other receivables/accrued income	96	55
Current financial assets - (A)	**53,984**	**74,155**
– banks borrowings – within 1 year	(167,606)	(3,470)
– payables due to other financial institutions	(14,214)	(22)
– payables due to parent and ultimate parent companies	–	(1,937)
– payables due to subsidiaries/associated companies/other PRE Group companies	(5,204)	–
– payables due to companies of Pirelli & C. S.p.A. Group	–	(25,744)
– other payables/accrued liabilities	(7,000)	–
Current financial liabilities - (B)	**(194,024)**	**(31,173)**
Net short-term financial indebtedness - C = (A + B)	**(140,040)**	**42,982**
– financial receivables due from subsidiaries associated and other companies	214,514	179,003
– other securities	240	221
Medium/long-term financial assets - (D)	**214,754**	**179,224**
– bank borrowings - beyond 1 year	(83,872)	(209,904)
– payables to minority shareholders for loans	–	–
Medium/long- term financial payables - (E)	**(83,872)**	**(209,904)**
Net financial position - F = (C + D + E)	**(9,158)**	**12,302**

C. CONSOLIDATED STATEMENT OF CASH FLOW

(in thousands of euros)	01.01.2003/ 12.31.2003	01.01.2002/ 12.31.2002
Net income - Group		
Net operating result - Group	102,067	125,339
Amortization and depreciation	18,040	9,644
Writedowns	2,801	4,849
Accruals to provisions for liabilities and expenses	5,496	8,207
Accruals to provisions for employees' leaving indemnity	4,906	3,332
Cash flow provided by current operations	**133,310**	**151,371**
Effect of changes in working capital:		
Inventories	58,667	(33,384)
Receivables from third parties	(85,868)	(7,011)
Other assets	(5,480)	15,582
Accrued income and prepaid expenses	(420)	(84)
Payables	89,395	84,931
Advances	(50,114)	47,471
Tax payables	21,677	(1,917)
Other current liabilities	(7,084)	(52,675)
Accrued liabilities and deferred income	5,928	1,597
Provisions for liabilities and expenses	(21,685)	(11,544)
Employees' leaving indemnity	1,549	3,304
Cash flow provided by (used for) operating activities	**6,565**	**46,270**
(Increase)/decrease in intangible assets	(54,904)	(47,578)
(Increase)/decrease in property, plant and equipment	(15,852)	(4,861)
(Increase)/decrease in financial assets	(41,897)	(96,558)
Cash flow provided by (used for) investments activities	**(112,653)**	**(148,997)**
Change in shareholders' equity		
– distibution of dividends	(48,682)	(19,069)
– increase in share capital/share premium/shareholders' non-refundable transfer	–	124,369
Cash flow provided by (used for) financing activities	**(48,682)**	**105,300**
(Decrease)/increase in cash and banks	**(21,460)**	**153,944**
Net financial position - at beginning of year	**12,302**	**(141,642)**
Net financial position - at end of year	**(9,158)**	**12,302**

D. RECONCILIATION BETWEEN THE PARENT COMPANY RESULTS AND SHAREHOLDERS' EQUITY AND THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of euros)	Income	Equity
Parent Company financial statements as at December 31st, 2003	**74,710**	**369,779**
Dividends from equity participations:		
– companies consolidated using the line-by-line method	(25,038)	(25,038)
– companies consolidated using the equity method	(62,485)	(62,485)
Pro-quota net income:		
– companies consolidated using the line-by-line method	32,690	32,690
– companies consolidated using the proportionate method	(75)	(75)
– companies consolidated using the equity method	66,978	66,978
Retained earnings:		
– consolidation reserve-line-by-line consolidation	–	(15,644)
– consolidation reserve-proportionate consolidation	–	13,346
– consolidation reserve-equity method	–	15,879
– adjustments to consolidation reserve for difference on consolidation	–	20,161
– adjustments to consolidation reserve for minority interest	–	274
– adjustments to retained earnings for prior year intercompany eliminations and tax effect	–	(9,591)
Consolidated adjustments:		
– writedowns of equity participations in subsidiaries	12,809	12,809
– writedowns of equity participations in associated companies	630	630
– writedowns of proportionate equity participations	65	65
– change in intercompany earnings and tax effect	2,750	2,750
– goodwill amortization	1,069	1,069
– amortization of differences on consolidation	(2,036)	(2,036)
Consolidated financial statements as at December 31st, 2003	**102,067**	**421,561**

E. SUMMARY OF DIRECTORS', STATUTORY AUDITORS' AND MANAGING DIRECTORS' FEES

Name (A)	Office (B)	Term period in which office was held (C)	Expiration of office (D)	Fees for the office in the company that prepares fin. statements (E)	Non-monetary benefits (F)	Bonus and other incentives (MBO/LTI/ other) (G)	Other compen-sation (RAL/other) (H)
Marco Tronchetti Provera	Chairman	from 1.01.03 to 12.31.03	5.30.04	25,000	–	–	–
Giovanni Nassi	Deputy Chairman	from 1.01.03 to 12.31.03	5.30.04	128,300 (1)	1,730 (2)	–	–
Carlo Alessandro Puri Negri	Deputy Chairman/ Chief Executive Officer	from 1.01.03 to 12.31.03	5.30.04	1,625,000 (3)	121,265 (4)	3,544,284 (5)	400,000 (6)
Carlo Bianco	Director	from 1.01.03 to 12.31.03	5.30.04	25,000	–	–	–
	General Manager	from 1.01.03 to 12.31.03	–	–	2,235 (2)	498,928 (7)	388,551 (8)
Emilio Biffi	Director	from 1.01.03 to 12.31.03	5.30.04	25,000	–	–	–
	General Manager	from 1.01.03 to 12.31.03	–	–	3,450 (2)	260,057 (9)	389,021 (8)
Carlo Buora	Director	from 1.01.03 to 12.31.03	5.30.04	25,000	–	–	–
Giulio Malfatto	Director	from 1.01.03 to 12.31.03	5.30.04	25,000	–	–	–
	General Manager	from 1.01.03 to 6.17.03	–	–	1,456 (2)	–	161,541 (10)
Giampietro Nattino	Director	from 1.01.03 to 5.06.03	–	–	–	–	–
Vincenzo Sozzani	Director	from 1.01.03 to 12.31.03	5.30.04	25,000	–	–	2,056 (11)
Reginald Bartholomew	Director	from 1.01.03 to 12.31.03	5.30.04	35,000 (12)	–	–	–
Sergio Lamacchia	Director	from 1.01.03 to 12.31.03	5.30.04	35,000 (12)	–	–	–
Claudio Recchi	Director	from 1.01.03 to 12.31.03	5.30.04	35,000 (12)	–	–	–
Livio Strazzera	Director	from 1.01.03 to 12.31.03	5.30.04	35,000 (13)	–	–	–
William Dale Crist	Director	from 5.06.03 to 12.31.03	5.30.04	35,000 (13)	–	–	–
Dario Trevisan	Director	from 5.06.03 to 12.31.03	5.30.04	35,000 (13)	–	–	–
Marc Petit	General Manager	from 9.01.03 to 12.31.03	–	–	1,135 (2)	81,000 (15)	126,667 (8)

Name	Office	Term period in which office was held	Expiration of office	Fees for the office in the company that prepares fin. statements	Non-monetary benefits	Bonus and other incentives (MBO/LTI/ other)	Other compen-sation (Rto/other)
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Giorgio Fantoni	General Manager	from 6.01.03 to 12.31.03	–	–	1,372 (2)	78,000 (15)	140,000 (8)
Roberto Bracchetti	Chairman of the Board of Statutory Auditors	from 1.01.03 to 12.31.03	5.30.04	52,837	–	–	10,852 (14)
Paolo Carrara	Standing Auditor	from 1.01.03 to 12.31.03	5.30.04	35,084	–	–	20,707 (14)
Gianfranco Polerani	Standing Auditor	from 1.01.03 to 12.31.03	5.30.04	35,295	–	–	66,277 (14)
Franco Ghiringhelli	Alternate Auditor	from 1.01.03 tol 12.31.03	5.30.04	–	–	–	52,471 (14)
Paola Giudici	Alternate Auditor	from 1.01.03 to 12.31.03	5.30.04	–	–	–	–

(1) Includes compensation of 25,000 euro as director and additional compensation of 103,300 euro for the specific tasks appointed by the Board of Directors.

(2) Company car.

(3) Includes compensation of 25,000 euro as director and additional compensation of 1,600,000 euro as Deputy Chairman and Chief Executive Officer. Values equal to company cost.

(4) Includes company car for 3,574 euro and annual insurance policy premium composed as follows: 99,673 euro at end of term of office policy, 7,130 euro for life insurance, 10,188 euro for medical insurance.

(5) The bonus, net of tax for the beneficiary, is equal to 1.9% of consolidated net income.

(6) Includes compensations up to August 31st, 2003 as Chairman of the Board of Directors in the following companies: Pirelli & C. Real Estate Property Management S.p.A. (66,667 euro), Pirelli & C. Real Estate Agency S.p.A. (133,332 euro). Pirelli & C. Real Estate Project Management S.p.A. (66,667 euro), Pirelli & C. Real Estate Facility Management S.p.A. (66,667 euro), Pirelli & C. Real Estate Credit Servicing S.p.A. (66,667 euro).

(7) Includes 337,228 euro for MBO and 161,700 euro for LTI net of contributions charged to the Company.

(8) Gross compensation, net of allocations for employees' leaving indemnity (TFR) and contributions charged to the Company.

(9) Includes 168,057 euro for MBO and 92,000 euro for other bonuses, net of contributions charged to the Company.

(10) Includes gross compensation of 152.596 euro, net of allocations for employees' leaving indemnity (TFR) and contributions charged to the Company and compensation for 8,945 euro received as Chief Executive Officer in Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A..

(11) Compensation received as Director in Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A..

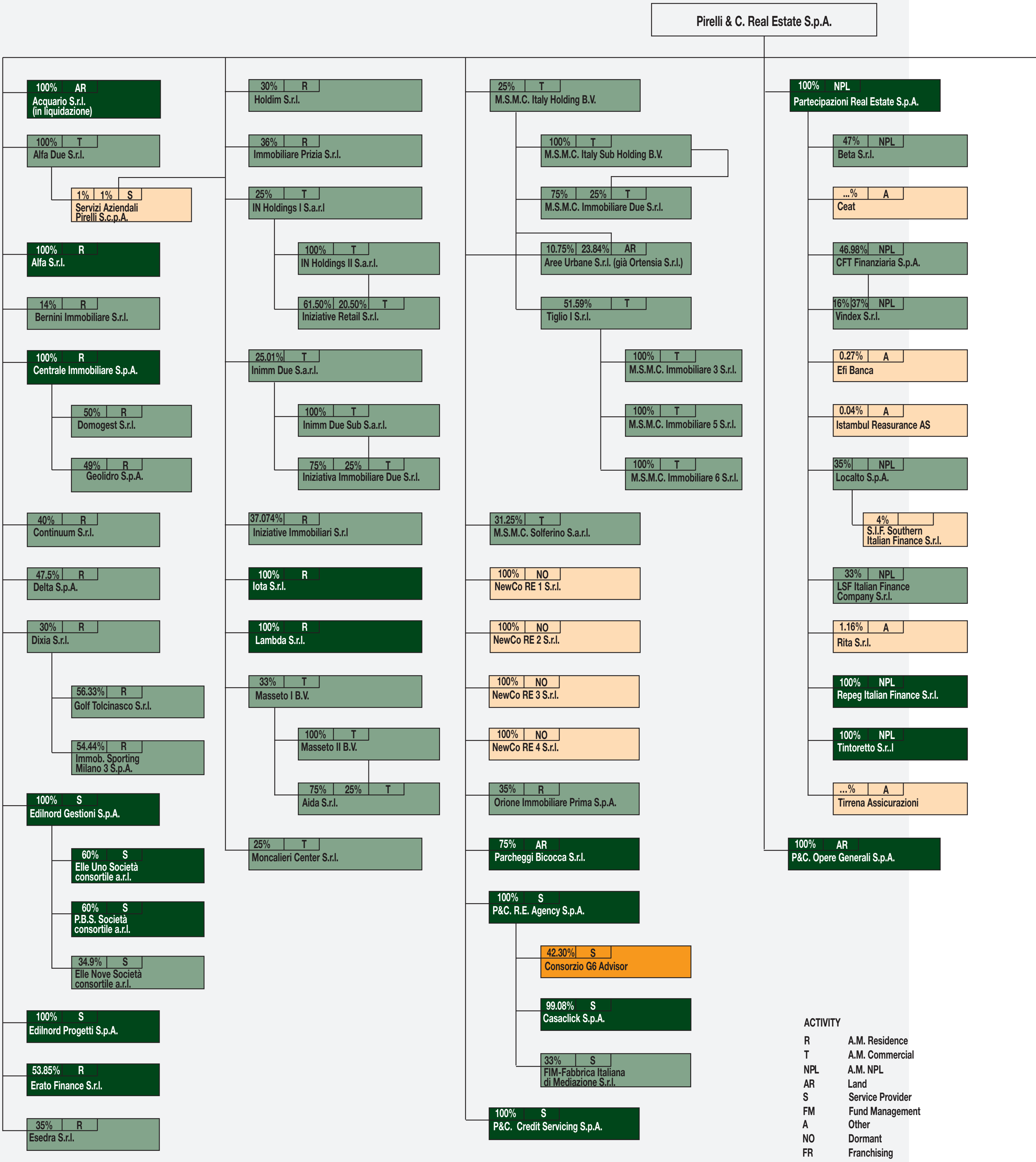
(12) Includes compensation of 25,000 euro as director and additional compensation of 10,000 euro received as member of the Remuneration Committee.

(13) Includes compensation of 25,000 euro as director and additional compensation of 10,000 euro received as member of the Committee for Internal Audit and Corporate Governance.

(14) Compensations received from subsidiaries.

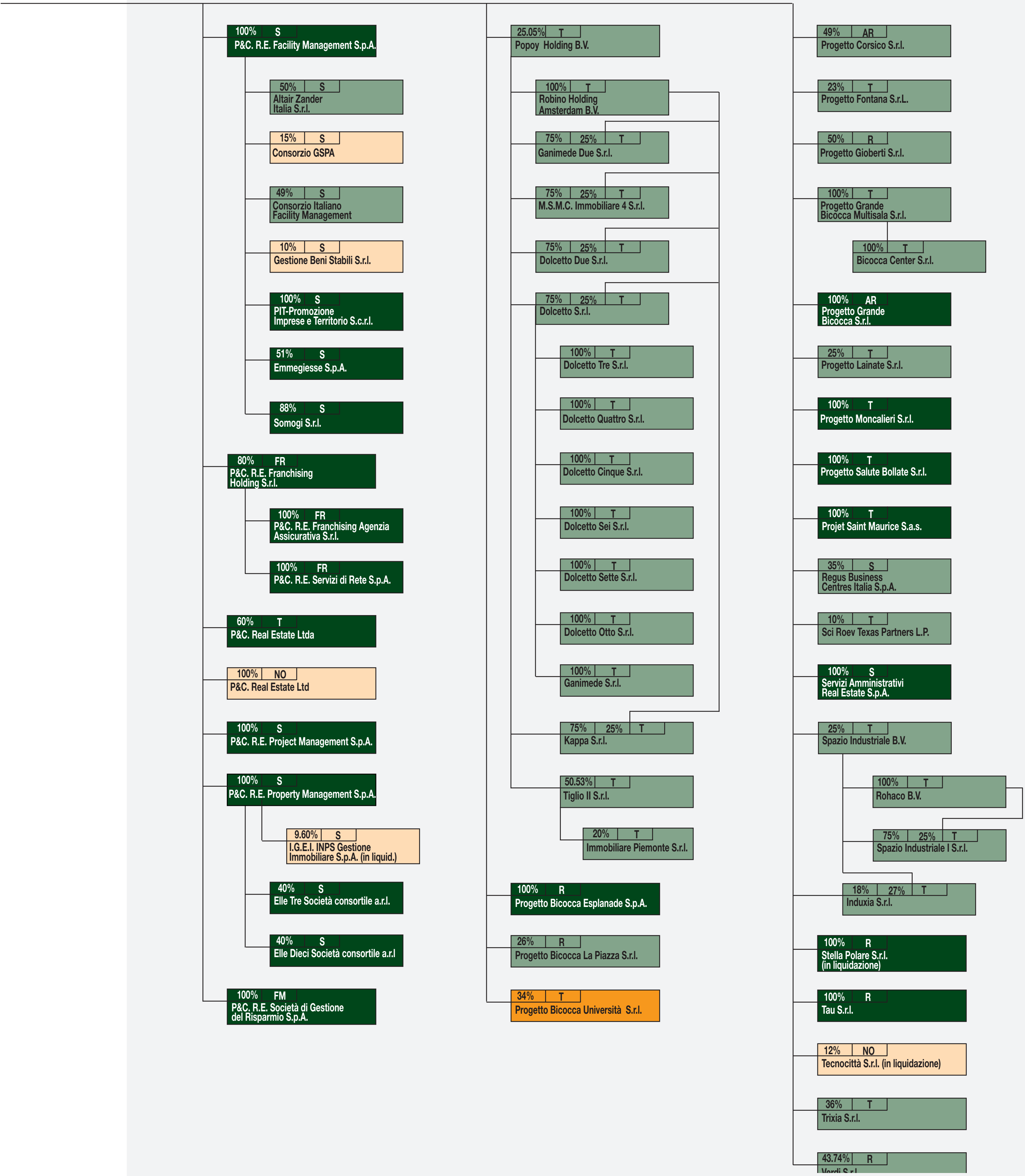
(15) Refers to MBO net of contributions charged to the Company.

F. STRUCTURE OF THE PIRELLI & C. REAL ESTATE GROUP AT DECEMBER 31st, 2003



LEGEND:

Line-by-line Consolidated | Consolidated Proportional | Consolidated Equity | Non Consolidated | ...% participations less than 1%


100% S
P&C. R.E. Facility Management S.p.A.
50% S
Altair Zander Italia S.r.l.
15% S
Consorzio GSPA
49% S
Consorzio Italiano Facility Management
10% S
Gestione Beni Stabili S.r.l.
100% S
PIT-Promozione Imprese e Territorio S.c.r.l.
51% S
Emmegiesse S.p.A.
88% S
Somogi S.r.l.
80% FR
P&C. R.E. Franchising Holding S.r.l.
100% FR
P&C. R.E. Franchising Agenzia Assicurativa S.r.l.
100% FR
P&C. R.E. Servizi di Rete S.p.A.
60% T
P&C. Real Estate Ltda
100% NO
P&C. Real Estate Ltd
100% S
P&C. R.E. Project Management S.p.A.
100% S
P&C. R.E. Property Management S.p.A.
9.60% S
I.G.E.I. INPS Gestione Immobiliare S.p.A. (in liquid.)
40% S
Elle Tre Società consortile a.r.l.
40% S
Elle Dieci Società consortile a.r.l
100% FM
P&C. R.E. Società di Gestione del Risparmio S.p.A.
25.05% T
Popoy Holding B.V.
100% T
Robino Holding Amsterdam B.V.
75% 25% T
Ganimede Due S.r.l.
75% 25% T
M.S.M.C. Immobiliare 4 S.r.l.
75% 25% T
Dolcetto Due S.r.l.
75% 25% T
Dolcetto S.r.l.
100% T
Dolcetto Tre S.r.l.
100% T
Dolcetto Quattro S.r.l.
100% T
Dolcetto Cinque S.r.l.
100% T
Dolcetto Sei S.r.l.
100% T
Dolcetto Sette S.r.l.
100% T
Dolcetto Otto S.r.l.
100% T
Ganimede S.r.l.
75% 25% T
Kappa S.r.l.
50.53% T
Tiglio II S.r.l.
20% T
Immobiliare Piemonte S.r.l.
100% R
Progetto Bicocca Esplanade S.p.A.
26% R
Progetto Bicocca La Piazza S.r.l.
34% T
Progetto Bicocca Università S.r.l.
49% AR
Progetto Corsico S.r.l.
23% T
Progetto Fontana S.r.L.
50% R
Progetto Gioberti S.r.l.
100% T
Progetto Grande Bicocca Multisala S.r.l.
100% T
Bicocca Center S.r.l.
100% AR
Progetto Grande Bicocca S.r.l.
25% T
Progetto Lainate S.r.l.
100% T
Progetto Moncalieri S.r.l.
100% T
Progetto Salute Bollate S.r.l.
100% T
Projet Saint Maurice S.a.s.
35% S
Regus Business Centres Italia S.p.A.
10% T
Sci Roev Texas Partners L.P.
100% S
Servizi Amministrativi Real Estate S.p.A.
25% T
Spazio Industriale B.V.
100% T
Rohaco B.V.
75% 25% T
Spazio Industriale I S.r.l.
18% 27% T
Induxia S.r.l.
100% R
Stella Polare S.r.l. (in liquidazione)
100% R
Tau S.r.l.
12% NO
Tecnocittà S.r.l. (in liquidazione)
36% T
Trixia S.r.l.
43.74% R

INDEPENDENT AUDITORS REPORT

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE N° 58 DATED 24 FEBRUARY 1998

To the Shareholders of
Pirelli & C. Real Estate SpA

1 We have audited the consolidated financial statements of Pirelli & C. Real Estate SpA (the Pirelli & C. Real Estate Group) as of 31 December 2003. These consolidated financial statements are the responsibility of Pirelli & C. Real Estate SpA's directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian Commission for listed companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 15 April 2003.

3 In our opinion, the consolidated financial statements of Pirelli & C. Real Estate SpA (the Pirelli & C. Real Estate Group) as of 31 December 2003 comply with the Italian laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the Group.

Milan, 20 April 2004

PricewaterhouseCoopers SpA

Elisabetta Caldirola
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation. The financial statements referred in the above report have not been translated.

PIRELLI & C. REAL ESTATE S.P.A.
Head office in Milano, via G. Negri, 10
Share Capital Euro 22,402,491 approved
Share Capital Euro 20,302,491 entirely deposited
Registry of Companies of Milan no. 02473170153