PRESS RELEASE

PIRELLI RE ACQUIRES DGAG, A STRATEGIC STEP FOR THE EXPANSION IN GERMANY

- BINDING AGREEMENT SIGNED FOR ACQUISITION OF ONE OF GERMANY’S LEADING PROPERTY COMPANIES BASED IN HAMBURG AND KIEL FOR APPROX. €440M (EQUITY VALUE AT 31/12/2005)

- ENTERPRISE VALUE APPROX. €1,660M, INCLUDING PROPERTY ASSETS, ASSET MANAGEMENT AND SERVICES

- PIRELLI RE WILL APPLY ITS BUSINESS MODEL TO DGAG:
  - RESIDENTIAL PORTFOLIO OF APPROX. €1,080M TO BE CONTRIBUTED TO JOINT VENTURE ALREADY SET UP BY PIRELLI RE (35%) AND THE REAL ESTATE FUNDS OF RREEF (DEUTSCHE BANK) (65%)
  - SHOPPING/COMMERCIAL PORTFOLIO OF APPROX. €330M TO BE CONTRIBUTED TO JOINT VENTURE SET UP BY PIRELLI RE (30%) AND REAL ESTATE FUNDS MSREF (MORGAN STANLEY) (70%)
  - OTHER ASSETS UNDER DISPOSAL FOR APPROX. €180M
  - ASSET MANAGEMENT AND SERVICES REMAIN 100% OWNED BY PIRELLI RE

- ENTERPRISE VALUE ESTIMATED AT THE CLOSING AT APPROX. €1.5BN COVERED FOR APPROX. €130M BY EQUITY, FOR APPROX. €310M BY A NON-RECOLUSE BRIDGE LOAN OF HYPO REAL ESTATE AND FOR APPROX. €1,060M BY ALREADY EXISTING LOANS BACKED BY PROPERTIES

- SUPPORT CONFIRMED TO PIRELLI RE BY INTERNATIONAL INSTITUTIONAL INVESTORS AND BANKS FOR THE EXPANSION IN CENTRAL-EASTERN EUROPE

- WITH ASSETS UNDER MANAGEMENT GROWING TO APPROX. €13.5BN (BOOK VALUE), PIRELLI RE GROUP CONSOLIDATES ITS LEADERSHIP POSITION IN THE ASSET MANAGEMENT BUSINESS IN CONTINENTAL EUROPE

- ASSETS OUTSIDE ITALY WILL TOTAL APPROX. €2BN, AROUND 15% OF TOTAL ASSETS, ANTICIPATING THE ACHIEVEMENT OF THE 20% TARGET SET OUT IN 2006-2008 THREE-YEAR PLAN
Transaction Closing Expected by End of 2006, Subject to Approval from Relevant Authorities

Hamburg, 9 October 2006 – Pirelli RE has signed a binding agreement to acquire around 96.8% of Deutsche Grundvermögen (DGAG), one of Germany’s leading property companies with headquarter in Hamburg and Kiel, based on a valuation of 100% of equity of approximately €440m (at 31 December 2005). In consideration of a preliminary price adjustment (which will be finalized on the pro-forma financial statements at the date of closing), the provisional purchase price amounts to €462m for the 100% of DGAG.

In details, Pirelli RE will acquire 95.3% of B&L Immobilien, a company whose main shareholders are Albert Büll and Cornelius Liedtke and which owns 62% of DGAG, and it will acquire from HSH N Real Estate (controlled by the German bank HSH Nordbank) around 38% of the German property company.

DGAG’s Enterprise Value estimated at the closing date, considering also disposals underway, amounts to approximately €1.5bn (€1,660m at 31 December 2005), including its property assets and asset management and services businesses.

In details, around 88% of the Company’s property portfolio, in terms of surface area, is represented by residential properties and around 12% by retail space and offices. The residential portfolio includes 21,403 units (a total surface area of over 1,262,890 square metres), primarily located in the areas of Hamburg, Lubeck and Kiel. The shopping/commercial portfolio consists of three shopping centres, with two situated in Hamburg, (with a total surface area of 77,305 square metres), as well as of 17 retail and office properties in the cities of Frankfurt, Dresden, Berlin and Hamburg (with a total surface area of 90,803 square metres).

Pirelli RE will apply its business model to DGAG, with the purpose to create a platform for real estate investments, asset management and services which thanks to the quality of its management who will be confirmed, will continue the expansion process in the German market, with new identified opportunities.

The reorganization process, which will be completed by the end of 2007, will involve the contribution of the company’s residential properties, with a value of approximately €1,080m, to a joint venture between Pirelli RE (35%) and the real estate funds of RREEF (65%), Deutsche Bank’s division in charge of real estate investments, which has already been established under a binding agreement. The commercial portfolio will be contributed to a joint venture between Pirelli RE (30%) and the real estate funds of Morgan Stanley (MSREF) (70%) for a price of €330m (enterprise value) for 100% ownership of the commercial assets, which has also already been established under a binding agreement. Other assets and asset management and services businesses, which employ approximately 400 staff, will be owned 100% by Pirelli RE Deutschland (100% Pirelli RE).

The Enterprise Value will be covered for approximately €130m by equity, for approximately €310m by the non-recourse bridge loan issued by Hypo Real Estate and for approximately €1,060m by underlying debt secured by the properties of the

* The bank commitment for the bridge financing has been issued up to approximately €350m, including closing costs
German company. Pirelli RE has already obtained a commitment for a non-recourse refinancing of that debt, increasing leverage on the commercial and residential portfolios.

The **impact** on Pirelli RE **net debt** as a result of the transaction will total to approximately **€1,500m**, of which around €1,370m on a non-recourse basis for the Company. At the end of the restructuring, **net debt** will be approximately €80-90m; besides that, there will be an additional commitment of around €40m of shareholders’ loans to companies in which Pirelli RE has minority stakes.

Pirelli RE **assets under management** will thus increase from a book value of around €12bn (around €14bn market value) to approximately **€13.5bn**. This includes around **€2bn** in investments abroad, amounting to approximately **15% of total assets** and speeding up the achievement of 20% target set out in the 2006-2008 three-year plan. With this transaction Pirelli RE consolidates its leadership position in the asset management business in the Continental Europe.

During 2006 total investments as of today exceed €3.4bn, fully meeting budget 2006 targets around three months in advance with respect to the end of the year.

Transaction closing is expected by the end of 2006, subject to approval from Germany’s Antitrust Authority.

**Carlo A. Puri Negri, CEO of Pirelli RE, has declared “I am satisfied of this acquisition for the quality of assets acquired, but above all for the quality of the management who will help us to accelerate our expansion process in Germany”**.

For this transaction, Deutsche Bank and Lazard acted as financial advisors to Pirelli RE, whilst Freshfields Bruckhaus Deringer (Berlin, Cologne, Munich and Milan practices) and the Vitali e Piccardi Legal Practice acted as legal and tax advisors. Engel&Volkers and REAG acted as real estate independent experts and KPMG carried out financial and tax due diligence. Morgan Stanley acted as financial advisor to the Pirelli RE – MSREF joint venture.

For further information contact:

Pirelli RE Press Office Tel. +39/02/8535.4270
Pirelli RE Investor Relations Tel. +39/02/8535.4057
[www.pirellire.com](http://www.pirellire.com)