



## **PRESS RELEASE**

### **BOARD APPROVES Q1 RESULTS AT 31 MARCH 2006: REACHED THE TOP END OF TARGET GROWTH ANNOUNCED TO MARKET**

- **OPERATING PROFIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS UP 15% TO €38.9M**
  - **NET PROFIT UP 12% TO €30.1M**
  - **PROPERTY SALES TOTAL €456.1M**
- **PURCHASE AGREEMENTS TOTAL APPROX. €773M, INCLUDING €362.5M ALREADY COMPLETED**
  - **NET DEBT AT €5M (€30.5M AT END 2005)**
- **GOOD PROSPECTS OF FURTHER GROWTH IN 2006**

*Milan, 9 May 2006* – The Board of Directors of Pirelli & C. Real Estate today examined and approved the quarterly report for the three months ended 31 March 2006.

Pirelli RE is a **management company**, which manages funds and companies that own properties and non-performing loans, and in which it holds minority interests (the fund and asset management businesses). It also provides a full range of property services to the above companies and to other customers, either directly or via its franchise network. In analysing the following results, which have been presented and prepared under IFRS, it should be noted that **operating profit including income from equity participations** is the most appropriate measure of the Group's operating performance.

## Group operating performance in Q1 2006

**Aggregate revenues** amount to **€717.8m**, marking a **4%** improvement on the €689.6m of the first quarter of 2005.

**Operating profit including income from equity participations** amounts to **€38.9m**, or **15% increase** on the €33.8m of the same period of the previous year.

**Consolidated Net profit** is **€30.1m**, representing a **12% increase** on the €26.9m of the first quarter of 2005.

**Shareholders' equity** amounts to **€575.9m**, compared with €535.4m at the end of 2005. The increase of €40.5m is due to both net profit for the period (€30.1m), the exercise of share options (€11.5m), and a reduction caused by the sale of treasury shares (€1.8m).

**Net Financial Position** stands at **€5m**, marking an improvement compared with the €30.5m at 31 December 2005 (€12.4m at 31 March 2005).

**Adjusted Net Financial Position** (including shareholder loans to companies in which the Group has minority stakes) totals **€363m**, compared with €292.5m at the end of December 2005 (€200.1m at 31 March 2005).

The Group's **gearing** is **0.62** compared with 0.53 at the end of December 2005.

## Performance of main areas of business in Q1 2006

### Fund and Asset Management

**Aggregate revenues from fund and asset management** during the first three months of 2006 amount to **€587.6m**, marking an improvement compared with the €576.9m of the same period of 2005. **Property sales** amounted to **€456.1m**, compared with €463.2m in the same period of the previous year.

**Gross gains** total **€135.1m**, compared with €122.5m in the first quarter of 2005, representing an increase in the **profit margin on sales** from 26% in the first quarter of 2005 to **30%** in the same period of 2006.

Acquisitions of property portfolio amounted to €362.5m in the first quarter of, 2006 compared with €307.3m in property acquisitions and €77.5m in acquisitions of non-performing loans in the first three months of 2005.

Taking account of **commitments to purchase** properties, totalling approximately **€410m**, total purchases during the first quarter of 2006 rose to around €773m.

**Operating profit including income from equity participations** amounts to **€28.9m**, compared with €28.3m for the first quarter of 2005 (Pirelli RE's share accounting for around 39%).

### Services Operated Directly and in Franchising

**Services operated directly** generated consolidated **revenues of €86.7m**, compared with €81.7m in the same period of the previous year.

**Operating profit of €15.6m** is **27%** up on the €12.3m of the same period of 2005, thanks above all to the good performances of facility and property management.

The **ROS** (Return On Sales) stands at **18%** (16,4% net of one asset disposal), marking an improvement on the 15% recorded in the first quarter of 2005.

Development of the franchise network to distribute estate agency, banking and insurance services on the retail market proceeded during the first three months of 2006. With 1,028 agencies signed up, including 536 now fully operative, Pirelli RE Franchising has reached break-even, compared with a loss of €2.1m in the first quarter of 2005.

### **Subsequent events**

- Under the agreement announced to the market on 15 February 2006 and following clearance from Poland's Antitrust Authority, on 3 April 2006 Pirelli RE completed the purchase of 75% of Pekao Development from Bank Pekao (a Unicredit Group company) at a price of approximately €20m. At the same time Pekao Development changed its name to Pirelli Pekao Real Estate. The Company, with a development portfolio of 290,000 m<sup>2</sup> is negotiating the purchase of a further 140,000 m<sup>2</sup>. Pirelli RE has thus embarked on its expansion into eastern Europe.

### **Outlook for 2006**

Based on the results achieved in the first quarter of the year and the information available, the Group believes there are good prospects of further growth in 2006.

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The summary reclassified consolidated profit and loss account, balance sheet and cash flow statement at and for the three months ended 31 March 2006 are attached to this release.

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**Consolidated balance sheet**  
**Pirelli RE**

(€m)	<b>31 Mar 2006</b>	<b>31 Dec 2005</b>	<b>31 Mar 2005</b>
<b>Non-current assets</b>	<b>435,5</b>	<b>410,7</b>	<b>343,9</b>
of which equity participations in investment funds and companies	328,9	303,3	241,6
<b>Net working capital</b>	<b>205,5</b>	<b>215,9</b>	<b>211,6</b>
<b>Net capital employed</b>	<b>641,0</b>	<b>626,6</b>	<b>555,5</b>
<b>Equity</b>	<b>585,0</b>	<b>552,1</b>	<b>496,5</b>
of which attributable to shareholders of the Parent Company	575,9	535,4	490,0
<b>Provisions</b>	<b>51,0</b>	<b>44,0</b>	<b>46,6</b>
<b>Net (liquidity)/debt</b>	<b>5,0</b>	<b>30,5</b>	<b>12,4</b>
of which shareholder loans	(358,0)	(262,0)	(187,7)
<b>Total equity and debt</b>	<b>641,0</b>	<b>626,6</b>	<b>555,5</b>
<b>Net (liquidity)/debt before shareholder loans</b>	<b>363,0</b>	<b>292,5</b>	<b>200,1</b>
<b>Gearing before shareholder loans</b>	<b>0,62</b>	<b>0,53</b>	<b>0,40</b>

**Consolidated profit and loss account**  
**Pirelli RE**

(€m)	Q1 2006	Q1 2005	% increase
<b>Aggregate revenues</b>	<b>717,8</b>	<b>689,6</b>	
Consolidated revenues	142,1	113,3	
Operating profit	25,0	14,3	
Income from equity participations (*)	13,9	19,6	
<b>Operating profit including income from equity participations</b>	<b>38,9</b>	<b>33,8</b>	<b>15%</b>
Finance income from equity participations	4,4	3,2	
<b>Operating profit including income and finance income from equity participations</b>	<b>43,3</b>	<b>37,0</b>	
Other finance income/(costs)	(4,1)	(2,8)	
Profit before taxation	39,2	34,1	
Taxation	(8,6)	(7,0)	
Profit for the period	30,6	27,1	
Profit attributable to minority interests	(0,5)	(0,2)	
<b>Profit attributable to shareholders of the Parent Company</b>	<b>30,1</b>	<b>26,9</b>	<b>12%</b>

(\*) the figures for 2006 and 2005 include €1.8m and €1.1m of income from funds, respectively

**Consolidated cash flow statement**  
**Pirelli RE**

(€m)	Q1 2006	2005	Q1 2005
<b>Operating profit including income from equity participations</b>	<b>38,9</b>	<b>186,1</b>	<b>33,8</b>
Amortisation and depreciation	2,1	9,0	2,0
Movements in non-current assets	(26,9)	(71,8)	(3,1)
Movement in net working capital	0,9	(10,2)	(12,0)
Movement in provisions	6,7	(6,4)	(2,1)
<b>Free cash flow</b>	<b>21,7</b>	<b>106,8</b>	<b>18,6</b>
<b>Cash flow before dividends</b>	<b>22,6</b>	<b>70,0</b>	<b>16,8</b>
- Dividends paid by the Parent Company	0,0	(68,3)	0,0
- Dividends paid (movement in equity attributable to minority interests)	(6,9)	0,0	0,0
<b>Net cash flow</b>	<b>15,7</b>	<b>1,7</b>	<b>16,8</b>
- Capital increase	11,5	23,6	11,2
- Purchase/Sale of own shares	(1,7)	(15,6)	(0,2)
<b>Total cash flow</b>	<b>25,5</b>	<b>9,7</b>	<b>27,8</b>