PRESS RELEASE

BOARD APPROVES PRELIMINARY H1 RESULTS AT 30 JUNE 2006

- **OPERATING PROFIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS: APPROX. €92M (UP 15%)**
- **ASSETS UNDER MANAGEMENT: APPROX. €13BN (MARKET VALUE AS AT DEC. 2005); NEW VALUATION BY CB RICHARD ELLIS AVAILABLE WITH FINAL H1 RESULTS (11 SEPT. 2006)**
- **TOTAL ACQUISITION COMMITMENTS: APPROX. €1,930M**
- **INVESTMENTS IN VIENNA, BERLIN AND WARSAW IN EXCESS OF €450M**
- **NET DEBT OF APPROX. €82M, VERSUS €30.5M AT END 2005**
- **OUTLOOK FOR 2006: COMPANY WILL CONFIRM GROWTH TREND AFTER CONVERSION OF LEGISLATIVE DECREE 223/06 INTO LAW**

Milan, 26 July 2006 – The Board of Directors of Pirelli & C. Real Estate met today to examine the Group's preliminary, unaudited operating results for the six months ended 30 June 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 specialist property services to the above companies and to other customers, either directly or via its franchise network. In analysing the following results, it should be noted that **aggregate revenues** and **operating profit including income from equity participations** are the most appropriate measure of the Group's turnover and operating performance.

Group operating performance in H1 2006

Aggregate revenues amount to approximately **€1,706m**, substantially in line with the €1,741.7m of the first half of 2005.

Operating profit including income from equity participations amounts to around **€92m**, representing an increase of **15%** on the €80.3m of the same period of the previous year.

Net debt stands at **€82m**, versus €30.5m at 31 December 2005 (€5m at 31 March 2006).

Adjusted net debt (before shareholder loans to companies in which the Group has minority stakes) totals **€465m**, compared with €292.5m at the end of December 2005 (€363m at 31 March 2006).
The increase in adjusted net debt primarily reflects the payment of dividends, and the ongoing restructuring of the assets recently acquired in Poland and those deriving from investments in non performing loans (NPLs) in Italy, both not yet subject to the usual business model, based on taking qualified minority stakes in companies and the use of financial leverage.

Performance of main areas of business in H1 2006

Fund and Asset Management

Aggregate revenues from **fund and asset management** during the first six months of 2006 amount to approximately **€1,421m**, which is substantially in line with the same period of the previous year (€1,495.6m).

Operating profit including income from equity participations amounts to around **€79m**, marking an increase of 26% on the €62.7m of the first half of 2005.

Acquisition commitments worth a total of approximately **€1,930m** were negotiated during the first half and include around **€662m** in **NPLs** (at net book value), and more than €450m for transactions in Vienna, Berlin and Warsaw. **Transactions** already completed amount to approximately **€1,695m** (€1,491.5m at the end of June 2005). Assets under management total around €13bn at market values (the figure refers to the end of 2005), whilst a new valuation by CB Richard Ellis will be available with the final first-half results.

Above all, with regard to fund management, in December 2005 Pirelli RE Opportunities SGR, a wholly owned subsidiary of Pirelli RE, received authorisation to start operating as a manager of opportunistic and value added portfolios. In June of this year Pirelli RE increased its stake in Pirelli RE SGR, which manages core/core-plus portfolios, from 90% to 100%. According to the valuation issued by Credit Suisse, the subsidiary has a value of approximately €315m.

The Pirelli RE Group has received authorisation from the Bank of Italy for 22 real estate funds, of which 10 have already been launched. Taking into account the mandate to manage a portfolio of properties on behalf of FIP, assets under management via the various funds amount to over €6bn (the new valuation by CB Richard Ellis will be available with the final half-year results).

Services Operated Directly and in Franchising

Services operated directly and in franchising generated **consolidated revenues** of **€190m**, compared with €175m in the same period of the previous year.

Operating profit of **over €29m** compares with the €31.1m of the first half of 2005. Operating profit from project, facility and property management services amounts to approximately €13m, compared with €9.3m in the same period of the previous year, representing an increase of 39%. Operating profit from commercial services (agencies) totals around €16m, which is substantially in line with one year earlier on a like-for-like basis of comparison, considering that last year result (€22.4 m) benefited from €5.2m on the contribution of properties to various funds, which is due to take place during the second half in 2006.
Pirelli RE Franchising broke even, compared with a loss of €1.2m in the first half of the previous year.

The **ROS** (Return On Sales) stands at **16%**, compared with 18% for the first half of 2005. In particular, the ROS on project, facility and property management services has risen from 8% in the first half of 2005 to 9%, whilst, on a like-for-like basis of comparison, the ROS on the agency business is substantially stable compared with the same period of the previous year at around 41%.

The process of enhancing the efficiency of the Group's service companies continued, as can be seen from the results of a survey carried out by a leading international consulting firm, which focused on operating costs and maintenance of the ERP systems (costs were 51% down on the average for other companies selected for inclusion in the sample).

Events after 30 June 2006

No significant events took place in July, with the exception of the publication of Legislative Decree 223/06, which is being amended during its conversion into law.

Outlook for 2006

The Company will announce further details of the outlook for the rest of the year, taking account of its exposure to Italy, once Legislative Decree 223/06 has been converted into law.

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The Board of Directors has approved the merger of the wholly owned subsidiary, Partecipazioni Real Estate, a holding company that manages NPLs, with and into Pirelli & C. Real Estate. The merger will lead to a rationalisation of the group and the organisational structure.

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The interim half-year report will be examined by the Board of Directors of Pirelli & C. Real Estate at its meeting to be called for 11 September.

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