PRESS RELEASE

BOARD APPROVES H1 RESULTS AT 30 JUNE 2006: CONSOLIDATED PROFIT UP 17%

- **AGGREGATE REVENUES, AT €1,706.2M, SUBSTANTIALLY IN LINE WITH PREVIOUS YEAR**
- **OPERATING PROFIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS UP 15% TO €92.3M**
- **CONSOLIDATED PROFIT UP 17% TO €70M**
- **MARKET VALUE OF ASSETS UNDER MANAGEMENT TOTALS APPROX. €14BN (UP 15% ON JUNE 2005; UP 8% ON END 2005), OF WHICH €12BN IN PROPERTIES (55% MANAGED THROUGH FUNDS) AND €2BN IN NPLs**
- **NAV OF €1,086M UP 3% ON END 2005 (ACCOUNTS FOR APPROX. 50% OF COMPANY'S TOTAL VALUE)**
- **NET DEBT TOTALS €82.3M COMPARED WITH €42.6M AT JUNE 2005 AND €30.5M AT END 2005**

Milan, 11 September 2006 – The Board of Directors of Pirelli & C. Real Estate today examined and approved the Group's interim report for the six months ended 30 June 2006, which confirms the Company's continuing growth.

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 **aggregate revenues** and **operating profit including income from equity participations** are the most appropriate measure of the Group's turnover and operating performance.

Operating performance in H1 2006

Aggregate revenues amount to **€1,706.2m**, a figure substantially in line with the €1,741.7m of the first half of 2005.

Operating profit including income from equity participations amounts to **€92.3m**, marking an increase of **15%** on the €80.3m of the first six months of 2005.

Group net profits totals **€70m**, representing an improvement of **17%** on the €59.8m of the same period of 2005.

Group net equity amounts to **€518,6m** at 30 June 2006 (€535.4m at end 2005). The decrease reflects, on the one hand, profit for the period (up €70m) and the capital increase with a share premium linked to the issue of share options (up €12.3m); and, on the other hand, the reduction resulting from the payment of dividends (down €77.3m) and the purchase of own shares (€25.1m).

Assets under management amount to **€13.9bn**, marking an increase of approximately 15% on June 2005 (€12.1bn) and around 8% on the end of 2005 (€12.9bn). This figure includes **€12bn** in **properties and €1.9bn** in **non-performing loans (NPLs)**. 44% of the €12bn referring to properties regards the core/core-plus portfolio, with the remainder represented by the value added/opportunistic portfolio.

Assets managed through Italian-registered closed-end **real estate investment funds** total **€6.6bn**, equal to **55%** of the **property portfolio**.

Pirelli RE does not co-invest in the FIP (the Public Properties Fund), whilst Pirelli RE's average share of the remainder of assets under management is 25% (€3.1bn). According to its usual business model, the Company co-invests in the value added/opportunistic portfolio alongside leading international investors, taking a stake of approximately 30-35%, and in the core/core-plus portfolio with a share of around 5%.

The Pirelli RE Group's **Net Asset Value** is **€1,086m**[*] (represents around 50% of the total value), 3% up on the end of 2005, with €22.1m, represented by purchases completed at the end of the first half, based on internal estimates yet to be confirmed by independent appraisers.

The Company's residual value, consists of the fund-asset management businesses, service provider and the franchise business, which distributes real estate and financial products.

[*] This figure is based on the sum of equity attributable to shareholders of the Parent Company (€518,6m), the share of unrealised gains on assets under management (€474.4m, including €452.4m appraised by CB Richard Ellis or verified by Deloitte & Touche) and the market value of own shares held (€92.9m).

Net debt stands at **€82,3m**, compared with €5m at 31 March 2006 (€42.6m at June 2005 and €30.5m at the end of 2005). Account should be taken of the fact that dividends of €77.3m were paid in April.

Adjusted net debt (before shareholder loans to companies in which the Group has minority stakes) totals **€465.2m**, compared with €292.5m at the end of 2005. In addition to the above payment of dividends, the increase reflects the fact that the latest acquisitions have yet to be led to the usual business model, as they will be deconsolidated in the second half of the year (in particular, property portfolios recently acquired in Poland and NPLs purchased in Italy).

The Group's **gearing** is **0.88** compared with 0.53 at the end of December 2005.

The Group employs a total of 1,673 staff at 30 June 2006 (1,596 at the end of 2005).

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 **€1,421.4m**, which is substantially in line with the same period of the previous year (€1,495.6m).
Sales amount to **€1,059.7m** (€1,265.5m in the first half of 2005)**. Gross gains** total amounts to **€396.9m** (€356.9m in the same period of the previous year), €303.1m of the above gains were made on sales and €93.8m derive from the adjustment to the fair value of the assets held by Spazio Industriale Fund, in view of the listing, direct or indirect, in the second half of the year. Pirelli RE's share of the total gains amounts to around 32%.

Purchase commitments worth a total of **€1,930.5m** were negotiated during the first half, with transactions worth **€1,695.3m already completed** during the period (€1,491.5m at the end of June 2005). Purchase commitments include **€662.2m** relating to **NPLs** (at net book value), and **more than €450m to investments in central and eastern Europe**.

Operating profit including income from equity participations amounts to around **€78.7m**, marking an increase of 26% on the €62.7m of the first half of 2005.

Services Operated Directly and in Franchising

Services operated directly and in franchising generated **consolidated revenues** of **€189.6m**, compared with €175m in the same period of the previous year.
Operating profit of **€29.4m** compares with the €31.1m of the first half of 2005. **Operating profit from technical services** (project, facility and property management) amounts to **€12.9m**, compared with €9.3m in the same period of the previous year, representing an increase of 39%. Operating profit from **commercial services** (agencies)

totals **€16.4m**, which is substantially in line with one year earlier on a like-for-like basis of comparison. It should be noted that last year the profit of €22.4m reported by the agency business benefited from revenue of €5.2m from the contribution of properties to various funds, which is due to take place during the second half in 2006.
Pirelli RE Franchising has achieved operating break even, compared with a loss of €1.2m in the first half of the previous year. The franchise network, consisting of 573 agencies in operation, marketed properties with a value of €233m on behalf of Pirelli RE Agency (up 19% on the same period of 2005) and distributed financial products (mortgages and leasing) totalling €104m (up 275% on the first half of 2005).

The ROS from technical services (project, facility and property management) increased to 9% (8% at June 2005). The ROS on agency services, on a like-for-like basis, is stable at around 41%.

Events after 30 June 2006

- On 2 August Pirelli RE and Calyon, the corporate and investment banking arm of the Crédit Agricole Group, signed a binding agreement for the establishment of a joint venture to invest in the European market for non-performing loans. The joint venture is committed to acquiring 100% of the five portfolios of non-performing mortgage loans held since November 2004 by the Pirelli RE/MSREF joint venture, with a residual gross book value of approximately €2.6bn. Following the birth of this new strategic partnership, Pirelli RE will purchase from Morgan Stanley's real estate funds 53% of Credit Servicing S.p.A., of which it already owns 47%, and 25% of Asset Management NPL S.r.l., in which it has a 75% stake.
  The transaction closing is scheduled for the end of 2006, subject to approval by the Antitrust Authority and the trustees of existing securitisations.
- On 4 August the Bank of Italy approved the transformation of the ordinary private funds, Diomira and Raissa, into speculative funds, resulting in a change in management company and regulations to be implemented within 60 days of the decision. Following requests from a number of investors and in view of the nature of the two funds, Pirelli RE SGR had applied to the Bank of Italy for permission to transfer management to Pirelli RE Opportunities SGR.
- On 22 August the Bank of Italy approved the transformation of the private Spazio Industriale fund into an ordinary fund, resulting in a change in management company and regulations to be implemented within 60 days of the decision. Following the change in the management regulations from a speculative to an ordinary fund, approved by investors in line with the fund's new long-term investment strategy, Pirelli RE Opportunities SGR had applied to the Bank of Italy for permission to transfer management to Pirelli RE SGR.

Outlook for 2006

Considering final approval of the law implementing Legislative Decree 223/06, published last 11 August 2006, and recognition of the role of the financial real estate institutions from 1 October 2006, the Company expects a slow down in the third quarter, but it foresees for the whole 2006 a growth of operating profit including income from equity participations at the lower end of the range set out in the three-year plan for 2006-2008 (CAGR 10-15%).

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The Company's Deputy Chairman and CEO, Carlo Puri Negri, and Managing Director, Olivier de Poulpiquet, will host a **conference call** at **12.30pm** (11.30am GMT) today in order to present the first-half results to the financial community.
The presentation slides may be downloaded from the Company's web site before the conference call at www.pirellire.com. Journalists may follow the presentation by phone, without the possibility to place questions, by calling +39/06/33485042. The conference call will subsequently be available in audio streaming format in the Investor Relations section of the web site.

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The summary consolidated profit and loss account, balance sheet and cash flow statement are attached to this release. In compliance with CONSOB Communication 6064291 of 28 July 2006, it should be noted that the above statements have not been audited by the auditors, PricewaterhouseCoopers S.p.A., as they are reclassified. It should also be noted that the auditors have not yet completed their examination of the interim report for the six months ended 30 June 2006.

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

Consolidated profit and loss account

(€m)	H1 2006	H1 2005	% increase
Aggregate revenues	***1.706,2***	***1.741,7***	
Consolidated revenues	*308,4*	*363,0*	
Operating profit	*37,7*	*35,7*	
Income from equity participations	*54,6*	*44,6*	
Operating profit including income from equity participations (*)	***92,3***	***80,3***	**15%**
Finance income from equity participations	*9,4*	*6,5*	
Operating profit including income and finance income from equity participations	***101,7***	***86,8***	
Other finance income/(costs)	*(10,0)*	*(6,4)*	
Profit before taxation	*91,7*	*80,4*	
Taxation	*(21,1)*	*(20,0)*	
Profit for the period	*70,6*	*60,3*	
Profit attributable to minority interests	*(0,6)*	*(0,5)*	
Profit attributable to shareholders of the Parent Company	***70,0***	***59,8***	**17%**

(*) Operating profit including income from equity participations is the sum of operating profit, the share of the profit/(loss) of companies accounted for using the equity method and income from real estate funds (€1.8m in 2006 and €1.1m in 2005). In 2006 it includes a fair value adjustment of €32.8m applied to properties (IAS 40)

Consolidated balance sheet

(€m)	30 June 2006	31 Dec 2005	30 June 2005
Non-current assets	**572,7**	**410,7**	**360,8**
(*)	*433,4*	*303,3*	*258,6*
Net working capital	**96,2**	**215,9**	**186,2**
Net capital employed	**668,9**	**626,6**	**547,0**
Equity	**529,6**	**552,1**	**459,2**
of which attributable to shareholders of the Parent Company	518,6	535,4	454,0
Provisions	**57,0**	**44,0**	**45,2**
Net (liquidity)/debt (**)	**82,3**	**30,5**	**42,6**
of which shareholder loans	(382,9)	(262,0)	(230,7)
Total equity and debt	**668,9**	**626,6**	**547,0**
Net (liquidity)/debt **before shareholder loans**	**465,2**	**292,5**	**273,3**
Gearing before shareholder loans (***)	**0,88**	**0,53**	**0,60**

(*) This item includes investments in associates and joint ventures, investments in real estate funds and junior notes.

(**) Net (liquidity)/debt: this refers to gross debt less cash and cash equivalents and other financial receivables.

(***) Gearing represents the ratio of net debt before shareholder loans to equity.

Consolidated cash flow statement

(€m)	H1 2006	2005	H1 2005
Operating profit including income from equity participations	**92,3**	**186,1**	**80,3**
Amortisation and depreciation	*4,3*	*9,0*	*4,2*
Movements in non-current assets	*(166,3)*	*(71,8)*	*(22,2)*
Movement in net working capital	*123,3*	*(10,2)*	*11,4*
Movement in provisions	*8,7*	*(6,4)*	*(3,4)*
Free cash flow	**62,3**	**106,8**	**70,3**
Cash flow before dividends	**45,2**	**70,0**	**55,2**
- Dividends paid by the Parent Company	*(77,3)*	*(68,3)*	*(68,3)*
- Dividends paid (movement in equity attributable to minority interests)	*(6,9)*		
Net cash flow	**(39,0)**	**1,7**	**(13,1)**
- Capital increase	*12,3*	*23,6*	*11,8*
- Purchase/Sale of own shares	*(25,1)*	*(15,6)*	*(1,2)*
Total cash flow	**(51,8)**	**9,7**	**(2,4)**