PIRELLI RE

PRESS RELEASE

BOARD APPROVES 9M RESULTS AT 30 SEPTEMBER 2006: WHILST AWAITING FULL IMPLEMENTATION OF NEW TAX LAWS (1 OCTOBER 2006) SLOWDOWN IN ACTIVITY IN Q3

- **PRO QUOTA AGGREGATE REVENUES: AT €915.1M SUBSTANTIALLY IN LINE WITH PREVIOUS YEAR**
- **OPERATING PROFIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS UP 11% TO €115.6M**
- **CONSOLIDATED PROFIT UP 8% TO €84M**
- **NET DEBT TOTALS €94.9M (€82.3M AT JUNE 2006 AND €30.5M AT END 2005)**
- **BINDING ACQUISITION AGREEMENTS: APPROX. €3.4BN*, CURRENT-YEAR TARGET REACHED**
- **ASSETS UNDER MANAGEMENT AT MARKET VALUE (INCLUDING BINDING AGREEMENTS): APPROX. €15BN**, OF WHICH APPROX. €3.4BN (23%) OWNED BY PIRELLI RE**
- **DOUBLE-DIGIT GROWTH EXPECTED FOR Q4 AND FULL YEAR GROWTH IN LINE WITH THREE-YEAR PLAN FOR 2006-2008**

Milan, 6 November 2006 – The Board of Directors of Pirelli & C. Real Estate today examined and approved the Group's results for the nine months ended 30 September 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, it should be noted that **operating profit including income from equity participations** is the most appropriate measure of the Group's operating performance.

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* On 9 October Pirelli RE signed a binding agreement to acquire approximately 96.8% of Deutsche Grundvermögen (DGAG), one of Germany's leading property companies, based in Hamburg and Kiel.

** All assets are shown at market value except for DGAG, which is shown at acquisition value of approximately €1.5bn.

Operating performance in 9M 2006

The third quarter of the year has seen a slowdown in activity in response to the uncertainty created whilst awaiting final approval of the law implementing Legislative Decree 223/06, which has introduced changes to the rules governing property taxation. The new rules have become fully effective from 1 October, with the introduction, of a reduction in transfer tax for financial real estate institutions (funds and leasing companies).

The Group's **share of aggregate revenues** amounts to **€915.1m**, which is substantially in line with the €920.1m of the previous year. Total aggregate revenues of €2,223.3m compare with €2,381.1m for 9M 2005 (down 7%).

Operating profit including income from equity participations amounts to **€115.6m**, marking an increase of **11%** on the €104.5m of 9M 2005.

Group Net Income attributable to shareholders of the Parent Company totals **€84m**, representing an improvement of **8%** on the €78m of the same period of 2005.

Shareholders Equity amounts to **€542.4m** at 30 September 2006, compared with €535.4m at 31 December 2005 and marking an increase of €7m. The increase reflects profit for the period (€84m), on the one hand, and, on the other, a reduction resulting from the payment of dividends (€77.3m).

Net debt stands at **€94,9m**, compared with €82.3m at 30 June 2006 (€30.5m at the end of 2005).

Adjusted net debt (before shareholder loans to companies in which the Group has minority stakes) totals €514.9m, compared with €292.5m at the end of 2005, whilst the Group's gearing is 0.93, compared with 0.53 at the end of December 2005. Based on a like-for-like comparison with the end of 2005, which assumes that recently purchased non performing loans (the BNL and BPVN portfolios) will be managed according to the current business model, **adjusted net debt** amounts to **€429.1m** and **gearing** is **0.78**. This is fully in line with the target set in the three-year plan for 2006-2008.

Performance of main areas of business in 9M 2006

Fund and Asset Management

The Group'pro quota **aggregate revenues** from **fund and asset management** during the first nine months of 2006 amounts to **€578.9m**, compared with €615.9m for 9M 2005 (down 6%).
Total aggregate revenues of €1,814.9m are 10% down on the €2,014.8m for the same period of the previous year. Sales amount to €1,319.5m for the first nine months of 2006, compared with €1,645.1m (down 20%). Rental income amounts to €330.8m (up 21%), whilst fees total €58.2m (up 9%).

Gross capital gains for the period amount to **€472m**, marking an increase of **7%** (€439m for 9M 2005) and, as at the end of June, include the fair value of the assets of the Spazio Industriale Fund, as confirmed following the successful completion of Spazio Investment's flotation on the London Stock Exchange's Alternative Investment Market on 18 October. Pirelli RE's share of total gains is approximately 34%.

Operating profit including income from equity participations amounts to **€93.5m**, representing a **14%** improvement on the €81.8m of the same period of 2005.

Following the launch of the Armilla Fund, with assets of €225m, at the end of September, the number of funds managed by Pirelli RE rises to **12**, with **9 ordinary** and **3 speculative** funds. The launch marks the continuation of the Group's risk/yield profile and product specialisation strategy. Taking account of investments carried out by Spazio Industriale, using the funds raised through Spazio Investment's listingn on AIM on 18 October, the market value of the **assets managed via funds** amounts to approximately **€6.7bn**.
The Bank of Italy has also given Pirelli RE the approval for a further 11 funds, which will be launched in the coming months.

Binding acquisition agreements amount to around **€3.4bn**, with €1,932.7m completed in the first nine months of the year (€1,714.9m already closed). These figure include the real estate assets of DGAG (an acquisition value of approximately €1.5bn), which were acquired under a binding agreement signed in early October, Pirelli RE has thus reached its acquisitions target for the current year.

The market value of **assets under management** (including binding agreements) thus exceeds **€15bn**. Assets worth around €2bn are located outside Italy, thus speeding up achievement of the target of 20% set in the three-year plan for 2006-2008. The assets owned by Pirelli RE amount to **approximately €3.4bn** (around 23% of total assets).

Services Operated Directly and in Franchising

Revenues from **technical services** (project, facility and property management) amount to **€209.2m**, marking an increase of **18%** on the €177.2m of 9M 2005. **Operating profit** confirms the strong growth seen in the first half, rising **40%** to **€17.9m** (€12.8m in 9M 2005). ROS stands at 9% (7% at the end of September 2005).

Commercial services (Agency and Franchising) generated **revenues** of **€70.5m**, compared with €76.9m (down 8%). Operating profit of **€23.7m** is down 17% on the same period of 2005 (€28.5m in 9M 2005). This reflects a fall in sales in Q3, partly due to the above-mentioned tax reform. ROS is 34% (37% at 30 September 2005).

Pirelli RE Franchising reports **operating profit** of €0.4m, compared with a loss of €0.8m for 9M 2005. The Network brokered properties with a value of €311m on behalf of Pirelli RE Agency (up 23% on the same period of 2005) and distributed financial products (mortgages and leasing) totalling €129m (up 137% on 9M 2005).

Operating profit from services operated directly and in franchising amounts to **€41.7m**, which is substantially in line with the €42m of 9M 2005.

Events after 30 September 2006

- On 9 October Pirelli RE signed a binding agreement to acquire approximately 97% of Deutsche Grundvermögen (DGAG), one of Germany's leading property companies, with offices in Hamburg and Kiel, based on a valuation of 100% of the company's equity of €440m (at 31 December 2005). DGAG's residential portfolio, which in terms of surface area represents around 88% of the total, will be transferred to the joint venture between Pirelli RE (35%) and the real estate funds of RREEF (65%), Deutsche Bank's property investment arm, whilst the retail and office properties (around 12% of the total) will be transferred to the joint venture between Pirelli RE (30%) and the real estate funds of Morgan Stanley (MSREF) (70%). Other assets and the company's asset management and services businesses, employing around 400 staff, will continue to be owned by Pirelli RE. DGAG is to be restructured in line with Pirelli RE's business model, with the aim of turning it into a platform for property investment, asset management and services.
- On 13 October 2006 the flotation of Spazio Investment, a Netherlands-based investment company, on the London Stock Exchange's Alternative Investment Market (AIM) was successfully completed. At 30 September 2006 the company was 65% owned by Cypress Grove International and 35% owned by Pirelli RE. The global offering, worth around €300m, consisted of the issue of new shares with a value of approximately €256m (85%) and the sale of existing shares worth approximately €44m by Cypress Grove International (15%). The shares were placed at a 10% discount to NAV.
  The offering was significantly over-subscribed, with over 95% of the shares bought by leading international institutional investors, primarily from the US and UK. The placing price was €12.50 per share. After closure of the offering, Spazio Investment NV is around 12% owned by Pirelli RE and approximately 88% owned by leading

international investors, ten of whom have stakes in excess of 3% (the threshold triggering the AIM disclosure obligation). The largest investors include Bank Julius Baer & Co., TIAA-CREF, Fidelity International, Lansdowne Partners, KDA Capital, New Star, Viking and Theorema, in addition to Cypress Grove.
- On 18 October Spazio Investment made its debut on AIM, closing the first day of trading up around 8% on the placing price and with a market capitalisation of approximately €411m.

Outlook for 2006

The Group expects to see double-digit growth in operating profit including income from equity participations in the fourth quarter, with full-year growth to be in line with the three-year plan for 2006-2008 (CAGR 10-15%).

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The Board also acknowledged the resignation of Carlo Buora from his position as a director, and wishes to thank him for his important contribution.

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Financial calendar

The calendar of board meetings and general meetings of shareholders for 2007 is as follows:

9 March 2007: Board of Directors' meeting to examine the financial statements and consolidated financial statements for the year ended 31 December 2006. The above documents will be published within 90 days of the end of the financial year and, pursuant to art. 82 of CONSOB Resolution 11971/99, the quarterly report for the last quarter of 2006 will not therefore be prepared.

20 April 2007 (first call): General Meeting of shareholders called to approve financial statements.

9 May 2007: Board of Directors meeting to examine consolidated results for the first quarter of 2007.

25 July 2007: Board of Directors meeting to examine preliminary results for the six months ended 30 June 2007.

10 September 2007: Board of Directors' meeting to examine the interim report for the six months ended 30 June 2007. The above document will be published within 75 days of the end of the first half and, pursuant to art. 82 of CONSOB Resolution 11971/99, the quarterly report for the second quarter of 2007 will not therefore be prepared.

7 November 2007: Board of Directors meeting to examine consolidated results for the third quarter of 2007.

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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..

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Reclassified profit and loss account

(€m)	9M 2006	9M 2005	% increase
Total aggregate revenues	*2.223,3*	*2.381,1*	
Share of aggregate revenues	***915,1***	***920,1***	
Consolidated revenues	*464,4*	*458,8*	
Operating profit	*52,3*	*41,9*	
Income from equity participations	*63,3*	*62,6*	
Operating profit including income from equity participations (*)	***115,6***	***104,5***	**11%**
Finance income from equity participations	*16,2*	*9,8*	
Operating profit including income and finance income from equity participations	***131,8***	***114,3***	
Other finance income/(costs)	*(17,2)*	*(9,0)*	
Profit before taxation	*114,6*	*105,3*	
Taxation	*(29,2)*	*(26,3)*	
Profit for the period	*85,4*	*78,9*	
Profit attributable to minority interests	*(1,4)*	*(0,9)*	
Profit attributable to shareholders of the Parent Company	***84,0***	***78,0***	**8%**

(*) Operating profit including income from equity participations is the sum of operating profit (€52.3m for 9M 2006) plus the share of the profit/(loss) of companies accounted for using the equity method (€59.4m for 9M 2006) and income from real estate funds (€3.8m for 9M 2006), which is included in finance income in the consolidated profit and loss account annexed to the notes to the financial statements

Reclassified balance sheet

(€m)	30 Sept 2006	31 Dec 2005	30 Sept 2005
Non-current assets	**597,5**	**410,7**	**352,6**
of which equity participations in investment funds and companies (*)	*447,9*	*303,3*	*250,2*
Net working capital	**110,0**	**215,9**	**210,4**
Net capital employed	**707,5**	**626,6**	**563,0**
Equity	**552,9**	**552,1**	**487,2**
of which attributable to shareholders of the Parent Company	542,4	535,4	481,6
Provisions	**59,7**	**44,0**	**46,4**
Net (liquidity)/debt (**)	**94,9**	**30,5**	**29,4**
of which shareholder loans	(420,0)	(262,0)	(228,4)
Total equity and debt	**707,5**	**626,6**	**563,0**
Net (liquidity)/debt **before shareholder loans**	**514,9**	**292,5**	**257,8**
Gearing (***)	**0,93**	**0,53**	**0,53**
Net (liquidity)/debt before shareholder loans less NPL transactions not yet subject to the current business model	**429,1**	**292,5**	**257,8**
Gearing (***)	**0,78**	**0,53**	**0,53**

(*) 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)	9M 2006	FY 2005	9M 2005
Operating profit including income from equity participations	**115,6**	**186,1**	**104,5**
Amortisation and depreciation	*6,5*	*9,0*	*6,4*
Movements in non-current assets	*(193,3)*	*(71,8)*	*(16,2)*
Movement in net working capital	*123,3*	*(10,2)*	*(11,5)*
Movement in provisions	*10,5*	*(6,4)*	*(1,6)*
Free cash flow	**62,6**	**106,8**	**81,7**
Cash flow before dividends	**21,7**	**70,0**	**60,2**
- 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	**(62,5)**	**1,7**	**(8,0)**
- Capital increase with share premium and use of own shares allocated for share options	*27,1*	*23,6*	*21,6*
- Purchase/Sale of own shares	*(29,0)*	*(15,6)*	*(2,7)*
Total cash flow	**(64,4)**	**9,7**	**10,8**