



PRESS RELEASE

- **COMPLETED THE ACQUISITION OF 96.83% AND SIGNED A BINDING AGREEMENT TO ACQUIRE A FURTHER 2.54% OF DGAG, ONE OF GERMANY'S LEADING PROPERTY COMPANIES**
- **ENTERPRISE VALUE APPROX. €1.4BN, ACQUISITION PRICE APPROX. €465M FOR 100% OF THE COMPANY**
- **DGAG, BASED ON BINDING AGREEMENTS, WILL BE TRANSFORMED IN ACCORDANCE WITH THE PARENT COMPANY BUSINESS MODEL:**
 - **RESIDENTIAL PORTFOLIO WORTH OVER €1BN WILL BE TRANSFERRED TO THE JOINT VENTURE PIRELLI RE (35%) - RREEF (65%)**
 - **COMMERCIAL PORTFOLIO WORTH APPROX. €275M WILL BE TRANSFERRED TO THE JOINT VENTURE PIRELLI RE (30%) - MSREF (70%)**
 - **ASSET MANAGEMENT AND SERVICES BUSINESSES 100% OWNED BY PIRELLI RE DEUTSCHLAND**

Hamburg, 11 January 2007 – **Pirelli RE** has completed the **acquisition of 96.83%** and signed a **binding agreement** to acquire a **further 2.54%** of **Deutsche Grundvermögen AG (DGAG)**, one of Germany's leading property companies based in Hamburg and Kiel. The **acquisition price**, subject to a *price adjustment* based on financial statements for 2006, has been calculated as approximately **€465[†]m** for 100% of DGAG, a value approx. €145m higher than estimated shareholders' equity.

The company's **Enterprise Value**, amounts to **approximately €1.4bn** (estimate based on 2006 figures) also considering the real estate independent valuations of Engel&Volkers and REAG.

In details, Pirelli RE has purchased 95.3% of B&L Immobilien, which owns 62% of DGAG, from Albert Büll and Cornelius Liedtke, whilst the remaining 38% of the German property company has been acquired from HSH N Real Estate (a subsidiary of the German bank, HSH Nordbank) and private shareholders.

Pirelli RE has also signed a binding agreement to acquire a further 4.10% of B&L Immobilien by the end of January, enabling the Company to acquire 99.37% of DGAG. Pirelli RE aims to purchase an additional stake in B&L Immobilien of around 0.6% over the coming months, thereby by raising its stake to approx. 100% of DGAG.

Completion of the transaction marks the start of **DGAG's transformation** in accordance with the parent company business model, with the aim of taking advantage of the various

[†] Of which approx. €140m anticipated in the month of December of last year, with payment of the remaining part at the closing.

growth opportunities offered by the German market, thanks to the quality of the company's management, which – as announced last 9 October – will remain in place. The first stage of this process, which is to be completed by year end, will involve the transfer of the **residential portfolio**, worth approximately **€1,040m** (estimate based on 2006 figures), to the **joint venture** between **Pirelli RE (35%)** and the **real estate funds of RREEF (65%)** (the real estate and infrastructure investment management arm of Deutsche Asset Management, the global investment management business of Deutsche Bank) and of the **commercial portfolio**, with a value of approximately **€275m** (estimate based on 2006 figures), to the **joint venture** between **Pirelli RE (30%)** and **Morgan Stanley Real Estate Funds (MSREF) (70%)**. **Asset management and services businesses**, which employ approximately 400 staff, will be **100% owned** by **Pirelli RE Deutschland**.

The Enterprise Value is financed by approximately **€190m** in **Pirelli RE equity**, by a **non-recourse bridge loan** of around **€260[‡]m** granted by **Hypo Real Estate** and by **non recourse debt secured by the properties**, amounting to around **€950m**. Pirelli RE has also obtained non-recourse refinancing from Hypo Real Estate of that existing debt.

The **impact** on Pirelli RE's **net debt** on completion of the reorganization (expected by the end of the year) will amount approximately to **€80-90m**, in addition to a commitment to provide **shareholder loans** of approximately **€40-50m** to the **real estate SPVs** in which the Company has minority stakes.

“DGAG, its management and the application of our business model represent an important base for rapid growth in Europe's biggest property market, the German one, where we have already identified other investment opportunities in both the residential and commercial segments,” commented Carlo A. Puri Negri, CEO of Pirelli RE.

The final values will be communicated after the price adjustment process is completed, within 80 banking days starting from beginning of 2007 as the contract states.

For this transaction, Deutsche Bank and Lazard acted as financial advisors to Pirelli RE, whilst Freshfields Bruckhaus Deringer (Berlin, Cologne, Munich and Milan offices) and the Vitali-Romagnoli-Piccardi Legal Practice acted as legal and tax advisors. Engel&Volkers and REAG acted as real estate experts and KPMG carried out financial and tax due diligence. The Pirelli RE-MSREF JV was advised by Morgan Stanley.

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

[‡] The bank commitment for the bridge financing has been granted up to approx. €289m including closing costs.