PRESS RELEASE

DRAFT FINANCIAL STATEMENTS FOR 2006 APPROVED BY BOARD OF DIRECTORS:

- DOUBLE-DIGIT GROWTH OF ALL THE MAIN PERFORMANCE INDICATORS;
- ACHIEVEMENT OF TOP END OF 2006-2008 THREE-YEAR PLAN RANGE

- **AGGREGATE REVENUES: €4,017.8 MILLION; PRO-RATA REVENUES: €1,560 MILLION (+12%)**
- **EBIT INCL. INCOME FROM EQUITY PARTICIPATIONS: €214.4 MILLION (+15%)**
- **CONSOLIDATED NET INCOME: €159.5 MILLION (+10%)**
- **PROPOSED DIVIDEND OF €2.06 PER SHARE (€1.90 IN 2005) – 55% PAY-OUT**
- **ASSETS UNDER MANAGEMENT: APPROX. €14.5** BILLION (+12% VS. END OF 2005), OF WHICH PIRELLI RE PRO-QUOTA ASSETS APPROX. €3 BILLION**
- **NET FINANCIAL POSITION: NET DEBT OF €96.4 MILLION (€30.5 MILLION AT END OF 2005)**
- **GROWTH IN 2007 EXPECTED TO BEAT 2006-2008 THREE-YEAR PLAN TARGETS**

Milan, March 9th, 2007 – The Board of Directors of Pirelli & C. Real Estate met today to examine and approve the draft financial statements at December 31st, 2006.

The results report **double-digit growth** by **all the company's main performance indicators**, after consolidating its leadership in Italy during 2006 and stepping up the process of expansion into Central-Eastern Europe with the acquisition of Pirelli Pekao Real Estate in Poland and DGAG in Germany. The strategy of specializing real estate investments by

** Assets under management are stated at market value, except for DGAG, which is reported at its acquisition value (about €1.4 billion), and non performing loans , which are expressed at net book value.

product and types of risk/return has now taken root, while the business of buying and managing non performing loans has grown significantly in Italy.
Pirelli RE is a **management company** that manages funds and companies that own real estate and non performing loans, in which it takes a minority stake (investment & asset management business) and to which it provides, as well as to other customers, every kind of specialized real estate service, both directly and through a network of franchised agencies (service provider business). Consequently, the most significant performance indicators of the Group's share of turnover and trend in earnings are respectively **pro-rata aggregate revenues** and **EBIT including income from equity participations** as reported below.

Performance of the Group in 2006

Total aggregate revenues are **€4,017.8 million**, an increase of **15%** on the year before. **Pro-rate aggregate revenues** amount to **€1,560 million**, having improved by **12%** on the figure of €1,386.8 million reported in 2005.

EBIT including income from equity participations amounts to **€214.4 million**, up **15%** on the prior year figure of €186.1 million, thus achieving the maximum target envisaged in the 2006-2008 three-year plan (CAGR 10-15%).

Consolidated **net income** amounts to **€159.5 million**, representing an increase of some **10%** on the corresponding figure of €145.4 million reported in 2005.
The **dividend** due to be submitted for the shareholders' approval is equal to **€2.06 per share,** compared with €1.90 the year before, and corresponds to a **pay-out ratio** of **around 55%**, in line with the 50-60% target range contained in the 2006-2008 three-year plan. If approved by the shareholders, the dividend will be paid on May 4th, 2007, with the shares going ex-divi on April 30th, 2007.

Group net equity amounts to **€700.3 million** at December 31st, 2006 compared with €535.4 million at the end of December 2005, corresponding to an increase of €164.9 million. The change reflects an increase due to both net income for the period less the dividends paid in the year (+€82.2 million) and other movements in equity (+€82.7 million) mostly associated with a reduction in treasury shares.

Assets under management have reached **€14.5 billion**, an increase of **12%** on the figure of €12.9 billion reported at the end of 2005, and consist of **€12.6 billion** in **real estate** and **€1.9 billion** in **non performing loans**. The **pro-quota owned by Pirelli RE** amounts to approximately **€3 billion**, or **21%** of total assets under management. About **14% of real estate assets** are invested **outside of Italy** (Germany and Poland).

Following the investments made in the last quarter, **net financial position** reports net debt of **€96.4 million** at the end of 2006 compared with €30.5 million at the end of 2005 and €94.9 million at the end of September 2006.

The **adjusted financial position** (which excludes shareholder loans to companies in which minority interests are held) reports net debt of **€430.5 million**, compared with €292.5 million at December 31st, 2005 and €514.9 million at the end of September 2006. The **gearing** ratio is **0.61**, compared with 0.53 at December 31st, 2005 and 0.93 at September 30th, 2006.

The Group has **1,848 employees** at December 31st, 2006, up from 1,596 at the end of 2005.

Performance of the main business segments in 2006

Investment & Asset Management business

The **Investment & Asset Management** business has reported **total aggregate revenues** of €3,430.5 million, an increase of **16%** on the figure of €2,957.1 million reported in 2005, and **pro-rata aggregate revenues** of **€1,078.8 million**, up **15%** on the prior year amount of €937 million. Asset enhancement activity has produced a **14%** increase in **real estate sales** to **€2,805.7 million,** and a **15%** rise in **rental income** to **€424.4 million**.

Gross capital gains from sales amount to **€718.2 million** in 2006, having improved by **10%** on the 2005 figure of €653.3 million. The Pirelli RE share of these gains is around 32%.

Pirelli RE has also **reached its acquisition target** for 2006 with **€3,584.8 million** in deals, including the purchase of DGAG completed in January this year. Purchases completed in the year amount to € 2,178.8 million, of which €1,201.5 million for real estate and €977.3 million for NPL portfolios (at net book value).

EBIT including income from equity participations has risen by **26%** to **€178.0 million**, up from €141.6 million in 2005. This includes a major increase in EBIT from the NPL business, which jumped from €3 million in 2005 to €11.6 million in 2006.

Over the course of 2006 Pirelli RE has consolidated its **leadership** in Italy in the area of **real estate fund management**, with the launch and management of 6 new products. The number of funds in operation has increased from 10 in 2005 to **16 at the end of 2006**, of which 9 core/core plus funds and 7 opportunistic/value added funds. In detail, the assets managed through funds have grown by 25%, from €6.1 billion at the end of 2005 to €7.6 billion at December 31st, 2006 and represent **around 60%** of the **real estate assets under management**. Pirelli RE holds **authorizations** from the Bank of Italy for another **7 real estate funds**.

Service Provider business

EBIT from the service provider business amounts to **€73.9 million**, before €4.7 million in charges relating to the years 2002-2004, and represents an increase of **14%** on the prior year figure of €65 million.

The **technical services** of facility, project and property management have reported **€283.6 million** in **revenues**, an increase of **9%** on the prior year figure of €260.0 million. **EBIT,** before the charges mentioned above, is **32%** higher at **€26.6 million**, up from €20.2 million in 2005. **ROS** is **9%** compared with 8% in 2005.

Commercial services have closed 2006 with **revenues, EBIT and ROS** all broadly in line with the prior year, reporting **€115 million** (revenues), **€44.2 million** (EBIT) and **38%** (ROS) respectively.
In particular, **Pirelli RE Franchising** has reported **€2.4 million** in **EBIT** compared with €1.3 million in 2005. The network has **637 working agencies** and sold €553.4 million in properties under engagements from Pirelli RE Agency (+40% on 2005) and recommended €327.6 million in financial products (mortgages and leases), a 187% increase on 2005.

Events subsequent to December 31st, 2006

- On January 10th, 2007 Pirelli RE completed the acquisition of approximately 97% of Deutsche Grundvermogen AG (DGAG), one of the leading real estate companies in Germany whose main offices are in Hamburg and Kiel. Pirelli RE's interest in this company currently stands at approximately 99.4%. The purchase price for 100% of DGAG was set at some €465 million, subject to a price adjustment based on the 2006 financial statements. DGAG will be transformed in accordance with the Pirelli RE business model. In execution of the binding agreements reached, by the end of 2007 the residential assets of DGAG worth some €1,040 million will be transferred to the joint venture between Pirelli RE (35%) and the real estate funds of Deutsche Bank's RREEF (65%), while the commercial portfolio worth around €275 million will be transferred to the joint venture between Pirelli RE (30%) and the real estate funds of Morgan Stanley (MSREF) (70%). Land worth around €50 million will be transferred to joint ventures with local partners. Asset management and services comprise the business of Pirelli RE Deutschland, a wholly-owned subsidiary of Pirelli RE.
- On February 28th, 2007 Pirelli RE Facility Management completed its acquisition of Ingest Facility from Business Solutions (Fiat Group). This transaction makes the company a market leader in Italy, with pro-forma revenues for 2007 estimated at over €400 million and pro-forma EBITDA at some €26 million. The facility management activities of DGAG in Germany and Pirelli Pekao Real Estate in Poland will be integrated and work will continue on seeking out new growth opportunities with the goal of creating an accredited nucleus in Central-Eastern Europe.
- On February 12th, 2007 the Spazio Industriale fund purchased industrial land and buildings for around €30 million. On March 6th, 2007 Spazio Investment N.V., the AIM listed company which owns 100% of the Spazio Industriale closed-end real estate fund managed by Pirelli RE SGR, approved its financial results for the period starting from its formation (November 22nd, 2005) through December 31st, 2006. After reporting €101.8 million in net income, the company's Board of Directors has voted to distribute a dividend of €0.13 per share for the period between its listing date (October 18th, 2006) and year end. The company's Net Asset Value has reached €432.62 million, an increase of 1.6% since flotation, which corresponds to a Net Asset Value per share of €14.20. Pirelli RE holds an interest of around 12% in this company.
- On March 8, 2007 Fondo Immobiliare Pubblico Regione Siciliana (FIPRS) was set up through the conferral and sale by the Region of Sicily and some regional institutions of 34 properties in their use, mostly as offices, mainly located in Palermo and Catania,

with a transfer value of €263 million. The annual yield is 7.95%. The Fund is owned by the Region of Sicily with a 35% majority interest, by RREEF Global Opportunities Fund II with a 33% stake, by Pirelli RE with 22% stake and the remaining 10% has been underwritten by REEF which will place it to international institutional investors.

- Pirelli RE and GE continue to have an exclusive option to buy from Banca Antonveneta within the first few months of the year a portfolio of non performing loans with a gross book value of some €5.1 billion, after wining the bid at the end of 2006 for a portfolio of mortgage and corporate loans originating from Banca Antonveneta and its subsidiary Interbanca with a gross book value of €1 billion.

Expected outlook for the business in 2007

The growth in EBIT including income from equity participations is expected to exceed the targets set in the 2006-2008 three-year plan (CAGR 10-15%) as from June of this year and for the year as a whole.

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The Board of Directors has charged the Chairman, the Deputy Chairman and Chief Executive Officer with the responsibility for calling the shareholders' meeting due to approve the financial statements for 2006, scheduled for April 20th (in first call) and April 23rd (in second call).
The shareholders' meeting will also be required to vote on the appointment of two directors, the appointment of a new Board of Statutory Auditors, amendments to the rules for shareholders' meetings, a new authorization to buy and sell treasury shares (after cancelling the previous authorization dated April 12th, 2006) and amendments to the articles of association to comply with the Investment Savings Act.

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Today at **5 pm** (4 pm GMT), the CEO Carlo A. Puri Negri and General Manager Olivier de Poulpiquet will hold a **conference call** for the purposes of presenting the 2006 results to the financial community.
It will be possible to download the presentation slides before the conference call from the company's website at www.pirellire.com. Journalists may follow the presentation telephonically by calling the number +39/06/33485042 but will not be allowed to ask questions. The conference call will be also available in audiostreaming live from the Investor Relations section of the website. A recording of the conference call will be available subsequently.

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This press release contains reference to the following alternative performance indicators for the purposes of better evaluating the Pirelli RE Group's results: aggregate revenues, which reflect the Group's total turnover and are calculated as the sum of consolidated revenues and the total revenues of associated companies, joint ventures and real estate funds in which the

Group has invested; pro-rata aggregate revenues, which reflect the Group's share of total turnover, calculated as the sum of consolidated revenues and the Group's share of the revenues of associated companies, joint ventures and real estate funds in which it has invested; EBIT including income from equity participations, which is calculated as the sum of EBIT, the share of results of the companies carried at equity, income from real estate funds and dividends from companies in which the Group has invested; net financial position, which is represented by gross financial debt less cash and other cash equivalents and other financial receivables; gearing, which corresponds to the ratio between net financial position excluding shareholder loans and net equity.

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Reclassified, abridged versions of the consolidated income statement, balance sheet and cash flow statement are all attached to this press release. In compliance with CONSOB Communication 6064291 of July 28th, 2006, you are advised that these tables have not been audited by the independent auditors PricewaterhouseCoopers S.p.A..

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Appendix 1

Income statement

Reclassified income statement

(Euro/million)	01/01/2006 - 12/31/2006	01/01/2005 - 12/31/2005	% increase
Total aggregate revenues	*4.017,8*	*3.507,2*	
Pro-rata aggregate revenues	***1.560,0***	***1.386,8***	
Consolidated revenues	*702,0*	*700,2*	
EBIT	*103,7*	*83,9*	
Income from investments	*110,7*	*102,3*	
EBIT including net income from investments (*)	***214,4***	***186,1***	**15%**
Financial income from investments	*22,6*	*12,9*	
EBIT including net income and financial income from investments	*237,0*	*199,1*	
Other interest income/expense	*(25,7)*	*(11,7)*	
Profit before taxes	*211,3*	*187,4*	
Income taxes	*(49,3)*	*(40,5)*	
Net income before minority interests	*162,0*	*146,9*	
Minority interests	*(2,5)*	*(1,5)*	
Net income after minority interests	***159,5***	***145,4***	**10%**

(*) EBIT including net income from investments is calculated as EBIT (€103.7 million in 2006), the share of results of companies carried at equity and joint ventures (€101.6 million in 2006), dividends from investments (€4 million in 2006) and income from real estate funds (€5.1 million in 2006), classified in financial income in the consolidated income statement that accompanies the explanatory notes to the financial statements.

Reclassified balance sheet

(Euro/million)	12/31/2006	12/31/2005
Fixed assets	**581,7**	**410,7**
of which investments in funds and investment companies **(*)**	*426,1*	*303,3*
Net working capital	**283,3**	**210,6**
Net invested capital	**865,0**	**621,3**
Net equity	**708,7**	**552,1**
of which group net equity	700,3	535,4
Funds	**59,9**	**38,7**
Net financial position: (cash)/debt	**96,4**	**30,5**
of which shareholder loans	(334,1)	(262,0)
Total covered Net invested capital	**865,0**	**621,3**
Net financial position excluding shareholder loans: (cash)/debt	**430,5**	**292,5**
Gearing	**0,61**	**0,53**

(*) This includes investments in associated companies and joint ventures (€285.8 million), in real estate funds (€46.1 million reported as financial assets available for sale in the consolidated balance sheet) and in junior notes (€94.2 million reported as other receivables in the consolidated balance sheet).

Reclassified cash flow statement

(Euro/million)	12/31/2006	12/31/2005
EBIT including net income from investments	**214,4**	**186,1**
Amortization and depreciation	*9,4*	*9,0*
Change in fixed assets	*(180,4)*	*(71,8)*
Change in net working capital	*81,7*	*(10,2)*
Change in funds	*21,1*	*(6,4)*
DGAG advanced payment	*(140,0)*	-
Free cash flow	**6,1**	**106,8**
Cash flow before dividends	**(56,8)**	**70,0**
- Dividends paid by the parent company	*(77,3)*	*(68,3)*
- Dividends paid (change in minority equity)	*(7,3)*	-
Net cash flow	**(141,5)**	**1,7**
- Capital Increase with share premium and use of treasury shares for stock option plan	*27,1*	*23,6*
- Purchase/sale of treasury shares	*48,5*	*(15,6)*
Total cash flow	**(65,9)**	**9,7**