**PRESS RELEASE**

# CAPITAL STRENGTHENING COMPLETED THANKS TO SUCCESS OF CAPITAL INCREASE AND MEDIUM-TERM EXTENSION OF BANK DEBT, WITH AGREEMENT FOR A 3 YEAR CREDIT FACILITY FOR €320 MILLION TAKING TOTAL COMMITTED BANK LINES TO €470 MILLION

## PIRELLI RE: FIGURES AT JUNE 30TH, 2009 APPROVED

**- SECOND QUARTER CLOSES WITH EBIT, INCLUDING NET INCOME FROM INVESTMENTS, UP ON FIRST QUARTER**

**- FIRST-HALF RESULTS FROM SERVICES ARE CLOSE TO BREAK-EVEN (-€3.2 MILLION). OVERHEAD SAVINGS OF AROUND €29 MILLION ALREADY ACHIEVED (AHEAD OF THE 2009 TARGET OF €50 MILLION); NEW TARGET FOR YEAR OF €55/60 MILLION**

**- ASSET SALES TARGET OF €1 BILLION CONFIRMED FOR 2009**

## FIRST-HALF FINANCIAL HIGHLIGHTS

- **REAL ESTATE ASSETS UNDER MANAGEMENT: €16.8 BILLION (€17.3 BILLION AT 12/31/2008)**
- **TOTAL SALES: €351.9 MILLION (€527.6 MILLION AT JUNE 2008)**
- **NET RESULT: -€42.3 MILLION (+€9 MILLION AT JUNE 2008)**
- **NET FINANCIAL POSITION, EXCLUDING SHAREHOLDER LOANS GRANTED: -€828.5 MILLION (-€898.4 MILLION AT 3/31/2009). TAKING ACCOUNT OF THE CAPITAL INCREASE COMPLETED AT THE START OF JULY, THIS AMOUNT DROPS TO -€429.2 MILLION**

## THE COMPANY CONFIRMS THE ECONOMIC TARGETS ALREADY ANNOUNCED FOR FULL YEAR 2009

*Milan, July 28th, 2009* – At today's meeting, the Board of Directors of Pirelli & C. Real Estate examined and approved the half-year financial report at June 30th, 2009.

Pirelli RE is completing the reorganization begun last year in context which continues to be difficult for the real estate sector, including in light of the reduced credit capacity. The company has nonetheless managed to complete real estate transactions at values that are generally in line with appraised values. The new management has outlined a strategic approach designed to further recover efficiency and a achieve a greater balance between ordinary revenues and structural costs including by confirming the strategic importance of the Pirelli RE SGR and the real estate services provided by the Pirelli RE group. Measures in the first half of the year have helped save around €29 million in overheads, **ahead of the annual target of €50 million which has nonetheless been raised to €55/60 million**, while **the service business, including holding company costs, are close to break-even** (with an EBIT of -€3.2 million). The company confirms the target of €1 billion in asset sales by the end of 2009, involving receipt of its related share of benefit.

Following the close of the first half, Pirelli RE also concluded a **capital increase of approximately €400 million which was totally subscribed by the market** and which made it possible to strengthen the capital structure and increase the flexibility needed to achieve the targets indicated in the 2006 Industrial Plan. As part of the strengthening of the capital structure, the company also reached an agreement **with a pool of eight leading financial institutions for the provision of a credit facility for a total of €320 million expiring in July 2012** which will make €470 million in committed credit facilities whose average residual duration will increase from the current level of 9 months to 29 months available.

***Performance in the first half of 2009***[**]

**Assets under management** had a market value of €16.8 billion[††] at June 30th, 2009, of which €15.1 billion in real estate (€15.4 billion at December 31st, 2008) and €1.7 billion in non performing loans (€1.9 billion at December 31st, 2008).

**Real estate sales** amounted to €351.9 million in the half year (€527.6 million in the first half of 2008). Sales margin was 15% (20.7% in the first half of 2008). Taking account of contracts already exchanged, offers received and negotiations in progress, **Pirelli RE confirms the target of €1 billion in asset sales by the end of 2009**, involving receipt of its related share of benefit.

**Consolidated revenues** were €115.8 million (€192.8 million in the first half of 2008): the 2008 figure benefited from around €49 million in revenues from the sale of just one asset in Poland.

**EBIT, including net income from investments but before restructuring costs and asset writedowns/revaluations, reported an improvement in the second quarter on the first quarter (-€8.2 million versus -€14.7 million). Despite this improvement, the overall first-half figure is a negative €22.9 million compared with a positive €37.7 million in the first half of 2008, representing a shortfall of €60.6 million.**

Part of this difference is due to more than €30 million in non-recurring income from which the company benefited in 2008 on the sale of just one asset in Poland and for indemnity received upon replacing Pirelli RE SGR as the manager of the Berenice fund. In addition, the fair value measurement of hedging derivatives had a positive impact of €10.9 million on the income statement in the first half of 2008, but a negative one of €7.4 million in the first half of 2009 due to movements in interest rates.

When EBIT including net income from investments before restructuring costs and writedowns/revaluations is summed with income from shareholder loans, first-half EBIT comes down to a loss of €9.2 million. Two-thirds of this loss is attributable to the results of funds and vehicle companies (-€6 million), while one-third is attributable to the service business (-€3.2 million, including holding company costs): net of the non-recurring income mentioned earlier, the latter business improved its results by more than €12 million on the first half of 2008 thanks to cuts in overheads.

The net balance of **revaluations and writedowns** is a negative €4.8 million in the first half of the year. The revaluations are the result of formalizing the "hold" strategy already announced for most of the residential real estate in Germany and for selected prestige assets in Italy, involving their medium-term retention in the portfolio: the carrying amount of these assets has been revalued under IAS 40 with a positive economic impact of €45.5 million. However, these revaluations have been more than offset by writedowns of €50.3 million against other portfolios (of which €28.1 million relating to the investment in the German Highstreet portfolio).

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[**]Note: the figures for the first half of 2008 have been restated on a consistent comparative basis. The Integrated Facility Management business, sold during 2008, has been classified in "discontinued operations" meaning that its results do not contribute to EBIT but only to the net post-tax result.

[††] Market values at June 30th, 2009 are based on appraisals by independent experts, except for NPLs which are stated at book value.

**Consolidated net income (loss)** was -€42.3 million (+€9 million in the first half of 2008, when discontinued operations contributed a positive €4.4 million), after booking gross losses of €16.3 million for restructuring costs and the negative balance for revaluations/writedowns.

**Real estate NAV** amounts to €1.2 billion, staying in line with the figure at December 31st, 2008: this value is the difference between the Pirelli RE share of the market value of participated assets (€3.9 billion) and its share of the net bank debt of funds and vehicle companies (€2.7 billion).

**Group net equity** is €302.3 million at June 30th, 2009 compared with €317.1 million at March 31st, 2009 (€361.7 million at December 31st, 2008). Taking account of the capital increase completed at the start of July, the half-year figure would increase to €701.6 million.

The **net financial position** reports net debt of €337.3 million at June 30th, 2009 compared with €309.3 million at March 31st, 2009 and €289.5 million at December 31st, 2008. The net financial position, excluding shareholder loans granted, reports net debt of €828.5 million compared with €898.4 million at March 31st, 2009 and €861.8 million at December 31st, 2008. Taking account of the capital increase completed at the start of July, the half-year figure would come down to -€429.2 million.

**Gearing** (given as the ratio between net financial position, excluding shareholder loans granted, and net equity) is 2.69 at the end of June compared with 2.81 at March 31st, 2009 (2.35 at December 31st, 2008). Taking account of the capital increase completed at the start of July, the half-year figure would come down to 0.61.

***Divisional performance***

**ITALY**

**Real estate sales** amounted to €273.3 million at June 30th, 2009 compared with €372.4 million in the first half of the previous year.
**EBIT, including net income and financial income from investments before restructuring costs and writedowns,** was a negative €3.6 million at June 30th, 2009 compared with a positive €26.2 million at June 30th, 2008. EBIT comprises €6.7 million in income from services (an improvement of €6.8 million on 2008 net of the non-recurring income mentioned earlier), and -€10.3 million in losses from real estate vehicle companies and funds (€9.3 million in income in 2008).

**GERMANY**

**Real estate sales** amounted to €55.1 million at June 30th, 2009 compared with €95.6 million in the first half of the previous year.
**EBIT, including net income and financial income from investments before restructuring costs and writedowns**, was a positive €1.8 million at June 30th, 2009 compared with €3.8 million at June 30th, 2008. EBIT comprises €2.7 million in income from services (-€2.3 million in losses in 2008) and -€0.9 million in losses from real estate vehicle companies (€6.1 million in income in 2008).

**POLAND**

**Real estate sales** amounted to €23.5 million at June 30th, 2009 compared with €59.5 million in the first half of the previous year.
**EBIT, including net income and financial income from investments before restructuring costs and writedowns,** was a positive €1.6 million at June 30th, 2009 compared with €19.2 million at June 30th, 2008. EBIT comprises €0.1 million in losses from services (income of €0.6 million in 2008) and €1.7 million in income from real estate vehicle companies (€18.7 million in 2008).

**NPL**

**Collections** of non performing loans amounted to €175.8 million at June 30th, 2009 compared with €235.0 million in the first half of last year.
**EBIT, including net income and financial income from investments before restructuring costs and writedowns,** was a positive €1.0 million at June 30th, 2009 compared with €18.2 million at June 30th, 2008. EBIT comprises €2.4 million in losses from services (income of €2.3 million in 2008) and €3.4 million in income from vehicle companies (€15.8 million in 2008).

***Events subsequent to June 30th, 2009***

- Pirelli RE's cash call, resolved by the extraordinary shareholders' meeting on April 17th, 2009, came to a successful conclusion on July 23rd, 2009. All the 798,574,545 new-issue ordinary shares were subscribed, corresponding to a total value of €399,287,272.50. The proceeds of the capital increase will be used to reduce net debt, ensuring the necessary flexibility for achieving the business plan's objectives. Pirelli RE's new share capital is €420,585,888.50, divided into 841,171,777 ordinary shares with a par value of €0.50 each. At the close of the capital increase, Pirelli & C. therefore owns 487,798,972 shares, corresponding to around 57.99% of Pirelli RE's share capital.

- As part of measures to redefine the structure of the Company's financing, the Board of Directors has approved the terms of an agreement with a pool of eight leading financial institutions for the provision of a credit facility for a total of €320 million expiring in July 2012. Once this agreement is finalized, Pirelli RE will have available €470 million in committed credit facilities compared with a current level of €380 million, with an average residual duration that will increase from the current 9 months to 29 months.

- The Company informs that Mr. Rodolfo Petrosino has left the Company and the office of General Manager Italy.

***Expected outlook for the business in 2009***

Committed to turnaround, the Company confirms its previously announced target level for full-year EBIT including net income from investments before restructuring costs and property revaluations/writedowns (-€25/-35 million).

It is well to recall that such projections for 2009 could be heavily influenced by exogenous factors beyond the Company's control, such as changes in the macroeconomic scenario, the trend on the real estate market, movements in interest rates and the terms of access to credit.

§

This press release contains references to the following alternative performance indicators for the purposes of better evaluating the Pirelli RE Group's results; EBIT including net income from investments is calculated as EBIT plus income from investments, reported in "EBIT" and "Income from investments" respectively in the consolidated income statement accompanying the explanatory notes to the half-year condensed financial statements; net financial position, which is represented by gross financial debt less cash and other cash equivalents and other financial receivables.

§

Gerardo Benuzzi, Pirelli RE's Financial Reporting Officer, attests - pursuant to para. 2, article 154-bis of the Financial Markets Consolidation Act (Decree 58/1998) - that the accounting information contained in this press release corresponds to the company's underlying documentary records, books of account and accounting entries.

§

Reclassified, condensed versions of the consolidated income statement, balance sheet and cash flow statement are all appended 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 Ernst & Young S.p.A..

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*Appendix 1*

## *Reclassified income statement*

| | | (Euro/million) | JUNE 2009 | JUNE 2008 |
|---|---|---|---|---|
| | | Consolidated revenues | **115,8** | **192,8** |
| | | *of which services* | *94,7* | *115,0* |
| | | *of which other revenues* | *21,1* | *77,8* |
| | | EBIT before restructuring costs and property writedowns/revaluations | (2,0) | 20,3 |
| | | Net income from investments before property writedowns/revaluations | (20,9) | 17,4 |
| | A | **EBIT including net income from investments before restructuring costs and property** | **(22,9)** | **37,7** |
| | | Restructuring costs | (11,5) | (16,2) |
| | | Property writedowns/revaluations | (4,8) | (0,8) |
| | | **EBIT including net income from investments (1)** | **(39,3)** | **20,7** |
| | B | Financial income from investments | 13,7 | 13,6 |
| | | **EBIT including net income and financial income from investments** | **(25,6)** | **34,3** |
| | | Financial expenses | (14,7) | (20,9) |
| | | **Profit (loss) before taxes** | **(40,3)** | **13,4** |
| | | Income taxes | (2,4) | (6,4) |
| | | Net income (loss) before discontinued operations | (42,7) | 7,0 |
| | | Discontinued operations | 0,0 | 4,4 |
| | | Net income (loss) before minority interests | (42,7) | 11,4 |
| | | Minority interests | 0,4 | (2,4) |
| | | **Consolidated net income (loss)** | **(42,3)** | **9,0** |

(*) Relating to revenues from subsidiaries

| | | |
|---|---|---|
| **A + B** | (9,2) | 51,3 |

(1) EBIT including net income from investments at June 30th, 2009 is calculated as EBIT (-€17.7 million) plus the share of results from investments (-€21.5 million), reported in "EBIT" and "Net income from investments" in the consolidated income statement accompanying the explanatory notes to the half-year condensed financial statements.

*Appendix 2*

*2) Reclassified balance sheet*

| (Euro/million) | JUNE 2009 | 2009 Post Capital Increase (*) | 12.31.2008 | JUNE 2008 |
|---|---|---|---|---|
| Fixed assets | 583,0 | | 589,1 | 795,3 |
| *of which investments (1)* | *406,7* | | *405,7* | *608,5* |
| *of which goodwill* | *137,0* | | *137,8* | *141,7* |
| Net working capital | 122,4 | | 133,1 | 183,1 |
| **Net invested capital** | 705,3 | | 722,2 | 978,4 |
| Net equity | 308,2 | 707,5 | 366,4 | 657,1 |
| *of which group net equity* | *302,3* | | *361,7* | *650,1* |
| Provisions | 59,8 | | 66,3 | 50,8 |
| Net financial position | 337,3 | | 289,5 | 270,5 |
| *of which shareholder loans* | *(510,2)* | | *(572,3)* | *(539,2)* |
| **Total covering net invested capital** | 705,3 | | 722,2 | 978,4 |
| Net financial position excluding shareholder loans | 828,5 | 429,2 | 861,8 | 809,8 |
| Net invested capital excluding shareholder loans | 1.196,4 | | 1.294,5 | 1.517,6 |
| Gearing | 2,69 | 0,61 | 2,35 | 1,23 |

(1) The figures includes interests in associates, joint ventures and other investments (320.9 million euro), investments in real estate funds (66,8 million euro reported as “other financial assets” in the consolidated balance sheet). The amounts at June 2009, December 2008 and June 2008 include provisions for investment writedowns of 85,0 million euro, 48,7 million euro and 21,8 million euro respectively.

*Appendix 3*

## *Reclassified cash flow statement*

| (Euro/million) | **JUNE 2009** | **JUNE 2008** |
| --- | --- | --- |
| **EBIT before restructuring costs and writedowns** | **(2,0)** | **20,3** |
| Amortization and depreciation | 3,6 | 4,3 |
| Change in non-current financial assets /sale of investments | (37,5) | 9,3 |
| Change in other non-current assets | (0,7) | (15,0) |
| Change in net working capital and provisions and other changes | 15,7 | (22,7) |
| **Free cash flow** | **(20,8)** | **(3,8)** |
| Impact of Facility Management **(1)** | 0,0 | 102,4 |
| Payment of restructuring costs (provided in 2008) | (23,6) | (7,8) |
| Financial and tax expenses/income **(2)** | (3,4) | 13,5 |
| **Cash flow before dividends** | **(47,8)** | **104,3** |
| Dividends paid | 0,0 | (85,1) |
| **Net cash flow** | **(47,8)** | **19,2** |
| Increase in share capital | 0,0 | 0,0 |
| Purchase/sale of treasury shares | 0,0 | 0,0 |
| **Total cash flow** | **(47,8)** | **19,2** |

*Appendix 4*

## *Assets Under Management by Country and Segment*

| (Euro/billion) | | | Market Value JUNE 2009 | | Market Value DECEMBER 2008 |
|---|---|---|---|---|---|
| **TOTAL ASSETS UNDER MANAGEMENT** | | | **16,8** | | **17,3** |
| **NON PERFOMING LOANS** | | | **1,7** | | **1,9** |
| **REAL ESTATE** | | | **15,1** | | **15,4** |
| of which partecipated | | | 14,7 | | 15,0 |
| **of which ITALY** | | 7,5 | **50%** | 7,6 | **50%** |
| **of which GERMANY** | | 7,4 | **49%** | 7,6 | **49%** |
| **of which POLAND** | | 0,2 | **1%** | 0,2 | **1%** |
| **ITALY** | | | | | |
| | RESIDENTIAL | | 0,4 | | 0,4 |
| | SOHO (SMALL OFFICE) | | 0,8 | | 0,9 |
| | COMMERCIAL CORE | | 1,9 | | 2,0 |
| | COMMERCIAL YIELDING | | 3,0 | | 3,1 |
| | DEVELOPMENT | | 1,1 | | 1,0 |
| | PRE-LET DEVELOPMENT | | 0,3 | | 0,2 |
| | | | **7,5** | | **7,6** |
| **GERMANY** | | | | | |
| | RESIDENTIAL | | 2,8 | | 2,8 |
| | COMMERCIAL | | 2,4 | | 2,6 |
| | COMMERCIAL CORE | | 2,0 | | 2,0 |
| | PRE-LET DEVELOPMENT | | 0,2 | | 0,2 |
| | | | **7,4** | | **7,6** |
| **POLAND (1)** | | | **0,2** | | **0,2** |

**(1)** Assets Under management in Poland of € 0.2 billion refer entirely to the cluster development