building **the future**

Half-year Financial Report
At June 30th, 2009

PIRELLI RE

A. PRELIMINARY INFORMATION

1. CORPORATE OFFICERS

Board of Directors[1]

Marco Tronchetti Provera	Chairman
Giulio Malfatto[2]	Chief Executive Officer
Claudio De Conto[3]	Managing Director Finance
Emilio Biffi	Chief Technical Officer
Reginald Bartholomew	Independent Director
Paolo M. Bottelli	Director
David Michael Brush	Independent Director
William Dale Crist	Independent Director
Carlo Emilio Croce	Independent Director
Olivier De Poulpiquet De Brescanvel	Director
Jacopo Franzan	Director
Valter Lazzari[4]	Independent Director
Claudio Recchi	Independent Director
Dario Trevisan	Independent Director
Wolfgang Weinschrod	Director
Gianluca Grea	Board Secretary and General Counsel

1 The shareholders' meeting held on April 14th, 2008 appointed the Board of Directors to hold office until the date of approving the financial statements for the year ended December 31st, 2010. The Board of Directors decided the individual roles and responsibilities of its members in a meeting held immediately after this shareholders' meeting and also nominated the members of the Board committees.
2 Co-opted to the Board of Directors on April 8th, 2009 to replace Carlo Alessandro Puri Negri, the Executive Deputy Chairman.
3 Office conferred by the Board of Directors on December 16th, 2008, previously a Director of the company.
4 Co-opted by the Board of Directors on March 5th, 2009 to replace Dolly Predovic who had resigned. The shareholders' meeting held on April 17th, 2009 confirmed him as a director.

Executive Investment Committee

Marco Tronchetti Provera	Chairman
Giulio Malfatto[5]	Chief Executive Officer
Claudio De Conto	Managing Director Finance
Olivier de Poulpiquet	Director
Claudio Recchi	Independent Director

Audit and Corporate Governance Committee

Dario Trevisan	Independent Director – Chairman
William Dale Crist	Independent Director
Valter Lazzari[6]	Independent Director

Compensation Committee

Claudio Recchi	Independent Director – Chairman
Reginald Bartholomew	Independent Director
Carlo Emilio Croce	Independent Director

Board of Statutory Auditors[7]

Roberto Bracchetti	Chairman
Paolo Carrara	Standing auditor
Gianfranco Polerani	Standing auditor
Franco Ghiringhelli	Alternate auditor

5 Appointed as a member of this Committee by the Board of Directors on April 8th, 2009.
6 Appointed as a member of this Committee by the Board of Directors on April 20th, 2009.
7 The shareholders' meeting of April 20th, 2007 appointed the Board of Statutory Auditors to serve until the date of approving the financial statements for the year ended December 31st, 2009.

Paola Giudici	Alternate auditor

Supervisory Board

Dario Trevisan	Chairman
Roberto Bracchetti	Member
Alessia Carnevale	Member

2. TOP MANAGEMENT

Line

Rodolfo Petrosino[8]	General Manager Italy
Paolo M. Bottelli[9]	General Manager Germany and Poland

Corporate

Emilio Biffi	Chief Technical Officer
Gerardo Benuzzi	General Manager Finance & Advisory
Mauro Bordoni	Deputy General Manager Administration Planning & Control
Paola Delmonte	Deputy General Manager Advisory

Financial Reporting Officer

Gerardo Benuzzi[10]	General Manager Finance & Advisory

8 Office conferred by the Board of Directors on December 16th, 2008. Subsequently vacated office as announced on July 28th, 2009.
9 Office conferred by the Board of Directors on December 16th, 2008.
10 Appointed as Financial Reporting Officer by the Board of Directors on April 14th, 2008.

Independent auditors

Reconta Ernst & Young S.p.A.[11]

Via della Chiusa, 2

20123 Milan

[11] Engaged by the shareholders' meeting held on April 14th, 2008.

3. GROUP MISSION AND PROFILE

The Pirelli RE mission is to be real estate sector leader through innovation, sustainable quality and ongoing development of expertise, thus creating value for the business, the environment and the community.

The strategic objectives are:

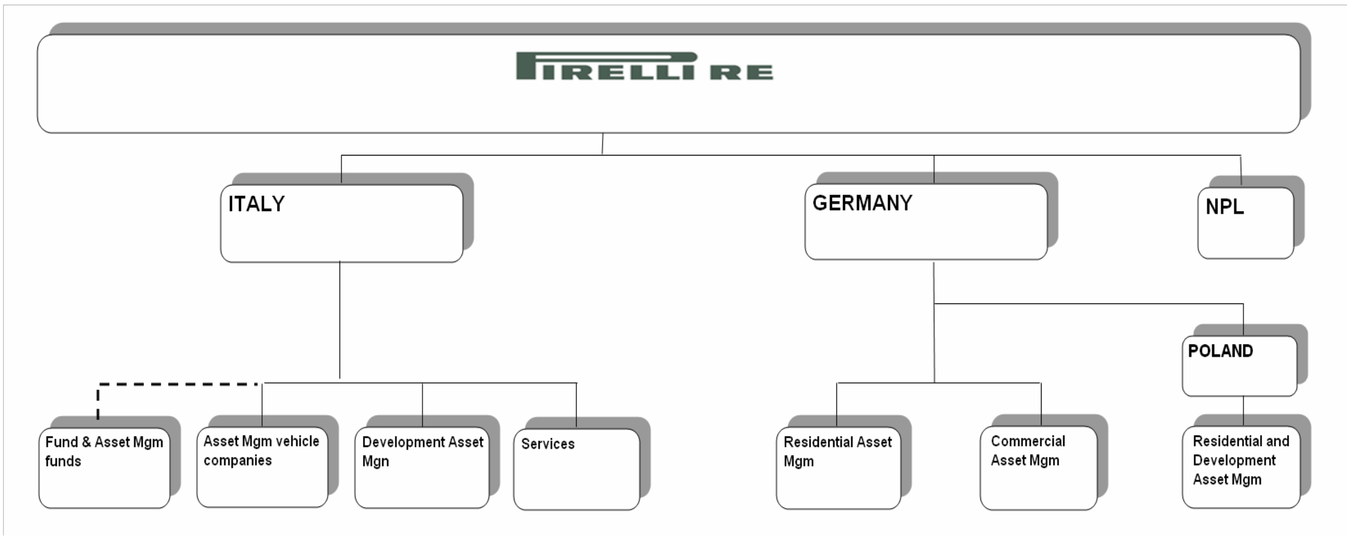
- to create innovative real estate products and services which provide quality solutions to the needs of investors, users and the community;
- to become an aggregator in real estate management, through its specialist know-how;
- to create a sophisticated culture, thus contributing to the real estate sector's structural evolution.

Active in Italy, Germany and Poland, Pirelli RE is one of the principal players in the European real estate sector.

The company has been listed on the Milan Stock Exchange since 2002.

Pirelli RE is a real estate fund & asset management company which manages and adds value to high quality property portfolios, in which it invests with minority stakes in partnership with leading investors.

The organization structure based on geographical areas – Italy, Germany and Poland - and on product-specialized business units, combines knowledge of local markets with specialist know-how in different segments.



In order to confront the new market scenario, Pirelli RE has optimized the model's components, involving a revision based on:

- lean and efficient organization, drawing on the strong operational experience of a qualified and professional management team
- better management of the income-generating real estate portfolio
- a refocus on fund & asset management and the service platform as the core business in Italy and the pursuit of alliances in Germany and Poland.

B. INTERIM REPORT ON OPERATIONS

1. REAL ESTATE MARKETS IN THE FIRST HALF OF 2009

1.1. European real estate market[12]

The macroeconomic forecasts, periodically revised down, remain highly negative both globally and for Europe, where GDP is estimated to contract by -4.8% in 2009 and by -0.3% in 2010[13]. The weakening of the fiduciary pact between households, banks, businesses and institutions has held back demand (consumption, international trade, investment etc.). The authorities are seeking, both locally and internationally, to relaunch the fiduciary pact between economic and financial market players by changing their expectations. In recent months banking institutions and governments have adopted monetary, economic and fiscal policies aimed at injecting greater liquidity into the system. The steep reduction in interest rates (the latest cut by the ECB dates back to May 7th, 2009 and has taken rates down to 1%, their lowest level since introducing the euro), and the fiscal policies are generally aimed at reactivating demand.

The European real estate market is in a recession, that started in the second half of 2008 and recalls the one at the beginning of the 1990s. The European investment property market contracted by 59% year-on-year in 2008, with the figures for the first half of 2009 indicating a further decline of -42% on the second half of 2008[14]. Despite this negative picture, the second quarter of 2009 reported a slight recovery on the first quarter of this year.

Given the heavy restrictions on credit applied by all the financial institutions, the latest transactions have involved only cash-rich investors.

Major investments are still blocked by bank restrictions on credit and prices are still high relative to expectations for demand and are continuing to fall.

The Central European markets of the Czech Republic and Poland are the most active, not only in terms of transactions but also in terms of investor interest. Institutional investors continue to be absent, except for closed-end German funds.

Values have fallen without pause since March 2008, with the decreases in March 2009 reaching a level last seen in March 1993 (-20%). Investors are being even more selective about investment opportunities than in the past, creating a dual-speed market, in which there is a clear preference for prime assets and properties let to long-term, reliable tenants.

1.2 Italian real estate market[15]

The deterioration in the economy has progressively affected the real estate market. The real estate sector reported 133 billion euro in sale transactions in 2008, compared with 154 billion euro in 2007 before the crisis; this figure is estimated to fall to 110 billion euro at the end of 2009, more than a quarter lower than two years ago.

---

12 Source: Nomisma: Real Estate Market Watch – July 2009
13 IMF: Economic Outlook 2009
14 Jones Lang La Salle 2009
15 Source: Nomisma: Real Estate Market Watch - July 2009

The reduction in sales is due to the steep contraction in the number of transactions. In the first quarter of 2009 the number of transactions fell on the corresponding quarter of 2008 by -18.7% in the residential sector, by -20.6% in the office sector, by -23.9% in the retail sector and by -33.5% in the industrial sector.

Values continued to show signs of weakening in the first half of the year, particularly in the residential sector (-2.5% on the previous six months and -3.5% year-on-year) and in the office sector (-2.3% on the previous six months and -2.1% year-on-year), while the retail sector seemed to be less affected (-1.7% on the previous six months and -1.4% year-on-year). According to the most recent forecasts, growth in property values will continue to be negative until the end of 2009, with the contraction continuing but slowing in 2010.

The continued squeeze on credit by the banks has contributed to widening the gap between small transactions, where funds are generally sufficient to support them, and large ones, where the perception of real estate risk that has permeated and still permeates financial institutions with little criticism, has caused an exceptional diminution in such activity since the second half of 2008.
Active buyers are therefore generally more liquid and fall into the category of investor rather than user.

As regards the business letting market, the economic crisis has critically weakened relocation projects and expansion projects even more, causing particularly weak demand and more and more requests to renegotiate rents even by prime tenants who are being offered attractive, very aggressively priced alternatives.

Real estate market trends in coming months will mostly depend on the general performance by the macroeconomic variables.
In view of the most recent forecasts by the more important economic forecasters, credit appears to be easing on the assumption that economic growth starts to recover.

1.2.1 Office real estate market[16]

Office market

The steady deterioration in the office market continued in the first half of 2009, with lower demand and a consequent contraction in the number of transactions. According to the figures of the Agenzia del Territorio (Italian government land agency), the number of transactions was 20.6% lower in the first quarter of 2009 than in the same period the year before.
The reduction in volumes has resulted, in this market too, in a drop in prices, which fell by 2.3% on the previous six months. Times to sell and price discounts have grown further, reaching new records of 7.6 months and 13.4% respectively.
The letting market presents a similar picture, with rents down -2.6% on the previous six months, leaving gross rental yields unchanged at 5.1%.
The latest forecasts put the price contraction for offices in the region of -5.2% for 2009, and around -3.5% for 2010.

[16] Source: Nomisma: Real Estate Market Watch - July 2009

1.2.2 Industrial real estate market[17]

Industrial market

Italy's market for industrial premises is currently second in Europe in terms of space, with over 475 million sqm, next only to Germany's estimated 784 million sqm. However, the Italian industrial space market has a scarce supply of class A buildings which account for just over 10% of total stock compared with an average of around 20% in the other major European countries (France; Spain; Germany and the United Kingdom).
The industrial premises market displayed a deterioration in 2008, with a decline in demand and number of transactions, albeit to a much more limited extent than other market segments.
According to the Agenzia del Territorio figures, the number of transactions in the first quarter of 2009 fell by a steep 33.5% year-on-year.
Businesses are displaying a low propensity to buy business premises; construction of new buildings has declined considerably.
Since there are no forecasts available for 2009 and 2010 for this market sector, we must refer to the sentiment expressed by market participants regarding demand, supply and the number of transactions. According to such sentiment, demand for industrial property will continue to contract over 2009, with a consequent growth in supply and a significant decline in the number of transactions.
Regardless of the economic climate, it is worth noting that in recent years the industrial property market has witnessed the addition of a large number of buildings for logistics purposes. This market segment is expanding considerably and many projects are planned especially in North and Central Italy, even if new logistics hubs are expected to be developed in the South as well. According to the more important analysts, the logistics real estate market in Italy has high growth potential in the next decade relative to other European countries, thanks to the country's strategic position which offers an excellent link for goods transported to and from Southern Europe (Corridor 1), Eastern Europe (Corridor 5) and Northern Europe (the two seas and Brennero axis corridor).

1.2.3 Retail real estate market

Shopping centres

The severe difficulties affecting the retail sector at the end of 2008 spilled over into the first half of 2009. Consumption is stagnant but, unlike the fourth quarter of 2008, household confidence has improved. Even though industrial output has diminished, the negative trends in the demand for goods and services have eased.
The economic crisis has hit the retail sector hard, worsening the sector's existing problems due to structural transformation (increase in single-person households) and change in habits (more meals consumed outside the home and greater consumption of ready-made food). All the market's various participants are now being put hard to the test: consumers and retailers on the one hand, and developers, promoters and investors on the other.
Consumption trends by the former have focused on health and wellness. Their preference is for satisfying lifestyles but with a strong emphasis on cost-saving.

---

[17] Source: Nomisma: Real Estate Market Watch - July 2009

The real value of products is sought with convenience products being bought (close to the home or workplace) in the least time possible and with a view to the environment. Retailers are first and foremost trying to provide an adequate response to changes in demand by updating stores, distribution formats and assortments. In second place, they are seeking to pursue the route of internationalization and competition, combining adaptation to local markets with standardization of services, so that market coverage and size create suitable economies of scale. The crisis has been an obstacle to growth for many (due to a combination of high operating costs and lower profits), while for others (primarily international groups) it has transformed into an opportunity to invest and revisit their leadership positioning (only in more important, less risky markets).

The market in Italy has operated at two speeds, with a sharp slowdown especially for small retailers and moderate performance (given the stagnation in consumption) for large retailers and shopping centres in general. The year 2008 was an eventful one for retailers (in terms of openings, closures and enlargements) with this trend continuing in 2009. Small shops (less than 250 sqm) are particularly in crisis, while larger shops, supermarkets and specialist stores (second businesses opened as storefronts to places of production) are growing. In terms of shopping centres in Italy, a total of 185 were opened countrywide between 2000 and 2007, making an average of 21 per year. Fourteen were opened in 2008 and ten in the first half of 2009. Although the sector undoubtedly has many problems, both in terms of lower volumes of investment (blocking or delaying the execution of certain projects) and in terms of marketing the space (with long times required to conclude contracts and downward trends in prices), it continues to grow even if at a slower pace than in the past. Another 115 shopping centres are planned by 2011 (including retail parks and outlets) which should add 2 million in gross leasable area to the overall stock.

Prices in the first half of this year were generally stable or slightly lower for large retailers and sharply down for small retailers. Rents have continued to fall, even if moderately, with a consequent further decline in average market yields.

Traditional shops

The retail property market reported a sharp downturn at the start of 2009, with a fall in demand and the number of sales and letting contracts, with times to sell and to let continuing to get longer, larger price discounts and a drop in transaction values (even if by less than for homes and offices).
The reduction in sales is evident in the figures for the first quarter of 2009, which show an even larger decline than for other types of real estate: -23.9%, significantly worse than at the end of 2008.
The six-month reduction in rents (-1.8%) and prices (-1.7%) leaves rent yields unchanged for the past year and a half at 7.4%.
The latest forecasts put shop prices as contracting in the region of -4.1% in 2009, and by around -1.5% in 2010[18].

1.2.4 Residential real estate market[19]

18 Source: Nomisma: Real Estate Market Watch - July 2009
19 Source: Nomisma: Real Estate Market Watch - July 2009

Housing market

Some of the trends already seen at the end of the previous year have been confirmed in the first six months of this year. The first quarter reported a reduction of 18.7% in the number of homes sold, with an even bigger decline in North Italy (-20.8%), combined with an acuter crisis in towns that are not provincial capitals and which have less vibrant, stickier property markets (where 20% fewer contracts were exchanged compared with 15.8% fewer in the larger metropolitan areas).

However, the large contraction in sales volumes has not been accompanied by an equally big reduction in prices, like in other major European countries, which have experienced a particularly significant drop in prices. In Italy, where house prices increased much less in the latest property cycle than in other countries, the issues are different. Not only has there been no excess construction of residential housing, like in Spain, where construction of new houses more than doubled in recent years relative to Italy, but also the level of Italian household debt is lower than in other Western countries. These two factors have translated into less downward pressure from excess supply.

In fact, house prices contracted by 2.5% in the first half of 2009 and by 3.5% year-on-year.

The reduction in prices also contributes to discounts usually applied at the time of sale which now average 13%, with significant differences between prime areas (11.9%) and suburban ones (14.3% on average, or some 20% more than in prime areas). The gap between asking and actual price therefore continues to grow and should make it increasingly easier to close deals.

Times to sell continue to get longer, having now exceeded 6 months, a level not seen since 1997.

The latest forecasts put residential prices as contracting in the region of -6.7% in 2009, and by around -2.8% in 2010.

Letting market

Like in the previous two six-month periods, the letting market has seen a reasonable level of demand particularly by persons unable to purchase a home due to continued high prices and the difficulty of accessing credit in the form of mortgages. The supply of letting property is still very plentiful and growing. As a result, rents have come down by -3.3% on the previous six months and by -4.1% on the prior year, bringing them back to their nominal level of 3 years ago.

Mortgages

Despite the cut in interest rates, demand for mortgages has decreased due not only to the immediate widening of spreads by banks only partly attributable to higher perceived risk, but also to the fact that potential buyers are postponing investment decisions in the expectation of lower prices.

On the supply side, banks are allocating assets to the real estate sector on a more selective basis, with a contraction in the loan to value ratio and in the average length of loans.

The reduced support assured by banks combined with considerably scarcer demand than in the recent past has contributed heavily to the retreat of Italy's real estate market and given rise to the basis for a price deflation.

1.2.5 Tourism/hotel real estate market[20]

World tourism continued to deteriorate in the first few months of 2009 due to the general economic crisis. International arrivals decreased by around 8% in one quarter, with overall numbers at the level of 2007. The entire sector, including related services, has been severely affected, with no signs of imminent improvement by year end.

European market
The European hotel real estate market reported another set of positive results in 2008, with around 12 billion euro in transactions, after the record of 29 billion euro in 2007. Around 10 billion euro in transactions are expected in 2009. The British, Germans and Spanish are the principal investors[21].

Italian market
Tourism in Italy is also being held back by the recession, with a decrease in both national and international demand. According to sector surveys, foreign arrivals are expected to fall by 4.3% in summer 2009 (May - October), while domestic ones could be 2.4% lower.
Given this gloomy picture, the hospitality industry has experienced a steep reduction in guest numbers and hence in income. The occupancy rate in the first four months of the year was 6.8% lower year-on-year at 48.5% (versus 55.3% in the same period of last year). Revenue per available room (Revpar) was down to 134.1 euro from 147.9 euro in the same period of last year. Five-star hotels reported the largest decrease (-10.5% with Revpar at 240 euro), followed by the 4-star category (-9.8% with Revpar at 98.4 euro per room).

In a press release published on July 16th, Federalberghi-Confturism, the industry association, predicted a steep 15% drop in turnover for summer 2009. Average per capita spending is expected to be 18% below last year, rising to 25% in the case of holidays spent entirely in Italy.

No major changes are expected for year end; instead, the negative situation will tend to ease and then gradually get better, with true recovery expected only in the second half of 2010.

Investors remain particularly keen on the tourism industry because of the attractive returns offered. However, it is a difficult, fragmented market with limited opportunities, mainly consisting of individual owners (generally families) who want to retain ownership if business is still active, otherwise they prefer to sell. In addition, another consideration is the particularly high level of business risk in the hotel industry.

1.2.6 German real estate market

The recession, which Germany entered towards the end of 2008, intensified in the first quarter of 2009, with the economy contracting by -3.8%. According to estimates by Germany's most accredited economic research institutes, GDP will contract by more than -6% in 2009. The Rheinisch-Westfälisches Institut, one of Germany's top economic

[20] Source: Scenari Immobiliari - July 2009
[21] Source: Jones Lang La Salle, Hotel Investment Outlook 2009

research institutes, has revised its estimated contraction in economic growth down to -6.4% (from -4.3% estimated in March) with a slight recovery of around 0.2% in 2010 while Information and Forschung, another major economic research institute, is predicting -6.3% for 2009 and -0.3% for 2010. IFO is forecasting the recession to have a major impact on employment during the year: 460,000 jobs will be lost in 2009 and 1.05 million in 2010.

Although all segments of the German real estate market have been directly affected by the country's sharp economic slowdown, and the consequent financial and credit crisis, the scale of the property downturn is not as acute as in other major European countries (Spain, France, Great Britain) and as in the United States.

Germany has the largest real estate sector of the top five European countries, accounting for 29.5% of the total compared with 16.2% for Spain, 16.3% for France, 18% for Italy and 20.1% for Great Britain.

Germany reported more than 182 billion euro in real estate sales in 2008, with year-on-year growth of +0.5% compared with an average contraction of -0.4% for Europe's top five countries. German real estate sales are expected to grow by around 2% in 2009, compared with an average of 0.5% for Europe's top five countries.

Despite the intensity of the economic crisis affecting the country, Germany is still the country with one of the most stable residential real estate markets in the world. Germany's residential real estate market performed well in 2008 in terms of the number of sales, with prices staying generally stable: +0.7% in real terms and +2.4% in nominal terms.

There was a significant difference in house price trends by type of product: the price of new homes grew by 4.1% in nominal terms and by 2% in real terms, while the price of secondhand homes climbed by 0.4% in nominal terms but fell by -1% in real terms.

One of the particular characteristics of Germany's residential real estate market, unlike in other continental European countries, is the large percentage of families living in rented accommodation. Even though this percentage has fallen slightly, from 58% in 1990 to 54% now, it still represents the highest level in the world. Residential rents grew by an average of 3% in 2008.

The quality of office space in Germany has improved significantly in recent years: cities in the east of the country are still very behind, even if they are gradually catching up thanks to the recent completion of several high standard projects.

Germany's stock of office space comprises 20% in class A, 33.4% in class B and the remaining 46.6% in class C .

Trends in this market segment vary according to the different areas of the country. Demand has held up in cities in the east, even if certain areas report excess supply due to intense building activity in recent years. The market in Berlin is lively, while activity in Frankfurt is down due to the lack of good quality products.

The price of retail property is generally in retreat, with an annual change of 1.4% in 2008; according to estimates, prices will continue to slow in 2009, followed by a trend reversal in 2010.

Despite the difficult economic situation, retail rents are tending to rise for class A properties, while those for class B properties are the same and those for class C properties generally lower.

2. PIRELLI RE IN THE FIRST HALF OF 2009

The severe international crisis currently in progress has also encompassed the real estate sector. The fall in prices, the slowdown in transactions and above all the difficulty in accessing credit have penalized all companies in the sector. The comparison of results with the first half of 2008 should be interpreted in this light.

In order to react to the new market conditions, Pirelli RE announced at the end of 2008 plans to reduce costs and reorganize with the focus on the two macro geographical areas of Italy and Germany/Poland, less exposed to real estate market volatility, and geared to relaunching the business and fully capitalizing on the quality of existing assets.

In short, the goals of Pirelli RE in order to confront the new environment in the real estate sector are:
(i) to revert to a business model based on recurring revenues by concentrating on activities forming part of its core business (particularly fund management, by capitalizing on the prime position in the sector held by Pirelli RE SGR in Italy, and on other specialized services both for the real estate sector and for the management of non performing loans)

(ii) to reduce the risks inherent to the business model adopted in the recent past (mainly by reducing debt and net invested capital)

(iii) to cut costs further through internal and corporate reorganization.

With the success of its capital increase, completed in July with a full market take-up, Pirelli RE has achieved the first important objective of its turnaround plan, namely the company's recapitalization, being a fundamental condition for maintenance of its market leadership.

Significant events in the first half of 2009

• On February 10th, 2009, the Pirelli RE Board of Directors approved the business plan for 2009 - 2011 defining the strategy for this period with the goal of making management of portfolio assets more efficient, of reducing costs and simplifying internal organization to confront the new climate in the real estate sector, thus accelerating the business turnaround already initiated.

• On April 17th, 2009, the Pirelli RE shareholders approved in extraordinary session a capital increase for up to 400 million euro for the purposes of injecting new capital into the company; as explained in more detail in the section on subsequent events, this operation commenced on June 15th and was completed successfully in July with a 100% take-up by the market.

• On May 26th, 2009, the Pirelli RE Board of Directors confirmed the financial objectives up until 2011 and revised certain strategic decisions mainly with a view to concentrating the Group's attention on core business capable of generating a recurring revenue stream. With this the Pirelli RE Group plans to reposition itself on the market, focusing on the specific skills behind its success in the years immediately after flotation, such as fund management and the provision of specialized real estate services (primarily agency and property management), with the support of its credit servicing business because of its ability to generate recurring revenue. Accordingly, the Board of Directors approved the new management team's proposal to give a central role to Pirelli RE SGR, allowing the

Group to continue to benefit from the revenues generated by this company in the form of management fees. Similarly, the original idea of transferring the specialized real estate services to Pirelli RE SGR was reconsidered; these services have therefore retained their existing structure as independent entities within the Group in order to revitalize them and relaunch them on the third-party market. Lastly, the Board approved further measures to rationalize and regain efficiency at a group level.

• On June 9th, 2009, the Arcandor Group, the tenant of the "Highstreet" properties (a portfolio in which the Group's interest is 12.1% held through Sigma RE B.V.) filed an application at the Court in Essen for the commencement of insolvency proceedings under German law. These proceedings could have potential effects on the lease agreements – under which around 280 million euro in rent is paid per annum - and hence on the level of future rental income.
For the time being the court-appointed receivers have confirmed the intention of discharging the obligations under existing master lease agreements for the months of July and August 2009, including the related building maintenance expenditure.
The receivers are expected to produce a restructuring plan at the start of September which must then be approved by the creditors. This should take place between September and November. These circumstances, combined with the positive attitude up until now of the public and private parties directly and indirectly involved in the process, indicate that the process of reorganizing and restructuring the Arcandor Group will proceed without repercussions for the existing lease agreements with the Highstreet companies. It is also clear that the complexity of the issues relating to the Arcandor Group, the plurality of interests and parties involved and the social importance that the restructuring operation has assumed in Germany may cause the current situation to change, even suddenly.
For the purposes of obtaining an objective, outside opinion, Cushman Wakefield, an independent appraiser, was asked to perform a valuation of the Highstreet portfolio on the basis of the tenant's most likely post-restructuring structure and taking account of available information and assuming constant rental income. This valuation, which takes account of the above uncertainties, has resulted in an additional writedown against the Highstreet portfolio to a value of 4.06 billion euro at June 30th, 2009. Pirelli RE's share of this latest writedown is 28.1 million euro, coming on top of the writedown of 38.3 million euro already recognized at the end of 2008.

• On June 29th, 2009, Pirelli RE reduced its financial commitment to the NPL investment platform known as European NPL S.à.r.l. (67% DGAD International S.à.r.l. - a wholly-owned subsidiary of Calyon S.A. – and 33% Pirelli RE) thanks to the refinancing of 250 million euro provided by DGAD International S.à.r.l. which allowed Pirelli RE to recover its own shareholder loan. As part of this transaction DGAD International S.à.r.l. obtained a 20% interest in Pirelli RE Credit Servicing S.p.A.. As a result of the above, Pirelli RE enjoyed a positive impact of some 89 million euro on its net financial position excluding shareholder loans. One of the goals of this transaction is to acquire non performing loan management contracts from third parties, in keeping with the Group's growing focus on the service sector.

3. FINANCIAL HIGHLIGHTS

3.1 Review of operating results

For the purposes of interpreting the main income statement figures reported below, it should be noted that EBIT including net income from investments before restructuring costs and property writedowns/revaluations is to be treated as the most significant performance indicator for the Group's type of business. Some of the figures reported below represent important parameters for measuring the Group's performance; these are defined in the section entitled No Gaap Measures included in the appendices to the present Half-year financial report.

When reading the following figures, please note that the Integrated Facility Management business, sold during 2008, has been classified in "discontinued operations" meaning that its results do not contribute to prior period EBIT but only to the net post-tax result; accordingly, the figures for the first half of 2008 have been restated on a like-for-like basis.

	(Euro/million)	JUNE 2009	JUNE 2008
	Consolidated revenues:	**115,8**	**192,8**
	of which services	*94,7*	*115,0*
	of which other investment activities	*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 writedowns/revaluations**	**(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**
	A + B	**(9,2)**	**51,3**

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

Measures adopted in the first half of the year have helped save around 29 million euro in overheads, ahead of the annual target of 50 million euro which has nonetheless been raised to 55/60 million euro, while the service business, including holding company costs, is close to break-even (with an EBIT of -3.2 million euro). The company confirms the target of 1 billion euro in asset sales by the end of 2009, involving receipt of its related share of benefit.

Real estate sales[22] realized at June 30th, 2009 amounted to 351.9 million euro compared with 527.6 million euro at June 30th, 2008, while 175.8 million euro in NPLs were

22 This is the sum of real estate sales by consolidated companies and real estate sales by associates, joint ventures and funds in which the Group has interests.

collected[23] in this period against 235.0 million euro in the first half of 2008. Despite the stated macroeconomic environment, Pirelli RE nonetheless managed to complete real estate transactions in the period at values that were generally in line with those appraised by the independent experts. The sales margin at June 30th, 2009 was 15%, down from 20.7% in the same period of 2008. Rents[24] came to 402.2 million euro (288.1 million euro in the first half of 2008, which did not yet include the Highstreet portfolio): the Pirelli RE share of rents was 98.4 million euro (83.2 million euro at June 2008).

Consolidated revenues were 115.8 million euro against 192.8 million euro at June 30th, 2008. The 2008 figure benefited from around 49 million euro in revenues from the sale of just one asset in Poland. Revenues from services accounted for around 82% of the total in the first half of 2009, compared with some 60% in the same period of 2008.

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

Part of this difference is due to more than 30 million euro in one-off 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 euro on the income statement in the first half of 2008, but a negative one of 7.4 million euro 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 euro, details of which by country are discussed in a specific later section. Two-thirds of this loss is attributable to the results of funds and vehicle companies (-6 million euro), while one-third is attributable to the service business (-3.2 million euro, including holding company costs): net of the one-off income mentioned earlier, the latter business improved its results by more than 12 million euro on the first half of 2008 thanks to cuts in overheads.

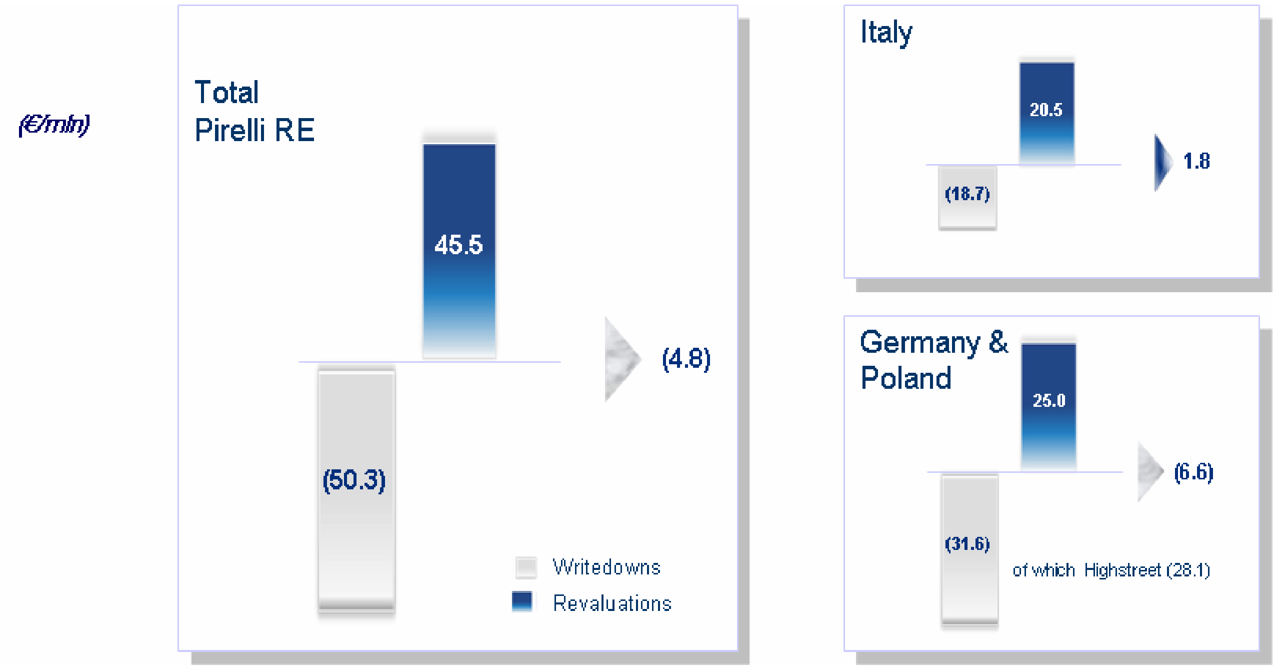
The net balance of property writedowns and revaluations was a negative 4.8 million euro in the first half of the year. The revaluations are the result of formalizing the "hold" strategy already announced for most of the residential real estate in Germany and for selected prime assets in Italy, involving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

23 This is the sum of NPLs collected by consolidated companies and those collected by associates and joint ventures in which the Group has interests.

24 This is the sum of rents earned by consolidated companies and rents earned by associates, joint ventures and funds in which the Group has interests.

Based on the valuations by independent experts, the market value of investee assets was written down by 2.3%. The writedown in Italy was 1.7%; in Germany it was around 2.8% (of which 257 million euro relating to the property portfolio of Highstreet, of which the Pirelli RE share was 28.1 million euro), while in Poland it was 6%. In view of the change in policy adopted in Germany (relating to 70% of the residential assets) and for the trophy assets in the Retail & Entertaiment fund in Italy, whereby such assets will be kept in the portfolio over the medium term, these assets have been accounted for under IAS 40, involving a consequent revaluation.

The following chart reports the impact of writedowns and revaluations by country:



More details of the results by geographical area for funds and vehicle companies and the service platform and holding company activities[25] can be found in the section on divisional performance.

Consolidated net income was a loss of 42.3 million euro compared with a profit of 9 million euro in the first half of 2008 (a figure which also include the benefit of 4.4 million euro from the discontinued operations). This year's figure is stated after booking gross losses of 16.3 million euro for restructuring costs and the net negative balance of writedowns/revaluations.

25 The results of funds and vehicle companies refer to those generated by Pirelli RE's investments in funds and companies (primarily sales and rents); service platform and holding company activities include the net income generated by the Company through its fund and asset management activities and specialized real estate services (property, facility and agency).

3.2 Review of the balance sheet and financial position

(Euro/million)	JUNE 2009	JUNE 2009 - POST Capital Increase	DECEMBER 2008	JUNE 2008
Fixed assets	583,0		589,1	795,3
of which investments in real estate funds and investment companies **(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	701,6	361,7	650,1
Provisions	59,8		66,3	50,8
Net financial position	337,3		289,5	270,5
of which shareholder loans granted	(491,1)		(572,3)	(539,2)
Total covering net invested capital	705,3		722,2	978,4
Net financial position excluding shareholder loans granted	828,5	429,2	861,8	809,8
Net invested capital excluding shareholder loans granted	1.196,4		1.294,5	1.517,6
Gearing (2)	2,69	0,61	2,35	1,23

(1) The figure 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) and junior notes (19.0 million euro reported as "other receivables" in the consolidated balance sheet). The amounts at June 2009, December 2008 and June 2008 include provisions for investment writedowns of 65,9 million euro, 48.7 million euro and 21.8 million euro respectively.

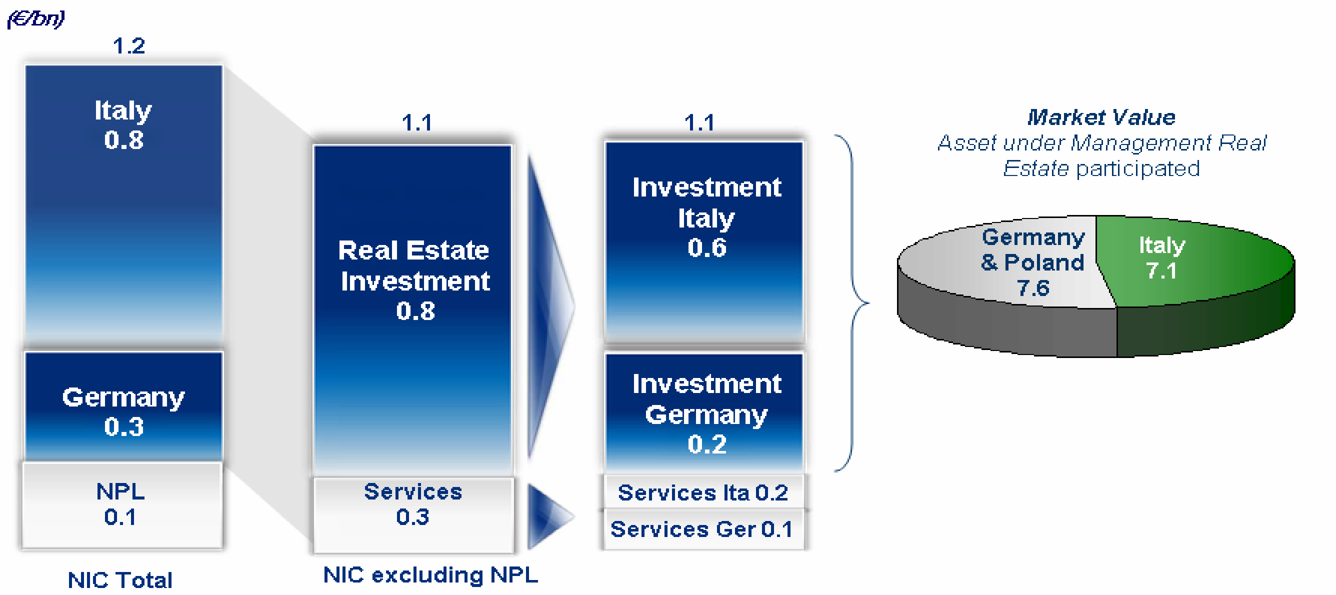
(2) The Gearing ratio indicaes the Group's ability to fund its business with its own resources as apposed to debt provided by third parties. It corresponds to the ratio between net financial position excluding shareholder loans and net equity.

Fixed assets amounted to 583.0 million euro at June 30th, 2009 compared with 589.1 million euro at December 31st, 2008.

Net working capital was 122.4 million euro, down from 133.1 million euro at December 31st, 2008, particularly thanks to the reduction in trade receivables.

Group net equity was 302.3 million euro at June 30th, 2009 compared with 361.7 million euro at December 31st, 2008 (650.1 million euro at June 30th, 2008). The decrease of 59.4 million euro is mainly attributable to the net loss for the period (-42.3 million euro) and the change over the period in the reserve for interest rate hedges (-15.7 million euro). Taking account of the capital increase completed at the start of July, group net equity would amount to 701.6 million euro.

Net invested capital excluding shareholder loans granted is 1.2 billion euro, of which 0.1 billion euro for non performing loans and 1.1 billion euro for real estate and service activities, as reported in the following chart.



The following table presents movements in the principal indicators for net debt[26]:

(Euro/million)	JUNE 2009	DECEMBER 2008
Total net financial position (1)	337,3	289,5
Shareholder loans granted	491,1	572,3
Net financial position excluding shareholder loans granted (2)	828,5	861,8
Gearing (3)	2,69	2,35
Post capital increase gearing	0,61	

(1) Net financial position: this is considered to provide an accurate indicator of a business's ability to meet its financial obligations, represented by gross financial debt less cash and other cash equivalents and other financial receivables.
The explanatory notes contain a table showing the balance sheet amounts used for this calculation.
(2) Amount stated in accordance with the CONSOB Communication dated July 28th, 2006 and in compliance with the CESR Recommendation of February 10th, 2005 ("Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses").
(3) The gearing ratio indicates the Group's ability to fund its business with its own resources rather than with third-party debt. It corresponds to the ratio between net financial position excluding shareholder loans granted and net equity.

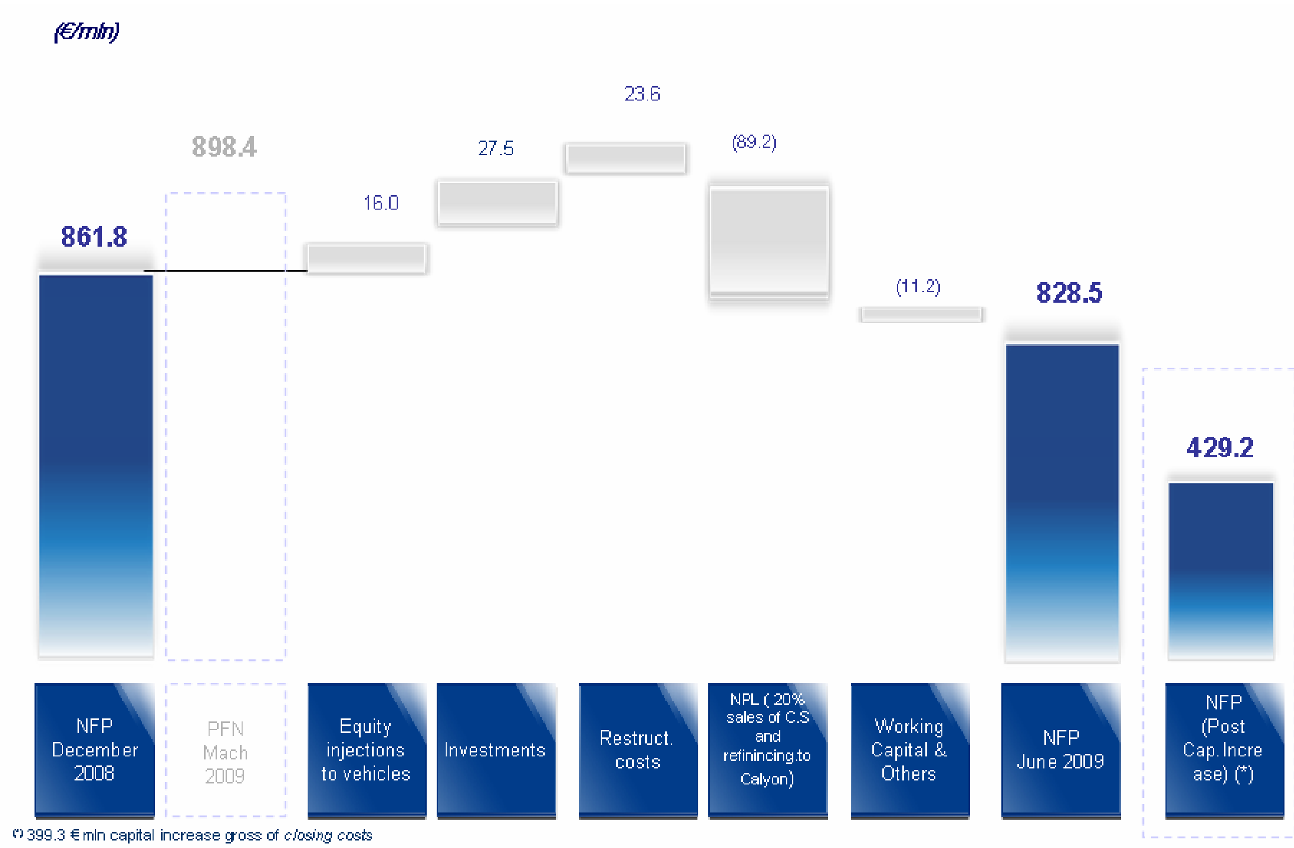
The net financial position reported net debt of 337.3 million euro at June 30th, 2009 compared with 289.5 million euro at December 31st, 2008 and 309.3 million euro at March 31st, 2009.

The net financial position excluding shareholder loans granted reported net debt of 828.5 million euro at June 30th, 2009 compared with 898.4 million euro at March 31st, 2009 and 861.8 million euro at the end of December 2008. Taking account of the capital increase completed at the start of July, the net financial position excluding shareholder loans granted would come down to 429.2 million euro.

The improvement of 33.3 million euro since December 31st, 2008 is attributable to the combined effect of selling 20% of Credit Servicing, allowing Pirelli RE to recover its shareholder loan of 89.2 million euro European NPL platform, and of making 43.5 million euro in capital contributions to vehicle companies and investments in the period as well as paying out 23.6 million euro in restructuring costs.

The following chart presents the combined effect of the events causing the change in the first half of 2009.

26 Stated in accordance with the CONSOB Communication dated July 28th, 2006 and in compliance with the CESR Recommendation of February 10th, 2005 ("Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses").



Gearing (given as the ratio between the net financial position, excluding shareholder loans granted, and net equity) was 2.69 at June 30th, 2009 compared with 2.81 at March 31st, 2009 and 2.35 at December 31st, 2008. Taking account of the capital increase completed at the start of July, this ratio would come down to 0.61.

Net cash flow was a negative 47.8 million euro, partly as a result of paying certain restructuring costs, compared with a positive 19.2 million euro at June 30th, 2008.

The following table presents the principal cash flows:

(Euro/millions)	JUNE 2009	JUNE 2008
EBIT before restructuring costs and writedowns/revaluations	**(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	0,0	102,4
Payment of restructuring costs (provided in 2008)	(23,6)	(7,8)
Financial and tax expenses/income	(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**

4. ASSETS UNDER MANAGEMENT AND REAL ESTATE NET ASSET VALUE AT JUNE 30TH, 2009.

Real Estate Assets Under Management

The information reported below, relating to portfolios owned by the Group at June 30th, 2009, is taken from valuations performed by CB Richard Ellis for the entire portfolio, with the exception of:

- the Armilla Fund and the Portafogli Misti Fund, both valued by Reag;
- the assets of DGAG and BauBeCon, valued by Jones Lang La Salle;
- the Progetto Uffici Fund (not invested in by the Group), valued by Cushman & Wakefield;
- the Immobiliare Pubblico Regione Siciliana Fund (FIPRS), valued by Scenari Immobiliari;
- the land portfolio owned by Nowe Ogrody 4, valued by Knight Frank;
- the portfolio of Highstreet, which was valued by Cushman & Wakefield on the basis of a possible resolution of the Arcandor problem (going concern assumption), as discussed in more detail in the sections addressing significant events in the period and the financial highlights.

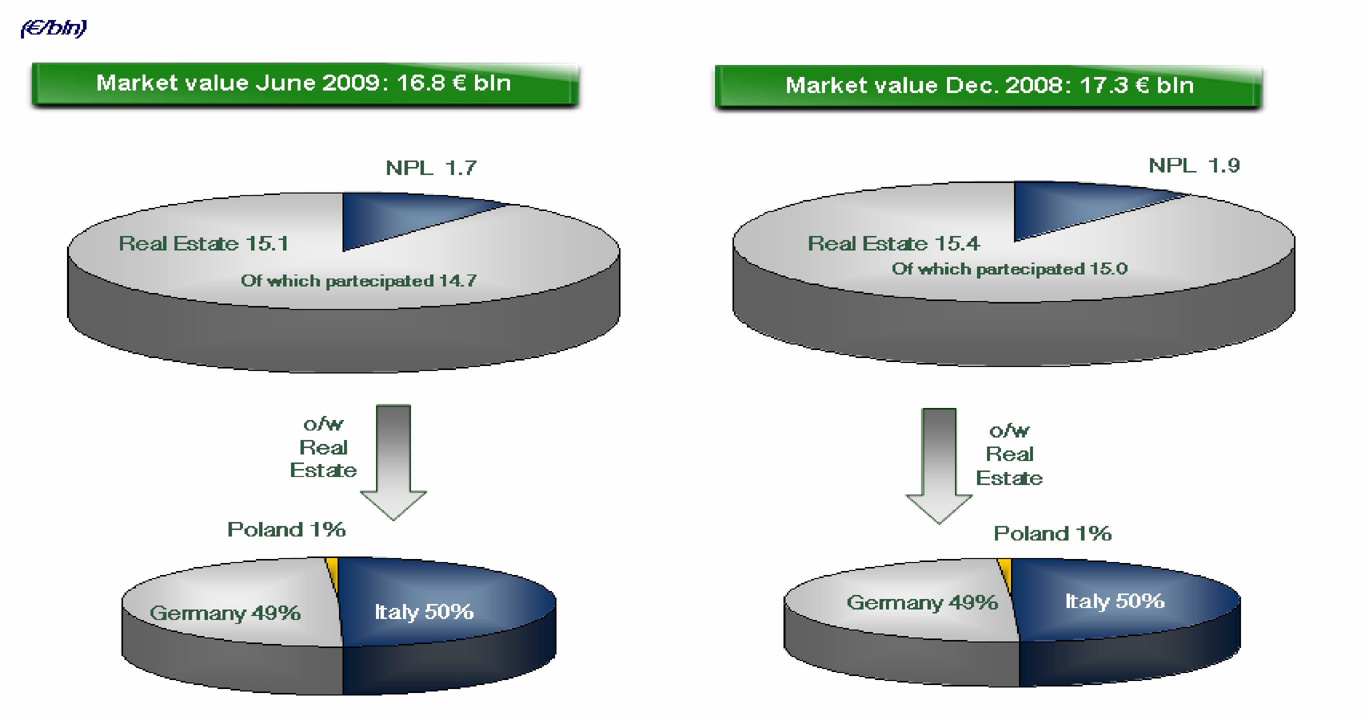
The valuations have been performed by individual property using different methods. The Discounted Cash Flow method, which discounts cash flow from leases using a discount factor reflecting the specific risks associated with the investment (terminal value at the end of the letting period is obtained by capitalizing market rents for the business and/or commercial properties), is the most widely used for commercial and residential property in Germany; instead, the terminal value of residential property in Italy is obtained using the comparative method. As regards projects in progress and land for development, the transformation method is used, by discounting the costs and revenues of the development based on the current stage of advancement of the project and therefore ignoring the profits generated relative to the theoretical end product value.

Assets under management[27] amounted to 16.8 billion euro at June 30th, 2009 (17.3 billion euro at December 31st, 2008), of which the Pirelli RE share was 4.4 billion euro (4.4 billion euro at December 31st, 2008). The assets under management comprise 15.1 billion euro in real estate (15.4 billion euro at December 31st, 2008) and 1.7 billion euro in non performing loans (1.9 billion euro at December 31st, 2007). Of the 15.1 billion euro in real estate under management, 50% is managed in Italy, 49% in Germany and 1% in Poland, staying in the same proportion as at December 31st, 2008.

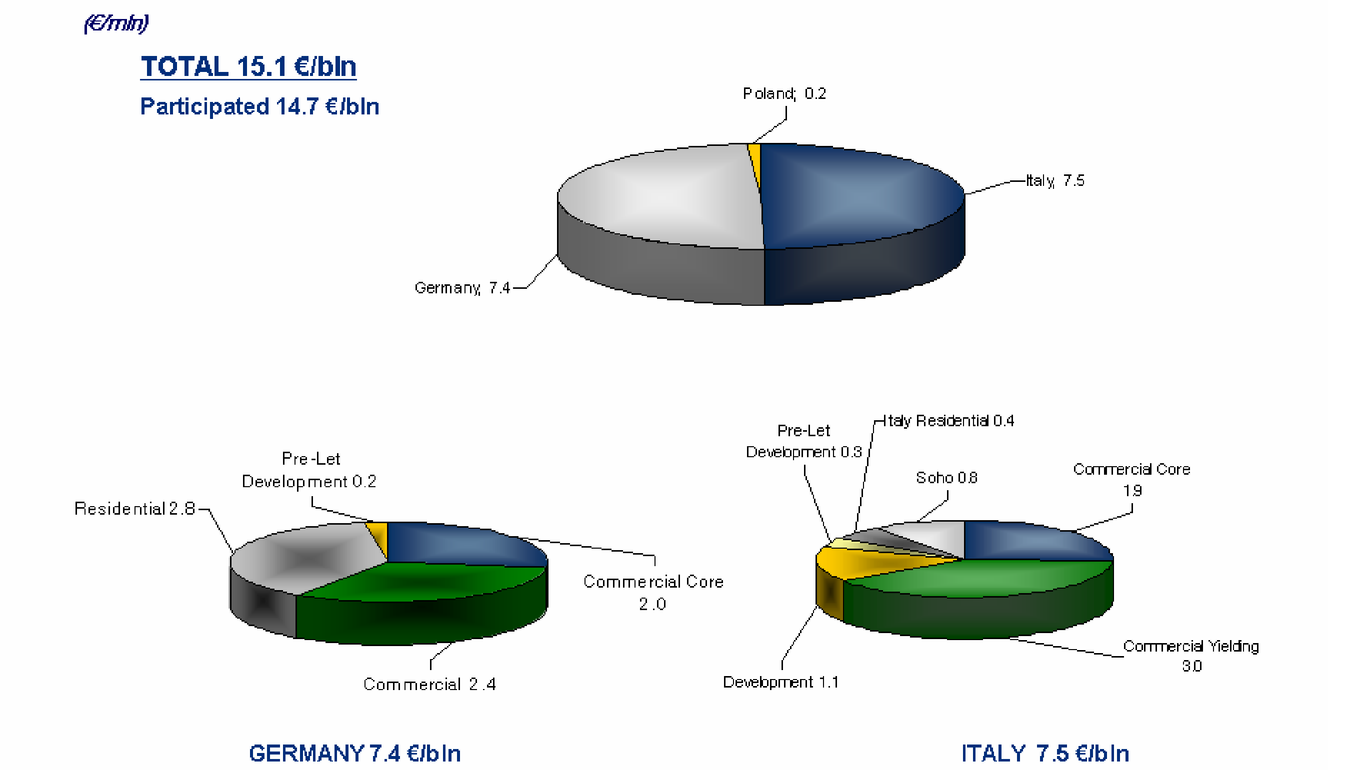
The market value of assets under management was 16.8 billion euro at June 30th, 2009 compared with 17.3 billion euro at the end of 2008. The variation of 0.5 billion euro reflects the combined effect of an increase of 0.3 billion euro for acquisitions and capitalizations in the period (basically due to completion of the transaction started last year to purchase the building formerly housing the Istituto Poligrafico dello Stato), and a

[27] Assets under management are stated at market value on the basis of valuations and analyses by independent appraisers, except for the NPLs which are reported at book value.

decrease of 0.8 billion euro due to property sales, the collection of NPLs and the property writedowns already described.



The following charts show how Assets Under Management at market value are broken down by geographical area at June 30th, 2009:



Development projects and sites under management are valued at 1.8 billion euro at June 30th, 2009 versus a book value of 1.6 billion euro (the Pirelli RE share is approximately

34% corresponding to 553 million euro) out of total assets under management relating to investee vehicle companies and funds, excluding non performing loans, of 14.2 billion euro. Development activities therefore represent a relatively small proportion of Pirelli's overall investments (around 11% of the total).

The business model adopted for participating in site and development projects is that of investing with minority stakes in joint ventures with recognized national and international partners, and of providing asset management, project management and agency services.
In keeping with the business model, the sites and development of the different joint ventures in which Pirelli RE has invested are provided with financial resources from their inception, of which 50%-70% from leading national and international banks and the remainder from shareholders in the form of equity and shareholder loans.
The bank lending, solely of the non-recourse kind, is usually structured in two lines with secured guarantees: the first to purchase the site and the second for drawdown as the work progresses (capitalization line).

With reference to the above and for greater clarity regarding the business model, the site and development activities can be further divided into:

a) <u>Residential sites and development</u>: total assets are worth 911 million euro. The Pirelli RE interest is 31%, meaning that its share of total assets is 282 million euro. Projects which have started or are in the process of completion represent only 75 million euro (Pirelli RE's 37% share is 28 million euro) of total assets managed, while the remainder comprises sites at different stages of the urban planning process for which building work has not yet been contracted.
   Among the former, one of the most important projects under development is that of Malaspina in the town of Pioltello (Pirelli RE interest is 36%) covering an area of approximately 43,000 sqm and with a book value of 42 million euro at June 30th, 2009.
   For greater clarity regarding the portfolio's composition, major sites in the planning process but not yet under development are:
   - the site relating to the "Riva di Roma" project in the Acilia-Madonnetta area of Rome, with a book value of 94 million euro, in which the Pirelli RE interest is 34.6%; after completing the planning process, this site will offer a potential developable area of 350,000 sqm, of which about one-third for residential purposes;
   - the site relating to the "Riva dei Ronchi" project in the Ronchi area of the town of Massa, with a book value of 49 million euro, in which the Pirelli RE interest is 50%; after completing the planning process, this site will offer a potential developable area of 17,600 sqm, of which around 15,000 sqm for residential purposes and the remainder for hotels;
   - the "ex Besta" site located in Milan in the zone known as Z4 Bicocca, with a book value of 53 million euro, in which the Pirelli RE interest is 35%; having completed the planning process, this site has a potential developable area of 51,500 sqm, predominantly for residential use;
   - the ex-Lucchini site in Warsaw, Poland, with a book value of 40 million euro, in which the Pirelli RE interest is 34%; it has a potential developable area of approximately 720,000 sqm, with its master plan likely to be adopted in 2011.

b) <u>Commercial sites and development:</u> total assets are worth 598 million euro; the Pirelli RE interest is 39%, meaning that its share of total assets is 233 million euro. Projects which have started or are in the process of completion represent approximately 214 million euro (Pirelli RE's 27% share is 58 million euro) of total assets managed, while the remainder comprises sites at different stages of the urban planning process for which building work has not yet been contracted.

One of the most important projects under development is that of the new management offices for the Rizzoli Corriere della Sera Group in Milan (Pirelli RE's interest is 25%) covering an area of 69,000 sqm and involving both redevelopment and building of new offices for the operational headquarters of the RCS Group and other primary tenants.

This project had a book value of 67 million euro at the end of June 2009. Once redevelopment is completed, expected by 2010, there are real opportunities for selling to investors interested in investing in "income-generating property".

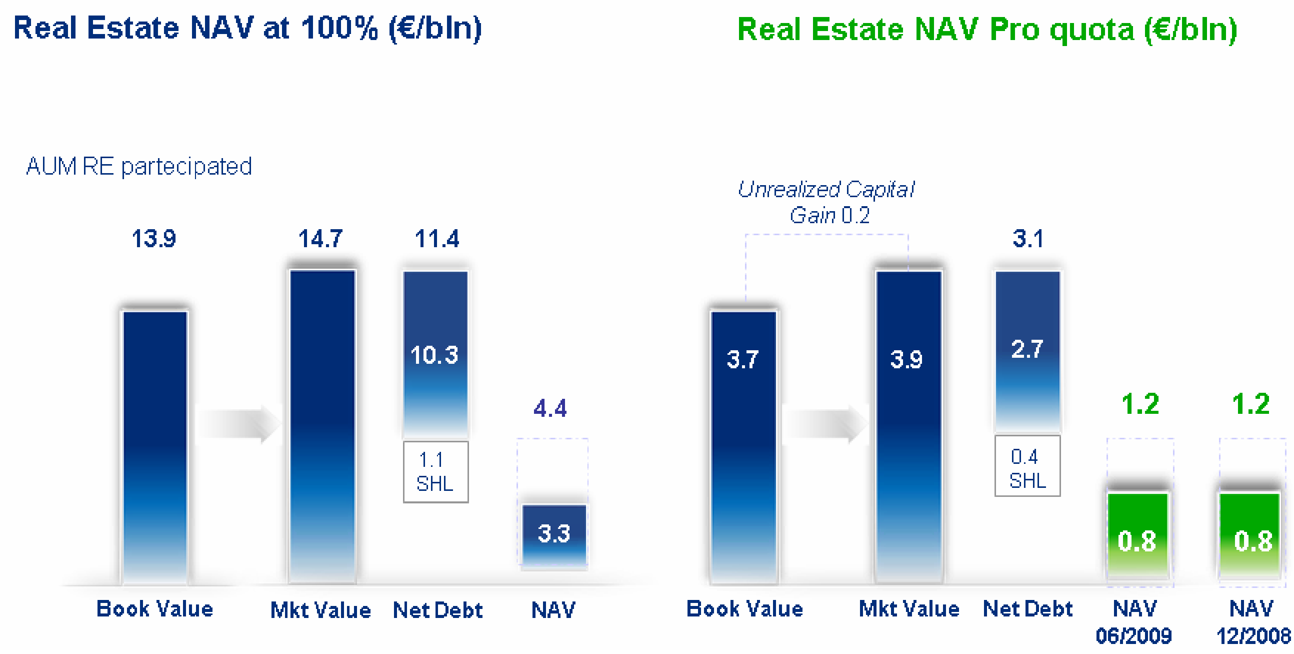
The financial resources for completing this project are guaranteed by a bank loan for 100% of the work.

c) <u>Sites for trading:</u> total assets are worth 123 million euro. The Pirelli RE average interest is 32%, meaning that its share of total assets is 39 million euro.
These include sites for which the Company pursues only urban planning objectives with the purpose of their subsequent sale.

Lastly, as regards development of the Pirelli RE platform abroad, asset management, project management and agency activities are already being carried out in both Germany and Poland, where real estate development activities have also started.

<u>Real Estate Net Asset Value and Implicit capital gains as per independent appraisals</u>

The Net Asset Value of Pirelli RE's co-investments has been evaluated by independent appraisers as approximately 1.2 billion euro, net of non performing loans which are stated at book value, and which is in line with the figure at December 31st, 2008. This value is the difference between the Pirelli RE share of the assets' market value (3.9 billion euro) and its share of the net bank debt of funds and vehicle companies (2.7 billion euro).



Of the total real estate book value of 13.9 billion euro relating to investee vehicle companies and funds, approximately 4.4 billion euro refers to investment property stated at fair value (IAS 40).

Despite the writedowns against its real estate portfolios, Pirelli RE still presents an implicit capital gain (difference between market and book value) of approximately 1.2 billion euro at June 30th, 2009, in line with December 31st, 2008.

The Pirelli RE share of Real Estate Net Asset Value, meaning the difference between market value and the related debt inclusive of shareholder loans, is approximately 0.8 billion euro, in line with the amount at December 31st, 2008.

The following table reports the share of Real Estate Net Asset Value and the implicit capital gain at the end of 2008 and at the end of June 2009,

(Euro/billion)

	JUNE 2009 - 100 % -						DECEMBER 2008 - 100 % -					
	Market value	Book value	Net bank debt	Net Asset Value	Shareholder loans (**)	Net Asset Value incl. shareholder loans	Market value	Book value	Net bank debt	Net Asset Value	Shareholder loans (**)	Net Asset Value incl. shareholder loans
Investee real estate vehicles and funds	14,7	13,9	10,3	**4,4**	1,1	**3,3**	15,0	14,1	10,1	**4,9**	1,2	**3,7**
Non-investee real estate vehicles and funds	0,4	0,4					0,4	0,4				
TOTAL REAL ESTATE	15,1	14,3	10,3		1,1		15,4	14,4	10,1		1,2	
NPL (*)	*1,7*	*1,7*	*1,4*		*0,2*		*1,9*	*1,9*	*1,2*		*0,5*	
TOTAL ASSETS UNDER MANAGEMENT	**16,8**	**16,1**	**11,7**		**1,3**		**17,3**	**16,3**	**11,3**		**1,7**	

	JUNE 2009 - PIRELLI RE SHARE -						DECEMBER 2008 - PIRELLI RE SHARE -					
	Market value	Book value	Net bank debt	Net Asset Value	Shareholder loans (**)	Net Asset Value incl. shareholder loans	Market value	Book value	Net bank debt	Net Asset Value	Shareholder loans (**)	Net Asset Value incl. shareholder loans
Investee real estate vehicles and funds	3,9	3,7	2,7	**1,2**	0,4	**0,8**	3,8	3,5	2,6	**1,2**	0,4	**0,8**
Non-investee real estate vehicles and funds	0,0	0,0										
TOTAL REAL ESTATE	3,9	3,7	2,7		0,4		3,8	3,5	2,6		0,4	
NPL (*)	*0,5*	*0,5*	*0,5*		*0,1*		*0,6*	*0,6*	*0,4*		*0,2*	
TOTAL ASSETS UNDER MANAGEMENT	**4,4**	**4,2**	**3,2**		**0,5**		**4,4**	**4,1**	**3,0**		**0,6**	

(*) The value of non performing loans included in the "market value" columns corresponds to book value, being the value used to state these assets for the purposes of calculating assets under management and NAV.

(**) Shareholder loans refer to the value of loans granted to associates and joint ventures.

The indebtedness of real estate funds and vehicle companies invested in by Pirelli RE amounts to approximately 13 billion euro at June 30th, 2009 (11.7 billion euro in bank debt and 1.3 billion euro in shareholder loans) of which 1.6 billion euro relates to NPL. Of this overall debt, 11.4 billion euro refers to real estate (10.3 billion euro in bank debt and 1.1 billion euro in shareholder loans). Pirelli RE's share of the indebtedness of the funds and investment companies is 3.7 billion euro (of which 0.4 billion euro in shareholder loans relating to real estate and 0.1 billion euro in shareholder loans relating to NPL). The Pirelli RE share of bank debt of 3.2 billion euro comprises 2.7 billion euro in relation to real estate and 0.5 billion euro in relation to NPL. This debt, which has an average residual life of 3.2 years, is secured against the properties and NPL underlying the loans.

Representation of the real estate portfolio

Analysis by cluster

The following tables present information on profitability by cluster on a 100% basis and for the Pirelli RE share. These provide details of rental income and the related vacancy rates. "Passing rent" is rent annualized on the basis of contracts existing at the end of the period for assets belonging to the fund/company; "passing yield" is determined as the ratio of passing rent to the net book value of fund/company assets; the "vacancy" rate is calculated as the ratio of vacant square metres to total company/fund assets.

Profitability of investee funds and vehicle companies under management (100%)

(€/000)

Jun-09	Quota PRE	Passing Rent	Passing Yield	Vacancy	Book Value	Market Value	Net Financial Position	Of which Net Debt
Commercial Core Italy		90,758	5.7%	9.7%	1,592,340	1,722,030	1,132,574	1,098,676
Tecla Fondo Uffici	45.0%	40,499	5.6%	8.6%	725,280	725,280	502,923	502,923
Fondo Cloe	18.6%	26,959	6.9%	11.2%	390,224	500,800	226,804	226,804
Fondo Retail & Entertainm	31.6%	23,300	4.9%	13.1%	476,837	495,950	402,847	368,949
Commercial Yieding Italy		178,676	7.0%	6.2%	2,549,786	2,733,885	1,432,114	1,367,749
Fips	22.0%	21,249	8.2%	0	259,309	303,300	206,973	193,823
Tiglio I	12.9%	13,978	6.9%	37.8%	201,999	219,300	121,554	121,554
Raissa	35.0%	23,917	6.8%	0	351,830	359,810	194,115	164,441
Olinda Fondo Shop	11.8%	38,389	6.6%	3.1%	578,870	638,990	293,363	293,363
Dolcetto Tre S.r.l.	33.0%	1,426	10.4%	0.0%	13,675	20,180	9,171	9,171
Progetto Perugia	100.0%	1,587	4.8%	1.7%	33,138	33,700		-
Armilla	2.3%	16,150	7.5%	0.0%	224,970	238,700	133,985	133,985
Spazio Industriale Fondo (Portafoglio)	22.1%	42,330	7.2%	1.9%	585,119	608,020	313,127	313,127
Fo. Hospitality & Leisure	35.0%	9,012	8.3%	0.0%	108,653	114,620	100,646	79,105
Italia Turismo	16.3%	9,998	5.2%	0.0%	192,223	197,265	59,179	59,179
TOTAL Italy		**269,433**	**6.5%**	**6.9%**	**4,142,126**	**4,455,915**	**2,564,688**	**2,466,426**
Commercial Core Germany		118,690	6.2%	0.0%	1,925,333	1,936,809	1,336,148	1,223,491
Mistral	35.0%	9,500	6.3%	0.0%	151,479	161,110	114,542	99,855
Highstreet	12.1%	109,190	6.2%	0.0%	1,773,854	1,775,699	1,221,606	1,123,836
Commercial Germany		169,316	7.0%	1.3%	2,414,096	2,421,800	2,639,774	2,499,478
Highstreet	12.1%	162,144	7.1%	1.0%	2,280,869.838	2,286,490	2,524,164	2,398,205
Mistral	35.0%	7,172	5.4%	10.8%	133,226.194	135,310	115,609	101,273
Residential Yielding Germany		190,624	6.9%	6.0%	2,768,410	2,833,865	2,615,151	2,262,949
DGAG	40.0%	70,429	7.5%	3.6%	934,494.972	979,237	843,268	730,428
BIB	40.0%	102,152	6.6%	7.1%	1,557,380.44	1,565,198	1,534,587	1,335,138
Small Deal	49.9%	18,044	6.5%	9.1%	276,535.011	289,430	237,296	197,382
TOTAL Germany		**478,631**	**6.7%**	**4.0%**	**7,107,839**	**7,192,474**	**6,591,073**	**5,985,918**
PORTAFOGLIO A REDDITO		**748,064**	**6.6%**	**5.0%**	**11,249,965**	**11,648,389**	**9,155,761**	**8,452,344**
Residential Small Office House Office ITA		21,056	n.m.	n.m.	1,057,852	1,212,107	899,508	745,660
Development ITA		2,401			1,328,085	1,418,230	1,108,793	928,253
Development Germany		8,121			163,753	187,570	138,197	138,197
Development Poland		176			140,785	182,415	122,173	62,567
OTHER PORTFOLIO		**31,755**			**2,690,475**	**3,000,322**	**2,268,671**	**1,874,678**
GRAND TOTAL		**779,819**			**13,940,440**	**14,648,711**	**11,424,433**	**10,327,021**

Profitability of investee funds and vehicle companies under management (Pirelli RE share)

(€/000)

Jun-09	Passing Rent pro-quota	Passing Yield	Vacancy	Book Value pro-quota	Market Value pro-quota	Net Financial Position	Of which Net Debt Proquota
Commercial Core Italy	30,602	5.6%	9.4%	549,638	576,245	410,169	389,407
Tecla Fondo Uffici	18,225	5.6%	8.6%	326,376	326,376	233,452	233,452
Fondo Cloe	5,014	6.9%	11.2%	72,582	93,149	42,185	42,185
Fondo Retail & Entertainm	7,363	4.9%	13.1%	150,680	156,720	134,532	113,771
Commercial Yieding Italy	35,969	7.0%	4.0%	516,166	548,963	300,978	277,894
Fips	4,675	8.2%	0	57,048	66,726	55,566	50,408
Tiglio I	1,802	6.9%	37.8%	26,038	28,268	15,959	15,959
Raissa	8,371	6.8%	0	123,140	125,934	67,940	57,554
Olinda Fondo Shop	4,530	6.6%	0.9%	68,307	75,401	34,681	34,681
Dolcetto Tre S.r.l.	471	10.4%	0.0%	4,513	6,659	3,027	3,027
Progetto Perugia	1,587	4.8%	1.7%	33,138	33,700		
Armilla	386	7.5%	0.0%	5,174	5,490	3,028	3,028
Spazio Industriale Fondo (Portafoglio)	9,363	7.2%	1.9%	129,428	134,494	69,278	69,278
Fo. Hospitality & Leisure	3,154	8.3%	0.0%	38,028	40,117	35,226	27,687
Italia Turismo	1,631	5.2%	0.0%	31,352	32,174	16,272	16,272
TOTAL Italy	**66,571**	**6.2%**	**5.5%**	**1,065,804**	**1,125,208**	**711,146**	**667,301**
Commercial Core Germany	16,434	6.2%	0.0%	266,008	269,515	253,886	214,814
Mistral	3,240	6.3%	0.0%	51,666	54,951	39,121	24,762
Highstreet	13,194	6.2%	0.0%	214,342	214,565	214,765	190,051
Commercial Germany	21,468	6.5%	1.5%	328,069	329,480	320,878	274,703
Highstreet	19,592	7.1%	1.0%	275,607	276,286	276,688	244,848
Mistral	1,875	3.6%	10.8%	52,462	53,194	44,191	29,855
Residential Yielding Germany	78,044	7.0%	6.1%	1,119,503	1,145,958	1,056,785	904,411
DGAG	28,172	7.5%	3.6%	373,798	391,695	337,307	280,284
BIB	40,861	6.6%	7.1%	622,952	626,079	613,835	535,524
Small Deal	9,012	7.3%	9.1%	122,753	128,184	105,643	88,603
TOTAL Germany	**115,946**	**6.8%**	**5.2%**	**1,713,579**	**1,744,953**	**1,631,549**	**1,393,928**
PORTAFOGLIO A REDDITO	**182,517**	**6.6%**	**5.3%**	**2,779,383**	**2,870,161**	**2,342,695**	**2,061,229**
Residential Small Office House Office ITA	6,857	n.m	n.m	356,642	414,423	294,010	242,384
Development ITA	600			428,885	456,670	368,967	297,137
Development Germany	3,592			70,313	81,154	59,106	59,106
Development Poland	60			54,058	69,136	48,968	25,017
OTHER PORTFOLIO	**11,109**			**909,897**	**1,021,382**	**771,051**	**623,644**
GRAND TOTAL	**193,626**			**3,689,280**	**3,891,543**	**3,113,746**	**2,684,873**

The Pirelli RE Group's income-generating real estate portfolio has a market value of 11.7 billion euro (of which the Pirelli RE share is 2.9 billion euro) and a book value of 11.3 billion euro (of which the Pirelli RE share is 2.8 billion euro), and generates annual rental income of 182.5 million euro (748 million euro on a 100% aggregate basis). The portfolio's 12 principal tenants, accounting for 42% of rents, are: Arcandor, Telecom, La Rinascente, Region of Sicily, Valtur, Editoriale l 'Espresso, Conforama Italy, Prada, Fintecna, Eni, Bulgari and Vodafone.

Based on the information required by CONSOB Recommendation Dem/9017965 dated February 26th, 2009, the following table analyzes the book and market value of the investee real estate portfolio at June 30th, 2009 by purpose and accounting treatment. Market value is taken from the appraisals by independent experts at June 30th, 2009.

When comparing the figures in this table with those in the other tables reported in the "Assets Under Management" paragraph, please note that the Residential & Soho cluster with a total market value of 1.2 billion euro in the tables in the "Assets Under Management" paragraph has been split between "Investment property" classified in accordance with the fair value option under IAS 40 for 0.3 billion euro and "Trading property" classified in accordance with IAS 2 for 0.9 billion euro.

CATEGORY	Book value	Book value PRE share	Method	Market value 100%	Market value PRE share
Development projects	1,632,622	553,255	ias2/ias40	1,788,215	606,959
of which Commercial	450,269	151,609		531,487	176,311
of which Commercial IAS 40	96,307	30,433		101,350	32,027
of which Residential	916,180	309,686		979,738	335,197
of which Other	169,866	61,527		175,640	63,425
Investment property	4,316,791	1,589,964	ias40	4,387,240	1,609,386
of which Commercial	2,080,961	711,264		2,121,450	722,159
of which Residential	2,235,830	878,700		2,265,790	887,227
of which Other	0	0		0	0
Trading property	7,991,026	1,546,061	ias2	8,473,256	1,675,198
of which Commercial	6,400,594	948,616		6,693,074	1,002,044
of which Residential/SOHO	1,590,433	597,445		1,780,182	673,155
of which Other	0	0		0	0
Other (NPL)	1,727,963	543,899		1,727,963	543,899
Third-party funds	379,827.940	0		435,690.000	0
Total	**16,048,231**	**4,233,180**		**16,812,364**	**4,435,442**
w/out NPL & Third-party funds	**13,940,440**	**3,689,280**		**14,648,711**	**3,891,543**

In the subsequent tables, the same information is presented again but by geographical area. Details by individual project (venture) can be found in the appendices to the interim report on operations.

ITALY

CATEGORY	Book value	Book value PRE share	Method	Market value 100%	Market value PRE share
Development projects	1,328,085	428,885	ias2/ias40	1,418,230	456,670
of which Commercial	286,516	81,297		343,917	95,157
of which Commercial IAS 40	96,307	30,433		101,350	32,027
of which Residential	775,395	255,628		797,323	266,061
of which Other	169,866	61,527		175,640	63,425
Investment property	2,313,291	777,385	ias40	2,383,740	796,807
of which Commercial	2,080,961	711,264		2,121,450	722,159
of which Residential/SOHO	232,330	66,121		262,290	74,648
of which Other	0	0		0	0
Trading property	2,886,687	645,060	ias2	3,284,282	742,824
of which Commercial	2,061,165	354,540		2,334,465	403,049
of which Residential/SOHO	825,522	290,521		949,817	339,775
of which Other	0	0		0	0
Other (NPL)	1,727,963	543,899		1,727,963	543,899
Third-party funds	379,828	0		435,690	0
Total Italy	**8,635,854**	**2,395,230**		**9,249,905**	**2,540,200**
w/out NPL & Third-party funds	**6,528,063**	**1,851,330**		**7,086,252**	**1,996,300**

GERMANY

CATEGORY	Book value	Book value PRE share	Method	Market value 100%	Market value PRE share
Development projects	163,753	70,313	ias2/ias40	187,570	81,154
of which Commercial	163,753	70,313		187,570	81,154
of which Commercial IAS 40					
of which Residential	0	0		0	0
of which Other	0	0		0	0
Investment property	2,003,500	812,579	ias40	2,003,500	812,579
of which Commercial	0	0		0	0
of which Residential/SOHO	2,003,500	812,579		2,003,500	812,579
of which Other	0	0		0	0
Trading property	5,104,339	901,000	ias2	5,188,974	932,374
of which Commercial	4,339,429	594,076		4,358,609	598,995
of which Residential	764,910	306,924		830,365	333,379
of which Other	0	0		0	0
Other (NPL)	0	0		0	0
Third-party funds	0	0		0	0
Total Germany	**7,271,593**	**1,783,892**		**7,380,044**	**1,826,107**

POLAND

POLAND	Book value	Book value PRE share	Method	Market value 100%	Market value PRE share
Development projects	140,785	54,058	ias2/ias40	182,415	69,136
of which Commercial	0	0		0	0
of which Commercial IAS 40					
of which Residential	140,785	54,058		182,415	69,136
of which Other	0	0		0	0
Investment property	0	0	ias40	0	0
of which Commercial	0	0		0	0
of which Residential/SOHO	0	0		0	0
of which Other	0	0		0	0
Trading property	0	0	ias2	0	0
of which Commercial	0	0		0	0
of which Residential	0	0		0	0
of which Other	0	0		0	0
Other (NPL)	0	0		0	0
Third-party funds	0	0		0	0
Total Poland	**140,785**	**54,058**		**182,415**	**69,136**

Information relating to aggregate 100% income statement – Investment activities

The information relating to the aggregate 100% real estate income statement, split between unconsolidated and consolidated funds/companies, by country and between portfolio and development, can be found in appendices C and D to the interim report on operations.

5. DIVISIONAL PERFORMANCE IN THE FIRST HALF OF 2009

5.1 Financial highlights by geographical area

As described in the section on Group mission and profile, the Company is organized along geographical lines. The results will now be examined, distinguishing between income from funds and vehicle companies and income from the service platform and holding company activities[28]. When reading the figures included in the subsequent tables, please note that the amount for revenues refers to consolidated companies in the service platform which perform solely service activities, and so does not include the consolidated revenues of other investment initiatives.

EBIT including net income from investments, before restructuring costs and property writedowns/revaluations has been adjusted to include financial income from shareholder loans granted to the individual companies and funds.

[28] The results of funds and vehicle companies refer to those generated by Pirelli RE's investments in funds and companies (primarily sales and rents); service platform and holding company activities include the net income generated by the Company from its fund and asset management activities and specialized real estate services (property, facility and agency).

5.1.1 Italy Real Estate

Financial highlights

Service Platform	JUNE 09	JUNE 08
Consolidated revenues	50.1	59.5
Other income	0.0	17.0
Total revenues and income	**50.1**	**76.5**
Result (*)	**6.7**	**16.9**

Vehicle companies & Funds	JUNE 09	JUNE 08
Net income from participated vehicle companies and funds	(14.6)	4.3
Financial income from shareholder loans	4.3	5.0
Result (*)	**(10.3)**	**9.3**
Total Italy	**(3.6)**	**26.2**

(*) "Result" represents EBIT including net income from investments before restructuring costs and writedowns/ revaluations plus income from shareholder loans

EBIT including net income from investments before restructuring costs and writedowns/revaluations and including financial income from investments was a negative 3.6 million euro at June 30th, 2009 compared with a positive 26.2 million euro at June 30th, 2008. This figure comprises 6.7 million euro in income from the service platform and holding company activities (an improvement of some 6.8 million euro on the first half of 2008 net of the non-recurring income described in the Highlights section) and -10.3 million euro in losses from real estate vehicle companies and funds (9.3 million euro at June 30th, 2008). Real estate sales[29] amounted to 273.3 million euro at June 30th, 2009 compared with 372.4 million euro in the first half of the previous year. Rents[30] totalled 155.1 million euro (180.2 million euro in the same period of 2008). Total capital gains[31] realized at June 30th, 2009 came to 35.0 million euro (69.9 million euro at June 30th, 2008), while the Pirelli RE share of such gains in the first half of 2009 was 16.7 million euro (20.0 million euro at June 30th, 2008).

The following table sets out the financial highlights of fund & asset management activities and of specialized real estate services relating to the service platform and holding company activities:

[29] This is the sum of real estate sales by consolidated companies and real estate sales by associates, joint ventures and funds in which the Group has interests.
[30] This is the sum of rents earned by consolidated companies and rents earned by associates, joint ventures and funds in which the Group has interests.
[31] This is the sum of capital gains realized by consolidated companies and capital gains realized by associates, joint ventures and funds in which the Group has interests.

Fund & AM Fees	JUNE 09	JUNE 08
Consolidated revenues	21.4	25.2
Other income		17.0
Total revenues and income	**21.4**	**42.2**
Result (*)	**6.0**	**19.5**

Agency	JUNE 09	JUNE 08
Consolidated revenues	10.1	13.0
Other income		
Total revenues and income	**10.1**	**13.0**
Result (*)	**(3.9)**	**(6.8)**

Property	JUNE 09	JUNE 08
Consolidated revenues	18.6	21.3
Other income		
Total revenues and income	**18.6**	**21.3**
Result (*)	**4.6**	**4.1**

Service Platform	JUNE 09	JUNE 08
Consolidated revenues	50.1	59.5
Other income	0.0	17.0
Total revenues and income	**50.1**	**76.5**
Result (*)	**6.7**	**16.9**

(*) "Result" represents EBIT including net income from investments before restructuring costs and writedowns/ revaluations plus income from shareholder loans

5.1.2 Germany Real Estate

Financial highlights

Service Platform	JUNE 09	JUNE 08
Consolidated revenues	28.5	30.2
Other income	0.0	0.4
Total revenues and income	**28.5**	**30.6**
Result (*)	**2.7**	**(2.3)**

Vehicle companies & Funds	JUNE 09	JUNE 08
Net income from participated vehicle companies and funds	(8.8)	2.0
Financial income from shareholder loans	7.9	4.1
Result (*)	**(0.9)**	**6.1**
Total Germany	**1.8**	**3.8**

(*) "Result" represents EBIT including net income from investments before restructuring costs and writedowns/ revaluations plus income from shareholder loans

EBIT including net income from investments before restructuring costs and writedowns/revaluations and including financial income from investments was a positive 1.8 million euro at June 30th, 2009 compared with a positive 3.8 million euro at June 30th, 2008. This figure comprises 2.7 million euro in income from the service platform and holding company activities (-2.3 million euro at June 30th, 2008) and -0.9 million euro in losses from real estate vehicle companies and funds (6.1 million euro at June 30th, 2008). Real estate sales[32] amounted to 55.1 million euro at June 30th, 2009 compared with 95.6 million euro in the first half of the previous year. Rents[33] totalled 246.8 million euro (107.6 million euro in the same period of 2008). Total capital gains[34] realized at June 30th, 2009 came to 11.8 million euro (22.4 million euro at June 30th, 2008), while the Pirelli RE share of such gains in the first half of 2009 was 2.6 million euro (7.5 million euro at June 30th, 2008).

The following table sets out the financial highlights of fund & asset management activities and of specialized real estate services relating to the service platform and holding company activities:

[32] This is the sum of real estate sales by consolidated companies and real estate sales by associates, joint ventures and funds in which the Group has interests.
[33] This is the sum of rents earned by consolidated companies and rents earned by associates, joint ventures and funds in which the Group has interests.
[34] This is the sum of capital gains realized by consolidated companies and capital gains realized by associates, joint ventures and funds in which the Group has interests.

Euro/million

Fund & AM Fees	**JUNE 09**	**JUNE 08**
Consolidated revenues	7.0	6.4
Other income		
Total revenues and income	**7.0**	**6.4**
Result (*)	**3.1**	**0.2**

Agency	**JUNE 09**	**JUNE 08**
Consolidated revenues	2.2	2.6
Other income		(0.1)
Total revenues and income	**2.2**	**2.5**
Result (*)	**0.0**	**(1.0)**

Property	**JUNE 09**	**JUNE 08**
Consolidated revenues	13.6	11.3
Other income		0.4
Total revenues and income	**13.6**	**11.7**
Result (*)	**0.0**	**(0.2)**

Facility	**JUNE 09**	**JUNE 08**
Consolidated revenues	5.8	9.9
Other income		0.1
Total revenues and income	**5.8**	**10.0**
Result (*)	**(0.4)**	**(1.3)**

Service Platform	**JUNE 09**	**JUNE 08**
Consolidated revenues	28.5	30.2
Other income	0.0	0.4
Total revenues and income	**28.5**	**30.6**
Result (*)	**2.7**	**(2.3)**

(*) "Result" represents EBIT including net income from investments before restructuring costs and writedowns/ revaluations plus income from shareholder loans

5.1.3 Poland Real Estate

Financial highlights

Service Platform	JUNE 09	JUNE 08
Consolidated revenues	3.1	4.5
Other income	0.0	0.0
Total revenues and income	**3.1**	**4.5**
Result (*)	**(0.1)**	**0.6**

Vehicle companies & Funds	JUNE 09	JUNE 08
Net income from participated vehicle companies and funds	0.6	18.2
Financial income from shareholder loans	1.1	0.5
Result (*)	**1.7**	**18,7 (**)**
Total Poland (*)	**1.6**	**19.2**

(*) "Result" represents EBIT including net income from investments before restructuring costs and writedowns/ revaluations plus income from shareholder loans
(**) Includes income from Lucchini area sale

EBIT including net income from investments before restructuring costs and writedowns/revaluations and including financial income from investments was a positive 1.6 million euro at June 30th, 2009, compared with a positive 19.2 million euro at June 30th, 2008, when this result benefited from non-recurring income on the sale of one specific asset in Poland. This figure comprises -0.1 million euro in losses from the service platform and holding company activities (income of 0.6 million euro at June 30th, 2008) and 1.7 million euro in income from real estate vehicle companies and funds (18.7 million euro at June 30th, 2008). Real estate sales[35] amounted to 23.5 million euro at June 30th, 2009 compared with 59.5 million euro in the first half of the previous year. Rents[36] totalled 0.3 million euro (0.3 million euro in the same period of 2008). Total capital gains[37] realized at June 30th, 2009 came to 6.2 million euro (17.1 million euro at June 30th, 2008), while the Pirelli RE share of such gains in the first half of 2009 was 2.5 million euro (16.9 million euro at June 30th, 2008).

The following table sets out the financial highlights of fund & asset management activities and of specialized real estate services relating to the service platform and holding company activities:

[35] This is the sum of real estate sales by consolidated companies and real estate sales by associates, joint ventures and funds in which the Group has interests.
[36] This is the sum of rents earned by consolidated companies and rents earned by associates, joint ventures and funds in which the Group has interests.
[37] This is the sum of capital gains realized by consolidated companies and capital gains realized by associates, joint ventures and funds in which the Group has interests.

Euro/million

Fund & AM Fees	JUNE 09	JUNE 08
Consolidated revenues	1.1	1.4
Other income		
Total revenues and income	**1.1**	**1.4**
Result (*)	**(0.5)**	**(1.0)**

Agency	JUNE 09	JUNE 08
Consolidated revenues	0.5	0.7
Other income		
Total revenues and income	**0.5**	**0.7**
Result (*)	**(0.1)**	**0.2**

Facility	JUNE 09	JUNE 08
Consolidated revenues	1.5	2.4
Other income		
Total revenues and income	**1.5**	**2.4**
Result (*)	**0.6**	**1.4**

Service Platform	JUNE 09	JUNE 08
Consolidated revenues	3.1	4.5
Other income	0.0	0.0
Total revenues and income	**3.1**	**4.5**
Result (*)	**(0.1)**	**0.6**

(*) "Result" represents EBIT including net income from investments before restructuring costs and writedowns/ revaluations plus income from shareholder loans

5.1.4 Non performing loans

Financial highlights

Euro/million

Credit Servicing	JUNE 09	JUNE 08
Consolidated revenues	8.7	18.0
Other income	2.0	
Total revenues and income	**10.7**	**18.0**
Result (*)	**(2.5)**	**2.3**

Service Platform	JUNE 09	JUNE 08
Consolidated revenues	8.7	18.0
Other income	2.0	0.0
Total revenues and income	**10.7**	**18.0**
Result (**)	**(2.4)**	**2.3**

Vehicles	JUNE 09	JUNE 08
Result from vehicles	3.0	11.8
Financial income from shareholder loans	0.4	4.1
Result (*)	**3.4**	**15.8**
Total NPL	**1.0**	**18.2**

(*) "Result" represents EBIT including net income from investments before restructuring costs and writedowns/ revaluations plus income from shareholder loans

EBIT including net income from investments before restructuring costs and writedowns/revaluations and including financial income from investments was a positive 1 million euro at June 30th, 2009 compared with a positive 18.2 million euro at June 30th, 2008. EBIT comprises 2.4 million euro in losses from the service platform (income of 2.3 million euro at June 30th, 2008) and 3.4 million euro in income from vehicle companies (15.8 million euro at June 30th, 2008).

6 . SUBSEQUENT EVENTS

- On July 3rd, 2009 Pirelli RE successfully completed the capital increase started on June 15th, 2009. During the offer period, around 99.361% of the rights were exercised to subscribe to a total of 793,468,305 new Pirelli RE ordinary shares with an overall value of some 396.7 million euro. Pirelli & C. S.p.A., the controlling shareholder, exercised all its rights by subscribing to 463,752,540 Pirelli RE new ordinary shares, corresponding to around 58.07% of the shares offered, with a total value of some 231.9 million euro, by converting part of its loans to Pirelli RE into capital. The capital increase has allowed Pirelli RE to strengthen its capital structure, reducing its gearing ratio to 0.6 from 2.7 at the end of June and ensuring the necessary flexibility for achieving the business plan's objectives. The 264,768 unexercised rights to subscribe to around 5.1 million shares (0.639% of the total) were offered to the market from July 13th. These shares had a par value of 0.50 euro each, with dividend rights from January 1st, 2009 and a subscription price of 0.50 euro each. On completion of the stockmarket auction, all the unexercised rights were placed and the capital increase ended with the remaining 5,106,240 ordinary shares in Pirelli RE fully subscribed. Pirelli RE's new share capital, which will be registered with the Companies Register, therefore amounts to 420,585,888.50 euro, divided into 841,171,777 ordinary shares with a par value of 0.50 euro each, while the new percentage of Pirelli & C. RE held by Pirelli & C. is 57.99%.

- 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 euro expiring in July 2012. Once this agreement is finalized, Pirelli RE will have 470 million euro in committed credit facilities compared with a current level of 380 million euro, with an average residual duration that will increase from the current 9 months to 29 months.

7. BUSINESS OUTLOOK

The Company does not expect any particular improvement in the market although it is reasonably confident, based on negotiations in progress, that it will achieve its target level of one billion euro in sales for the year, with Pirelli RE benefiting from its related share, without having to compress margins considerably relative to budget.

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 writedowns/revaluations (-25/-35 million euro).

The projections for 2009 might still be heavily influenced by exogenous factors beyond the Company's control, such as changes in the macroeconomic scenario, trends in the real estate market, movements in interest rates and the terms of access to credit. In particular, with reference to the Company's investments in real estate companies or funds, even though there are no actual situations at present other than those specifically disclosed in this report, it should be noted that, if in individual cases the related assets are sold in a different manner to that envisaged by the business plan and/or at a time when the market is experiencing pressure on sale prices, this could result in the receipt of proceeds that might be lower than planned. This in turn would give rise to difficulties in repaying the associated loans and equity invested.

8. HUMAN RESOURCES

The total number of employees at June 30th, 2009 was 1,267 (plus 59 with temporary contracts) compared with 1,473 at December 31st, 2008 (plus 85 with temporary contracts).

9. OTHER INFORMATION

9.1 CORPORATE GOVERNANCE

HALF-YEAR CORPORATE GOVERNANCE REPORT

- **ISSUER PROFILE**

The corporate governance structure of Pirelli & C. Real Estate S.p.A. (the "Company" or "Pirelli RE") is based on the "traditional" system of management and control, in which the Board of Directors is exclusively responsible for management while the Board of Statutory Auditors controls the actions of management and an auditing firm, listed in the special register kept by CONSOB, performs the independent audit of the accounts.

In compliance with the recommendations of the Corporate Governance Code (the "Code") and the corporate governance standards adopted internationally and recommended by the European Union, the Board of Directors has also set up a number of offshoot committees with proposal-making and advisory functions.

This half-year corporate governance report outlines the principal revisions and additions to the Company's system of corporate governance during the current year up to the date of this report relative to those contained in the annual corporate governance report for 2008.

- **INFORMATION ON OWNERSHIP STRUCTURE**

The Shareholders' Meeting resolved in extraordinary session on April 17th, 2009 to increase share capital on a divisible basis for cash, involving the offer of rights to shareholders in accordance with art. 2441 of the Italian Civil Code and the issue of ordinary shares for a maximum amount, including any premium, of 400,000,000.00 euro with a consequent amendment of art. 5 (share capital) of the articles of association (the "Articles of Association"). At the close of the offer process, the amount of subscribed and paid-in share capital, as declared to the Milan Companies Register was 420,585,888.50 euro, comprising 841,171,777 ordinary shares with a par value of 0.50 euro each.

Since Pirelli & C. S.p.A., the controlling shareholder, exercised all its rights under this capital increase, its previous interest of around 56.45% in the Company's pre-capital increase share capital has risen to approximately 57.99%, corresponding to 487,798,972 shares for a total of 243,899,486.00 euro.

There are no other classes of share. The shares are listed on Italy's electronically traded equities market organized and managed by Borsa Italiana S.p.A..

The Shareholders' Meeting of April 17th, 2009 also voted in ordinary session to authorize the purchase of (ordinary) treasury shares with a par value of 0.50 euro each, up to the maximum amount allowed by art. 2357 of the Italian Civil Code (prior to the reform introduced by Decree 5/2009 converted into Law 33/2009), corresponding to 10% of existing share capital, taking into account the treasury shares already held by the Company and those that might be held by its subsidiaries. The Company holds 1,189,662 ordinary treasury shares at the date of July 30th, 2009.

No buyback programme has been decided to date, meaning that the above shareholder resolution has not yet been executed.

At June 30th, 2009 the Company neither owns any shares in its parent company nor has it purchased or sold such shares during 2009, including through nominee companies or other third parties.

There are no known shareholder agreements pursuant to art. 122 of Decree 58 dated February 24th, 1998 (the Financial Markets Consolidation Act).

➢ **COMPLIANCE**

Since its very formation Pirelli RE has had a system of corporate governance, designed to manage and control the Company in line with best market practice, and which clearly establishes the division of roles and rights between the various corporate bodies in order to ensure compliance with laws, regulations, codes of conduct and in-house rules and procedures.

The Company announced on May 3rd, 2002 that it had adopted the Code and later adopted the subsequent revised version issued in July 2002. Following the publication of the new Corporate Governance Code - 1st edition March 2006 - the Company announced on November 6th, 2006 that it had fully adopted the same, having moreover established that its existing model of corporate governance was largely already compliant with the recommendations contained in the new Code and having started to implement the necessary steps to make it fully compliant.

Periodically and at least once a year at the Board meeting called to examine the draft annual financial statements, the Board of Directors is presented with a summary of the status of compliance with the Code for each of its provisions, including relative to the last review, and specifying any actions in progress or planned; this summary is examined before approving the Annual Corporate Governance Report.

The fundamental documents forming the basis of the Pirelli RE corporate governance model include:

- the Articles of Association;
- the Rules for Shareholders' Meetings;
- the Ethical Code and Code of Conduct, forming an integral part of the Organizational Model adopted under Decree 231/01 as amended;
- the Guidelines for compliance with the obligations under para. 1, art. 150 of Decree 58/1998 as amended;
- the Standards of conduct for transactions with related parties;
- the Standards of conduct for real estate transactions;
- the Guidelines for handling and publishing price sensitive information and related list of persons with access to price sensitive information;
- the Memorandum on internal dealing.

For the purposes of fostering the widest possible knowledge of the Company's corporate governance model, all the above documents are published in full in the Corporate Governance section of the website www.pirellire.com (the "Website").

➢ **CO-ORDINATION AND DIRECTION ACTIVITIES**

The Company is under the legal control of Pirelli & C. S.p.A. which owns approximately 57.99% of share capital.

You are reminded that from 2004 until 2008, even though Pirelli & C. S.p.A. had control of Pirelli RE within the meaning of art. 2359 of the Italian Civil Code, the Board of Directors of Pirelli RE and its parent Pirelli & C. S.p.A. were of the opinion, based on actual circumstances, that Pirelli & C. S.p.A. did not carry out direction or co-ordination activities in respect of Pirelli RE and so the presumption contained in the Italian Civil Code was deemed not applicable. The outcome of these evaluations and the related reasons were last communicated to the public by these two companies in their annual corporate governance reports for 2007.

However, in view of the organizational changes and recent actual events involving Pirelli RE, this evaluation has recently been reconsidered by the Boards of Directors of both these companies. The major changes in the organizational set-up and approval of the new Industrial Plan for 2009-2011, presented to the financial community on February 11th, 2009, provide evidence of significant integration and co-ordination with the parent Pirelli & C. S.p.A., thereby meaning that the presumption under art. 2497-sexies of the Italian Civil Code now applies. Therefore, considering that Pirelli & C. S.p.A. currently controls Pirelli RE, within the meaning of art. 2359 of the Italian Civil Code, and consolidates its financial statements, and given the absence of evidence contradicting the presumption under art. 2497-sexies of the Italian Civil Code, Pirelli RE can now be confirmed as being under the direction and co-ordination of Pirelli & C. S.p.A..

➢ **BOARD OF DIRECTORS**

ROLE AND COMPOSITION.

The Board of Directors plays a central role in the Company's system of corporate governance; it has the power (and the duty) to direct the Company's business, pursuing the primary and ultimate objective of creating value for shareholders.

In fact, under the Articles of Association, the Board is responsible for managing the Company and is consequently vested with the broadest powers of administration, excluding only those powers that by law and the Articles of Association are the sole prerogative of the Shareholders' Meeting; it performs all the duties envisaged by art. 1.C.1. of the Code.

The shareholders of Pirelli RE have established, in keeping with the provisions of the Articles of Association, that the Board of Directors has 15 members who will remain in office for three financial years until the Shareholders' Meeting convened to approve the financial statements for the year ended December 31st, 2010. No minority lists were presented for the appointment of the current Board of Directors.

It is also reported that:

(i) on March 5th, 2009, following the intervening resignation of the director Dolly Predovic, the Board of Directors appointed in her place Valter Lazzari - a university lecturer and President of the Faculty of Economics of Castellanza University - and evaluated his independence and expertise in accounting and finance. This nomination had been previously evaluated by the Audit and Corporate Governance Committee, which had presented its recommendations to the Board of Directors. The appointment was also approved by the Board of Statutory Auditors in this same Board meeting. This appointment was confirmed by the shareholders in their meeting of April 17th, 2009. The Board of Director also appointed Valter Lazzari to the Audit and Corporate Governance Committee, based on the requirements of art. 8.P.4 of the Code;

(ii) on April 8th, 2009, following the intervening resignation of the Executive Deputy Chairman Carlo Alessandro Puri Negri, the Board of Directors appointed Giulio Malfatto in his place with the office of Chief Executive Officer. The Chief Executive Officer Giulio Malfatto will remain in office until the earliest subsequent Shareholders' Meeting.

The curricula vitae of the serving directors are published on the website at *www.pirellire.com*.

The current composition of the Board of Directors, which can also be found at the start of the document containing this half-year corporate governance report, is published on the Company's website at *www.pirellire.com.*

*

In view of the provisions contained in art. 1.C.3. of the Code, on November 7th, 2007 the Pirelli RE Board of Directors defined general criteria for the maximum permitted number of appointments in other companies. In general, it was considered that the position of director or statutory auditor in more than 5 companies, other than Pirelli RE subsidiaries or associates or those under the direction and co-ordination of Pirelli RE, was incompatible with serving as a director of the Company when such companies:

(i) are listed on the FTSE MIB (or even in equivalent foreign indexes);

(ii) operate predominantly in the financial sector with the general public (registered in the lists under art. 107 of Decree 385 dated September 1st, 1993), including asset management companies;

(iii) carry out banking or insurance activities.

The Board considered that the holding of more than 3 executive appointments in companies listed in (i), (ii) and (iii) was also incompatible with being one of the Company's directors. Appointments held in several companies belonging to the same group are treated like a single appointment, with executive appointments prevailing over non-executive ones. The Board nonetheless reserves the right to decide otherwise, with details provided in the annual corporate governance report; for this purpose, directorships or statutory auditorships may be counted in Italian or foreign companies, or those which do not have the above characteristics, on the basis of their size, organization and shareholding relationship between the different companies and the membership of directors on Board committees.

Based on the information provided by those concerned, all the directors currently in office have observed the criteria adopted.

OTHER EXECUTIVE BODIES

Chief Executive Officers

In compliance with the provisions of the Code and in line with best practice, the Board of Directors has voted:

a to grant Giulio Malfatto, the Chief Executive Officer, all powers for the Company's ordinary and extraordinary management with authority to sign on his own, except for (i) those matters than cannot be delegated under para. 4, art. 2381 of the Italian Civil Code and (ii) those specified in para. 2, art. 18 of the Articles of Association. He can grant special and general mandates relative to all these powers, vesting the proxyholder with individual or joint authority to sign on the Company's behalf and with the authority that he considers to be in the Company's best interests, including that of sub-delegation. For internal purposes only, the Board of Directors has also set limits on the exercise of the powers granted, basically establishing (i) a limit of 50,000,000 euro on the commitment of company resources to investment activity; on borrowings in general; on loans and non-repayable contributions to associated companies; on capital increases by companies in which the Company has an equity interest and on the grant of secured guarantees (except against non-recourse loans) and unsecured guarantees to companies in which the Company has an equity interest or (ii) a limit of 10,000,000 euro on the grant of secured and unsecured guarantees to third parties;

b to grant the Chief Executive Officer Giulio Malfatto, charged with directing the business and identifying the most appropriate strategies for its consolidation and development, organizational responsibility for:

- supervision of operating activities, including by co-ordinating directors with specific powers delegated from the Board and general managers in charge of the different sectors of the real estate business;

- determination, in agreement with the above persons, of the general strategies and policies for the development of the Company and the Group, as well as extraordinary transactions for submission to the Executive Investment Committee or the Board of Directors;

- management and organization of human resources;

c to grant Claudio De Conto, Managing Director Finance, responsibility - with all the related powers of an ordinary and extraordinary nature - for directing and supervising: (i) administration and control; (ii) acquisition of financial resources in support of and for developing the business; (iii) management and control of the Group's financial position; (iv) investment of group financial resources in investee companies and funds; (v) conduct of capital operations involving the Company's subsidiaries or associates. There is a limit of 30,000,000 euro per individual transaction for all of these powers;

d to specify that the powers and activities delegated above do not refer to the authority delegated in respect of:

- occupational safety, accident prevention and occupational health, internal and external environmental protection, and the supervision of urbanization and building activities;

- handling of personal data (privacy protection),

which are exercised by the director charged with specific individual authority, without limits on amounts and under his own exclusive responsibility.

The structure of powers described above is designed to preserve the centrality of the Board's role - in order to prevent it being deprived of its prerogatives - while aiming to implement a structure of authority responding to the Company's business model that is capable of ensuring effective operation in a market where speed of action is essential for seizing the best business opportunities.

The director Emilio Biffi, as Chief Technical Officer, has also been granted a wide remit and associated spending powers in relation to occupational safety, accident prevention and health, internal and external safeguards and the supervision of urbanization and building activities, as well as the handling of personal data (privacy protection).

Lastly, on April 8th, 2009, the Board of Directors revoked the powers granted to the director Olivier De Poulpiquet over Investment & Fund Raising activities, also in view of the termination of his employment within the Group with effect from June 30th, 2009.

Chairman

The Board of Directors appointed Marco Tronchetti Provera as Chairman of the Board of Directors on April 14th, 2008. In line with best practice adopted internationally and in the European Union, also reflected in the Code (art. 2.P.4), the Chairman has not been granted any operational powers and so qualifies as a "non-executive director" within the meaning of art. 3 of the Code, but he is "not independent" because of his position as Chairman and Chief Executive Officer of the ultimate parent company Pirelli & C. S.p.A..

Executive Investment Committee

The Board of Directors appointed an Executive Investment Committee on April 14th, 2008, which now has the following members:

- Marco Tronchetti Provera (Chairman);
- Giulio Malfatto;
- Claudio De Conto;
- Olivier De Poulpiquet de Brescanvel;
- Claudio Recchi,

to which the following powers were granted:

- to purchase real estate or real estate portfolios, non performing loans and equity interests provided the overall financial commitment for each transaction does not exceed 150,000,000 euro;
- to assume loans and financing from third parties; to grant loans to companies that are partly owned by the Company; to issue secured or unsecured guarantees to associated companies and/or third parties; all these powers have a limit of no more than 150,000,000 euro per transaction.

OTHER EXECUTIVE DIRECTORS

The Board of Directors considers the following to be executive directors: the Chief Executive Officer Giulio Malfatto, the Managing Director Finance Claudio De Conto, the Chief Technical Officer Emilio Biffi and the directors Paolo Massimiliano Bottelli and Wolfgang Weinschrod, also in view of their positions in some of the principal subsidiaries.

NON-EXECUTIVE DIRECTORS AND INDEPENDENT DIRECTORS

Upon its appointment and once a year thereafter, the Board of Directors has reviewed the information provided by the directors and other details available to the Company to evaluate the independence of seven directors (Reginald Bartholomew, David Michael Brush, William Dale Crist, Carlo Emilio Croce, Valter Lazzari, Claudio Recchi and Dario Trevisan) as defined by the Code and the Financial Markets Consolidation Act. Apart from the Chairman, two other directors (Olivier De Poulpiquet and Jacopo Franzan) qualify as non-executive. As a result, the proportion of independent directors relative to the Board's current size is consistent with the Code's recommendations. The Board of Statutory Auditors has checked the correct application of the assessment criteria and procedures adopted by the Board of Directors for evaluating the independence of its members.

LEAD INDEPENDENT DIRECTOR

Dario Trevisan, Chairman of the Audit and Corporate Governance Committee, is the Lead Independent Director, serving as a point of reference and co-ordination for the work and contributions of the independent directors. The Lead Independent Director may also call - at his own initiative or at the request of other directors - special meetings for just the independent directors to discuss issues considered of interest in relation to the operation of the Board or management of the business. Lastly, the Lead Independent Director works with the Chairman of the Board of Directors to improve the operation of the Board itself.

The independent directors held a meeting on June 11th, 2009 during which, in keeping with the recommendations contained in the Board Performance Evaluation for 2008, they encountered the Company's Chief Executive Officer and Managing Director Finance. This provided the independent directors with more information allowing them to focus more sharply on strategic aspects of the business and its performance, with particular reference to the goals of the three-year plan. Certain specific topics were discussed in detail during this meeting, helping to improve the preparation and knowledge of the independent directors about more important company matters. During this meeting the independent directors also discussed a property transaction relating to Orione Immobiliare Prima (already approved by the Board of Directors and submitted to the attention of the Audit and Corporate Governance Committee in view of its qualification as a transaction between related parties). The independent directors also discussed upcoming measures relating to Board Assessment.

➢ BOARD COMMITTEES

The Board of Directors confirmed in its meeting of April 14th, 2008 the establishment of the following board committees: an Audit and Corporate Governance Committee and a Compensation Committee.

With the prior consent of the Audit and Corporate Governance Committee, the Board of Directors decided in its meeting of July 28th, 2009 to set up a Risk Committee, as a Board offshoot, with effect from September 1st, 2009. Partly in view of the recent negative performance of markets and the economy and the consequently increased exposure to risks, the Pirelli & C. Group has decided to carry out an additional review of risk management at group level and to identify suitable instruments for an even more effective control of such risk.

The Board of Directors has decided not to form a Nominations Committee, since - based on the current ownership structure - there is no particular trouble in coming up with candidates for the office of director. Furthermore as far as the Code is concerned, the formation of such a committee is optional.

The Board has given the Audit and Corporate Governance Committee the power to identify candidates for submission to the Board in the event of having to replace an independent director, pursuant to para. 1, article 2386 of the Italian Civil Code.

➢ <u>COMPENSATION COMMITTEE</u>

In full compliance with the Code, the Compensation Committee, appointed by the Board of Directors on April 14th, 2008, consists entirely of independent directors:

- Claudio Recchi (Chairman);
- Reginald Bartholomew;
- Carlo Emilio Croce.

Gianluca Grea, the Board Secretary, acts as the Committee's secretary.

The Board of Directors has confirmed that the Compensation Committee's remit involves the presentation of proposals and provision of advice, in keeping with the Code's recommendations.

Lastly, it is reported that sufficient financial resources are available to this Committee for the performance of its duties..

➢ <u>REMUNERATION OF DIRECTORS</u>

In addition to the reimbursement of expenses incurred during the course of its duties, the Board of Directors is entitled to an annual fee established by the Shareholders' Meeting.

The Shareholders' Meeting of April 14th, 2008 confirmed the overall annual fees of the Board of Directors as 600,000 euro and those of the Executive Investment Committee as 75,000 euro, both amounts to be divided among members in accordance with related board resolutions.

The Board of Directors confirmed in its meeting of April 14th, 2008 that the overall fees would be split as follows:

- 30,000 euro per annum to each member of the Board of Directors;
- 15,000 euro per annum to each member of the Executive Investment Committee;
- 15,000 euro per annum to each member of the Audit and Corporate Governance Committee;
- 15,000 euro per annum to each member of the Compensation Committee,

reserving itself the option to use the residual amount of 60,000 euro in the future to give the Board some organizational flexibility, including if it has to adopt any new governance solutions.

An annual fee of 15,000 euro was also awarded to the director nominated to sit on the Supervisory Board set up under the Decree 231/2001 Organizational Model.

The compensation of directors vested with special duties is determined by the Board of Directors, at the recommendation of the Compensation Committee and after consulting the Board of Statutory Auditors.

It is reported that the Board of Directors acknowledged in its meeting of April 8th, 2009 the resignation of Carlo Alessandro Puri Negri as a director and Executive Deputy Chairman of the Company, in advance of the mandate's natural expiry on the date of the Shareholders' Meeting called to approve the financial statements for 2010.

In keeping with regulatory requirements and best practice in this area, the severance package of Carlo Alessandro Puri Negri was examined beforehand by the Compensation Committee, all of whose members are independent directors, who judged it to be adequate; a statement was issued to the market regarding this severance package.

Lastly, it is reported that the Company has not paid any bonuses to management under the variable remuneration schemes (MBO and Bonus Pool) approved for 2008. This is because the Company's results, also reflecting the general economic difficulties, did not permit the related objectives to be met.

Even though it firmly believes in the utility and importance of having a suitable system of variable incentives, the Company considers, in view of the persistently difficult and uncertain market situation, that the conditions do not currently exist for establishing a variable remuneration scheme for 2009.

➢ **AUDIT AND CORPORATE GOVERNANCE COMMITTEE**

In line with best practice and in full compliance with the Code's recommendations, the Board of Directors in its meeting of April 14th, 2008 appointed only independent directors to this Committee:

- Dario Trevisan (Chairman):
- William Dale Crist;
- Valter Lazzari

The Board of Directors has confirmed that one member, Valter Lazzari, has adequate experience of accounting and finance.

Gianluca Grea, the Board Secretary, acts as the Committee's secretary.

Like with the Compensation Committee, the Board of Directors has established the duties of the Audit and Corporate Governance Committee on the basis of those contained in the Code, also requiring that this Committee continues to keep the prerogative in corporate governance matters that it has had since its initial formation.

Lastly, it is reported that sufficient financial resources are available to this Committee for the performance of its duties.

➢ **RISK COMMITTEE**

In its meeting of July 28th, 2009, the Board of Directors set up a Risk Committee with effect from September 1st, 2009, whose members are as follows:

- Dario Trevisan (Chairman);
- Claudio De Conto;
- Giulio Malfatto;
- Claudio Recchi,

with the Risk Officer acting as the Committee's secretary.

Each member of the Risk Committee receives an annual fee of 15,000 euro for the work performed.

The Board has decided the Committee's functions and method of operation, requiring that it carries out the following investigative and consultative functions:

- it assists the Board of Directors in identifying and assessing the more significant risks, meaning those risks whose consequences can harm or represent a serious obstacle to the achievement of company objectives (financial risk, operational risk, regulatory non-compliance risk, reputational risk);
- it expresses an opinion to the Board of Directors on the adequacy of risk management, by reviewing and submitting an Annual Risk Assessment and Annual Risk Management Plan;
- it reports at least once every six months to the Board of Directors and the Board of Statutory Auditors on the work performed;
- it expresses opinions, at the request of the executive director in charge of internal control, on specific issues relating to the identification of the principal company risks.

As for the Risk Committee's operation, it will be allowed to have access to the information and company functions needed for it to perform its duties.

Lastly, it is reported that sufficient financial resources are available to this Committee for the performance of its duties.

➢ <u>INTERNAL CONTROL SYSTEM</u>

Executive director in charge of internal control

The Board of Directors has appointed the Chief Executive Officer Giulio Malfatto as the Executive director in charge of supervising the functionality of the internal control system and has charged him with the duties recommended by the Code.

Decree 231/2001 Organizational Model

The internal control system has been further strengthened by the introduction of a specific organizational model, approved by the Board of Directors on July 29th, 2003. Intended to ensure the creation of a system responding to the specific requirements deriving from the introduction of Decree 231/2001 on the administrative liability of companies for criminal offences committed by top management or their reports, this Organizational Model consists of a detailed set of principles and procedures arranged in a pyramid that, starting from the base, can be summarized as follows:

<u>Group Ethical Code</u>, which formulates the general principles (transparency, honesty and fairness) inspiring the conduct of business;

<u>Code of Conduct</u>, which introduces specific rules for preventing situations that might give rise to offences in general, with particular reference to those concerned by Decree 231/2001. These represent a practical expression of the principles contained in the Ethical Code;

<u>Internal control system</u>, meaning the set of processes aimed at providing a reasonable guarantee of the efficiency and effectiveness of operations, the reliability of financial and operational information, the compliance with laws and regulations and the safeguarding of the company's assets, including against possible fraud. The internal control system is based on and characterized by a number of general principles defined within the framework of the Organizational Model, whose scope extends across all the different organizational levels (Business Units, Head Office Departments and Companies);

Internal control procedures, which have been prepared for all high and medium-risk operational processes and related processes. These procedures have a similar structure, involving a set of rules designed to identify the main phases of each process, the criminal offences that could be committed in connection with each process and the specific checks to be performed with a view to their prevention. They also specify the reports to be sent to the Supervisory Board to draw its attention to instances of non-compliance with the procedures established in the organizational model. These internal control procedures have been prepared on the basis of three cardinal principles as follows:

– separation of duties in the performance of activities involved in each process;

– "traceability" of decisions, ie. their constant visibility (eg. through specific documentary proof), to allow identification of precise "points" of responsibility and the "reason" for the decisions themselves;

– decision-making on an objective basis, meaning that decisions should ignore purely subjective considerations, referring instead to predetermined principles.

A Supervisory Board has also been appointed, with autonomous powers of action and control. This body is charged with monitoring the effectiveness, adequacy, operation of and compliance with the Model, also seeing that it is constantly updated. This Board currently consists of Dario Trevisan, the Lead Independent Director and Chairman of the Audit and Corporate Governance Committee, Roberto Bracchetti, Chairman of the Board of Statutory Auditors, and Alessia Carnevali, from the Internal Audit Department of Pirelli & C. S.p.A..

Whistleblowing rules

With a view to continuous improvement and drawing from best international practice and standards of corporate governance recently published by the International Corporate Governance Network, the Board of Directors decided on July 28th, 2009 to establish new groupwide rules on whistleblowing.

These rules establish procedures for reporting suspected breaches of the law or regulations, of the principles of the Ethical Code, of company procedures and internal controls, with the guarantee that whistleblowers will not suffer any retaliation. A specific office within the Internal Audit Department of the Pirelli & C. Group is responsible for examining and verifying the breaches reported and for informing the Audit and Corporate Governance Committee once every three months of the reports received and actions being taken.

As far as the Pirelli Group's Italian companies are concerned, these new rules do not change or invalidate in any way the procedures for reporting to the Board of Statutory Auditors and to the Supervisory Board or the powers of these bodies, as established by current legislation and the organizational models adopted under Decree 231/2001 and subsequent amendments.

Independent Auditors

Pursuant to article 159 of the Financial Markets Consolidation Act, the Shareholders' Meeting of April 14th, 2008 approved the motion put forward by the Board of Statutory Auditors to engage Reconta Ernst&Young S.p.A. to audit the annual statutory and consolidated financial statements and the half-year condensed financial statements for each of the years 2008 - 2016 and approved the related fees.

Financial Reporting Officer

In accordance with the terms of the Articles of Association and with the approval of the Board of Statutory Auditors, the Board of Directors confirmed Gerardo Benuzzi, the Company's General Manager - Finance & Advisory, as Financial Reporting Officer in its meeting of April 14th, 2008. The Financial Reporting Officer ends his term in office at the same time as the Board of Directors which appointed him (approval of financial statements for the year ended December 31st, 2010). The Financial Reporting Officer has been granted every kind of organizational and operational power needed to perform the duties required by existing law, the Articles of Association and the Board of Directors. He has been granted independent spending power for the exercise of these duties.

- **REPORTING PROCEDURES TO DIRECTORS AND STATUTORY AUDITORS.**

DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES.

The completeness of the information available to directors is a key condition for the correct conduct of their duties and responsibilities to manage, direct and control the business of Pirelli RE and the Group. Similar adequate information must be given to the Board of Statutory Auditors. In accordance with the terms of law and the Articles of Association, the Board of Directors and the Board of Statutory Auditors are regularly informed, or at least once every three months, about the activities performed, the Company's general operating performance, its business outlook, and the most significant transactions carried out by the Company or its subsidiaries with an effect on its operating performance, capital structure and financial position, and about any transactions that are atypical, unusual or with related parties or nonetheless representing a potential conflict of interest, with all the necessary details provided to understand such transactions.

For the purposes of fostering organized reporting, the Company has adopted a set of specific internal Guidelines (the "Guidelines")[38] which define the rules to be followed for complying with the stated quarterly reporting obligations relating to the activities of executive directors in exercising their delegated authority and in executing transactions approved by the Board itself, and to their activities in general.

The Company constantly monitors the application of these Guidelines and has also revised them in order to make further improvements based on actual experience of applying them.

The Guidelines are published in full in the Corporate Governance section of the Website.

*

Lastly, it is reported that, as part of these Guidelines, the Company has drawn up Standards of conduct for transactions with related parties, including group companies, and for real estate transactions (the "Standards"). These Standards are designed to ensure effective, substantial and procedural fairness and transparency in this area and - where necessary - to help decisions by the Board of Directors in this regard.

The Standards of conduct are published in the Website's Corporate Governance section.

[38] These Guidelines were first amended on July 28th, 2004, requiring, amongst others, related parties to notify the Company of any companies to be treated as indirectly related parties through themselves (insofar as controlled by or nonetheless traceable to such related parties), in order to create (and keep constantly updated) a database allowing the Company to check such transactions directly.

➢ BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors is the body charged with monitoring the Company's observance of the law and its Articles of Association, its respect for correct management practice, the adequacy of its internal control system and its organizational, administrative and accounting structure and the reliability thereof. It is also required to monitor how the corporate governance rules adopted by the Company have been actually implemented and to express a justified recommendation to the Shareholders' Meeting on the appointment of the independent auditors. No minority lists were presented for the appointment of the current Board of Statutory Auditors.

Its current composition, which can also be found at the start of the document containing the half-year corporate governance report, is published on the Website.

➢ RELATIONS WITH SHAREHOLDERS

As part of its tradition of transparency and integrity, the Company pays particular attention to its relations with shareholders, investors (both institutional and private), financial analysts, with other market participants and with the financial community in general, showing respect for their reciprocal roles and periodically organizing meetings. Accordingly, the Company has set up an Investor Relations office (forming part of the Group Finance and Advisory Department) with its own section on the Company's website at *www.pirellire.com*. This section contains every document of interest published by the Company of both a financial nature (for example, the annual financial reports and interim management statements), and concerning its corporate governance system (for example, the Articles of Association, the Rules for Shareholders' Meetings, the Standards of conduct for transactions with related parties, Reporting procedures to directors and statutory auditors, Guidelines for handling and publishing price sensitive information and minutes of Shareholders' Meetings). This same section also provides access to the Company's published press releases and the documentation provided to the financial community during presentations and/or meetings with the Company and any other useful information about the composition of share capital and shareholders.

The investor relations office may be contacted by shareholders and investors as follows:

- **address: Via G. Negri, 10 - Milan;**
- **tel. 02/85354057;**
- **fax 02/85354387;**
- **e-mail: dario.fumagalli@pirellire.com.**

* * *

July 28th, 2009

10. APPENDICES

APPENDIX A

No-GAAP Measures

The No-GAAP Measures used are as follows:

- **EBIT before restructuring costs and property writedowns/revaluations (-2.0 million euro)**: determined as EBIT (-17.7 million euro) after adding back restructuring costs (11.5 million euro) and property writedowns (4.2 million euro).
- **Net income from investments before property writedowns/revaluations (-20.9 million euro)**: determined as "net income from investments" reported in the income statement (-21.6 million euro) before property writedowns/revaluations (0.7 million euro).
- **EBIT including net income from investments before restructuring costs and property writedowns/revaluations (-22.9 million euro)**: determined as EBIT (-17.7 million euro) before restructuring costs (11.5 million euro) and property writedowns (4.2 million euro) plus "net income from investments" reported in the income statement (-21.6 million euro) before property writedowns/revaluations (0.7 million euro).
- **EBITDA**: the Group uses this measure as a financial target in internal presentations (business plans) and in external ones (to analysts and investors); it is a useful measure for evaluating the Group's operating performance as a whole and that of its individual sectors of activity in addition to EBIT. EBITDA is an intermediate measure, which is based on EBIT but excludes amortization and depreciation.
- **Financial income from investments**: this measure comprises the interest income from financial receivables with associates and joint ventures and income from securities (both reported in financial income); it is stated net of the impairment of junior notes.
- **Financial expenses**: this measure includes the following items from the financial statements: "financial income", net of interest income from financial receivables from associates and joint ventures and income from securities (reported in "financial income from investments"), and "financial expenses", net of the impairment of junior notes (reported in "financial income from investments").
- **Investments in real estate funds and investment companies**: this measure includes investments in associates and joint ventures, closed-end real estate funds and investments in other companies (reported in "Other financial assets" in the balance sheet), and junior notes (classified in "Other receivables" in the balance sheet).
- **Net working capital**: this represents the amount of resources comprising a business's operating activity and is used to verify its short-term financial equilibrium. This measure comprises all the short-term assets and liabilities of a non-financial nature and is stated net of "junior notes", which are classified in "Investments in real estate funds and investment companies".
- **Provisions**: this measure, representing the sum of "Provisions for future risks and expenses (current and non-current)", "Employee benefit obligations" and "Deferred

tax provisions", is stated net of provisions for future risks on investments valued at equity which are classified in "Investments in real estate funds and investment companies".

- **Net financial position**: this measure is a valid indicator of the ability to meet obligations of a financial nature. Net financial position is represented by gross financial debt less cash and other cash equivalents and other financial receivables. The Notes to the Consolidated Financial Statements include a table reporting all the balance sheet amounts used for this determination.
- **Gearing (excluding shareholder loans):** this measure indicates the Group's ability to satisfy the needs of its business with its own resources rather than with third-party financial debt. Gearing excluding shareholder loans is calculated as the ratio between adjusted net financial position (stated gross of shareholder loans to companies in which minority interests are held) and net equity.
- **Assets Under Management:** Assets Under Management correspond to the value of assets managed and are stated at market value at period end as determined by independent experts, except for non performing loans which are stated at book value. This measure, when referring to the Pirelli RE share, expresses the Group's interest in the market value of the assets and in the book value of non performing loans owned by the Group.
- **Net Asset Value (NAV):** this measure makes it possible to quantify the unrealized implicit capital gain in the real estate portfolio managed and invested in by the PRE Group. The pro-rata Net Asset Value is calculated as the difference between the Pirelli RE share of the assets' market value and the related value of the debt inclusive of shareholder loans to the companies in which minority interests are held. The determination of Net Asset Value does not take account of taxes on the implicit capital gain of investee assets, not being regarded as material for the PRE Group.
- **Passing Rent:** this indicator corresponds to rents annualized on the basis of contracts existing at the end of the period for assets belonging to a specific fund/company and represents a useful indicator of the annual volume of rents.
- **Passing Yield:** this measure, which is reported by individual company/fund, is an indicator of the profitability of rent from assets belonging to a specific company/fund; it is calculated as the ratio between the book value of the company/fund's assets to the corresponding amount of passing rent.
- **Vacancy:** this indicates the portion of properties that do not generate income in the form of rent; it is calculated as the ratio of vacant floor space to total floor space.

APPENDIX B

INFORMATION ABOUT DEBT OF VEHICLES AND FUNDS

30th June 2009	Net Financial Position	Of which Net Debt	Type of bank finance	Maturity (years)(*)
Commercial Core Italy	1,132,574	1,098,676	Secured loan (**)	3.8
Commercial Yieding Italy	1,432,114	1,367,749	Secured loan (**)	3.9
Commercial Core Germany	1,336,148	1,223,491	Secured loan	2.4
Commercial Germany	2,639,774	2,499,478	Secured loan	2.0
Residential Yielding Germany	2,615,151	2,262,949	Secured loan	4.0
YIELDING PORTFOLIO	9,155,761	8,452,344		
Residential Small Office House Office ITA	899,508	745,660	Secured loan (**)	2.1
Development ITA	1,108,793	928,253	Secured loan	3.1
Development Germany	138,197	138,197	Secured loan	0.7
Development Poland	122,173	62,567	Secured loan	3.1
OTHER PORTFOLIO	2,268,671	1,874,678		
TOTALE	11,424,433	10,327,021		3.2

(*) Average maturity is calculated based on the gross bank debt of each project
(**) Loans secured by mortgages account for over 90% of the total, while the remainder are loans for purchasing units or funds or long term unsecured loans

Principal contractual clauses relating to the debt

The covenants applying to all the loans to vehicle companies/funds invested in by Pirelli RE are monitored on a quarterly basis at the time of preparing the quarterly financial reports and regardless of the actual reporting requirements contained in the associated loan agreements.

The principal financial covenants applying to the funds and vehicle companies are as follows:
- LTV (Loan To Value): ratio between (i) bank debt and (ii) appraised value of the portfolio
- LTC (Loan To Cost): ratio between (i) bank debt and (ii) book value of the portfolio
- ISCR (Interest Service Cover Ratio): ratio between (i) rental income net of operating costs and (ii) financial expenses
- DSCR (Debt Service Cover Ratio): ratio between (i) rental and sale income net of operating costs and (ii) financial expenses and repayments of principal

The covenants of the following vehicle companies/funds were not in line with the contractually agreed amounts at June 30th, 2009: Lupicaia, Resident West, Rinascente/UPIM, unitholders of Fondo Raissa, Nowe Ogrody, Nowe Ogrody 2 (Angelska Grobla), Nowe Ogrody 4 (Lubin).

It should be noted as follows:

- in the case of the unitholders of Fondo Raissa, the only consequence of breaching the covenant is that it cannot distribute profits

As regards all the other situations, negotiations are nonetheless in progress with the banks in order to formalize solutions. The maximum theoretical pre-negotiation financial commitment for Pirelli RE to "resolve" these situations is approximately 13 million euro.

With reference to the presence of covenants on the Parent Company's short-term revolving credit facilities, although the financial covenants relating to the above parameters were not observed at June 30th, 2009 the capital increase means that such non-compliance was not a default event.

The section on subsequent events contains details of actions taken to redefine the structure of the Company's financing relationships.

APPENDICES C, D, E

INFORMATION RELATING TO AGGREGATE 100% INCOME STATEMENT. ANALYSIS BY COUNTRY AND PORTFOLIO

The figures included in the following tables refer to consolidated subsidiaries and associates, joint ventures and funds in which the Group has invested.

	2009				2008			
	TOTAL REAL ESTATE	TOTAL ITALY	TOTAL GERMANY	TOTAL POLAND	TOTAL REAL ESTATE	TOTALE ITALY	TOTAL GERMANY	TOTAL POLAND
Sales	351.1	272.5	55.1	23.5	525.3	370.1	95.6	59.5
Rents	402.2	155.1	246.8	0.3	288.1	180.2	107.6	0.3
Capital gain	53.1	35.1	11.8	6.2	108.9	69.5	22.4	17.0
Sales fees	(7.3)	(5.2)	(1.3)	(0.8)	(7.5)	(6.3)	(1.2)	0.0
Other costs	(467.8)	(398.7)	(59.3)	(9.8)	(222.4)	(126.7)	(72.6)	(23.2)
Capitalized financial charges	7.3	5.3	0.0	2.0	17.4	11.5	1.0	5.0
Other capitalized costs	348.3	333.1	7.0	8.2	77.6	24.7	29.0	24.0
EBITDA	**335.0**	**123.8**	**205.1**	**6.1**	**269.7**	**159.2**	**87.3**	**23.1**
Depreciations	(20.7)	(20.8)	0.0	0.0	(21.3)	(20.9)	(0.2)	(0.1)
Revaluations/Devaluations	(166.4)	3.4	(169.2)	(0.6)	3.4	3.4	0.0	0.0
EBIT	**147.8**	**106.4**	**35.9**	**5.5**	**251.8**	**141.7**	**87.1**	**23.0**
Interests expenses/revenues bank loans	(277.5)	(109.1)	(166.7)	(1.7)	(193.5)	(116.1)	(79.2)	1.8
Interests expenses/revenues SHL's	(36.9)	(12.5)	(21.7)	(2.7)	(30.5)	(13.5)	(11.9)	(5.1)
Derivates	(20.9)	(12.8)	(8.2)	0.1	16.1	1.6	15.4	(0.9)
PBT	**(187.4)**	**(28.0)**	**(160.6)**	**1.2**	**44.0**	**13.7**	**11.4**	**18.8**
income taxes	(24.7)	(2.0)	(22.2)	(0.6)	(5.0)	1.0	(5.9)	(0.2)
Net income 100%	**(212.1)**	**(30.0)**	**(182.8)**	**0.6**	**39.1**	**14.7**	**5.5**	**18.7**
EBIT including income from investments	**(26.8)**	**(12.0)**	**(15.2)**	**0.3**	**23.6**	**3.5**	**1.9**	**18.2**
Revaluations/devaluations	(4.0)	2.6	(6.4)	(0.2)	(0.8)	(0.8)	0.0	0.0
EBIT including income from investments without Revaluations/Devaluations	**(22.8)**	**(14.6)**	**(8.8)**	**0.6**	**24.4**	**4.3**	**1.9**	**18.2**
Financial income/expenses	13.3	4.3	7.9	1.1	9.5	5.0	4.1	0.5
EBIT including income from investments and financial income/expenses without	**(9.6)**	**(10.4)**	**(0.9)**	**1.7**	**33.9**	**9.3**	**6.0**	**18.7**

	TOTAL REAL ESTATE JUNE 2009	TOTAL ITALY	ITALY				TOTAL GERMANY	GERMANY			POLAND
			YIELDING	TRADING & SOHO	DEVELOPMENT	NON STRATEGIC		YIELDING COMMERCIAL	YIELDING RESIDENTIAL	DEVELOPMENT	
Sales	351.1	272.5	113.1	132.7	26.7	0.0	55.1	18.7	34.7	1.7	23.5
Rents	402.2	155.1	137.0	11.6	2.6	3.8	246.8	149.6	94.8	2.4	0.3
Capital gain	53.1	35.1	10.0	14.9	10.2	0.0	11.8	7.3	3.9	0.5	6.2
Sales fees	(7.3)	(5.2)	(2.2)	(2.9)	(0.2)	0.0	(1.3)	0.0	(1.3)	0.0	(0.8)
Other costs	(467.8)	(398.7)	(66.6)	(10.3)	(319.2)	(2.7)	(59.3)	(13.7)	(44.4)	(1.2)	(9.8)
Capitalized financial charges	7.3	5.3	0.0	0.9	4.4	0.0	0.0	0.0	0.0	0.0	2.0
Other capitalized costs	348.3	333.1	22.3	0.5	310.3	0.0	7.0	0.0	7.0	0.0	8.2
EBITDA	**335.0**	**123.8**	**100.5**	**14.8**	**7.4**	**1.1**	**205.1**	**143.3**	**60.1**	**1.7**	**6.1**
Depreciations	(20.7)	(20.8)	(0.0)	(0.4)	(0.3)	(20.0)	0.0	0.0	0.0	0.0	0.0
Revaluations/Devaluations	(166.4)	3.4	41.2	(21.1)	(16.7)	0.0	(169.2)	(232.6)	65.5	(2.1)	(0.6)
EBIT	**147.8**	**106.4**	**141.6**	**(6.7)**	**(9.7)**	**(18.9)**	**35.9**	**(89.4)**	**125.7**	**(0.4)**	**5.5**
Interests expenses/revenues bank loans	(277.5)	(109.1)	(62.9)	(21.7)	(16.5)	(8.0)	(166.7)	(99.6)	(64.8)	(2.2)	(1.7)
Interests expenses/revenues SHL's	(36.9)	(12.5)	(2.5)	(4.4)	(5.6)	0.0	(21.7)	(12.1)	(9.6)	0.0	(2.7)
Derivates	(20.9)	(12.8)	(10.6)	(0.1)	(2.2)	0.0	(8.2)	(3.0)	(5.2)	0.0	0.1
PBT	**(187.4)**	**(28.0)**	**65.7**	**(32.9)**	**(33.9)**	**(26.9)**	**(160.6)**	**(204.1)**	**46.2**	**(2.6)**	**1.2**
income taxes	(24.7)	(2.0)	(6.0)	(3.3)	0.4	6.9	(22.2)	(14.3)	(7.8)	(0.1)	(0.6)
Net income 100%	**(212.1)**	**(30.0)**	**59.7**	**(36.2)**	**(33.5)**	**(19.9)**	**(182.8)**	**(218.4)**	**38.4**	**(2.7)**	**0.6**
EBIT including income from investments	**(26.8)**	**(12.0)**	**17.4**	**(15.7)**	**(9.8)**	**(3.9)**	**(15.2)**	**(27.7)**	**15.1**	**(2.6)**	**0.3**
Revaluations/devaluations	(4.0)	2.6	16.2	(6.0)	(7.5)	0.0	(6.4)	(29.7)	23.3	0.0	(0.2)
EBIT including income from investments without Revaluations/Devaluations	**(22.8)**	**(14.6)**	**1.2**	**(9.7)**	**(2.3)**	**(3.9)**	**(8.8)**	**2.0**	**(8.2)**	**(2.6)**	**0.6**

	TOTAL REAL ESTATE JUNE 2008	TOTAL ITALY	ITALY				TOTAL GERMANY	GERMANY			TOTAL POLAND
			YIELDING	TRADING & SOHO	DEVELOPMENT	NON STRATEGIC		YIELDING COMMERCIAL	YIELDING RESIDENTIAL	DEVELOPMENT	
Sales	525.3	370.1	173.3	130.7	66.1	0.0	95.6	26.8	28.2	40.7	59.5
Rents	288.1	180.2	157.9	12.9	3.2	6.2	107.6	9.0	95.5	3.1	0.3
Capital gain	108.9	69.5	22.9	37.0	9.7	0.0	22.4	4.7	2.9	14.8	17.0
Sales fees	(7.5)	(6.3)	(3.1)	(2.2)	(1.0)	0.0	(1.2)	0.0	(0.8)	(0.4)	0.0
Other costs	(222.4)	(120.3)	(64.5)	(19.6)	(26.9)	(9.3)	(71.4)	(2.7)	(55.7)	(13.0)	(23.2)
Capitalized financial charges	17.4	11.5	0.0	2.3	9.2	0.0	1.0	0.0	0.0	1.0	5.0
Other capitalized costs	77.6	24.7	0.0	0.2	24.5	0.0	29.0	0.0	19.8	9.2	24.0
EBITDA	**269.7**	**159.3**	**113.1**	**30.6**	**18.6**	**(3.0)**	**87.3**	**11.0**	**61.6**	**14.7**	**23.1**
Depreciations	(21.3)	(20.9)	(0.1)	(0.5)	0.0	(20.3)	(0.2)	0.0	(0.2)	0.0	(0.1)
Revaluations/Devaluations	3.4	3.4	12.8	(8.3)	(1.1)	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**251.8**	**141.7**	**125.8**	**21.8**	**17.5**	**(23.4)**	**87.1**	**11.0**	**61.4**	**14.7**	**23.0**
Interests expenses/revenues bank loans	(193.5)	(116.1)	(72.3)	(20.9)	(15.5)	(7.5)	(79.2)	(6.6)	(71.0)	(1.6)	1.8
Interests expenses/revenues SHL's	(30.5)	(13.5)	(2.1)	(7.4)	(4.0)	0.0	(11.9)	0.0	(11.9)	0.0	(5.1)
Derivates	16.1	1.6	2.8	(1.2)	0.0	0.0	15.4	0.0	15.4	0.0	(0.9)
PBT	**44.0**	**13.8**	**54.3**	**(7.6)**	**(2.0)**	**(30.8)**	**11.4**	**4.4**	**(6.1)**	**13.1**	**18.8**
income taxes	(5.0)	1.0	3.2	(5.1)	(2.3)	5.1	(5.9)	(1.8)	(1.0)	(3.1)	(0.2)
Net income 100%	**39.1**	**14.7**	**57.5**	**(12.8)**	**(4.3)**	**(25.7)**	**5.5**	**2.6**	**(7.1)**	**10.1**	**18.7**
EBIT including income from investments	**23.6**	**3.5**	**16.4**	**(3.9)**	**(3.9)**	**(5.1)**	**1.9**	**1.9**	**(3.1)**	**3.1**	**18.2**
Revaluations/devaluations	(0.8)	(0.8)	3.0	(3.3)	(0.5)	(0.0)	(0.0)	0.0	(0.0)	0.0	0.0
EBIT including income from investments without Revaluations/Devaluations	**24.4**	**4.3**	**13.4**	**(0.6)**	**(3.4)**	**(5.1)**	**1.9**	**1.9**	**(3.1)**	**3.1**	**18.2**

C. PIRELLI & C. REAL ESTATE GROUP – HALF-YEAR CONDENSED FINANCIAL STATEMENTS

1. CONSOLIDATED BALANCE SHEET

(in thousands of euro)

Note	ASSETS	06.30.2009	12.31.2008
	NON-CURRENT ASSETS		
1	Property, plant and equipment	22.375	22.805
2	Intangible assets	153.887	160.601
3	Investments in associates and joint ventures	378.566	357.867
4	Other financial assets	75.055	75.237
5	Deferred tax assets	30.253	28.564
7	Other receivables	529.034	600.379
	of which with related parties	*482.620*	*565.152*
8	Tax receivables	68	68
	TOTAL NON-CURRENT ASSETS	**1.189.238**	**1.245.521**
	CURRENT ASSETS		
9	Inventories	113.211	93.379
6	Trade receivables	125.153	181.644
	of which with related parties	*71.506*	*74.095*
7	Other receivables	62.872	82.909
	of which with related parties	*17.171*	*24.649*
	Securities held for trading	-	-
10	Cash and cash equivalents	58.657	35.702
8	Tax receivables	39.881	36.730
	of which with related parties	*26.400*	*20.751*
	Derivative financial instruments	-	-
	TOTAL CURRENT ASSETS	**399.774**	**430.364**
	TOTAL ASSETS	**1.589.012**	**1.675.885**

	NET EQUITY	30.06.2009	31.12.2008
	GROUP NET EQUITY		
11	Share capital	20.704	20.704
12	Other reserves	143.081	159.304
13	Retained earnings (losses)	180.766	376.669
	Net income (loss) for the period	(42.257)	(194.985)
	TOTAL GROUP NET EQUITY	**302.294**	**361.692**
14	**MINORITY INTERESTS**	**5.882**	**4.673**
	TOTAL NET EQUITY	**308.176**	**366.365**

	LIABILITIES	30.06.2009	31.12.2008
	NON-CURRENT LIABILITIES		
15	Bank borrowings and payables to other financial institutions	64.025	229.238
17	Other payables	1.405	30.081
18	Provisions for future risks and expenses	26.598	25.415
5	Deferred tax provision	41	120
19	Employee benefit obligations	16.270	17.268
20	Tax payables	21	-
	TOTAL NON-CURRENT LIABILITIES	**108.360**	**302.122**
	CURRENT LIABILITIES		
15	Bank borrowings and payables to other financial institutions	834.881	685.384
	of which with related parties	*438.672*	*498.006*
16	Trade payables	126.927	138.980
	of which with related parties	*21.419*	*26.314*
17	Other payables	94.878	86.920
	of which with related parties	*11.081*	*11.556*
18	Provisions for future risks and expenses	82.809	72.231
	of which with related parties	*65.934*	*48.670*
20	Tax payables	31.990	23.619
	of which with related parties	*22.794*	*17.307*
21	Derivative financial instruments	991	264
	TOTAL CURRENT LIABILITIES	**1.172.476**	**1.007.398**
	TOTAL LIABILITIES	**1.280.836**	**1.309.520**
	TOTAL LIABILITIES AND NET EQUITY	**1.589.012**	**1.675.885**

Balances relating to transactions with related parties are described in Section 6.6 of the Explanatory Notes to the half-year condensed financial statements.

2. CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

Note		01.01.2009-06.30.2009	01.01.2008-06.30.2008
22	Revenues from sales and services	115.751	192.789
23	Changes in inventories of work in progress, semi-finished and finished products	2.872	33.817
	Own work capitalized	-	-
24	Other income	20.269	29.508
	TOTAL OPERATING REVENUES	**138.892**	**256.114**
	of which with related parties	*52.998*	*47.429*
	of which non-recurring events	-	*17.000*
	Raw and consumable materials used (net of change in inventories)	(3.495)	(77.646)
	Personnel costs	(45.944)	(75.265)
	Depreciation, amortization and impairment	(7.808)	(4.266)
	Other costs	(99.350)	(95.106)
25	**TOTAL OPERATING COSTS**	**(156.597)**	**(252.283)**
	of which with related parties	*(26.870)*	*(24.658)*
	of which non-recurring events	*(11.497)*	*(16.238)*
	Earnings before interest and tax (EBIT)	**(17.705)**	**3.831**
26	Net income from investments of which:	(21.616)	16.874
	from related parties	*(24.742)*	*10.820*
	- net profit share from investments in associates and joint ventures	(24.793)	10.820
	- dividends	344	2.073
	- gains on investments	2.923	5.584
	- losses on investments	(90)	(1.603)
27	Financial income	19.535	17.578
	of which with related parties	*16.205*	*13.552*
28	Financial expenses	(20.519)	(24.772)
	of which with related parties	*(7.547)*	*(15.839)*
	RESULT BEFORE INCOME TAXES AND MINORITY INTERESTS	**(40.305)**	**13.511**
29	Income taxes	(2.432)	(6.455)
	of which with related parties	*18*	*(1.594)*
	NET INCOME/(LOSS) FROM CONTINUING OPERATIONS	**(42.737)**	**7.056**
30	**NET INCOME/(LOSS) FROM DISCONTINUED OPERATIONS**	-	4.390
	of which with related parties		
	NET INCOME/(LOSS) FOR THE PERIOD	**(42.737)**	**11.446**
	attributable to minority interests	(480)	2.456
	CONSOLIDATED NET INCOME (LOSS) FOR THE PERIOD	**(42.257)**	**8.990**
31	**EARNINGS/LOSS) PER SHARE (in euro)**		
	Basic		
	Continuing operations	-1,02	0,14
	Discontinued operations	-	0,08
	Basic earnings/(loss) per share	-1,02	0,22

Balances relating to transactions with related parties are described in section 6.6 of the Explanatory Notes to the half-year condensed financial statements.

3. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euro)

		01.01.2009-06.30.2009		
		Gross	**Tax**	**Net**
A	**Net income (loss) for the period**			**(42.737)**
	Other components of income recognized in net equity:			
	Exchange differences on translating foreign financial statements	(913)	0	(913)
	Total cash flow hedges	(805)	260	(545)
	- Fair value adjustment of derivatives designated as cash flow hedges	(805)	260	(545)
	- (Profits)/losses relating to cash flow hedges, previously recognized directly in net equity now transferred to the income statement	0	0	0
	Total financial assets available for sale	298	(159)	139
	- Fair value adjustment of financial assets available for sale	298	(159)	139
	- (Profits) losses relating to financial assets available for sale, previously recognized directly in net equity now transferred to the income statement	0	0	0
	Net actuarial gains / (losses) on employee benefits	(481)	112	(369)
	Pirelli RE share of other components of income recognized in net equity by associates and joint ventures	(14.592)	389	(14.203)
B	**Total other components of income recognized in net equity**	**(16.493)**	**602**	**(15.891)**
A+B	**Total comprehensive income (losses) for the period**			(58.628)
	Attributable to:			
	Group			(57.914)
	Minority interests			(713)

		01.01.2008-06.30.2008		
		Gross	**Tax**	**Net**
A	**Net income (loss) for the period**			**11.446**
	Other components of income recognized in net equity:			
	Exchange differences on translating foreign financial statements	431	-	431
	Total cash flow hedges	4.474	(1.301)	3.173
	- Fair value adjustment of derivatives designated as cash flow hedges	4.474	(1.301)	3.173
	- (Profits)/losses relating to cash flow hedges, previously recognized directly in net equity now transferred to the income statement	-	-	-
	Total financial assets available for sale	(10.588)	2.083	(8.505)
	- Fair value adjustment of financial assets available for sale	(7.190)	1.148	(6.042)
	- (Profits) losses relating to financial assets available for sale, previously recognized directly in net equity now transferred to the income statement	(3.398)	935	(2.463)
	Net actuarial gains / (losses) on employee benefits	590	(80)	510
	Pirelli RE share of other components of income recognized in net equity by associates and joint ventures	16.053	(828)	15.225
B	**Total other components of income recognized in net equity**	**10.950**	**(126)**	**10.834**
A+B	**Total comprehensive income (losses) for the period**			22.280
	Attributable to:			
	Group			18.446
	Minority interests			3.834

4. STATEMENT OF CHANGES IN CONSOLIDATED NET EQUITY

	Share capital	Share premium reserve	Reval- uation reserve	Legal reserve	Currency translation reserve	Reserve for fair value measurement of financial assets available for sale	Cash flow hedge reserve	Reserve for actuarial gains/ (losses)	Reserve for equity-settled stock options	Reserve for tax on items credited/debited to net equity	Other reserves	Retained earnings / (losses)	Net income/ (loss) for the period	**Group net equity**	**Minority interests in net equity**	**Total net equity**
Net equity at December 31st, 2008	**20.704**	**158.336**	**15**	**4.265**	**(1.680)**	**(13.858)**	**(60.139)**	**1.728**	**6.027**	**2.584**	**63.475**	**375.220**	**(194.985)**	**361.692**	**4.673**	**366.365**
Total other components of income recognized in net equity	**-**	**-**	**-**	**-**	**(684)**	**298**	**(15.662)**	**(216)**	**-**	**606**	**-**	**-**	**-**	**(15.658)**	**(233)**	**(15.891)**
Changes in treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-		-	-
Allocation of 2008 results	-	-	-	-	-	-	-	-	-	-	-	(194.985)	194.985	-	-	-
Capital increase for exercise of stock options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Use of treasury shares to service 2004 stock option plan	-	-	-	-	-	-	-	-	-	-	-	-	-		-	-
Cost of equity transactions	-	-	-	-	-	-	-	-	-	-	(176)	-	-	(176)	1	(175)
Equity-settled stock options	-	-	-	-	-	-	-	-	(245)	-	-	-	-	(245)	-	(245)
Use of treasury shares to service 2008 stock grant plan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	235	(475)	(2)	(313)	-	(508)	-	(1.063)	1.921	858
Net income (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	(42.257)	(42.257)	(480)	(42.737)
Net equity at June 30th, 2009	**20.704**	**158.336**	**15**	**4.265**	**(2.364)**	**(13.560)**	**(75.566)**	**1.037**	**5.780**	**2.877**	**63.299**	**179.727**	**(42.257)**	**302.293**	**5.882**	**308.175**

	Share capital	Share premium reserve	Reval- uation reserve	Legal reserve	Currency translation reserve	Reserve for fair value measurement of financial assets available for sale	Cash flow hedge reserve	Reserve for actuarial gains/ (losses)	Reserve for equity-settled stock options	Reserve for tax on items credited/debited to net equity	Other reserves	Retained earnings / (losses)	Net income/ (loss) for the period	**Group net equity**	**Minority interests in net equity**	**Total net equity**
Net equity at December 31st, 2007	**20.649**	**156.577**	**15**	**4.265**	**1.413**	**6.819**	**(4.485)**	**2.429**	**6.571**	**(3.237)**	**18.382**	**355.201**	**151.137**	**715.736**	**4.424**	**720.160**
Total other components of income recognized in net equity	**-**	**-**	**-**	**-**	**264**	**(10.536)**	**18.920**	**499**	**-**	**309**	**-**	**-**	**-**	**9.456**	**1.378**	**10.834**
Allocation of 2007 results	-	-	-	-	-	-	-	-	-	-	-	66.064	(151.137)	(85.073)	-	(85.073)
Cost of equity transactions	-	-	-	-	-	-	-	-	-	-	18	-	-	18	-	18
Equity-settled stock options	-	-	-	-	-	-	-	-	(1.127)	-	-	-	-	(1.127)	-	(1.127)
Use of treasury shares to service 2008 stock grant plan	55	1.759	-	-	-	-	-	-	-	-	-	-	-	1.814	-	1.814
Other changes	-	-	-	-	(41)	(116)	-	413	(4)	38	45.080	(45.034)	-	336	(1.315)	(979)
Net income (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	8.990	8.990	2.456	11.446
Net equity at June 30th, 2008	**20.704**	**158.336**	**15**	**4.265**	**1.636**	**(3.833)**	**14.435**	**3.341**	**5.440**	**(2.890)**	**63.480**	**376.231**	**8.990**	**650.150**	**6.943**	**657.093**

5. CONSOLIDATED CASH FLOW STATEMENT

(in thousands of euro)

	01.01.2009-06.30.2009	01.01.2008-06.30.2008
Pre-tax income / (loss)	(40.305)	13.511
Net income / (loss) from discontinued operations	-	4.390
Depreciation, amortization and impairment/impairment reversal intangible assets & property, plant & equip.	7.808	5.946
Impairment of receivables	8.548	1.954
Gains/Losses on sale of property, plant and equipment and investment property	(5)	-
Gain realized on discontinued operations	-	(850)
Net income from investments net of dividends	23.504	14.318
Financial expenses	20.519	28.326
Financial income	(19.535)	(24.937)
Change in inventories	332	(29.219)
Change in trade receivables/payables	37.048	37.411
Change in other receivables/payables	5.039	(21.398)
Change in derivative financial instruments	(78)	(1.321)
Change in employee benefit obligations and other provisions	(9.240)	7.070
Taxes	(9.583)	(17.400)
Other changes	5.592	19.019
Net cash flow generated / (absorbed) by operating activities (A)	**29.644**	**36.820**
Purchase of property, plant and equipment	(1.322)	(3.011)
Disposal of property, plant and equipment	112	210
Purchase of intangible asstes	(367)	(14.849)
Disposal of intangible assets	78	874
Purchase of investments in associates and joint ventures	(31.469)	(23.332)
Disposal of investments in associates and joint ventures	-	957
Purchase of other financial assets	734	(1.646)
Disposal of other financial assets	-	16.380
Net cash flow from discontinued operations	-	800
Net acquistion/disposal of business combinations	(1.968)	(32.586)
Net cash flow generated / (absorbed) by investing activities (B)	**(34.202)**	**(56.203)**
Change in share capital and share premium reserve	-	1.814
Other changes in net equity	(2.231)	(856)
Change in financial receivables	67.440	(15.650)
Change in financial payables	(36.714)	84.691
Financial income	19.535	24.937
Financial expenses	(20.519)	(28.326)
Dividends paid	-	(85.073)
- of which to related parties	-	*(48.612)*
Net cash flow generated / (absorbed) by financing activities (C)	**27.511**	**(18.463)**
Total net cash flow generated / (absorbed) in the period (D=A+B+C)	**22.953**	**(37.846)**
Cash and cash equivalents + bank overdrafts at the beginning of the period (E)	**35.702**	**112.063**
Cash and cash equivalents + bank overdrafts at the end of the period (D+E)	**58.655**	**74.217**
of which:		
- cash and cash equivalents	**58.657**	**74.217**
- bank overdrafts	**(2)**	**-**

Cash flow relating to transactions with related parties are described in Section 6.6 of the Explanatory Notes to half-year condensed financial statements.

6. HALF-YEAR CONDENSED FINANCIAL STATEMENTS – EXPLANATORY NOTES

The half-year condensed financial statements at June 30th, 2009 were approved by the Board of Directors on July 28th, 2009.

6.1. Basis of preparation

Despite the difficult economic and financial context causing global economic slowdown, with a particularly severe impact on the real estate sector and a consequently negative effect on the Group's consolidated results for the first half of 2009, there are no significant doubts as to its ability to continue as a going concern, also in view of the capital increase completed on July 3rd and the actions currently being taken and planned for the future.

The principal risks and uncertainties are discussed in the interim report on operations in the section on "Business outlook", which supplements the related information provided in the annual financial report at December 31st, 2008.

The market environment facing the Group has forced it to rethink its strategy and prepare a precise action plan designed to guarantee maximum efficiency and competitiveness. The principal strategies, actions adopted and related financial sources for their implementation were announced at the time of presenting the Industrial Plan for 2009-2011 to the financial community and were subsequently confirmed by the Board of Directors on May 26th, 2009 which also revised some of the proposed strategies.

As a consequence of the above, the consolidated financial statements have been prepared using accounting principles that satisfy the going concern requirement.

6.2. Accounting standards and policies adopted

Pursuant to article 154-ter of Decree 58/1998 and the related CONSOB requirements, the Pirelli & C. Real Estate Group has drawn up its half-year condensed financial statements in an abbreviated format in accordance with IAS 34 on interim financial reporting.

In accordance with art. 5, para. 2 of Legislative Decree 38 of February 28th, 2005, the reporting currency is the euro.

The half-year condensed financial statements at June 30th, 2009 have been drawn up using the same accounting policies and standards and consolidation methods as those used for preparing the financial statements at December 31st, 2008, to which reference should be made for more details, except for the following standards and interpretations which became effective from January 1st, 2009:

- IFRIC 11 – IFRS 2 – Group and treasury share transactions

This interpretation, endorsed by the European Union in June 2007 (Regulation EC No. 611/2007), governs the application of IFRS 2 "Share-based payment" to certain types of plan involving several of the Group's members.

This interpretation's application does not have any significant quantitative impact on the consolidated financial statements. In June 2009 the IASB issued amendments to IFRS 2 – "Share-based payment", not yet endorsed by the European Union, which incorporate the guidance previously included in IFRIC 11, which will consequently be withdrawn.

- IFRIC 13 – Customer loyalty programmes

IFRIC 13 defines the accounting treatment that must be adopted by entities who give their customers loyalty awards associated with the purchase of goods or services. It establishes that the fair value of the obligations relating to such awards must be separated from the sales revenue and deferred until the customer obligation is settled.

This interpretation's application does not have any significant quantitative impact on the consolidated financial statements.

- IFRIC 14 – IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

IAS 19 "Employee benefits" establishes a limit on defined benefit assets that can be recognized in the balance sheet. This interpretation provides guidance on how to assess such a limit and clarifies the impact on assets and liabilities of a defined benefit plan when minimum funding requirements exist either by contract or by law.

This interpretation is not applicable to the Group.

- IFRS 8 – Operating segments

This standard brings segment reporting into line with US GAAP (SFAS 131 - Disclosures about segments of an enterprise and related information), whereby segments must be identified in the same way as in the internal management accounts.

The disclosures required are presented in section 6.5 "Segment information".

- Amendments to IAS 23 - Borrowing costs

As part of the convergence project with US GAAP (SFAS 34 Capitalization of Interest Cost), these amendments eliminate the option allowing the immediate expensing to income of borrowing costs directly attributable to the purchase, construction or production of a qualifying asset, and now require that such costs be capitalized as part of the cost of the related asset.

The application of the amendments to this standard has not affected the consolidated financial statements because the Group has never made use of the option now eliminated.

- Revision of IAS 1 - Presentation of financial statements

IAS 1 has undergone a minor revision which has involved changing the name of certain schedules included in the financial statements and the introduction of a new schedule ("statement of changes in net equity") whose information was previously reported in the notes to the financial statements. The amendments to IAS 1 also apply to comparative figures presented together with the current period.

More details can be found in the following paragraph entitled "Reporting formats".

- Amendments to IFRS 2 - Share-based payment: vesting conditions and cancellations

  The amendments to IFRS 2 are designed to clarify the following matters, not explicitly addressed by the existing standard:

  - vesting conditions: vesting conditions solely comprise service conditions (under which one third must complete a specific period of service) and performance-related conditions (under which it is necessary to achieve determined targets). Other conditions, on which the current standard does not provide explicit guidance, are not to be treated as vesting conditions;

  - cancellations: all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The current IFRS 2 describes the accounting treatment in the event of cancellation by the entity but does not provide any guidance in the event of cancellation by other parties.

  The application of the amendments to this standard have not had a significant quantitative impact on the consolidated financial statements.

- Amendments to IAS 32 - Financial instruments: presentation and IAS 1 - Presentation of financial statements: puttable financial instruments and instruments with obligations arising on liquidation.

  These amendments relate to the accounting treatment of certain types of financial instruments with characteristics similar to ordinary shares, but currently classified as financial liabilities because they entitle their holder to request the issuer for repayment.

  Under these amendments, the following types of financial instruments must be classified as equity, provided they have particular features and meet specific conditions:

  - puttable financial instruments (for example, some shares issued by co-operative entities) ;

  - instruments that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation (for example, some partnership interests and some shares issued by limited life entities).

  These amendments have not had any impact on the consolidated financial statements.

- Improvements to IFRSs

As part of the process started in 2007, the IASB has issued a series of amendments to existing standards. The amendments involve accounting changes to the presentation, recognition and measurement of certain items and changes in terminology.

The following table lists the standards which have been amended and the subject of such amendments:

IFRS	Subject of amendment
IFRS 5 – Non-current assets held for sale and discontinued operations	Plan to sell the controlling interest in a subsidiary
IAS 1 – Presentation of financial statements	Current/non-current classification of derivatives
IAS 16 – Property, plant and equipment	Sale of assets held for rental
IAS 19 – Employee benefits	• Distinction between curtailments and negative past service cost • Revised definition of return on plan assets • Contingent liabilities
IAS 20 - Accounting for government grants and disclosure of government assistance	Government loans with a below-market rate of interest
IAS 23 – Borrowing costs	Components of borrowing costs
IAS 27 – Consolidated and separate financial statements	Measurement of subsidiary held for sale in separate financial statements
IAS 28 – Investments in associates	• Required disclosures when investments in associates are accounted for at fair value through profit or loss • Impairment of investments in associates
IAS 31 – Interests in joint ventures	Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss
IAS 29 - Financial reporting in hyperinflationary economies	Description of measurement basis in financial statements
IAS 36 – Impairment of assets	Disclosure of estimates used to determine recoverable amount
IAS 38 – Intangible assets	• Advertising and promotional activities • Units of production method of amortization
IAS 39 – Financial Instruments: recognition and measurement	• Reclassification of derivatives into or out of the classification of at fair value through profit or loss • Designating and documenting hedges at the segment level • Applicable effective interest rate on cessation of fair value hedge accounting
IAS 40 – Investment property	• Property under construction or development for future use as investment property • Investment property held under lease
IFRS 7 – Financial instruments: disclosures	Presentation of borrowing costs

IAS 10 - Events after the reporting period	Dividends declared after the reporting period
IAS 34 – Interim financial reporting	Disclosures relating to earnings per share in interim financial statements

The application of these amendments has not had any significant quantitative impact on the consolidated financial statements.

- Amendments to IFRS 1 - First-time adoption of IFRSs and to IAS 27 - Consolidated and financial statements: Cost of an investment in a subsidiary, associate or joint venture.

  The amendment allows first-time adopters of IFRSs to adopt the deemed cost option in their separate financial statements for the purposes of determining the cost of an investment in a subsidiary, associate or joint venture.

  On first-time adoption deemed cost may be fair value, determined under IAS 39, or carrying amount determined under the previously adopted accounting standards.

  In addition, any distributions by subsidiaries, associates or joint ventures must be recognized as income in the separate financial statements, regardless of whether they consist of reserves formed before or after acquisition.

  These amendments have not had a significant impact on the consolidated financial statements.

As a result of future adoptions by the European Union of new standards and of new interpretations and guidelines issued by the IFRIC, the IFRSs in force at December 31st, 2009 might differ from those used for preparing the current document. The financial statements at December 31st, 2009 might be affected by such changes.

6.2.1 International accounting standards and/or interpretations issued but not yet applicable and/or not yet endorsed

A brief description will now be provided of new standards or interpretations already issued that are not in force or not yet endorsed by the European Union and so not applicable.

The Group has adopted none of these standards or interpretations in advance of their effective date.

- IFRIC 12 – Service concession arrangements

  IFRIC 12 concerns private sector entities that provide typically public sector services such as roads, airports, energy and water supply under a concession arrangement. Under such arrangements, the assets under concession are not necessarily controlled by the private sector operator, who is nonetheless responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. Under such arrangements, the assets cannot be recognized as property, plant and equipment in the private sector operator's balance sheet, but rather as financial and/or intangible assets depending on the nature of the arrangement.

IFRIC 12, which was endorsed by the European Union in March 2009 (Regulation EC No. 254/2009), applies to the Group from January 1st, 2010 but is not expected to have a significant impact on its consolidated financial statements.

- IFRIC 15 - Agreements for the construction of real estate

  This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and, accordingly, when revenue from the construction should be recognized.

  Based on this interpretation, residential development activities fall under the scope of IAS 18 "Revenues", with revenue recognized at the time deeds are exchanged; commercial development activities, if performed on the basis of the buyer's technical specifications, fall under the scope of IAS 11 "Construction contracts".

  This interpretation has not yet been endorsed by the European Union. Its future application is not expected to have a significant impact on the financial statements because the accounting treatment adopted by the Group already complies with these amendments.

- IFRIC 16 - Hedges of a net investment in a foreign operation

  This interpretation clarifies certain issues relating to the accounting treatment in the consolidated financial statements of hedges of net investments in foreign operations, explaining which types of risks qualify for hedge accounting. In detail, it establishes that hedge accounting is only applicable to exchange differences arising between the functional currency of a foreign operation and the functional currency of its parent, and not between the functional currency of a foreign operation and the presentation currency of the consolidated financial statements.

  This interpretation, which was endorsed by the European Union in June 2009 (Regulation EC No. 460/2009), applies to the Group from January 1st, 2010. Its future application is not expected to have any impact on the consolidated financial statements.

- IFRIC 17 – Distribution of non-cash assets to owners

  This interpretation clarifies that:

  - dividends payable should be recognized when the dividend is appropriately authorized and no longer at the discretion of the entity;

  - dividends payable must be measured at the fair value of the net assets to be distributed;

- the difference between the dividend paid and the carrying amount of the net assets distributed must be recognized in the income statement.

This interpretation has not yet been endorsed by the European Union. Its future application is not expected to have a significant impact on the consolidated financial statements.

- IFRIC 18 – Transfer of assets from customers

This interpretation, issued in January 2009, is particularly relevant for entities in the utilities sector. It clarifies the requirements that must be observed by agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity then uses either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). This interpretation has not yet been endorsed by the European Union. Its future application is not expected to have an impact on the consolidated financial statements

- Revision of IFRS 3 - Business combinations

This revision is also part of the convergence project with US GAAP and seeks to harmonize the accounting treatment of business combinations. The principal changes relative to the previous version are:

- the expensing to income of any costs relating to the business combination (legal, advisory, valuation, audit and other professional or consulting fees);

- the option to recognize minority interests at fair value ("full goodwill method"); this option may be adopted for each individual business combination;

- guidance on recognizing step acquisitions: in particular, in the event of acquiring control of a company in which a minority interest was already held, the investment previously held must be measured at fair value, with any resulting adjustments recognized in profit or loss;

- contingent consideration, meaning the acquirer's obligation to transfer additional assets or shares to the seller as a result of a post-acquisition event, must be recognized and measured at fair value at the acquisition date. Subsequent changes in the fair value of such agreements are usually recognized in profit or loss.

These amendments, which were endorsed by the European Union in June 2009 (Regulation EC No. 495/2009), apply to the Group from January 1st, 2010. It is currently not possible to estimate the impact of the new standard's introduction on the consolidated financial statements in the period it is first applied.

- Amendments to IAS 27 - Consolidated and separate financial statements

The revision of IFRS 3 "Business combinations" has also involved making changes to IAS 27 "Consolidated and separate financial statements", summarized as follows:

- changes in a subsidiary's shareholders, not involving a loss of control, qualify as equity transactions; in other words, the difference between the price paid/received and share of net equity purchased/sold must be recognized in net equity;

- in the event of a loss of control, but retention of an interest, this interest must be stated at fair value at the date on which the loss of control took place.

These amendments, which were endorsed by the European Union in June 2009 (Regulation EC No. 494/2009), apply to the Group from January 1st, 2010. It is currently not possible to estimate the impact of the new standard's introduction on the consolidated financial statements in the period it is first applied.

- Amendment to IAS 39 - Financial instruments: recognition and measurement - designation of hedged items in a hedging relationship

  This amendment illustrates and clarifies what can be designated as a hedged item in certain particular circumstances:

  - designation of a one-sided risk hedged item, only when changes in the cash flows or fair value of a hedged item above or below a specified price, rather than the whole change, are designated as a hedged item;

  - designation of inflation as a hedged item.

  These amendments have not yet been endorsed by the European Union. The future application of these amendments is not expected to have a significant impact on the consolidated financial statements.

- Amendment to IFRS 7 – Financial instruments: disclosures – improving disclosures about financial instruments

  This amendment focuses on disclosures about fair value measurements and liquidity risk. In the case of fair value measurements, the disclosures required by the standard have been enhanced and a three-level hierarchy has been introduced, for each of which specific quantitative information must be provided. In the case of disclosures relating to liquidity risk, the amendments not only clarify which items must be included in the maturity analysis but also require greater integration between the quantitative and qualitative disclosures.

  These amendments have not yet been endorsed by the European Union. Their future application is not expected to have a significant impact on the disclosures provided by the Group.

- Amendments to IFRIC 9 and to IAS 39 – Embedded derivatives

  These amendments clarify the accounting treatment for embedded derivatives when they are reclassified out of "financial assets at fair value through profit or loss", as allowed by the amendments made in October 2008 to IAS 39 - " Financial instruments: recognition and measurement". Under these amendments, in the event of reclassification, embedded derivatives have to be assessed and, if necessary, separately accounted for in financial statements.

These amendments have not yet been endorsed by the European Union. Their future application is not expected to have a significant impact on the consolidated financial statements.

- Improvements to IFRSs

As part of the process started in 2007, the IASB has issued a collection of amendments to 12 existing standards, thus completing the 2007-2009 project cycle.

The following table lists the standards which have been amended and the subject of such amendments:

IFRS	Subject of amendment
IFRS 2 – Share-based payment	Scope of IFRS 2 and revised IFRS 3
IFRS 5 – Non-current assets held for sale and discontinued operations	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
IFRS 8 - Operating segments	Disclosure of information about segment assets
IAS 1 – Presentation of financial statements	Current/non-current classification of convertible instruments
IAS 7 – Statement of cash flows	Classification of expenditures on unrecognized assets
IAS 17 – Leases	Classification of leases of land and buildings
IAS 18 - Revenue	Determining whether an entity is acting as a principal or as an agent
IAS 36 – Impairment of assets	Size of cash generating unit for goodwill impairment test
IAS 38 – Intangible assets	• Additional consequential amendments arising from revised IFRS 3 • Measuring the fair value of an intangible asset acquired in a business combination
IAS 39 - Financial instruments: recognition and measurement	• Treating loan prepayment penalties as closely related embedded derivatives • Scope exemption for business combination contracts • Cash flow hedge accounting
IFRIC 9 – Reassessment of embedded derivatives	Scope of IFRIC 9 and revised IFRS 3
IFRIC 16 - Hedges of a net investment in a foreign operation	Amendment to the restriction on the entity that can hold hedging instruments

These amendments have not yet been endorsed by the European Union. Their future application is not expected to have a significant impact on the consolidated financial statements.

- Amendments to IFRS 2 – Share-based payment

These amendments clarify the accounting for cash-settled share-based payments in the financial statements of a subsidiary, when the benefit is paid to an employee by the parent or another group entity other than that which employs this person. These amendments also incorporate guidance previously included in IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 - Group and treasury share transactions", which have been withdrawn as a result.

The amendments to IFRS 2 have not yet been endorsed by the European Union and do not apply to the Group.

6.2.2 Reporting formats

As required by revised IAS 1 "Presentation of financial statements", the consolidated financial statements comprise a balance sheet, income statement, statement of comprehensive income, statement of changes in net equity, cash flow statement and explanatory notes, and are accompanied by the directors' report on operations.

The balance sheet is presented in a format that distinguishes between current and non-current assets and liabilities.

The income statement is presented in a format that classifies costs according to type. The Group has decided to present the components of net income (loss) for the period in a separate income statement.

The "Statement of comprehensive income" includes net income (loss) for the period, and income and expenses, grouped together by like categories, which, on the basis of IFRS, are recognized directly in net equity. The Group has decided to present both the tax effects of profits/losses recognized in net equity and reclassifications to the income statement of profits/losses recognized in net equity in previous periods, directly in the statement of comprehensive income and not in the explanatory notes.

The "Statement of changes in net equity" includes the amount of transactions with equity holders and the movements in earnings reserves during the period.

In the cash flow statement, cash flows from operating activities are presented using the indirect method, by which net income or loss for the year is adjusted for the effects of non-monetary transactions, of any deferral or provision of prior or future operating receipts or payments, and of revenues or costs relating to cash flows from investing or financing activities.

Relative to the consolidated financial statements published at December 31st, 2008, the "Statement of recognized income and expenses" has been renamed the "Statement of comprehensive income" and the "Statement of changes in net equity", previously presented in the explanatory notes, has been incorporated in the primary financial statements.

The income statement also includes a new line item "net income from investments", comprising the following sub-accounts:

- net profit share from investments in associates and joint ventures;

- gains on investments: this includes gains on the sale of financial assets available for sale, subsidiaries, associates and joint ventures, and capital gains from business combinations, previously classified in financial income, and the positive measurement of other financial assets designated at fair value through profit or loss, previously classified in "Change in fair value of financial assets";

- losses on investments: this includes losses on the sale of financial assets available for sale, subsidiaries, associates and joint ventures, and impairment of financial assets available for sale, associates and joint ventures, previously classified in financial expenses, and the negative measurement of other financial assets designated at fair value through profit or loss, previously classified in "Change in fair value of financial assets";

- dividends: this includes not only dividends received from investments other than subsidiaries/associates/joint ventures, but also the income received from real estate funds, previously classified in financial income.

Lastly, the fair value measurement of securities held for trading and derivatives has been reclassified from "Change in fair value of financial assets" to "Financial expenses" or "Financial income" depending on the sign.

The line item "Change in fair value of financial assets" has therefore been eliminated.

The Group has complied with the requirements of CONSOB Resolution 15519 of July 27th, 2006 relating to financial reporting formats and CONSOB Communication 6064293 of July 28th, 2006 relating to disclosure.

When reading the figures, please note that the Integrated Facility Management business, sold during 2008, has been classified in "discontinued operations" in this financial report, meaning that its results are not included in EBIT but are reported separately at the foot of the income statement immediately before net income; accordingly, the figures for the first half of 2008 have been restated on a like-for-like basis.

6.2.3 Consolidation area

The consolidation area covers subsidiaries, associates and joint ventures.

Subsidiaries are defined as all companies and other entities whose financial and operating policies the Group has the power to control. This circumstance normally exists when the Group holds more than half of the voting rights.

Joint ventures are contractual or statutory arrangements whereby two or more parties undertake an economic activity that is subject to joint control, as defined by IAS 31.

An associate is a company over which the Group has significant influence. Such influence normally exists when the Group holds 20 to 50% of voting rights.

The companies included in the consolidation are listed in Appendix 1 "Consolidation area", whose accompanying notes discuss the related changes.

In particular, it is reported that the shareholders of Orione Immobiliare Prima S.p.A. - a company in which Pirelli & C. Real Estate S.p.A. holds a 40.1% interest and Gruppo Partecipazioni Industriali S.p.A. a 29.3% interest - made an agreement on April 2nd, 2009 to transfer to the shareholders, other than Pirelli & C. Real Estate S.p.A., the property assets owned by the company in proportion to their respective interests. Under this same agreement, the shareholders also agreed to sell their respective shares in Orione Immobiliare Prima S.p.A. to Pirelli & C. Real Estate S.p.A. which, on completion of this transaction, has ended up owning 100% of this company.

The accounting treatment of this business combination has involved recognizing the assets and liabilities acquired at their fair value, as detailed in the following table:

	Fair value	**Book value**
Purchase price (inclusive of directly attributable acquisition costs)	**62**	
Inventories	17.551	17.551
Trade receivables and payables	(603)	(603)
Other receivables and payables	9.970	9.970
Provisions for risks and employee benefit obligations	(2.554)	(1.769)
Cash and cash equivalents	2.861	2.861
Financial receivables and payables	(27.121)	(25.561)
Assets and liabilities acquired	**104**	**2.449**
Minority interests in net equity		
Net assets and liabilities acquired	**104**	**2.449**
Portion acquired	62	
Transfer to reserve		
Goodwill	(0)	

On May 13th, 2009 *Mistral Real Estate B.V.*, a 35% owned company, transformed its existing shares into "tracking shares" that were numbered and allocated so as to achieve a direct correlation between such shares and the underlying development companies both in terms of participation in results and exercise of control. Following this transaction Pirelli & C. Real Estate S.p.A. acquired the remaining 65% of certain classes of tracking share, thereby obtaining control of the companies to which such shares referred.

The accounting treatment of this business combination has involved recognizing the assets and liabilities acquired at their fair value, as detailed in the following table:

	Fair value	Book value
Purchase price	**10.106**	
Investments in associates	111	-
Deferred tax assets and deferred tax provisions	(8)	(8)
Inventories	2.613	2.613
Trade receivables and payables	701	701
Other receivables and payables	6.589	6.589
Cash and cash equivalents	59	59
Financial payables	5.500	5.500
Assets and liabilities acquired	**15.565**	**15.454**
Minority interests in net equity	17	17
Net assets and liabilities acquired	**15.548**	**15.437**
Portion acquired	10.106	
Goodwill	**(0)**	

6.2.4 Seasonal trends

Revenues are not particularly influenced by seasonal trends.

6.3 Accounting estimates and assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions that could significantly influence the book values of certain assets, liabilities, costs and revenues, as well as the information provided on contingent assets/liabilities as of the reporting date.

In arriving at such estimates, management uses all available information and makes judgements based partly on past experience, to formulate reasonable assumptions for the recognition of operating events.

The estimates and assumptions mainly regard:

- the recoverability of intangible assets and definition of their useful lives;
- the quantification of impairment of receivables (particularly with reference to determining the amortized cost of non performing loans), financial assets and provisions for future risks and expenses;
- the recoverability of deferred tax assets;
- the valuation of investments in associates and joint ventures and of financial receivables due from such companies;
- determination of the fair value of properties and the realizable value of inventories.

The estimates and assumptions that determine a significant risk of causing variations in the book values of assets and liabilities mainly relate to goodwill and the valuation of the real estate portfolio. The Group tests its goodwill for impairment once a year, as required by IFRS.

Recoverability is calculated on the basis of value in use.

6.4. Information on the Consolidated Balance Sheet and Consolidated Income Statement

All the figures are presented in thousands of euro, unless otherwise specified.

The following explanatory notes refer to the consolidated balance sheet and income statement found in sections C.1 and C.2 respectively.

ASSETS

Note 1. PROPERTY, PLANT AND EQUIPMENT

These amount to 22,375 thousand euro, reporting a net decrease of 430 thousand euro since December 31st, 2008, and are made up as follows:

	06.30.2009			12.31.2008		
	Historical cost	Accum. depreciation	Net value	Historical cost	Accum. depreciation	Net value
Land	1.900	-	1.900	1.900	-	1.900
Buildings	18.303	(7.254)	11.049	17.050	(6.541)	10.509
Plant and machinery	2.519	(2.074)	445	2.523	(1.953)	570
Production and commercial equipment	292	(94)	198	377	(89)	288
Other assets, of which:	25.173	(16.390)	8.783	26.448	(16.910)	9.538
- vehicles	*887*	(806)	*81*	1.472	(1.343)	*129*
- furniture and office equipment	*21.750*	(15.584)	*6.166*	22.440	(15.567)	*6.873*
- works of art	*2.536*	-	*2.536*	2.536	-	*2.536*
Total	**48.187**	**(25.812)**	**22.375**	**48.298**	**(25.493)**	**22.805**

The following table shows movements in historical costs and accumulated depreciation during the first half of 2009:

Historical cost	12.31.2008	Change in cons. area/ other	Increases	Decreases	06.30.2009
Land	1.900	-	-	-	1.900
Buildings	17.050	-	1.253	-	18.303
Plant and machinery	2.523	-	-	(4)	2.519
Production and commercial equipment	377	-	-	(85)	292
Other assets, of which:	26.448	27	185	(1.487)	25.173
- vehicles	*1.472*	-	-	*(585)*	*887*
- furniture and office equipment	*22.440*	27	*185*	*(902)*	*21.750*
- works of art	*2.536*	-	-	-	*2.536*
Total	**48.298**	**27**	**1.438**	**(1.576)**	**48.187**

Accumulated depreciation	12.31.2008	Change in cons. area/ other	Depreciation	Decreases	06.30.2009
Buildings	(6.541)	(116)	(597)	-	(7.254)
Plant and machinery	(1.953)	-	(121)	-	(2.074)
Production and commercial equipment	(89)	1	(6)	-	(94)
Other assets, of which:	(16.910)	(23)	(921)	1.464	(16.390)
- vehicles	*(1.343)*	-	*(30)*	*567*	*(806)*
- furniture and office equipment	*(15.567)*	*(23)*	*(891)*	*897*	*(15.584)*
- works of art	-	-	-	-	-
Total	**(25.493)**	**(138)**	**(1.645)**	**1.464**	**(25.812)**

The increase in "Buildings" mainly reflects the cost of work on the Group's offices, as well as the cost of work on the Pirelli Group's documentary record store.

Note 2. INTANGIBLE ASSETS

These amount to 153,887 thousand euro, reporting a net decrease of 6,714 thousand euro since December 31st, 2008, of which 4,161 thousand euro due to impairment of the concession granted by the City of Milan to the subsidiary Parcheggi Bicocca S.r.l. for managing car parks P7 and P9 within the Bicocca area up until 2032.

Movements during the period are as follows:

	12.31.2008	Increases/Change in cons. area/ other	Reclassifications	Decreases	Impairment	Amortization	06.30.2009
Patents and intellectual property rights	-	-	-	-	-	-	-
Concessions, licenses, trademarks	16.751	-	-	-	(4.161)	(395)	12.195
Applications software	5.912	283	(58)	(6)	-	(1.534)	4.597
Goodwill	137.830	-	-	(840)	-	-	136.990
Other intangible assets, of which:	108	11	58	(72)	-	-	105
- other	*108*	*11*	*58*	*(72)*	-	-	*105*
Total	**160.601**	**294**	**0**	**(918)**	**(4.161)**	**(1.929)**	**153.887**

Goodwill

Movements during the period are shown below:

	12.31.2008	Decreases	06.30.2009
ITALY	**53.431**	**(840)**	**52.591**
Agency	5.719	-	5.719
Credit Servicing	5.066	(840)	4.226
Property	13.452	-	13.452
Fund management	29.042	-	29.042
Non Performing loans	152	-	152
GERMANY	81.142	-	81.142
DGAG/BIB	81.142	-	81.142
REST OF EUROPE	**3.257**	**-**	**3.257**
Poland	3.257	-	3.257
Total	**137.830**	**(840)**	**136.990**

Italy

The change in this balance is due to the disposal of 20% of Pirelli RE Credit Servicing S.p.A., as part of the Group's announced rationalization of the non performing loans business. One of the objectives of this strategy is to acquire contracts to manage non performing loan portfolios for third parties, in keeping with the Pirelli & C. Real Estate Group‘s growing focus on the service sector.

Despite the continuing financial crisis and given the fact that the above goodwill refers to the service business, management is of the opinion that the current economic and financial environment has not caused a reduction in its value in use of a size that would warrant testing for impairment.

Note 3. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures are accounted for using the equity method and amount to 378,566 thousand euro at June 30th, 2009, reporting a net increase of 20,699 thousand euro since December 31st, 2008.

Movements during the period are shown below:

	01.01.2009-06.30.2009			01.01.2008-12.31.2008		
	Total	**Associates**	**Joint ventures**	**Total**	**Associates**	**Joint ventures**
Opening balance	**357.867**	**76.279**	**281.588**	**480.341**	**82.320**	**398.021**
Discontinued operations	-	-	-	(5.145)	(98)	(5.047)
Acquisitions, changes in share capital and reserves/other	21.363	765	20.598	127.576	14.228	113.348
Portion of other components recognized in net equity	(14.203)	173	(14.376)	(52.525)	(871)	(51.654)
Reclassifications/ Other	3.875	346	3.529	(2.302)	-	(2.302)
Distribution of dividends and reserves	(1.888)	(431)	(1.457)	(29.528)	(6.706)	(22.822)
Disposals and liquidations	-	-	-	(25.696)	-	(25.696)
Net profit share	(24.793)	(1.723)	(23.070)	(177.019)	(12.219)	(164.800)
Financial receivables	19.081	-	19.081	-	-	-
Changes in provision for future risks and expenses	17.264	2	17.262	42.165	(375)	42.540
Closing balance	**378.566**	**75.411**	**303.155**	**357.867**	**76.279**	**281.588**

A description of the main events affecting equity-accounted companies during the first half of 2009 can be found in Appendix 1 "Consolidation area".

The following table reports details of the above movements for each company:

	12.31.2008	Acquisitions, changes in share capital and reserves/other	Share of other components of income recognized in net equity	Reclassifications and other	Distribution of dividends and reserves	Net profit share	Financial receivables	Changes in provision for future risks and expenses: Additions/Balances	Changes in provision for future risks and expenses: Utilizations	06.30.2009
Cairoli Finance S.r.l.	**4**	-	-	-	-	-	-	-	-	**4**
Centro Servizi Amministrativi Pirelli S.r.l.	**457**	14	-	-	(211)	(3)	-	-	-	**257**
Dixia S.r.l.	**5.031**	8	-	-	-	(146)	-	-	-	**4.893**
Le Case di Capalbio S.r.l.	**31**	-	-	-	-	210	-	-	-	**241**
Orione Immobiliare Prima S.p.A.	**53**	314	-	346	-	(713)	-	-	-	**-**
Progetto Corsico S.r.l.	**182**	-	-	-	-	(4)	-	-	-	**178**
Progetto Fontana S.r.l. (in liquidation)	**-**	(2)	-	-	-	-	-	95	(93)	**-**
Sci Roev Texas Partners L.P.	**237**	-	-	-	(220)	1	-	-	-	**18**
Spazio Investment N.V.	**62.586**	19	173	-	-	(345)	-	-	-	**62.433**
Turismo & Immobiliare S.p.A.	**7.698**	412	-	-	-	(723)	-	-	-	**7.387**
Total investments in associates	**76.279**	**765**	**173**	**346**	**(431)**	**(1.723)**	**0**	**95**	**(93)**	**75.411**

	12.31.2008	Acquisitions, changes in share capital and reserves/other	Share of other components of income recognized in net equity	Reclassifications and other	Distribution of dividends and reserves	Net profit share	Financial receivables	Changes in provision for future risks and expenses: Additions/Balances	Utilizations	06.30.2009
Afrodite S.à r.l.	-	-	-	-	-	(620)	-	1.532	(912)	-
Aida RE B.V.	-	-	-	-	-	(217)	-	10.135	(9.918)	-
Alceo B.V.	582	(39)	-	-	-	(753)	-	210	-	-
Alimede Luxembourg S.à.r.l.	-	(62)	-	-	-	(3.878)	-	7.593	(3.653)	-
Alnitak S.à r.l.	2.677	(1)	-	-	-	553	-	-	-	3.229
Aree Urbane S.r.l.	1.780	8.056	-	-	-	(1.939)	-	-	-	7.897
Artemide S.à r.l.	-	-	-	-	-	(393)	-	1.050	(657)	-
Austin S.à.r.l.	3.954	8	-	-	-	(2.271)	-	-	-	1.691
Bicocca S.à.r.l.	-	(2)	-	-	-	(328)	-	710	(380)	-
Capitol Immobiliare S.r.l.	-	34	-	-	-	(42)	-	20	(12)	-
Castello S.r.l. (in liquidation)	57	-	-	-	-	(21)	-	-	-	36
Colombo S.à.r.l.	17.774	7	174	-	-	85	-	-	-	18.040
Consorzio G6 Advisor	22	-	-	-	-	-	-	-	-	22
Continuum S.r.l.	1.935	(24)	-	-	(1.200)	(231)	-	-	-	480
Dallas S.à.r.l.	3.954	9	-	-	-	(2.355)	-	-	-	1.608
Delamain S.à.r.l.	204	-	-	(346)	-	16.462	-	-	-	16.320
Dolcetto Sei S.r.l.	34	67	-	-	-	(28)	-	-	-	73
Doria S.à.r.l.	17.672	(5)	173	-	-	83	-	-	-	17.923
Erice S.r.l.	327	-	-	-	(207)	149	-	-	-	269
Espelha - Serviços de Consultadoria L.d.A.	8.148	-	-	-	-	2.658	-	-	-	10.806
European NPL S.A.	18.034	224	(3.678)	-	-	769	-	-	-	15.349
Finprema S.r.l.	5.178	(8)	(391)	-	-	(990)	-	-	-	3.789
Gädeke & Landsberg Dritte Contract KG	-	(1.659)	-	-	-	(1.972)	-	3.631	-	-
Gamma RE B.V.	79.285	-	(454)	-	-	(854)	-	-	-	77.977
Gatus 372.GmbH	11	-	-	-	-	-	-	-	-	11
Golfo Aranci S.p.A. - Società di trasformazione urbana	3.361	262	-	-	-	(96)	-	-	-	3.527
Grundstücksgesellschaft Königstraße mbH & Co. KG	-	528	-	-	-	-	-	-	-	528
IN Holdings I S.à.r.l.	-	-	-	-	-	564	-	-	(343)	221
Induxia S.r.l.	-	1.587	-	-	-	(2.023)	-	1.218	(782)	-
Inimm Due S.à.r.l.	2.125	-	-	-	-	469	-	-	-	2.594
Iniziative Immobiliari S.r.l.	3.920	(42)	-	-	-	(366)	-	-	-	3.512
Localto ReoCo S.r.l. (in liquidation)	2	-	-	-	-	1	-	-	-	3
Manifatture Milano S.p.A. (ex Quadrifoglio Milano S.p.A.)	3.197	-	-	-	-	1.548	-	-	-	4.745
Maro S.r.l.	336	(45)	-	-	-	(222)	-	-	-	69
Masseto I B.V.	-	-	-	-	-	(23)	-	496	(473)	-
Mistral Real Estate B.V.	21.817	(5.385)	362	-	-	(142)	-	-	-	16.652
M.S.M.C. Italy Holding B.V.	1.866	2.500	-	-	-	928	-	-	-	5.294
Nashville S.à.r.l.	3.953	8	-	-	-	(2.272)	-	-	-	1.689
Patrimonio Casa - Fondo comune di investimento immobiliare speculativo di tipo chiuso	11.482	-	-	-	-	(1.300)	-	-	-	10.182
Polish Investments Real Estate Holding B.V.	4.500	126	-	-	-	1.364	-	-	-	5.990
Polish Investments Real Estate Holding II B.V.	-	-	-	-	-	(1.083)	-	6.625	(5.542)	-
Popoy Holding B.V.	451	700	-	-	-	(371)	-	-	-	780
Progetto Bicocca La Piazza S.r.l.	1.872	-	-	-	-	(566)	-	-	-	1.306
Progetto Gioberti S.r.l.	44	(13)	-	-	-	(19)	-	-	-	12
Resi S.r.l.	5	8	-	-	-	-	-	-	-	13
Resident Baltic GmbH	227	(6)	-	-	-	143	-	-	-	364
Resident Berlin 1 P&K GmbH	3.633	282	-	-	-	(356)	-	-	-	3.559
Resident Sachsen P&K GmbH	148	-	-	-	-	170	-	-	-	318
Resident West GmbH	77	2	-	-	-	17	-	-	-	96
Rinascente/Upim S.r.l.	-	357	41	-	-	(3.947)	-	6.990	(3.441)	-
Riva dei Ronchi S.r.l.	-	4.540	-	-	-	(1.167)	-	-	(2.276)	1.097
Roca S.r.l.	1.148	(48)	-	-	-	(855)	-	-	-	245
Seeuferhaus Konstanz Grundstücksgesellschaft GmbH & Co. K	-	2.394	-	-	-	-	-	-	-	2.394
Sigma RE B.V.	8.608	2.442	(1.247)	-	-	(28.884)	19.081	-	-	-
Sicily Investments S.à.r.l.	121	-	-	-	-	(49)	-	-	-	72
Solaia RE S.à.r.l.	-	1.672	(1.958)	3.875	-	13.890	-	-	(4.363)	13.116
Solaris S.r.l.	1.143	-	-	-	-	(722)	-	-	-	421
S.I. Real Estate Holding B.V.	-	(17)	-	-	-	(876)	-	911	(18)	-
S.I.G. RE B.V.	1.430	1.107	-	-	-	2.163	-	-	-	4.700
Tamerice Immobiliare S.r.l.	4.006	23	-	-	-	1.418	-	-	-	5.447
Theta RE B.V.	-	2.447	(7.571)	-	-	(3.789)	-	24.579	(15.666)	-
Tizian Wohnen 1 GmbH	2.233	712	-	-	-	1.259	-	-	-	4.204
Tizian Wohnen 2 GmbH	1.055	174	-	-	-	586	-	-	-	1.815
Trinacria Capital S.à.r.l.	128	-	-	-	-	(58)	-	-	-	70
Trixia S.r.l.	3.913	-	-	-	-	(1.350)	-	-	-	2.563
Vespucci S.à.r.l.	17.791	(2)	173	-	-	82	-	-	-	18.044
Vesta Finance S.r.l.	12	-	-	-	-	-	-	-	-	12
Vivaldi - Fondo comune di investimento immobiliare speculativo	8.614	-	-	-	-	(458)	-	-	-	8.156
Altre società Gruppo Pirelli & C. Real Estate Deutschland GmbH	6.742	(2.320)	-	-	(50)	(545)	-	139	(141)	3.825
Total investments in joint ventures	**281.588**	**20.598**	**(14.376)**	**3.529**	**(1.457)**	**(23.070)**	**19.081**	**65.839**	**(48.577)**	**303.155**
Total investments	**357.867**	**21.363**	**(14.203)**	**3.875**	**(1.888)**	**(24.793)**	**19.081**	**65.934**	**(48.670)**	**378.566**

The "financial receivables" column reports the Group's share of the writedown of the loan to the Sigma RE B.V. Group. On June 9th, 2009, the Arcandor Group, the tenant of the "Highstreet" properties (a portfolio in which the Group's interest of 12.1% is held through Sigma RE B.V.) filed an application at the Court in Essen for the commencement of insolvency proceedings under German law, as described in more detail in the interim report on operations.

This event could entail for Pirelli RE, (i) the total or partial loss of net capital invested in this company (37.5 million euro at June 30th, 2009), (ii) the failure to collect receivables for services (around 1.0 million euro), (iii) the transfer to profit or loss of a negative equity reserve estimated at 8.0 million euro in relation to interest rate hedges and (iv) the failure to realize expected income from managing and enhancing the value of the Highstreet portfolio.

The provision for future risks and expenses includes the provision for making good the losses of associates and joint ventures in excess of their carrying amount. More details can be found in note 18.

Noteworthy events in the first half of 2009 relating to investments accounted for using the equity method are reported below.

Associates

On April 8th, 2009 *Centro Servizi Amministrativi Pirelli S.r.l.* declared 211 thousand euro in dividends.

The increase in the investment in *Orione Immobiliare Prima S.p.A.* includes 1,323 thousand euro in relation to a shareholder loan waived by Pirelli & C. Real Estate S.p.A. during the first half of 2009 in order to support the process of selling the remaining property portfolio, which is highly fragmented and geographically dispersed. Following the transactions described in the note on the "Consolidation area", this company has been consolidated line-by-line.

Sci Roev Texas Limited distributed 220 thousand euro in reserves during the first half of 2009.

During the first half of 2009, Pirelli & C. Real Estate S.p.A. made a total of 412 thousand euro in capital contributions to *Turismo & Immobiliare S.p.A.*.

Joint ventures

On April 29th, 2009 Pirelli & C. Real Estate S.p.A. partly forgave a shareholder loan to *Aree Urbane S.r.l.*, for an amount of 2,076 thousand euro. The investment in this company has been increased by an amount of 5,980 thousand euro after discounting to present value interest-free loans from Pirelli & C. Real Estate S.p.A..

Further to a resolution adopted on April 20th, 2009, *Continuum S.r.l.* distributed 1,200 thousand euro in dividends to the Pirelli & C. Real Estate Group during the half year under review.

The increase in the investment in *Dolcetto Sei S.r.l.* reflects 100 thousand euro for the waiver of a shareholder loan on April 16th, 2009.

On February 24th, 2009 *Erice S.r.l.* voted to distribute a total of 207 thousand euro in capital reserves to the Pirelli & C. Real Estate Group.

The reduction in the book value of the investment in *European NPL S.A.* is due to 3,678 thousand euro in adjustments to the fair value of the company's cash flow hedges.

The investment in *Finprema S.r.l.* was decreased by 391 thousand euro for post-tax adjustments to this company's cash flow hedges to fair value.

The reduction in the book value of the investment in *Gamma RE B.V.* is due to 454 thousand euro in adjustments to the fair value of the company's cash flow hedges.

During the period under review, *Golfo Aranci S.p.A. - Società di trasformazione urbana* received a total of 288 thousand euro in capital contributions.

The change in the investment in *Induxia S.r.l.* reflects 1,620 thousand euro for the waiver of a shareholder loan on May 14th, 2009.

The reduction in the book value of the investment in *Mistral Real Estate B.V.* reflects 15,965 thousand euro due to the acquisition of control by the Pirelli & C. Real Estate Group of certain companies directly and indirectly controlled by *Mistral Real Estate B.V.*, as described in the note on "Consolidation area".

On April 20th, 2009 *M.S.M.C. Italy Holding B.V.* received a capital contribution of 2,500 thousand euro from Pirelli & C. Real Estate S.p.A..

On June 1st, 2009 *Popoy Holding B.V.* received a capital contribution of 700 thousand euro from Pirelli & C. Real Estate S.p.A..

The investment in *Rinascente/Upim S.r.l.* has been adjusted by 357 thousand euro after discounting interest-free loans from Pirelli & C. Real Estate S.p.A. to present value.

On April 15th, 2009 Pirelli & C. Real Estate S.p.A. forgave 3,863 thousand euro in shareholder loans to *Riva dei Ronchi S.r.l.* in order to cover this company's accumulated losses and at the same time subscribed 1,000 thousand euro to a capital increase.

During the first half of 2009, Pirelli Re Netherlands B.V. made 2,442 thousand euro in capital contributions to *Sigma RE B.V.*.

On January 31st, 2009 Pirelli & C. Real Estate S.p.A. acquired another 5% of the share capital in *Solaia RE S.à.r.l.* for 1,767 thousand euro. This investment was also reduced by 1,958 thousand euro for post-tax negative adjustments to the fair value of this company's cash flow hedges.

On June 26th, 2009 Pirelli Re Netherlands B.V. acquired 10.5% of the share capital in *S.I.G. RE B.V.* from third parties for 1,142 thousand euro.

The increase in the investment in *Theta RE B.V.* reflects 2,447 thousand euro for discounting loans from Pirelli RE Netherlands B.V. and Aida B.V. to present value. The investment has also been decreased by 7,731 thousand euro in negative adjustments to the fair value of the company's cash flow hedges.

Note 4. OTHER FINANCIAL ASSETS

These amount to 75,055 thousand euro, having decreased by 182 thousand euro since December 31st, 2008. These are analyzed as follows:

	06.30.2009	12.31.2008
Financial assets available for sale at fair value through equity	**44.975**	**45.638**
Closed-end real estate funds	36.729	36.523
Investments in other companies	8.246	9.115
Other financial assets at fair value through profit or loss	**30.080**	**29.599**
Closed-end real estate funds	30.080	29.599
Total	**75.055**	**75.237**

4.1 Closed-end real estate funds

These report the following movements in the first half of 2009:

	06.30.2009	12.31.2008
Opening balance	36.523	71.210
Increases	-	510
Decreases	(92)	(14.635)
Fair value adjustment	298	(17.163)
(Gains)/Losses previoulsy recorded in net equity transferred to the income statement upon sale or in the presence of impairment	-	(3.399)
Closing balance	**36.729**	**36.523**
of which:		
Armilla	1.840	1.847
Cloe Fondo Uffici	11.141	11.170
Fondo Abitare Sociale 1	491	496
Olinda Fondo Shops	18.135	17.888
Tecla Fondo Uffici	5.122	5.122

Units in closed-end real estate funds are reported in the financial statements of *Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.* and *Pirelli Re Netherlands B.V.*.

Fund name	% held at 06.30.2009	**12.31.2008**	Increases	Increases/ (decreases)	Fair value adjustment	(Profits)/losses previously recognized in net equity, transferred to income statement upon disposal or impairment	**06.30.2009**
Armilla	2,26%	1.847	-	-	(7)	-	1.840
Cloe Fondo Uffici	5,03%	11.170	-	-	(29)	-	11.141
Fondo Abitare Sociale 1	3,01%	496	-	-	(5)	-	491
Olinda Fondo Shops	11,82%	17.888	-	-	247	-	18.135
Tecla Fondo Uffici	2,00%	5.122	-	(92)	92	-	5.122
Total		**36.523**	**0**	**(92)**	**298**	**0**	**36.729**

The decrease of 92 thousand euro during the first half of 2009 is due to the repayment of units by Tecla Fondo Uffici.

The overall balance has been adjusted by a positive 298 thousand euro for changes in the fair value of fund units.

4.2 Investments in other companies

These amount to 8,246 thousand euro compared with 9,115 thousand euro at December 31st, 2008.

4.3 Other financial assets at fair value through profit or loss

These comprise 13.57% of the units in *Cloe Fondo Uffici - Fondo comune di investimento immobiliare di tipo chiuso non quotato riservato*, which are held by Pirelli RE Netherlands B.V.. During the period Pirelli RE Netherlands B.V. purchased another three units in this fund for a total of 570 thousand euro. The fair value adjustment to these assets at June 30th, 2009 has involved decreasing their value by 89 thousand euro.

The changes in fair value have been recognized in the income statement in the line item "Net income from investments" (note 26).

Note 5. DEFERRED TAX ASSETS AND DEFERRED TAX PROVISION

These are analyzed as follows:

	06.30.2009	12.31.2008
Deferred tax assets	30.253	28.564
Deferred tax provision	(41)	(120)
Total	**30.212**	**28.444**

Where the conditions are satisfied, deferred tax assets and deferred tax provisions have been set off by individual legal entity; their composition before such set-offs is as follows:

	06.30.2009	12.31.2008
Deferred tax assets	35.999	33.985
Deferred tax provision	(5.787)	(5.541)
Total	**30.212**	**28.444**

Deferred tax assets stem primarily from the recognition of tax effects relating to consolidation adjustments, to carried forward tax losses, to provisions for risks and to items temporarily added back to income for tax purposes.

During the first half of 2009, 263 thousand euro in deferred tax assets were recognized through net equity, mostly in connection with fair value adjustments to cash flow hedges, while 27 thousand euro in deferred tax assets were reversed through net equity in relation to the tax effects of the fair value measurement of financial assets available for sale.

During the first half of 2009, 105 thousand euro in deferred tax provisions were absorbed through net equity in relation to the recognition of actuarial gains/losses on employee benefit obligations, while a total of 132 thousand euro in deferred tax provisions were recognized through net equity in relation to the tax effects of the fair value measurement of financial assets available for sale.

Note 6. TRADE RECEIVABLES

Trade receivables amount to 125,153 thousand euro, having decreased by 56,491 thousand euro since December 31st, 2008.

	06.30.2009			12.31.2008		
	Total	Non-current	Current	Total	Non-current	Current
Trade receivables from Pirelli & C. S.p.A.	728	-	728	326	-	326
Trade receivables from associates	2.049	-	2.049	2.693	-	2.693
Trade receivables from joint ventures and other companies	68.057	-	68.057	70.445	-	70.445
Trade receivables from other Pirelli & C. Group companies	665	-	665	375	-	375
Trade receivables from third parties	67.914	-	67.914	111.345	-	111.345
Receivables for contracts	657	-	657	6.177	-	6.177
Total gross trade receivables	**140.070**	**-**	**140.070**	**191.535**	**-**	**191.535**
Allowance for doubtful accounts	(14.917)	-	(14.917)	(9.891)	-	(9.891)
Total	**125.153**	**0**	**125.153**	**181.644**	**0**	**181.644**

Trade receivables mainly refer to contracts for the provision of fund & asset management services (real estate and non performing loans) and technical and commercial services.

In particular, *trade receivables from Pirelli & C. S.p.A.* mainly refer to recovery of various kinds of costs.

The services provided to companies in the Pirelli & C. Real Estate Group or Pirelli & C. Group were supplied under the same terms and conditions as those applied to third parties.

Receivables for contracts refer to the gross amount owed by customers for all those contracts in progress for which the costs incurred plus margins earned (or less the realized losses) exceed the amount invoiced on a percentage of completion basis. At June 30th, 2009 such receivables amounted to 657 thousand euro compared with 6,177 thousand at the end of December 2008; the decrease is entirely due to contracts being managed by Iniziative Immobiliari 3 S.r.l. to construct the building known as HQ2 commissioned by Cloe Fondo Uffici and whose tenants will also include Pirelli & C. Real Estate S.p.A..

The costs incurred plus margins earned on outstanding contracts at June 30th, 2009 amount to 657 thousand euro (9,967 thousand euro at December 31st, 2008), while there were no advances received against amounts invoiced on a percentage of completion basis at this date (3,790 thousand euro at December 31st, 2008).

At the balance sheet date, the fair value of receivables approximates their related book value.

Note 7. OTHER RECEIVABLES

They are analyzed as follows:

	06.30.2009			12.31.2008		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Other receivables from Pirelli & C. S.p.A.	561	-	561	1.934	-	1.934
Other receivables from associates	17	-	17	18	-	18
Other receivables from joint ventures	6.213	730	5.483	6.640	891	5.749
Other receivables from other Pirelli & C. Group companies	-	-	-	-	-	-
Sundry receivables of which:	87.378	32.026	55.352	89.168	27.201	61.967
- other tax receivables	15.683	9.704	5.979	11.756	2.791	8.965
- NPL portfolio	27.059	-	27.059	21.094	-	21.094
- junior notes	19.003	19.003	-	21.330	21.330	-
- receivables from Campania Region	2.171	-	2.171	8.479	-	8.479
- sundry other receivables	23.462	3.319	20.143	26.509	3.080	23.429
Non-financial accrued income and prepaid expenses	8.811	5.165	3.646	4.058	-	4.058
Financial receivables	502.901	491.113	11.788	589.413	572.287	17.126
Financial accrued income and prepaid expenses	-	-	-	8	-	8
Total gross other receivables	**605.881**	**529.034**	**76.847**	**691.239**	**600.379**	**90.860**
Allowance for other doubtful accounts	(13.975)	-	(13.975)	(7.951)	-	(7.951)
Total	**591.906**	**529.034**	**62.872**	**683.288**	**600.379**	**82.909**

The book value of current and non-current other receivables is considered to approximate their related fair value.

A short commentary will now follow on the more significant items included in "Other receivables".

Other receivables from Pirelli & C. S.p.A.

Receivables due from the ultimate parent company Pirelli & C. S.p.A. relate to VAT credits arising from periodic settlements on a group basis. They do not bear interest and are recovered only when they are effectively used.

Other receivables from joint ventures

These amount to 6,213 thousand euro, staying generally in line with the figure reported at December 31st, 2008 (6,640 thousand euro) and include 2,318 thousand euro in dividends receivable from Solaris S.r.l..

Sundry receivables

These amount to 87,378 thousand euro compared with 89,168 thousand euro at December 31st, 2008.

NPL portfolio refers to loan portfolios purchased by the Group. The balance includes secured and unsecured loans purchased during previous years from Banca Popolare di Intra and Banca Antonveneta. An allowance for doubtful accounts of 8,356 thousand euro has been booked against these receivables.

Junior notes consist of class C junior notes relating to the securitization of a non performing loans portfolio held by Cairoli Finance S.r.l. (5,362 thousand euro) and of class B junior notes relating to the securitization of a non performing loans portfolio owned by Vesta Finance S.r.l. and subscribed by Pirelli & C. Real Estate S.p.A. (13,641 thousand euro).

Receivables from Campania Region refer to the regional grants due from Campania's regional government, pursuant to Regional Law 15 of July 26th, 2002 (as amended), in support of the buyers of property units held by Geolidro S.p.A. The grants given to buyers represent a receivable recorded by Geolidro S.p.A. in respect of the Region of Campania.

Sundry other receivables include 1,805 thousand euro in security deposits and downpayments (against which there is an allowance for doubtful accounts of 948 thousand euro), 1,688 thousand euro in amounts owed by employees, and 1,732 thousand euro in amounts owed to Pirelli & C. Real Estate S.p.A. for the sale of its interests in Coimpex S.p.zo.o. and Relco S.p.zo.o.

Sundry other receivables also include 3,260 thousand euro in amounts owed to the Group by directors, statutory auditors and employees for CONSOB penalties applied to Pirelli & C. Real Estate S.p.A. and Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A..

More details can be found in the CONSOB Resolutions no. 16791 of February 12th, 2009 and no. 16798 of February 19th, 2009, an abstract from which has been published in the CONSOB Bulletin.

Both Pirelli & C. Real Estate S.p.A. and Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., assisted by their consultants and advisors, have presented an appeal against the CONSOB fines to the Milan Court of Appeal. The parties have exchanged preliminary memoranda and the first hearing - originally scheduled for May - has been postponed to October 2009.

Financial receivables

At June 30th, 2009 non-current financial receivables amount to 491,113 thousand euro, reporting a net decrease of 81,174 thousand euro since December 31st, 2008, while current financial receivables amount to 11,788 thousand euro (17,126 thousand euro at December 31st, 2008). They are analyzed as follows:

	06.30.2009			12.31.2008		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Receivables from associates	1.761	1.761	-	20.412	20.412	-
Receivables from joint ventures	491.239	480.129	11.110	560.797	543.849	16.948
Receivables from others	9.901	9.223	678	8.204	8.026	178
Total	**502.901**	**491.113**	**11.788**	**589.413**	**572.287**	**17.126**

Non-current receivables are classified by collection date, according to the divestment plans for properties held directly or indirectly by associates and joint ventures, which are carried out over an average of two to six years. These loans are given at rates that are in line with those applied by the market's principal participants, except in the case of certain companies which have been granted interest-free loans.

Movements over the period in non-current financial receivables are as follows:

	12.31.2008	Increases	Decreases	06.30.2009
Financial receivables from associates	20.412	357	(19.008)	1.761
Financial receivables from joint ventures	543.849	63.835	(127.555)	480.129
Financial receivables from others	8.026	1.197	-	9.223
Total	**572.287**	**65.389**	**(146.563)**	**491.113**

The decrease in financial receivables from joint ventures reflects 88,190 thousand euro in repayments of shareholder loans, of which 82,500 thousand euro to European NPL S.A., and 19,081 thousand euro for the impairment of the loan to the Sigma RE B.V. Group, as described in more detail in the interim report on operations.

Note 8. TAX RECEIVABLES

These amount to 39,949 thousand euro, compared with 36,798 thousand euro at December 31st, 2008.

They consist of:

	06.30.2009			12.31.2008		
	Total	Non-current	Current	Total	Non-current	Current
Income tax receivables	12.057	68	11.989	14.555	68	14.487
Other receivables from third parties for group tax election	1.492	-	1.492	1.492	-	1.492
Other receivables from Pirelli & C. S.p.A. for group tax election	26.400	-	26.400	20.751	-	20.751
Total	**39.949**	**68**	**39.881**	**36.798**	**68**	**36.730**

Income tax receivables

These relate to the positions of companies consolidated on a line-by-line basis that have not opted to file for income tax on a group basis.

Other receivables from Pirelli & C. S.p.A. for group tax election

In 2004, Pirelli & C. Real Estate S.p.A. and its qualifying subsidiaries elected to file for tax on a group basis with the ultimate parent company, Pirelli & C. S.p.A.. After an initial three-year term this election has been automatically renewed for another three years. The tax group filing rules were updated in 2008 in order to reflect the amendments introduced by the 2008 Finance Act (Law 244 of December 24th, 2007).

Receivables for the group tax election have been reclassified to tax receivables and therefore include IRES payments on account, withholding taxes, and deferred tax assets relating to tax losses.

Note 9. INVENTORIES

	06.30.2009	12.31.2008
Trading properties held for sale	61.317	17.775
Raw and ancillary materials and consumables	-	-
Land for development	41.785	40.524
Properties under construction/renovation	10.102	34.997
Advances	7	83
Total	**113.211**	**93.379**

Trading properties held for sale

These amount to 61,317 thousand euro, reporting a net increase of 43,542 thousand euro since December 31st, 2008, of which 17,551 thousand euro attributable to the first-time consolidation of Orione Immobiliare S.p.A. and 26,641 thousand euro to the multi-purpose complex in Centrova (Perugia), construction of which has been completed by Progetto Perugia S.r.l..

During the first half of 2009 these inventories were written down by 56 thousand euro.

Land for development

This amounts to 41,785 thousand euro, reporting a net increase of 1,261 thousand euro since December 31st, 2008, mostly due to preliminary work on the site in Corsico owned by Iniziative Immobiliari 3 S.r.l..

Properties under construction / renovation

These amount to 10,102 thousand euro, reporting a net decrease of 24,895 thousand euro since December 31st, 2008. The inventories mainly refer to properties under renovation in the Bicocca area of Milan owned by Iniziative Immobiliari 3 S.r.l. (5,273 thousand euro) and Lambda S.r.l. (2,225 thousand euro), properties being developed in Warsaw and its outskirts belonging to Pirelli Pekao Real Estate Sp.zo.o. (409 thousand euro) and a property in Magdeburg (Germany) owned by Einkaufszentrum Münzstrasse GmbH & Co. KG (2,612 thousand euro).

There was no capitalized interest expense at June 30th, 2009 compared with 1,598 thousand euro at December 31st, 2008.

During the first half of 2009 these inventories were written down by 978 thousand euro.

Note 10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank deposits, post office deposits and cash and valuables on hand.

They are analyzed as follows:

	06.30.2009	12.31.2008
Bank and postal deposits	55.588	35.602
Cheques	2.997	-
Cash on hand	72	100
Total	**58.657**	**35.702**
of which restricted	809	96

This balance refers to cash with no restrictions for the holder, with the exception of 96 thousand euro deposited by Pirelli & C. Real Estate S.p.A. with Mediobanca to guarantee an endorsement credit for exercise of the squeeze out right under article 111 of Italy's Financial Markets Consolidation Act in relation to the Unim tender offer and 713 thousand euro in current accounts in the name of Orione Immobiliare Prima S.p.A. used for collecting cash from sales and rents and which are temporarily restricted until being used to repay the bank loan or made available to the company.

For purposes of the cash flow statement, the balance of cash and cash equivalents has been reported as 58,655 thousand euro at June 30th, 2009, net of 2 thousand euro in bank overdrafts (compared with nil at June 30th, 2008).

NET EQUITY

Net equity has undergone the following changes in the first half of 2009:

	Share capital	Share premium reserve	Reval-uation reserve	Legal reserve	Currency translation reserve	Reserve for fair value measurement of financial assets available for sale	Cash flow hedge reserve	Reserve for actuarial gains/ (losses)	Reserve for equity-settled stock options	Reserve for tax on items credited/debited to net equity	Other reserves	Retained earnings / (losses)	Net income/ (loss) for the period	**Group net equity**	**Minority interests in net equity**	**Total net equity**
Net equity at December 31st, 2008	**20.704**	**158.336**	**15**	**4.265**	**(1.680)**	**(13.858)**	**(60.139)**	**1.728**	**6.027**	**2.584**	**63.475**	**375.220**	**(194.985)**	**361.692**	**4.673**	**366.365**
Total other components of income recognized in net equity	**-**	**-**	**-**	**-**	**(684)**	**298**	**(15.662)**	**(216)**	**-**	**606**	**-**	**-**	**-**	**(15.658)**	**(233)**	**(15.891)**
Allocation of 2008 results	-	-	-	-	-	-	-	-	-	-	-	(194.985)	194.985	-	-	-
Cost of equity transactions	-	-	-	-	-	-	-	-	-	-	(176)	-	-	(176)	1	(175)
Equity-settled stock options	-	-	-	-	-	-	-	-	(245)	-	-	-	-	(245)	-	(245)
Other changes	-	-	-	-	-	-	235	(475)	(2)	(313)	-	(508)	-	(1.063)	1.921	858
Net income (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	(42.257)	(42.257)	(480)	(42.737)
Net equity at June 30th, 2009	**20.704**	**158.336**	**15**	**4.265**	**(2.364)**	**(13.560)**	**(75.566)**	**1.037**	**5.780**	**2.877**	**63.299**	**179.727**	**(42.257)**	**302.293**	**5.882**	**308.175**

The changes in the net equity accounts during the first half of 2008 are shown in the following table:

	Share capital	Share premium reserve	Reval-uation reserve	Legal reserve	Currency translation reserve	Reserve for fair value measurement of financial assets available for sale	Cash flow hedge reserve	Reserve for actuarial gains/ (losses)	Reserve for equity-settled stock options	Reserve for tax on items credited/debited to net equity	Other reserves	Retained earnings / (losses)	Net income/ (loss) for the period	**Group net equity**	**Minority interests in net equity**	**Total net equity**
Net equity at December 31st, 2007	**20.649**	**156.577**	**15**	**4.265**	**1.413**	**6.819**	**(4.485)**	**2.429**	**6.571**	**(3.237)**	**18.382**	**355.201**	**151.137**	**715.736**	**4.424**	**720.160**
Total other components of income recognized in net equity	**-**	**-**	**-**	**-**	**264**	**(10.536)**	**18.920**	**499**	**-**	**309**	**-**	**-**	**-**	**9.456**	**1.378**	**10.834**
Allocation of 2007 results	-	-	-	-	-	-	-	-	-	-	-	66.064	(151.137)	(85.073)	-	(85.073)
Cost of equity transactions	-	-	-	-	-	-	-	-	-	-	18	-	-	18	-	18
Equity-settled stock options	-	-	-	-	-	-	-	-	(1.127)	-	-	-	-	(1.127)	-	(1.127)
Use of treasury shares to service 2008 stock grant plan	55	1.759	-	-	-	-	-	-	-	-	-	-	-	1.814	-	1.814
Other changes	-	-	-	-	(41)	(116)	-	413	(4)	38	45.080	(45.034)	-	336	(1.315)	(979)
Net income (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	8.990	8.990	2.456	11.446
Net equity at June 30th, 2008	**20.704**	**158.336**	**15**	**4.265**	**1.636**	**(3.833)**	**14.435**	**3.341**	**5.440**	**(2.890)**	**63.480**	**376.231**	**8.990**	**650.150**	**6.943**	**657.093**

GROUP NET EQUITY

Note 11. SHARE CAPITAL

At June 30th, 2009, subscribed and paid-up share capital (including treasury shares held for investment and not trading purposes and which therefore, under the format prescribed by article 2424 of the Italian Civil Code, would have been classified as "Financial fixed assets") consists of 42,597,232 ordinary shares with a par value of 0.50 euro each, making a total of 21,298,616 euro, which is unchanged since December 31st, 2008.

Share capital at June 30th, 2009, excluding 1,189,662 treasury shares as required by IAS 32, amounts to 20,703,785 euro, the same as at December 31st, 2008.

Stock option/stock grant plans

The shareholders' meeting of April 14th, 2008 approved the guidelines of a stock option plan, which involves granting beneficiaries options to buy shares in Pirelli & C. Real Estate S.p.A. ("Stock Option Plan 2008-2010" or "SOP 2008-2010").

Subsequently, on May 27th, 2008, at the recommendation of the Compensation Committee and following certain changes simplifying and altering the organizational structure in line with the Company's new growth and development plans, the Board of Directors approved a number of amendments to the options granted to beneficiaries of the SOP 2008-2010, in compliance with the guidelines already approved by the shareholders and the authority given. The date of May 27th, 2008 therefore represents a new grant date of options under the SOP 2008-2010 for certain individual beneficiaries.

The general terms of the stock option plan are unchanged since December 31st, 2008.

Note 12. OTHER RESERVES

Share premium reserve

This reserve amounts to 158,336 thousand euro, the same as at December 31st, 2008.

Legal reserve

This reserve amounts to 4,265 thousand euro and is unchanged since December 31st, 2008, having reached an amount equal to one-fifth of subscribed and paid-in share capital.

Currency translation reserve

In compliance with IAS 21 the differences arising on the translation into the reporting currency of a consolidated company's financial statements expressed in a foreign currency are classified as a separate component of net equity. This reserve is a negative 2,364 thousand euro, most of which attributable to the Polish company Pirelli Pekao Real Estate Sp.zo.o. (2,411 thousand euro).

Reserve for fair value measurement of financial assets available for sale

This reports a negative balance of 13,560 thousand euro, before tax, recognized for the fair value measurement of financial assets available for sale, which mainly comprise units held in real estate investment funds.

The fair value adjustment during the first six months of this year was a positive 298 thousand euro.

Cash flow hedge reserve

This reports a negative balance of 75,566 thousand euro recognized for the fair value measurement of cash flow hedges.

Movements in this reserve in the first half of 2009 comprise a negative adjustment of 805 thousand euro for the fair value of cash flow hedges held by Pirelli & C. Real Estate S.p.A., and a negative adjustment of 14,857 thousand euro relating to the valuation of cash flow hedges held by associates and joint ventures.

Reserve for actuarial gains/losses

This amounts to 1,037 thousand euro and reports the pre-tax actuarial gains and losses on post-employment defined benefits. Movements in this reserve in the first half of 2009 comprise a negative adjustment of 481 thousand relating to post-employment defined benefits in subsidiaries and a positive adjustment of 265 thousand euro relating to such benefits in associates and joint ventures.

Reserve for equity-settled stock options

This reserve has been set up in relation to equity-settled stock option plans; at June 30th, 2009 it amounts to 5,780 thousand euro (before tax).

Reserve for tax on items credited/debited to net equity

This reserve reports the tax effect of items credited/debited directly to net equity.

It amounts to 2,877 thousand euro at June 30th, 2009 compared with 2,584 thousand euro at the end of 2008.

Other reserves

These include the reserve for the non-repayable contribution of 19,069 thousand euro made on May 27th, 2002 by the ultimate parent company Pirelli & C. S.p.A..

They also include 45,078 thousand euro for a reserve for an acquisition between entities under common control that was subsequently sold in 2008.

Note 13. RETAINED EARNINGS

These amount to 179,727 thousand euro, reporting a net decrease of 195,493 thousand euro since December 31st, 2008 largely due to the loss for 2008.

The ordinary shareholders' meeting of Pirelli & C. Real Estate S.p.A. approved the financial statements for 2008 on April 17th, 2009, voting to carry forward the consolidated loss for 2008.

Note 14. MINORITY INTERESTS IN SHARE CAPITAL AND RESERVES

These consist of minority interests in share capital and reserves as well as in the result for the period of the companies consolidated line-by-line.

The overall balance reported also includes a negative translation reserve of 792 thousand euro mainly arising on the consolidation of the Polish company Pirelli Pekao Real Estate Sp.zo.o., and the minority share of the reserve for actuarial gains and losses associated with post-employment defined benefits (17 thousand euro pre-tax).

LIABILITIES

Note 15. BANK BORROWINGS AND PAYABLES TO OTHER FINANCIAL INSTITUTIONS

Bank borrowings and payables to other financial institutions are analyzed as follows:

	06.30.2009			12.31.2008		
	Total	Non-current	Current	Total	Non-current	Current
Bank borrowings	459.845	62.116	397.729	414.803	227.442	187.361
Other financial payables	793	785	8	689	672	17
Payables to other financial institutions	1.396	1.124	272	1.124	1.124	-
Financial payables to Pirelli & C. S.p.A.	432.509	-	432.509	491.323	-	491.323
Financial payables to joint ventures	2.949	-	2.949	5.209	-	5.209
Financial payables to other Pirelli & C. Group companies	1.414	-	1.414	1.474	-	1.474
Total	**898.906**	**64.025**	**834.881**	**914.622**	**229.238**	**685.384**

The carrying amount of current and non-current payables is considered to approximate the related fair value.

Bank borrowings

Bank borrowings amount to 459,845 thousand euro at June 30th, 2009 which is 45,042 thousand euro more than at the end of 2008.

This balance is analyzed as follows:

	06.30.2009			12.31.2008		
	Total	Non-current	Current	Total	Non-current	Current
Non-recourse loans	15.760	12.116	3.644	10.491	7.892	2.599
Fixed-term credit facilities	380.000	50.000	330.000	369.550	219.550	150.000
Uncommitted credit facilities	63.000	-	63.000	33.000	-	33.000
Current account overdrafts	2	-	2	-	-	-
Interest on credit facilities	1.083	-	1.083	1.762	-	1.762
Total	**459.845**	**62.116**	**397.729**	**414.803**	**227.442**	**187.361**

Non-recourse loans

The increase in non-recourse loans reflects 4,032 thousand euro for a loan to Orione Immobiliare Prima S.p.A. and 1,596 thousand euro in loans to the Mistral Real Estate B.V. Group, consolidated for the first time in the first six months of this year after acquiring control of its member companies, as described in the earlier note on "Consolidation area".

Fixed-term credit facilities

These refer to revolving credit facilities granted to the parent Pirelli & C. Real Estate S.p.A. by seven leading Italian and foreign banks for a total of 380,000 thousand euro, with an average residual term of about 9 months.

Three of the facilities, mainly of the revolving kind, call for compliance with financial covenants:

- The Royal Bank of Scotland PLC, for an amount of 50,000 thousand euro, drawn down in full, expiring in December 2009, for which Pirelli & C. Real Estate S.p.A. has undertaken to maintain a specific value for its consolidated Net Tangible Assets (defined as the difference between total net equity and the sum of intangible assets and any positive difference between deferred tax assets and liabilities);

- West LB AG, for an amount of 50,000 thousand euro, drawn down in full, expiring in May 2011, for which Pirelli & C. Real Estate S.p.A. has undertaken to maintain a specific value for its consolidated net equity;

- Unicredit Corporate Banking S.p.A., for an amount of 100,000 thousand euro, drawn down in full, expiring in January 2010 and possibly renewable for another 18 months, for which Pirelli & C. Real Estate S.p.A. has undertaken to maintain a specific value for its consolidated net equity.

Although the above parameters did not comply with the financial covenants at June 30th, 2009, this did not represent a default event in view of the subsequent capital increase.

Pirelli RE is not required to comply with financial covenants for its other credit lines.

Other financial payables

These mainly refer to security deposits held by consolidated companies.

Payables to other financial institutions

These amount to 1,396 thousand euro compared with 1,124 thousand euro at December 31st, 2008. The increase reflects 443 thousand euro in debt held by Orione Immobiliare S.p.A..

Financial payables to Pirelli & C. S.p.A.

These amount to 432,509 thousand euro, compared with 491,323 thousand euro at December 31st, 2008, and refer to the short-term drawdown of a revolving credit facility agreed in 2007 between Pirelli & C. Real Estate S.p.A. and the ultimate parent company Pirelli & C. S.p.A., which was rolled over in 2008 for another 18 months. This uncommitted facility allows for a maximum drawdown of 750,000 thousand euro.

Financial payables to other Pirelli & C. Group companies

This balance of 1,414 thousand euro at June 30th, 2009 refers to the negative balance on the intercompany account with Pirelli Servizi Finanziari S.p.A., the Pirelli & C. Group's financial services provider.

Note 16. TRADE PAYABLES

These comprise:

	06.30.2009			12.31.2008		
	Total	Non-current	Current	Total	Non-current	Current
Trade payables to Pirelli & C. S.p.A.	2.346	-	2.346	5.301	-	5.301
Trade payables to associates	1.774	-	1.774	1.364	-	1.364
Trade payables to joint ventures and other companies	15.052	-	15.052	18.124		18.124
Trade payables to other Pirelli & C. Group companies	2.247	-	2.247	1.525	-	1.525
Trade payables to third parties	105.508	-	105.508	112.666	-	112.666
Total	**126.927**	**0**	**126.927**	**138.980**	**0**	**138.980**

The carrying amount of trade payables approximates their fair value at June 30th, 2009.

Trade payables to Pirelli & C. S.p.A.

These amount to 2,346 thousand euro, having decreased by 2,955 thousand euro since December 31st, 2008.

The balance mostly refers to the recharge by Pirelli & C. S.p.A. of royalties for trademark use as well as of other kinds of expenses.

Trade payables to joint ventures and other Pirelli & C. RE Group companies

These mostly refer to various kinds of recharge by joint ventures and other companies in the Pirelli & C. RE Group.

They amount to 15,052 thousand euro, having decreased by 3,072 thousand euro since the end of 2008.

Trade payables to third parties

These amount to 105,508 thousand euro, having decreased by 7,158 thousand euro since December 31st, 2008.

This balance includes 4,540 thousand euro in *trade payables to customers for contracts* (4,026 thousand euro at December 31st, 2008), relating to advance payments received in excess of the percentage completion of the related contracts held by Pirelli & C. Opere Generali S.p.A. for urbanization work in Bicocca and Pioltello (1,508 thousand euro) and by Iniziative Immobiliari 3 S.r.l. for the construction of new offices for 3M Italia S.p.A. on a site in Pioltello (3,032 thousand euro).

In detail, the costs incurred and related margins on these contracts amount to 45,624 thousand euro at June 30th, 2009 (26,240 thousand euro at December 31st, 2008), while the advances received against invoices amount to 50,164 thousand euro (30,266 thousand euro at December 31st, 2008).

Note 17. OTHER PAYABLES

These comprise:

	06.30.2009			12.31.2008		
	Total	Non-current	Current	Total	Non-current	Current
Other payables to Pirelli & C. S.p.A.	4.572	-	4.572	4.226	-	4.226
Other payables to associates	2	-	2	155	-	155
Other payables to joint ventures	6.507	-	6.507	7.175	-	7.175
Other payables to third parties of which:	78.838	784	78.054	98.043	29.434	68.609
- payables to employees	*18.077*	-	*18.077*	*24.361*	-	*24.361*
- other tax payables	*2.614*	-	*2.614*	*11.418*	-	*11.418*
- NPL portfolio payables	*18.140*	-	*18.140*	*17.661*	*17.661*	-
- payables for acquisition of investments	*12.135*	-	*12.135*	*11.799*	*11.210*	*589*
- social security payables	*3.063*	-	*3.063*	*4.541*	-	*4.541*
- payables to principals	*4.956*	-	*4.956*	*4.482*	-	*4.482*
- items to be settled	*1.391*	-	*1.391*	*3.636*	-	*3.636*
- advances and downpayments	*3.526*	-	*3.526*	*1.763*	-	*1.763*
- sundry other payables	*14.936*	*784*	*14.152*	*18.382*	*563*	*17.819*
Accrued liabilities and deferred income	6.364	621	5.743	7.402	647	6.755
Total	**96.283**	**1.405**	**94.878**	**117.001**	**30.081**	**86.920**

Other payables to third parties

NPL portfolio payables refer to the amount owed by Pirelli & C. Real Estate S.p.A. to Banco di Sicilia for the acquisition of a portfolio of non performing loans by the joint venture European NPL S.A., classified as current because due to be settled on June 30th, 2010.

Payables to employees mostly refer to provisions for unused holiday entitlement and deferred salaries. This amount also includes the liability for restructuring plans started during the previous year.

Payables for investment acquisitions include 11,546 thousand euro relating to the purchase of 100% of Relco Sp.z.o.o. and Coimpex Sp.z.o.o.; this payable has been classified as current because it is due to be settled by June 30th, 2010.

Payables to principals almost entirely refer to the management of properties on behalf of third parties (4,956 thousand euro).

Advances and downpayments mostly refer to advance payments made by property purchasers against agreed sales that still have to complete (3,526 thousand euro).

Social security payables relate to the amount owed by the Group to social security institutions and report a net decrease of 1,478 thousand euro since December 31st, 2008. This balance includes 2,457 thousand euro owed to the Italian social security authorities (INPS), 219 thousand euro due to Italy's industrial accident agency (INAIL) and 386 thousand euro due to other welfare agencies.

Other tax payables relate to the VAT positions of companies consolidated line-by-line which do not file for this tax on a group basis, and to payables for other indirect taxes.

Items to be settled refer to amounts collected at period end that are payable to third parties (1,391 thousand euro).

Sundry other payables include 759 thousand euro in amounts owing to the Directors and the Supervisory Board (342 thousand euro at December 31st, 2008), as well as 681 thousand euro in amounts owing to statutory auditors (566 thousand euro at December 31st, 2008).

Accrued liabilities and deferred income

Deferred income includes 5,474 thousand euro in consolidation adjustments to defer the portion of capital gains mainly on property sales that have not yet been realized outside the Group (6,175 thousand euro at December 31st, 2008).

Note 18. PROVISIONS FOR FUTURE RISKS AND EXPENSES

These provisions amount to 109,407 thousand euro (of which the non-current portion is 26,598 thousand euro) compared with 97,646 thousand euro at December 31st, 2008 (when the non-current portion was 25,415 thousand euro).

	06.30.2009			12.31.2008		
	Total	Non-current	Current	Total	Non-current	Current
Provision for future expenses for contractual commitments	22.012	16.173	5.839	22.528	17.144	5.384
Provision for arbitration, lawsuits and outstanding disputes	8.936	8.574	362	6.469	6.055	414
Warranties provision	294	-	294	294	-	294
Provision for other risks	870	685	185	1.013	520	493
Restructuring provision	11.092	897	10.195	18.403	1.427	16.976
Group tax election provision	269	269	-	269	269	-
Provision for future risks on investments valued at equity	65.934	-	65.934	48.670	-	48.670
Total	**109.407**	**26.598**	**82.809**	**97.646**	**25.415**	**72.231**

Provision for future expenses for contractual commitments

This provision includes 12,219 thousand euro booked by Geolidro S.p.A. in relation to contractual commitments to perform extraordinary maintenance work on properties sold and is basically unchanged since the end of the prior year.

Provision for arbitration, lawsuits and outstanding disputes

The increase includes 1,854 thousand euro in relation to the first-time consolidation of Orione Immobiliare Prima S.p.A..

This provision reflects the best estimate of potential risks arising from certain unsettled disputes with customers of property management services, as well as provisions against a number of disputes with suppliers and against certain risks relating to litigation with employees.

Part of the real estate purchased in the past from UNIM is still owned by certain companies in which Pirelli & C. Real Estate S.p.A. has a minority interest. There are a number of outstanding lawsuits in respect of these companies concerning the applicability of paragraph 109, article 3 of Law 662/1996 (which governs pre-emption rights of tenants of properties owned by predominantly state-owned companies, by privatized companies and subsidiaries of the latter in the event of the split sale of such properties). Pirelli & C. Real Estate S.p.A. has also been named in some of the suits being brought.

Based on consideration of the facts and the law, with particular reference to the Company's role and the terms of applicability of the law in question, and also on the current status of cases in progress, Pirelli & C. Real Estate S.p.A. believes that the likelihood of any direct negative impact is remote.

Restructuring provision

This refers to restructuring costs, the amount of which is considered sufficient for moving ahead with plans to make some of the Group's companies more efficient.

Group tax election provision

This provision refers to the risk associated with the probable pass-back of indemnity to Pirelli & C. S.p.A. paid by the latter in connection with the group tax election. This indemnity was paid by Pirelli & C. S.p.A. to compensate Pirelli & C. Real Estate S.p.A. for losing the benefit it would have had if it had been the head of the tax group. The indemnity is in proportion to the tax losses of subsidiaries of Pirelli & C. Real Estate S.p.A. that have been excluded from the group tax return as a result of the "demultiplier" and will be passed back to Pirelli & C. S.p.A. if these losses are used by the companies themselves.

Provision for future risks on investments valued at equity

The provision for future risks on investments valued at equity contains the provision to cover losses of associates and joint ventures in excess of the carrying amount of the related investments. More details can be found in the table forming part of note 3 "Investments in associates and joint ventures".

Note 19. EMPLOYEE BENEFIT OBLIGATIONS

Provisions for employee benefit obligations amount to 16,270 thousand euro, having decreased by 998 thousand euro since the end of 2008. This balance is analyzed as follows:

	06.30.2009	12.31.2008
Provision for employee leaving indemnity	5.215	7.327
Pension fund	5.708	5.442
Other employee benefits	5.347	4.499
Total	**16.270**	**17.268**

Provision for employee leaving indemnity

The provision for employees' leaving indemnity basically consists of indemnities accruing to staff in service at June 30th, 2009, less any advances paid.

Movements in the provision for employee leaving indemnity during first half 2009 and full year 2008 are set out below:

	01.01.2009- 06.30.2009	01.01.2008- 12.31.2008
Opening balance	**7.327**	**21.283**
Discontinued operations/acquisitions	-	(12.177)
Amount maturing and charged to income	276	607
Change due to personnel transferred from other group companies	28	-
Change due to personnel transferred in	62	87
Change due to personnel transferred to other group companies	(293)	-
Change due to personnel transferred out	(321)	(459)
Equity adjustment for actuarial gains/losses	481	539
Advances on leaving indemnity	(82)	(220)
Indemnities paid	(2.252)	(2.312)
Other changes	(11)	(21)
Closing balance	**5.215**	**7.327**

The amounts recognized in the income statement are classified in "Personnel costs" (note 25).

The net actuarial gains accruing in the first half of 2009 and booked directly to net equity amount to 481 thousand euro (539 thousand euro at December 31st, 2008).

Pension funds

These are defined benefit plans, mainly relating to German service provider companies.

Movements in pension funds during first half 2009 and full year 2008 are set out below:

	01.01.2009- 06.30.2009	01.01.2008- 12.31.2008
Opening balance	**5.442**	**781**
Changes in consolidation area	-	3.986
Amount maturing and charged to income	219	347
Equity adjustment for actuarial gains/losses	-	(233)
Indemnities paid	-	(490)
Other changes	47	1.051
Closing balance	**5.708**	**5.442**

The amounts recognized in the income statement are classified in "Personnel costs" (note 25).

Other employee benefits

"Other employee benefits" include 4,518 thousand euro relating to "Altersteilzeit", a mechanism commonly adopted in Germany to agree early retirement for employees who have reached 55 years of age.

Other employee benefits also include long-service bonuses and loyalty bonuses totalling 829 thousand euro.

The amounts recognized in the income statement are classified in "Personnel costs" (note 25).

The total number of employees, including auxiliary staff working in buildings, was 1,267 at June 30th, 2009 (1,326 including temporary staff) compared with 1,473 at December 31st, 2008 (1,558 including temporary staff).

Other information

The main actuarial assumptions used at June 30th, 2009 are as follows:

	Italy	Germany	The Netherlands
Discount rate	5,80%	5,80%	5,80%
Inflation rate	2,00%	2,00%	2,00%

(*) indicators valid solely for companies with less than 50 employees.

The main actuarial assumptions used at December 31st, 2008 were as follows:

	Italy	Germany	The Netherlands
Discount rate	5,70%	5,70%	5,70%
Inflation rate	2,00%	2,00%	2,00%
Expected salary increase	3,5%-4,5% (*)	2,50%	2,00%

(*) indicators valid solely for companies with less than 50 employees.

Note 20. TAX PAYABLES

These comprise:

	06.30.2009			12.31.2008		
	Total	Non-current	Current	Total	Non-current	Current
Income tax payables	9.217	21	9.196	6.312	-	6.312
Other payables to joint ventures under tax transparency regime	1.051	-	1.051	1.051	-	1.051
Other payables to Pirelli & C. S.p.A. for group tax election	21.743	-	21.743	16.256	-	16.256
Total	**32.011**	**21**	**31.990**	**23.619**	**0**	**23.619**

<u>Income tax payables</u>

Income tax payables reflect the amounts owed for current income taxes by companies which are not in the tax group headed up by Pirelli & C. S.p.A. as well as amounts owed by foreign companies.

<u>Other payables to joint ventures under tax transparency regime</u>

As from 2006 the joint venture company Trixia S.r.l. has exercised the tax transparency option allowed by article 115 of the Income Tax Consolidation Act, with all transactions arising from adoption of tax transparency being dictated by a special agreement that envisages a common procedure for the application of regulatory and statutory provisions.

<u>Other payables to Pirelli & C. S.p.A. for group tax election</u>

Since 2004 Pirelli & C. Real Estate S.p.A. and its qualifying subsidiaries have opted to make a group tax election together with Pirelli & C. S.p.A., which heads up the tax group. The amounts payable in respect of the group tax election therefore include the provisions for current period income tax.

Note 21. FINANCIAL INSTRUMENTS

At June 30th, 2009 "Financial instruments" classified in current liabilities amount to 991 thousand euro (264 thousand euro at December 31st, 2008) and refer to the fair value of a plain vanilla interest rate collar purchased in 2006 to protect a notional amount of 120 million euro against rising interest rates.

These instruments have been accounted for using the hedge accounting permitted by IAS 39. Such hedge accounting is applied only to the derivative's intrinsic value, while changes in its time value are recognized in the income statement.

The amount which has been recognized in net equity in the first half of 2009 is a negative 805 thousand euro (negative 2,038 thousand euro at December 31st, 2008), while the amount recognized in the income statement is a positive 78 thousand euro.

COMMITMENTS AND CONTINGENCIES

Unsecured guarantees

Guarantees

Banks and insurance companies have issued a total of 147,115 thousand euro in guarantees to third parties in the interests of companies in the Pirelli & C. Real Estate Group, mostly in the form of performance bonds.

Pirelli & C. Real Estate Group has also issued 115,915 thousand euro in guarantees and letters of patronage in the interests of associates and joint ventures, amongst which the more important:

- insurance co-obligations of various kinds to third parties for 7,630 thousand euro;
- guarantees of 37,556 thousand euro against loans given by banks to associates and joint ventures;
- guarantees given to Hypo Real Estate, the bank which funded the acquisition of the DGAG Group, for the coverage of any tax liabilities arising over the duration of the loan. These guarantees involve an exposure of 25,000 thousand euro for the Group;
- guarantees amounting to 12,896 thousand euro in relation to securitizations by special purpose vehicle companies to ensure the proper and prompt performance of payment obligations;
- guarantees given in the interest of a joint venture to third parties as part of the sale of junior notes relating to a portfolio of non performing loans formerly belonging to Banco di Sicilia. These guarantees, counterguaranteed by the partners in the venture, involve a net exposure of 26,818 thousand euro for the Group;
- guarantees of 6,015 thousand euro mostly against fulfilment of the payment obligation by International Credit Recovery 8 S.r.l. for a portfolio of non performing loans acquired

Lastly, Pirelli & C. Real Estate S.p.A. has committed to cover its share of any negative difference between rental income and the interest payable by Tiglio I S.r.l. to lenders whose credit lines expire in 2009; based on available information, rental income is expected to exceed the estimated interest expense.

Liens on shares

A lien for 80,611 thousand euro has been created over shares in associates and joint ventures.

Commitments to purchase investments/fund units/securities

These refer to the following commitments given by:

- Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. to subscribe 1,913 thousand euro for units in "Fondo Abitare Sociale 1 - Fondo Comune Chiuso di Investimento Immobiliare Etico Riservato ad Investitori Qualificati", a closed-end ethical real estate fund, reserved for accredited investors;

- Pirelli & C. Real Estate S.p.A. to subscribe, through the joint venture Alimede Luxembourg S.a.r.l., up to 7,000 thousand euro for units in "Fondo Social & Public Initiatives – Fondo Comune di Investimento Immobiliare Speculativo di Tipo chiuso", a closed-end speculative real estate investment fund;

- Pirelli & C. Real Estate S.p.A. to subscribe, through the joint ventures Afrodite S.à.r.l. and Artemide S.à.r.l., up to 3,164 thousand euro for units in "Fondo Residenziale Diomira - Fondo comune di investimento immobiliare speculativo di tipo chiuso non quotato riservato", a closed-end unlisted speculative real estate investment fund reserved for accredited investors;

- Pirelli & C. Real Estate S.p.A. to subscribe 4,500 thousand euro for the initial units in sectors B, C and D of "Fondo Hospitality & Leisure 2 – Fondo comune di investimento immobiliare speculativo di tipo chiuso", a closed-end speculative real estate investment fund;

- Pirelli RE Netherlands B.V. to subscribe up to 3,000 thousand euro for units in "Fondo Vivaldi – Fondo Comune di Investimento Immobiliare Speculativo di Tipo chiuso", a closed-end speculative real estate investment fund;

- Pirelli & C. Real Estate S.p.A. to make a non-repayable contribution of 1,000 thousand euro to the joint venture Rinascente/Upim S.r.l.;

- Pirelli & C. Real Estate S.p.A. to subscribe 3,022 thousand euro in additional senior notes issued under the securitization by International Credit Recovery 8 S.r.l..

Property purchase commitments

These refer to the undertaking given by Pirelli & C. Real Estate S.p.A. to purchase certain properties owned by Imser 60 S.r.l., which might end up being unsold, for a maximum amount of 316,820 thousand euro. The contractual price for these properties has been set as a percentage of their market value. This option may be exercised from November 12th, 2021 to May 31st, 2022.

NET FINANCIAL POSITION

(alternative performance indicator not required by IFRS)

In keeping with the information disclosed in previous financial statements, details of the net financial position will now be provided, also showing the amount of net debt excluding shareholder loans granted:

(in thousands of euro)

	06.30.2009	12.31.2008
CURRENT ASSETS		
Other receivables	**11.788**	**17.134**
- of which receivable from related parties	*11.110*	*16.948*
Financial receivables	11.788	17.126
- *joint ventures*	11.110	16.948
- *third parties of which*	678	178
- other receivables	*678*	*178*
Financial accrued income and prepaid expenses	-	8
Receivables from shareholders for uncalled capital	-	-
Securities held for trading	**-**	**-**
Cash and cash equivalents	**58.657**	**35.702**
TOTAL CURRENT ASSETS - A	**70.445**	**52.836**
CURRENT LIABILITIES		
Bank borrowings and payables to other financial institutions	**(834.881)**	**(685.384)**
- of which payable to related parties	*(436.872)*	*(498.006)*
- parent companies	(432.509)	(491.323)
- joint ventures	(2.949)	(5.209)
- other Pirelli & C. Group companies	(1.414)	(1.474)
- Other financial payables	(8)	(17)
- Bank borrowings	(397.730)	(187.361)
- Payables to other financial institutions	(271)	-
- Payables for finance leases	-	-
- Financial accrued liabilities	-	-
TOTAL CURRENT LIABILITIES - B	**(834.881)**	**(685.384)**
NON-CURRENT LIABILITIES		
Bank borrowings and payables to other financial institutions	**(64.025)**	**(229.238)**
- Other financial payables	(785)	(672)
- Bonds	-	-
- Bank borrowings	(62.116)	(227.442)
- Payables to other financial institutions	(1.124)	(1.124)
- Payables for finance leases	-	-
- Financial accrued liabilities and deferred income	-	-
TOTAL NON-CURRENT LIABILITIES - C	**(64.025)**	**(229.238)**
NET DEBT EXCL. SHAREHOLDER LOANS GRANTED (*) = D =(A+B+C)	**(828.461)**	**(861.786)**

(*) Pursuant to the CONSOB Communication dated July 28th, 2006 and in compliance with the CESR Recommendation of February 10th, 2005 ("Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses").

NON-CURRENT ASSETS		
Other receivables	**491.113**	**572.287**
- of which receivable from related parties	*481.890*	*564.261*
Financial receivables	491.113	572.287
- *associates*	1.761	20.412
- *joint ventures*	480.129	543.849
- *third parties of which*	9.223	8.026
- senior notes	*931*	-
- other receivables	*8.292*	*8.026*
Financial accrued income and prepaid expenses	-	-
Receivables from shareholders for uncalled capital	-	-
TOTAL NON-CURRENT ASSETS - E	**491.113**	**572.287**
NET (DEBT) CASH - F = (D+E)	**(337.348)**	**(289.499)**

INCOME STATEMENT

Note 22. REVENUES FROM SALES AND SERVICES

Revenues from sales and services amount to 115,751 thousand euro compared with 192,789 thousand euro in the first half of 2008 and are analyzed as follows:

	01.01.2009-06.30.2009	01.01.2008-06.30.2008
Revenues from contracts	16.336	3.067
Revenues from sales	1.467	70.003
- sales of land for development	*55*	*7.500*
- sales of land for development to Pirelli & C. R.E. Group companies	-	*74*
- sales of residential property	*1.210*	*13.567*
- sales of commercial property	*202*	*236*
- sales of land/property through sale of shares	-	*48.626*
Revenues from services	97.948	119.719
Total	**115.751**	**192.789**

Revenues from contracts

These amount to 16,336 thousand euro compared with 3,067 thousand euro in the same period of the prior year and mostly refer to revenues earned by Iniziative Immobiliari 3 S.r.l. (15,810 thousand euro) for work on constructing the building known as HQ2 commissioned by Cloe Fondo Uffici and whose tenants will also include Pirelli & C. Real Estate S.p.A..

Revenues from sales

Sales of residential property

Sales closed in the first half of 2009 mainly refer to residential units sold by Geolidro S.p.A. for 771 thousand euro. Most of the residential property sales in the first half of 2008 were by Pirelli Pekao Real Estate Sp.zo.o. (10,922 thousand euro).

Sales of land/property through sale of shares

"Sales of land/property through sale of shares" at June 30th, 2008 related to the deconsolidation of the Polish companies Coimpex Sp.zo.o. and Relco Sp.zo.o. following their sale by Pirelli & C. Real Estate S.p.A.

Revenues from services

Revenues from services are analyzed as follows:

	01.01.2009-06.30.2009	01.01.2008-06.30.2008
Revenues from services to third parties	46.161	73.652
Revenues from services to Pirelli & C. S.p.A.	225	260
Revenues from services to associates	3.572	4.943
Revenues from services to joint ventures and other Pirelli & C. RE Group companies	47.754	40.711
Revenues from services to other Pirelli & C. Group companies	236	153
Total	**97.948**	**119.719**

The decrease also reflects the decline in sales resulting from the ongoing international crisis affecting the real estate sector.

Note 23. CHANGE IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS

The change in inventories at June 30th, 2009 is a positive 2,872 thousand euro compared with a positive 33,817 thousand euro in the first half of 2008.

The changes in the period under review mostly reflect the events described in the notes on "revenues from sales" and "assets purchased", to which the reader should refer.

Note 24. OTHER INCOME

This is analyzed as follows:

	01.01.2009-06.30.2009	01.01.2008-06.30.2008
Recoveries, reimbursements and other income	19.139	28.223
Other income from Pirelli & C. S.p.A.	314	287
Other income from associates, joint ventures and other Pirelli & C. RE Group companies	743	896
Other income from other Pirelli & C. Group companies	73	102
Total	**20.269**	**29.508**

Recoveries, reimbursements and other income mostly refer to the recharge to tenants of management costs relating to the Group's own property or property managed on behalf of third parties; the recharges in the latter case mostly relate to activities by the property management business. Other income also includes the use of provisions set up in previous years.

Other income in the first half of 2008 included 17,000 thousand euro in non-recurring consideration received by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. for transferring management of Fondo Berenice to another fund manager.

Note 25. OPERATING COSTS

Operating costs amount to 156,597 thousand euro compared with 252,283 thousand euro in the first half of 2008 and comprise:

		01.01.2009-06.30.2009		01.01.2008-06.30.2008
Raw and consumable materials used (net of change in inventories), of which:		3.495		77.646
a) Assets purchased	20.567		69.168	
b) Change in inventories of trading properties, raw and miscellaneous materials	(17.072)		8.478	
Personnel costs		45.944		75.265
Depreciation, amortization and impairment		7.808		4.266
Other costs		99.350		95.106
Total		**156.597**		**252.283**

Raw and consumable materials used (net of change in inventories)

"Assets purchased" refer to:

- Property purchased from third parties (69 thousand euro versus 1,322 thousand euro at June 30th, 2008)
- Property/land purchased from third parties through acquisition of shares (20,164 thousand euro versus 58,598 thousand euro in the first half of 2008)

Property purchased through the acquisition of shares relates to the increase in inventories following the first-time consolidation of Orione Immobiliare Prima S.p.A. and certain property development companies owned by Mistral Real Estate B.V., as described in more detail in the note on "Consolidation area".

- Other purchases (334 thousand euro versus 448 thousand euro in the first half of 2008)

most of which relating to the purchase of petrol and other consumable materials.

The change in inventories of trading properties, raw and miscellaneous materials is a positive 17,072 thousand euro in the first half of 2009 compared with a negative 8,478 thousand euro at June 30th, 2008.

The changes in the period under review mostly reflect the events described in the notes on "revenues from sales" and "assets purchased", to which the reader should refer.

Personnel costs

Personnel costs amount to 45,944 thousand euro compared with 75,265 thousand euro in the first half of 2008.

These costs are analyzed as follows:

	01.01.2009-06.30.2009	01.01.2008-06.30.2008
Wages and salaries	32.406	61.364
Social security contributions	9.042	10.392
Employee leaving indemnity	276	308
Costs for defined contribution pension funds/Other costs	4.220	3.201
Total	**45.944**	**75.265**

Details of the number of employees can be found in the note on employee benefit obligations (note 19).

Depreciation, amortization and impairment

Details of depreciation, amortization and impairment can be found in the tables accompanying the notes on property, plant and equipment and intangible assets (notes 1 and 2).

Other costs

These amount to 99,350 thousand euro at June 30th, 2009 compared with 95,106 thousand euro in the first half of 2008.

	01.01.2009-06.30.2009	01.01.2008-06.30.2008
Other costs charged by Pirelli & C. S.p.A.	3.659	3.883
Other costs charged by associates	4.004	2.924
Other costs charged by joint ventures and other Pirelli & C. RE Group companies	1.770	335
Other costs charged by other Pirelli & C. Group companies	3.743	4.305
Other costs charged by third parties	86.174	83.659
Total	**99.350**	**95.106**

Other costs include 11,497 thousand euro in restructuring expenses which qualify as non-recurring and account for 11.6% of total other costs.

Other costs can be analyzed as follows:

	01.01.2009-06.30.2009	01.01.2008-06.30.2008
Services	69.416	69.255
Lease and rental costs	11.656	12.731
Impairment of receivables	8.548	1.525
Provisions for risks	2.997	2.169
Other operating expenses	6.733	9.426
Total	**99.350**	**95.106**

Services

Services amount to 69,416 thousand euro, compared with 69,255 thousand euro in the first half of 2008.

Services mostly consist of construction and maintenance costs, costs for managing third-party assets, commissions and consulting and professional fees.

The emoluments of directors and the Supervisory Board amount to 11,872 thousand euro compared with 2,178 thousand euro at June 30th, 2008, while those of the statutory auditors of consolidated companies are 237 thousand euro compared with 253 thousand euro in the first half of 2008.

Services include 10,032 thousand euro in restructuring expenses which qualify as non-recurring, of which 9,899 thousand euro in amounts paid to directors. Such non-recurring costs account for 14.4% of total costs for services.

Lease and rental costs

These costs amount to 11,656 thousand euro compared with 12,731 thousand euro in the first half of 2008 and almost entirely refer to the lease of head office buildings and others for storage, to the use of the trademark granted by the ultimate parent company Pirelli & C. S.p.A., and to the lease and hire of motor vehicles.

This year's costs include 415 thousand euro in non-recurring amounts relating to the rent of the premises in Via Negri, Milan, which account for 3.6% of total lease and rental costs.

Impairment of receivables

This has been recognized for potential risks of debtor default. It amounts to 8,548 thousand euro at June 30th, 2009 compared with 1,525 thousand euro in the first half of 2008 and includes 1,405 thousand euro in bad debts incurred in the period.

Provisions for risks

A total of 2,997 thousand euro in provisions has been booked at June 30th, 2009 compared with 2,169 thousand euro in the corresponding period of the prior year.

Details of provisions for risks can be found in the earlier notes on "provisions for future risks and expenses".

Other operating expenses

These amount to 6,733 thousand euro compared with 9,426 thousand euro in the first half of 2008.

They include 985 thousand euro in costs for duties and other taxes, mostly involving ICI (Italy's local property tax), registration taxes and non-recoverable VAT on financial operations, and 1,250 thousand euro for an arbitration procedure with Le Case di Capalbio S.r.l..

These expenses include 1,050 thousand euro in non-recurring items, accounting for 15.6% of the total.

Note 26. NET INCOME FROM INVESTMENTS

	01.01.2009-06.30.2009	01.01.2008-06.30.2008
Net profit share from investments in associates and joint ventures	(24.793)	10.820
Dividends	344	2.073
Gains on investments	2.923	5.584
Losses on investments	(90)	(1.603)
Total	**(21.616)**	**16.874**

This reports a negative 21,616 thousand euro compared with a positive 16,874 thousand euro in the corresponding period of the previous year.

Its main components are discussed below.

Net profit share from investments in associates and joint ventures

This amounts to a negative 24,793 thousand euro compared with a positive 10,820 thousand euro in the first half of 2008, and refers to the Group's share of the results of investments accounted for under the equity method, which reflect, amongst others, changes in the value of their property portfolios.

The consolidated result for the first half of 2009 includes a negative amount of 0.6 million euro for the Pirelli & C. Real Estate Group's share of property writedowns/revaluations[1].

The Group has also benefited from 45.5 million euro for the fair value restatement of "Investment property" held by associates and joint ventures, as a result of formalizing the "hold" strategy already announced for most of the residential real estate in Germany and for selected prime assets in Italy, involving their medium-term retention in the portfolio. However, these revaluations have been more than offset by writedowns of 46.1 million euro against other portfolios.

More details can be found in note 3 "Investments in associates and joint ventures".

Dividends

These include 293 thousand euro (1,929 thousand euro at June 30th, 2008) in income distributed to the Group by the following funds: Armilla (87 thousand euro), Olinda (136 thousand euro) and Tecla (70 thousand euro).

Gains on investments

These amount to 2,923 thousand euro, of which 1,949 thousand euro relates to the net capital gain realized on the sale of 20% of Pirelli RE Credit Servicing S.p.A., as described in more detail in the interim report on operations.

Such gains in the first half of 2008 included 5,584 thousand euro on the sale of units in Berenice Fondo Uffici – Fondo Immobiliare di tipo chiuso by the subsidiary Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A..

[1] This figure does not include 4.2 million euro in impairment of intangible assets owned by companies consolidated line-by-line, included in "Depreciation, amortization and impairment".

Losses on investments

These reflect the impact of the fair value measurement of the units held in Cloe Fondo Uffici - Fondo comune di investimento immobiliare di tipo chiuso non quotato riservato, which is a negative 90 thousand euro at June 30th, 2009 compared with an equally negative amount of 1,603 thousand euro at June 30th, 2008.

Note 27. FINANCIAL INCOME

This amounts to 19,535 thousand euro compared with 17,578 thousand euro in the corresponding prior year period and comprises:

	01.01.2009- 06.30.2009	01.01.2008- 06.30.2008
<u>**Interest income**</u>		
a) Interest income from non-current assets:		
a.1) Interest income on financial receivables due from associates	566	343
a.2) Interest income on financial receivables due from joint ventures	15.437	12.771
a.3) Interest income on financial receivables due from others	266	232
		-
Total interest income from non-current assets	**16.269**	**13.346**
b) Interest income from current assets:	-	-
b.1) Interest income on financial receivables due from associates	-	-
b.2) Interest income from joint ventures	436	354
b.2) Interest income from other Pirelli & C. Group companies	-	43
b.3) Other interest	489	1.972
Total interest income from current assets	**925**	**2.369**
<u>**Other financial income**</u>		
c) Other financial income from non-current assets:		
c.1) Income from securities	387	453
Total other financial income from non-current assets	**387**	**453**
d) Other financial income from current assets:		
d.1) Income from securities	-	-
d.3) Other income from joint ventures	-	-
Total other financial income from current assets	-	-
<u>**Other/miscellaneous**</u>	**105**	**20**
<u>**Exchange gains**</u>	**66**	**911**
<u>**Fair value measurement of financial assets**</u>	**-**	**-**
<u>**Fair value measurement of derivatives**</u>	**-**	**479**
<u>**Fair value measurement of currency derivatives**</u>	**1.783**	**-**
Total	**19.535**	**17.578**

Changes in interest income reflect not only changes in financial receivables due from Group companies and in intercompany balances with associates or joint ventures but also changes in interest rates.

Income from securities classified as non-current assets arises from the valuation of junior notes at amortized cost.

The *exchange gains* mostly refer to shareholder loans in Polish zloty to the joint ventures Polish Investments Real Estate Holding B.V. and Polish Investments Real Estate Holding II B.V. and are offset by matching expenses arising from the exchange rate hedges taken out.

The *fair value measurement of currency derivatives* refers to the impact of certain currency hedges carried at fair value, as well as the gains and losses realized on such instruments during the period.

Note 28. FINANCIAL EXPENSES

These amount to 20,519 thousand euro compared with 24,772 thousand euro in the first half of 2008.

These expenses are analyzed as follows:

	01.01.2009-06.30.2009	01.01.2008-06.30.2008
Interest due to banks	6.700	6.331
Interest due to Pirelli & C. S.p.A.	7.270	15.651
Interest due to other Pirelli & C. Group companies	265	37
Interest due to joint ventures	12	84
Interest due to others	447	219
Other financial expenses	3.952	1.613
Exchange losses	1.748	11
Fair value measurement of derivatives	125	-
Fair value measurement of currency derivatives	-	826
Total	**20.519**	**24.772**

Interest due to banks refers to loans obtained from credit institutions for everyday management of the business.

Other financial expenses include 2,711 thousand euro for the impairment of junior notes after their book value was discounted to the present value of their future cash flows using the original effective interest rate.

Exchange losses amount to 1,748 thousand euro, compared with 11 thousand euro at June 30th, 2008, and mostly refer to the valuation of outstanding shareholder loans in Polish currency at June 30th, 2009. The higher amount of losses is due to greater exchange rate volatility than in the first half of 2008. This amount has been offset by income from currency hedges taken out during the year, as reported in note 27 ("Financial income").

Note 29. INCOME TAXES

"Income taxes" relate to both current taxes and changes in deferred tax assets and deferred tax provisions, calculated on the basis of current tax rates.

Now that Pirelli & C. Real Estate S.p.A. and its subsidiaries have opted to file for tax on a group basis together with Pirelli & C. S.p.A., the income and charges arising from this election are shown in a separate line.

Income taxes are analyzed as follows:

	06.30.2009	06.30.2008
Current taxes	9.582	17.400
Deferred tax assets	(7.462)	(10.272)
Deferred tax provisions	312	(673)
Total	**2.432**	**6.455**

NOTE 30. NET INCOME/(LOSS) FROM DISCONTINUED OPERATIONS

As stated in the introduction to the interim report on operations, the operations of the INTEGRA FM B.V. Group (ex Pirelli RE Integrated Facility Management B.V.), sold in 2008, have been classified as "discontinued operations", meaning that its results are reported at the foot of the income statement immediately before net income. The comparative figures for 2008 have been restated on a consistent basis.

"Net income (loss) from discontinued operations" at June 30th, 2008 amounts to 4,390 thousand euro, detailed as follows:

	01.01.2008-06.30.2008
Revenues from sales and services	230.587
Changes in inventories of work in progress, semi-finished and finished products	-
Own work capitalized	73
Other income	7.656
TOTAL OPERATING REVENUES	**238.316**
Raw and consumable materials used (net of change in inventories)	(6.074)
Personnel costs	(30.989)
Depreciation, amortization and impairment	(1.680)
Other costs	(190.173)
TOTAL OPERATING COSTS	**(228.916)**
Earnings before interest and tax (EBIT)	**9.400**
Financial income	325
Financial expenses	(4.380)
Dividends	-
Change in fair value of financial assets	117
Net profit share from investments in associates and joint ventures	2.085
RESULT BEFORE INCOME TAXES	**7.547**
Income taxes	(4.007)
NET INCOME/(LOSS) FOR THE PERIOD	**3.540**
Gain realized on sale	850
NET INCOME/(LOSS) FROM DISCONTINUED OPERATIONS	**4.390**

Note 31. EARNINGS/(LOSS) PER SHARE

	06.30.2009	06.30.2008
Weighted average number of shares outstanding for the calculation of earnings (loss) per share:		
- basic (A)	41.407.570	41.334.531
Net income (loss) attributable to the Group from continuing operations (B)	(42.257)	5.817
Earnings (loss) per share (in euro) from continuing operations:		
- basic (B/A)	(1,02)	0,14
Net income (loss) attributable to the Group from discontinued operations (C)	-	3.173
Earnings (loss) per share (in euro) from discontinued operations:		
- base (C/A)	-	0,08
Consolidated net income (loss) (D)	(42.257)	8.990
Earnings (loss) per share (in euro):		
- basic (D/A)	(1,02)	0,22

Diluted earnings per share are not being reported for the first half of 2009 because there are no potential dilutive instruments in circulation.

6.5. Segment information

As already stated in the earlier paragraph on "Accounting standards", as from January 1st, 2009 the Group has adopted IFRS 8 for its segment reporting in place of IAS 14.

The new standard focuses on the reporting used internally by company management, requiring companies to base their segment information on components that management uses to make decisions about operating matters.

Operating segments are therefore components of an entity for which discrete financial information is available and whose operating results are regularly reviewed by top management for the purposes of deciding how to allocate resources and of assessing its performance.

As discussed in the interim report on operations, the Group's organization structure is based on three geographical areas - Italy, Germany and Poland - and on integrated business units specialized by type of product (residential, commercial): the Group is therefore able to combine knowledge of the geographical markets with specialist know-how in the different segments.

The geographical areas have been identified on the basis of the country in which the activities are located.

The results by segment at June 30th, 2009 are as follows:

	ITALY	GERMANY	POLAND	NPL	HOLDING/ OTHER	TOTAL	INTRAGROUP ELIMINATIONS	CONSOLIDATED TOTAL
Consolidated revenues	68.336	28.578	3.341	11.142	6.119	117.516	(1.765)	115.751
of which from third parties	*68.336*	*28.578*	*3.341*	*11.142*	*4.354*	*115.751*	-	*115.751*
of which from the Group	-	-	-	-	*1.765*	*1.765*	*(1.765)*	-
EBIT	3.468	4.775	20	(4.420)	(21.548)	(17.705)	-	(17.705)
Net income from investments	(8.751)	(17.349)	280	4.204	-	(21.616)	-	(21.616)
EBIT including net income from investments	**(5.283)**	**(12.574)**	**300**	**(216)**	**(21.548)**	**(39.321)**	**0**	**(39.321)**
Financial income from investments	4.273	7.901	1.084	421	-	13.679	-	13.679
EBIT including net income and financial income from investments	**(1.010)**	**(4.673)**	**1.384**	**205**	**(21.548)**	**(25.642)**	**0**	**(25.642)**
Other financial income/(expenses)						-	-	(14.663)
Profit (loss) before taxes						**-**	**-**	**(40.305)**
Income taxes						-	-	(2.432)
Net income (loss) from continuing operations						**-**	**-**	**(42.737)**
Discontinued operations	-	-	-	-	-	-	-	-
Net income (loss) before minority interests						**-**	**-**	**(42.737)**
Minority interests						-	-	(480)
Consolidated net income (loss)						**-**	**-**	**(42.257)**

Notes:

Property writedowns/revaluations	2.645	(6.370)	(243)	(788)	-	**(4.756)**	**-**	**(4.756)**
Restructuring costs	**-**	**-**	**-**	**-**	(11.497)	**(11.497)**	**-**	**(11.497)**
EBIT including net income and financial income from investments before restructuring costs and property writedowns/revaluations	**(3.655)**	**1.697**	**1.627**	**993**	**(10.051)**	**(9.389)**	**-**	**(9.389)**

The results by segment at June 30th, 2008 are as follows:

	ITALY	GERMANY	POLAND	NPL	HOLDING/ OTHER	TOTAL	INTRAGROUP ELIMINATIONS	CONSOLIDATED TOTAL
Consolidated revenues	89.250	33.169	63.954	20.783	5.507	212.663	(19.874)	192.789
of which from third parties	*72.250*	*33.169*	*63.954*	*20.783*	*2.633*	*192.789*	-	*192.789*
of which from the Group	*17.000*	*0*	*0*	*0*	*2.874*	*19.874*	*(19.874)*	-
EBIT	4.532	(6.208)	18.872	3.656	(17.021)	3.831	-	3.831
Net income from investments	6.943	(436)	(104)	10.300	171	16.874	-	16.874
EBIT including net income from investments	**11.475**	**(6.644)**	**18.768**	**13.956**	**(16.850)**	**20.705**	**0**	**20.705**
Financial income from investments	4.960	4.089	464	4.054	-	13.567	-	13.567
EBIT including net income and financial income from investments	**16.435**	**(2.555)**	**19.232**	**18.010**	**(16.850)**	**34.272**	**0**	**34.272**
Other financial income/(expenses)						-	-	(20.761)
Profit (loss) before taxes						**-**	**-**	**13.511**
Income taxes						-	-	(6.455)
Net income (loss) from continuing operations						**-**	**-**	**7.056**
Discontinued operations	4.390	-	-	-	-	-	-	4.390
Net income (loss) before minority interests						**-**	**-**	**11.446**
Minority interests						-	-	2.456
Consolidated net income (loss)						**-**	**-**	**8.990**

Notes:

Property writedowns/revaluations	(760)	-	-	-	-	**(760)**	**-**	**(760)**
Restructuring costs	(8.950)	(6.293)	-	(148)	(847)	**(16.238)**	**-**	**(16.238)**
EBIT including net income and financial income from investments before restructuring costs and property writedowns/revaluations	**26.145**	**3.738**	**19.232**	**18.158**	**(16.003)**	**51.270**	**-**	**51.270**

Intrasegment sales have taken place under the same terms and conditions as third-party sales.

6.6. Transactions with related parties

The following tables show transactions and balances with related parties:

	01.01.2009-06.30.2009	% share (*)	01.01.2008-06.30.2008	% share (*)
Operating revenues	52.998	38,2%	47.429	18,5%
Operating costs	(26.870)	17,2%	(24.658)	9,8%
Net income from investments	(24.742)	114,5%	10.820	64,1%
Financial income	16.205	83,0%	13.552	77,1%
Financial expenses	(7.547)	36,8%	(15.839)	63,9%
Taxes	18	-0,7%	(1.594)	24,7%

(*) The percentage share is calculated with reference to the total amount of the specific item reported in the financial statements.

	06.30.2009				12.31.2008			
	Total	% share (*)	Non-current	Current	Total	% share (*)	Non-current	Current
Trade receivables	71.506	57,1%	-	71.506	74.095	40,8%	-	74.095
Other receivables of which:	499.791	84,4%	482.620	17.171	589.801	86,3%	565.152	24.649
- financial receivables	*493.000*	*98,0%*	*481.890*	*11.110*	*581.209*	*98,6%*	*564.261*	*16.948*
Tax receivables	26.400	66,1%	-	26.400	20.751	56,4%	-	20.751
Trade payables	21.419	16,9%	-	21.419	26.314	18,9%	-	26.314
Other payables	11.081	11,5%	-	11.081	11.556	9,9%	-	11.556
Tax payables	22.794	71,2%	-	22.794	17.307	73,3%	-	17.307
Bank borrowings and payables to other financial institutions	436.872	48,6%	-	436.872	498.006	54,4%	-	498.006
Provisions for future risks and expenses	65.934	60,3%	-	65.934	48.670	49,8%	-	48.670

(*) The percentage share is calculated with reference to the total amount of the specific item reported in the financial statements.

Transactions and balances between the Pirelli & C. Real Estate Group and Pirelli & C. S.p.A., its ultimate parent company, other Pirelli & C. Group companies and associates, joint ventures and other companies in the Pirelli & C. Real Estate Group are detailed as follows:

Transactions and balances with ultimate parent company Pirelli & C. S.p.A.		
Operating revenues	539	These mainly relate to the recharge of various services provided by the buying and vehicle management office, for the organization of events and for site remediation.
Operating costs	(3.659)	These mostly include recharges for general services as well as royalties for use of the trademark.
Financial expenses	(7.270)	These refer to interest payable on the drawdown of revolving credit lines agreed in 2007 and rolled over in 2009.
Taxes	18	These refer to the income and expenses arising from the election by Pirelli & C. Real Estate S.p.A. and its subsidiaries to file for tax on a group basis together with Pirelli & C. S.p.A..
Current trade receivables	728	These mainly refer to the recharge of various services reported in "Operating revenues".
Other current receivables	561	These mostly consist of VAT receivables arising from periodic VAT settlements on a group basis.
Current tax receivables	26.400	These refer to credits for the advance payment of Italian corporate income tax (IRES) and for withholding taxes and deferred tax assets for carryforward tax losses following the decision by Pirelli & C. Real Estate S.p.A. to file for tax on a group basis together with Pirelli & C. S.p.A..
Current trade payables	2.346	These mainly refer to costs recharged by Pirelli & C. S.p.A. for general and information technology services, and royalties charged to use the trademark.
Other current payables	4.572	These consist of VAT payables arising from periodic VAT settlements on a group basis.
Current tax payables	21.743	These refer to income tax payables for the current year transferred to the ultimate parent company Pirelli & C. S.p.A. under the group tax election mentioned above.
Current bank borrowings and payables to other financial institutions	432.509	These refer to short-term drawdowns of a revolving credit facility obtained in 2007 by Pirelli & C. Real Estate S.p.A. from its ultimate parent Pirelli & C. S.p.A. and rolled over in 2009.

Transactions and balances with Pirelli & C. Group companies		
Operating revenues	309	These mostly refer to the recharge of various services provided by the buying office.
Operating costs	(3.743)	These include costs for information technology, security services and technical consulting.
Financial income	(234)	This refers to income arising on currency hedges taken out by the Group.
Financial expenses	(265)	These refer to the interest payable on the current account between Pirelli & C. Real Estate S.p.A. and Pirelli Servizi Finanziari S.p.A..
Current trade receivables	665	These mainly refer to the services reported in "Operating revenues".
Current trade payables	2.247	These mostly refer to payables for information technology costs (1,217 thousand euro) and for certain site remediation costs (504 thousand euro).
Current bank borrowings and payables to other financial institutions	1.414	These refer to the current account balance between Pirelli & C. Real Estate S.p.A. and Pirelli Servizi Finanziari S.p.A., the Pirelli & C. Group's financial services provider.

Transactions and balances with associates/joint ventures and other companies		
Operating revenues	52.124	These refer to contracts with Group companies for fund and asset management services (real estate and non performing loans) and technical and commercial services.
Operating costs	(5.774)	These refer to recharges of various kinds, including shared joint venture costs.
Net income from investments	(24.742)	This mainly comprises the results of investments accounted for under the equity method.
Financial income	16.439	This mostly refers to interest earned on financial receivables held by Group companies and on intercompany current accounts with associates and joint ventures.
Financial expenses	(12)	
Current trade receivables	70.106	This balance includes the receivables relating to "operating revenues".
Other non-current receivables	482.620	
- of which financial receivables	*481.890*	This reflects the loans given to finance real estate projects being managed by individual group companies. These loans are classified as non-current assets by virtue of their terms of repayment, which match the disposal programmes of the real estate portfolios owned directly or indirectly by these companies which usually last between two and six years. These loans carry interest rates that are in line with those applied by the principal market participants except for some companies which have been given non-interest bearing loans.
Other current receivables	16.610	This includes 2,318 thousand euro in dividends that have been declared but not yet paid.
- of which financial receivables	*11.110*	Most of this balance refers to intercompany current accounts with the companies which hold real estate assets in Germany.
Current trade payables	16.826	These refer to various services.
Other current payables	6.509	These refer to different kinds of recharge.
Current tax payables	1.051	This amount relates to amounts owing to Trixia S.r.l. under its adoption of the "tax transparency" regime allowed by art. 115 of the Income Tax Consolidation Act, whereby a company's positive or negative taxable amounts are attributed to its shareholders.
Current bank borrowings and payables to other financial institutions	2.949	This includes negative balances on intercompany current accounts.
Provisions for future risks and expenses	65.934	This refers to the provision for making good the losses of associates and joint ventures in excess of their carrying amounts.

For the sake of completeness, details will now be provided of the transactions and balances at June 30th, 2009 between the Pirelli & C. Real Estate Group and the Camfin Group and the company F.C. Internazionale Milano S.p.A..

The following tables provide details of transactions and balances with these related parties:

Transactions and balances with Camfin Group		
Operating revenues	23	These mainly relate to a contract for property management services with Italcogim Energie S.p.A..
Current trade receivables	2	These mostly relate to a receivable owed by Italcogim Energie S.p.A. to Pirelli & C. Real Estate Property Management S.p.A..

Transactions and balances with F.C. Internazionale Milano S.p.A.	
Operating revenues	3
Operating costs	(20)
Current trade receivables	5

For the sake of complete disclosure, it is reported that the shareholders of Orione Immobiliare Prima S.p.A. - a company in which Pirelli & C. Real Estate S.p.A. holds a 40.1% interest and Gruppo Partecipazioni Industriali S.p.A., a related party, holds a 29.3% interest - made an agreement on April 2nd, 2009 to transfer to the shareholders, other than Pirelli & C. Real Estate S.p.A., the property assets owned by the company in proportion to their respective interests. Under this same agreement, the shareholders also agreed to sell (based on valuations by independent experts) their respective shares in Orione Immobiliare Prima S.p.A. to Pirelli & C. Real Estate S.p.A. which, on completion of this transaction, has ended up owning 100% of this company.

In addition, on June 26th, 2009 Pirelli RE Netherlands B.V. acquired (on the basis of valuations by independent experts) 10.5% of the share capital in S.I.G. RE B.V. from Roev Italia S.p.A., a related party; the interest in S.I.G. RE B.V. has risen to 47.20% as a result of this transaction.

The consolidated balance sheet and income statement at June 30th, 2009 reflect no impact from the above transactions.

Cash flows

There are no material cash flows relating to transactions with related parties not directly evident in the financial statements at June 30th, 2009, or in the accompanying notes, compared with an amount of 48,612 thousand euro at June 30th, 2008 for dividends paid to the ultimate parent company Pirelli & C. S.p.A..

Key management personnel

The remuneration of the 18 key managers (of whom 17 in office at June 30th, 2009 (*)), meaning those persons, including the directors (whether executive or otherwise), with the authority and responsibility, directly or indirectly, for planning, directing and controlling the activities of Pirelli & C. Real Estate S.p.A., amounted to 13,674 thousand euro at June 30th, 2009 (4,391 thousand euro at June 30th, 2008), of which 1,661 thousand euro (2,219 thousand euro at June 30th, 2008) classified in the income statement as "personnel costs" and 12,013 thousand euro (2,172 thousand euro at June 30th, 2008) classified in "other costs", of which 9,400 thousand euro in indemnity granted to Carlo Alessandro Puri Negri on April 8th, 2009 for his early termination as a director of Pirelli & C. Real Estate and 499 thousand euro for the portion of the consideration relating to the period in return for his agreement not to compete with the Pirelli & C. Real Estate Group or solicit its employees and the portion relating to the period of a consulting agreement.

The long-term portion of this amount was 44 thousand euro (58 thousand euro at June 30th, 2008).

(*) The Board of Directors acknowledged in its meeting of April 8th, 2009 the resignation of Carlo Alessandro Puri Negri as a director and hence also from the office of Executive Deputy Chairman, in advance of the natural expiry on the date of the shareholders' meeting in April 2011 called to approve the financial statements for 2010. The terms of his severance package were as follows: (i) a total gross figure of 9.4 million euro as compensation for early termination of his directorship, in return for his renouncement of any claims, demands or actions of any kind against the Company; (ii) a one-year non-compete agreement and a two-year non-solicitation agreement relating to employees of the Pirelli RE Group, in return for the receipt of 3.0 million euro gross, payable in 2009 and 2010. Pirelli RE has also entered a two-year consulting agreement in the real estate sector with Carlo Alessandro Puri Negri for a gross annual fee of 0.8 million euro. The above terms and conditions have been determined on the basis of current law and best practice and were evaluated beforehand by the Compensation Committee, all of whose members are independent directors. For the purposes of its review, the Compensation Committee used the services of a firm of top management remuneration consultants and a legal advisor.

Milan, July 28th, 2009

The Board of Directors

7. SUPPLEMENTARY TABLES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.1 Appendix 1: Consolidation area

			Registered office	06.30.2009			12.31.2008
	Business segment at 06.30.2009	Held at 06.30.2009 by	City/State		Share capital	% interest & voting rights (*)	% interest & voting rights (*)
Companies consolidated using line-by-line method							
Subsidiaries							
Acquario S.r.l. (in liquidation)	Real Estate	Pirelli & C. Real Estate S.p.A.	Genoa/Italy	€	255.000	100,00%	100,00%
Alfa S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	2.600.000	100,00%	100,00%
BauBeCon Asset Management GmbH (1)	Real Estate	Pirelli RE Agency Deutschland GmbH	-	-	-	-	100,00%
BauBeCon Corporate Services GmbH (2)	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	-	-	-	-	100,00%
BauBeCon Treuhand GmbH	Real Estate	Pirelli RE Property Management Deutschland GmbH	Hannover/Germany	€	530.000	100,00%	100,00%
BauBeCon Wohnen GmbH (3)	Real Estate	Pirelli RE Property Management Deutschland GmbH	-	-	-	-	100,00%
Beta S.r.l.	NPL	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	26.000	100,00%	100,00%
Botticino S.r.l. (in liquidation) (4)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	-	-	-	100,00%
Casaclick S.p.A.	Real Estate	Pirelli & C. R.E. Agency S.p.A.	Milan/Italy	€	298.999	100,00%	100,00%
Centrale Immobiliare S.p.A.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	5.200.000	100,00%	100,00%
CFT Finanziaria S.p.A.	NPL	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	20.110.324	100,00%	100,00%
DGAG Beteiligung GmbH & Co. KG (9)	Real Estate	Mistral Real Estate B.V.	Hamburg/Germany	€	42.118.445	94,90%	-
DGAG Grundstückbeteiligung GmbH (5)	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Kiel/Germany	-	-	-	100,00%
DGAG Nordpartner GmbH & Co. KG (9)	Real Estate	Mistral Real Estate B.V.	Hamburg/Germany	€	2.760.976	94,00%	-
ECOI-Immobilien GmbH (in liquidation) (6)	Real Estate	Pirelli RE Residential Investments GmbH	-	-	-	-	100,00%
Edilnord Gestioni S.r.l. (in liquidation) (7)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	100.000	100,00%	100,00%
Einkaufszentrum Münzstrasse GmbH & Co. KG (9)	Real Estate	74,80% DGAG Beteiligung GmbH & Co. KG	Hamburg/Germany	DM	10.000.000	100,00%	-
		25,20% Pirelli & C. R.E. Deutschland GmbH					-
Elle Dieci Società consortile a r.l. (7)	Real Estate	Edilnord Gestioni S.r.l. (in liquidation)	-	-	-	-	100,00%
Elle Tre Società consortile a r.l. (7)	Real Estate	Edilnord Gestioni S.r.l. (in liquidation)	-	-	-	-	100,00%
Elle Uno Società Consortile a.r.l. (in liquidation)	Real Estate	Edilnord Gestioni S.r.l. (in liquidation)	Milan/Italy	€	100.000	100,00%	100,00%
Erato Finance S.r.l. (in liquidation) (8)	Real Estate	Pirelli & C. Real Estate S.p.A.	-	-	-	-	53,85%
Fedora - Fondo comune di investimento immobiliare di tipo chiuso	Real Estate	Pirelli RE Netherlands B.V.	Milan/Italy	€	500.000	100,00%	100,00%
Geolidro S.p.A.	Real Estate	Centrale Immobiliare S.p.A.	Naples/Italy	€	3.099.096	100,00%	100,00%
Iniziative Immobiliari 3 B.V.	Real Estate	Pirelli & C. Real Estate S.p.A.	Amsterdam/Holland	€	4.500.000	100,00%	100,00%
Iniziative Immobiliari 3 S.r.l.	Real Estate	Iniziative Immobiliari 3 B.V.	Milan/Italy	€	10.000	100,00%	100,00%
Kappa S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	10.400	100,00%	100,00%
Lambda S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	578.760	100,00%	100,00%
Mistral RE S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	12.500	100,00%	100,00%
Mistral Real Estate B.V. (Tracking Share) (9)	Real Estate	Pirelli & C. Real Estate S.p.A.	Amsterdam/Holland	€	18.000	100,00%	-
NewCo RE 1 S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	30.000	100,00%	100,00%
NewCo RE 4 S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	10.000	100,00%	100,00%
NewCo RE 5 S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	40.000	100,00%	100,00%
NewCo RE 6 S.r.l.	NPL	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	40.000	100,00%	100,00%
NewCo RE 8 S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	40.000	100,00%	100,00%
NewCo RE 9 S.r.l.	NPL	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	40.000	100,00%	100,00%
Orione Immobiliare Prima S.p.A. (10)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	104.000	100,00%	-
Parcheggi Bicocca S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	1.500.000	75,00%	75,00%
P.B.S. Società consortile a r.l.	Real Estate	Pirelli & C. R.E. Property Management S.p.A.	Milan/Italy	€	100.000	60,00%	60,00%
Pirelli & C. Opere Generali S.p.A.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	104.000	100,00%	100,00%
Pirelli & C. R.E. Agency S.p.A.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	1.000.000	100,00%	100,00%
Pirelli & C. R.E. Deutschland GmbH	Real Estate	Pirelli & C. Real Estate S.p.A.	Hamburg/Germany	€	5.000.000	100,00%	100,00%
Pirelli & C. Real Estate Finance S.p.A.	Real Estate	Pirelli & C. R.E. Agency S.p.A.	Milan/Italy	€	120.000	100,00%	100,00%
Pirelli & C. R.E. Property Management S.p.A.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	114.400	100,00%	100,00%
Pirelli & C. R.E. Società di Gestione del Risparmio S.p.A. (11)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	24.458.763	100,00%	100,00%
Pirelli RE Agency Deutschland GmbH	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	€	25.000	100,00%	100,00%
Pirelli RE Agency Netherlands B.V.	Real Estate	Pirelli RE Netherlands B.V.	Amsterdam/Holland	€	18.000	100,00%	100,00%
Pirelli RE Asset Management Deutschland GmbH (ex Mertus Achtunddreißigste GmbH) (12)	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	€	25.000	80,00%	80,00%
Pirelli RE AM NPL Deutschland GmbH (ex Pirelli RE Asset Management GmbH) (13)	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Berlin/Germany	-	-	-	100,00%
Pirelli RE Bulgaria AD (14)	Real Estate	Pirelli RE Netherlands B.V.	Sofia/Bulgaria	BGN	1.090.000	75,00%	75,00%
Pirelli RE Credit Servicing S.p.A. (15)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	7.500.000	80,00%	100,00%
Pirelli RE Development Deutschland GmbH (ex DGAG Shopping Immobilien GmbH)	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	€	153.400	100,00%	100,00%
Pirelli RE Facility Management Deutschland GmbH (ex PSG Parkhaus Service GmbH)	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	€	25.600	100,00%	100,00%
Pirelli RE Hausmeister Service Deutschland GmbH	Real Estate	Pirelli RE Facility Management Deutschland GmbH	Kiel/Germany	€	25.000	100,00%	100,00%
Pirelli RE Management Services Deutschland GmbH	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	€	25.000	100,00%	100,00%
Pirelli RE Netherlands B.V.	Real Estate	Pirelli & C. Real Estate S.p.A.	Amsterdam/Holland	€	21.000	100,00%	100,00%
Pirelli RE Property Management Deutschland GmbH	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	€	25.000	100,00%	100,00%
Pirelli RE Property Management Netherlands B.V.	Real Estate	Pirelli & C. Real Estate S.p.A.	Amsterdam/Holland	€	18.000	100,00%	100,00%
Pirelli RE Residential Investments GmbH	Real Estate	Pirelli & C. Real Estate S.p.A.	Hamburg/Germany	€	570.000	100,00%	100,00%
Pirelli RE Romania S.A.	Real Estate	Pirelli RE Netherlands B.V.	Bucharest/Romania	RON	100.000	80,00%	80,00%
Pirelli Pekao Real Estate Sp.z o.o.	Real Estate	Pirelli & C. Real Estate S.p.A.	Warsaw/Poland	PLN	35.430.000	75,00%	75,00%
Progetto Bicocca Universita' S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	50.360	50,50%	50,50%
Progetto Perugia S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Perugia /Italy	€	100.000	100,00%	100,00%
Progetto Vallata S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	1.500.000	80,00%	80,00%
Projekt Bahnhof Hamburg-Altona Verwaltungs GmbH	Real Estate	Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG	Hamburg/Germany	€	25.000	100,00%	100,00%
Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	€	8.000.000	74,90%	74,90%
Servizi Amministrativi Real Estate S.p.A.	Other	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	520.000	100,00%	100,00%
SIB S.r.l. (15)	Real Estate	Pirelli RE Credit Servicing S.p.A.	Milan/Italy	€	10.100	80,00%	100,00%
Sigma RE S.à.r.l.	Real Estate	Pirelli RE Netherlands B.V.	Luxembourg	€	12.500	100,00%	100,00%
Tau S.r.l. (10)	Real Estate	Orione Immobiliare Prima S.p.A.	Milan/Italy	€	93.600	100,00%	-
Verwaltung Einkaufszentrum Münzstrasse GmbH (9)	Real Estate	74.80% DGAG Beteiligung GmbH & Co. KG	Hamburg/Germany	DM	50.000	100,00%	-
		25.20% Pirelli & C. R.E. Deutschland GmbH				-	-
Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau mbH (9)	Real Estate	DGAG Beteiligung GmbH & Co. KG	Hamburg/Germany	€	26.100	100,00%	-

			Registered office			06.30.2009	12.31.2008
	Business segment at 06.30.2009	Held at 06.30.2009 by	City/State		Share capital	% interest & voting rights (*)	% interest & voting rights (*)
Companies accounted for using equity method							
Associates							
Cairoli Finance S.r.l.	NPL	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	10.000	35,00%	35,00%
Centro Servizi Amministrativi Pirelli S.r.l.	Other	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	51.000	33,00%	33,00%
Dixia S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	2.500.000	30,00%	30,00%
Le Case di Capalbio S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	10.000	20,00%	20,00%
Orione Immobiliare Prima S.p.A. (10)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	--	--	40,10%
Progetto Corsico S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	100.000	49,00%	49,00%
Progetto Fontana S.r.l. (in liquidation)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	10.000	23,00%	23,00%
Sci Roev Texas Partners L.P.	Real Estate	Pirelli & C. Real Estate S.p.A.	Dallas/USA	$	12.000.000	10,00%	10,00%
Spazio Investment N.V.	Real Estate	22.07% Pirelli RE Netherlands B.V.	Amsterdam/Holland	€	5.498.259	22,30%	18,46%
	Real Estate	0.23% Spazio Investment N.V.	-	-	-	-	-
Turismo & Immobiliare S.p.A.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	120.000	33,30%	33,30%
Joint ventures							
Afrodite S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	4.129.475	40,00%	40,00%
Aida RE B.V.	Real Estate	Pirelli RE Netherlands B.V.	Amsterdam/Holland	€	18.000	40,00%	40,00%
Alceo B.V.	Real Estate	Pirelli & C. Real Estate S.p.A.	Amsterdam/Holland	€	18.000	33,00%	33,00%
Alimede Luxembourg S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	12.945	35,00%	35,00%
Alnitak S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	4.452.500	35,00%	35,00%
Aree Urbane S.r.l. (16)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	10.000	34,60%	34,60%
Artemide S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	2.857.050	35,00%	35,00%
Austin S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	125.000	28,46%	28,46%
Beteiligungsgesellschaft Einkaufszentrum Mülheim GmbH	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	DM	60.000	41,17%	41,18%
Bicocca S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	12.500	35,00%	35,00%
Capitol Immobiliare S.r.l.	NPL	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	10.000	33,00%	33,00%
Castello S.r.l. (in liquidation)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	1.170.000	49,10%	49,10%
City Center Mülheim Grundstücksgesellschaft mbH & Co. KG	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	€	47.805.791	41,18%	41,18%
Colombo S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	960.150	35,00%	35,00%
Consorzio G6 Advisor	Real Estate	Pirelli & C. R.E. Agency S.p.A.	Milan/Italy	€	50.000	42,30%	42,30%
Continuum S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	500.000	40,00%	40,00%
Dallas S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	125.000	28,46%	28,46%
Delamain S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	12.500	49,00%	49,00%
Dolcetto Sei S.r.l.	NPL	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	10.000	50,00%	50,00%
Doria S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	992.850	35,00%	35,00%
Einkaufszentrum Mülheim Gmbh & Co. KG	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	€	26.075.886	41,18%	41,18%
Erice S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	10.000	40,00%	40,00%
Espelha Serviços de Consultadoria L.d.A.	NPL	Pirelli & C. Real Estate S.p.A.	Funchal/Madeira	€	5.000	49,00%	49,00%
European NPL S.A.	NPL	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	2.528.737	33,00%	33,00%
Finprema S.p.A.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	120.000	35,00%	35,00%
Fondo Città di Torino - Fondo comune diinvestimento immobiliare speculativo di tipo chiuso (ex Patrimonio Casa - Fondo comune di investimento immobiliare speculativo di tipo chiuso) (17)	Real Estate	Pirelli RE Netherlands B.V.	Milan/Italy	€	34.500.000	36,23%	36,23%
Gamma RE B.V.	Real Estate	Pirelli RE Netherlands B.V.	Amsterdam/Holland	€	18.000	49,00%	49,00%
Gatus 372. GmbH	Real Estate	Pirelli RE Residential Investments GmbH	Berlin/Germany	€	25.000	40,00%	40,00%
Golfo Aranci S.p.A. - Società di trasformazione urbana	Real Estate	43.795% Pirelli & C. Real Estate S.p.A.	Golfo Aranci (OT)/Italy	€	1.000.000	48,80%	48,80%
	Real Estate	5% Centrale Immobiliare S.p.A	-	-	-	-	-
Grundstücksgesellschaft Königstraße mbH & Co. KG (9)		44.90% Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau mbH	Hamburg/Germany	€	1.024.629	50,00%	-
		5.10% DGAG Beteiligung GmbH & Co. KG				-	-
Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	€	22.905.876	33,75%	33,75%
Kurpromenade 12 Timmendorfer Strand GG KG	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	€	6.237.761	50,00%	50,00%
IN Holdings I S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	2.595.725	20,50%	20,50%
Induxia S.r.l. (18)	Real Estate	18% Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	40.000	24,75%	24,75%
	Real Estate	27% SI Real Estate Holding B.V.	-	-	-	-	-
Inimm Due S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	240.950	25,01%	25,01%
Iniziative Immobiliari S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	5.000.000	49,46%	49,46%
Localto Reoco S.r.l. (in liquidation)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	10.000	35,00%	35,00%
Manifatture Milano S.p.A.	Real Estate	Pirelli & C. Real Estate S.p.A.	Rome/Italy	€	11.230.000	50,00%	50,00%
Maro S.r.l. In liquidation (19)	NPL	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	20.000	25,00%	25,00%
Masseto I B.V.	Real Estate	Pirelli & C. Real Estate S.p.A.	Amsterdam/Holland	€	19.000	33,00%	33,00%
Mistral Real Estate B.V. (9)	Real Estate	Pirelli & C. Real Estate S.p.A.	Amsterdam/Holland	€	18.000	35,01%	35,00%
M.S.M.C. Italy Holding B.V. (20)	Real Estate	Pirelli & C. Real Estate S.p.A.	Amsterdam/Holland	€	20.050	25,00%	25,00%
Nashville S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	125.000	28,46%	28,46%
Polish Investments Real Estate Holding B.V.	Real Estate	Pirelli & C. Real Estate S.p.A.	Amsterdam/Holland	€	20.000	40,00%	40,00%
Polish Investments Real Estate Holding II B.V.	Real Estate	Pirelli & C. Real Estate S.p.A.	Amsterdam/Holland	€	18.000	40,00%	40,00%
Popoy Holding B.V.	Real Estate	Pirelli & C. Real Estate S.p.A.	Rotterdam/Holland	€	26.550	25,00%	25,00%
Projektentwicklung Blankenese Bahnhofsplatz GmbH & Co. KG (9)		DGAG Nordpartner GmbH & Co. KG	Hamburg/Germany	€	5.200.000	50,00%	-
Projektentwicklungsgesellschaft Bahnhofsgebäude Blankenese mbH & Co. KG (9)		47.40% DGAG Nordpartner GmbH & Co. KG	Hamburg/Germany	€	10.000	52,60%	-
		5.20% Verwaltung Blankenese Bahnhofsplatz GmbH					-
Progetto Bicocca La Piazza S.r.l. (in liquidation) (21)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	3.151.800	26,00%	26,00%
Progetto Gioberti S.r.l. (in liquidation) (22)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	100.000	50,00%	50,00%
Resi S.r.l.(in liquidazione)	NPL	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	10.000	25,00%	25,00%
Resident Baltic GmbH	Real Estate	5.20% Pirelli RE Netherlands B.V.	Berlin/Germany	€	25.000	39,99%	39,99%
	Real Estate	94.80% S.I.G. RE B.V.	-	-	-	-	-
Resident Berlin 1 P&K GmbH	Real Estate	Pirelli RE Residential Investments GmbH	Berlin/Germany	€	125.000	40,00%	40,00%
Resident Sachsen P&K GmbH	Real Estate	5.20% Pirelli RE Netherlands B.V.	Berlin/Germany	€	25.000	39,99%	39,99%
	Real Estate	94.80% S.I.G. RE B.V.	-	-	-	-	-
Resident West GmbH	Real Estate	5.20% Pirelli RE Netherlands B.V.	Hamburg/Germany	€	25.000	39,99%	39,99%
	Real Estate	94.80% S.I.G. RE B.V.	-	-	-	-	-
Rinascente/Upim S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Rozzano (MI)/Italy	€	10.000	20,00%	20,00%
Riva dei Ronchi S.r.l. (23)	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	100.000	50,00%	35,00%
Roca S.r.l. (in liquidation) (24)	NPL	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	20.000	25,00%	25,00%
Sicily Investments S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	12.500	40,00%	40,00%
Sigma RE B.V.	Real Estate	Pirelli RE Netherlands B.V.	Amsterdam/Holland	€	18.000	24,66%	24,66%
S.I.G. RE B.V. (25)	Real Estate	Pirelli RE Netherlands B.V.	Amsterdam/Holland	€	18.000	47,20%	36,70%
SI Real Estate Holding B.V.	Real Estate	Pirelli & C. Real Estate S.p.A.	Amsterdam/Holland	€	763.077	25,00%	25,00%
Solaia RE S.à.r.l. (26)	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	13.000	40,00%	35,00%
Solaris S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	20.000	40,00%	40,00%
Tamerice Immobiliare S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	500.000	20,00%	20,00%
Theta RE B.V.	Real Estate	Pirelli RE Netherlands B.V.	Amsterdam/Holland	€	18.005	40,00%	40,00%
Tizian Wohnen 1 GmbH	Real Estate	Pirelli RE Residential Investments GmbH	Berlin/Germany	€	1.114.400	40,00%	40,00%
Tizian Wohnen 2 GmbH	Real Estate	Pirelli RE Residential Investments GmbH	Berlin/Germany	€	347.450	40,00%	40,00%
Trinacria Capital S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	12.500	40,00%	40,00%
Trinoro S.à.r.l. (in liquidation) (27)	Real Estate	Pirelli & C. Real Estate S.p.A.	-	-	-	-	35,00%
Trixia S.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	1.209.700	36,00%	36,00%
Verwaltung Blankenese Bahnhofsplatz GmbH (9)	Real Estate	Projektentwicklung Blankenese Bahnhofsplatz GmbH & Co. KG	Hamburg/Germany	DM	50.000	100,00%	-
Verwaltung Büro- und Lichtspielhaus Hansaallee GmbH	Real Estate	27% Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	DM	50.000	33,75%	33,75%
	Real Estate	20% Grundstücksgesellschaft Merkur Hansaallee mbH & (	-	-	-	-	-
Verwaltung City Center Mülheim Grundstucksges.GmbH	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	DM	60.000	41,17%	41,18%
Verwaltung Kurpromenade 12 Timmendorfer Strand GG mbH	Real Estate	Pirelli & C. Real Estate Deutschland GmbH	Hamburg/Germany	DM	50.000	50,00%	50,00%
Verwaltung Mercado Ottensen Grundstuecksgesellschaft mbH	Real Estate	44% Pirelli RE Netherlands B.V.	Hamburg/Germany	DM	50.000	61,50%	61,50%
	Real Estate	50% Mistral Real Estate B.V.	-	-	-	-	-
Vespucci S.à.r.l.	Real Estate	Pirelli & C. Real Estate S.p.A.	Luxembourg	€	960.150	35,00%	35,00%
Vesta Finance S.r.l.	NPL	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	10.000	35,00%	35,00%
Vivaldi - Fondo comune di investimento immobiliare speculativo di tipo chiuso	Real Estate	Pirelli RE Netherlands B.V.	Milan/Italy	€	18.000.000	50,00%	50,00%
Other significant investments, as defined by CONSOB resolution 11971 of May 14th, 1999							
AVW Assekuranzvermittlung der Wohnungs wirts chaft GmbH & Co KG	Real Estate	10.50% Pirelli RE Netherlands B.V.	Hamburg/Germany	€	260.000	10,70%	10,70%
	Real Estate	0.20% Pirelli & C. Real Estate Deutschland GmbH	-	-	-	-	-
BauBeCon Sanierungsträger GmbH	Real Estate	Pirelli RE Netherlands B.V.	Bremen/Germany	€	500.000	5,10%	5,10%
ImmoMediaNet GmbH & CO. KG	Real Estate	WoWi Media GmbH & Co. KG	Hamburg/Germany	€	5.000.000	50,00%	50,00%
ImmoMediaNet Verwaltungs GmbH	Real Estate	ImmoMediaNet GmbH & CO. KG	Hamburg/Germany	€	25.000	100,00%	100,00%
Tecnocittà S.r.l. (in liquidation)	Dormant	Pirelli & C. Real Estate S.p.A.	Milan/Italy	€	547.612	12,00%	12,00%
WoWi Media GmbH & Co. KG	Real Estate	Pirelli RE Netherlands B.V.	Hamburg/Germany	€	2.500.000	18,85%	18,85%
WoWi Media Verwaltungs GmbH	Real Estate	WoWi Media GmbH & Co. KG	Hamburg/Germany	€	25.000	100,00%	100,00%

(*) Percentages refer to the direct interest held by the company concerned, including any treasury shares held.

(1) The merger of BauBeCon Asset Management GmbH into Pirelli RE Agency Deutschland GmbH, agreed on December 29th, 2009, became effective on March 12th, 2009.

(2) The merger of BauBeCon Corporate Services GmbH into Pirelli RE Management Services Deutschland GmbH, agreed on December 29th, 2009, became effective on April 17th, 2009.

(3) The merger of BauBeCon Wohnen GmbH into Pirelli RE Property Management Deutschland GmbH, agreed on December 29th, 2009, became effective on January 22nd, 2009.

(4) Botticino S.r.l. (in liquidation) was cancelled from the Companies Register in Milan on June 16th, 2009. The resolution to wind up Botticino S.r.l. had been filed with the Companies Register on February 27th, 2009.

(5) On April 8th, 2009 a deed of merger was signed for the absorption of DGAG Grundstücksbeteiligung GmbH into Pirelli & C. Real Estate Deutschland GmbH.

(6) ECOI-Immobilien GmbH (in liquidation) was cancelled from the Register kept by the Vienna Chamber of Commerce on February 28th, 2009.

(7) The merger of Elle Tre S.c.a.r.l. and Elle Dieci S.c.a.r.l. into Edilnord Gestioni S.r.l., agreed on December 11th, 2008, became effective on January 1st, 2009. The reduction in share capital from 517,000 euro to 100,000 euro became effective on January 5th, 2009.

(8) Erato S.r.l. (in liquidation) was cancelled from the Companies Register in Milan on March 16th, 2009.

(9) The change in share capital, approved on May 4th, 2009 by an extraordinary shareholders' meeting of Mistral Real Estate B.V., 35% owned at the time, was executed on May 13th, 2009.Following this operation, the existing shares were transformed into "tracking shares" that were numbered and allocated so as to achieve a direct correlation between such shares and the underlying development companies both in terms of participation in results and exercise of control. Following this transaction Pirelli & C. Real Estate S.p.A. acquired the remaining 65% of certain classes of tracking share, thereby obtaining control of the following companies: Mistral Real Estate B.V., DGAG Beteiligung GmbH & Co. KG, DGAG Nordpartner GmbH & Co. KG, Einkaufszentrum Münzstrasse GmbH & Co. KG, Verwaltung Einkaufszentrum Münzstrasse GmbH & Co. KG, Verwaltung Grundstücksgesellschaft Friedenstraße Wohnungsbau mbH, and a joint or minority interest in Grundstücksgesellschaft Königstraße mbH & Co. KG, Projektentwicklung Blankenese Bahnhofsplatz GmbH & Co. KG, Projektentwicklungsgesellschaft Bahnhofsgebäude Blankenese mbH & Co. KG, and Verwaltung Blankenese Bahnhofsplatz GmbH. Following this transaction, the legal interest in Mistral Real Estate B.V. has risen to 35.01%. It is also reported that Einkaufszentrum Münzstrass

(10) On June 16th, 2009 Pirelli & C. Real Estate S.p.A. raised its interest in Orione Immobiliare Prima S.p.A. from 40.10% to 100%, in accordance with the agreement dated April 2nd, 2009. Pirelli & C. Real Estate S.p.A. acquired all the interests held by third parties in Orione Immobiliare Prima S.p.A. in return for a portion of the property assets held by this company or by its subsidiary Tau S.r.l..

(11) The extraordinary shareholders' meeting of Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. resolved on June 26th, 2009 to increase share capital from 24,458,763.00 euro to 24,558,763.00 euro.

(12) The transfer of the registered office of Pirelli RE Asset Management Deutschland GmbH from Frankfurt to Hamburg became effective on June 12th, 2009.

(13) On April 8th, 2009 a deed of merger was signed for the absorption of Pirelli RE AM NPL Deutschland GmbH into Pirelli & C. Real Estate Deutschland GmbH.

(14) An extraordinary shareholders' meeting of Pirelli RE Bulgaria AD resolved on June 16th, 2009 to increase share capital from 50,000.00 BGN to 1,090,000 BGN and to wind up the company and put it into liquidation.

(15) Pirelli & C. Real Estate S.p.A. subscribed 1,609,500 euro on June 23rd, 2009 to a capital increase by Pirelli RE Credit Servicing S.p.A.. Pirelli & C. Real Estate S.p.A. subscribed to two other capital increases on the same date for 2,400,000 euro and 100,000 euro, with the latter through a contribution in kind effective June 29th, 2009. A further capital increase for 1,500,000 euro was subscribed by another shareholder through the exercise of stock options. Following this transaction, share capital amounts to 7,000,000 euro at June 30th, 2009, while as a result of dilution, the interest of Pirelli & C. Real Estate S.p.A. has fallen from 100% to 80% of share capital.

(16) Aree Urbane S.r.l. voted on April 27th, 2009 to reduce its share capital from 307,717 euro to 10,000 euro.

(17) Fondo Patrimonio Casa - Fondo comune di investimento immobiliare speculativo di tipo chiuso changed its name to Fondo Città di Torino - Fondo comune di investimento immobiliare speculativo di tipo chiuso, effective from January 15th, 2009.

(18) The shareholders of Induxia S.r.l. adopted resolutions in accordance with art.2482-ter et seq of the Italian Civil Code on May 15th, 2009, voting to reduce share capital to zero and subsequently increase it to 40,000 euro.

(19) The resolution to wind up Maro S.r.l. was filed with the Companies Register in Milan on May 22nd, 2009.

(20) The increase in share capital from 20,000 euro to 20,050 euro, resolved by the extraordinary shareholders' meeting of M.S.M.C. Italy Holding B.V. on April 20th, 2009, was carried out on April 21st, 2009.

(21) The resolution to wind up Progetto Bicocca La Piazza S.r.l. was filed with the Companies Register in Milan on May 20th, 2009.

(22) The resolution to wind up Progetto Gioberti S.r.l. was filed with the Companies Register in Milan on January 28th, 2009.

(23) In an extraordinary shareholders' meeting of Riva dei Ronchi S.r.l. held on April 30th, 2009 called to cover this company's losses, Pirelli & C. Real Estate S.p.A. exercised its right to subscribe to the portion of reinstated share capital that was not subscribed by other shareholders, thus increasing its interest by another 15% to a total of 50%.

(24) The resolution to wind up Roca S.r.l. was filed with the Companies Register in Milan on May 22nd, 2009.

(25) Pirelli RE Netherlands B.V. acquired 10.50% of SIG R.E. B.V. on June 26th, 2009, raising its interest in this company to 47.20%.

(26) Pirelli & C. Real Estate S.p.A. acquired 5% of the share capital in Solaia RE S.à.r.l. from third parties on January 30th, 2009.

(27) Trinoro S.r.l. (in liquidation) was cancelled from the Companies Register kept by the Luxembourg Chamber of Commerce on January 28th, 2009.

Certification of the half-year condensed financial statements pursuant to art. 81-ter of Consob Regulation 11971 dated May 14th, 1999 and subsequent amendments and additions

1. The undersigned, Giulio Malfatto, as Chief Executive Officer, and Gerardo Benuzzi, as Financial Reporting Officer, for Pirelli & C. Real Estate S.p.A., attest, also taking account of the provisions of paragraphs 3 and 4, art. 154-bis of Decree 58 dated February 24th, 1998:
   that during the period from January 1st, 2009 to June 30th, 2009 the accounting and administrative processes for preparing the half-year condensed financial statements:

   - have been adequate in relation to the enterprise's characteristics and,
   - have been effectively applied.

2. The adequacy of the accounting and administrative processes for preparing the half-year condensed financial statements at June 30th, 2009 has been evaluated on the basis of an assessment of internal controls. This assessment has been based on a specific process defined in compliance with the principles of the "Internal Control - Integrated Framework" published by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO) and which represents the internationally generally accepted standard model.

3. They also certify that:

3.1 the half-year condensed financial statements:
  a) have been prepared in accordance with the international financial reporting and accounting standards recognized by the European Union in accordance with EC Regulation no. 1606/2002 of the European Parliament and European Council dated July 19th, 2002;
  b) correspond to the underlying accounting records and books of account;
  c) are able to provide a true and fair view of the issuer's balance sheet, results of operations and financial position and of the group of companies included in the consolidation.

3.2 The interim report on operations contains a reliable account of important events that took place in the first six months of the year and their impact on the half-year condensed financial statements, together with a description of the principal risks and uncertainties in the remaining six months of the year. The interim report on operations also contains a reliable presentation of the information on significant transactions with related parties.

July 28th, 2009

Chief Executive Officer	Financial Reporting Officer
(Giulio Malfatto)	(Gerardo Benuzzi)

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

Auditors' review report on the interim condensed consolidated financial statements

To the Shareholders of
Pirelli & C. Real Estate S.p.A.

1. We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in net equity, the cash flows statement and the related explanatory notes of Pirelli & C. Real Estate S.p.A. and its subsidiaries (the "Pirelli & C. Real Estate Group") as of June 30, 2009. Management of Pirelli & C. Real Estate S.p.A. is responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue this review report based on our review.

2. We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. Our review consisted mainly of obtaining information on the accounts included in the interim condensed consolidated financial statements and the consistency of the accounting principles applied, through discussions with management, and by applying analytical procedures to the financial data presented in these consolidated financial statements. A review does not include the application of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements as we expressed on the annual consolidated financial statements.

   With respect to the consolidated financial statements of the prior year and the interim condensed consolidated financial statements of the corresponding period of the prior year, presented for comparative purposes, which have been restated in accordance with IAS 1 (2007), reference should be made to our reports issued on March 30, 2009 and on August 8, 2008, respectively.

3. Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Pirelli & C. Real Estate Group as of June 30, 2009 are not prepared, in all material respects, in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, July 31, 2009

Reconta Ernst & Young S.p.A.
Signed by: Alberto Romeo, Partner

This report has been translated into the English language solely for the convenience of international readers

Pirelli & C. Real Estate – S.p.A.
Head office in Milan, via G. Negri 10
Share Capital euro 420,585,888.50 entirely deposited
Registry of Companies of Milan no 02473170153
Pirelli & C. Group – direction and co-ordination by Pirelli & C. S.p.A..