

20. Stock option plans

PIRELLI & C. S.p.A. STOCK OPTION PLANS

During the year ended December 31, 2008, the company did not introduce any stock option plans.

Pirelli & C. S.p.A. has two stock option plans in place for senior executives and staff of Pirelli & C. S.p.A. and other companies of the group who were granted option rights, not transferable to third parties, for the subscription/purchase of Pirelli & C. S.p.A. ordinary shares.

IFRS 2 "Share-based payment" has not been applied to these plans, since the option rights were awarded prior to November 7, 2002.

The following disclosure is provided on the above-mentioned plans called Pirelli to People and Group Senior Executives.

	Pirelli to People	Group Senior Executives
Plan features	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..
Recipients at December 31, 2008	222 employees (senior executives, cadres, key employees) of the companies of the group. Originally 725 persons at the date of approval of the plan.	21 senior executives of the companies of the group. Originally 51 persons at the date of approval of the plan.
Conditions for exercising options	Continuance of employment.	(a) continuance of employment, and (b) the reaching, in the two-year period 2001-2002, of specific targets, assigned to each recipient.
Subscription/purchase price per share	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 0.996 (1).	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 0.996 (1).
Vesting period of options	Up to nine years from the date the options are granted (which took place on November 5, 2001), but not before one year has passed from that date for 50 percent of the options granted, two years for another 25 percent and three years for the remaining 25 percent.	As regards the options granted on November 5, 2001, up to nine years from the date the options are granted, but not before one year has passed from that date for 50 percent of the options, two years for another 25 percent and three years for the remaining 25 percent. For the options granted definitively on May 10, 2002 up to May 31, 2009, but not before June 1, 2002 for 50 percent of the options and not before January 1, 2003 for the remaining 50 percent.
Maximum number of options for which the offer was open at December 31, 2007	18,175,604 options equal to about 0.35 percent of outstanding ordinary shares destined for 255 recipients.	11,541,015 options equal to about 0.22 percent of outstanding ordinary shares destined for 25 recipients.
Maximum number of options for which the offer was open at December 31, 2008	15,697,334 options equal to about 0.3 percent of outstanding ordinary shares destined for 222 recipients.	N. 9,789,185 options equal to about 0.2 percent of outstanding ordinary shares destined for 21 recipients.
Options forfeit during 2008 as a result of persons leaving the group	2,478,270	1,751,830
Shared issued during the year	None	None

¹ Following the operation to distribute capital of Euros 0.154 per share resolved by the special session of the shareholders' meeting held december 12, 2007, the per share subscription price was changed to Euros 0.996 (from Euros 1.15) from the date of April 3, 2008, in accordance with the regulations of those stock option plans in the event of transactions involving share capital.

The following table shows the changes in the above plans, the number of option rights and the exercise price.

Pirelli to people

TABLE 1

	Year 2008			Year 2007		
	Number of shares	Average exercise price in €	Market price in €	Number of shares	Average exercise price in €	Market price in €
Rights existing at 1/1/2008	18,175,604	1.15 ¹	0.75	20,389,204	1.15 ¹	0.75
Rights granted during year (rights exercised during year)	-	-	-	-	-	-
(Rights forfeit during the year as a result of persons leaving the Group)	2,478,270	-	-	2,213,600	-	-
Rights existing at 12/31/2008	15,697,334	0.996 ¹	0.26	18,175,604	1.15 ¹	0.75

TABLE 2

Exercise price	Rights granted – existing at December 31, 2008 Remaining contractual life		Of which exercisable
	> 1 year *	Total	From 11/5/2004
Euro 0.996 ¹	15,697,334	15,697,334	15,697,334

* until 11/5/2010

¹ Following the operation to distribute capital of Euros 0.154 per share resolved by the special session of the shareholders' meeting held December 12, 2007, the per share subscription price was changed to Euros 0.996 (from Euros 1.15) from the date of April 3, 2008, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

Group Senior Executives

TABLE 1

	Year 2008			Year 2007		
	Number of shares	Average exercise price in €	Market price in €	Number of shares	Average exercise price in €	Market price in €
Rights existing at 1/1/2008	11,541,015	1.15 ¹	0.75	12,397,548	1.15 ¹	0.75
Rights granted during year (rights exercised during year)	-	-	-	-	-	-
(Rights forfeit during the year as a result of persons leaving the Group)	1,751,830	-	-	856,533	-	-
Rights existing at 12/31/2008	9,789,185	0.996 ¹	0.26	11,541,015	1.15 ¹	0.75

TABLE 2

Exercise price	Rights granted – existing at December 31, 2008 Remaining contractual life		Of which exercisable
	> 1 year *	Total	From 11/5/2004
Euro 0.996 ¹	4,416,001	9,789,185	9,789,185

* until 11/5/2010

¹ Following the operation to distribute capital of Euros 0.154 per share resolved by the special session of the shareholders' meeting held December 12, 2007, the per share subscription price was changed to Euros 0.996 (from Euros 1.15) from the date of April 3, 2008, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

The following table indicates the number of rights granted under the above-described incentive plans, held at December 31, 2008, directly and indirectly, by the members of the board of directors, the board of statutory auditors, general managers and key managers of the company and the companies controlled by it.

Name	Rights held at 1/1/2008		Rights granted during year 2008		Rights exercised during year 2008		Rights held at 12/31/2008	
	No. of rights	Average exercise price	No. of rights	Average exercise price	No. of rights	Average exercise price	No. of rights	Average exercise price
Claudio De Conto	778,774 ¹	1.15 ³	-	-	-	-	778.774 ¹	0,996 ³
	410,667 ²	1.15 ³	-	-	-	-	410.667 ²	0,996 ³
Francesco Gori ⁴	533,334 ¹	1.15 ³	-	-	-	-	533.334 ¹	0,996 ³
	666,667 ²	1.15 ³	-	-	-	-	666.667 ²	0,996 ³

¹ Group Senior Executives incentive plan.

² Pirelli to People incentive plan.

³ Following the operation to distribute capital of Euros 0.154 per share resolved by the special session of the shareholders' meeting held December 12, 2007, the per share subscription price was changed to Euros 0.996 (from Euros 1.15) from the date of April 3, 2008, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

⁴ Francesco Gori, starting from July 1, 2006, took over the post of chief executive officer and general manager of the subsidiary Pirelli Tyre S.p.A..

The deputy chairman Carlo Alessandro Puri Negri is the grantee of stock options as the Executive Vice President of Pirelli & C. Real Estate S.p.A..

Giovanni Ferrario (chief executive officer and general manager of the company to December 2004) holds 1,333,334 option rights granting the right to subscribe/purchase the same number of Pirelli & C. ordinary shares at the price of Euros 0.996 each.

Valerio Battista (general manager of the company to June 2005) holds 1,650,134 option rights granting the right to subscribe/purchase the same number of Pirelli & C. ordinary shares at the price of Euros 0.996 each.

Luciano Gobbi from the date of March 31, 2008 - after the termination of the executive relationship with Pirelli & C. S.p.A. - is no longer a recipient of any option rights.

PIRELLI & C. REAL ESTATE S.P.A. PLANS

Stock option/stock grant plans

- On March 6, 2008, the Pirelli & C. Real Estate S.p.A. board of directors, as proposed by the Remuneration Committee, approved the guidelines for two compensation plans based on financial instruments, later approved by the shareholders' meeting which convened on April 14, 2008 (together called the "Plans"):
- a stock option plan, which calls for granting stock options to grantees for the purchase of Pirelli & C. Real Estate S.p.A. ("Stock Option Plan 2008-2010" or "SOP 2008-2010").
- a stock grant plan, which calls for granting free Pirelli & C. Real Estate S.p.A. shares to grantees ("Stock Grant Plan 2008" or "SGP 2008");

On April 14, 2008, the shareholders' meeting approved the Plans, giving the board of directors a mandate to adopt the relative regulations and conferring to them all necessary and appropriate powers for their implementation.

On May 8, 2008, the board of directors, as recommended by the Remuneration Committee and in accordance with the guidelines approved by the shareholders' meeting and the mandates conferred to it, implemented the Plans and adopted the relative regulations.

Subsequently, on May 27, 2008, the board of directors, as recommended by the Remuneration Committee and following certain actions taken to simplify and modify the organizational structure based on new and changing demands to reflect growth prospects and business development, approved certain amendments regarding the options granted to the SOP 2008-2010 recipients, under the guidelines that had been approved by the shareholders' meeting and the mandates that it had conferred.

The above date of May 27, 2008 therefore represents a new grant date for the SOP 2008-2010 options for certain identified recipients.

For a description of the Plans, reference should be made to the Information Documents pursuant to ex art. 84-bis of the Consob Regulation for Issuers, posted to the company's website *www.pirellire.com* in the corporate governance section.

The following disclosure is provided on the above-mentioned Plans.

STOCK OPTION 2008-2010

Plan features	Option rights granted, non-transferable to third parties, for the purchase of Pirelli & C. Real Estate S.p.A. ordinary shares held by the company (treasury shares).
Recipients at December 31, 2008	51 persons (directors, general managers and other key resources) of Pirelli & C. Real Estate S.p.A. and its subsidiaries. Originally 58 persons at the date of approval of the plan. Two grants were made, respectively, on May 8, 2008 (1,240,000 options) and on May 27, 2008 (193,500 options).
Conditions for exercising options	(a) continuance of the employment relationship or status as a director in the companies of the Pirelli Group; (b) reaching/exceeding, when the rights are exercised, a minimum market price of the Pirelli RE share, not less than Euros 26.00 [market restriction]; (c) Pirelli RE has reached the performance targets that will be set by the board of directors upon approval of the 2008-2010 plan.
Subscription/purchase prices per share	Each option right granted gives the right to subscribe/purchase one Pirelli & C. Real Estate S.p.A. ordinary share at the price of Euros 21.23 for the options granted on May 8 and the price of Euros 18.88 for the options granted on May 27, which corresponds to the fair value of the share on the grant date; this price may vary as a result of share capital increases or other extraordinary transactions, but in every case ensuring the equivalent rights held by the grantees before those transactions.
Vesting period of options	40 percent (or a part thereof) of the options can be exercised from May 1, 2010 to December 31, 2011 (first tranche) and the remaining 60 percent from May 1, 2011 to December 31, 2011 (second tranche); all options must be exercised by December 31, 2011. The options may be exercised in advance, in the event of a "change of control" and, as a result of which, Pirelli & C. S.p.A. would no longer be the majority shareholder of the company. However, the market and operating restrictions remain in place, with predetermined criteria to be applied in relation to the exercise of the options if the event should occur.
Maximum number of options for which the offer was open at December 31, 2008	1,379,500 options equal to about 0.03 percent of outstanding ordinary shares destined for 51 recipients.
Options forfeit during 2008 as a result of persons leaving the Group	54,000
Shares issued during the period	None.

The fair value of the options at the grant date was determined using the Binomial valuation model and is equal to:

Grant date	First tranche	Second tranche
May 8, 2008	€ 2.26	€ 2.87
May 27, 2008	€ 1.76	€ 2.37

- The assumptions that were considered in the valuation model can be summarized as follows:
- weighted average price of shares at the grant date equal to Euros 21.23 for the options granted on May 8 and Euros 18.88 for the options granted on May 27;
 - estimated volatility of 30 percent determined on the basis of the historical volatility of the price of the shares from the time Pirelli & C. Real Estate S.p.A. was listed up to the grant date of this plan;
 - estimated period of the rights is 1.98 years for the first tranche and 2.98 years for the second tranche for the options granted on May 8 (1.93 years and 2.93 years, respectively, for the first tranche and the second tranche for the options granted on May 27);
 - estimated dividends equal to 4 percent;
 - risk-free interest rate equal to 4.25 percent.

STOCK GRANT PLAN 2008

Plan features	Allotments of stock grants following the agreement for the consensual early termination of the Long-Term Incentive Plan 2006-2008 (LTI), with an amount corresponding to what has potentially accrued to the recipients in 2006 and divided among them on the basis of what they were respectively entitled. Instead of paying this amount in cash, the recipients were given the value in the form of shares
Recipients at December 31, 2008	55 persons (directors, general managers and other key resources) of Pirelli & C. Real Estate S.p.A. and its subsidiaries. The number of shares is equal to 109,860 allotted on the date of May 8, 2008.
Lock-up period	The Stock Grant Plan 2008 provides for a lock-up period (to April 30, 2009). During that time, each beneficiary is committed not to dispose of the shares assigned, or negotiate, with or without payment, for the transfer of ownership or other real right on the shares or pledge, restrict or encumber the shares in any other way.
Early end of lock-up period	The company may, before April 30, 2009, end the lock-up period in case of particular events or specific situations and without the recipients claiming any right even in the presence of the particular events or specific situations.
Call option	In the event of resignation, termination for cause and/or loss of director status during the lock-up period, the company has a call option to repurchase the recipient's shares.

The tables below – in conformity with Scheme 2 of Attachment 3C of Consob Regulation 11971/1999 – show the changes in the stock options held by the directors and general managers of Pirelli & C. Real Estate S.p.A. during 2008.

Name	Position	Rights held at 1/1/2008			Rights granted in 2008			Rights exercised in 2008			Rights expired/forfeit in 2008	Rights held at 12/31/2008	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		(10)	(11) =(1)+(4)- -(7)-(10)
(A)	(B)	Number of options	Average exercise price	Expiration	Number of options	Average exercise price	Due date	Number of options	Average exercise price	Average exercise market price	Number of options	Number of options	Average exercise price
Carlo Alessandro Puri Negri	Executive Deputy Chairman	300,000	46.50	12/15/2009	300,000	21.23	12/31/2011	-	-	-	300,000	300,000	21.23
Emilio Biffi	Delegated Officer - Chief Technical Officer	70,000	46.50	12/15/2009	30,000	21.23	12/31/2011	-	-	-	70,000	30,000	21.23
Olivier de Poulpique	Delegated Officer - Investment & Fund Raising	200,000	46.50	12/15/2009	200,000	21.23	12/31/2011	-	-	-	200,000	200,000	21.23
Carlo Bianco *	Deputy Chairman	140,000	46.50	12/15/2009	-	-	12/31/2011	-	-	-	140,000	-	-
Paolo Massimiliano Bottelli	General Manager Germany and Poland	140,000	46.50	12/15/2009	140,000	21.23	12/31/2011	-	-	-	140,000	140,000	21.23
				12/15/2009	33,500	18.88	12/31/2011					33,500	18.88
Wolfgang Weinschrod	Officer	-	-	12/15/2009	15,000	21.23	12/31/2011	-	-	-	-	15,000	21.23
Rodolfo Petrosino	General Manager Italy	140,000	46.50	12/15/2009	140,000	21.23	12/31/2011	-	-	-	140,000	140,000	21.23
				12/15/2009	33,500	18.88	12/31/2011					33,500	18.88
Gerardo Benuzzi	General Manager Finance & Human Resources	58,000	46.50	12/15/2009	65,000	21.23	12/31/2011	-	-	-	58,000	65,000	21.23
					12,500	18.88	12/31/2011					12,500	18.88

* Director in office from January 1, 2008 to April 14, 2008 and not reappointed by the shareholders' meeting held April 14, 2008

Name	Position	Rights held at 1/1/2008			Rights granted in 2008			Rights exercised in 2008			Rights expired/ forfeit in 2008	Rights held at 12/31/2008	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		(10)	(11) =(1)+(4)- -(7)-(10)
(A)	(B)	Number of options	Average exercise price	Expiration	Number of options	Average exercise price	Expiration	Number of options	Average exercise price	Average exercise market price	Number of options	Number of options	Average exercise price
Emilio Biffi	Delegated Officer - Chief Technical Officer	-	-	-	5,203	-	n/a	5,203	-	19.37	-	-	-
Olivier de Poulpiquet	Delegated Officer - Investment & Fund Raising	-	-	-	16,283	-	n/a	16,283	-	19.37	-	-	-
Paolo Massimiliano Bottelli	General Manager Germany and Poland	-	-	-	7,400	-	n/a	7,400	-	19.37	-	-	-
Rodolfo Petrosino	General Manager Italy	-	-	-	7,400	-	n/a	7,400	-	19.37	-	-	-
Gerardo Benuzzi	General Manager Finance & Human Resources	-	-	-	4,607	-	n/a	4,607	-	19.37	-	-	-

These are option rights relating to the stock option plan for the three years 2006-2008 which was subsequently replaced by the stock option plan 2008-2010, as approved by the shareholders' meeting held on April 14, 2008 in view of the approval of the new three-year plan 2008-2010. The stock option plan is described in detail in the information document pursuant to ex art. 114-bis of the Consolidated Law on Finance and art. 84 of the Regulation for Issuers, published in accordance with the law. Consequent to the introduction of the new plan, the options relating to the previous plan are forfeit.

PIRELLI & C. AMBIENTE S.P.A. PLANS

Under the cash-settled stock options plan approved by the board of directors of Pirelli & C. Ambiente Renewable Energy S.p.A. and its parent Pirelli & C. Ambiente S.p.A. (which merged Pirelli & C. Ambiente Renewable Energy S.p.A. during the course of the year), in effect since January 2006, the specific corporate targets set as conditions precedent to the exercise of the option rights had not been met as at December 31, 2008. As a result the option rights were forfeit for all intents and purposes.

Therefore, the payable corresponding to the fair value of the plan, equal to Euros 501 thousand, was reversed to the income statement.

21. Tax payables

Tax payables amount to Euros 53,742 thousand (of which Euros 9,706 thousand is non-current) compared to Euros 56,918 thousand at December 31, 2007 (of which Euros 11,211 thousand is non-current).

22. Provisions for other liabilities and charges

The movements during the year in provisions for other liabilities and charges are presented in the following table:

PROVISIONS FOR OTHER LIABILITIES AND CHARGES - NON-CURRENT (in thousands of euros)

Beginning balance at 12/31/2007	146,331
Exchange differences	(16,437)
Increase	19,929
Utilization/release	(12,071)
Other	3,439
Ending balance at 12/31/2008	141,191

PROVISIONS FOR OTHER LIABILITIES AND CHARGES - CURRENT (in thousands of euros)

Beginning balance at 12/31/2007	71,340
Exchange differences	(834)
Increase	81,252
Utilization/release	(11,856)
Other	(4,252)
Ending balance at 12/31/2008	135,650

At December 31, 2008, the **non-current portion** mainly refers to the accruals for the legal and tax disputes of the subsidiary Pirelli Pneus S.A. in Brazil (Euros 72,201 thousand), risks of a tax nature (Euros 27,410 thousand) and other risks/expenses of a commercial nature and labor disputes (Euros 15,807 thousand) regarding the Parent, Pirelli & C. S.p.A., and contractual commitments undertaken for the performance of extraordinary maintenance work on buildings sold (Euros 17,533 thousand) and disputes under arbitration and pending litigation (Euros 5,666 thousand) regarding Pirelli & C. Real Estate S.p.A..

The increase for the year is largely in reference to adjustments connected with commercial risks, compensation and disputes (Euros 9,951 thousand for the Parent, Pirelli & C. S.p.A., and Euros 7,720 thousand for the Tyre sector).

The **current portion** includes accruals for contractual guarantees and product claims (Euros 33,514 thousand for the Tyre sector and Euros 14,831 thousand for the Broadband Access sector), accruals made by the Parent, Pirelli & C. S.p.A., for guarantees provided when Pirelli sold its activities in the Energy and Telecom Cables and Systems sectors to Goldman Sachs Capital Partners in July 2005 (Euros 10,000 thousand) and restructuring expenses for the internal reorganization of Pirelli & C. Real Estate S.p.A. (Euros 16,976 thousand) in addition to the provision for liabilities regarding investments accounted for by the equity method of Pirelli & C. Real Estate S.p.A. (Euros 48,670 thousand).

The **increase** mainly refers to the Real Estate sector for restructuring programs (Euros 17,900 thousand) and liabilities relating to the investments accounted for by the equity method in order to absorb the losses of the associates and joint ventures in excess of their carrying amount (Euros 48,670 thousand) in addition to an accrual by the Tyre sector (Euros 8,284 thousand) regarding contractual guarantees and product claims.