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21. STOCK OPTION PLANS

Plans relating to Pirelli & C. S.p.A.

During the year ended December 31, 2005, the company did not introduce any stock option plans. Pirelli & C. has two existing stock option plans for the senior executives and staff of Pirelli & C. and other companies in the Group which were granted option rights, not transferable to third parties, for the subscription/purchase of Pirelli & C. S.p.A. ordinary shares.

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

	Pirelli to People	Group Senior Executives
Features of the plan	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.
Beneficiaries at December 31, 2005	309 employees (senior executives, cadres, employees with high potential) of the companies	31 senior executives of the companies of the Group.

	of the Group. Originally 725 persons at the date of approval of the plan.	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 beneficiary.
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 1.150 ⁽¹⁾ .	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 1.150 ⁽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, 2004	36,826,541 options equal to about 1.11 percent of outstanding ordinary shares destined for 530 beneficiaries.	17,399,309 options equal to about 0.52 percent of outstanding ordinary shares destined for 40 beneficiaries.
Maximum number of options for which the offer was open at December 31, 2005	21,693,205 options equal to about 0.4 percent of outstanding ordinary shares destined for 309 beneficiaries.	13,986,882 options equal to about 0.27 percent of outstanding ordinary shares destined for 31 beneficiaries.
Options forfeit during the year 2005 as a result of persons leaving the Group	15,133,336	3,412,427
Shares issued during the year	None	None

(1) This amount was changed (from Euros 1.284) on the basis of the adjustment factor established by AIAF on February 7, 2005 following the capital increase voted by the extraordinary shareholders' meeting held on January 21, 2005, 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 (also as a result of the reduction in the number of beneficiaries following the disposal of the Cables and Systems Sector of the Group), the number of option rights and the exercise price.

Pirelli to People						
Table 1	Year 2005			Year 2004		
	Number of shares	Average exercise price in €	Market price in €	Number of shares	Average exercise price in €	Market price in €
Rights existing at 1/1/2005	36,826,541	1.284	0.99	39,112,407	1.284	0.82
Rights granted during year	-	-	-	-	-	-
(rights exercised during year)	-	-	-	-	-	-
(Rights forfeit during the year 2005 as a result of persons leaving the Group)	15,133,336	-	-	2,285,866	-	-
Rights existing at December 31, 2005	21,693,205	1.15 (1)	0.77	36,826,541	1.284	0.99
Table 2 Rights granted - existing at December 31, 2005						
Exercise price	Remaining contractual life		Total	Of which exercisable		
	>2 years *				From 11/5/2004	
€ 1,15 (1)	21,693,205		21,693,205		21,693,205	

* until 11/5/2010

(1) This amount was changed to Euros 1.150 on the basis of the adjustment factor established by AIAF on February 7, 2005 following the capital increase voted by

the extraordinary shareholders' meeting held on January 21, 2005, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

Table 1	Group Senior Executives					
	Year 2005			Year 2004		
	Number of shares	Average exercise price in €	Market price in €	Number of shares	Average exercise price in €	Market price in €
Rights existing at 1/1/2005	17,399,309	1.284	0.99	17,853,283	1.284	0.82
Rights granted during year (rights exercised during year)	-	-	-	-	-	-
(Rights forfeit during the year 2005 as a result of persons leaving the Group)	3,412,427	-	-	453,974	-	-
Rights existing at December 31, 2005	13,986,882	1.15 (1)	0.77	17,399,309	1.284	0.99

Table 2	Rights granted - existing at December 31, 2005			
	Exercise price	Remaining contractual life		Of which exercisable From 11/5/2004
		>2 years *	Total	
€ 1,15 (1)	13,986,882	13,986,882	13,986,882	

* until 5/31/2009

(1) This amount was changed to Euros 1.150 on the basis of the adjustment factor established by AIAF on February 7, 2005 following the capital increase voted by the extraordinary shareholders' meeting held on January 21, 2005, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

The following tables indicates the number of rights granted under the above-described incentive plans, held at December 31, 2005, directly and indirectly, by the members of the board of directors, the board of statutory auditors and the general managers of the Company..

Name	Rights held at 1/1/2005		Rights granted during year 2005		Right exercised during year 2005		Rights held at 12/31/2005	
	N. of rights	Average exercise price	N. of rights	Average exercise price	N. of rights	Average exercise price	N. of rights	Average exercise price
Carlo Buora	1,333,334 ⁽¹⁾	1.284	-	-	-	-	1,333,334 ⁽¹⁾	1.15 ⁽²⁾
Claudio De Conto	778,774 ⁽¹⁾	1.284	-	-	-	-	778,774 ⁽¹⁾	1.15 ⁽²⁾
	410,667 ⁽²⁾	1.284	-	-	-	-	410,667 ⁽²⁾	1.15 ⁽²⁾
Luciano Gobbi	778,774 ⁽¹⁾	1.284	-	-	-	-	778,774 ⁽¹⁾	1.15 ⁽²⁾
	360,000 ⁽²⁾	1.284	-	-	-	-	360,000 ⁽²⁾	1.15 ⁽²⁾
Francesco Gori	533,334 ⁽¹⁾	1.284	-	-	-	-	533,334 ⁽¹⁾	1.15 ⁽²⁾
	666,667 ⁽²⁾	1.284	-	-	-	-	666,667 ⁽²⁾	1.15 ⁽²⁾

(1) Group Senior Executives incentive plan.

(2) Pirelli to People incentive plan.

(3) This amount was changed to Euros 1.150 on the basis of the adjustment factor established by AIAF on February 7, 2005 following the capital increase voted by the extraordinary shareholders' meeting held on January 21, 2005, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

Giovanni Ferrario (general manager of the company since December 2004) holds 1,333,334 option rights granting the right to subscribe/purchase the same number of Pirelli & C. S.p.A. ordinary shares at the price of Euros 1.15 each.

Valerio Battista (general manager of the company since December 2004) holds 1,650,134 option rights granting the right to subscribe/purchase the same number of Pirelli & C. S.p.A. ordinary shares at the price of Euros 1.15 each.

During 2005, effective January 2006, a new stock option plan was approved by the boards of directors of Pirelli & C. Ambiente S.p.A. and Pirelli & C. Ambiente Holding S.p.A. (its parent) which provides for granting nine beneficiaries - including the managing director and general manager of Pirelli & C. Ambiente S.p.A., Nicolò Dubini, - an option to purchase a total of 306,000 Pirelli & C. Ambiente S.p.A. shares, equal to 10 percent of the share capital of the latter company, at a price per share of Euros 1.85, on the basis of an appraisal specifically performed for that purpose.

All the above option rights may be exercised in April 2009, after having reached specific corporate targets by the date of December 31, 2008, or, in September 2009, in the case of reaching the same targets by June 30, 2009. The shares resulting from the exercise of the option rights can be sold by the beneficiaries to Pirelli & C. Ambiente Holding S.p.A. within one month of having exercised the rights at a price that will take into account the net asset revaluation of the company during that time.

The previous stock option plan of Pirelli & C. Ambiente S.p.A. expired on December 31, 2005 without any rights having been exercised.

Plans put in place by the subsidiary Pirelli & C. Real Estate S.p.A. and by the companies it controls
During 2000 and 2001, plans were put in place denominated Plan 2000 and Plan 2001.

Both plans provided for the right of acceleration and repurchase by the parent company Pirelli & C. S.p.A. in the event the company decided to introduce a single pre-planned program for the stable involvement of employees and management in the growth of value of Pirelli & C. Real Estate S.p.A. once the phase of reorganization and personnel aggregation started in 2000 had ended.

Since these conditions were fulfilled, the company approved a stock option plan on May 9, 2002 (hereinafter "Plan 2002") with these features and Pirelli & C. S.p.A. took advantage of the right to accelerate and repurchase all the shares assigned to the beneficiaries of the Plan 2000 and Plan 2001.

On February 24, 2004, the company - taking into account of the expiration date of the exercise periods for Plan 2002 - approved a new stock option plan (hereinafter "Plan 2004") on behalf of the directors and employees of the Pirelli RE group (hereinafter "Group"), as an added incentive and to increase a sense of loyalty, partly with view towards the development of new business areas - among which, the placement of mutual funds and non-performing loan activities - that the Group is pursuing.

Lastly, on December 16, 2005 - having taken note of the approval of the new Three-year Plan 2006-2008 by the board of directors of the company on October 18, 2005 - a new stock option plan was put into place (hereinafter "Plan 2006") for directors and employees of the Group. The plan is an added incentive to increase their loyalty while bearing in mind the important targets fixed in that Plan which provide - besides a renewed dynamics in the development and in the consolidation of the traditional residential and commercial sectors, specialist services, the promotion and management of property investment funds - also: (i) an appreciable growth in the non-performing loan sectors; (ii) a clear and significant slant towards foreign markets; (iii) the innovative promotion and management of speculative funds; (iv) the growth of the franchising network's contribution to the Group's overall results and, in general (v) an overall annual increase in the long-term component of the business as compared to the traditional short-term component, with an annual growth in results of 10 percent - 15 percent. The new Plan 2006 was also designed by considering the expiration dates of the exercise periods of Plan 2004.

The most important information about the stock option plans of the Group are provided as follows:

PLAN 2002

Plan features: granting of option rights, non-transferable to third parties, for the subscription of Pirelli & C. Real Estate S.p.A. ordinary shares.

Beneficiaries: 88 persons (directors, executives and cadres) of Pirelli & C. Real Estate S.p.A. and its subsidiaries.

Conditions for exercising the options rights: (a) continuance of the employment relationship with one of the above companies, (b) continued status of the company, in which the person is an employee or a director, as a company of the Group headed by Pirelli & C. S.p.A. (c) achievement of the specific targets assigned to each beneficiary during the three-year period 2002-2004.

Per share subscription price: Euros 26; this price may vary as a result of share capital increases unconnected with the Plan or in the case of mergers, spin-offs or amendments to the bylaws affecting the rights of the beneficiaries.

Option exercise period: 50 percent of the options can be exercised from July 1, 2004 to December 15, 2006 and the remaining 50 percent from July 1, 2005 to December 15, 2006; all options must be exercised by December 15, 2006.

Maximum number of shares covered by the plan: 2,150,000, of which 2,053,000 have been assigned. There were 1,491,500 rights remaining at January 1, 2005; during 2005, 52,750 rights were forfeit as a result of the termination of employment and 908,500 were exercised. Consequently, there were 530,250 options granted remaining at December 31, 2005.

IFRS 2 has therefore not been adopted for this plan since it was approved before November 7, 2002.

PLAN 2004

Plan features: granting of option rights, non-transferable to third parties, for the purchase of Pirelli & C. Real Estate S.p.A. ordinary shares held as treasury shares.

Beneficiaries: 50 persons (directors, executives and cadres) of Pirelli & C. Real Estate S.p.A. and its subsidiaries.

Conditions for exercising the options rights: (a) continuance of the employment relationship or status as a director with Pirelli & C. Real Estate S.p.A. or another company controlled, directly or indirectly, by the same company (b) share performance by Pirelli & C. Real Estate S.p.A. shares better than the European Public Real Estate Association (EPRA), Europe Return Index, separately for the reference periods of the two periods covered by the Plan.

Per share purchase price: Euros 26.75, 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 beneficiaries before those transactions.

Option exercise period: 50 percent of the options can be exercised from July 1, 2006 to December 15, 2007 (first tranche) and the remaining 50 percent from July 1, 2007 to December 15, 2007 (second tranche); all options must be exercised by December 15, 2007.

Maximum number of shares covered by the plan: 1,000,000.

There were 1,000,000 rights remaining at January 1, 2005; during 2005, 53,000 rights were forfeit as a result of the termination of employment. Consequently, there were 947,000 options granted remaining at December 31, 2005.

The fair value of the options on the grant date, equal to Euros 2.5 for the first tranche and Euros 2.69 for the second tranche, was determined using the Monte-Carlo model.

The assumptions that were considered in the model take into account the fair value of the shares at the grant date (Euros 26.75) equal to the exercise price of these same shares, as well as expected volatility of 22 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 until the grant date of this plan.

PLAN 2006

Plan features: granting of option rights, non-transferable to third parties, for the purchase of Pirelli & C. Real Estate S.p.A. ordinary shares held as treasury shares.

Beneficiaries: 70 persons (directors, executives and other key resources) of Pirelli & C. Real Estate S.p.A. and its subsidiaries.

Conditions for exercising the options rights: (a) continuance of the employment relationship or status as a director in the companies of the Pirelli Group (b) the reaching/exceeding, when the rights are exercised, of a minimum market price of the Pirelli RE share, which must not be lower than Euros 55.00 [market restriction], (c) average annual growth of the Operating Result Parameter (PBIT) + Income from investment holdings (IEP) not less than 10 percent [operating restriction].

Per share purchase price: Euros 46.50, 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 beneficiaries before those transactions.

Option exercise period: 40 percent of the options can be exercised from July 1, 2008 to December 15, 2009 (first tranche) and the remaining 60 percent from July 1, 2009 to December 15, 2009 (second tranche); all options must be exercised by December 15, 2009. 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 shares covered by the plan: 1,800,000.

The fair value of the options on the grant date, equal to Euros 5.9 for the first tranche and Euros 5.27 for the second tranche, was determined using the Black-Scholes model.

The assumptions that were considered in the model take into account the fair value of the shares at the grant date (Euros 46.50) equal to the exercise price of these same shares, as well as expected volatility of 23 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 until the grant date of this plan.

The table below - in conformity with Scheme 2 of appendix 3C of Consob Regulation No. 11971/1999 - shows the movements in the stock options held by the directors and general managers Pirelli & C. Real Estate S.p.A. during 2005.

(A)	(B)	Options held at 1/1/2005			Options granted in 2005			Options exercised in 2005			Options forfeit/ held during the year	Options held at 12/31/2005	
		(1) (a)	(2)	(3)	(4) (b)	(5)	(6)	(7)	(8)	(9)	(10)	(11)=(1) + (4)-(7) (10)	(12) (c)
Name	Position	Number of options	Average exercise price	Due date	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	Deputy Chairman and Managing Director - Chief Executive Officer	1,110,000	26.41	12/15/07	300,000	46.50	12/15/09	427,500	26.00	40.88	-	982,500	32.45
Carlo Bianco	Deputy Chairman	148,000	26.44	12/15/07	140,000	46.50	12/15/09	31,000	26.00	45.72	-	257,000	37.42
Emilio Biffi	Managing Director - Chief Technical Officer General Manager	148,000	26.44	12/15/07	140,000	46.50	12/15/09	62,000	26.00	47.67	-	226,000	38.98
Olivier de Poulpiquet	Director General Manager Investment & Asset Management	200,000	26.75	12/15/07	200,000	46.50	12/15/09	-	-	-	-	400,000	36.63
Marc Petit	(d)	29,000	26.00	12/15/06	-	-	-	29,000	26.00	44.44	-	-	-
Giorgio Fantoni	(e)	71,500	26.00	12/15/06	-	-	-	-	26.00	-	71,500	-	-

(a) options granted under plans 2002 and 2004

(b) options granted under plan 2006

(c) the average exercise price takes into account the average values referring plans 2002/2004 and 2006

(d) ex Special Projects General Manager ended relations with the company on July 31, 2005 and, consequently, resigned his position

(e) ex Service General Manager ended relations with the company on January 31, 2005 and, consequently, resigned his position

Stock option plans of subsidiaries

On July 31, 2003, Giulio Malfatto, a director of Pirelli & C. Real Estate S.p.A., upon his appointment as the managing director of Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., was offered an option for the purchase of ordinary shares representing 3 percent of the share capital of Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., to be executed by a share capital increase to service this option. The option is an integral part of Giulio Malfatto's compensation as the managing director of Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A..

The option will be exercisable:

- a) at the expiry of the first three-year term of his appointment as the managing director of Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. and for the following six months, or
- b) from an earlier date in the case of revocation without a just cause, or dismissal with a just cause from the post of managing director of Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., until the expiry date mentioned in point a), or
- c) within three months from December 31, 2005, if at that date the value of the assets managed by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. is lower than Euros 3 billion.

The exercise of the option, in the event indicated in the previous letter a), is subject to the verification of having reached certain targets (in terms of profitability, assets managed, etc.) established by the same board of directors of Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A..

The exercise price of the option is equal to the fair value of 3 percent of Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. shares at the date of July 31, 2003, resulting from a specific appraisal. This price may vary in relation to subsequent increases in share capital, if any, voted and subscribed to, in order for the managing director to have an option right equal to 3 percent of the resulting capital at the date of the exercise of the option.

There were no movements in the options granted during the year 2005 and at December 31, 2005 the options total 246,750.

The board of directors of Pirelli & C. Real Estate S.p.A., on November 7, 2003, also approved stock option plans for 33 executive and directors of some wholly-owned service companies of Pirelli & C. Real Estate S.p.A.. These plans do not include the directors and general managers of Pirelli RE.

For all the approved plans, the exercise prices were determined on the basis of specific appraisals to determine the fair value of the companies. The option rights can be exercised in the months of April 2005 and April 2006, but are subject to several factors, including the reaching of performance targets that are higher than those established in the Plan 2003-2005. Furthermore, there is a put and call mechanism in place for the repurchase of the shares connected with the exercise, if any, of the options.

There were 72,615 option rights granted on January 1, 2005 to various service companies; during 2005, 11,331 option rights were forfeit as a result of the termination of employment, 4,520 option rights were exercised and 15,604 thousand rights lapsed. Consequently, there were 41,160 option rights granted remaining at December 31, 2005.

The board of directors of Pirelli & C. Real Estate Franchising Holding S.r.l. approved a stock option plan for 10 directors and employees of its wholly-owned subsidiary Pirelli & C. Real Estate Franchising S.p.A. on June 29, 2004. This plan does not include the directors and general managers of Pirelli RE. The plan provides for granting 12,167 option rights for the purchase of Pirelli & C. Real Estate Franchising S.p.A. shares (equal to 2.43 percent of the share capital) at the exercise price per share of Euros 119.90.

The exercise price was determined on the basis of a specific appraisal to determine the fair value of the company. The option rights can be exercised in the months of April 2006 (first tranche) and April 2007 (second tranche) but are contingent on several factors, including the reaching of performance targets. Furthermore, there is a put and call mechanism in place for the repurchase of the shares connected with the exercise, if any, of the options.

There were 9,609 option rights granted on January 1, 2005; during 2005, 189 option rights were forfeit. Consequently, there were 9,420 option rights granted remaining at December 31, 2005.

The board of directors of Pirelli & C. Real Estate S.p.A. approved a stock option plan for executives and other employees of Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., a subsidiary of Pirelli & C. Real Estate S.p.A. on July 28, 2004. This plan does not include the directors and general managers of Pirelli & C. Real Estate S.p.A. The plan was adopted at a later date, compared to the other service subsidiaries, in order to include the executives and other employees of Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. in incentive mechanisms that had not been included in the previous plans introduced by Pirelli RE, since these companies had been in the start-up phase, and bring their compensation schemes in line with a consistent policy within the Group.

The stock option plan for the subsidiary Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. is for 11 executives and other employees and provides for a maximum of 170,523 options to be granted for the purchase of the Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. shares (equal to 2.07 percent of the share capital) at the exercise price per share of Euros 17.47.

In this case, too, the exercise price was determined on the basis of a specific appraisal to determine the fair value of the company. The options can be exercised during the period April 1, to April 30, 2007, but are contingent on several factors, including the reaching of performance targets. Furthermore, there is a put and call mechanism in place for the repurchase of the shares connected with the exercise, if any, of the options.

There were 104,771 option rights remaining on January 1, 2005 granted to various service companies; during 2005, 31,487 option rights were forfeit as a result of the termination of employment. Consequently, there were 73,284 option rights granted remaining at December 31, 2005.

At December 31, 2005, the fair value of the cash-settled open stock options plans relating to subsidiaries amount to Euros 11,743 thousand (Euros 5,842 thousand at December 31, 2004).

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