

Increases mainly refer to provisions for product claims, labour lawsuits, occupational diseases and reorganisation/closure of activities.

Uses are mainly related to costs incurred to close pending actions against business units domiciled in Italy for occupational disease lawsuits and in Germany for corporate reorganisation, and claims received from the various Group units.

Reversals of excess provisions mainly concerned technical claims (euro 2,378 thousand), tax risks (euro 1,724 thousand), industrial accident insurance (euro 1,187 thousand) and labour lawsuits (euro 1,290 thousand).

23. EMPLOYEE BENEFIT OBLIGATIONS

This item includes:

(in thousands of euro)

	12/31/2014	12/31/2013
Pension funds:		
- funded	203,183	222,242
- unfunded	107,899	93,763
Employee leaving indemnities (TFR - Italian companies)	42,451	44,496
Healthcare plans	22,337	17,333
Other benefits	83,075	61,616
	458,945	439,450

Pension funds

The following table shows the breakdown of pension funds at December 31, 2014:

(in thousands of euro)

	12/31/2014						
	GERMANY	SWEDEN	TOTAL UNFUNDED PENSION FUNDS	USA	UK	OTHER COUNTRIES	TOTAL FUNDED PENSION FUNDS
Funded funds							
Present value of funded liabilities	-	-	-	158,128	1,205,203	5,985	1,369,316
Fair value of plan assets	-	-	-	(116,931)	(1,044,306)	(4,896)	(1,166,133)
Unfunded funds							
Present value of unfunded liabilities	104,008	3,891	107,899	-	-	-	-
Net liabilities recognised	104,008	3,891	107,899	41,197	160,897	1,089	203,183

The following table shows the breakdown of pension funds at December 31, 2013:

(in thousands of euro)

	12/31/2013						
	GERMANY	SWEDEN	TOTAL UNFUNDED PENSION FUNDS	USA	UK	OTHER COUNTRIES	TOTAL FUNDED PENSION FUNDS
Funded funds							
Present value of funded liabilities	-	-	-	124,986	973,635	4,527	1,103,148
Fair value of plan assets	-	-	-	(98,799)	(778,403)	(3,704)	(880,906)
Unfunded funds							
Present value of unfunded liabilities	90,087	3,676	93,763	-	-	-	-
Net liabilities recognised	90,087	3,676	93,763	26,187	195,232	823	222,242

The increase in the liabilities of the USA pension fund is mainly due to the change of the official tables of mortality, while the decrease in liabilities of the UK funds is related to the over performance of the related assets that were able to more than offset the increase in liabilities caused by the reduction in discount rates.

The characteristics of the principal pension funds in place at December 31, 2014 are summarized below:

- Germany:** this is an unfunded defined-benefit plan based on the last salary. It provides a pension in addition to the state pension. The plan was closed in October 1982; consequently the participants to this plan are employees whose employment began prior to that date;
- USA:** this is a funded defined-benefit plan based on the last salary. It provides a pension in addition to the state pension and is administered by a trust. The plan was closed in 2001 and frozen in 2003 for employees who were transferred to a defined-contribution scheme. All participants to this plan have retired;
- UK:** these are funded defined-benefit plans based on the last salary. They provide a pension in addition to the state pension and are administered in trusts. These plans were closed in 2001. The Pirelli Tyres Ltd plan was frozen in 2010 for employees hired before 2001, who were transferred to a defined contribution plan. The plan operated by the subsidiary Pirelli UK Ltd, which includes the employees in the Cables and Systems segment sold in 2005, was already frozen at the date of the sale in 2005;
- Sweden:** this involves a defined benefits plan (ITP2), which is closed to new participants, and the only participants are retired employees and recipients of deferred pensions.



In 2014, the following changes occurred in the net liabilities of defined benefits related to both funded and non-funded pension funds:

[in thousand of euro]

	PRESENT VALUE OF GROSS LIABILITIES	FAIR VALUE OF PLAN ASSETS	TOTAL NET LIABILITIES
Opening balance at January 1, 2014	1,196,912	[880,907]	316,005
Translation difference	92,263	[75,846]	16,416
Movements through income statement:			
- current service cost	895	-	895
- interest expense / [income]	54,973	[42,086]	12,887
	55,867	[42,086]	13,781
Remeasurements recognized in equity:			
- [gains] / losses from change in demographic assumptions	12,630	-	12,630
- [gains] / losses from change in financial assumptions	170,829	-	170,829
- experience [gains] losses	11,885	-	11,885
- return on plan assets, net of interest income	-	[187,135]	[187,135]
	195,343	[187,135]	8,208
Employer's contributions	-	[44,006]	[44,006]
Plan participants' contributions	22	[22]	-
Benefits paid	[62,668]	62,668	-
Other	[531]	1,207	675
Closing balance at December 31, 2014	1,477,209	[1,166,127]	311,082

The following changes occurred in the net liabilities of defined benefits in 2013:

[in thousand of euro]

	PRESENT VALUE OF GROSS LIABILITIES	FAIR VALUE OF PLAN ASSETS	TOTAL NET LIABILITIES
Opening balance at January 1, 2013	1,223,913	[852,944]	370,969
Translation difference	[26,077]	19,646	[6,431]
Movements through income statement:			
- current service cost	923	-	923
- interest expense / [income]	50,201	[36,347]	13,854
	51,124	[36,347]	14,777
Remeasurements recognized in equity:			
- [gain] loss from change in demographic assumptions	[13,089]	-	[13,089]
- [gain] loss from change in financial assumptions	20,009	-	20,009
- experience [gains] losses	[1,702]	-	[1,702]
- return on plan assets, net of interest income	-	[23,376]	[23,376]
	5,218	[23,376]	[18,158]
Employer's contributions	-	[45,888]	[45,888]
Plan participants' contributions	28	[28]	-
Benefits paid	[56,865]	56,865	-
Other	[429]	1,165	736
Closing balance at December 31, 2013	1,196,912	[880,907]	316,005

The service cost is included in the item "Personnel expense" [note 32], while the interest expense/ [income] is included in the item "Financial expenses" [note 37].

The following table shows the breakdown of funded pension fund assets:

(in thousand of euro)

	12/31/2014				12/31/2013			
	LISTED	UNLISTED	TOTAL	%	LISTED	UNLISTED	TOTAL	%
Shares	74,725	269,765	344,490	30%	70,300	170,224	240,524	28%
Bonds	203,615	161,826	365,441	31%	75,664	115,653	191,317	22%
Insurances	-	4,896	4,896	0%	-	3,704	3,704	0%
Deposits	63,913	4,468	68,381	6%	102,145	43,221	145,366	17%
Balanced funds	846	187,179	188,025	16%	-	250,004	250,004	28%
Real Estate	-	73,210	73,210	6%	-	29,448	29,448	3%
Derivatives	113,151	-	113,151	10%	8,926	1,934	10,860	1%
Other	-	8,533	8,533	1%	-	9,683	9,683	1%
	456,249	709,878	1,166,127	100%	257,035	623,871	880,906	100%

The principal risks to which the Group is exposed in relation to the pension funds are detailed as follows:

- volatility of assets for the plans: to limit the liabilities, the investment strategy privileges assets which are expected to have relatively high and stable returns over the long-term. This implies that certain investments, such as listed shares, feature high volatility over the short term, and that this exposes the plans to risks of reduction in the value of assets in the short-term, consequently increasing liabilities. However, this risk is mitigated by the diversification of the investments into different investment classes, through different investment managers and different investment styles. Moreover, the investments are continuously revised in response to market conditions, with adjustments to maintain the overall risk at adequate levels;
- changes in bond returns and expected inflation: forecasts of falling returns on the bonds and/or rising inflation lead to an increase in the value of liabilities. The plans reduce this risk by making investments in "liability hedging" assets. In the United Kingdom, the protection assured by a portfolio of this type was built over the last several years, and from the second quarter of 2014 it reached 100% of the value of the liabilities covered by assets;
- life expectancy: growing life expectancy entails an increase in the value of plan liabilities. The plans do not protect themselves directly against this risk. The liabilities are measured by using prudent hypotheses whose adequacy is revised periodically.

In the UK the management of plan assets was delegated, under the supervision and within a precise mandate attributed by the Trustees, to a Fiduciary Manager that operates according to a model of Liability Driven Investment (LDI), or having as reference liabilities (liability benchmark), so as to minimize the volatility (and thus the risk) of the deficit, which in fact was reduced to about one third compared to the levels in place before its introduction (early 2011). The key parameters of this mandate may be summarised as follows:

- a mix of assets under dynamic management over time, rather than a fixed strategic allocation;
- hedging of about 100% of the risk related to interest and inflation rates – constructed as a percentage of the asset value – through the use of debt instruments (government bonds) and derivatives;
- management of foreign exchange risk with the goal of hedging at least 70% of the exposure to foreign currencies held in the portfolio through use of forward contracts.

In the United Kingdom, the funding arrangements and funding policies are revised once every three years. The next funding evaluation is expected in 2017. In the United States the funding evaluations are made on an annual basis.

The contributions expected to be paid into the unfunded pension funds during 2015 amount to euro 6,632 thousand, those for funded plans euro 40,731 thousand. The latter figure may be subject to adjustments, particularly as a consequence of the ongoing funding evaluation process in the UK.



Employees' leaving indemnities (TFR)

Employees' leaving indemnities (for Italian companies) changed as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	44,496	47,007
Liabilities held for sale	(6,574)	-
Movements through income statement:		
- current service cost	146	236
- interest expense	1,254	1,446
Remeasurements recognized in equity:		
- actuarial (gains) losses arising from changes in financial assumptions	5,787	(1,230)
- experience (gains) losses	(748)	(617)
Payments/advances	(2,129)	(2,056)
Other	219	(290)
Closing balance	42,451	44,496

The current cost of employee service is included in the item "Personnel expenses" (note 32) while the interest expense is included in the item "Financial expenses" (note 37).

The contributions expected to be paid into employees' leaving indemnities during 2015 total euro 1,558 thousand.

Healthcare plans

This item refers exclusively to the healthcare plan in place in the United States subsidiary.

(in thousands of euro)

	USA
Liabilities recognised at 12/31/2014	22,337
Liabilities recognised at 12/31/2013	17,333

The following changes occurred during the period:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	17,333	20,403
Translation difference	2,585	(799)
Movements through income statement:		
- current service cost	4	5
- interest expense	773	710
Remeasurements recognized in equity:		
- actuarial (gains) losses arising from changes in financial assumptions	1,610	(968)
- actuarial (gains) losses arising from changes in demographic assumptions	854	-
- experience (gains) losses	303	(777)
Benefits paid	(1,125)	(1,241)
Closing balance	22,337	17,333

The current cost of employee service is included in the item "Personnel expenses" (note 32) while the interest expense is included in the item "Financial expenses" (note 37).

The contributions expected to be paid into the healthcare plan during 2015 total euro 1,483 thousand.

Additional information regarding post-employment benefits

Net actuarial losses accrued in 2014 and recognised directly in equity totalled euro 30,263 thousand (in 2013 net actuarial losses totalled euro 22,823 thousand).

The principal actuarial assumptions used at December 31, 2014 were as follows:

	ITALY	GERMANY	NETHERLANDS	SWEDEN	UK	USA
Discount rate	1.75%	1.75%	1.75%	2.40%	3.70%	3.75%
Inflation rate	1.50%	2.00%	2.00%	1.50%	2.98%	N/A
Expected rate of wage and salary increases	-	3.00%	2.00%	-	-	N/A
Healthcare cost trend rates - initial	-	-	-	-	-	6.00%
Healthcare cost trend rates - final	-	-	-	-	-	4.50%

The principal actuarial assumptions used at December 31, 2013 were as follows:

	ITALY	GERMANY	NETHERLANDS	SWEDEN	UK	USA
Discount rate	3.40%	3.40%	3.40%	4.00%	4.70%	4.40%
Inflation rate	2.00%	2.00%	2.00%	2.00%	3.33%	N/A
Expected rate of wage and salary increases	-	3.00%	2.00%	-	-	N/A
Healthcare cost trend rates - initial	-	-	-	-	-	7.50%
Healthcare cost trend rates - final	-	-	-	-	-	4.50%

The following table shows the maturity analysis of the benefits payment related to the post-employment benefits:

(in thousands of euro)

	WITHIN 1 YEAR	1 TO 2 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Pension funds	65,367	66,091	202,717	352,147	686,322
Employee leaving indemnities (TFR)	1,558	1,707	5,922	12,331	21,518
Healthcare plan	1,483	1,469	4,419	7,166	14,537
	68,406	69,269	213,059	371,643	722,377

The weighted average duration of the obligations for post-employment benefits is 15.73 years (15.72 years at December 31, 2013).

The following table sets forth the sensitivity analysis for the relevant actuarial assumptions at the end of the financial year:

(in %)

	IMPACT ON POST EMPLOYMENT BENEFITS				
	CHANGE IN ASSUMPTION	INCREASE IN ASSUMPTION		DECREASE IN ASSUMPTION	
Discount rate	0.25%	decrease by	3.77%	increase by	3.96%
Inflation rate (only UK plans)	0.25%	increase by	2.48%	decrease by	1.97%



At the end of 2013 the situation was as follows:

(in %)

	IMPACT ON POST EMPLOYMENT BENEFITS					
	CHANGE IN ASSUMPTION	INCREASE IN ASSUMPTION		DECREASE IN ASSUMPTION		
Discount rate	0.25%	decrease by	3.73%	increase by	3.97%	
Inflation rate (only UK plans)	0.25%	increase by	3.48%	decrease by	3.49%	

The sole purpose of the analysis above consists in estimating the change in liability according to changes in the discount rates and inflation rate in the United Kingdom close to the principal assumption of the rates themselves, rather than referring to an alternative set of assumptions.

The sensitivity analysis of the liability related to post-employment benefits is based on the same method used to calculate the liability recognised in the Statement of Financial Position.

Other long-term benefits

The table below sets forth the breakdown of other long-term benefits:

(in thousands of euro)

	12/31/2014	12/31/2013
Long-term incentive plans	10,909	-
Jubilee awards	17,252	16,093
Leaving indemnities - non Italian companies	46,340	34,898
Other long-term benefits	8,574	10,625
	83,075	61,616

The value recognized under long-term incentive plans, amounting to euro 10,909 thousand at December 31, 2014, represents the best estimate of the three-year monetary incentive plan Long Term Incentive 2014-2016 for Management of the Pirelli Group and approved by the Board of Directors and Shareholders' Meeting of Pirelli & C., respectively, on February 27 and June 12, 2014; this incentive plan is related to the objectives of the period 2014 - 2016 contained in the Business Plan 2013-2017.

24. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The following table sets forth the amounts owed to banks and other financial institutions:

(in thousands of euro)

	12/31/2014			12/31/2013		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Bonds	1,214,297	1,214,297	-	607,157	607,157	-
Borrowings from banks	1,034,380	563,735	470,645	1,659,221	1,401,490	257,731
Borrowings from other financial institutions	16,028	1,055	14,973	11,740	2,929	8,811
Finance leasing payables	1,086	903	183	1,345	1,080	265
Financial accrued expenses and deferred income	43,644	159	43,485	43,395	97	43,298
Other financial payables	3,181	1,577	1,604	8,201	1,653	6,548
	2,312,616	1,781,726	530,890	2,331,059	2,014,406	316,653