

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

The item **bonds**, refers to:

- the unrated bond placed by Pirelli & C. S.p.A. in February 2011 on the Eurobond market for an aggregate nominal amount of euro 500 million, with a fixed coupon of 5.125% and maturity in February 2016;
- the private placement made by Pirelli International Plc on the American market for an aggregate nominal amount of USD 150 million [equal to euro 123.5 million based on the exchange rate at December 31, 2014], with a duration of between 5 and 12 years and an average coupon of 5.05%.
- the unrated bond, placed by Pirelli International Plc on the Eurobond market in November 2014 for a nominal amount of euro 600 million, with a fixed coupon of 1.75%.

The carrying amounts of the bonds were determined as follows:

[in thousands of euro]

	12/31/2014	12/31/2013
Nominal value	1,223,548	608,767
Transaction costs	(13,828)	(6,136)
Amortisation of effective interest rate	4,304	2,942
Adjustment for fair value hedge	273	1,584
	1,214,297	607,157

Borrowings from the banks, amounting to euro 1,034,380 thousand, mainly consist of:

- loans granted by the European Investment Bank (EIB) to Pirelli & C. S.p.A. and Pirelli Tyre S.p.A. for research and development projects and to S.C. Pirelli Tyres Romania S.r.l. for local industrial investments. These loans total euro 250,000 thousand [euro 250,000 thousand at December 31, 2013], were fully used, of which euro 150,000 thousand classified as non-current bank borrowings and euro 100,000 thousand classified as current bank borrowings [at December 31, 2013 classified as non-current borrowings from the bank];
- euro 75,000 thousand for utilisation of the syndicated facility [euro 575,000 thousand at December 31, 2013], granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Plc for a total amount of euro 1,200,000 thousand, subscribed on November 30, 2010 and having a duration of five years. These utilisations were classified as current borrowings from the banks. The decrease from last year was due to the partial repayment of the credit facility with an original maturity in November 2015 through the liquidity deriving from the issue of the new unrated bond, placed by Pirelli International Plc on the Eurobond market in November 2014. The credit facility was completely extinguished during 2015 and replaced with a new revolving credit facility [euro 800 million], a multicurrency term loan [euro 200 million] and a further contract [euro 200 million] respectively negotiated on January 9 and 13, 2015;
- euro 154,701 thousand for the Schuldschein, a syndicated loan by the lender on the basis of a German law debt security, granted to Pirelli International Plc and guaranteed by Pirelli & C. S.p.A. and Pirelli Tyre S.p.A., disbursed on December 14, 2012 with a duration of between 3, 5 and 7 years, classified under non-current bank borrowings;
- euro 45,300 thousand classified as non-current bank borrowings, granted by Bancomext to the Mexican subsidiaries in 1H 2013 with a duration of 7 years. The loan is guaranteed by Pirelli Tyre S.p.A. and covered by secured guarantee;
- euro 8,905 thousand, including euro 4,026 thousand classified as non-current bank borrowings, granted by Banco Nacion Argentina between October 2011 and June 2012 to Pirelli Neumaticos S.A.I.C. The duration of the loan classified as non-current borrowings is 5 years. Both loans are backed by secured guarantee;
- use of credit lines at local level, in China, Brazil and Turkey, for euro 445,300 thousand.



At December 31, 2014 the Group had, aside from cash and securities held for trading of euro 1,228,073 thousand, unused committed credit facilities of euro 1,125,000 thousand (euro 625,000 thousand at December 31, 2013) maturing in 2015.

Accrued financial expenses and deferred financial income (euro 43,644 thousand) mainly refer to the portion of interest accrued on bonds (euro 23,656 thousand; euro 21,974 thousand at December 31, 2013) and interest rate swaps (euro 18,152 thousand; euro 17,717 thousand at December 31, 2013).

The reduction compared to the previous year of **other current financial liabilities** is due in particular to the purchase of the remaining 20% of the sale option in favour of the Faria da Silva family of the company Campneus Lider de Pneumaticos Ltda.

Other non-current financial payables include euro 1,650 thousand of security deposit towards Prelios S.p.A., related to the lease of the R&D building, for the entire duration of the lease (October 15, 2012 – October 14, 2018).

Current and non-current financial payables backed by secured guarantees (pledges and mortgages) totalled euro 84,747 thousand (euro 74,503 thousand at December 31, 2013).

Current financial payables include the portion of non-current financial payables, totalling euro 278,700 thousand (euro 123,000 thousand at December 31, 2013), that will be settled within one year.

The carrying amount of current payables is considered to approximate their fair value. The table below compares the fair value of non-current financial payables with their carrying amount:

(in thousands of euro)

	12/31/2014		12/31/2013	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Bond Pirelli & C. S.p.A.	498,940	523,565	499,217	533,010
Bond Pirelli International Plc	592,483	605,184	-	-
Private placement - Pirelli International Plc	122,873	147,731	107,940	108,774
Borrowings from banks	563,735	566,125	1,401,490	1,404,240
Other financial payables	3,695	3,695	5,759	5,759
	1,781,726	1,846,300	2,014,406	2,051,783

The public bonds issued by Pirelli & C. S.p.A. and by Pirelli International Plc are listed and the related fair value was measured with reference to its prices at the end of the year. They are thus classified as level 1 in the hierarchy.

The fair value of the private placement in U.S. dollars issued by Pirelli International Plc and the fair value of the bank borrowings were calculated by discounting each debtor cash flow at the market swap rate for the currency and at the reference maturity date, increased by the Group credit rating. They are classified as level 2 in the hierarchy.

At December 31, 2014, the breakdown of bank borrowings and other payables to lenders by interest rate and by currency of origin of the debt is as follows:

(in thousands of euro)

	FIXED RATE		FLOATING RATE		TOTAL
EUR	124,828		119,531		244,358
BRL [Brazilian Real]	176,540		-		176,540
CNY [Chinese Renminbi]	34,333		-		34,333
RON [Romanian Leu]	106		-		106
TRY [Turkish Lira]	46,731		-		46,731
ARS [Argentinian Peso]	5,192		-		5,192
Other currencies	23,630		-		23,630
Current payables	411,360	77%	119,530	23%	530,890
EUR	1,193,922		151,356		1,345,278
USD	123,045		-		123,045
BRL [Brazilian Real]	130,271		44,051		174,322
CNY [Chinese Renminbi]	-		40,883		40,883
RON [Romanian Leu]	-		49,495		49,495
MXN [Mexican Pesos]	-		44,843		44,843
ARS [Argentinian Pesos]	3,861		-		3,861
Non current payables	1,451,098	81%	330,628	19%	1,781,726
	1,862,458	81%	450,158	19%	2,312,616

The breakdown at December 31, 2013 was as follows:

(in thousands of euro)

	FIXED RATE		FLOATING RATE		TOTAL
EUR	46,446		6,139		52,585
BRL [Brazilian Real]	125,732		-		125,732
CNY [Chinese Renminbi]	54,835		-		54,835
RON [Romanian Leu]	[205]		-		[205]
TRY [Turkish Lira]	53,608		-		53,608
Other currencies	30,078		20		30,098
Current payables	310,494	98%	6,159	2%	316,653
EUR	1,303,486		124,531		1,428,017
USD	29,588		80,895		110,483
BRL [Brazilian Real]	104,008		93,049		197,057
CNY [Chinese Renminbi]	-		58,878		58,878
RON [Romanian Leu]	-		49,812		49,812
MXN [Mexican Pesos]	-		160,296		160,296
ARS [Argentinian Pesos]	9,763		-		9,763
Other currencies	100		-		100
Non current payables	1,446,945	72%	567,461	28%	2,014,406
	1,757,439	75%	573,620	25%	2,331,059

The value of fixed-rate payables indicated above includes those established by contracts as fixed-rate payables and those established by contracts as variable-rate payables, for which hedging derivatives have been put in place.

The Group's exposure to fluctuations in interest rates on financial payables, both in terms of the type of rate and their resetting, are summarised below:

(in thousands of euro)

	12/31/2014			12/31/2013		
	TOTAL	FIXED RATE	FLOATING RATE	TOTAL	FIXED RATE	FLOATING RATE
Up to 6 months	635,162	185,003	450,158	872,224	298,604	573,620
From 6 to 12 months	130,602	130,602	-	6,589	6,589	-
From 1 to 5 years	1,459,288	1,459,288	-	1,424,426	1,424,426	-
More than 5 years	87,565	87,565	-	27,820	27,820	-
	2,312,616	1,862,458	450,158	2,331,059	1,757,439	573,620

The average cost of debt during 2014 was 6.05% [6.23% in 2013].

With regard to the presence of financial covenants and negative pledge clauses, it should be noted that:

the revolving credit line granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Plc for a total of euro 1,200,000 thousand, and withdrawn for euro 75,000 thousand, is subject to one financial covenant: a certain ratio between consolidated net indebtedness and gross operating profit must be maintained. This parameter was fully satisfied at December 31, 2014. With regard to the negative pledges, the credit facility provides for a commitment not to grant secured guarantees, above a threshold defined as the greater between euro 100,000 thousand and 3% of Total Assets [as per the consolidated Financial Statements of Pirelli & C. S.p.A.], with the exception of secured guarantees on the existing debt or debt to replace it, to be granted pursuant to law, relating to trade finance, project finance and subsidised finance or on loans provided by supranational entities;

the private placement for a total of USD 150 million with due dates falling between December 5, 2017 and December 5, 2024 envisages, aside from the commitments indicated hereinabove:

the respect of the ratio between non-centralised indebtedness [referred to companies other than Pirelli International Plc, Pirelli & C. S.p.A. and Pirelli Tyre S.p.A.] and total assets as reported in the consolidated Financial Statements of Pirelli & C. S.p.A. set at 25% [and the ratio between "secured" debt and total assets not exceeding 15% in any event];

introduction of a financial covenant whereby the ratio between gross operating profit and financial expenses as reported in the consolidated Financial Statements of Pirelli & C. S.p.A. be greater than or equal to 3.5 when the ratio between net consolidated indebtedness and gross operating profit is greater than 2.5. Both of these parameters were satisfied at December 31, 2014;

the Schuldschein obtained by Pirelli International Plc for a nominal total amount of euro 155,000 thousand, with due dates falling between June 14, 2016 and December 14, 2019 envisages, in the case of negative pledges, the undertaking not to grant secured guarantees beyond the threshold defined as being the higher between euro 100,000 thousand and 3% of Total Assets [as per the consolidated Financial Statements of Pirelli & C. S.p.A.], with the exception of secured guarantees on existing debt or debt to replace it, to be granted pursuant to law, relating to trade finance, project finance and subsidised finance, or on loans granted by supranational entities.

The other outstanding financial payables do not contain financial covenants.