

The **utilization/releases of the current portion** mainly relate to the Real Estate segment and are associated with adjustments to provisions for equity investments carried at equity (Euro 48,670 thousand).

The item “**decrease in financial receivables**” contains the reduction in financial receivables from such companies against the portion of loss incurred by the same exceeding their carrying amount.

## 23. Employee benefits obligations

The item includes:

(in thousands of euro)

	12/31/2009	12/31/2008
Pension funds:		
- funded	222,368	157,368
- unfunded	92,310	88,752
Employee severance indemnity (Italian companies)	51,454	56,783
Healthcare plans	17,899	18,442
Other benefits	67,849	45,190
	<b>451,880</b>	<b>366,535</b>

### PENSION FUNDS

The following table shows a breakdown of the pension funds at December 31, 2009:

(in thousands of euro)

	12/31/2009					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
<b>Funded funds</b>						
Present value of funded liabilities			122,199	783,307	2,981	908,487
Fair value of plan assets			(76,860)	(606,856)	(2,403)	(686,119)
<b>Unfunded funds</b>						
Present value of unfunded liabilities	92,310	92,310				
<b>Net liabilities recognized</b>	<b>92,310</b>	<b>92,310</b>	<b>45,339</b>	<b>176,451</b>	<b>578</b>	<b>222,368</b>
of which:						
- Tyre	84,168	84,168	45,339	91,681	578	137,598
- Real Estate	8,142	8,142				
- Other				84,770		84,770

The following table shows a breakdown of the pension funds at December 31, 2008:

(in thousands of euro)

	12/31/2008					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
<b>Funded funds</b>						
Present value of funded liabilities			128,035	598,155	2,615	728,805
Fair value of plan assets			(73,780)	(495,549)	(2,108)	(571,437)
<b>Unfunded funds</b>						
Present value of unfunded liabilities	88,752	88,752				
<b>Net liabilities recognized</b>	<b>88,752</b>	<b>88,752</b>	<b>54,255</b>	<b>102,606</b>	<b>507</b>	<b>157,368</b>
of which:						
- Tyre	83,310	83,310	54,255	62,157	507	116,919
- Real Estate	5,442	5,442				
- Other				40,449		40,449

The features of the main pension funds existing at December 31, 2009 are as follows:

- Germany - Tyre Segment: this is an unfunded defined-benefit plan based on the final salary. It provides a supplementary pension in addition to the state pension. The plan was closed in October 1982; consequently the members of the plan are employees whose employment began prior to that date;
- USA - Tyre Segment: this is a funded defined-benefit plan based on the final salary. It provides a supplementary 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. The members of the plan are all retired;
- UK: these are funded defined-benefit plans based on the final salary. They provide a supplementary pension in addition to the state pension and are administered in Trusts. The plans were closed in 2001; consequently the members are employees whose employment began prior to that date.

The changes in the period in the present value of the liabilities for pension funds (funded and unfunded) are as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
<b>Opening balance</b>	<b>817,557</b>	<b>1,113,853</b>
Translation differences	38,925	(207,553)
Changes in scope	-	3,986
Movements through the income statement:		
- current employment expenses	4,195	4,669
- interest cost	51,479	57,672
Actuarial (gains)/losses recognised in Equity	138,070	(111,992)
Employee contributions	1,182	1,323
Benefits paid	(53,114)	(48,146)
Other	2,503	3,745
<b>Closing Balance</b>	<b>1,000,797</b>	<b>817,557</b>

The changes in the year in the fair value of the pension plan assets are as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
<b>Opening balance</b>	<b>(571,437)</b>	<b>(907,569)</b>
Translation differences	(33,372)	187,355
Movements through the income statement:		
- expected return on plan assets	(40,416)	(64,529)
Actuarial (gains)/losses recognised in equity	(56,062)	195,456
Employer contributions	(29,171)	(22,453)
Employee contributions	(1,689)	(1,323)
Benefits paid	45,403	40,978
Other	625	648
<b>Closing Balance</b>	<b>(686,119)</b>	<b>(571,437)</b>

The assumptions used to calculate the expected return on the pension fund assets are based on the expected returns of the underlying assets (shares, bonds and deposits); the expected return is derived from the general average of the returns expected from the assets for each separately identified investment class, with reference to an effective or objective composition of the assets. The expected return of each investment class is derived from the market returns available at the reporting date. In particular, the expected return of shares is derived from a risk free rate of return with the addition of an adequate risk premium.

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

(in %)

	12/31/2009			12/31/2008		
	UK	USA	Other countries	UK	USA	Other countries
Shares	62%	70%		64%	70%	
Bonds	27%	25%		33%	25%	
Other	11%	5%	100%	3%	5%	100%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The effective return of pension plan assets was as follows:

(in thousands of euro)

	USA	UK	Other countries	Totale
Effective return 2009 - (Gains)/losses	(13,268)	(83,057)	(250)	(96,575)
Effective return 2008 - (Gains)/losses	26,027	134,370	(51)	160,346

Costs recognised in the income statement in relation to pension funds are as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
Current employment expenses	4,195	4,669
Interest cost	51,479	57,672
Expected return on plan assets	(40,416)	(64,529)
	<b>15,258</b>	<b>(2,188)</b>

The amounts recognized in the income statement are included in the item “Personnel Expenses” (Note 31).

Contributions expected to be paid in during financial year 2010 to the pension funds amount to Euro 34,831 thousand.

## EMPLOYEES’ LEAVING INDEMNITY

Changes in the year in employees’ leaving indemnity are as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
<b>Opening balance</b>	<b>56,783</b>	<b>74,559</b>
Assets sold	-	(12,846)
Movements through income statement	3,333	3,565
<i>Curtailment</i>	1,987	-
Actuarial (gains)/losses recognised in equity	2,809	1,959
Payments/advances	(13,453)	(10,798)
Other	(5)	344
<b>Closing Balance</b>	<b>51,454</b>	<b>56,783</b>
of which:		
- Tyre	33,809	37,194
- Real Estate	4,877	7,327
- Other	12,768	12,262

The movements through the income statement in 2009 related only to expenses for interest accrued on employees’ leaving indemnity at December 31, 2008. Following the reform of employees’ leaving indemnity introduced in the 2007 Budget Law, employees’ leaving indemnity was transformed, in fact, into a defined-contribution plan.

The movements through the income statement are recognised in the item “Personnel Expenses” (Note 31).

## MEDICAL CARE PLANS

Medical care plans can be broken down as follows:

(in thousands of euro)

	USA
Liabilities recognized at 12/31/2009	17,899
Liabilities recognized at 12/31/2008	18,442

The medical care plan existing in the United States (Tyre Segment) covers clerical staff and factory workers, both active and retired.

The plan is divided into two components “pre-medicare” and “post-medicare”; the latter is destined for participants more than 65 years old.

Contributions are paid by both the employer and the employees.

The changes in the period in liabilities recognized for medical care plans are as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
<b>Opening balance</b>	<b>18,442</b>	<b>21,839</b>
Translation differences	(661)	1,333
Movements through the income statement:		
- current employment expenses	6	7
- interest cost	1,090	1,217
Actuarial (gains)/losses recognized in equity	(15)	(1,109)
Benefits paid	(963)	(1,591)
Other	-	(3,254)
<b>Closing Balance</b>	<b>17,899</b>	<b>18,442</b>

The effect of an increase or decrease of one percentage point in the projected medical care cost trend rates is as follows:

(in thousands of euro)

	Increase of 1%		Decrease of 1%	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008
Effect on current employment expenses and on interest cost	40	55	(39)	(54)
Effect on liabilities recognized	626	933	(609)	(908)

The expenses recognized in the income statement in relation to medical care plans are as follows:

(in thousands of euro)

	2009	2008
Current employment expenses	6	7
Interest cost	1,090	1,217
	<b>1,096</b>	<b>1,224</b>

The amounts recognized in the income statement are included in the item "Personnel Expenses" (Note 31).

## OTHER INFORMATION

Net actuarial losses accrued in financial year 2009 booked directly to equity amounted to Euro 86,633 thousand (at December 31, 2008 net losses of Euro 85,058 thousand) and also include the share relating to companies measured with the net equity method, gains of Euro 10 thousand (at December 31, 2008 losses of Euro 405 thousand).

The cumulative amount at December 31, 2009, net losses of Euro 383,502 thousand, of which Euro 383,893 thousand attributable to the Group (at December 31, 2008 net losses of Euro 296,634 thousand, of which Euro 297,339 thousand attributable to the Group), is divided as follows:

(in thousands of euro)

	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	(5,684)	(80,705)	(296,227)	(8,902)	(391,518)
Healthcare plans	-	-	(9,242)	-	-	(9,242)
Employee severance indemnity	17,258	-	-	-	-	17,258
<b>Total actuarial Gains/(losses) recognized in equity</b>	<b>17,258</b>	<b>(5,684)</b>	<b>(89,947)</b>	<b>(296,227)</b>	<b>(8,902)</b>	<b>(383,502)</b>

The breakdown by country at December 31, 2008 was as follows:

(in thousands of euro)

	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	(2,330)	(83,974)	(212,439)	(8,325)	(307,068)
Healthcare plans	-	-	(9,257)	-	-	(9,257)
Employee severance indemnity	19,691	-	-	-	-	19,691
<b>Total actuarial Gains/(losses) recognized in equity</b>	<b>19,691</b>	<b>(2,330)</b>	<b>(93,231)</b>	<b>(212,439)</b>	<b>(8,325)</b>	<b>(296,634)</b>

The main actuarial assumptions used at December 31, 2009 and in determining the projected cost for financial year 2010 are as follows:

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.00%	5.20%	5.20%	5.70%	5.75%
Inflation rate	2.00%	2.00%	2.00%	3.45%	-
Expected return on plan assets	-	-	-	6.84%	7.39%
Expected rate of increase in salaries	3.00% *	2.50%	2.00%	2.70%-3.45%	-
Healthcare cost trend rates - initial	-	-	-	-	8.00%
Healthcare cost trend rates - final	-	-	-	-	4.50%

\* indicator valid only for companies with less than 50 employees

The main actuarial assumptions used at December 31, 2008 and in determining the cost for financial year 2009 were the following:

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.70%	5.70%	5.70%	6.20%-6.40%	6.25%
Inflation rate	2.00%	2.00%	2.00%	2.70%	-
Expected return on plan assets	-	-	-	6.65%	7.75%
Expected rate of increase in salaries	3.5% - 4.5% *	2.50%	2.00%	3.15%	-
Healthcare cost trend rates - initial	-	-	-	-	8.50%
Healthcare cost trend rates - final	-	-	-	-	4.50%

\* indicators valid only for companies with less than 50 employees

The discount rates are used to measure the obligation and the financial component of the net present cost. The Group selected these rates on the basis of the yield curve of fixed-income securities (Corporate bonds) of leading companies (with AA+ ratings) at the valuation date of the plans. The healthcare cost trend rate represents the projected increase of expenses for medical assistance. This rate is determined on the basis of the specific experience of the Segment and of the various trends, including the specific inflation projections in the healthcare sector.

The initial rate used represents a short-term trend based on recent experience and on prevailing market conditions. The final rate used is a long-term assumption which takes into account, among other factors, inflation in healthcare costs on the basis of the general inflation trend, incremental medical inflation, technologies, new medicines, and the average age of the population and a different mix of medical services. The change in the average healthcare cost trend rate in 2009 was caused by the recent change in healthcare costs.

The expected rates of return of the assets reflect the estimates of the trend in average long-term rates of the pension fund assets for the entire duration of the obligation. The expected return is defined for each asset class (equities, bonds, cash, and real estate) and is net of the projected administrative costs. The historical trend and the correlation of the returns, estimates of future trends and other significant financial factors are analyzed to ensure that they are reasonable and consistent.

The adjustments based on past experience, in relation to defined benefit plans, are as follows:

(in thousands of euro)

	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Adjustments of plan liabilities - (Gains)/losses	959	(9,553)	16,097	(7,527)	46,038
Adjustments of plan assets - (Gains)/losses	(56,318)	224,875	(744)	(32,733)	(75,756)

The adjustments of liabilities represent the change of the actuarial liability not deriving from modifications of the actuarial assumptions. They normally include changes in the demographic and remunerative structure. Changes to the plan rules (past service costs) are excluded from the past experience.

The adjustments of the assets represent the difference between the effective return of the assets and the return expected at the beginning of the year.

## OTHER BENEFITS

At December 31, 2009 this item included Euro 18,681 thousand relating to the portion accruing in the year of the long-term bonus scheme for the management, approved by the Board of Directors of Pirelli & C. S.p.A. on April 21, 2009 and destined for approximately 80 senior managers.