



Società per azioni

Quarterly Report Third Quarter 2000

PIRELLI Società per azioni

Head office in Milan, Viale Sarca 222

Share Capital - Euros 1,034,429,598.28

Milan Courts Companies Register No. 15901

PIRELLI S.p.A.**Board of Directors**

Chairman and Managing Director	Marco Tronchetti Provera
Deputy Chairman	Alberto Pirelli
Directors	Carlo Buora Eugenio Coppola di Canzano Carlo De Benedetti Alberto Falck Giovanni Ferrario Giuseppe Gazzoni-Frascara Georg F. Kraye Angelo Marchiò Giuseppe Morchio Luigi Orlando Riccardo Perissich Giampiero Pesenti Ennio Presutti Carlo Alessandro Puri Negri Vincenzo Sozzani Frank Vischer

Secretary to the Board	Sergio Lamacchia
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Board of Statutory Auditors

Chairman	Luigi Guatri
Standing members	Rosalba Casiraghi Giorgio Oggioni
Alternate members	Mario Brughera Alfredo Malguzzi

General Managers

Finance and Administration	Carlo Buora
Tyres Sector	Giovanni Ferrario
Cables and Systems Sector	Giuseppe Morchio

PIRELLI S.p.A. - MILAN
Quarterly Report - 3rd Quarter 2000

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MANAGEMENT'S REPORT

Performance of the Group

The first nine months of 2000 were characterized by a competitive scenario that was substantially unchanged compared to the prior year and also by strong pressure over raw material prices.

The good trend in volumes and the continuous actions to reduce costs and improve productive operations have made it possible to increase results compared to the prior year.

The gross operating profit for the nine months rose by 28 percent, from Euros 489 million to Euros 626 million; the operating profit for the same period increased by 46.7 percent, from Euros 231 million to Euros 339 million.

Major events during the third quarter 2000

- In July, the European Commission granted authorization for the purchase of the power cables business which belonged to the British group BICC and was bought the previous year by the American group General Cable. Consequently, the acquisitions of the units in Italy, the United Kingdom and Zimbabwe were finalized on August 25, 2000 and those in China and Southeast Asia on September 29, 2000. After the end of the third quarter, on October 2, 2000, the unit in Mozambique was purchased, thus concluding the entire deal. Pirelli paid Euros 194 million, subject to adjustments that may arise from accounting reviews that will be concluded over the next few months. The companies acquired will be consolidated using the line-by-line method in the financial statements for the year ended December 31, 2000, beginning from the date of the effective acquisitions. These companies were stated at cost in the interim financial statements at September 30, 2000.
- At the end of July, Pirelli announced the decision to delist the shares of the two Brazilian affiliates, Pirelli Cabos S.A. and Pirelli Pneus S.A., from the San Paolo stock exchange following the launch of the takeover bid for all their outstanding shares. The total cost,

should the bid prove successful, will amount to about US \$100 million. The transaction should be concluded by the end of November.

- In August, the acquisition of 10 percent of our two companies operating in the sector for optical components and submarine systems for telecommunications by Cisco Systems was concluded with an investment of US \$100 million.
- On September 27, Pirelli and Corning announced that they had reached an agreement for the sale, to Corning, of the stock of Optical Technologies USA Corp., an American company engaged in the production of optical components with headquarters in Delaware, for US \$3.9 billion, as well as other assets, entirely owned by Pirelli Cavi e Sistemi, for US \$100 million. The share capital of the company is held 90 percent indirectly by Pirelli S.p.A. and 10 percent by Cisco Systems. Originally, the creation of Optical Technologies USA Corp. and the alliance with Cisco had the primary objective of increasing the value of this activity over time, also by listing the shares on the U.S.A. market whenever the conditions to do so proved favorable: this would have allowed the company to take advantage of opportunities offered by the United States market from the standpoint of finances as well as management, customers and technologies. The acceptance of Corning's offer, instead, will lead to the sale of all Optical Technologies USA Corp. stock. According to the agreement reached, approved by the boards of directors of both companies, when the deal is concluded, scheduled for the end of the year after approval by the Antitrust Authorities, Corning will pay Pirelli an initial sum of about US \$3.43 billion for the above acquisitions, in addition to the payment of an amount of US \$180 million linked to reaching certain business targets. The net proceeds for Pirelli will amount to about US \$3.05 billion, after taking into account the exercise of the options that were at one time given to Marco Tronchetti Provera, Giuseppe Morchio, Carlo Buora (equal to 12.5 percent of share capital, of which 6 percent to Marco Tronchetti Provera, 4 percent to Giuseppe Morchio and 2.5 percent to Carlo Buora) at a unit subscription price of US \$50 per share, the assignment of specific benefits to personnel as well as the costs of the deal. After this sale, Pirelli will further concentrate its investments in cutting-edge technology in fiber optics, optical cables and submarine systems, in power transmission and tyres, seeking to grasp every market opportunity that can contribute to creating value for the company.

The Group at September 30, 2000

The consolidated figures of the Group at September 30, 2000 can be summarized as follows:

	(in millions of euros)				
	3rd quarter 2000	3rd quarter 1999	(cumulative) 9/30/2000	(cumulative) 9/30/1999	(cumulative) 12/31/1999
. Sales revenues	1,832	1,534	5,430	4,724	6,482
. Gross operating profit	224	146	626	489	678
% of sales	12.3%	9.5%	11.5%	10.4%	10.5%
. Operating profit	126	54	339	231	331
% of sales	6.9%	3.5%	6.2%	4.9%	5.1%
. Net financial position (liquidity)/debt	185 *	179 *	(111)	862	1,017
. No of employees (at period-end)	(1,281) *	467 *	40,528	40,590	40,103
. No. of factories	0 *	4 *	86	87	87

* The figures indicated refer to the change from the end of the previous quarter.

Sales revenues

Sales revenues (cumulative) for the nine months ended September 30, 2000 totaled Euros 5,430 million, an increase of 14.9 percent compared to the corresponding period of the prior year. This change is mainly due to higher volumes (+5.8 percent) and to a positive exchange effect (+6.5 percent).

Sales revenues for the third quarter 2000 amounted to Euros 1,832 million, with an increase of 19.4 percent over the third quarter 1999.

- **Gross operating profit**

Gross operating profit (cumulative) for the nine months ended September 30, 2000

is Euros 626 million (11.5 percent of sales revenues), reflecting an increase compared to Euros 489 million (10.4 percent of sales revenues) for the same period of the prior year. Besides the operating factors of growth and efficiency, the supply agreement with Cisco Systems also contributed to the improvement by Euros 56 million.

Gross operating profit for the third quarter 2000 is equal to Euros 224 million (of which Euros 28 million derives from the Cisco agreement), compared to Euros 146 million in the third quarter 1999.

- **Operating profit**

Operating profit (cumulative) for the nine months ended September 30, 2000 is

Euros 339 million, equal to 6.2 percent of sales revenues (5.2 percent excluding the effect of the supply agreement with Cisco), compared to Euros 231 million (4.9 percent of sales revenues) in the corresponding period of the prior year.

During the same period, amortization and depreciation went from Euros 258 million to Euros 287 million, with an increase of Euros 29 million (of which Euros 13 million are related to the companies acquired).

Operating profit for the third quarter 2000, taking into account the effect of the supply agreement with Cisco (Euros 28 million), is equal to Euros 126 million (6.9 percent of sales revenue and 5.3 percent excluding the effect of the Cisco agreement) compared to Euros 54 million (3.5 percent of sales revenues) in the third quarter 1999.

- **Net financial position**

The net financial position showed a liquidity position of Euros 111 million compared to Euros 296 million at June 30, 2000 and a net debt position of Euros 1,017 million at December 31, 1999. The change over June 30, 2000 is described in the comments to the quarterly data.

• **Employees**

Employees number 40,528 at September 30, 2000 compared to 41,809 at June 30, 2000 and 40,103 at December 31, 1999. The reduction compared to June 30, 2000 is principally due to the decrease in the number of temporary operatives (-816 units), especially in the Cables and Systems Sector.

Related party disclosures

As to required disclosures according to article 2359 of the Italian Civil Code referring to Consob Communication No. 97001574 of February 20, 1997 and No. 98015375 of February 27, 1998, which deal with transactions by Group companies with related parties, the effects of such transactions on the balance sheet and statement of income of the consolidated financial statements at September 30, 2000 are presented below.

All the transactions, including those of the Group holding company and its subsidiaries, and those between subsidiaries, fall within the ordinary operations of the Group, are governed by market terms, and there are no transactions of an unusual and exceptional nature or in potential conflict of interest.

The following table presents the major transactions at September 30, 2000 that Pirelli S.p.A. Group has entered into with the parent companies (Pirelli & C. A.p.A. and Pirelli & C. Luxembourg S.A.) and the subsidiaries of the latter companies, which are included in the consolidation area of Pirelli & C. A.p.A..

(in millions of euros)

Type of transaction	With parent companies	With subsidiaries of Pirelli & C. A.p.A.	Total
TRADE RECEIVABLES AND OTHER	0.2	18.0	18.2
TRADE PAYABLES AND OTHER	(0.4)	(6.8)	(7.2)
FINANCIAL RECEIVABLES	84.0	714.1	798.1
FINANCIAL PAYABLES	(33.4)	(506.3)	(539.7)
REVENUES FOR GOODS AND SERVICES	0.7	0.9	1.6
COSTS FOR GOODS AND SERVICES	(2.2)	(10.1)	(12.3)
FINANCIAL INCOME	17.2	12.4	29.6
FINANCIAL EXPENSES	(6.5)	(8.7)	(15.2)

Transactions of Pirelli S.p.A. and its subsidiaries with the **parent companies** mainly refer to the following:

- **financial receivables**, relating to loans receivable by Pirelli Finance Luxembourg S.A. (subsidiary of Pirelli S.p.A.) from Pirelli & C. Luxembourg S.A.;
- **financial payables**, relating to transactions on the current account relating by Pirelli Servizi Finanziari S.p.A. with Pirelli & C. A.p.A.;
- **revenues for goods and services**, relating to the performance of various services rendered by Pirelli S.p.A. and Pirelli Informatica S.p.A. to Pirelli & C. A.p.A.;
- **costs for goods and services**, relating to costs for the corporate secretarial services rendered by Pirelli & C. A.p.A. on behalf of Pirelli S.p.A.;
- **financial income and expenses**, relating to interest income and expense on the aforementioned current account transactions and loans, as well as costs and revenues for hedging transactions carried out by Pirelli Finance Luxembourg S.A. (subsidiary of Pirelli S.p.A.) on behalf of Pirelli & C. A.p.A..

Transactions of Pirelli S.p.A. and its subsidiaries with the **subsidiaries of Pirelli & C. A.p.A.** mainly refer to the following:

- **trade receivables and other**, relating to the sales of properties by Pirelli Cavi e Sistemi S.p.A. to Lambda S.r.l. (subsidiary of Milano Centrale S.p.A.);
- **trade payables and other**, relating to services rendered by companies in the Group of Milano Centrale S.p.A. (subsidiary of Pirelli & C. A.p.A.) to Pirelli S.p.A. and its subsidiaries;
- **financial receivables**, relating to transactions on the current account by Pirelli Servizi Finanziari S.p.A. with companies of the Group of Milano Centrale S.p.A. (subsidiary of Pirelli & C. A.p.A.);
- **financial payables**, relating to transactions on the current account by Pirelli Servizi Finanziari S.p.A. with companies of the Group of Milano Centrale S.p.A. (subsidiary of Pirelli & C. A.p.A.);
- **revenues from goods and services**, relating to cost recoveries for various services rendered by Pirelli S.p.A. and Pirelli Informatica S.p.A. (subsidiary of Pirelli S.p.A.) on behalf of Milano Centrale e Servizi S.p.A. and its subsidiaries;
- **costs for goods and services**, relating to costs for property management services incurred by Pirelli S.p.A. and its subsidiaries for the services rendered by companies of the Group of Milano Centrale S.p.A. (subsidiary of Pirelli & C. A.p.A.);
- **financial income and expenses**, relating to interest income and expense on the aforementioned current account transactions.

Significant events subsequent to the quarter and future outlook for the current year

On October 16, 2000, Pirelli Cavi e Sistemi S.p.A. made a public offer of purchase for all the outstanding ordinary shares of Pirelli Cables Australia Limited (PCAL). At that date Pirelli Cavi e Sistemi S.p.A. held 51 percent of the PCAL shares listed on the Australian stock market.

The offer, at a price of \$A 0.85 per share, against the listed market price of \$A 0.49 on October 13, 2000, is aimed at delisting PCAL shares on the Australian stock market. In event of a successful bid, the total cost will amount to about Euros 22.4 million.

The offer is subject to obtaining 90 percent of the share capital, the portion needed to proceed with the takeover in accordance with Australian law, and is subject to the approval of the Foreign Investment Review Board. The offer, based on forecasts, is expected to be concluded by the end of the year.

As far as the future outlook for the entire year is concerned, it is felt that the operating profit can maintain the positive trend achieved to date.

CABLES AND SYSTEMS SECTOR

The results for the first nine months of 2000 showed a significant improvement over the corresponding period of 1999. This was mainly due to volumes and product mix, despite continued pressures over prices, although the effect has been different in the various areas of operations.

As regards telecommunications in particular, this sector was marked by a strong growth in fiber cables where world demand exceeded supply. In the field of power cables, besides the improvement in the product mix and volumes there was also an initial recovery of prices in some areas.

Efforts have continued to integrate the acquisitions of the Siemens units in Europe, Metal Manufactures in Australia and NKF in Holland and Finland. The strategic alliance with Cisco Systems Inc. has proceeded according to plan; the supply contract with the latter company become operative and this generated a positive impact on the results for the first nine months.

Acquisition of BICC operations

The power cables operations of BICC General were purchased by Pirelli for Euros 194 million, subject to price adjustments that may result from the accounting reviews that will be concluded in the next few months.

The closings of the acquisitions took place on the following dates:

- August 25, 2000 – UK, Italy, Zimbabwe
- September 29, 2000 – China and Southeast Asia

The closing for the Mozambique operations was finalized subsequent to the end of third quarter on October 2, 2000, thus concluding the deal.

As far as the operations in Africa are concerned, negotiations are underway for their sale to African Cable, a Pirelli subsidiary.

In September, an incisive restructuring plan was begun in the UK and Italy to bring the companies which had reported heavy losses under the previous administration into a better equilibrium in the shortest time possible, integrating them with the British and Italian units.

BICC operations will be consolidated using the line-by-line method in the financial statements for the year ended December 31, 2000, beginning from the day after the closings of the acquisitions; in the September 30, 2000 financial statements, the BICC operations have not been consolidated line-by-line but have been maintained at cost.

For purposes of information, the key figures regarding the former BICC units in the UK and Italy for the month of September 2000 are reported below.

-	sales revenues	Euros	51 million
-	operating result	Euros	0 million
-	net financial debt position	Euros	20 million
-	employees	No.	2,316
-	factories	No.	6

Results of the Cables and Systems Sector

The key figures of the consolidated financial statements for the nine months ended September 30, 2000 can be summarized as follows:

	(in millions of euros)				
	3rd quarter 2000	3rd quarter 1999	(cumulative) 9/30/2000	(cumulative) 9/30/1999	(cumulative) 12/31/1999
. Sales revenues	1,105	912	3,276	2,805	3,921
. Gross operating profit	139	65	349	246	355
% of sales	12.6%	7.1%	10.7%	8.8%	9.1%
. Operating profit	93	19	217	118	183
% of sales	8.4%	2.1%	6.6%	4.2%	4.7%
. Net financial position (liquidity)/debt	108 *	95 *	(735)	817	700
. No of employees (at period-end)	(1,301) *	(36) *	18,939	19,462	19,046
. No. of factories	0 *	3 *	64	65	65

* The figures indicated refer to the change from the end of the previous quarter.

Sales revenues (cumulative) for the nine months ended September 30, 2000 amounted to Euros 3,276 million and showed an increase of 16.8 percent compared to the same period of the prior year, attributable to the following factors:

• Currency exchange	+	6.6%
• Volumes	+	2.7%
• Prices - Metal	+	4.3%
- Non-ferrous	+	0.4%
• Mix and other	+	4.5%
• Acquisitions	+	3.9%
• Deconsolidation of Photonics business	-	5.6%
	+ _____	16.8%

All business areas contributed to the growth of sales revenues; the increase in the optic cables area was particularly significant (+43 percent), as were power cables, enamelled wires (+24 percent) and the general market (+19 percent).

Sales revenues for the third quarter 2000 amounted to Euros 1,105 million, with an increase of 21.2 percent compared to the corresponding quarter in 1999, thus confirming the general trend in the various areas of operations.

Operating profit (cumulative) for the nine months ended September 30, 2000, equal to Euros 217 million, showed an increase of 83.9 percent compared to the same nine months in 1999. As a percentage of sales revenues, the operating profit represents 6.6 percent compared to 4.2 percent in the same period of 1999 and 4.7 percent for the entire year 1999. Besides the operating factors of growth and efficiency, the supply agreement with Cisco also contributed to this improvement by Euros 56 million; even excluding the effect of the agreement, the return on sales (4.9 percent) showed an increase over the previous corresponding periods.

An analysis of the change is presented as follows:

	Millions of Euros
Currency exchange	+ 12
Prices (excluding metals)	- 10
Volumes and mix	+ 52
Efficiency	+ 27
Change in per unit costs	- 12
R&D expenditures	- 8
Consolidation of units purchased	+ 4
Deconsolidation of Photonics business	+ 11
Cisco supply agreement	+ 56
Other	- 33

	+ 99
	=====

Operating profit for the third quarter 2000, taking into effect the supply agreement with Cisco (Euros 28 million), is equal to Euros 93 million (8.4 percent of sales revenues and 5.9 percent excluding the effect of the Cisco agreement), compared to Euros 19 million (2.1 percent of sales revenues) in the corresponding period of the prior year.

The **net financial position** showed a liquidity balance of Euros 735 million compared to Euros 843 million at June 30, 2000 and a net debt position of Euros 700 million at December 31, 1999. Compared to June 30, 2000, the change is due mainly to the aforementioned acquisition of the BICC operations (Euros 194 million), counterbalanced partly by the proceeds on the acquisition, by Cisco Systems Inc., of 10 percent of the share capital of Optical Technologies USA Corp. and Pirelli Submarine Telecom Systems Holding B.V. for a total of Euros 110 million.

The total **workforce** of the sector at September 30, 2000 numbered 18,939 (of whom 2,281 units have temporary work contracts), compared to 19,046 units (of whom 1,779 units with temporary work contracts) at December 31, 1999.

A total of 2,678 units left the company in the nine months (709 of whom left on account of the sale of the terrestrial optical systems operations) and 2,571 units were added, 502 of whom were hired under temporary work contracts.

As regards the additions, the NKF acquisition involved the entry of 815 permanent units and 11 temporary units.

It is expected that the operating results for the last quarter will be in line with those of the third quarter.

TYRES SECTOR

Results of the Tyres Sector

The key figures for the Sector are presented below:

	(in millions of euros)				
	3rd quarter 2000	3rd quarter 1999	(cumulative) 9/30/2000	(cumulative) 9/30/1999	(cumulative) 12/31/1999
. Sales revenues	730	621	2,155	1,917	2,559
. Gross operating profit	88	85	292	263	349
% of sales	12.1%	13.7%	13.5%	13.7%	13.6%
. Operating profit	39	42	146	141	185
% of sales	5.3%	6.8%	6.8%	7.4%	7.2%
. Net financial position (liquidity)/debt	44 *	99 *	766	591	535
. No of employees (at period-end)	6 *	494 *	20,819	20,415	20,332
. No. of factories	0 *	1 *	22	22	22

* The figures indicated refer to the change from the end of the previous quarter.

Sales revenues (cumulative) for the nine months ended September 30, 2000 showed an increase of 12.4 percent compared to the same period of the prior year, due above all to the favorable trend in volumes/mix which rose by 9.2 percent (the entry of the Egyptian affiliate Alexandria Tire Company S.A.E. in the consolidation area in July 1999 contributed +1.8 percent). Prices decreased by 2.4 percent, while the currency exchange effect made a positive contribution of 5.6 percent.

Cumulative **car tyre volumes** to September showed an increase of 4 percent compared to 1999, with Original Equipment up +10 percent thanks to the favorable trend in South America (+23 percent) and Turkey (+85 percent), in addition to the good performance by Europe (+2 percent). Gains were also posted by the premium tyre range (+14 percent) primarily as a result of higher volumes in both Europe (+10 percent) and South America (+48 percent).

The Replacements channel closed at +1 percent more than the prior year, where the good performance in South America (+8 percent), Turkey (+26 percent), Japan (+14 percent), Far East/Pacific (+10 percent) and East Europe (+48 percent) was counterbalanced, in particular, by the slight decline in Europe (-1 percent) and the drop in North America (-11 percent). The premium tyre range is positive, in particular, in South America which recorded a +22 percent jump.

Light Truck tyre volumes closed with a gain of 26 percent over 1999, with Original Equipment up +73 percent and Replacements up +15 percent (all the other areas posted significant increases).

Recreational tyre volumes were also positive, showing improvements of 15 percent in Replacements and 101 percent in Original Equipment.

Truck tyre volumes displayed an increase of 22 percent, with Replacements gaining +17 percent thanks to the good performance of Turkey (+27 percent), South America (+5 percent), Africa/Middle East (+82 percent) and the consolidation of Alexandria Tire Company S.A.E., countered by a drop of 3 percent in Europe. Original Equipment was positive (+48 percent) with Turkey up +154 percent, South America at +42 percent and Europe at +3 percent.

Motorcycle tyres reported growth with total volumes showing an increase of 18 percent and Replacements advancing by +17 percent thanks especially to the good performance in South America which recorded an improvement of 32 percent. The gains in Europe were lower where volumes rose by +9 percent. Original Equipment also made a good showing (+20 percent) thanks to a +27 percent jump in South America and a +7 percent gain in Europe.

Sales revenues in the third quarter 2000 totaled Euros 730 million, with an increase of 17.6 percent over the corresponding period of 1999.

Operating profit (cumulative) for the nine months ended September 30, 2000 is up 3.5 percent, with the return on sales equal to 6.8 percent against 7.4 percent in 1999: the positive contribution made by volumes and mix, plus efficiencies in the use of both variable and fixed labor and the favorable trend in the exchange rates, more than compensated the negative change

in selling prices, the increase in raw materials prices and higher amortization and depreciation (due mainly to the inclusion of Alexandria Tire Company S.A.E. in the consolidation area beginning from July 1999).

Specifically, the increase of Euros 5 million compared to the prior year is due to:

	Millions of euros
Currency exchange	+ 8
Sales prices	- 49
Raw material per unit costs	-46
Volumes and mix	+ 73
Efficiency	+ 16
Change in per unit costs	- 9
R&D expenditures	- 8
Consolidation of Alexandria Tire	+ 7
Other	+ 13

	+ 5
	=====

Operating profit for the third quarter 2000 was Euros 39 million (5.3 percent of sales revenues) compared to Euros 42 million (6.8 percent of sales revenues) in the corresponding quarter of the prior year; this result was affected by the erosion of selling prices and the trend of raw materials costs.

The **net financial position** registered an increase of Euros 44 million compared to June 30, 2000 and Euros 231 million compared to December 31, 1999. In particular, the difference in respect of June can be attributed mainly to higher absorption of working capital.

At September 30, 2000, the **workforce** numbered 20,819 units, in line with those at June 30, 2000 (20,813 units).

Notwithstanding the heightened erosion of sales prices and the trend in raw materials prices, we are of the opinion that the operating profit for the entire fiscal year will be in line with that of the prior year.

**QUARTERLY DATA
AND
COMMENTS**

QUARTERLY DATA

(in millions of euros)

Statements of income	3rd quarter 2000	3rd quarter 1999	(cumulative) 9/30/2000	(cumulative) 9/30/1999	(cumulative) 12/31/1999
. Sales revenues	1,832	1,534	5,430	4,724	6,482
. Other revenues	61	42	169	103	91
. Value of production	1,893	1,576	5,599	4,827	6,573
. Cost of sales	(1,295)	(1,091)	(3,833)	(3,272)	(4,475)
. Labor cost	(374)	(339)	(1,140)	(1,066)	(1,419)
. Amortization and depreciation	(98)	(92)	(287)	(258)	(348)
. Operating profit	126	54	339	231	331

(in millions of euros)

	9/30/2000	6/30/2000	12/31/1999
. Short-term financial payables	980	1,140	625
. Accrued and deferred interest expense	48	30	18
. Cash and banks	(1,219)	(1,704)	(502)
. Other securities	(234)	(192)	(221)
. Short-term financial receivables	(901)	(754)	(263)
. Accrued and prepaid interest income	(27)	(23)	(9)
Net short-term financial position (liquidity)/debt	(1,353)	(1,503)	(352)
. Medium/long-term financial payables	1,361	1,352	1,480
. Medium/long-term financial receivables	(95)	(124)	(90)
. Other securities	(24)	(21)	(21)
Net medium/long-term financial position (liquidity)/debt	1,242	1,207	1,369
Net financial position (liquidity)/debt	(111)	(296)	1,017

COMMENTS ON QUARTERLY DATA

Form and content

The accounting principles, valuation criteria and principles of consolidation used in the preparing the quarterly data at September 30, 2000 are the same as those adopted for the financial statements at December 31, 1999 and disclosed in the previous annual report.

Economic review

Sales revenues

Sales revenues for the nine months ended September 30, 2000 amounted to Euros 5,430 million compared to Euros 4,724 million for the nine months ended September 30, 1999.

The change of +14.9 percent compared to the corresponding period of 1999 can be analyzed as follows:

• Currency exchange	+ 6.5%
• Volumes	+ 5.8%
• Deconsolidation of Photonics business	- 3.3%
• Consolidation of units purchased	+ 3.1%
• Prices	+ 1.8%
• Mix and other	+ 1.0%

	+ 14.9%
	=====

A breakdown by sector and geographic area is as follows:

Sector	Nine months ended 9/30/2000	Nine months ended 9/30/1999	Geographic area	Nine months ended 9/30/2000	Nine months ended 9/30/1999
Cables and Systems	60%	59%	Europe	56%	58%
Tyres	40%	41%	North America	16%	15%
			Central and South America	16%	18%
			Australia, Africa and Asia	12%	9%

Sales revenues for the third quarter amounted to Euros 1,832 million, with an increase of 19.4 percent compared to the corresponding quarter of the prior year. This increase is also due mainly to higher volumes (+7 percent) and the positive trend in exchange rates (+6.1 percent).

Labor costs

Labor costs for the nine months ended September 30, 2000 amounted to Euros 1,140 million and represent 21 percent of sales revenues compared to 22.6 percent in the corresponding period of the prior year.

Labor costs in the third quarter totaled Euros 374 million (20.4 percent of sales revenues) compared to Euros 339 million (22.1 percent of sales revenues) in the third quarter 1999.

Amortization and depreciation

Amortization and depreciation in the third quarter amounted to Euros 98 million (of which Euros 12 million referred to the amortization of intangible assets and Euros 86 million to the depreciation of property, plant and equipment) compared to a total of Euros 92 million in the third quarter 1999 (amortization of Euros 10 million and depreciation of Euros 82 million).

Total amortization and depreciation for the nine months ended September 30, 2000 were Euros 287 million (of which Euros 34 million referred to the amortization of intangible assets and Euros 253 million to property, plant and equipment) compared to Euros 258 million for the nine months ended September 30, 1999 (amortization of Euros 25 million and depreciation of Euros 233 million).

Operating profit

Operating profit for the nine months ended September 30, 2000 was Euros 339 million (6.2 percent of sales revenues). This was an increase of Euros 108 million over the same period of 1999.

This change can be ascribed to:

Millions of euros

• Currency exchange	+ 20
• Volumes and mix	+125
• Prices	- 59
• Materials	- 46
• Efficiency	+ 43
• Change in per unit costs	- 21
• R&D expenditures	- 16
• Acquisitions	+ 11
• Deconsolidation of Photonics business	+ 11
• Cisco supply agreement	+ 56
• Other	- 16

	+ 108
	=====

Net financial position

The net financial position showed a net liquidity balance of Euros 111 million compared to Euros 296 million at June 30, 2000 and a net debt position of Euros 1,017 million at December 31, 1999.

The change during the quarter, equal to Euros 185 million, can be ascribed to the following:

	Millions of euros
• Currency exchange	- 4
• BICC acquisition	+ 194
• Share capital increases by minority shareholders	- 110
• Absorption of working capital	+ 70
• Other	+ 35

	+ 185
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The Board of Directors
Milan, November 7, 2000