

PIRELLI

Società per Azioni

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**Information memorandum describing the transaction of sale to
Corning Inc. of the Optical Components business of Pirelli Group**

December 2000

Pirelli SpA Group

Information memorandum describing the transaction of sale to Corning of the Optical Components business of Pirelli Group pursuant to art. 71 of Consob Regulation N. 11971 of May 14, 1999, Appendix 3B, table 3.

December 2000

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Proforma financial information

The following table presents the proforma condensed income statement and the condensed proforma balance sheet (cumulatively referred to as “proforma financial information”) for the first half of 2000, and derives from the interim consolidated financial statements of Pirelli SpA at June 30, 2000 approved by the board of directors on September 1, 2000 as part of the six-month report of the seller. The purpose of presenting proforma financial information is to show the income statement and the balance sheet for the first half of 2000 excluding the optical components business, as if the transaction of sale had occurred at the end of 1999. The proforma adjustments are described later in this information memorandum.

<i>(Euros in millions, except for per share information)</i>	Consolidated interim financial statements at June 30, 2000 Pirelli SpA	Proforma adjustments	Proforma consolidated interim financial statements at June 30, 2000 Pirelli SpA
<u>Condensed income statement</u>			
Sales revenues	3,597.9	(12.0)	3,585.9
Operating profit	213.3	2.2	215.5
Financial expenses	(32.5)	0.1	(32.4)
Extraordinary income (expenses)	1,166.1	0.4	1,166.5
Income before income taxes	1,346.9	2.7	1,349.6
Income taxes	(385.6)	(0.7)	(386.3)
Net income, before minority interest	961.3	2.0	963.3
Net income	958.2	2.0	960.2
<u>Condensed balance sheet</u>			
Fixed assets	3,066.6	(8.2)	3,058.4
Trade accounts receivable	1,792.1	(3.6)	1,788.5
Ending inventories	1,125.0	(6.4)	1,118.6
Other assets, accrued income and prepaid expenses	883.5	(0.1)	883.4
Trade accounts payable	(1,226.7)	6.6	(1,220.1)
Other liabilities, accrued liabilities and deferred income	(1,726.9)	2.5	(1,724.4)
Total net working capital	847.0	(1.0)	846
Total net capital invested	3,913.6	(9.2)	3,904.4
Shareholders' equity	(3,288.1)	(2,757.0)	(6,045.1)
Provisions	(921.6)	2.3	(919.3)
Financial position	296.1	2,763.9	3,060.0
<u>Per share information (in Euros)</u>			
Earnings per share	0.483	0.001	0.484
Free cash flow per share	0.002	0.001	0.003
Number of shares including 173,362,249 treasury shares	1,989,287,689		

1. Notice

The transaction of sale, described in this information memorandum, carries no particular risks or uncertainties for the business of the Pirelli SpA group as the sale was finalized on December 12, 2000 by the transfer of the optical components business and the simultaneous receipt of the agreed price. Within the framework of the contract of sale, Pirelli SpA issued the usual guarantees concerning any contingent costs for a maximum total amount of not more than US\$ 700 million.

2. Information describing the transaction

2.1 Manner and terms of the transaction.

On September 27, 2000, Pirelli SpA (“Pirelli”) and Corning Inc. (“Corning”) reached an agreement for the sale by Pirelli group of the majority holding, equal to 90% of the share capital, of Optical Technologies USA Corp. The transaction was finalized on December 12, 2000, with the transfer of the shares against consideration of US\$ 3,510 million corresponding to Euros 3,960 million, after hedging the position at a forward rate of 0.8863195.

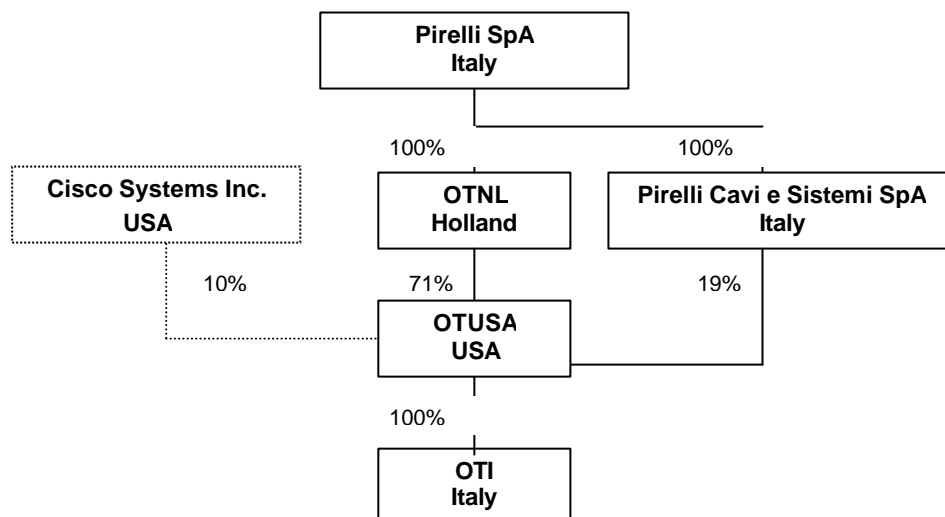
The agreement also called for the sale to Corning by Pirelli Cavi e Sistemi SpA or its subsidiaries of some patents relative to optical components for consideration of US\$ 100 million. This information memorandum describes the effect and terms of the transaction of sale of the optical components business to Corning.

2.1.1 Companies and businesses involved in the transaction of sale.

The legal entities of Pirelli group involved in the transaction of sale are as follows:

Pirelli Cavi e Sistemi SpA	-	Italian company, sector head of Cables and Systems operations of the Pirelli group
Optical Technologies the Netherlands BV	“OTNL”	Dutch holding company
Optical Technologies USA Corp.	“OTUSA”	American company established for productive and commercial development and research, owner of numerous patents relating to optical components
Optical Technologies Italia SpA	“OTI”	Italian productive company and main research center, owner of numerous patents relating to optical components

The following chart shows where each of the above legal entities involved in the transaction of sale to Corning is positioned within Pirelli group’s organizational structure:



The companies sold to Corning were OTUSA and its subsidiary OTI. OTUSA was established in March 2000 as part of the strategic agreement with Cisco Systems (“Cisco”), on the basis of which Cisco acquired a 10% interest in OTUSA with an investment of US\$ 25 million during 2000. OTI started up operations in February 2000 after the spin-off of the optical components business segment as part of the strategic agreement with Cisco.

The transaction also called for the sale to Corning of some patents by Pirelli Cavi e Sistemi SpA or its subsidiaries.

2.1.2 Terms and conditions of the transaction and related manner and timing of payments/receipts.

The terms and conditions of the transaction are those established by the contract of sale signed by the parties on September 27, 2000.

The sale was dependent upon obtaining the necessary approval from the antitrust authorities. Such condition was satisfied by the closing date.

The agreed price is the result of negotiations between the parties, incorporating the potential for growth of the buyer in the sector of optical components.

2.2 Origins, motivations and purpose of the transaction.

With the sale of the terrestrial optical systems business to Cisco in December 1999, the group set into motion a policy whereby, in addition to the traditional propensity towards the core businesses, it decided to aim for the objective of establishing strategic alliances with partners of a high standing in order to take advantage of the opportunities to create value that could also originate in areas that were not strictly connected to the usual business of the sectors.

In this particular case, it should be pointed out that Cisco, at that time, had no intention of acquiring the optical components operations – notwithstanding its closely complementary nature to the business it had acquired– as it was not consistent with Cisco strategy that was heavily oriented towards assemblies and the creation of systems rather than the manufacture of components.

Nevertheless, Cisco felt it convenient:

- on the one hand, to ensure a constant supply of such components from Pirelli, which led to the signing of a specific supply contract for a minimum of about US\$ 20 million the first year and US\$ 30 million the second, and with the understanding that, only upon ascertaining quantitative and qualitative performance, a significant earnout bonus would be paid in addition to the established price; Cisco also claimed that Pirelli could not sell the shares or assets pertaining to components, for two years after the closing, to companies operating in the systems sector, such as Marconi, Fujitsu, Nortel, Lucent, Alcatel, Ciena, Corvis, Juniper Networks, Ericsson and Siemens;
- on the other hand, assuming that the above performance targets were reached, to invest – with a minority stake – in a newly established company (hereafter “OTUSA”) in which Pirelli’s optical components business would have been contributed through OTI SpA, an Italian company wholly-owned by OTUSA. The new company would be set up in the USA and would hopefully be built up by the Pirelli group; Cisco’s investment would have been US\$ 25 million, based on the valuation of the company for an amount (after Cisco bought in) of US\$ 250 million, a price agreed between the parties and verified by the respective consultants.

To Pirelli, all of this appeared consistent with its strategy, announced in March 2000, aimed (also through spin-offs and the formation of strategic alliances and technological partnerships with leading companies) at the development and build up of its operations in optical systems and components linked with e-technology.

With this in mind, towards the end of February 2000, the review of the OTUSA project got underway; from the start, the following became apparent:

- the need to begin the procedure to float the stock on the NASDAQ as soon as possible (without excluding any contacts for alternative and equally suitable combinations) which, however, would have been taken gradually, step by step;
- the need to present a highly credible and superior management team, a condition that could not be disregarded in the American market in order for the deal to be successful;
- the usefulness, always to ensure that the placement was successful, of placing an important American venture capitalist among the shareholders.

Contacts were made with possible investors (venture capitalists) and top American managers who would have worked alongside Pirelli managers whose credibility was already established on the American market by their activities on behalf of the group in the USA and also as a result of the Cisco deal.

As regards the American managers, for a variety of reasons and after meetings that extended from April to the end of July, no agreement was reached with any of them. As for the venture capitalists, after intensive negotiation was begun with an important United States operator, expert in the optical sector, it was decided to offer, in view of the IPO, the purchase of a stake in OTUSA for the same quantity and the same costs agreed with Cisco; towards mid-July, it became apparent that this person's position was not acceptable mainly on account of the rights and guarantees requested that were superior to those given to Cisco, including assurance that the placement price would be two times higher than the subscription price.

The IPO project, nevertheless, went forward, with the knowledge that, also in light of the time required to fulfil the procedures called for by the Securities & Exchange Commission it did not appear that the placement of the first round of stock could be finalized by the end of October but, at best, by March 2001, with the consequence that, considering the market placements by similar but much bigger operations than Pirelli's, the reliability and economic advantages of the operation would be subject to higher risks.

Finally, also as a result of a steady increase in the number of hirings (February 2000: 166 units, May 2000: 202 units, July 2000: 249 units, September 2000: 363 units), a new building was purchased (between June and August 2000) in San Donato Milanese that was destined to become OTI's new Italian headquarters; on September 14, 2000, space was leased in the United States (Boston) for OTUSA's headquarters.

In the meantime, beginning from mid-May, the corporate procedure was begun to contribute the intellectual properties connected with the optical components sector of the Pirelli group to OTUSA; a first appraisal report (relating to a first contribution by Pirelli Cavi e Sistemi SpA of the business segment containing the majority of the patents to OTI SpA) certified by Prof. Giovanni Maria Garegnani on April 12, 2000, valued said business segment at about Euros 175 million; a second appraisal report (relating to a second contribution by Pirelli Cavi e Sistemi SpA to OTNL of the OTI shares received as a result of the first contribution (drawn up by Paardekooper & Hoffman on May 30, 2000) attributes a substantially similar value to said shares equal, to exactly Euros 183,185,100.

Therefore, OTUSA came into possession, on the part of OTNL, of the above OTI shares on June 7, 2000 and, on the part of Pirelli Cavi e Sistemi SpA, of additional patents for a value of about US\$ 47 million on June 13, 2000. OTUSA consequently issued No. 3,550,000 shares (equal to 78.889% of the entire share capital) in the name of OTNL and No. 950,000 shares (equal to 21.111%) in the name of Pirelli Cavi e Sistemi SpA. At the same time, OTUSA voted a share capital increase through the issue of No. 500,000 new shares earmarked for Cisco which subscribed to them on August 3, 2000.

As far as the IPO project was concerned, it appeared opportune from the start that the top management of the group should assume responsibility for OTUSA, committing their expertise and lending image and reputation, in order to demonstrate the company's utmost commitment and thus render the IPO of a company whose valuation was based on future prospects even more attractive. Consistent with the culture and practice in the United States in this area, the need to involve management in the fate of the company was also recognized and top management was offered an option to purchase an interest in the American company.

On March 20, 2000, the Remuneration Committee of Pirelli SpA, which also reviewed the compensation policy for the group and the start of two stock option plans for about 800 managers and cadres, stated that it shared the same opinion as described above and, having received a favorable opinion from the board of statutory auditors, expressed, with Dr. Tronchetti abstaining, its agreement on the issue of such options to Dr. Tronchetti, Ing. Morchio and Dr. Buora for a share, respectively, of 6%, 4% and 2.5% of the capital of OTUSA, with the understanding that the unit purchase price of the shares would be equal to that which would be paid by Cisco when it became a shareholder (US\$ 50 per share) and that the Pirelli group, at any time, would be able to dispose of all the shares it owns, including those under option, to follow any course, also in alternative to an IPO, that it sees fit, in order to maximize the value of the company.

On May 8, 2000, the board of directors of Pirelli SpA, having received a favorable opinion from the board of statutory auditors, approved, with the beneficiaries of the stock options abstaining – the issue of options on the part of OTNL.

On July 5, 2000, once the corporate procedure was concluded for the contribution to OTUSA of the business segment pertaining to the optical components sector and the additional patents still owned by Pirelli Cavi e Sistemi SpA, the board of directors of OTNL was convened and on July 11, 2000 voted to formally issue options within the terms and under the conditions voted by the boards of the parent company Pirelli SpA; OTNL's board also expressed its favorable opinion on the guidelines for the stock option plan for the employees of OTUSA and OTI; with this in mind, Prof. Garegnani was asked if the value which he assigned to the optical components business, and, therefore, implicitly, to OTUSA, could be considered as being unchanged: this was confirmed on July 13, 2000.

As preannounced by Chase Manhattan Bank, Corning – which has for years had dealings with Pirelli in the field of fiber optics – during a meeting between the two presidents which took place on June 28, 2000, expressed an interest for OTUSA whose patents had great importance for its strategic development; during this meeting, Corning was informed that the eventual sale could only take place if the offer was particularly interesting, since the IPO project was still on the horizon.

On July 23, 2000, Corning, after having obtained initial information about OTUSA, affirmed its interest in a letter in which it emphasized the strategic importance of the “components” sector for its group and expressed the desire to more fully examine OTUSA's contents and plans so that it could eventually make a proposal for its acquisition, with indication of a price possibly such that it could arouse Pirelli's interest to open negotiations.

Considering that Corning's competitors, of late, had realized important acquisitions/combinations in the field of components and that important operators in the telecommunication sector had announced the intention of rendering their optical components operations autonomous, by placing them on the market, in order to expand their business as suppliers also to competitors, it thus became particularly important for Corning itself to acquire the technologies in order to enhance its portfolio and remain competitive.

Therefore, Corning's concrete initiative did not reach Pirelli as a surprise, when a letter was sent August 4, 2000 containing – even with all possible manner of precautions (non-binding proposal, need for a careful and complete due diligence, subjecting an eventual agreement to decisions by the board, deadline of September 4, 2000 for the validity of the manifestation of intent) – an offer to negotiate the eventual acquisition of OTUSA based on consideration of between US\$ 3 and 4 billion, through the exchange of Corning shares, very risky for Pirelli given the fluctuations in Corning's stock and the market.

In the last ten days of August, the first meetings with Corning were held to provide the information requested, thus putting the company in a condition to formulate a more concrete and binding proposal; the consequence, after the positive results of the first controls were made, was a new proposal from Corning, on September 1, for the start of negotiations based on consideration for the purchase of OTUSA of between US\$ 4.5 and 5 billion, always in Corning shares.

The negotiations took shape in mid-September and were concluded, as indicated in the terms and conditions of point 2.1, on September 27, 2000.

On October 11, 2000, Dr. Marco Tronchetti Provera, Dr. Carlo Buora and Ing. Giuseppe Morchio exercised, as established by contract, the options mentioned above, at a price of US\$ 50 per share for, respectively, No. 300,000, 125,000 and 200,000 shares of OTUSA; such shares, again as established by contract, were resold to OTNL on December 12, 2000 at a price per shares of US\$ 780.

2.3 Relations with the companies involved in the transaction and with the parties to which the activities were sold.

The major relations with the companies that are involved in the transaction, which will also continue after the sale, are represented by the supply of administrative, computer, personnel management and industrial relations services as well as the lease of specific areas at market terms. The legal entities sold also enjoyed operational and financial support from the Pirelli group which is normally rendered to subsidiaries of the group. Such support is usually associated with securing financial resources, the support of the central functions, economies of scale linked to synergies of the group and other minor benefits.

The relations which have existed for some time with the buyer Corning consist of the acquisition of important volumes of fiber optics as well as a license for the use of patents of the American company. Such relations have not been affected by the transaction of sale which is the subject of this information memorandum.

2.3.1 Relations of the directors of the seller company with the companies involved in the transaction.

As for the relations maintained by the directors of the seller with the companies involved in the transaction, reference should be made to the previous point 2.2 as regards the options for the purchase of OTUSA shares given to Dr. Marco Tronchetti Provera, Dr. Carlo Buora and Ing. Giuseppe Morchio.

2.4 Documents available to the public.

The transaction of sale covered by this information memorandum was announced to the public in the press release circulated by the seller on September 27, 2000, attached herein, as well as described in the Quarterly Report on the results of the group at September 30, 2000. Such Quarterly Report can be obtained from the offices of the seller and at Borsa Italiana SpA.

3. Effects of the transaction on the seller

The effects of the transaction on the Pirelli SpA group are described in the Quarterly Report on the results of the group at September 30, 2000 and mainly refer to the considerable financial resources that became available for the expansion and strategic development of the group's operations.

4. Proforma financial information of the seller

4.1 Pro-forma condensed income statement and condensed balance sheet.

The proforma condensed income statement and the condensed proforma balance sheet for the first half of 2000 have derived from the interim consolidated financial statements of Pirelli SpA at June 30, 2000, approved by the board of directors on September 1, 2000.

The purpose of presenting proforma financial information is to show the income statement and the balance sheet for the first half of 2000 excluding the optical components business, as if the sale to Corning had occurred at the end of 1999.

The main proforma adjustments made to the interim consolidated financial statements of Pirelli SpA at June 30, 2000 are as follows:

Condensed income statement

- (i) Reversal of the sales revenues and operating profit for the first half of 2000, as shown in the six-month financial statements of the companies sold, used for purposes of preparing the interim consolidated financial statements of the seller at June 30, 2000.
- (ii) Reversal of any further costs incurred during the six months by other companies in the group on behalf of the optical components activities, such as, for instance, research and development costs relating to the intellectual properties contributed during the course of the six months to the companies later sold.
- (iii) Reversal of tax benefits, calculated on the basis of the tax savings realized by the group in relation to the losses for the six months of the business sold.

Condensed balance sheet

- (i) Elimination of the assets and liabilities at June 30, 2000 as shown in the accounting records of the legal entities involved in the sale to Corning, net of the receivables and payables with other companies in the Pirelli group, with a contra-entry to the net financial position.
- (ii) Inclusion of the gain realized on the sale which took place on December 12, 2000 net of the estimate of accessory charges and the related tax charge, which are still being defined. The gain was included in shareholders' equity with a contra-entry to the financial position, assuming the monetary manifestation of the costs associated with the gain, without however giving effect to the financial income which would be earned on the liquidity received for the sale. This treatment conforms to international accounting practice with respect to the preparation of proforma financial statements.

4.2 Proforma per share indicators of the seller company

Per share information of the Pirelli SpA group is indicated in the table below and present a comparison of the information contained in the six-month report and the proforma financial information.

Euros	First half to June 30, 2000	Proforma
Earnings per share	0.483	0.484
Free cash flow	0.002	0.003

5 Report of independent accountants on the proforma financial information

Attached is the report of PricewaterhouseCoopers SpA on the review of the proforma condensed income statement and proforma condensed balance sheet.

6. Outlook for the seller and the group

The business outlook of the Pirelli SpA group, subsequent to the date of the last published financial statements, is described in the Six-month Report at June 30, 2000 and in the Quarterly Report at September 30, 2000, approved by the board of directors, respectively, on September 1, 2000 and November 7, 2000, the extract of which is attached. Subsequent to that date, there were no significant events. The sale of the optical components business does not preclude the representativeness of the historical financial statements of the Pirelli SpA group.

APPENDIX I
Report of independent accountants

REPORT ON REVIEW OF THE PRO-FORMA ADJUSTMENTS INCLUDED IN THE PRO-FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF PIRELLI SPA FOR THE SIX MONTHS ENDED 30 JUNE 2000, IN ACCORDANCE WITH ART.71 OF CONSOB RESOLUTION N°11971 DATED 14 MAY 1999, EXHIBIT 3B, TYPE 3

To the Board of Directors of
Pirelli SpA

We have reviewed the pro forma adjustments included in the pro forma condensed consolidated balance sheet of Pirelli SpA as of 30 June 2000, and the pro forma condensed consolidated statement of income for the six months then ended, as described in the notes to the pro forma adjustments (cumulatively referred to as “pro forma financial information”). This pro forma financial information is included in the accompanying Information Memorandum describing the sale to Corning Inc. of certain assets relating to the optical component business of Pirelli SpA.

The pro forma financial information has been prepared in accordance with art.71 of Consob resolution n°11971 dated 14 May 1999, exhibit 3B, type 3, in order to show any significant effects on the historical financial information of Pirelli SpA as of and for the six months ended 30 June 2000 had the sale to Corning of certain assets relating to the optical component business of Pirelli SpA occurred as of 31 December 1999.

This pro forma financial information is derived from the historical unaudited financial statements of Pirelli SpA included in the six month report as of 30 June 2000, which was approved by the Board of Directors of Pirelli SpA on 1 September 2000 and reviewed by us with our report on review dated 4 September 2000.

The objective of this pro forma financial information is to reflect the historical interim financial information of Pirelli SpA as of 30 June 2000 excluding the optical component business as if the transaction had occurred as of 31 December 1999. However, the pro forma financial information is not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction actually occurred at that date.

Our review consisted of the analysis of the presentation of the pro forma financial information based on management’s assumptions and we have performed certain analytical procedures deemed necessary for this engagement. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assumptions, the pro forma adjustments and the application of those adjustments to historical financial information. Accordingly, we do not express such an opinion.

Based on our review, no changes or adjustments came to our attention that should be made to:

- (i) management's assumptions described in the notes to the pro forma adjustments and used for the preparation of the pro forma financial information of Pirelli SpA as of and for the six months ended 30 June 2000, in order to provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction, and
- (ii) the related pro forma adjustments in order to give appropriate effect to those assumptions.

Milan, 15 December 2000

PricewaterhouseCoopers SpA

Fabio Facchini
(Partner)

This report has been translated from the original which was issued in accordance with the Italian legislation.

APPENDIX II
Presentation of the transaction in the press release dated September 27, 2000

PRESS RELEASE

Milan, September 27, 2000 – Pirelli and Corning, the two long lasting partners in the optical technology, announced today to have reached an agreement for the sale to Corning of the share capital of Optical Technologies – the American company manufacturing optical components based in Delaware – for USD 3.9 billion plus other assets for USD 100 million. The company shareholding is held 90% by Pirelli SpA and 10% by Cisco Systems, while the other assets are fully owned by Pirelli Cables and Systems.

As already announced last March, the Pirelli strategic aim was to proceed with an IPO in order to allow the new company to benefit from the opportunities offered by the US market in terms of finance, customers and technologies: an aim which is now fully achieved through this transaction.

According to the agreement, which has been approved by the Boards of Directors of the two companies, at the closing of the transaction, which is expected in 2-3 months being subject to customary Antitrust Authorities approval, Corning will correspond to Pirelli an initial payment for the above mentioned transaction of approx. USD 3.43 billion, and a contingent payment of up to USD 180 million based upon the achievement of certain business milestones. The net income for Pirelli will be of about USD 3.05 billion taking into account: the stock options granted to the management (equal to 12,5% of the capital); special benefits granted for the positive conclusion of the deal; and the costs related to the deal itself. The tax charge of the overall transaction, including the transfer of assets already realised in view of the IPO, can be estimated in the range of ITL 1 thousand billion.

Thanks to this agreement, Pirelli will reinforce its leading technologies in optical fibres, optical cables and submarine optical systems, in energy transmission and in tires, and will capture any further opportunity to create additional value.

* * *

For a full brief on the subject, Pirelli SpA will hold a press conference today at 14.00 p.m. in Milan, via G. Negri 10.

* * *

Established in 1872, based in Milan (Italy), Pirelli SpA (www.pirelli.com) is the holding company which owns and controls the Pirelli Group's operations worldwide. The Group is a global manufacturer of tires, communication and power transmission cables and systems, and is increasingly focusing its R&D and manufacturing resources and competencies on leading edge technologies. Pirelli has affiliates in 21 countries and operates 87 factories with more than 40,000 employees and consolidated sales in 1999 of \$ 6.5 billion.

Established in 1851, Corning Incorporated (www.corning.com) creates leading-edge technologies for the fastest-growing markets of the world's economy. Corning manufactures optical fiber, cables and photonic products for the telecommunications industry; and high-performance displays and components for television and other communications-related industries. The company also uses advanced materials to manufacture products for scientific, semiconductor and environmental markets. Corning's revenues in 1999 were \$ 4.7 billion.

APPENDIX III

Outlook for the current year – Extract of information included in the Six-month Report at June 30, 2000 and the Quarterly Report at September 30, 2000.

SIGNIFICANT SUBSEQUENT EVENTS AFTER THE END OF THE FIRST HALF AND THE FUTURE OUTLOOK FOR CURRENT YEAR

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.

At the end of July, Pirelli announced the decision to delist the shares on the San Paolo stock exchange of the two Brazilian affiliates Pirelli Cabos S.A. and Pirelli Pneus S.A. upon the launch of the takeover bid for all their outstanding shares. The total outlay, should the bid prove successful, will amount to US \$92.9 million.

In August, the acquisition of 10 percent of our companies operating in the optical components and submarine telecommunications systems was signed by Cisco for US \$100 million.

As regards the outlook for the second half, operating income is expected to show an improvement over the first half of the year, thus allowing the company to consolidate the gains achieved during the first six months.

The demand for telecommunications cables remained at buoyant levels during the period both for traditional cables in copper and for optical cables, contributing to the re-alignment of market prices. The high volume and the attention continually paid to reducing cost led to a recovery in the profitability of this sector.

In fiber optics, higher demand led to the full utilization of productive capacity, which is being extended according to the approved plans. The technical evolution of the new telecommunications networks has fueled a significant demand for the most recent types of fiber optics enhanced for photonics systems, thus bringing a positive contribution to the results of the business.

In the Tyres Sector the outlook for the end of the year is for an operating profit which confirms the gains already achieved during the course of the first half. This trend is tied to the strength of the performance in South America, especially in Brazil, and the confirmation of the direction taken by Europe.

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 .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 forecast, 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.