



**CHEMCHINA**

**中国化工橡胶有限公司**

China National Tire & Rubber Co., Ltd.

# The Pirelli-CNRC Integration

## Business Model and Integrated Business Plan

Milan, April 2016

**Preliminary – For discussion only**

# Agenda

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## Pirelli-CNRC TBR business model

## Pirelli-CNRC 2020 integrated TBR business plan

- Stand alone TBR business plans
- Synergies plan
- Manufacturing footprint

## Agro, OTR and TBB 2020 business plan

## Pirelli-CNRC 2020 overall business plan

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## Pirelli-CNRC TBR business model

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# Pirelli-CNRC business model evolution (I/II)

The new Group will become the 4<sup>th</sup> global industrial player in volume and value, operating in 3 businesses - TBR<sup>3</sup>, OTR and Agro naturally hedged

- 1<sup>st</sup> global player focused purely on industrial tyres
- 1<sup>st</sup> in technology, innovation, business model – outstanding management and profitability
- With strong coverage across tiers and the scale to make the required investments in each business

**Pirelli-CNRC in TBR has the objective to become a global multitier player in both the "fleet-centric" and in the "wholesaler" businesses**

- The *fleet-centric* model represents roughly 30% of the overall TBR market, and is present mainly in the most premium tyre markets: Europe, NAFTA, Brazil
- The *wholesales* model represents roughly 70% of the overall TBR market, and is present mainly in developing markets such as China, India, Russia and Middle East Africa

**Competing successfully in the *fleet-centric* business requires...**

- Deep know-how of the fleets and direct relationship with the final customers
- Multitier product offering, combining Pirelli, Aeolus, and 3CRNC products
- Superior technological content and digital innovation
- Comprehensive service and premium retread offering, with a capillary retread network
- Advanced go to market to foster fleet intimacy

**...with focus on big and medium fleets driven by TCO<sup>1</sup> and CPK<sup>2</sup> buying criteria**

- Big fleets will ensure the price positioning and strong marginality in specific applications
- Medium fleets will represent the main profit pool

1. TCO: Total Cost of Ownership 2. CPK: Cost per Kilometer 3. Including TBB

Source: Pirelli, BCG analysis

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# Pirelli-CNRC business model evolution (II/II)

## Winning in the *wholesaler* business needs...

- Low cost approach, ensured by a lean product development
- Intimacy with distributor, addressed by a very efficient go to market cost structure

...with focus on small fleets and applications mainly driven by price

## In OE Pirelli-CNRC will play in the *fleet-centric* model by...

- Shifting from standard position to pull effect from fleets leveraging on intimacy and relationship
- Increasing brand specification through the support of brand awareness and advocacy

...in the *wholesaler* by playing with tier 2 and 3 OE manufacturers in selected geographies

## The overall business model will be supported and enhanced by

- Technological advantage allowing to close the gap with key competitors
- Premiumness of Pirelli brand that will support the Group in brand awareness and consideration
- Global manufacturing footprint with best in class technologies and production methodologies
- New commercial mindset focused on fleets and marketing and communication campaigns
- Innovative approach on digital, with a key role of Cyber Fleet
- Strong global Pirelli management team

## The new business model will translate into relevant synergies for the Group

- Sizeable impact on the new Group's profitability with more than 160M\$ of EBIT impact in 2020
- Strong impact on both price positioning and volumes, together with procurement efficiency

## The Group will reach at 2020 revenues for ca. 3.3 Bn\$ and a ROS equal to ca. 12%

- Potential further increase of ROS, ca. 1%<sup>1</sup>, with the reduction of the gap with main competitors and increase of ca. 5-10% of average prices in key applications and selected countries

1. Impact on Pirelli TBR

Source: Pirelli, BCG analysis

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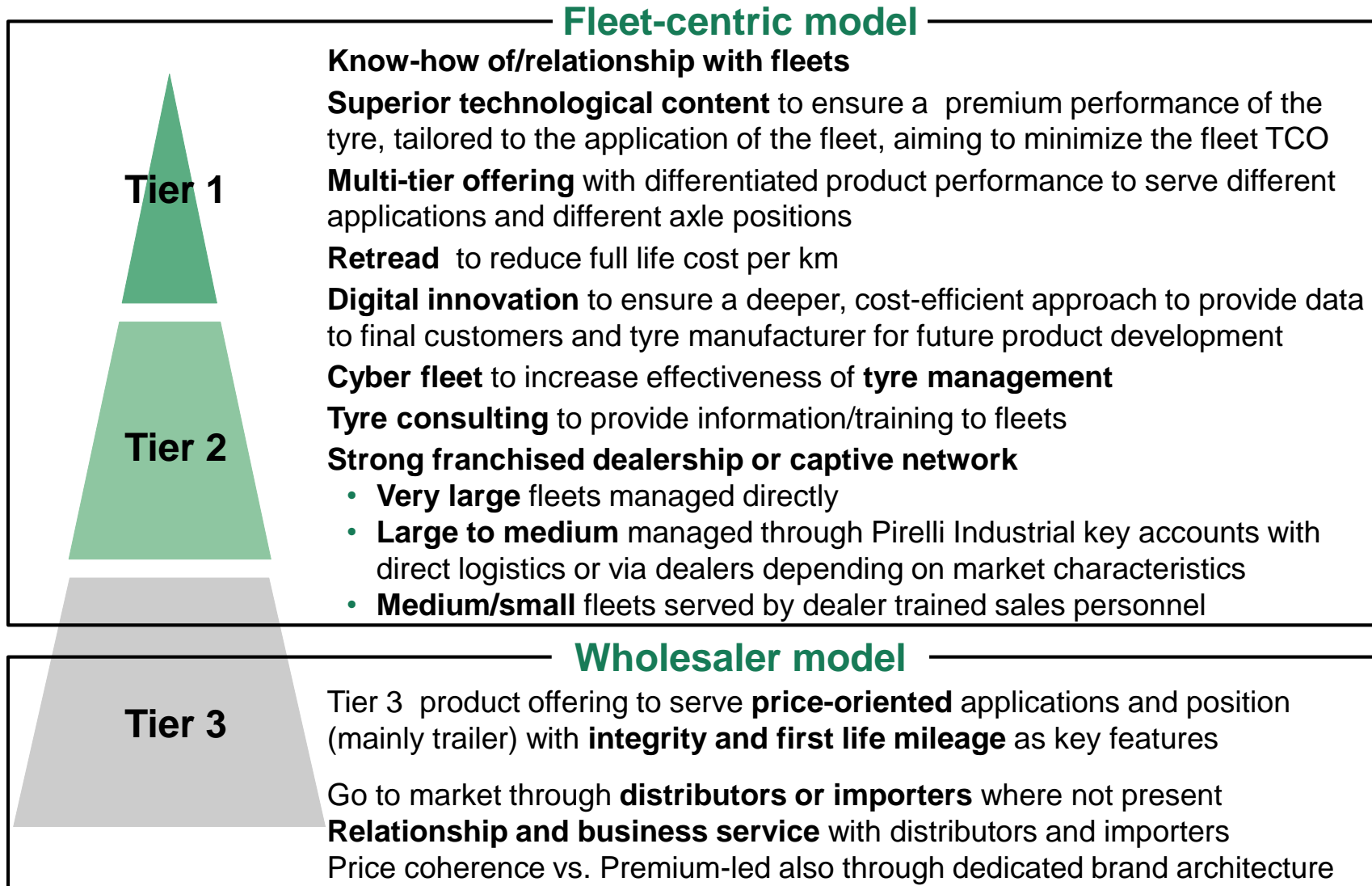
# Truck tyre business model

Buying criteria segmentation<sup>1</sup>

TCO<sup>2</sup>  
10%

CPK<sup>3</sup>  
40%

Price  
50%



1. Percentage of volumes of Replacement tyres 2. TCO: Total Cost of Ownership 3. CPK: Cost per Kilometer

Source: Pirelli, BCG analysis

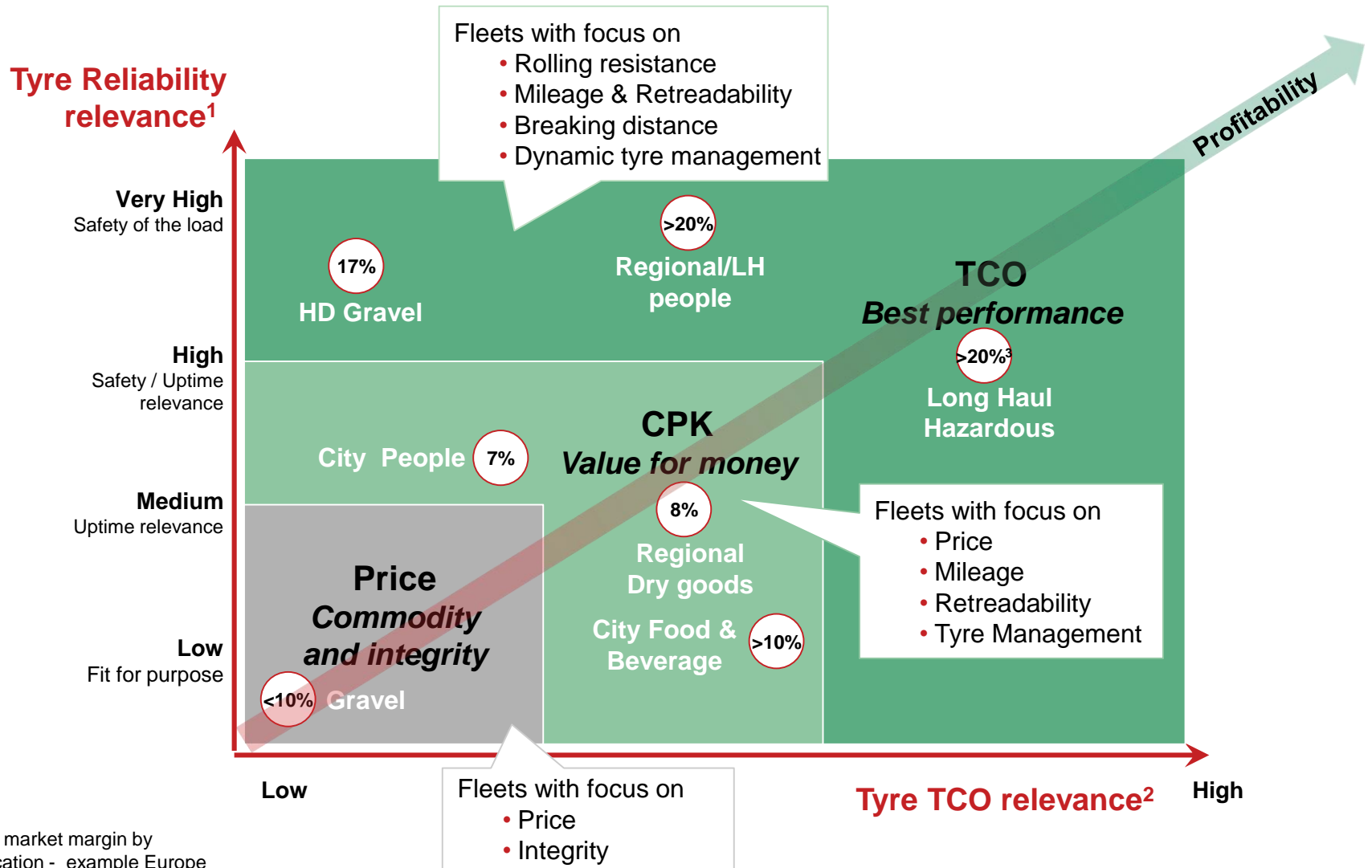
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# Pirelli-CNRC value map

Fleets segmentation by application



1. Relevance of the tyre reliability for the mission/application 2. Tyre TCO represents the total fleet cost influenced by tyres (tyres, tyre maintenance, tyre related fuel cost)

3. Excluding trailer

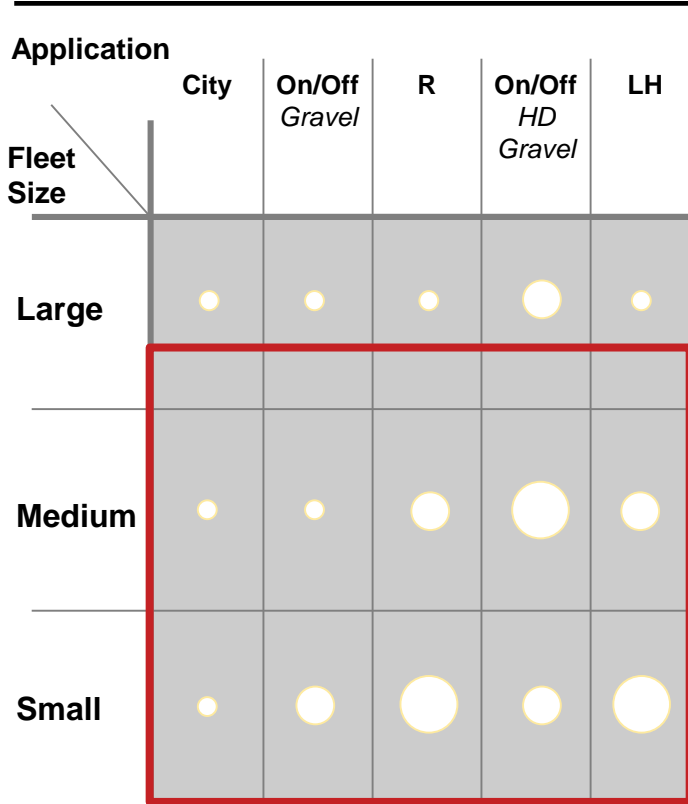
Note: city people and gravel profitability estimated



# Pirelli-CNRC target positioning

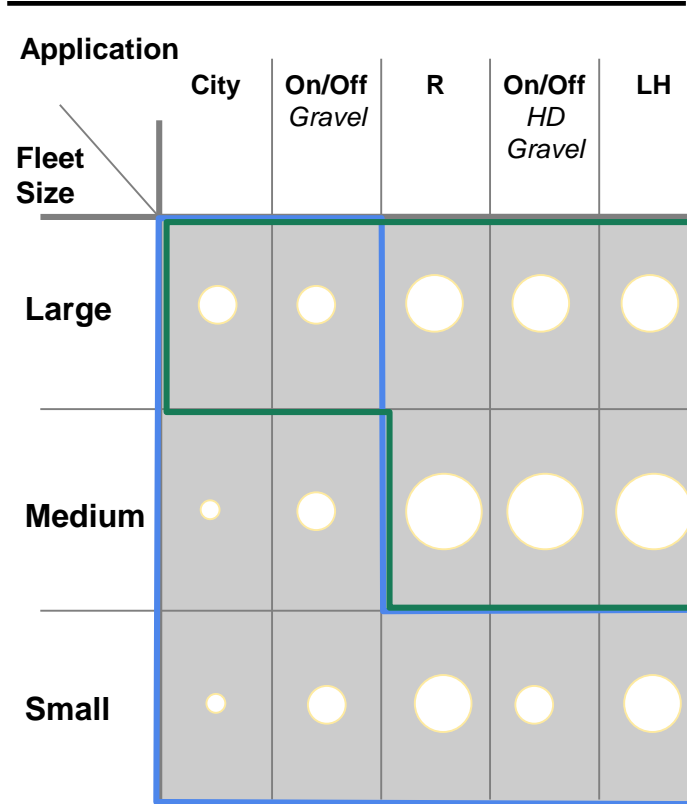
Profitability by fleet size and product application

### Pirelli – CNRC 2015



Current focus

### Pirelli – CNRC 2020



Wholesaler model      Fleet model

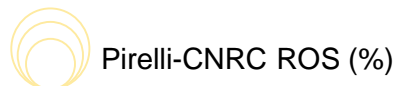
### Key takeaways

**2015:** sales to small and medium fleets with profitability deriving mainly from small and medium fleets due to current portfolio offering

**2020:** two model approach

Fleet model: increase in profitability through premium product performance, full line up offering and services

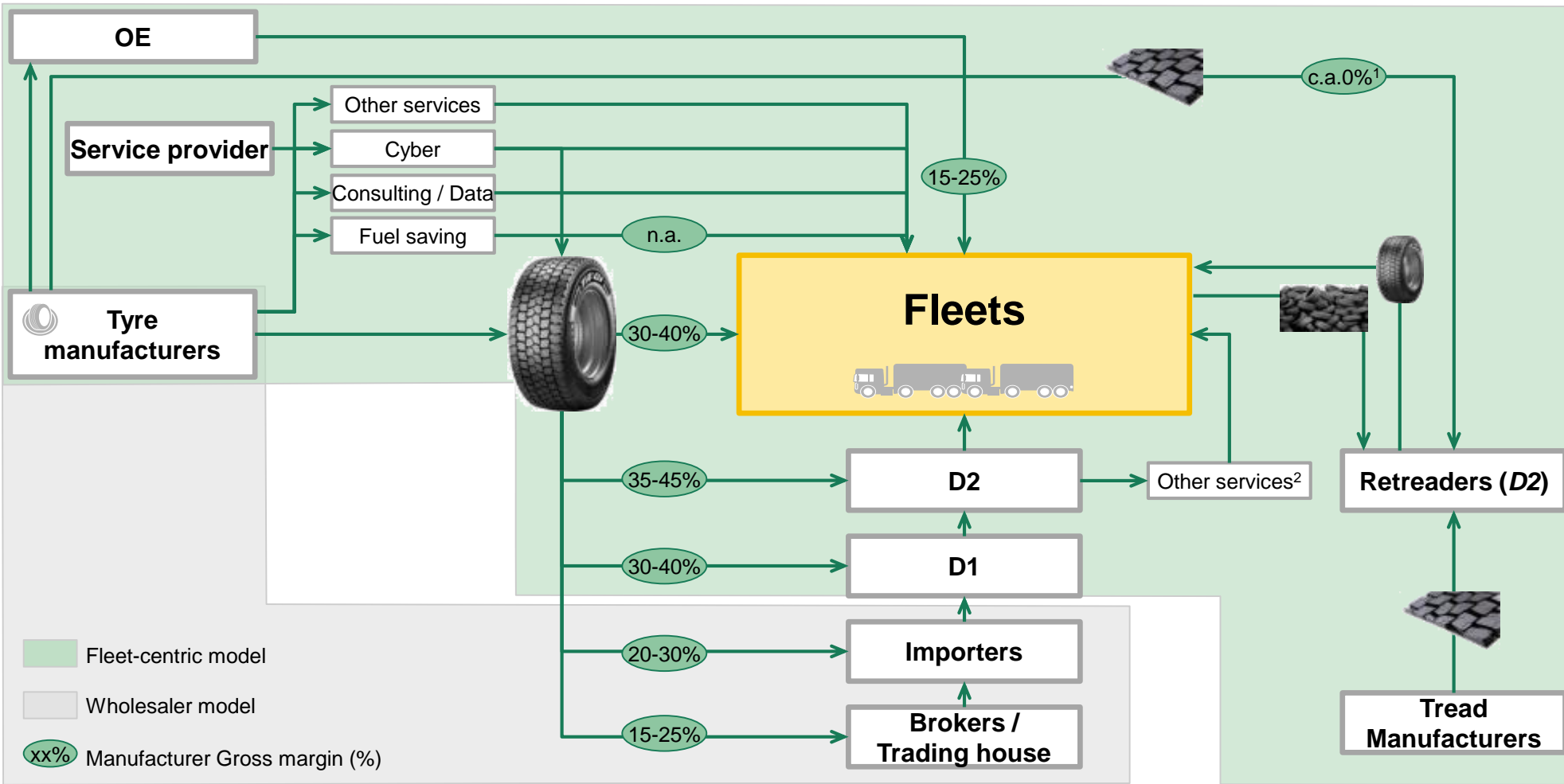
Wholesaler model: overall costs reduction



Note: large fleets >100 trucks; medium fleets 50-100 trucks; small fleets <50 fleets  
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# Services and retread as enablers for fleet-centric model



Services and retread as key elements to enable premium price extraction

1. Fees covering costs  
 2. E.g. mounting and dismounting, tyre management, 24/7 breakdown service  
 Source: BCG analysis

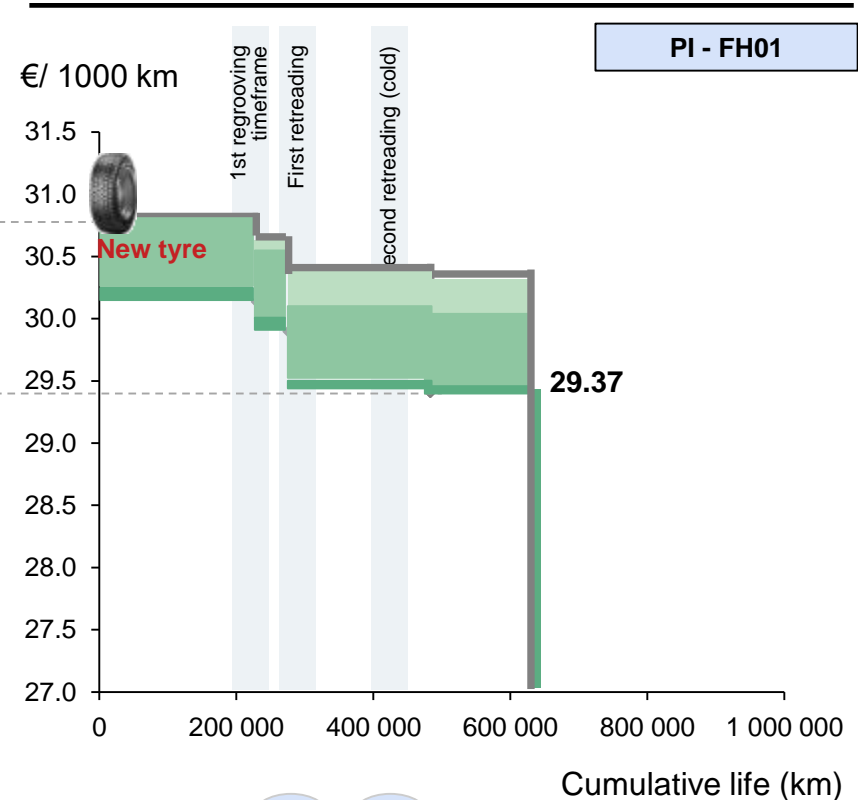
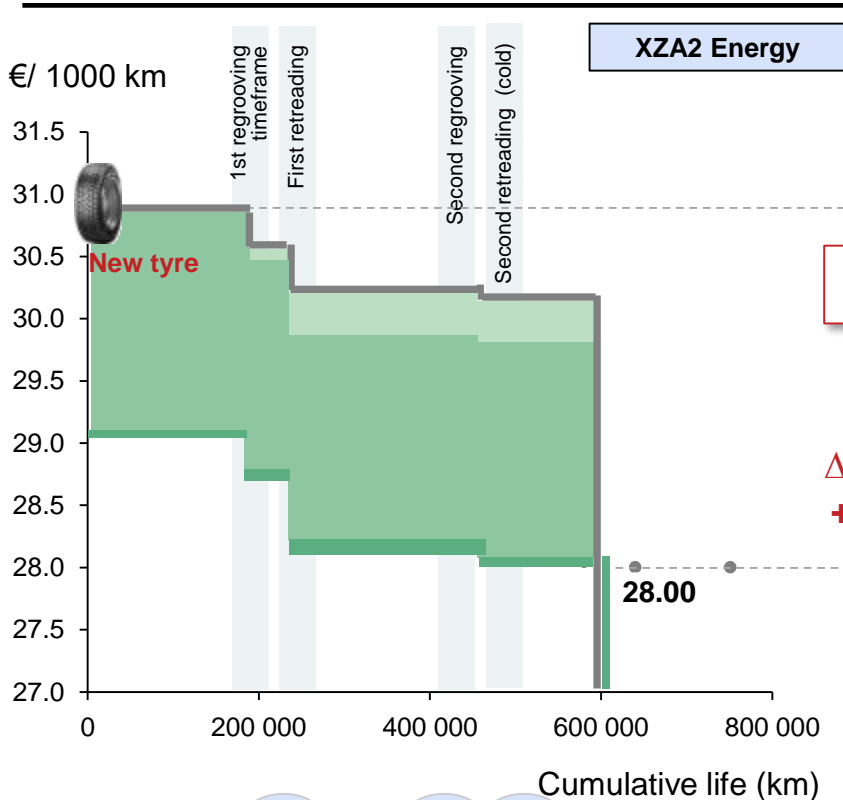


# Enhanced services ensure premium price

Truck costs per '000 km, including tyre and fuel cost

**MICHELIN** sell-out price: ~430€

**PIRELLI** sell-out price: ~375€



% of retredab. 80% 40% 20%

% of fuel saving ← 60% →

% of tyre mgmt ← 80% →

70% 35%

← 20% →

← 30% →

— Costs per '000 Km    ■ Costs per '000 Km with retread    ■ Costs per '000 Km with fuel saving    ■ Costs per '000 Km with tyre mgmt

Note: Illustrative comparison assuming: cost of regrooving process €30, Hot retreading sell-out price ( Michelin €210, Pirelli €170), Cold retreading sell-out price (Michelin €180, Pirelli €170), average truck fuel consumption 3.6 km/l, cost of fuel 1.25 €/l, maximum fuel saving achievable ~10%.



# Agenda

Pirelli-CNRC TBR business model

## Pirelli-CNRC 2020 integrated TBR business plan

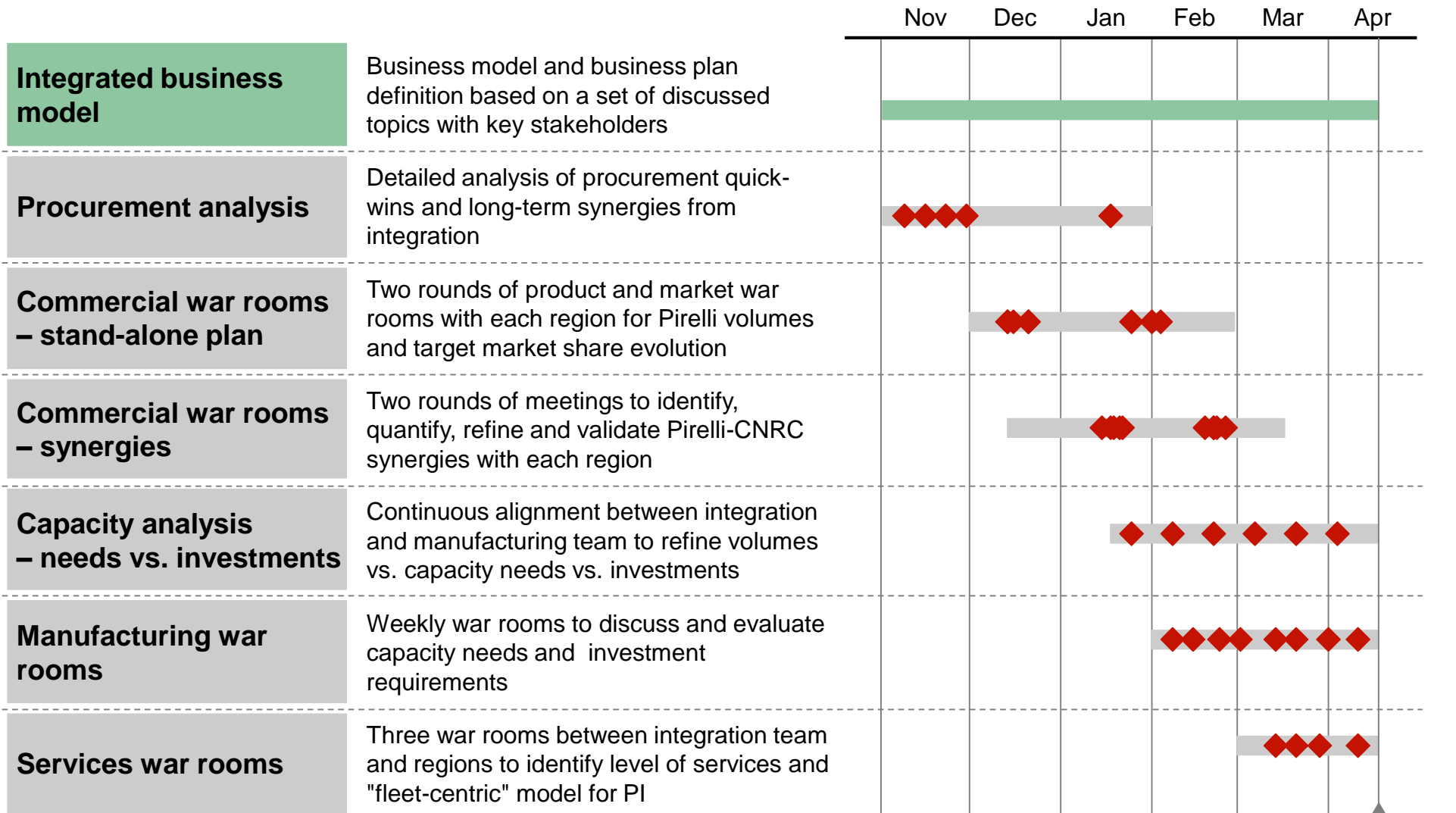
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**Possible additional changes to Pirelli-CNRC integrated plan due to incremental investments, increase in Pirelli prices and Free Cash Flow statement**

# More than 30 meetings to develop integrated business plan



Today (11/04)

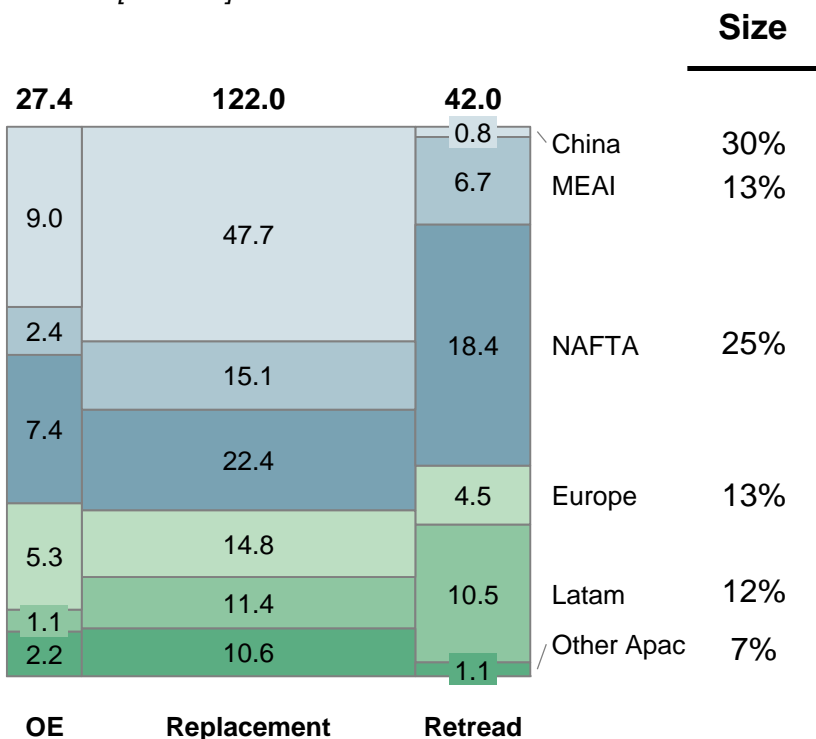


# World TBR market evolution: 2015 – 2020

Mn units by Region and channel

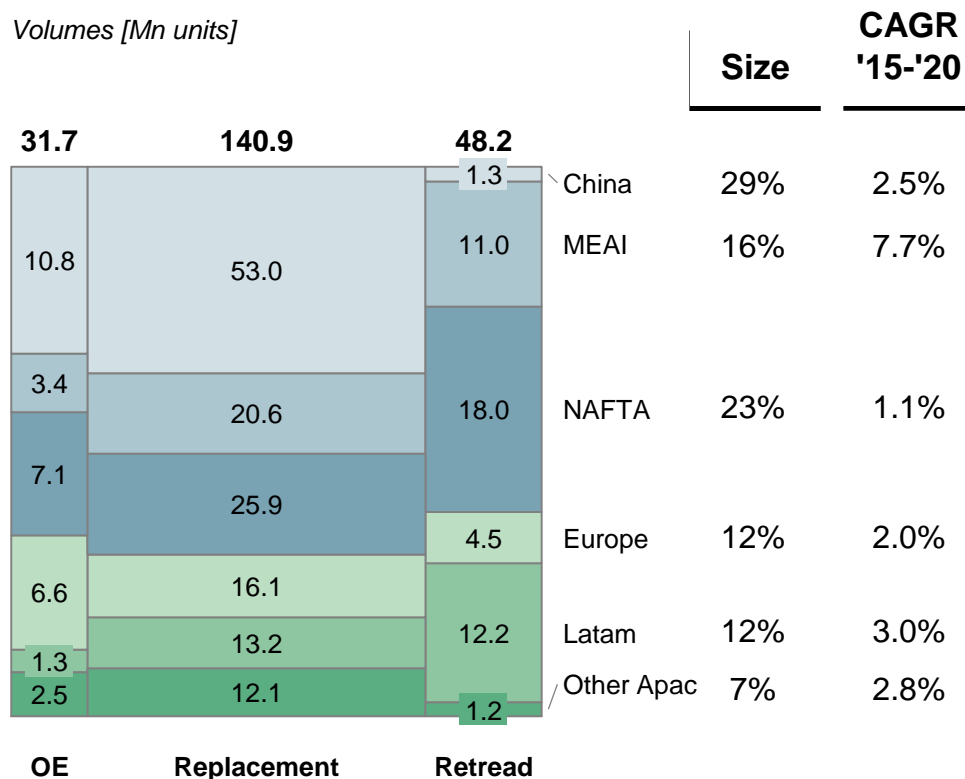
## World TBR market 2015: 191 Mn units

Volumes [Mn units]



## World TBR market 2020: 221 Mn units

Volumes [Mn units]



Note: Europe including Russia and CIS; MEAI including India, Turkey, Africa, Middle East and GCC  
 Source: Pirelli data; MTD 2015; GIA '14; EIU statistics; IHS '15-'16; Tire Business; Expert interviews; BCG analysis  
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# Market scenario considered

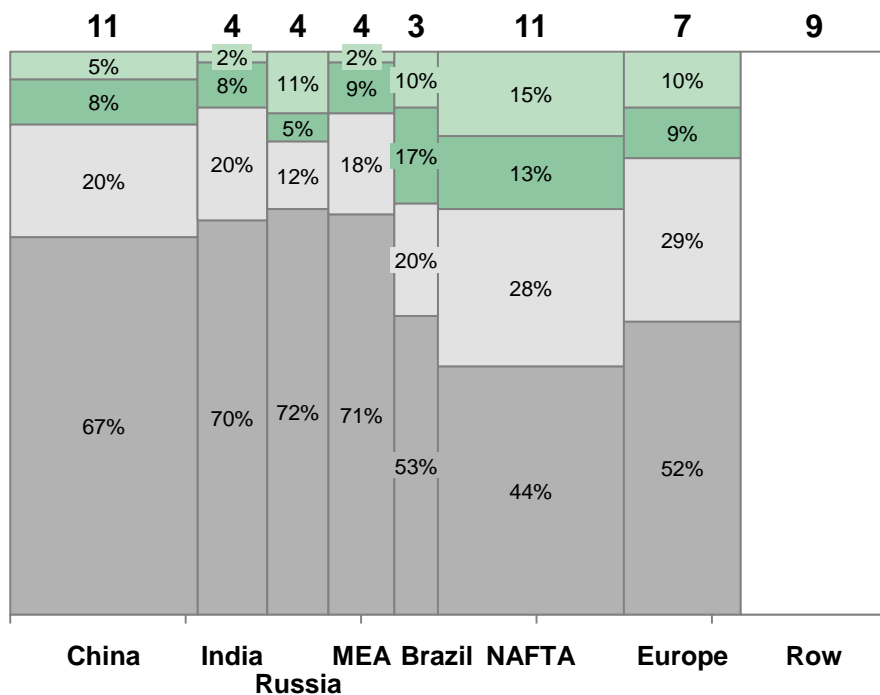
NAFTA	<u>USA</u> : antidumping regulation on Chinese TBR tyres from 2016
APAC	<u>China</u> : partial premiumization by 2020 – up to 50% of Tier 1 segment
LatAm	<u>Brazil</u> and <u>Argentina</u> : anti-dumping regulation on Chinese TBR tyres until 2020
MEAI	<u>India</u> : TBR market to remain unprofitable until 2020 <u>Egypt and Turkey</u> : anti-dumping regulation on Chinese TBR tyres until 2020
Europe	<u>Russia</u> : Ruble and oil price downturn. Antidumping duties on China TBR

# Pirelli-CRNC target to increase monitored fleets

Fleets size by region; Trucks Mn, 2015 – 2020

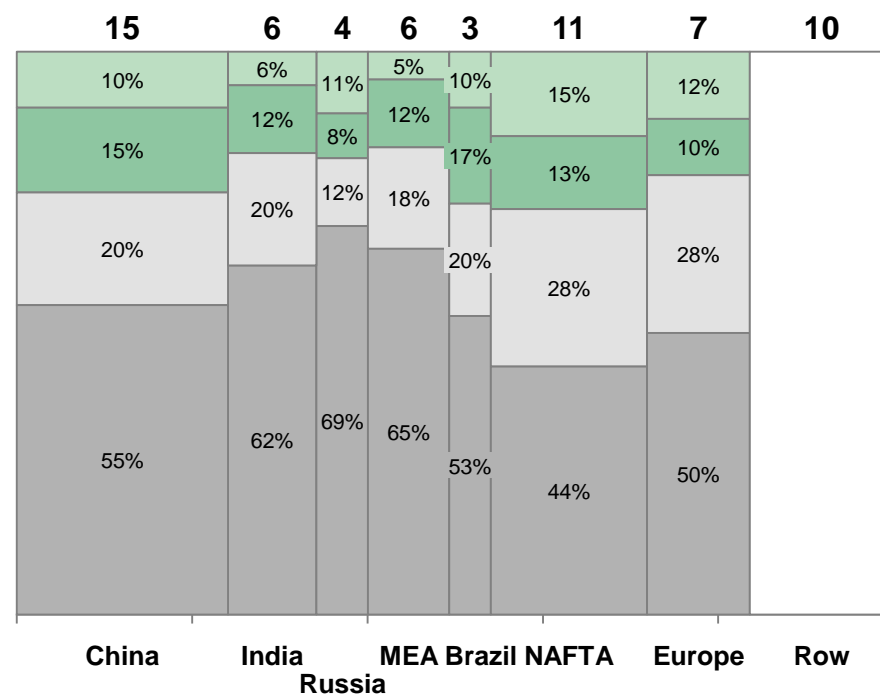
### Fleet size – 2015

Total trucks: 52Mn



### Fleet size – 2020

Total trucks: 61Mn



PI monitored fleets (VL /L)

Region	China	India	Russia	MEA	Brazil	NAFTA	Europe	Row
2015 Best estimate	-	-	-	<5%	>20%	-	<5%	-
2020 Preliminary targets – Under discussion	5%	-	-	10%	>40%	10%	10%	-

Monitored through direct sales, equity dealers and triangulated sales

Very Large Large Medium Small

Note: Fleet size defined as follows: Very Large 0 > 500 trucks; Large = 200-500 trucks; Medium = 50-200 trucks; Small = 1-50 truck

Source: IHS 2015; Pirelli data; expert interview; BCG analysis;

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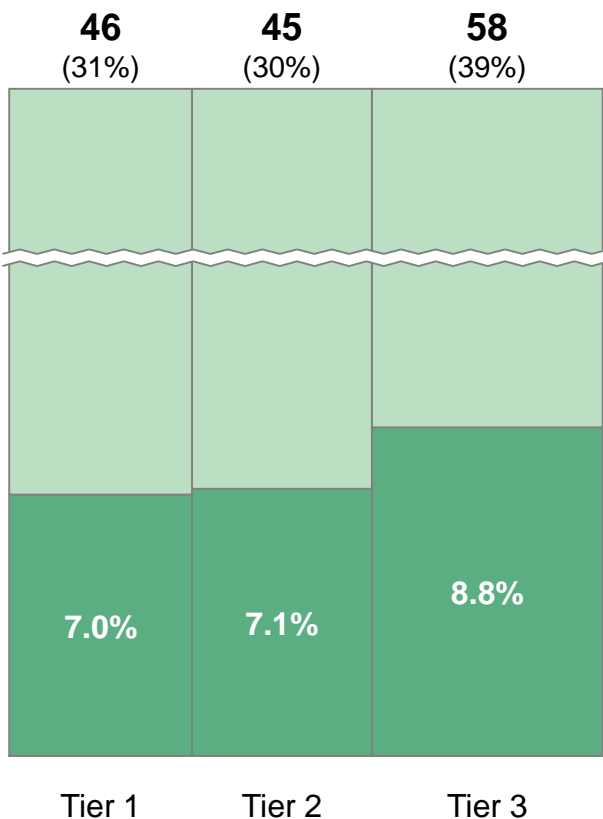


# Pirelli-CNRC: growth in Tier 1/Tier 2

All Steel only, OE and Replacement, Mn units, %

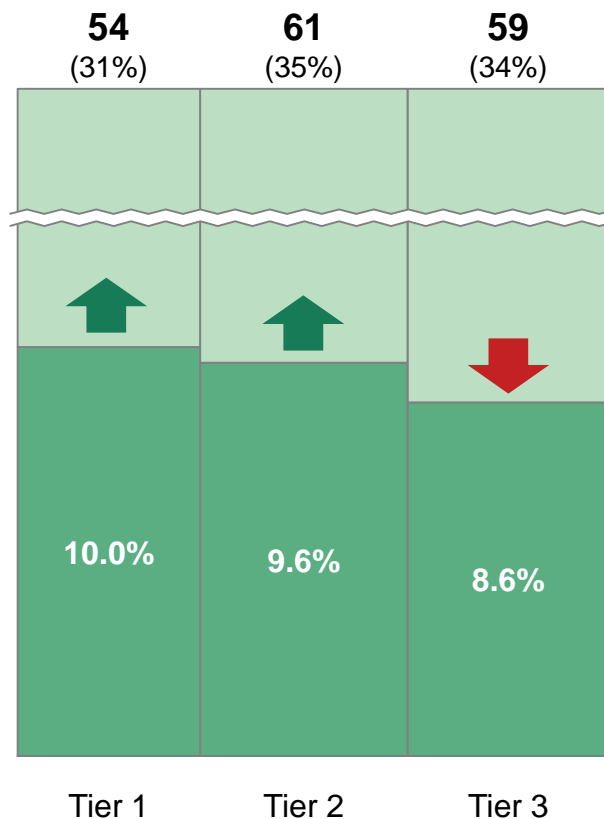
## Global TBR market 2015

Total volumes: 150 Mn units



## Global TBR market 2020

Total volumes: 175 Mn units



## Key takeaways

### Tier 1

Pirelli consolidates presence in Tier 1 segment – increasing market share mainly in Europe, China and North America

### Tier 2

Formula brand increases share in LatAm and Europe  
Aeolus grows worldwide (mainly in MEAL and China) – while exiting North America due to antidumping

### Tier 3

Pirelli – CNRC Tier 3 offering decreasing share worldwide - stable in most markets, exiting North America due to anti dumping

Rest of the market  
Pirelli – CNRC share by Tier

Note 1: Underlying scenario with anti-dumping duties introduction in North America (both US and Canada) between 2015 and 2020

Note 2: Tier 1 includes Pirelli brand ; Tier 2 includes Pirelli-Formula and Pharos brands; Aeolus 2015: included in Tier 2 in China and Other APAC, in Tier 3 in Europe, LatAm and NAFTA; Aeolus 2020: included in Tier 2 in China, Other APAC and MEAL, in Tier 3 in Europe, LatAm and NAFTA; 3CNRC included worldwide in Tier 3.

Source: Pirelli data; MTD 2015; GIA report; EIU statistics; IHS '16; Europool; Press Research; Expert interviews; BCG analysis

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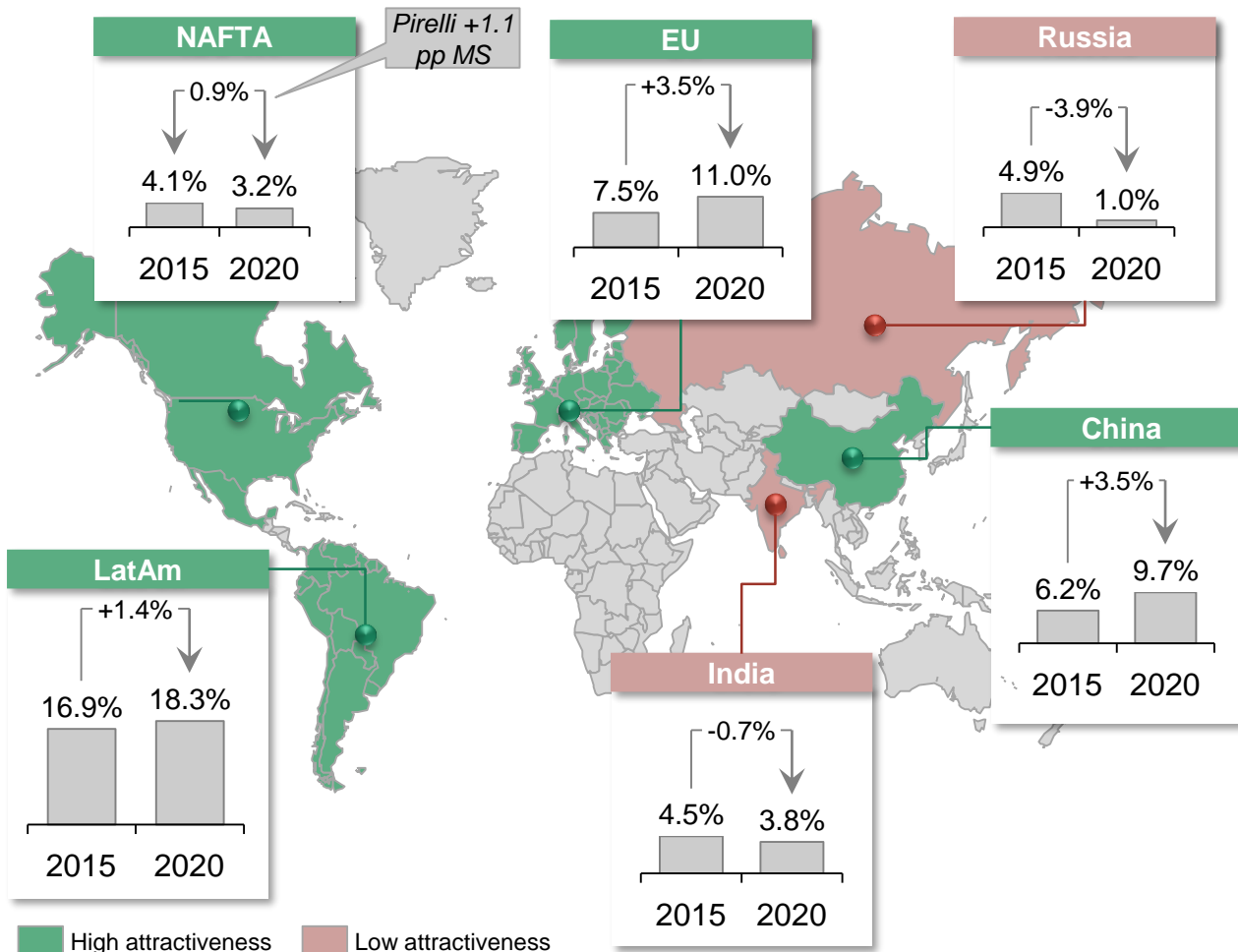
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# Pirelli-CNRC: focus on most attractive markets

All Steel only

## Pirelli – CNRC market share evolution 2015-2020



## Key takeaways

### China

Pirelli with strong increase of MS through D1 and D2 program  
4CNRC volumes following relative tier market growth

### EU

Pirelli to significantly grow presence in EU

### NAFTA

Scenario: anti-dumping duties activated  
Pirelli to enter highly premium US market  
4CNRC strongly reduce presence

### LatAm

Pirelli to grow following market recovery in Brazil

### Russia

Scenario: low oil prices, antidumping duties  
Pirelli-CNRC not to play a major role in Russia due to unfavorable market conditions  
Possible agreement with local player to establish market presence

### India

Pirelli not to enter India as market is not profitable with low premiumization level  
Possible agreement with local player to be considered to establish market presence

Note: Total market share, OE + RE.

Source: Pirelli data; MTD 2015; GIA report; EIU statistics; IHS '16; Europol; Press Research; Expert interviews; BCG analysis

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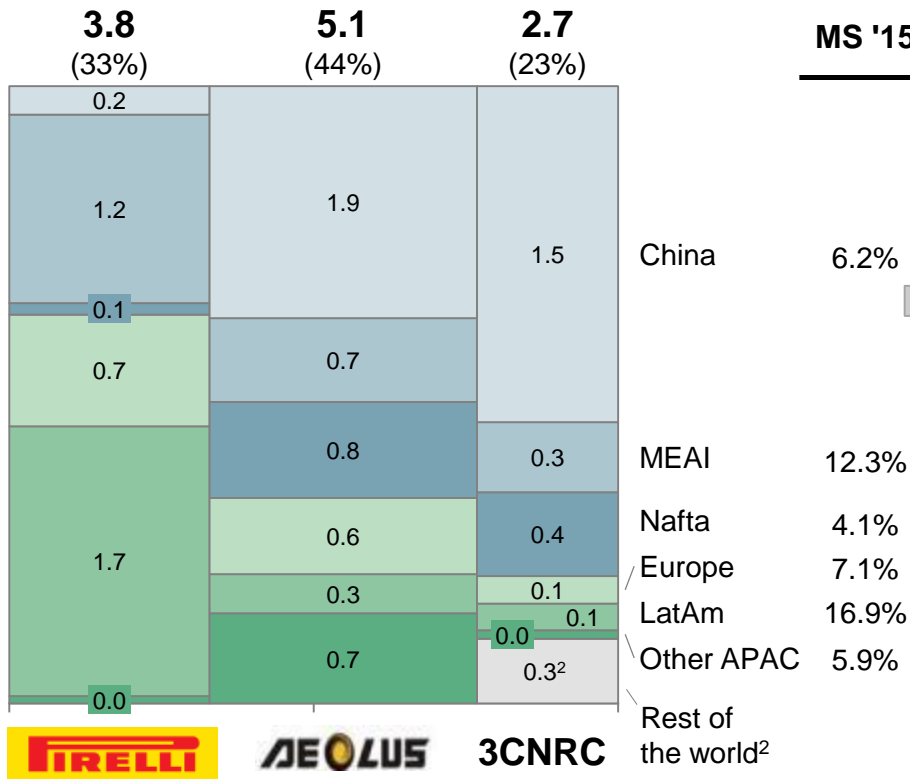


# Pirelli-CNRC: volume evolution

All Steel only, Mn units

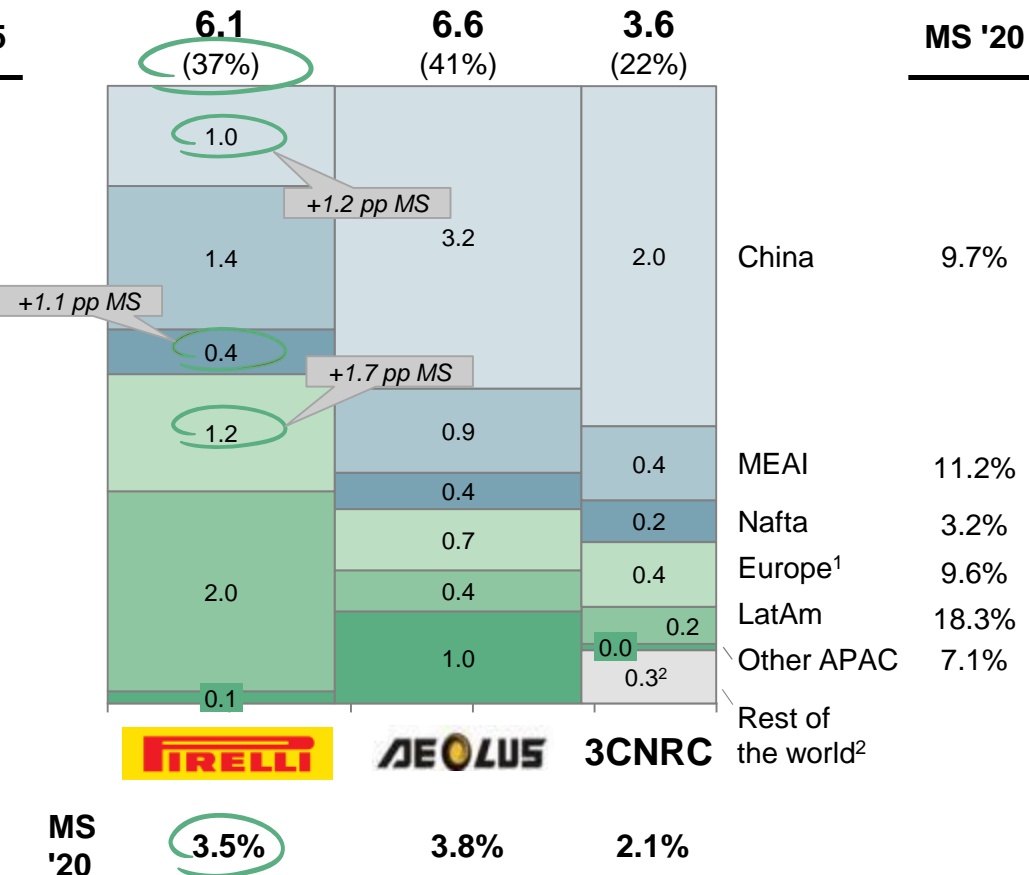
## Pirelli – CNRC 2015

Total volumes: 11.5 Mn units



## Pirelli – CNRC 2020



Total volumes: 16.3 Mn units



1. Introduction of anti-dumping duties in US could shift partially volumes losses from North America to Europe  
 2. 3CNRC including 280k units in 2015 and 309k units in 2020 not classified by country – Double Happiness volumes  
 Source: Pirelli and 4CNRC data; Output from Pirelli – CNRC war room meetings; BCG analysis

















# Regional volume growth for Pirelli – CNRC

Region (Act. '15 k sales <sup>1</sup> )	Volume increase (k)			Vol. increase rationale
			3CNRC	
<b>China</b> (3 537k)	807	1 330	531	<ul style="list-style-type: none"> <li>Pirelli with strong increase of market share with <b>D1 and D2 program</b></li> <li>4CNRC volumes following relative <b>tier market growth</b></li> </ul>
<b>MEAI</b> (2 147k)	254	211	127	<ul style="list-style-type: none"> <li>Strong presence of both Pirelli (<b>Egypt, Turkey</b>) and 4CNRC (<b>India, S. Africa</b>)</li> </ul>
<b>NAFTA<sup>3</sup></b> (1 220k)	368	-395	-120	<ul style="list-style-type: none"> <li><b>Pirelli enters US premium market</b></li> <li>Aeolus and CNRC exiting US and due to <b>antidumping regulation</b></li> </ul>
<b>Europe</b> (1 429k)	470	29 <sup>2</sup>	256	<ul style="list-style-type: none"> <li><b>Pirelli-CNRC to reach 10% MS</b> with Pirelli at 5%</li> </ul>
<b>LatAm</b> (2 098k)	309	118	104	<ul style="list-style-type: none"> <li>Pirelli <b>recovery</b> from <b>down-turn</b></li> </ul>
<b>Other APAC</b> (812k)	75	253	-	<ul style="list-style-type: none"> <li>Pirelli market share increase in <b>Indonesia and Philippines</b> leveraging on 4CNRC</li> <li>Aeolus increase based on <b>CAGR</b></li> </ul>

1. Pirelli – CNRC '15 TBR combined sales 2. Double effect of increase sales in EU and a reduction of sales in Russia 3. Anti-dumping duties introduction in both US and Canada Source: Pirelli and 4CNRC data; Output from Pirelli – CNRC war room meetings; BCG analysis  
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# Volumes, market and capacity by region

TBR only

		<u>Vol. (act, k)</u>	<u>ΔV stand alone</u>	<u>ΔV synergy</u>	<u>Vol. ('20, k)</u>	<u>MS (act, %)</u>	<u>MS ('20, %)</u>	<u>Capacity ('20, k)</u>	<u>C. gap ('20, k)</u>
Nafta	3CNRC	363	-134	14	243	1.2%	0.7%		-243
		786	-447	52	391	2.6%	1.2%		-391
		71	368	0	440	0.2%	1.3%		-440
	<b>Total</b>	<b>1 220</b>	<b>-213</b>	<b>66</b>	<b>1 073</b>	<b>4.1%</b>	<b>3.2%</b>		<b>-1 073</b>
EU	3CNRC	120	95	161	376	0.6%	1.7%		-376
		623	-81	110	652	3.1%	2.9%		-652
		686	415	55	1 156	3.4%	5.1%		-1 156
	<b>Total</b>	<b>1 429</b>	<b>430</b>	<b>326</b>	<b>2 184</b>	<b>7.1%</b>	<b>9.6%</b>		<b>-2 184</b>
Latam	3CNRC	115	50	54	219	0.9%	1.5%		-219
		325	52	66	443	2.6%	3.1%		-443
		1 657	303	6	1 966	13.4%	13.7%	2 186	220
	<b>Total</b>	<b>2 098</b>	<b>404</b>	<b>126</b>	<b>2 628</b>	<b>16.9%</b>	<b>18.3%</b>	<b>2 186</b>	<b>-442</b>
Meai	3CNRC	304	116	11	431	1.7%	1.8%		-431
		687	194	17	898	3.9%	3.7%		-898
		1 156	254	0	1 410	6.6%	5.8%	2 194	784
	<b>Total</b>	<b>2 147</b>	<b>563</b>	<b>28</b>	<b>2 738</b>	<b>12.3%</b>	<b>11.2%</b>	<b>2 194</b>	<b>-544</b>
China	3CNRC	1 456	250	281	1 987	2.6%	3.1%	4 250	2 263
		1 902	880	450	3 232	3.4%	5.1%	6 291	3 059
		178	302	505	985	0.3%	1.5%	1 535	550
	<b>Total</b>	<b>3 537</b>	<b>1 431</b>	<b>1 236</b>	<b>6 204</b>	<b>6.2%</b>	<b>9.7%</b>	<b>12 076</b>	<b>5 871</b>
Other Apac	3CNRC	36	0	0	36	0.3%	0.2%		-36
		733	243	0	976	5.3%	6.1%		-976
		43	62	13	118	0.3%	0.7%		-118
	<b>Total</b>	<b>812</b>	<b>305</b>	<b>13</b>	<b>1 130</b>	<b>5.9%</b>	<b>7.1%</b>		<b>-1 130</b>
RoW	3CNRC	280	29	0	309	n.a.	n.a.		-309
Total	3CNRC	2 674	406	521	3 601	1.8%	2.1%	4 250	649
		5 056	841	695	6 592	3.4%	3.8%	6 291	-301
		3 792	1 704	579	6 074	2.5%	3.5%	5 915	-159
	<b>Total</b>	<b>11 521</b>	<b>2 950</b>	<b>1 795</b>	<b>16 266</b>	<b>7.7%</b>	<b>9.3%</b>	<b>16 456</b>	<b>189</b>

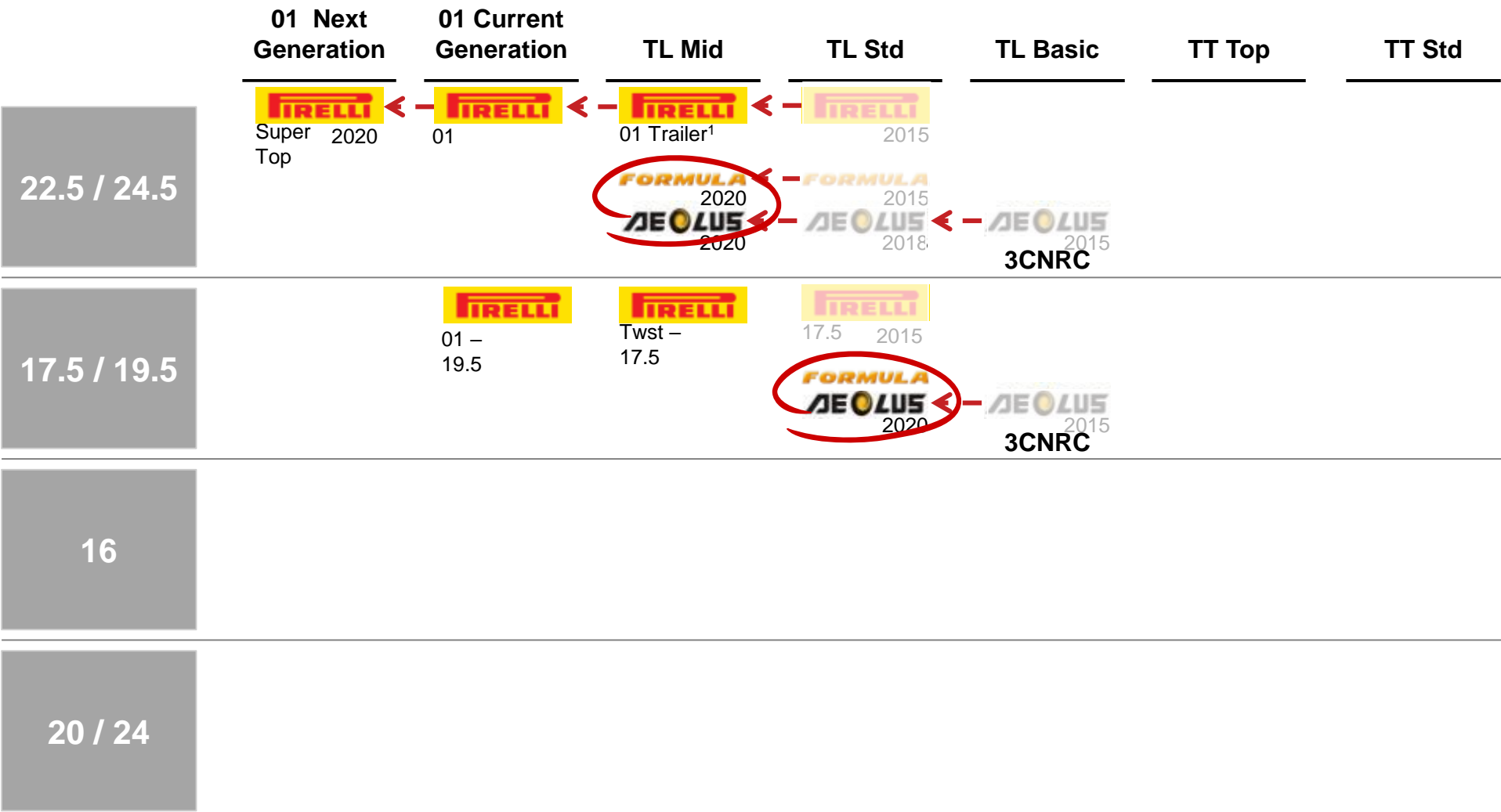
# Evolution of volumes, market and capacity by region

TBR only

		2016			2017			2018			2019			2020		
		Sales	Capacity	Delta	Sales	Capacity	Delta	Sales	Capacity	Delta	Sales	Capacity	Delta	Sales	Capacity	Delta
Nafta	3CNRC	180	0	-180	192	0	-192	206	0	-206	222	0	-222	243	0	-243
	AEOLUS	308	0	-308	320	0	-320	334	0	-334	356	0	-356	391	0	-391
	PIRELLI	106	0	-106	193	0	-193	400	0	-400	420	0	-420	440	0	-440
	<b>Total</b>	<b>594</b>	<b>0</b>	<b>-594</b>	<b>705</b>	<b>0</b>	<b>-705</b>	<b>940</b>	<b>0</b>	<b>-940</b>	<b>998</b>	<b>0</b>	<b>-998</b>	<b>1 073</b>	<b>0</b>	<b>-1 073</b>
EU	3CNRC	140	0	-140	169	0	-169	209	0	-209	271	0	-271	376	0	-376
	AEOLUS	510	0	-510	527	0	-527	551	0	-551	588	0	-588	652	0	-652
	PIRELLI	796	0	-796	863	0	-863	950	0	-950	1 045	0	-1 045	1 156	0	-1 156
	<b>Total</b>	<b>1 447</b>	<b>0</b>	<b>-1 447</b>	<b>1 558</b>	<b>0</b>	<b>-1 558</b>	<b>1 709</b>	<b>0</b>	<b>-1 709</b>	<b>1 903</b>	<b>0</b>	<b>-1 903</b>	<b>2 184</b>	<b>0</b>	<b>-2 184</b>
Latam	3CNRC	124	0	-124	134	0	-134	148	0	-148	169	0	-169	219	0	-219
	AEOLUS	338	0	-338	353	0	-353	372	0	-372	399	0	-399	443	0	-443
	PIRELLI	1 753	2 186	433	1 704	2 186	482	1 785	2 186	401	1 882	2 186	304	1 966	2 186	220
	<b>Total</b>	<b>2 215</b>	<b>2 186</b>	<b>-29</b>	<b>2 191</b>	<b>2 186</b>	<b>-5</b>	<b>2 305</b>	<b>2 186</b>	<b>-119</b>	<b>2 449</b>	<b>2 186</b>	<b>-263</b>	<b>2 628</b>	<b>2 186</b>	<b>-442</b>
Meai	3CNRC	324	0	-324	346	0	-346	371	0	-371	398	0	-398	431	0	-431
	AEOLUS	721	0	-721	758	0	-758	798	0	-798	844	0	-844	898	0	-898
	PIRELLI	1 187	1 679	492	1 245	1 679	434	1 310	1 705	395	1 358	2 122	764	1 410	2 194	784
	<b>Total</b>	<b>2 232</b>	<b>1 679</b>	<b>-553</b>	<b>2 349</b>	<b>1 679</b>	<b>-670</b>	<b>2 479</b>	<b>1 705</b>	<b>-774</b>	<b>2 601</b>	<b>2 122</b>	<b>-479</b>	<b>2 738</b>	<b>2 194</b>	<b>-544</b>
China	3CNRC	1 517	4 250	2 733	1 585	4 250	2 665	1 672	4 250	2 578	1 794	4 250	2 456	1 987	4 250	2 263
	AEOLUS	2 052	6 291	4 238	2 268	6 291	4 022	2 502	6 291	3 789	2 803	6 291	3 487	3 232	6 291	3 059
	PIRELLI	305	1 535	1 230	351	1 535	1 184	466	1 535	1 069	643	1 535	893	985	1 535	550
	<b>Total</b>	<b>3 875</b>	<b>12 076</b>	<b>8 201</b>	<b>4 204</b>	<b>12 076</b>	<b>7 871</b>	<b>4 640</b>	<b>12 076</b>	<b>7 436</b>	<b>5 239</b>	<b>12 076</b>	<b>6 836</b>	<b>6 204</b>	<b>12 076</b>	<b>5 871</b>
Other Apac	3CNRC	36	0	-36	36	0	-36	36	0	-36	36	0	-36	36	0	-36
	AEOLUS	776	0	-776	822	0	-822	871	0	-871	922	0	-922	976	0	-976
	PIRELLI	72	0	-72	78	0	-78	86	0	-86	98	0	-98	118	0	-118
	<b>Total</b>	<b>884</b>	<b>0</b>	<b>-884</b>	<b>936</b>	<b>0</b>	<b>-936</b>	<b>992</b>	<b>0</b>	<b>-992</b>	<b>1 055</b>	<b>0</b>	<b>-1 055</b>	<b>1 130</b>	<b>0</b>	<b>-1 130</b>
RoW	3CNRC	285	0	-285	291	0	-291	297	0	-297	303	0	-303	309	0	-309
Total	3CNRC	2 607	4 250	1 643	2 753	4 250	1 497	2 938	4 250	1 312	3 192	4 250	1 058	3 601	4 250	649
	AEOLUS	4 706	6 291	1 584	5 048	6 291	1 243	5 428	6 291	863	5 912	6 291	379	6 592	6 291	-301
	PIRELLI	4 219	5 400	1 181	4 434	5 400	966	4 997	5 426	429	5 445	5 843	398	6 074	5 915	-159
	<b>Total</b>	<b>11 532</b>	<b>15 941</b>	<b>4 409</b>	<b>12 235</b>	<b>15 941</b>	<b>3 706</b>	<b>13 362</b>	<b>15 966</b>	<b>2 604</b>	<b>14 549</b>	<b>16 384</b>	<b>1 835</b>	<b>16 266</b>	<b>16 456</b>	<b>189</b>



# Europe product roadmap 2015-2020



1. Bigiro Trailer with Piattina and without SATT

Note: TT – Tube Type; TL – Tubeless

Source: Pirelli R&D team, BCG analysis

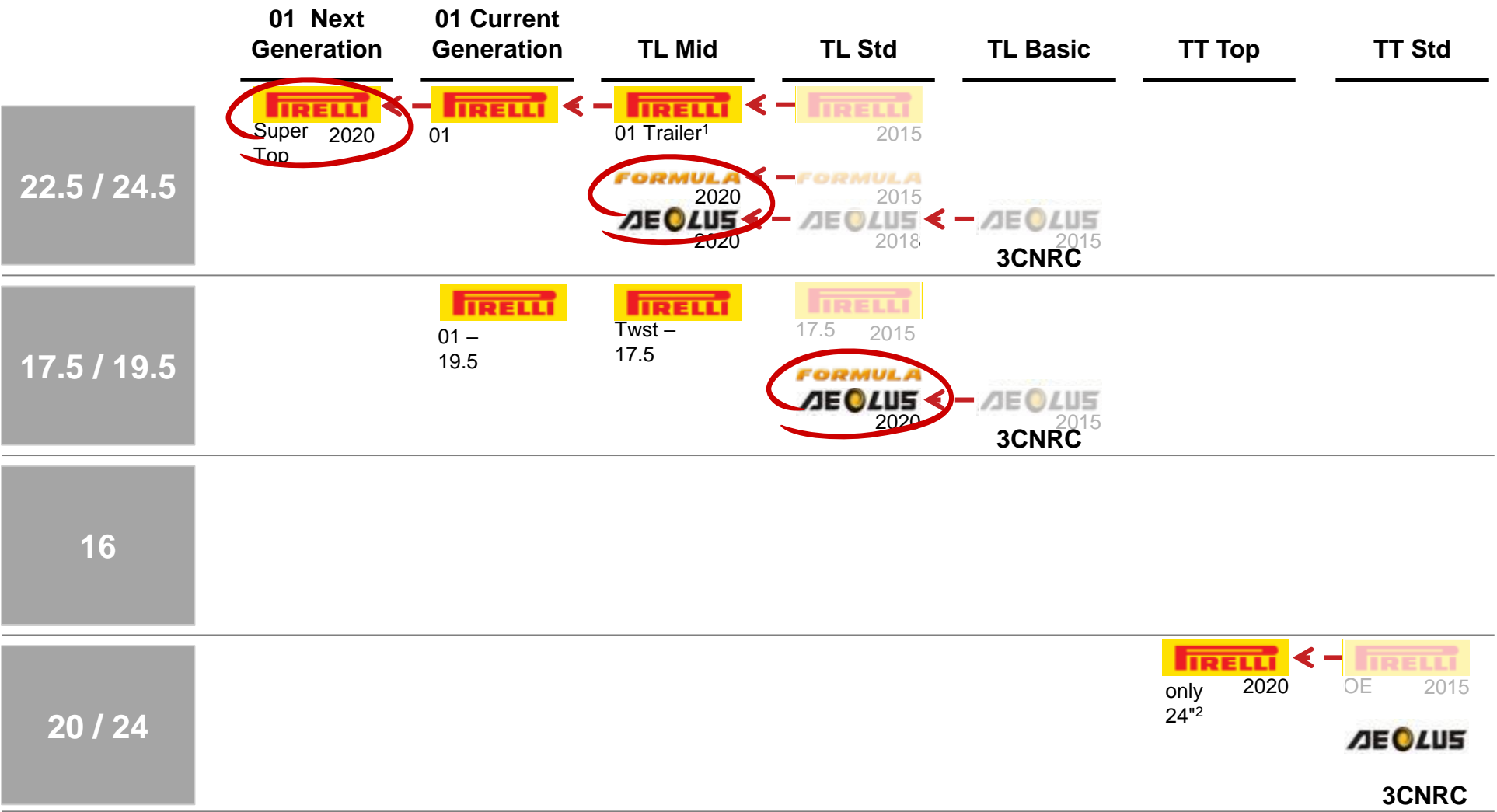
Pirelli - CNRC Integration - Business Model and Integrated Business Plan.pptx

to be further discussed





# Turkey product roadmap 2015-2020



1. Bigiro Trailer with Piattina and without SATT, 2. TL version  
Note: TT – Tube Type; TL – Tubeless

Source: Pirelli R&D team, BCG analysis

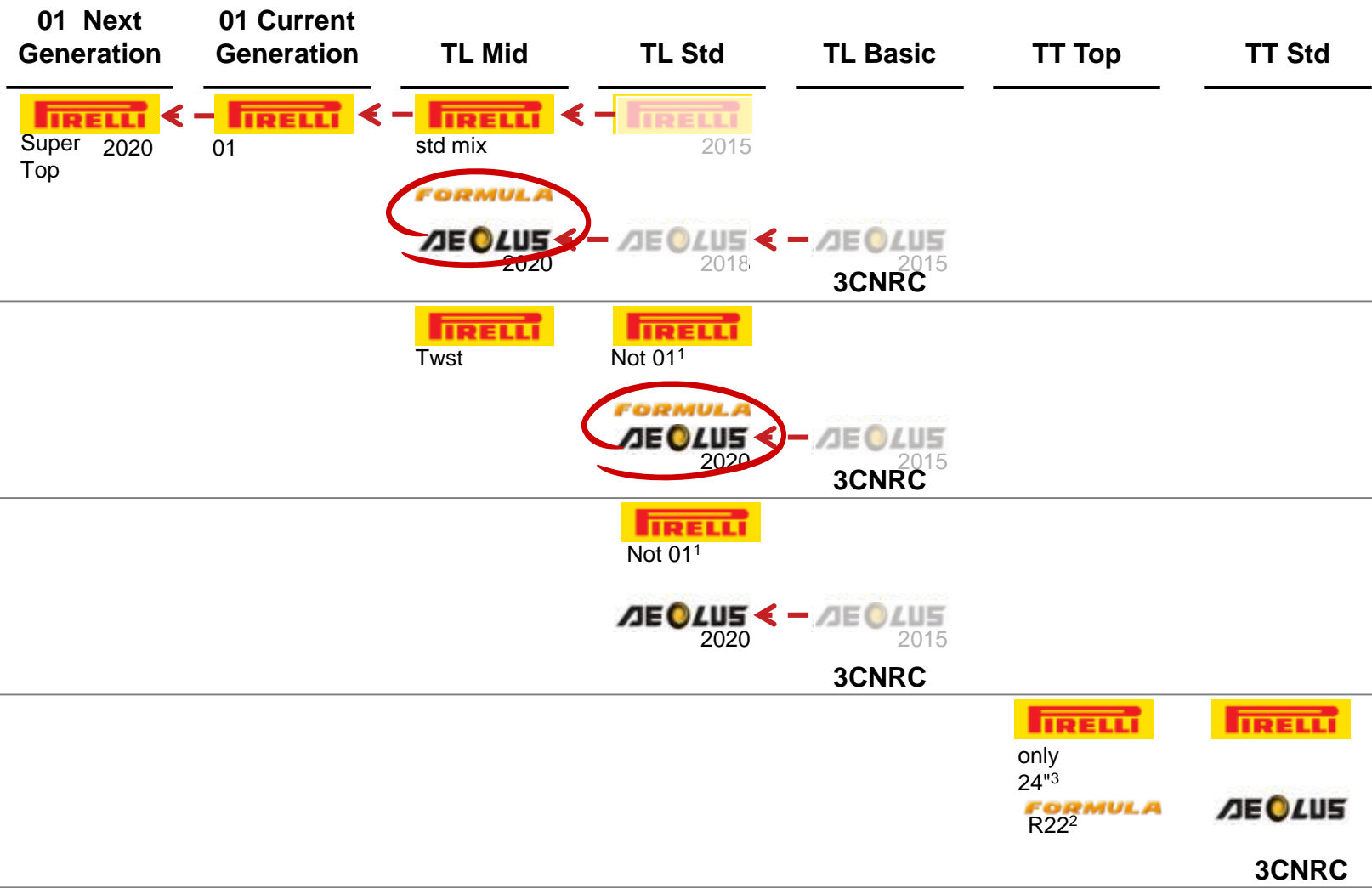
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to be further discussed





# Brazil product roadmap 2015-2020



1. Technology 4Belts; 2 TT Top with SATT, R22; 3. TL version  
Note: TT – Tube Type; TL – Tubeless

Source: Pirelli R&D team, BCG analysis

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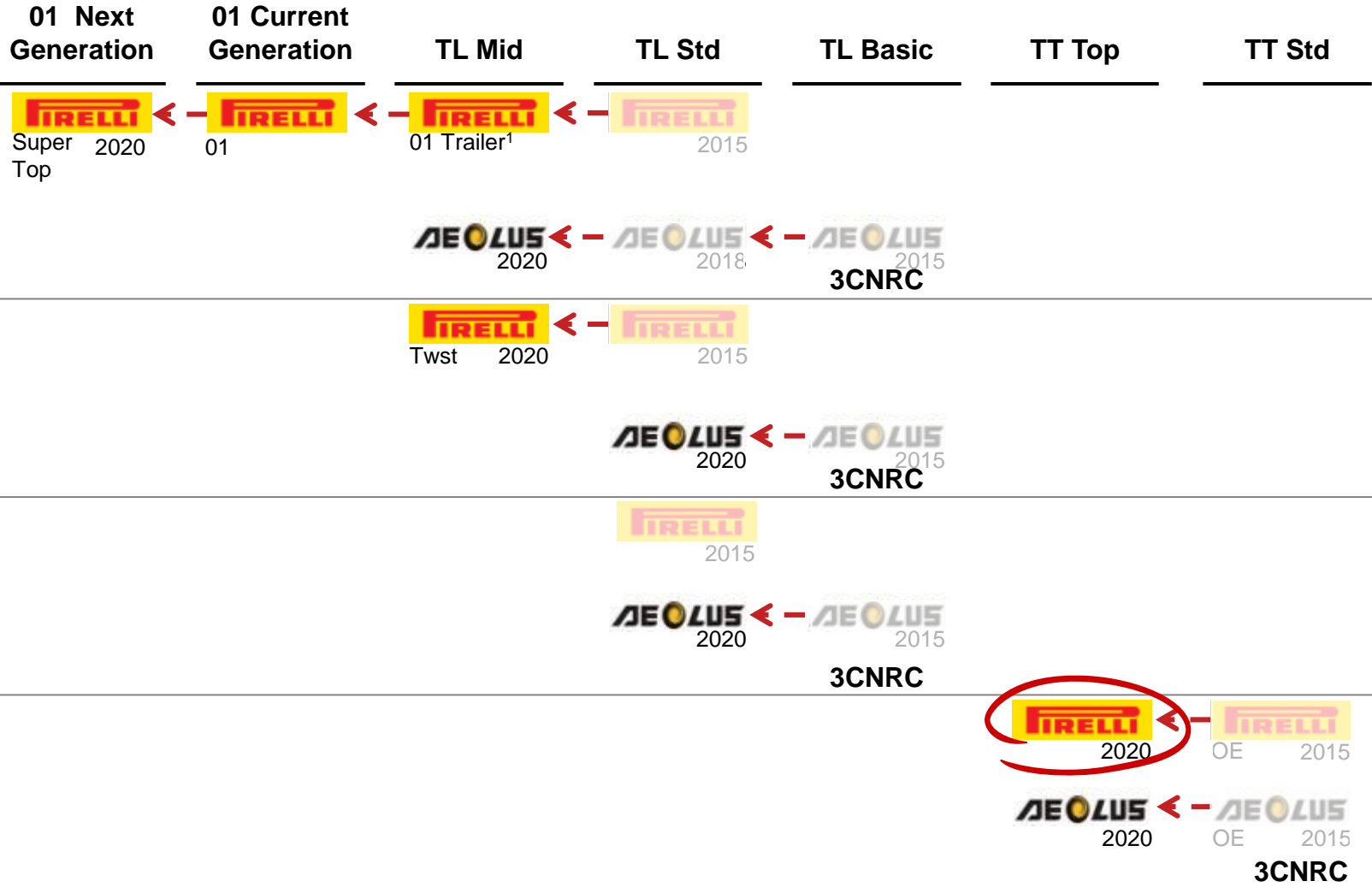
to be further discussed







# China product roadmap 2015-2020



1. Bigiro Trailer with Piattina and without SATT

Note: TT – Tube Type; TL – Tubeless

Source: Pirelli R&D team, BCG analysis

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to be further discussed





# NAFTA product roadmap 2015-2020

	01 Next Generation	01 Current Generation	TL Mid	TL Std	TL Basic	TT Top	TT Std
--	--------------------	-----------------------	--------	--------	----------	--------	--------

22.5 / 24.5



17.5 / 19.5



16

20 / 24

Note: TT – Tube Type; TL – Tubeless  
 Source: Pirelli R&D team, BCG analysis  
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# Pirelli-CNRC: product evolution

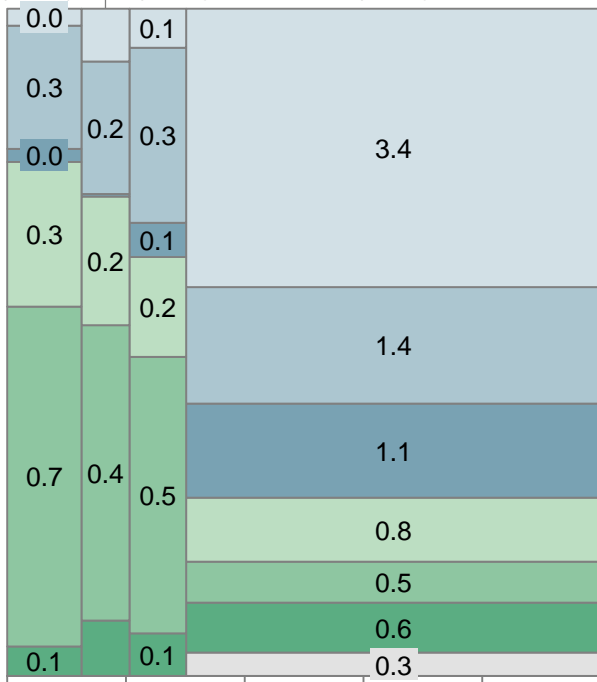
All Steel only, Mn units

## Pirelli – CNRC 2015

Total volumes: 11.5 Mn units

0.9  
(8%)

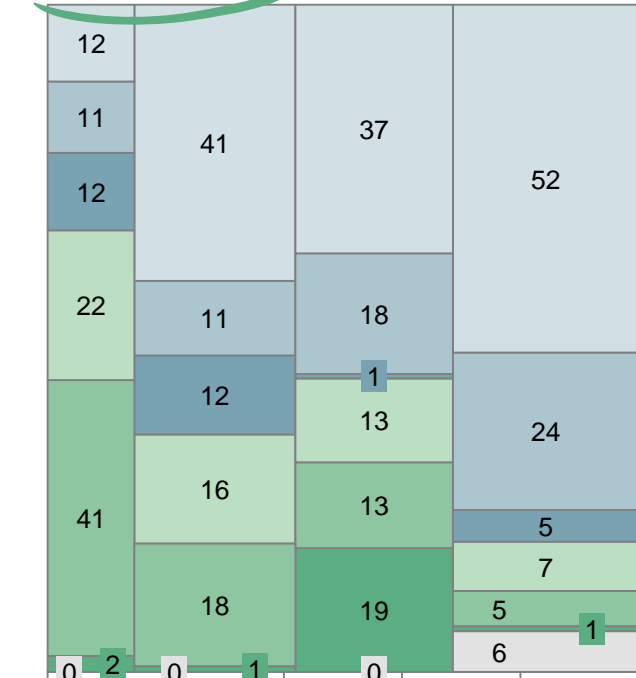
1.4 (13%)    1.1 (10%)    8.0 (70%)



## Pirelli – CNRC 2020

Total volumes: 16.3 Mn units

2.4 (15%)    4.4 (27%)    4.3 (26%)    5.1 (31%)



## Key actions per region

(Technology shifts)

- **China**  
 Increase volume of Pirelli 01 and TL Mid  
 Increase of Aeolus TL Standard and TL Mid products leveraging on Pirelli quality and technology
- **MEAI**  
 Increase volume of Pirelli 01 products  
 Increase volume of Aeolus TL Standard products
- **NAFTA**  
 Entry market with Pirelli 01 Products
- **Europe**  
 Increase volume of Pirelli 01 products  
 Increase volume of Aeolus TL Mid products
- **LatAm**  
 Increase Volume of Pirelli 01 and TL Mid products
- **Other APAC**
- **Rest of the World<sup>1</sup>**

1. Rest of the World: 3CNRC including 250k units in 2015 and 276k units in 2020 not classified by country – Double Happiness volumes  
 Note: TT: tubetype; TL: tubeless; Source: Pirelli and 4CNRC data; Output from Pirelli – CNRC war room meetings; Pirelli Manufacturing, BCG analysis  
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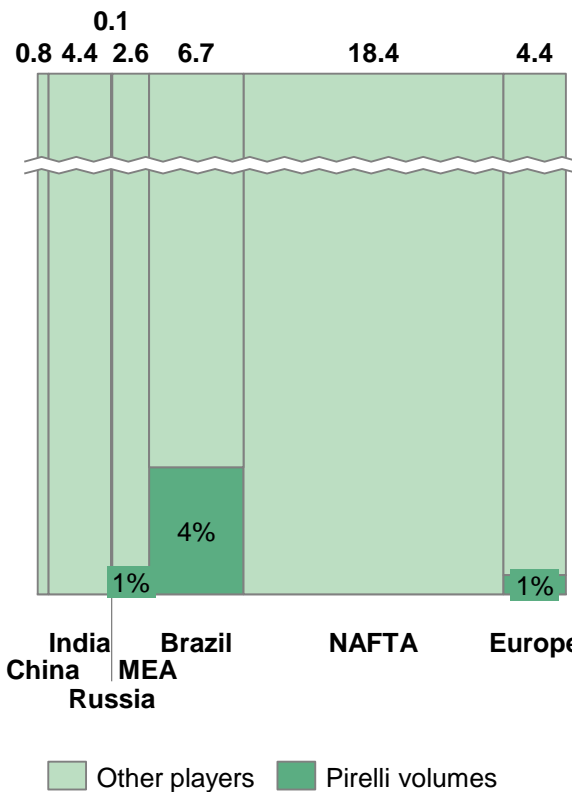


# Evolution of retread business

All steel only, Mn units

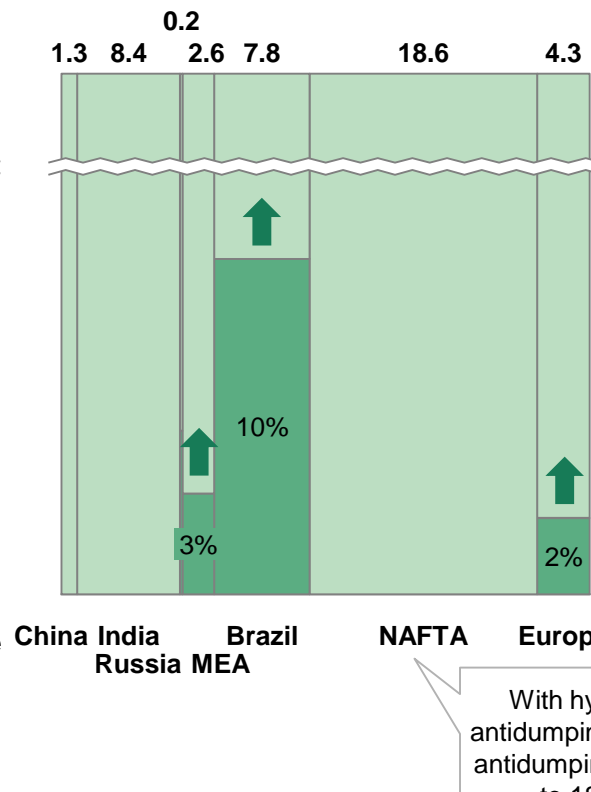
## Retread market 2015

Total Ret. vol: 37 Mn units



## Retread market 2020

Total Ret. vol: 43 Mn units



## Key takeaways

Increase focus of Pirelli on retread with own bands and process through retreader partners

Selectively development by region with focus on Brazil (~800k units), Europe (~100k units) and MEA (~80k units)

No direct retread coverage in NAFTA by 2020 due to market intrinsic characteristics

With hypothesis of US antidumping policies, without antidumping expected equal to 18.1<sup>1</sup> Mn units

1. Current estimate at 2020 validated in War Room with the Region, not considering US antidumping policies changes, and assuming pressure from Chinese products on retread. Source: Pirelli BP 16-20; expert interview; BCG analysis



# Services assessment – Pirelli vs. Michelin

TCO lever	Service	Description	MP2016		2020E		Profitability impact
Product lifecycle	Retreading	<ul style="list-style-type: none"> <li>• Tyre second-life guarantee</li> <li>• Casing collection and management</li> <li>• Cold/hot retreading services</li> </ul>	Novatread/Novateck	Remix Recamic	Novatread/Novateck	Profit (<5%)	
	Casing mgmt.		Marangoni/Service Partner	Michelin / Service Partner	Marangoni/Service Partner	Premiumness enabler	
Tyre management	Fitment service	<ul style="list-style-type: none"> <li>• Continuous check at fleets' hubs</li> <li>• Manual tyre monitoring</li> <li>• TCO improvement through tyre management</li> </ul>	Via Central Billing	Euromaster	Via Central Billing	Premiumness enabler	
	Tyre Inspection		Fleet Check	ICheck	Fleet Check	Premiumness enabler	
	Reporting		Fleet Check	IManage	Fleet Check	Premiumness enabler	
Fuel savings	TPMS	<ul style="list-style-type: none"> <li>• Continuous automatic tyre monitoring</li> </ul>	Cyber	WABCO	Cyber	Profit (<10%) <sup>1</sup>	
	Drivers' training		Navig <sup>3</sup>	Michelin Academy	OEMs partnership	Premiumness enabler	
Uptime increase	Breakdown services	<ul style="list-style-type: none"> <li>• 24/7 Breakdown intervention</li> </ul>	CQ24	Michelin EuroAssist	CQ24	Premiumness enabler	
Financing cost	Leasing & Financing	<ul style="list-style-type: none"> <li>• Financial support for fleets</li> <li>• Back-office support for fleets</li> </ul>	Credityre4 + Local banks	Leasing Solution	Credityre4	Profit (<5%) <sup>2</sup>	
	PPK		Service Partner	Euromaster	Service Partner	Premiumness enabler	

○ Low coverage ● High coverage

Proprietary company Outsourced service

1. Profit % on service supplied 2. Profit % on tyre average price 3. Brazil only  
Source: NTCW project; Expert interview; BCG analysis



# 9 Mn\$ potential impact reducing price gap vs. Michelin

EBIT 2020, Mn\$

Price index

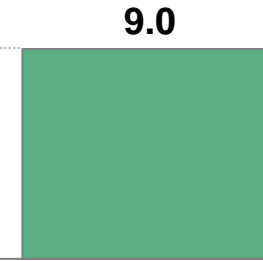
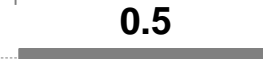
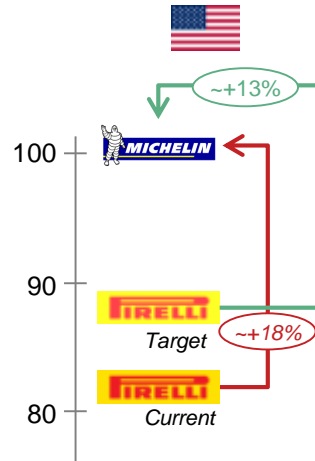
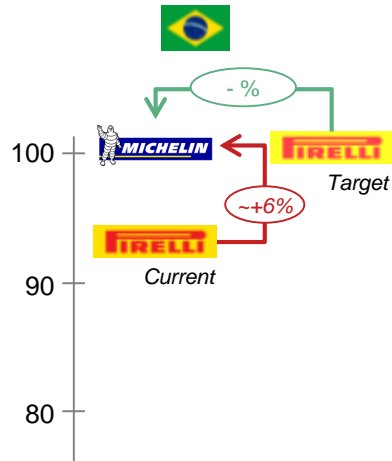
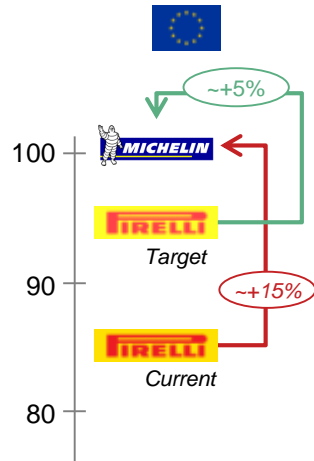
xx%

Current price delta

xx%

2020 price delta

Price repositioning currently not included in the Plan



Europe (w/o Russia)

Brazil

U.S.A.

Total

Volumes targeted (p.p.)

20%<sup>1</sup>

20%<sup>1</sup>

5%<sup>1</sup>

8%<sup>2</sup>

RoS Impact (p.p.)

+2.1%<sup>1</sup>

+1.2%<sup>1</sup>

+0.6%<sup>1</sup>

+0.7%<sup>2</sup>

1. On the specific perimeter considered (Stand Alone RE sales of area indicated) 2. On the overall TBR Stand Alone plan (including OE)

Source: Pirelli data; BCG analysis

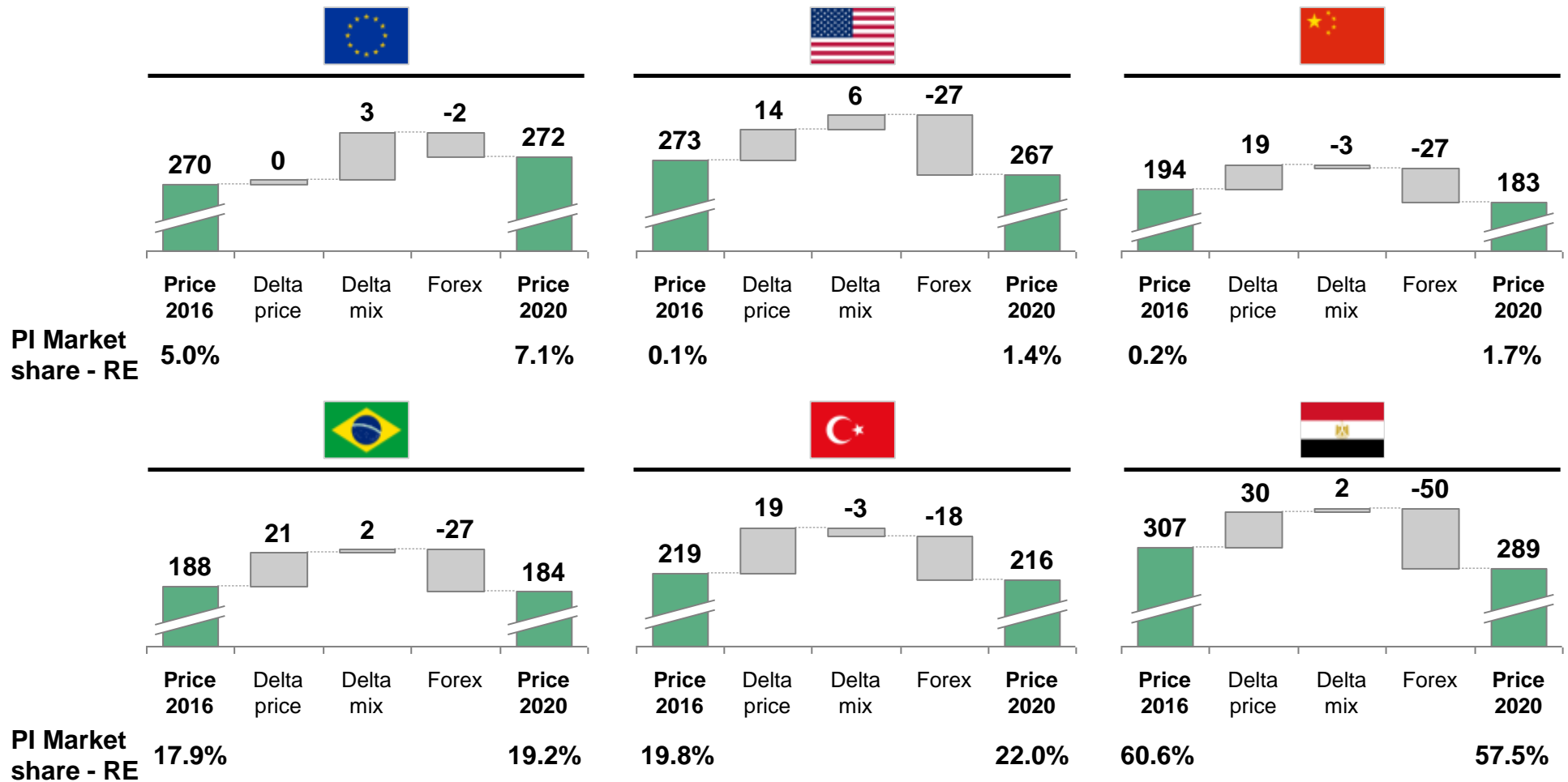
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# Pirelli stand-alone price evolution

RE unit price All-steel only, €



To be defined potential price repositioning Vs target market shares price competitiveness

Note: Delta price including only inflation and raw material effects (no price repositioning assumed)



Source: Pirelli stand-alone plan 2016-2020

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# Regional price increase for Pirelli – CNRC

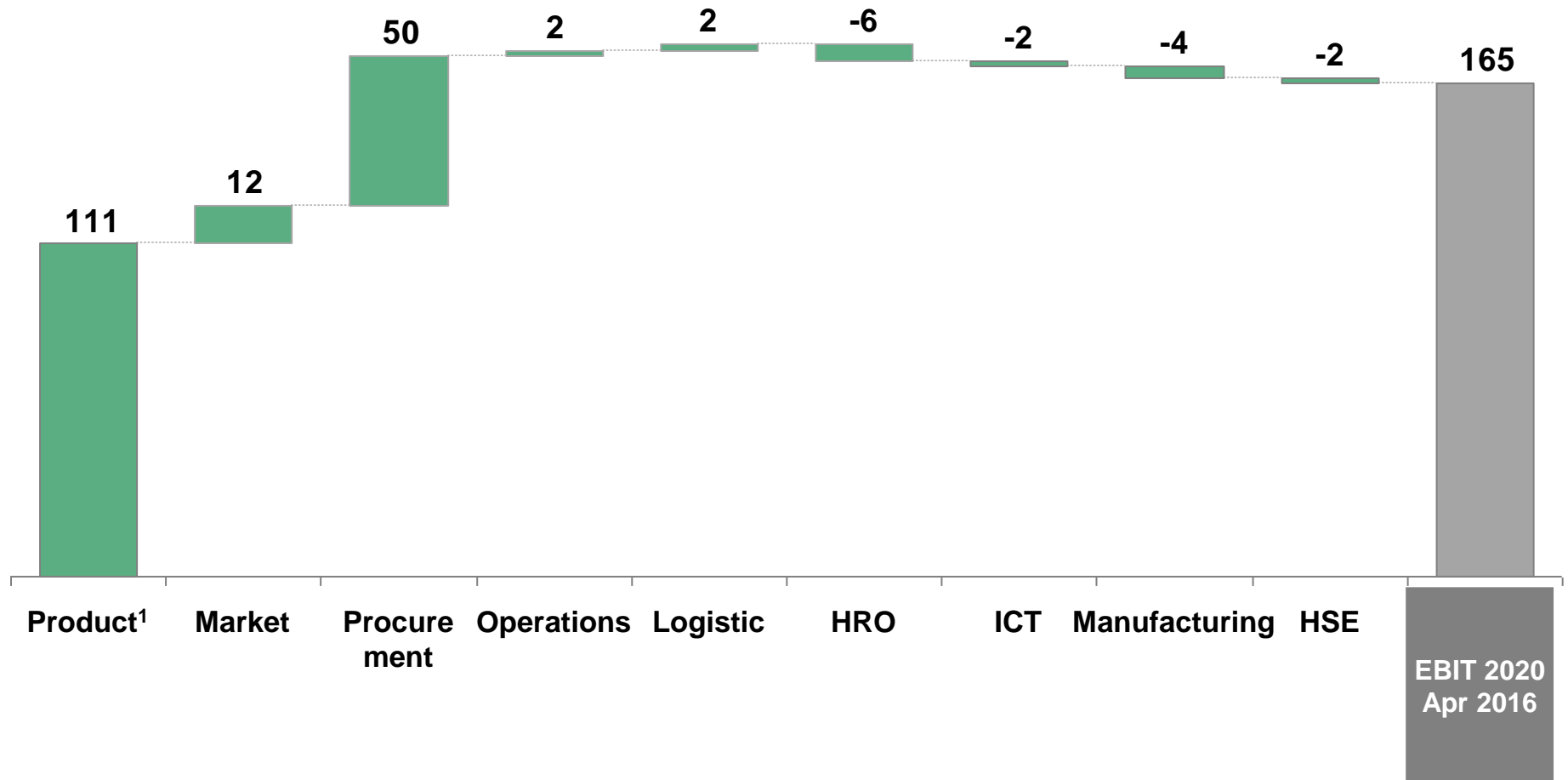
Region	Price increase (%)			Price increase rationale
			3CNRC	
<b>China</b>	20% (Applied on 500k units)	5-20% <sup>1</sup> (20% on Heavy Duty)	15%	<ul style="list-style-type: none"> <li>Chinese market <b>premiumization</b></li> <li>Increase 3 CNRC price for both <b>Busambao</b> and <b>Sambao</b> products</li> <li>Improve Aeolus <b>HD</b> and <b>RE</b> offering</li> </ul>
<b>MEAI</b>	-	10% (North Africa)	10% <sup>2</sup> (North Africa)	<ul style="list-style-type: none"> <li>Optimize Aeolus <b>distribution</b> network</li> <li>Increase 3 CNRC price point to match <b>Linglong</b></li> </ul>
<b>NAFTA<sup>3</sup></b>	-	4% (Mexico) 20% (Canada)	-	<ul style="list-style-type: none"> <li>Increase Aeolus price point given higher product performance to match <b>Double Coin</b> positioning</li> </ul>
<b>Europe</b>	-	10-15% <sup>3</sup>	15%	<ul style="list-style-type: none"> <li>Increase 3 CNRC price to match <b>Sailun</b> – Aeolus targeting <b>GT</b> price point</li> </ul>
<b>LatAm</b>	-	10% (Brazil)	-	<ul style="list-style-type: none"> <li>Price increase to reposition Aeolus to tier 2 (benchmark <b>General Tire</b>)</li> <li>Repositioning only of <b>products not</b> affected by antidumping <b>duties</b></li> </ul>
<b>Other APAC</b>	-	-	9-15% <sup>4</sup>	<ul style="list-style-type: none"> <li>Increase 3CNRC export price with improved <b>product reliability</b></li> </ul>

1. 20% on Heavy Duty, 15% on RE offering and 5% on Bus OEs 2. Additional 5% from Africa Sub-Saharan 3. 20% in UK and Italy, 15% in Germany and 10% in rest of Europe 4. 9% for Indonesia and 15% for rest of APAC duties introduction in both US and Canada Source: Pirelli and 4CNRC data; Output from Pirelli – CNRC war room meetings; BCG analysis



# Integrated synergy breakdown

EBIT 2020, Mn\$



1. Includes investment of ~12M\$ currently under revision with R&D and Manufacturing

Note: royalties not included. Rounded figures

Source: Pirelli-CNRC Integration analysis

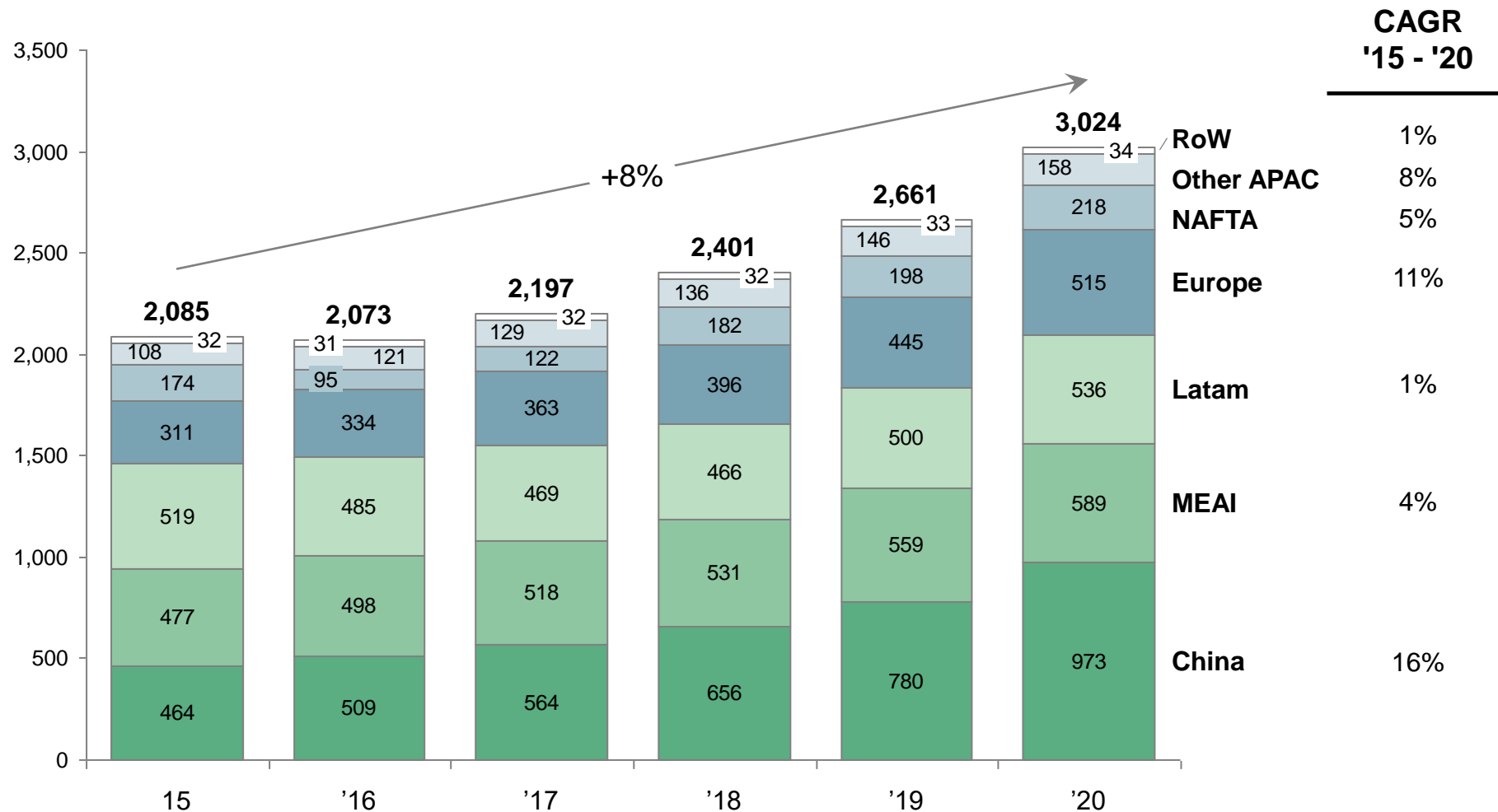
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# Pirelli-CNRC TBR integrated business plan

Total TBR Sales, Mn \$

Analysis does not include investments for Quality and HD Project currently under evaluation

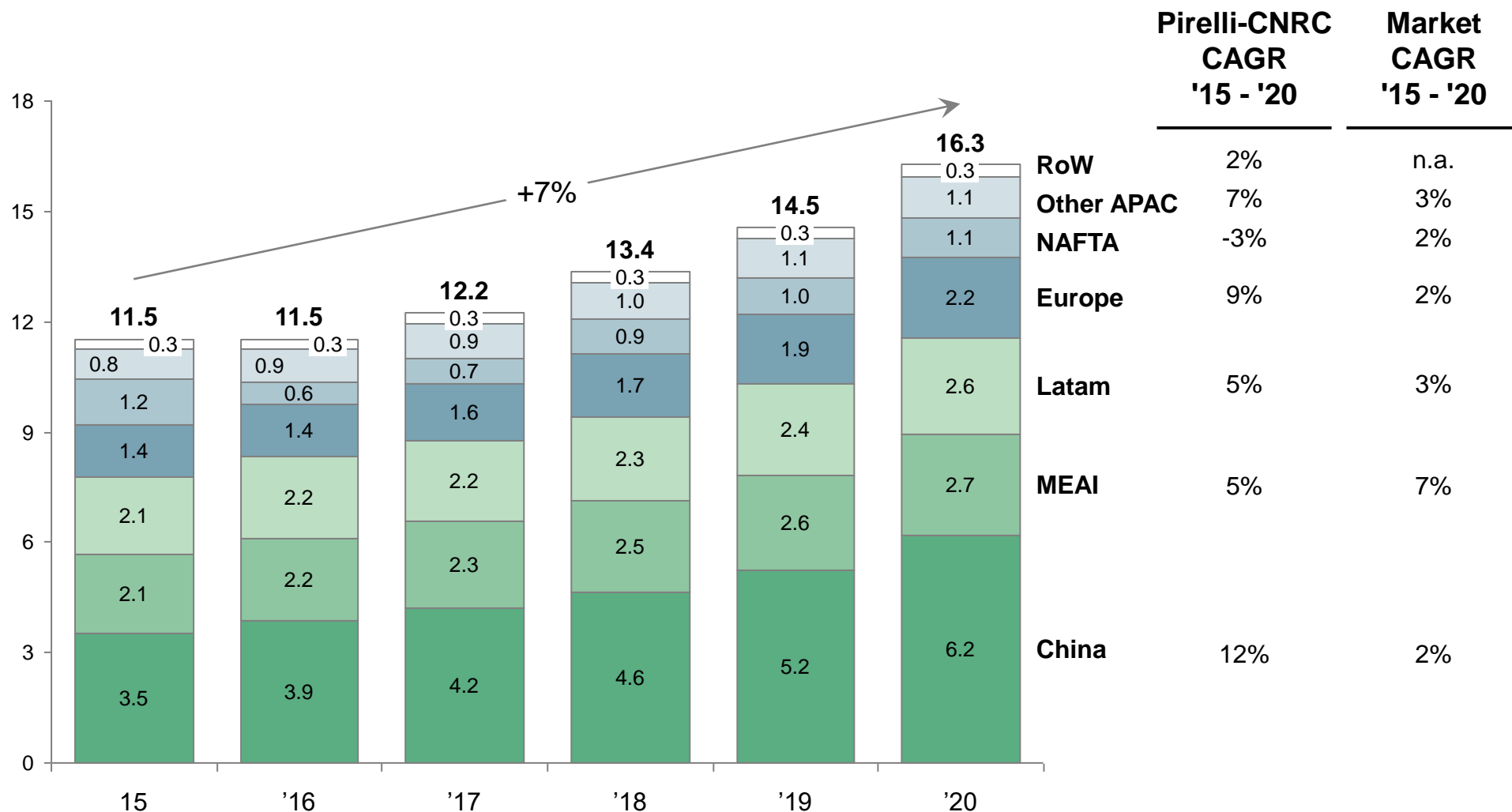


Note: Preliminary estimate; 2014 prices applied for Aeolus  
Source: Pirelli-CNRC Business Plan 2016-2020



# Pirelli-CNRC TBR integrated business plan

Total TBR Volumes, Mn units



Note: RoW refers to volumes sold by 3CNRC in 2015 whose data are not allocated to any Region

Source: Pirelli-CNRC Business Plan 2016-2020

Pirelli - CNRC Integration - Business Model and Integrated Business Plan.pptx

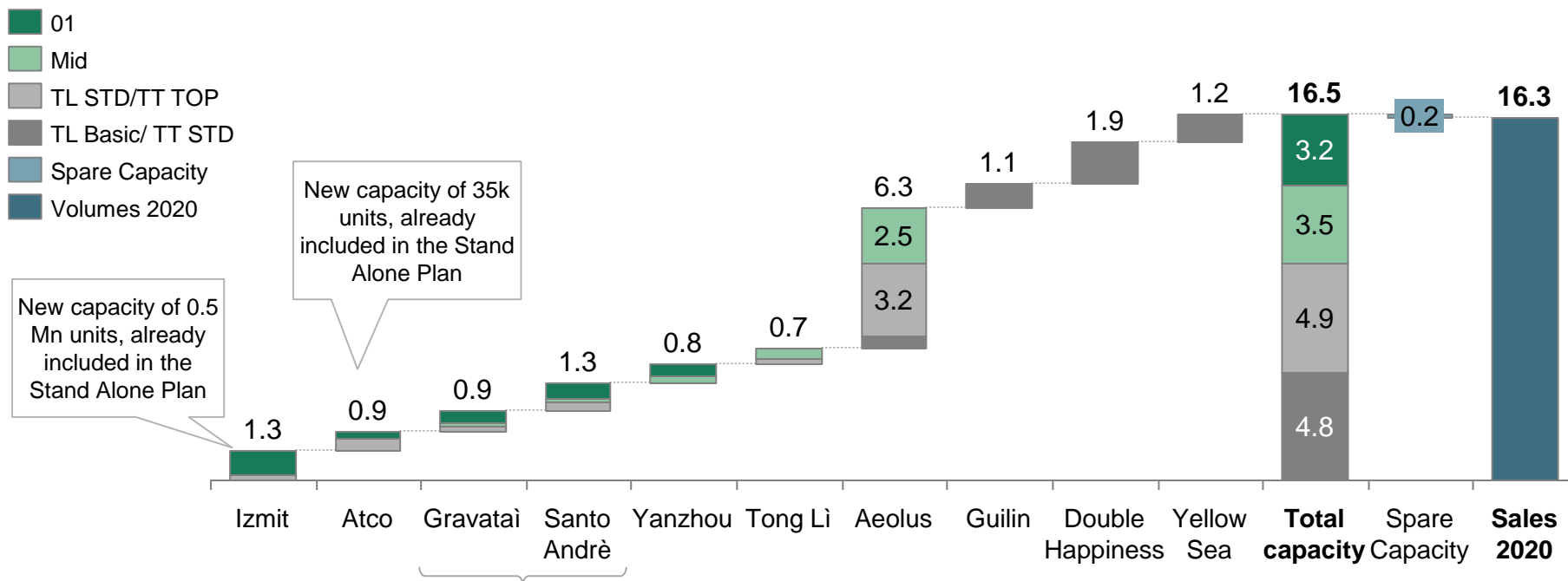
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# Pirelli-CNRC 2020 new footprint

All steel only, Mn units

Analysis does not include investments for Quality and HD Project currently under evaluation



## Investments (Mn\$)

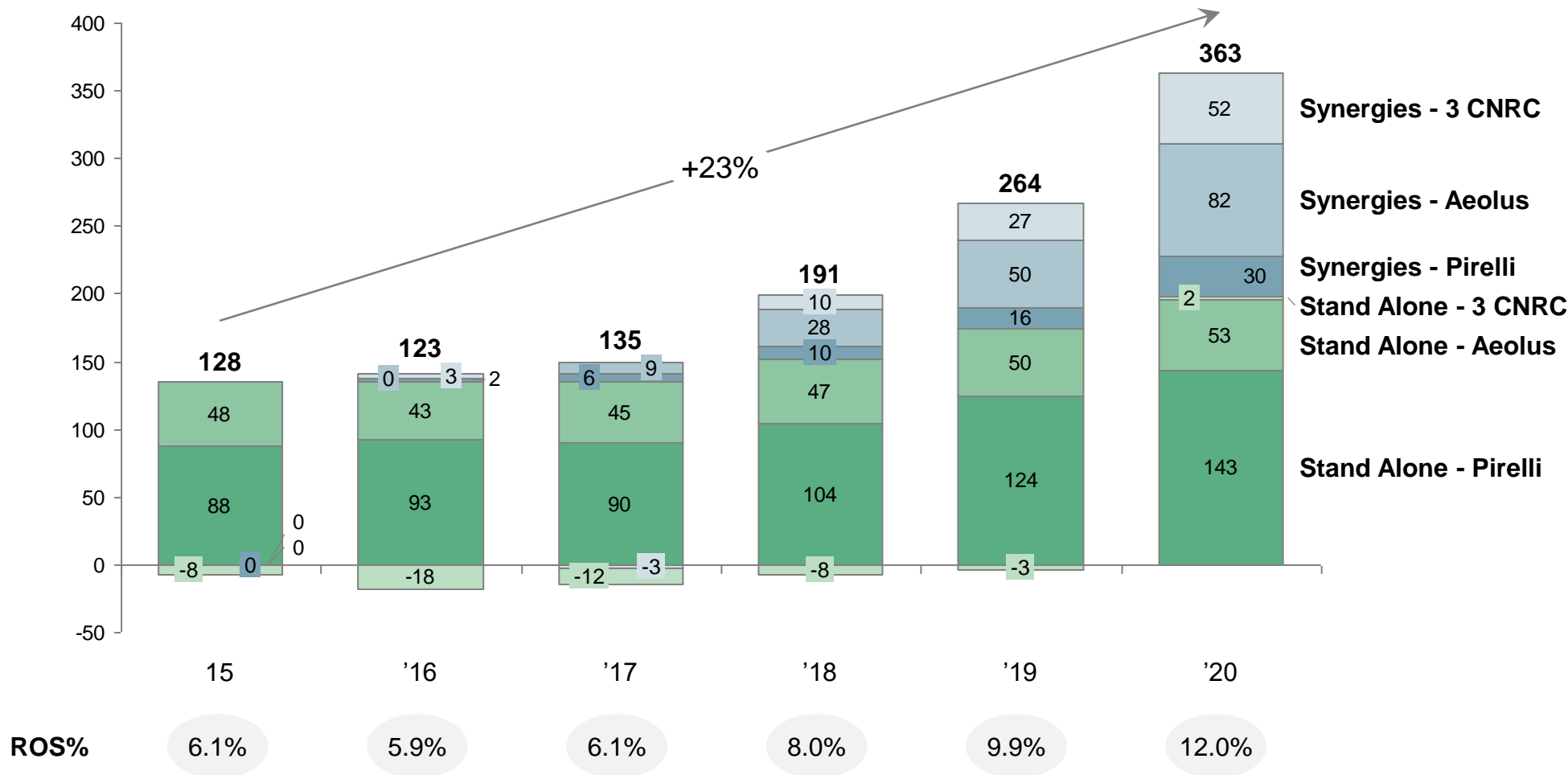
84    27    33    22    6    45    -    -    -    217

Include both upgrade and increase capacity. Investment are related

# Pirelli-CNRC integrated business plan

Total TBR EBIT, Mn \$

Analysis does not include investments for Quality and HD Project currently under evaluation  
Potential reduction of ~10.5M\$ at 2020 under review<sup>1</sup>



1. Related to Increase the use of reclaim & mesh rubber initiative  
Note: preliminary estimate. Procurement synergies under revision; 2014 RoS applied for Aeolus  
Source: Pirelli-CNRC Business Plan 2016-2020

# Agenda

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Pirelli-CNRC TBR business model

Pirelli-CNRC 2020 integrated TBR business plan

- Stand alone TBR business plans
- Synergies plan
- Manufacturing footprint

Agro, OTR and TBB 2020 business plan

Pirelli-CNRC 2020 overall business plan

# Pirelli stand-alone plan: business rationales

## Europe

### Strong volumes and profitability growth

- Increase sales to 900k units in RE (up to 7.6% MS<sup>1</sup>)
- Grow RE ROS back to >9% by 2020

## NAFTA

### Market entrance both in RE and OE

- Grow US/Canada RE sales up to 300k units in 2020
- Enter OE in US with 30k units starting from 2018

## LatAm

### Stable volumes with return to positive profitability

- No rebound of OE sales in Brazil – Grow as CAGR
- Turn Brazil RE profitable (4.6% ROS by 2020) with growth aligned to CAGR

## MEAI

### Strong profitability protected with volumes growing at market pace

- Grow according to CAGR (+259k units by 2020)
- Keep current level of profitability (i.e.20%)

## APAC

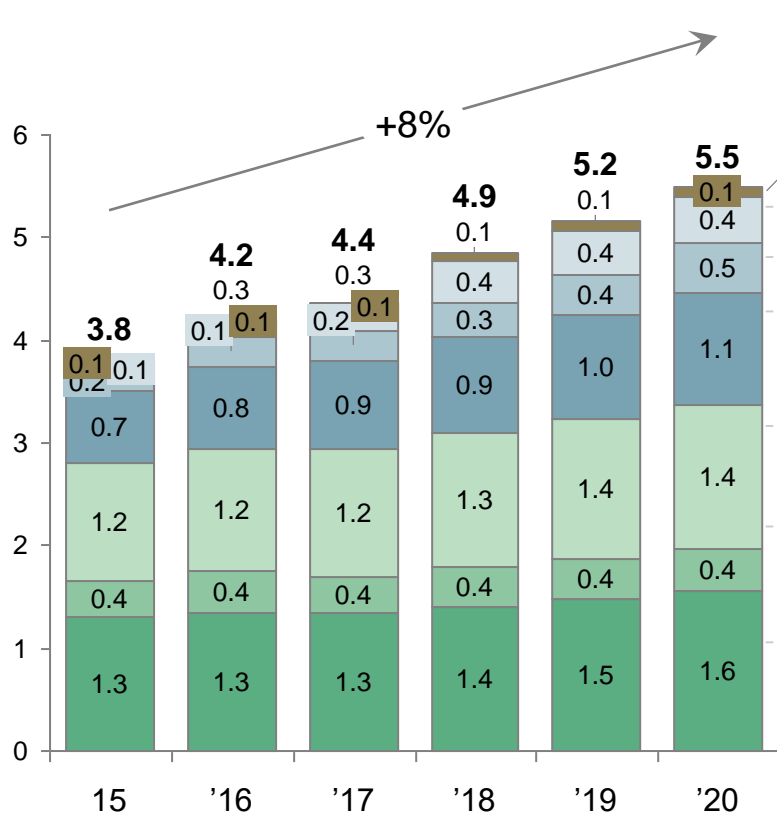
### Refocus business on RE (with higher profitability than OE)

- Grow RE sales in China up to 400k units by 2020
- Slightly decrease OE volumes to 80k units (from 110k), given low profitability

1. Europool perimeter (i.e. no import)

# Pirelli stand-alone: plan 2020

Total volumes, Mn units



	2015			2020		
	Rev	EBIT	ROS	Rev	EBIT	ROS
	Mn \$	Mn \$		Mn \$	Mn \$	
Other Apac	9.9	-0.6	-5.9%	25.0	0.3	1.4%
NAFTA	18.5	-1.3	-7.2%	124.9	6.3	5.0%
China	36.2	-7.5	-20.5%	95.9	3.7	3.9%
Europe (& Russia)	192.4	4.3	2.2%	319.7	25.5	8.0%
MEAI	312.0	58.9	18.9%	372.5	70.2	18.9%
Other LatAm	196.4	37.8	19.3%	143.0	31.0	21.7%
Brazil	260.0	-13.5	-5.2%	298.0	6.4	2.1%

<b>EBIT</b>	<b>88M\$</b>	<b>92M\$</b>	<b>90M\$</b>	<b>105M\$</b>	<b>124M\$</b>	<b>143M\$</b>	<b>Total</b>	<b>1 025</b>	<b>78</b>	<b>7.6%</b>	<b>1 379</b>	<b>143</b>	<b>10.4%</b>
<b>ROS</b>	<b>8.6%</b>	<b>8.5%</b>	<b>8.0%</b>	<b>8.7%</b>	<b>9.7%</b>	<b>10.4%</b>							

<b>Vol</b>	<b>1.1</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>Total</b>	<b>241</b>	<b>25</b>	<b>10%</b>	<b>253</b>	<b>35</b>	<b>14%</b>
<b>EBIT</b>	<b>25M\$</b>	<b>21M\$</b>	<b>21M\$</b>	<b>24M\$</b>	<b>29M\$</b>	<b>35M\$</b>							
<b>ROS</b>	<b>10%</b>	<b>11%</b>	<b>10%</b>	<b>11%</b>	<b>13%</b>	<b>14%</b>							

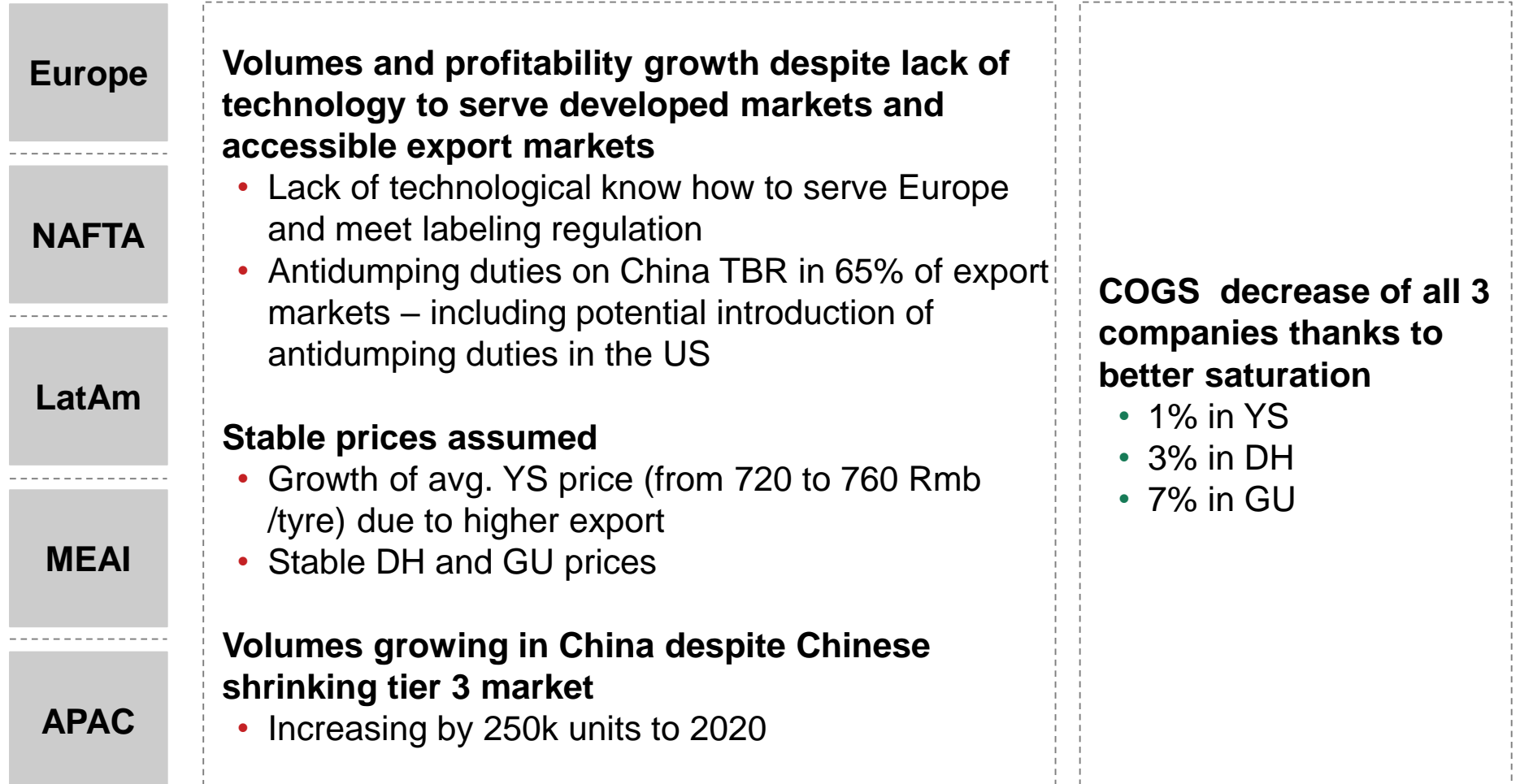
1. Including TBB, Agro and OTR Source: Pirelli Business Plan 2016-2020

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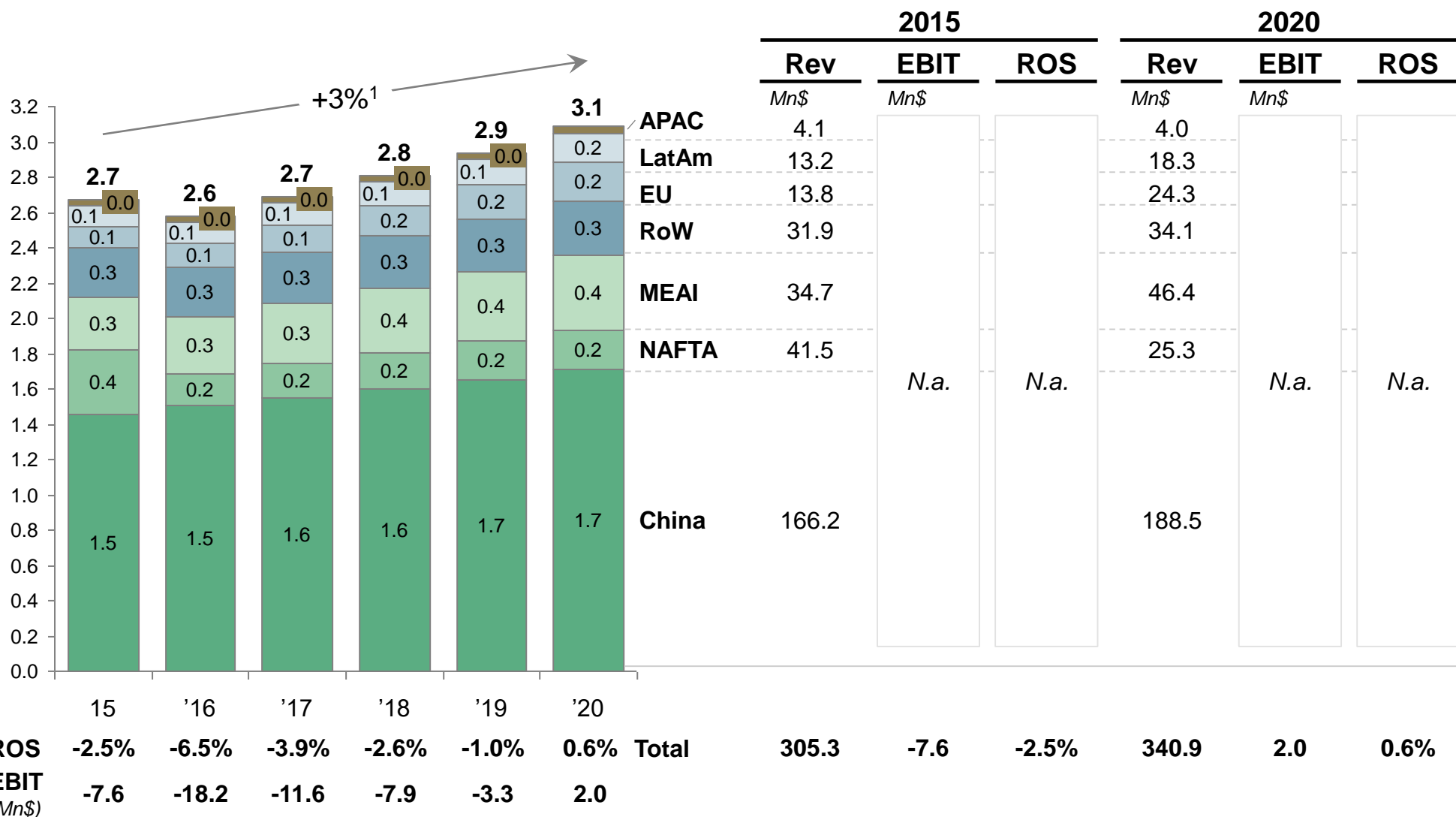


# 3CNRC stand-alone: plan rationales



# 3CNRC stand-alone: plan 2020

Total TBR volumes, Mn units



1. Total CAGR excluding NAFTA equal to ~5%.

Note: Exchange rates: RMB/EUR 7.37; USD/EUR 1.10.

Source: 3CNRC Business Plan 2016-2020

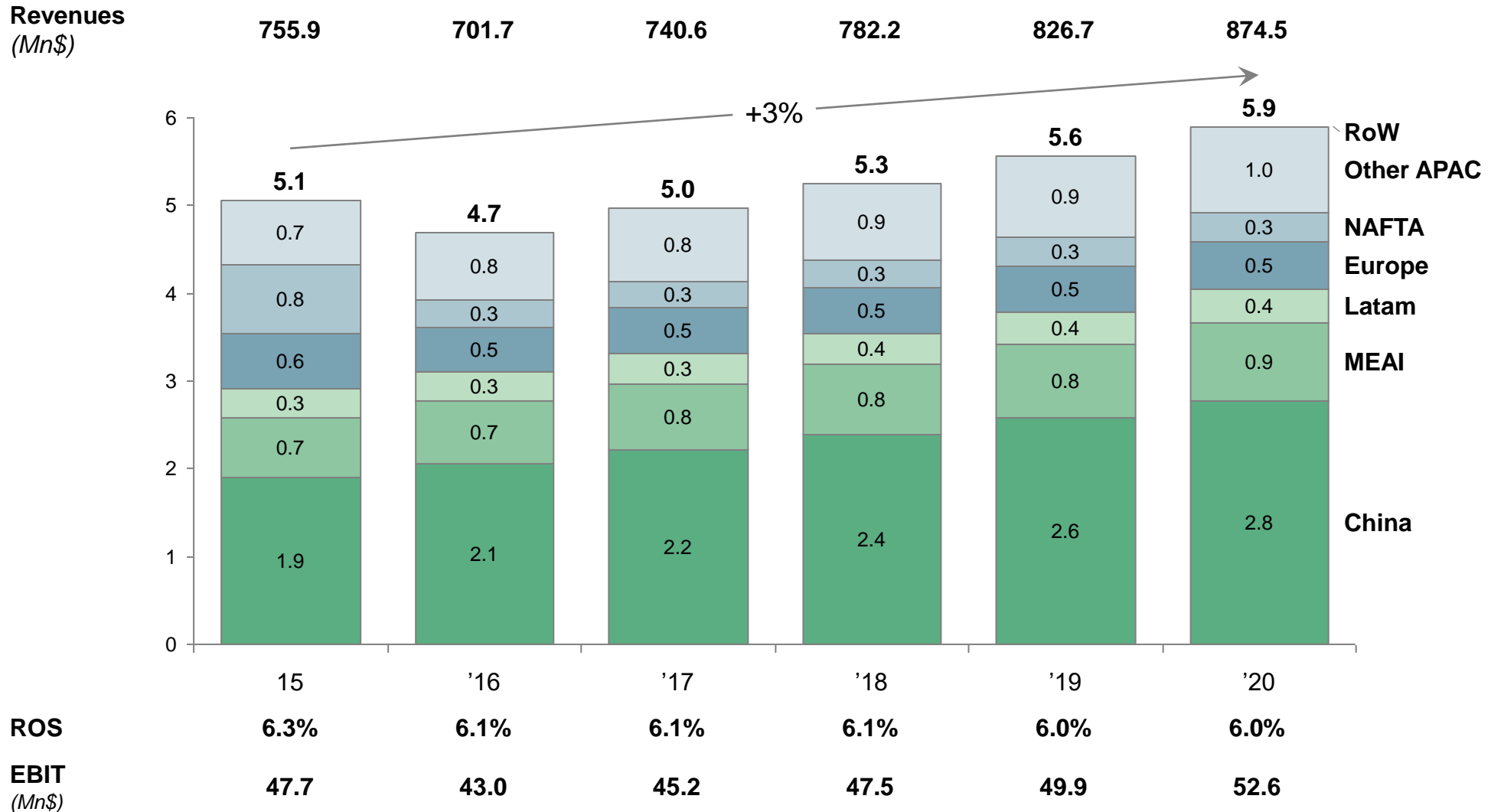
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# Aeolus stand-alone: plan 2020

Total TBR volumes, Mn units



Note: Exchange rates: RMB/EUR 7.37; USD/EUR 1.10.  
Source: 3CNRC Business Plan 2016-2020



# Agenda

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Pirelli-CNRC TBR business model

Pirelli-CNRC 2020 integrated TBR business plan

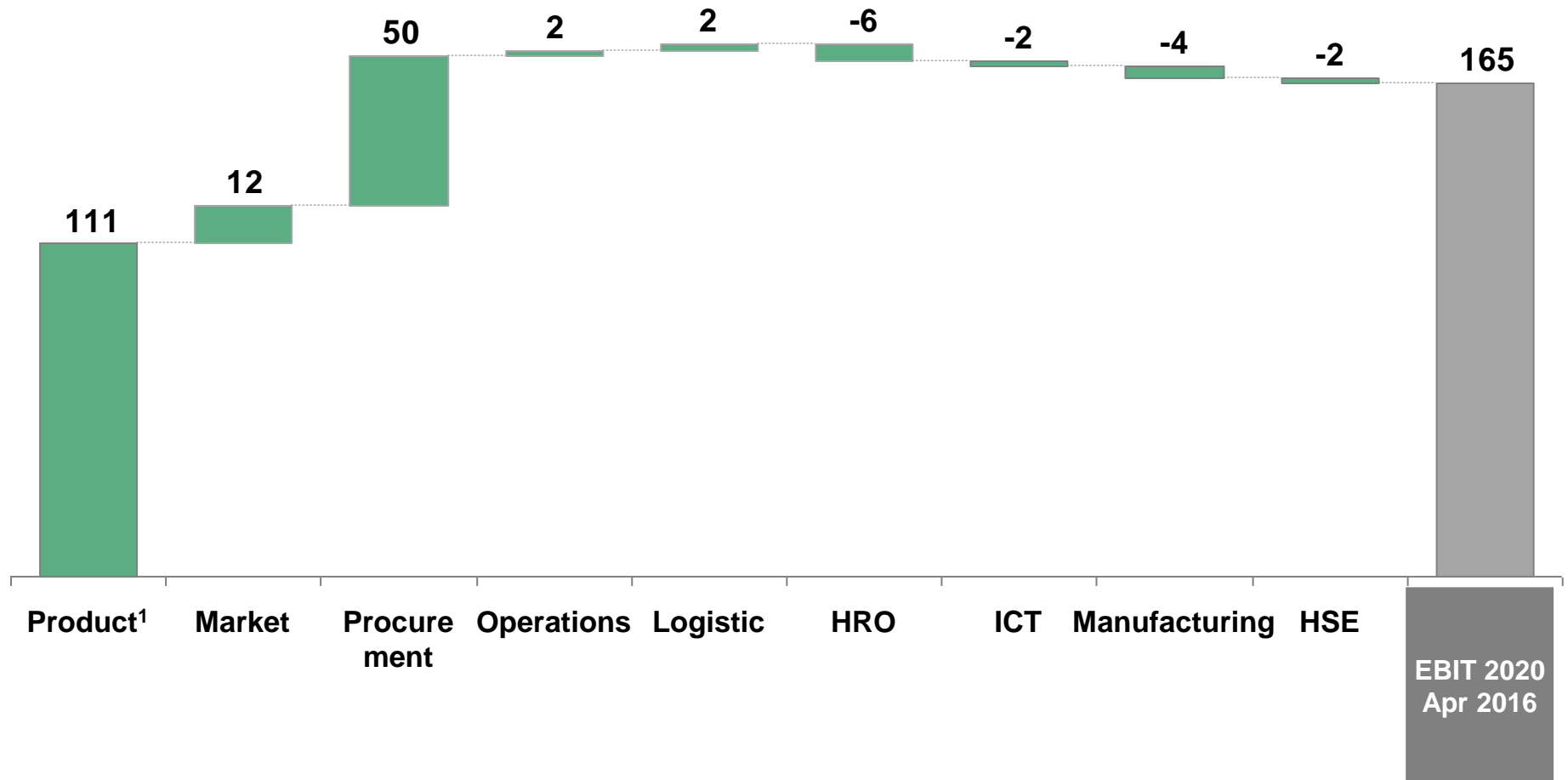
- Stand alone TBR business plans
- Synergies plan
- Manufacturing footprint

Agro, OTR and TBB 2020 business plan

Pirelli-CNRC 2020 overall business plan

# Integrated synergy breakdown

EBIT 2020, Mn\$



1. Includes investment of ~12M\$ currently under revision with R&D and Manufacturing

Note: royalties not included. Rounded figures

Source: Pirelli-CNRC Integration analysis

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