



**2020 - 2022 INDUSTRIAL PLAN | VISION 2025**

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(1/2)

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The APIs presented herein include EBIT, EBIT margin, EBITDA, EBITDA margin.

In addition, this Presentation includes certain measures that have been adjusted by us to present operating and financial performance net of any non-recurring events and non-core events. The adjusted indicators are EBITDA adjusted, EBITDA margin adjusted, EBITDA adjusted without start-up costs, EBITDA margin adjusted without start-up costs, EBIT adjusted, EBIT margin adjusted, EBIT adjusted without start-up costs, EBIT margin adjusted without start-up costs.

In order to facilitate the understanding of our financial position and financial performance, this Presentation contains other performance measures, such as CapEx (Capital Expenditures) or Investments in property, plant & equipment, Operating working capital related to continuing operations, Net Financial (liquidity) / debt Position, Net financial (liquidity)/debt position without IFRS 16, Operating net cash flow, Net cash flow and Net cash flow before dividends.

These measures are not indicative of our historical operating results, nor are they meant to be predictive of future results.

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# AGENDA

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## PIRELLI EVOLUTION TO DATE & STRATEGIC DIRECTION

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 1 – COST COMPETITIVENESS

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2020-2022 SCENARIO

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 2 - COMMERCIAL DEVELOPMENT

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 3 – TECHNOLOGY-BASED INNOVATION

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2019 FINANCIAL REVIEW AND 2020-2022 TARGETS IN DETAIL

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APPENDIX

# PIRELLI EVOLUTION TO DATE & STRATEGIC DIRECTION

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## EVOLUTION TO DATE

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2

IMPLICATIONS FROM 2020-2022 SCENARIO

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3

STRATEGIC GUIDELINES & KEY 2020-2022 PROGRAMS

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4

2020-2022 TARGETS AND ENABLERS

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2025 VISION



# PIRELLI HAS SUCCESSFULLY PURSUED A UNIQUE CONSUMER POSITIONING AND BUSINESS MODEL FOCUSED ON HIGH VALUE

## HIGH VALUE (H.V.)



- Premium and Prestige Car drivers fitting  $\geq 18''$
- Focus on 3 H.V. Regions: Europe, USA and APac

## STANDARD (STD)



- Standard presence reduction
- Trimming low profitability range

## COMPETITIVE BARRIERS



*Strong Relationship with Most demanding OEMs*

1

*Cutting-edge Technology*

2

*Iconic Brand*

3

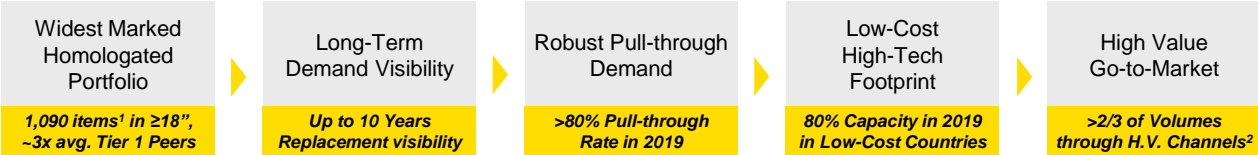
*Selective Distribution*

4

*Low-Cost High-Tech Production Footprint*

5

## BUSINESS MODEL






1. source German Product List (Pricat) @ Jan 2020; 2. Car Dealer, Tier 1 Wholesalers, Pirelli Retail, channels over which we exercise a greater control



# PIRELLI FORECASTS AND VOLUME PERFORMANCES IN ≥18" PROVED CORRECT

## HIGH VALUE

	2019 IPO <sup>1</sup>	2019A		
<b>PREMIUM &amp; PRESTIGE</b> (million cars)				
	CAR PROD.	13	12	✘
	CAR PARC	~ 150	> 150	✔
<b>≥18" CAR TYRE MARKET</b> (million tyres)				
		~ 255	~ 255	✔
<b>≥18" CAR TYRE VOLUMES</b> (million tyres)				
		~ 30	~ 30	✔

## UNFORESEEN EVENT

➤ Challenging pricing environment on ≥18" non-specialties due to O.E. crisis




## PIRELLI COUNTERMEASURES

➤ OEMs portfolio diversification (new N. America and APac contracts in 2H 2019)

➤ Price protection in ≥18" Specialties (~50% of H.V. sales)

# ...WHILE RAPID DECREASE ON ≤17" WAS NOT FULLY FORESEEN

## STANDARD

	2019 IPO <sup>1</sup>	2019A	
<b>STANDARD CAR PRODUCTION</b> (million cars)			
	~ 86	~ 77	✘
<b>≤17" CAR TYRE MARKET</b> (million cars)			
	~ 1,400	~ 1,300	✘
	-100 (o/w 62% O.E.)		
<b>≤17" CAR TYRE VOLUMES</b> (million tyres)			
	44	34	✘
	-10 o/w -1 on Specialties ≤17"		

## UNFORESEEN EVENTS

- 2018**
- South America economic crisis resulting in severe Standard Tyre demand contraction since 2H (-12% Repl. Car ≤17" market in 2H2018; -5.8% in 1H2019)
  - EMEA and Russia more radical reduction with respect to the IPO plan (second brands and lower rim-sizes pruning)
- 2019**
- Weaker Synergic car production caused unsaturation and competitive pressure

## PIRELLI COUNTERMEASURES

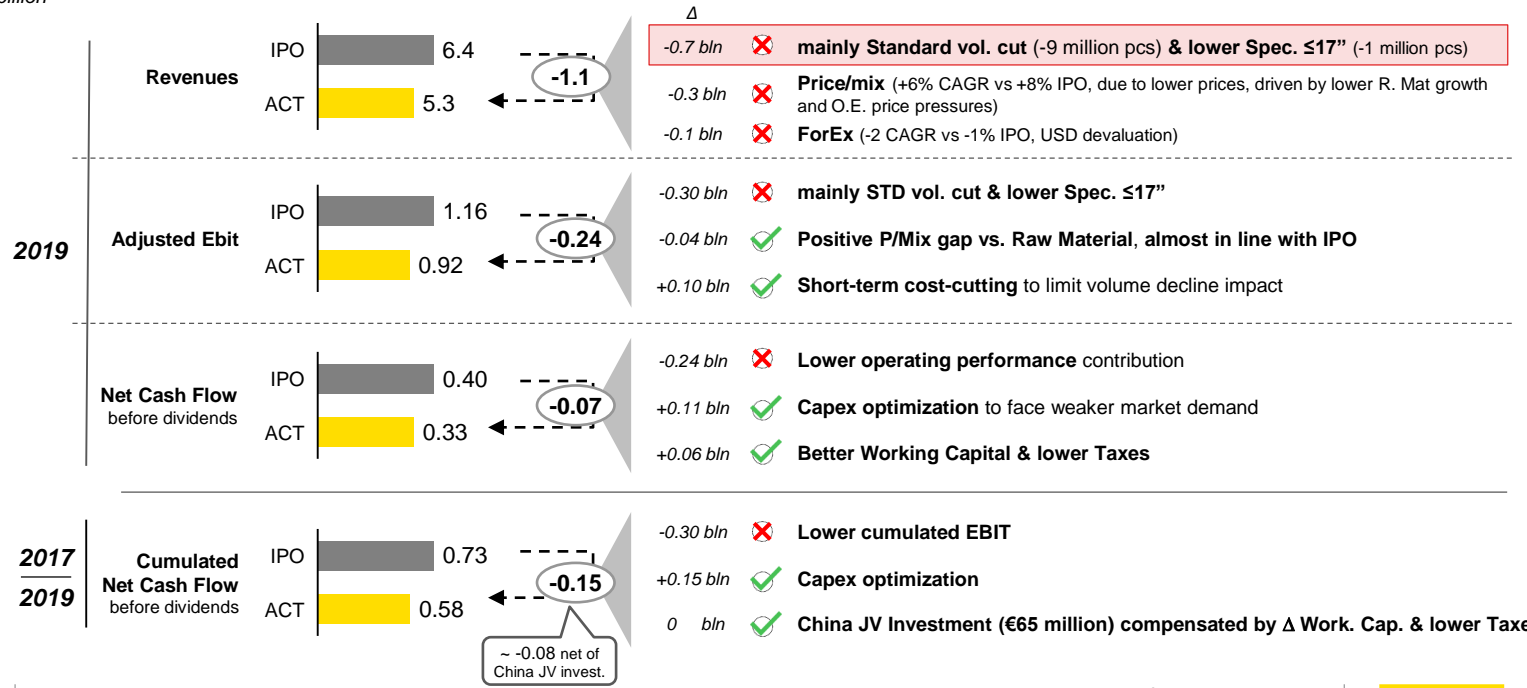
- Footprint rationalization (Brazil)
- Faster standard volume reduction than previously planned, especially in EU, keeping a socially responsible approach; footprint conversion (Italy)
- Short-Term cost-cutting actions, leading to more structural savings in 2020-22 plan



# MORE GENERALLY, GAP IN STANDARD VOLUMES EXPLAINING KEY VARIANCE WITH IPO PLAN

## IPO<sup>1</sup> VS ACTUAL

€ billion



# PIRELLI ESG LEADERSHIP ACKNOWLEDGED BY THE MARKET

## TOP-OF-THE-INDUSTRY ESG RATINGS



Global Sector Leader in the S&P  
Dow Jones Sustainability Indexes



Awarded sector Gold Class 2020  
in S&P Sustainability Yearbook



A-List in Carbon  
Disclosure Project 2019



Sector top rating



Global Compact  
LEAD company 2019

## PIRELLI DISTINCTIVE FACTORS

- > Comprehensive corporate positioning on key global sustainability challenges, beyond materiality
- > Management model complying with most demanding ESG standards<sup>1</sup>
- > ESG targets are:
  - Group wide
  - Tangible
  - Challenging and realistic
  - Competitive deadlines
- > Complete and transparent Reporting

# EVOLUTION TO DATE SUM UP



- > PURSUE HIGH VALUE APPROACH...
- > ...WITH A HIGHER O.E. / HOMOLOGATION SELECTIVITY



- > KEEP PRUNING LOW RIM STANDARD



- > ACCELERATE STRUCTURAL COST COMPETITIVENESS PROGRAM
- > LOWER CAPEX INTENSITY IN NEW PLAN AS H.V. CAPACITY ALREADY IN PLACE



- > LEVERAGE ON SUSTAINABLE APPROACH TO GAIN COMPETITIVE ADVANTAGE BY ANTICIPATING FUTURE CHALLENGES

# PIRELLI EVOLUTION TO DATE & STRATEGIC DIRECTION

- 1 EVOLUTION TO DATE
- 2 IMPLICATIONS FROM 2020-2022 SCENARIO**
- 3 STRATEGIC GUIDELINES & KEY 2020-2022 PROGRAMS
- 4 2020-2022 TARGETS AND ENABLERS
- 5 2025 VISION

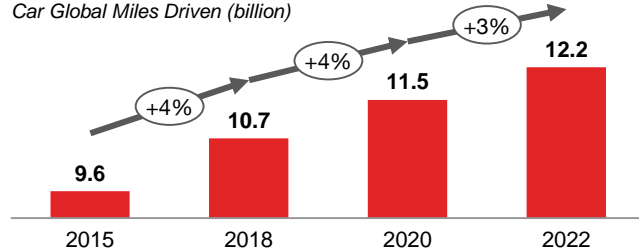


# NO MAJOR DISCONTINUITY IN «HIGH-END» MOBILITY IN THE NEXT 36 MONTHS

2. Implications from 2020-2022 scenario

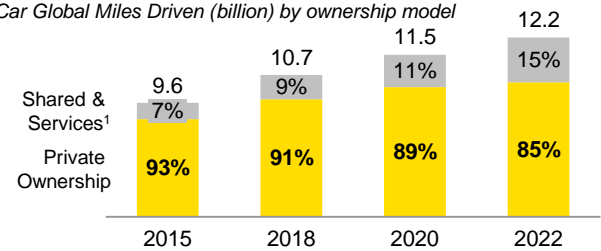
## MILES DRIVEN GROWING CONSTANTLY

Car Global Miles Driven (billion)



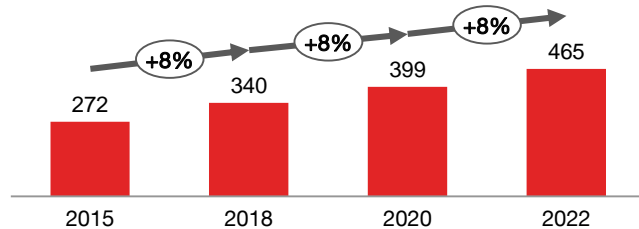
## PRIVATE CAR STILL DOMINANT

Car Global Miles Driven (billion) by ownership model



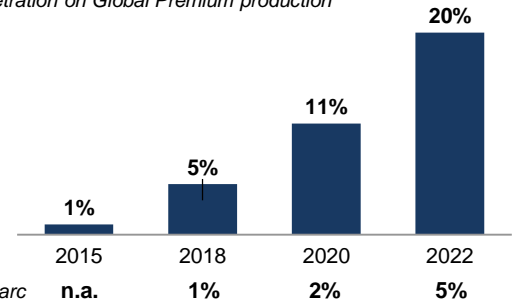
## «HIGH-END» CONSUMERS GROWING

Global # of Households with > \$75k annual Income



## ELECTRIC CARS GROWING SHARE (PREMIUM)

% EV<sup>2</sup> Penetration on Global Premium production



1. Category includes Car Sharing, Ride-Hailing, Rental Fleets, Private and Company Leasing Cars; 2. EVs include BEV (Battery Electric Vehicles) and PHEV (Plug-in Electric Vehicles)

% EV on Global Parc

n.a. 1% 2% 5%

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MILAN, 19<sup>TH</sup> FEBRUARY 2020

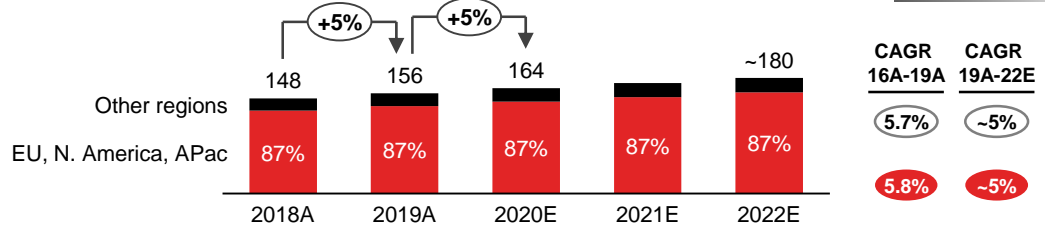


# RESILIENT GROWTH OF HIGH VALUE TYRE DEMAND

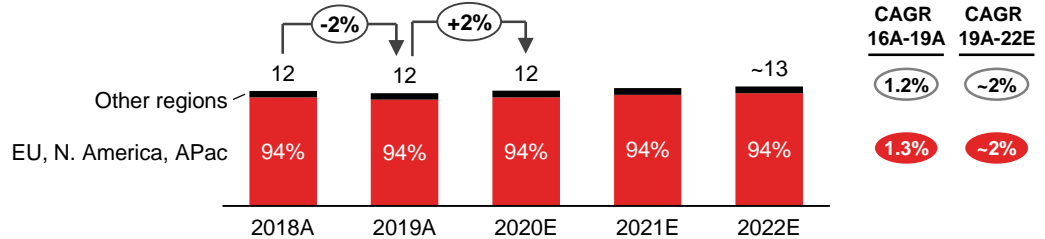
2. Implications from 2020-2022 scenario



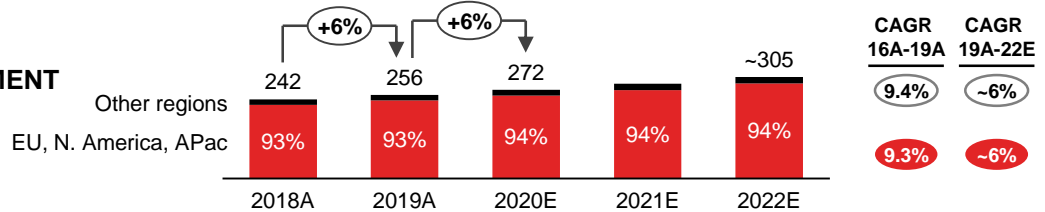
## PRESTIGE & PREMIUM CAR PARC (million vehicles)



## PRESTIGE & PREMIUM CAR PRODUCTION (million vehicles)



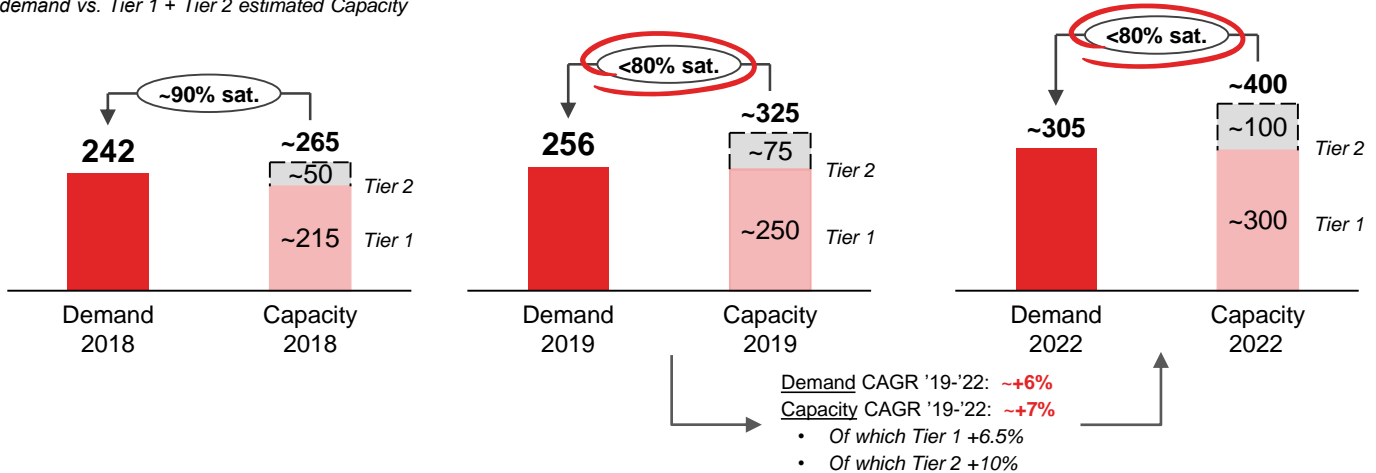
## ≥18" O.E. + REPLACEMENT TYRE MARKET (million tyres)



# HIGH VALUE OVERCAPACITY IN 2019 WILL PERSIST, UNLESS PLAYERS POSTPONE PROGRAMS

## ≥18" NOMINAL CAPACITY VS. MARKET DEMAND (2018-2019-2022) - ESTIMATES

≥18" demand vs. Tier 1 + Tier 2 estimated Capacity



### SEVERAL RESTRUCTURING PROGRAMS ALREADY ANNOUNCED AND MORE LIKELY TO COME, BUT FOCUSED ON STANDARD

Source: Company elaborations based on third party and associations of tyre producers for car market data; Company elaborations and estimates based on public announcements and third party data for Car Capacity data; for 2019-2022 period assuming all new capacity installed is ≥18" and deployment according to latest available public announcements (possible slowdowns in capacity deployment not included in figures)



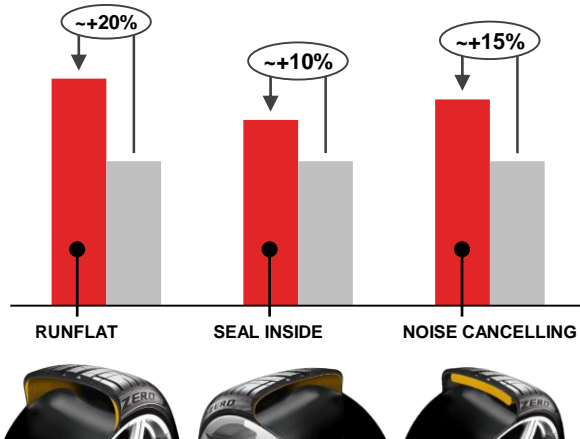
# TECHNOLOGY & BRAND CAN LIMIT PRICE PRESSURE IN HIGH VALUE

2. Implications from 2020-2022 scenario

## TECHNOLOGIES (E.G. RUNFLAT, PNCS, SEAL INSIDE) WITH HIGHER ADDED VALUE

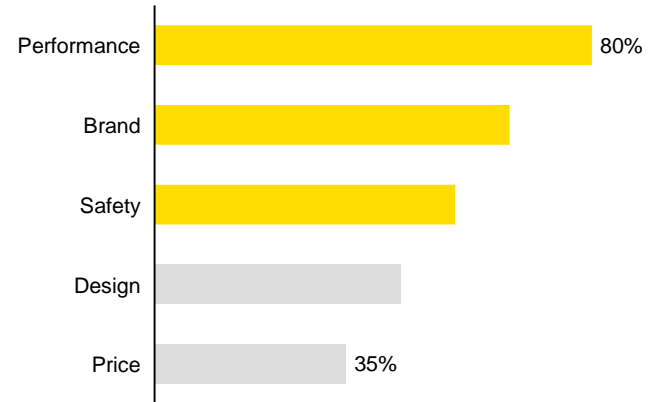
€ Sell-out price for tyre, same Product Line, Specialty vs. non-Specialty

■ Specialty ■ Non-Specialty



## PREMIUM CONSUMERS MAINLY LOOK FOR PRODUCT PERFORMANCE, BRAND AND SAFETY

Product choice factor analysis 2019, Premium target (EU) % replies "important" and "very important" (scale 1-5)



Source: Pirelli Survey on CRM contacts (2019)

## TECHNOLOGY FOR EVs ANOTHER KEY COMPETITIVE BARRIER

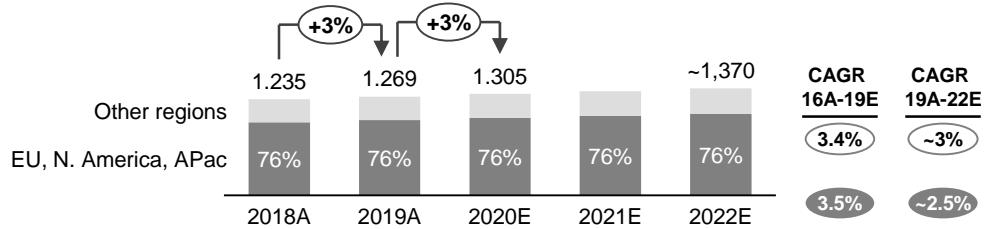


# 17" THE ONLY SEGMENT GROWING IN STANDARD

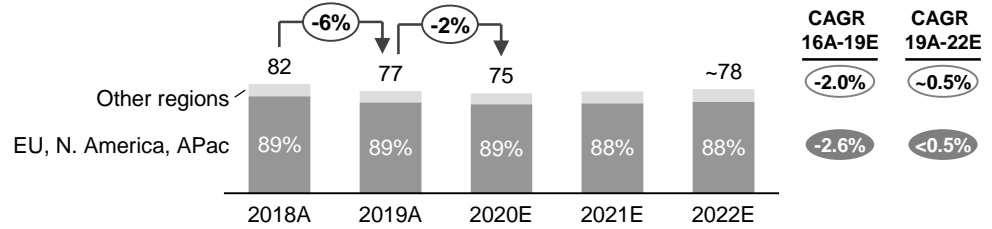
2. Implications from 2020-2022 scenario



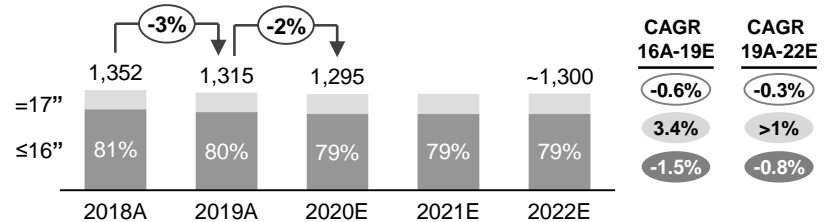
## SYNERGIC CAR PARC (million vehicles)



## SYNERGIC CAR PRODUCTION (million vehicles)



## ≤17" O.E. + REPLACEMENT TYRE MARKET (million tyres)



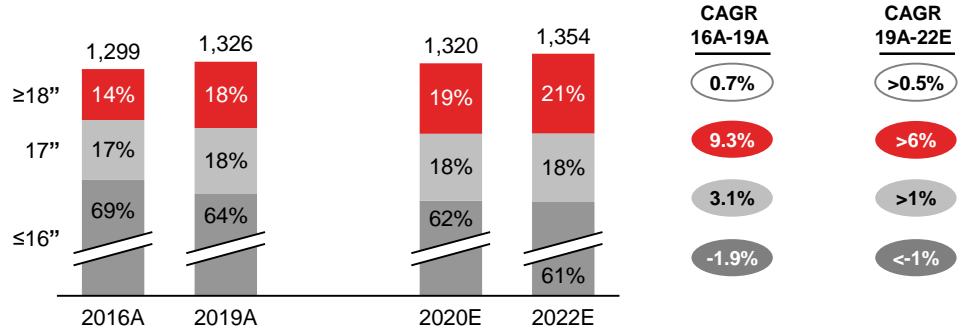
# MARKET DEMAND CONTINUOUSLY REPOSITIONING TOWARDS HIGH END SEGMENTS

2. Implications from 2020-2022 scenario



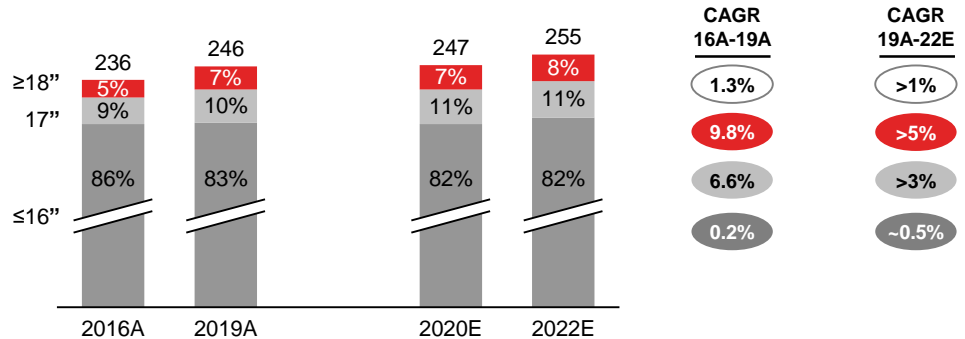
## H.V. REGIONS (EU, NA, APAC)

(million tyres)



## STANDARD REGIONS (ALL OTHER REGIONS)

(million tyres)



## EVOLUTION TO DATE

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- > Pursue High value approach...
- > ...With a higher O.E. / homologation selectivity

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- > Keep pruning low-rim Standard

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- > Accelerate structural Cost Competitiveness Program
- > H.V. capacity already in place: low CapEx-intensity in New Plan

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- > Leverage on Sustainable approach to gain competitive advantage

## 2020-2022 SCENARIO IMPLICATIONS

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- > RESILIENT HIGH VALUE DEMAND
- > OVERCAPACITY/PRICE PRESSURE
- > INNOVATION AND BRAND LEADERS CAN LIMIT COMPETITIVE PRESSURE
- > STANDARD 17" IS A GROWING MARKET WITH DOUBLE-DIGIT REPLACEMENT PROFITABILITY

# PIRELLI EVOLUTION TO DATE & STRATEGIC DIRECTION

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EVOLUTION TO DATE

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2

IMPLICATIONS FROM 2020-2022 SCENARIO

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**3**

**STRATEGIC GUIDELINES & KEY 2020-2022 PROGRAMS**

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2020-2022 TARGETS AND ENABLERS

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5

2025 VISION



# STRATEGIC GUIDELINES 2020-2022

3. Strategic guidelines &  
key 2020-2022 programs



## > HIGH VALUE IS PIRELLI'S "TRUE NORTH"



## RAISE COMPETITIVE BARRIERS FASTER:

- > – Sustainability-driven innovation
- Brand
- Structural cost competitiveness
- Speedy capture of opportunities through data-rich insights



## > REPOSITION IN STANDARD, WITH LOW-COST SOURCES IN LATAM & RUSSIA

# BUSINESS MODEL STRENGTHENED THROUGH 3 KEY MAJOR PROGRAMS, BACKED BY A MORE CONTAINED INVESTMENT

3. Strategic guidelines & key 2020-2022 programs

 **COST  
COMPETITIVENESS**

 **COMMERCIAL  
DEVELOPMENT**

 **TECHNOLOGY-BASED  
INNOVATION**



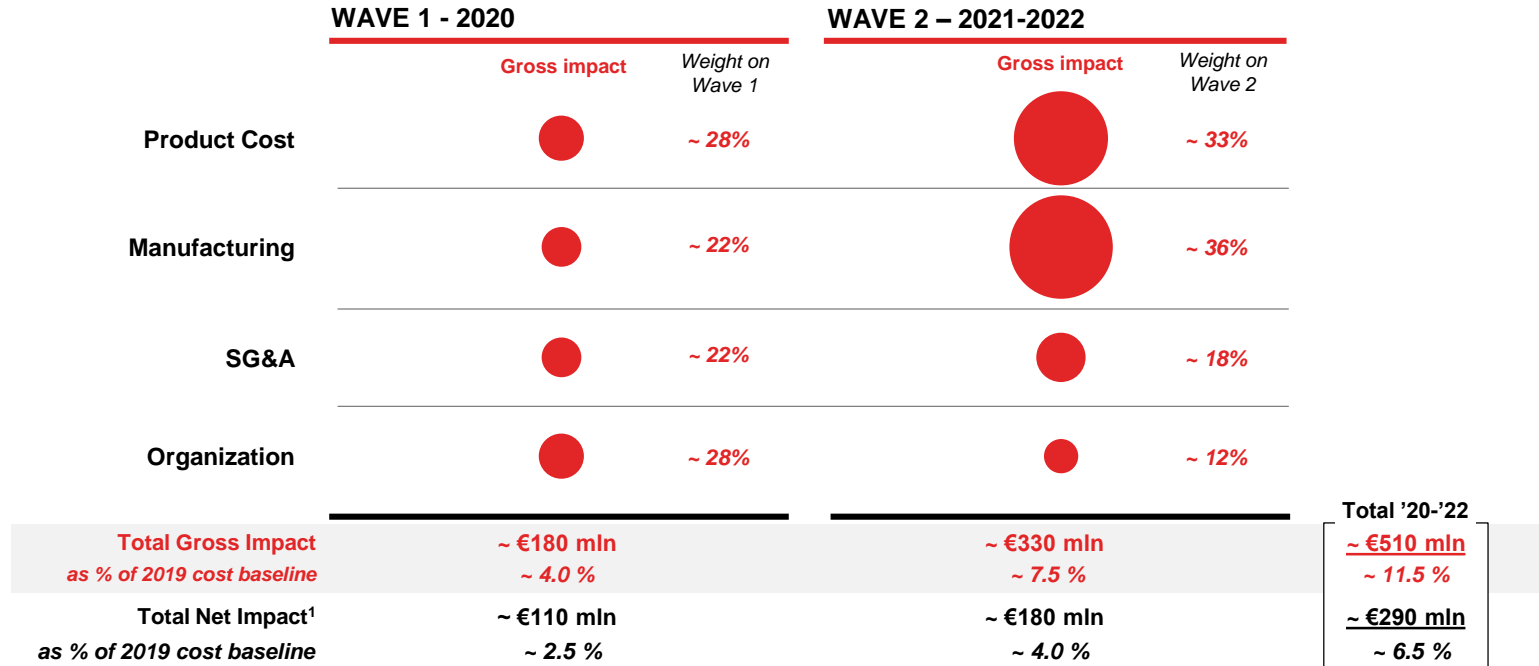
**Contained Investment Program**

**HIGHER FREE CASH FLOW GENERATION**



# 01. COST COMPETITIVENESS: 2 WAVES, REACHING ~510M€ EFFICIENCY IMPROVEMENT GROSS OF INFLATION

3. Strategic guidelines & key 2020-2022 programs







# 03. TECHNOLOGY-BASED INNOVATION: ACCELERATING PRODUCT INNOVATION

3. Strategic guidelines &  
key 2020-2022 programs

## PRODUCT

### Fast-pace product renewal

- H.V. homologated product families renewed, with Specialties available in most of the new Product Lines
- 15 push-through lines, regionalized



~+40% New Product Lines  
in '20-'22 vs. '17-'19

## DEVELOPMENT & ENGINEERING

### New Development & Engineering approach, derived from F1 & Motorsport data driven experience

- Reduced time-to-market
- Modularity & Commonality Virtualization in Design & Testing



-30% development time

## NEW TECHNOLOGIES

### Working in parallel on Medium-term opportunities

- ELECT EV "Marked" portfolio
- Entering the second stage of Cyber Innovation



>1/3 2020-2022  
homologations  
projects on EVs

## APPROACH

### Product roadmap led by an eco & safe design approach from cradle to grave

- Significant increase in the use of renewable and recycled materials, and decrease of fossils
- Max technological trade-off between low environmental impact and safety performances
- Consumer portfolio accompanying the transition towards smart and micro-mobility
- Supply chain co-operating in the development of high added value solutions, resilient in ESG risk management

# HIGH TECH AND ECO-EFFICIENT MANUFACTURING FOOTPRINT

3. Strategic guidelines & key 2020-2022 programs

## PIRELLI MANUFACTURING FOOTPRINT: HIGH-TECH & ECO-EFFICIENT



Full High Value Capacity



H.V. / Std. Capacity

### IN 2022 18 PLANTS (~82% LOW COST COUNTRY)

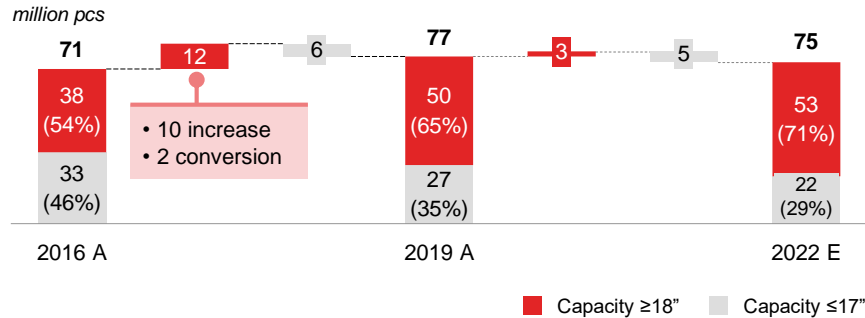
- > 9 Car Fully High Value, of which 6 new / robotized
- > Bollate Plant converted to Premium Velo
- > 2 Production Hubs in Low Cost Countries serving closer High Value markets: LatAm for N. America and Russia for Europe

### AN INDUSTRIAL ENVIRONMENTAL FOOTPRINT SUBSTANTIALLY REDUCING

- > 100% renewable electricity worldwide by 2025
- > Group Carbon Neutrality by 2030
- > Commitment to the Science Based Target initiative, in alignment with our CO<sub>2</sub> emissions reduced strategy
- > Excellence in water management
- > Zero waste to landfill

# ALREADY REACHED OPTIMAL CAPACITY IN HIGH VALUE, LEADING TO A CONTAINED INVESTMENT PLAN

## CAR CAPACITY

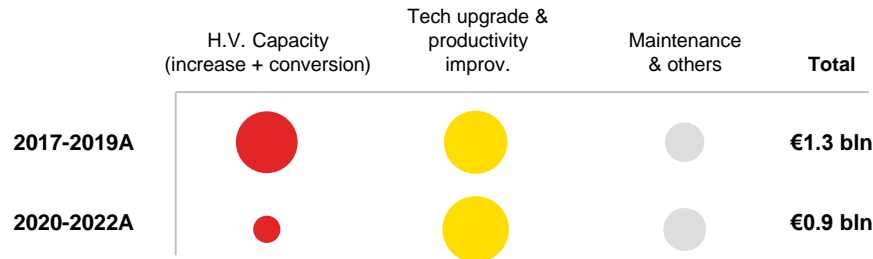


## HIGH VALUE CAPACITY CONSISTENT WITH DEMAND

- H.V. Capacity already increased strongly in 2017-2019 (Europe, China and Mexico)
- 2020-2022 further H.V. Capacity mainly from Conversion

**STANDARD CAPACITY REDUCTION:** -11m pcs in 6 years mainly in EMEA & LatAm. Saturation ~90% in 2022 (70% in 2019)

## CAPEX PLAN



## 2020-2022 INVESTMENT PROJECTS HIGHLIGHTS

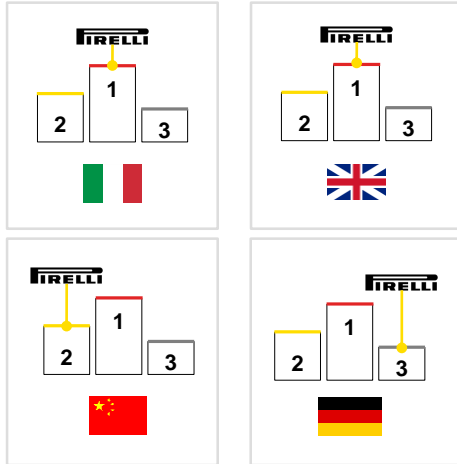
- Focus on Specialties and mix/quality improvement
- Ongoing Restructuring Plan (Italy & Brazil)

# REINFORCING OUR ICONIC BRAND FOR PREMIUM CONSUMERS

3. Strategic guidelines & key 2020-2022 programs

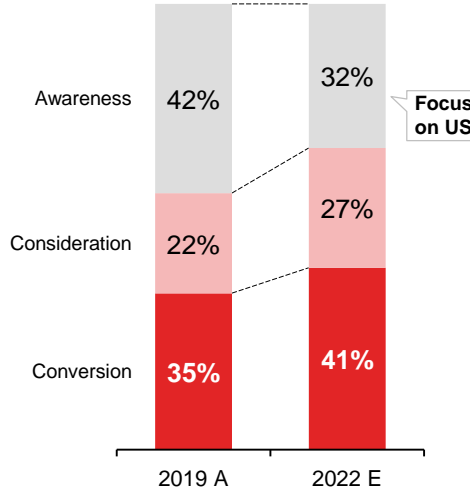
## ALWAYS IN TOP 3 POSITIONS IN KEY MARKETS

2019 Pirelli Brand Tracking Premium Consumers<sup>1</sup>



## MOVING EFFORTS DOWN THE CONSUMER JOURNEY

Pirelli Global Brand Investments in Consumer Journey funnel, 2019 and 2022



## BRAND INITIATIVES RELEVANT FOR PREMIUM CONSUMERS

Sponsorships



<sup>1</sup> Considering several parameters: Top-of-Mind Brand, Brand Awareness, Brand Consideration and Brand Conversion (Top Choice)



# PIRELLI EVOLUTION TO DATE & STRATEGIC DIRECTION

- 1 EVOLUTION TO DATE

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- 2 IMPLICATIONS FROM 2020-2022 SCENARIO

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- 4 2020-2022 TARGETS AND ENABLERS**

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- 5 2025 VISION



# 2020-2022 TARGETS

€ billion

	2019 A	2020 E	2022 E	
Net Sales	5.3	~5.4	~5.8	
adj. EBIT margin	0.9 17.2%	~ flat YoY	18% ÷ 19%	
CapEx	0.39	~0.3	cum. '20-'22 ~0.9	vs. cum '17-'19 ~1.3
Net Cash Flow bef. Dividends	0.33	~0.4	cum. '20-'22 ~1.5	o/w ~0.5 in '21 ~0.6 in '22
Net Financial Position (IFRS 16) <sup>1</sup>	3.5	~3.3	~2.5	

1. Assuming average 40% dividend pay-out on consolidated net income in the 2020-22 Industrial Plan

# PIRELLI REMUNERATION SYSTEM ALLIGNED WITH INDUSTRIAL PLAN

**REMUNERATION STRUCTURE** to be approved by the Shareholders' Meeting (June 18, 2020)

## COMPENSATION MIX FOR KEY MANAGEMENT

### FIXED COMPONENT

- No more than 50% of Total Annual Direct Compensation on reaching all objectives at target level

### SHORT-TERM INCENTIVE *(1/3 of total variable compensation)*

- Cash incentive based on key Financial objectives (Group Adj. Ebit, Net Income, Net Cash Flow before dividends) and Sustainability (Eco-Safety Performance<sup>1</sup> Revenues)
- On/off condition: Group Net Cash Flow before dividends
- 25% deferred to the next year

### LONG-TERM INCENTIVE PLAN 2020-22 *(2/3 of total variable compensation)*

- Cash plan based on **3 key objectives**: Relative **TSR** vs. Tier1 peers; 2020-22 Cumulated Group **Net Cash Flow before dividends**; on-going inclusion in **Sustainability** Indices (Dow Jones Sustainability World Index ATX Auto Component sector, CDP scoring)
- **Rolling plan**: every year starting a new 3-year period
- **Payment** in 2023 and at the end of each 3-year vesting period

ALL **VARIABLE** COMPONENTS ARE **CAPPED**

**NON-COMPETITIVE** AGREEMENT

**CLAW-BACK CLAUSES** KEY MANAGEMENT  
IN BOTH MBO AND LTI PLANS

*1. Eco-Safety Performance products, previously named "green performance products", identify car tyres that Pirelli produces throughout the world and that fall only under rolling resistance and wet grip classes A, B, C according to the labeling parameters set by European legislation*

# GOVERNANCE CONFIRMED BY RENEWED SHAREHOLDERS' AGREEMENT

## BY-LAWS



Pirelli By-Laws shall be **inspired by international best practices**



**Pirelli Technological know-how never be transferred** unless approved by **90% of Pirelli shareholders**



**Pirelli headquarters shall remain in Milan (Italy)** unless approved by **90% of Pirelli shareholders**



**One-fifth** of the Board shall be **appointed by minority shareholders**

## BOARD OF DIRECTORS



**Board made of highly qualified Members** with a suitable mix of skills.

**Independent directors shall be the majority** of the Board



Focus on **Diversity value**: gender, age, seniority, nationality, educational background and work-experience



**Internal committees in line with the best practices**, with independent directors having a key role.



**Transactions with related parties** to be governed by **best International practices** with a key role of the Committee for Related Parties Transactions

## SHAREHOLDERS AGREEMENT



The partnership acknowledges: (i) Pirelli is a company specialised in high quality and technology products, (ii) loyalty, professional skills and expertise of the management, key factor for the Company success and business growth



Pivotal role of the top management to maintain **quality standards**, to preserve and value Pirelli industrial legacy



**Pirelli Chief Executive Officer** to lead top management and ensure **Pirelli business culture continuity**



Pirelli Recruiting, Career Plans and incentive schemes to **match management and shareholders interests**. Incentive plan targets consistent with Pirelli Strategic Plan, and in line with the best practices for listed Companies (e.g.: TSR, sustainability)



Leading role of Marco Tronchetti Provera in the designation of his successor



# PIRELLI EVOLUTION TO DATE & STRATEGIC DIRECTION

- 1 EVOLUTION TO DATE

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- 2 IMPLICATIONS FROM 2020-2022 SCENARIO

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- 3 STRATEGIC GUIDELINES & KEY 2020-2022 PROGRAMS

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- 4 2020-2022 TARGETS AND ENABLERS

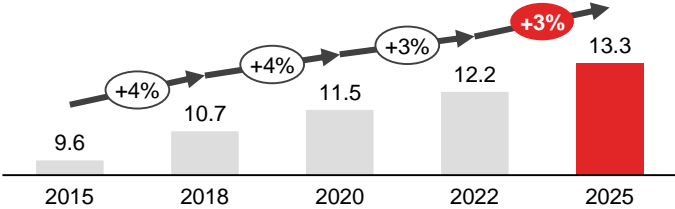
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- 5 2025 VISION**



# KEY DYNAMICS IN 2025

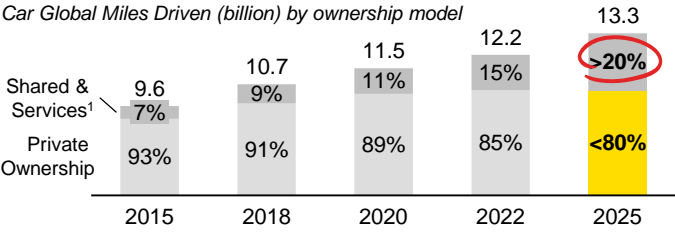
## MILES DRIVEN KEEP GROWING CONSTANTLY

Car Global Miles Driven (billion)



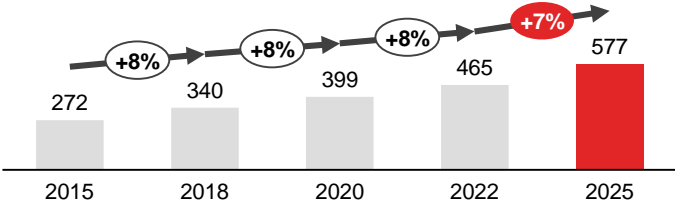
## SHARED & SERVICES GETTING RELEVANT

Car Global Miles Driven (billion) by ownership model



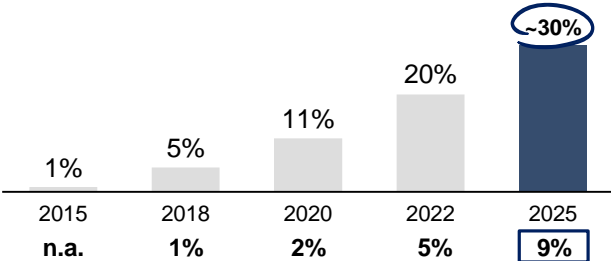
## «HIGH-END» CONSUMERS KEEP GROWING

Global # of Households with > \$75k annual Income

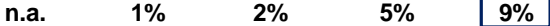


## ELECTRIC CARS RELEVANT ALSO IN REPLACEMENT

% EV<sup>2</sup> Penetration on Global Premium & Prestige production



% EV on Global Parc

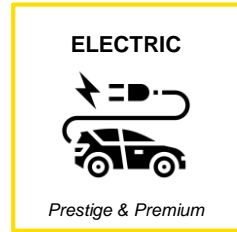


1. Category includes Car Sharing, Ride-Hailing, Rental Fleets, Private and Company Leasing Cars; 2. EVs include BEV (Battery Electric Vehicles) and PHEV (Plug-in Electric Vehicles)



# CAR TRENDS '2020-'2025: SOLUTIONS FOR ELECTRIC & CONNECTED

## MARKET PENETRATION (%) IN PRESTIGE & PREMIUM



	PRODUCTION	PARC
2020E	~11%	~2%
2025E	~30%	~9%



	PRODUCTION	PARC
2020E	~71%	~30%
2025E	~all	~52%

## PIRELLI SOLUTIONS

- O.E. Partnership with top-end OEMs and start-up innovators **over 1/3 of O.E. Homologations pipeline**
- **ELECT**: Distinctive Marking Strategy to ensure BEV tyre Replacement with tyre designed for BEVs

- First phase of technology Development and testing in F2/Motorsport completed
- Entered an industrialization phase, with Premium O.E. Partners and an open ecosystem of Partners in Semiconductors, Manufacturers and Tyre makers

Note: "Connected" refers to cars with mobile data connection (e.g. 2G, 3G, LTE), which might be provided by either embedded car systems or car hardware paired with external devices (e.g. smartphone), "Electric" refers to BEV / PHEV

Source: company analysis on consulting and investment banks research reports

# CORONAVIRUS DISEASE (COVID-19) – PREVENTION AND READINESS

## GROUP MEASURES

- Travels to and from China are blocked and all travels to APAC are discouraged.
- APAC expatriates were returned to their homeland together with their families.
- All personnel coming back from China cannot return to workplace before 15 days after the day of arrival.
- A 24/7 hotline with specialized medical support is available.
- Continuous monitoring of the disease evolution in direct connection with national and international Organizations.
- Availability of prevention and emergency kits (e.g. masks, hand sanitizer dispensers, increased cleaning frequency of workplaces).
- Sanitizing and disease prevention training for all employees.

## FOCUS CHINA

- Body temperature checks applied to all people entering Pirelli facilities.
- In addition, employees are checked twice during their shift.
- All employees must wear approved masks (provided by Pirelli).
- All incoming trucks are disinfected before entering the factories.
- The workplaces are disinfected every 3 hours.
- First aid rescue team linked with authorized hospitals has been established.
- All employees receive regular pay.
- Smart-working is encouraged.

## ALL OTHER COUNTRIES

- Adopt all Group measures.
- Availability of prevention and emergency kits.
- Continuous monitoring of specific Country's disease evolution.

## SUPPORT TO CHINA

- 5 Million RMB donated to Coronavirus Relief Efforts through the Yanzhou Charity Federation of Jining city, Shandong Province.
- 90,000 N95 masks, 350,000 general medical masks, 500 thermometers, and 86,000 gloves sent directly to China from Italy, Germany, Mexico, Argentina.

## PREVENTION

**Coronavirus: things to know**

**Symptoms:** Fever, Cough, Sore throat, Shortness of breath, Fatigue, Loss of taste or smell, Diarrhea.

**Disease and structure:** Coronavirus is a family of viruses that are responsible for a wide range of diseases, from the common cold to SARS-CoV-2.

**ANIMAL TO HUMAN TRANSMISSION:** The first cases of COVID-19 were reported in Wuhan, China, in December 2019. It is believed that the virus spread from an animal to a human.

**HUMAN TO HUMAN TRANSMISSION:** The virus spreads from person to person through respiratory droplets and contact with contaminated surfaces.

**IN REVERSE CASES:** Some people who have recovered from COVID-19 may still have the virus in their body for several weeks.

**VIRES SPREAD:** The virus spreads through respiratory droplets and contact with contaminated surfaces.



## CONSTANT MONITORING

World Health Organization

CDC

Ministero della Salute





# CORONAVIRUS DISEASE (COVID-19) – PRELIMINARY SENSITIVITY ANALYSIS

## PIRELLI IN CHINA



 Yanzhou Car / Moto –  
Shandong province

 Shenzhou Car (JV) –  
Shandong province

 Jiaozuo Car –  
Henan province

 Full High Value Capacity

 High Value/ Standard Capacity

**2019 Total Capacity:** ~14 million car pcs, 1.4 million Moto pcs  
**% of Export:** ~25% mainly within Apac

## CHINA CONTRIBUTION:

- ~12% Group Sales
- **High teens weight on Group Adj EBIT**

## CURRENT SITUATION

- Temporary closure of 2 plants;  
Yanzhou is running at low capacity utilization
- Shanghai office (APAC HQ) closed. Region managed by Tokyo and Singapore offices.
- No delays in export and flows guaranteed today. Alternative flows identified and available. **No problems world wide for Chinese components and Raw Material with alternative sources already activated.**

## ESTIMATED IMPACT

- **In 1Q lower business seasonality (New Chinese Year);**
- Current February Sales Volume -80% vs normal business activity; March projection in recovery to -30% vs normal business activity.
- **Impact of ~ -€30 million on 1Q adj. EBIT, expected to be offset during the year** (easing raw mat and pricing pressure with lower overseas supply)
- Should the emergency be extended to 2Q, an update will be provided with 1Q results in May, on both impacts and additional countermeasures

# AGENDA

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PIRELLI EVOLUTION TO DATE & STRATEGIC DIRECTION

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**PIRELLI STRATEGY DEPLOYMENT: PILLAR 1 – COST COMPETITIVENESS**

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2020-2022 SCENARIO

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 2 - COMMERCIAL DEVELOPMENT

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 3 – TECHNOLOGY-BASED INNOVATION

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2019 FINANCIAL REVIEW AND 2020-2022 TARGETS IN DETAIL

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APPENDIX

# BUSINESS MODEL STRENGTHENED THROUGH 3 KEY PROGRAMS, BACKED BY A MORE CONTAINED INVESTMENT

 **COST  
COMPETITIVENESS**

 **COMMERCIAL  
DEVELOPMENT**

 **TECHNOLOGY BASED  
INNOVATION**



**Contained Investment Program**

**HIGHER FREE CASH FLOW GENERATION**

# 01. COST COMPETITIVENESS: 2 WAVES, REACHING ~510 M€ EFFICIENCY IMPROVEMENT GROSS OF INFLATION

	WAVE 1 - 2020			WAVE 2 – 2021-2022		
	Gross impact		focusing on:	Gross impact	focusing also on:	Gross impact
<b>Product Cost</b>	~ 160 M€	>	<ul style="list-style-type: none"> <li>Product range management</li> <li>Specification optimization</li> <li>Purchasing cost optimization</li> </ul>	~ 50 M€	<ul style="list-style-type: none"> <li>Modularity</li> <li>Design speed</li> </ul>	~ 110 M€
<b>Manufacturing</b>	~ 160 M€	>	<ul style="list-style-type: none"> <li>Smart Manufacturing</li> <li>Quality enhancement</li> </ul>	~ 40 M€	<ul style="list-style-type: none"> <li>Footprint optimization</li> <li>Flexible factory</li> </ul>	~ 120 M€
<b>SG&amp;A</b>	~ 100 M€	>	<ul style="list-style-type: none"> <li>Belt-tightening on spending</li> <li>Marketing effort optimization</li> </ul>	~ 40 M€	<ul style="list-style-type: none"> <li>Logistic optimization</li> </ul>	~ 60 M€
<b>Organization</b>	~ 90 M€	>	<ul style="list-style-type: none"> <li>Organization streamlining</li> <li>Pay for performance</li> <li>New Skills development</li> </ul>	~ 50 M€	<ul style="list-style-type: none"> <li>Digital Processes and Organization transformation</li> </ul>	~ 40 M€
<b>Total Gross Impact</b>	<b>~ 510 M€</b>			<b>~ 180 M€</b>		<b>~ 330 M€</b>
<b>as % of 2019 cost baseline</b>	<b>~ 11.5 %</b>			<b>~ 4.0 %</b>		<b>~ 7.5 %</b>
<b>Total Net Impact<sup>1</sup></b>	<b>~ 290 M€</b>			<b>~ 110 M€</b>		<b>~ 180 M€</b>
<b>as % of 2019 cost baseline</b>	<b>~ 6.5 %</b>			<b>~ 2.5 %</b>		<b>~ 4.0 %</b>



# PRODUCT COST PILLARS – PLAN 2020-2022

## PRODUCT RANGE MANAGEMENT



- Value based product portfolio
- Push lines design to value

## SPECIFICATION OPTIMIZATION



- **Activities on the existing and future product range** to maximize performance and reduce product cost:
  - Tyre structure simplification
  - Weight reduction

## MODULAR APPROACH TO TYRE DESIGN



- Material portfolio **de-complexity with rationalization of semi-finished components**

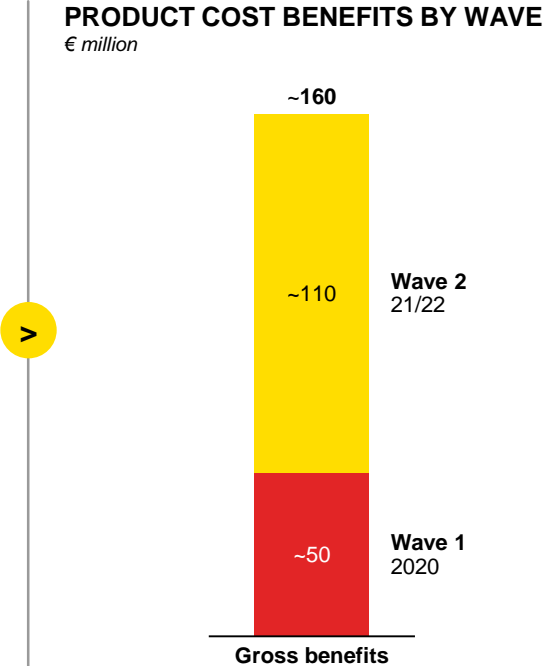
## PROCUREMENT OPTIMIZATION



- **LT agreements with strategic suppliers** powered by shared tech roadmaps
- **Rationalization of supplier portfolio**

## PRODUCT COST BENEFITS BY WAVE

€ million



# MANUFACTURING PILLARS – PLAN 2020-2022

## FOOTPRINT OPTIMIZATION



- **Reorganization** (Brazil), Italy plant conversion (to H.V.) creating **Velo Hub**
- **Local-for-local production** through regional source mix in low cost country

## FLEXIBLE FACTORY



- **New production processes** oriented to flexibility
- Factory material/info **flow optimization** (-11% WIP Reduction in 2022)

## SMART MANUFACTURING



- Connected Factory with **real time / predictive analysis, adaptive production planning and digital-enhanced operator capability**

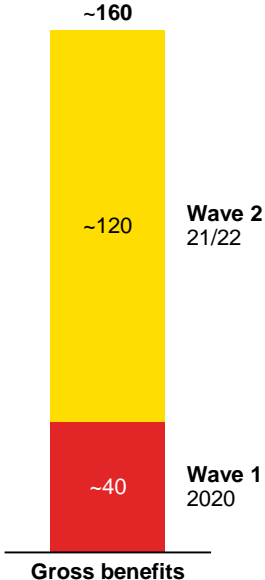
## QUALITY ENHANCEMENT



- **"Zero Defect Manufacturing": predict and prevent** defects through design for quality and data analytics (-20% total Waste reduction by '22)

## MANUFACTURING BENEFITS BY WAVE

€ million



# SG&A PILLARS – PLAN 2020-2022

## MARKETING & SALES



- Reduce effort in **awareness initiatives** in the consumer journey, **favoring conversion actions**
- **Advanced digital marketing tools** reducing customer acquisition cost

## GENERAL & ADMINISTRATIVE



- Structural belt-tightening on **professional services, travel, HQ overheads and Service Level Agreements** across regions

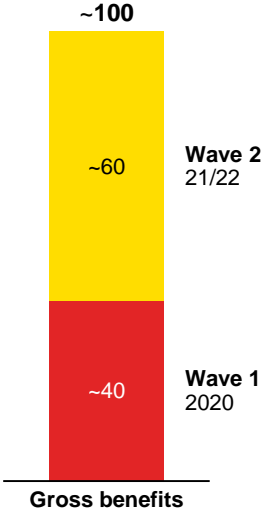
## LOGISTICS



- **Logistic network redesign**
- Distribution optimization through a **service level segmentation**


## SG&A BENEFITS BY WAVE

€ million




# ORGANIZATION PILLARS – PLAN 2020-2022


- ORGANIZATION STREAMLINING**



— **Business processes reengineering** supported by new ways of working enabled **by the digital transformation**
- NEW SKILLS DEVELOPMENT**



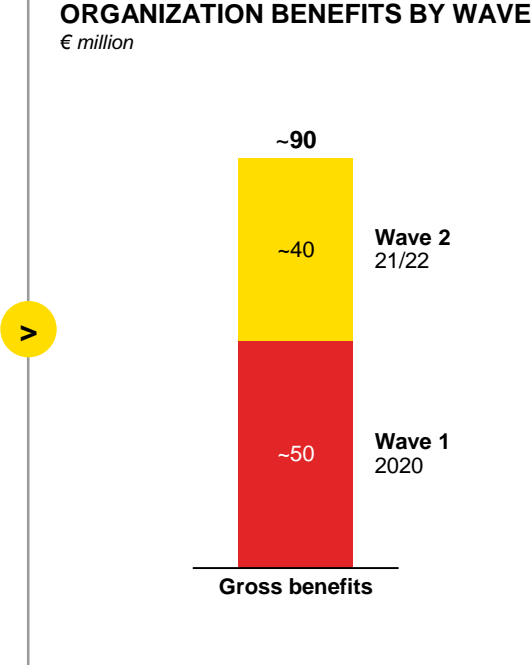
— Changing the mix of the available capabilities through **reskilling program and development of digital skills**
- PAY FOR PERFORMANCE**



— **Enhancement of the incentive schemes effectiveness**, increasing the weight of the variable remuneration on the total compensation

## ORGANIZATION BENEFITS BY WAVE

€ million





# AGENDA

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PIRELLI EVOLUTION TO DATE & STRATEGIC DIRECTION

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 1 – COST COMPETITIVENESS

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## 2020-2022 SCENARIO

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 2 - COMMERCIAL DEVELOPMENT

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 3 – TECHNOLOGY-BASED INNOVATION

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2019 FINANCIAL REVIEW AND 2020-2022 TARGETS IN DETAIL

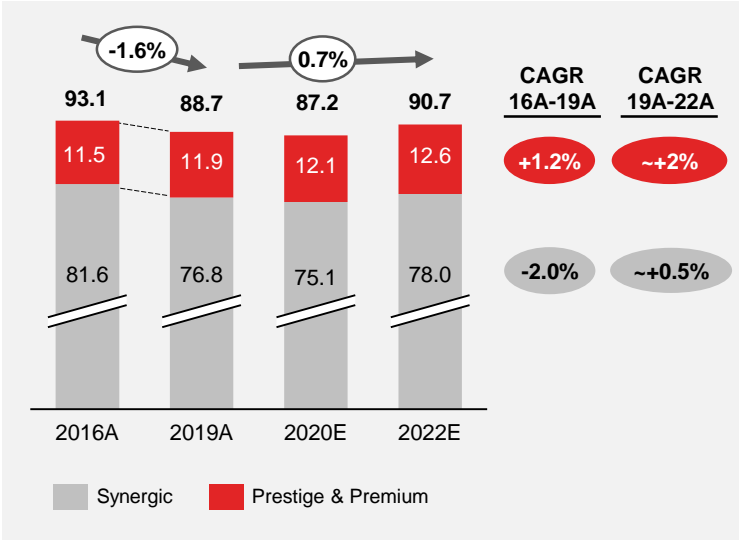
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APPENDIX

# CAR SALES IN DOWNTURN CYCLE, HOWEVER CARS FITTING ≥18” TYRES GROWING AT HIGHER RATE

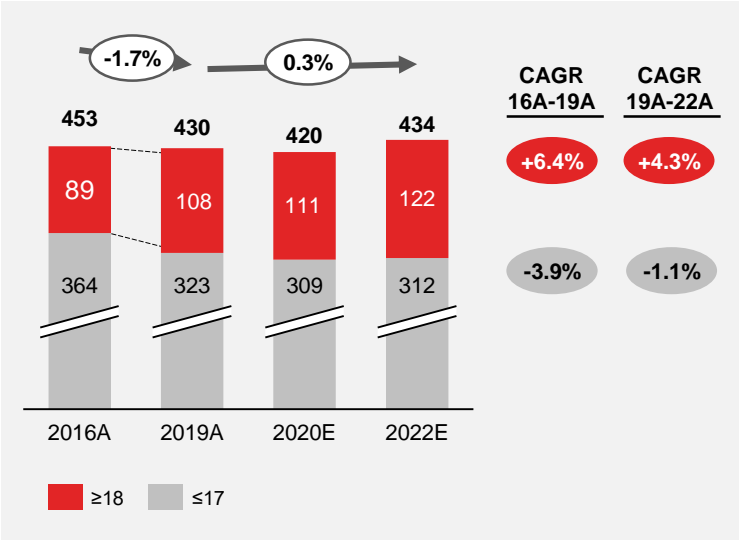
## WORLD CAR PRODUCTION

million vehicles



## WORLD O.E. TYRE MARKET

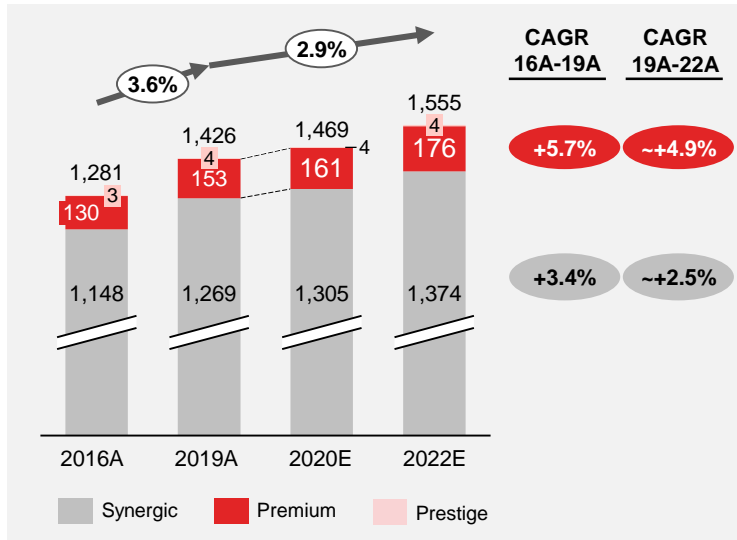
million tyres



# HIGH VALUE REPLACEMENT TYRE MARKET: RESILIENT ALSO IN A MORE DIFFICULT SCENARIO

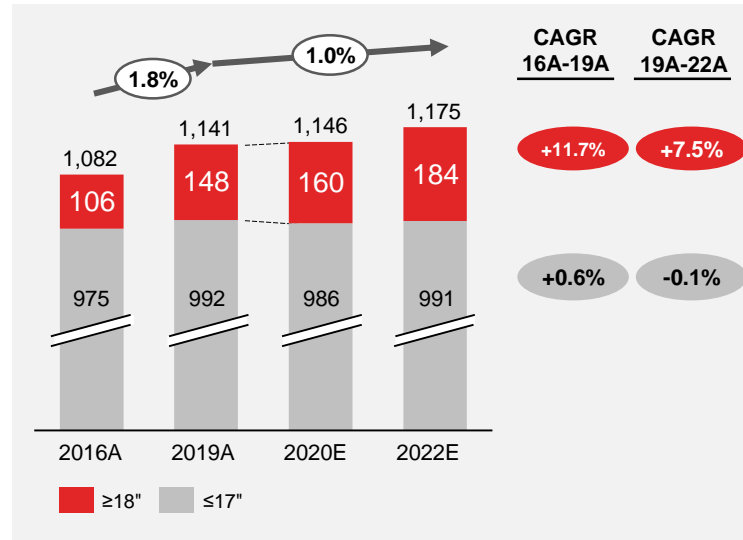
## WORLD CAR PARC

million vehicles



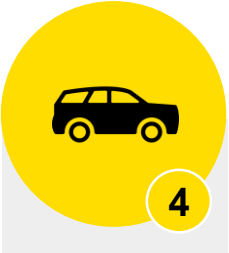
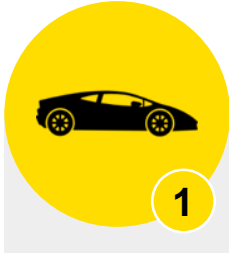
## WORLD REPLACEMENT TYRE MARKET

million tyres





# KEY DRIVERS OF GLOBAL HIGH VALUE MARKET GROWTH



Confirmed	Penetration of Premium & Prestige cars	Increase in number of homologations	Growing demand for specialties	Rising penetration of SUVs	New Car technologies
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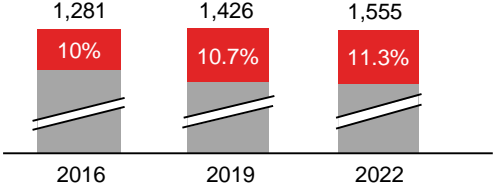
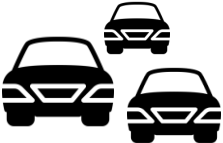
<b>NEW</b>	Synergic "Premiumization"	Car Platform modularity	Adding new specialties	SUV further segmentation	Electric and Connected acceleration Autonomous and Sharing slow down
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# DRIVER 1: PENETRATION OF PREMIUM & PRESTIGE CARS AND PREMIUMIZATION OF SYNERGIC

## PREMIUM/PRESTIGE PENETRATION ON TOTAL CAR PARC

million vehicles



**CAGR  
16A-19A**

**+5.7%**

**+3.4%**

**CAGR  
19A-22A**

**~+5%**

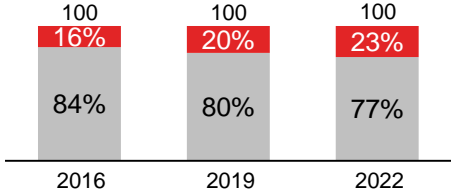
**~+2.5%**

Premium  
Prestige

Synergic

## NEW SYNERGIC CARS FITTING ≥18" TYRES

% on 100% index



- High-end range of Synergic OEMs is the fast growing segment in the next 3 years
- From 2018 to 2022 over 80% of the tyre market growth in ≥18" segment is driven by Synergic vehicles

**KEEP LEADERSHIP IN PREMIUM/PRESTIGE AND EXPAND OFFER ON «PREMIUMIZED» SYNERGIC**

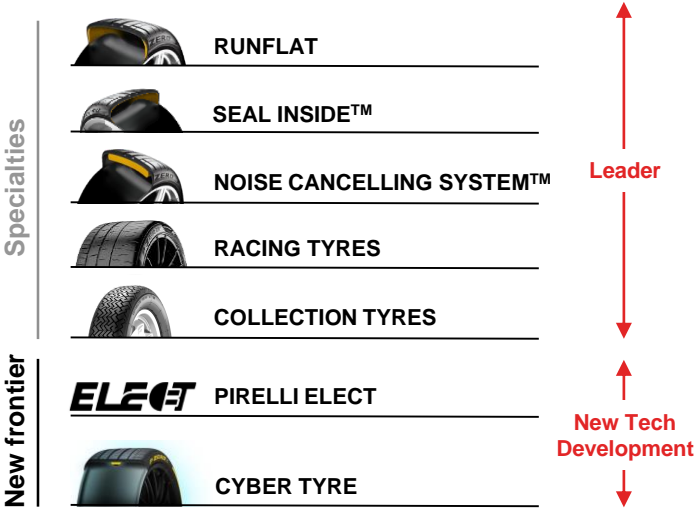
Source: IHS and Company elaborations based on third party and associations of tyre producers car market data, restated vs. Nov.17 estimates (wider perimeter), minor restatements on past data may occur;





# DRIVER 3: GROWING DEMAND FOR SPECIALTIES

## PRODUCTS



## CONSUMER FOCUS AND NEEDS SEGMENTATION

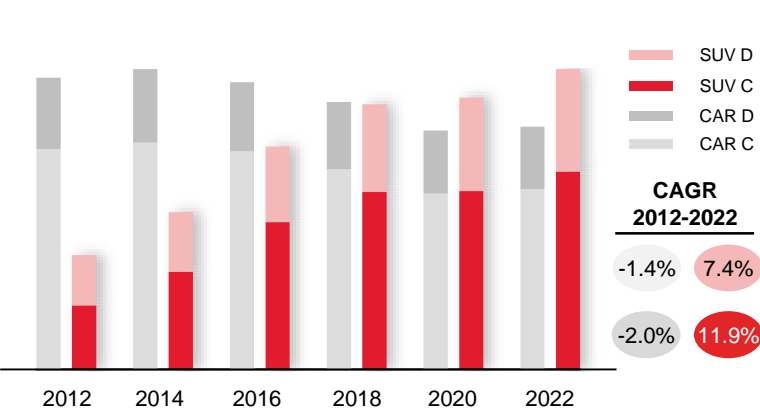


**REINFORCING LEADERSHIP ON SPECIALTIES ADDRESSING SPECIFIC CUSTOMER SEGMENTS**



# DRIVER 4: RISING SUV AND CUV PENETRATION

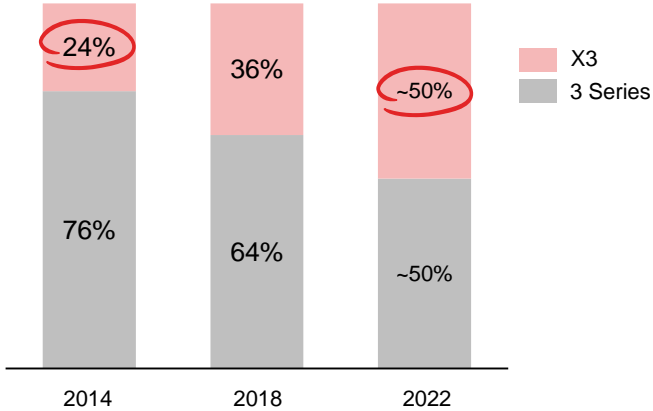
## WORLD CAR REGISTRATIONS: SUVs AND CUVs ARE REPLACING SEDANS



Avg Fitment 17"  
 ≈ 30% of the car parc is 18up



## EXAMPLE: 3-SERIES AND X3 WORLD CAR REGISTRATIONS



Avg Fitment 19"  
 ≈ 60% of the car parc is 18up





**5 NEW SUV LINE LAUNCHED IN 2016-2019, 10 FORESEEN IN 2020-2022**

47 Source: IHS Markit January 2020; analyzed the last two X3 and 3-Series programs




# DRIVER 5: ELECTRIC AND CONNECTED CARS THE KEY TRENDS


## MARKET PENETRATION (%) IN PRESTIGE & PREMIUM

	REGISTRATION	PARC
<b>ELECTRIC</b> 	2025E <b>-30%</b>	9%
<b>CONNECTED</b> 	2025E <b>~all</b>	~52%
<b>SHARED</b> 	2025E n.m.	4%
<b>AUTONOMOUS<sup>1</sup></b> 	2025E n.m.	n.m.


## TYRE MARKET NEEDS




Higher load




Lower Rolling R.



Higher grip




Lower noise




- Monitoring and interaction with car connected devices
- Integrated real-time analysis of tyres and car performance


## PIRELLI SOLUTIONS



PORSCHE




RIVIAN




RIMAC

**ELECT**

- O.E. Partnership with Top-end OEMs and start-up innovators
- Distinctive Marking Strategy to ensure BEV Tyre Replacement with tyre designed for BEVs



ADRENALIN



CYBER TYRE

- Launched a connected In-Tyre solution for track amateur drivers
- Working with confidential OEM partners on in-tyre Homologated sensors

## LONG-TERM TRENDS

R&D and Innovation projects activated

1. Figures refers to autonomous driving levels 4, 5  
 Note: "Connected" refers to cars with mobile data connection (e.g. 2G, 3G, LTE), which might be provided by either embedded car systems or car hardware paired with external devices (e.g. smartphone), "Electric" refers to BEV / PHEV  
 All data refers to Prestige & Premium cars;  
 Source: company analysis on consulting and investment banks research reports





# AGENDA

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PIRELLI EVOLUTION TO DATE & STRATEGIC DIRECTION

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 1 – COST COMPETITIVENESS

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2020-2022 SCENARIO

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**PIRELLI STRATEGY DEPLOYMENT: PILLAR 2 - COMMERCIAL DEVELOPMENT**

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 3 – TECHNOLOGY-BASED INNOVATION

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2019 FINANCIAL REVIEW AND 2020-2022 TARGETS IN DETAIL

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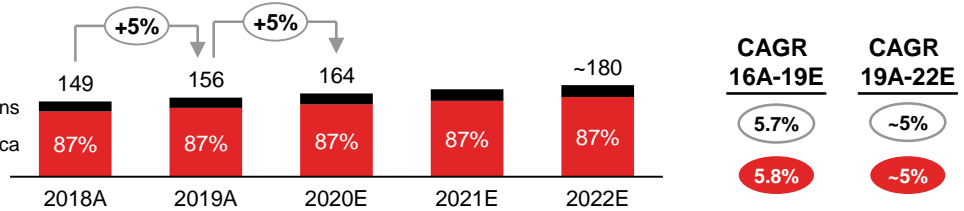
APPENDIX



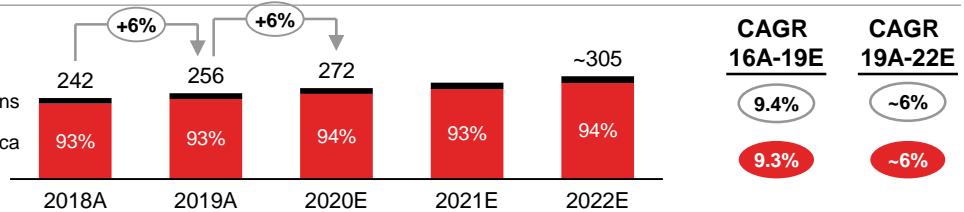
# 2020-2022 HIGH-VALUE SCENARIO: PIRELLI EXPECTED TO OUTPERFORM MARKET GROWTH BY ~3PP



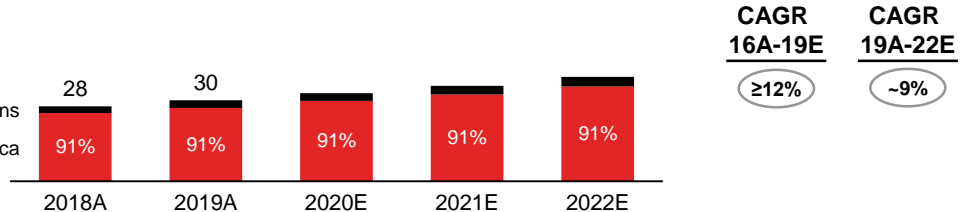
## PRESTIGE & PREMIUM CAR PARC (million vehicles)



## ≥18" O.E. + REPLACEMENT TYRE MARKET (million tyres)



## ≥18" PIRELLI O.E. + REPLACEMENT VOLUMES (million tyres)



# TOP LINE GROWTH KEY DRIVERS

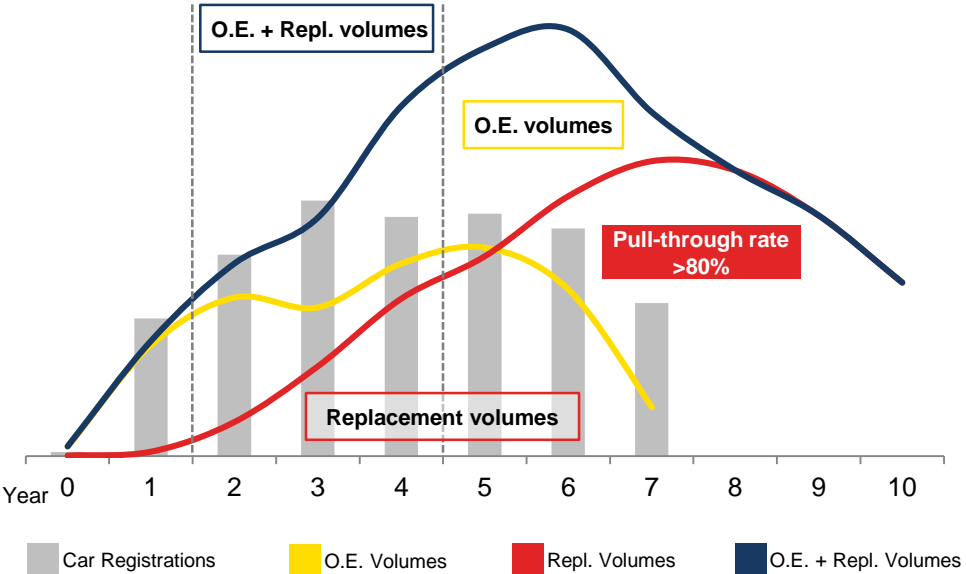
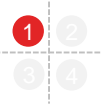
**1 Reinforce leadership in the H.V. Premium Replacement** driven by our core business model based on O.E. pull-through and enhanced with analytics and big-data

**2 Expand in the H.V. Synergic Replacement**, covering emerging market and consumer needs through new products

**3 Consolidate leadership in Premium and Prestige O.E.**, being more selective on higher rims and new powertrain vehicles  
**Expand and diversify O.E. customer base** to improve our penetration in USA and China

**4 Plan a consistent landing point on Standard**, strongly reducing in H.V. regions and improving in price/mix

# PULLTHROUGH IS PIRELLI'S CONSOLIDATED BUSINESS MODEL



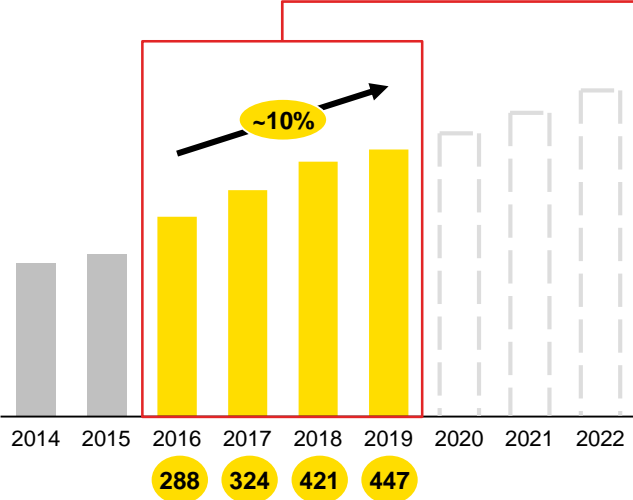
- Keep the **leadership in the Premium** segment focusing on technologically advanced products: Marked tyres, Specialties, EV tyres
- Leverage on **geo-localized** analytical coverage to further improve Pull-Through rate on cars fitting Pirelli tyres (~80% today)
- Exploit market data analytics to enable **salesforce transformation** towards a customer consultancy approach



# PAST HOMOLOGATIONS ARE GENERATING A GROWING POTENTIAL IN THE PLAN HORIZON

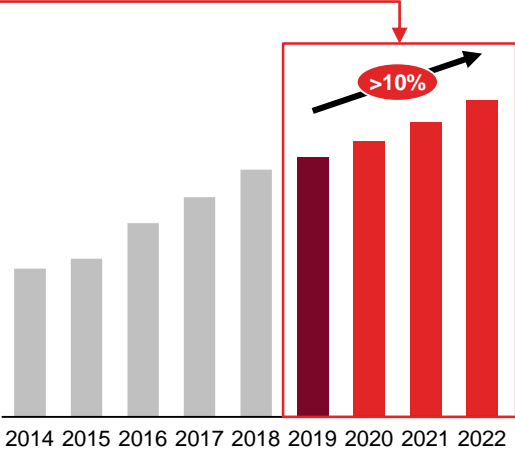


≥18" PIRELLI SALES @ O.E.



NEW HOMOLOGATIONS ≥18"

≥18" REPLACEMENT TYRE MARKET FITTING PIRELLI



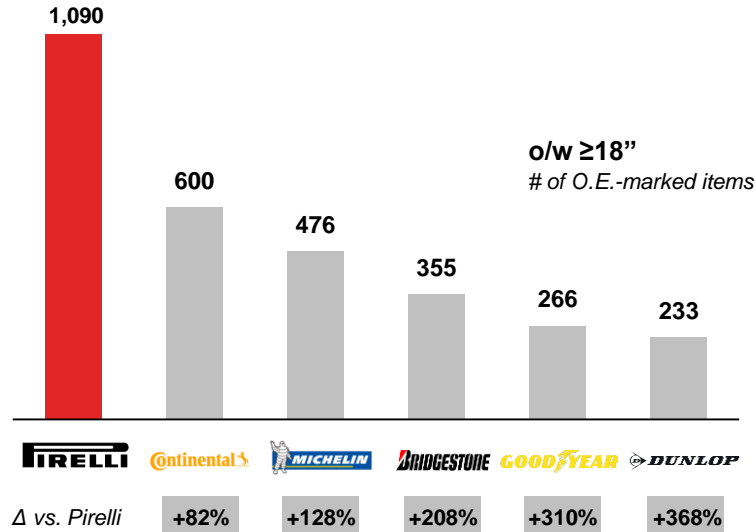
≥18" REPLACEMENT TYRE MARKET

CAGR  
19A-22E

+7.5%



# PIRELLI HAS AN UNDISPUTED LEADERSHIP ON PREMIUM AND PRESTIGE MARKED TYRES IN THE ≥18" ARENA



## PRESTIGE



## OF WHICH SOLE SUPPLIER



## PREMIUM ≥ 18"



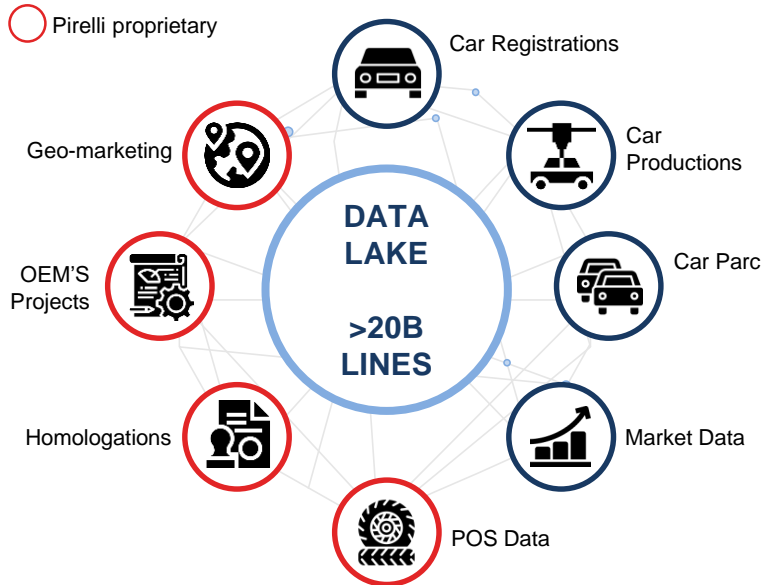
54 | Number of marked IP codes vs. premium competitors  
Source: German Product List (Pricat) @ January 2020



# STRONG RELATIONSHIP WITH OEMS ALLOWS TO ENHANCE GO-TO-MARKET EFFECTIVENESS, THROUGH BIG DATA AND ADVANCED ANALYTICS



## BIG DATA TO COMBINE COUNTLESS DATA SOURCES



## CUSTOMER CENTRIC PREDICTIVE CAPABILITIES



Early identification of **O.E. project targets** based on potential growth



Car parc analysis to identify **replacement pull-through potential**



**Maximize coverage** in location with concentrated homologated potential

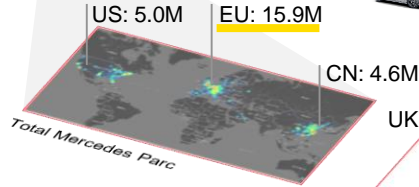
# TAKE “PULL-THROUGH STRATEGY” TO A NEW “PRECISION LEVEL”



Premium car parc: 160 million cars



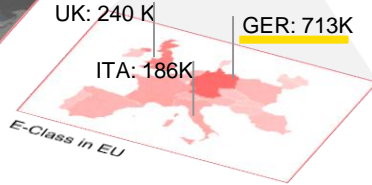
**Mercedes**  
32.4M



**Mercedes-EU car parc:**  
15.9 million cars



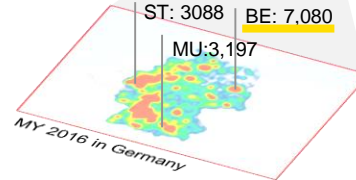
**E-Class**  
2.17M



**Mercedes E-Class GERMANY:**  
713K cars



**MY 2016**  
138K



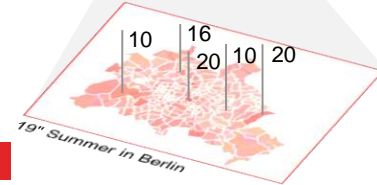
**Mercedes E-Class (MY 2016)**  
**BERLIN: 7,080 cars**



From Car Parc to  
Tyre Potential

**19"**  
1,164 tyres

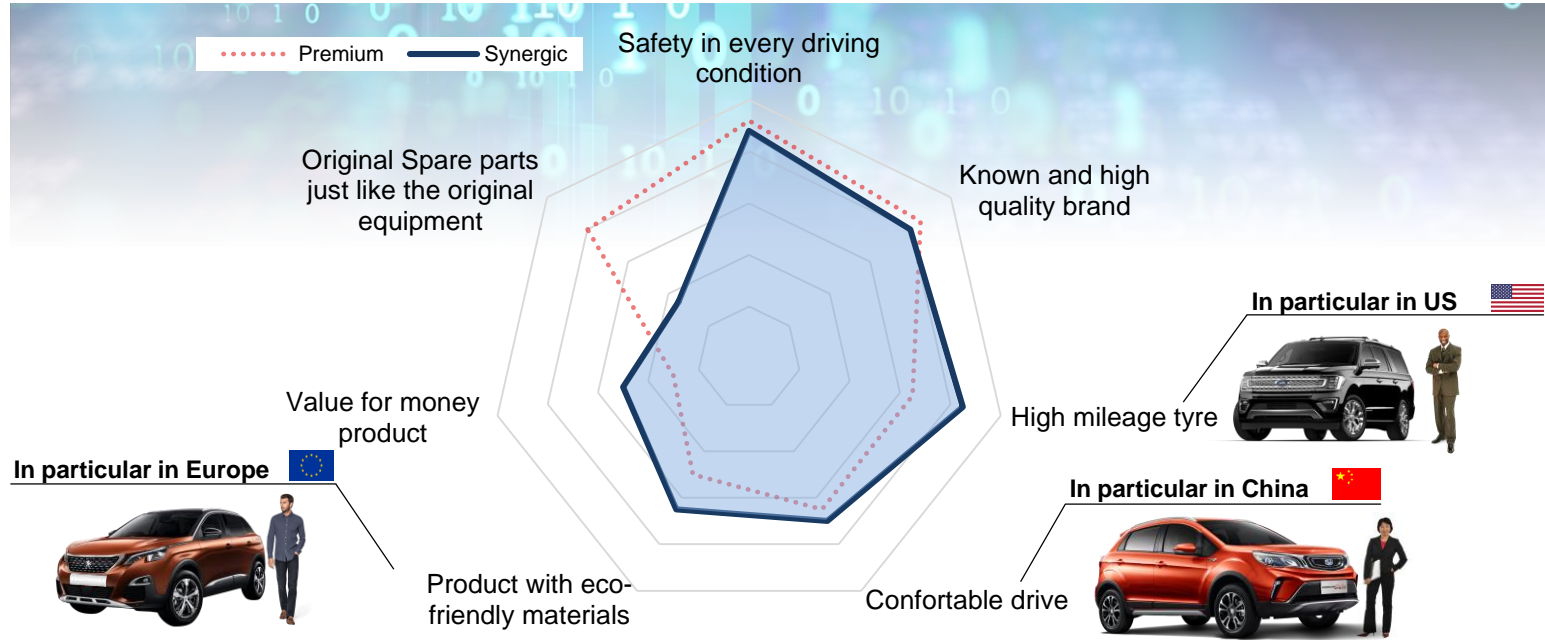
**764** ☀️ **400** ❄️



**TOOL AVAILABLE IN OUR SALESFORCE.COM PLATFORM**



# EXPANDING HIGH VALUE BOUNDARIES USING BIG DATA TO IDENTIFY HIGH-END SYNERGIC CONSUMER NEEDS





# THROUGH A DEDICATED PRODUCTS PORTFOLIO WITH EXPECTED DOUBLE-DIGIT PROFITABILITY



# THE DISTRIBUTION NETWORK WILL COHERENTLY SUPPORT THE REPLACEMENT REGIONAL STRATEGY



1

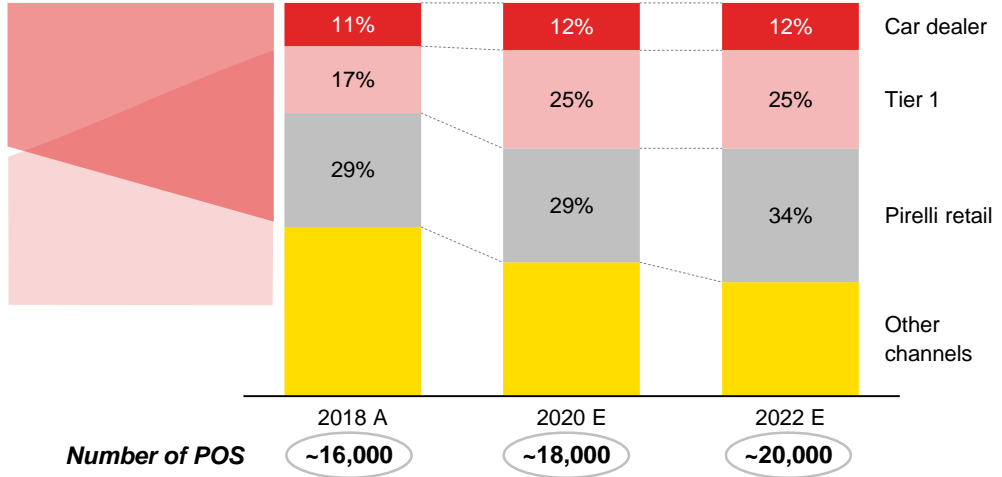
## Reinforce leadership in the H.V. Premium Replacement

- Continuous focus on car dealers and high-end retails

2

## Expand presence in the H.V. Synergic Replacement

- Complete range to be competitive across all channels, and mainly to retail



- Strong presence in car-dealers through leadership in homologations
- Redesign presence on major Tier 1 distributors
- Long-standing agreements with Fleets



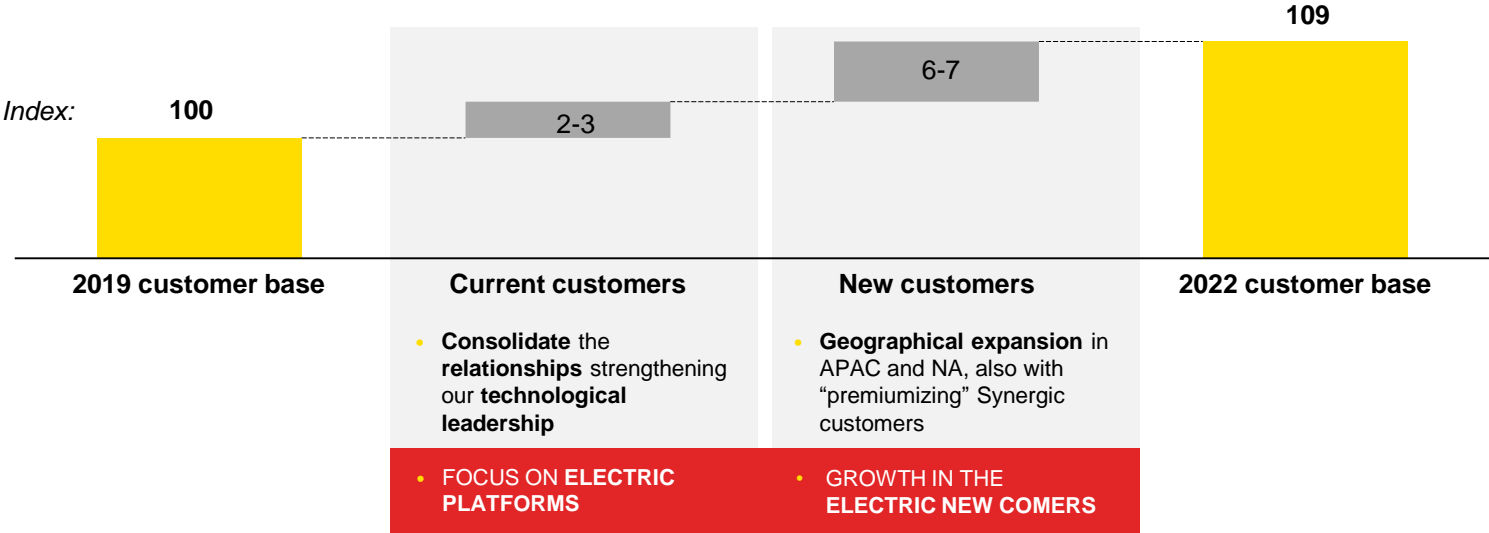
- Solid double digit growth on Top 5 Tier 1 players in US
- Established share in tyre manufacturers JVs



- Strong presence in car-dealers through leadership in homologations
- Established retail network in Tier 1 cities, expanding in Tier 2 cities
- Exploiting e-commerce channel



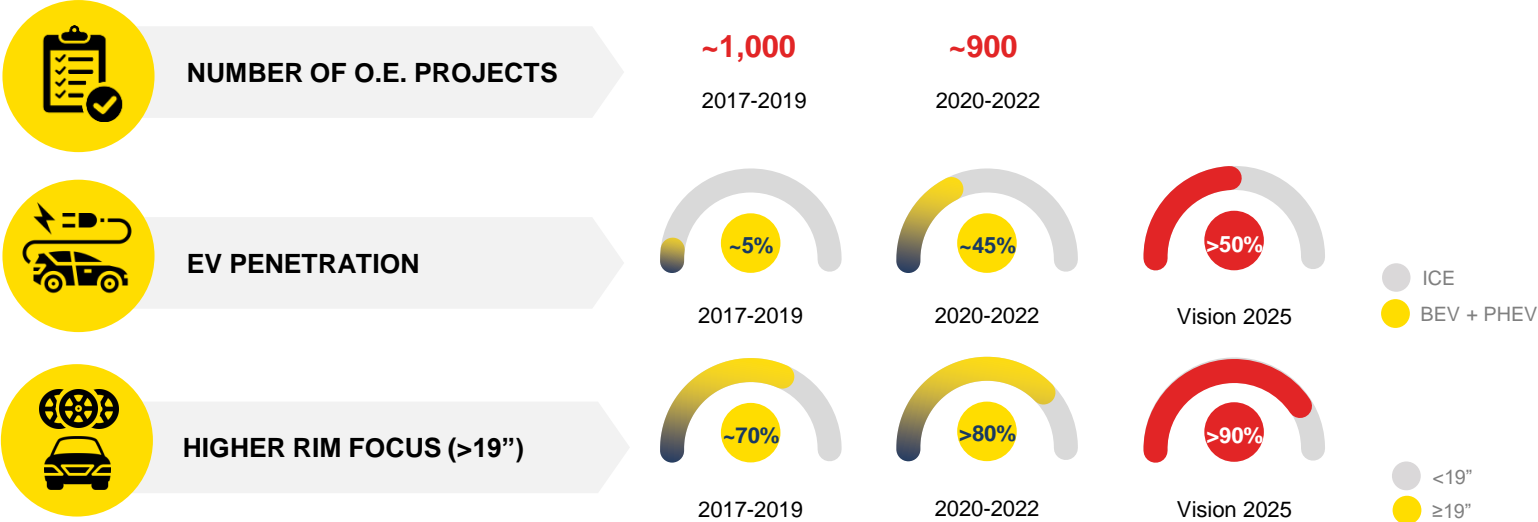
# 2020-22 ORIGINAL EQUIPMENT: FOLLOWING OUR CUSTOMERS GLOBALLY, EXPANDING THE CUSTOMER BASE



# AS A RESULT, PIRELLI'S LEADERSHIP POSITION STRENGTHENS



## HOMOLOGATIONS

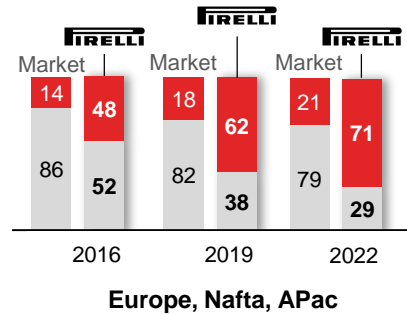


# STANDARD: CAR TYRE REDUCTION PLAN CONTINUES, AT A LOWER PACE



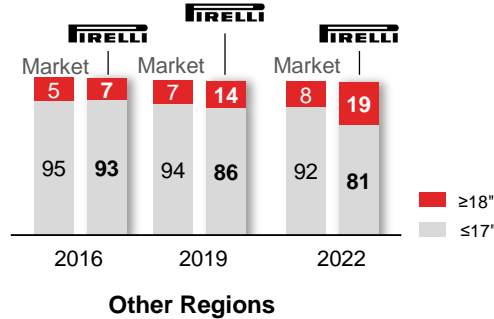
## H.V. REGIONS

% of Volume by Region Cluster



## STANDARD REGIONS

% of Volume by Region Cluster



## TOTAL STANDARD

Market Standard CAGR 16-19 CAGR 19-22

-0.6%

-0.3%

Pirelli CAGR 16-19 CAGR 19-22

-9.0%

~-4%

## LANDING POINT @ 2022

% of Standard on Total

	2016	2019	2022
<b>Volume</b>	68%	53%	43%
<b>Net Sales</b>	48%	35%	30%



# THREE KEY LEVERS TO MAXIMIZE VALUE

## PRODUCT MIX IMPROVEMENT



- Mix **shift towards 17"** (~+1.5 million, in line with market growth)
- **Exit** from 13" and second brands (except in LatAm and Russia)
- Focus on **more profitable** segments (SUV, All Season)

## INDUSTRIAL FOOTPRINT OPTIMIZATION



- **Competitive** sourcing (Kirov, Campinas, Jiaozuo)
- Industrial mission **re-focus** (Bollate)
- **Efficiency** programs across the board

## BETTER PRICE POINT



- Reduction strategy coherent with **price protection**
- Focus on segments **less exposed** to Tier 2 and Tier 3 competition



**EBIT MARGIN FROM  
SINGLE TO DOUBLE  
DIGIT**



# AGENDA

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PIRELLI EVOLUTION TO DATE & STRATEGIC DIRECTION

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 1 – COST COMPETITIVENESS

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2020-2022 SCENARIO

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 2 - COMMERCIAL DEVELOPMENT

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**PIRELLI STRATEGY DEPLOYMENT: PILLAR 3 – TECHNOLOGY-BASED INNOVATION**

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2019 FINANCIAL REVIEW AND 2020-2022 TARGETS IN DETAIL

---

APPENDIX



# INNOVATION AND PRODUCT DEVELOPMENT STRATEGIC PILLARS

1. Accelerated  
product innovation

## 1. ACCELERATED PRODUCT INNOVATION



### PLAN 2020-2022

2020

2021

2022

- Product roadmap 2020 – 2022
- Innovation for 360° sustainability

### VISION 2025

2025

## 2. COST COMPETITIVENESS



- Product cost
- Product modularity
- Design speed

## 3. INNOVATION FOCUS ON SUSTAINABLE MOBILITY



- Material innovation
- Technology innovation

# ACCELERATED PRODUCT ROADMAP IN 2020-2022, WITH 20 NEW LINES

1. Accelerated product innovation

## PULL LINES



5

- Strengthen O.E. leadership (~2x homologation vs. best competitor)
- Focus on High Mix for Selective O.E.
- Wide and deep product range
- Specialties

**PIRELLI**  
2020-2022  
PRODUCT ROADMAP



## PUSH LINES



15

- Growing all-season lines
- Support regional lines (5 USA, 3 APAC)
- Focus on Safety & Mileage (USA)
- Focus on Safety & Comfort (APAC)
- Focus Safety & Eco Labels (EU)

## INNOVATION SPEED

2017 - 2019

14  
lines



2020 - 2022

20  
lines

>40%  
acceleration

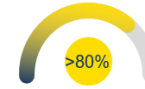
## SELECTIVE O.E. APPROACH

Higher Rim Focus (>19")

● <19"  
● ≥19"



2017-2019



2020-2022



Vision 2025

## SPECIALTIES

4  
**ELEKT**

9  
**PNCS**

12  
**SEAL INSIDE**

14  
**RUN FLAT**



# PRODUCTS LAUNCHED IN PLAN WILL BE "SUSTAINABILITY-DRIVEN"

## SOCIAL SUSTAINABILITY CUSTOMER

### Safety performance

- Wet grip
- Driving stability
- Extended mobility

### Sustainable performance

- Rolling resistance
- Noise emission
- Wear efficiency



## BUSINESS COMPANY

### Competitiveness

- Design for value
- Modularity approach:  
product  
standardization

### Design Speed

- Tyre modelling
- Virtual  
Performance  
Simulation

## ECO-SUSTAINABILITY ENVIRONMENT

### Sustainable Materials

- Recycle material
- Renewable material
- Fossil base material  
reduction

### Sustainable Product lifecycle

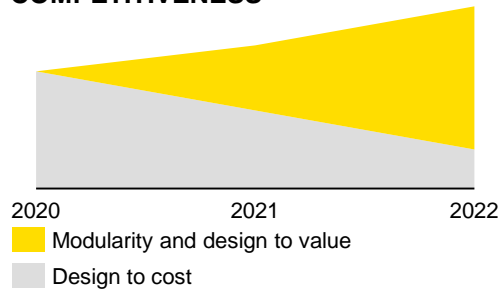
- Wear rate reduction
- Weight reduction

### Sustainable production

- Production process  
CO<sub>2</sub> footprint reduction

# PRODUCT COST COMPETITIVENESS BASED ON NEW DESIGN PRINCIPLES

## PRODUCT COMPETITIVENESS



### Product range management

- Value based product portfolio
- Push lines **design to value**



### Specification optimization

- Tyre **structure simplification**
- Tyre **weight reduction**



### Modular approach tyre design

- Material portfolio **decomplexity**
- Semi-finished **components rationalization**



### Procurement Optimization

- **LT agreements** with strategic suppliers
- **Rationalization** of supplier portfolio



Supporting **Waste reduction** and manufacturing **Productivity increase**

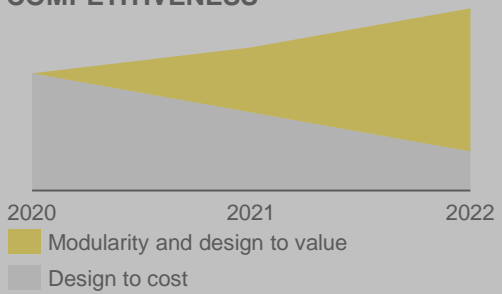
2020 - 2022

-10%  
Product  
Cost  
(~160 M€)

FULL  
POTENTIAL  
IN 2025

# PRODUCT COST COMPETITIVENESS BASED ON NEW DESIGN PRINCIPLES

## PRODUCT COMPETITIVENESS



**Product range management**

- Value based product portfolio
- Push lines **design to value**



**Specification optimization**

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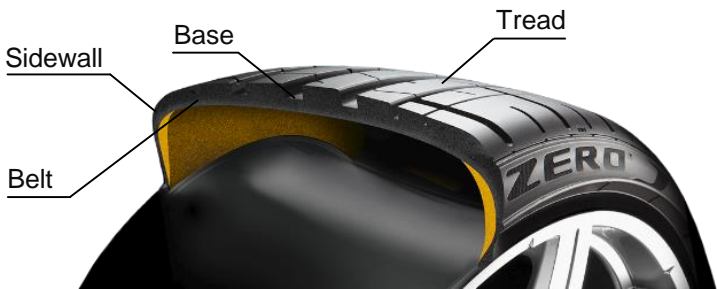
2020 - 2022


**-10% Product Cost (~160 M€)**

**FULL POTENTIAL IN 2025**




# MODULARITY WILL POSITIVELY REDUCE PLANT-LEVEL COMPLEXITY COSTS




- 

**Modularity Concept:**

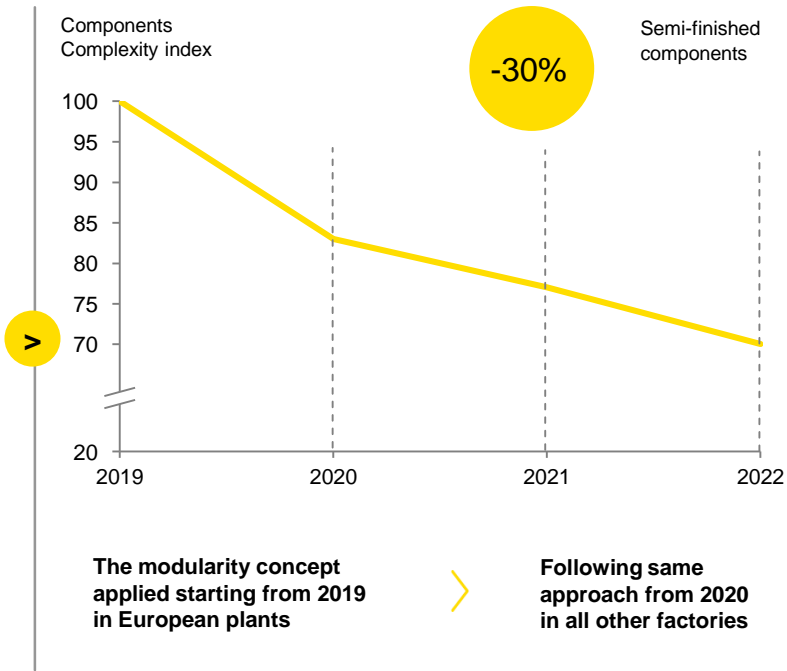
  - Reduce variety of tyre components
- 

**Complexity:**

  - To manage 500 SKUs in a factory are produced 3,500 unique semi-finished components are produced on average
- 

**European plants are managing the highest complexity level:**

  - 71% of overall product portfolio
  - 100% of prestige products



# FULL VIRTUAL PRODUCT DEVELOPMENT TO IMPROVE TIME-TO-MARKET AND REDUCE COSTS

## DEVELOPMENT PHASE

## DESCRIPTION



### TYRE MODELLING

#### Virtual modelling & Parametric design

- Material performance prediction
- New design guidelines for modularity
- Performance linked with product cost



### TYRE PROPERTIES

#### Virtual tyre test

- Tyre performance prediction
- Virtual prototype iteration



### VEHICLE PERFORMANCE SIMULATION

#### Performance prediction simulator

- Virtual spec tuning for specific car models
- Virtual outdoor test iteration
- Strong partnership with car makers (co-design)

## TIME TO MARKET



## PROTOTYPE COSTS



# DESIGN FOR SUSTAINABILITY: ACCELERATING THE INTRODUCTION OF NEW AND INNOVATIVE "GREEN INGREDIENTS"

3. Innovation focus on sustainable mobility

Product eco & safety-design

**RAW MATERIALS**

- Recycled materials increase
- Renewable materials increase
- Fossil-based materials reduction

**MANUFACTURING**

- Materials & Natural resource efficiency
- Process environmental targets (SBTI)\*
- Group carbon neutrality by 2030

**USE**

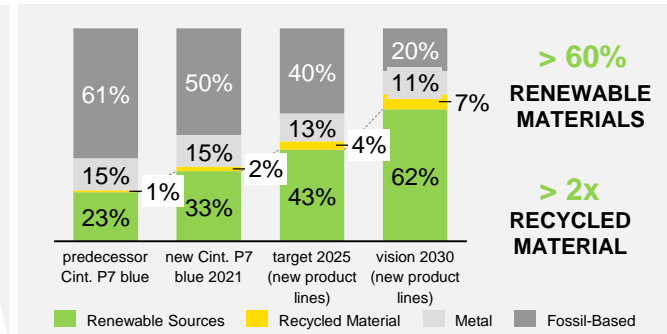
- Rolling resistance reduction
- Weight & Wear rate reduction
- Wet grip further increase

**END OF LIFE**

- Chemical recycling using innovative process to ensure the quality of secondary raw materials for closed loop

**Circular economy**

## TARGET ON NEW PRODUCT LINES



**Wear rate reduction**



**Weight reduction**



\*Science Based Target Initiative commitment





# TECHNOLOGY INNOVATION: SPECIFIC TECHNOLOGIES DEVELOPED TO MEET NEW “EV” REQUIREMENTS

3. Innovation focus on sustainable mobility

## PLAN 2020-2022



- Battery Range Extension
- Higher Vehicle Mass
- Higher Torque
- Higher Comfort



- Ultra Low Rolling Resistance
- High Load Capacity
- Braking & Traction Grip with Improved Wear Rate
- Low Air born and Solid born Rolling Noise

10% reduced RR → 2% Extended Battery Range (WLTP Cycle = Only Straight Running)

Improve RR in Real Driving Conditions (RR in Cornering up to 5 times higher)

Specific tyre shape to optimize aerodynamic Interaction with Vehicle



**BEVs AND PHEVs  
HOMOLOGATIONS**  
(TILL 2019)



**BEVs AND PHEVs  
PROJECTS**  
(CURRENTLY ONGOING,  
~400 FORESEEN BY 20-22)



# CYBER ENTERING NEW PHASE

3. Innovation focus on sustainable mobility

## IN A CONNECTED FUTURE, TYRE INTELLIGENCE IS THE ONLY ONE SOURCED DIRECTLY FROM ROAD SURFACE



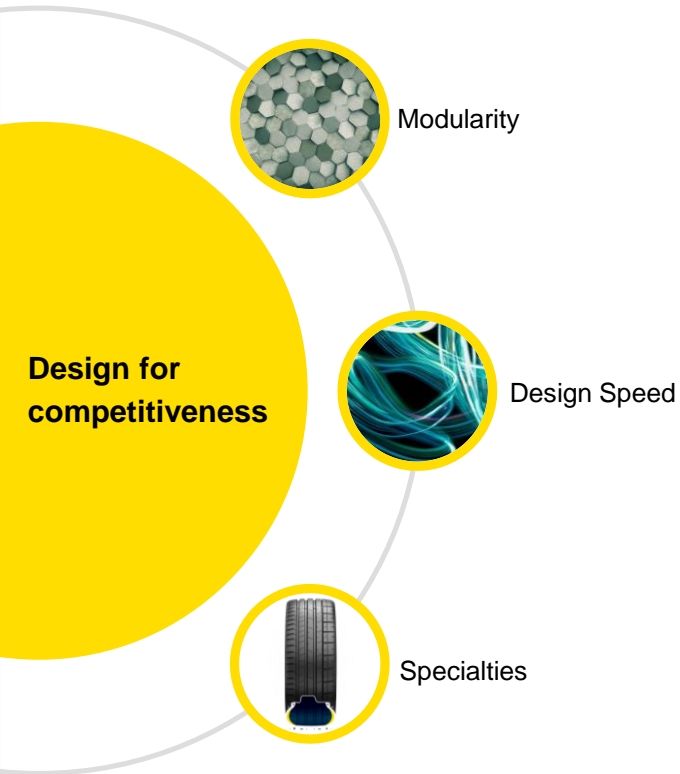
### 1<sup>ST</sup> PHASE: TECHNOLOGICAL DEVELOPMENT

- Technology stabilization
- Tested in F2 and Motorsport
- 2 Joint-Development prospects with Prestige O.E.

### 2<sup>ND</sup> PHASE: INDUSTRIALISATION IN AN “OPEN” PARTNERSHIP

- Scaling up with Global Partners
  - Semiconductors
  - Production and Supply Chain
- Developing solutions with large-scale Premium O.E.
- Creating Connected ecosystem with other Tyre Makers

**CYBER IS AN ACTIVE ELEMENT OF CONNECTIVITY  
IT WILL ENHANCE DRIVER SAFETY, VEHICLE CONTROL, LIFECYCLE EMISSION REDUCTION**



# AGENDA

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PIRELLI EVOLUTION TO DATE & STRATEGIC DIRECTION

---

PIRELLI STRATEGY DEPLOYMENT: PILLAR 1 – COST COMPETITIVENESS

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2020-2022 SCENARIO

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 2 - COMMERCIAL DEVELOPMENT

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 3 – TECHNOLOGY-BASED INNOVATION

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**2019 FINANCIAL REVIEW AND 2020-2022 TARGETS IN DETAIL**

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APPENDIX

# 2019 FINANCIAL REVIEW AND 2020-2022 TARGETS IN DETAIL

1

## 2019 FINANCIAL REVIEW

---

2

## 2020-22 TARGETS IN DETAILS



# FY 2019 RESULTS IN LINE WITH GUIDANCE

1. 2019 financial review

	2018 A	2019 E (guid. Oct. 2019)	2019 A	
<b>Net Sales</b>	€5,195 mln	≥€5.3 bln	€5,323 mln	✓
<i>High Value weight</i>	~ 64%	~ 67%	67%	✓
Adjusted EBIT	€955 mln		€917 mln	
<b>Adjusted EBIT margin</b>	18.4%	>17% ÷ 17.5%	17.2%	✓
<i>High Value weight on adj. EBIT<sup>1</sup></i>	~ 83%	~ 85%	84%	
Start-up costs	€48 mln	~ €40 mln	€41 mln	✓
<b>CapEx</b>	€463 mln	~ €380 mln	€391 mln	✓
<b>Net Cash Flow bef. dividends</b>	€38 mln	~ €330 ÷ ~ €350 mln	€333 mln	✓
Net Financial Position	€3,180 mln		€3,024 mln €3,507 mln incl. IFRS 16	
<b>Net Financial Position / adj. EBITDA<sup>1</sup></b>	2.49x	~ 2.42x ÷ ~ 2.36x +0.17x incl. IFRS 16	2.42x 2.59x incl. IFRS 16	✓

1. without start-up costs

2020 - 2022 INDUSTRIAL PLAN | VISION 2025  
MILAN, 19<sup>TH</sup> FEBRUARY 2020



# FY 2019 NET SALES BRIDGE

1. 2019 financial review

€ million

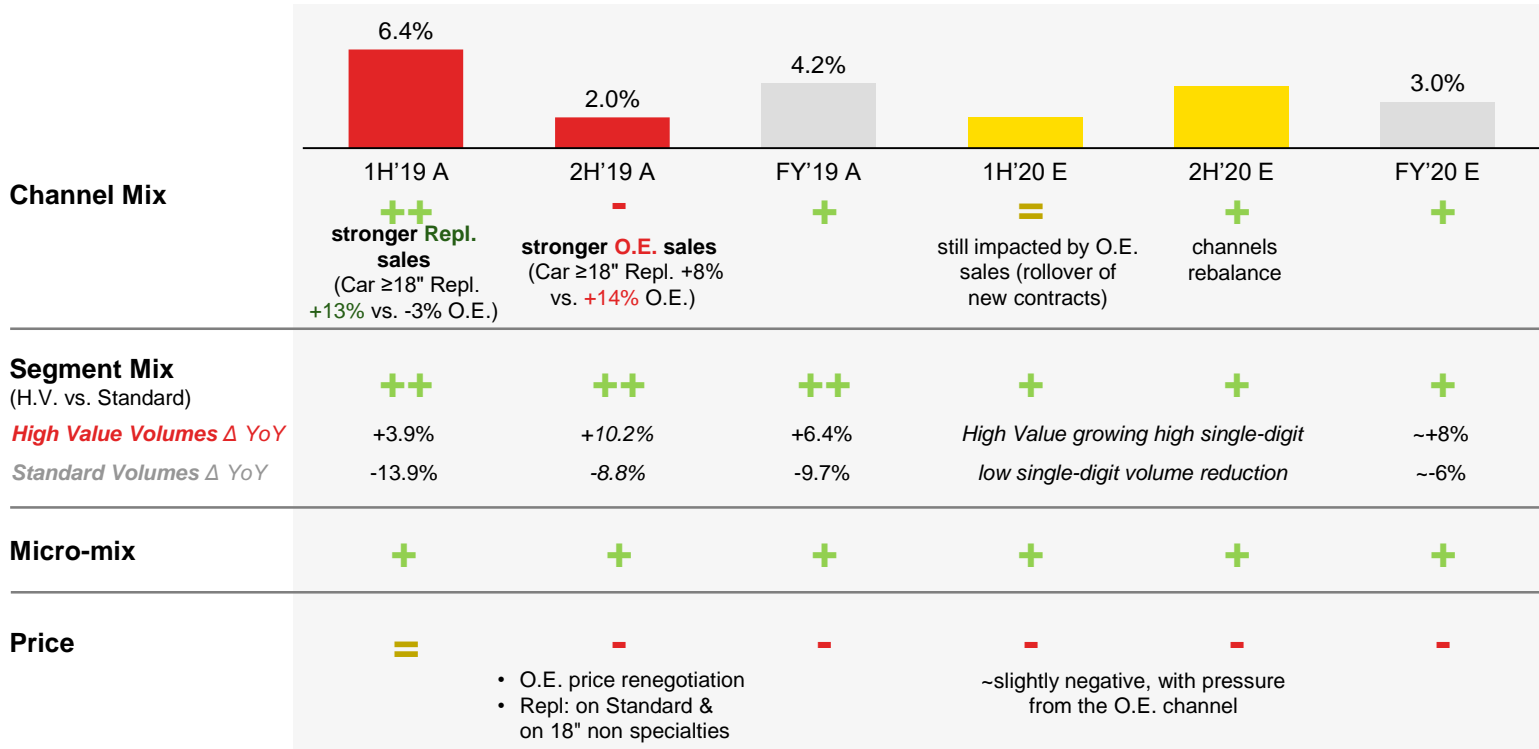
o/w Organic



			High Value Car ≥18"		Standard					
4Q '19	O.E. +15.3% Repl. +3.5%	>	+7.8% +8.7%	+1.5%	-0.7%	+0.5%	mainly negative channel mix	-0.6%	+1.4%	+2.0%
2H '19	O.E. +14.4% Repl. +8.0%	>	+9.0% +10.7%	+1.0%	-4.8%	+2.0%		1.0%	+4.0%	+3.0%
1H '19	O.E. -3.4% Repl. +13.1%	>	+3.9% +5.5%	-5.0%	-13.9%	+6.4%		-0.5%	+0.9%	+1.4%

# PRICE/MIX DRIVERS AND DYNAMICS IN 2019 AND 2020

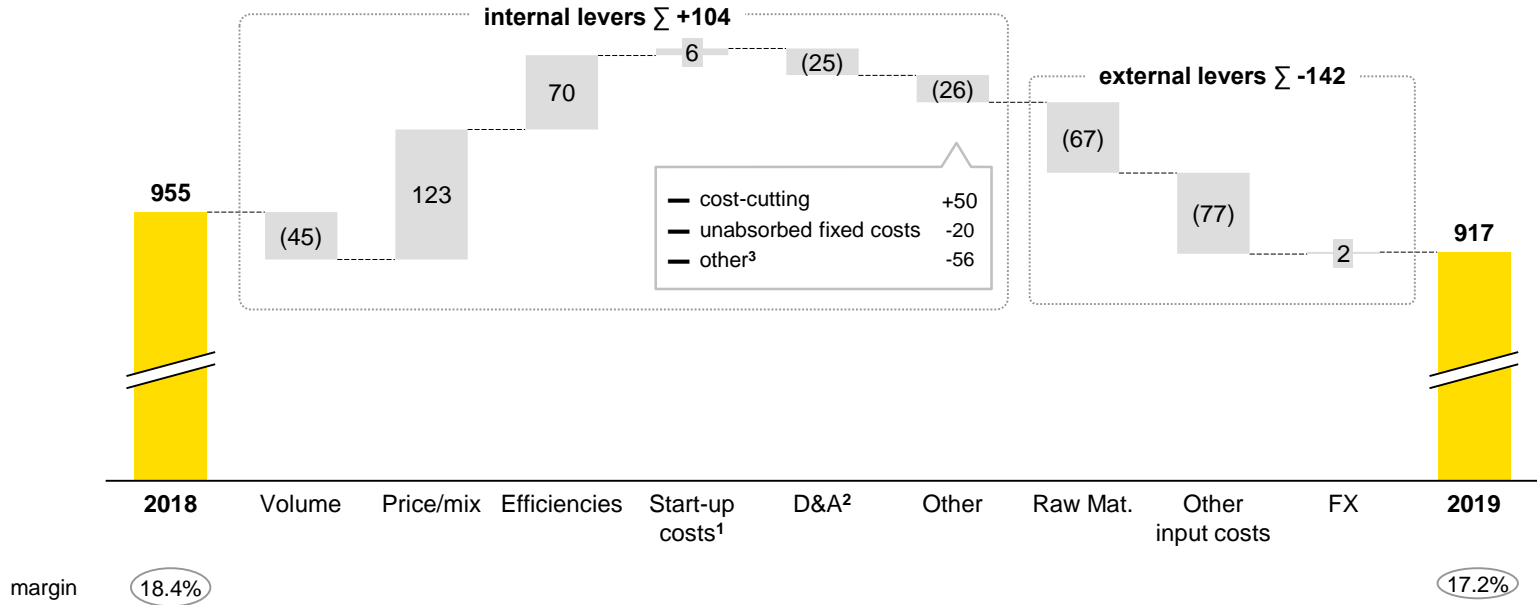
1. 2019 financial review





# FY2019 ADJUSTED EBIT PERFORMANCE

€ million



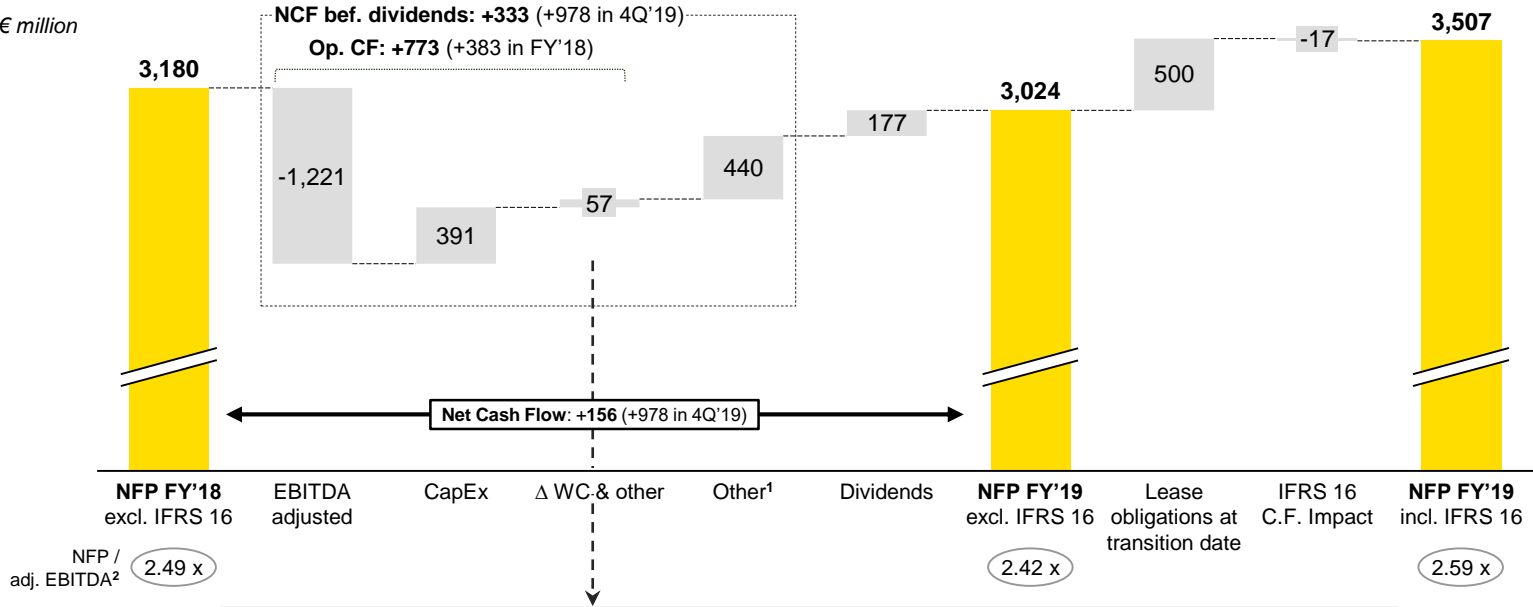
1. Digital transformation, Cyber, Velo; 2. net of FX impact; 3. other costs related to High Value development



# FY 2019 CASH FLOW AND NET FINANCIAL POSITION

1. 2019 financial review

€ million



## Main working capital dynamics in 2019

- **Inventories** back to normalized level: 20.5% on sales (21.7% in 2018);  
Inventory volume reduction -7% YoY (-23% on Standard and +5% on High Value, to ensure the high service level)
- **Trade receivables**: 12% on sales (stable YoY)
- **Trade payables**: 30% on Sales (~-1pp YoY)

# 2019 FINANCIAL REVIEW AND 2020-2022 TARGETS IN DETAIL

1

2019 FINANCIAL REVIEW

---

2

**2020-22 TARGETS IN DETAILS**



# OUR 2020-2022 TARGETS ...

1. 2019 financial review

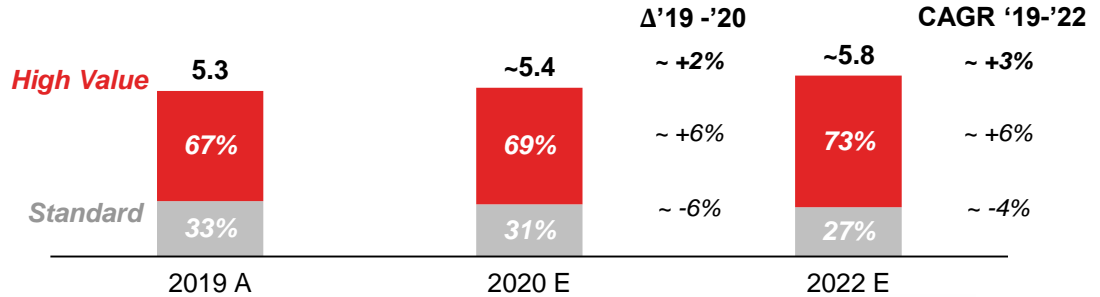
€ billion

	2019 A	2020 E	2022 E	
Net Sales	5.3	~5.4	~5.8	
Adjusted EBIT margin	0.9 17.2%	~ flat YoY	18% ÷ 19%	
CapEx	0.39	~0.3	cum. '20-'22 ~0.9	vs. cum '17-'19 ~1.3
Net Cash Flow bef. dividends	0.33	~0.4	cum. '20-'22 ~1.5	o/w ~0.5 in '21 ~0.6 in '22
Net Financial Position (IFRS 16) <sup>1</sup>	3.5	~3.3	~2.5	

# 2020-2022 REVENUES TREND

2. 2020-22 targets  
in details

€ billion



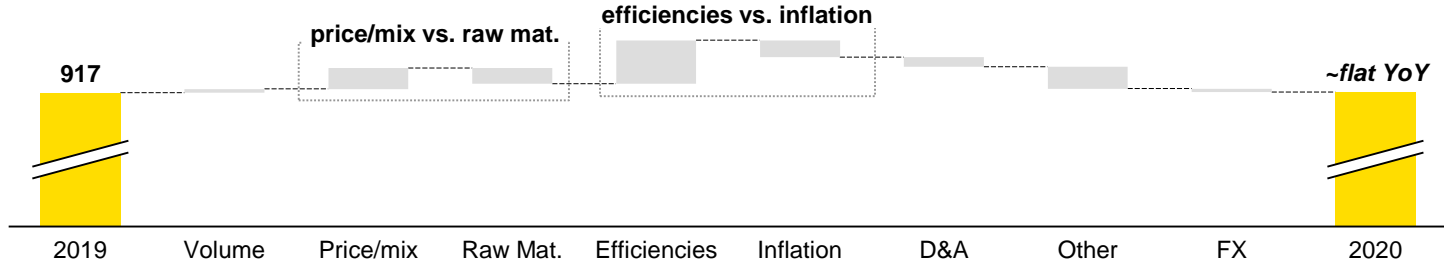
	2019 A	2020 E	CAGR 19-22
<b>Volumes</b>	-2.0%	~ 0% ÷ +1%	~ +1.5% ÷ +2%
<b>High Value</b>	+6.4%	~ +8%	~ +8%
<b>Standard</b>	-9.7%	~ -6%	~ -5%
<b>Price/mix</b>	+4.2%	~ +3%	~ +3%
Lower contribution from standard reduction			
<b>Forex</b>	+0.3%	~ -2%	~ -2%



# 2020-2022 PROFITABILITY TREND

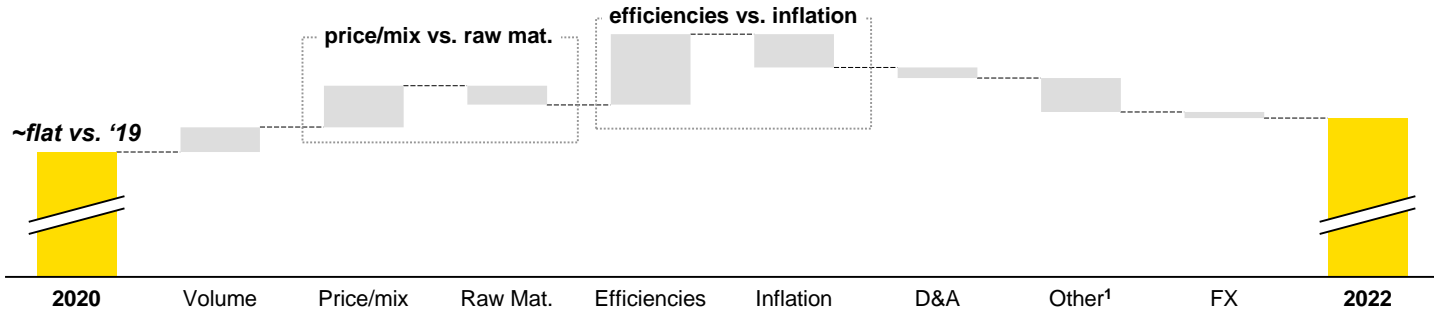
2. 2020-22 targets  
in details

€ million



EBIT margin

17.2%



1. other costs for the High Value development

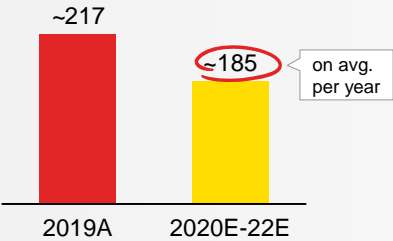


# FINANCIAL AND FISCAL MANAGEMENT

2. 2020-22 targets in details

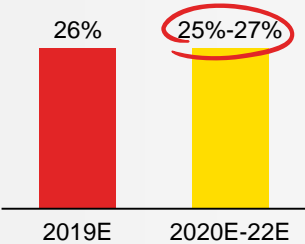
€ million

## FINANCIAL INCOME & EXPENSES<sup>1</sup>



- > 100% new strategic funding will be Green or linked to our Sustainability targets
- > Option to extend the maturity of current credit lines
- > Reduction of the exposure to high-yield currencies

## 2020-2022E TAX RATE



- > Expected weighted average consolidated tax rate in line with 2019 actual tax rate
- > Tax rate guidance includes a “prudential” estimate of the Italian Patent Box renewal benefit

86 1. Including interests rates, hedging costs, hyperinflation



# 2020-22 NET CASH FLOW (BEFORE DIVIDENDS) TREND

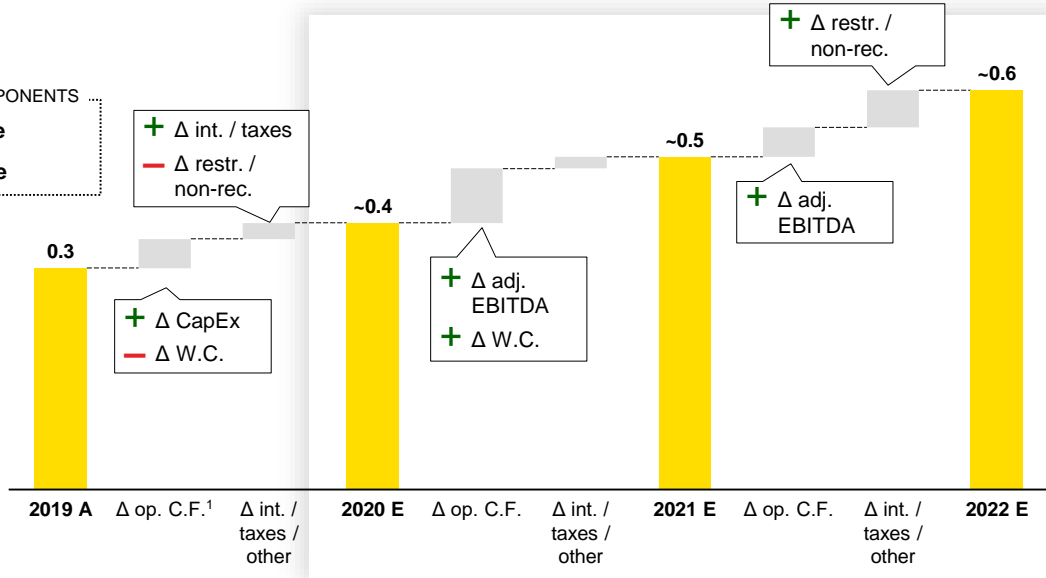
2. 2020-22 targets in details

€ billion

MAIN COMPONENTS

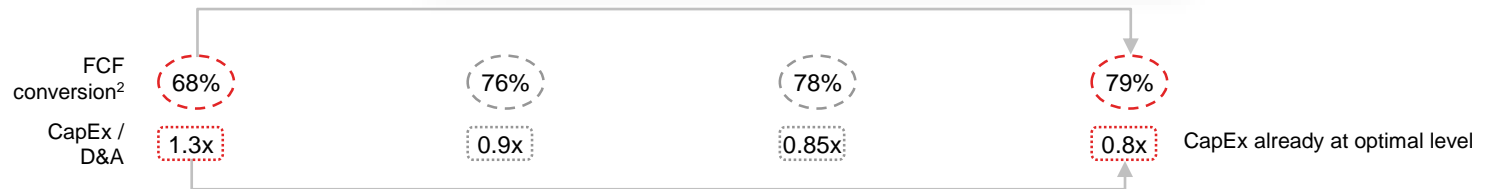
+ Positive

- Negative



**2020-22 N.C.F.**  
**~1.5 cum., o/w:**

~0.5 for dividends <sup>3</sup>	~1.0 for Debt reduction
---------------------------------	-------------------------



1. Operating Cash Flow: adj. EBITDA – CapEx – Δ working capital; 2. (EBITDA – CapEx) / EBITDA 3. assuming average 40% dividend pay-out on consolidated net income in the 2020-22 Industrial Plan

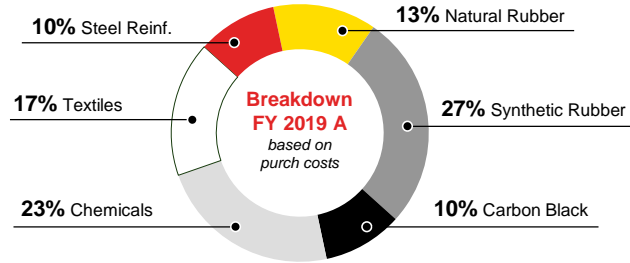




# 2020E-2022E RAW MATERIAL GUIDANCE

2. 2020-22 targets  
in details

€ million



Raw Materials 33% on Sales

## Commodities – avg. Quotation

	2019 A	2020 E	2021 E	2022 E
<b>Natural Rubber TSR20</b> (\$ / tonne)	1,407	~1,480	~1,495	~1,565
<b>Brent Oil</b> (\$ / barrel)	64.0	~64	~64	~64
<b>Butadiene Europe</b> (€ / tonne)	824	~860	~880	~920

## Commodities – avg. cost of goods sold

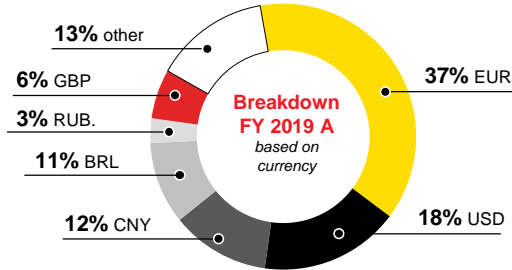
	2019 A	2020 E	2021 E	2022 E
	1,381	~1,430	~1,500	~1,545
	67.0	~63	~64	~64
	937	~820	~885	~910

## Adj. EBIT impact

Raw Mat. <sup>1</sup>	+18	~flat	~-30	~-30
FX only	-85	~-65	~-15	~-10
<b>TOTAL</b>	<b>-67</b>	<b>~-65</b>	<b>~-45</b>	<b>~-40</b>

# 2020E-2022E FOREX GUIDANCE

2. 2020-22 targets  
in details



## Main average exchange rates

	2019 A	2020 E	Δ YoY (vs. EUR)	2021 E	Δ YoY (vs. EUR)	2022 E	Δ YoY (vs. EUR)
EUR / USD  /	1.12	1.12	0%	1.14	+2%	1.18	+4%
USD / CNY  /	6.9	7.05	+2%	7.06	+2%	6.95	+2%
USD / BRL  /	3.95	4.07	+3%	4.21	+5%	4.26	+5%
EUR / RUB  /	72.4	73.0	+1%	75.0	+3%	77.0	+3%
EUR / GBP  /	0.88	0.90	+3%	0.88	-3%	0.86	-2%
<b>TOT. IMPACT ON SALES</b>			<b>~-2%</b>		<b>~-2%</b>		<b>~-2%</b>



# AGENDA

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PIRELLI EVOLUTION TO DATE & STRATEGIC DIRECTION

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 1 – COST COMPETITIVENESS

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2020-2022 SCENARIO

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 2 - COMMERCIAL DEVELOPMENT

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PIRELLI STRATEGY DEPLOYMENT: PILLAR 3 – TECHNOLOGY-BASED INNOVATION

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2019 FINANCIAL REVIEW AND 2020-2022 TARGETS IN DETAIL

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**APPENDIX**



# APPENDIX

1

## GOVERNANCE

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2

## SUSTAINABILITY STRATEGY & TARGETS

---

3

## FINANCIALS



# GOVERNANCE CONFIRMED BY RENEWED SHAREHOLDERS' AGREEMENT

## BY-LAWS



Pirelli By-Laws shall be **inspired by international best practices**



**Pirelli Technological know-how never be transferred** unless approved by **90% of Pirelli shareholders**



**Pirelli headquarters shall remain in Milan (Italy)** unless approved by **90% of Pirelli shareholders**



**One-fifth** of the Board shall be **appointed by minority shareholders**

## BOARD OF DIRECTORS



**Board made of highly qualified Members** with a suitable mix of skills.

**Independent directors shall be the majority** of the Board



Focus on **Diversity value**: gender, age, seniority, nationality, educational background and work-experience



**Internal committees in line with the best practices**, with independent directors having a key role.



**Transactions with related parties** to be governed by **best International practices** with a key role of the Committee for Related Parties Transactions

## SHAREHOLDERS AGREEMENT



The partnership acknowledges: (i) Pirelli is a company specialised in high quality and technology products, (ii) loyalty, professional skills and expertise of the management, key factor for the Company success and business growth



Pivotal role of the top management to maintain **quality standards**, to preserve and value Pirelli industrial legacy



**Pirelli Chief Executive Officer** to lead top management and ensure **Pirelli business culture continuity**



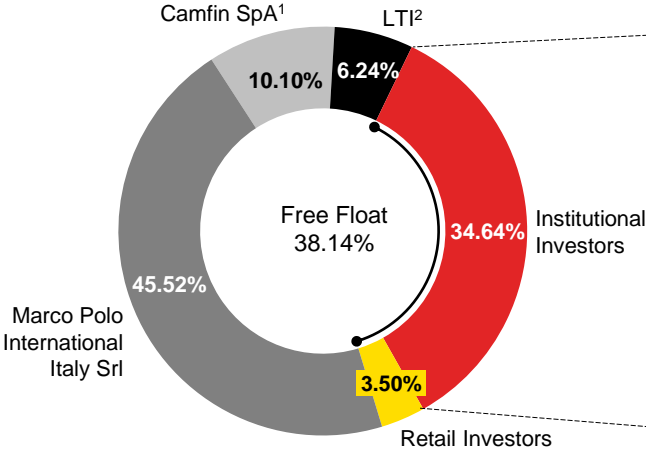
Pirelli Recruiting, Career Plans and incentive schemes to **match management and shareholders interests**. Incentive plan targets consistent with Pirelli Strategic Plan, and in line with the best practices for listed Companies (e.g.: TSR, sustainability)



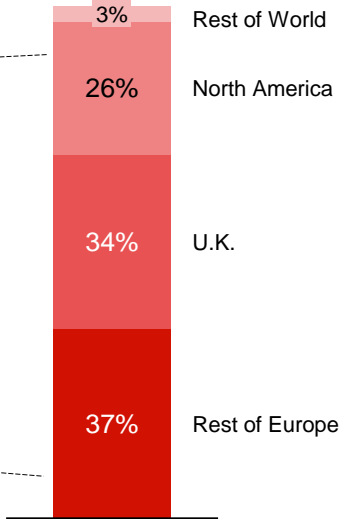
Leading role of Marco Tronchetti Provera in the designation of his successor



# PIRELLI SHAREHOLDER STRUCTURE



## INSTITUTIONAL INVESTORS BREAKDOWN



Source: NASDAQ, Libro soci Pirelli at December 2019

1. On September 2019 Camfin SpA has underwritten, with primary financial institutions, financial instruments denominated "Call Spread", maturing on September 2022, with 48,9 million Pirelli shares underlying equal to approximately 5% of the Pirelli's share capital. By virtue of the acquisition of these financial instruments, Camfin has the right to buy Pirelli shares at a predetermined price and increase its stake in Pirelli's share capital from 10.1% up to approximately 15%

2. Tacticum Investment S.A (formerly Long-Term Investments Luxembourg S.A.): stake transferred to a third party, subject to a "Repurchase Agreement". Such third party committed to transfer back to LTI, when due, the ownership of the same number of Pirelli stocks and to do everything is in its power to exercise the right to vote, subject to the transaction, according to the voting instructions given by LTI each time.





# PIRELLI REMUNERATION SYSTEM ALLIGNED WITH INDUSTRIAL PLAN

**REMUNERATION STRUCTURE** to be approved by the Shareholders' Meeting (June 18, 2020)

## COMPENSATION MIX FOR KEY MANAGEMENT

### FIXED COMPONENT

- No more than 50% of Total Annual Direct Compensation on reaching all objectives at target level

### SHORT-TERM INCENTIVE *(1/3 of total variable compensation)*

- Cash incentive based on key Financial objectives (Group Adj. EBIT, Net Income, Net Cash Flow before dividends) and Sustainability (Eco-Safety Performance<sup>1</sup> Revenues)
- On/off condition: Group Net Cash Flow before dividends
- 25% deferred to the next year

### LONG-TERM INCENTIVE PLAN 2020-22 *(2/3 of total variable compensation)*

- Cash plan based on **3 key objectives**: Relative **TSR** vs. Tier 1 peers; 2020-22 Cumulated Group **Net Cash Flow before dividends**; on-going inclusion in **Sustainability** Indices (Dow Jones Sustainability World Index ATX Auto Component sector, CDP scoring)
- **Rolling plan**: every year starting a new 3-year period
- **Payment** in 2023 and at the end of each 3-year vesting period

ALL **VARIABLE** COMPONENTS ARE **CAPPED**

**NON-COMPETITIVE** AGREEMENT

**CLAW-BACK CLAUSES** KEY MANAGEMENT  
IN BOTH MBO AND LTI PLANS

*1. Eco-Safety Performance products, previously named "green performance products", identify car tyres that Pirelli produces throughout the world and that fall only under rolling resistance and wet grip classes A, B, C according to the labeling parameters set by European legislation*



# SHORT TERM INCENTIVE PLAN OBJECTIVES

On/off condition: Group Net Cash Flow before dividends

OBJECTIVE	WEIGHT
Group Adjusted EBIT	40%
Group Net Cash Flow <sup>1</sup>	30%
Net Income	20%
Green performance Revenues	10%

Bonus at target level defined as percentage of base salary; pay-out cap is 2,5x bonus at target level, entry level pay-out is 0.75x bonus at target level.

25% of the bonus deferred to the next year and relevant payment subject to the achieving of the STI objectives of the following years, with a reward mechanism in case of achievement of the objectives at least at the target level.



# 2020-2022 LONG-TERM INCENTIVE PLAN HIGHLIGHTS

> Cash, long-term incentive plan aligned with the 2020-2022 Industrial Plan

> Rolling plan, with 3 objectives with different weights

OBJECTIVE	WEIGHT	VALUE AT TARGET
Relative TSR	40%	Pirelli performance aligned to the average of the peers' performance – Tier 1 (Nokian, Michelin, Continental, Good Year, Bridgestone).
Group Cash Flow <sup>1</sup>	40%	2020-2022 cumulated Pirelli Cash Flow consistent with the Industrial Plan
Sustainability Index	20%	<ul style="list-style-type: none"> <li>• Pirelli ranking in Dow Jones Sustainability World Index ATX Auto Component sector (weight 10%);</li> <li>• Pirelli ranking in CDP ranking /weight 10%)</li> </ul>

> Rolling plan: every year starting a new three-years period, with relevant targets

> Bonus at target level defined as percentage of base salary; pay-out cap is 2,6-2,9 bonus at target level, entry level pay-out is 0.75x bonus at target level.



# APPENDIX

1 GOVERNANCE

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**2 SUSTAINABILITY STRATEGY & TARGETS**

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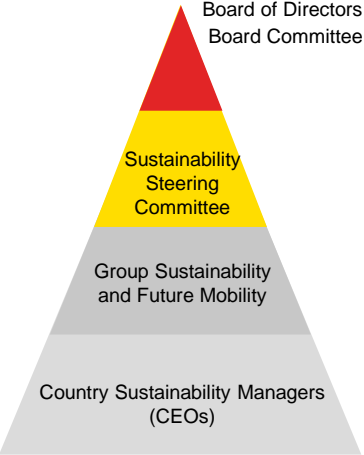
3 FINANCIALS

# PIRELLI INTEGRATED MODEL



## MULTI-STAKEHOLDER APPROACH

### Governance



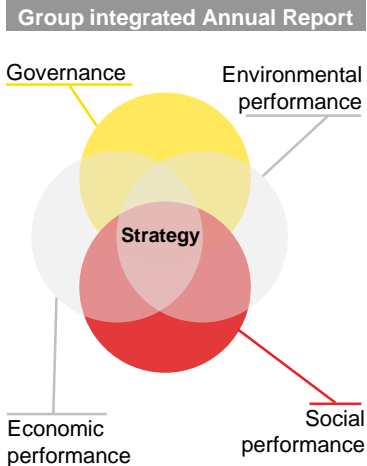
### Management systems

<b>Quality</b>
ISO 9001 IATF 16949 ISO/IEC 17025
<b>Labour and Social</b>
OHSAS 18001/ISO45001 Standard SA8000® (Reference Std)
<b>Environment</b>
ISO 14001 ISO 14040 ISO 14064
<b>Anti-Bribery</b>
ISO 37001
<b>Purchasing</b>
ISO 20400 <sup>1</sup>

### Planning



### Reporting<sup>2</sup>












1. Attested by third party. 2. Using Global Reporting Initiative (GRI –Standards), Comprehensive option; principles of integrated reporting contained in the Framework of the International Integrated Reporting Council (IIRC), Assurance Engagements, ISAE 3000 – Assurance Engagement on GHG ISAE 3000;



# KEY FIGURES & ACHIEVEMENTS 2019

## KPIs<sup>1</sup>





	2019
 Eco-Safety Performance revenues <sup>2</sup>	<b>55.8%</b> 63.3% on H.V. <sup>3</sup>
 Car tyres Avg. rolling resistance reduction	<b>-18%</b> (vs.2009)
 Accident frequency index reduction	<b>-83%</b> (vs.2009)
 Average training days per capita	<b>&gt;7</b> days
 Specific energy consumption reduction	<b>-13.1%</b> (vs.2009)
 Electricity from renewable sources <sup>4</sup>	<b>&gt;41%</b>
 Specific CO <sub>2</sub> emissions reduction	<b>-10.8%</b> (vs.2009)
 Specific water withdrawal reduction	<b>-70%</b> (vs.2009)
 Waste recovered	<b>97%</b>

## PIRELLI ESG LEADERSHIP ACKNOWLEDGED BY THE MARKET

### Top-of-the-industry ESG ratings

 Dow Jones Sustainability Indexes	Global Sector Leader in the S&P Dow Jones Sustainability Indices <sup>5</sup>
 SAM Sustainability Award Gold Class 2020	Awarded sector Gold Class 2020 in S&P Sustainability Yearbook
 CDP A LIST 2019 CLIMATE	A-List in CDP Climate Change 2019
 FTSE4Good	Sector top rating
 Global Compact LEAD 2019 PARTICIPANT	Global Compact LEAD company 2019

### Pirelli distinctive factors

-  **Comprehensive corporate positioning** on key global sustainability challenges, beyond materiality
-  **Management model** complying with most demanding ESG standards<sup>6</sup>
-  **ESG targets** are:
  - Group wide
  - Tangible
  - Challenging and realistic
  - Set to be reached within competitive deadlines
-  **Complete and transparent Reporting**

### Pirelli also included in:

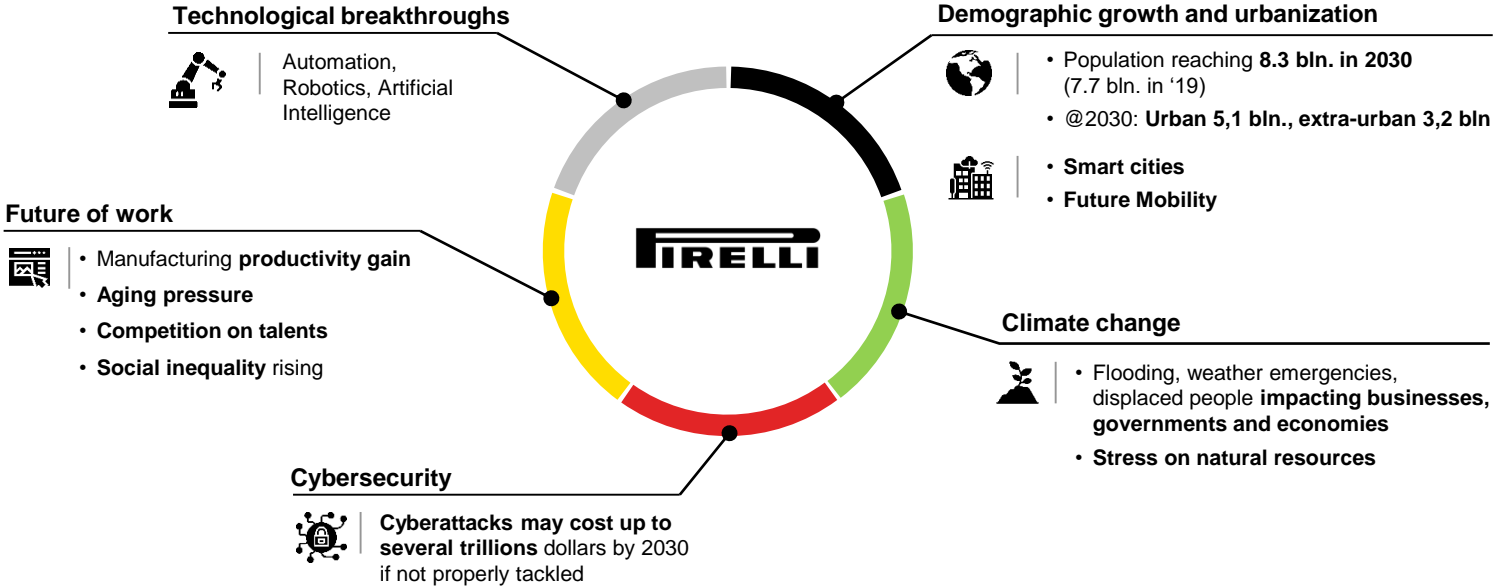


1. Preliminary unaudited data; 2. Figure is obtained by weighing the value of sales of Eco-Safety Performance car tyres on the total value of sales of Group car tyres; Eco-Safety Performance products, previously named "Green Performance Products", identify car tyres that Pirelli produces throughout the world and that fall only under rolling resistance and wet grip classes A, B, C according to the labeling parameters set by European legislation; 3. Focus on HIGH VALUE products including RIM18+ and «specialties» (Run-Flat, PNCS, Seal Inside with rim ≤17"); 4. Internal assessment based on data from the International Energy Agency (IEA) taking into account the Pirelli geographical distribution; 5. Score 2019: 85 vs sector average of 36; 6. e.g. ISO 20400, ISO 26000, AA1000, ISO 37001, etc.



# GLOBAL SCENARIOS @2025-2030

## OPPORTUNITIES & CHALLENGES MUST MATCH THE GLOBAL JOURNEY TOWARDS UN SDGS



# INDUSTRIAL PLAN SUSTAINABILITY LEVERS

## STRATEGY & TARGETS @2022-2025-2030:

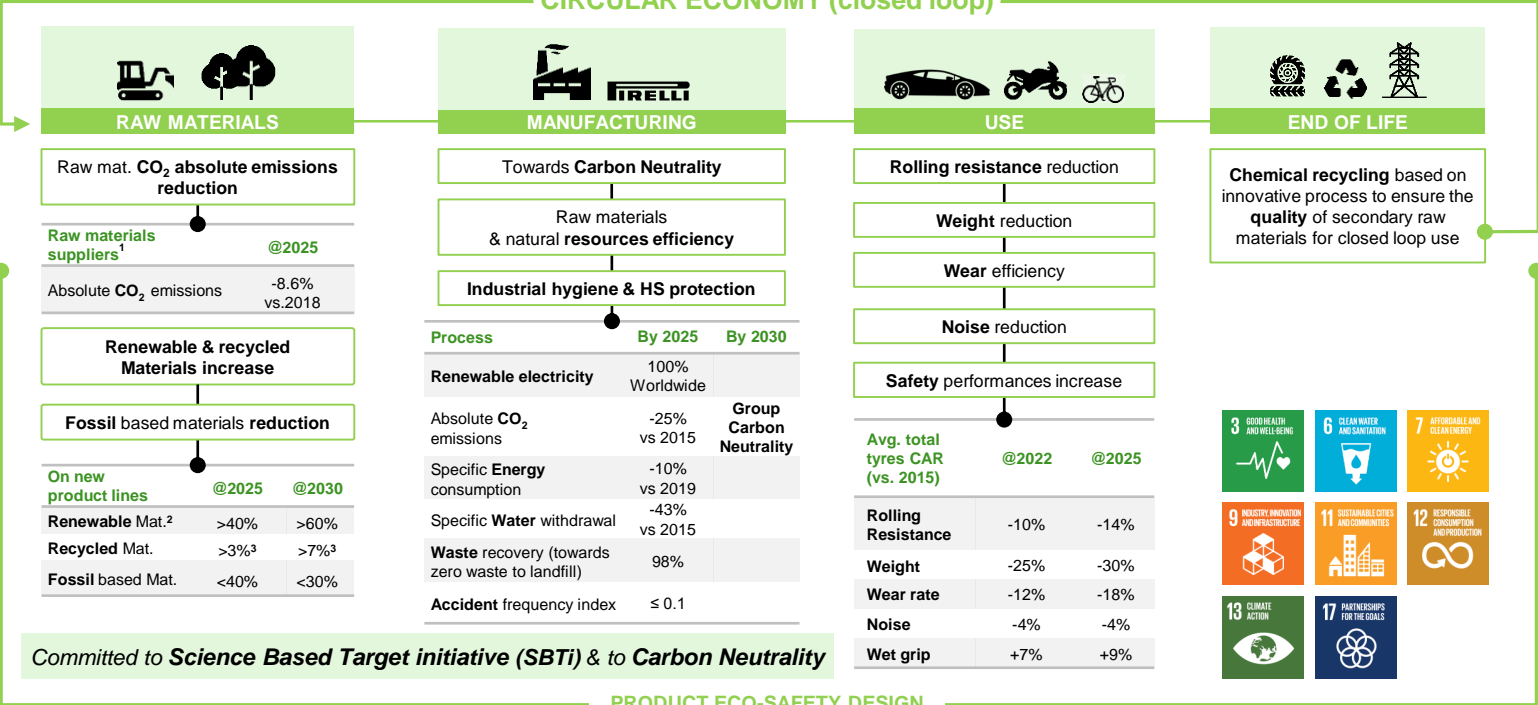
- > Are embedded into Pirelli High Value & Pure Consumer strategy
- > Replace previous 2017-2020 Sustainability Plan with selected targets to 2025
- > Impact on 11 UN Sustainable Development Goals





# PRODUCT SUSTAINABILITY STRATEGY 2022/2025/2030

## CIRCULAR ECONOMY (closed loop)



Committed to **Science Based Target initiative (SBTi)** & to **Carbon Neutrality**

## PRODUCT ECO-SAFETY DESIGN

1. Major scope 3 emissions in product LCA (excl. use phase); 2. Renewable Natural Resources are natural resources that, after exploitation, can return to their previous stock levels by natural processes of growth or replenishment. (source: OECD glossary definition at <https://stats.oecd.org/glossary/detail.asp?ID=2290> ); 3. Excluding recycled metals.



# MATERIALS INNOVATION



## STRATEGY

Focusing on:

- Increase Renewable<sup>1</sup> Materials
- Increase Recycled Materials
- Decrease Fossil Based Materials
- Quickly Anticipating Market Requirements

## ACTING ON

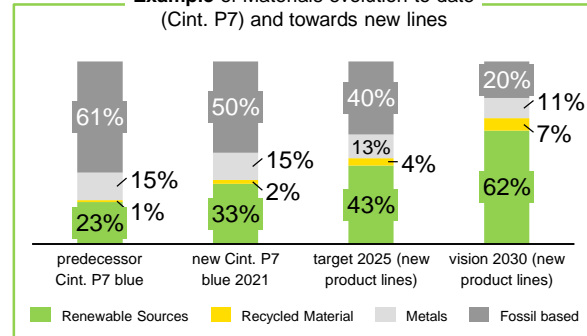
- > Reinforcements
- > Bio-Chemicals
- > Bio-Fillers
- > Polymers
- > Recycled Materials



## TARGETS

- > **By 2025, on new product lines:**
  - > 40% of renewable materials
  - > 3% of recycled materials<sup>2</sup>
  - < 40% of fossil based materials
- > **By 2030, on new product lines:**
  - > 60% of renewable materials
  - > 7% recycled materials<sup>2</sup>
  - < 30% fossil based materials

Example of Materials evolution to date (Cint. P7) and towards new lines



Anticipating the impact of regulation through actions on Materials associated with Health concerns in cooperation with R&D, HSE, Procurement, Quality and Suppliers.

1. Renewable Natural Resources are natural resources that, after exploitation, can return to their previous stock levels by natural processes of growth or replenishment. (source: OECD glossary definition at <https://stats.oecd.org/glossary/detail.asp?ID=2290>); 2. Excluding recycled metals.



# ECO-SAFETY PERFORMANCE INNOVATION



## CAR- AVG. TOTAL GAMMA (VS. 2015)



	@2022	@2025
Rolling Resistance	-10%	-14%
Weight	-25%	-30%
Wear rate	-12%	-18%
Noise	-4%	-4%
Wet grip	+7%	+9%

## MOTO- AVG. RADIAL TYRES (VS. 2015)



	@2022	@2025
Rolling Resistance	-15%	-20%
Wet grip	+21%	+25%
Mileage	+4%	+13%

## VELO- AVG. TOTAL TYRES (VS. 2017)



	@2022	@2025
Rolling Resistance	-25%	-25%
Wet grip	+10%	+15%
Braking	+5%	+10%

Less rolling resistance  
Less noise  
Better grip  
Less weight



Less CO<sub>2</sub> emissions  
Better living environment  
Higher safety  
Less impact on natural resources

# ECO-SAFETY PRODUCT INNOVATION



## PIONEERING THE CONSUMER SPECIALTIES BUSINESS

2001



**RUNFLAT**  
*Safe & extended mobility*



**SEAL INSIDE™**  
*Safe & extended mobility*



**PNCS™<sup>1</sup> APPLICATION**  
*Noise reduction*



**ELECT™**  
*Pirelli package for electric vehicles*



**CYBER TYRE SYSTEM**  
*Smart and connected mobility  
5G ready*

2020

## SHORT TERM DEVELOPMENT ROADMAP TO ACCELERATE CONSUMERS TRANSITION TO FUTURE MOBILITY

NEW AND DISRUPTIVE FEATURES ON:

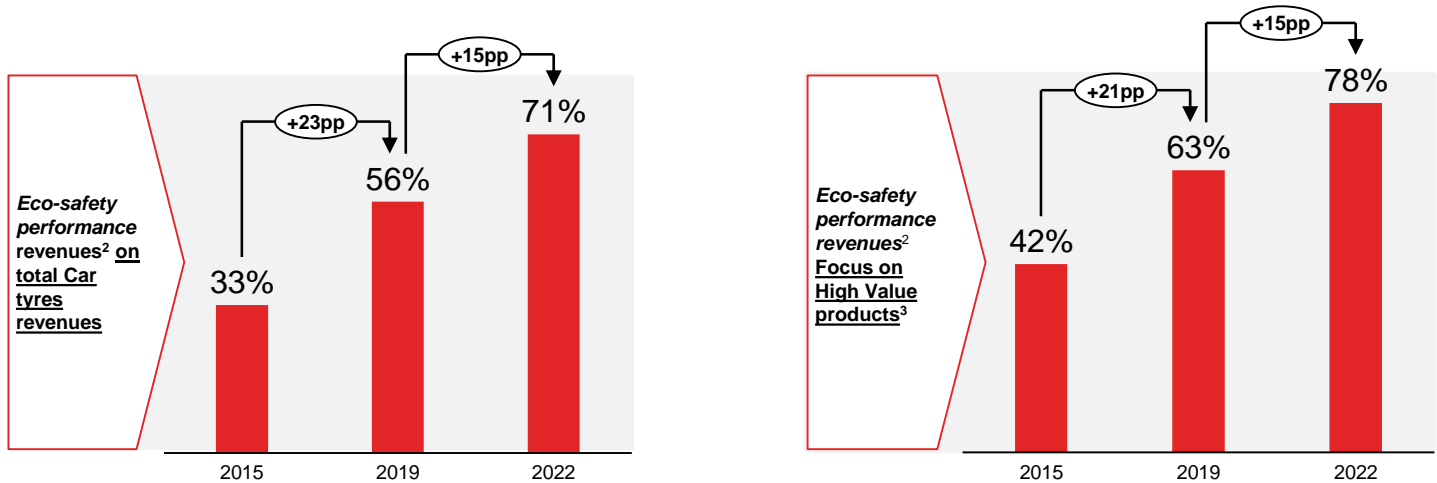
- Rolling resistance
- Noise
- High load capacity
- Grip
- Connectivity
- Recyclability

## ENABLED BY NEW SIMULATOR

- From Formula 1 experience
- Development time for new tyres reduced by 30%
- Number of physical prototypes drastically reduced
- Rapid remodeling
- Maximization of co-development efficiency with car manufacturers

1. Pirelli Noise Cancelling System

# ECO-SAFETY PERFORMANCE<sup>1</sup> REVENUES



- Criteria to categorize the Eco-Safety Performance products: Rolling Resistance and Wet Grip that falls only in A, B, C classes
- Figure calculated by applying the EU-label regulation to all car tyres sold worldwide

1. Eco-Safety Performance products, previously named "Green Performance products", identify car tyres that Pirelli produces throughout the world and that fall only under rolling resistance and wet grip classes A, B, C according to the labeling parameters set by European legislation. 2. Figure is obtained by weighing the value of sales of Eco-Safety Performance car tyres on the total value of sales of Group car tyres;

3. Focus on HIGH VALUE products including RIM18+ and «specialties» (Run-Flat, PNCS, Seal Inside with rim ≤ 17).

# ECO-EFFICIENCY: TOWARDS GROUP CARBON NEUTRALITY



**Committed to the Science Based Target initiative (SBTi)<sup>1</sup>**



**- 25% absolute CO<sub>2</sub> emissions by 2025 vs. 2015**



**100% renewable electricity by 2025**



**- 10% specific energy consumption by 2025 vs. 2019**



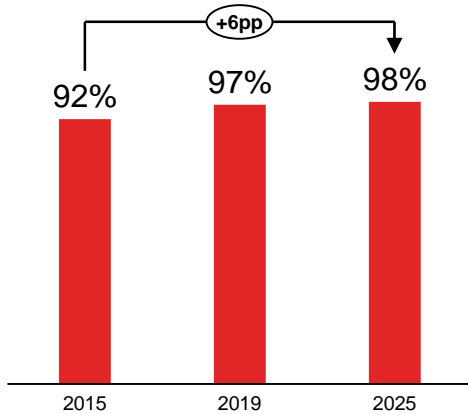
**Group CARBON NEUTRALITY by 2030**

*1. Targets adopted by companies to reduce greenhouse gas (GHG) emissions are considered "science-based" if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement – to limit global warming to well-below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C.*

# ECO-EFFICIENCY: WATER, WASTE



## 98% OF WASTE SENT TO RECOVERY BY 2025

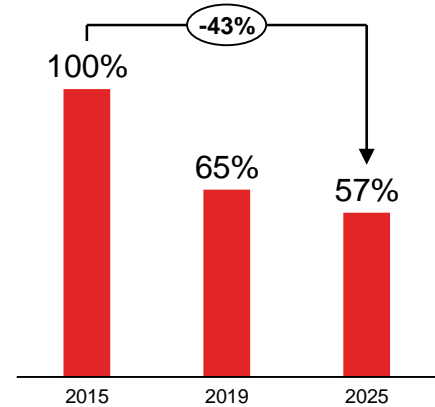


**Towards zero waste to landfill vision**

### Single Use Plastic Free

- All Group premises: elimination of Single Use Plastic by 2021
- Production Process: progressive<sup>1</sup> elimination of Single Use Plastic in the respect of production processes quality preservation

## - 43% SPECIFIC WATER WITHDRAWAL BY 2025 VS 2015



**Excellence in water management:**

*Reduce, Reuse, Recover, Recycle, Replenish (5R Principles)*

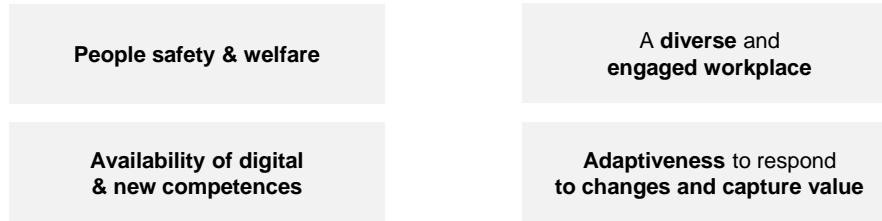
1. Timing depends on the market offer of the proper alternatives to SUP directly impacting the production process quality.



# HUMAN CAPITAL



## ORGANIZATION PREPAREDNESS TO EMBRACE FUTURE SCENARIOS ENSURING:



## THROUGH

- > **Accident frequency index reduction:**  $\leq 0.15$  by 2022,  $\leq 0.1$  by 2025
- > **Upskilling** and **reskilling** of new digital competences
- > **STEM<sup>1</sup> talent** attraction and innovative **recruitment marketing** solutions
- > New **smart and horizontal** ways of working and **open collaborations**
- > Sound integration of **ESG targets** into Short and Long Term Incentives<sup>2</sup>

1. Science, Technology, Engineering, Mathematics

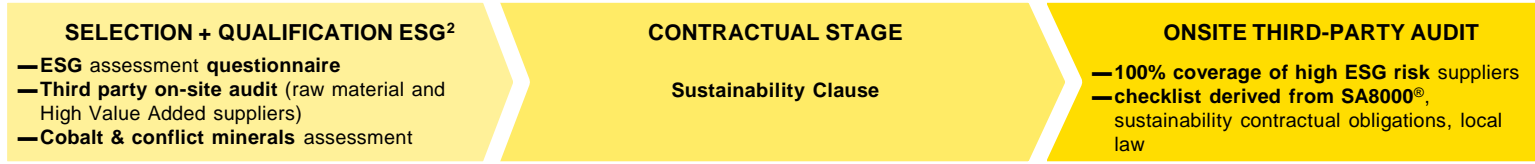
2. Applied to the generality of Group top management and executives.



# SUPPLY CHAIN SUSTAINABILITY



Full compliance of Purchasing Model with **ISO 20400 provisions attested<sup>1</sup>**



## A MORE EFFICIENT AND SUSTAINABLE SUPPLY CHAIN THANKS TO

- > Pirelli advanced **digitalized management systems** to monitor and manage suppliers' compliance
- > Supply chain economic, social, environmental and loss prevention **risks fully embedded in Pirelli Enterprise Risk Management**
- > Joint Development partnerships with third competence centers **for innovative eco & safe materials**
- > Pirelli target to **reduce raw material suppliers<sup>3</sup> CO<sub>2</sub> absolute emissions** by 8.6% in 2025 vs 2018

Pirelli 2019-2021 **Sustainable Natural Rubber Roadmap:**  
ON-SITE Engagement, risk mapping and mitigation

As of the beginning of 2020:

- 100% of Pirelli purchased NR4 volumes come from suppliers trained on Pirelli Sustainable Natural Rubber Policy
- 95% of Pirelli purchased NR<sup>4</sup> volumes come from suppliers which confidentially have shared information on sourcing areas
- 100% of Pirelli purchased NR<sup>4</sup> volumes come from suppliers that defined a roadmap in line with Pirelli Sustainable Natural Rubber Policy

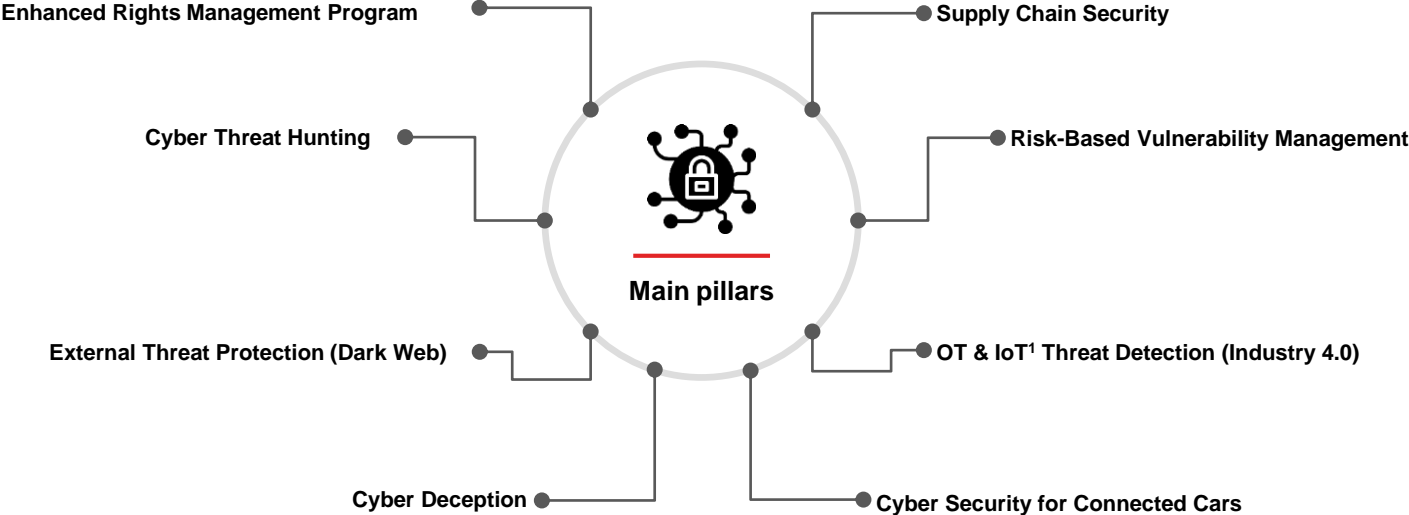
1. Third Party Opinion released in February 2018 by SGS Italy S.p.A; 2. ESG: environmental, social, governance; 3. Major scope 3 emissions in product LCA (excl. use phase); 4. Natural Rubber



# SOUND CYBER SECURITY PROGRAM



**A BUSINESS ENABLER TO SECURE CORPORATE OPERATIONS AND DELIVERY OF WELL-PROTECTED BUSINESS SERVICES AND QUALITY PRODUCTS TO PIRELLI CUSTOMERS**



# ADVOCACY AND COMMITMENT FOR ROAD SAFETY



**Pirelli is Donor and Member of the Advisory Board of the United Nations Road Safety Trust Fund**

**Goal:** provide aid to United Nations' Member States to significantly:

- reduce the number of deaths and injuries caused by traffic accidents
- reduce the economic losses resulting from such accidents

**Actions:** concrete projects within the **Global Plan of the Decade of Action for Road Safety**, to improve:

- road safety management capacities
- safety of road infrastructures and broader transport networks
- safety of vehicles
- road users' behavior
- post-crash care



**Pirelli is Global Partner of the FIA Action for Road Safety Campaign**

**Goal:** educate road users on the importance of respecting key road safety rules

**Actions:** promotion of the FIA 'Golden Rules' for road safety through all Pirelli networks

# APPENDIX

1 GOVERNANCE

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2 SUSTAINABILITY STRATEGY & TARGETS

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**3 FINANCIALS**

# 2019 RESULTS HIGHLIGHTS BY QUARTER

€ million	1Q'18	1Q'19	Δ YoY	2Q'18	2Q'19	Δ YoY	3Q'18	3Q'19	Δ YoY	4Q'18	4Q'19	Δ YoY	FY'18	FY'19	Δ YoY
<b>Revenues</b>	<b>1,310</b>	<b>1,314</b>	+0.3%	<b>1,320</b>	<b>1,341</b>	+1.6%	<b>1,295</b>	<b>1,382</b>	+6.7%	<b>1,269</b>	<b>1,287</b>	+1.4%	<b>5,195</b>	<b>5,323</b>	+2.5%
<i>Organic Growth<sup>1</sup></i>			+1.2%			+1.6%			+4.1%			+2.0%			+2.2%
High Value Revenues	834	895	+7.3%	850	893	+5.0%	846	932	+10.2%	780	820	+5.1%	3,310	3,540	+6.9%
% on total Revenues	63.6%	68.1%	+4.5 pp	64.4%	66.6%	+2.2 pp	65.3%	67.5%	+2.4 pp	61.5%	63.7%	+2.2 pp	63.7%	66.5%	+2.8 pp
EBITDA adjusted w/o start-up costs <sup>2</sup>	298	327 <sup>5</sup>	+9.7%	310	331 <sup>5</sup>	+6.5%	328	350 <sup>5</sup>	+6.7%	343	343 <sup>5</sup>	+0.1%	1,279	1,351 <sup>5</sup>	+5.6%
<i>Margin</i>	22.7%	24.9%	+2.2 pp	23.5%	24.6%	+1.1 pp	25.3%	25.3%	0.0 pp	27.0%	26.7%	-0.3 pp	24.6%	25.4%	+0.8 pp
EBITDA adjusted <sup>3</sup>	<b>288</b>	<b>316<sup>5</sup></b>	+9.5%	<b>300</b>	<b>321<sup>5</sup></b>	+6.9%	<b>320</b>	<b>342<sup>5</sup></b>	+7.1%	<b>327</b>	<b>332<sup>5</sup></b>	+1.4%	<b>1,235</b>	<b>1,310<sup>5</sup></b>	+6.1%
<i>Margin</i>	<b>22.0%</b>	<b>24.0%</b>	+2.0 pp	<b>22.7%</b>	<b>23.9%</b>	+1.2 pp	<b>24.7%</b>	<b>24.8%</b>	+0.1 pp	<b>25.8%</b>	<b>25.8%</b>	0.0 pp	<b>23.8%</b>	<b>24.6%</b>	+0.8 pp
EBIT adjusted w/o start-up costs <sup>2</sup>	229	231	+0.6%	244	232	-5.0%	259	252	-2.6%	271	244	-9.8%	1,003	959	-4.4%
<i>Margin</i>	17.5%	17.6%	+0.1 pp	18.5%	17.3%	-1.2 pp	20.0%	18.2%	-1.8 pp	21.3%	19.0%	-2.3 pp	19.3%	18.0%	-1.3 pp
EBIT adjusted <sup>4</sup>	<b>218</b>	<b>219</b>	+0.4%	<b>232</b>	<b>221</b>	-4.5%	<b>250</b>	<b>245</b>	-2.2%	<b>255</b>	<b>232</b>	-8.9%	<b>955</b>	<b>917</b>	-3.9%
<i>Margin</i>	<b>16.7%</b>	<b>16.7%</b>	0.0 pp	<b>17.6%</b>	<b>16.5%</b>	-1.1 pp	<b>19.3%</b>	<b>17.7%</b>	-1.6 pp	<b>20.1%</b>	<b>18.1%</b>	-2.0 pp	<b>18.4%</b>	<b>17.2%</b>	-1.2 pp
EBIT	184	183	-0.5%	194	242	+24.9%	214	173	-19.1%	112	145	+29.6%	703	743	+5.6%
<i>Margin</i>	14.0%	13.9%	-0.1 pp	14.7%	18.0%	+3.3 pp	16.5%	12.5%	-4.0 pp	8.8%	11.3%	+2.5 pp	13.5%	14.0%	+0.5 pp

1. Excl. FX; 2. Velo, Cyber / digital transformation; 3. before non-recurring items & restructuring costs; 4. before amortization of PPA, non-recurring items & restructuring costs; 5. including the application of the new IFRS 16 on adjusted EBITDA: in FY'19 +€104 million, in 4Q'19 +€26 million, in 3Q'19 +€26 million, in 2Q'19 +€27 million, in 1Q'19 +€25 million

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MILAN, 19<sup>TH</sup> FEBRUARY 2020

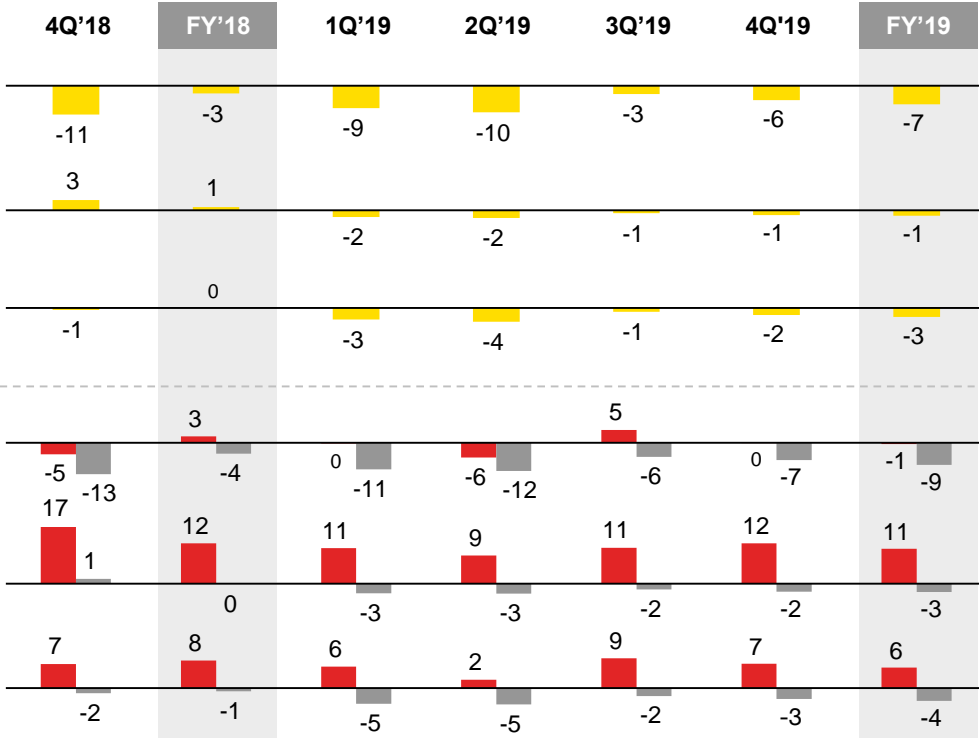


# KEY CAR MARKET TRENDS: EMEA

Market trend  
Δ% YoY

Total Car market

New Premium & Standard



Source: Pirelli tyre market estimates based on main data provider for the Region; historical market data may be subject to restatement

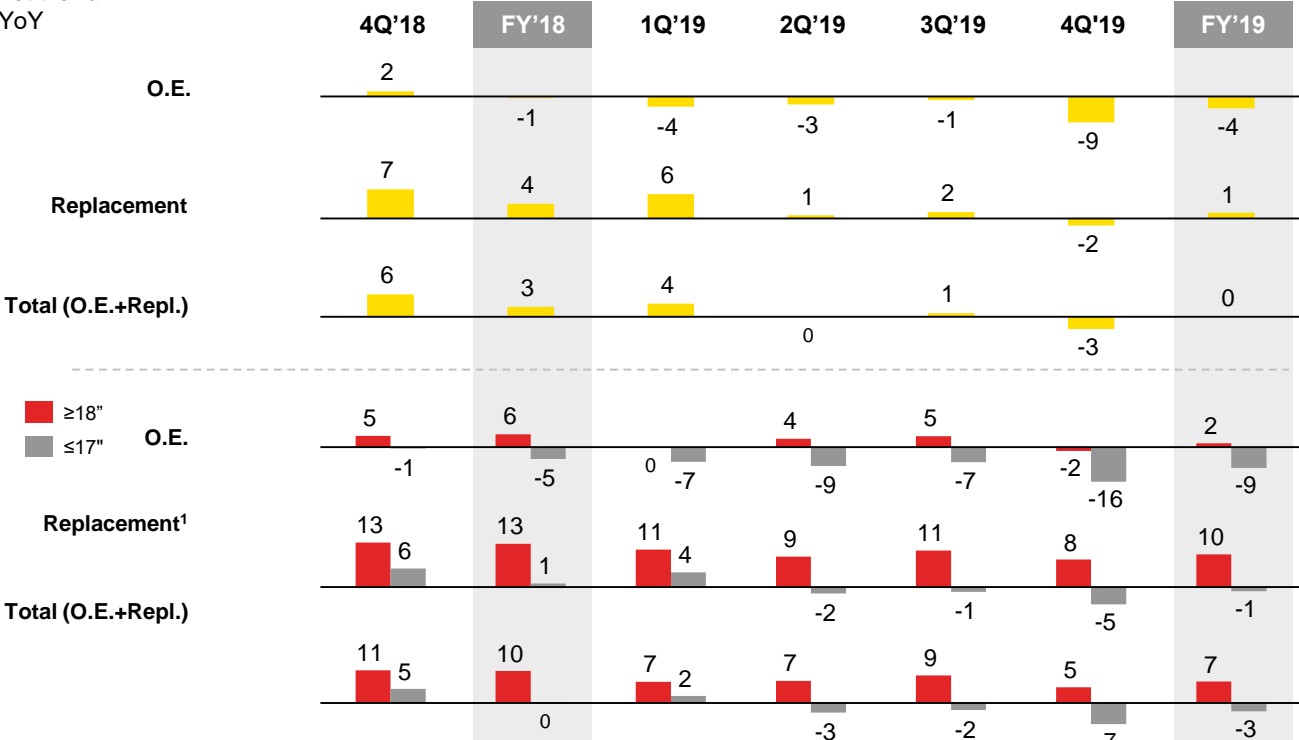


# KEY CAR MARKET TRENDS: NORTH AMERICA

Market trend  
Δ% YoY

Total Car market

New Premium & Standard



Source: Pirelli tyre market estimates based on main data provider for the Region; historical market data may be subject to restatement; 1. N. America Replacement includes imports

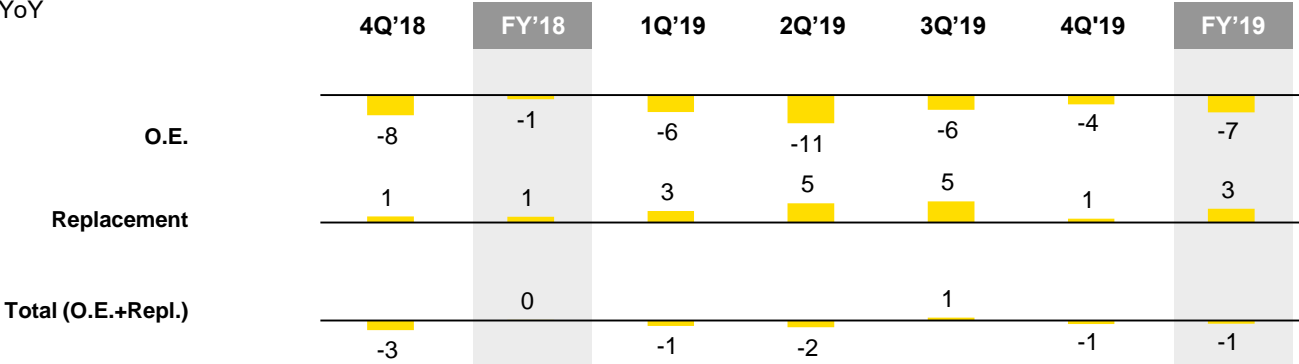


# KEY CAR MARKET TRENDS: ASIA PACIFIC

## Market trend

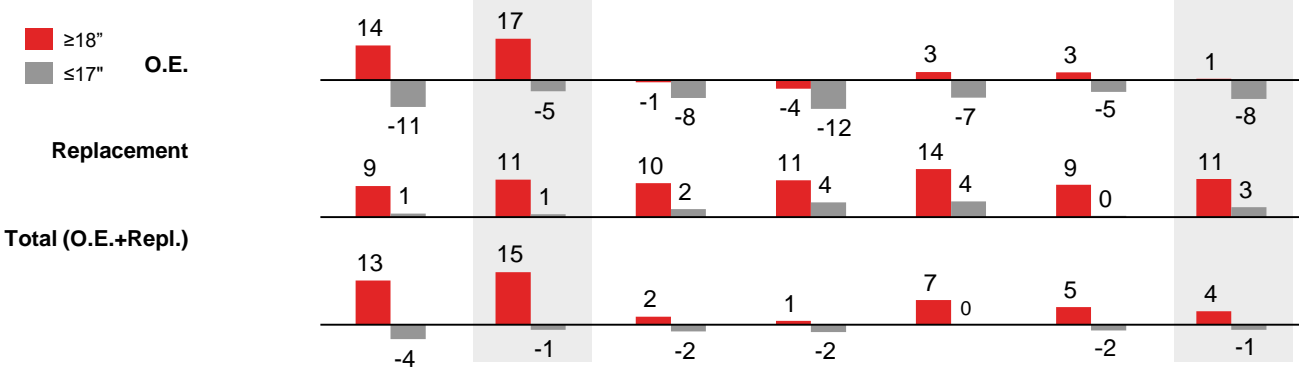
Δ% YoY

Total Car market



New Premium & Standard

■ ≥18"  
■ ≤17"



Source: Pirelli tyre market estimates based on main data provider for the Region; historical market data may be subject to restatement

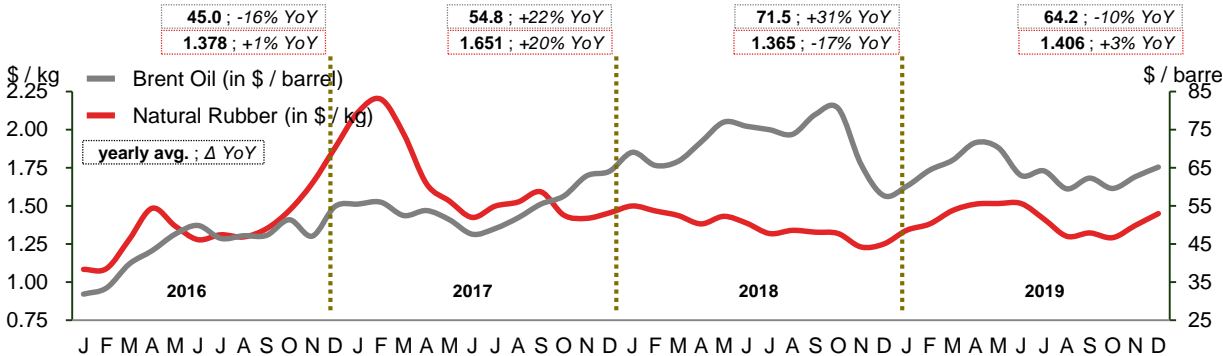




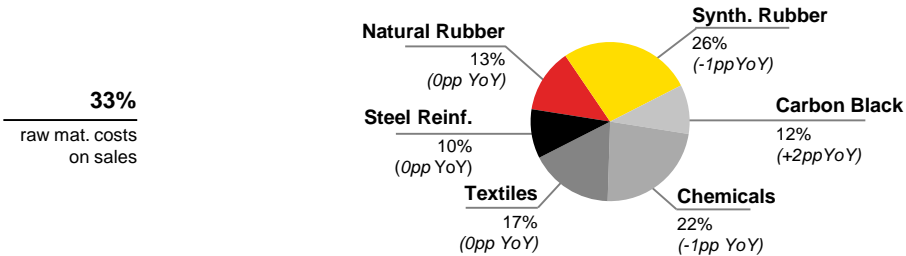


# RAW MATERIAL COSTS TREND AND MIX

## Main raw materials price trend



## FY 2019 mix (based on purchasing cost)



Source: Natural Rubber -> Sicom; Brent -> [www.oilenergy.com](http://www.oilenergy.com)





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