GLOBAL TYRE INDUSTRY
Outlook, Opportunities and Challenges

Mr. Surender Singh Kandhari, Al Dobowi Group Chairman
Industry Comments 2013

Economy
• Japan stalling due to a slowdown in global economic growth
• U.S. economy was still on the seesaw of recovery and recession
• European Economy still experiencing negative impacts of financial crisis
• Economic expansion in Asia showing signs of a slowdown, particularly in China and India

Material Costs
• Environment plagued by lowering prices for natural rubber & other raw materials

Outlook for 2014
• Looking ahead, it is anticipated that the operating environment will continue to grow increasingly difficult. Ongoing factors that were expected to contribute to this harshness include
  • fluctuations in material prices
  • unclear conditions in the global economy, and
  • unstable political conditions around the world.

Bridgestone March 2013
Industry Results 2013

Bridgestone (Yen)
- Tyre Turnover up 19%, Operating Income up 53%
- Gradual recovery in Japanese economy
  - Effectiveness of monetary policies to deal with appreciating Yen.
  - Declines in European volumes, but improved unit sales in America’s and Asia

Goodyear (USD)
- Units slightly down for the year but operating income up 27%
- Record operating income in Q4 esp in North America
- Significant benefits from lower raw material costs
- Strong growth in Asia (units up 7%),

Michelin (Euro)
- Units up 3%, Sales down 5.7%, Operating Income down 7.8%
- 5% unit growth in North America OE and replacement
- China OE volumes up 15%, while South America up 10%
- Michelin describes a robust second half of the year
- Significant benefits from lower raw material costs
- Stronger Euro resulted significant forex adjustment

<table>
<thead>
<tr>
<th>Units</th>
<th>Raw Material Costs</th>
<th>Price Control</th>
<th>Net Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steady or up</td>
<td>Lower</td>
<td>= Improved Margins</td>
<td>Positive</td>
</tr>
</tbody>
</table>
World Bank lifts growth forecasts to 3.2% (Jan 14th, 2014). First raise in forecast in 3 years

- Indications that a self-sustaining recovery has begun among high-income countries (North America, Japan, Euro Zone)

- Concerns still exist over Europe however (believed to be where the USA was 2 years ago)

- Bank suggests that North America / Japan and Europe may now join developing countries as a second engine of growth in the global economy

<table>
<thead>
<tr>
<th>Country / Region</th>
<th>Est % Growth 2013</th>
<th>Forecast % Growth 2014</th>
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</thead>
<tbody>
<tr>
<td>Europe &amp; Central Asia</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>7.2</td>
<td>7.2</td>
</tr>
<tr>
<td>North America</td>
<td>1.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>2.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>(0.1)</td>
<td>2.8</td>
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<tr>
<td>South Asia</td>
<td>4.6</td>
<td>5.7</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>4.7</td>
<td>5.3</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td><strong>2.4</strong></td>
<td><strong>3.2</strong></td>
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Who Contributes to World GDP

USA, Europe, China and Japan drive over 65% of the world economy

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<thead>
<tr>
<th>Country / Region</th>
<th>Plot on Map</th>
<th>% of World GDP 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe &amp; Central Asia</td>
<td>Y</td>
<td>29.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Y</td>
<td>3.4</td>
</tr>
<tr>
<td>Russia</td>
<td>Y</td>
<td>2.8</td>
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<tr>
<td>Other</td>
<td>Y</td>
<td>23.3</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>Y</td>
<td>27.9</td>
</tr>
<tr>
<td>China</td>
<td>Y</td>
<td>11.4</td>
</tr>
<tr>
<td>Japan</td>
<td>Y</td>
<td>8.2</td>
</tr>
<tr>
<td>Australia</td>
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<tr>
<td>Other</td>
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<td>Y</td>
<td>22.4</td>
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<tr>
<td>Latin America &amp; Caribbean</td>
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<td>8.0</td>
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</table>
USA - Recovery

Exploration & production adding to growth
US spending less on imported energy

Unemployment steadily declining
7.8m jobs added over last 4 years

Fracking
By 2020 US could overtake Saudi Arabia as largest pumper of oil

Improving trade balance
Declining need for energy imports

S&P 500

Jump in property investment
18% increase in property investment was a big driver of growth

Manufacturing
Cheaper fuel and raw materials boosting manufacturing

Current account deficit falls
Smallest deficit since 1999

Re-shoring
More companies bringing back factory lines from China
Euro Zone – Confidence Climbing

1. Government deficits have dropped by half
2. Austerity Measures
   • Will keep growth from rising as much as it should
3. Improving productivity
   • PMI picking up – showing signs of expansion
4. Falling unit labour costs
5. Relatively Low household debt
6. Lacking domestic sources of strength
   • Will continue to stagnate
7. Bank lending still on a downward trend
Japan – Policy Changes

1. Natural Surge not on the cards
   - Population shrinking & country remains overregulated
2. New policy with 3 arrows welcomed
   - Cheaper Yen, lower interest rates & structural reforms
3. Weaker Yen assisting exports
   - Japan's economy largely dependent on exports
4. Economy showing signs of expansion
   - PMI picking up
5. Debt position was unsustainable
   - Public debt almost 3x size of Japanese Economy
6. BoJ’s money-printing operation has pushed the Yen down and prices up
7. Recovery depends a lot on corporate sector starting to spend
China - Sustainable Growth

1. New policies point to a more sustainable growth path
   - GDP growth 7.6% 2013, 7.3% 2014, 7.2% 2015
   - PMI suggests modest recovery underway

2. Huge scope for China to develop
   - GDP per capita US 5x richer, Japan 4x, EU 3.5x

3. Fixed investment still a big driver
   - Nearly 45% of GDP, set to slow to 37% by 2020
   - 17.5% in Germany, Brazil, US; 20% in Russia; 30% in India

4. Focus on driving consumption
   - From 37% in 2013 to 42% of GDP in 2020

5. Increasing urbanisation
   - From 50% of population to 60% in next 5 years

6. Energy consumption growing dramatically
   - By 2030 will produce only ¼ of consumption
China & India – Rising Middle Class

Rising middle class
Number of householders earning over $35000

Panne car penetration
Cars per 1000 population

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2030</th>
</tr>
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<tbody>
<tr>
<td>China</td>
<td>50m</td>
<td>250m</td>
</tr>
<tr>
<td>India</td>
<td>20m</td>
<td>90m</td>
</tr>
<tr>
<td>United States</td>
<td>100m</td>
<td>140m</td>
</tr>
<tr>
<td>Japan</td>
<td>50m</td>
<td>55m</td>
</tr>
</tbody>
</table>

Rising Middle Class will increase the demand for cars

Within 15 years, the sheer number of middle class households in China and India will dwarf those of that of the USA and Japan respectively.
China & India - Cars per 1000 people

(1) Blue Circles Show the Relative Size of the Economy
(2) Yellow Circles show the number of cars per 1000 people
(3) India and China have relatively high GDP’s compared to the number of cars per 1000 people
Tyre Market Growth Projections

1. Unit growth estimated at 4.3% yoy to 2017
   • Freedonia’s Jan 2014 study forecasts total tyre units of 2.6 billion units for 2014
   • This is well ahead when compared to Global GDP estimates of 3.2%

2. Light and Heavy Motor vehicles
   • Make up 70% of the total world tyre demand
   • Japan forecast to decline
     • shrinking population, falling vehicle exports
   • North America and Western Europe
     • show improvement, but gains below 2%
     • slow population growth, mature rates of personal motor vehicle usage (cars / 1000)
   • Developing Countries
     • Growth stimulated by strong increases OE and replacement markets

3. Industrial & Other
   • Comprises Agricultural, Industrial, Aircraft, as well as Motor Cycle and Bicycle Tyres
   • Expected to be the fastest growing segment.
     • Usage of motorcycles is especially concentrated in faster-growing developing regions (ie not constrained by weaker performances of advanced economies).
Overall Outlook

Growth Forecast

- World Bank 3.4%, Goodyear 2-3%, Michelin 3%, OEMs 6%, Tyre Study 4.3%
- Clearly strong signal of growth of at least 3%
- Developing countries will continue to fuel growth. Given size of the US economy, even moderate growth in the US, will contribute significantly to the world economy. Europe better placed than a year back, but prospects remain unclear. Japan’s ‘Abenomics’ looking positive, but will benefit from overall improved global economy.

Raw Material Costs

- Though not significant, there is likely to be further downward pressure on raw material prices in the short term.
- Much depends on OPEC who appear to have been able to control supply and demand relatively successfully over the last 3 years and maintained an ave price of USD 110 per barrel.
Overall Outlook

Impact on Manufacturers

- The fundamentals are positive for manufacturers overall who should be able to increase plant utilisations, and who will try to take advantage of any reductions in raw material costs, and manage their margins upward accordingly.

- The highly competitive nature of the Industry will however continue to pressure weaker brands to grow share of market without passing some of these benefits to their customers.

- Premium brands are likely to continue to feature strongly in developing markets like China which has a huge appetite for branded goods.
Some Industry Challenges

From Green to Sustainable Development

1. Green has been a driver for the past decade.
   - Fuel consumption, greenhouse gases, water usage, waste emissions etc
   - Legislation (eg Tyre labelling) introduced, focus on rolling resistance, elimination or re-use of scrap, tyre recycling and so on

2. Sustainable Development takes this a step further and includes:
   - Security of supply, management of price volatility, and geographic concentration
   - Leading manufacturers have identified business risks related to raw material supply and are developing strategies to mitigate these risks (Eg De-Risking from Natural Rubber by using substitutes like Guayule)

3. OEM Requirements
   - OEMs like BMW, Volvo etc placing similar stringent requirements on their suppliers (which include tyre manufacturers)

Bridgestones Guayule Research Farm, USA
RFID & Efficient Logistics Management

- Kumho began applying tags to all its Korean-made tyres
- Est cost savings of more than USD 9 Million
- Michelin is opening up +/- 40 of its RFID patents in order to accelerate the use of RFID by the industry
- Huge opportunity to significantly improve logistics chains throughout the industry
The automotive sector in the Middle East remains upbeat despite turbulence in many countries in the region. Almost every car maker has reported sales growth in double digits, ranging between 20 and 40%.


The automotive aftermarket in the GCC countries in 2012-2013 was equally vibrant and estimated to have grown between 15 and 20%.

By 2016 the Aftermarket sector is predicted to hit USD 14.4 billion.

UAE is the second largest automotive market in the GCC after Saudi Arabia.
SAUDI ARABIA TYRE MARKET TO SURPASS USD 10 BILLION BY 2014 END

- Saudi Arabia is one of the largest and strongest automotive markets in Middle Eastern region. Even though, there is negligible domestic production of automobiles in the country, the vehicle sales are increasing at a strong pace, mainly driven by the imports which in turn have resulted in huge demand for automotive aftermarket products such as Tyres.

- It is reported that the tyre market in Saudi Arabia is expected to grow at the CAGR of around 12% during 2014-18 in terms of market revenues.

- The continuous increase in the demand for automobiles along with the shorter tyre replacement cycle will drive the tyre industry in the country during this period. The passenger car tyre segment dominates the tyre market in Saudi Arabia, followed by the commercial vehicle tyre segment.
The growing industrialization and increasing investments in the country are further likely to push the demand for automobiles and tyres in Saudi Arabia over the next five years.

In addition, the demand for tyres is also increasing due to foray of technologically improved tyres, which provide more fuel efficiency and vehicle safety.

The turnover of the tyre industry in Saudi Arabia is expected to surpass USD 10 Billion by 2014 end, driven by increasing demand from the OEM, replacement and Re-export tyre segments.”
DUBAI HAS EMERGED as a LEADING SUPPLIER of TYRES, TUBES & BATTERIES to MANY INTERNATIONAL MARKETS

• With a well organized retail and wholesaler sector, the tyre exports and re-exports business in Dubai has been a major contributor to Dubai's rising re-export trade to the GCC region, CIS, Iran, Africa and the Indian subcontinent.

• Industry sources value the total trade in tyres in Dubai at around US$ 1.5 billion.

• According to tentative estimates, tyres worth US$400 million for buses and lorries are imported to Dubai every year, mainly from China, Japan and India.

• Almost 65 per cent of these tyres are re-exported to regional markets like Iran, Iraq, and other GCC countries. The balance 35 per cent of tyres are sold through retail outlets for local consumption.
• The growing importance of the tyre business in Dubai can be gauged by the fact that this market is expected to grow approximately 30 per cent in the next 5 years.

• The number of cars in Dubai has been increasing at an alarming pace in recent times. Dubai has one car for every 1.84 residents with an average vehicle occupancy of 1.7 per car.

• In fact, Dubai has the highest rate of car ownership than any other city in the world.
KUWAIT to GROW at a CAGR of AROUND 11% DURING 2014-19

• Kuwait is one of the wealthiest countries across the globe with more than 95% of urban population. The automobile sales have been growing at a rapid pace in the country, which has consequently driven the demand for tyres in both OEM and replacement markets.
• The country has a hot and humid climate, which results in shorter replacement period of around 1.5 years for tyres.
• It is reported that the tyre market in Kuwait is projected to grow at a CAGR of around 11% during 2014-19. The continuous increase in the demand for automobiles coupled with the growing demand for retreaded tyres in the replacement market is expected to drive the tyre industry in Kuwait over the next five years.
• In 2012-13, sales of passenger cars grew at a Y-o-Y rate of 16%, while the commercial vehicle sales grew at 25%. Since tyres are replaced at regular intervals in the country, which is relatively more frequent than other countries, the demand for tyres in replacement market will continue to grow
QATAR is EXPECTED to GROW at CAGR OF 7.41%

- It is reported that with the increasing construction activities, Qatar tyre market is set to record impressive growth rate.
- It is estimated that by 2018, automobile retreaded tyre market in Qatar is expected to grow at CAGR of 7.41% by value to reach USD 42 Million revenues.
- The report forebodes that commercial, passenger tyres will report significant growth in terms of sales as well as demand.
SANCTIONS ON IRAN TO BE REMOVED “SOONER” or........

• Iran has the largest automotive industry among the Middle East countries. The sanctions affected the economy of Iran as the automobile production and sales volume registered a double digit negative year-on-year growth in 2012.
• However, by the end of 2013, the removal of sanctions on IRAN was under active discussion. This is expected to significantly boost the automotive and tyre industry of the country over the next 5 years.
• It is reported the tyre market in Iran is expected to grow at a CAGR of around 7% during 2014-18 in revenue terms. The primary reason can be attributed to anticipated increase in demand for automobiles and tyres in the domestic market over the next five years.
• In 2012, about 50% of the total fleet of automobiles in Iran was more than 25 years old and the vehicle per capita in Iran was also low with about 89 vehicles per thousand people.
AFRICAN CONTINENT – ONE of THE FASTEST GROWING MARKETS FOR THE GLOBAL TYRE INDUSTRY

• The rapid growth of the middle class in many African countries has pushed demand for automobiles to an all-time high – in turn creating a growing market for all kinds of tyres: passenger car tyres, off-the-road tyres, industrial tyres, agricultural tyres, truck, bus and trailer tyres as well as motorcycle and bicycle tyres.
Thank You

Mr. Surender Singh Kandhari, Al Dobowi Group Chairman