

Remuneration Report

In accordance with the German Stock Corporation Act (*Aktiengesetz – AktG*), the plenary session of the Supervisory Board is responsible for determining the remuneration for the Executive Board. In the fall of 2009, the Supervisory Board thoroughly reviewed and completely reorganized the remuneration structure of the Executive Board with the assistance of an independent advisor.

Executive Board remuneration system

Remuneration for Executive Board members consists of the following elements:

Each Executive Board member receives a fixed annual remuneration paid in twelve monthly installments.

The Executive Board members also receive variable remuneration (a performance bonus) linked to the attainment of certain targets relating to the year-on-year change in the Continental value contribution (CVC) and the return on capital employed (ROCE). Further, the Supervisory Board can determine a strategic target at the beginning of each fiscal year. For 2011, the Supervisory Board set a target based on the attainment of a specific free cash flow. It is possible that variable remuneration will not be paid if certain minimum values are not achieved. In order to take into account extraordinary factors that have influenced the degree to which targets are achieved, the Supervisory Board has the right to adjust the established attainment of goals on which the calculation of variable remuneration is based retroactively by 20% upwards or downwards at its due discretion. In any event, the performance bonus is capped at 150% of the fixed target bonus. 40% of variable remuneration awarded in a fiscal year is paid out in the form of a lump sum as an annual bonus. The remaining 60% is converted into virtual shares of Continental AG. Following a holding period of three years after the end of the fiscal year for which variable remuneration is awarded, the value of these virtual shares is paid out including the value of the dividends distributed over the holding period. The conversion of the variable remuneration into virtual shares and payment of their value after the holding period are based on the average share price for the three-month period immediately preceding the Annual Shareholders' Meeting in the year of conversion or payment. However, the amount paid after the holding period cannot be less than 50% of the value on conversion or more than three times this same value. In

addition, the Supervisory Board may revise the amount calculated in such a way by 20% upward or downward retroactively to balance out extraordinary developments, for example a noticeable change in the share price that is wholly or mainly due to external influences. In addition to the performance bonus, a special bonus can be agreed for special projects in individual cases, and a recognition bonus can be granted.

In the employment contracts for the Executive Board concluded before the German Act on the Appropriateness of Management Board Remuneration (*Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG*) came into effect, variable remuneration depended in part on the dividends distributed. If the dividend rate rose significantly, the Chairman's Committee was authorized to amend the basis of calculation. The bonus was also dependent on the attainment of specific individually agreed targets that related to key performance indicators of the respective Executive Board member's area of responsibility. This variable remuneration component was limited to a maximum amount that was contingent upon fixed annual remuneration. The employment contracts of the Executive Board members appointed before 2009, Dr. Hans-Joachim Nikolin and Heinz-Gerhard Wentz, were also adjusted in line with the new structure effective January 1, 2010.

Executive Board members also receive additional benefits, primarily the reimbursement of expenses, including payments – generally for a limited time – for a job-related second household or activities abroad on behalf of the company, the provision of a company car, and premiums for group accident and directors' and officers' (D&O) liability insurance. The D&O insurance policy provides for an appropriate deductible in line with the requirements of Section 93 (2) Sentence 3 *AktG*. Members of the Executive Board must pay taxes on these additional benefits.

Continued remuneration payments have also been agreed for a certain period in the event of employment disability through no fault of the Executive Board member concerned.

All members of the Executive Board have been granted post-employment benefits that are paid starting at the age of 63 (but not before they leave the service of the company) or in the event of disability.

Dr. Hans-Joachim Nikolin has been granted his pension before his 63rd birthday after his employment agreement was terminated early by mutual consent before December 31, 2011. In each case, the maximum post-employment benefit amounts to 50% of the most recent fixed remuneration payment and 12% of the average variable remuneration achieved in the last five fiscal years. There is a basic rate for the post-employment benefits that is determined individually. For each year of service, a member of the Executive Board receives a benefit entitlement amounting to 10% of the difference between the basic rate and his or her maximum post-employment benefit, until the full entitlement has been achieved after ten years. Post-employment benefits are adjusted after commencement of such benefit payments in accordance with Section 16 of the German Occupational Pension Improvement Act (*Betriebsrentengesetz – BetrAVG*). Any other income is counted towards post-employment benefit.

In the employment contracts it has been agreed that, in the event of premature termination of Executive Board work without justifiable grounds, payments to the Executive Board member to be agreed, including the additional benefits, shall not exceed the value of two annual salaries nor the value of remuneration for the remaining term of the employment contract for the Executive Board member. No compensation agreements exist with members of the Executive Board in the event of a takeover bid or a change of control in

the company. In fiscal 2011, they neither received nor were promised payments by a third party with respect to their activities on the Executive Board.

Individual remuneration

The total remuneration of each individual member of the Executive Board for the year under review and the previous fiscal year, broken down into fixed and variable components, and the individual pension expense, plus the value reported in the consolidated financial statements pertaining to the stock options granted under stock option plans in previous fiscal years and redeemed in the past year, is disclosed in the following tables. In addition to his performance bonus, José A. Avila was awarded a special bonus of €450 thousand for each of the 2011 and 2012 fiscal years for 100% attainment of targets stipulated on the basis of the EBIT reported for the Powertrain division in these fiscal years. However, the combined special bonus and performance bonus for the respective fiscal year cannot exceed the amount of the performance bonus for 150% target attainment. In line with the regulations for the performance bonus, this special bonus is divided into a short-term and a long-term component. Dr. Hans-Joachim Nikolin, whose appointment as a member of the Executive Board and service agreement were terminated prematurely by mutual consent as of July 31, 2011, was granted a payment of €3.0 million in compensation of his contractual claims and a post-contractual no-competition clause.

Remuneration of the Executive Board in 2011

in € thousands	Remuneration components			Total	Share-based payment ^{2,3}
	Fixed ¹	Variable, short-term	Variable, long-term ²		
Dr. E. Degenhart	1,229	717	1,076	3,022	926
J. A. Avila	626	493	739	1,858	648
Dr. R. Cramer	630	500	750	1,880	630
H. Matschi	627	267	400	1,294	332
Dr. H.-J. Nikolin (until July 31, 2011)	375	313	469	1,157	515 ⁴
W. Schäfer	1,027	552	827	2,406	714
N. Setzer	633	475	713	1,821	578
H.-G. Wentz	783	511	768	2,062	767 ⁴
Total	5,930	3,828	5,742	15,500	5,110

¹ In addition to cash components, the fixed remuneration includes non-cash elements, such as company cars, insurance, and moving costs.

² Long-term component of the variable remuneration which is converted into virtual shares of Continental AG in line with the new remuneration structure geared towards sustainable development of the company, including special bonuses.

³ Includes changes in the value of the virtual shares granted in previous years.

⁴ Includes the amount of personnel expenses carried in the consolidated financial statements (compensation cost) in 2011 for stock options granted and redeemed in previous fiscal years under the 2008 stock option plan.

Remuneration of the Executive Board in 2010

in € thousands	Remuneration components			Total	Share-based payment ^{2,3}
	Fixed ¹	Variable, short-term	Variable, long-term ²		
Dr. E. Degenhart	1,233	594	891	2,718	980
J. A. Avila	690	360	551	1,601	551
Dr. R. Cramer	636	480	721	1,837	782
H. Matschi	630	270	405	1,305	466
Dr. H.-J. Nikolin	633	320	479	1,432	834 ⁴
W. Schäfer	1,036	457	686	2,179	686
N. Setzer	636	540	810	1,986	871
H.-G. Wentz	788	508	762	2,058	1,036 ⁴
Total	6,282	3,529	5,305	15,116	6,206

¹ In addition to cash components, the fixed remuneration includes non-cash elements, such as company cars, insurance, and moving costs.

² Long-term component of the variable remuneration which is converted into virtual shares of Continental AG in line with the new remuneration structure geared towards sustainable development of the company, including special bonuses.

³ Includes changes in the value of the virtual shares granted in previous years.

⁴ Includes the amount of personnel expenses carried in the consolidated financial statements (compensation cost) in 2010 for stock options granted and redeemed in previous fiscal years under the 2004 and 2008 stock option plans.

Long-term component of share-based payment

The amounts of variable remuneration converted into virtual shares of Continental AG changed as follows in the year under review:

in € thousands or in thousand units	Degenhart	Avila	Cramer	Matschi	Nikolin	Schäfer	Setzer	Wente	Total
Outstanding at Jan. 1, 2010¹	–	–	–	–	–	–	–	–	–
Fair Value at Jan. 1, 2010	–	–	–	–	–	–	–	–	–
Commitments ¹	8,178	–	5,663	5,663	–	–	5,663	–	25,167
Fair value of commitments	392	–	271	271	–	–	271	–	1,205
Outstanding at Dec. 31, 2010¹	8,178	–	5,663	5,663	–	–	5,663	–	25,167
Fair Value at Dec. 31, 2010	392	–	271	271	–	–	271	–	1,205
Change in fair value	-2	–	-1	-1	–	–	-1	–	-5
Commitments	14,532	8,978	11,750	6,604	7,819	11,177	13,205	12,419	86,484
Fair value of commitments	744	460	602	338	401	573	676	636	4,430
Outstanding at Dec. 31, 2011	22,710	8,978	17,413	12,267	7,819	11,177	18,868	12,419	111,651
Fair Value at Dec. 31, 2011	1,134	460	872	608	401	573	946	636	5,630

¹ The comparative figures at December 31, 2010, are shown adjusted accordingly.

Basis of fair value calculation

Owing to the individual arrangements specific to the company, there are certain features of the virtual shares as compared to standard options that must be taken into account in their measurement.

A Monte Carlo simulation is used in the measurement of stock options. This means that log-normal distributed processes are simulated for the price of Continental shares. The measurement model also takes into account the average value accumulation of share prices in the respective reference period and the floor and cap for the distribution amount.

The following input parameters were used as of the measurement date of December 31, 2011:

- ▶ Constant zero rates as of the measurement date of December 31, 2011, of 0.08% for the 2009 tranche and 0.19% for the 2010 tranche.
- ▶ Interest rate based on the yield curve for government bonds.
- ▶ Dividend payments as the arithmetic mean based on publicly available estimates for 2012 and 2013; Continental AG did not distribute dividends in 2010 or 2011.
- ▶ Historic volatilities on the basis of daily XETRA closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2009 tranche is 45.23%, for the 2010 tranche 47.60%.

Post-employment obligations and service costs

The defined benefit obligation (DBO) for all pension commitments for the active members of the Executive

Board and the service cost calculated for the respective fiscal year in accordance with international accounting policies are presented below:

in € thousands	Defined benefit obligation		Service cost	
	Dec. 31, 2011	Dec. 31, 2010	2011	2010
Dr. E. Degenhart	2,238	1,111	801	681
J. A. Avila	1,238	545	542	541
Dr. R. Cramer	682	285	205	207
H. Matschi	734	374	270	240
Dr. H.-J. Nikolin (until July 31, 2011)	4,876	4,315	122	146
W. Schäfer	1,597	696	704	703
N. Setzer	585	248	180	153
H.-G. Wentе	4,499	4,023	115	67
Total	16,449	11,597	2,939	2,738

2004 and 2008 stock option plans

	Number of subscription rights		Payments ¹ (in € thousands)		
	Dec. 31, 2011	Dec. 31, 2010	2010	2011	2012
Dr. H.-J. Nikolin (until July 31, 2011)	–	–	38	96	–
H.-G. Wentе	–	–	12	96	–
Total	–	–	50	192	–

¹ Subscription rights under the 2004 and 2008 stock option plans were converted into cash payment.

Remuneration of the Supervisory Board

Article 16 of the Articles of Incorporation regulates the remuneration paid to members of the Supervisory Board. This remuneration also has fixed and variable components. The variable part depends on the net income attributable to the shareholders of the parent per share for the past fiscal year. The chairman and vice chairman of the Supervisory Board and the chairs and members of committees qualify for higher remuneration.

In 2011, the Supervisory Board had its remuneration reviewed by an independent consultant. On the basis of the findings of this examination, the Supervisory Board and the Executive Board intend to propose changes to the remuneration regulations at the Annual Shareholders' Meeting on April 27, 2012.

In addition to their remuneration, the members of the Supervisory Board are also paid attendance fees and their expenses are reimbursed. The D&O insurance policy also covers members of the Supervisory Board. As recommended by the German Corporate Governance Code, their deductible also complies with the requirements of Section 93 (2) Sentence 3 *AktG* that only apply directly to the Executive Board.

In the past year there were no consultant agreements or other service or work agreements between the company and members of the Supervisory Board or related parties.

The remuneration of individual Supervisory Board members in 2011 as provided for under these arrangements is shown in the following table.

Remuneration of the Supervisory Board

in € thousands	Remuneration components			
	2011		2010	
	Fixed ¹	Variable	Fixed ¹	Variable
Prof. Dr.-Ing. Wolfgang Reitzle	83	105	84	22
Rolf Koerfer (until November 29, 2010)	—	—	58	15
Werner Bischoff	65	79	68	17
Michael Deister	64	79	68	17
Dr. Gunter Dunkel	42	53	42	11
Hans Fischl	65	79	68	17
Dr. Jürgen Geißinger	42	53	42	11
Prof. Dr.-Ing. E.h. Hans-Olaf Henkel	42	53	42	11
Michael Iglhaut	45	54	46	11
Jörg Köhlinger	45	53	46	11
Prof. Dr. Klaus Mangold	42	53	42	11
Hartmut Meine	66	79	52	12
Dirk Nordmann	45	53	46	11
Artur Otto (since May 1, 2010)	45	53	29	7
Dr. Thorsten Reese (until April 30, 2010)	—	—	24	5
Klaus Rosenfeld	64	79	64	17
Georg F. W. Schaeffler	63	79	43	11
Maria-Elisabeth Schaeffler	42	53	42	11
Jörg Schönfelder	45	53	46	11
Dr. Bernd W. Voss	84	105	84	22
Prof. KR Ing. Siegfried Wolf (since December 6, 2010)	42	53	3	1
Erwin Wörle	44	53	46	11
Total	1,075	1,321	1,085	273

¹ Including meeting-attendance fees.