



Prof. Dr.-Ing. Wolfgang Reitzle, Chairman of the Supervisory Board

Dear Shareholders,

Continental AG and the corporation have had a highly successful fiscal year 2011. In the year under review, the Supervisory Board of the company fulfilled all the tasks incumbent upon it under applicable law, the Articles of Incorporation and its By-Laws. It closely monitored the work of the Executive Board, regularly advised it and carefully supervised it in the management of the company and has satisfied itself of the legality and propriety of management. As explained in further detail below, the Supervisory Board was directly involved in a timely manner on all decisions of fundamental importance to the company.

In the year under review, the Executive Board provided the Supervisory Board with regular, timely and comprehensive updates in writing and verbally on all issues of relevance to the company, namely planning, business strategy, significant business transactions in the

company and the corporation and the related risks and opportunities. The Supervisory Board was continuously informed in detail of the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. Where the actual course of business deviated from the defined plans and targets, the Executive Board gave a detailed explanation with reasons to the Supervisory Board and the measures introduced were discussed with the Supervisory Board and its committees. In addition, the Supervisory Board, the Chairman's Committee and the Audit Committee dealt intensively with other key company business at their meetings and in separate discussions. The members of the Supervisory Board were also available to the Executive Board for consultation outside the meetings. The chairman of the Supervisory Board in particular was in regular contact with the Executive Board and its chairman and

discussed current company issues and developments with them.

Meetings of the Supervisory Board and the committees

The Supervisory Board held four regular meetings and two conference calls in 2011 and also passed resolutions by way of written procedure outside meetings on two occasions on account of the particular urgency of these matters. Also in these cases, there was appropriate opportunity to review and discuss matters on the basis of detailed documentation. A separate strategy meeting was also held in conjunction with the Supervisory Board's fall meeting in September 2011. No member was absent from more than half the meetings or conference calls. The Chairman's Committee met four times in the year under review. The Audit Committee held four regular meetings in 2011. The Mediation Committee in accordance with Section 27 (3) of the German Co-determination Act (*Mitbestimmungsgesetz*) and the Nomination Committee did not meet. There are no other committees. All committees report to the plenary session on a regular basis. Their duties are described in more detail in the Corporate Governance Report (pages 38 et seq.).

Key topics dealt with by the Supervisory Board, Chairman's Committee and Audit Committee

As in previous years, the Supervisory Board and its committees supported the measures taken by the Executive Board to improve the company's financial situation in 2011. On the basis of the success of the capital increase and the issue of the high-yield bonds in 2010, the prolongation of the term of the syndicated loan and a further improvement in its conditions were agreed at the end of March 2011.

The Supervisory Board also discussed the company's strategic development and orientation in general as well as the strategic planning of its divisions in even more detail than in past years, particularly at the strategy meeting mentioned above. Regular issues discussed by the plenary session and the committees included the reporting on current business developments, the effects of the debt crisis, the volatility of prices for natural and synthetic rubber, rare earths and other raw materials, and precautions for the event of a possible flagging of economic performance. Following preparation by the Chairman's Committee, the plenary session discussed matters of Executive Board remuneration

several times, the details of which are presented in the Remuneration Report (pages 44 et seq.).

To ensure that the Supervisory Board is involved in the decisions on key company matters, the company's Articles of Incorporation and the Supervisory Board's By-Laws establish the legal transactions that require the approval of the Supervisory Board and/or its Chairman's Committee. In line with these regulations, the Supervisory Board or the Chairman's Committee discussed and approved matters including the acquisition of the tire trading company Alençon Pneus, France, and of Modi Tyres Company, India, the assumption of equity interests from minority shareholders of companies in Malaysia and India, the sale of a minority holding in Russia and the securing of bilateral loans for companies in the corporation with various banks. By the middle of the year it was foreseeable that the level of vehicle production forecast for 2012 and the years beyond substantially exceeded that assumed in investment planning for 2011. In order to leverage the growth opportunities arising from this, the Supervisory Board approved a significant budget increase. It also approved the investments to build tire plants in Russia and the U.S.A. and to expand production of the ContiTech Fluid Technology business unit in Romania. At its meeting on December 14, 2011, the Supervisory Board discussed the annual planning for 2012 and long-term planning and also approved the planning and investment plans for fiscal 2012.

The Audit Committee was also informed by the Executive Board in detail and on an ongoing basis of the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. Before the publication of the half-year and quarterly financial reports, the Audit Committee discussed and reviewed them, paying particular attention to the results for the relevant reporting period as well as the outlook for the year as a whole. The interim financial statements as of June 30, 2011, were reviewed by KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover (KPMG), on behalf of the Audit Committee. The Audit Committee also issued the mandate for the audit of the 2011 annual and consolidated financial statements and stipulated the focus of the audit.

The Audit Committee is closely involved in compliance and risk management as well. The Executive Board

regularly reported to it on the work of the Compliance department and the Internal Auditing department, and on significant events. The head of the Compliance department and the head of Internal Auditing were also available to provide information to the Audit Committee and its chairman directly in coordination with the Executive Board. Furthermore, the Audit Committee received reports from Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (Ernst & Young) on the audit performed by Ernst & Young in accordance with Audit Standard 980 of the Institut der Wirtschaftsprüfer e.V. (IDW), as a result of which it issued an unqualified audit opinion of the conception of the compliance management system with respect to anti-corruption, competition/antitrust, fraud and other property offense issues. In addition, the other material risks covered by the risk management system were presented in the Audit Committee with the corresponding measures resolved by the Executive Board. These included questions of IT security. The Audit Committee has satisfied itself of the effectiveness of the internal control system, the risk management system and the internal audit system.

Conflicts of interest and corporate governance

No conflicts of interest arose among the members of the Executive Board or the Supervisory Board in the year under review. In its opinion, the Supervisory Board also had a sufficient number of independent members at all times in the period under review. The court proceedings due to suits instigated by individual shareholders against the resolution of the 2009 Annual Shareholders' Meeting to elect Mr. Rolf Koerfer to the Supervisory Board and against the confirmation of this resolution by the 2010 Annual Shareholders' Meeting came to a conclusion in March 2011 by way of concurrent declarations of settlement issued by the parties involved – while retaining their respective legal positions. The conclusion of the agreements relating to this in accordance with Sections 248a, 149 (2) of the German Stock Corporation Act (*Aktiengesetz – AktG*) was announced on March 16, 2011.

The Supervisory Board again carried out the regular efficiency review of its activities in fall 2010. In this review, an external consultant interviewed all members of the Supervisory Board and the Executive Board, analyzed the results, compared this information with information from other companies, developed recommendations for further improving the Supervisory

Board's activities and presented these to the Supervisory Board. The plenary session discussed the results further in its meeting in March 2011 and accepted the consultant's recommendations. These included holding a strategy meeting, the associated visit to production facilities in Timișoara, Romania, and the review of Supervisory Board remuneration.

In this meeting, the Supervisory Board also again discussed the recommendation of the German Corporate Governance Code to state specific targets for the future composition of the Supervisory Board, which, whilst considering the specifics of the company, take into account the international activities of the company, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board, diversity and, in particular, an appropriate degree of female representation, and stipulated such targets. These are explained together with further corporate governance details in the Corporate Governance Report (pages 38 et seq.). The Supervisory Board and Executive Board agreed an updated declaration in accordance with Section 161 *AktG* on April 28, 2011.

Annual and consolidated financial statements

The annual financial statements as of December 31, 2011, prepared in line with the requirements of the German Commercial Code (*Handelsgesetzbuch – HGB*), the 2011 consolidated financial statements and the management reports for the company and the corporation were reviewed in terms of the accounting, the accounting-related internal control system and the system for early risk recognition by KPMG. KPMG also reviewed the Executive Board's Dependent Company Report in accordance with Section 312 *AktG*. The 2011 consolidated financial statements of Continental AG were prepared in accordance with the International Financial Reporting Standards (IFRS). The auditor issued unqualified audit opinions. In terms of the system for early risk recognition, the auditor found that the Executive Board had taken the necessary measures under Section 91 (2) *AktG* and that the company's system for early risk recognition is suitable for identifying developments at an early stage that pose a risk to the company as a going concern. KPMG issued the following unqualified audit opinion on the Dependent Company Report in accordance with Section 313 (3) *AktG*:

“Based on the results of our statutory audit and evaluation we confirm that:

- ▶ the actual information included in the report is correct,
- ▶ payments by the company in connection with the legal transactions listed in the report were not unduly high or that disadvantages had been compensated for.”

The documents relating to the annual financial statements, including the Dependent Company Report, and the audit reports were discussed with the Executive Board and the auditor in the Audit Committee meeting on February 20, 2012. They were also discussed at length at the Supervisory Board’s meeting to approve the annual financial statements on March 13, 2012. The required documents were distributed to all members of the Audit Committee and the Supervisory Board in good time before these meetings so that the members had sufficient opportunity to review them. The auditor was present at these discussions. The auditor reported on the main results of the audits and was available to provide additional information to the Audit Committee and the Supervisory Board. Based on its own review of the annual financial statements, the consolidated financial statements, the company management report, the corporation management report and the Dependent Company Report including the final declaration of the Executive Board, and based on the report and the recommendation of the Audit Committee, the Supervisory Board concurred with the results of the auditor’s audit. There were no objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted.

Personnel changes in the Supervisory Board and Executive Board

There were no changes in the Supervisory Board in 2011. In its meeting of December 2011, the Supervisory Board resolved to increase the size of the Audit Committee by two members in order to better handle the permanent rise in the requirements of the work of this committee. Further information on the members of the Supervisory Board and its committees who were in office in the year under review can be found on pages 269 et seq.

On June 7, 2011, the Supervisory Board accepted Dr. Hans-Joachim Nikolin’s mutually agreed resignation from the Executive Board as of July 31, 2011, and acknowledged and approved the organizational merger of the Passenger and Light Truck Tires division and the Commercial Vehicle Tires division to form a single Tire division. The Supervisory Board wishes to again expressly thank Dr. Nikolin, who was a member of the Executive Board for twelve years and who contributed to the success and good of Continental in exemplary fashion through his character and works. In its meeting on September 29, 2011, the Supervisory Board appointed Elke Strathmann as a member of the Executive Board with responsibility for Human Resources and as director of labor relations. Ms. Strathmann took up her post on January 2, 2012. Dr. Ralf Cramer, Helmut Matschi, Nikolai Setzer and Heinz-Gerhard Wentz were reappointed as members of the Executive Board in the same meeting.

The Supervisory Board would like to thank the Executive Board, all the employees and employee representatives for their excellent work in the past year, with which they have contributed significantly towards the company continuing on its successful path.

Hanover, March 13, 2012

For the Supervisory Board

Sincerely,



Prof. Dr.-Ing. Wolfgang Reitzle
Chairman