

Earnings Position

- ▶ Sales up 17.1%
- ▶ Sales up 16.7% before changes in the scope of consolidation and exchange rate effects
- ▶ Adjusted EBIT up 20.7%

Continental Corporation in € millions	2011	2010	Δ in %
Sales	30,504.9	26,046.9	17.1
EBITDA	4,228.0	3,587.6	17.9
in % of sales	13.9	13.8	
EBIT	2,596.9	1,935.2	34.2
in % of sales	8.5	7.4	
Net income attributable to the shareholders of the parent	1,242.2	576.0	115.7
Earnings per share (in €)	6.21	2.88	115.7
Research and development expenses	1,608.7	1,450.4	10.9
in % of sales	5.3	5.6	
Depreciation and amortization ¹	1,631.1	1,652.4	-1.3
– thereof impairment ²	20.4	57.7	-64.6
Operating assets (at December 31)	16,198.6	15,282.8	6.0
EBIT in % of operating assets (at December 31)	16.0	12.7	
Operating assets (average)	16,019.0	15,580.0	2.8
EBIT in % of operating assets (average)	16.2	12.4	
Capital expenditure ³	1,711.3	1,296.4	32.0
in % of sales	5.6	5.0	
Number of employees (at December 31) ⁴	163,788	148,228	10.5
Adjusted sales ⁵	30,192.7	26,043.0	15.9
Adjusted operating result (adjusted EBIT) ⁶	3,043.0	2,521.1	20.7
in % of adjusted sales	10.1	9.7	

¹ Excluding impairments on financial investments.

² Impairment also includes necessary reversals of impairment losses.

³ Capital expenditure on property, plant and equipment, and software.

⁴ Excluding trainees.

⁵ Before changes in the scope of consolidation.

⁶ Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Sales up 17.1%

Consolidated sales rose by €4,458.0 million or 17.1% year-on-year in 2011 to €30,504.9 million (PY: €26,046.9 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 16.7%. This further increase was the result of the outstanding product portfolio of our Automotive divi-

sions, which is strongly concentrated on the high-growth segments of the automotive supplier industry, and of the ongoing recovery in our relevant markets. The increase in the production of cars, station wagons and light commercial vehicles had a positive influence on business performance in 2011. We also posted significant increases in our non-automotive business.

In 2011, sales by region changed as follows as against the previous year:

Sales by region in %	2011	2010
Germany	26	27
Europe excluding Germany	33	33
NAFTA	19	19
Asia	17	16
Other countries	5	5

Sales in the regions of Europe, America and Asia surged by a double-digit percentage. The negative effects of exchange rate changes were more than offset by the positive effects of the change in the scope of consolidation.

Adjusted EBIT up 20.7%

The corporation's adjusted EBIT rose by €521.9 million or 20.7% year-on-year in 2011 to €3,043.0 million (PY: €2,521.1 million), equivalent to 10.1% (PY: 9.7%) of adjusted sales.

In the fourth quarter of 2011, the corporation's adjusted EBIT increased by €89.1 million or 12.3% as against the same quarter of the previous year to €816.0 million (PY: €726.9 million), equivalent to 10.5% (PY: 10.5%) of adjusted sales. In the third quarter of 2011, adjusted EBIT amounted to €743.7 million on a like-for-like basis.

EBIT up 34.2%

EBIT was up by €661.7 million year-on-year in 2011 to €2,596.9 million, an increase of 34.2% (PY: €1,935.2 million). The return on sales rose to 8.5% (PY: 7.4%).

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT by €435.5 million (PY: €454.3 million) in the year under review. There were no impairment losses from the purchase price allocation of intangible assets in 2011 (PY: €0.8 million).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 16.2% (PY: 12.4%).

Special effects in 2011

The economic situation of the Fuel Supply business unit in the Powertrain division in Europe is characterized by insufficient and constantly decreasing profitability. For this reason, the location in Dortmund, Germany, is being restructured. Parts of production and assembly are being relocated and the site is being expanded into a competence center for fuel feed units of the Fuel Supply business unit. Restructuring expenses of €35.8 million have been incurred in this connection.

An impairment test on an at-equity investment of the Chassis & Safety division resulted in an impairment loss of €5.4 million.

The Chassis & Safety division generated income of €0.6 million from the negative difference on an asset deal.

In 2011, impairment losses of €21.7 million were recognized on the property, plant and equipment of the Deer Park site in the U.S.A.

In addition, there were smaller impairment losses and reversals of the same on property, plant and equipment resulting in a total loss of €2.6 million not relating to restructuring activities.

The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., U.K., a subsidiary of Conti-Tech AG in the area of offshore hoses, resulted in further expenses of €10.7 million in 2011.

On July 7, 2011, Continental Industrias del Caucho S.A., Madrid, Spain, reached an agreement with the employee representatives to close the site in Coslada, Spain, by the end of 2011. The plant, which assembled air conditioning lines, started reporting losses

after a major contract was lost at the end of 2009. The site was closed as of December 31, 2011, resulting in restructuring expenses of €14.1 million.

In addition, there were positive effects totaling €52.1 million in the divisions (Chassis & Safety €4.6 million, Powertrain €9.5 million, Interior €32.9 million, Passenger and Light Truck Tires -€1.7 million, Commercial Vehicle Tires €6.5 million, ContiTech €0.3 million). These chiefly resulted from the reversal of restructuring provisions that were no longer required and from lower health care obligations in connection with restructuring.

Owing to the anticipated higher cash outflow for the syndicated loan resulting from rising interest margins, the carrying amount was adjusted in profit or loss in 2009 and 2010. However, a drop in the margins for the syndicated loan was observed as of June 30, 2011. The associated expectation of lower cash outflows for this loan then led to an adjustment of the carrying amount in profit or loss in the amount of €9.1 million. These deferrals will be amortized over the term of the loan, reducing or increasing expenses accordingly. The amortization of the carrying amount adjustments resulted in a positive effect of €15.0 million in 2011. As a result of partial repayments of the syndicated loan, the adjustments attributable to the repayment amount pro rata were reversed in early April and December 2011. These reversals resulted in a gain of €5.0 million. The above effects resulted in a net gain of €29.1 million as of December 31, 2011.

The total consolidated expense from special effects amounted to €8.5 million in 2011.

Special effects in 2010

In total, there were impairments on property, plant and equipment, and intangible assets of €29.3 million (Chassis & Safety €3.4 million, Powertrain €16.3 million, Interior €0.0 million, Passenger and Light Truck Tires €7.5 million, Commercial Vehicle Tires —, ContiTech €2.1 million) in 2010 that did not relate to restructuring measures. This includes an impairment loss of €0.3 million on capitalized intangible assets from the purchase price allocation.

The Interior division incurred expenses of €5.6 million for additional final activities relating to the disposal of certain business operations.

Due to the winding-up activities for the disposal of an associated company, a gain of €2.1 million was generated in the Interior division while a tax expense for the corporation was incurred in the same amount.

Owing to the withdrawal of a customer order for the development and production of diesel injection systems at the plant in Blythewood, U.S.A., restructuring measures had to be introduced in 2009. This resulted in additional restructuring expenses of €11.9 million in the Powertrain division in 2010. This primarily relates to impairments on production plants that were partially offset by provisions for supplier claims that were no longer needed.

Additional restructuring-related expenses of €14.7 million were incurred in the Passenger and Light Truck Tires division in connection with the end of tire production in Clairoux, France.

Additional restructuring expenses of €6.0 million were incurred at the Traiskirchen, Austria, location in the Passenger and Light Truck Tires division.

A still available production cell in Hanover-Stöcken, Germany, was finally closed down. This led to further restructuring expenses totaling €34.6 million in the Commercial Vehicle Tires division in 2010.

Expenses of €34.8 million (Chassis & Safety €4.0 million, Powertrain €18.9 million, Interior income of €3.2 million, Passenger and Light Truck Tires €9.4 million, Commercial Vehicle Tires €2.3 million, ContiTech €3.0 million, Holding €0.4 million) were also incurred, primarily due to restructuring activities and severance payments. For the Passenger and Light Truck Tires division, this includes an impairment loss of €0.5 million on intangible assets from the purchase price allocation (PPA).

The sale of our North American OTR activities to the Titan Tire Corporation in 2006 led to a gain of €3.3 million in the Commercial Vehicle Tires division.

The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., U.K., a subsidiary of ContiTech AG in the area of offshore hoses, resulted in further expenses of €20.8 million in the ContiTech division.

Owing to the higher expected cash outflows for the syndicated loan as a result of rising margins, the carrying amount was adjusted as expense in 2009 and June 2010. The adjustment in 2010 resulted in expenses of €27.4 million. These deferrals will be amortized over the term of the loan and reduce expenses accordingly. This amortization resulted in a positive effect of €37.6 million in 2010. Due to the partial repayments of the syndicated loan, the adjustments attributable to the amounts repaid were reversed on a pro-rata basis. In addition to largely using the net income of the bonds placed at the end of September 2010 for a total nominal amount of €1,250.0 million, another partial repayment of €100.0 million in nominal terms was made in December 2010. A pro-rated amount of €9.6 million was incurred from the adjustment on the above-mentioned amounts that were paid early, which then also led to a gain in the same amount. Income of €19.8 million resulted from all the previously mentioned effects in 2010 as a whole.

The total consolidated expense from special effects amounted to €132.5 million in 2010. Adjusted for impairment on capitalized intangible assets from the purchase price allocation in an amount of €0.8 million, special effects had an adverse impact totaling €131.7 million.

Procurement

2011 presented a major challenge for Purchasing. The rise in business activity in all divisions, combined with the momentum on the global markets intensified the strategic importance of this department. Corporate growth and the overall increase in business activity, particularly in the first half of 2011, meant a high level of tension in the corporation's procurement chains. Natural disasters such as the earthquake in Japan or the political unrest in some countries of the Middle East placed further strain along the entire procurement chain. Under these conditions, the various teams and departments demonstrated the strength of our purchasing and procurement chain strategy by emphasizing consistent system solutions and cross-functional cooperation. Overall, the purchasing volume rose significantly as against the previous year. The main factors influencing this other than the normal growth in business activities were high price hikes for some key raw materials and the considerable investments.

Research and development

Research and development expenses rose by €158.3 million or 10.9% year-on-year to €1,608.7 million (PY: €1,450.4 million), or 5.3% (PY: 5.6%) of sales.

In the Chassis & Safety, Powertrain and Interior divisions, costs in connection with initial product development projects in the original equipment business are capitalized. Costs are capitalized as of the time at which we are named as a supplier by the original equipment manufacturer and have successfully achieved a specific pre-release stage. Capitalization ends with the approval for unlimited series production. The costs of customer-specific applications, pre-production prototypes and testing for products already being sold still do not qualify as development expenditure which may be recognized as an intangible asset. Capitalized development expenses are amortized on a straight-line basis over a useful life of three years. In Continental's opinion, the assumed useful life reflects the period for which an economic benefit is likely to be derived from the corresponding development projects. €84.3 million (PY: €74.5 million) of the development costs incurred in the three divisions in 2011 qualified for recognition as an asset.

The requirements for the capitalization of development activities (IAS 38) were not met in the Passenger and Light Truck Tires, Commercial Vehicle Tires and Conti-Tech divisions in the year under review or the previous year.

Depreciation and amortization

Depreciation and amortization declined by €21.3 million to €1,631.1 million (PY: €1,652.4 million) and amount to 5.3% (PY: 6.3%) of sales. Impairment losses of €20.4 million (PY: €57.7 million) were recognized in the period under review.

Net interest expense

The net interest expense rose by €38.3 million year-on-year to €735.5 million (PY: €697.2 million). This is essentially due to the negative development in the exchange rate effects that were not fully offset by the lower interest expenses described below.

Interest expenses, which primarily result from the utilization of the syndicated loan and the bonds issued in the third quarter of 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands, declined by €98.9 mil-

lion as against the figure for the previous year to €661.5 million (PY: €760.4 million). In particular, in addition to the significant drop in net indebtedness as of the end of 2010, the decrease is due to the lower margins for the syndicated credit than in the previous year. Both effects by far more than compensated for the expenses due to higher average market interest rates in 2011 and the four bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in the third quarter of 2010. The margin reduction and its link to the Continental Corporation's leverage ratio (net indebtedness/EBITDA, as defined in the syndicated loan agreement) were agreed as part of the successful renegotiation in late March 2011 of the syndicated loan originally due in August 2012. In the third quarter of 2011, a further margin reduction was already achieved for this loan as a result of the improved leverage ratio as of June 30, 2011. In 2011, interest expenses for the syndicated loan amounted to €342.4 million (PY: €595.9 million). The bonds issued in the third quarter of 2010, with higher nominal interest rates due in particular to the longer terms, resulted in total interest expenses of €227.4 million (PY: €73.6 million). Other borrowings of the companies gave rise to interest expense totaling €91.7 million.

Interest income amounted to €29.2 million in 2011, €6.6 million higher than the previous year's level (€22.6 million).

The negative trend in the exchange rate effects, which were down €138.4 million year-on-year from €33.0 million to -€105.4 million as of December 31, 2011, was due to the performance on the currency markets in the second half of 2011. A key factor in this was the strong devaluation of the Mexican peso as against the U.S. dollar, while the devaluation of the Hungarian forint against the euro also squeezed net interest.

Gains from changes in the fair value of derivatives include total expenses of €29.7 million from the termination of cash flow hedge accounting and the resulting fair values changes of the affected derivatives to be recognized in profit or loss. For more information please see "Financing and indebtedness".

Tax expense

Income tax expense for fiscal 2011 amounted to €536.2 million (PY: €592.1 million). The tax rate was 28.8% after 47.8% in the previous year.

The tax expense in the year under review was influenced by tax income for previous years of €68.2 million. Continental implemented a pending prior-year tax position out of court by way of a reassessment. The resulting tax income was recognized in profit or loss in full.

A negative effect resulted from non-cash valuation allowances recognized by international units on deferred tax assets totaling €81.8 million, €29.3 million of which was for previous years. An allowance of €36.0 million (PY: €51.2 million) was also recognized on the increases in the year under review for the tax interest carryforward in Germany. Since 2008, there has been a limit on the deductible interest that can be carried forward in Germany; the amount deductible under tax law is limited to 30% of taxable income before depreciation, amortization and interest.

Due to the positive business development in the year under review in the U.S.A. and Mexico in particular, deferred tax assets of €33.9 million which had not been recognized in the past could be realized – mainly through the utilization of loss carryforwards.

As in the previous year, the tax rate was negatively affected by non-deductible operating expenses and, in Germany, by non-imputable foreign withholding tax due to insufficient volume. Positive effects resulted from foreign tax rate differences, incentives and tax holidays.

Among other things, the tax expense for the prior-year period was influenced by a valuation allowance of €120.1 million on deferred tax assets relating to the tax interest carryforward in Germany measured using the relevant tax rate. The corresponding deferred tax assets from 2009 of €68.9 million and the increases in the previous year of €51.2 million were written down in full. In addition, valuation allowances on deferred tax assets by international units of €234.4 million, €11.8 million of which were from 2009, were recognized in the previous year and had a negative effect on the tax rate.

Net income attributable to the shareholders of the parent

The net income attributable to the shareholders of the parent increased by €666.2 million in 2011 to €1,242.2 million (PY: €576.0 million). This corresponds to earnings per share of €6.21 (PY: €2.88).

Reconciliation of EBIT to net income in € millions	2011	2010	Δ in %
Chassis & Safety	661.9	569.0	16.3
Powertrain	31.3	-198.1	115.8
Interior	331.2	197.0	68.1
Passenger and Light Truck Tires	1,080.3	993.3	8.8
Commercial Vehicle Tires	115.4	50.1	130.3
ContiTech	417.1	369.6	12.9
Other/consolidation	-40.3	-45.7	
EBIT	2,596.9	1,935.2	34.2
Net interest expense	-735.5	-697.2	-5.5
Earnings before income taxes	1,861.4	1,238.0	50.4
Income taxes	-536.2	-592.1	9.4
Net income	1,325.2	645.9	105.2
Non-controlling interests	-83.0	-69.9	-18.7
Net income attributable to the shareholders of the parent	1,242.2	576.0	115.7
Basic earnings per share (in €)	6.21	2.88	115.7