

## Financial Position

### Reconciliation of cash flow

Continental's cash flow from operating activities rose by €439.4 million year-on-year to €2,288.6 million (PY: €1,849.2 million) in 2011, corresponding to 7.5% (PY: 7.1%) of sales.

Free cash flow for fiscal 2011 amounted to €490.5 million (PY: €566.9 million). This corresponds to a decline of €76.4 million year-on-year.

Interest payments resulting in particular from the syndicated loan and the bonds fell by €34.6 million to €691.0 million (PY: €725.6 million).

Income tax payments decreased by €27.4 million to €465.6 million (PY: €493.0 million).

The increase in working capital had a negative impact, leading to a €59.3 million greater outflow of funds as against fiscal 2010. This cash-effective impact of the rise in operating working capital resulted from the expansion in operating receivables of €199.7 million, a reduction in inventories of €107.9 million and an increase in operating liabilities of €32.5 million.

The positive cash inflow of €38.2 million in 2010 from pension provisions was partially offset by outflows of €2.8 million in fiscal 2011.

Total cash outflows amounting to €1,798.1 million (PY: €1,282.3 million) resulted from investing activities, primarily due to the €478.6 million increase in investments in property, plant and equipment, and software to €1,721.2 million (PY: €1,242.6 million).

The acquisition of companies and business units resulted in a €29.4 million greater outflow of funds than in the previous year.

### Capital expenditure (additions)

Capital expenditure for property, plant and equipment, and software amounted to €1,711.3 million in 2011. Overall, there was a significant increase of €414.9 million as against the previous year's level of €1,296.4 million, with all divisions contributing to this increase. Capital expenditure amounted to 5.6% (PY: 5.0%) of sales.

### Financing and indebtedness

As of the end of 2011, gross indebtedness amounted to €8,562.4 million (PY: €8,990.5 million), down €428.1 million on the previous year's level.

On average, based on quarter-end values, 76.6% (PY: 56.6%) of gross indebtedness after hedging measures had fixed interest rates over the year.

The carrying amount of bonds rose slightly from €2,988.5 million at the end of 2010 to €2,996.2 million as of the end of fiscal 2011. The increase is essentially due to the marketing of a bond with a nominal volume of \$8.0 million and an interest rate of 7.75% p.a. launched by the company Continental Tire Andina S.A., Cuenca, Ecuador, in the fourth quarter of 2011. By the end of 2011, a nominal amount of \$7.2 million of this bond was placed with investors. The remaining \$0.8 million were issued in January 2012.

in € millions	Dec. 31, 2011	Dec. 31, 2010
Cash provided by operating activities	2,288.6	1,849.2
Cash used for investing activities	-1,798.1	-1,282.3
<b>Cash flow before financing activities (free cash flow)</b>	<b>490.5</b>	<b>566.9</b>
Dividends paid and repayment of capital to non-controlling interests	-37.9	-35.2
Proceeds from the issuance of shares	—	1,056.0
Non-cash changes	162.0	6.8
Other	-42.7	-28.1
Foreign exchange effects	-27.0	12.1
<b>Change in net indebtedness</b>	<b>544.9</b>	<b>1,578.5</b>

Liabilities to banks amounted to €4,492.6 million as of December 31, 2011 (PY: €5,144.9 million) and were therefore down €652.3 million on the previous year's level. In particular, this reduction is due to partial repayments of the syndicated loan.

With the renegotiation in late March 2011 of the syndicated loan originally maturing in August 2012, Continental successfully completed the final step in the refinancing package to improve its financial and capital structure that was agreed in December 2009. The results of this renegotiation mainly provide for longer terms and improved conditions. Furthermore, an easing of the restriction on dividend payments provided for in the financing conditions and the restriction on the annual investment volume was also agreed.

The repayment of the first tranche of the syndicated loan of €625.0 million originally agreed for August 2012 was implemented early at the end of December 2011 thanks to the positive business performance. The other two tranches, one of which is a revolving credit line of €2.5 billion, mature in April 2014. Following an early partial repayment of €484.9 million in April 2011, the committed volume of this loan was reduced to initially €6.0 billion and, after the further repayment described above in December 2011, to €5,375.0 million (PY: €6,484.9 million) as of December 31, 2011. As of the end of 2011, the syndicated loan had been utilized by Continental AG and Continental Rubber of America, Corp. (CRoA), Wilmington, U.S.A., and had a total value as of the end of the reporting period of €3,860.0 million (PY: €4,297.0 million). As a further outcome of the renegotiation, the credit margins for the syndicated loan were lowered. They have since been based on the Continental Corporation's leverage ratio (net indebtedness/EBITDA, according to the definition in the syndicated loan) rather than its rating. The leverage ratio had already improved as of June 30, 2011, which meant that Continental benefited from a further margin reduction for the syndicated loan in the third quarter of 2011. The associated expectation of a lower cash outflow for this loan led to an adjustment in profit or loss of the syndicated loan's carrying amount of €9.1 million as of June 30, 2011. Together with the adjustments of the carrying amount in profit or loss that were required in 2009 and 2010 due to rising margins and the associated anticipated higher cash outflow for the syndicated loan, the negative value of the carrying amount adjustments totaled €15.7 million

as of the end of December 2011. These deferrals will be amortized over the term of the loan and increase or reduce expenses accordingly.

As of the end of December 2011, there were still interest rate hedges of €3,125.0 million for the syndicated loan (PY: €3,125.0 million). The average fixed interest rate to be paid resulting from the hedges maturing in August 2012 is still 4.19% p.a. plus margin.

As of the end of July 2011, the cash flow hedge accounting for the partial amount of €2.5 billion of the tranche of the syndicated loan due in April 2014 was voluntarily terminated prematurely. Changes in the fair value of these hedges are now recognized directly in profit or loss. Income of €16.9 million has arisen since the de-designation of the cash flow hedges. Changes in value recognized in equity as a difference arising from financial instruments for the hedges by the end of July 2011 are reversed over the remaining term of the hedges. As of December 31, 2011, an expense of €25.1 million was recognized in profit or loss.

At the end of December 2011, hedge accounting for the partial amount of €625.0 million was terminated on account of the early repayment of the tranche of the syndicated loan originally due in August 2012. Changes in the fair value of these hedges are now recognized directly in profit or loss. An expense of €7.3 million has been incurred since the reversal of the cash flow hedges. Changes in value recognized in equity as a difference arising from financial instruments for the hedges by the end of December 2011 were recognized in full in profit or loss. This resulted in an expense of €14.2 million. There is still an economically effective hedge as the tranche repaid early at the end of December 2011 was refinanced in full by utilizing the revolving tranche of the syndicated loan, and the parameters of this utilization are still consistent with those of the interest hedge.

Furthermore, the promissory loans of Conti-Gummi Finance B.V., Maastricht, Netherlands, with a total value of €110.0 million maturing in August 2011, were repaid.

The various financial liabilities increased by €216.5 million to €1,073.6 million (PY: €857.1 million) as of the end of 2011. This is essentially due to the greater utilization of factoring programs as against the pre-

vious year, partly in connection with the rise in the financing volume, and a significantly higher volume of commercial papers issued. However, the finance lease liabilities and the negative fair values of derivatives were down on the previous year at €122.9 million (PY: €149.0 million) and €163.0 million (PY: €234.0 million) respectively.

The use of factoring programs increased by €168.0 million to €549.5 million (PY: €381.5 million). Since October 2011, the factoring program concluded in November 2010 with Norddeutsche Landesbank Luxembourg S.A. and Coface Finanz GmbH has continued with Norddeutsche Landesbank Luxembourg S.A. as the sole partner. The term of the prolonged program ends on September 28, 2012. The financing volume still amounts to €230.0 million (PY: €230.0 million). This program was fully utilized at the end of 2011 in the amount of €230.0 million (PY: €224.0 million). The indefinite factoring program in place with Landesbank Hessen-Thüringen Girozentrale since December 2010 provides for a financing volume of €150.0 million (PY: €150.0 million) and was fully utilized at €150.0 million (PY: €82.8 million) at the end of 2011. At the end of September 2011, the factoring program concluded with Wells Fargo Bank N.A. and The Bank of Nova Scotia was extended to include

Partner Bank of America N.A. and, in this context, its financing volume was increased from \$150.0 million to \$400.0 million. The agreement runs until September 30, 2012, with the option of prolongation by a further year. €169.5 million of its volume had been utilized as of the end of 2011 (PY: €74.7 million).

At €216.6 million, the volume of the commercial papers issued was up €130.1 million on the end of the previous year (€86.5 million).

At €1,790.3 million (PY: €1,673.5 million), cash and cash equivalents, derivative instruments and interest-bearing investments were up €116.8 million.

Net indebtedness fell by €544.9 million as against the end of 2010 to €6,772.1 million (PY: €7,317.0 million). The gearing ratio improved significantly year-on-year to 89.8% (PY: 118.0%).

As of December 31, 2011, Continental had liquidity reserves totaling €3,730.7 million (PY: €4,245.5 million), consisting of cash and cash equivalents of €1,541.2 million (PY: €1,471.3 million) and committed, unutilized credit lines totaling €2,189.5 million (PY: €2,774.2 million).