

## Net Assets, Financial and Earnings Position of the Parent Company

In addition to the reporting on the corporation as a whole, the performance of the parent company is presented separately below.

Unlike the consolidated financial statements, the annual financial statements of Continental AG are prepared in accordance with German commercial law (the German Commercial Code or *Handelsgesetzbuch* – *HGB* and the German Stock Corporation Act or *Aktiengesetz* – *AktG*). The management report of Continental AG has been combined with the consolidated report of the Continental Corporation in accordance

with Section 315 (3) *HGB* as the parent company's future risks and opportunities and its expected development are inextricably linked to that of the corporation as a whole. In addition, the following presentation of the parent company's business performance, including its results, net assets and financial position, provides a basis for understanding the Executive Board's proposal for the distribution of net income.

<b>Net assets and financial position of Continental AG</b>	<b>Dec. 31, 2011</b>	<b>Dec. 31, 2010</b>
<b>Assets in € millions</b>		
Intangible assets	9.3	6.6
Property, plant and equipment	1.5	3.3
Investments	11,072.7	11,075.4
<b>Non-current assets</b>	<b>11,083.5</b>	<b>11,085.3</b>
Inventories	0.0	0.4
Receivables and other assets	7,150.2	7,019.9
Short-term securities	–	0.0
Cash and cash equivalents	117.9	325.1
<b>Current assets</b>	<b>7,268.1</b>	<b>7,345.4</b>
<b>Prepaid expenses and deferred charges</b>	<b>79.9</b>	<b>57.5</b>
<b>Total assets</b>	<b>18,431.5</b>	<b>18,488.2</b>
<b>Shareholders' equity and liabilities in € millions</b>		
Subscribed capital	512.0	512.0
Capital reserves	4,179.1	4,179.1
Revenue reserves	54.7	54.7
Accumulated profits (PY: Accumulated losses) brought forward from the previous year	61.1	-993.7
Net income	447.4	1,054.8
<b>Shareholders' equity</b>	<b>5,254.3</b>	<b>4,806.9</b>
<b>Provisions</b>	<b>661.6</b>	<b>645.5</b>
<b>Liabilities</b>	<b>12,515.5</b>	<b>13,035.7</b>
<b>Deferred income</b>	<b>0.1</b>	<b>0.1</b>
<b>Total equity and liabilities</b>	<b>18,431.5</b>	<b>18,488.2</b>
Gearing ratio in %	102.3	119.4
Equity ratio in %	28.5	26.0

Effective January 1, 2011, Continental AG sold the Chassis & Safety division's legally dependent research and development/prototyping business operations to Continental Teves AG & Co. oHG, Frankfurt.

Following the disposal of the last remaining operating unit of Continental AG – after the carve-out of its tire activities in 2009 – Continental AG now acts solely as a management and holding company for the Continental Corporation.

In order to duly reflect the nature of Continental AG as a holding company, its net investment income will be presented as its primary earnings figure from this fiscal year onwards.

The reporting in the previous year's statement of income has been restated to ensure comparability. As a result, the sales figure for the previous year (€27.6 million) has been reclassified as other operating income, while the cost of sales (€26.4 million) and selling expenses (€0.1 million) have been reclassified to other operating expenses.

Total assets declined by €56.7 million year-on-year to €18,431.5 million (PY: €18,488.2 million). This change is essentially due to the €207.2 million reduction in cash and cash equivalents. Offsetting this, receivables from affiliated companies rose by €124.7 million.

Investments decreased by €2.7 million as against the previous year to €11,072.7 million (PY: €11,075.4 million) and now account for 60.1% of total assets

after 59.9% in the previous year. Shares in affiliated companies fell by €21.1 million to €10,797.1 million (PY: €10,818.2 million), essentially as a result of the sale of Continental Automotive Systems Changshu Co., Ltd., Changshu, China, for the amount of €25.3 million to another member of corporation. Offsetting this, the trust assets of Continental Pension Trust e.V. rose by €10.6 million and its investment securities by €7.8 million.

Prepaid expenses and deferred charges increased by €22.4 million to €79.9 million (PY: €57.5 million). This rise essentially resulted from expenses that arose for the renegotiation of the syndicated loan originally set to mature in August 2012.

On the liabilities side, liabilities to banks decreased by €644.6 million year-on-year to €3,526.9 million (PY: €4,171.5 million), corresponding to 15.4%. The reduction results primarily from an early partial repayment of the syndicated loan in April 2011 in the amount of €484.9 million.

Subscribed capital remained unchanged as against the previous year and amounted to €512,015,316.48 as of the end of the reporting period.

As in the previous year, net investment income mainly relates to profit transfer agreements. The income from profit transfer agreements essentially results from Continental Automotive GmbH, Hanover (€464.1 million), Formpolster GmbH, Hanover (€250.5 million) UMG Beteiligungsgesellschaft mbH, Hanover (€68.8

Statement of income of Continental AG in € millions	2011	2010
<b>Net investment income</b>	<b>1,229.1</b>	<b>2,025.0</b>
General administrative expenses	74.7	60.3
Other operating income	94.0	122.7
Other operating expenses	213.6	364.4
Income from other securities and long-term loans	14.2	12.5
Net interest expense	-565.4	-594.0
<b>Result from ordinary activities</b>	<b>483.6</b>	<b>1,141.5</b>
Extraordinary result	—	-2.7
Income tax expense	-36.2	-84.0
<b>Net income</b>	<b>447.4</b>	<b>1,054.8</b>
Accumulated profits (PY: Accumulated losses) brought forward from the previous year	61.1	-993.7
<b>Retained earnings</b>	<b>508.5</b>	<b>61.1</b>

million) and Continental Caoutchouc-Export-GmbH, Hanover (€416.8 million). As compared to the previous year, the decline in net investment income of €795.9 million to €1,229.1 million (PY: €2,025.0 million) was due in particular to the profit transfer from Continental Caoutchouc-Export-GmbH, Hanover. In the previous year, it had received a non-recurring dividend distribution of €1,000.0 million from Continental Global Holding Netherlands B.V., Amsterdam, Netherlands, through the profit transfer from CAS-One Holdinggesellschaft mbH, Hanover.

As in the previous year, other operating income and other operating expenses particularly include expenses and income from corporate overheads or cost credits and charges from or for other subsidiaries.

The €28.6 million year-on-year improvement in net interest expense to €565.4 million is due to the reduction of net indebtedness and the drop in margins for the syndicated loan to below prior-year levels. These two effects by far more than offset the costs of higher average market interest rates in 2011 and of the bonds issued by Conti-Gummi Finance B.V., Maas-

tricht, Netherlands, which were passed on to Continental AG by way of corporation loans.

The tax expense of €36.2 million resulted from current expenses in Germany, non-imputable foreign withholding tax and a tax refund for previous years owing to a reassessment of a pending tax position.

After taking this tax expense into account, Continental AG posted net income for the year of €447.4 million (PY: €1,054.8 million). The after-tax return on equity was 8.5% (PY: 21.9%).

Taking into account the profit carryforward from the previous year of €61.1 million, retained earnings amounted to €508.5 million. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €1.50 per share. With 200,005,983 shares entitled to dividends, the total distribution will therefore amount to €300,008,974.50. The remaining amount is to be carried forward to new account.

We expect a continuing positive development in the operating results of our subsidiaries in fiscal 2012.