Annual Press Conference Continental AG

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Statements by the Chief Executive Officer of Continental Aktiengesellschaft,
Dr. Elmar Degenhart, and the company's Chief Financial Officer, Wolfgang Schaefer

Check against delivery.

Please note that all data are preliminary figures
subject to approval and adoption by the Supervisory Board.

Dr. Elmar Degenhart, CEO of Continental AG:

Good afternoon, Ladies and Gentlemen!

I would like to welcome you on behalf of the Executive Board of Continental AG.

The big trade shows in Frankfurt, Las Vegas and Detroit have shown automated driving to be a major trend of the future – and by no means just a lot of hype. We were one of the first companies to point up prospects for this. We want to cooperate with top companies: with Cisco on secure data transmission; with IBM in analyzing and processing large quantities of data; and with the Nokia business HERE when it comes to high-precision map technologies for the electronic horizon. We are working closely with customers, for example with BMW.

Based on driver assistance systems, we are already developing solutions for partially automated driving in 2016.

Highly automated driving will follow by 2020.

Fully automated driving is to be a reality in 2025.

Each of these partial steps opens up growth opportunities for our company. We want to take advantage of these opportunities in a way that is typical of Continental: proactive, reliable, agile, intelligent, innovative and efficient.

Most of you have been accompanying us for a long time now.

You are therefore aware that we successfully passed a number of important milestones in 2013.

1. **We gained the maneuvering room for a more-than-billion-euro acquisition. We are going to make use of this for the agreed purchase of Veyance Technologies, Inc. in the U.S.**

2. **In our operating earnings, we absorbed significant negative exchange rate effects.**
3. **We impressively reaffirmed our operational strength.**
4. **Our Automotive Group once again acquired orders amounting to €25 billion.**
5. **Our Tire division launched production in no fewer than two new plants. We adhered to, and in some cases improved on, the schedule and the budget of these huge projects.**

This list could easily be extended. It illustrates both the agility and the Passion To Win of the Continental team all around the world. Our team realized very good results for 2013. For this, a big thank-you to our employees on behalf of the whole Executive Board. In 2013, we were able to gain more than 8,000 new team members! At the end of the year, the number of employees totaled around 178,000. Their "work of value" created value that resulted in the following figures:

- Our shareholders can be pleased with a consolidated net income of more than €1.9 billion, equivalent to €9.62 per share. In 2012, the figure was €9.53 per share.
- We intend to pay out a dividend of €2.50 per share, which equates to a ratio of 26 percent. We shall submit a corresponding proposal.
- With the remaining earnings, we intend to strengthen our equity. At the end of 2013, the equity ratio was 35 percent.
- In 2013, we reduced our net indebtedness by another billion euro. It now amounts to just under €4.3 billion. The gearing ratio – i.e. net indebtedness in relation to equity – is 46 percent. We have not closed a year with net indebtedness this low since fiscal 2006.
- We spent approximately €1.9 billion on research and development. That was more than ever before. We are among the most innovative companies in the DAX.

- We once again invested around €2 billion, primarily in factories and production systems.
- And let's not forget that our employees earned compensation of almost €5.8 billion, with social security and retirement benefits accounting for around an additional €1.4 billion.

All of this shows you that in 2013 we continued to pursue our goals reliably, rigorously, and efficiently. Looking back, we achieved more overall than we had expected.

For years now, we have been persistently expanding our room for maneuvering. This requires energy and patience in equal measure, especially when there is a great deal of good ideas for acquisitions.

However, we stuck to our course and maintained our balance, firstly reducing indebtedness and improving the corporation's financial position. At the same time we have been investing heavily in the future and strengthening our capacity for innovation. In the interim we additionally made smaller acquisitions.

We have now gained the financial flexibility for larger acquisitions: We have come to terms with The Carlyle Group on the purchase of Veyance Technologies, Inc. The transaction is worth approximately €1.4 billion to us. With its roughly 9,000 employees, Veyance realizes annual sales in the order of €1.5 billion. 90 percent of this is generated in the non-automotive industrial sector.

Our patience has paid off: We are able to finance the agreed purchase with liquid funds and available credit lines. And: Despite the more-than-one-billion-euro purchase, the rating agencies have reaffirmed our investment grade. By purchasing Veyance, we intend to strengthen our business in the non-automotive industrial sector. The rubber and plastics technology specialist ideally matches up with our ContiTech division in terms of both product range and markets.

We can improve our position in areas where we do not yet have a strong position at this time.

You are aware of our goal of reducing dependence on the automotive original equipment industry. Veyance is a good fit in this respect, too: Once the antitrust authorities have approved the deal, we shall be able to make good headway here. Further steps are to follow: Firstly, in the form of continuous expansion of our replacement tire business. And then too, we are not ruling out the possibility of further acquisitions.

Our approach and our strategy clearly meet with a positive response from investors. In 2013 our share price rose 82 percent, putting us at the top of the DAX for the second time in a row.

Investing in the Continental share paid off again in 2013!

We are looking ahead in the current year with confidence. We expect the markets to develop much the same as in 2013: North America is likely to grow further. We also anticipate good growth in Asia, with China acting as the powerhouse. Europe is slowly emerging from its slump, but it is still too early for optimism. The economic situation remains tight, especially in the Southern European countries.

Nonetheless, we aim to up sales 5 percent to around €35 billion. We again reckon with negative exchange rate effects of a considerable magnitude. These should not, however, hurt our return on sales. We want to again achieve an adjusted EBIT margin of over ten percent.

Our business in 2014 has already been encouraging for the rest of the year. We expect sales to be up 3 percent to 4 percent in the first quarter. The persistently unfavorable development of exchange rates weigh on our performance. It is likely to have a negative impact of up to 4 percentage points on sales growth in the first quarter of 2014. Adjusted EBIT in the first quarter of 2014 will be higher year on year.

Seasonal factors will drive net indebtedness up in the first three months of the present year. There will be more on our outlook later.

But first I shall hand the podium over to my colleague Wolfgang Schaefer, who will describe the key data and facts for fiscal 2013.

Wolfgang Schaefer, Chief Financial Officer:

Thank you, Mr. Degenhart. You already mentioned the efficiency and agility of the Continental team, and this is clearly reflected in our key figures:

- In 2013 we generated sales of €33.3 billion, representing an increase of 1.8 percent. However, exchange rate effects had a strong impact on key figures like sales – and, to be sure, a negative impact. This "headwind" worked out to more than €800 million. Added to sales, these results in a total of more than €34 billion. And that was our original target for the year.
- The operating result (EBIT) amounted to almost €3.3 billion, representing an improvement of 2.4 percent.
- Our EBIT margin rose slightly from 9.7 percent to 9.8 percent.
- Adjusted EBIT amounted to a good €3.7 billion. This figure is adjusted in particular to account for depreciation and amortization due to acquisitions and for special effects.
- The adjusted EBIT margin rose from 11.0 percent to 11.3 percent. We thus significantly exceeded our original forecast.
- At a good €1.9 billion, net profit was within the target range.
- As in the previous year, free cash flow was considerably higher than we had expected. It increased again by more than €160 million to approximately €1.8 billion. This also reflects our constant work to improve the working capital ratio.

Our tax rate was 18.3 percent after 26.0 percent the previous year. This was due largely to the necessity of reporting deferred taxes in the U.S. on the assets side in the amount of a good €250 million. Business continues to show a gratifying development in the U.S., so we estimate future realization as likely. This has the effect of lowering the effective tax rate. More interesting than how high reporting renders our effective tax rate is how much we actually paid in taxes.

And that is a good €800 million, which is around €120 million more than in the previous year and works out to a rate of around 33 percent.

Elmar Degenhart already mentioned our net indebtedness of approximately €4.3 billion. That's another billion euros lower than at the end of 2012. This will help us in terms of net interest in future. In fiscal 2013, non-cash effects were the chief factor negatively impacting on net interest. It amounted to expense of a good €800 million, around €300 million more than in 2012. This increase is due chiefly to one-off effects in conjunction with the repayment of four bonds that we issued in 2010 and repaid early in 2013. This resulted in non-cash valuation losses, as well as premiums for early repayment amounting to approximately €110 million.

However, interest expenses themselves decreased by around €80 million. They still amounted to roughly €480 million. For the current year, we are assuming a negative net interest expense of under €400 million. This is less than half of the previous year's figure. There are two reasons for this: Firstly, the extraordinary impact from the early repayment of the bonds constitutes a one-off effect. Secondly, we are anticipating lower interest expenses as a result of improved conditions and reduced debt.

We are also very satisfied with our liquidity buffer, which grew by €680 million and embraced more than €5.9 billion at the end of the year. It consists of cash and cash equivalents of around €2 billion and unutilized credit lines of a good €3.8 billion.

This allows us to run our business on a secure and solid basis. It also provides scope for fast and agile action – as in the case of Veyance.

All in all, our corporate financing is on a rock-solid foundation. This is confirmed by the three major rating agencies Moody's, Standard & Poor's, and Fitch. All three have placed us back in the investment grade category without restriction – for the first time since 2008!

Dr. Elmar Degenhart, CEO of Continental AG:

Thank you, Mr. Schaefer.

Ladies and Gentlemen, as you can see we are continuing to work at full throttle.

I already mentioned automated driving at the beginning of my speech. In addition, we are working on clean and efficient drive technologies, and on communication systems and services. There will also be a focus on developing new materials and sustainable raw materials. This also applies, by the way, to our Rubber divisions. Obtaining natural rubber from dandelions is just one of many examples.

All of this clearly demonstrates that our industry is facing profound challenges. The digitalization of all areas of life is continuing to increase at a rapid pace. It is bringing changes in both mobility and industrial production. It requires us to develop entirely new solutions. Already today, our assistance systems help millions of drivers around the world. They help them stay in lane when driving. They monitor the blind spot. They avoid rear-end collisions at the tail end of traffic jams. They prevent accidents with pedestrians in cities. In this way, we make a significant contribution to increased safety in road traffic.

Our vision is: zero accidents. And this is no longer a utopian vision! We are convinced that road accidents should be ending up as commemorative souvenirs in museums!

But our assistance systems don't just help substantially reduce the number of accident victims. They also enhance comfort and quality of life for their users. They foster safe communication while driving.

There is already a very high level of interest in such advanced driver assistance systems.

Our international "Continental Mobility Study 2013", among other things, indicates this: In Germany alone, 90 percent of the respondents consider driver assistance systems very helpful. In the four key markets of the U.S., China, Germany, and Japan, the majority of those surveyed is open to automated driving.

Even the respondents’ price expectations are at a realistic level: The Germans feel that it would be worth paying an average of around €3,000 to have their cars equipped for highly automated freeway driving at speeds of up to 130 km/h. And that's on top of the standard price!

Incidentally, already in 2016, we expect to generate sales of around a billion euros with driver assistance systems. That's in just two years' time! We're talking about growth of more than 30 percent per year here.

We are also moving quickly and efficiently in terms of our investments. Let me just give you two impressive examples: In the fall of 2013, we began manufacturing passenger tires for the Russian market at our newly constructed plant in Kaluga, Russia. Some 800 employees will initially be producing 1.5 million summer and winter tires there. In the long term, capacity can be increased to more than 10 million passenger tires per year. We adhered to, and in some cases improved on, the schedule and the budget.

Our new tire plant in Sumter, South Carolina, in the U.S., went into operation at the beginning of 2014. From 2016 on, this plant will produce around 4 million passenger tires each year. By 2021, this is to increase to as much as 8 million tires per year. With a total investment of around $500 million, this plant will create additional 1,600 jobs. Here, too, we adhered to, and in some cases improved on, the schedule and the budget.

Like our other sites, both of these new plants will manufacture test-winning products: Our Tire division was once again awarded several top scores for its products in 2013. This is another clear indicator of our research and development success.

Fast and agilely, intelligently and innovatively – this also characterizes how our three Automotive divisions are moving along. Roughly half of their current product portfolio consists of the 20 fastest-growing automotive products and systems. To cite a few examples: We sell more than 20 million electronic braking systems each year. You'll know them as ABS (anti-lock braking systems) and ESC (electronic stability control).

The "48 Volt Eco Drive" system is designed for powertrain hybridization. It enables efficient recovery of braking energy. Combined with energy management, it allows for fuel savings of around 13 percent.

Our new head-up display (HUD) can superimpose photorealistic images and 3D animations directly in the driver's field of vision, thus making information more intuitively comprehensible for drivers.

The European Commission intends to introduce the automatic emergency call system eCall into all new vehicles. We are already manufacturing this system in batch production. In the event of an accident, it automatically sends an emergency call. A pan-European test showed that 90 percent of calls reached the emergency response centers within 20 seconds.

In 2013 we spent approximately €1.9 billion on research and development. This is equivalent to 5.6 percent of annual sales. There are around 10,000 software developers working on mobility of the future at our company. This makes us one of Germany's largest employers for this profession.

And while we're on the topic of the future, I would now like to give you a brief outline of our key **assumptions regarding market development**:

- We expect global vehicle production to increase by around 2 percent for passenger cars, SUVs and light commercial vehicles.
- Europe and NAFTA are very important to our tire replacement business. There, we likewise anticipate an increase of 2 percent, which would mean a total of 11 million more tires in these two markets than in 2013. Together with further growth effects in Asia and South America, we thus reckon with an overall rise in the replacement tire market of 3 percent.

On this basis, we have set ourselves the following **targets for fiscal 2014:**

- We want to grow by 5 percent and aim to generate sales of approximately €35 billion.
- The anticipated negative exchange rate effects of a considerable magnitude should not hurt our return on sales.
- We intend to comfortably achieve an adjusted EBIT margin of over 10 percent.
- Net interest expense is expected to be less than €400 million.
- We reckon with special effects in the order of €50 million.

- Amortization from the purchase price allocation will decrease considerably. It mainly results from the acquisition of Siemens VDO in 2007. It will amount to around €190 million this year and expire at year's end. In each of the previous years, it was twice as high.
- The capital expenditure ratio will again amount to roughly 6 percent.
- We are planning on free cash flow of at least €1.2 billion before acquisitions and dividend payments.
- Despite the agreed purchase of Veyance, our key balance sheet ratios will remain sound. Even after the announcement of the transaction, the three rating agencies still consider us investment grade.

Ladies and Gentlemen,

Last year we achieved further significant milestones on our successful path. We strengthened the foundations for profitable growth. We demonstrated our future potential.

As you can see, the future starts earlier with Continental – both for our customers and for investors.

Now I look forward to your questions!