

Do not release before Wednesday, April 29, 2009, 08:30 h a.m. (CET)

Auto Market Slump Severely Affects Continental AG in the First Quarter of 2009

- Consolidated sales follow market trend, falling 35.2% to €4.30 billion
- EBIT drops to -€165.0 million
- Adjusted EBIT almost at breakeven with -€46.6 million
- Automotive supplier complies with key financial figures (covenants) agreed with the banks, despite significant declines in sales and earnings / per-share earnings amount to -€1.58

Hanover, April 29, 2009. The slump in worldwide vehicle production left scars on the performance of Continental AG, Hanover, during the first quarter of 2009. Consolidated sales dropped sharply; the Automotive Group sales decreased parallel to the development of the market. The decline in Rubber Group sales was much less severe owing to a larger percentage of its business coming from the aftermarket sector. EBIT performance slipped into the red, mainly on account of the highly negative trend in sales, and despite the biggest cost reduction program in the company's history.

“We acted resolutely in putting the brakes on spending but were unable to compensate for these enormous tremors in the market. However, we did succeed in keeping to the covenants agreed with our lenders”, said Continental’s Executive Board chairman, Dr. Karl-Thomas Neumann, on Wednesday in Hanover. “The business environment will remain very difficult in the second quarter as well. So, compliance with the agreed key financial figures will still pose a major challenge. In light of the slight improvement in market conditions in March, however, we are confident that we shall be able to meet this challenge successfully.”

Continental Corporation	€ millions		Margin in %	
	1-3/2009	1-3/2008	1-3/2009	1-3/2008
Sales	4,302.0	6,639.4		
EBITDA	249.5	884.0	5.8	13.3
EBIT	-165.0	456.7	-3.8	6.9
Adjusted EBIT *	-46.6	581.9	-1.1	9.1
Net income attributable to the shareholders of the parent	-267.3	166.8		
Earnings per share (in €)	-1.58	1.03		

* Before amortization of intangible assets from PPA, changes in the scope of consolidation, and special effects.

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Consolidated sales for the first three months of 2009 fell by 35.2% to €4,302.0 million (Q1 2008: €6,639.4 million). Before changes in the scope of consolidation and exchange rate effects, sales dropped by 33.0%. These falloffs in sales were primarily attributable to severe slumps in Continental's key markets: First-quarter automobile production in Europe and North America plunged by 45%, and was once again significantly below the volume for the previous quarter; production in the last quarter of 2008 had already declined 28%.

In the first three months of 2009, EBIT before amortization of intangible assets from PPA, changes in the scope of consolidation, and special effects was down compared with the same period of last year by €628.5 million to -€46.6 million (Q1 2008: €581.9 million), equivalent to -1.1% (Q1 2008: 9.1%) of adjusted sales. In the first quarter of 2009, **consolidated EBIT** was down €621.7 million on the previous year to -€165.0 million (Q1 2008: €456.7 million). The return on sales fell to -3.8% (Q1 2008: 6.9%). **Net income attributable to the shareholders of the parent** was down -€267.3 million (Q1 2008: €166.8 million), with earnings per share lower at -€1.58 (Q1 2008: €1.03).

In the first three months of 2009, €239.8 million (Q1 2008: €352.1 million) was **invested** in property, plant, equipment and software. In view of the adjustments in the scope of capital spending, the company's capital expenditure ratio remained virtually unchanged at 5.6%, after 5.3% for the comparable period of last year, despite substantial sales volume declines. **Research and development expense** totaled €386.5 million, down 6.9% on the same period of last year, and is equivalent to 9.0% of sales, after 6.3% for the first quarter of 2008. This higher percentage results from the lower sales basis.

At -€127.9 million, **net interest expense** for the Continental Corporation improved by €78.9 million in the first three months of 2009 compared with the same period of last year (Q1 2008: -€206.8 million), this improvement being due in particular to exchange rate effects, for the most part with no effect on cash, in the amount of €32.9 million (Q1 2008: -€48.6 million). Interest expense was down €8.0 million to €170.5 million, despite the higher margins resulting from the renegotiation of loan terms in January. The reason for this was the sharp drop in money market interest rates which more than offset the increase in cost due to the new loan terms.

In the first quarter of 2009, **free cash flow** stood at -€566.7 million, down €250.0 million on the first quarter of 2008. In particular, interest payments totaling -€246.1 million (Q1 2008: -€154.1 million) resulting from the purchase price financing for the acquisition of Siemens VDO had a negative impact. This figure includes one-off payments totaling about €70 million resulting from the renegotiations of the loan agreements as of January 23, 2009. Free cash flow was also impacted by the squeeze out redemption paid to the minority shareholders of ContiTech AG on February 16, 2009, amounting to some €37 million. There was a positive effect, however, from the €500.2 million reduction of working capital.

At €11,041.5 million, **net indebtedness** of the Continental Corporation was €179.6 million lower than on March 31, 2008. Owing to seasonal influences, however, it was €558.0 million higher than at the end of 2008. Despite the comparable-period reduction in net indebtedness, the **gearing ratio** increased to 210.0% (Q1 2008: 162.3%) due to the reduced equity versus the same period last year. At the end of the first quarter of 2009, Continental had more than €2.892 billion available as a liquidity cushion.

As of March 31, 2009, Continental's **employees** numbered 132,834, a decrease of 6,321 compared with the end of 2008, which was mainly attributable to the deterioration in the general economic environment.

A glance at the two groups of the Continental Corporation shows the clear impact of the global financial and economic crisis. Substantial drops in auto industry production, particularly in the key markets of Europe and NAFTA (-45%), caused sales to plunge some 40% in the Automotive Group. EBIT fell to -€266.3 million (Q1 2008: €212.0 million).

Automotive Group	€ millions		Margin in %	
	1-3/2009	1-3/2008	1-3/2009	1-3/2008
Sales	2,521.3	4,351.3		
EBITDA	46.1	538.2	1.8	12.4
EBIT	-266.3	212.0	-10.6	4.9
Adjusted EBIT *	-150.8	337.4	-6.0	8.2

The adverse market environment also took its toll on the Rubber Group's performance. Its sales were down during the first quarter of 2009 by about 22% compared with the same period of last year.

The two tire divisions especially are facing severe overcapacities in Europe which have to be adjusted to market conditions. Although the group's EBIT was more than halved from €254.9 million to €112.9 million, it still had a calming effect on the negative trend in consolidated EBIT, despite its heavy decline.

Rubber Group	€ millions		Margin in %	
	1-3/2009	1-3/2008	1-3/2009	1-3/2008
Sales	1,783.6	2,292.2		
EBITDA	215.1	355.0	12.1	15.5
EBIT	112.9	254.9	6.3	11.1
Adjusted EBIT *	115.7	254.7	6.5	11.2

Commenting on the **outlook** for the company's business, Dr. Neumann pointed out that in view of the continuing turbulence on the financial markets, the recession in many parts of the world and the lack of reliable underlying data, it was extremely difficult to forecast how the year would develop on the whole. "Considering the fact that we have complied with the covenants in the first quarter of 2009 and that business activities during the first three months have revived, we are assuming, as things look now, that we will be able to comply with our credit agreements throughout the remainder of the year as well, despite the adverse economic conditions", said Dr. Neumann. "Our uppermost goal remains that of reducing debt. We still anticipate substantial free cash flow in 2009. This will be fostered by the suspension of the dividend, substantial cuts in capital spending, and further reductions in fixed costs."

"Based upon the latest information, we are expecting a clear revival in sales and operating results in the second quarter of 2009 compared to the very weak first quarter of this year. However, the plant closures announced for the Passenger and Light Truck Tires, Commercial Vehicle Tires as well as ContiTech divisions will result in restructuring expenses in the coming quarters. As a result of this and other factors, considerable deviations can thus still arise in comparison with last year's figures", said Dr. Neumann. He also repeated his announcement to provide a joint concept for the future cooperation between the Schaeffler Group and Continental in 100 days at the latest. The future strategy, financing and extent of cooperation shall be covered by this concept.

With sales exceeding €24 billion in 2008, the Continental Corporation is one of the top automotive suppliers worldwide. As a supplier of brake systems, systems and components for powertrains and chassis, instrumentation, infotainment solutions, vehicle electronics, tires and technical elastomers, the corporation contributes to enhanced driving safety and global climate protection. Continental is also an expert partner in networked automobile communication. The corporation currently employs approximately 133,000 at nearly 190 locations in 35 countries.

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