Continental

Press Release

Continental Raises Forecast for the Year to more than €25 Billion in Sales and 9% Adjusted EBIT Margin

- **EBIT increases to €1.38 billion after nine months**
- **Sales of €19.1 billion after three quarters / Adjusted* EBIT margin 9.4%**
- **Increase in raw material costs burdens Rubber Group with more than €450 million in 2010**
- **Net income impacted by special effects**
- **Free cash flow of about €500 million expected in fourth quarter – considerable reduction in debt possible**

Hanover, November 3, 2010. The Continental Corporation will achieve sales of more than €25 billion in fiscal 2010. At the same time, after three quarters the international automotive supplier is increasing its target margin for the full fiscal year from 8 – 8.5% to approximately 9%. Continental posted sales of €19.1 billion and an adjusted* EBIT of €1.79 billion after three quarters, thus exceeding the pre-crisis level of the first three quarters of 2008. At 9.4%, the adjusted* EBIT margin after nine months also exceeded the comparable 2008 level.

“Step-by-step, Continental is regaining its former strength. With great efficiency, we have managed to make use of the tailwind of the economic recovery and the strong growth in Asia. After three quarters, we are now increasing our previous sales target to over €25 billion and, at the same time, the target for our adjusted* margin to about 9% for the full fiscal year," said Continental Executive Board chairman Dr. Elmar Degenhart on Wednesday upon publication of the financial report for the first nine months. "In addition, we managed another major step in our refinancing activities in the period from July to October. We were able to quickly place bonds in volumes totaling €3 billion at reasonable conditions on the financial market and reduce our bank loans by the net proceeds from these placements while substantially improving our debt maturity profile. In doing this, we have created a good and solid basis for the refinancing of our bank loans that become due in 2012."

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Consolidated sales for the first nine months of 2010 rose 32.9% year-on-year to €19,144.2 million (PY: €14,400.2 million). Before changes in the scope of consolidation and exchange rate effects, sales were up 28.8%.

Continental Corporation	**€ millions**		**Margin in %**	
	1-9/2010	**1-9/2009**	**1-9/2010**	**1-9/2009**
Sales	19,144.2	14,400.2		
EBITDA	2,611.2	1,137.8	13.6	7.9
EBIT	1,376.2	-1,038.0	7.2	-7.2
Adjusted EBIT*	1,790.8	667.6	9.4	4.7
Net income attributable to the shareholders of the parent	363.0	-1,495.6		
Earnings per share (in €)	1.82	-8.85		

The **adjusted* EBIT** for the corporation was up in the first nine months of 2010 compared with the same period of 2009 by €1,123.2 million, or 168.2%, to €1,790.8 million (PY: €667.6 million), equivalent to 9.4% (PY: 4.7%) of adjusted** sales. In the first nine months of 2010, consolidated **EBIT** was up €2,414.2 million on the previous year to €1,376.2 million (PY: -€1,038.0 million), an increase of 232.6%. The return on sales was higher at 7.2% (PY: -7.2%). **Net income attributable to the shareholders of the parent** was up 124.3% to €363.0 million (PY: -€1,495.6 million), with earnings per share higher at €1.82 (PY: -€8.85).

At €8,092.1 million, the **net indebtedness** of the corporation on September 30, 2010, was €803.4 million lower than on December 31, 2009, and €1,372.7 million lower than on September 30, 2009 (PY: €9,464.8 million). This reduction in net indebtedness was attributable mainly to the very strong free cash flow at the end of 2009, as well as to the capital increase which was implemented successfully in January 2010 and led to net proceeds of €1,056.0 million (before tax effects). This was partially offset by the increase in working capital resulting from strong sales during the first nine months of 2010. On September 30, 2010, the gearing ratio amounted to 137.9% (PY: 225.9 %), a strong year-on-year improvement.

At -€531.4 million, **net interest expense** increased by €14.0 million in the first nine months of 2010 compared with the same period of the previous year (PY: -€517.4 million).

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This increase is due primarily to the deferred financing expenses released to income in an amount of €33.8 million, resulting from the early partial repayment of syndicated bank loans related to the acquisition of VDO. Taking this special effect into account, interest expense resulting from the VDO loan and the forward start facility amounted to €486.3 million (PY: €446.6 million) in the first nine months of 2010. “Compared to last year, credit margins are higher due to the deterioration of our rating in 2009 und 2010, but thanks to the low market interest rates and the considerable reduction of our financial liabilities, we have been able to nearly offset the higher margins in full,” said Wolfgang Schäfer, CFO of Continental AG.

In the first nine months of 2010, **research and development expenses** rose by 4.7% compared with the same period of 2009 to €1,143.5 million (PY: €1,092.4 million), representing 6.0% (PY: 7.6%) of sales. In the first three quarters of 2010, €782.3 million (PY: €587.5 million) was invested in property, plant, equipment and software, corresponding to a **capital expenditure ratio** after nine months of 4.1% (PY: 4.1%).

At the end of the third quarter, the corporation’s **employees** numbered 146,190, an increase of 11,756 compared with the end of 2009. Growth in customer demand, above all in the Automotive Group and the ContiTech division, led to workforce increases of 7,338 and 3,379 respectively. The number of employees working for the Tire divisions rose by 1,026.

A **glance at the two groups** shows that the substantial recovery of the global economy had a positive effect on the business development. The **Automotive Group** was able to achieve sales totaling €11,780.2 million and, despite the persistent shortage of electronic components, a positive EBIT margin of 3.3% (PY: -17.5%). “We made the most out of the economic tailwind and will achieve the turnaround in the Powertrain division already a year earlier than planned,” Degenhart said.

Automotive Group	**€ millions**		**Margin in %**	
	1-9/2010	**1-9/2009**	**1-9/2010**	**1-9/2009**
Sales	11,780.2	8,582.1		
EBITDA	1,295.1	343.0	11.0	4.0
EBIT	393.4	-1,499.4	3.3	-17.5
Adjusted EBIT*	764.1	-11.6	6.5	-0.1

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The **Rubber Group** also used the economic recovery, reaching sales of €7,380.8 million (PY: €5,828.4 million). Despite record burdens from raw materials, the overall adjusted results after nine months have already exceeded the level that was achieved in fiscal 2009. “That is a great achievement, and is very deserving of respect,” Schäfer added. “The impact from the increase in raw material costs will however exceed €450 million for the Rubber Group for the entire year 2010. In the remaining months of this year, it will be possible to only partially offset this impact with mix improvements, increases in efficiency and the price increases that have already been announced.”

Rubber Group	**€ millions**		**Margin in %**	
	1-9/2010	**1-9/2009**	**1-9/2010**	**1-9/2009**
Sales	7,380.8	5,828.4		
EBITDA	1,355.5	920.9	18.4	15.8
EBIT	1,024.3	588.8	13.9	10.1
Adjusted EBIT*	1,079.3	728.9	14.8	12.5

Outlook: Even though the forecast for sales and the adjusted* EBIT margin are being increased again, the net income attributable to the shareholders of the parent will not match the improvement in operating results. This is due primarily to one-time reversals of non-cash deferrals reported under net interest expense. These reversals resulted from the full repayment of the forward start facility and the partial repayment of the syndicated VDO loan. The write-down of deferred tax assets on tax loss carryforwards as well as the interest carryforward (interest limit), which after the first nine months amounted to €222 million in the U.S.A. and Germany alone, had an even greater effect. For that reason, the corporate tax rate will be about 50% in the current year, thus deviating substantially from the budgeted rate of 28%. The corporation therefore expects net income to be only approximately €400 million in 2010.

Free cash flow of some €500 million is expected in the fourth quarter of 2010. It will thus be possible to reduce net indebtedness to well below €8 billion, despite an increase in capital expenditure of about €400 million, cash outflow for restructuring measures of approximately €300 million and the build-up of working capital.

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

With sales of approximately €20 billion in 2009, Continental is among the leading 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, Continental contributes to enhanced driving safety and global climate protection. Continental is also a competent partner in networked automobile communication. Continental currently employs approximately 146,000 in 46 countries.

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Financial report as of September 30, 2010: www.conti-online.com/financialreport

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