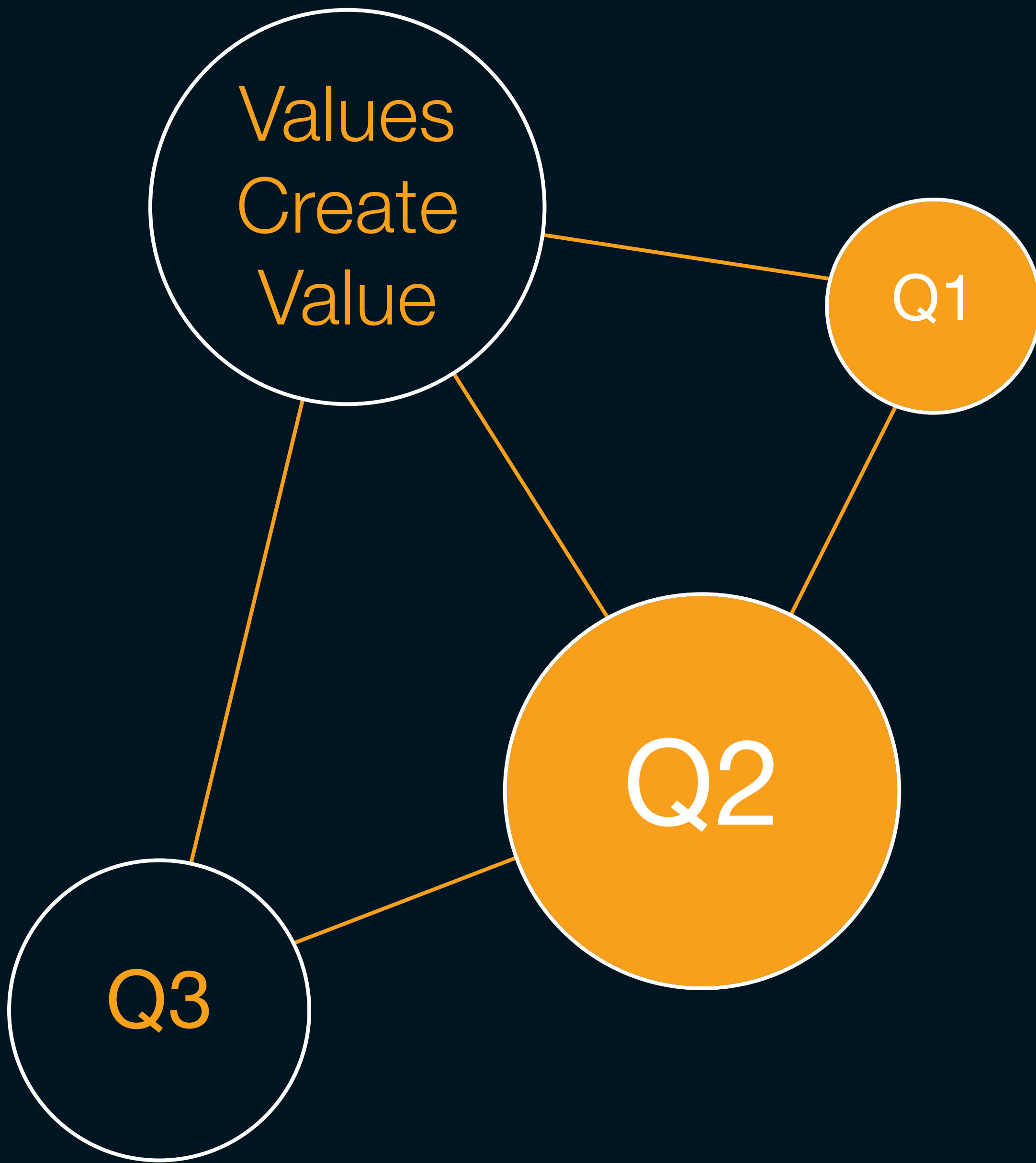



Half-Year Financial Report as of June 30, 2012

Continental

# Continental Shares and Bonds

**Performance of Continental shares**

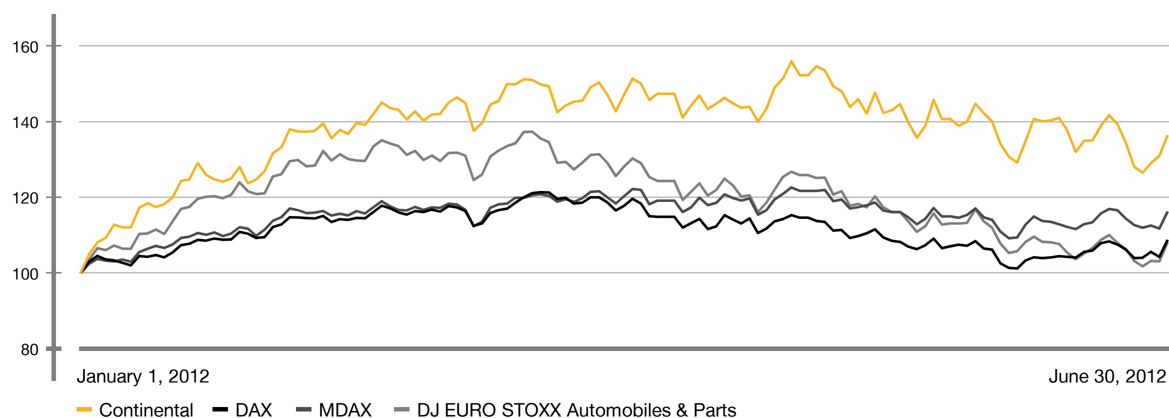
Due to the increasing uncertainty as to the development of the economy, particularly in the U.S.A. and Asia, and the lack of success in finding a rapid solution to the debt crisis in Europe, the automotive sector was unable to build further on the significant share price gains recorded in the first quarter of 2012. On the contrary, the European index for automobile and automotive supplier stocks (DJ EURO STOXX Automobiles & Parts) fell by 16% in the second quarter of 2012 and quoted at 270 points on June 30, 2012 – roughly 50 points lower than the level on March 31, 2012. For the first half of the year, this still corresponds to a price gain of around 8% but lags behind the development of the DAX and the MDAX. The DAX was at 6,416 points on June 30, 2012, corresponding to a price gain of approximately 9% since the beginning of the year. The MDAX quoted at 10,344 points on the same date (up 16%). After the first quarter of 2012, the European index for automobile and automotive supplier stocks was still outperforming the DAX and the MDAX by 10 and 8 percentage points respectively.

The Continental share also was not able to break free of the negative trend in the second quarter in light of the high price gains in the first quarter of 2012 (up 47%), and fell by 7%. It quoted at €65.62 on June 30, 2012. As such, however, its performance in the second quarter was considerably better than that of the European index for automobile and automotive supplier stocks, which it exceeded by approximately 7 percentage points in this period. The share's relative strength was attributable to the good figures for the first quarter of 2012 and the fact that, in spite of the uncertain environment, the company confirmed its outlook for 2012 as a whole according to which it is aiming for new sales and earnings records. An additional stabilizing factor was the growing signs that Continental may be included in the index of the 30 largest German companies as of the regular composition date for the German stock index DAX in September. According to the rankings by Deutsche Börse AG, Continental was most recently in 25th place in terms of the criterion of market capitalization and was also among Germany's 30 largest stock corporations in terms of the criterion of stock market turnover according to the Deutsche Börse AG framework.

Over the first half of 2012 the Continental share marked a price gain of 36%, outperforming the index for comparable companies in the automotive sector by 28 percentage points. It outstripped the DAX and the MDAX by 28 and 20 percentage points respectively.

The start of the third quarter saw the share continuing to build on its growth during the first half-year, despite the gloomier sentiment spreading in the automobile sector. It was quoted at just over €68 on July 23, 2012.

**Share price performance vs. major stock indexes**



| | June 30, 2012 | in % vs. Dec. 31, 2011 |
|---|---|---|
| Continental | 65.62 | 36 |
| DJ EURO STOXX 50 | 2,264.72 | -2 |
| DAX | 6,416.28 | 9 |
| MDAX | 10,343.71 | 16 |
| DJ EURO STOXX Automobiles & Parts | 270.13 | 8 |

| December 31, 2011 | Rating | Outlook |
|---|---|---|
| Standard & Poor's | B+ | positive |
| Moody's | Ba3 | stable |

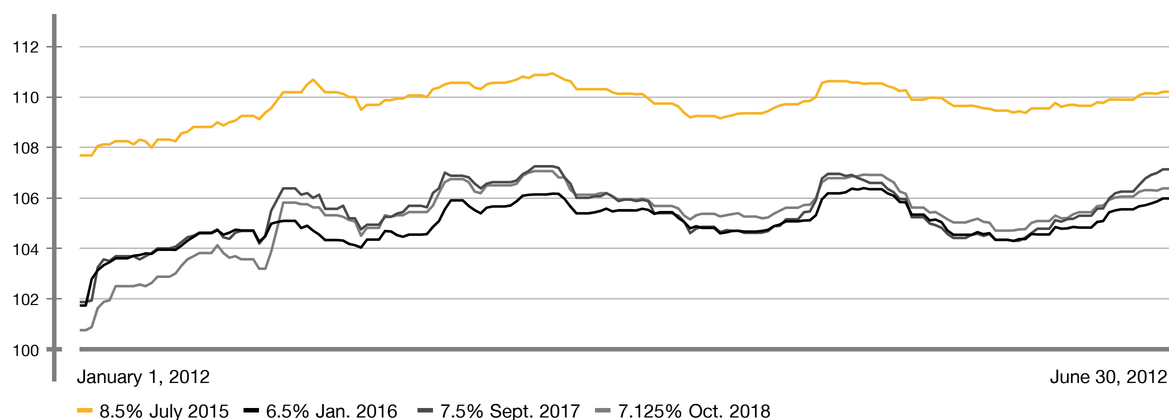
| June 30, 2012 | Rating | Outlook |
|---|---|---|
| Standard & Poor's | BB- | positive |
| Moody's | Ba3 | stable |

**Performance of Continental bonds**

The four Continental bonds maintained and in some cases slightly exceeded the high price level from the first quarter of 2012. The continued positive development of the bonds was partly due to the reassessment of the company's creditworthiness by the rating agencies Fitch and Standard & Poor's (S&P). For instance, S&P upgraded its rating for Continental from B+ to BB- and at the same time maintained the outlook as positive. Moreover, it is encouraging that, as of the last rating assessment in May 2012, both Fitch and S&P are now classifying Continental within the investment grade category (sound credit quality level) on a stand-alone basis – i.e. without taking into account the creditworthiness of the major shareholder – owing to the continued very sound business development.

As before, the highest increase since the beginning of the year was recorded by the bond with a volume of €625 million maturing in October 2018, which increased by more than 580 basis points by June 30, 2012. The premium for insurance against credit risks, expressed in the Continental five-year CDS (credit default swap), decreased further in the second quarter of 2012. At 332 points, it was 145 basis points below the level at year-end 2011. In the same period, the index combining the CDS development of companies with a comparable credit rating decreased by only around 93 basis points and quoted at 662 basis points on June 30, 2012.

**Performance of Continental bonds**



# Key Figures for the Continental Corporation

| | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| in € millions | 2012 | 2011 | 2012 | 2011 |
| Sales | 16,506.2 | 14,878.2 | 8,186.7 | 7,532.6 |
| EBITDA | 2,447.6 | 2,072.7 | 1,265.3 | 1,044.2 |
| in % of sales | 14.8 | 13.9 | 15.5 | 13.9 |
| EBIT | 1,608.4 | 1,281.0 | 842.8 | 647.1 |
| in % of sales | 9.7 | 8.6 | 10.3 | 8.6 |
| Net income attributable to the shareholders of the parent | 1,003.2 | 683.0 | 520.3 | 314.8 |
| Earnings per share (in €) | 5.02 | 3.42 | 2.60 | 1.57 |
| Adjusted sales[1] | 16,403.1 | 14,878.2 | 8,132.6 | 7,532.6 |
| Adjusted operating result (adjusted EBIT)[2] | 1,823.2 | 1,484.4 | 948.3 | 750.5 |
| in % of adjusted sales | 11.1 | 10.0 | 11.7 | 10.0 |
| Free cash flow | 126.4 | 36.9 | 274.1 | 399.8 |
| Net indebtedness as at June 30 | 6,875.9 | 7,114.0 | | |
| Gearing ratio in % | 82.7 | 104.3 | | |
| Number of employees as at June 30[3] | 168,813 | 159,116 | | |

[1] Before changes in the scope of consolidation.
[2] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.
[3] Excluding trainees.

# Key Figures for the Core Business Areas

| | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| **Automotive Group in € millions** | **2012** | **2011** | **2012** | **2011** |
| Sales | 10,007.5 | 9,070.8 | 4,936.7 | 4,552.7 |
| EBITDA | 1,213.0 | 1,082.9 | 610.9 | 536.6 |
| in % of sales | 12.1 | 11.9 | 12.4 | 11.8 |
| EBIT | 595.0 | 503.0 | 300.8 | 246.1 |
| in % of sales | 5.9 | 5.5 | 6.1 | 5.4 |
| Depreciation and amortization[1] | 618.0 | 579.9 | 310.1 | 290.5 |
| – thereof impairment[2] | 1.6 | 0.5 | 1.6 | 1.6 |
| Capital expenditure[3] | 394.3 | 375.3 | 218.7 | 208.1 |
| in % of sales | 3.9 | 4.1 | 4.4 | 4.6 |
| Operating assets as at June 30 | 11,633.4 | 11,378.5 | | |
| Number of employees as at June 30[4] | 98,474 | 93,382 | | |
| | | | | |
| Adjusted sales[5] | 10,007.5 | 9,070.8 | 4,936.7 | 4,552.7 |
| Adjusted operating result (adjusted EBIT)[6] | 806.9 | 729.4 | 404.3 | 370.0 |
| in % of adjusted sales | 8.1 | 8.0 | 8.2 | 8.1 |

| | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| **Rubber Group in € millions** | **2012** | **2011** | **2012** | **2011** |
| Sales | 6,511.8 | 5,820.4 | 3,256.4 | 2,986.5 |
| EBITDA | 1,268.9 | 1,007.7 | 668.8 | 510.3 |
| in % of sales | 19.5 | 17.3 | 20.5 | 17.1 |
| EBIT | 1,048.0 | 796.7 | 556.6 | 404.1 |
| in % of sales | 16.1 | 13.7 | 17.1 | 13.5 |
| Depreciation and amortization[1] | 220.9 | 211.0 | 112.2 | 106.2 |
| – thereof impairment[2] | -2.8 | -0.6 | -2.7 | -0.4 |
| Capital expenditure[3] | 433.9 | 249.9 | 222.0 | 162.4 |
| in % of sales | 6.7 | 4.3 | 6.8 | 5.4 |
| Operating assets as at June 30 | 5,635.3 | 4,448.2 | | |
| Number of employees as at June 30[4] | 70,061 | 65,479 | | |
| | | | | |
| Adjusted sales[5] | 6,408.7 | 5,820.4 | 3,202.3 | 2,986.5 |
| Adjusted operating result (adjusted EBIT)[6] | 1,054.4 | 796.4 | 560.4 | 399.3 |
| in % of adjusted sales | 16.5 | 13.7 | 17.5 | 13.4 |

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

# Corporate Management Report as of June 30, 2012

**Expansion of market position in India**

In March 2012, we acquired the remaining 50% share of Continental Rico Hydraulic Brakes India Private Ltd. from Rico Auto Industries. As a result of this transaction, the company is now a wholly owned subsidiary of Continental.

Since 2009 the plant in Gurgaon near New Delhi has produced components for hydraulic brake systems for vehicle manufacturers in India, including products for brake calipers for front and rear axles, drum brakes, brake master cylinders, brake boosters and load-sensitive brake pressure regulators for all types of cars. The company also provides services in this sector.

**Acquisition of the remaining shares in Continental Sime Tyre Sdn. Bhd. in Malaysia**

In May 2012, we acquired the remaining 30% interest in Continental Sime Tyre Sdn. Bhd. from our partner Sime Darby. Continental Sime Tyre Sdn. Bhd. has therefore become a wholly owned subsidiary of Continental and is to be renamed Continental Tyre Malaysia Sdn. Bhd. The purchase underscores our long-term involvement in the ASEAN and Asia-Pacific regions.

**Expansion of ContiTech**

In June 2012, ContiTech strengthened its industrial business with the purchase of Specialised Belting Supplies Ltd, Thetford. The British company has been in the market since 1984 and produces primarily steep-angle conveyor belts for the transport of bulk materials such as ore, coal or gravel. Production is to be expanded further.

In the U.S.A., we are establishing a competence center for plastic lines at the existing plant in Somersworth. This is the second plastics competence center worldwide after Waltershausen in Germany. It will allow us to reduce transportation distances and delivery times to customers such as Ford and Chrysler. The number of plastic tubes produced by the end of 2013 is expected to increase fourfold compared to 2012.

**New technology center in Limbach-Oberfrohna**

In early 2012, we celebrated the production of the 50 millionth piezo injector in Limbach-Oberfrohna, Germany. The next generations of the diesel injector systems will start series production in 2013. Production of the high-tech injectors requires highly efficient manufacturing facilities. To develop these ourselves in future, we are establishing a new technology center in Limbach-Oberfrohna that will start operations in December this year.

**Infotainment system for Fiat Group Automobiles**

We have been commissioned by Fiat Group Automobiles to develop a new infotainment system. The system has been in series production since July 2012 as a radio in its basic form but also as an advanced multimedia system (head unit). Development work for the new system began in December 2010. The first model equipped with the new infotainment system will be the new Fiat 500 L, which is being produced in Serbia. The Continental infotainment system will then be rolled out across further models from Fiat and Chrysler.

**New generation of power electronics makes electric cars even more efficient**

Smaller, lighter, and more powerful – these are the attributes that characterize the latest generation of power electronics that we have developed for electric drive train applications. The module has a continuous power of 20 kilowatts at a weight of now only eight kilograms and just five liters of space. Mass and volume are thus about a third lower than in the previous generation, and at the same time the power density of the module has increased substantially because the inverter uses an innovative high-performance semiconductor module. The control device was designed to be modular and scalable, so that modifying just a few components is all that is necessary to adapt the device to a large variety of applications. For example, the same power electronics concept is used in the full hybrid model of the Audi Q5 as in all-electric vehicles.

**100 millionth brake booster from Jicin**

In June 2012, the 100 millionth brake booster was manufactured at the Czech plant in Jicin. Meanwhile, the Hydraulic Brake Systems business unit produces around 10 million boosters a year for European customers at what is Continental's largest facility for brake actuation components. The plant, opened in 1995, has evolved into the largest employer in the region.

## Economic Environment

The recovery of global economic activity remains hesitant. At an annualized rate of 3.6%, global economic growth in the first quarter of 2012 was, however, 0.25 percentage points higher than had been expected by the International Monetary Fund (IMF) in April. The macroeconomic data up to this date also indicated a gradual upward trend in the world economy. However, the indicators for the second quarter of this year point to a renewed slight slowdown in the pace of economic growth. Furthermore, the uncertainty regarding Greece's future and the problems in the Spanish banking sector in particular have had an additional negative impact on market sentiment and confidence. Although there are still very significant differences in the economic development of individual countries and regions, the lower pace of expansion is seen not only in the countries referred to by the IMF as advanced economies but also in major emerging economies such as China, India and Brazil. In addition to weaker export business, lower domestic demand also led to slowing momentum in these countries.

Overall, however, the picture currently presented by the macroeconomic indicators does not contradict the expectation that, following a weaker opening quarter, the general economic development will gradually pick up pace again in the second half of the year. A positive effect can be expected from decreasing expenses from the raw materials markets, particularly the lower oil prices, as well as the continued extremely expansive monetary policy of the advanced economies and the easing of monetary policy in some emerging economies.

Against the background described above, in its World Economic Outlook from July 2012 the IMF lowered its expectations for global economic growth only slightly by 0.1 percentage points to around 3.5%. The adjustment was made in the same amount for the emerging economies, to 5.6%, whereas the expectation for growth in the real gross domestic product of the advanced economies remained constant overall at 1.4% for 2012 as a whole.

The risks to the economic outlook still remain. According to the IMF, the greatest risks relate to insufficient political measures to stem the debt crisis in the euro zone. The IMF also believes that another risk lies in the U.S.A. having imposed insufficient spending cuts in the event of further time delays in raising the debt ceiling.

Regardless of the short-term global prospects, the pace of growth in the advanced economies is still expected to continue to be curbed by necessary structural adjustments in the medium term.

**New registration development**

The development of new car registrations on the global sales markets varied significantly in the second quarter of 2012, too. Based on preliminary data from the German Association of the Automotive Industry (VDA), new registrations in Japan jumped by 64% in the second quarter of 2012, while in NAFTA they rose by another 15% year-on-year. In contrast, the number of newly registered vehicles in Europe fell by 5% in the second quarter, too. It should be noted that particularly the 56% rise in new registration figures in Japan in

**New registrations/sales of light vehicles in millions of units**

| | H1 2012 | H1 2011 | Change | Q2 2012 | Q2 2011 | Change |
|---|---|---|---|---|---|---|
| Europe (E27+EFTA) | 6.9 | 7.3 | - 6% | 3.5 | 3.7 | - 5% |
| Russia | 1.4 | 1.2 | 14% | 0.8 | 0.7 | 11% |
| NAFTA | 7.2 | 6.3 | 14% | 3.8 | 3.3 | 15% |
| Japan | 2.5 | 1.6 | 56% | 1.1 | 0.7 | 64% |
| Brazil | 1.6 | 1.6 | 0% | 0.9 | 0.9 | 0% |
| India | 1.5 | 1.3 | 12% | 0.7 | 0.6 | 8% |
| China | 6.4 | 5.9 | 8% | 3.3 | 2.8 | 18% |
| Worldwide | 40.0 | 37.5 | 7% | 20.0 | 18.4 | 9% |

*Source*: VDA and Renault

the first half of the year is attributable to catch-up effects due to the rebuilding of production capacity following the natural disaster in March 2011. The restoration of Japanese production capacity also had a positive impact on local sales volumes in NAFTA. In total, more than 7 million vehicles were newly registered in NAFTA in the first half of 2012. The sales markets in Europe stabilized slightly in comparison to the first quarter. Whereas in the first quarter of 2012 there had been a year-on-year decrease of 7%, the decline in the second quarter as compared to the second quarter of 2011 dropped to 5%.

In contrast, new registrations in the BRIC countries (Brazil, Russia, India and China) saw a rise of 13% in the second quarter alone due to the positive development in China. The increase in the first half of the year amounted to 8%. Whereas new registrations in China stagnated in the first quarter, in the second quarter they climbed by 18%, although market observers attribute this in part to higher inventories and constantly increasing incentives to buy. In the other BRIC markets, growth slowed in comparison to the first quarter. The increase in new registrations in India was down at 8% in the second quarter and growth in Russia also slowed to 11% in this period. In Brazil, the number of newly registered vehicles stagnated in comparison to the first half of 2011, leading the Brazilian government to introduce a new sales stimulus program that began to show a positive effect on new registrations in June 2012 already. Sales volumes in June rose by more than 20%. Overall, global new registrations were up by roughly 7% to just under 40 million units in the first half of 2012.

**Vehicle production development**
As a result of the increase in new car registrations worldwide, the number of vehicles produced rose by around 6% to approximately 40 million units in the first half of 2012 on the basis of preliminary data. As in the first quarter, the increase in production in the first half of 2012 was mainly attributable to Japan, which accounted for more than two thirds of this production growth. The increase in production in Europe and NAFTA, where Continental generates roughly 75% of its sales in the Automotive Group, was considerably lower. In Europe in particular, the weak demand situation, especially in Southern European countries, meant that the previous year's level was not re-achieved and the number of vehicles produced fell by more than 700,000 units or almost 7%. In contrast, vehicle production in NAFTA rose by around 17% or more than 1.1 million units due to strong demand. Overall, growth in the two regions was moderate at approximately 2%. Based on the development of production in the first half of 2012, we consider our assessment from the first quarter, in which we announced an increase in volumes from 76 million to 79 million units given a stable development in the second quarter of 2012, to be confirmed.

The development of commercial vehicle production also continued to vary considerably in our core markets in Europe and in NAFTA during the first half of 2012. For instance, the number of vehicles produced in Europe decreased by 5% in the first half of the year, whereas in the first quarter the decline had been only 3%. Growth in NAFTA slowed from over 30% in the first quarter of 2012 to just 25% in the first half of 2012. This development in the first half of the year confirms our most recent market assessment which anticipates a 5% decline for commercial vehicle production in Europe and an increase in the order of 8% to 12% in NAFTA.

**Tire replacement market development**
Demand on the replacement passenger and light truck tire markets in Europe and NAFTA remained significantly below our expectations in the second quarter of 2012, too (on the basis of preliminary data). In Europe, demand for replacement passenger and light truck tires fell by 11% in the first half of 2012 after a 10% decrease in the first quarter. We mainly attribute this to the high basis from the previous year (up +6% in the first half of 2011 as against the first half of 2010), continued weak demand in Southern European countries, the introduction of tire labels, and the reduction of inventories by tire dealers. In NAFTA, demand also did not recover significantly in the second quarter and decreased – on the basis of preliminary figures – by around 3% in the first half of 2012 compared to the same period last year. The decline in the first quarter amounted to 5%. Due to the weak development of demand for replacement passenger and light truck tires in Europe in the first half of 2012, our annual forecast projecting that volumes would stagnate at 297 million tires in 2012 cannot be maintained. However, we see a number of signs that demand will improve in

the second half of 2012 as compared to the previous year and now anticipate a decline in demand of 5% for the year as a whole. Despite the low basis from the second half of 2011, we also consider our former assessment for NAFTA – in which we anticipated a 3% increase in demand to 262 million replacement passenger and light truck tires for the year as a whole – to be too optimistic as well. We now only expect the volume to be at the previous year's level (253 million units).

Demand for replacement truck tires in Europe remains very weak, despite continued stable freight rates. It dropped in the first half of 2012 by approximately 26% on the basis of preliminary data. In addition to the comparatively high basis from the previous year (growth of as high as 14% year-on-year in the first half of 2011), the unusually significant decrease is attributable to a considerable reduction of inventories by dealers. We are therefore adjusting the forecast we prepared at the beginning of the year, which assumed a decline of only 5%, to 10%. In NAFTA, the situation has not yet stabilized either. After a 10% decrease in demand for replacement truck tires in the first quarter of 2012, the decrease for the first half of the year still amounted to 9%. Due to the stable freight rates and continued moderate growth prospects for the U.S. economy, we are lowering our assessment as adjusted at the end of the first quarter of 2012, and are now forecasting a 6% decline in demand for the year as a whole.

# Earnings, Financial and Net Assets Position of the Continental Corporation

## Earnings Position

**Sales up 10.9%;**
**Sales up 8.3% before changes in the scope of consolidation and exchange rate effects**

Consolidated sales for the first six months of 2012 rose by 10.9% year-on-year to €16,506.2 million (PY: €14,878.2 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 8.3%.

**Adjusted EBIT up 22.8%**

Adjusted EBIT for the corporation increased by €338.8 million or 22.8% year-on-year to €1,823.2 million during the first six months of 2012 (PY: €1,484.4 million), corresponding to 11.1% (PY: 10.0%) of adjusted sales.

**EBIT up 25.6%**

At €1,608.4 million, EBIT in the first half of 2012 was €327.4 million or 25.6% higher than in the previous year (PY: €1,281.0 million). The return on sales rose to 9.7% (PY: 8.6%).

**Special effects in the first half of 2012**

In the Interior division, special effects from the reversal of restructuring provisions no longer required had a positive impact totaling €6.5 million in the first half of 2012.

Impairment of property, plant and equipment resulted in expense of €1.6 million in the Interior division.

In the first six months of 2012, there was a positive effect of €0.8 million overall in the Powertrain division.

In NAFTA, lower pension obligations resulted in a positive effect of €6.2 million for the Tire division in the first six months of 2012.

Reversals of impairment losses on property, plant and equipment had a positive effect totaling €2.8 million in the Tire division.

For the ContiTech division, the total net expense from special effects in the first half of 2012 amounted to €0.7 million.

Owing to the anticipated higher cash outflow for the syndicated loan resulting from rising interest margins, the carrying amount was adjusted in profit or loss in 2009 and 2010. However, at the end of June 2011 the carrying amount was adjusted in profit or loss due to signs of decreasing margins and the associated anticipated lower cash outflow for the syndicated loan. These deferrals will be amortized over the term of the loan, reducing or increasing expenses accordingly. The amortization of the carrying amount adjustments led to a positive effect totaling €3.5 million in the first half of 2012.

Total consolidated income from special effects in the first half of 2012 amounted to €17.5 million.

**Special effects in the first half of 2011**

The economic situation of the Fuel Supply business unit in the Powertrain division in Europe is characterized by insufficient profitability. For this reason, the location in Dortmund, Germany, is being restructured. Parts of production and assembly are being relocated and the site is being expanded into a competence center for fuel feed units of the Fuel Supply business unit. Restructuring expenses of €35.8 million have been incurred in this context.

In the divisions there was a total positive effect of €27.5 million, mainly as a result of the reversal of restructuring provisions no longer required.

Owing to the anticipated higher cash outflow for the syndicated loan resulting from rising interest margins, the carrying amount was adjusted in profit or loss in 2009 and 2010. However, a drop in the margins for the syndicated loan was observed as of June 30, 2011. The associated expectation of a lower cash outflow for this loan now led to a €9.1 million adjustment in profit or loss of its carrying amount. These deferrals will be amortized over the term of the loan, reducing or increasing expenses accordingly. The amortization of the carrying amount adjustments in 2009 and 2010 led to a positive effect totaling €10.3 million in the first half of 2011. Due to a partial repayment of the syndicated loan, the adjustments attributable on a pro-rated basis to the amount repaid were reversed in early April 2011. This resulted in a gain of

€3.4 million. Income totaling €22.8 million resulted from all the previously mentioned effects in the first six months of 2011.

Total consolidated income from special effects in the first half of 2011 amounted to €14.5 million.

**Research and development expenses**

In the first half of 2012, research and development expenses rose by 10.1% compared with the same period of the previous year to €907.5 million (PY: €823.9 million), representing 5.5% (PY: 5.5%) of sales. €773.9 million (PY: €707.0 million) of this relates to the Automotive Group, corresponding to 7.7% (PY: 7.8%) of sales, and €133.6 million (PY: €116.9 million) to the Rubber Group, corresponding to 2.1% (PY: 2.0%) of sales.

**Net interest expense**

At €176.2 million, net interest expense in the first half of 2012 was €142.6 million lower than in the previous year (PY: €318.8 million). In addition to the decrease in interest expenses, this is due in particular to gains from changes in the fair value of derivatives.

Interest expenses, which primarily result from the utilization of the syndicated loan and the bonds issued in the third quarter of 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands, were €52.7 million lower than in the previous year at €292.9 million (PY: €345.6 million). This is due in particular to the significant reduction in net indebtedness as of the end of 2011 and to the lower margins for the syndicated loan than in the previous year. The margin reduction and its link to the Continental Corporation's leverage ratio (net indebtedness/EBITDA, as defined in the syndicated loan agreement) were agreed as part of the successful renegotiation in late March 2011 of the syndicated loan originally due in August 2012. In the third quarter of 2011, a further margin reduction was already achieved for the syndicated loan as a result of the improved leverage ratio as of June 30, 2011. By June 30, 2012, interest expenses for the syndicated loan amounted to €136.6 million (PY: €189.4 million). The bonds issued in the third quarter of 2010 resulted in interest expenses totaling €113.6 million (PY: €113.7 million).

Interest income in the first six months of 2012 increased by €0.5 million year-on-year to €13.4 million (PY: €12.9 million). In the first half of 2012, gains from changes in the fair value of derivatives amounted to €102.0 million (PY: €19.5 million). Of this amount, €93.0 million (PY: €11.3 million) related solely to the reporting of call options for the bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010.

**Income tax expense**

Income tax expense in the first half of 2012 amounted to €396.7 million (PY: €244.4 million). The tax rate in the reporting period was 27.7% after 25.4% for the same period of the previous year.

In the same period of the previous year, income tax expense was significantly influenced by tax income for prior years in the amount of €68.2 million resulting from a tax item established out of court. In comparison to the tax rate for the prior-year period adjusted for this special effect (32.5%), the lower tax rate in the reporting period was influenced significantly by a different distribution of earnings before taxes across the different countries, particularly due to the positive business development in the U.S.A. and Mexico.

**Net income attributable to the shareholders of the parent**

Net income attributable to the shareholders of the parent was up 46.9% to €1,003.2 million (PY: €683.0 million), with earnings per share higher at €5.02 (PY: €3.42).

# Development of the Continental Corporation

| | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| in € millions | 2012 | 2011 | 2012 | 2011 |
| Sales | 16,506.2 | 14,878.2 | 8,186.7 | 7,532.6 |
| EBITDA | 2,447.6 | 2,072.7 | 1,265.3 | 1,044.2 |
| in % of sales | 14.8 | 13.9 | 15.5 | 13.9 |
| EBIT | 1,608.4 | 1,281.0 | 842.8 | 647.1 |
| in % of sales | 9.7 | 8.6 | 10.3 | 8.6 |
| Net income attributable to the shareholders of the parent | 1,003.2 | 683.0 | 520.3 | 314.8 |
| Earnings per share (in €) | 5.02 | 3.42 | 2.60 | 1.57 |
| Research and development expenses | 907.5 | 823.9 | 458.3 | 418.5 |
| Depreciation and amortization[1] | 839.2 | 791.7 | 422.5 | 397.1 |
| – thereof impairment[2] | -1.2 | -0.1 | -1.1 | 1.2 |
| Capital expenditure[3] | 828.8 | 619.1 | 440.9 | 364.3 |
| in % of sales | 5.0 | 4.2 | 5.4 | 4.8 |
| Operating assets as at June 30 | 17,187.4 | 15,768.2 | | |
| Number of employees as at June 30[4] | 168,813 | 159,116 | | |
| | | | | |
| Adjusted sales[5] | 16,403.1 | 14,878.2 | 8,132.6 | 7,532.6 |
| Adjusted operating result (adjusted EBIT)[6] | 1,823.2 | 1,484.4 | 948.3 | 750.5 |
| in % of adjusted sales | 11.1 | 10.0 | 11.7 | 10.0 |
| | | | | |
| Net indebtedness as at June 30 | 6,875.9 | 7,114.0 | | |
| Gearing ratio in % | 82.7 | 104.3 | | |

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

## Financial Position

### Cash flow

At €988.1 million as of June 30, 2012, net cash flow arising from operating activities was €285.2 million higher than the figure for the previous year of €702.9 million.

The free cash flow in the first half of 2012 improved by €89.5 million as against the first six months of 2011 to €126.4 million (PY: €36.9 million).

EBIT increased by €327.4 million year-on-year to €1,608.4 million (PY: €1,281.0 million).

Interest payments resulting in particular from the syndicated loan and the bonds fell by €99.2 million to €289.6 million (PY: €388.8 million). Income tax payments increased by €146.6 million to €340.7 million (PY: €194.1 million).

At €612.8 million as of June 30, 2012, net cash flow arising from the increase in operating working capital was €109.2 million lower than the figure for the previous year of €722.0 million.

In the first six months of 2012, total cash flow amounting to €861.7 million (PY: €666.0 million) resulted from investing activities. Capital expenditure on property, plant and equipment, and software was up €202.8 million from €625.2 million to €828.0 million before financial leasing and the capitalization of borrowing costs.

**Financing**

As of June 30, 2012, the corporation's net indebtedness was down €238.1 million year-on-year from €7,114.0 million to €6,875.9 million. In comparison to the end of 2011, net indebtedness increased by €103.8 million. The gearing ratio improved to 82.7% as of the end of the first half of 2012 (PY: 104.3%).

At the end of March 2011, renegotiation of the syndicated loan originally due in August 2012 was completed. The renegotiation primarily focused on extended terms and improved conditions. A maturity in August 2012 was agreed for the first tranche of €625.0 million, and the term for the other two tranches, including a revolving credit line of €2.5 billion, was extended to April 2014. As a result of the early repayment of the tranche of €625.0 million at the end of December 2011, the volume committed as of the end of June 2011 in the amount of €6.0 billion decreased to €5,375.0 million as of the end of the first half of 2012.

The renegotiation also stipulates lower credit margins, which have since been based on the Continental Corporation's leverage ratio (net indebtedness/EBITDA, according to the definition in the syndicated loan agreement) 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 its carrying amount 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 €12.2 million as of June 30, 2012 (PY: €22.0 million). These deferrals will be amortized over the term of the loan and increase or reduce expenses accordingly.

As of June 30, 2012, the syndicated loan had been utilized by Continental AG and by Continental Rubber of America, Corp. (CRoA), Wilmington, U.S.A., in a nominal amount of €3,758.3 million (PY: €4,219.6 million).

As of the end of June 2012, there were still interest rate hedges of €3,125.0 million for the syndicated loan. 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. The hedge relationship is, however, still economically effective.

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. 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.

As of June 30, 2012, Continental had liquidity reserves totaling €3,772.3 million (PY: €3,880.5 million), consisting of cash and cash equivalents of €1,401.7 million (PY: €1,566.0 million) and committed, unutilized credit lines totaling €2,370.6 million (PY: €2,314.5 million).

**Capital expenditure (additions)**

In the first half of 2012, €828.8 million (PY: €619.1 million) was invested in property, plant and equipment, and software. The capital expenditure ratio after six months is 5.0% (PY: 4.2%).

€394.3 million (PY: €375.3 million) of investments was attributable to the Automotive Group, corresponding to 3.9% (PY: 4.1%) of sales. The Automotive Group primarily invested in production facilities for the manufacture of new products and implementation of new technologies, with investment being focused on manufacturing capacity at best-cost locations. Important additions in the Chassis & Safety division related to the creation of new production facilities for the next generation of electronic braking systems. In the Powertrain division, manufacturing facilities for engine injection systems and transmission control units were ex-

**Change in net indebtedness**

| | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| **in € millions** | **2012** | **2011** | **2012** | **2011** |
| Cash flow arising from operating activities | 988.1 | 702.9 | 732.0 | 796.2 |
| Cash flow arising from investing activities | -861.7 | -666.0 | -457.9 | -396.4 |
| **Cash flow before financing activities (free cash flow)** | **126.4** | **36.9** | **274.1** | **399.8** |
| Dividends paid | -300.0 | — | -300.0 | — |
| Dividends paid and repayment of capital to non-controlling interests | -31.6 | -20.3 | -9.7 | -7.1 |
| Non-cash changes | 130.5 | 155.7 | 53.5 | 93.9 |
| Other | -14.9 | -11.3 | -9.5 | -11.1 |
| Foreign exchange effects | -14.2 | 42.0 | -43.1 | 15.4 |
| **Change in net indebtedness** | **-103.8** | **203.0** | **-34.7** | **490.9** |

panded in particular. Investments in the Interior division focused primarily on expanding production capacity for the Body & Security and Instrumentation & Driver HMI business units.

The Rubber Group invested €433.9 million (PY: €249.9 million), equivalent to 6.7% (PY: 4.3%) of sales. Investments in the Tire division focused on expanding capacity at European best-cost locations and in North and South America. The division also invested in the construction of new plants in Kaluga, Russia, and Sumter, U.S.A., and the expansion of the existing site in Hefei, China. Quality assurance and cost-cutting measures were also implemented. ContiTech invested in rationalizing production processes and expanding production capacity for new products. Major additions related to the expansion of production facilities in China, Mexico, and Romania. In Serbia, investments were made in the establishment of a new plant for the Fluid Technology business unit.

### Net Assets Position

At €27,280.0 million, total assets on June 30, 2012, were €1,986.8 million higher than on the same date in 2011 (€25,293.2 million). This was due primarily to the altogether €1,072.7 million increase in inventories and trade accounts receivable to €9,110.7 million (PY: €8,038.0 million) as a result of further growth in business activities. Property, plant and equipment also increased by €795.7 million to €6,866.8 million (PY: €6,071.1 million). Long-term derivative instruments and interest-bearing investments were up €229.5 million from €164.8 million to €394.3 million, mainly due to the change in the fair value of the buy-back options for the bonds. This was offset by a €343.1 million decline in other intangible assets to €1,169.6 million (PY: €1,512.7 million) owing primarily to amortization from purchase price allocation (PPA). At €1,401.7 million (PY: €1,566.0 million), cash and cash equivalents were down €164.3 million.

Equity including non-controlling interests was up €1,497.4 million to €8,318.5 million as compared to €6,821.1 million on June 30, 2011. This was due primarily to the positive net income attributable to the shareholders of the parent of €1,262.4 million. Equity was reduced by dividends in the amount of €300.0 million resolved by the Annual Shareholders' Meeting. The reserves recognized directly in equity increased by €225.6 million to €137.2 million (PY: -€88.4 million), primarily due to the change in the difference from financial instruments and to currency translation. The gearing ratio improved from 104.3% to 82.7%.

At €27,280.0 million, total assets were up €1,241.6 million compared with December 31, 2011 (€26,038.4 million). This resulted above all from the following increases caused by seasonal factors and by further growth in business activities: inventories up €305.4 million to €3,295.1 million (PY: €2,989.7 million), trade accounts receivable up €474.1 million to €5,815.6 million (PY: €5,341.5 million), and property, plant and equipment up €258.3 million to €6,866.8 million (PY: €6,608.5 million). This is offset by a €196.3 million decline in other intangible assets to €1,169.6 million (PY: €1,365.9 million) owing primarily to amortization from PPA. At €1,401.7 million (PY: €1,541.2 million), cash and cash equivalents were down €139.5 million.

Equity including non-controlling interests was up €775.2 million to €8,318.5 million as compared to €7,543.3 million at the end of 2011. This was due primarily to the positive net income attributable to the shareholders of the parent of €1,003.2 million, less the dividend for the previous year of €300.0 million resolved and distributed in April 2012. The gearing ratio was down from 89.8% to 82.7%.

### Employees

As of the end of the second quarter of 2012, the corporation's employees numbered 168,813, a rise of 5,025 compared with the end of 2011. In the Automotive Group in particular, growth in sales volumes was the main reason for the headcount increase of 3,338 employees. The number of employees working for the Tire division rose by 1,395 as a result of capacity expansions. In the ContiTech division, the increase in the headcount by 282 employees takes into account the closure of the location in Coslada, Spain, with 142 employees. As against the reporting date for the previous year, the number of employees in the corporation rose by a total of 9,697.

# Development of the Divisions

| Chassis & Safety in € millions | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Sales | 3,593.3 | 3,220.5 | 1,780.9 | 1,601.8 |
| EBITDA | 493.1 | 498.0 | 250.3 | 246.7 |
| in % of sales | 13.7 | 15.5 | 14.1 | 15.4 |
| EBIT | 325.8 | 339.8 | 166.0 | 167.8 |
| in % of sales | 9.1 | 10.6 | 9.3 | 10.5 |
| Depreciation and amortization[1] | 167.3 | 158.2 | 84.3 | 78.9 |
| – thereof impairment[2] | — | — | — | — |
| Capital expenditure[3] | 142.2 | 124.9 | 80.8 | 67.2 |
| in % of sales | 4.0 | 3.9 | 4.5 | 4.2 |
| Operating assets as at June 30 | 4,159.4 | 4,031.9 | | |
| Number of employees as at June 30[4] | 34,373 | 32,136 | | |
| Adjusted sales[5] | 3,593.3 | 3,229.1 | 1,782.1 | 1,607.3 |
| Adjusted operating result (adjusted EBIT)[6] | 352.4 | 363.1 | 179.3 | 178.3 |
| in % of adjusted sales | 9.8 | 11.2 | 10.1 | 11.1 |

1 Excluding impairments on financial investments.
2 Impairment also includes necessary reversals of impairment losses.
3 Capital expenditure on property, plant and equipment, and software.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

## Chassis & Safety

### Sales volumes

Sales volumes in the Electronic Brake Systems business unit rose by 10.3% year-on-year to 10.11 million units in the first half of 2012. In the Hydraulic Brake Systems business unit, sales of brake boosters were up 8.1% to 10.10 million units. Brake caliper sales jumped to 22.54 million units, equivalent to an increase of 7.6%. In the Passive Safety & Advanced Driver Assistance Systems business unit, sales of air bag control units increased by 9.3% to 7.66 million units. Sales of driver assistance systems soared to 1.20 million units, an increase of 40.9%.

### Sales up 11.6%; Sales up 8.5% before changes in the scope of consolidation and exchange rate effects

Sales of the Chassis & Safety division rose by 11.6% to €3,593.3 million in the first six months of 2012 compared with the same period of the previous year (PY: €3,220.5 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 8.5%.

### Adjusted EBIT down 2.9%

The Chassis & Safety division's adjusted EBIT decreased by €10.7 million or 2.9% year-on-year in the first six months of 2012 to €352.4 million (PY: €363.1 million), equivalent to 9.8% (PY: 11.2%) of adjusted sales.

### EBIT down 4.1%

Compared with the same period of last year, the Chassis & Safety division reported a decrease in EBIT of €14.0 million, or 4.1%, to €325.8 million (PY: €339.8 million) in the first half of 2012. The return on sales fell to 9.1% (PY: 10.6%).

### Special effects in the first half of 2012

There were no special effects in the Chassis & Safety division in the first half of 2012.

**Special effects in the first half of 2011**

Special effects from the reversal of restructuring provisions no longer required had a positive impact totaling €4.3 million in the Chassis & Safety division in the first half of 2011.

| | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| Powertrain in € millions | 2012 | 2011 | 2012 | 2011 |
| Sales | 3,198.7 | 2,860.1 | 1,572.5 | 1,463.3 |
| EBITDA | 313.0 | 214.3 | 150.8 | 93.7 |
| in % of sales | 9.8 | 7.5 | 9.6 | 6.4 |
| EBIT | 78.6 | -2.9 | 34.8 | -15.9 |
| in % of sales | 2.5 | -0.1 | 2.2 | -1.1 |
| Depreciation and amortization[1] | 234.4 | 217.2 | 116.0 | 109.6 |
| – thereof impairment[2] | — | 0.0 | — | 1.1 |
| Capital expenditure[3] | 141.4 | 154.1 | 76.9 | 90.3 |
| in % of sales | 4.4 | 5.4 | 4.9 | 6.2 |
| Operating assets as at June 30 | 3,100.7 | 2,960.4 | | |
| Number of employees as at June 30[4] | 31,342 | 30,155 | | |
| | | | | |
| Adjusted sales[5] | 3,198.7 | 2,860.1 | 1,572.5 | 1,463.3 |
| Adjusted operating result (adjusted EBIT)[6] | 166.0 | 117.7 | 78.3 | 62.3 |
| in % of adjusted sales | 5.2 | 4.1 | 5.0 | 4.3 |

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

## Powertrain

### Sales volumes

In the first half of 2012, sales in the Powertrain division increased by 11.8% year-on-year, with particularly strong growth in sales volumes of over 40% generated in NAFTA. Significant sales growth of around 13% was generated in Asia, while sales in Europe stagnated in the first half of the year due to the decreasing number of new registrations. Particularly high volume increases were achieved for transmission control units, sensors for emission control, and fuel supply product groups.

### Sales up 11.8%; Sales up 9.2% before changes in the scope of consolidation and exchange rate effects

Sales of the Powertrain division rose by 11.8% to €3,198.7 million in the first six months of 2012 compared with the same period of 2011 (€2,860.1 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 9.2%.

### Adjusted EBIT up 41.0%

In the first six months of 2012, the Powertrain division's adjusted EBIT was up by €48.3 million or 41.0% compared with the same period of previous year to €166.0 million (PY: €117.7 million), equivalent to 5.2% (PY: 4.1%) of adjusted sales.

### EBIT up 2,810.3%

Compared with the same period of 2011, the Powertrain division reported an increase in EBIT of €81.5 million, or 2,810.3%, to €78.6 million (PY: -€2.9 million) in the first half of 2012. The return on sales rose to 2.5% (PY: -0.1%).

### Special effects in the first half of 2012

In the first six months of 2012, there was a positive effect of €0.8 million overall in the Powertrain division.

**Special effects in the first half of 2011**

The economic situation of the Fuel Supply business unit in the Powertrain division in Europe is characterized by insufficient profitability. For this reason, the location in Dortmund, Germany, is being restructured. Parts of production and assembly are being relocated and the site is being expanded into a competence center for fuel feed units of the Fuel Supply business unit. Restructuring expenses of €35.8 million have been incurred in this context.

Special effects, chiefly arising from the reversal of restructuring provisions no longer required, had a positive impact totaling €2.8 million in the Powertrain division in the first half of 2011.

Total negative impact for the Powertrain division from special effects in the first half of 2011 amounted to €33.0 million.

| Interior in € millions | January 1 to June 30 2012 | January 1 to June 30 2011 | Second Quarter 2012 | Second Quarter 2011 |
|---|---|---|---|---|
| Sales | 3,275.3 | 3,043.8 | 1,614.4 | 1,513.8 |
| EBITDA | 407.0 | 370.6 | 209.8 | 196.3 |
| in % of sales | 12.4 | 12.2 | 13.0 | 13.0 |
| EBIT | 190.7 | 166.1 | 100.1 | 94.3 |
| in % of sales | 5.8 | 5.5 | 6.2 | 6.2 |
| Depreciation and amortization[1] | 216.3 | 204.5 | 109.7 | 102.0 |
| – thereof impairment[2] | 1.6 | 0.5 | 1.6 | 0.5 |
| Capital expenditure[3] | 110.7 | 96.4 | 61.0 | 50.7 |
| in % of sales | 3.4 | 3.2 | 3.8 | 3.3 |
| Operating assets as at June 30 | 4,373.3 | 4,386.2 | | |
| Number of employees as at June 30[4] | 32,759 | 31,091 | | |
| | | | | |
| Adjusted sales[5] | 3,275.3 | 3,037.7 | 1,614.4 | 1,510.4 |
| Adjusted operating result (adjusted EBIT)[6] | 288.6 | 248.6 | 146.8 | 129.6 |
| in % of adjusted sales | 8.8 | 8.2 | 9.1 | 8.6 |

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

## Interior

### Sales volumes

Sales volumes in the Body & Security business unit were up year-on-year for the majority of the product groups in the first half of 2012. Particularly high increases were achieved for central body control units, access control and starting systems, and tire pressure monitoring systems.

In the Infotainment & Connectivity business unit, sales volumes of audio components increased in the first half of 2012, primarily due to the growing demand on the U.S. market and the start of a new production run. Sales volumes of multimedia systems decreased slightly, particularly as a result of declining demand on the Asian market. A slight increase in the area of connectivity and telematics was posted.

Sales volumes in the Commercial Vehicles & Aftermarket business unit were slightly below the previous year's level. This was mainly due to weaker OE business in Brazil, Western Europe and Asia, which was largely offset by replacement parts and aftermarket activities.

In the Instrumentation & Driver HMI business unit, sales figures increased across all product groups as compared to the first half of 2011. The most substantial growth was recorded in sales volumes of instrument clusters.

### Sales up 7.6%; Sales up 6.0% before changes in the scope of consolidation and exchange rate effects

Sales of the Interior division rose by 7.6% to €3,275.3 million in the first six months of 2012 compared with the same period of 2011 (€3,043.8 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 6.0%.

### Adjusted EBIT up 16.1%

In the first six months of 2012, the Interior division's adjusted EBIT was up by €40.0 million, or 16.1%, compared with the same period of previous year to

€288.6 million (PY: €248.6 million), equivalent to 8.8% (PY: 8.2%) of adjusted sales.

**EBIT up 14.8%**

Compared with the same period of 2011, the Interior division reported an increase in EBIT of €24.6 million, or 14.8%, to €190.7 million (PY: €166.1 million) in the first half of 2012. The return on sales rose to 5.8% (PY: 5.5%).

**Special effects in the first half of 2012**

In the Interior division, special effects from the reversal of restructuring provisions no longer required had a positive impact totaling €6.5 million in the first half of 2012.

In addition, impairment of property, plant and equipment resulted in expense of €1.6 million.

For the Interior division, the total net positive impact from special effects in the first half of 2012 amounted to €4.9 million.

**Special effects in the first half of 2011**

Special effects, chiefly due to the reversal of restructuring provisions no longer required, had a positive impact totaling €17.1 million in the Interior division in the first half of 2011.

| | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| Tires in € millions | 2012 | 2011 | 2012 | 2011 |
| Sales | 4,718.5 | 4,083.4 | 2,351.7 | 2,102.1 |
| EBITDA | 985.5 | 728.7 | 523.3 | 372.2 |
| in % of sales | 20.9 | 17.8 | 22.3 | 17.7 |
| EBIT | 813.5 | 565.7 | 435.5 | 290.0 |
| in % of sales | 17.2 | 13.9 | 18.5 | 13.8 |
| Depreciation and amortization[1] | 172.0 | 163.0 | 87.8 | 82.2 |
| – thereof impairment[2] | -2.8 | -0.6 | -2.7 | -0.4 |
| Capital expenditure[3] | 368.7 | 205.4 | 181.3 | 138.6 |
| in % of sales | 7.8 | 5.0 | 7.7 | 6.6 |
| Operating assets as at June 30 | 4,473.2 | 3,350.4 | | |
| Number of employees as at June 30[4] | 42,530 | 37,906 | | |
| | | | | |
| Adjusted sales[5] | 4,621.4 | 4,083.4 | 2,301.9 | 2,102.1 |
| Adjusted operating result (adjusted EBIT)[6] | 815.7 | 562.8 | 437.3 | 283.9 |
| in % of adjusted sales | 17.7 | 13.8 | 19.0 | 13.5 |

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

## Tires

### Sales volumes

After the first six months of 2012, the sales figures for passenger and light truck tires were at the previous year's level, with higher sales volumes in Asia compensating for the decrease in replacement business sales in The Americas as compared to the previous year. Sales volumes in the commercial vehicle tire business were up 2% on the previous year's level, or down 5% year-on-year before changes in the scope of consolidation.

### Sales up 15.6%; Sales up 11.4% before changes in the scope of consolidation and exchange rate effects

Sales of the Tire division rose by 15.6% to €4,718.5 million in the first six months of 2012 compared with the same period of 2011 (€4,083.4 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 11.4%.

### Adjusted EBIT up 44.9%

In the first six months of 2012, the Tire division's adjusted EBIT was up by €252.9 million, or 44.9%, compared with the same period of the previous year to €815.7 million (PY: €562.8 million), equivalent to 17.7% (PY: 13.8%) of adjusted sales.

### EBIT up 43.8%

Compared with the same period of 2011, the Tire division reported an increase in EBIT of €247.8 million, or 43.8%, to €813.5 million (PY: €565.7 million) in the first half of 2012. The return on sales rose to 17.2% (PY: 13.9%).

### Special effects in the first half of 2012

In NAFTA, lower pension obligations resulted in a positive effect of €6.2 million for the Tire division in the first six months of 2012.

Reversals of impairment losses on property, plant and equipment had a positive effect totaling €2.8 million in the Tire division.

For the Tire division, the total positive impact from special effects in the first half of 2012 amounted to €9.0 million.

**Special effects in the first half of 2011**

The total positive impact from special effects in the first half of 2011 amounted to €4.5 million for the Tire division.

| ContiTech in € millions | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Sales | 1,854.6 | 1,802.1 | 931.6 | 916.1 |
| EBITDA | 283.4 | 279.0 | 145.6 | 138.1 |
| in % of sales | 15.3 | 15.5 | 15.6 | 15.1 |
| EBIT | 234.5 | 231.0 | 121.2 | 114.1 |
| in % of sales | 12.6 | 12.8 | 13.0 | 12.5 |
| Depreciation and amortization[1] | 48.9 | 48.0 | 24.4 | 24.0 |
| – thereof impairment[2] | — | — | — | — |
| Capital expenditure[3] | 65.2 | 44.5 | 40.7 | 23.8 |
| in % of sales | 3.5 | 2.5 | 4.4 | 2.6 |
| Operating assets as at June 30 | 1,162.1 | 1,097.8 | | |
| Number of employees as at June 30[4] | 27,531 | 27,573 | | |
| | | | | |
| Adjusted sales[5] | 1,848.6 | 1,802.1 | 927.3 | 916.1 |
| Adjusted operating result (adjusted EBIT)[6] | 238.7 | 233.6 | 123.3 | 115.4 |
| in % of adjusted sales | 12.9 | 13.0 | 13.3 | 12.6 |

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

## ContiTech

**Sales up 2.9%;**

**Sales up 2.9% before changes in the scope of consolidation and exchange rate effects**

Sales of the ContiTech division rose by 2.9% to €1,854.6 million in the first six months of 2012 compared with the same period of 2011 (€1,802.1 million). Sales were also up 2.9% before changes in the scope of consolidation and exchange rate effects. Not only the industrial business, but also the automotive OE business and automotive replacement business contributed to this development.

**Adjusted EBIT up 2.2%**

In the first six months of 2012, the ContiTech division's adjusted EBIT was up by €5.1 million, or 2.2%, compared with the same period of the previous year to €238.7 million (PY: €233.6 million), equivalent to 12.9% (PY: 13.0%) of adjusted sales. The slight decrease in the return on sales was influenced by the development of raw material prices for synthetic rubber.

**EBIT up 1.5%**

Compared with the same period of 2011, the ContiTech division reported an increase in EBIT of €3.5 million, or 1.5%, to €234.5 million (PY: €231.0 million) in the first half of 2012. The return on sales fell to 12.6% (PY: 12.8%).

**Special effects in the first half of 2012**

For the ContiTech division, the total net expense from special effects in the first half of 2012 amounted to €0.7 million.

**Special effects in the first half of 2011**

In the first half of 2011, the ContiTech division reported expenses for special effects of €1.2 million in total.

## Report on Expected Developments and Outlook for the Corporation

The successful start to fiscal 2012 makes us highly confident that we will achieve the goals we have set for 2012, despite all the uncertainties on the global sales markets, the difficult economic situation in some European Union member states and the slowdown in global economic growth. In all probability, global light vehicle production will increase to 79 million units in 2012. It must be taken into account, however, that nearly half of the additional growth of almost 3 million vehicles is attributable to catch-up effects in Japan. For Europe, our most important sales region, we do not anticipate any substantial upturn in production in the second half of the year, and the dynamics in NAFTA will weaken considerably in the second half year as well, so that in the two regions put together, there will be only a 1% increase in production after more than 2% in the first half of the year. After the weaker development on the replacement passenger car and truck tire markets in the first half of 2012 than was previously expected, we still assume the replacement tire markets will stabilize over the remainder of the year. We still intend to increase our tire unit sales by 3%.

In the above context, after the first six months of the fiscal year we expect a slowdown in the growth momentum in the second half of the year. Nonetheless, we anticipate an increase in consolidated sales of more than 7% to over €32.5 billion for the year on the whole. As a result of the strong operating performance in the first half of the year, we now expect the adjusted EBIT margin in 2012 to be higher than the previous year's very good level. The reason for this reassessment is the slightly lower negative impact from raw material costs, which had recently increased. For instance, based on the current price trends raw material costs for rare earths are likely to decrease as compared to the expectations in May. The negative impact from raw material costs in the Rubber Group also is not expected to reach the extent feared due to the current decrease in prices for natural and synthetic rubber. Owing to the high degree of volatility in price quotations, we remain cautious with regard to the year as a whole and anticipate total expense from rising raw material costs of approximately €100 million for the corporation.

The special effects for the corporation will total around €50 million. The investment volume will amount to approximately €2 billion. The target for free cash flow remains at more than €600 million.

The start to the third quarter of 2012 continues to give cause for confidence. For example, current information indicates that consolidated sales in the period from July to September are likely to be slightly under the level of the second quarter due to the holiday period, which usually leads to production downtime at our customers and affects mainly the Automotive Group. However, this decline is primarily attributable to seasonal effects.

# Consolidated Financial Statements as of June 30, 2012

## Consolidated Statement of Income and Comprehensive Income

| | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| **in € millions** | **2012** | **2011** | **2012** | **2011** |
| **Sales** | **16,506.2** | **14,878.2** | **8,186.7** | **7,532.6** |
| Cost of sales | -12,955.3 | -11,723.6 | -6,401.4 | -5,976.5 |
| **Gross margin on sales** | **3,550.9** | **3,154.6** | **1,785.3** | **1,556.1** |
| Research and development expenses | -907.5 | -823.9 | -458.3 | -418.5 |
| Selling and logistics expenses | -771.6 | -694.5 | -391.1 | -353.0 |
| Administrative expenses | -332.9 | -318.3 | -168.4 | -162.1 |
| Other income and expenses | 32.1 | -78.1 | 52.2 | -3.3 |
| At-equity share in earnings of associates | 29.9 | 42.6 | 17.3 | 26.8 |
| Other income from investments | 7.5 | -1.4 | 5.8 | 1.1 |
| **Earnings before interest and taxes** | **1,608.4** | **1,281.0** | **842.8** | **647.1** |
| Interest income | 13.4 | 12.9 | 5.9 | 6.5 |
| Interest expense[1] | -189.6 | -331.7 | -138.7 | -156.7 |
| **Net interest expense** | **-176.2** | **-318.8** | **-132.8** | **-150.2** |
| **Earnings before taxes** | **1,432.2** | **962.2** | **710.0** | **496.9** |
| Income tax expense | -396.7 | -244.4 | -175.0 | -164.2 |
| **Net income** | **1,035.5** | **717.8** | **535.0** | **332.7** |
| Non-controlling interests | -32.3 | -34.8 | -14.7 | -17.9 |
| Net income attributable to the shareholders of the parent | 1,003.2 | 683.0 | 520.3 | 314.8 |
| | | | | |
| **Basic earnings per share in €** | **5.02** | **3.42** | **2.60** | **1.57** |
| **Diluted earnings per share in €** | **5.02** | **3.42** | **2.60** | **1.57** |

[1] Including gains and losses from foreign currency translation, from changes in the fair value of derivative instruments, as well as from available-for-sale financial assets.

| | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| **in € millions** | **2012** | **2011[1]** | **2012** | **2011[1]** |
| **Net income** | **1,035.5** | **717.8** | **535.0** | **332.7** |
| Currency translation[2] | 66.5 | -127.0 | 75.5 | -6.8 |
| Difference from currency translation[2] | 65.3 | -126.3 | 75.5 | -6.8 |
| Reclassification adjustments to profit and loss | 1.2 | -0.7 | — | — |
| Portion for at-equity accounted investees | — | — | — | — |
| Available-for-sale financial assets | 3.7 | 0.6 | -0.6 | 0.7 |
| Fair value adjustments | 3.7 | 0.6 | -0.6 | 0.7 |
| Reclassification adjustments to profit and loss | — | — | — | — |
| Cash flow hedges | 21.9 | 69.9 | 10.4 | 22.0 |
| Fair value adjustments | — | 69.9 | — | 22.0 |
| Reclassification adjustments to profit and loss | 21.9 | — | 10.4 | — |
| Deferred taxes on other comprehensive income | -12.7 | -26.9 | -2.1 | -7.6 |
| **Other comprehensive income** | **79.4** | **-83.4** | **83.2** | **8.3** |
| **Comprehensive income** | **1,114.9** | **634.4** | **618.2** | **341.0** |
| Attributable to non-controlling interests | -39.0 | -26.0 | -28.4 | -19.1 |
| Attributable to the shareholders of the parent | 1,075.9 | 608.4 | 589.8 | 321.9 |

[1] The comparative figures are shown adjusted accordingly.
[2] Including non-controlling interests.

# Consolidated Statement of Financial Position

| **Assets in € millions** | **June 30, 2012** | ***Dec. 31, 2011*** | **June 30, 2011** |
|---|---|---|---|
| Goodwill | 5,727.7 | *5,692.4* | 5,640.2 |
| Other intangible assets | 1,169.6 | *1,365.9* | 1,512.7 |
| Property, plant and equipment | 6,866.8 | *6,608.5* | 6,071.1 |
| Investment property | 19.7 | *19.0* | 19.7 |
| Investments in at-equity accounted investees | 484.6 | *480.2* | 457.6 |
| Other investments | 6.6 | *6.9* | 7.0 |
| Deferred tax assets | 600.5 | *565.8* | 614.6 |
| Defined benefit assets | 107.5 | *102.9* | 69.7 |
| Long-term derivative instruments and interest-bearing investments | 394.3 | *193.2* | 164.8 |
| Other long-term financial assets | 29.2 | *26.7* | 29.1 |
| Other long-term assets | 12.5 | *14.0* | 13.6 |
| **Non-current assets** | **15,419.0** | ***15,075.5*** | **14,600.1** |
| Inventories | 3,295.1 | *2,989.7* | 3,041.8 |
| Trade accounts receivable | 5,815.6 | *5,341.5* | 4,996.2 |
| Other short-term financial assets | 315.6 | *263.5* | 268.9 |
| Other short-term assets | 720.3 | *624.0* | 623.8 |
| Income tax receivables | 183.5 | *101.7* | 125.6 |
| Short-term derivative instruments and interest-bearing investments | 84.0 | *55.9* | 66.4 |
| Cash and cash equivalents | 1,401.7 | *1,541.2* | 1,566.0 |
| Assets held for sale | 45.2 | *45.4* | 4.4 |
| **Current assets** | **11,861.0** | ***10,962.9*** | **10,693.1** |
| **Total assets** | **27,280.0** | ***26,038.4*** | **25,293.2** |

| **Total equity and liabilities in € millions** | **June 30, 2012** | ***Dec. 31, 2011*** | **June 30, 2011** |
|---|---|---|---|
| Subscribed capital | 512.0 | *512.0* | 512.0 |
| Capital reserves | 4,155.6 | *4,155.6* | 4,155.6 |
| Retained earnings | 3,157.8 | *2,454.6* | 1,895.4 |
| Other comprehensive income | 137.2 | *23.9* | -88.4 |
| **Equity attributable to the shareholders of the parent** | **7,962.6** | ***7,146.1*** | **6,474.6** |
| Non-controlling interests | 355.9 | *397.2* | 346.5 |
| **Total equity** | **8,318.5** | ***7,543.3*** | **6,821.1** |
| Provisions for pension liabilities and similar obligations | 1,453.3 | *1,432.2* | 1,409.6 |
| Deferred tax liabilities | 329.4 | *269.3* | 248.0 |
| Long-term provisions for other risks and obligations | 363.1 | *321.8* | 344.6 |
| Long-term portion of indebtedness | 6,095.6 | *6,048.0* | 7,071.3 |
| Other long-term financial liabilities | 7.8 | *8.0* | 0.8 |
| Other long-term liabilities | 52.9 | *57.1* | 35.6 |
| **Non-current liabilities** | **8,302.1** | ***8,136.4*** | **9,109.9** |
| Trade accounts payable | 4,227.3 | *4,111.4* | 3,830.5 |
| Income tax payables | 764.7 | *648.2* | 652.5 |
| Short-term provisions for other risks and obligations | 756.7 | *905.1* | 1,052.4 |
| Indebtedness | 2,660.3 | *2,514.4* | 1,839.9 |
| Other short-term financial liabilities | 1,367.8 | *1,415.2* | 1,163.6 |
| Other short-term liabilities | 882.6 | *764.4* | 823.3 |
| **Current liabilities** | **10,659.4** | ***10,358.7*** | **9,362.2** |
| **Total equity and liabilities** | **27,280.0** | ***26,038.4*** | **25,293.2** |

# Consolidated Statement of Cash Flows

| | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| in € millions | 2012 | 2011 | 2012 | 2011 |
| **Net income** | **1,035.5** | **717.8** | **535.0** | **332.7** |
| Income tax expense | 396.7 | 244.4 | 175.0 | 164.2 |
| Net interest expense | 176.2 | 318.8 | 132.8 | 150.2 |
| **EBIT** | **1,608.4** | **1,281.0** | **842.8** | **647.1** |
| Interest paid | -289.6 | -388.8 | -85.3 | -169.9 |
| Interest received | 13.2 | 12.7 | 5.7 | 5.9 |
| Income tax paid | -340.7 | -194.1 | -205.7 | -107.7 |
| Dividends received | 33.7 | 19.4 | 6.2 | 1.9 |
| Depreciation, amortization and impairments | 839.2 | 791.7 | 422.5 | 397.1 |
| At-equity share in earnings of associates and accrued dividend income from other investments, incl. impairments | -37.4 | -41.2 | -23.1 | -27.9 |
| Gains from the disposal of assets, companies and business operations | -2.2 | -12.1 | -1.4 | -7.6 |
| Other non-cash items | -3.5 | -22.8 | -1.8 | -15.8 |
| Changes in | | | | |
| inventories | -270.3 | -448.3 | -115.6 | -134.7 |
| trade accounts receivable | -406.7 | -633.1 | 311.0 | 237.6 |
| notes sold | — | -0.4 | — | 6.0 |
| trade accounts payable | 64.2 | 359.4 | -40.2 | 141.8 |
| pension and similar obligations | 12.9 | 22.2 | 6.8 | 8.6 |
| other assets and liabilities | -233.1 | -42.7 | -389.9 | -186.2 |
| **Cash flow arising from operating activities** | **988.1** | **702.9** | **732.0** | **796.2** |
| Proceeds on disposal of property, plant and equipment, and intangible assets | 13.1 | 32.3 | 4.0 | 21.2 |
| Capital expenditure on property, plant and equipment, and software | -828.0 | -625.2 | -440.1 | -370.5 |
| Capital expenditure on intangible assets from development projects and miscellaneous | -36.8 | -47.6 | -17.3 | -23.3 |
| Proceeds on disposal of companies and business operations | 0.0 | 0.0 | — | 0.0 |
| Acquisition of companies and business operations | -10.0 | -25.5 | -4.5 | -23.8 |
| **Cash flow arising from investing activities** | **-861.7** | **-666.0** | **-457.9** | **-396.4** |
| | | | | |
| **Cash flow before financing activities (free cash flow)** | **126.4** | **36.9** | **274.1** | **399.8** |
| Change in indebtedness | 57.3 | 119.2 | 120.5 | -286.0 |
| Successive purchases | -18.1 | -0.4 | -7.7 | -0.4 |
| Dividends paid | -300.0 | — | -300.0 | — |
| Dividends paid and repayment of capital to non-controlling interests | -31.6 | -20.3 | -9.7 | -7.1 |
| Cash and cash equivalents arising from first consolidation of subsidiaries | 4.8 | — | — | — |
| **Cash flow arising from financing activities** | **-287.6** | **98.5** | **-196.9** | **-293.5** |
| | | | | |
| **Change in cash and cash equivalents** | **-161.2** | **135.4** | **77.2** | **106.3** |
| Cash and cash equivalents at the beginning of the reporting period | 1,541.2 | 1,471.3 | 1,297.9 | 1,467.5 |
| Effect of exchange rate changes on cash and cash equivalents | 21.7 | -40.7 | 26.6 | -7.8 |
| **Cash and cash equivalents at the end of the reporting period** | **1,401.7** | **1,566.0** | **1,401.7** | **1,566.0** |

# Consolidated Statement of Changes in Equity

| in € millions | Number of shares[1] (thousands) | Subscribed capital | Capital reserves | Retained earnings | Successive purchases[2] | Difference from currency translation | Difference from financial instruments[3] | Subtotal | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **As at Jan. 1, 2011** | **200,006** | **512.0** | **4,149.0** | **1,212.4** | **-44.5** | **134.6** | **-103.9** | **5,859.6** | **343.3** | **6,202.9** |
| Net income | — | — | — | 683.0 | — | — | — | **683.0** | 34.8 | **717.8** |
| Comprehensive income | — | — | — | — | — | -123.9 | 49.3 | **-74.6** | -8.8 | **-83.4** |
| **Net profit for the period** | **—** | **—** | **—** | **683.0** | **—** | **-123.9** | **49.3** | **608.4** | **26.0** | **634.4** |
| Dividends paid/resolved | — | — | — | — | — | — | — | **—** | -20.3 | **-20.3** |
| Issuance of shares[4] | — | — | 6.6 | — | — | — | — | **6.6** | — | **6.6** |
| Successive purchases | — | — | — | — | 0.0 | — | — | **0.0** | -3.2 | **-3.2** |
| Other changes[5] | — | — | — | — | — | — | — | **—** | 0.7 | **0.7** |
| **As at June 30, 2011** | **200,006** | **512.0** | **4,155.6** | **1,895.4** | **-44.5** | **10.7** | **-54.6** | **6,474.6** | **346.5** | **6,821.1** |
| **As at Jan. 1, 2012** | **200,006** | **512.0** | **4,155.6** | **2,454.6** | **-59.8** | **105.3** | **-21.6** | **7,146.1** | **397.2** | **7,543.3** |
| Net income | — | — | — | 1,003.2 | — | — | — | **1,003.2** | 32.3 | **1,035.5** |
| Comprehensive income | — | — | — | — | — | 54.7 | 18.0 | **72.7** | 6.7 | **79.4** |
| **Net profit for the period** | **—** | **—** | **—** | **1,003.2** | **—** | **54.7** | **18.0** | **1,075.9** | **39.0** | **1,114.9** |
| Dividends paid/resolved | — | — | — | -300.0 | — | — | — | **-300.0** | -32.1 | **-332.1** |
| Successive purchases | — | — | — | — | 36.6 | — | — | **36.6** | -52.4 | **-15.8** |
| Other changes[5] | — | — | — | — | 4.0 | — | — | **4.0** | 4.2 | **8.2** |
| **As at June 30, 2012** | **200,006** | **512.0** | **4,155.6** | **3,157.8** | **-19.2** | **160.0** | **-3.6** | **7,962.6** | **355.9** | **8,318.5** |

[1] Shares outstanding.

[2] Successive acquisitions of shares in fully consolidated companies, subsequent purchase price adjustment and effects from the first consolidation of previously non-consolidated subsidiaries.

[3] In the period under review, the difference from financial instruments, including deferred taxes, is mainly due to the voluntary termination of cash flow hedge accounting for interest rate exposures in 2011. The prior year figure resulted primarily from changes in the fair value of the cash flow hedges on interest and currency.

[4] Includes the expenditure resulting from stock option plans and the compensation offer for granted and not yet exercised stock options.

[5] Other changes in non-controlling interests due to changes in the scope of consolidation, capital increases and effects from the first consolidation of previously non-consolidated subsidiaries.

# Explanatory Notes to the Consolidated Financial Statements

**Segment report by division for the period from January 1 to June 30, 2012**

| in € millions | Chassis & Safety | Powertrain | Interior |
|---|---|---|---|
| External sales | 3,572.6 | 3,169.0 | 3,265.7 |
| Intercompany sales | 20.7 | 29.7 | 9.6 |
| **Sales (total)** | **3,593.3** | **3,198.7** | **3,275.3** |
| EBITDA | 493.1 | 313.0 | 407.0 |
| in % of sales | 13.7 | 9.8 | 12.4 |
| EBIT (segment result) | 325.8 | 78.6 | 190.7 |
| in % of sales | 9.1 | 2.5 | 5.8 |
| Depreciation and amortization[1] | 167.3 | 234.4 | 216.3 |
| – thereof impairment[2] | — | — | 1.6 |
| Capital expenditure[3] | 142.2 | 141.4 | 110.7 |
| in % of sales | 4.0 | 4.4 | 3.4 |
| Operating assets as at June 30 | 4,159.4 | 3,100.7 | 4,373.3 |
| Number of employees as at June 30[4] | 34,373 | 31,342 | 32,759 |

| in € millions | Tires | ContiTech | Other/ Consolidation | Continental Corporation |
|---|---|---|---|---|
| External sales | 4,710.1 | 1,788.8 | — | 16,506.2 |
| Intercompany sales | 8.4 | 65.8 | -134.2 | — |
| **Sales (total)** | **4,718.5** | **1,854.6** | **-134.2** | **16,506.2** |
| EBITDA | 985.5 | 283.4 | -34.4 | 2,447.6 |
| in % of sales | 20.9 | 15.3 | — | 14.8 |
| EBIT (segment result) | 813.5 | 234.5 | -34.7 | 1,608.4 |
| in % of sales | 17.2 | 12.6 | — | 9.7 |
| Depreciation and amortization[1] | 172.0 | 48.9 | 0.3 | 839.2 |
| – thereof impairment[2] | -2.8 | — | — | -1.2 |
| Capital expenditure[3] | 368.7 | 65.2 | 0.6 | 828.8 |
| in % of sales | 7.8 | 3.5 | — | 5.0 |
| Operating assets as at June 30 | 4,473.2 | 1,162.1 | -81.3 | 17,187.4 |
| Number of employees as at June 30[4] | 42,530 | 27,531 | 278 | 168,813 |

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.

The Passenger and Light Truck Tires segment and the Commercial Vehicle Tires segment, which were reported separately in the past, were merged into the Tire segment at the organizational level. The figures for the previous year have been restated accordingly for comparison purposes.

**Segment report by division for the period from January 1 to June 30, 2011**

| in € millions | Chassis & Safety | Powertrain | Interior |
|---|---|---|---|
| External sales | 3,200.5 | 2,832.7 | 3,037.4 |
| Intercompany sales | 20.0 | 27.4 | 6.4 |
| **Sales (total)** | **3,220.5** | **2,860.1** | **3,043.8** |
| EBITDA | 498.0 | 214.3 | 370.6 |
| in % of sales | 15.5 | 7.5 | 12.2 |
| EBIT (segment result) | 339.8 | -2.9 | 166.1 |
| in % of sales | 10.6 | -0.1 | 5.5 |
| Depreciation and amortization[1] | 158.2 | 217.2 | 204.5 |
| – thereof impairment[2] | — | 0.0 | 0.5 |
| Capital expenditure[3] | 124.9 | 154.1 | 96.4 |
| in % of sales | 3.9 | 5.4 | 3.2 |
| Operating assets as at June 30 | 4,031.9 | 2,960.4 | 4,386.2 |
| Number of employees as at June 30[4] | 32,136 | 30,155 | 31,091 |

| in € millions | Tires | ContiTech | Other/ Consolidation | Continental Corporation |
|---|---|---|---|---|
| External sales | 4,076.7 | 1,730.9 | — | 14,878.2 |
| Intercompany sales | 6.7 | 71.2 | -131.7 | — |
| **Sales (total)** | **4,083.4** | **1,802.1** | **-131.7** | **14,878.2** |
| EBITDA | 728.7 | 279.0 | -17.9 | 2,072.7 |
| in % of sales | 17.8 | 15.5 | — | 13.9 |
| EBIT (segment result) | 565.7 | 231.0 | -18.7 | 1,281.0 |
| in % of sales | 13.9 | 12.8 | — | 8.6 |
| Depreciation and amortization[1] | 163.0 | 48.0 | 0.8 | 791.7 |
| – thereof impairment[2] | -0.6 | — | — | -0.1 |
| Capital expenditure[3] | 205.4 | 44.5 | -6.2 | 619.1 |
| in % of sales | 5.0 | 2.5 | — | 4.2 |
| Operating assets as at June 30 | 3,350.4 | 1,097.8 | -58.5 | 15,768.2 |
| Number of employees as at June 30[4] | 37,906 | 27,573 | 255 | 159,116 |

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.

# Reconciliation of EBIT to Net Income

| | January 1 to June 30 | | Second Quarter | |
|---|---|---|---|---|
| in € millions | 2012 | 2011 | 2012 | 2011 |
| Chassis & Safety | 325.8 | 339.8 | 166.0 | 167.8 |
| Powertrain | 78.6 | -2.9 | 34.8 | -15.9 |
| Interior | 190.7 | 166.1 | 100.1 | 94.3 |
| Tires | 813.5 | 565.7 | 435.5 | 290.0 |
| ContiTech | 234.5 | 231.0 | 121.2 | 114.1 |
| Other/consolidation | -34.7 | -18.7 | -14.8 | -3.2 |
| **EBIT** | **1,608.4** | **1,281.0** | **842.8** | **647.1** |
| Net interest expense | -176.2 | -318.8 | -132.8 | -150.2 |
| **Earnings before taxes** | **1,432.2** | **962.2** | **710.0** | **496.9** |
| Income tax expense | -396.7 | -244.4 | -175.0 | -164.2 |
| **Net income** | **1,035.5** | **717.8** | **535.0** | **332.7** |
| Non-controlling interests | -32.3 | -34.8 | -14.7 | -17.9 |
| **Net income attributable to the shareholders of the parent** | **1,003.2** | **683.0** | **520.3** | **314.8** |

**Accounting principles**

This Interim Report has been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable on the reporting date and endorsed by the European Union, as well as the interpretations of the International Financial Reporting Interpretation Committee (IFRIC). The Interim Report was drawn up in compliance with IAS 34, Interim Financial Reporting. The same accounting principles and basis of valuation are applied in the Interim Report as were used in the consolidated financial statements for 2011. These methods are disclosed in detail in the 2011 Annual Report. In addition, the IFRS amendments and new IFRS regulations mandated as of June 30, 2012, are applied in the Interim Report. These mandatory amendments and new regulations were disclosed in detail in the 2011 Annual Report. They have no material effect on the Continental Corporation.

Taxes are calculated based on the estimated, weighted-average annual tax rate expected for the year as a whole, taking into account the tax impact of specific significant items not expected to reoccur in the remainder of the year.

Although certain elements of the corporation's business are seasonal, the overall comparability of the interim consolidated financial statements is not compromised. All significant effects in the current period are shown in the summary of the Interim Report or in the accompanying explanations. Changes in the recognition or valuation of assets and liabilities within the scope of company acquisitions are presented retrospectively once the final purchase price allocation has been determined.

The consolidated financial statements have been prepared in euro. Unless otherwise stated, all amounts are presented in millions of euro. Please note that differences may arise as a result of the use of rounded amounts and percentages.

**Pension obligations**

Net pension cost for the Continental Corporation can be summarized as follows:

| | January 1 to June 30, 2012 | | | | | January 1 to June 30, 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **in € millions** | **Germany** | **USA/CAN** | **UK** | **Others** | **Total** | **Germany** | **USA/CAN** | **UK** | **Others** | **Total** |
| Current service cost | 30.6 | 0.3 | 1.5 | 7.8 | **40.2** | 30.9 | 0.3 | 1.4 | 8.5 | **41.1** |
| Interest on defined benefit obligations | 46.8 | 24.1 | 6.1 | 5.4 | **82.4** | 44.1 | 25.7 | 5.7 | 5.4 | **80.9** |
| Expected return on plan assets | -14.8 | -23.4 | -7.2 | -2.4 | **-47.8** | -14.9 | -26.7 | -6.6 | -2.6 | **-50.8** |
| Amortization of actuarial gains and losses as well as other costs | 0.7 | 14.1 | 0.9 | 0.8 | **16.5** | 2.5 | 9.3 | 0.8 | 1.3 | **13.9** |
| Effects of asset ceiling and curtailments | — | 4.8 | — | 0.0 | **4.8** | — | 0.2 | — | 0.1 | **0.3** |
| **Net pension cost** | **63.3** | **19.9** | **1.3** | **11.6** | **96.1** | **62.6** | **8.8** | **1.3** | **12.7** | **85.4** |

Net cost of healthcare and life insurance obligations of the Continental Corporation in the U.S.A. and Canada are made up of the following:

| | January 1 to June 30 | |
|---|---|---|
| **in € millions** | **2012** | **2011** |
| Current service cost | 0.8 | 0.7 |
| Interest on defined benefit obligations | 4.8 | 5.3 |
| Amortization of actuarial losses as well as other costs | 1.5 | 0.8 |
| **Net cost of obligations similar to pensions** | **7.1** | **6.8** |

**Cash changes in pension and similar obligations**

Pension funds exist solely for pension obligations, particularly in Germany, the U.S.A., Canada and the United Kingdom, and not for other benefit obligations. The companies of the Continental Corporation paid €27.9 million (PY: €24.2 million) into these pension funds in the period from January 1 to June 30, 2012.

In the period from January 1 to June 30, 2012, payments for retirement benefit obligations totaled €96.0 million (PY: €89.6 million). Payments for obligations similar to pensions totaled €7.6 million (PY: €7.7 million).

**Companies consolidated**

In addition to the parent company, the consolidated financial statements include a total of 433 domestic and foreign companies in which Continental AG holds a direct or indirect interest of at least 20% of the voting rights. Of these companies, 306 are fully consolidated and 127 are carried at equity.

Since December 31, 2011, the number of consolidated companies has decreased by a total of six. Two companies were acquired, three companies were founded and one previously non-consolidated unit was fully consolidated. Two companies were sold and four were liquidated. In addition, the number of companies consolidated was reduced by six as a result of mergers.

Since June 30, 2011, the number of consolidated companies has decreased by a total of six. The reductions in the number of consolidated companies resulted chiefly from liquidations of inactive companies and mergers.

**Acquisition and sale of companies and business operations**

To strengthen the Conveyor Belt Systems business, and in particular to broaden the customer base, ContiTech Holding Netherlands B.V., Maastricht, Netherlands, acquired 100% of the shares in Specialised Belting Supplies Limited, Thetford, U.K., for a purchase price of €4.0 million on June 1, 2012. In the context of the preliminary purchase price allocation, intangible assets of €1.0 million and goodwill of €0.1 million were capitalized. The effects of this transaction, including the corresponding preliminary purchase price allocation, have no material effect on the net assets, financial and earnings position as of June 30, 2012.

In the Tire division, share and asset deals with a total value of €6.0 million were carried out in order to expand the sales network. In addition, the Interior division concluded an asset deal in the period under review with a purchase price of €1.2 million to broaden its field of activity. Intangible assets were capitalized in the amount of €2.1 million. In the context of the preliminary purchase price allocation, the individual transactions resulted in positive differences that were capitalized as goodwill in the amount of €2.4 million. The effects of these transactions, including the corresponding preliminary purchase price allocations, have no material effect on the net assets, financial and earnings position as of June 30, 2012.

The acquisition of the remaining 50% of the shares in Continental Rico Hydraulic Brakes India Private Ltd., Gurgaon, India, was completed in the reporting period for a purchase price of €7.4 million. The closing of the transaction occurred on March 9, 2012. In addition, the acquisition of the remaining 30% of the shares in Continental Sime Tyre Sdn. Bhd., Petaling Jaya, Ma-

laysia, was completed for a purchase price of €7.7 million. The closing of the transaction occurred on May 14, 2012. The effects of these transactions have no material effect on the net assets, financial and earnings position of the Continental Corporation as of June 30, 2012. The total difference between the purchase prices and the non-controlling interests was recognized within equity in the amount of €36.7 million.

The sale of two smaller operations of the Powertrain and ContiTech divisions also has no material effect on the net assets, financial and earnings position as of June 30, 2012.

**Impairment**

The corporation immediately reviews intangible assets, property, plant and equipment, investment property and goodwill as soon as there is an indication of impairment (triggering event). No significant impairment resulted from these reviews in the reporting period or in the same period of the previous year.

**Appropriation of net income**

As of December 31, 2011, Continental AG posted net retained earnings of €508.5 million (PY: €61.1 million). On April 27, 2012, the Annual Shareholders' Meeting in Hanover resolved to distribute a dividend of €1.50 per share to the shareholders of Continental AG for the past fiscal year. With 200,005,983 shares entitled to dividends, the total distribution therefore amounted to €300,008,974.50. The remaining amount was carried forward to new account. In 2011, no dividend was distributed for 2010 by Continental AG.

**Earnings per share**

Basic earnings per share increased to €5.02 (PY: €3.42) in the first half of 2012 and to €2.60 (PY: €1.57) for the period from April 1 to June 30, 2012. They are equal to the diluted earnings per share.

**Contingent liabilities and other financial obligations**

As of June 30, 2012, there were no material changes in the contingent liabilities and other financial obligations as described in the 2011 Annual Report.

**Transactions with related parties**

In the period under review, there were no material changes in the nature of transactions with related parties compared with December 31, 2011. Please see the comments in the 2011 Annual Report.

**German Corporate Governance Code**

The annual declaration in accordance with Section 161 of the *Aktiengesetz* (*AktG* – German Stock Corporation Act) regarding the German Corporate Governance Code from the Executive Board and Supervisory Board of Continental AG is made permanently available to shareholders on Continental's website. Earlier declarations in accordance with Section 161 *AktG* can also be found on the website.

**Segment reporting**

Comments on the development of Continental AG's five divisions are provided in the Corporate Management Report as of June 30, 2012.

**Indebtedness and net income from financial activities**

At the end of March 2011, renegotiation of the syndicated loan originally due in August 2012 was completed. The renegotiation primarily focused on extended terms and improved conditions. A maturity in August 2012 was agreed for the first tranche of €625.0 million, and the term for the other two tranches, including a revolving credit line of €2.5 billion, was extended to April 2014. As a result of an early partial repayment in 2011, the volume committed as of the end of June 2011 in the amount of €6.0 billion decreased to €5,375.0 million as of the end of the first half of 2012.

Comments on indebtedness and the net income from financial activities are also provided in the Corporate Management Report as of June 30, 2012.

**Income tax expense**

Income tax expense in the first half of 2012 amounted to €396.7 million (PY: €244.4 million). The tax rate in the reporting period was 27.7% after 25.4% for the same period of the previous year.

In the same period of the previous year, income tax expense was significantly influenced by tax income for prior years in the amount of €68.2 million resulting from a tax item established out of court. In comparison to the tax rate for the prior-year period adjusted for this special effect (32.5%), the lower tax rate in the reporting period was influenced significantly by a different distribution of earnings before taxes across the different countries, particularly due to the positive business development in the U.S.A. and Mexico.

**Litigation and compensation claims**

Proceedings are pending at the Hanover Regional Court regarding the appropriateness of the compensatory payment and the exit compensation under the management and profit and loss pooling agreement between ContiTech AG and ContiTech-Universe Verwaltungs-GmbH approved by the Annual Shareholders' Meeting of ContiTech AG on August 22, 2007, and regarding the appropriateness of the exit compensation for the squeeze-out of the outstanding shareholders of that company which was also adopted by the Shareholders Meeting of ContiTech AG on the same date. Partial settlement agreements were entered in the records of the Hanover Regional Court on May 2, 2012, for these proceedings. Under these settlements, a payment of €3.50 plus interest per share on top of the exit compensations under the management and profit and loss pooling agreement, respectively because of the squeeze-out was agreed, as well as – merely declaratory – a higher compensatory payment under the management and profit and loss pooling agreement.

Otherwise, there were no significant new findings in the reporting period with regard to litigation and compensation claims. For further information, please refer to the comments in the 2011 Annual Report.

**Shareholder structure**

After applying rounding, the shareholder structure with regard to the 200,005,983 outstanding Continental shares was as follows: 49.90% Schaeffler Group, 5.19% M.M.Warburg & CO KGaA, 5.19% B. Metzler seel. Sohn & Co. Holding AG. The free float amounts to 39.71%.

# Significant Events after June 30, 2012

**Acquisition of diagnostics specialist Omitec Group Ltd.**

On July 4, 2012, the acquisition of the diagnostics specialist Omitec Group Ltd., Devizes, U.K., was announced. The company is a global supplier of diagnostic and service tools and auto repair shop equipment for the automotive market. It has around 250 employees. With this step, Continental is strengthening its international position in the independent aftermarket and is once again emphasizing the growing importance of diagnostic products and services in both aftermarket and OE business.

**Continental and SK Innovation sign an agreement founding a jointly managed company**

On July 23, 2012, Continental and SK Innovation, Seoul, South Korea, signed the agreement on the formation of a jointly managed company. The two companies will supply first-class battery technology as partners in the future. The know-how of the two firms will be concentrated in the company with the goal of mutually developing, producing and globally marketing lithium-ion battery systems for cars.

SK Innovation will hold a 51% stake in the new company, and Continental 49%. The business strategies of SK Innovation and of Continental will remain unaffected by the joint management of this new company. Both companies will continue to supply their customers in the automotive industry with their entire existing product range.

The new company, which will be managed operationally from Berlin, Germany, is slated to start business in the fourth quarter of 2012. Its research and development activities will be carried out in Berlin and in addition in Daejon, South Korea. Production, marketing and sales will be set up locally in the target markets worldwide. Initially, there will be approximately 200 employees worldwide, with both partner companies providing about equal portions of the workforce.

Hanover, July 23, 2012

Continental Aktiengesellschaft
The Executive Board

# Responsibility Statement by the Company's Legal Representatives

To the best of our knowledge, and in accordance with the applicable accounting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the corporation, and the interim management report of the corporation includes a fair review of the development and performance of the business and the position of the corporation, together with a description of the principal opportunities and risks associated with the expected development of the corporation for the remaining months of the financial year.

Hanover, July 23, 2012

Continental Aktiengesellschaft
The Executive Board

# Review Report

To Continental Aktiengesellschaft, Hanover

We have reviewed the condensed interim consolidated financial statements of Continental Aktiengesellschaft – comprising the Consolidated Statement of Income and Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and selected Explanatory Notes to the Consolidated Financial Statements – together with the interim corporate management report of Continental Aktiengesellschaft, for the period from January 1, 2012 to June 30, 2012 that are part of the semi annual report according to § 37 w German Securities Trading Act (*Wertpapierhandelsgesetz* – *WpHG*). The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim corporate management report in accordance with the requirements of the *WpHG* applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim corporate management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim corporate management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim corporate management report has not been prepared, in material respects, in accordance with the requirements of the *WpHG* applicable to interim corporate management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim corporate management report has not been prepared, in material respects, in accordance with the requirements of the *WpHG* applicable to interim corporate management reports.

Hanover, July 26, 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

| Marc Ufer | Dirk Papenberg |
|---|---|
| Wirtschaftsprüfer | Wirtschaftsprüfer |

# Financial Calendar

| 2012 | |
|---|---|
| Annual Financial Press Conference | March 1 |
| Analyst Telephone Conference | March 1 |
| Annual Shareholders’ Meeting | April 27 |
| Financial Report as of March 31, 2012 | May 3 |
| Half-Year Financial Report as of June 30, 2012 | August 2 |
| Financial Report as of September 30, 2012 | October 31 |

| 2013 | |
|---|---|
| Annual Financial Press Conference | March |
| Analyst Telephone Conference | March |
| Annual Shareholders’ Meeting | May 15 |
| Financial Report as of March 31, 2013 | May |
| Half-Year Financial Report as of June 30, 2013 | August |
| Financial Report as of September 30, 2013 | November |

**Contact**

This Half-Year Financial Report is also published in German. The Annual Report 2011 of Continental Aktiengesellschaft is also available in English and German.

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www.continental-corporation.com

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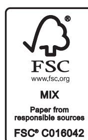

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