Continental

Press Release

Continental Improves Net Income by Approximately Half a Billion Euros in Q1 2010

- **Sales grow to nearly €6 billion / Corporation achieves EBIT of €494 million**
- **Automotive Group improves EBIT margin to approximately 5%**
- **Rubber Group achieves EBIT margin of 14%**
- **Adjusted EBIT* at €605 million / Adjusted EBIT margin over 10%**
- **First quarter provides firm basis, ensures achievement of targets for year**

Hanover, May 4, 2010. The Continental Corporation has profited significantly from its own hard work and the continuing recovery of the global automotive markets in the first quarter of 2010. Sales grew year-over-year by €1.7 billion to around €6 billion, thus climbing roughly €300 million higher than the figure for the fourth quarter of 2009. The international automotive supplier improved net income attributable to the shareholders of the parent by about half a billion euros to €228 million in the first three months of 2010 as against the prior-year period.

Net indebtedness, at around €8.2 billion, was almost €2.8 billion less than the previous year, despite the economic and seasonal build-up of working capital. In addition to the strong free cash flow in 2009, other significant factors here included the solid working capital management and the capital increase implemented in January, which led to net proceeds of nearly €1 billion.

Decisiveness showing positive effects

“In the first quarter of 2010, we completed a further significant step on the road to success. Our quick and decisive responses to the global economic crisis took hold. Freed from special impacts and one-off effects caused predominantly by the crisis, the true profitability of the company on its established firm operating base is once again visible," said Continental Executive Board chairman Dr. Elmar Degenhart on Tuesday, on the publication of the quarterly report.

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"Noteworthy is the performance of the three Automotive divisions, which are responsible for two thirds of the roughly €660 million increase in EBIT in the first quarter. The EBIT margin of nearly 5% is more than 15 points above the value for the previous year's quarter," Degenhart explained, adding: "With an operating margin of 14% in the first quarter, the three divisions of the Rubber Group built upon the good development in the fourth quarter, among other things profiting from the fact that the rising raw materials costs did not yet impact earnings in the first three months.

Consolidated sales for the first three months of 2010 rose 39% year-over-year to €5,997 million (PY: €4,302 million). Before changes in the scope of consolidation and exchange rate effects, sales were up 38.5%. The corporation's adjusted EBIT* rose by €641 million to nearly €605 million (PY: approx. -€37 million), equivalent to 10.2% (PY: -0.9%) of adjusted sales. **Consolidated EBIT** increased by almost €660 million to €494 million (PY: -€165 million), and the return on sales was higher at 8.2% (PY: -3.8%). The **net income attributable to the shareholders of the parent** increased to €228 million (PY: -€267 million) and earnings per share to €1.14 (PY: -€1.58).

Continental Corporation	€ millions		Margin in %	
	1-3/2010	1-3/2009	1-3/2010	1-3/2009
Sales	5,996.7	4;302.0		
EBITDA	888.3	249.5	14.8	5.8
EBIT	494.4	-165.0	8.2	-3.8
Adjusted EBIT*	604.7	-36.7	10.2	-0.9
Net income attributable to the shareholders of the parent	227.7	-267.3		
Earnings per share (in €)	1.14	-1.58		

In the first quarter of 2010, €178 million (PY: €240 million) was **invested** in property, plant, equipment and software. The **capital expenditure ratio** after three months amounted to 3.0% (PY: 5.6%). For the year as a whole, the corporation continues to anticipate an increase in investments of some €400 million year-over-year. Compared with the same period of 2009, **research and development** expenses fell to €375 million (PY: approx. €387 million), representing 6.3% (PY: 9.0%) of sales.

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At -€154 million, **net interest expense** was nearly €26 million higher in the first three months of 2010 compared with the same period of 2009. This is due, among other things, to mostly non-cash positive effects of exchange rate changes in the past year. Interest expense, which was due primarily to the utilization of the Siemens VDO loan agreement with a current committed volume of €9,946 million, rose by nearly €8 million year-over-year to roughly €179 million. “The slight increase in expense was due primarily to a higher margin level, resulting from the decline in our rating during the course of 2009, as well as to the renegotiation of the VDO loan covenants in December 2009. These effects could not be fully offset by the lower market interest rate and the substantial reduction in net indebtedness,” commented Continental CFO Wolfgang Schäfer.

Free cash flow improved

In the first quarter of 2010, **free cash flow** stood at -€363 million (PY: -€567 million). “The main effect of the €200 million improvement year-over-year was the increase in EBIT of some €660 million. The €857 million seasonal increase in working capital in particular, which was due primarily to a rise in trade accounts receivable as a result of the notable pick-up in business in the first quarter of 2010, had a negative impact,” said Schäfer.

At the end of the first quarter of 2010, the corporation had 137,959 **employees**. This is an increase of 3,525 persons compared with the end of 2009 and 5,125 compared with the prior-year period.

A **look at the two groups** of the Continental Corporation shows the recovery of the global automotive markets. In the first quarter the Automotive Group generated sales of almost €3.8 billion and reported EBIT of €182 million (PY: -€266 million). This corresponds to a margin of 4.8%, following -10.6% a year earlier. The adjusted EBIT margin is 8%, after -6% a year ago. “We are convinced that we will double the prior-year figure for the adjusted EBIT of the Automotive Group as already forecast. After a very good beginning to the year, it is not unrealistic to say that the 2009 figure may even be tripled if vehicle production continues to develop positively,” said Degenhart.

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Automotive Group	€ millions		Margin in %	
	1-3/2010	1-3/2009	1-3/2010	1-3/2009
Sales	3,770.3	2,521.3		
EBITDA	472.4	46.1	12.5	1.8
EBIT	182.3	-266.3	4.8	-10.6
Adjusted EBIT*	299.9	-145.9	8.0	-5.9

In the first quarter, the Rubber Group generated sales of over €2.2 billion and reported EBIT of €313 million (PY: €113 million). The margin amounts to 14.0%, compared with 6.3% the year before. “Starting in the second quarter, a substantial increase in costs totaling more than €250 million is expected, in particular from the sharp rise in prices for natural rubber. Thanks to the positive development on the replacement tire markets, it is still possible that the Rubber Group’s good results in 2009 can be maintained,” explained Continental’s Executive Board chairman.

Rubber Group	€ millions		Margin in %	
	1-3/2010	1-3/2009	1-3/2010	1-3/2009
Sales	2,231.9	1,783.6		
EBITDA	415.9	215.1	18.6	12.1
EBIT	312.8	112.9	14.0	6.3
Adjusted EBIT*	320.0	120.7	14.5	6.8

Significant increase in adjusted EBIT expected

Continental’s Executive Board chairman Degenhart commented on the **outlook**: “The first quarter provides a very firm basis for us to achieve the goals we have set for 2010. Based on the modified growth estimates for the markets important to Continental, we should be able to increase consolidated sales by at least 5% this year, and there is a chance of increasing sales by as much as 10%. We can also explicitly confirm a significant increase of adjusted EBIT in 2010. After the first half-year, we will then substantiate our full-year estimates on the basis of the figures available at that time.”

* Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

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With sales of approximately €20 billion in 2009, Continental is among the leading automotive suppliers worldwide. As a supplier of brake systems, systems and components for powertrains and chassis, instrumentation, infotainment solutions, vehicle electronics, tires and technical elastomers, Continental contributes enhanced driving safety and global climate protection. Continental is also a competent partner in networked automobile communication. Continental currently employs approximately 138,000 in 46 countries.

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