Continental
The Future in Motion

Following an in-depth review of our brand architecture, we have decided to continue using the Continental brand as the corporation's overarching master brand. Its high recognition value opens up enormous potential for growth. We thus capitalize on the well-established Continental brand and are perceived as one company at the corporate and divisional level.

In order to make our new positioning visible, we found a balance between continuity and progress. Visually, we are sharpening our image while still maintaining our identity and heritage.

Over the course of the design process, which lasted several months, many scribbles and drafts of both the wordmark and the icon were created.

With the wordmark, we are maintaining a friendly and readily recognizable appearance. We are keeping the characteristic ligature of the letters C and O while, at the same time, harmonizing the characters to provide easier usability as well as better legibility. We shape the future of mobility as a whole. This is also reflected in our new tagline: "The Future in Motion".

With sales of €32.7 billion in 2012, Continental is among the leading automotive suppliers worldwide.

As a supplier of brake systems, systems and components for powertrains and chassis, instrumentation, infotainment solutions, vehicle electronics, tires and technical elastomers, Continental contributes to enhanced driving safety and global climate protection. Continental is also an expert partner in networked automobile communication.

Continental currently has approximately 170,000 employees in 46 countries.

Your Mobility. Your Freedom. Our Signature.

Highly developed, intelligent technologies for mobility, transport and processing make up our world.

We want to provide the best solutions for each of our customers in each of our markets.

All of our stakeholders will thus come to recognize us as the most value-creating, highly reliable and respected partner.

2012 Highlights

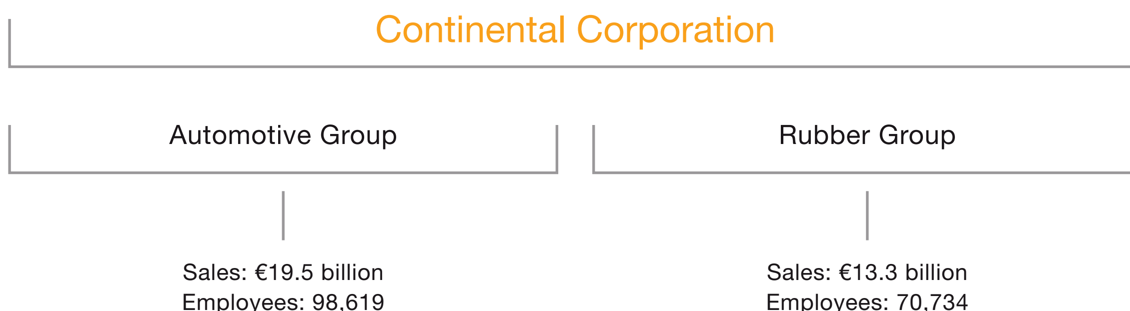
- Continental share price up by 82%.
- Return to the DAX again.
- Gearing ratio below 60%.

Key Figures for the Continental Corporation

in € millions	2012	2011	Δ in %
Sales	32,736.2	30,504.9	7.3
EBITDA	4,854.6	4,228.0	14.8
in % of sales	14.8	13.9	
EBIT	3,073.4	2,596.9	18.3
in % of sales	9.4	8.5	
Net income attributable to the shareholders of the parent	1,883.5	1,242.2	51.6
Earnings per share in €	9.42	6.21	51.6
Adjusted sales[1]	32,551.7	30,504.9	6.7
Adjusted operating result (adjusted EBIT)[2]	3,522.4	3,040.9	15.8
in % of adjusted sales	10.8	10.0	
Free cash flow	1,652.5	490.5	236.9
Net indebtedness	5,319.9	6,772.1	-21.4
Gearing ratio in %	58.2	89.8	
Total equity	9,144.8	7,543.3	21.2
Equity ratio in %	33.5	29.0	
Number of employees as at December 31[3]	169,639	163,788	3.6
Dividend per share in €	2.25[4]	1.50	
Share price at year-end[5] in €	87.59	48.10	
Share price[5] (high) in €	87.95	76.28	
Share price[5] (low) in €	48.10	39.44	

[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.
[4] Subject to the approval of the Annual Shareholders' Meeting on May 15, 2013.
[5] Price quotations of the Continental share in the XETRA system of Deutsche Börse AG.

Overview of the Corporation



Sales: €19.5 billion
Employees: 98,619

Sales: €13.3 billion
Employees: 70,734

Key Figures for Continental's Core Business Areas

Automotive Group

in € millions	2012	2011	Δ in %
Sales	19,505.1	18,354.2	6.3
EBITDA	2,404.6	2,225.8	8.0
in % of sales	12.3	12.1	
EBIT	1,068.8	1,024.5	4.3
in % of sales	5.5	5.6	
Adjusted sales[1]	19,497.9	18,354.2	6.2
Adjusted operating result (adjusted EBIT)[2]	1,544.7	1,470.1	5.1
in % of adjusted sales	7.9	8.0	

Rubber Group

in € millions	2012	2011	Δ in %
Sales	13,261.7	12,176.6	8.9
EBITDA	2,521.7	2,041.5	23.5
in % of sales	19.0	16.8	
EBIT	2,077.8	1,612.8	28.8
in % of sales	15.7	13.2	
Adjusted sales[1]	13,079.4	12,176.6	7.4
Adjusted operating result (adjusted EBIT)[2]	2,064.1	1,640.4	25.8
in % of adjusted sales	15.8	13.5	

[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.

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The Future in Motion

With our technologies, systems and services, we take mobility and transportation to higher levels of sustainability, safety, comfort, individualism and affordability, thus contributing to an enhanced quality of life. In our special section on "The Future in Motion", we are presenting some examples of the solutions developed by our divisions.

Dr. Elmar Degenhart, Chairman of the Executive Board

Dear Shareholders,

Last year, people around the world spent an average of 50 minutes each day driving to work – and this trend is still on the rise. Studies show that the car has become an important living space for more and more people, and they want it to function in the same way as their other living spaces. As a result, interiors, Internet and infotainment are becoming increasingly important in cars. Furthermore, the known requirements for better road traffic safety, reduced environmental impact, and affordable but increasingly comfortable vehicles also continue to apply.

At Continental, we have been working on all of these megatrends in mobility continuously and with strong commitment for many years. Our ambitious goals are to avoid car accidents, to minimize fuel consumption, to optimize information management in and around the vehicle, and to provide affordable mobility. Just a dream? Not at all! In this Annual Report, you will find many specific examples of what we describe in our vision: "Your Mobility. Your Freedom. Our Signature."

These examples confirm that we are clearly on track for success. As announced, we set new records for sales and profits in the past year – despite much lower demand for cars, tires and industrial goods in Europe and particularly in Southern Europe. On behalf of the entire Executive Board, I would like to thank all of our employees and business partners for this remarkable achievement!

I am sure that you, our valued shareholders, appreciated not only our operating performance in the past year, but also our development on the stock market. In September 2012, we succeeded in being promoted back to the DAX again – on the basis of free float of just 40%. With a price increase of 82%, Continental shares showed the highest relative share price increase among the DAX stocks in 2012.

This remarkable development would not have been possible without your trust – on behalf of the Continental team, I would like to thank you for this! We are very happy with the highly successful past year and are delighted to have you share in our record result accordingly. Therefore, together with the Supervisory Board, we want to propose an increase in the dividend to €2.25 at the Annual Shareholders' Meeting in May.

Your trust motivates us to work towards further achievements which we initiated already in 2012, launching an investment program which will open up further growth opportunities for us. Again this year we will be putting more than two billion euros into this program. Among the projects involved are our new passenger and light truck tire plants in Sumter, U.S.A., and Kaluga, Russia, and the expansion of passenger and light truck tire capacity in Hefei, China. Other projects include the new ContiTech plant for air-conditioning management and power steering lines, also in Kaluga, and a new ContiTech hose plant in Brazil. Our new research and development center for automotive electronics in Singapore is also part of the program. As you can see, we are focusing on strong, profitable growth. In doing so, we are aiming for a balanced sales portfolio worldwide and want to grow further especially in Asia and the Americas.

We secured our major investments in 2012 partly by issuing our first U.S. dollar bond. This bond amounts to $950 million with a fixed interest rate of 4.5% and a term of seven years. We see the significant oversubscription by investors as further proof of their confidence in our performance.

We were able to implement the investment program as a fundamental element of our strategy not least thanks to the support of our Supervisory Board members. They gave us strong encouragement in continuing to systematically pursue our successful path. I would therefore like to express my particular thanks to them on behalf of the Executive Board, as the decisions made are all aimed at achieving a common goal: making your Continental fit for the future and creating lasting value for all stakeholders.

Despite the current fading euphoria with respect to the topic of electromobility, we are keeping our focus firmly on our long-term innovation approach. For this reason, we are forging alliances with companies such as SK Innovation in Seoul, South Korea. The newly founded joint venture SK Continental E-motion will develop and produce first-class lithium-ion based battery technology for automobiles. We will invest a total of €270 million in this and other relevant future technologies together with our partner over the next five years.

Our 20,500 engineers in the Automotive Group are working not only on developments such as new electromobility systems but, to an increased extent, on systems for automated driving as well. We are convinced that automated driving will be a key element of future mobility. Automated systems use energy much more efficiently than human driving behavior alone does. They also increase traffic safety substantially and can save lives. And last but not least, they enhance comfort.

Automated driving will by no means lead to the disempowerment of drivers, as is often claimed. We are all familiar with this from the aviation industry. In the same way that automated systems relieve pilots when it comes to routine tasks and long distances, an interactive and optionally automated car will help drivers make their individual mobility even safer. Drivers who take the same route to work every day, for example, will no doubt embrace the opportunity of having the vehicle take charge of this task. The same applies to monotonous and tiring long-distance journeys on highways.

As a systems supplier, we are excellently equipped for this development and have drawn up a specific roadmap. We intend to offer our customers further solutions for assisted driving by as early as 2016, as there is a high level of interest in this. We will be able to develop the first applications for highly automated driving by 2020, and we intend to get fully automated driving – even at higher speeds and in more complex driving situations – ready for production together with our customers by 2025. In December 2012, we became the first automotive supplier in the world to be given authorization for road tests on public roads in the U.S. state of Nevada.

All of these investments form part of our pursuit of continuous value enhancement. This is exactly what our newly developed corporate strategy is geared towards. It comprises seven dimensions with concrete goals that we have set ourselves for the coming years. One important element, for example, is to increase our share of sales with industrial activities and consumer business (the aftermarket). In doing so, we want to become less dependent on automotive industry cycles in the medium term. In addition, we intend to grow faster in Asia and other emerging markets than the markets themselves. This should result in a more even regional distribution of our global sales. More information can be found on pages 48 to 50.

Our strategy also encompasses further development of our corporate culture and our corporate brand. The two go hand in hand, since we know that economic success results to a large extent from a strong sense of identification, passion and trust. This applies in particular to all of our employees. Lasting value is created when our employees work for our customers not only with one another, but also for one another. This is what we aim for and how we develop a highly motivated and passionate top team. It enables us to create fascinating solutions and products for mass production in reliable, first-class quality and faster than our competitors. The combination of all these elements produces the strong Continental brand that has been inspiring our customers for over 140 years. Up till now, the brand has traditionally been associated primarily with our activities as a tire manufacturer. We now want to make greater use of it for the corporation as a whole and link it with our other areas of expertise. In this way, we wish to be perceived by our target groups as one of the world's leading companies for individual mobility.

No doubt you have already noticed our redesigned logo. The modified, more modern and fresh design represents the corporation's positioning, namely that our technological solutions help people to enhance their quality of life with mobility and to structure their life in a sustainable manner.

In parallel with this project, in 2012 we established our four values – Trust, Passion to Win, Freedom to Act and For One Another – throughout the company worldwide and began further developing our culture of cooperation. This is a pivotal factor in dealing with the constantly increasing volatility and complexity of the markets and our environment. Our solutions have to be available increasingly quickly and must fulfill constantly growing requirements. Our response is to focus on increased, networked use of our collective intelligence.

As a result of this, we expect above all to become an even more attractive employer for our employees around the world. We intend to rank among the top employers in our relevant markets. We have already made considerable progress recently in this respect. In our home market Germany, for example, we are one of the 20 top companies in terms of our reputation among engineers and scientists.

Our success in the past months makes us all the more determined to continue along the path we have taken. For 2013, we are aiming for sales of more than €34 billion and an adjusted operating EBIT margin of over 10% once again.

As you can see, despite the current slowdown and uncertainty in Europe, we are entering 2013 with confidence. Your trust is what drives us. Please continue to support us on our successful course!

We look forward to continuing along this path together and promise you that we are giving our all for the success of your Continental!

Yours

Elmar Degenhart

Dr. Elmar Degenhart
Chairman of the Executive Board

Left to right:

Nikolai Setzer
born in 1971 in Groß-Gerau, Germany
Tire Division
appointed until August 2017

Dr. Ralf Cramer
born in 1966 in Ludwigshafen, Germany
Chassis & Safety Division
appointed until August 2017

Dr. Elmar Degenhart
born in 1959 in Dossenheim, Germany
Chairman of the Executive Board
Corporate Communications
Corporate Quality and Environment
Continental Business System
Automotive Central Functions
appointed until August 2014

José A. Avila
born in 1955 in Bogotá, Colombia
Powertrain Division
appointed until December 2014

Elke Strathmann
born in 1958 in Mülheim, Germany
Human Resources,
Director of Labor Relations
Corporate Social Responsibility
appointed until December 2014

Heinz-Gerhard Wente
born in 1951 in Nettelrede, Germany
ContiTech Division
Corporate Purchasing
appointed until April 2014

Helmut Matschi
born in 1963 in Viechtach, Germany
Interior Division
appointed until August 2017

Wolfgang Schäfer
born in 1959 in Hagen, Germany
Finance, Controlling,
Compliance, Law and IT
appointed until December 2014

CHASSIS & SAFETY DIVISION

A sensor that **doesn't look away.**

Our stereo camera looks up to 100 meters ahead to identify objects as early as possible, before then activating the Emergency Brake Assist and thus reducing the risk of rear-end collisions. At a speed of 50 km/h, a distance of just 10 meters to the vehicle in front is enough to be able to stop in time.

CHASSIS & SAFETY DIVISION

Driver assistance sensors. Safety technology. Vision: zero accidents.

Enhanced safety through improved object detection

100 m

SENSORS DON'T GET DISTRACTED

All it takes is a moment's distraction. Before you even notice, the car in front starts to brake, leaving you with insufficient time to react. It's good that our systems always keep their eyes open and have already activated the brakes. Fully automatically – for that one moment when the unexpected happens.

In the Chassis & Safety division, we develop and manufacture intelligent and harmonized systems for a safer automotive future.

A stereo camera "sees" in exactly the same way as a pair of human eyes.

The stereo camera from Continental monitors the traffic situation in front of the vehicle. Thanks to the differences in the perspective between the left-hand and the right-hand optical paths of the camera, it is able to accurately measure the distance to and the size of an obstacle. This makes high-precision detection of vehicles and objects possible. The stereo camera does so by exploiting the same effect that gives humans spatial vision. In the future, the stereo camera will even be able to spot small children, cyclists and wheelchair users crossing the road. Critical driving situations can be identified, and the system can trigger a collision warning or initiate automatic emergency braking. This provides fractions of a second that are decisive in preventing an accident or at least reducing its seriousness.

Enhanced safety through improved obstacle recognition

"The stereo camera is one of the best-performing environmental sensors on the market. With its two high-resolution CMOS mono-cameras, it achieves previously unattainable levels of obstacle recognition. In the future, this will enable us to develop new functions that will make driver assistance systems more attractive for our customers."

Friedrich Angerbauer,
Driver Assistance Systems

POWERTRAIN DIVISION

We deliver **more power** with **improved fuel economy.**

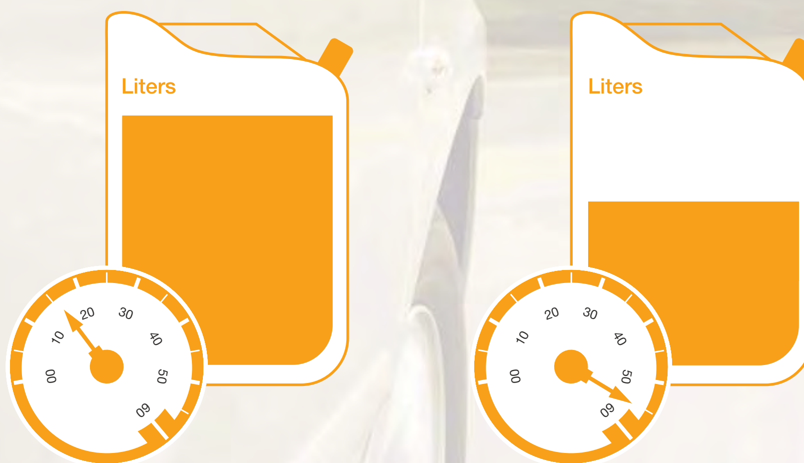
0.006 mm

If we were to split a human hair ten times, this would be the same as the tolerance in the shaft diameters of our turbochargers. With this ultimate precision, engines not only gain increased power capacity but also operate with improved fuel economy.

POWERTRAIN DIVISION

Clean power. Downsizing. Improved efficiency.

Fuel savings thanks to state-of-the-art technology



FUEL CONSUMPTION REDUCED BY UP TO 20%

In order to significantly reduce the fuel consumption of vehicles and the associated CO_2 emissions, our engineers are now also focusing on the downsizing of internal combustion engines in addition to lightweight construction techniques, hybrid drive technology, and optimized fuel injection systems. By combining turbochargers with direct fuel injection, fuel consumption can be lowered by as much as 20%.

The Powertrain division develops and manufactures fuel-saving drive systems.

The turbocharger's 38-millimeter-diameter turbine rotates at up to 240,000 revolutions per minute in the exhaust flow, which can reach 1,050°C.

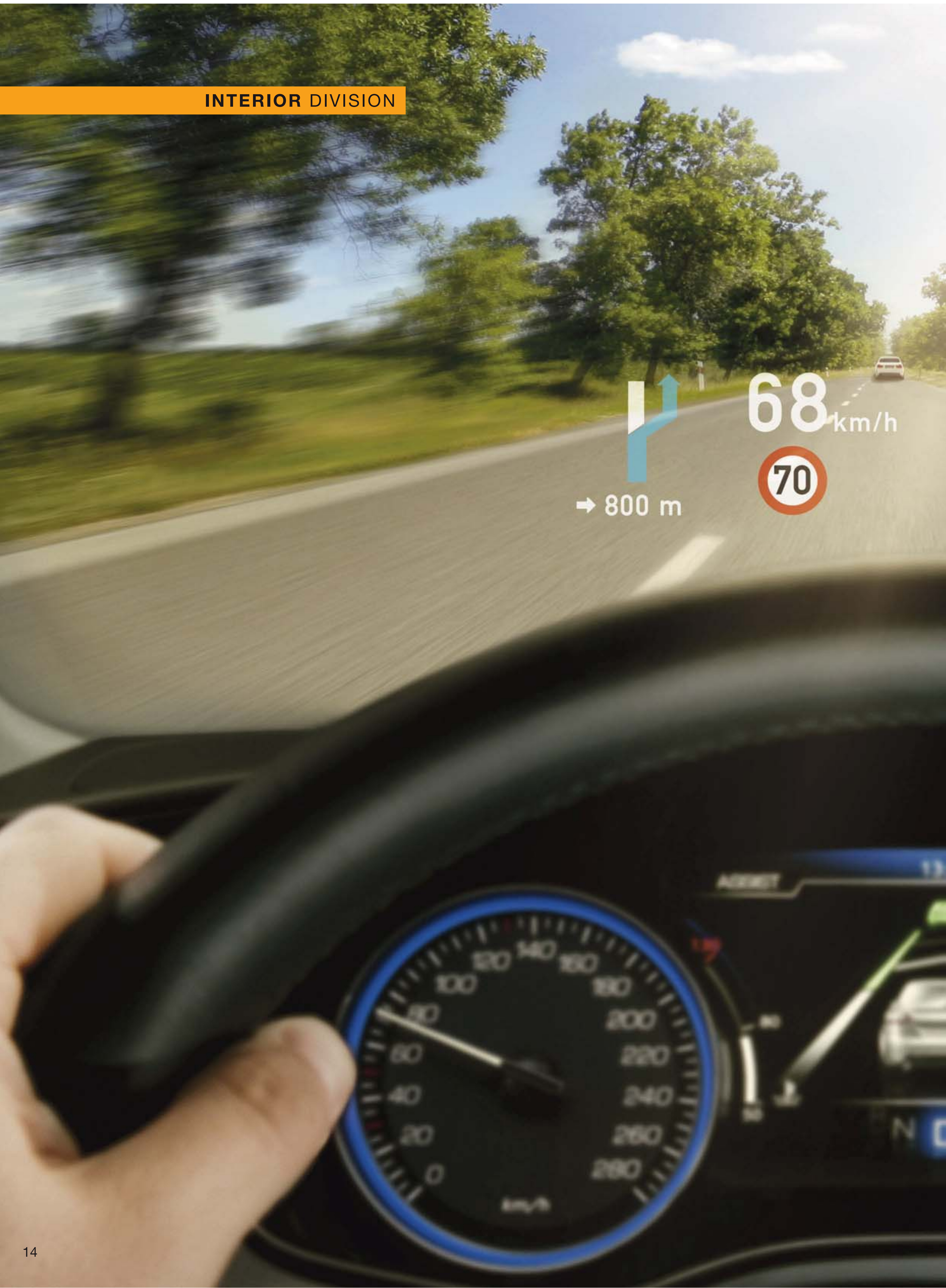
With our latest turbocharger, a compressor forces the air into the combustion chambers under high pressure. In this system, the energy in the engine's exhaust gases is used to spin a turbine wheel, which in turn drives a compressor. Unlike the familiar mechanical compressors, a turbocharger thus uses the energy derived from the exhaust gas of the engine. This means that significantly more power can be generated from an engine with a much smaller cubic capacity – while also reducing fuel consumption. In addition, the engine delivers more torque, i.e. traction power, which is perceived by the driver as a decisive factor in terms of the performance of his or her vehicle.

Growth market turbochargers

"With our new turbocharger for gasoline engines, we have managed a real quantum leap. Thanks to its completely new design, particularly its enhanced thermodynamic efficiency and the fully automated assembly, our turbocharger provides a tailor-made and inexpensive solution for earth-friendly mobility."

Mara Pinno,
Turbocharger Risk Analysis

INTERIOR DIVISION



Everything you need **at a glance.**

1x

Everything you need to know. With our intelligent information management solutions, drivers are always networked with mobile devices such as cell phones and satnavs, as well as with vehicle systems and the vehicle environment. This means that all the important information is in the line of sight and comfortably within reach. This will make enjoyable driving even smarter, safer and more efficient in the future.

INTERIOR DIVISION

Systems integration. Connectivity. Human-machine interface.

The networked vehicle of the future

USER-FRIENDLY AND INTELLIGENT

User-friendliness and the intelligent management and display of information in the vehicle enhance safety, efficiency, and comfort – without taking the fun out of driving.

The range of products offered by the Interior division comprises convenient and intelligent systems as well as components for information management in networked vehicles of the future.

"Always On" – paving the way for automated driving. Driving pleasure included.

In order to make the best possible use of information, it is important to filter, prioritize and display the information in such a way that it can be understood intuitively. Here, we place particular importance on optimizing the interface between man and machine. Starting with people and their needs, we develop solutions for networking the vehicle with the driver and passengers, mobile devices, other vehicles, and the outside world. To us, our vision of "Always On" describes the networked vehicle of the future as a partner that supports the driver and passengers.

The car as the driver's intelligent partner

"Sensible technology allows the driver to make the decisions. But – as an intelligent partner – it never leaves the driver to face difficult situations alone, instead helping to make it easier to navigate modern road traffic scenarios. With our intelligent information management solutions, we are setting new standards in safety, efficiency and driving pleasure."

Tejas Desai,
Strategy and Research

TIRE DIVISION

We make driving **safer.**

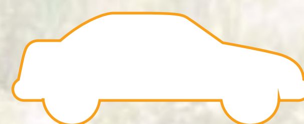
15 %

With our ContiPremiumContact 5 tire, braking distances have been shortened by up to 15% on wet roads in comparison to its predecessor. This tire combines low rolling resistance, high mileage performance and precise handling with comfortable driving characteristics.

TIRE DIVISION

Shorter braking distances. Greater safety. Continental tires.

Drive more safely with tires from Continental



43 m

36 m

15 %

MORE PERFORMANCE WITH LESS FUEL CONSUMPTION

A Continental tire excels with its balanced performance characteristics at the highest level. However, the laws of physics make it difficult for our engineers to design the perfect tire, as there are plenty of conflicting requirements. For example, if a tire needs to perform particularly well when accelerating and braking, the rubber compound needs to be as soft as possible. However, the softer a compound, the greater its rolling resistance. In turn, this means that the tire increases fuel consumption. Despite these difficulties, the engineers at Continental keep coming up with big and little ways to stay a step ahead of nature: Although these conflicting requirements cannot be completely resolved by new materials, tread patterns, and tire designs, they can be mitigated.

The Tire division develops and manufactures tires for passenger cars, trucks, buses, special vehicles, and two-wheeled vehicles. Good braking properties, high mileage performance, reliable transmission of forces, and low fuel consumption all add up to cost-effective mobility.

The ContiPremiumContact 5 is the perfect all-round tire for mid-range cars and combines safety and comfort to the highest standards.

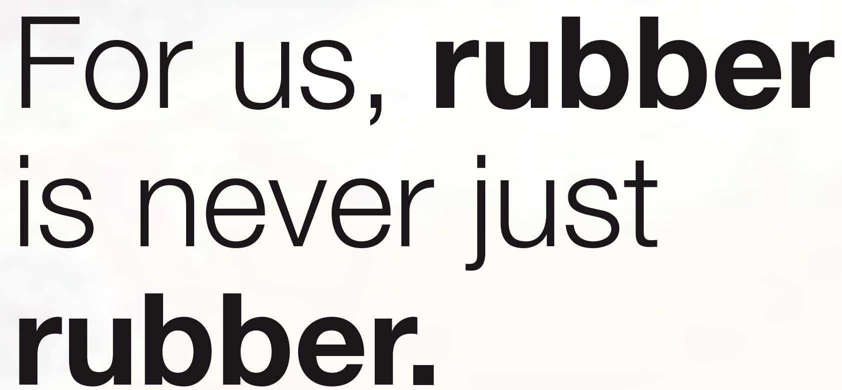
The ContiPremiumContact 5 has particularly large tread blocks. This helps give the tire an ultra-wide contact patch and stabilizes the tread, providing the driver with maximum grip during cornering. The engineers have managed to shorten braking distances through the use of transverse grooves in the tread blocks, as a result of which the largest possible surface area is available for transmitting forces when stopping. Additional sipes are incorporated in the tread blocks so that the car can be quickly brought to a standstill particularly on wet roads. These elements act like a windscreen wiper, breaking up the water film to enable short braking distances even when it is raining.

Maximum levels of safety and comfort

"Our new summer tire demonstrates the clear advances that have been made over its predecessor: Braking distances in the wet have been reduced by 15%, mileage performance increased by 12%. Rolling resistance has been lowered by 8%, and comfort boosted by 5%. We are particularly delighted that this tire has fulfilled the requirements for a 'Class A' wet grip rating on the EU tire label."

David O'Donnell,
Research and Development, Passenger and Light Truck Tires

CONTITECH DIVISION



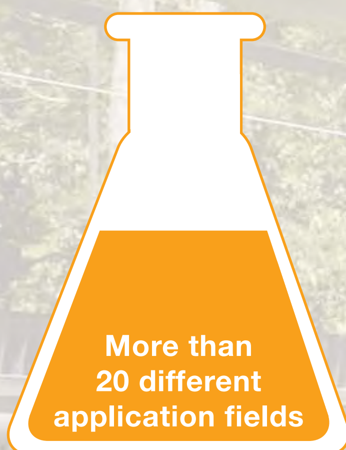
2,000 types

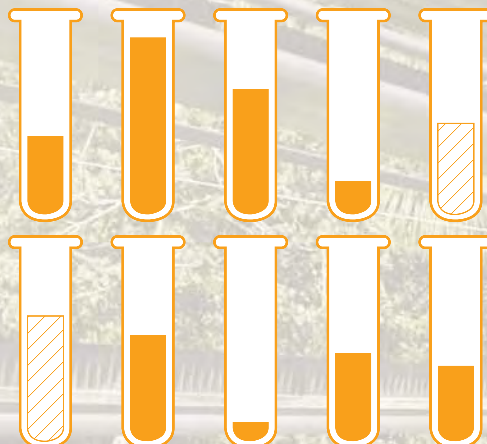
Customer-specific solutions are our specialty – our rubber experts have more than 2,000 unique and strictly guarded rubber formulations for diverse applications ranging from conveyor belts to air springs.

CONTITECH DIVISION

Process engineering. Formulations. Technological diversity.

Over 2,000 formulations for high-tech applications





SUITABLE COMPOUND FORMULATIONS

The chemists and development engineers at Continental produce rubber compounds according to clients' wishes in a wide range of different delivery forms, adapting them in the process to the relevant production methods, e.g. for tires, conveyor belts, all types of molded products, roller coatings, hoses, seals, and cushioning elements.

With innovative high-tech products and systems, the ContiTech division is a specialist in rubber and plastics technology.

ContiTech supplied the conveyor belt for the world's largest RopeCon® system in Jamaica.

The RopeCon® conveyor system is a combination of a conveyor belt and a ropeway. It uses the advantages of both systems, thus allowing large differences in height to be overcome with just a few support structures while delivering a high conveying capacity. In comparison to other means of transport, the system is particularly eco-friendly and offers advantages wherever large amounts of materials need to be moved over rugged terrain or across forests or wide rivers. One impressive example is a bauxite mine in Jamaica that uses the world's largest RopeCon® system. There, not only the original infrastructure was preserved, but countless truck journeys were also saved. In the process, power is fed back into the grid during system descent from the mining site to the discharge point – at a rate of up to 1,300 kW per hour.

100 years of success in development

"As a development partner and systems supplier, we develop suitable formulations for high-tech products that demand the highest levels of environmental compatibility and resistance to temperature, weathering, and deformation. Our rubber compounds always offer the right product properties for the application in question. We have access to a broad range of materials, and this enables us to always offer the ideal material solution for pioneering products all around the world."

Dr. Anette Wiesmath,
Research and Development, Compounding Technologies

Continental Shares and Bonds

Continental's share price development was boosted by the positive business performance, the return to the DAX and the early start to refinancing.

Continental share listings

Continental's shares are officially listed on three German stock exchanges in Frankfurt, Hamburg-Hanover and Stuttgart. The no-par-value shares have a notional value of €2.56 per share. In the U.S.A. they are traded as part of a sponsored ADR (American Depositary Receipt) program on the OTC (over-the-counter) market. They are not admitted to the U.S. stock market.

Continental share data	
Type of share	No-par-value share
Stock exchanges	Frankfurt (Prime Standard), Hamburg-Hanover, Stuttgart
German securities code number	543900
ISIN number	DE0005439004
Reuters ticker symbol	CONG
Bloomberg ticker symbol	CON
Index membership	DAX (since Sept. 24, 2012) MDAX (until Sept. 23, 2012) Prime All Share Prime Automobile NISAX
Number of outstanding shares as at Dec. 31, 2012	200,005,983
Free float as at Dec. 31, 2012	50.10%

American Depositary Receipt data	
Ratio	1:1
ISIN number	US2107712000
Reuters ticker symbol	CTTAY.PK
Bloomberg ticker symbol	CTTAY
ADR level	Level 1
Trading	OTC
Sponsor	Deutsche Bank Trust Company Americas

Return of the Continental share to the DAX

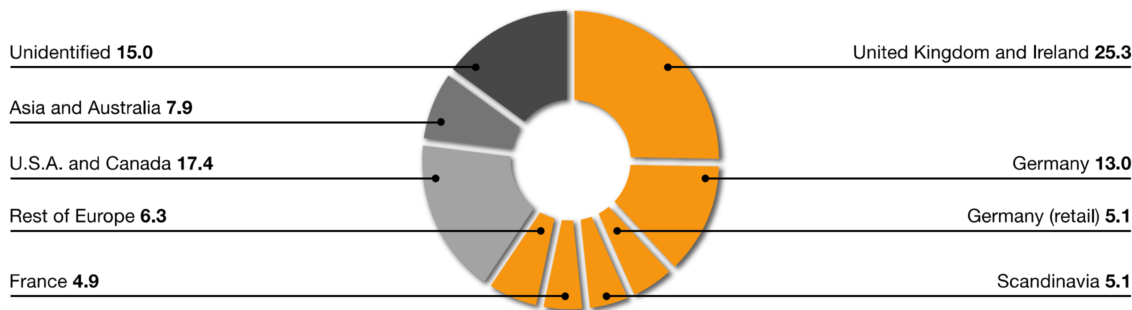
Since September 24, 2012, Continental AG shares have been listed in the top Deutsche Börse AG segment again, having returned after a good four years to the category of the thirty largest listed companies in Germany in terms of sales as defined by Deutsche Börse AG. This is the first time that a company has succeeded twice in returning to the top stock exchange category in Germany. Prior to this, Continental was listed in the MDAX, partly because the volume of freely tradable shares as of the beginning of 2009, amounting to just over 10%, was no longer sufficient to fulfill the criteria for membership in the DAX with regard to market capitalization and trading volume. Since the end of 2008, its market capitalization has risen from €4.7 billion to €17.5 billion at the end of 2012. As at December 31, 2012, this was equivalent to free float market capitalization of €8.8 billion. The trading volume that is relevant to index selection amounted to €11.2 billion in 2012. Continental shares were therefore in 21st place in the Deutsche Börse AG index ranking as of the end of 2012 according to both criteria.

Shareholder structure: Free float up to 50.10%

Following the return to the DAX, the banks M.M.Warburg & CO KGaA and B. Metzler seel. Sohn & Co. Holding AG placed their shareholdings in Continental AG, amounting to 5.19% in each case, with institutional investors in late September 2012. Our free float, i.e. the number of freely tradable shares as defined by Deutsche Börse AG, thus increased to more than 100 million shares, equivalent to 50.10%. Our major shareholder, the Schaeffler Group, still holds a 49.90% interest in the company's share capital.

As at December 31, 2012, we conducted a shareholder identification (SID) on the basis of the 200,005,983 shares outstanding, and were able to identify 85% of the free float.

Shareholder structure of free float (in %)



Roughly 5 million of the shares outstanding are held by private individuals in Germany. 80 million shares are attributable to institutional investors in Europe, North America and Asia.

Subscribed capital unchanged at €512 million

The subscribed capital of Continental AG did not change in 2012. It amounts to €512,015,316.48 and is divided into 200,005,983 no-par-value shares. Each share has the same dividend entitlement. In line with Article 20 of Continental AG's Articles of Incorporation, each share grants one vote at the Annual Shareholders' Meeting. There is authorized and contingent capital.

Net income per share attributable to the shareholders of the parent increased to record level

In the year under review, earnings per share rose by 52% to €9.42. In addition to the strong operating performance, this disproportionately high increase was also attributable to a considerably reduced tax rate and special effects in net interest expense. The comparative figure from the previous year was €6.21. Earnings per share, i.e. the portion of profits attributable to the shareholders per share, is calculated by dividing the net income attributable to the shareholders of Continental AG in the amount of €1,883.5 million by the average number of shares outstanding.

Proposal for an increased dividend

The Annual Shareholders' Meeting will be held in Hanover on May 15, 2013. The Executive Board and the Supervisory Board have resolved to propose a dividend distribution of €2.25 per share for the past fiscal year to the Annual Shareholders' Meeting. This corresponds to €450.0 million or a dividend payout ratio of 23.9% of net income attributable to the shareholders of the parent. Based on the dividend proposal and the significantly higher annual average Continental share price, this results in a dividend yield of 3.1% for 2012. In fiscal 2011, a dividend of €1.50 per share was paid, amounting to a total payout of €300.0 million. The dividend payout ratio was 24.2%, and the dividend yield calculated on the same basis was 2.6%.

Capital markets influenced by numerous elements of uncertainty

In 2012 the capital markets remained dominated by the debt crisis in Europe and the very expansive monetary policy of the central banks in the U.S.A., Japan and Europe. There were also continued uncertainties regarding the political approaches to stemming and surmounting the financial crisis and the further economic development. Over the course of the year, there was firstly a downturn in key economic leading indicators, followed by a deterioration in the development of the real economy worldwide. The eurozone fell into recession as a result of the economic slump in many Southern European countries. The German

Key figures per share in €	2012	2011
Basic earnings	9.42	6.21
Diluted earnings	9.42	6.21
Free cash flow	8.26	2.45
Dividend	2.25*	1.50
Dividend payout ratio (%)	23.9*	24.2
Dividend yield (%)	3.1*	2.6
Total equity (book value) as at December 31	43.84	35.73
Share price at year-end	87.59	48.10
Average share price	72.55	58.55
Average price-earnings ratio (P/E ratio)	7.7	9.4
High	87.95	76.28
Low	48.10	39.44
Average trading volume (XETRA)	638,588	640,216
Number of shares, average (in millions)	200.0	200.0
Number of shares as at December 31 (in millions)	200.0	200.0

* Subject to the approval of the Annual Shareholders' Meeting on May 15, 2013.

All market prices are quotations of the Continental share in the XETRA system of Deutsche Börse AG.

economy, which for a long time had proven to be robust in contrast to the general trend, also weakened somewhat in the final quarter of 2012. In addition, growth in China slowed considerably and did not show signs of stabilization until the fourth quarter of 2012. In the U.S.A., the anticipated recovery in economic performance did not materialize. Here, the second half of the year was dominated by the presidential elections and at the end of 2012 increasingly by the country's debt problems with the threat of the fiscal cliff mechanism, i.e. an automatic increase in taxes and reduction in spending.

German stock indexes close at high for the year

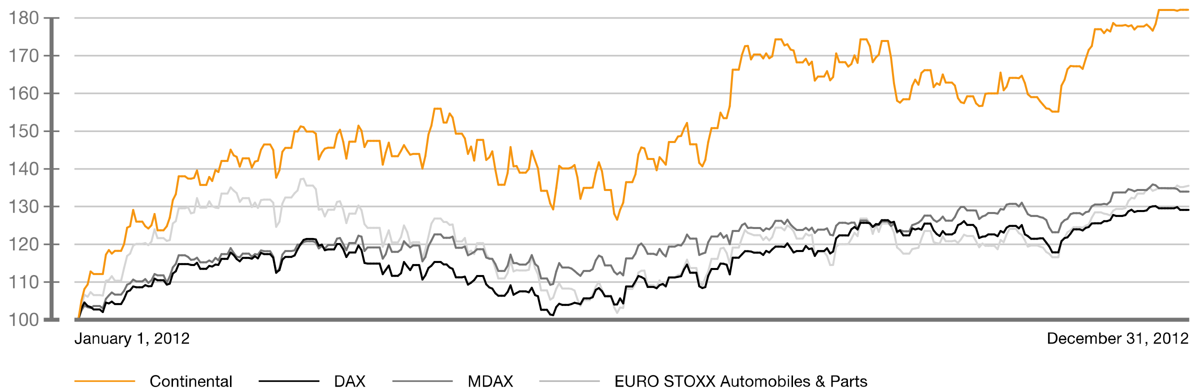
In this environment, the German benchmark index DAX went through many ups and downs in the first half of 2012 – driven initially by hopes for the U.S. economy, progress in combating the debt crisis in Europe and a sufficient supply of liquidity to the capital markets, followed by recurrent concerns regarding the economic development in the U.S.A. and Asia and the situation in Europe. An interim high of more than 7,000 points was reached in the first quarter. After the subsequent market correction, the DAX quoted at 6,416 points at the end of the second quarter. This represented a 9% increase as against the last trading day of the previous year. The MDAX recorded a rise of 16% to 10,344 points in the same period. Despite the increasingly weak real economic data, German shares performed very positively in the first half of 2012. This was driven by the containment of the debt crisis in Europe, the continued expansive monetary policy and the growing expectation that it would be possible to emerge from the economic low point – if only with a moderate recovery – over the course of 2013. In the context of sustained low interest rates and with more and more investors taking refuge in tangible assets, equity became increasingly attractive again as an asset class.

In the second half of the year, the DAX rose substantially and, following a temporary consolidation in the autumn, reached 7,612 points as of the end of 2012. The annual performance is therefore 29%. The MDAX performed even more strongly, rising by 34% to 11,914 points in 2012, and ended the year close to its all-time high.

Positive price development of European automobile and automotive supplier stocks

The automobile and automotive supplier industry was influenced by a mixed market development in 2012. Although sales volumes of new cars increased worldwide, there was a significantly widening gap between the developments in different regions. Whereas new car business boomed in the U.S.A. and China in

Share price performance vs. major stock indexes (indexed to January 1, 2012)



particular, the passenger car market in Western Europe declined considerably from October 2011, with significant downswings in the final months of 2012 and severe consequences for mass manufacturers in some cases. The commercial vehicle market also developed weakly overall in 2012 due to the economic slowdown. The sector index for European automobile and automotive supplier stocks, the EURO STOXX Automobiles & Parts, rose to its high for the year of 343 points (+37%) in March, then underwent a correction to 270 points at the end of June and closed the year at 338 points. This corresponded to an annual performance of 35%.

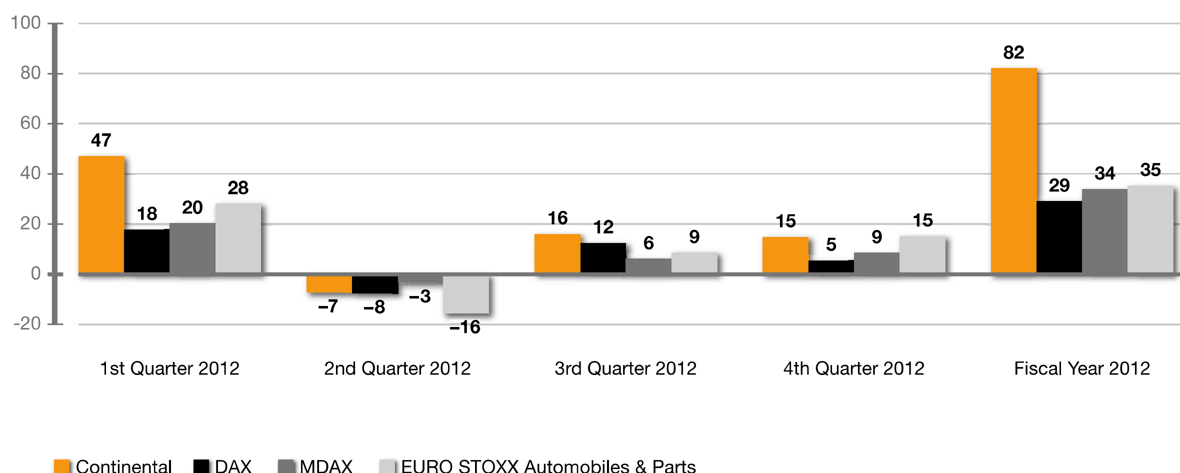
Return to DAX and strong operating performance lead to 82% price increase

Continental shares performed very positively in 2012. In the first quarter of 2012, Continental shares recorded a 47% price increase, already representing a considerably better performance than the reference indexes DAX, MDAX and EURO STOXX Automobiles & Parts, which rose by between 18% and 28%.

The share performance was boosted primarily by the disclosure of the positive key data for the previous fiscal year at the Detroit Motor Show and by the announcement that dividend payment would be resumed in the amount of €1.50 per share for 2011. Over the second quarter of 2012, the substantial share price gains achieved up to the end of March were not maintained. In a weaker overall equity market environment, Continental shares fell by 7% but could maintain their edge on the sector. The shares still achieved a significant price increase of 36% for the first half of the year. As of the middle of the year, they thus exceeded the share price performance of comparable companies in the sector index for European automobile and automotive supplier stocks by 28 percentage points, as well as outperforming the DAX and the MDAX by 28 and 20 percentage points respectively. In the second quarter of 2012, investors acknowledged both the report on the first-quarter business performance and the confirmation – despite growing uncertainty – of the company's outlook for the year, which forecast new sales and earnings records. Signs that the Continental shares would return to the DAX also had a positive impact.

In the second half of the year, the shares resumed their positive development, climbing back above the €80 threshold in early August for the first time since 2008. In comparison to the beginning of 2012, Continental shares recorded an increase of 58% as of the end of the third quarter. On the last day of trading in 2012, Continental shares reached their high for the year at €87.95, and closed the year at €87.59. With a price increase of 82%, our shares significantly outperformed the reference indexes DAX, MDAX and EURO STOXX Automobiles & Parts, which recorded increases of between 29% and 35% in 2012. Continental shares also achieved the best price performance in the automotive sector of the DAX in 2012. The key factors contributing to the very strong share price performance in the second half of 2012 were the positive operating performance, the improved outlook in the report on the first half of the year, the successful placement of the U.S. dollar denominated bond (volume of $950 million,

Quarterly share price performance (in %)



term of seven years, fixed interest rate of 4.5%), and the early start to refinancing for the syndicated loan maturing in April 2014 with the aim of further improving the financial and maturity structure while also increasing financial flexibility. There was also a positive effect from the return to the DAX as at September 24, 2012, and the increase in free float.

Share yield also very attractive over ten years

Continental shares also remain an attractive investment when considered over a ten-year period. Over this period, a stake of €10,000 would have seen an increase in value of 507%, or €50,700, as a result of the positive price performance alone. Had the dividend distributions been immediately reinvested (in line with the DAX or MDAX performance index), the value of that investment would have risen by almost 600% to €69,438 over the same period of analysis. This corresponds to an average yield of 21.4% p.a., considerably better than the reference indexes DAX (10.2% p.a.), MDAX (14.7% p.a.) and EURO STOXX Automobiles & Parts (11.2% p.a.).

The time period of the last five years reflects the crisis on the stock markets in 2008 and 2009. Thanks to last year's very good performance, an investment of €10,000 in Continental shares on January 1, 2008, would have grown by €648 (1.3% p.a., in line with EURO STOXX Automobiles & Parts) by December 31, 2012. While the MDAX achieved a yield of as much as 3.8% p.a., the DAX investment resulted in a loss of €564 (-1.2% p.a.) after the five years.

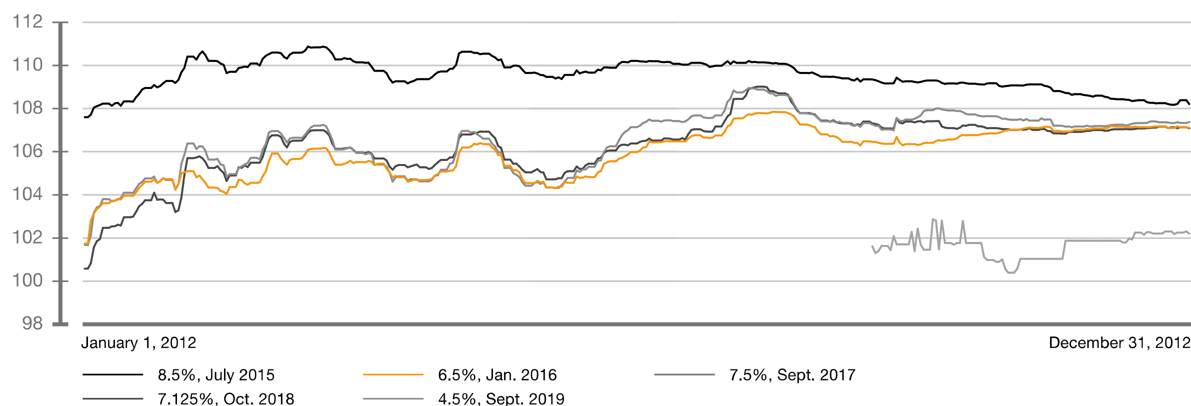
Very positive performance of Continental bonds

The Continental bonds recorded a positive performance in 2012. There were pleasing increases in value

Performance over ten years (including reinvested dividends)

Investment period for €10,000	Continental	DAX	MDAX	EURO STOXX Autos & Parts
1 year (Jan. 1 – Dec. 31, 2012)	€18,585	€12,906	€13,390	€14,030
Yield in % p.a.	85.8	29.1	33.9	40.3
5 years (Jan. 1, 2008 – Dec. 31, 2012)	€10,648	€9,436	€12,078	€10,674
Yield in % p.a.	1.3	-1.2	3.8	1.3
10 years (Jan. 1, 2003 – Dec. 31, 2012)	€69,438	€26,317	€39,389	€28,862
Yield in % p.a.	21.4	10.2	14.7	11.2

Price performance of Continental bonds



in the three bonds maturing in 2016 (volume of €625 million), 2017 (volume of €1 billion) and 2018 (volume of €625 million). These bonds recorded price increases of between 537 and 651 basis points by the end of the year. The bond maturing in 2018 stood out with the highest increase in value. The bond with the shortest remaining term, maturing on July 15, 2015, improved only slightly as compared to the end of the previous year and closed 61 basis points higher.

In the second week of September 2012, Continental successfully issued its first U.S. dollar denominated bond. The issue volume of $950 million was oversubscribed several times over and was placed with institutional investors in Germany and abroad. The interest rate of 4.5% p.a. is considerably lower than the rates for the corporation's last bond issues in 2010 (6.5% to 8.5%). The bond, which has a term of seven years and matures on September 15, 2019, was issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A. It is guaranteed by Continental AG and selected subsidiaries. Following a price increase in the first days of trading, the price then fell to 100.3790% in early November. By the end of the year, this bond had recovered to 102.2930%, representing for investors an increase of 229 basis points as against the issue price.

The company's positive operating performance and the ratings upgrades announced by the rating agencies during the year were also reflected in a decrease in the premium for insurance against credit risks (credit default swap, CDS) in 2012. Over the course of 2012, the Continental five-year CDS fell by 59% to 198 basis

German securities identification code/ISIN	Coupon	Maturity	Volumes in millions	Issue price	Price as at Dec. 31, 2012	Price as at Dec. 31, 2011
A1AY2A DE000A1AY2A0	8.500%	July 15, 2015	€750	99.0047%	108.1960%	107.5870%
A1A1P0 DE000A1A1P09	6.500%	Jan. 15, 2016	€625	98.8610%	107.1010%	101.7340%
A1A0U3 DE000A1A0U37	7.500%	Sept. 15, 2017	€1,000	99.3304%	107.3690%	101.6670%
A1A1P2 DE000A1A1P25	7.125%	Oct. 15, 2018	€625	99.2460%	107.0720%	100.5610%
A1G9JJ DE000A1G9JJ0	4.500%	Sept. 15, 2019	U.S. $950	100.0000%	102.2930%	n/a

points (PY: 477 basis points). This development was once again considerably better than that of the iTraxx X-Over, the index showing the CDS development of companies with the same credit rating. It decreased by only 36% to 482 basis points over the course of 2012.

Return to investment grade rating on stand-alone basis

In the year under review, the sustained positive operating development enabled the Continental Corporation to generate another significant improvement in profitability and in the key balance sheet ratios for the credit rating. In May 2012, Standard & Poor's (S&P) upgraded the credit rating from B+ to BB- and confirmed the positive outlook. Both S&P and Fitch have since rated Continental within the investment grade category on a stand-alone basis, i.e. without taking into account the creditworthiness of the major shareholder. In late September, the rating agency Moody's also upgraded its rating for Continental from Ba3 to Ba2 and raised the outlook from stable to positive. Here, too, the creditworthiness of the major shareholder is the only factor standing in the way of a higher rating in the investment grade category (sound credit quality level). Continental is standing by its goal of returning to a rating in the investment grade category – the higher credit category characterized by low default rates – in the medium term. The minimum target ratings are BBB and Baa2.

Dec. 31, 2012	Rating	Outlook
Standard & Poor's	BB-	positive
Moody's	Ba2	positive

Dec. 31, 2011	Rating	Outlook
Standard & Poor's	B+	positive
Moody's	Ba3	stable

Regular and open dialog with investors and analysts

One of the key tasks of Investor Relations (IR) at Continental is a systematic, intensive and ongoing dialog with existing and potential investors in its shares and bonds, as well as with equity and credit analysts and other capital market participants. This dialog focuses on past and present business transactions, but especially anticipated transactions as well. To ensure equal treatment of the target groups and a continuous flow of information, our activities are geared towards providing all market participants with relevant and useful information at the same time. This is one of the reasons why Continental assesses its free float shareholder structure at regular intervals.

Our roadshow activities are based on the results of these analyses. Regular information for interested investors, analysts and other market players is also ensured by means of our quarterly and annual reporting by conference call, which focuses on discussing current and future business performance.

A capital-market-oriented basic presentation of Continental AG is provided in the form of our Fact Book, which is updated on a regular basis and is available on the Internet. The importance of sustainability issues on the capital market is constantly increasing. To meet the specific information requirements of socially responsible investors (SRI), we created another basic presentation with key figures and content on the topic of sustainability already in 2011. This and all other materials can be accessed on the Internet (www.continental-ir.com). The IR team can be contacted at ir@conti.de.

Several awards for Investor Relations work again

In the year under review, the Continental Executive Board and the Investor Relations team once again received several prestigious awards from key market observers for their IR activities. The top rankings and prizes again attest to the excellent quality of Continental's IR work.

Further intensification of our IR activities

The positive business performance, the improved financing structure together with the upgrades by the rating agencies and the return of Continental shares to the DAX again significantly increased interest in the company among the various different capital market participants. We therefore further intensified our IR activities in 2012. In particular, we increased the number of roadshows, investor conferences and events at our Automotive Group locations. In the context of issuing the U.S. dollar denominated bond, we also held a deal roadshow in New York and Boston. Our IR work continues to cover the major financial centers in Europe, North America and Asia. In the year under review, we spoke to a total of 2,250 investors at conferences and roadshows. Following the return to the DAX, we held an analyst conference (Analyst & Bank-

ers Day) at our Contidrom test center near Hanover again for the first time after a three-year break.

Overall, we increased the number of roadshow days (not including the separate deal roadshow) from 25 in the previous year to 42, consisting of 26 in Europe, ten in North America and six in Asia. We presented our company at 25 (PY: 23) equity and credit conferences. The regional focus here was Europe with 15 conferences. We also took part in seven conferences again in North America and three in Asia. The Executive Board again appeared personally at around a third of these activities, reaching over 50% of the investors spoken to.

Following the return to the German benchmark index DAX, a total of 29 equity analysts and 11 credit analysts currently prepare regular analyses, assessments and recommendations on Continental securities. The coverage has thus increased, meaning that the scope for prompt and professional discussion and dissemination of relevant company news on the capital market has improved further. At present, 20 analysts give Continental shares a positive investment assessment (buy, outperform, overweight). Only one analyst currently rates the share negatively (sell, underperform, underweight).

Prof. Dr.-Ing. Wolfgang Reitzle, Chairman of the Supervisory Board

Dear Shareholders,

Continental AG and the corporation closed fiscal 2012 very successfully again, significantly increasing sales, operating earnings and net income. The Executive Board and Supervisory Board of the company worked together closely in this process. In the year under review, the Supervisory Board and its committees fulfilled all the tasks incumbent upon them under applicable law, the Articles of Incorporation and the By-Laws. They closely monitored the work of the Executive Board, regularly advised it and carefully supervised it in the management of the company and have satisfied themselves of the legality and propriety of management. As explained in further detail below, the Supervisory Board was directly involved in a timely manner on all decisions of fundamental importance to the company.

The Executive Board provided the Supervisory Board with regular, timely and comprehensive updates in writing and verbally on all issues of relevance to the company, namely planning, business strategy, significant business transactions in the company and the corporation and the related risks and opportunities, and compliance issues. The Supervisory Board was continuously informed in detail of the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. Where the actual course of business deviated from the defined plans and targets, the Executive Board gave a detailed explanation with reasons to the Supervisory Board and the measures introduced were discussed with the Supervisory Board and its committees. In addition, the Supervisory Board, the Chairman's Committee and the Audit Committee dealt in-

tensively with other key company business at their meetings and in separate discussions. The members of the Supervisory Board were also available to the Executive Board for consultation outside the meetings. The chairman of the Supervisory Board in particular was in regular contact with the Executive Board and its chairman and discussed current company issues and developments with them.

Meetings of the Supervisory Board and the committees

The Supervisory Board held four regular meetings in the year under review as well as the separate strategy meeting, which has now become a permanently established event. One conference call also took place. No member was absent from more than two of the meetings or conference calls. The Chairman's Committee held four meetings and three conference calls in the year under review. The Audit Committee met four times in 2012. The Mediation Committee in accordance with Section 27 (3) of the German Co-determination Act (*Mitbestimmungsgesetz*) and the Nomination Committee did not need to meet. There are no other committees. All committees report to the plenary session on a regular basis. Their duties are described in more detail and their members listed in the Corporate Governance Report (pages 32 et seq.).

Key topics dealt with by the Supervisory Board, Chairman's Committee and Audit Committee

The Supervisory Board again held in-depth discussions on the company's strategic development and orientation in general as well as the strategy and strategic planning of its divisions, particularly at its strategy meeting. In addition to the regular reports from the Executive Board on current business developments, another frequent topic of discussion for the plenary session and the committees was the continuing debt crisis in Europe and its effects on the economy, particularly the automotive industry. Other regularly discussed topics included the development of prices for natural and synthetic rubber, rare earths and other raw materials, and situations on the individual sales markets.

At the meeting in March 2012, the Supervisory Board discussed the findings of the review of its remuneration and the recommendations made by the external consultant commissioned with this task. On this basis, a proposal for amending the remuneration was agreed and was subsequently adopted by the Annual Shareholders' Meeting on April 27, 2012. Further details are provided in the Remuneration Report (pages 38 et seq.). Following preparation by the Chairman's Committee, the plenary session of the Supervisory Board also dealt with matters relating to Executive Board remuneration.

To ensure that the Supervisory Board is involved in the decisions on key company matters, the company's Articles of Incorporation and the Supervisory Board's By-Laws establish the legal transactions that require the approval of the Supervisory Board and/or its Chairman's Committee. In line with these regulations, the Supervisory Board and the Chairman's Committee held several in-depth discussions on the establishment of the joint venture with SK Innovation, which is extremely important for the company's future in the area of electric and hybrid vehicles. In addition, the Supervisory Board and/or the Chairman's Committee discussed and approved plans for the acquisition of the automotive air conditioning business of Parker Hannifin and the acquisition of two British companies for the Automotive Group, the construction of a production facility in Kaluga, Russia, for ContiTech's Fluid Technology business unit, and the provision of collateral by subsidiaries, among other matters. The Supervisory Board and its committees also closely monitored the measures of the Executive Board to further improve the financing situation, i.e. the issue of a U.S. dollar bond and the refinancing of the syndicated loan. In addition, the news of the shares' return to the DAX was of course particularly pleasing. At its meeting on December 12, 2012, the Supervisory Board discussed the annual planning for 2013 and long-term planning and also approved the planning and investment plans for fiscal 2013.

The Audit Committee was also informed by the Executive Board in detail and on an ongoing basis of the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. Before the publication of the half-year and quarterly financial reports, the Audit Committee discussed and reviewed them, paying particular attention to the results for the relevant reporting period as well as the outlook for the year as a whole. The interim financial statements as at June 30, 2012, were reviewed by KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover (KPMG), on behalf of

the Audit Committee. The Audit Committee also issued the mandate for the audit of the 2012 annual and consolidated financial statements to KPMG, pursuant to the resolution adopted by the Annual Shareholders' Meeting, and stipulated the focus of the audit.

The Audit Committee is closely involved in compliance and risk management as well. The Executive Board regularly reported to it on the work of the Compliance department and the Internal Auditing department, and on significant events. The head of the Compliance department and the head of Internal Auditing were also available to provide information to the Audit Committee and its chairman directly in coordination with the Executive Board. Furthermore, the Audit Committee received reports on the audit performed by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft in accordance with Audit Standard 980 of the Institut der Wirtschaftsprüfer e.V. (IDW), as a result of which it issued an unqualified audit opinion at the beginning of 2013 regarding the implementation of the compliance management system with respect to anti-corruption and competition/antitrust. In addition, the other material risks covered by the risk management system were presented in the Audit Committee with the corresponding measures resolved by the Executive Board. The Audit Committee has satisfied itself of the effectiveness of the internal control system, the risk management system and the internal audit system.

Conflicts of interest and corporate governance

No conflicts of interest arose among the members of the Executive Board or the Supervisory Board in the year under review. In its opinion, the Supervisory Board also had an appropriate number of independent members as defined in the German Corporate Governance Code at all times in the period under review.

On April 27, 2012, the Supervisory Board and Executive Board agreed an updated declaration in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz – AktG)* on the recommendations of the German Corporate Governance Code. The Supervisory Board will discuss the amendments made to the German Corporate Governance Code in 2012 at its meeting in March 2013. In particular, it will once again discuss the recommendation to state specific targets for the future composition of the Supervisory Board and will review the targets set in 2011 and reformulate them where necessary. Further details on corporate governance are included in the Corporate Governance Report (pages 32 et seq.).

Annual and consolidated financial statements

The annual financial statements as at December 31, 2012, prepared by the Executive Board in line with the requirements of the German Commercial Code *(Handelsgesetzbuch – HGB)*, the 2012 consolidated financial statements and the management reports for the company and the corporation were reviewed by KPMG, including the accounting, the accounting-related internal control system and the system for early risk recognition. KPMG also reviewed the Executive Board's Dependent Company Report in accordance with Section 312 *AktG*. The 2012 consolidated financial statements of Continental AG were prepared in accordance with the International Financial Reporting Standards (IFRS). The auditor issued unqualified audit opinions. In terms of the system for early risk recognition, the auditor found that the Executive Board had taken the necessary measures under Section 91 (2) *AktG* and that the company's system for early risk recognition is suitable for identifying developments at an early stage that pose a risk to the company as a going concern. KPMG issued the following unqualified audit opinion on the Dependent Company Report in accordance with Section 313 (3) *AktG*:

"Based on the results of our statutory audit and evaluation we confirm that:

- the actual information included in the report is correct,
- payments by the company in connection with the legal transactions listed in the report were not unduly high or that disadvantages had been compensated for, and
- there are no circumstances in favor of a significantly different assessment than that made by the Executive Board in regard to the measures listed in the report."

The documents relating to the annual financial statements, including the Dependent Company Report, and the audit reports were discussed with the Executive Board and the auditor in the Audit Committee meeting on February 26, 2013. They were also discussed at length at the Supervisory Board's meeting to approve

the annual financial statements on March 19, 2013. The required documents were distributed to all members of the Audit Committee and the Supervisory Board in good time before these meetings so that the members had sufficient opportunity to review them. The auditor was present at these discussions. The auditor reported on the main results of the audits and was available to provide additional information to the Audit Committee and the Supervisory Board. Based on its own review of the annual financial statements, the consolidated financial statements, the company management report, the corporation management report and the Dependent Company Report including the final declaration of the Executive Board, and based on the report and the recommendation of the Audit Committee, the Supervisory Board concurred with the results of the auditor's audit. There were no objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted.

Personnel changes in the Supervisory Board and Executive Board

There were no changes in the Supervisory Board in 2012. Further information on the members of the Supervisory Board and its committees who were in office in the year under review can be found on pages 252 and 253. In the Executive Board, Ms. Elke Strathmann, who had been appointed by the Supervisory Board in September 2011, took up her position on January 2, 2012.

The Supervisory Board would like to thank the Executive Board, all the employees and the employee representatives for their excellent performance, which made the company's great success in the past year possible.

Hanover, March 19, 2013

For the Supervisory Board
Sincerely,

Prof. Dr.-Ing. Wolfgang Reitzle
Chairman

Corporate Governance Report and Declaration Pursuant to Section 289a of the German Commercial Code *(HGB)*

Good and responsible corporate governance geared towards sustainable, long-term value creation is what governs our actions.

Good, responsible corporate governance geared towards sustainable, long-term value creation is the measure that governs the actions of the Executive Board and Supervisory Board of Continental AG, and the basis of the company's success in the interests of all its stakeholders. In the following, the Executive Board and Supervisory Board report on corporate governance at Continental in accordance with our Corporate Governance Principles, Item 3.10 of the German Corporate Governance Code and Section 289a of the German Commercial Code *(Handelsgesetzbuch – HGB)*. The report is supplemented by the remuneration report of Continental AG, which is a part of the company's Management Report.

Continental AG's Corporate Governance Principles are closely modeled on the German Corporate Governance Code. Together with the BASICS, in which we have set out our values and guidelines since 1989, and our Code of Conduct, these principles form a guideline for corporate management and control at Continental.

Corporate bodies

In line with the law and the Articles of Incorporation, the company's corporate bodies are the Executive Board, the Supervisory Board and the Shareholders' Meeting. As a German stock corporation, Continental AG has a dual management system characterized by a strict personnel division between the Executive Board as the management body and the Supervisory Board as the monitoring body.

The Executive Board and its practices

The Executive Board has sole responsibility for managing the company free from instructions from third parties in accordance with the law, the Articles of Incorporation and the Executive Board's By-Laws, while taking into account the resolutions of the Shareholders' Meeting. Regardless of the principle of joint responsibility, whereby all members of the Executive Board equally share responsibility for the management of the company, each Executive Board member is responsible for the areas entrusted to him or her accordingly. The chairman of the Executive Board is responsible for the company's overall management and business policy. He ensures management coordination and uniformity on the Executive Board and represents the company to the public. The Executive Board currently has eight members.

The Executive Board has By-Laws which regulate in particular the allocation of duties among the Executive Board members, key matters pertaining to the company and its subsidiaries that require a decision to be made by the Executive Board, the duties of the Executive Board chairman, as well as the process in which the Executive Board passes resolutions. The Articles of Incorporation and the Supervisory Board By-Laws require the consent of the Supervisory Board for significant measures carried out by management.

The Supervisory Board and its practices

The Supervisory Board appoints the Executive Board and supervises and advises it in the management of the company. The Supervisory Board is directly involved in decisions of material importance to the company. As specified by law, the Articles of Incorporation and the Supervisory Board By-Laws, certain corporate management matters require the approval of the Supervisory Board. The chairman of the Supervisory Board coordinates its work and represents its interests vis-à-vis third parties. He maintains regular contact between meetings with the Executive Board, and in particular with its chairman, to discuss issues relating to the company's strategy, business development, risk management and compliance.

Composition of the Supervisory Board

In accordance with the German Co-determination Act *(Mitbestimmungsgesetz – MitbestG)* and the company's Articles of Incorporation, the Supervisory Board

comprises 20 members. Half the members of the Supervisory Board are elected by the shareholders in the Shareholders' Meeting, while the other half are elected by the employees of Continental AG and its German subsidiaries. The current term of office of all members of the Supervisory Board ends with the conclusion of the 2014 Annual Shareholders' Meeting.

In accordance with Item 5.4.1 of the German Corporate Governance Code, in 2011 the Supervisory Board specified the following targets for its composition:

- The share of women on the Supervisory Board should increase to 20% in the medium term, rising to at least 15% in the next scheduled elections to the Supervisory Board in 2014. At present, it is 5%.

- The share of members of the Supervisory Board with international business experience or other international connections should at least remain the same. At least seven members currently fulfill this criterion.

- Candidates standing for election as members of the Supervisory Board should usually be under the age of 70 at the time of their election.

- An appropriate share of members of the Supervisory Board members with experience in industries in which the company operates should be maintained. Far more than half of the Supervisory Board members have such experience.

Due to the revision of Item 5.4.1 of the Code, the Supervisory Board will discuss the targets for its composition again at its meeting in March 2013.

The Supervisory Board will continue to report on its progress in the implementation of these targets and will take them into account in its nominations for election to the Supervisory Board in 2014.

Both the shareholder representatives and the employee representatives have an equal duty to act in the interests of the company. The Supervisory Board's chairman is a representative of the shareholders. He has the casting vote in the event of a tie.

The Supervisory Board has drawn up its own By-Laws which supplement the law and the Articles of Incorporation with more detailed provisions including provisions on Supervisory Board meetings, the duty of confidentiality, the handling of conflicts of interest, the Executive Board's reporting obligations, and a list of legal transactions that require the approval of the Supervisory Board.

Committees of the Supervisory Board

The Supervisory Board currently has four committees: the Chairman's Committee, the Audit Committee, the Nomination Committee and the committee formed in line with Section 27 (3) of the *MitbestG* (Mediation Committee).

The Chairman's Committee is comprised of the Supervisory Board's chairman, vice chairman and the two additional members of the Mediation Committee. At present, these are Prof. Dr.-Ing. Wolfgang Reitzle, Werner Bischoff, Hans Fischl, and Georg F. W. Schaeffler. One of the key responsibilities of the Chairman's Committee is preparing the appointment of Executive Board members and concluding, terminating, and amending their employment contracts and other agreements with them. However, the plenum of the Supervisory Board alone is responsible for establishing the total remuneration of the Executive Board. Another key responsibility of the Chairman's Committee is deciding on the approval of certain transactions by the company as specified in the Supervisory Board By-Laws. The Supervisory Board has conferred some of these participation rights on the Chairman's Committee subject to the condition that, in individual cases, each of its members may demand that a matter again be submitted to the plenary session for decision.

The Audit Committee's tasks relate to the company's accounting, the audit of the financial statements, risk management and compliance. In particular, the committee monitors the accounting process and the effectiveness of the internal controlling system, the risk management system and internal audit system, performs a preliminary examination of Continental AG's annual financial statements and the consolidated financial statements, and makes its recommendation to the plenary session of the Supervisory Board, which then passes resolutions pursuant to Section 171 of the German Stock Corporation Act *(Aktiengesetz – AktG)*. Furthermore, the committee discusses the company's draft interim financial reports and is responsible for ensuring the necessary independence of auditors. It

also deals with additional services performed by the auditors. The committee engages the auditors, determines the focus of the audit as necessary and negotiates the fee. It also gives its recommendation for the Supervisory Board's proposal to the Annual Shareholders' Meeting for the election of the auditor. The chairman of the Audit Committee, Dr. Bernd W. Voss, is independent and, as former CFO of Dresdner Bank, has special knowledge and experience in the application of accounting principles and internal control procedures. Further members are Michael Deister, Michael Iglhaut, Hartmut Meine, Klaus Rosenfeld and Georg F. W. Schaeffler. Previous members of the company's Executive Board and the chairman of the Supervisory Board cannot serve as chairman of the Audit Committee.

The Nomination Committee is responsible for nominating suitable candidates for the Supervisory Board to propose to the Annual Shareholders' Meeting for election. It consists solely of shareholder representatives, namely Prof. Dr.-Ing. Wolfgang Reitzle, Maria-Elisabeth Schaeffler, Georg F. W. Schaeffler and Dr. Bernd W. Voss.

In accordance with Section 31 (3) Sentence 1 of the *MitbestG*, the Mediation Committee becomes active only if the first round of voting on a proposal to appoint a member of the Executive Board or his/her removal by consent does not achieve the legally required two-thirds majority. This committee must then attempt mediation before a new vote is taken.

Shares held by Supervisory Board and Executive Board members

Shares representing 49.90% of the common stock of the company were attributable to two members of the Supervisory Board – Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler – held as specified in the notification of voting rights on October 6, 2011. As at February 8, 2013, the remaining members of the Supervisory Board held shares representing a total interest of less than 1% in the common stock of the company. The members of the Executive Board held shares also representing a total interest of less than 1% in the common stock of the company as at February 8, 2013.

Shareholders and the Annual Shareholders' Meeting

The company's shareholders exercise their rights of participation and control in the Shareholders' Meeting. The Annual Shareholders' Meeting, which must be held in the first eight months of every fiscal year, decides on all issues assigned to it by law such as the appropriation of profits, election and dismissal of Supervisory Board and Executive Board members, appointment of auditors and amendments to the company's Articles of Incorporation. Each Continental AG share entitles the holder to one vote. There are no shares conferring multiple or preferential voting rights and no limitations on voting rights.

All shareholders who register in a timely manner and prove their entitlement to participate in the Annual Shareholders' Meeting and to exercise their voting rights are entitled to participate in the Shareholders' Meeting. To facilitate the exercise of their rights and to prepare them for the Annual Shareholders' Meeting, the shareholders are fully informed about the past fiscal year and the points on the upcoming agenda before the Annual Shareholders' Meeting by means of the Annual Report and the invitation to the meeting. All documents and information on the Annual Shareholders' Meeting, including the Annual Report, are also published on the company's website in German and English. To facilitate the exercise of shareholders' rights, the company offers all shareholders who cannot or do not want to exercise their voting rights themselves the opportunity to vote at the Annual Shareholders' Meeting via a proxy who is bound by instructions.

Declaration in accordance with Section 161 *AktG* and deviations from the German Corporate Governance Code

On April 27, 2012, the Executive Board and the Supervisory Board issued the following annual declaration in accordance with Section 161 *AktG*:

> "The Executive Board and the Supervisory Board of Continental AG declare in accordance with Section 161 *AktG* that since April 28, 2011, the company has complied with and will comply with the recommendations issued by the Government Commission on the German Corporate Governance Code (as amended on May 26, 2010, and published by the German Federal Ministry of Justice in the official

section of the electronic Federal Gazette *(elektronischer Bundesanzeiger)* on July 2, 2010), subject to the following limitations. This refers to the declaration of the Executive Board and Supervisory Board of April 28, 2011, and previous declarations regarding the recommendations of the German Corporate Governance Code.

Item 2.3.2 recommends that the notice convening the annual general meeting and the documents relating thereto should be sent electronically to all domestic and foreign financial services providers, shareholders and shareholders' associations. The company cannot fulfill this recommendation because the company's shares are bearer shares (Article 5 of the Articles of Incorporation), which means that it is not feasible to identify all possible recipients.

Hanover, April 27, 2012

Prof. Dr.-Ing. Wolfgang Reitzle
Chairman of the Supervisory Board

Dr. Elmar Degenhart
Chairman of the Executive Board"

The declaration was made permanently available to shareholders on Continental's website. Earlier declarations in accordance with Section 161 *AktG* also can be found on the website. In Continental AG's Corporate Governance Principles, the Executive Board and the Supervisory Board have undertaken to explain not only deviations from the recommendations made by the Code, but also any deviations from its suggestions as follows:

With regard to the suggestion in Item 2.3.4 of the Code, in the past the company had not given shareholders the opportunity to watch the Annual Shareholders' Meeting using communication media such as the Internet. In 2012 parts of the Annual Shareholders' Meeting on April 27 were broadcast on the Internet as regulated by the Articles of Incorporation for the first time.

Continental AG's complete Corporate Governance Principles are published on the Internet at www.continental-ir.com.

Key corporate governance practices
In addition to the Corporate Governance Principles, the following principles are also a key basis of our long-term responsible corporate governance:

- The BASICS – Continental AG's corporate guidelines. The BASICS have reflected the vision, values and self-image of the corporation since 1989.
- The Corporate Social Responsibility Principles.
- Compliance with the binding Code of Conduct for all Continental employees (see pages 36 and 37 for details).

These documents are available on Continental's website at: www.continental-corporation.com.

Accounting
The Continental Corporation's accounting is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The annual financial statements of Continental AG are prepared in accordance with the accounting regulations of the German Commercial Code *(Handelsgesetzbuch – HGB)*.

Internal control system and risk management
Careful corporate management and good corporate governance also require that the company deal with risk in a responsible manner. Continental has a corporation-wide internal control and risk management system, especially in terms of the accounting process, that helps analyze and manage the company's risk situation. The risk management system serves to identify and evaluate developments that could trigger significant disadvantages and to avoid risks that would endanger the continued existence of the company. We report on this in detail in the Risk Report, which forms part of the management report for the consolidated financial statements.

Transparent and prompt reporting
The company regularly reports to shareholders, analysts, shareholders' associations, the media and interested members of the public equally on significant developments in the corporation and its situation. All shareholders therefore have immediate access to all information in German and English, which is also available to financial analysts and similar parties. In particu-

lar, the website of Continental AG is utilized to guarantee the timely distribution of information. The company's financial reports, presentations made at analyst and investor conferences, press releases and ad hoc disclosures are also available on the website. The dates of key periodic publications and events (annual reports, interim reports, Annual Shareholders' Meetings and press and analyst conferences) are announced in a timely manner in the company's financial calendar. The dates already set for 2013 and 2014 can be found at www.continental-ir.com.

Compliance

One of our basic values is trust. Trust requires integrity, honesty and incorruptibility. Compliance with all the legal requirements that apply to Continental AG and its subsidiaries and all its internal regulations by management and employees has therefore long been a goal of the company and a fixed part of its corporate culture. In addition to our corporate guidelines, the BASICS, and the Corporate Governance Principles, this is reflected in particular in our Corporate Social Responsibility Principles and the Code of Conduct that is binding for all employees. The Executive Board is firmly committed to these principles and that of "zero tolerance", particularly with regard to corruption and antitrust violations.

The basis of our Compliance Management System (CMS) is a comprehensive analysis of the compliance risks to which the company is exposed. The company and its business activities are examined in terms of potential compliance risks that can arise, for example, from its structures and processes, a specific market situation or even operations in certain geographic regions. This takes into account, inter alia, the results of a regular corporation-wide risk inventory in addition to external sources such as the Transparency International Corruption Perception Index. This analysis is substantiated and expanded primarily by a series of interviews with management and employees at all levels. The risk analysis is not a one-off procedure, but rather a process requiring constant review and updates.

In terms of operations, the Compliance organization is managed by the head of the Compliance department. She is subordinate to the Corporate Compliance Officer, who reports directly to the Chief Financial Officer. The focal area of the work of the Compliance department is preventing violations of antitrust and competition law, corruption, fraud, and other property offenses. For other areas in which there is a risk of compliance violations, responsibility for compliance management lies with the existing functions that have performed these duties competently for some time now and are supported in these tasks by the Compliance department.

The CMS consists of the three pillars of prevention, detection and response:

- The first pillar of CMS – prevention – includes in particular employee training, in addition to the risk analysis. Here, we attach great importance to in-person events at which employees can be addressed personally and directly and their questions can be discussed. We use e-learning programs as well. Prevention is also fostered by advice on specific matters from the Compliance department and by the internal publication of guidelines on topics such as antitrust law and contact with competitors, giving and receiving gifts, and sponsoring. To avoid compliance violations by suppliers, service providers or similar third parties that could have negative repercussions for Continental or that could be attributed to the company under laws such as the U.K. Bribery Act, Continental introduced a Supplier Code of Conduct which must be recognized as a basic requirement for doing business. If necessary, supplier due diligence can be performed with regard to compliance issues.

- The second pillar of CMS – detection – comprises regular and ad hoc audits. In addition, compliance is always a subject of audits carried out by Corporate Auditing. Continental AG has set up a Compliance & Anti-Corruption Hotline to give the employees and third parties outside the corporation the opportunity to report violations of legal regulations, its fundamental values and ethical standards. Information on any kind of potential violations, such as bribery or antitrust behavior, but also other offenses or accounting manipulation, can be reported anonymously via the hotline where permissible by law. Corporate Audit and the Compliance department investigate and pursue all tips received by this hotline.

- The third pillar of CMS – response – deals with the consequences of compliance violations that have been identified. The Compliance department is involved in decisions on measures that may be required including any individual sanctions. Furthermore, the Compliance department conducts a thorough analysis of such events to ensure that isolated incidents are not symptoms of failings in the system and to close any gaps in prevention.

In 2011, Continental AG had the concept of its CMS for the areas of anti-corruption, competition/antitrust law, fraud and other property offenses audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (Ernst & Young) in accordance with Audit Standard 980 of the Institut der Wirtschaftsprüfer e.V. (IDW). Ernst & Young issued an unqualified review opinion. In 2012, Ernst & Young audited the implementation of the CMS in accordance with IDW Audit Standard 980 and came to the same conclusion. We also intend to continue the audit of the CMS in line with the final stage of IDW Audit Standard 980 shortly.

Remuneration Report

In accordance with the German Stock Corporation Act *(Aktiengesetz – AktG)*, the plenary session of the Supervisory Board is responsible for determining the remuneration for the Executive Board.

Executive Board remuneration system
Remuneration for Executive Board members consists of the following elements:

Each Executive Board member receives a fixed annual remuneration paid in twelve monthly installments.

The Executive Board members also receive variable remuneration (a performance bonus) linked to the attainment of certain targets relating to the year-on-year change in the Continental value contribution (CVC) and the return on capital employed (ROCE). Further, the Supervisory Board can determine a strategic target at the beginning of each fiscal year. For 2012, the Supervisory Board had set targets based on the attainment of a specific free cash flow and specific amount of working capital in relation to sales. It is possible that variable remuneration will not be paid if certain minimum values are not achieved.

In order to take into account extraordinary factors that have influenced the degree to which targets are achieved, the Supervisory Board has the right to adjust the established attainment of goals on which the calculation of variable remuneration is based retroactively by 20% upwards or downwards at its due discretion. In any event, the performance bonus is capped at 150% of the fixed target bonus. 40% of variable remuneration awarded in a fiscal year is paid out in the form of a lump sum as an annual bonus. The remaining 60% is converted into virtual shares of Continental AG. Following a holding period of three years after the end of the fiscal year for which variable remuneration is awarded, the value of these virtual shares is paid out including the value of the dividends distributed over the holding period.

The conversion of the variable remuneration into virtual shares and payment of their value after the holding period are based on the average share price for the three-month period immediately preceding the Annual Shareholders' Meeting in the year of conversion or payment. However, the amount paid after the holding period cannot be less than 50% of the value on conversion or more than three times this same value. In addition, the Supervisory Board may revise the amount calculated in such a way by 20% upward or downward retroactively to balance out extraordinary developments, for example a noticeable change in the share price that is wholly or mainly due to external influences. In addition to the performance bonus, a special bonus can be agreed for special projects in individual cases, and a recognition bonus can be granted.

Executive Board members also receive additional benefits, primarily the reimbursement of expenses, including payments – generally for a limited time – for a job-related second household or activities abroad on behalf of the company, the provision of a company car, and premiums for group accident and directors' and officers' (D&O) liability insurance. The D&O insurance policy provides for an appropriate deductible in line with the requirements of Section 93 (2) Sentence 3 *AktG*. Members of the Executive Board must pay taxes on these additional benefits.

Continued remuneration payments have also been agreed for a certain period in the event of employment disability through no fault of the Executive Board member concerned.

All members of the Executive Board have been granted post-employment benefits that are paid starting at the age of 63 (but not before they leave the service of the company) or in the event of disability. In each case, the maximum post-employment benefit amounts to 50% of the most recent fixed remuneration payment and 12% of the average variable remuneration achieved in the last five fiscal years. There is a basic rate for the post-employment benefits that is determined individually. For each year of service, a member of the Executive Board receives a benefit entitlement amounting to 10% of the difference between the basic rate and his or her maximum post-employment benefit, until the full entitlement has been achieved after ten years. Post-employment benefits are adjusted after commencement of such benefit payments in accordance with Section 16 of the German Company Pensions Law *(Betriebsrentengesetz – BetrAVG)*. Any other income is counted towards post-employment benefit.

In the employment contracts it has been agreed that, in the event of premature termination of Executive Board work, payments to the Executive Board mem-

ber to be agreed, including the additional benefits, shall not exceed the value of two annual salaries nor the value of remuneration for the remaining term of the employment contract for the Executive Board member. No compensation agreements exist with members of the Executive Board in the event of a takeover bid or a change of control in the company.

Individual remuneration

The total remuneration of each individual member of the Executive Board for the year under review and the previous fiscal year, broken down into fixed and variable components, and the individual pension expense, plus the value reported in the consolidated financial statements pertaining to the stock options granted under stock option plans in previous fiscal years and redeemed in the past year, is disclosed in the following tables. In addition to his performance bonus, José A. Avila was awarded a special bonus of €450 thousand for each of the 2011 and 2012 fiscal years for 100% attainment of targets stipulated on the basis of the EBIT reported for the Powertrain division in these fiscal years. However, the combined special bonus and performance bonus for the respective fiscal year cannot exceed the amount of the performance bonus for 150% target attainment. The Supervisory Board also granted José A. Avila a recognition bonus of €600 thousand for his excellent work, particularly in sustainably securing the diesel systems unit. In line with the regulations for the performance bonus, the special bonus and the recognition bonus are divided into a short-term and a long-term component. In fiscal 2012, the members of the Executive Board neither received nor were promised payments by a third party with respect to their activities on the Executive Board.

Remuneration of the Executive Board in 2012

	Remuneration components				
in € thousands	**Fixed[1]**	**Variable, short-term**	**Variable, long-term[2]**	**Total**	**Share-based payment[2,3]**
Dr. E. Degenhart	1,224	684	1,026	**2,934**	2,184
J. A. Avila	627	294	441	**1,362**	968
Dr. R. Cramer	630	259	388	**1,277**	1,253
H. Matschi	624	259	389	**1,272**	972
W. Schäfer	1,024	526	789	**2,339**	1,419
N. Setzer	631	486	729	**1,846**	1,637
E. Strathmann (from Jan. 1, 2012)	789	474	710	**1,973**	710
H.-G. Wente	631	421	631	**1,683**	1,291
Total	**6,180**	**3,403**	**5,103**	**14,686**	**10,434**

1 In addition to cash components, the fixed remuneration includes non-cash elements, such as company cars, insurance, and moving costs.
2 Long-term component of the variable remuneration which is converted into virtual shares of Continental AG in line with the new remuneration structure geared towards sustainable development of the company, including special and recognition bonuses.
3 Includes changes in the value of the virtual shares granted in previous years.

Remuneration of the Executive Board in 2011

	Remuneration components				
in € thousands	Fixed[1]	Variable, short-term	Variable, long-term[2]	Total	Share-based payment[2,3]
Dr. E. Degenhart	1,229	717	1,076	**3,022**	926
J. A. Avila	626	493	739	**1,858**	648
Dr. R. Cramer	630	500	750	**1,880**	630
H. Matschi	627	267	400	**1,294**	332
Dr. H.-J. Nikolin (until July 31, 2011)	375	313	469	**1,157**	515[4]
W. Schäfer	1,027	552	827	**2,406**	714
N. Setzer	633	475	713	**1,821**	578
H.-G. Wente	783	511	768	**2,062**	767[4]
Total	**5,930**	**3,828**	**5,742**	**15,500**	**5,110**

[1] In addition to cash components, the fixed remuneration includes non-cash elements, such as company cars, insurance, and moving costs.
[2] Long-term component of the variable remuneration which is converted into virtual shares of Continental AG in line with the new remuneration structure geared towards sustainable development of the company, including special bonuses.
[3] Includes changes in the value of the virtual shares granted in previous years.
[4] Includes the amount of personnel expenses carried in the consolidated financial statements (compensation cost) in 2011 for stock options granted and redeemed in previous fiscal years under the 2008 stock option plan.

Long-term component of share-based payment

The amounts of variable remuneration converted into virtual shares of Continental AG for active members of the Executive Board changed as follows in the year under review:

in € thousands or in units	Degenhart	Avila	Cramer	Matschi	Schäfer	Setzer	Strathmann	Wente	Total
Outstanding as at Dec. 31, 2010	**8,178**	**—**	**5,663**	**5,663**	**—**	**5,663**	**—**	**—**	**25,167**
Fair Value as at Dec. 31, 2010	**392**	**—**	**271**	**271**	**—**	**271**	**—**	**—**	**1,205**
Change in fair value	-2	—	-1	-1	—	-1	—	—	**-5**
Commitments[1]	14,532	8,978	11,750	6,604	11,177	13,205	—	12,419	**78,665**
Fair value of commitments[1]	744	460	602	338	573	676	—	636	**4,029**
Outstanding as at Dec. 31, 2011[1]	**22,710**	**8,978**	**17,413**	**12,267**	**11,177**	**18,868**	**—**	**12,419**	**103,832**
Fair Value as at Dec. 31, 2011[1]	**1,134**	**460**	**872**	**608**	**573**	**946**	**—**	**636**	**5,229**
Change in fair value	869	328	663	475	408	716	—	454	3,913
Commitments	15,660	10,757	10,917	5,828	12,047	10,376	—	11,175	76,760
Fair value of commitments	1,365	938	952	508	1,049	905	—	974	6,691
Outstanding as at Dec. 31, 2012	**38,370**	**19,735**	**28,330**	**18,095**	**23,224**	**29,244**	**—**	**23,594**	**180,592**
Fair Value as at Dec. 31, 2012	**3,368**	**1,726**	**2,487**	**1,591**	**2,030**	**2,567**	**—**	**2,064**	**15,833**

[1] The comparative figures are shown adjusted accordingly.

Commitments with a fair value of €1.3 million (equivalent to 14,655 units) are attributable to Executive Board members who had left the company as at December 31, 2012.

Basis of fair value calculation
Owing to the individual arrangements specific to the company, there are certain features of the virtual shares as compared to standard options that must be taken into account in their measurement.

A Monte Carlo simulation is used in the measurement of stock options. This means that log-normal distributed processes are simulated for the price of Continental shares. The measurement model also takes into account the average value accumulation of share prices in the respective reference period and the floor and cap for the distribution amount.

The following parameters were used as of the measurement date of December 31, 2012:

- Constant zero rates as of the measurement date of December 31, 2012, of 0.00% for the 2009 tranche, -0.04% for the 2010 tranche, and -0.02% for the 2011 tranche.
- Interest rate based on the yield curve for government bonds.
- Dividend payments as the arithmetic mean based on publicly available estimates for 2013 and 2014; the dividend amounted to €1.50 per share in 2012, and Continental AG did not distribute a dividend in 2011.
- Historic volatilities on the basis of daily XETRA closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2009 tranche is 23.74%, for the 2010 tranche 43.26%, and for the 2011 tranche 40.18%.

Post-employment obligations and service costs
The defined benefit obligations (DBO) for all pension commitments for the active members of the Executive Board and the service cost calculated for the respective fiscal year in accordance with international accounting policies are presented below:

	Defined benefit obligations		Service cost	
in € thousands	**Dec. 31, 2012**	**Dec. 31, 2011**	**2012**	**2011**
Dr. E. Degenhart	4,561	2,238	935	801
J. A. Avila	2,443	1,238	617	542
Dr. R. Cramer	1,491	682	286	205
H. Matschi	1,553	734	308	270
Dr. H.-J. Nikolin (until July 31, 2011)[1]	n/a	n/a	n/a	n/a
W. Schäfer	3,412	1,597	804	704
N. Setzer	1,337	585	247	180
E. Strathmann (from Jan. 1, 2012)	650	—	645	—
H.-G. Wente	6,187	4,499	122	115
Total	**21,634**	**11,573**	**3,964**	**2,817**

[1] The defined benefit obligations were omitted for Executive Board members who left the company in the previous year. We refer to Note 39 for details of pension obligations for former members of the Executive Board.

2004 and 2008 stock option plans

	Number of subscription rights		Payments[1] (in € thousands)		
	Dec. 31, 2012	**Dec. 31, 2011**	**2011**	**2012**	**2013**
Dr. H.-J. Nikolin (until July 31, 2011)	—	—	96	—	—
H.-G. Wente	—	—	96	—	—
Total	**—**	**—**	**192**	**—**	**—**

[1] Subscription rights under the 2004 and 2008 stock option plans were converted into cash payment.

Remuneration of the Supervisory Board

Article 16 of the Articles of Incorporation regulates the remuneration paid to members of the Supervisory Board. This remuneration also has fixed and variable components. The chairman and vice chairman of the Supervisory Board and the chairs and members of committees qualify for higher remuneration.

In 2011, the Supervisory Board had its remuneration reviewed by an independent consultant. At the proposal of the Supervisory Board and the Executive Board, developed based on the findings of this review, the Annual Shareholders' Meeting on April 27, 2012, resolved the following changes to the remuneration regulations:

The fixed portion of the remuneration was increased to reflect the higher requirements now placed on members of the Supervisory Board, whose work to fulfill their responsibilities does not necessarily increase or decrease in line with the company's economic performance. The variable portion was reduced and now relates to a longer period of analysis, namely net income per share for the past fiscal year and the two previous fiscal years. The variable component is thus clearly geared towards sustainable development of the company. Furthermore, there is now greater differentiation in terms of the higher remuneration for special functions. Following the resolution by the Annual Shareholders' Meeting on April 27, 2012, the revised remuneration regulations will be applied for the first time for fiscal 2012.

In addition to their remuneration, the members of the Supervisory Board are also paid attendance fees and their expenses are reimbursed. The resolution by the Annual Shareholders' Meeting on April 27, 2012, also increased the attendance fee. The D&O insurance policy also covers members of the Supervisory Board. As recommended by the German Corporate Governance Code, their deductible also complies with the requirements of Section 93 (2) Sentence 3 *AktG* that only apply directly to the Executive Board.

In the past year there were no consultant agreements or other service or work agreements between the company and members of the Supervisory Board or related parties.

The remuneration of individual Supervisory Board members in 2012 as provided for under these arrangements is shown in the following table. In comparison to the regulations applicable prior to those adopted by the Annual Shareholders' Meeting in April 2012, the remuneration for an ordinary member of the Supervisory Board (excluding meeting-attendance fees and reimbursement of expenses) decreased by 18.3%.

Remuneration of the Supervisory Board

	Remuneration components			
	2012		2011	
in € thousands	Fixed[1]	Variable	Fixed[1]	Variable
Prof. Dr.-Ing. Wolfgang Reitzle	231	113	83	105
Werner Bischoff[2]	116	56	65	79
Michael Deister[2]	118	56	64	79
Dr. Gunter Dunkel	79	38	42	53
Hans Fischl[2]	118	56	65	79
Dr. Jürgen Geißinger	79	38	42	53
Prof. Dr.-Ing. E.h. Hans-Olaf Henkel	79	38	42	53
Michael Iglhaut[2]	118	56	45	54
Jörg Köhlinger[2]	79	38	45	53
Prof. Dr. Klaus Mangold	79	38	42	53
Hartmut Meine[2]	118	56	66	79
Dirk Nordmann[2]	79	38	45	53
Artur Otto[2]	79	38	45	53
Klaus Rosenfeld	119	56	64	79
Georg F. W. Schaeffler	119	56	63	79
Maria-Elisabeth Schaeffler	79	38	42	53
Jörg Schönfelder[2]	79	38	45	53
Dr. Bernd W. Voss	194	94	84	105
Prof. KR Ing. Siegfried Wolf	78	38	42	53
Erwin Wörle[2]	79	38	44	53
Total	**2,119**	**1,017**	**1,075**	**1,321**

[1] Including meeting-attendance fees.
[2] These employee representatives have declared that their board remuneration is transferred to the Hans Böckler Foundation in accordance with the guidelines issued by the German Federation of Trade Unions.

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Structure of the Corporation

Our organizational structure ensures a high degree of flexibility and speedy coordination of operating business.

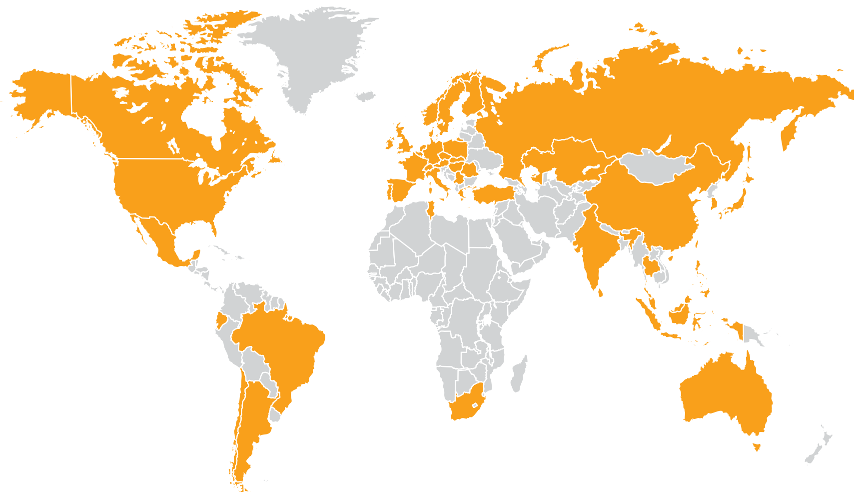
In addition to its parent company Continental AG, a stock corporation under German law, the Continental Corporation comprises 443 companies around the world, including minority holdings. Around 170,000 employees at 291 locations in 46 countries work to offer our customers the best possible products and solutions to their problems every single day.

The Continental Corporation is divided into the Automotive Group and the Rubber Group, which contribute 60% and 40% of total sales respectively. They comprise five divisions with 28 business units. The divisions and business units are classified according to products, product groups and certain regions. The divisions and business units bear full responsibility for their business, including their results. This organizational structure ensures a high degree of flexibility and speedy coordination of operating business across countries and companies. It enables us to respond to technological changes and market developments rapidly and provides the basis for optimal deployment of our economic resources.

Continental AG's Executive Board has overall responsibility for corporate management. The divisions are each represented by a member of the Executive Board. The central units, except for Corporate Purchasing, are represented by the Chief Executive Officer (Chairman of the Executive Board), the Chief Financial Officer and the Chief Human Resources Officer. The central units assume the cross-divisional functions necessary for corporate management, including Finance and Controlling, Law and Compliance, Corporate Social Responsibility, Environment and Quality Management in particular.

As a result, our organization ensures that Continental's central management areas are coordinated with its operating activities. On the one hand, this enables us to react flexibly and quickly to market conditions and the requirements of our global customers. On the other hand, it ensures that the overall success of the Continental Corporation is achieved in the interests of sustainable value creation.

Continental Corporation: 291 locations in 46 countries



Structure of the Continental Corporation

Automotive Group			Rubber Group	
Sales: €19.5 billion Employees: 98,619			Sales: €13.3 billion Employees: 70,734	
Chassis&Safety	Powertrain	Interior	Tires	ContiTech
Sales: €7.1 billion Employees: 34,517	Sales: €6.1 billion Employees: 31,028	Sales: €6.4 billion Employees: 33,074	Sales: €9.7 billion Employees: 42,524	Sales: €3.7 billion Employees: 28,210

Automotive Group:

- The Chassis & Safety division develops and produces intelligent systems for an automotive future in which life is protected even better and injuries are avoided.
- The Powertrain division integrates innovative and efficient system solutions for the powertrain of today and of the future for vehicles of all categories.
- The Interior division offers solutions for information management in order to network drivers and passengers with their own and other vehicles, the environment and mobile devices.

Rubber Group:

- The Tire division's product range has the right tires for every application – from passenger cars through trucks, buses and construction site vehicles to industrial vehicles, bicycles and motorcycles.
- The ContiTech division develops products made from rubber and plastic – products that are individually customized for a wide range of industries.

Corporate Strategy

The aim of our strategy is to ensure the future viability of Continental and to create sustainable value for all our stakeholders.

As an international automotive and industrial supplier, Continental is operating in an increasingly more volatile and complex market environment, which is characterized by high competitive, innovative and cost pressure. A crucial factor in our future success is being able to react quickly in the event of a significant downturn in demand and to unleash powerful momentum in the event of a rapid recovery. Our suppliers and customers are equally susceptible to the uncertainties entailed by these developments. A strategy that promotes a high degree of flexibility is therefore needed for the entire industry.

Industrial and social factors

The following global industrial megatrends determine our strategy and business activities:

- The “safety” megatrend, which is the vision of accident-free driving: The need for safety is constantly increasing as traffic volumes rise.
- The “information” megatrend, which is the vision of vehicles linked at all times: The necessity and the need to share information between driver, vehicle and surroundings are growing all the time.
- The “environment” megatrend, which is the vision of using resources efficiently and emissions-free driving: Fossil fuels are becoming ever scarcer and legislative emissions targets keep getting tougher.
- The “affordable vehicles” megatrend, which is the vision of providing access to mobility for all: This fundamental requirement for shaping one’s way of life must not become a privilege for the few, it must remain affordable for everyone.

The industrial trends are closely interlinked. They derive from the major social developments. These include challenges such as the accelerating growth in the world’s population combined with demographic change, the globalization of social, economic and political ties, the pursuit of a higher standard of living and rising urbanization.

Seven strategic dimensions for our future viability

Our contribution towards solving these challenges can be seen in the implementation of seven strategic dimensions that complement each other. Together, they steer the company towards the sustainable creation of value added, and they interact to make Continental viable for the future.

1. Value creation – enhancing the value of the corporation on a long-term basis

The elementary basis for our strategic goals is to increase the value of the corporation for all our stakeholders in an ongoing manner and to secure our future viability.

Three action areas are key to us in this respect: Innovation, efficiency and productivity improvement, as well as strong, profitable growth on the emerging markets.

We promote efficiency with the Continental Business System (CBS) and our Quality First program. With Quality First we define a uniform understanding of quality, thereby laying the foundation for the global standardization of central quality processes. Applying the comprehensive CBS approach, we can gear our processes in all parts of the company towards the principles of lean management, in order to respond even better to customer requirements. The goal is to make workflows more flexible, smoother and easier for all involved. In an environment such as this, innovations that are the basis for future growth can be planned. We are increasingly relying on decentralized responsibility for growth in emerging markets. To achieve this we are adapting our global form of cooperation to the prevalent local conditions on an ongoing basis.

The manner of our day-to-day cooperation plays a critical role in our success in all areas. Our initiative to develop our corporate culture therefore specifically and comprehensively promotes a working climate based on values and characterized by trust and mutual respect. This way, we give our employees more scope and make greater use of the potential afforded by networking our collective intelligence.

Competitive locations support our efforts to grow strongly and profitably. This is where we will continue to expand production. The interactions of our focus on global growth, innovation, efficiency and productivity allow us to grow with the rising requirements of our customers. Furthermore, this lets us compensate for any cost increases in commodities and human resources as well as negative inflation factors. Our cost discipline extends to all stages in the value chain.

By 2015, we want to raise our return on capital employed (ROCE) to 20%.

2. Regional sales balance – globally balanced sales distribution

Our business roots lie in Germany. We have a traditionally strong presence and a strong customer base on the European markets. The other markets of the world offer us substantially more potential for growth.

In order to balance out our business model it is therefore our goal to reduce dependence on the European markets by more actively leveraging the growth prospects in the emerging markets of Asia and on the American continent. As a result, we will also be less prone to economic fluctuations in individual regions of the world.

Our specific targets are to increase the share of sales on the Asian markets to more than 30% over time and to maintain a share of sales on the North and South American markets of at least 25%.

3. Top market position – among the three leading suppliers in all relevant markets

In terms of customer focus, quality and market share, we want to rank and remain among the world's leading suppliers. We offer innovative technologies for all our customers in the automotive sector and other branches of industry. Our product range enables peak performance in energy and fuel savings, in safety, and in the networking of vehicles. We also deliver pioneering solutions for the tire markets and for products made from rubber and plastics. Our range of services is both broad and scalable – with sophisticated components, modules and systems for all our customers in both established and new key industries.

With a predominant share of their products, all divisions of the Automotive Group and ContiTech count among the leading suppliers, as measured in terms of sales on the relevant markets. Around half of the portfolio of our three automotive divisions is dedicated to the 20 fastest growing product segments. In the tire business, we rank fourth in the world and will expand our capacity considerably in the coming years.

4. In the market for the market – high degree of localization

In our business units we develop, market and produce, wherever it makes sense, in the markets for the respective markets. Thanks to our globally networked development and production, Continental has a comprehensive presence – both on the economically highly advanced and technologically leading markets and on the high-growth future markets such as those of the BRIC nations. The successful connection between our competences and the characteristics of the respective sales markets can be seen in the solutions and products that are found in high-quality automobiles, affordable vehicles and tailored industry applications alike.

Working under their own responsibility, all business units optimize the share of locally generated sales and locally developed applications. This is how we selectively identify and develop growth areas.

Our goal is to develop, market and produce a high share of our applications and solutions for customer orders locally in the relevant markets. An exception to this is tires. Here we have a proven blend of centralized development in conjunction with local production in order to benefit from the different levels of momentum in the various regions.

5. Balanced customer portfolio – balance between automotive and other industries

We intend to increasingly protect ourselves against the fluctuations of the automotive markets. To achieve this we are striving for a balanced distribution of sales between automotive manufacturers on the one hand and industrial clients and consumers on the other. We have a stable footing for this with our two pillars – the Automotive Group and the Rubber Group. Today, the share of sales to vehicle manufacturers is still around 72%.

We are pursuing three strategic directions in this context:

- We are investing selectively in additional production capacity for the tire business, which has much more to do with the number of kilometers driven by owners and far less to do with the vehicle production.

- We are increasing sales with industrial clients both organically and through acquisitions. ContiTech's growth plays a particularly important part in this.

- We are expanding automotive replacement business, the aftermarket, with customer-specific solutions and products.

Our goal here is to increase our share of sales with industrial clients and consumers to somewhere around 40% by 2020.

6. Technological balance – combination of established solutions and pioneering technologies

The technological equilibrium of our product portfolio is of fundamental importance to ensuring our future viability. Innovations firstly increase our competence in established business activities. They also offer the opportunity to tap different and, above all, new sales areas. We invest selectively in the development of new products, systems and technologies.

Our extensive research and development activities allow us to set new trends and standards in high-growth markets or segments, and to lay the foundations for a strong market position early on. On the established core markets we ensure that our position as one of the leading product and system suppliers keeps on developing to ensure long-term customer satisfaction. We actively control and structure our product portfolio so that we are represented and competitive in all phases of the respective product life cycles.

7. Great people in an inspiring culture

People are inspired by people, not by organizations. Sustainable success and future viability are rooted in our culture of values and the contributions of each individual employee. As a result of our many acquisitions (around 70 in roughly the past ten years alone) and our growth, the number of our employees has more than doubled. They do not have the same traditions or backgrounds. But they all share our four fundamental values: Trust, Passion To Win, Freedom To Act, and For One Another.

These four values define our interactions every day. They allow us to use our necessary, collective intelligence more quickly and more effectively.

By working in networks, regardless of organizational or hierarchical interfaces, we want to get to better solutions more efficiently, and to pick up on trends and market changes more quickly. This way we can help pave their way as pioneers. The values of Trust and For One Another are essential in this. Without giving and earning trust, the necessary sharing of knowledge and value-enhancing cooperation cannot happen.

We are among the world's leading technology companies, because we develop our employees' social skills as well as their technical ones. Both are needed to create sustainable value from our strategy. With comprehensive training and qualification programs, we maintain an inspiring, high-performance culture in an international environment, and we strive for a good work-life balance. Thus, we are pursuing the goal of being one of the top employers in our relevant markets.

Research and Development

Our extensive research and development activities enable us to identify trends in our markets at an early stage, to act on them and to shape them.

Continental invests a great deal of effort in the areas of research and development (R&D) so as to ensure the company's long-term competitiveness and innovativeness.

R&D activities form basis of a localized value chain
Acting locally along the entire value chain – from R&D through purchasing and production down to sales – is a key element of our corporate strategy. In accordance with this objective, we maintain research and development centers across the globe. This allows us to fulfill the different requirements of the respective sales markets with solutions and products for use in high-quality automobiles, affordable vehicles and customized industrial applications.

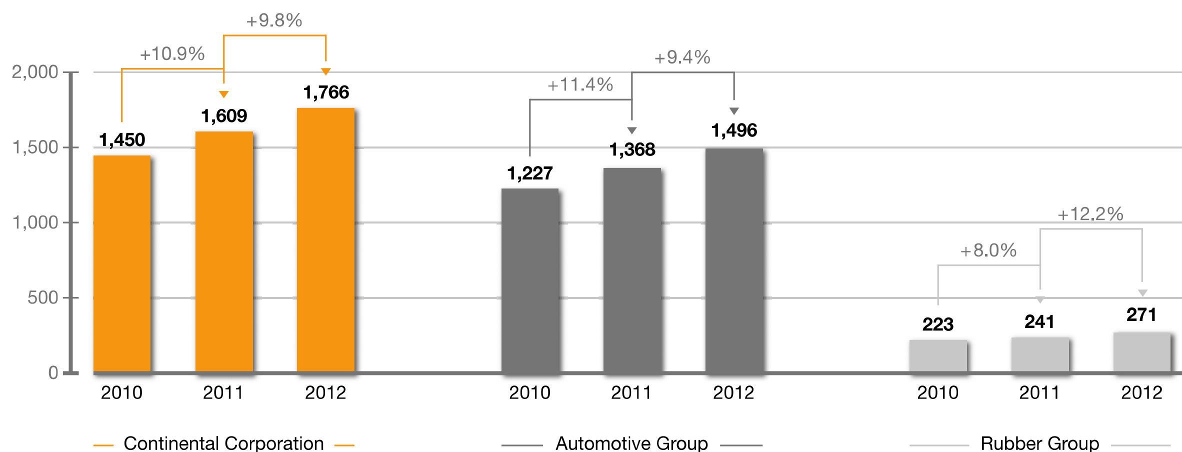
The Automotive divisions and ContiTech pursue the goal of developing and producing a high proportion of the applications and solutions for customer orders locally in the relevant markets. For the Tire division, it has proven successful to develop centrally and produce locally.

R&D expenditure continuously increased
In the year under review, expenditure for R&D climbed by €157.5 million year-on-year to €1,766.2 million, representing an increase of 9.8%. In light of its strategic importance, Continental has maintained a consistently high level of R&D expenditure over the past fiscal years.

Today's innovations for tomorrow's industry standards – thinking in lifecycles
Our R&D work is the basis for keeping our product portfolio innovative and competitive in the long term. We are working today to ensure that tomorrow the standard products for mature and saturated markets are supplemented and improved with new applications that promise growth. This also enables us to set new standards in young, high-growth markets and to take a leading position here at an early stage.

Future requirements for vehicles will continue to be determined by the megatrends in the automotive industry: safety, the environment and information

R&D expenditure (in € millions)



management. All of this must also remain affordable so that mobility is financially available to everyone. We know how to manage the complexity of this development and are continuously developing technologies in line with the megatrends to ensure our long-term survival on the market. Our innovations thus act as a barometer of our future potential, since it is only our ability to develop new technologies to series production stage that guarantees our future as a leading international automotive supplier.

Mobility of the future: automated driving

The development of products, modules and systems for automated driving is, alongside electromobility, one of the central topics of our long-term technology strategy. We are convinced that automated driving will be a key element of future mobility, as human error is a factor in 75% of all accidents. Vehicle automation will lead to a significant decrease in the number of road traffic casualties. It also allows drivers to use their time in the car in other ways and therefore more efficiently. At the same time, automated driving takes the demographic development into account, as it provides for safe individual mobility for older drivers.

There are already more than 1,300 research and development employees working on the foundations of automated driving – driver assistance systems such as adaptive cruise control and emergency brake assist. These systems warn, support and relieve the driver with sophisticated technology for monitoring the vehicle's surroundings using cameras, infrared or radar. They can recognize pedestrians or obstacles and cause the car to brake automatically.

Our path to automated driving comprises three milestones:

- Partially automated driving by 2016: Partial automation has already begun. Vehicles can already see, steer and brake using various assistance programs. From 2016, partially automated systems may be assisting drivers in stop-and-go situations at low speeds of up to 30 km/h on highways and guiding vehicles safely through construction sites. But drivers will not be relieved of their responsibility to constantly pay attention to what is happening on the road.

- Highly automated driving from 2020: In addition to covering faster speeds on highways, high automation will allow drivers to use this time for other activities, although they must be able to take control of the vehicle at all times.

- Fully automated driving from 2025: With full automation the driver no longer has to oversee the vehicle, but can instead pass over complete control of it to the system, at least for a certain length of time. Possible uses for this include automated parking at airports or train stations.

In the year under review, we became the first automotive supplier to be granted a test license for automated driving on public roads in the U.S. state of Nevada. Our test vehicle has covered more than 24,000 kilometers here.

Group-wide project: Electromobility

Although the euphoria surrounding electromobility calmed down somewhat in 2012, we expect it to be marketable in the long term. A significant global reduction in CO_2 emissions, and hence in fuel consumption, of between 20% and 35% by 2020 is required. Electrification of the powertrain will play a key role in achieving this. It will still take us a great deal of effort, development and time to further reduce the costs of the necessary systems, but for Continental this represents an investment in the future. The issue of electrification will become a competitive factor in the medium term, driven by legal requirements as well as by customers' wishes. Our wealth of experience in developing and producing the core technologies will be crucial when e-mobility reaches large unit numbers. It is therefore important to start participating on the market at an early stage.

Combustion engines will continue to dominate until 2020. After this, an increasingly important role will be played by hybrid systems with both combustion engines and electric motors and by all-electric vehicles – particularly in growth markets.

We have constructed a demonstration electric car containing products from all divisions. More than 40 projects are currently being completed across the different divisions. We are thereby demonstrating our major strength: that very few companies can match us

when it comes to the extensive expertise we can draw upon and the broad product range we offer.

The battery is one of the main key components for e-mobility. To support vehicle manufacturers in introducing electric drive systems with state-of-the-art, lithium-ion based battery technology, we have established a jointly controlled company, SK Continental E-motion, together with SK Innovation Co., Ltd., Seoul, South Korea. The joint venture will draw on the leading technological expertise of the parent groups: SK Innovation will contribute its in-depth knowledge of the development of battery cells and separators, while Continental has extensive experience in battery electronics and complete battery systems as well as their integration in the vehicle.

New technology for tire tests

There are many individual steps between the customer's desire for a tire that optimally fulfills all of the requirements and the finished product – from the technical specifications to initial hypotheses and simulations, from the particular mix of materials to initial prototypes and a large number of tests. One of the most important properties of tires is their response when braking, as tires have a major impact on the actual braking distance of a vehicle. For this reason, braking tests on different road surfaces and in different weather conditions play an important role.

With the start-up of our new automated indoor braking analyzer (AIBA), we have taken a major step forward in tire test technology. In a fully automated process in the AIBA, an unmanned test vehicle is accelerated to speeds of up to 120 km/h and then braked on interchangeable road surfaces with standardized track surfacing. Tests can be conducted for both wet and dry road conditions. The facility also has a separate low-temperature hall for testing on ice using conventional methods. Continental is now the first company able to perform tests at its own site all year round, irrespective of the weather conditions. When the facility is fully operational, it will have a capacity of around 100,000 individual braking procedures a year. The tests are carried out on interchangeable, hydraulically powered road surfaces, with the temperature throughout the hall precisely regulated to the specified values. In addition to increased precision and flexibility, we can now perform tests at more than double the capacity.

Innovative rubber and plastics technology from ContiTech

As a result of the strong momentum on the Chinese market, ContiTech has increasingly established research and development departments in China in recent years. The aim is to meet the requirements of Chinese customers even more individually and above all quickly – an important factor for this market. For example, the Vibration Control business unit has set up an R&D team at the Changshu location. In early May 2012, work was also begun on the plant premises for the construction of an R&D center that was then inaugurated at the beginning of 2013.

The Benecke-Kaliko Group business unit has set up a new laboratory in Zhangjiagang, China, that allows for quick tests such as inspections of raw materials and purchased parts to be performed directly on site. The laboratory is just one of four departments of the new technology center, which also include material and product group development, application engineering and surface development. Corresponding structures have been established in line with this. For instance, there are now program managers who are allocated to specific customers and act as an interface between the customer and development at the Benecke-Kaliko Group. Their first contacts are the project developers, who manage the processes across the different departments.

Divisions and Business Units

Our five divisions and 28 business units stand for innovative prowess, an all-round customer focus, and uncompromising quality.

Chassis & Safety Division

- The Chassis & Safety division develops and produces intelligent systems for an automotive future in which life is protected even better and injuries are avoided.

- The division's sales increased by 8.3% in 2012 to €7.1 billion.

All our core competence is bundled in the areas of driving safety and driving dynamics. Thanks to more than a century of experience in the automotive industry, we are capable of integrating active safety, such as braking and driver assistance systems, sensors and chassis components, and passive safety such as airbag electronics that, from individual components to networked systems, serve one purpose only – to increase driving safety.

- Active safety systems, like electronic brake and driver assistance systems, warn of imminent dangers and intervene to assist with steering, braking and suspension control.

- Passive safety systems, such as airbags and pedestrian protection, provide the best possible protection in the event of an accident.

Our vision is a networked vehicle that acts and reacts to relieve the driver and alleviate critical traffic situations. Together, we call this innovative and integrated safety concept that combines active and passive life-saving driving safety elements ContiGuard®. We are confident that, thanks to innovative technologies, accident-free driving will be possible in the future – for all vehicle categories and in all markets in the world.

Chassis & Safety has 78 locations in 20 countries. Its roughly 34,500 employees generated sales of €7.1 billion in 2012. The division consists of five business units:

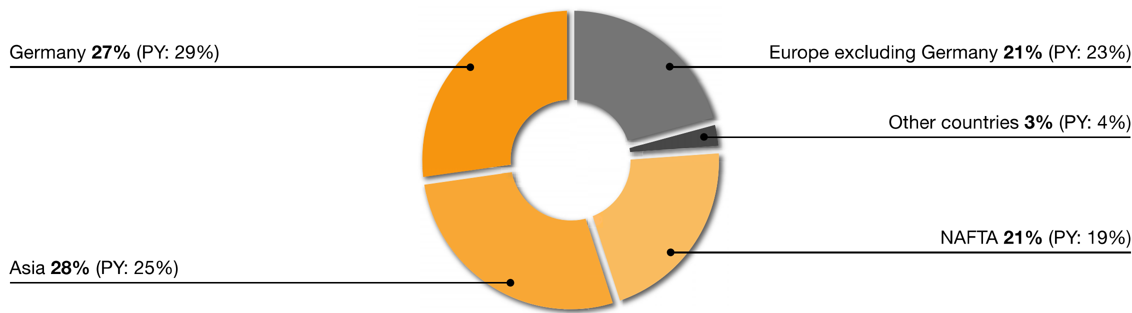
- Electronic Brake Systems (EBS): EBS develops and produces sophisticated and scalable electronic braking systems and software solutions to ensure vehicle stability and increase driving comfort for all vehicle types. Examples include anti-lock braking systems (ABS) – including for motorcycles – and electronic stability control (ESC).

- Hydraulic Brake Systems (HBS): The HBS business unit is constantly developing and producing new solutions for classic brake technology and actuation units. Products range from disk brakes, hand brakes, parking brakes and drum brakes to electric vacuum pumps, brake boosters and brake hoses.

- Passive Safety & Sensorics (PSS): In this new business unit, we have combined passive safety expertise (airbag electronics) with sensor expertise. This enables us to offer our customers a systems approach that can respond to individual requirements worldwide. With our sensors, we provide solutions for various applications including steering, chassis and brake systems and battery monitoring. Wheel speed sensors as well as engine and transmission speed sensors round off our portfolio.

- Advanced Driver Assistance Systems (ADAS): This business unit, which is also new, concentrates its activities on driver assistance systems and the introduction of innovative technologies on the market. Driver assistance systems operate using environment sensors – cameras, infrared, or radar – in the background and ensure maximum safety. As soon as a danger is recognized, they take action to assist the driver, from activating a warning signal to intervening directly in the driving process. They play a vital role in avoiding accidents. The stereo camera is a new camera concept we have developed that allows for better recognition of pedestrians in particular. In addition, the stereo camera also offers the possibility of implementing new solutions such as vehicle environment detection and road condition recognition.

Chassis & Safety Division: Sales by region



- Chassis Components (CHS): This business unit develops and produces electronic and electromechanical components, systems and solutions for active chassis technology. Active air suspension systems, smart suspension and active damping technology provide enhanced driving safety, driving comfort and driving pleasure.

Our growth prospects

Opportunities for volume growth can arise from a number of factors, such as:

- greater use of driver assistance systems due to rising awareness of safety and energy efficiency among the population,
- our growth in NAFTA and the Asian markets and our expanding local presence,
- more stringent legislation worldwide and the new assessment system presented for the European New Car Assessment Programme (Euro NCAP).

The Chassis & Safety division is excellently prepared for the future in existing markets with innovative products and new developments. This is due to stronger market penetration, higher installation rates for ABS, ESC, sensors and passive safety, and increasing use of driver assistance systems in most vehicle categories. We are benefiting in particular from the favorable environment: The growth market of Asia and international legislation with regard to the use of ABS, ESC, and airbags are paving the way for further growth. Forward-looking driver assistance systems are increasingly being included in the test and assessment reports that are central to receiving five stars in the Euro NCAP rating.

We see good opportunities in all markets and regions for a profitable development with the functions of our ContiGuard® safety system. Under the heading of “Safety for Everyone”, we are taking advantage of the opportunity to provide our scalable technologies for all vehicle classes, on all platforms and all markets.

We are actively seizing on issues such as the environment and electromobility – for example by reducing the weight of components and developing solutions for energy recovery when braking. Both aspects will in future be combined in the compact electro-hydraulic brake system MK C1.

Powertrain Division

- In the Powertrain division, we integrate innovative and efficient system solutions for the powertrain of today and of the future for vehicles of all categories.
- The division's sales increased by 5.0% in 2012 to €6.1 billion.

Our products not only make driving more environmentally compatible, they also enhance comfort and driving pleasure. Starting with the concept of clean power, we offer our customers a comprehensive portfolio of gasoline and diesel systems including sensors, actuators and tailor-made electronics, through to fuel supply systems, engine management and transmission control units, down to systems and components for hybrid and electric drives.

Our modular clean power approach includes solutions both for further optimizing the combustion engine and for increasing energy efficiency across all current and future drive systems for all vehicle categories. Clean power also covers innovative technologies to make the advancing hybridization and electrification ready for the market and, last but not least, emissions-reducing solutions for exhaust gas aftertreatment.

The Powertrain division has 70 locations in 21 countries. In the year under review, its roughly 31,000 employees generated sales of €6.1 billion. The division is divided into five business units:

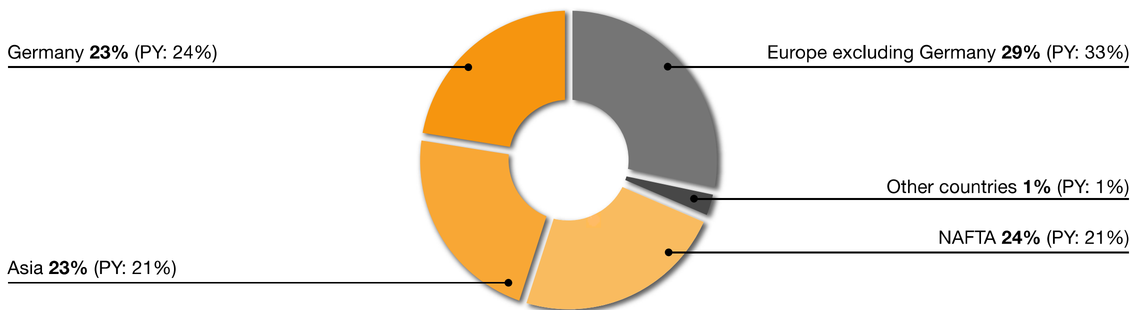
- Engine Systems: This business unit has extensive expertise in the development and production of engine management systems. These include component and system solutions for gasoline and diesel engines, control units for engine management in commercial vehicles, as well as technologies for turbochargers and exhaust gas aftertreatment.
- Transmission: The Transmission business unit specializes in control electronics for automatic transmissions for all classes and applications. The product portfolio extends from stand-alone external and add-on control units to mechatronics fully integrated into the transmission – including sensors and electric or hydraulic actuators. The applications optimize driving comfort, save fuel and reduce emissions.
- Hybrid Electric Vehicle: This business unit has developed a comprehensive product portfolio for drive electrification with which hybrid and electric vehicles are possible in various performance classes. The high degree of maturity of these technologies for saving fuel and therefore reducing pollutants has been demonstrated by volume production for various automotive manufacturers after a development period of just a few years.
- Sensors & Actuators: Using intelligent sensor technology and actuators interacting with engine management systems, this business unit works on solutions designed to satisfy current and anticipated emission standards and to reduce CO_2 emissions in all classes of vehicle.
- Fuel Supply: This business unit develops and produces all technologies relevant to fuel management. Its range of products includes fuel feed units, fuel-level sensors, fuel pumps, valves and electronics for on-demand control.

Our growth prospects
We utilize our systems expertise for new applications:

- We help to conserve resources and actively pursue the corresponding megatrends.
- We are working to propel vehicles even more efficiently.

In the interests of reducing CO_2 emissions and in response to stricter emissions legislation and the need to use crude oil reserves sparingly, greater significance is being attached to combining different drive solutions. In addition, the customers want a vehicle that consumes as little fuel as possible. We are therefore dedicated to the goal of effectively increasing the efficiency of conventional combustion engines in the short term and driving forwards the advancing electrification of the powertrain for the mass market in the medium to long term. Thanks to our general systems expertise, we feel that the Powertrain division has good growth prospects. Our solutions can be selected and combined based on the vehicle category and the respective requirements profile, such as the combining of gasoline direct injection with exhaust gas turbocharging for high-efficiency gasoline engines, the

Powertrain Division: Sales by region



further reduction of fuel consumption, diesel engines with precise and rapid piezo technology for further emissions reduction and innovative technologies for hybrid vehicles or all-electric vehicles.

For instance, in 2012 our innovative Power Net System was awarded the "Gelber Engel" mobility prize by the German motoring association ADAC. This "e-booster" can be used to organize start-stop systems more efficiently and conveniently.

With the new turbocharger for gasoline engines, we have successfully expanded our product portfolio – as proven by the extremely positive response to the award-winning 1.0-liter EcoBoost gasoline engine from Ford, which was judged "International Engine of the Year 2012" in the period under review.

At the beginning of 2013, SK Continental E-motion, the new company established jointly by SK Innovation and Continental, laid the foundations for the joint development, production and marketing of lithium-ion batteries. Access to the extensive expertise of both companies provides the necessary basis for a strong market position in a key technology for future mobility.

We also see growth opportunities in electronics, thanks to the increasing requirements for engine and transmission control units. The 48V on-board power supply technology for increased efficiency of micro-hybrids including recuperation ability has further potential. We also anticipate further strong growth in mechanical components, such as our turbocharger for supercharged gasoline engines. An increasingly significant role is also played by exhaust gas aftertreatment and the commercial vehicle technology segment in general.

Our strengths lie in the major trends of the automotive industry. It is a question of making vehicles increasingly efficient and enhancing driving comfort. We believe that the focus on our core competences is substantiated by the fact that Powertrain's profitability has improved steadily over recent years. Powertrain sees major sales opportunities in the fast-growing BRIC markets (Brazil, Russia, India and China) and in North America.

Interior Division

- The Interior division offers solutions for information management within vehicles to enhance ride comfort and safety.
- The division's sales increased by 5.3% in 2012 to €6.4 billion.

In the Interior division, we develop and produce components and systems to optimize the use of information in vehicles. In an age in which people are increasingly networked with each other, solutions have to be found that facilitate safe networking even when driving. This means that information has to be filtered, prioritized, further processed and presented in a comprehensible manner. A crucial factor for using this information is the interface between the vehicle and people. The aim is to make all the necessary information available to the driver at the right time and to present it in such a way that it can be comprehended quickly, thus enabling the driver to adapt optimally to current driving demands. Our solutions are therefore developed around people and their needs in order to network drivers and passengers with their own and other vehicles, the environment and mobile devices. Our vision is "Always On", which means that we see the networked vehicle of the future as a partner that assists drivers and passengers.

Interior maintains a presence at 97 locations in 25 countries. With some 33,000 employees, the division achieved sales of €6.4 billion in fiscal 2012. It comprises four business units:

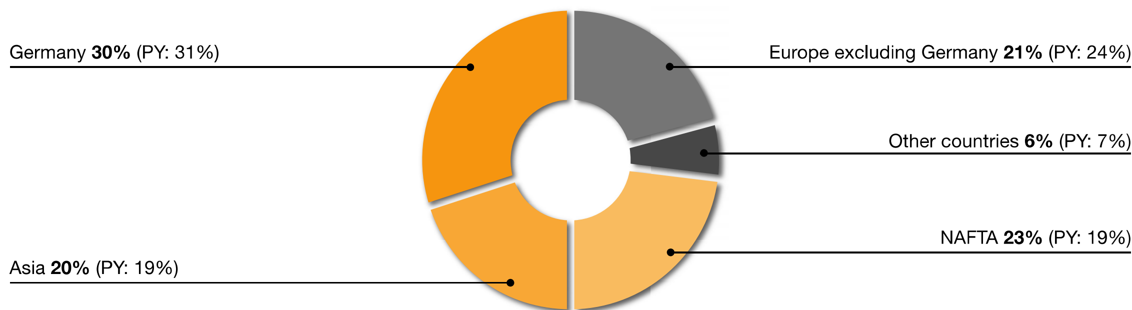
- Instrumentation & Driver HMI: The work of this business unit focuses on display and control concepts to provide the driver and all passengers with the best possible information via reliable and multifunctional instruments, displays and control elements that are easy to read in all driving situations.
- Infotainment & Connectivity: This business unit represents a broad product portfolio that covers the networking of the vehicle with the outside world and the integration of mobile devices into the vehicle, such as radios or comprehensive multimedia systems with Internet access and touchscreen operation, hands-free phoning and telematics units.
- Body & Security: This business unit develops and produces electronic systems for vehicle access, for rendering key-interlock systems reliable and for ensuring that safety and comfort functions are available. These include, for example, central body control units, components for immobilizers, comfort locking systems, seat systems, outside lighting control units, keyless access control and start systems, solutions for tire information systems and antenna modules.
- Commercial Vehicles & Aftermarket: This unit bundles commercial vehicle and retail activities to cater for the specific requirements of these market segments. A global network of sales and service companies ensures proximity to customers at the local level. The business unit offers electronic products, systems and services for commercial and special vehicles, a broad selection of products for repair shops, and replacement parts for the independent aftermarket, non-affiliated workshops, and original equipment services when a series has been discontinued by the vehicle manufacturer.

Our growth prospects
Four key developments offer us the potential for success:

- The rising global demand for user-friendly networking technologies and services in all classes of vehicles.
- Compliance with the ever-more stringent safety standards for automotive equipment.
- The growing demand for solutions for creating affordable vehicles.
- The constantly expanding range of functions in the vehicle interior.

Thanks to our options for adapting the existing product portfolio to vehicles of all classes across platforms, we are anticipating growth in the affordable car segment, particularly on the Asian markets.

Interior Division: Sales by region



New legislation proposals in Europe (including Russia), the U.S.A. and Brazil are opening up further growth potential in the area of telematics, for example with electronic emergency call systems, traffic management technologies and intelligent anti-theft systems which allow stolen vehicles to be tracked using satellite technology. In addition, customer requirements for telematics systems used in commercial vehicles and electric cars are increasing. Overall, we stand to benefit from the trend towards integration of the Internet and other infotainment functions.

The field of tire pressure monitoring systems will experience further growth as a result of new regulations regarding the installation of these systems in new vehicles in the European Union, Japan and South Korea.

We also expect strong growth in displays for the automotive industry. Our research and development staff work continuously on solutions that reduce the burden on the driver and contribute to greater comfort when driving. These include, for example, freely programmable instrument clusters, integrated adaptive control concepts, head-up displays and 3D displays.

A new production plant was opened in Jinan in the Chinese province of Shandong in May 2011, where several major commercial vehicle and construction machinery manufacturers are based. It is our first production facility in China that specializes in the manufacture of electronics for commercial vehicles and the aftermarket with an annual capacity of around 800,000 instrument clusters for commercial vehicles. It is planned that production will expand into the areas of comfort and chassis electronics in 2013.

Electromobility will also be a major long-term growth driver. Using Interior technologies, the driving range of electric cars can be optimized. The smart networking of vehicles, energy providers and mobile devices will provide drivers of future electric vehicles with solutions for minimizing the range risk.

Tire Division

- From racing bicycles to port cranes: The Tire division has the right tires for every vehicle.

- The division's sales increased by 10.9% in 2012 to €9.7 billion.

Continental tires stand for excellent transmission of forces, exceptionally reliable tracking in all weather conditions and high cost effectiveness. We offer the right tires for every application – from passenger cars through trucks, buses and construction site vehicles to industrial vehicles, bicycles and motorcycles. The division produces tires under the brand names of Continental, Uniroyal (except in NAFTA, Colombia and Peru), Semperit, General Tire, Viking, Gislaved, Euzkadi, Sime Tyres, Barum, Mabor and Matador. To supplement Continental's new tire range, we have included a hot-retreaded and a cold-retreaded line of truck tires under the ContiRe and ContiTread brands.

The division has 69 locations in 39 countries. In 2012 its approximately 42,500 employees generated sales of €9.7 billion. The division is divided into six business units:

- Passenger and Light Truck Tire Original Equipment: This business unit represents global business with automobile manufacturers. Continental brand products are marketed worldwide and General Tire brand products in NAFTA. We also supply OEMs with our runflat systems that, in the event of a puncture, make it possible to continue driving to the next repair shop.

Passenger and Light Truck Tire Replacement Business is divided into the following business units:

- EMEA (Europe, Middle East and Africa)
- The Americas (North, Central and South America)
- APAC (Asia and Pacific region)

In addition to the premium Continental brand and budget Barum brand, which are sold all over the world, it markets the regional brands Uniroyal, Semperit, General Tire, Viking, Gislaved, Euzkadi, Sime Tyres, Mabor and Matador. Our retail tire companies with more than 2,500 specialty tire outlets and franchises are also assigned to EMEA Replacement Business.

- Commercial Vehicle Tires: The core competence of the Commercial Vehicle Tires business unit is economic mobility in the fields of goods, people, construction and services. The products are characterized by high mileage performance, reliable transmission of forces, and superb fuel efficiency. The business unit offers truck and bus tires and specialized tires for various applications and service requirements.

- Two-Wheel Tires: The product portfolio of this business unit ranges from bicycle tires (city, trekking, mountain bike and high-performance racing tires) to motorcycle tires (scooter, enduro and high-performance road tires). The tires are sold as original equipment and as replacement tires.

Distribution of sales
29% of sales in the Tire division relates to business with vehicle manufacturers, and 71% relates to the replacement business.

Our growth prospects
Above all, we meet rising and changing demand with:

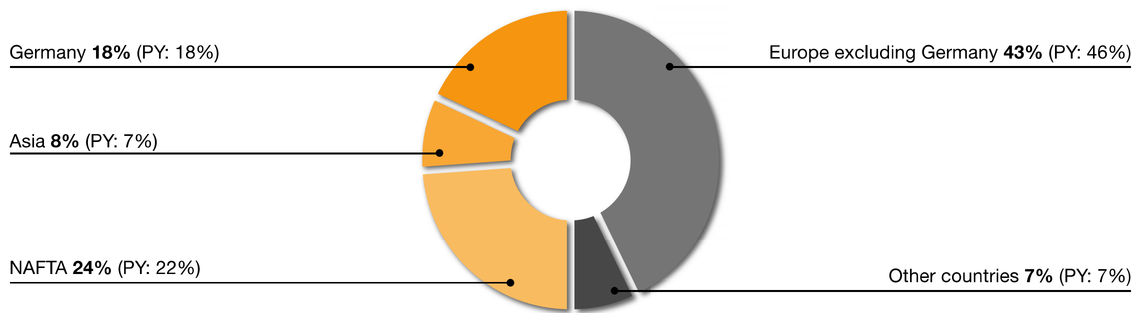
- innovative developments in high-performance tires, tires with reduced rolling resistance and comprehensive service solutions for our customers,

- the expansion of production with a focus on the growth regions (primarily BRIC).

We also intend to achieve further growth in the attractive ultra-high-performance segment (UHP) in particular in the coming years. The ContiPremiumContact™ 5 summer tires and the ContiWinterContact™ TS 850 winter tires launched in 2012 were greeted very positively by vehicle manufacturers and test magazines and completely satisfied our expectations with regard to volume sales.

For commercial vehicle customers, Conti360° Fleet Services, which is based on modular services, was expanded further in the EMEA region in 2012. The range of vehicle fleet services is now offered in 13 European countries via an extensive network of around 2,500 accredited Conti360° partners.

Tire Division: Sales by region



In the APAC region, a new commercial vehicle tire solution – the HYBRID product line – was successfully launched on the market in 2012 in response to the expansion of highway networks in the countries of South-East Asia. In the Americas region, Continental Commercial Vehicle Tires substantially increased its ContiLifeCycle business in 2012. Licensed retreading partners were added in the U.S.A. as well as in Mexico, Chile, Ecuador and Brazil. This expansion will continue in 2013.

The Tire division has developed a Vision 2025 on the basis of which global production, sales and service activities are to be balanced more evenly. The €1 billion special investment program launched in 2011 for the construction of new plants is benefiting all of the division's business units. Furthermore, we are also investing around €350 million per year in the expansion of our existing plants in order to adjust our global capacity to demand in the different regions in the long term.

The new passenger and light truck tire plant in Kaluga, Russia, located 170 kilometers southwest of Moscow, will start production in the fourth quarter of 2013. At the plant in Puchov, Slovakia, the Commercial Vehicle Tires unit also launched an investment program in 2012 that will ensure a significant increase in production capacity starting from the end of 2013. In addition, the set-up of a combined retreading and tire recycling plant in Hanover-Stöcken, Germany, was begun in the period under review. This ContiLifeCycle plant will begin production in the third quarter of 2013.

The plant in Hefei, China, that began operations in May 2011, was expanded with a bicycle tire production line in 2012. At our tire plant in Modipuram, India, we began setting up production of radial tires for trucks in 2012. This will be launched at the end of 2013, together with production of passenger and light truck tires.

We are also continuing the expansion of our production capacity in the U.S.A. The largest investment here is our new tire plant in Sumter, South Carolina, U.S.A., where production will begin in 2014.

The new automated indoor braking analyzer (AIBA), a globally unique tire testing system inaugurated early in November at the Contidrom testing grounds near Hanover, Germany, also supports this growth strategy. With this system, up to 100,000 passenger and light truck, 4x4 and van tires a year can now be tested with impressive precision and reproducibility regardless of the weather. The tires can be tested at variable temperatures on a range of road surfaces that can be hydraulically exchanged. All this is possible without requiring a driver at the wheel.

ContiTech Division

- The ContiTech division develops products made from rubber and plastic – products that are individually customized for a wide range of industries.
- The division's sales increased by 3.6% in 2012 to €3.7 billion.

Engineering green value technologies – for us, this basic idea underlies a strong corporate commitment and technological expertise in the development and use of innovative products. With its high-tech products and systems, ContiTech is a global development partner and original equipment supplier to the automotive industry, the mining, printing and commercial vehicle industries, as well as the machinery and plant construction, aviation and aerospace, and railway engineering industries. Our products have many uses – they are flexible and thermally stable, formable, abrasion-resistant, reversible and eco-friendly. They lend themselves well to combinations with other materials such as glass, metal and ceramics. We make a substantial contribution to sustainable mobility, energy production and efficiency, health and environmental protection.

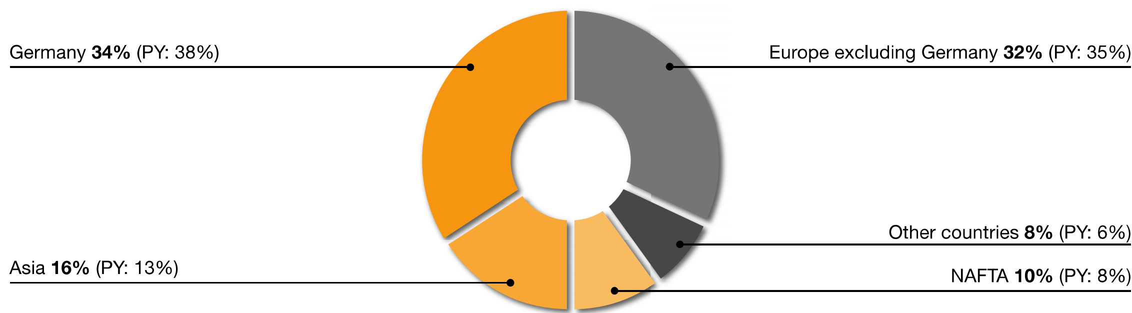
The division has 91 locations in 27 countries. In 2012 its approximately 28,200 employees generated sales of €3.7 billion. ContiTech is divided into eight business units:

- Air Spring Systems: This business unit is a leading development partner and manufacturer for self-adjusting air suspension systems. Its components and complete systems are installed in light and heavy trucks, buses, trailers and rail vehicles for vibration and level control, or in stationary machines as foundation supports. The unit also offers air actuators for industrial pneumatic systems and rubber compensators used in machine and plant engineering.
- Benecke-Kaliko Group: The Benecke-Kaliko Group manufactures high-quality surface materials for vehicle interiors and works in a close development partnership with vehicle manufacturers. Its products are used on instrument panels, door trim panels, center consoles and seats.
- Compounding Technology: The Compounding Technology business unit develops and supplies rubber compounds for internal and external customers. It is reported as an independent unit for the first time in 2012 due to its growing strategic importance.
- Conveyor Belt Group: The Conveyor Belt Group manufactures steel cord and textile conveyor belts, special-purpose conveyor belts, conveyor belt accessories and service materials. ContiTech's conveyor belts are built for energy optimization and can transport materials both more cost effectively and with a lower environmental impact than conventional conveyor belts.
- Elastomer Coatings: This business unit develops and manufactures innovative printing blankets, coated fabrics and diaphragm materials as well as three-dimensionally engineered products like gas holder diaphragms and flexible tanks.
- Fluid Technology: Fluid Technology, the largest business unit, develops and makes a broad range of hoses, hose lines and line systems for the automotive and other industries.
- Power Transmission Group: As a development partner and manufacturer of drive belts and matched components through to complete belt drive systems, the Power Transmission Group offers products and systems used in the automotive industry and in machine and plant construction.
- Vibration Control: The Vibration Control business unit is a specialist in noise and vibration control and in sealing technology. It develops and produces a wide variety of elastomer and rubber-metal products such as vibration absorbers, mounting systems, precision molded parts, blow molded parts and plastic components for a broad range of applications.

Distribution of sales

53% of sales in the ContiTech division relates to business with vehicle manufacturers, and 47% relates to business with other industries and in the replacement market.

ContiTech Division: Sales by region



Our growth prospects

For us, key areas of further growth lie:

- in future-oriented industries and in international markets,
- in the continuing expansion of our presence in China, India, Brazil, NAFTA and Eastern Europe.

We see particular growth opportunities in the BRIC countries. We have therefore made a number of strategic investments and acquisitions of companies that have a positive impact on our business.

In Russia, one of the fastest-growing automotive markets, the Fluid Technology business unit is laying the foundations to participate in this success with a new plant in Kaluga, where air-conditioning and power steering lines will be produced starting in late 2013.

In China, the Benecke-Kaliko Group is constructing a new production facility at the existing location in Zhangjiagang for the highly in-demand TPO foils for the automotive industry.

We expect further business in South America and NAFTA as a result of the positive development in this region and our stronger presence there. The purchase of the automotive air conditioning business of the U.S. Parker Hannifin Corporation will contribute to this. As a result of this purchase, we now have another two plants in Mexico. The Air Spring Systems business unit has also expanded its capacity in South America to enable it to supply more air springs for commercial vehicles. In the U.S.A., the Fluid Technology business unit has invested in a competence center for the fast-growing plastic lines market. In Brazil, a new plant is also being constructed for hoses to be used in oil production and gas extraction. By doubling the production capacity of the Power Transmission Group's plant in Brazil, ContiTech can benefit from the increasing requirements of the local automotive industry.

We expect stronger growth in Eastern Europe thanks to further increases in our production capacity. For instance, the Fluid Technology business unit has begun operations at a Serbian plant for hose lines for the automotive industry. In Nyíregyháza, Hungary, a plant for rubber compounds has started production, strengthening our presence in Eastern Europe and supplying our own plants in the region with high-quality compounds.

The Vibration Control business unit has gained additional momentum from the acquisition of the molded brake components business of Freudenberg Sealing Technologies in the Americas, Europe and Asia. The plant in France will open up new business opportunities within the French automotive industry and its supplier industry. In addition, the acquisition of a British conveyor belt specialist will open up new markets for our Conveyor Belt Group.

Corporate Management

Our operative and financial objectives center around the sustainable enhancement of the value of the corporation.

Value management

Our operative and financial objectives center around the sustainable enhancement of the value of each individual business unit. This goal is achieved by generating a positive return on the capital employed in each respective business unit. At the same time, this return must always exceed the equity and debt financing costs of acquiring the operating capital. It is also crucial that the absolute contribution to value increases year for year. On the one hand, this can be achieved by increasing the return on capital employed (with the costs of capital remaining constant) or by lowering the costs of capital (while maintaining the return on capital employed) over time. The performance indicators used are operating earnings before interest and taxes (EBIT), capital employed and the weighted average cost of capital (WACC), which is calculated on a weighted basis in proportion to equity and debt capital.

- Operating earnings before interest and taxes are calculated from the ongoing sales process. The figure is the net total of sales and costs plus income from at-equity accounted investees but before interest and taxes. Consolidated EBIT amounted to €3.1 billion in 2012.

- Capital employed is the funds used by the company to generate its sales. At Continental, this figure is calculated as the average of operating assets as of the end of the quarterly reporting periods. In 2012, average operating assets amounted to €17.0 billion.

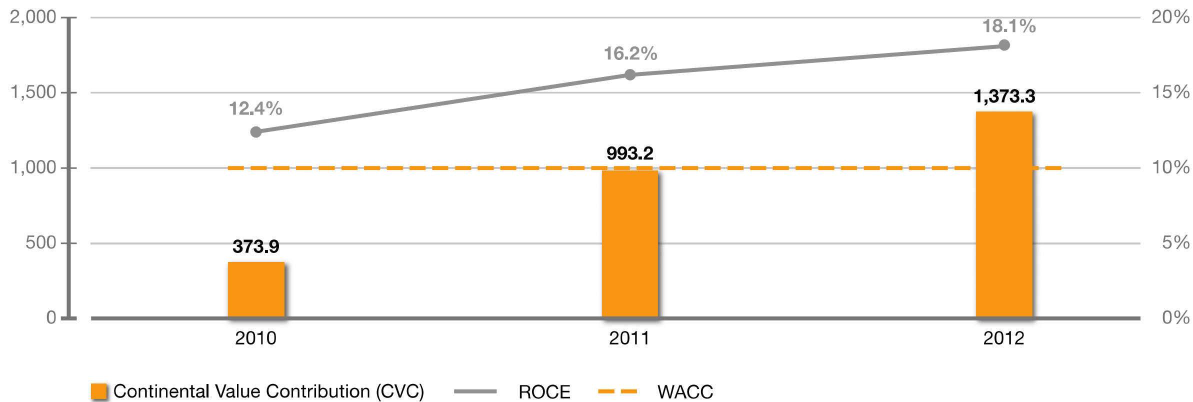
- The ratio between these two calculated values constitutes the return on capital employed (ROCE). Comparing a figure from the statement of comprehensive income (EBIT) with one from the statement of financial position (capital employed) produces a holistic analysis. We solve the problem of the different periods of analysis by calculating the capital employed as an average figure over the ends of quarterly reporting periods. ROCE amounted to 18.1% in 2012, thus rising for the third year in a row.

- The weighted average cost of capital (WACC) is calculated to determine the cost of financing the capital employed. Equity costs are based on the return from a risk-free alternative investment plus a market risk premium, taking into account Continental's specific risk. Borrowing costs are calculated based on Continental's weighted debt capital cost rate. Based on a multi-year average, the weighted average cost of capital for our company is about 10%.

- Value is added only if the return on capital employed (ROCE) exceeds the weighted average cost of capital (WACC). We call this value added, produced by subtracting WACC from ROCE multiplied by average operating assets, the Continental Value Contribution (CVC). By increasing ROCE by 1.9 percentage points, value added was also created in 2012.

- In the long term, enterprise value by our definition will increase only if the CVC shows positive growth from year to year. The CVC rose for the third year in a row in 2012.

Development of key figures (in € millions)



Financing strategy

Our financing strategy allows value-adding growth while at the same time complying with an equity and liabilities structure adequate for the risks and rewards of our business.

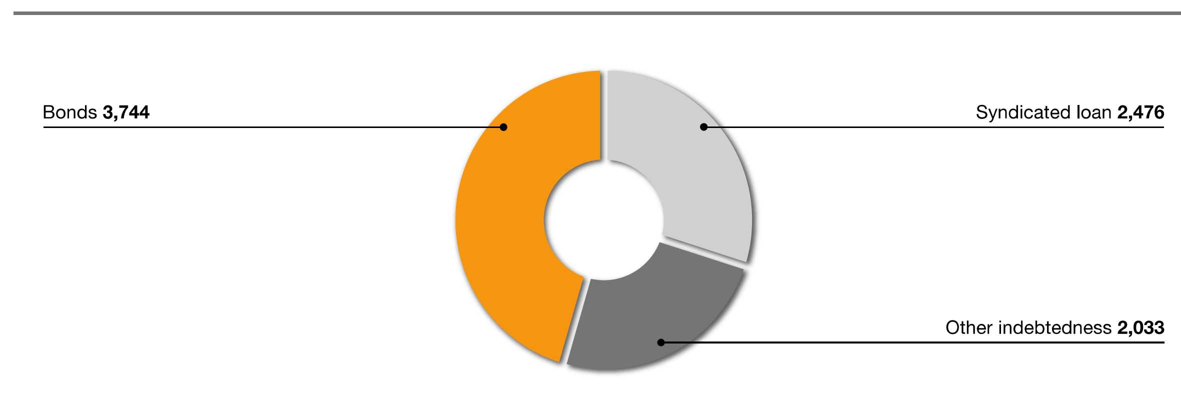
The central function Finance & Treasury coordinates the provision of the necessary financial framework to finance corporate growth and secure the long-term existence of the company. The long-term average for the company's annual investment needs is currently between 5% and 6% of sales. However, this figure will again rise slightly above this corridor in 2013 primarily on account of the implementation of investment projects in the Rubber Group. Our goal is to ensure that ongoing investment requirements are financed from the operating cash flow. Other investment projects should be financed from a balanced mix of equity and debt to achieve a constant stabilization or improvement in the corporation's costs of capital in the respective capital market environment. Owing above all to our current non-investment grade rating, the relatively high volatility of our markets – in particular that of the business with the car manufacturers – as well as the effects of the lingering debt crisis in Europe on the financial markets, we pursue the goal of a gearing ratio below 60%. If justified by extraordinary financing grounds or special market circumstances, we can rise above this corridor. If possible, the equity ratio should exceed 30%. In the past fiscal year, the gearing ratio was 58.2% and the equity ratio 33.5%.

Our indebtedness should be a balanced mix of liabilities to banks and other sources of financing on the capital market. For short-term financing in particular, we seek to use a wide range of financing instruments. As of the end of 2012, this mix consisted of syndicated loan (30%), bonds (45%), other bank liabilities (7%) and other indebtedness (18%) based on the gross indebtedness of €8.3 billion. We do not see any reason to make significant changes in this mix at this time.

The corporation generally strives for liquidity as of the end of reporting periods of between €0.9 billion and €1.5 billion, which is supplemented by unutilized bank commitments in order to cover liquidity requirements at all times. These requirements fluctuate during a calendar year owing in particular to the seasonal nature of some business areas. In addition, the amount of liquidity requirements is also influenced by corporate growth. Cash and cash equivalents amounted to €2.4 billion as at December 31, 2012. There were also committed and unutilized lines of credit of €2.8 billion.

Gross indebtedness amounted to €8.3 billion as at December 31, 2012. The biggest financing instrument is a syndicated loan with a volume of €4.6 billion (as at December 31, 2012). This syndicated loan was renegotiated at the beginning of 2013 and now consists of a fixed loan for a nominal amount of €1.5 billion and a revolving line of credit for €3.0 billion.

Gross indebtedness (€8,253 million)



The fixed loan matures in January 2016 and the revolving line of credit in January 2018. The previous revolving line of credit had been utilized in the amount of €345.9 million as at December 31, 2012. Around 45% of gross indebtedness is financed on the capital market in the form of bonds maturing between July 2015 and September 2019. The interest coupons vary between 4.5% and 8.5%. Repayment amounts on maturity are €625 million each in 2016 and 2018, €750 million in 2015, €1.0 billion in 2017 and $950 million in 2019. All five bonds grant the issuers the right to early repayment under certain conditions. Due to the continued significant operating improvement that is also increasingly reflected in the balance sheet ratios, and in view of the higher interest payments on the bonds, early refinancing of these financial instruments which are comparatively expensive for Continental has not been ruled out, depending on the development of the financial markets.

In addition to the forms of financing mentioned above, there were also bilateral lines of credit with various banks in the amount of €1,215.3 million as at December 31, 2012. In addition to finance leases, Continental's other corporate financing instruments currently include sales of receivables and a commercial paper program.

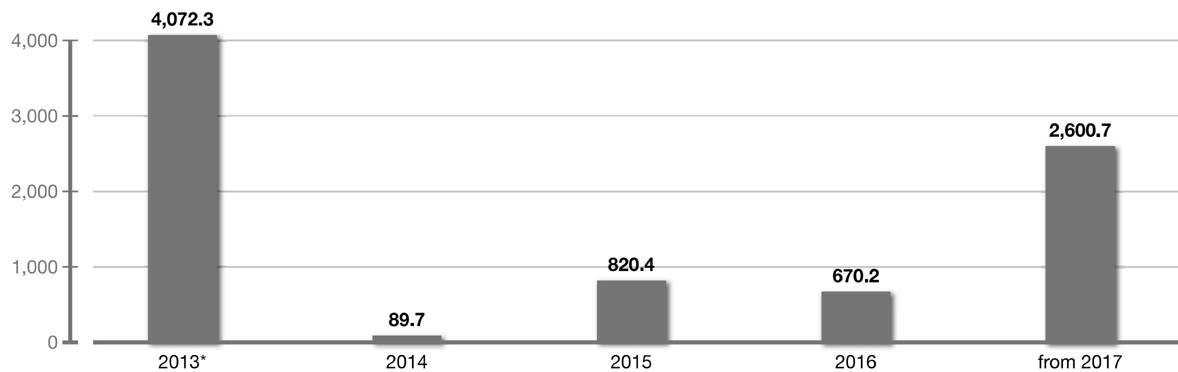
Maturity profile

Continental always strives for a balanced maturity profile of its liabilities in order to be able to repay the amounts due each year from free cash flow as far as possible. Other than short-term maturities (which are usually rolled on to the next year), only a very low amount of additional indebtedness is due in 2013. Following the signing of the syndicated loan at the end of January 2013, maturities in 2014 amount to €89.7 million. The first of the five bonds will mature in July 2015.

Rating goal on stand-alone basis achieved

Continental is rated by the two major rating agencies Moody's Investors Service and Standard & Poor's. Owing to the very good operating performance described later in this report (see Earnings, Financial and Net Assets Position), the process of improving the corporation's rating – which had been ongoing for some time – continued in 2012, resulting in our credit rating being upgraded by both agencies. We have been assigned a positive outlook by both rating organizations.

Maturities of gross indebtedness (€8,253 million)



*Includes the maturity of the nominal amount of €2,483.0 million drawn down under the syndicated loan as at December 31, 2012. With the new agreement concluded in January 2013 for the syndicated loan, the previous syndicated loan will be repaid prematurely at the beginning of February 2013.

Despite the parent-subsidiary relationship between Continental and its major shareholder, on which the rating agencies base their assessment of Continental's creditworthiness, part of Continental's financing strategy is to return to a rating in the investment grade category – the higher credit category characterized by low default rates – in the medium term. The minimum target ratings are BBB and Baa2.

Continental's ratings

	2012	2011
Moody's		
Long term	Ba2	Ba3
Short term	no prime	no prime
Outlook	positive	stable
Standard & Poor's		
Long term	BB-	B+
Short term	B	B
Outlook	positive	positive

Sustainability

Responsible action geared towards sustainability opens up our company to change and boosts its future potential.

Sustainable management and social responsibility form part of Continental's fundamental values. Both elements strengthen the culture of solidarity while also contributing to future-oriented, values-based corporate governance.

We are firmly convinced that responsible action geared towards sustainability opens up our company to change and boosts its future potential. We view sustainable management as a strategic task for the company's development. It is vital that sustainability goals and measures create value, as this is the only way for them to be accepted within the company and credibly represented externally. And only in this way can they contribute to further stabilization of the company and its potential for development and future viability.

It is therefore an element of our corporate strategy and governance to combine financial and non-financial performance indicators and to make a positive contribution for our employees, the environment and society through holistic management.

GRI report published
In the year under review, we prepared our first GRI (Global Reporting Initiative) report aimed at investors, analysts, customers, employees, suppliers, politicians and public authorities and all other stakeholders who are associated with our company and want to know the values and principles on which our actions are based. The report creates transparency and shows not only our wide range of activities and achievements but also those areas in which there is still a certain need for improvement. In reviewing the current situation and compiling the contents of the report, we used the GRI guidelines as a framework. This initiative was launched in the 1990s with the aim of establishing a globally recognized framework to enhance the comparability and credibility of the achievements reported by the companies and organizations concerned.

In our opinion, our reporting fulfills the medium GRI application level (B), although we cannot yet provide complete information on some of the indicators required for this level. We aim to achieve GRI application level A in the medium term. We view the associated systematic procedure as a good guideline for continuously improving our company in line with the growing requirements of our customers, our employees and society.

Responsibility for our employees
Our responsibility for our employees results from the long-term focus of our HR policy. Our HR management focuses on supporting and qualifying our employees, whose expertise and motivation play a key role in enabling us to achieve our targets. Other key aspects include targeted recruitment of qualified new employees and initiatives to keep older employees fit and healthy.

Responsibility for the environment
At the heart of our environment policy is a systematic approach to the reduction of environmental impact, while improving economic and social conditions. Specifically, Continental practices its responsibility for protecting the environment in the clearly defined ESH policy (environment, security, safety and health) around the world. The principles of environmental protection are used as a guideline and yardstick for all activities of the company which are of relevance to the environment.

Social responsibility
As a corporation on the global market, Continental has a decentralized organization with strong local responsibility. This applies not only to the business units, but also to the social commitment of our corporation and its employees worldwide. We can point to a wide variety of examples of our social commitment in the areas of social welfare and traffic safety, education and science, and sports.

Employees

Our employees are the key factor that enables Continental to succeed in bringing outstanding products and solutions onto the market, remaining competitive through innovations and organizing business processes efficiently.

Around the world, some 170,000 employees contribute to the company's success each day. Responsibility for our employees is therefore a central element of our actions. We respect the countries and cultures in which we operate. Everyone at Continental enjoys equal opportunity, regardless of age, gender, race, religion, nationality or sexual orientation.

HR strategy based on corporate strategy and values

In the year under review, we made further developments in our HR strategy to equip our company for the growing requirements of the future labor market. More than ever, the task of attracting, retaining and developing talented employees will be a central prerequisite for Continental to operate successfully in a global environment.

We also continued to develop our corporate culture, which is characterized by our four values: Trust, Passion to Win, Freedom to Act and For One Another. Only in an inspiring environment can we successfully create optimal development opportunities for our employees. The fine progress we have achieved here externally, too, is demonstrated by our good positions in various employer rankings, in which we improved significantly in the year under review.

HR marketing – Continental as a top employer

To attract, retain and develop the most talented employees and to increase our presence on the labor markets, we expanded our HR marketing activities further in the year under review. Our goal here is to position ourselves as an attractive employer with outstanding development opportunities for graduates, young professionals and professionals. In addition, our HR marketing activities are also aimed at school pupils and students, with the aim of bringing their attention to training programs and internships at Continental. Our university strategy is geared towards the relevant faculties of respected national and international universities offering technical education.

- We organize external and internal events that we hold at career fairs, universities and at our locations in order to inform school pupils and students in particular about the wide range of career opportunities at Continental.

- We use major international events sponsored by Continental, such as UEFA EURO 2012™ in the year under review, to strengthen our contact with the students we would like to take on as employees through our own activities, for instance public viewing events at selected universities.

- With the student retention program ProMotion, we ensure that we stay in contact with interns and work placement students who impressed us with an excellent performance and whom we would therefore like to take on as direct entrants or trainees after they complete their studies.

- Our proven Ambassador Program with around 600 managers and experts worldwide and roughly 300 events at universities and schools each year contributes to intensive dialog with selected students and school pupils.

- Continental has programs with the German universities RWTH Aachen and TU Darmstadt to promote particularly high-achieving students. Selected prospective electrical engineers at Óbuda University in Budapest, Hungary, are also promoted by Continental in the final year of their studies.

- Through our involvement in the Formula Student contest, we aim to establish intensive contact with students from various fields of study relating to the automobile. We support almost 40 teams of engineering students at international universities around the world who are given the challenge of designing, engineering and constructing a prototype for a racecar over a period of one year. Continental also plays an active role as an official sponsor for a number of international Formula Student competitions, including the races in China, Germany, the U.S.A., and Hungary.

Structure of the workforce	Dec. 31, 2012	Dec. 31, 2011
Total number of employees	169,639	163,788
thereof permanent staff	158,971	149,817
outside Germany	112,488	104,624
in Germany	46,483	45,193
Trainees*	1,987	1,884
Female employees in %*	21.7	21.8
Average years of service to the company*	14.6	14.6
Average age of employees* in years	42.1	41.9

*In Germany.

We maintain a social media presence

It is important to our HR work to communicate with younger employees in particular in a way that takes account of their individual lifestyles as far as possible. For this reason, we significantly increased our social media activities in the year under review. Continental has a presence on several different social networks, giving users the opportunity to keep up to date with the latest developments at the company.

However, the focus of our activities is still the career website, which is accompanied by key dialog-based platforms. Here, all target groups can find out about opportunities in the corporation and can apply directly for one of the positions advertised. And with the newly-released free Continental career app, smartphone owners now have online access to our job postings. We also continue to present our company at career fairs and in job application portals around the world.

We support and develop our staff

Our employees make Continental strong. We expect commitment, determination and loyalty. In return, we promote qualifications, as well as education and training as a matter of course.

In our programs for specific HR development, we take into account the different development levels of the individual employees. New employees with university degrees are welcomed at the Corporate Entry Conference (CEC), where they are given information about processes and structures at Continental. In addition, through our Corporate Entry Program (CEP) these new employees get to know the company at a national or local level, form networks and are given the capacity for self-direction. With our HR development center, we also offer employees guidance in positioning themselves. At national or regional level, junior managers undertake successful measures as part of the Leadership Entry Program (LEP) and the International Management Program (IMP) that prepare them to solve complex problems and strengthen their management skills. Managers at a global level are equipped with additional leadership skills in the Corporate Executive Development Program (CEDP). New senior executives are offered a customized development program in the form of the New Senior Executive Workshops (NSEW).

For our production employees, we offer specific and local training and further education programs worldwide that are designed to improve both product quality and occupational safety.

Targeted global talent management

Strategic talent management at a global level will play a crucial role at Continental. The objective of global talent management is to ensure that at all times we have the right people in positions that are vital to our success in a global context.

We create an environment and open up possibilities that encourage targeted, systematic learning and growing. Talented employees are given plenty of scope to develop their potential in order to prepare them optimally for a wide range of challenges. Accompanying training and individual measures, such as coaching, mentoring and targeted lateral career moves or foreign assignments, are geared towards the employee's individual development requirements and the needs of the business.

To promote intercultural exchange and the exchange of expertise and to gain a supraregional perspective on our international business, we offer our employees an

assignment program, among other measures. In fiscal 2012, a total of around 930 employees worked outside their native countries as part of this program. The trend has been rising for years. Asia is still leading the field regionally, with just under 40% of participants working there. An international mindset, experience of other cultures and the mobility of our employees is playing a growing role in light of the advancing internationalization of Continental.

A global and proactive talent management approach aims to ensure that talented employees are given the same opportunities regardless of the division they belong to and the region they come from.

Appropriate performance-based remuneration and value sharing for all employees

With regard to remuneration, we apply the principle of good pay in line with the market for good performance. In this context, variable remuneration components play an increasingly important role – and not just for the top management. Our goal is to reconcile Continental's value creation and success with appropriate performance-based remuneration.

We therefore offer our employees attractive remuneration systems all around the world:

- Middle and top management throughout the corporation shares in the company's profits by means of annual variable remuneration. The variable component of the executive's salary is based on a scale structure and increases in accordance with his or her position ranking. The bonuses are determined by three parameters: the value created year-on-year by the executive for his or her business unit, the return on capital employed and the attainment of individual goals. In addition, the Executive Board sets a strategic corporate goal for executives.

- There is also an annual consolidated value sharing program for all employees worldwide. In the year under review, Continental employees again received a value sharing bonus, the amount of which depends on the absolute Continental Value Contribution (CVC). A provision of approximately €90 million was set up in the year under review for the value sharing program.

Pension plans becoming increasingly important

Demographic shifts are imposing an increasing burden on state pension systems in many of the markets where Continental operates. Company and private pension plans have thus risen in importance.

Our international pension strategy is focusing on switching from defined benefit to defined contribution plans in order to offer both employees and the company a sustainable and readily understandable pension system.

In many countries, Continental promotes private contributions made by employees by adding corporate subsidies to the money they invest. We also encourage employees to pay into a deferred compensation plan. In Germany the employee relinquishes part of his or her pay, which is then invested by the employer in the company pension plan.

Diversity makes us strong

We understand diversity as meaning variety among people with regard to aspects such as their ethnic and social origins and their religion, gender and age. It is an important source of staff development and creativity and we therefore give it high priority. Diversity is a key factor in our HR management. Around the world, people of different origins work at Continental, using their different ways of looking at things to contribute to finding creative solutions and winning over new markets and customers.

We focus on achieving a good mix of women and men in senior management as well as an increased mixture of diverse nationalities.

- Gender mix: The global proportion of female managers at Continental amounts to 8%. In order to improve that mix, we are striving to attain a 16% share of female executives by 2020. Here, it is not a question of fulfilling a quota for women in management positions, but of creating a broad understanding of the economic and cultural advantages of having an improved gender representation. Gender diversity is about securing young talented staff for future years, getting better product solutions, and last but not least, safeguarding our economic success. Worldwide communication and training programs, as well as the adjustment of our internal processes and

principles, will ultimately benefit both female and male employees.

- Internationality: Around 70% of our employees work outside Germany. Internationality is therefore established practice already. At our global locations, we fulfill regional requirements for HR management as well as the corporation's strategic requirements, so as to ensure that we are attractive as a top employer for the best employees. Furthermore, internationality also arises from the various nationalities of employees working together at individual locations. Here, too, we promote diversity.

It is not only internally that Continental fulfills its global obligation with regard to diversity. The company also shows its commitment to this topic to the outside world. For example, we emphasized this when we signed the "Diversity Charter", an initiative supported by many companies, in Germany in December 2008. This initiative aims to promote the acceptance, appreciation and integration of diversity within the company and is officially supported by the German Chancellor. In countries with high growth potential, such as China, the proportion of women has already increased particularly substantially as a result of a targeted recruitment policy.

We promote compatibility of recreation and work

One key factor for satisfied and high-achieving employees is the compatibility of their work and their private life. We make an active contribution to this with flexible working time options for our employees.

The main measures with regard to compatibility of recreation and work include providing individual contractual solutions for flexible working hours, part-time contracts, job sharing and agreements on working from home, as well as various health programs and child care options. The availability of these agreements and the form they take depend on the applicable laws and customs in Continental's different international locations.

Our Demographics Program

Companies will face considerable challenges in coming years in view of the demographic trend in western industrialized nations. There will be an increase in the number of older employees – especially in our production locations. We expect the number of employees aged between 55 and 65 in our plants in Germany alone to triple between 2005 and 2015.

To address these changes, we have developed a comprehensive concept in the form of our Demographics Program. Our activities focus on four topics:

- workplace design,
- keeping healthy for a longer working life,
- targeted qualification measures,
- motivation for a longer professional career.

In 2012, we also increased the proportion of non-age-dependent production jobs across all locations in Germany from 29% to 35%. This was achieved by means of a number of organizational and technical measures. For example, over 600 employees (mostly engineers) in Germany were given further training in ergonomics.

All of these measures aim to allow our older workers to contribute to their own personal success and the economic success of the company at their usual high performance level.

At the same time, we have steadily increased our training figures in recent years. In a total of 22 training programs and eight dual courses of study at 33 Continental locations, 635 young people in Germany began training as ContiTrainees or ContiBachelors in the year under review. All in all, there are thus more than 1,900 young people completing a dual course of study or training program with Continental.

Based upon the dual education system in Germany we are developing a standardized approach of installing appropriate measures at our worldwide locations to help guarantee that young people receive the most comparable education and training qualifications. At the same time we take into consideration the specific aspects of the local schooling and education system and try to bridge any knowledge gaps through company training programs.

Safety and health take top priority

Safe working procedures and health protection are basic necessities. For this reason, environmental,

work, health, fire and corporate protection form a permanent cornerstone of our corporate culture.

Under the responsibility of our Corporate Safety & Health (S&H) department, which reports directly to the Chief Human Resources Officer, we invest in a working environment that allows for healthy conditions and safety at work in all areas of the company. With its protection standards, which apply across the entire corporation, S&H sets the foundation for safety at work and safe production plants and processes, and reflects our responsibility to our employees. Our goal is: “We go for zero incidents!” Our integrated protection concept therefore aims to avoid incidents of any kind. With regard to health protection, this means avoiding work-related health problems, with regard to work safety, the avoidance of accidents, and for corporate protection and fire safety, uninterrupted operating processes.

A number of measures and programs link S&H with all of our global locations to provide for intensive collaboration. Safety standards at our manufacturing sites undergo constant further development as a result of internal and external audits, certifications and special safety programs. With our health services comprising a range of programs, we aim to promote our employees’ knowledge and personal responsibility in looking after their own physical and mental health while also giving them support whenever it is needed.

The reduction in the number of accidents and accident-related absence attest to the success of our systematic safety work. The figures for the other protection departments also reflect this positive development.

Specific improvements through employee surveys

In “BASICS live”, we have a proven tool for conducting global surveys of our employees. In addition to 45 standard questions for employees throughout the corporation, each division or location can also address other topics that are relevant to it. More than 80% of all employees took part in the most recent survey, which lasted until November 2011.

In 2012, work focused on analyzing the previous year’s survey results and implementing potential improvements. To this end, a total of 8,900 workshops were held in all divisions, generating over 18,000 individual measures. Overall, 40% of the measures formulated were implemented in the fiscal year already and another 45% were initiated.

Focal areas for the many different measures arose in the areas of employee development, communication, departmental/divisional strategy and development of our corporate culture.

We and the individual departments will inform our employees about the implementation of the measures on a regular basis up until the next survey in 2014. The employee magazine “conti intern”, which is published six times a year in twelve languages, is also an important tool in this context. The comments/feedback function introduced in the year under review extends the role of the employee magazine towards that of an interactive corporate blog and helps us to intensify dialog within the organization in all directions.

The results of the “BASICS live” analyses are also incorporated into training courses and workshops that are held to communicate the “BASICS” corporate guidelines. In this way, we ensure that the ongoing development of our corporate culture takes into account the focuses of the employee survey as far as possible.

We keep thinking: Continental Ideas Management

What began back in 1930 as an improvement suggestion system has now developed into Continental Ideas Management (CIM). In 2012 alone, more than 400,000 ideas were submitted worldwide, of which over 80% were put into effect. The locations in Rubi, Spain, and Icheon, South Korea, took the lead globally, with 95% and 100% employee participation respectively and averages of 68 and 53 implemented ideas per employee.

Many small improvements make a big impact overall. The improvements implemented in 2012 led to savings of more than €130 million on a global level. Our CIM thus makes a significant contribution to increasing our corporation’s competitiveness while also attesting to the extremely high level of dedication and individual motivation of our employees. As such, Ideas Management is an example of putting management and value culture into practice at Continental and shows the employees’ strong sense of identification with our company.

Our activities have also been recognized outside the company. In May 2012, Continental's German locations were honored by the German Institute of Economics (Deutsches Institut für Betriebswirtschaft, dib) with third place for "best idea management in the category of automotive suppliers with more than 5,000 employees".

Communication via ConNext – networking without hierarchies

Last year we laid an important foundation to enable us to communicate faster, more directly and across different regions with the introduction of the ConNext business network.

After just a few months, a third of employees worldwide are already involved in the dynamic exchange of knowledge and information and in establishing and updating knowledge databases. The new "social" functions have already seen frequent use in traditional project management, too. Self-commitment of the Executive Board members also includes active participation with their own blogs and status reports through to direct dialog with employees.

ConNext is anchored in our broad cultural development, in which the core values of Trust, Passion To Win, Freedom to Act and For One Another provide guidance.

A global, cross-hierarchical network of over 400 "social media guides" helps colleagues to get started with the new forms of communication and make optimal use of them. The guides develop procedures that are adapted to the specific regions and cultures and implement these through their own personal example and their own improvement projects as well as with presentations and training courses.

This networking of our employees, and also of the different product areas, functions and regions, creates access to new ideas, flexible reaction to internal and external changes, and more direct communication between all parties involved.

The Environment

Twenty years ago, in 1992, we introduced a worldwide environmental management system. Its aim was and is to minimize the use of resources and ensure that our environmental impact is reduced on an ongoing basis.

Our current, highly developed environmental management system is derived from Continental's ESH policy (environment, security, safety and health). This ESH policy is based on nine principles and specifies the environmental protection standards to be observed at all stages of the value chain and of the product life cycles.

Principles of the ESH policy:

- We comply with applicable laws and internal guidelines.
- We contribute significantly with our processes and products to environmental protection, especially to climate protection.
- We save resources by reducing our consumption of energy, water, raw materials and fuels.
- We undertake preventative measures and protect all persons in our company from accidents and work-related illnesses.
- We maintain an emergency management system for the prevention of injury to persons and damage to property or the environment.
- We train, inform and motivate our employees to act in a safe and environmentally conscious manner.
- We involve our contractual partners, suppliers and customers in our ESH activities.
- We communicate openly with the public, authorities and organizations about our plans and activities.
- We constantly check our ESH performance and achieve continuous improvement.

Efficient organization of environmental management

Responsibility for environmental protection goes directly from the CEO via the central units Quality and Environment as well as Corporate Environmental Protection to the environmental officers of the divisions and the environmental managers at the individual locations. Through this lean organizational structure, Continental is able to communicate its strategic goals directly and implement them efficiently. At the same time, the divisional structure for environmental protection provides the necessary freedom for specific requirements in the corporation's various business areas.

The application of the ESH principles is specified in the ESH Management Manual in order to ensure the corporation-wide implementation of ESH policy goals within the company's divisions, production sites and development departments.

Our environmental reporting on this basis is geared towards the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI).

Internal, division-specific audits are used to monitor our environmental goals. In these audits, we record the current status for each division and location and determine the need for action. At the same time, internal audits ensure uniform treatment of the ESH principles within the corporation.

Environmental protection across all stages of the value chain and life cycles

Our environmental management activities cover all stages of the value chain – from our suppliers to our customers. Our responsibility for this extends throughout the entire life cycle of each of our products, starting with the raw materials, through development, production, utilization and recycling:

- Even in the development of our products, we provide for the use of renewable commodities, such as natural rubber and plant oils, in the Rubber Group and recycled metals and plastics in the Automotive Group. This conserves resources and also contributes to climate protection.

- We develop products that lead the way globally in terms of their energy efficiency and conservation of resources in production and particularly during their utilization. We treat this as one of the priorities for all strategic and operational activities.

- As a global company, we ensure that our manufacturing operations involve our suppliers in our environmental protection goals when procuring raw materials and services on international markets. New suppliers are therefore subjected to a detailed analysis that examines environmental aspects such as consumption of energy and resources, environmental and emergency management and operational orderliness and cleanliness before orders are placed. In addition, we motivate our suppliers to obtain similar environmental data from their upstream suppliers. Continental regularly inquires as to the status of the environmental certification of a large majority of the suppliers with which it already has contracts. The supplier data on environmental protection obtained in this way are integrated into a practical and informative assessment system.

- In cooperation with our customers, we ensure that products are utilized for the intended purpose. This includes low-impact use as well as maintenance and care to ensure that products reach their full performance potential and the longest possible useful life.

Environmental impact management using life cycle assessments

In order to determine the environmental impact of our products and continuously reduce this impact, we use life cycle assessments (LCA) to pursue various goals:

- We obtain environmental information about products and product groups.

- We identify opportunities to improve the environmental performance of products at various points throughout their entire life cycle.

- We gather information for engaging in dialog with decision-makers in industry, government, or non-governmental organizations.

- We develop relevant indicators of environmental performance.

- We support product development.

- We support marketing.

- We assist with strategic and operational planning within the company.

The following examples demonstrate the importance of the life cycle assessment throughout the entire life cycle:

- In the case of tires, the highest proportion (roughly 90%) of their environmental impact arises during their utilization phase. This is due to the tire's rolling resistance which needs to be overcome when the car is in motion, thereby consuming energy. By contrast, raw material extraction accounts for less than 10% in the life cycle assessment, and the environmental impact during production is even lower. Transportation between the different life cycle phases amounts to less than 2% of total environmental impact during the product's life cycle.

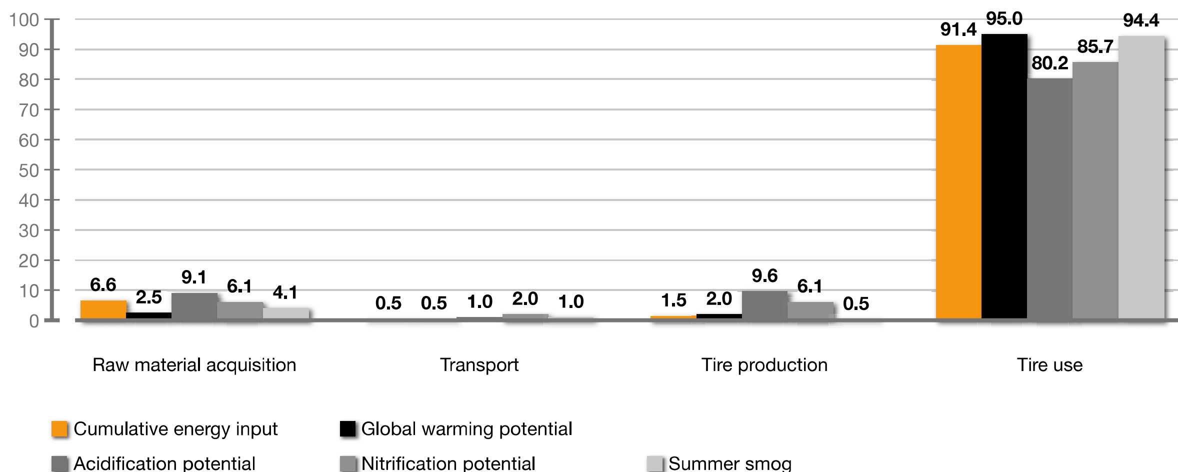
- An examination of the overall vehicle system results in a similar picture as for tires. Scientific studies show that the vast majority of energy consumption – around 80% – takes place during use of the vehicle, whereas only 10% of the total energy required relates to the production process.

All divisions of our company help work towards our goal of making a significant contribution to reducing CO_2 emissions with our products, particularly in their utilization phase. Overall, our mobility-related products and applications currently in series production help reduce CO_2 emissions by approximately 26 g/km. A key role is played here by products such as hybrid and electric motors, piezo common rail injectors, direct injection, downsizing solutions and turbochargers, telematics systems, adaptive cruise control (ACC) and advanced driver assistance systems (ADAS), as well as lightweight design products from ContiTech.

Continuous monitoring of emissions and consumption targets

Several years ago already, we defined corporate environmental targets for our production sites relating to CO_2 emissions, energy and water consumption, and waste production and recycling. These figures are

Life cycle assessment of a car tire (in %)



monitored as part of regular internal and external audits, among other methods, to review the attainment of our targets. Based on these audits, we can determine the need for action and ensure a knowledge transfer within the corporation.

At present, 88% of our locations around the world are ISO 14001 certified. We are continuously at work to reduce the environmental impact of our production facilities.

Our environmental management targets are quantified in environmental protection indicators that show the consumption of resources and emissions per tonne of finished product.

Ambitious environmental goals and indicators

We are pursuing ambitious environmental goals: By 2015, we want to reduce CO_2 emissions from our manufacturing processes by approximately 12% as compared to 2011. As part of our environmental objectives, we are aiming to further reduce our energy and water consumption and the amount of waste generated, with the goal of achieving annual reductions of 3% in each of these areas. We are also aiming for a 2% annual increase in our waste recycling and reuse rate.

We intend to reduce our consumption of raw materials by using more recycled materials. In this way, we indirectly contribute to reducing the consumption of energy and resources in raw material extraction.

First review by an independent third party

In 2012, we had an independent limited assurance review performed for the first time by KPMG AG Wirtschaftsprüfungsgesellschaft on selected climate-related environmental indicators regarding our CO_2 emissions in fiscal 2011. The review did not give rise to any objections. The associated guidelines, systems, processes and internal controls were likewise included in the review.

Better ranking in Carbon Disclosure Project

Since 2009, Continental has participated each year in the Carbon Disclosure Project (CDP), an initiative to improve transparency regarding greenhouse emissions. After being ranked in the upper middle range in the previous year, Continental achieved significantly better results in the year under review. With a score of 82 out of 100, we have succeeded in becoming the only automotive supplier to be included in the Carbon Disclosure Leadership Index (CDLI) of the largest listed companies in Germany, Austria and Switzerland.

Social Responsibility

Our world is constantly changing. So too are the demands facing our company that competes in a global market. Competitiveness is no longer merely a question of growth and profitability, it is also a question of social responsibility and the obligations that this entails. We are convinced that only companies that can reconcile both these aspects can be successful in the long run.

Our social commitment is diverse
We see our social responsibility as a global task that must also be fulfilled locally. Global, because we are an internationally networked corporation working on the international markets, and local in terms of our locally based employees.

We therefore support not only the work of globally active organizations and activities, but also that of regional and local initiatives in particular. Our social commitment is deliberately organized on a decentralized basis and arises from many different activities. Exceptions to this include national projects and challenges and our support in the event of international disasters. The company as a whole fulfills its social responsibility in this area. A primary goal of all the activities of the corporation and its employees is direct, fast and lasting support. This results in a mosaic of activities that is as diverse as our company and its employees. In this way, we are connected not only by our successful day-to-day work, but also by our commitment to social welfare and traffic safety, to education and science and to sport.

Commitment to social welfare and traffic safety
For us, responsibility also means establishing and taking on social commitment – as a corporation via our locations and in connection with private initiatives that are supported by socially-minded employees of our company. Charitable projects, donations and other activities are therefore initiated and supervised as far as possible at the discretion of the decentralized units.

Examples of our social commitment from the year under review include:

- “Prime Time”: A weekly tutoring program in Deer Park, Illinois, U.S.A., carried out with the help of local Continental employees. The Continental employees act as mentors, assisting the pupils with their homework and guiding them in preparing for upcoming tests.
- “Mayibuye” savings cooperative: Continental South Africa provides human and material resources to support a savings and loans club for people who do not have access to South Africa’s regular banking sector.
- For ten years, employees at Continental’s Brazilian plant Varzea Paulista have been providing neighborhood assistance for community projects that promote charitable causes or the education and advancement of children. A similar initiative has also been launched by the employees in Ponta Grossa. The “Amigos Sociais” likewise provide neighborhood help with a variety of projects.
- For five years now, Continental employees in Regensburg, Germany, have supported a local association in the fight against the malicious hereditary disease cystic fibrosis.
- Trainees at our plant in Northeim, Germany, cooperate with a work center for the disabled and a home for the elderly. On the one hand, this helps the local care facilities and, on the other hand, has a positive effect on the trainees’ personal development.

As an automotive supplier, to us social responsibility also means making a social contribution in the fields of mobility and traffic safety:

- Road traffic safety is not just a question of technical equipment, but also requires sufficient awareness on the part of road users. For this reason, Continental held a traffic safety workshop for school pupils in Thailand together with the local police. Young people there start driving at a relatively young age and are thus particularly exposed to the dangers of road traffic.
- In collaboration with “Safe Kids China”, we launched a driving safety program for young people between November 2012 and January 2013. The program, with the motto “Be a responsible young driver”, is intended to raise awareness of traffic safety among young people, promote safe driving behavior and reduce the number of traffic accidents.

Commitment to education and science

Education and science are essential foundations for successful work. Providing good training and fostering the next generation are key factors in securing our company's long-term success.

Continental promotes the integration of young people into the world of work and invests in their training. Moreover, both centrally and at our locations, we engage in an intensive exchange with universities and research facilities and long-term dialog with both high school and higher education students. Here, the opinions of young talent on subjects such as qualifications, working hours and career are particularly important to us. In student surveys conducted each year since 2003, we question around 1,000 students annually on these topics in cooperation with the opinion poll institute TNS Infratest. So far we have conducted nine surveys in Germany, four in Romania and one in China.

The various different activities with which we support students and young professionals in preparing for and starting their professional careers also include, at a broader level, the "Global Engineering Excellence Initiative". In this worldwide initiative, which Continental has supported since 2005, nine top international universities examine the general conditions for training in science and engineering in the era of globalization.

In addition, we also devote much attention to school pupils to offer them an insight into our company and our day-to-day work. We help pupils to develop a clearer idea of their own career aspirations. In April 2012, Continental was visited by 300 children of employees in Hanover and a total of 930 girls and boys throughout Germany for its "Future Day" (also referred to as "Girl's Day" or "Future Day for Girls and Boys" in some regions). The children were given an insight into the work of an automotive supplier and had the opportunity to talk to trainees and students completing the ContiBachelor dual course of study at the Training Center and to find out more about individual products in talks and demonstrations. The entire planning, organization, and implementation of the Future Days were carried out by "YoungConti" – a practice company established independently by our trainees and Bachelor students.

Commitment to sports

Sport creates new networks that help to transcend hierarchies and overcome barriers. For this reason, we get involved in a variety of ways in this area that brings people together around the world.

For years, we have been actively promoting long-term sports projects and programs for our employees and the general public. The following examples from 2012 demonstrate our particular commitment to sport:

- The ContiRunningWeek, a running event held once every two years, saw some 20,000 employees at 93 locations in 20 countries taking part in the year under review. In doing so, they not only looked after their own fitness and strengthened team spirit, but at the same time they also brought in a corporate donation to "Welthungerhilfe", an organization that works to combat global hunger.

- There were also other cases of involvement in sports leading to donations to charitable organizations. In May 2012, a team of Continental employees took part in a marathon in Mississauga, Canada, equipped with shoes which featured soles containing the Continental TRACTION COMPOUND™ technology developed by Continental together with Adidas. At the same time, the marathon runners collected donations for a number of local organizations.

- The winning teams in the ContiTeamCup, an in-house football world championship, donated their prize money to social projects. The women's team from the Mexican location Cuautla donated it for the construction of the "Center for Integral Family Development" that will provide therapy and rehabilitation options. The men's team from Korbach, Germany, supported five social projects in the Hesse region.

Economic Environment

Economic development in selected regions

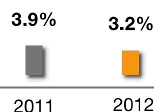
ECONOMIC GROWTH (GDP) IN 2012 VS. PREVIOUS YEAR

Source: IMF – World Economic Outlook 01/2013

CORE ASPECTS OF ECONOMIC DEVELOPMENT

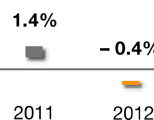
Sources: IMF – World Economic Outlook 01/2013, OECD – Economic Outlook 2012, World Bank 12/2012, Central Banks 12/2012, German Federal Statistical Office 01/2013, Continental

WORLD



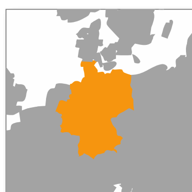
- **Weak growth of advanced economies (+1.3%):** General economic uncertainty – particularly with regard to the economic development in the eurozone – together with intensive fiscal consolidation and weak financial systems with an insufficient supply of credit curb growth.
- **Slower growth in growth regions (+5.1%):** Stricter fiscal policy to limit inflation and credit growth and lower demand from western economies and country-specific factors.

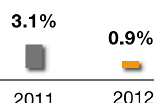
EUROZONE



- **Major uncertainty:** Debt problems of the southern members of the European monetary union and its major banks – particularly in Greece and in Spain, Portugal and Italy – cause decline in economic performance with high degree of uncertainty in the markets.
- **Stabilization of the markets:** Clear signal from the European Central Bank (ECB), with decision in September 2012 to support the euro and buy up an unlimited amount of bonds of distressed countries if necessary.
- **Ongoing euro crisis:** Uncertainties remain with regard to the effects of political solutions attempting to balance the priorities of consolidating budgets and stimulating growth.

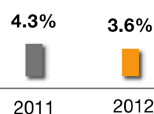
GERMANY





- **Global connections mitigate effects of euro crisis:** Strong global integration of the German economy with countries outside the eurozone makes it less susceptible to cyclical influences.
- **Stable employment:** Unemployment figures barely increased in 2012 as a whole (approx. 2.9 million people); unemployment rate remains constant at 6.8%.
- **Consistently low inflation:** The inflation rate decreased slightly to around 2.0% (2011: 2.3%), albeit with a significant increase in energy costs (+5.7%).

RUSSIA



- **Oil and gas business facilitates growth:** Russia’s growth is driven primarily by oil and gas business.
- **Government takes advantage of capital markets:** Successful placement of large-volume, U.S. dollar denominated government bonds with long terms.
- **Historically low unemployment:** The unemployment rate decreased further to a historically low level of 5.4% (2011: 6.3%).
- **Decreasing inflation:** The inflation rate dropped significantly in 2012 to 5.1% (2011: 8.4%).

U.S.A.

	2011	2012
U.S.A.	1.8%	2.3%

- **Fiscal cliff avoided for now:** Following the elections, the two parties agreed on a transitional solution at the beginning of 2013.
- **Little scope for reducing public debt in the short term:** The budget compromise to avoid a budget freeze (fiscal cliff) allows for hardly any consolidation effects in the short term.
- **Economy driven by consumption:** Economic growth shows clear correlation with consumer spending; negative impact from Hurricane Sandy.

BRAZIL

	2011	2012
Brazil	2.7%	1.0%

- **Growth lower than expected:** Growth fell considerably short of the forecasts of around 3%.
- **Decrease in inflation:** Inflation fell to 5.2% in 2012 as a whole (2011: 6.6%).
- **Key interest rates lowered:** During the year, the central bank decreased key interest rates several times to a historic low of 7.25%.
- **Low unemployment:** The unemployment rate remained at the previous year's level at around 6%.

JAPAN

	2011	2012
Japan	– 0.6%	2.0%

- **Return to growth after earthquake and tsunami:** After overcoming the economic effects of the natural disaster in 2011, the economy grew significantly in the first half of the year, but then saw a decline in the second half.
- **Strong yen curbs growth:** High exchange rate curbed growth in light of the Japanese economy's strong focus on exports.

CHINA

	2011	2012
China	9.3%	7.8%

- **Slight decline in growth:** The previous year's growth rate (+9.3%) was not re-achieved.
- **High savings rate:** Consistently high savings rate of roughly 50% continues to slow domestic private consumption.
- **Key interest rate cuts:** The central bank lowered key interest rates twice in 2012, most recently to 6.0% in July 2012.
- **Decreasing inflation rates:** Inflation fell to a rate of 3.0% (2011: 5.4%).

INDIA

	2011	2012
India	7.9%	4.5%

- **Economic growth lower than in previous years:** The growth rates recorded in the previous years (2010: 10.1%; 2011: 7.9%) were not achieved in 2012; the main reasons were a general decline in demand in the Indian economy and crop failures.
- **Structural reforms have yet to take effect:** Individual reforms came too late in the year and fundamental reforms have yet to be introduced.

Macroeconomic development

With slower growth in global gross domestic product (GDP) of only 3.2% in 2012 (2011: 3.9%), the overall development of the global economy was largely in line with the expectations of the International Monetary Fund (IMF), which we referred to in last year's report on expected developments. In many "advanced" economies, the pace of economic growth slowed further in 2012. Most of the countries referred to by the IMF as "emerging and developing" markets also recorded weaker growth in 2012 than in the previous year. The U.S.A. and Japan performed better in the year under review than had originally been expected, with GDP growth of 2.3% and 2.0% rather than the forecast increases of 1.8% and 1.7% respectively.

Although the Southern European debt crisis continues to dominate economic policy debate, it is not solely responsible for the stagnation in the eurozone. The repercussions of the sharp rise in the oil price in the winter months of January and February 2012 also played a role. Among the emerging and developing markets, a number of economies were not only impacted by lower foreign demand, but structural problems also became more apparent. For instance, the domestic economy in Brazil and China continued to lose momentum, while in India the high budget deficit and the slow pace of structural reforms increasingly impaired growth.

The information on inflation and growth rates reflects the current knowledge at the time this report went to press.

Development of key customer sectors

For Continental as an international automotive and industrial supplier, global business with the manufacturers of passenger and commercial vehicles is the most important market segment, accounting for roughly 72% of revenues. The second-biggest market remains global replacement tire business for passenger and commercial vehicles. Geographically, the most important sales markets are still Europe with 55% and NAFTA with 22%. The share of revenues generated by the corporation in Asia has increased significantly in recent years and was already as high as 18% in 2012.

Vehicle markets

A key factor for our revenues in original equipment is global sales volumes of newly manufactured passenger cars, station wagons and light commercial vehicles weighing less than 6 tons, measured in terms of the worldwide production volume.

Development of new car registrations

Overall, global demand for vehicles developed positively in 2012: A total of 79.3 million new vehicles were registered, up 6% on the previous year's figure of 74.8 million units. Strong growth was recorded again on the U.S. vehicle market (+1.7 million units) as well as in China (+1.0 million units), which moved up to second place behind the U.S.A. in 2012 with a total of 13.2 million newly registered vehicles. In contrast, new registrations in Europe (EU27 + EFTA) declined by 8% to 12.5 million units as a result of the economic crisis. Southern European markets were particularly hard hit, with sales volumes declining by 15% in France and by 23% in both Italy and Spain. The number of new registrations in Germany also decreased, albeit only by 3%, whereas sales volumes in the U.K. were up 5%.

The very high increase in new registration figures in Japan (30%) was chiefly due to the previous year's sales slump resulting from the natural disaster in Fukushima in March 2011 and the subsequent catch-up effect following the rebuilding of production capacity in 2011 and 2012. However, on a quarterly basis the volume of new registrations already returned to normal over the course of 2012.

In addition to China, the other BRIC countries – Brazil, Russia and India – also displayed substantial sales volume growth of between 6% and 11% in 2012, representing a total increase of 0.7 million units. After a 10% increase in the previous year, the BRIC markets grew by 8% overall in 2012.

New registrations/sales of light vehicles in millions of units

2012	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	Δ Prior Year
Europe (EU27+EFTA)	3.4	3.5	2.8	2.8	**12.5**	-8%
Russia	0.6	0.8	0.8	0.7	**2.9**	11%
U.S.A.	3.5	3.8	3.6	3.6	**14.4**	13%
Japan	1.4	1.1	1.1	0.9	**4.6**	30%
Brazil	0.8	0.9	1.0	1.0	**3.6**	6%
India	0.8	0.7	0.6	0.7	**2.8**	10%
China	3.1	3.3	3.2	3.6	**13.2**	8%
Worldwide	**19.9**	**20.0**	**19.5**	**19.9**	**79.3**	**6%**

Source: VDA and Renault

Development of light vehicle production

As a result of the global rise in demand for passenger cars, station wagons and light commercial vehicles, the number of vehicles produced also increased by 5% to over 80.9 million units in 2012 on the basis of preliminary data. A breakdown by country and region gives a similar picture as for new registrations:

Half of the increase of approximately 4.1 million units was attributable to NAFTA, which thus reached its 2007 production volume again for the first time in five years. In Asia, Japan produced 9.4 million units (up by 1.5 million units as against the previous year that was impacted by the Fukushima disaster) and was thus back at a level comparable with 2010. In China, the strong growth in production continued and marked a new record of 18.3 million units (+1.0 million units). In contrast, production volumes in Europe fell by 1.4 million units as a result of the sharp drop in demand in Southern Europe.

Development of heavy vehicle production

In contrast to light vehicle production, global production of heavy vehicles (commercial vehicles weighing more than 6 tons) decreased by 8% or around 250,000 units on the basis of preliminary figures in the year under review, after a record volume in the previous year. As expected, Europe saw a decline of 5%. There was a more substantial decline in volumes in Asia (-9%) and in Central and South America (-31%) as a result of significantly reduced production by heavy vehicle manufacturers due to high inventories.

In NAFTA, by contrast, the positive trend continued, with the number of commercial vehicles produced rising by another 10% in 2012. Although the total commercial vehicle production of 3.1 million units in 2012 was lower than the figures for the two previous years, it remained higher than the volumes in the crisis years 2008 and 2009.

Production of light vehicles[1] in millions of units

	2012[2]	2011	2010	2009	2008
Europe[3]	18.8	20.2	19.0	16.5	20.8
NAFTA	15.2	13.1	11.9	8.6	12.6
South America	4.3	4.3	4.2	3.7	3.8
Asia	40.3	36.5	36.6	28.6	28.2
Other markets	2.3	2.7	2.7	2.1	2.2
Worldwide	**80.9**	**76.8**	**74.4**	**59.5**	**67.6**

Source: IHS

[1] Passenger cars, station wagons, and light commercial vehicles (<6t).

[2] Preliminary figures and own estimates.

[3] Western, Central and Eastern Europe including Russia and Turkey.

Production of heavy vehicles[1] in thousands of units

	2012[2]	2011	2010	2009	2008
Europe[3]	615	646	503	330	845
NAFTA	496	451	311	265	418
South America	185	269	241	164	219
Asia	1,817	2,001	2,168	1,479	1,544
Other markets	8	7	8	8	8
Worldwide	**3,121**	**3,374**	**3,231**	**2,246**	**3,034**

Source: IHS
[1] Commercial vehicles (>6t).
[2] Preliminary figures and own estimates.
[3] Western, Central and Eastern Europe including Russia and Turkey.

Tire replacement markets
Global replacement business with passenger and truck tires is crucial to our sales in the Tire division.

Development of passenger and light truck tire replacement markets
Global demand for replacement passenger and light truck tires stagnated at just under 1 billion tires sold in 2012. However in some regions it actually plummeted. In Europe, for example, roughly 8% fewer tires were sold than in the previous year, primarily due to the economic crisis in Southern Europe. NAFTA also experienced a decrease of 2%.

In contrast, sales volumes in Asia rose substantially by 4.5% to 278 million units. Asia thus continued to expand its position as the second largest market for passenger tire replacement business. Sales volumes in Central and South America and in the other markets also increased further.

Overall, the global sales volume of 989.8 million tires sold in 2012 (on the basis of preliminary data) was lower than the previous year's figure of 992.7 million tires.

Development of commercial vehicle tire replacement markets
Although replacement commercial vehicle tire business in 2012 did not match the previous year's very strong volume development (138.4 million units), it remained at a very good level of 136.6 million units. The Southern European economic crisis was reflected here in a 13% decline in demand in Europe, but sales volumes fell by 2% in both NAFTA and South America as well. In Asia more tires were sold than in the previous year again as a result of sustained economic growth. At 67.3 million units, about half of all replacement commercial vehicle tires were sold in this region.

Replacement sales of passenger, light truck and 4x4 tires

in millions of units	2012[1]	2011	2010	2009	2008
Europe[2]	287.4	313.2	297.8	273.7	284.0
NAFTA	247.9	252.9	257.5	246.0	260.7
South America	59.3	57.5	55.1	48.1	49.5
Asia	277.6	265.8	245.9	215.8	211.0
Other markets	117.6	103.3	98.5	91.0	92.2
Worldwide	**989.8**	**992.7**	**954.8**	**874.6**	**897.4**

Source: LMC World Tyre Forecast Service
[1] Preliminary figures and own estimates.
[2] Western, Central and Eastern Europe including Russia and Turkey.

Replacement sales of commercial vehicle tires

in millions of units	2012[1]	2011	2010	2009	2008
Europe[2]	18.9	21.9	20.4	16.5	21.6
NAFTA	20.5	20.9	19.6	16.4	18.7
South America	12.7	13.0	12.7	10.7	12.3
Asia	67.3	65.7	63.4	59.5	59.3
Other markets	17.2	16.9	16.4	14.9	15.5
Worldwide	**136.6**	**138.4**	**132.5**	**118.0**	**127.4**

Source: LMC World Tyre Forecast Service
[1] Preliminary figures and own estimates.
[2] Western, Central and Eastern Europe including Russia and Turkey.

Development of the raw material markets

Important raw materials for manufacturing our products for the automotive industry include metals such as steel, aluminum and copper, the prices of which generally influence our costs indirectly via purchases from our suppliers. Depending on the contractual arrangement with the supplier concerned, a change in price usually affects us only after a time lag of several weeks or months. We cannot avoid lasting changes in raw material prices, and we pass these on to our customers by means of corresponding price adjustments, depending on the customer contracts concluded.

After significant price increases in almost all metals in the previous year and the associated price adjustments in our input products, the cost pressure for the Automotive Group decreased somewhat over the course of fiscal 2012. Although the market prices of many metals rose significantly in the first quarter of 2012, they then fell considerably as the year progressed due to increasing uncertainty regarding the global economic development and mostly consolidated at lower than the average prices for the previous year.

One very important factor for Continental in the production of mechanical components is the price trend for heat-treated carbon steel and stainless steel as input materials for many of the stamped, turned and drawn parts and die casting parts that we use. Rising procurement costs for iron ore and coking coal as raw materials for carbon steel, and for nickel as the main alloying element for stainless steel, led to substantial price hikes by steel producers in the first quarter of 2012. As the year progressed, steel prices for flat and long products decreased again due to a decline in demand and closed the year only around 3% higher than the closing prices for 2011. If average prices are considered, this gives a rather different picture: The price of flat steel, for example, averaged around €600 per tonne in 2012 and was thus 9% lower than in 2011, whereas the stainless steel price remained above €1,100 per tonne (only 2% lower than its price in the previous year despite a decline of roughly 17% in the nickel price).

Aluminum, which is used primarily to manufacture die casting parts but also for stamped and bent components, recorded a similar price trend to steel in 2012. After rising 16% to $2,353 per tonne, the market price fell back to $2,073 per tonne by the end of the year, 3% higher than the previous year’s figure. In contrast, the average aluminum price for the year was down 15% year-on-year in U.S. dollars but only 8% in euros.

Copper, which is mainly used in electric motors and for mechatronic components, began 2012 with a 15% price increase to €8,740 per tonne, but then declined significantly and by mid-year had returned to its level at the beginning of the year. In the second half of the year, the price increased again and closed the year at $7,931 per tonne, up 4% on the previous year. In terms of average prices, the copper price fell by 10% on a U.S. dollar basis but only by around 3% on a euro basis.

To finish a wide range of components such as coatings, our suppliers also process various precious metals – particularly gold but also silver and palladium.

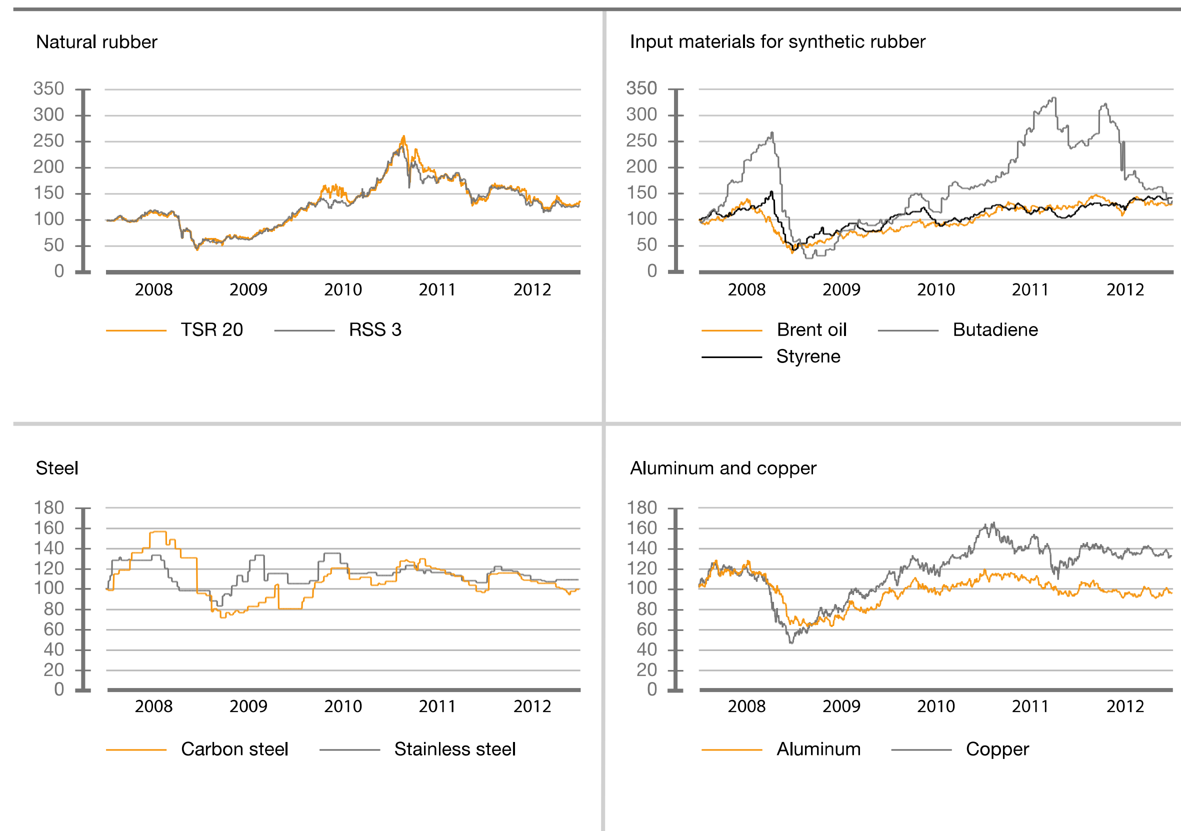
Following significant price increases in the previous year, the average prices for silver and palladium per troy ounce each decreased by 12% on a U.S. dollar basis in 2012, whereas the gold price went up another 6%. On a euro basis, the price decreases for silver and palladium came to only 4% and 5% respectively and there was a 15% increase for gold. All in all, the development of precious metal prices in fiscal 2012 once again led to a slight increase in costs for the Automotive Group.

The Automotive Group was heavily impacted in 2012 by the prices for the rare earths dysprosium and neodymium, which are required by our suppliers primarily for permanent magnets in electric motors. Here, we continued to feel the effects of the previous year's extreme price increases, leading to slightly higher expenses for the Automotive Group in fiscal 2012 as compared to 2011. The average dysprosium price for the year fell by 24% in 2012 as against 2011 to €773 per kilogram but was still 400% higher than in 2010. The average price for neodymium decreased by 35% to €80 per kilogram in 2012 and was thus still 190% above its 2010 level.

The production of tires and industrial rubber products primarily requires natural rubber and synthetic rubber. It also uses relatively large quantities of carbon black from crude oil as the main filler material and of steel cord and nylon cord as the main structural materials.

The different types of natural rubber we require are purchased primarily in Thailand, Malaysia and Indonesia, which together account for roughly 80% of annual global natural rubber production. All rubber-producing countries now manufacture natural rubber as technically specified rubber (TSR) in line with the standards published by the International Organization for

Price developments (indexed to January 1, 2008)



Standardization (ISO). Various different types of natural rubber are traded on the commodity exchanges in Singapore and Tokyo. The price trends tend to be similar but are very volatile.

The price of TSR 20 natural rubber rose by 25% at the beginning of 2012, but was back at the level of the 2011 closing price by the end of the year. After more than doubling in the previous years, the average price for the year for TSR 20 decreased by 24% to €2.69 per kilogram.

Prices for ribbed smoked sheets (RSS) developed very similarly. In 2012, the price for RSS 3 initially increased by 16% but ended the year down roughly 10% on the previous year's closing price. The average price for the year, which had doubled in the previous years, also fell by 24% to €2.53 per kilogram.

After natural rubber as a raw material used directly, crude oil is the most important basic building block of many production materials such as synthetic rubber, carbon black and various chemicals. Sometimes multi-stage production processes are performed by primary suppliers to make the crude oil into the materials purchased by Continental. The crude oil price also increased substantially to begin with in 2012, but then fell sharply by the middle of the year. This was followed by a rapid recovery and subsequent consolidation. On December 31, 2012, Brent oil, sourced in the North Sea, cost $113 per barrel and was therefore up 4% on the end of 2011. The average price level for 2012 of $113 per barrel was only 1% higher than the 2011 average, but was up 10% year-on-year in euros at €88 per barrel. Compared to the average price of $80 per barrel in the period from 2008 to 2010, this represents a 40% increase on a U.S. dollar basis and a 54% increase on a euro basis.

The price trend for butadiene, the main input material for synthetic rubber, was as volatile in fiscal 2012 as in the previous year but moved in the opposite direction: Following a sharp increase of 33% up until mid-April 2012, reaching a peak of $1.63 per pound, the price then dropped by more than half to end the year down 43% at $0.70 per pound. In terms of average prices, there was a decline of 19% to $1.07 per pound in 2012. Compared to 2010, however, this still corresponds to a 49% increase.

In contrast, the price of styrene – another input material for synthetic rubber – continued to rise in the year under review, increasing by 22% as against 2011 in terms of year-end prices and by 4.5% in terms of average prices.

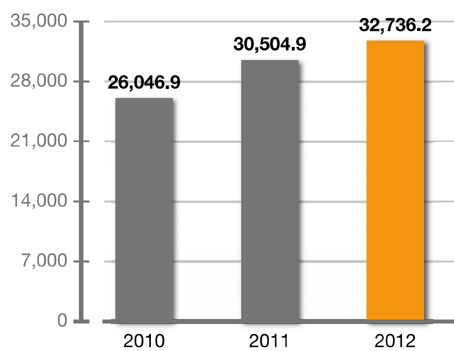
Overall, the lower prices for natural and synthetic rubber in particular resulted in an encouraging improvement in the operating margins of our Rubber Group in 2012.

Earnings, Financial and Net Assets Position

What we have achieved:

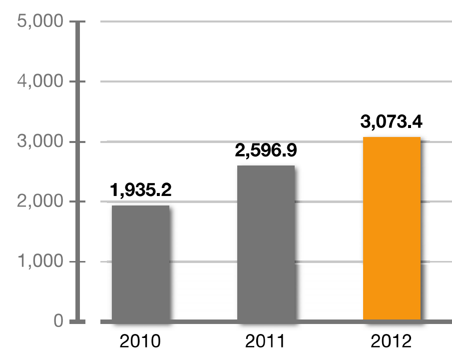
Sales up 7.3%

Sales (in € millions)



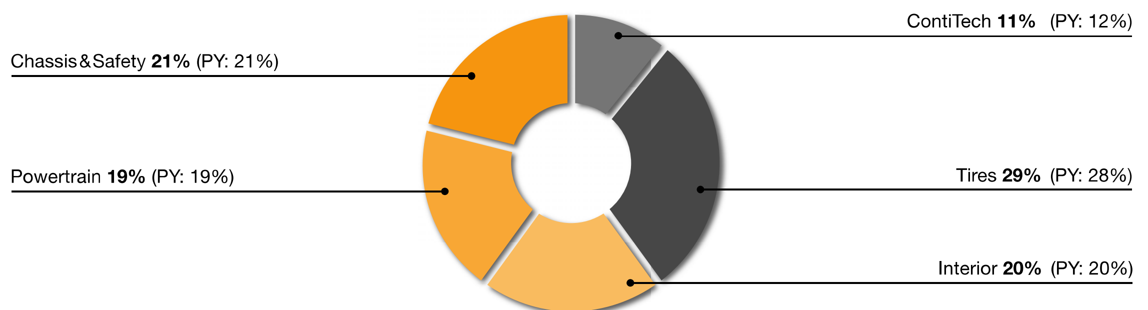
EBIT up 18.3%

EBIT (in € millions)



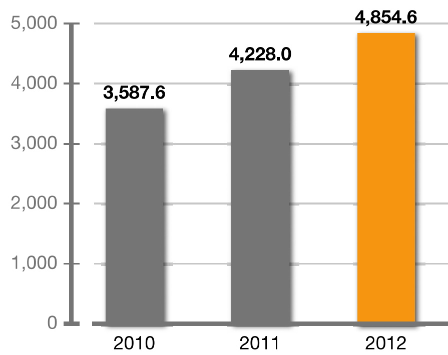
Sales breakdown

Sales by division



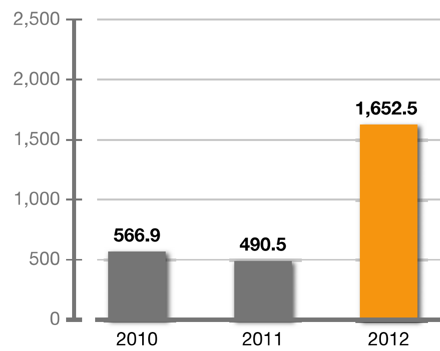
EBITDA up 14.8%

EBITDA (in € millions)



Free cash flow amounting to €1,652.5 million

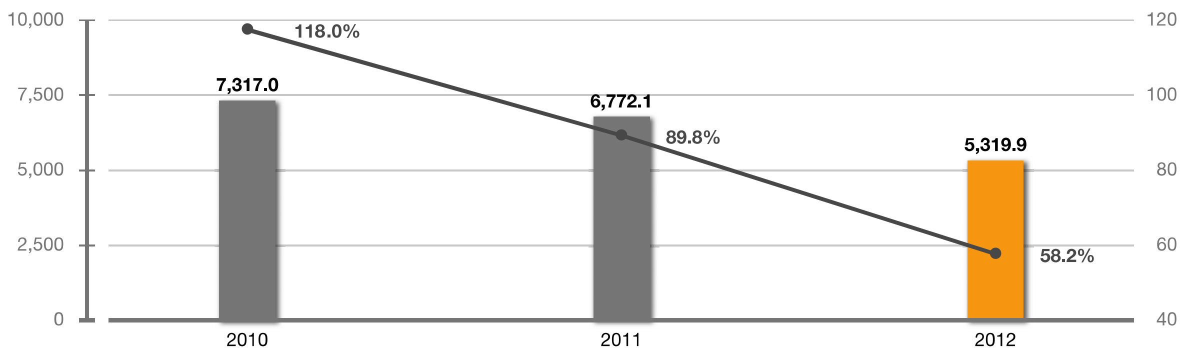
Free cash flow (in € millions)



Net indebtedness down by €1,452.2 million and gearing ratio of 58.2%

Net indebtedness (in € millions)

Gearing ratio (in %)



Earnings Position

- Sales up 7.3%
- Sales up 4.3% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 15.8%

Continental Corporation in € millions	2012	2011	Δ in %
Sales	32,736.2	30,504.9	7.3
EBITDA	4,854.6	4,228.0	14.8
in % of sales	14.8	13.9	
EBIT	3,073.4	2,596.9	18.3
in % of sales	9.4	8.5	
Net income attributable to the shareholders of the parent	1,883.5	1,242.2	51.6
Earnings per share (in €)	9.42	6.21	51.6
Research and development expenses	1,766.2	1,608.7	9.8
in % of sales	5.4	5.3	
Depreciation and amortization[1]	1,781.2	1,631.1	9.2
– thereof impairment[2]	49.9	20.4	144.6
Operating assets as at December 31	16,277.6	16,198.6	0.5
EBIT in % of operating assets as at December 31	18.9	16.0	
Operating assets (average)	16,953.8	16,019.0	5.8
EBIT in % of operating assets (average)	18.1	16.2	
Capital expenditure[3]	2,019.4	1,711.3	18.0
in % of sales	6.2	5.6	
Number of employees as at December 31[4]	169,639	163,788	3.6
Adjusted sales[5]	32,551.7	30,504.9	6.7
Adjusted operating result (adjusted EBIT)[6]	3,522.4	3,040.9	15.8
in % of adjusted sales	10.8	10.0	

[1] Excluding impairment 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.

Sales up 7.3%
Consolidated sales rose by €2,231.3 million or 7.3% year-on-year in 2012 to €32,736.2 million (PY: €30,504.9 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 4.3%. This further increase was attributable to our Automotive divisions, which are strongly concentrated on the high-growth segments of the automotive supplier industry, and of increased sales growth outside Europe. The increase in the production of cars, station wagons and light commercial vehicles in 2012 had a positive influence on business performance. This, together with market share gains in key regions, helped to compensate for the worldwide stagnation in demand for passenger and light truck tires, which even declined in some core markets. Exchange rate effects and changes in the scope of consolidation contributed to the sales growth.

The regional distribution of sales changed as follows in 2012 as compared to the previous year:

Sales by region in %	2012	2011
Germany	25	26
Europe excluding Germany	30	33
NAFTA	22	19
Asia	18	17
Other countries	5	5

Adjusted EBIT up 15.8%

The corporation's adjusted EBIT rose by €481.5 million or 15.8% year-on-year in 2012 to €3,522.4 million (PY: €3,040.9 million), equivalent to 10.8% (PY: 10.0%) of adjusted sales.

In the fourth quarter of 2012, the corporation's adjusted EBIT increased by €47.9 million or 5.9% as against the same quarter of the previous year to €860.7 million (PY: €812.8 million), equivalent to 10.7% (PY: 10.3%) of adjusted sales. In the third quarter of 2012, adjusted EBIT amounted to €838.5 million on a like-for-like basis.

EBIT up 18.3%

EBIT was up by €476.5 million year-on-year in 2012 to €3,073.4 million, an increase of 18.3% (PY: €2,596.9 million). The return on sales rose to 9.4% (PY: 8.5%).

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT by €445.5 million in the year under review (PY: €435.5 million). There were no impairment losses on intangible assets from the purchase price allocation (PPA) in 2012 (PY: —).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 18.1% (PY: 16.2%).

Special effects in 2012

The annual impairment test on goodwill resulted in an impairment loss of €75.6 million in the Powertrain division.

Income of €1.6 million was recognized from the disposal of an at-equity investment of the Chassis & Safety division.

The reversal of restructuring provisions no longer required, as well as additions, resulted in a positive special effect totaling €32.8 million in 2012 (Chassis & Safety €1.2 million; Powertrain €2.7 million; Interior €29.0 million; ContiTech -€0.1 million).

Reversals of impairment losses and impairment losses on intangible assets and property, plant and equipment resulted in a total positive effect of €25.7 million (Chassis & Safety €2.0 million; Powertrain -€0.3 million; Interior -€1.1 million; Tires €25.1 million).

In NAFTA, lower pension obligations resulted in a positive effect of €6.3 million for the Tire division in 2012.

The acquisition of the molded brake components business of Freudenberg Sealing Technologies GmbH & Co. KG, Weinheim, Germany, resulted in income from a negative difference arising as part of the preliminary purchase price allocation and totaling €11.5 million.

The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., Grimsby, U.K., a subsidiary of ContiTech AG in the area of offshore hoses, resulted in further expenses of €4.0 million in 2012.

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. Due to a partial repayment of the syndicated loan, the carrying amount adjustments attributable on a prorated basis to the amount repaid were reversed in September 2012. This resulted in a gain of €2.3 million.

Together with the effects from amortization of the carrying amount adjustments, there was a positive effect totaling €13.3 million in 2012.

Total consolidated income from special effects in 2012 amounted to €11.6 million.

Special effects in 2011
The economic situation of the Fuel Supply business unit in the Powertrain division in Europe is characterized by insufficient and constantly decreasing 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.

The review of an at-equity investment of the Chassis & Safety division resulted in an impairment loss of €5.4 million.

The Chassis & Safety division generated income of €0.6 million from the negative difference on an asset deal.

In 2011, impairment losses of €21.7 million were recognized on the property, plant and equipment of the Deer Park site in Illinois, U.S.A.

In addition, there were smaller impairment losses and reversals of the same on property, plant and equipment resulting in a total loss of €2.6 million not relating to restructuring activities.

The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., Grimsby, U.K., a subsidiary of ContiTech AG in the area of offshore hoses, resulted in further expenses of €10.7 million in 2011.

On July 7, 2011, Continental Industrias del Caucho S.A., Madrid, Spain, reached an agreement with the employee representatives to close its site in Coslada, Spain, by the end of 2011. The plant, which assembled air conditioning lines, started reporting losses after a major contract was lost at the end of 2009. The site was closed as at December 31, 2011, resulting in restructuring expenses of €14.1 million.

In addition, there were positive effects totaling €52.1 million in the divisions (Chassis & Safety €4.6 million; Powertrain €9.5 million; Interior €32.9 million; Tires €4.8 million; ContiTech €0.3 million). These chiefly resulted from the reversal of restructuring provisions that were no longer required and from lower health care obligations in connection with restructuring.

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 the end of June 2011. The associated expectation of lower cash outflows for this loan then led to an adjustment of the carrying amount in profit or loss in the amount of €9.1 million. These deferrals will be amortized over the term of the loan, reducing or increasing expenses accordingly. The amortization of the carrying amount adjustments resulted in a positive effect of €15.0 million in 2011. As a result of partial repayments of the syndicated loan, the adjustments attributable to the repayment amount pro rata were reversed in early April and December 2011. These reversals resulted in a gain of €5.0 million. The above effects resulted in a net gain of €29.1 million as at December 31, 2011.

The total consolidated expense from special effects amounted to €8.5 million in 2011.

Procurement
As a result of the slower global economic growth, the situation with regard to procurement has normalized in comparison to the previous years. Growth like at the beginning of 2011 and supply shortages following natural disasters no longer played a significant role in 2012. However, the procurement organization still faced major challenges. These included keeping pace with the growth of the corporation while also optimizing processes in order to create competitive conditions for all areas and divisions. The purchasing volume rose by 6% year-on-year to €24 billion, of which approximately €16 billion was attributable to production materials.

At the same time, the company's growth in a number of key regions and markets necessitated a stronger focus on procurement activities there. In 2012, new team structures were established for purchasing indirect materials in Asia and South America. With the

existing knowledge and experience from other regions, the organizational structures and processes were adapted to achieve greater efficiency. These measures already showed initial positive results in 2012, but will also lead to further significant improvements. Over the course of 2013, new locations will be involved and additional programs will be launched with the aim of further optimizing processes, identifying best practices and generating value in strategic growth regions.

At Continental, we strive to ensure that our corporate values and social standards are complied with throughout the supply chain. With our updated Supplier Code of Conduct (SCoC), we expect our suppliers to display the same level of honesty, integrity and responsibility in all social aspects of business that we demand of our employees. The new version of the SCoC was rolled out worldwide in 2012. The employees in the procurement organization were given training to ensure that the values contained in the SCoC are passed on to our suppliers in a targeted manner.

Research and development

Expenses for research and development (R&D) rose by €157.5 million or 9.8% year-on-year to €1,766.2 million (PY: €1,608.7 million), or 5.4% (PY: 5.3%) of sales.

In the Chassis & Safety, Powertrain and Interior divisions, costs in connection with initial product development projects in the original equipment business are capitalized. Costs are capitalized as of the time at which we are named as a supplier by the original equipment manufacturer and have successfully achieved a specific pre-release stage. Capitalization ends with the approval for unlimited series production. The costs of customer-specific applications, preproduction prototypes and testing for products already being sold still do not qualify as development expenditure which may be recognized as an intangible asset. Capitalized development expenses are amortized on a straight-line basis over a useful life of three years. In Continental's opinion, the assumed useful life reflects the period for which an economic benefit is likely to be derived from the corresponding development projects. €60.7 million (PY: €84.3 million) of the development costs incurred in the three divisions in 2012 qualified for recognition as an asset.

The requirements for the capitalization of development activities (IAS 38) were not met in the Tire and ContiTech divisions in the year under review or the previous year.

Depreciation and amortization

Depreciation and amortization increased by €150.1 million to €1,781.2 million (PY: €1,631.1 million), equivalent to 5.4% (PY: 5.3%) of sales. Impairment losses of €49.9 million (PY: €20.4 million) were recognized.

Net interest expense

The net interest expense improved by €328.7 million year-on-year to €406.8 million in 2012 (PY: €735.5 million). In addition to the decrease in interest expenses, this is due in particular to the effects of changes in the fair value of derivative instruments and the offsetting development of foreign currency translation effects, which led to a positive contribution to earnings overall.

Interest expenses, which primarily result from the utilization of the syndicated loan and the bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., were €97.6 million lower than in the previous year at €563.9 million (PY: €661.5 million). This decline is due in particular to the significant reduction in net indebtedness as of the end of 2011 and to the lower margins and interest rates 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 at June 30, 2011. As at December 31, 2012, interest expenses for the syndicated loan amount to €240.7 million (PY: €342.4 million). The bonds issued in the third quarter of 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands, and the bond issued in September 2012 by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in a nominal amount of $950.0 million resulted in interest expenses totaling €235.4 million (PY: €227.4 million). Other borrowing by companies and the issuance of com-

mercial papers accounted for €87.8 million (PY: €91.7 million).

Interest income in 2012 declined slightly as against the previous year by €1.4 million to €27.8 million (PY: €29.2 million). As at the end of December 2012, the positive result from changes in the fair value of derivative instruments and the offsetting development of foreign currency translation effects amounted to €126.8 million (PY: -€105.1 million). €113.4 million (PY: €38.0 million) of this related solely to the reporting of early redemption options for the bonds issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in September 2012 and Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010. In contrast to the previous year, when net interest was negatively impacted in the second half of the year in particular by the substantial devaluation of the Mexican peso in relation to the U.S. dollar and, among other factors, the devaluation of the Hungarian forint in relation to the euro, in 2012 the appreciation of both these currencies led to a slight positive effect on net interest overall.

Tax expense

Income tax expense for fiscal 2012 amounted to €698.7 million (PY: €536.2 million). The tax rate was 26.2% after 28.8% in the previous year.

Due to the positive business development in the year under review in the U.S.A. and Mexico in particular, deferred tax assets of €92.7 million (PY: €33.9 million) which had not been recognized in the past could be realized – mainly through the utilization of loss carryforwards, as in the previous year. Furthermore, in Mexico deferred tax assets from loss carryforwards in the amount of €32.4 million for which future realization is considered likely were recognized for the first time.

A negative effect resulted from non-cash allowances on deferred tax assets recognized by foreign corporation companies totaling €41.4 million (PY: €88.5 million), of which €12.1 million (PY: €29.3 million) was for previous years.

As in the previous year, the tax rate was negatively affected by non-deductible operating expenses and, in Germany, by non-imputable foreign withholding tax due to insufficient volume. Positive effects resulted from foreign tax rate differences, incentives and tax holidays.

The tax expense in the previous year was influenced by tax income for previous years of €68.2 million. Continental had implemented a pending prior-year tax position out of court by way of a reassessment. In addition, an allowance of €36.0 million had been recognized in the previous year for the increase in the tax interest carryforward in Germany. Since 2008, there has been a limit on the deductible interest that can be carried forward in Germany; the amount deductible under tax law is limited to 30% of taxable income before depreciation, amortization and interest.

Net income attributable to the shareholders of the parent

The net income attributable to the shareholders of the parent increased by €641.3 million in 2012 to €1,883.5 million (PY: €1,242.2 million). This corresponds to earnings per share of €9.42 (PY: €6.21).

Reconciliation of EBIT to net income in € millions	2012	2011	Δ in %
Chassis & Safety	638.5	661.9	-3.5
Powertrain	29.5	31.3	-5.8
Interior	400.8	331.2	21.0
Tires	1,635.4	1,195.7	36.8
ContiTech	442.4	417.1	6.1
Other/consolidation	-73.2	-40.3	
EBIT	**3,073.4**	**2,596.9**	**18.3**
Net interest expense	-406.8	-735.5	44.7
Earnings before taxes	**2,666.6**	**1,861.4**	**43.3**
Income tax expense	-698.7	-536.2	-30.3
Net income	**1,967.9**	**1,325.2**	**48.5**
Non-controlling interests	-84.4	-83.0	-1.7
Net income attributable to the shareholders of the parent	**1,883.5**	**1,242.2**	**51.6**
Basic earnings per share (in €)	9.42	6.21	51.6

Financial Position

Reconciliation of cash flow
Continental's cash flow from operating activities rose by €1,495.9 million year-on-year to €3,784.5 million in 2012 (PY: €2,288.6 million), corresponding to 11.6% (PY: 7.5%) of sales.

Free cash flow for fiscal 2012 amounted to €1,652.5 million (PY: €490.5 million). This corresponds to an increase of €1,162.0 million as against the previous year.

Interest payments resulting in particular from the syndicated loan and the bonds fell by €88.7 million to €602.3 million (PY: €691.0 million).

Income tax payments increased by €217.9 million to €683.5 million (PY: €465.6 million).

There was a positive effect from the cash-effective decrease in operating working capital, which led to a cash inflow of €563.9 million (PY: cash outflow of €549.2 million). This resulted from a reduction in operating receivables in the amount of €359.7 million (PY: increase of €810.8 million) and an increase in operating liabilities in the amount of €203.2 million (PY: €596.9 million). Inventories declined by €1.0 million in the fiscal year (PY: increase of €335.3 million).

The low cash outflows of €2.8 million in 2011 from pension provisions was more than offset by inflows of €48.5 million in fiscal 2012.

Total cash outflows amounting to €2,132.0 million (PY: €1,798.1 million) resulted from investing activities, primarily due to the €296.4 million increase in investments in property, plant and equipment and software to €2,017.6 million (PY: €1,721.2 million).

The acquisition of companies and business operations led to a cash outflow of €92.6 million in 2012 (PY: €54.5 million).

Capital expenditure (additions)
Capital expenditure for property, plant and equipment, and software amounted to €2,019.4 million in 2012. Overall, there was a significant increase of €308.1 million as against the previous year's level of €1,711.3 million, with the Tire, Chassis & Safety and ContiTech divisions in particular contributing to this increase. Capital expenditure amounted to 6.2% (PY: 5.6%) of sales.

Financing and indebtedness
As of the end of 2012, gross indebtedness amounted to €8,253.3 million (PY: €8,562.4 million), down €309.1 million on the previous year's level.

On average, based on quarter-end values, 62.9% (PY: 76.6%) of gross indebtedness after hedging measures had fixed interest rates over the year.

The carrying amount of bonds rose from €2,996.2 million at the end of 2011 to €3,744.2 million as of the end of fiscal 2012. This increase was primarily due to a bond denominated in U.S. dollars that was issued in September 2012 by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., with guarantees from Continental AG and selected subsidiaries. The seven-year bond with an issue volume of $950.0 million and an interest rate of 4.5% p.a. was placed with qualified institutional investors in Germany and abroad within two days. The interest rate on this bond is therefore much lower than the interest rates on the last bond issues in 2010. Interest payments are made semi-annually in arrears.

Bank loans and overdrafts amounted to €3,030.7 million as at December 31, 2012 (PY: €4,492.6 million) and were therefore down €1,461.9 million on the previous year's level. This reduction is due in particular to further partial repayments of the syndicated loan. In addition, the €300.0 million utilization of the loan from the European Investment Bank due in November 2012 was repaid.

With the renegotiation in late March 2011 of the syndicated loan originally maturing in August 2012, Continental had successfully completed the final step in the refinancing package to improve its financial and capital structure that was agreed in December 2009. The results of this renegotiation mainly provided for longer terms and improved conditions. Furthermore, an easing of the restriction on dividend payments provided for in the financing conditions and the restriction on the annual investment volume was also agreed. The financing volume of €6.0 billion committed for the syndicated loan in late March 2011 comprised a tranche of €625.0 million maturing in August 2012 and

two further tranches, including a revolving credit line of €2.5 billion, maturing in April 2014.

Thanks to the positive business performance, the first tranche of the syndicated loan in the amount of €625.0 million was repaid early at the end of December 2011. This reduced the committed volume of the loan to €5,375.0 million as of the end of 2011. In the third quarter of 2012, Continental took advantage of the positive capital market environment to further optimize the maturity structure of its indebtedness and in September 2012 placed the U.S. dollar bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., with an issue volume of $950.0 million. The net issue proceeds from this bond were used to repay the syndicated loan, as stipulated in the syndicated loan agreement, and led to an early partial repayment of €737.9 million. This reduced the committed volume of the syndicated loan to €4,637.1 million as of the end of 2012. The syndicated loan had been utilized by Continental AG and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., and had a total value as of the end of the reporting period of €2,475.9 million (PY: €3,860.0 million).

To further improve the financial and maturity structure while also increasing flexibility, the refinancing process for the syndicated loan maturing in April 2014 was initiated by Continental already in December 2012. As part of the agreement concluded on January 22, 2013, the credit volume was reduced to a total of €4.5 billion and split into two tranches with different terms: a loan of €1.5 billion with a term of three years and the increase in the revolving credit line from €2.5 billion to €3.0 billion with a term of five years. Under the new loan agreement, Continental is no longer required to furnish security in rem and has obtained further simplifications of the documentation required.

On the basis of the new agreement concluded in January 2013 for the syndicated loan, the fixed tranche originally maturing in April 2014 was reclassified to current financial liabilities.

As a further outcome of the renegotiation in late March 2011, the credit margins for the syndicated loan were lowered. They have since been based on the Continental Corporation's leverage ratio (net indebtedness/EBITDA, according to the definition in the syndicated loan) rather than its rating. The leverage ratio had already improved as at 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 at 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 €2.4 million as of the end of December 2012 (PY: €15.7 million). These deferrals are amortized over the term of the loan, increasing or reducing expenses accordingly.

The other liabilities with credit character increased by €404.8 million to €1,478.4 million as of the end of 2012 (PY: €1,073.6 million). This is essentially due to the greater utilization of sale of receivables programs as against the previous year and the conclusion of new sale of receivables programs, as well as a significantly higher volume of commercial papers issued. However, the finance lease liabilities and the negative fair values of derivative instruments were down on the previous year at €64.4 million (PY: €122.9 million) and €11.4 million (PY: €163.0 million) respectively. The decline in the negative fair values of derivative instruments results in particular from the expiration in August 2012 of interest rate hedges totaling €3,125.0 million that were concluded for the syndicated loan and stipulated an average fixed interest rate of 4.19% p.a. plus margin.

The use of sale of receivables programs increased by €386.7 million to €936.2 million (PY: €549.5 million). The financing volume of the sale of receivables program concluded with Norddeutsche Landesbank Luxembourg S.A., Luxembourg, was increased from €230.0 million to €280.0 million in July 2012 by way of a new master agreement. The master agreement set to run until the end of September 2012 was prolonged by a further year on September 26, 2012. This program was fully utilized at the end of 2012 in the amount of €280.0 million (PY: €230.0 million). The indefinite sale of receivables program in place with Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main, Germany, since December 2010 provides for a financing volume of €150.0 million (PY: €150.0 million), of which €127.6 million (PY: €150.0 million) was utilized at the end of 2012. On October 1, 2012, the sale of receivables program concluded with the U.S.

banks Wells Fargo Bank N.A., Atlanta, Georgia; The Bank of Nova Scotia, Houston, Texas; and Bank of America N.A., Charlotte, North Carolina, with an unchanged financing volume of U.S. $400.0 million was extended by an additional year. €278.5 million of the program had been utilized as of the end of 2012 (PY: €169.5 million). Two further sale of receivables programs were also set up in 2012. An indefinite agreement was concluded with The Royal Bank of Scotland N.V. Germany branch, Frankfurt am Main, Germany, at the end of April 2012. The agreed financing volume of £75.0 million can be utilized in both euros and pounds sterling. Total utilization as of the end of 2012 amounted to €91.8 million.

A further sale of receivables program with a financing volume of €300.0 million was agreed with Crédit Agricole Corporate and Investment Bank, Paris, France, on July 26, 2012. The program has a term of up to five years if prolonged by either party on an annual basis. At the end of 2012, the program had been utilized in the amount of €158.3 million.

At €459.7 million, the volume of the commercial papers issued was up €243.1 million on the end of the previous year (€216.6 million).

Cash and cash equivalents, derivative instruments and interest-bearing investments were up €1,143.1 million at €2,933.4 million (PY: €1,790.3 million).

Net indebtedness fell by €1,452.2 million as against the end of 2011 to €5,319.9 million (PY: €6,772.1 million). The gearing ratio improved significantly year-on-year to 58.2% (PY: 89.8%).

As at December 31, 2012, Continental had liquidity reserves totaling €5,198.5 million (PY: €3,730.7 million), consisting of cash and cash equivalents of €2,397.2 million (PY: €1,541.2 million) and committed, unutilized credit lines totaling €2,801.3 million (PY: €2,189.5 million).

in € millions	**Dec. 31, 2012**	**Dec. 31, 2011**
Cash flow arising from operating activities	3,784.5	2,288.6
Cash flow arising from investing activities	-2,132.0	-1,798.1
Cash flow before financing activities (free cash flow)	**1,652.5**	**490.5**
Dividends paid	-300.0	—
Dividends paid and repayment of capital to non-controlling interests	-49.5	-37.9
Non-cash changes	151.3	162.0
Other	-29.5	-42.7
Foreign exchange effects	27.4	-27.0
Change in net indebtedness	**1,452.2**	**544.9**

Net Assets Position

Total assets

As at December 31, 2012, total assets increased by €1,299.5 million year-on-year from €26,038.4 million to €27,337.9 million. This increase was chiefly due to the €782.5 million rise in property, plant and equipment as a result of increased investment activities and the €856.0 million rise in cash and cash equivalents. This was offset by the decline in other intangible assets of €420.8 million, mainly due to amortization from the purchase price allocation (PPA).

Non-current assets

Non-current assets rose by €498.0 million to €15,573.5 million (PY: €15,075.5 million). This change was primarily attributable to the €782.5 million increase in property, plant and equipment to €7,391.0 million (PY: €6,608.5 million). The long-term derivative instruments and interest-bearing investments included in other non-current assets were up €240.7 million at €433.9 million (PY: €193.2 million), mainly due to the change in the fair value of the early redemption options for the bonds. Other intangible assets fell by €420.8 million to €945.1 million (PY: €1,365.9 million). The carrying amount of companies carried at equity declined by €103.7 million to €376.5 million (PY: €480.2 million) as a result of a reclassification to assets held for sale. Goodwill decreased by €70.2 million in comparison to the prior-year period and amounted to €5,622.2 million (PY: €5,692.4 million).

Current assets

Current assets increased by €801.5 million to €11,764.4 million (PY: €10,962.9 million). Cash and cash equivalents rose by €856.0 million to €2,397.2 million in the year under review (PY: €1,541.2 million). Trade receivables fell by €348.2 million to €4,993.3 million (PY: €5,341.5 million), while inventories did not change significantly in comparison to the prior-year period. Other current assets were up €284.7 million at €1,375.2 million (PY: €1,090.5 million), mainly due to the reclassification of an investment to assets held for sale.

Equity

At €9,144.8 million, equity was €1,601.5 million higher than in the previous year (€7,543.3 million). This was essentially due to the net income attributable to shareholders of the parent amounting to €1,883.5 million (PY: €1,242.2 million). Equity was reduced by dividends in the amount of €300.0 million resolved by the Annual Shareholders' Meeting in April 2012. The equity ratio improved from 29.0% to 33.5%.

Non-current provisions and liabilities

At €6,307.0 million, non-current provisions and liabilities were down €1,829.4 million from €8,136.4 million in the previous year. This was primarily due to the non-current indebtedness included therein, which declined by €1,867.0 million to €4,181.0 million (PY: €6,048.0 million). The main reason for this was the reclassification of the tranche of the syndicated loan amounting to €2,137.1 million from non-current to current liabilities as a result of the new agreement concluded in January 2013. Other non-current liabilities showed no material changes as against the previous year.

Current provisions and liabilities

At €11,886.1 million, current provisions and liabilities were up €1,527.4 million from €10,358.7 million in the previous year, mainly due to the increase in current indebtedness. This rose by €1,557.9 million to €4,072.3 million (PY: €2,514.4 million), chiefly as a result of the reclassification from non-current liabilities and the distribution of dividends totaling €300.0 million for the previous year. This was offset by the positive free cash flow as of the end of 2012. Trade payables rose by €233.2 million to €4,344.6 million (PY: €4,111.4 million). The €263.7 million decrease in other current provisions and liabilities to €3,469.2 million (PY: €3,732.9 million) results in particular from the decline in warranty provisions.

Operating assets

The corporation's operating assets increased by €79.0 million year-on-year to €16,277.6 million as at December 31, 2012 (PY: €16,198.6 million).

Total working capital was down €572.4 million at €3,647.4 million (PY: €4,219.8 million). The key factors in this development were the €348.2 million year-on-year decrease in operating receivables to €4,993.3 million as of the reporting date (PY: €5,341.5 million) and the €233.2 million increase in operating liabilities to €4,344.6 million (PY: €4,111.4 million). Inventories rose slightly by €9.0 million to €2,998.7 million (PY: €2,989.7 million).

Consolidated statement of financial position

Assets in € millions	Dec. 31, 2012	Dec. 31, 2011
Goodwill	5,622.2	5,692.4
Other intangible assets	945.1	1,365.9
Property, plant and equipment	7,391.0	6,608.5
Investments in at-equity accounted investees	376.5	480.2
Other long-term assets	1,238.7	928.5
Non-current assets	**15,573.5**	**15,075.5**
Inventories	2,998.7	2,989.7
Trade accounts receivable	4,993.3	5,341.5
Other short-term assets	1,375.2	1,090.5
Cash and cash equivalents	2,397.2	1,541.2
Current assets	**11,764.4**	**10,962.9**
Total assets	**27,337.9**	**26,038.4**

Total equity and liabilities in € millions	Dec. 31, 2012	Dec. 31, 2011
Total equity	**9,144.8**	**7,543.3**
Non-current liabilities	**6,307.0**	**8,136.4**
Trade accounts payable	4,344.6	4,111.4
Other short-term provisions and liabilities	7,541.5	6,247.3
Current liabilities	**11,886.1**	**10,358.7**
Total equity and liabilities	**27,337.9**	**26,038.4**
Net indebtedness	**5,319.9**	**6,772.1**
Gearing ratio in %	**58.2**	**89.8**

Non-current operating assets amounted to €14,399.5 million (PY: €14,213.6 million), up €185.9 million as against the previous year. Goodwill decreased by €70.2 million to €5,622.2 million (PY: €5,692.4 million), chiefly due to an impairment loss of €75.6 million resulting from the annual impairment test. Property, plant and equipment increased by €782.5 million to €7,391.0 million (PY: €6,608.5 million) due to investing activities. Other intangible assets fell by €420.8 million to €945.1 million (PY: €1,365.9 million). This was mainly due to the amortization of intangible assets from the purchase price allocation (PPA) in the amount of €445.5 million (PY: €435.5 million).

The acquisition of Omitec Group Ltd., Devizes, U.K., as part of a share deal increased the Interior division's operating assets by €23.3 million. The acquisition of the automotive air conditioning business of the Parker Hannifin Corporation, Cleveland, Ohio, U.S.A., as part of a combined asset and share deal increased the ContiTech division's operating assets by €64.4 million. The acquisition of the molded brake components business of Freudenberg Sealing Technologies GmbH & Co. KG, Weinheim, Germany, as part of a combined asset and share deal led to a €12.6 million rise in the ContiTech division's operating assets. In addition, the acquisition of Specialised Belting Supplies Ltd., Thetford, U.K., as part of a share deal increased the ContiTech division's operating assets by €5.9 million. Other changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets at corporation level.

Exchange rate effects reduced the corporation's total operating assets by €62.4 million in the fiscal year. In the previous year, this effect had increased operating assets by €6.0 million.

Average operating assets of the corporation climbed by €934.8 million to €16,953.8 million as against the previous year (€16,019.0 million).

Employees

The number of employees in the Continental Corporation rose by 5,851 as against 2011 (163,788) to 169,639. As a result of the volume increase and the expansion in best-cost countries, the number of employees in the Automotive Group rose by 3,483. In the Rubber Group, increased market demand and further expansion of production capacity also led to an increase of 2,350 employees.

Employees by region in %	2012	2011
Germany	29	30
Europe excluding Germany	31	31
NAFTA	16	15
Asia	18	18
Other countries	6	6

Key Figures for the Automotive Group

Automotive Group in € millions	2012	2011	Δ in %
Sales	19,505.1	18,354.2	6.3
EBITDA	2,404.6	2,225.8	8.0
in % of sales	12.3	12.1	
EBIT	1,068.8	1,024.5	4.3
in % of sales	5.5	5.6	
Research and development expenses	1,495.6	1,367.5	9.4
in % of sales	7.7	7.5	
Depreciation and amortization[1]	1,335.8	1,201.3	11.2
– thereof impairment[2]	75.0	22.8	228.9
Operating assets as at December 31	11,012.7	11,394.6	-3.4
EBIT in % of operating assets as at December 31	9.7	9.0	
Operating assets (average)	11,438.5	11,427.2	0.1
EBIT in % of operating assets (average)	9.3	9.0	
Capital expenditure[3]	1,035.9	968.5	7.0
in % of sales	5.3	5.3	
Number of employees as at December 31[4]	98,619	95,136	3.7
Adjusted sales[5]	19,497.9	18,354.2	6.2
Adjusted operating result (adjusted EBIT)[6]	1,544.7	1,470.1	5.1
in % of adjusted sales	7.9	8.0	

[1] Excluding impairment 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.

Development of the Divisions: Chassis & Safety

- Sales up 8.3%
- Sales up 4.8% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 4.5%

Sales volumes
Sales volumes in the Electronic Brake Systems business unit increased by 7.0% to 19.6 million units in 2012 compared to the previous year.

In the Hydraulic Brake Systems business unit, sales of brake boosters were up 4.1% year-on-year to 19.5 million units in the period under review. Sales of brake calipers were 5.5% higher than in the previous year, totaling 44.3 million units.

In the Passive Safety & Advanced Driver Assistance Systems business unit, sales of air bag control units were up 5.3% as against the previous year to 15.1 million units. Sales of driver assistance systems soared by 56.5% year-on-year to 2.7 million units.

Sales up 8.3%;
Sales up 4.8% before changes in the scope of consolidation and exchange rate effects
Sales in the Chassis & Safety division rose by 8.3% as against the previous year to €7,052.5 million in 2012 (PY: €6,510.8 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 4.8%.

Adjusted EBIT down 4.5%
The Chassis & Safety division's adjusted EBIT declined by €32.2 million or 4.5% year-on-year in 2012 to €686.8 million (PY: €719.0 million), equivalent to 9.7% (PY: 11.0%) of adjusted sales.

EBIT down 3.5%
As against the previous year, the Chassis & Safety division posted a decrease in EBIT of €23.4 million, or 3.5%, to €638.5 million (PY: €661.9 million) in 2012. The return on sales fell to 9.1% (PY: 10.2%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 15.6% (PY: 16.4%).

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT by €53.1 million (PY: €53.0 million).

Special effects in 2012
Smaller reversals of impairment losses and impairment losses on intangible assets and property, plant and equipment had a positive effect totaling €2.0 million in the Chassis & Safety division.

There was also a positive impact totaling €1.2 million in 2012 from special effects from the reversal of restructuring provisions no longer required.

Income of €1.6 million was recognized from the disposal of an at-equity investment of the Chassis & Safety division.

Special effects in 2012 had a positive impact totaling €4.8 million in the Chassis & Safety division.

Special effects in 2011
Special effects due to the reversal of restructuring provisions no longer required had a positive impact totaling €4.6 million for the Chassis & Safety division.

In 2011, impairment losses of €1.8 million were recognized on the property, plant and equipment of the Chassis & Safety division's operations at the Deer Park site in Illinois, U.S.A.

In addition, there were smaller impairment losses and reversals of the same on property, plant and equipment resulting in a net gain of €0.2 million.

The Chassis & Safety division generated income of €0.6 million from the negative difference on an asset deal.

Chassis & Safety in € millions	2012	2011	Δ in %
Sales	7,052.5	6,510.8	8.3
EBITDA	973.7	982.3	-0.9
in % of sales	13.8	15.1	
EBIT	638.5	661.9	-3.5
in % of sales	9.1	10.2	
Research and development expenses	511.7	463.1	10.5
in % of sales	7.3	7.1	
Depreciation and amortization[1]	335.2	320.4	4.6
– thereof impairment[2]	-2.0	1.6	-225.0
Operating assets as at December 31	3,970.1	4,014.9	-1.1
EBIT in % of operating assets as at December 31	16.1	16.5	
Operating assets (average)	4,097.4	4,024.7	1.8
EBIT in % of operating assets (average)	15.6	16.4	
Capital expenditure[3]	383.8	327.1	17.3
in % of sales	5.4	5.0	
Number of employees as at December 31[4]	34,517	32,665	5.7
Adjusted sales[5]	7,052.5	6,528.0	8.0
Adjusted operating result (adjusted EBIT)[6]	686.8	719.0	-4.5
in % of adjusted sales	9.7	11.0	

[1] Excluding impairment 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.

The review of an at-equity investment of the Chassis & Safety division resulted in an impairment loss of €5.4 million.

Special effects in 2011 had a negative impact totaling €1.8 million in the Chassis & Safety division.

Procurement

The year 2012 was characterized by stable procurement markets. Production supplies were ensured at all times. In contrast to the previous year, there were no negative influences on the supply chains due to natural disasters. Although a few insolvencies did occur, supply shortages to customers were avoided by using other supply sources and technical alternative solutions. The average prices of the raw materials (e.g. aluminum, steel, copper) were just under the previous year's level. However, price effects for rare earths continued to have an overall negative impact on the development of material prices.

Research and development

Research and development expenses rose by €48.6 million or 10.5% year-on-year to €511.7 million (PY: €463.1 million), corresponding to 7.3% (PY: 7.1%) of sales.

Depreciation and amortization

Depreciation and amortization rose by €14.8 million as against fiscal 2011 to €335.2 million (PY: €320.4 million) and amount to 4.8% (PY: 4.9%) of sales. This included reversals of impairment losses totaling €2.0 million in 2012 (PY: impairment losses totaling €1.6 million).

Operating assets
Operating assets in the Chassis & Safety division declined by €44.8 million year-on-year to €3,970.1 million as at December 31, 2012 (PY: €4,014.9 million).

Working capital posted a decrease of €156.0 million to €457.9 million (PY: €613.9 million). Inventories fell by €18.3 million to €337.7 million (PY: €356.0 million). Operating receivables declined by €81.0 million to €1,023.2 million as of the reporting date (PY: €1,104.2 million). Operating liabilities were up €56.7 million to €903.0 million (PY: €846.3 million).

Non-current operating assets amounted to €3,960.2 million (PY: €3,898.6 million), up €61.6 million year-on-year. Goodwill increased by €6.5 million as a result of currency effects to €2,340.1 million (PY: €2,333.6 million). Property, plant and equipment increased by €102.3 million to €1,372.3 million (PY: €1,270.0 million) due to investing activities. Other intangible assets fell by €42.7 million to €159.9 million (PY: €202.6 million). This was mainly due to the amortization of intangible assets from the purchase price allocation (PPA) in the amount of €53.1 million (PY: €53.0 million).

Changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets in the Chassis & Safety division.

Exchange rate effects reduced the Chassis & Safety division's total operating assets by €15.0 million in the year under review. In the previous year, this effect had increased operating assets by €16.4 million.

Average operating assets in the Chassis & Safety division increased by €72.7 million to €4,097.4 million as against fiscal 2011 (€4,024.7 million).

Capital expenditure (additions)
Additions to the Chassis & Safety division rose by €56.7 million year-on-year to €383.8 million (PY: €327.1 million). Capital expenditure amounted to 5.4% (PY: 5.0%) of sales.

Production capacity for new products and production technologies was set up and expanded in all business units. In addition to increasing production capacity in Europe, investments were made in expanding the locations in China, Mexico and the U.S.A. The main additions related to investments in the production of the next generation of electronic braking systems.

Employees
The number of employees in the Chassis & Safety division rose by 1,852 to 34,517 (PY: 32,665). The increase in all business units is primarily due to an adjustment in line with greater volumes. Capacity was mainly boosted in best-cost countries.

Development of the Divisions: Powertrain

- Sales up 5.0%
- Sales up 1.9% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 15.7%

Sales volumes

In spite of the difficult market environment in Europe, sales volumes in the Powertrain division grew by 5% year-on-year in 2012. The Transmission, Sensors & Actuators and Fuel Supply business units made a particular contribution to this increase. The Transmission business unit generated growth rates of over 20% in all regions. Growth was also generated by the Sensors & Actuators business unit, which posted sales increases of around 10% with its emission control products, and by the Fuel Supply business unit, which once again significantly increased its sales, particularly in Asia and NAFTA but also in Europe. The Hybrid Electric Vehicle business unit also increased its sales slightly as against the previous year, but above-average growth rates were not possible due to weak demand for vehicles with electric motors. As a supplier for vehicles with diesel engines and smaller gasoline engines, the Engine Systems business unit was particularly heavily impacted by the negative general economic development on the European sales market, leading to a slight decline in sales as compared to 2011.

Sales up 5.0%;
Sales up 1.9% before changes in the scope of consolidation and exchange rate effects

Sales in the Powertrain division rose by 5.0% as against the previous year to €6,134.8 million in 2012 (PY: €5,842.0 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 1.9%.

Adjusted EBIT up 15.7%

The Powertrain division's adjusted EBIT increased by €37.8 million or 15.7% year-on-year in 2012 to €278.6 million (PY: €240.8 million), equivalent to 4.5% (PY: 4.1%) of adjusted sales.

EBIT down 5.8%

As against the previous year, the Powertrain division posted a decrease in EBIT of €1.8 million, or 5.8%, to €29.5 million (PY: €31.3 million) in 2012. The return on sales amounted to 0.5% as in the previous year.

The return on capital employed (EBIT as a percentage of average operating assets) was unchanged as against the previous year at 1.0%.

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT by €175.9 million (PY: €173.9 million).

Special effects in 2012

The annual impairment test on goodwill resulted in an impairment loss of €75.6 million in the Powertrain division.

The division also recognized an impairment loss of €0.3 million on other intangible assets.

There was a positive impact totaling €2.7 million in 2012 from special effects from the reversal of restructuring provisions no longer required.

Special effects in 2012 had a negative impact totaling €73.2 million in the Powertrain division.

Special effects in 2011

The economic situation of the Fuel Supply business unit in the Powertrain division in Europe is characterized by insufficient and constantly decreasing 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.

Powertrain in € millions	2012	2011	Δ in %
Sales	6,134.8	5,842.0	5.0
EBITDA	590.2	484.7	21.8
in % of sales	9.6	8.3	
EBIT	29.5	31.3	-5.8
in % of sales	0.5	0.5	
Research and development expenses	535.9	454.9	17.8
in % of sales	8.7	7.8	
Depreciation and amortization[1]	560.7	453.4	23.7
– thereof impairment[2]	75.9	8.5	792.9
Operating assets as at December 31	2,866.3	3,080.1	-6.9
EBIT in % of operating assets as at December 31	1.0	1.0	
Operating assets (average)	3,028.1	3,027.4	0.0
EBIT in % of operating assets (average)	1.0	1.0	
Capital expenditure[3]	395.0	393.7	0.3
in % of sales	6.4	6.7	
Number of employees as at December 31[4]	31,028	30,805	0.7
Adjusted sales[5]	6,134.8	5,842.0	5.0
Adjusted operating result (adjusted EBIT)[6]	278.6	240.8	15.7
in % of adjusted sales	4.5	4.1	

[1] Excluding impairment 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.

The Powertrain division generated net income of €9.5 million in 2011 from special effects from the reversal of restructuring provisions that were no longer required and from lower healthcare obligations in connection with restructuring.

In 2011, impairment losses of €7.9 million were recognized on the property, plant and equipment of the Powertrain division's operations at the Deer Park site in Illinois, U.S.A.

In addition, there were smaller impairment losses on property, plant and equipment resulting in a total loss of €1.4 million not relating to restructuring activities.

Special effects in 2011 had a negative impact totaling €35.6 million in the Powertrain division.

Procurement

The raw materials markets (e.g. steel, copper) displayed low volatility, with prices decreasing slightly overall. The procurement cooperation with the Schaeffler Group was successfully continued and was intensified further in Asia and NAFTA in particular. With consistently stable procurement markets, there were no supply shortfalls. However, a fire at a manufacturer of plastic granulate should be noted. Internal and customer production shutdowns were avoided in this case, too, thanks to systematic crisis management and temporary use of alternative raw materials. Short-term reductions in the requirements of customers in Europe led to underutilization at mechanics suppliers, particularly in the second half of the year.

Research and development

Research and development expenses rose by €81.0 million or 17.8% year-on-year to €535.9 million (PY: €454.9 million), corresponding to 8.7% (PY: 7.8%) of sales.

Depreciation and amortization

Depreciation and amortization rose by €107.3 million as against fiscal 2011 to €560.7 million (PY: €453.4 million) and amount to 9.1% (PY: 7.8%) of sales. This included impairment losses totaling €75.9 million in 2012 (PY: €8.5 million).

Operating assets

Operating assets in the Powertrain division declined by €213.8 million year-on-year to €2,866.3 million as at December 31, 2012 (PY: €3,080.1 million).

Working capital was a key factor in this development, decreasing by €178.0 million to €243.1 million (PY: €421.1 million). Inventories fell by €62.1 million to €272.0 million (PY: €334.1 million). Operating receivables declined by €135.2 million to €903.4 million as of the reporting date (PY: €1,038.6 million). Total operating liabilities were down €19.3 million at €932.3 million (PY: €951.6 million).

Non-current operating assets amounted to €2,906.1 million (PY: €3,106.4 million), down €200.3 million year-on-year. Goodwill decreased by €109.4 million to €898.9 million (PY: €1,008.3 million), chiefly due to an impairment loss of €75.6 million resulting from the annual impairment test. Property, plant and equipment increased by €99.6 million to €1,637.8 million (PY: €1,538.2 million) due to investing activities. Other intangible assets fell by €189.6 million to €231.0 million (PY: €420.6 million). This was mainly due to the amortization of intangible assets from the purchase price allocation (PPA) in the amount of €175.9 million (PY: €173.9 million).

Changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets in the Powertrain division.

Exchange rate effects increased the Powertrain division's total operating assets by €15.0 million (PY: €12.4 million) in the year under review.

Average operating assets in the Powertrain division climbed by €0.7 million to €3,028.1 million as against fiscal 2011 (€3,027.4 million).

Capital expenditure (additions)

Additions to the Powertrain division rose by €1.3 million year-on-year to €395.0 million (PY: €393.7 million). Capital expenditure amounted to 6.4% (PY: 6.7%) of sales.

In the Engine Systems business unit, investments were made in the expansion of manufacturing facilities for engine injection systems. In addition, production capacity for the Sensors & Actuators and Transmission business units was also increased. Production capacity was increased at the German locations and in China, Romania, the Czech Republic and the U.S.A. In Brasov, Romania, investments were made in the establishment of a new plant for the Fuel Supply business unit.

Employees

The number of employees in the Powertrain division rose by 223 compared with the previous year to 31,028 (PY: 30,805). In line with the sales performance, there was an increase in the headcount in the Sensors & Actuators, Transmission and Fuel Supply business units. The number of employees in the Engine Systems business unit decreased. As a supplier for vehicles with diesel engines and smaller gasoline engines, this business unit was particularly heavily impacted by the negative general economic development on the European sales market.

Development of the Divisions: Interior

- Sales up 5.3%
- Sales up 3.3% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 13.5%

Sales volumes
Sales volumes in the Body & Security business unit were up year-on-year for the majority of the product groups in 2012. Particularly high increases were achieved for central body control units, access control and starting systems, door control units and tire pressure monitoring systems. The Infotainment & Connectivity business unit increased sales volumes of audio components in 2012, primarily due to the growing demand on the U.S. market. Sales volumes of multimedia systems decreased, 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 below the previous year's level. This decrease was mainly attributable to weaker OE business for commercial vehicles in Brazil, Asia and Western Europe, which was not entirely offset by replacement parts and aftermarket activities. In the Instrumentation & Driver HMI business unit, sales figures increased for the majority of the product groups. The highest increases related to sales volumes of instrument clusters, primarily in NAFTA and Asia.

Sales up 5.3%;
Sales up 3.3% before changes in the scope of consolidation and exchange rate effects
Sales in the Interior division rose by 5.3% as against the previous year to €6,434.2 million in 2012 (PY: €6,110.7 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 3.3%.

Adjusted EBIT up 13.5%
The Interior division's adjusted EBIT increased by €69.1 million or 13.5% year-on-year in 2012 to €579.3 million (PY: €510.2 million), equivalent to 9.0% (PY: 8.4%) of adjusted sales.

EBIT up 21.0%
As against the previous year, the Interior division posted an increase in EBIT of €69.6 million, or 21.0%, to €400.8 million (PY: €331.2 million) in 2012. The return on sales rose to 6.2% (PY: 5.4%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 9.3% (PY: 7.6%).

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT by €206.1 million (PY: €201.5 million).

Special effects in 2012
In the Interior division, special effects from the reversal of restructuring provisions no longer required had a positive impact totaling €29.0 million in 2012.

In addition, smaller impairment losses and reversals of impairment losses on intangible assets and property, plant and equipment resulted in expense totaling €1.1 million.

Special effects in 2012 had a positive impact totaling €27.9 million in the Interior division.

Special effects in 2011
The Interior division generated net income of €32.9 million from special effects, essentially from the reversal of restructuring provisions that were no longer required and from lower healthcare obligations in connection with restructuring.

In 2011, impairment losses of €12.0 million were recognized on the property, plant and equipment of the Interior division's operations at the Deer Park site in Illinois, U.S.A.

Interior in € millions	2012	2011	Δ in %
Sales	6,434.2	6,110.7	5.3
EBITDA	840.6	758.8	10.8
in % of sales	13.1	12.4	
EBIT	400.8	331.2	21.0
in % of sales	6.2	5.4	
Research and development expenses	448.0	449.6	-0.4
in % of sales	7.0	7.4	
Depreciation and amortization[1]	439.8	427.6	2.9
– thereof impairment[2]	1.1	12.7	-91.3
Operating assets as at December 31	4,176.2	4,299.6	-2.9
EBIT in % of operating assets as at December 31	9.6	7.7	
Operating assets (average)	4,313.0	4,375.1	-1.4
EBIT in % of operating assets (average)	9.3	7.6	
Capital expenditure[3]	257.1	247.7	3.8
in % of sales	4.0	4.1	
Number of employees as at December 31[4]	33,074	31,666	4.4
Adjusted sales[5]	6,427.0	6,098.4	5.4
Adjusted operating result (adjusted EBIT)[6]	579.3	510.2	13.5
in % of adjusted sales	9.0	8.4	

[1] Excluding impairment 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.

In addition, there were smaller impairment losses on property, plant and equipment resulting in a total loss of €0.7 million not relating to restructuring activities.

Special effects in 2011 had a positive impact totaling €20.2 million in the Interior division.

Procurement

The procurement market for the Interior division was marked by high demand for electronic and electromechanical components. As a result of corresponding capacity management, production supplies were ensured at all times. The weak euro resulted in increased procurement costs for purchases in U.S. dollars and particularly in Japanese yen. This primarily affected materials relating to displays, relays and passive components. With regard to raw materials, an increase in plastic granulate prices could be observed in the first half of 2012 but was offset by falling prices in the following months.

Research and development

Research and development expenses decreased by €1.6 million or 0.4% year-on-year to €448.0 million (PY: €449.6 million), corresponding to 7.0% (PY: 7.4%) of sales.

Depreciation and amortization

Depreciation and amortization rose by €12.2 million as against fiscal 2011 to €439.8 million (PY: €427.6 million) and amount to 6.8% (PY: 7.0%) of sales. This included impairment losses totaling €1.1 million in 2012 (PY: €12.7 million).

Operating assets

Operating assets in the Interior division declined by €123.4 million year-on-year to €4,176.2 million as at December 31, 2012 (PY: €4,299.6 million).

Working capital posted a decrease of €164.5 million to €557.2 million (PY: €721.7 million). Inventories fell by €14.6 million to €562.8 million (PY: €577.4 million). Operating receivables declined by €75.8 million to €911.2 million as of the reporting date (PY: €987.0 million). Operating liabilities were up €74.1 million to €916.8 million (PY: €842.7 million).

Non-current operating assets amounted to €3,817.6 million (PY: €4,065.7 million), down €248.1 million year-on-year. Goodwill increased by €22.9 million to €2,224.3 million (PY: €2,201.4 million). This increase mainly consists of €10.7 million from the acquisition of Omitec Group Ltd., Devizes, U.K., and €12.1 million from exchange rate effects. Property, plant and equipment, at €1,035.6 million, was slightly above the previous year's level of €987.0 million. Other intangible assets fell by €202.9 million to €464.2 million (PY: €667.1 million). This was mainly due to the amortization of intangible assets from the purchase price allocation (PPA) in the amount of €206.1 million (PY: €201.5 million).

The acquisition of Omitec Group Ltd., Devizes, U.K., as part of a share deal increased operating assets by €23.3 million. Other changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets.

Exchange rate effects reduced the Interior division's total operating assets by €7.6 million in the year under review. In the previous year, this effect had increased operating assets by €9.5 million.

Average operating assets in the Interior division decreased by €62.1 million to €4,313.0 million as against fiscal 2011 (€4,375.1 million).

Capital expenditure (additions)

Additions to the Interior division rose by €9.4 million year-on-year to €257.1 million (PY: €247.7 million). Capital expenditure amounted to 4.0% (PY: 4.1%) of sales.

Investments focused primarily on the expansion of manufacturing capacity for the Body & Security and Instrumentation & Driver HMI business units. Production capacity was invested in at the German locations and in China, Mexico and Romania.

Employees

The number of employees in the Interior division rose by 1,408 to 33,074 (PY: 31,666). Sales growth and further expansion of the employee base in R&D led to increases of 602 employees in the Body & Security business unit and of 774 employees in the Instrumentation & Driver HMI business unit. In the Commercial Vehicles & Aftermarket business unit, the decline in global commercial vehicle business led to a decrease of 252 employees, which was largely offset by the acquisition of Omitec Group Ltd., Devizes, U.K., with 231 employees. The number of employees in the Infotainment & Connectivity business unit increased by a total of 53, mainly as a result of further expansion of the location in Bizerte, Tunisia.

Key Figures for the Rubber Group

Rubber Group in € millions	2012	2011	Δ in %
Sales	13,261.7	12,176.6	8.9
EBITDA	2,521.7	2,041.5	23.5
in % of sales	19.0	16.8	
EBIT	2,077.8	1,612.8	28.8
in % of sales	15.7	13.2	
Research and development expenses	270.6	241.2	12.2
in % of sales	2.0	2.0	
Depreciation and amortization[1]	443.9	428.7	3.5
– thereof impairment[2]	-25.1	-2.4	-945.8
Operating assets as at December 31	5,333.7	4,863.5	9.7
EBIT in % of operating assets as at December 31	39.0	33.2	
Operating assets (average)	5,590.7	4,640.3	20.5
EBIT in % of operating assets (average)	37.2	34.8	
Capital expenditure[3]	981.2	747.7	31.2
in % of sales	7.4	6.1	
Number of employees as at December 31[4]	70,734	68,384	3.4
Adjusted sales[5]	13,079.4	12,176.6	7.4
Adjusted operating result (adjusted EBIT)[6]	2,064.1	1,640.4	25.8
in % of adjusted sales	15.8	13.5	

[1] Excluding impairment 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.

Development of the Divisions: Tires

- Sales up 10.9%
- Sales up 7.0% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 35.5%

Sales volumes

Sales volumes of passenger and light truck tires stagnated at the previous year's level. Original equipment business was up slightly year-on-year, and the passenger and light truck tire replacement business in APAC posted double-digit percentage gains in sales volumes. Passenger and light truck tire replacement business in EMEA was able to expand its market position in a much weaker market environment, while the level of volumes sold in The Americas did not completely fulfill expectations. Sales volumes in the commercial vehicle tire business were up 2% on the previous year's level, or down 2% year-on-year before changes in the scope of consolidation.

Sales up 10.9%;
Sales up 7.0% before changes in the scope of consolidation and exchange rate effects

Sales in the Tire division rose by 10.9% as against the previous year to €9,665.0 million in 2012 (PY: €8,717.7 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 7.0%.

Adjusted EBIT up 35.5%

The Tire division's adjusted EBIT increased by €424.8 million or 35.5% year-on-year in 2012 to €1,620.0 million (PY: €1,195.2 million), equivalent to 17.0% (PY: 13.7%) of adjusted sales.

EBIT up 36.8%

As against the previous year, the Tire division posted an increase in EBIT of €439.7 million, or 36.8%, to €1,635.4 million (PY: €1,195.7 million) in 2012. The return on sales rose to 16.9% (PY: 13.7%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 36.9% (PY: 33.6%).

Special effects in 2012

In NAFTA, lower pension obligations resulted in a positive effect of €6.3 million for the Tire division in 2012.

Reversals of impairment losses on property, plant and equipment had a positive effect totaling €25.1 million in the Tire division.

Special effects in 2012 had a positive impact totaling €31.4 million in the Tire division.

Special effects in 2011

Special effects, chiefly due to the reversal of restructuring provisions no longer required, had a positive impact totaling €4.8 million for the Tire division.

Procurement

Following the price increases in most material groups in 2011, the year 2012 saw an easing in comparison to the previous year. Market volatility remained at a high level but here, too, there was slight stabilization as against the previous year. The price for natural rubber was down 30% year-on-year on average, based on the SICOM quotations for the type TSR 20. Butadiene, one of the key materials used in the production of synthetic rubber, was 9% cheaper on average during 2012 than in 2011 for contracts in Europe and its price saw double-digit percentage decreases in the other regions.

The introduction of the EU tire label, together with the corporation-wide quality standards for our products, led to price tension, particularly with regard to synthetic rubber and products based on crude oil. This situation had a particular impact on some of the latest generation of materials that are needed to implement the division's premium product strategy.

Tires in € millions	2012	2011	Δ in %
Sales	9,665.0	8,717.7	10.9
EBITDA	1,974.0	1,526.5	29.3
in % of sales	20.4	17.5	
EBIT	1,635.4	1,195.7	36.8
in % of sales	16.9	13.7	
Research and development expenses	195.1	176.1	10.8
in % of sales	2.0	2.0	
Depreciation and amortization[1]	338.6	330.8	2.4
– thereof impairment[2]	-25.1	-3.2	-684.4
Operating assets as at December 31	4,154.3	3,796.6	9.4
EBIT in % of operating assets as at December 31	39.4	31.5	
Operating assets (average)	4,430.8	3,561.5	24.4
EBIT in % of operating assets (average)	36.9	33.6	
Capital expenditure[3]	830.2	637.1	30.3
in % of sales	8.6	7.3	
Number of employees as at December 31[4]	42,524	41,135	3.4
Adjusted sales[5]	9,534.3	8,717.7	9.4
Adjusted operating result (adjusted EBIT)[6]	1,620.0	1,195.2	35.5
in % of adjusted sales	17.0	13.7	

[1] Excluding impairment 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.

The ongoing cooperation with the Research & Development, Product Industrialization and Quality Assurance functions is therefore a key element of the optimization of purchasing. Through this cooperation, several initiatives were implemented in 2012, such as the “Supplier Value Leadership Program”. This enabled the division to generate savings despite the higher quantities required for production.

Furthermore, a number of programs for strategic cooperation with core suppliers were launched in the past year with the aim of increasing innovation potential by combining expertise as well as further developing the suppliers in our portfolio.

The availability of materials improved overall as compared to the prior year. The focus was placed on optimizing working capital while also ensuring availability.

Research and development
Research and development expenses rose by €19.0 million or 10.8% year-on-year to €195.1 million (PY: €176.1 million), corresponding to 2.0% (PY: 2.0%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €7.8 million as against fiscal 2011 to €338.6 million (PY: €330.8 million) and amount to 3.5% (PY: 3.8%) of sales. This included reversals of impairment losses totaling €25.1 million in 2012 (PY: €3.2 million).

Operating assets
Operating assets in the Tire division rose by €357.7 million year-on-year to €4,154.3 million as at December 31, 2012 (PY: €3,796.6 million).

The Tire division posted a €52.4 million decrease in working capital to €1,880.0 million (PY: €1,932.4 million). Inventories increased by €84.7 million to €1,442.3 million (PY: €1,357.6 million). Operating receivables declined by €105.4 million to €1,600.7 million as of the reporting date (PY: €1,706.1 million). Operating liabilities were up €31.7 million at €1,163.0 million (PY: €1,131.3 million).

Non-current operating assets amounted to €2,907.0 million (PY: €2,443.7 million), up €463.3 million year-on-year. This increase was essentially due to the €446.9 million rise in property, plant and equipment to €2,688.3 million (PY: €2,241.4 million). Goodwill increased by €1.0 million to €73.8 million (PY: €72.8 million) due to the acquisition of non-material business operations counteracted by non-material exchange rate effects. Changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets in the Tire division.

Exchange rate effects reduced the Tire division's total operating assets by €53.7 million in the year under review. In the previous year, this effect had reduced operating assets by €21.1 million.

Average operating assets in the Tire division increased by €869.3 million to €4,430.8 million as against fiscal 2011 (€3,561.5 million).

Capital expenditure (additions)

Additions to the Tire division rose by €193.1 million year-on-year to €830.2 million (PY: €637.1 million). Capital expenditure amounted to 8.6% (PY: 7.3%) of sales.

Investments in the Tire division focused on expanding capacity at European best-cost locations and in North and South America as well as Asia. In Kaluga, Russia, and Sumter, South Carolina, U.S.A., the division invested in establishing new plants. Quality assurance and cost-cutting measures were also implemented.

Employees

The number of employees in the Tire division increased by 1,389 to 42,524 (PY: 41,135). Expansion of manufacturing capacity led to an increase of 1,250 employees in the production companies in 2012. In addition, expansion projects at retail companies and the adjustment in line with the more globalized market focus in sales, development and administrative functions drove up staff numbers by 139. This included the increase in staff numbers across different functional areas in connection with the start-up of the two new passenger and light truck tire plants in Kaluga, Russia, and Sumter, South Carolina, U.S.A.

Development of the Divisions: ContiTech

- Sales up 3.6%
- Sales up 1.7% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 0.2%

Sales up 3.6%;
Sales up 1.7% before changes in the scope of consolidation and exchange rate effects

Sales in the ContiTech division rose by 3.6% year-on-year to €3,711.8 million in 2012 (PY: €3,583.1 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 1.7%.

Automotive replacement business posted the highest increase, but original equipment business and industrial business also generated sales growth.

Adjusted EBIT down 0.2%

The ContiTech division's adjusted EBIT declined by €1.1 million or 0.2% year-on-year in 2012 to €444.1 million (PY: €445.2 million), equivalent to 12.1% (PY: 12.4%) of adjusted sales.

EBIT up 6.1%

As against the previous year, the ContiTech division posted an increase in EBIT of €25.3 million, or 6.1%, to €442.4 million (PY: €417.1 million) in 2012. The return on sales rose to 11.9% (PY: 11.6%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 38.1% (PY: 38.7%).

Special effects in 2012

The acquisition of the molded brake components business of Freudenberg Sealing Technologies GmbH & Co. KG, Weinheim, Germany, resulted in income from a negative difference arising as part of the preliminary purchase price allocation and totaling €11.5 million.

The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., Grimsby, U.K., a subsidiary of ContiTech AG in the area of offshore hoses, resulted in further expenses of €4.0 million in 2012.

There was also a negative special effect from additional restructuring expenses in the amount of €0.1 million in 2012.

Special effects in 2012 had a positive impact totaling €7.4 million in the ContiTech division.

Special effects in 2011

The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., Grimsby, U.K., a subsidiary of ContiTech AG in the area of offshore hoses, resulted in further expenses of €10.7 million in 2011.

Smaller impairment losses totaling €0.7 million were recognized on property, plant and equipment in the ContiTech division.

The ContiTech division's total net income due to special effects from the reversal of provisions no longer required amounted to €0.3 million.

On July 7, 2011, Continental Industrias del Caucho S.A., Madrid, Spain, reached an agreement with the employee representatives to close its site in Coslada, Spain, by the end of 2011. The plant, which assembled air conditioning lines, started reporting losses after a major contract was lost at the end of 2009. The site was closed as at December 31, 2011. This resulted in restructuring expenses of €14.1 million in 2011.

Special effects in 2011 had a negative impact totaling €25.2 million in the ContiTech division.

ContiTech in € millions	2012	2011	Δ in %
Sales	3,711.8	3,583.1	3.6
EBITDA	547.7	515.0	6.3
in % of sales	14.8	14.4	
EBIT	442.4	417.1	6.1
in % of sales	11.9	11.6	
Research and development expenses	75.5	65.0	16.2
in % of sales	2.0	1.8	
Depreciation and amortization[1]	105.3	97.9	7.6
– thereof impairment[2]	0.0	0.8	
Operating assets as at December 31	1,179.4	1,066.9	10.5
EBIT in % of operating assets as at December 31	37.5	39.1	
Operating assets (average)	1,159.9	1,078.8	7.5
EBIT in % of operating assets (average)	38.1	38.7	
Capital expenditure[3]	151.0	110.6	36.5
in % of sales	4.1	3.1	
Number of employees as at December 31[4]	28,210	27,249	3.5
Adjusted sales[5]	3,660.2	3,583.1	2.2
Adjusted operating result (adjusted EBIT)[6]	444.1	445.2	-0.2
in % of adjusted sales	12.1	12.4	

[1] Excluding impairment 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.

Procurement

The situation with regard to availability of materials eased for the ContiTech division, too, in 2012. On an annual average basis, however, material prices were slightly higher than in the previous year. Strategies were developed in 2012 with the intention of ensuring availability of the high-performance materials required for the division's growth plans. A flexible approach combining local sourcing and central procurement provides the ideal basis for the division's broadly diversified product portfolio.

Research and development

Research and development expenses rose by €10.5 million or 16.2% year-on-year to €75.5 million (PY: €65.0 million), or 2.0% (PY: 1.8%) of sales.

Depreciation and amortization

Depreciation and amortization rose by €7.4 million as against fiscal 2011 to €105.3 million (PY: €97.9 million) and amounted to 2.8% (PY: 2.7%) of sales. There were no significant impairment losses in 2012 (PY: €0.8 million).

Operating assets

Operating assets in the ContiTech division increased by €112.5 million year-on-year to €1,179.4 million as at December 31, 2012 (PY: €1,066.9 million).

Working capital was down €14.2 million at €540.6 million (PY: €554.8 million). Inventories increased by €19.3 million to €383.9 million (PY: €364.6 million). Operating receivables increased by €17.1 million to €565.4 million as of the reporting date (PY: €548.3 million). Operating liabilities were up €50.6 million at €408.7 million (PY: €358.1 million).

Non-current operating assets amounted to €792.4 million (PY: €684.6 million), up €107.8 million as against the previous year. This increase was primarily due to the €85.2 million rise in property, plant and equipment to €653.3 million (PY: €568.1 million). Goodwill increased by €8.8 million to €85.1 million (PY: €76.3 million). This gain is essentially due to the acquisition of the automotive air conditioning business of the Parker Hannifin Corporation, Cleveland, Ohio, U.S.A. Exchange rate effects were only insignificant.

The acquisition of the automotive air conditioning business of the Parker Hannifin Corporation, Cleveland, Ohio, U.S.A., as part of a combined asset and share deal increased the ContiTech division's operating assets by €64.4 million. The acquisition of the molded brake components business of Freudenberg Sealing Technologies GmbH & Co. KG, Weinheim, Germany, as part of a combined asset and share deal led to a €12.6 million rise in operating assets. In addition, the acquisition of Specialised Belting Supplies Ltd., Thetford, U.K., as part of a share deal increased operating assets by €5.9 million.

Exchange rate effects reduced the ContiTech division's total operating assets by €1.0 million in the fiscal year. In the previous year, this effect had reduced operating assets by €11.1 million.

Average operating assets in the ContiTech division climbed by €81.1 million to €1,159.9 million as against fiscal 2011 (€1,078.8 million).

Capital expenditure (additions)

Additions to the ContiTech division rose by €40.4 million year-on-year to €151.0 million (PY: €110.6 million). Capital expenditure amounted to 4.1% (PY: 3.1%) of sales.

ContiTech invested in rationalizing production processes and expanding production capacity for new products. In addition to investments in Germany, the production facilities in China, Romania, Hungary, Mexico and Brazil in particular were expanded. In Serbia and Brazil, investments were made in the establishment of new plants for the Fluid Technology business unit.

Employees

The number of employees in the ContiTech division increased by 961 compared with the previous year to 28,210 (PY: 27,249). Both volume increases in the Benecke-Kaliko Group and Conveyor Belt Group business units and the acquisition of the automotive air conditioning business of the Parker Hannifin Corporation, Cleveland, Ohio, U.S.A. (Fluid Technology business unit), the molded brake components business of Freudenberg Sealing Technologies GmbH & Co. KG, Weinheim, Germany (Vibration Control business unit) and Specialised Belting Supplies Ltd., Thetford, U.K., (Conveyor Belt Group business unit) led to a further rise in staff numbers.

Net Assets, Financial and Earnings Position of the Parent Company

In addition to the reporting on the corporation as a whole, the performance of the parent company is presented separately below.

Unlike the consolidated financial statements, the annual financial statements of Continental AG are prepared in accordance with German commercial law (the German Commercial Code or *Handelsgesetzbuch – HGB* and the German Stock Corporation Act or *Aktiengesetz – AktG*). The management report of Continental AG has been combined with the consolidated report of the Continental Corporation in accordance with Section 315 (3) *HGB*, as the parent company's future risks and opportunities and its expected development are inextricably linked to that of the corporation as a whole. In addition, the following presentation of the parent company's business performance, including its results, net assets and financial position, provides a basis for understanding the Executive Board's proposal for the distribution of net income.

Net assets and financial position of Continental AG	**Dec. 31, 2012**	**Dec. 31, 2011**
Assets in € millions		
Intangible assets	12.3	9.3
Property, plant and equipment	1.2	1.5
Investments	11,059.9	11,072.7
Non-current assets	**11,073.4**	**11,083.5**
Inventories	0.0	0.0
Receivables and other assets	6,849.4	7,150.2
Short-term securities	0.0	—
Cash and cash equivalents	416.2	117.9
Current assets	**7,265.6**	**7,268.1**
Prepaid expenses and deferred charges	**25.6**	**79.9**
Total assets	**18,364.6**	**18,431.5**
Total equity and liabilities in € millions		
Subscribed capital	512.0	512.0
Capital reserves	4,179.1	4,179.1
Revenue reserves	54.7	54.7
Accumulated profits brought forward from the previous year	208.5	61.1
Net income	658.0	447.4
Shareholders' equity	**5,612.3**	**5,254.3**
Provisions	**722.7**	**661.6**
Liabilities	**12,029.5**	**12,515.5**
Deferred income	**0.1**	**0.1**
Total equity and liabilities	**18,364.6**	**18,431.5**
Gearing ratio in %	90.7	102.3
Equity ratio in %	30.6	28.5

Continental AG acts solely as a management and holding company for the Continental Corporation. In order to duly reflect the nature of Continental AG as a holding company, its net investment income is presented as its primary earnings figure.

Total assets declined by €66.9 million year-on-year to €18,364.6 million (PY: €18,431.5 million). On the assets side, the change is primarily due to the €310.4 million decrease in receivables from affiliated companies and the €54.3 million decrease in prepaid expenses. Offsetting this, cash and cash equivalents rose by €298.3 million.

Investments decreased by €12.8 million as against the previous year to €11,059.9 million (PY: €11,072.7 million) and now account for 60.2% of total assets after 60.1% in the previous year.

Prepaid expenses fell by €54.3 million to €25.6 million (PY: €79.9 million), chiefly as a result of the early repayment of the syndicated loan in January 2013.

On the equity and liabilities side, bank loans and overdrafts decreased by €905.7 million year-on-year to €2,621.2 million (PY: €3,526.9 million), corresponding to 25.7%. The reduction results primarily from an early partial repayment of the syndicated loan in the amount of €737.9 million and from the repayment of the loan from the European Investment Bank due in November 2012 in the amount of €300.0 million. Offsetting this, bonds increased by €243.0 million to €459.7 million (PY: €216.7 million) and liabilities to affiliated companies rose by €138.8 million to €8,889.0 million (PY: €8,750.2 million).

Provisions increased by €61.1 million to €722.7 million (PY: €661.6 million), primarily due to the €99.1 million increase in tax provisions to €457.8 million (PY: €358.7 million).

Equity increased by €358.0 million to €5,612.3 million (PY: €5,254.3 million). The decrease as a result of the dividend payment for 2011 in the amount of €300.0 million was more than offset by the net income of €658.0 million generated in fiscal 2012. The equity ratio therefore rose from 28.5% to 30.6%.

Net investment income increased by €219.7 million year-on-year to €1,448.8 million (PY: €1,229.1 million). As in the previous year, it mainly consisted of profit and loss transfers from the subsidiaries. The income from profit transfers essentially resulted from the German companies Continental Caoutchouc-Export-GmbH, Hanover (€647.2 million), Continental Automotive GmbH, Hanover (€539.4 million), and Formpolster GmbH, Hanover (€264.8 million). This was partly offset by expenses from loss transfers from UMG Beteiligungsgesellschaft mbH, Hanover, Germany (€38.8 million).

As in the previous year, other operating income and other operating expenses particularly include expenses and income from corporate overheads and cost credits and charges from or for other subsidiaries.

Net interest expense improved by €165.1 million year-on-year to €400.3 million in fiscal 2012 (PY: €565.4 million). The €185.7 million decline in interest expenses to €480.4 million (PY: €666.1 million) is primarily due to the repayment of net indebtedness as of the end of fiscal 2011 and the lower margins and interest rates for the syndicated loan than in the previous year.

As in the previous year, the tax expense of €149.2 million (PY: €36.2 million) includes non-imputable foreign withholding taxes; the previous year's tax expense was positively influenced by a tax refund for previous years.

After taking this tax expense into account, Continental AG posted net income for the year of €658.0 million (PY: €447.4 million). The after-tax return on equity was 11.7% (PY: 8.5%).

Taking into account the profit carryforward from the previous year of €208.5 million, retained earnings amounted to €866.5 million. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €2.25 per share. With 200,005,983 shares entitled to dividends, the total distribution will therefore amount to €450,013,461.75. The remaining amount is to be carried forward to new account.

We expect a slight decline in the operating results of our subsidiaries in fiscal 2013.

Statement of income of Continental AG in € millions	2012	2011
Net investment income	**1,448.8**	**1,229.1**
General administrative expenses	79.0	74.7
Other operating income	116.1	94.0
Other operating expenses	290.2	213.6
Income from other securities and long-term loans	11.8	14.2
Net interest expense	-400.3	-565.4
Result from ordinary activities	**807.2**	**483.6**
Income tax expense	-149.2	-36.2
Net income	**658.0**	**447.4**
Accumulated profits brought forward from the previous year	208.5	61.1
Retained earnings	**866.5**	**508.5**

Report Pursuant to Section 289 (4) and Section 315 (4) of the German Commercial Code *(Handelsgesetzbuch – HGB)*

1. Composition of subscribed capital

The subscribed capital of the company amounts to €512,015,316.48 as of the end of the reporting period and is divided into 200,005,983 no-par-value shares. These shares are, without exception, common shares; different classes of shares have not been issued and have not been provided for in the Articles of Incorporation. Each share bears voting and dividend rights from the time it is issued. Each share entitles the holder to one vote at the Annual Shareholders' Meeting (Article 20 (1) of the Articles of Incorporation).

2. Restrictions on voting rights or the transfer of shares

As part of Continental AG's investment agreement with Schaeffler KG, Mrs. Maria-Elisabeth Schaeffler and Mr. Georg F. W. Schaeffler concluded on August 20, 2008, which has since been transferred to the current Schaeffler AG by Schaeffler KG, the Schaeffler Group undertook to limit its shareholding in Continental AG to a maximum of 49.99% of the voting capital stock until August 31, 2012 ("maximum shareholding"), unless the Executive Board of Continental AG agrees to a higher shareholding. Since September 1, 2012, this obligation no longer exists.

3. Shareholdings exceeding 10% of voting rights

For details of the equity interests exceeding ten percent of the voting rights (reported level of equity interest), please refer to the notice in accordance with the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)* under Note 39 to the consolidated financial statements.

4. Bearers of shares with privileges

There are no shares with privileges granting control.

5. Type of voting right control for employee shareholdings

The company is not aware of any employees with shareholdings not directly exercising control of voting rights.

6. Provisions for the appointment and dismissal of members of the Executive Board and for the amendment of the Articles of Incorporation

a) In accordance with the Articles of Incorporation, the Executive Board consists of at least two members; beyond this the number of members of the Executive Board is determined by the Supervisory Board. Members of the Executive Board are appointed and dismissed in accordance with Section 84 of the German Stock Corporation Act *(Aktiengesetz – AktG)* in conjunction with Section 31 of the German Codetermination Act *(Mitbestimmungsgesetz – MitbestG)*. In line with this, the Supervisory Board is responsible for the appointment and dismissal of members of the Executive Board. It passes decisions with a majority of two-thirds of its members. If this majority is not reached, the so-called Mediation Committee must submit a nomination to the Supervisory Board for the appointment within one month of voting. Other nominations can also be submitted to the Supervisory Board in addition to the Mediation Committee's nomination. A simple majority of the votes is sufficient when voting on these nominations submitted to the Supervisory Board. In the event that voting results in a tie, a new vote takes place in which the Chairman of the Supervisory Board has the casting vote in accordance with Section 31 (4) *MitbestG*.

b) Amendments to the Articles of Incorporation are made by the Annual Shareholders' Meeting. In Article 20 (3) of the Articles of Incorporation, the Annual Shareholders' Meeting has exercised the option granted in Section 179 (1) Sentence 2 *AktG* to confer on the Supervisory Board the power to make amendments affecting only the wording of the Articles of Incorporation.

In accordance with Article 20 (2) of the Articles of Incorporation, resolutions of the Annual Shareholders' Meeting to amend the Articles of Incorporation are usually adopted by a simple majority and, insofar as a capital majority is required, by a simple majority of the capital rep-

resented unless otherwise stipulated by mandatory law or the Articles of Incorporation. The law prescribes a mandatory majority of three quarters of the share capital represented when resolutions are made, for example, for amendments to the Articles of Incorporation involving substantial capital measures, such as resolutions concerning the creation of authorized or contingent capital.

7. Authorizations of the Executive Board, particularly with regard to its options for issuing or withdrawing shares

7.1 The Executive Board can issue new shares only on the basis of resolutions by the Shareholders' Meeting.

a) By way of resolution of the Annual Shareholders' Meeting of April 23, 2009 (Article 4 (2) of the Articles of Incorporation), the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital by up to €66.0 million by issuing up to 25,781,250 new shares against cash or non-cash contributions by April 22, 2014 (Authorized Capital 2009).

In doing so, the Executive Board may exclude shareholders' pre-emptive rights with the approval of the Supervisory Board,

(1) if this is necessary in order to exclude any fractional amounts from shareholders' pre-emptive rights;

(2) if this is necessary in order to ensure that holders of option or conversion rights from warrant-linked bonds or convertible bonds are granted pre-emptive rights to new shares to the extent they would have been entitled after exercising their option or conversion rights or meeting the conversion requirement as shareholders;

(3) if capital is increased against cash contributions and the entire pro rata amount relating to shares issued on the basis of this authorization exceeds neither the amount of €43.265 million nor the amount of 10% of share capital at the time of this authorization first being exercised ("maximum amount") and the issue price of the new shares is not significantly less than the quoted price of shares of the same type already listed at the time the issue price is conclusively established. The pro rata amount of share capital relating to new or previously acquired treasury shares issued or sold during the term of this authorization with the simplified disapplication of pre-emptive rights as per or in accordance with Section 186 (3) Sentence 4 *AktG*, and the pro rata amount of share capital relating to shares that can or must be subscribed to on the basis of option or conversion rights or requirements issued during the term of this authorization with pre-emptive rights disapplied in accordance with Section 186 (3) Sentence 4 *AktG*, mutatis mutandis, must be deducted from this maximum amount;

(4) if new shares are issued against contributions in kind and the pro rata amount of share capital relating to the new shares does not exceed 10% of the share capital at the time of this authorization taking effect.

b) By way of resolution of the Annual Shareholders' Meeting of April 27, 2012 (Article 4 (3) of the Articles of Incorporation), the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital by up to €70.0 million by issuing new shares against cash or non-cash contributions by April 26, 2015 (Authorized Capital 2012).

In doing so, the Executive Board may exclude shareholders' pre-emptive rights with the approval of the Supervisory Board,

(1) if this is necessary in order to exclude any fractional amounts from shareholders' pre-emptive rights;

(2) if this is necessary in order to ensure that holders of option or conversion rights from warrant-linked bonds or convertible bonds are granted pre-emptive rights to new shares to the extent they would have been entitled after exercising their option or con-

version rights or meeting the conversion requirement as shareholders;

(3) if the capital is increased against cash contributions and the entire pro rata amount relating to shares to be issued and already issued against cash contributions using this authorization and disapplying pre-emptive rights exceeds neither the amount of €51.0 million nor the amount of 10% of share capital at the time of this authorization being exercised ("maximum amount") and the issue price of the new shares is not significantly less than the quoted price of shares of the same type already listed at the time the issue price is conclusively established. The pro rata amount of share capital relating to new or previously acquired treasury shares issued or sold during the term of this authorization with the simplified disapplication of pre-emptive rights as per or in accordance with Section 186 (3) Sentence 4 *AktG*, and the pro rata amount of share capital relating to shares that can or must be subscribed to on the basis of option or conversion rights or requirements issued during the term of this authorization with pre-emptive rights disapplied in accordance with Section 186 (3) Sentence 4 *AktG*, mutatis mutandis, must be deducted from this maximum amount.

c) The Executive Board is also authorized to issue new shares to the beneficiaries of the 2004 and 2008 stock option plans resolved by the Annual Shareholders' Meeting in accordance with the conditions of these plans. 47,900 pre-emptive rights have been issued that can be exercised when the exercise price is met. In total, no more than 47,900 shares can therefore be issued under the stock option plans. This corresponds to pro rata share capital of up to €122,624.

d) Finally, on the basis of the contingent capital in place in accordance with Article 4 (6) of the Articles of Incorporation, the Executive Board may issue up to 19,921,875 shares to the bearers or creditors of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds (or combinations of these instruments) that are issued by the company, or by domestic or foreign companies in which it directly or indirectly holds a majority interest, on the basis of the authorization resolved by the Annual Shareholders' Meeting of April 27, 2012, and that grant a conversion or option right in relation to bearer shares of the company or stipulate a conversion requirement. To date, none of the above rights have been issued on the basis of this authorization.

7.2 The Executive Board may only buy back shares under the conditions codified in Section 71 *AktG*. The Annual Shareholders' Meeting has not authorized the Executive Board to acquire treasury shares in line with Section 71 (1) Number 8 *AktG*.

8. Material agreements of the company subject to a change of control following a takeover bid and their consequences

The following material agreements are subject to a change of control at Continental AG:

a) The agreement concluded in January 2013 for a syndicated loan of €4.5 billion, which replaces the syndicated loan originally amounting to €13.5 billion that was in place as of the balance sheet date, grants each creditor the right to terminate the agreement prematurely and to demand repayment of the loans granted by it if one person or several persons acting in concert acquire control of Continental AG and subsequent negotiations concerning a continuation of the loan do not lead to an agreement. The term "control" is defined as the holding of more than 50% of the voting rights or if Continental AG concludes a domination agreement as defined under Section 291 *AktG* with Continental AG as the company dominated.

b) The bonds issued by a subsidiary of Continental AG, Conti-Gummi Finance B.V. Maastricht, Netherlands ("issuer"), on July 16, 2010, September 13, 2010, and Oc-tober 5, 2010, at a nominal amount of €750 million, €1,000 million, €625 million and €625 million respectively and guaranteed by Continental AG, and the bond issued by another subsidiary of Continental AG, Continental Rubber of America Corp.,

Wilmington, Delaware, U.S.A., on September 24, 2012, at a nominal amount of U.S. $950 million, entitle each bondholder to demand that the issuer redeem or acquire the bonds held by the bondholder at a price established in the bond conditions in the event of a change of control at Continental AG. The bond conditions define a change of control as one person or several persons acting in concert, pursuant to Section 2 (5) of the German Securities Acquisition and Takeover Act *(Wertpapiererwerbs- und Übernahmegesetz – WpÜG)*, holding more than 50% of the voting rights in Continental AG by means of acquisition or as a result of a merger or other form of combination with the participation of Continental AG. The holding of voting rights by Schaeffler GmbH (operating as Schaeffler AG following the change in its legal form), its legal successor or its affiliated companies does not constitute a change of control within the meaning of the bond conditions.

If a change of control occurs as described in the agreements above and a contractual partner or bondholder exercises its respective rights, it is possible that required follow-up financing may not be approved under the existing conditions, which could therefore lead to higher financing costs.

c) In 1996, Compagnie Financière Michelin and Continental AG founded MC Projects B.V. in the Netherlands, with each owning 50%. Michelin contributed the rights to the Uniroyal brand for Europe to the company. MC Projects B.V. licenses these rights to Continental. According to the agreements, this license can be terminated without notice if a major competitor in the tire business acquires more than 50% of the voting rights of Continental. In this case Michelin also has the right to acquire a majority in MC Projects B.V. and to have MC Projects B.V. increase its minority stake in the manufacturing company of Barum Continental s. r. o. in Otrokovice, Czech Republic, to 51%. In the case of such a change of control and the exercise of these rights, there could be losses in sales of the tire divisions and a reduction in the production capacity available to them.

9. **Compensation agreements of the company with members of the Executive Board or employees for the event of a takeover bid**
   No compensation agreements have been concluded between the company and the members of the Executive Board or employees providing for the event of a takeover bid.

Remuneration of the Executive Board

The total remuneration of the members of the Executive Board comprises a number of remuneration components. Specifically, these components comprise the fixed salary, the bonus including components with a long-term incentive effect, and additional benefits including post-employment benefits. Further details including the individual remuneration are specified in the Remuneration Report contained in the Corporate Governance Report starting on page 38. The Remuneration Report is a part of the Management Report.

Report on Subsequent Events

As at February 8, 2013, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items at December 31, 2012.

Dependent Company Report

Final declaration from the Executive Board's report on relations with affiliated companies pursuant to Section 312 of the German Stock Corporation Act *(Aktiengesetz – AktG)*

In fiscal 2012, Continental AG was a dependent company of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, as defined under Section 312 *AktG*. In line with Section 312 (1) *AktG*, the Executive Board of Continental AG has prepared a report on relations with affiliated companies, which contains the following final declaration:

"We declare that the company received an appropriate consideration for each transaction and measure listed in the report on relations with affiliated companies from January 1 to December 31, 2012, under the circumstances known to us at the time the transactions were made or the measures taken or not taken. To the extent the company suffered any detriment thereby, the company was granted the right to an appropriate compensation before the end of the 2012 fiscal year. The company did not suffer any detriment because of taking or refraining from measures."

Corporate Governance Declaration Pursuant to Section 289a of the German Commercial Code *(HGB)*

The Corporate Governance Declaration pursuant to Section 289a of the German Commercial Code *(Handelsgesetzbuch – HGB)* is available to our shareholders at www.continental-corporation.com under the Corporate Governance section of our Investor Relations site.

Risk Report

Continental's overall risk situation is analyzed and managed corporation-wide using the risk management system.

The management of the Continental Corporation is geared towards creating added value. For us, this means sustainably increasing the value of each individual business unit and the corporation as a whole. The aim is that Continental generates a long-term return on capital that exceeds our weighted-average costs of capital. We evaluate the risks and opportunities that arise responsibly and on an ongoing basis in order to achieve our goal of adding value.

We understand risk as the possibility of internal or external events occurring that can have a negative influence on the attainment of our strategic and operational targets. As a global corporation, Continental is exposed to a number of different risks that could impair business and, in extreme cases, endanger the company's existence. We accept manageable risks if the resulting opportunities lead us to expect to achieve a sustainable growth in value.

Risk management and internal control system

Pursuant to sections 289 (5) and 315 (2) of the German Commercial Code *(Handelsgesetzbuch – HGB)*, the main characteristics of the internal control and risk management system in respect of the accounting process must be described. All parts of the risk management system and internal control system which could have a material effect on the annual and consolidated financial statements must be included in the reporting.

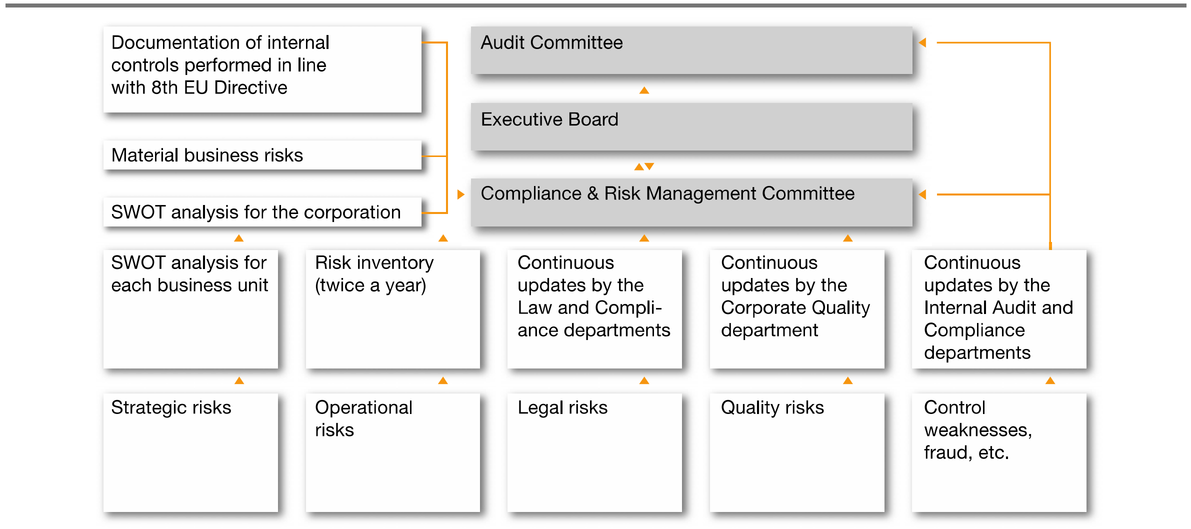
To ensure that risks are detected in time, their causes analyzed, and that the risks are assessed and avoided or at least minimized, there is a uniform corporation-wide risk management system, which also comprises the early detection system for risks to the company as a going concern in accordance with Section 91 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)*. The risk management system regulates the identification, recording, assessment, documentation and reporting of risks and is integrated into the company's strategy, planning, and budgeting processes. By including risk management in the management and reporting systems, Continental ensures that risk management is an integral component of business processes in the corporation.

In order to operate successfully as a company in our complex business sector and to ensure the effectiveness, efficiency and propriety of accounting and compliance with the relevant legal and sublegislative regulations, Continental AG has created an effective, integrated internal control system that encompasses all relevant business processes. The internal control system forms an integral part of the risk management system. A summary is therefore given below. The risk management system also includes the compliance management system which is described in detail in the Corporate Governance Declaration on pages 36 and 37.

The Executive Board is responsible for the risk management system and the internal control system. The Supervisory Board and the Audit Committee monitor and review its effectiveness. For this purpose, the internal control system includes regulations on reporting to the Supervisory Board, the Audit Committee, the Executive Board and the Compliance & Risk Management Committee.

The risk management system and the internal control system include all subsidiaries significant to the consolidated financial statements. Key elements of the corporation-wide control systems are the clear allocation of responsibilities and controls inherent in the system when preparing the financial statements. The dual control principle and separation of functions are fundamental principles of this organization. In addition, Continental's management ensures accounting that complies with the requirements of law via guidelines on the preparation of financial statements and on accounting, access authorizations for IT systems and regulations on the involvement of internal and external specialists.

Risk reporting



The effectiveness of the accounting-related internal control system is evaluated in major areas through effectiveness testing of the reporting units. The results of the effectiveness tests must be recorded in the Continental Corporation's reporting systems on a quarterly basis and are then evaluated by the corporation management. If any weaknesses are identified, the corporation's management initiates the necessary measures.

Identifying and assessing risk

Responsibility for identifying and assessing key risks is distributed among various levels and organizational units within Continental AG.

For purposes of risk identification, assessment and reporting, the management of each unit of the corporation analyzes the material risks relating to that unit. Local management can utilize instruments for this, such as local operations management handbooks, centrally-developed function-specific questionnaires and the process and control descriptions of InternalControls@Continental system, which were developed for all major companies for implementing the requirements of the revised version of the 8th EU Directive. In line with this, the key controls in business processes (e.g. purchase to pay, order to cash, asset management, HR, IT authorizations and the financial statement process) are controlled on a quarterly basis and reviewed with respect to their effectiveness.

Corporate functions such as Compliance, HR, Quality, Law, Purchasing, Insurance as well as Systems & Standards and Finance & Treasury also conduct additional audits with respect to the implementation of the respective corporate guidelines relevant to each area and analyze the processes concerned in terms of efficiency and potential weak points. The aim is to monitor compliance with the guidelines, identify potential risks in processes and to support the standardization of the operating processes.

The risks identified within the framework described above are categorized and evaluated according to specified criteria. Risks are normally assessed according to their negative impact on the unit's operating result.

The evaluation of risks and their impact on accounting takes into account their probability and their impact on sales, results or total assets.

In addition to the risk analyses carried out by the local management and the corporate functions, the internal audit department also performs audits.

Continental AG has set up a Compliance & Anti-Corruption Hotline to give the employees and third parties outside the corporation the opportunity to report violations of legal regulations, its fundamental values and ethical standards. Information on any kind of potential violations, such as bribery or antitrust behavior, but also accounting manipulation, can be reported anonymously via the hotline where permissible by law. Tips received by the hotline are examined and pursued by Corporate Audit and the Compliance department.

Risk reporting

As with risk assessment, the reporting of the identified, analyzed and assessed risks is also allocated to various organizational levels.

Using an extensive risk inventory, the units regularly report any changes to previously reported risks plus any new developments that could turn into material risks. Any new material risks arising between regular reporting dates have to be reported immediately. This also includes risks identified in the audits of the corporate functions. Furthermore, the central controlling function analyzes the key figures provided as part of this reporting at corporation and division level so that the causes of potential risks can be identified early on.

The Compliance & Risk Management Committee informs the Executive Board of Continental on a regular basis of existing risks, their assessment and the measures taken. In addition, there is reporting to the management levels below the Executive Board according to their area of responsibility. The Supervisory Board and the Audit Committee are also informed regularly of the major risks, any weaknesses in the control system and measures taken. Moreover, the auditors are to report to the Audit Committee of the Supervisory Board regarding any weaknesses in the accounting-related internal control system which the auditors identified as part of their audit activities.

Risk management

The responsible management initiates suitable countermeasures that are also documented in the reporting systems for each risk identified and assessed as material. The Compliance & Risk Management Committee monitors and consolidates the identified risks at the corporation level. It regularly reports to the Executive Board and recommends further measures if needed. The Executive Board discusses and resolves these measures, and reports to the Supervisory Board's Audit Committee. The responsible bodies continually monitor the development of all identified risks and the progress of actions initiated. Regular audits of the risk management process by the internal auditors guarantee its efficiency and further development.

Material risks

Financial risks

Continental is exposed to a number of risks associated with its syndicated loan.
In order to finance its current business activities as well as its investments and payment obligations, Continental concluded a new syndicated loan agreement in January 2013. Among other obligations, this syndicated loan agreement requires Continental to meet specific financial covenants, in particular a maximum leverage ratio (calculated as the ratio of Continental's consolidated net indebtedness to consolidated adjusted EBITDA) and a minimum interest cover ratio (calculated as the ratio of Continental's consolidated adjusted EBITDA to consolidated net interest). The maximum leverage ratio remains at 3.00. As with the previous syndicated loan, the interest cover ratio may not fall below 2.50.

Owing to the market and operational risks presented below, under certain circumstances it may not be possible for Continental to comply with the ratios described above. If Continental fails in one of these obligations, the creditors are entitled to declare their facilities immediately due and payable. In this case, the facilities granted under the syndicated loan will become due for payment immediately and/or all credit lines will be canceled. As at December 31, 2012, the leverage ratio was 0.93 and the interest cover ratio was 11.11.

Furthermore, under the terms of the loan agreements, a prepayment event also occurs in the event of a change-of-control at Continental AG. Under the loan agreements, a change-of-control occurs when one person or several persons acting in concert (pursuant to Section 2 (5) *Wertpapiererwerbs- und Übernahmegesetz – WpÜG)* acquire more than 50% of the voting rights in the company or gain control of the company by means of a domination agreement *(Beherrschungsvertrag)* pursuant to Section 291 of the German Stock Corporation Act *(Aktiengesetz – AktG)*. Upon occurrence of such change-of-control event, each lender may demand repayment of its share in all outstanding loans, plus interest, and all other amounts accrued under the loan agreements. A change-of-control could occur, in particular, if the shareholding of Schaeffler Group, Herzogenaurach, Germany, in the company's voting capital stock exceeds 50% due to Schaeffler acquiring further shares in the company or as a result of Schaeffler being regarded as acting in concert with other shareholders in the company, or if a domination agreement pursuant to Section 291 *AktG* is concluded between Schaeffler and the company. The loans described here could also become immediately due and payable if grounds for termination arise under other financing agreements for debt of a total amount of more than €75.0 million.

Continental faces liquidity risks due to its debt level and the turbulence on the financial markets.
Continental faces liquidity risks arising from tense credit markets and its existing financial liabilities. As Continental has above-average high levels of debt by industry standards (net indebtedness amounting to €5,319.9 million as at December 31, 2012), the situation on the credit markets (including the market for bonds) could make it difficult for the company to obtain financing at commercially reasonable terms. In addition, owing to Continental's non-investment grade rating, the company may be unable to continue its sale of receivables programs under which it has sold invoices to banks and other institutions in the past or to continue to issue bonds. Continental's cash from operating activities, current cash resources and available sources of external financing could be insufficient to meet Continental's future capital requirements.

Furthermore, disruptions on the financial markets, including the insolvency or restructuring of a number of financial institutions, and the generally restricted availability of liquidity could adversely affect the availability and cost of additional financing for Continental and also the availability of financing already arranged or committed. Continental's liquidity could also suffer if its suppliers introduce more stringent terms of payment or if its customers were to extend their agreed payment terms.

Continental's credit rating has been downgraded several times in the past and could be downgraded again in spite of the recent improvement.
Continental's net indebtedness increased significantly as a result of the acquisition of Siemens VDO in 2007. As a result, its equity-to-debt ratio also deteriorated substantially. In the course of 2008 and 2009, Continental's equity ratio decreased due to the effects of

the financial crisis and the resulting economic downturn on Continental's business and earnings situation as well as due to extraordinary goodwill impairment in the Powertrain, Interior and Chassis & Safety divisions. These developments, as well as the uncertainty regarding the effects of the stake held by Schaeffler in Continental's capital on its strategy and credit quality, caused the rating agencies covering Continental to downgrade its credit rating from BBB+ (Standard & Poor's) and Baa1 (Moody's), both with stable outlook, in June 2007, to "B+ Creditwatch Negative" (Standard & Poor's) and "B1 Negative Outlook" (Moody's) in August 2009. In May 2010, Standard & Poor's reduced Continental's rating further from B+ to "B Stable Outlook", in particular due to the influence of major shareholder Schaeffler on Continental's credit standing and Continental's forthcoming refinancing requirements for 2012. After Continental successfully placed the first high-yield bond, Moody's changed its forecast in July 2010 from "negative" to "stable". In 2011, Moody's and Standard & Poor's improved Continental's rating. Owing to the further improvement in the relevant credit metrics and the issue of another bond along with the corresponding reduction of the syndicated loan, Standard & Poor's raised Continental's rating in May 2012 to BB-, while Moody's improved its rating in September 2012 to Ba2. However, Continental's current credit rating still remains within the non-investment grade category, weighed down by the higher debt situation of its major shareholder. This makes it more difficult for Continental to refinance at terms that are economically more attractive. For example, as a consequence of its rating, Continental may be unable to continue the sale of receivables programs under which it has sold receivables to banks and other institutions in the past. This could also increase Continental's difficulty in issuing debt or even render this impossible.

It is uncertain whether the current global economic performance and production level in the automotive sector are sustainable. If the present situation proves not to be lasting, this could have negative effects on Continental's liquidity and lead to a further deterioration of its credit rating. Any such downgrade could have adverse effects on Continental's options for obtaining funding as well as its financing costs and interest expenses. A further downgrade of Continental's credit rating could also impact Continental's liquidity position if its suppliers change the terms of payment offered to Continental for this reason, for example by requesting payment in advance. These negative consequences could be exacerbated if credit insurers were to further restrict coverage for Continental's accounts payable. In addition, a further downgrade of Continental's credit rating could cause Continental's customers to extend their normal payment terms or even to terminate their business relationships with Continental and to engage other suppliers.

Continental's other financing agreements contain, and future debt obligations are also likely to contain, restrictive covenants and change-of-control provisions.

In addition to the risks related to the syndicated loan, Continental also faces risks in connection with its other financing agreements, especially the bond of €750.0 million (due for repayment in 2015) that Continental issued in July 2010, the bond of €1,000.0 million (due in 2017) that Continental issued in September 2010, the two bonds issued in October 2010 of €625.0 million each (due in 2016 and 2018 respectively), as well as the U.S. $950.0 million issued in September 2012 and due in 2019. These financing agreements contain numerous covenants that limit Continental's operations and require Continental to maintain specific financial ratios, as well as change-of-control provisions.

Any future credit financing is likely to contain similar restrictive covenants. If Continental fails to comply with any of these covenants or if a change-of-control occurs and Continental is unable to obtain a waiver from the respective lenders, this could provide grounds for the termination of the relevant debt instrument, which would then become immediately due and payable.

Continental is exposed to risks in connection with interest rate changes and hedging.

Continental is exposed to risks associated with changes in variable interest rates, as a number of Continental's credit facilities (in particular the facilities granted under the syndicated loan) bear interest at a floating rate. Therefore, an increase or decrease in interest rates would affect Continental's current interest expenses and its future refinancing costs. These risks are monitored and evaluated as part of Continental's interest rate management activities and managed by means of derivative interest rate hedging instruments. However, the future use of derivative interest rate

hedging instruments is also generally dependent on the availability of adequate credit lines. The availability of additional credit lines could be negatively affected by the disruptions in the financial markets, Continental's level of net indebtedness and its credit rating. Moreover, any hedging transactions executed in the form of derivative instruments could result in losses.

Risks related to the markets in which Continental operates

Continental could be exposed to significant risks in connection with a global financial and economic crisis.
Continental generates a large percentage (approximately 72%) of its sales from automotive manufacturers (OEMs). The remainder of Continental's sales is generated from the replacement or industrial markets, mainly in the replacement markets for passenger, van and truck tires, and to a lesser extent in the non-automotive end-markets of the other divisions.

During the most recent global economic crisis, automotive sales and production deteriorated substantially, resulting in a sharp decline in demand for Continental's products among its OEM customers. At present it is not known if the current economic situation will persist. If this is not the case, automobile production could fall again and remain at a low level for an extended period of time, especially in Europe and NAFTA, where Continental generated approximately 77% of its sales in 2012. A prolonged weakness in or deterioration of the global automotive markets or consumer credit markets is likely to adversely affect Continental's sales and results of operations. Tax increases that reduce consumers' disposable income could be another factor to weaken global demand on the vehicle markets. Especially in the member countries of the EU, tax increases are a likely reaction to the increase in public debt due to the various aid programs for banks and the EU's aid measures for its member states. Furthermore, Continental's five largest OEM customers (Daimler, Ford, General Motors, Renault-Nissan, and VW) generated approximately 42% of the Continental Corporation's sales in 2012. If one or more of Continental's OEM customers is lost or terminates a supply contract prematurely, the original investments made by Continental to provide such products or outstanding claims against such customers could be wholly or partially lost.

Continental operates in a cyclical industry.
Global production of vehicles and, as a result, sales to OEM customers (from whom Continental currently generates approximately 72% of its sales) experience major fluctuations in some cases. They depend, among other things, on general economic conditions and consumer spending and preferences, which can be affected by a number of factors, including fuel costs and the availability of consumer financing. As the volume of automotive production fluctuates, the demand for Continental's products also fluctuates, as OEMs generally do not commit to purchasing minimum quantities from their suppliers, or to fixed prices. It is difficult to predict future developments in the markets Continental serves, which creates problems in estimating the requirements for production capacity.

Since its business is characterized by high fixed costs, Continental risks underutilization of its facilities (particularly in the Automotive Group) or having insufficient capacity to meet customer demand if the markets in which Continental is active either decline or grow faster than Continental has anticipated. Underutilization of Continental's facilities could result in idle capacity costs, write-offs of inventories and losses on products due to falling average sale prices. Furthermore, falling production volumes can produce declines in sales and margins, as well as earnings.

The automotive supply industry is characterized by intense competition, which could reduce Continental's sales or put continued pressure on its sales prices.
The automotive supply industry is highly competitive and has been characterized by rapid technological change, high capital expenditures, intense pricing pressure from major customers, periods of oversupply and continuous advancements in process technologies and manufacturing facilities. As OEMs are increasingly affected by innovation and cost-cutting pressures from competitors, they seek price reductions in both the initial bidding process and during the term of the contract with their suppliers. In particular, vehicle manufacturers expect lower prices from suppliers for the same, and in some cases even enhanced functionality, as well as a consistently high product quality. Should Continental be unable to offset continued price reductions through improved operating efficiencies and reduced expenditures, price reductions could impact profit margins. In addition, Continental's existing competitors, in particular its competitors from Asia, may pursue an aggressive pricing policy and offer conditions to customers that are more favorable than Continental's. Aside from this, the markets in which Continental is active are characterized by a trend towards consolidation. Increased consolidation among Continental's competitors or between Conti-

nental's competitors and any of its OEM customers could allow competitors to further benefit from economies of scale, offer more comprehensive product portfolios and increase the size of their serviceable markets. This could require Continental to accept considerable reductions in its profit margins and the loss of market share due to price pressure. Furthermore, competitors may gain control over or influence suppliers or customers of Continental by shareholdings in such companies, which could adversely affect Continental's supplier relationships.

Continental is exposed to fluctuations in prices of raw materials, electronic components and energy.
For the divisions of the Automotive Group, cost increases could result, in particular, from rising rare earth, steel and electronic components prices, while the divisions of the Rubber Group are mainly affected by the development of prices of natural and synthetic rubber as well as oil. In the recent past, prices for rare earths, steel and electronic components, oil, natural and synthetic rubber have been subject to at times substantial fluctuations around the world. Continental does not actively hedge against the risk of rising prices of electronic components or raw materials by using derivative instruments. Therefore, if Continental is unable to compensate for or pass on its increased costs to customers, such price increases could have a significant adverse impact on Continental's results of operations.

While the lower prices for natural and synthetic rubber had a positive effect on Continental's earnings in 2009, price increases in 2010 resulted in additional costs of €483 million. In 2011 these additional costs even exceeded €950 million, and there was only a slight positive development in 2012. Even to the extent that Continental is able to pass on these additional costs by increasing its selling prices, it is possible that the positive effects of the price increases will not start until after the period in which the additional costs are incurred. In this case, the additional costs may not be compensated for at the time they arise.

As a manufacturer dependent on large quantities of energy for production purposes, Continental is also affected by changes in energy prices. If Continental is unable to compensate for or pass on its increased costs resulting from rising energy prices to customers, such price increases could have a material adverse impact on Continental's earnings situation.

Continental generates by far the greatest share of its total sales in Europe and, in particular, in Germany.
In 2012, Continental generated 55% of its total sales in Europe, of which 25% were generated in Germany. By comparison, 22% of Continental's total sales in 2012 were generated in NAFTA, 18% in Asia, and 5% in other countries. Therefore, in the event of an economic downturn in Europe or in Germany in particular, Continental's business and earnings situation could be affected more extensively than its competitors'. Furthermore, the automotive and tire markets in Europe and NAFTA are largely saturated. Continental is therefore seeking to generate more sales in emerging markets, particularly Asia, to mitigate the risks resulting from Continental's strong focus on Europe and Germany. In the current global economic situation, adverse changes in the geographical distribution of automotive demand could also cause Continental to suffer. The current level of automotive production is driven mainly by solid demand from the Asian and North American markets, while demand in Europe is losing relative importance. It is not known if the demand from Asia and North America will prove sustainable. If demand falls there and is not compensated for by an increase on another regional market, this could adversely affect demand for Continental products.

Continental is exposed to risks associated with the market trends and developments that could affect the vehicle mix sold by OEMs.
Continental currently generates approximately 72% of its sales from OEMs, mainly in its Automotive Group. Global production of vehicles and, as a result, business with OEM customers are currently subject to a number of market trends and technical developments that may affect the vehicle mix sold by OEMs.

- Due to increasingly stringent consumption and emission standards throughout the industrial world, including the EU, the U.S.A. and Japan, as well as oil price fluctuations and the resulting significant increase in fuel costs, car manufacturers are increasingly being forced to develop environmentally-friendly technologies aimed at lower fuel consumption and a reduction of CO_2 emissions. These developments have caused a trend towards lower-

consumption vehicles. The emerging markets are focusing strongly on the small car segment as their introduction to mobility.

- In recent years, the market segment of "affordable" cars (those costing less than $10,000/€7,000) has grown steadily, particularly in emerging markets such as China, India, Brazil and Eastern Europe.

- Over the past decade, hybrid electric vehicles, which combine a conventional internal combustion engine drive system with an electric drive system, have become increasingly popular. Their market share will increase further in the coming years. Furthermore, the first purely electric vehicles that use (just) one or more electric motors for propulsion have already been launched. If the industry is able to develop functional electric vehicles in line with consumers' expectations, these could gain a considerable market share in the medium to long term.

As a result of the market trends described above and technical developments, the vehicle mix sold by Continental's customers has shifted significantly over the past two years and can also change further in future.

Continental is exposed to risks associated with changes in currency exchange rates and hedging.
Continental operates worldwide and is therefore exposed to financial risks that arise from changes in exchange rates. This could result in losses if assets denominated in currencies with a falling exchange rate lose value, while at the same time liabilities denominated in currencies with a rising exchange rate appreciate. In addition, fluctuations in foreign exchange rates could enhance or minimize fluctuations in the prices of raw materials, as Continental sources a considerable portion of its raw materials in foreign currency. As a result of these factors, fluctuations in exchange rates can influence Continental's earnings situation.

External and internal transactions involving the delivery of products and services to third parties and companies of the Continental Corporation can result in cash inflows and outflows which are denominated in currencies other than the functional currency of the respective member of the Continental Corporation (transaction risk). In particular, Continental is exposed to fluctuations in the U.S. dollar, Mexican peso, Czech koruna, Chinese renminbi, Romanian leu, South Korean won, Japanese yen and Hungarian forint. To the extent that cash outflows of the respective member of the Continental Corporation in any one foreign currency are not offset by cash flows resulting from operational business in the same currency, the remaining net foreign currency exposure is hedged against on a case-by-case basis using the appropriate derivative instruments, particularly currency forwards, currency swaps and currency options with a term of up to twelve months.

Moreover, Continental is exposed to foreign exchange risks arising from external and internal loan agreements, which result from cash inflows and outflows in currencies which are denominated in currencies other than the functional currency of the respective member of the Continental Corporation. These foreign exchange risks are in general hedged against by using appropriate derivative instruments, particularly currency forwards/swaps and cross-currency interest-rate swaps.

Continental's hedging strategy could ultimately be unsuccessful. Moreover, any hedging transactions executed in the form of derivative instruments can result in losses. Continental's net foreign investments are, as a rule, not hedged against exchange rate fluctuations. In addition, a number of Continental's consolidated companies report their results in currencies other than the euro, which requires Continental to convert the relevant items into euro when preparing Continental's consolidated financial statements (translation risk). Translation risks are not hedged.

Risks related to Continental's business operations

The Powertrain division is exposed to particular operational risks.

Continental has identified a number of problem areas within the Powertrain division (consisting mainly of Siemens VDO businesses acquired in 2007), including a number of unprofitable long-term supply contracts, technical and quality problems involving product design, materials and mechanical parts, organizational problems and a high fixed cost base. Continental has initiated a turnaround program and several restructuring measures, involving among other things several changes at the division's management level and a reduction of the organizational structure. Continental has not yet succeeded in remedying all of the problems identified within the Powertrain division by implementing these measures. In particular, the technical and quality issues encountered by the Powertrain division have led in the past, and continue to lead, to cost-intensive application engineering. Moreover, the problems encountered by the Powertrain division were intensified due to the 2009 global recession and its consequences, since the Powertrain division's high fixed cost base prevented a quick adjustment of the cost structure to lower production volumes caused by the sharp decline in demand.

After the Powertrain division's reported EBIT passed the break-even point in 2011, the medium-term objective is still to generate a reported EBIT margin of 8% in this division by 2015. However, the problems described could make achieving this goal more difficult. The technical quality issues encountered by the Powertrain division with respect to product design, materials and mechanical parts could cause warranty or product liability claims which exceed customary standards by far and which may not be covered by Continental's insurance policies. Moreover, defective products could result in a loss of sales, contracts, customers or market acceptance. Furthermore, Continental could still be forced to dedicate a considerable amount of additional management capacity to solve these problems. Any failure or delay in solving the operational issues at the Powertrain division could affect Continental's competitive position in a number of important and rapidly growing market segments, such as the market for efficient engine management systems for gasoline and diesel engines and the hybrid electric or the electric vehicle market. As a consequence, the goodwill recognized for the Powertrain division could be subject to further impairment in future.

Continental depends on its ability to develop and launch innovative products in a timely manner, which includes providing sufficient funds for this purpose.

The future success of Continental depends on the company's ability to develop and launch new and improved products in a timely manner. The automotive market in particular is characterized by a trend towards higher performance and simultaneously more fuel-efficient, less polluting and quieter engines, growing demands by customers and stricter regulations with respect to engine efficiency and by the trend towards affordable cars and hybrid and electric vehicles. These new developments could entail technical challenges, the mastering of which could be very time-consuming for Continental. Consequently, Continental may be unable to develop innovative products and adapt them to market conditions quickly enough. Furthermore, developing new and improved products is very costly and therefore requires a substantial amount of funding. The general lack of liquidity caused by the disruptions in the financial markets, combined with the company's debt and non-investment grade rating, is adversely impacting the availability and cost of additional financing and could also limit the availability of credit already arranged or committed. If Continental is unable to provide sufficient funding to finance its development activities, it could lose its competitive position in a number of important and rapidly growing sub-markets. Continental devotes significant resources to research and development (R&D), especially in the divisions of its Automotive Group, but also in the Rubber Group. In recent years, Continental's R&D expenses in relation to total sales accounted for more than 5%. If Continental devotes resources to the pursuit of new technologies and products that fail to be accepted in the marketplace or that fail to be commercially viable, all or part of these significant R&D expenses may be lost and Continental's business may suffer.

Continental depends on a limited number of key suppliers for certain products.

Continental is subject to the risk of unavailability of certain raw materials and production materials. Although Continental's general policy is to source input products from a number of different suppliers, a single

sourcing cannot always be avoided and, consequently, Continental is dependent on certain suppliers in the Rubber Group as well as with respect to certain products manufactured in the Automotive Group. Since Continental's procurement logistics are mostly organized on a just-in-time or just-in-sequence basis, supply delays, cancellations, strikes, insufficient quantities or inadequate quality can lead to interruptions in production and, therefore, have a negative impact on Continental's business operations in these areas. Continental tries to limit these risks by endeavoring to select suppliers carefully and monitoring them regularly. However, if one of Continental's suppliers is unable to meet its delivery obligations for any reason (for example, insolvency, destruction of production plants or refusal to perform following a change in control), Continental may be unable to source input products from other suppliers upon short notice at the required volume. The economic crisis in 2009, in addition to the natural disasters in Japan and Thailand, have shown how quickly the financing strength and ability of some automotive suppliers to deliver can be impaired, even resulting in insolvency. This mainly affected Tier 2 and 3 suppliers (suppliers who sell their products to Tier 1 or 2 suppliers respectively), while Tier 1 suppliers (suppliers who sell their products to OEMs directly) were not affected to the same degree. Such developments and events can cause delays in the delivery or completion of Continental products or projects and could result in Continental having to purchase products or services from third parties at higher costs or even to financially support its own suppliers. Furthermore, in many cases OEM customers have approval rights with respect to the suppliers used by Continental, making it impossible for Continental to source input products from other suppliers upon short notice if the relevant OEM customer has not already approved other suppliers at an earlier point in time. All of this could lead to order cancellations or even claims for damages. Furthermore, Continental's reputation amongst OEM customers could suffer, with the possible consequence that they select a different supplier.

Continental is exposed to warranty and product liability claims.

Continental is constantly subject to product liability claims and proceedings alleging violations of due care, violation of warranty obligations or material defects, and claims arising from breaches of contract, recall campaigns or fines imposed by governments. Any such lawsuits, proceedings and other claims could result in increased costs for Continental. Moreover, defective products could result in loss of sales and of customer and market acceptance. Such risks are insured up to levels considered economically reasonable by Continental, but its insurance coverage could prove insufficient in individual cases. Additionally, any defect in one of Continental's products (in particular tires and other safety-related products) could also have a considerable adverse effect on the company's reputation and market perception. This could in turn have a significant negative impact on Continental's sales and income. Moreover, vehicle manufacturers are increasingly requiring a contribution from their suppliers for potential product liability, warranty and recall claims. In addition, Continental has long been subject to continuing efforts by its customers to change contract terms and conditions concerning warranty and recall participation. Furthermore, Continental manufactures many products pursuant to OEM customer specifications and quality requirements. If the products manufactured and delivered by Continental do not meet the requirements stipulated by its OEM customers at the agreed date of delivery, production of the relevant products is generally discontinued until the cause of the product defect has been identified and remedied. Furthermore, Continental's OEM customers could potentially claim damages, even if the cause of the defect is remedied at a later point in time. Besides this, failure to fulfill quality requirements could have an adverse effect on the market acceptance of Continental's other products and its market reputation in various market segments.

Continental's operations depend on qualified executives and key employees.

Continental's success depends on its Executive Board members, other qualified executives, and employees in key functions. The loss of executives or key employees could have a material adverse effect on the market position and prospects of Continental. Considerable expertise could be lost or access thereto gained by competitors. Due to the intense competition in the automotive industry, there is a risk of losing qualified employees to competitors or being unable to find a sufficient number of appropriate new employees. There is no guarantee that Continental will be successful in retaining these executives and the employees in key positions or in attracting new employees with corresponding qualifications. Continental tries to retain

the commitment of its qualified executives and key employees through interesting development perspectives and performance-based remuneration systems.

Continental is exposed to risks in connection with its pension commitments.

Continental provides defined benefit pension plans in Germany, the U.S.A., the U.K. and certain other countries. As at December 31, 2012, the pension obligations amounted to €4,126.7 million. These existing obligations are financed predominantly through externally invested pension plan assets. In 2006, Continental established legally independent trust funds under contractual trust arrangements (CTAs) for the funding of pension obligations of certain subsidiaries in Germany. In 2007, Continental assumed additional pension trust arrangements in connection with the acquisition of Siemens VDO. As at December 31, 2012, Continental's net pension obligations (pension obligations less pension plan assets) amounted to €2,312.3 million.

Continental's externally invested pension plan assets are funded through externally managed funds and insurance companies. While Continental generally prescribes the investment strategies applied by these funds, it does not determine their individual investment alternatives. The assets are invested in different asset classes including equity, fixed-income securities, real estate and other investment vehicles. The values attributable to the externally invested pension plan assets are subject to fluctuations in the capital markets that are beyond Continental's influence. Unfavorable developments in the capital markets could result in a substantial coverage shortfall for these pension obligations, resulting in a significant increase in Continental's net pension obligations.

Any such increase in Continental's net pension obligations could adversely affect Continental's financial condition due to an increased additional outflow of funds to finance the pension obligations. Also, Continental is exposed to risks associated with longevity and interest rate changes in connection with its pension commitments, as an interest rate decrease could have an adverse effect on Continental's liabilities under these pension plans. Furthermore, certain U.S.-based subsidiaries of Continental have entered into obligations to make contributions to healthcare costs of former employees and retirees. Accordingly, Continental is exposed to the risk that these costs will increase in the future.

Continental is exposed to risks in connection with the sale and transfer of shares in ContiTech AG to Continental Pension Trust e.V.

Continental Pension Trust e.V. is the trustee of the contractual trust arrangements (CTAs) for Continental AG, Continental Reifen Deutschland GmbH and Continental Teves AG & Co. oHG. On August 19, 2009, Continental AG, ContiTech Universe Verwaltungs-GmbH (a wholly owned subsidiary of the company; ContiTech Universe), ContiTech AG and Continental Pension Trust e.V. entered into an agreement concerning the sale and transfer of 22,148,273 shares (representing 24.9% of the capital stock of ContiTech AG) by ContiTech Universe to Continental Pension Trust against payment of a purchase price of €475.6 million. Among other stipulations, the purchase agreement contains a number of regulations on the sale and transfer of the shares to ContiTech AG. Under certain conditions, these authorize the Continental Pension Trust (i) to obligate ContiTech Universe to repurchase the ContiTech shares at a purchase price of at least €475.6 million, (ii) to sell its ContiTech shares to a third party, (iii) to sell its ContiTech shares to a third party which acquires the ContiTech shares held by ContiTech Universe, or (iv) to obligate ContiTech Universe to sell its ContiTech shares to a third party which acquires the ContiTech shares held by Continental Pension Trust.

Continental is exposed to risks in connection with its interest in MC Projects B.V. and its interests in other companies.

Continental and Compagnie Financière Michelin, Granges-Paccot, Switzerland ("Michelin"), each hold a 50% stake in MC Projects B.V., Amsterdam, Netherlands, a company to which Michelin contributed the rights to the Uniroyal brand for Europe as well as for certain countries outside Europe. In turn, MC Projects B.V. licensed to Continental certain rights to use the Uniroyal brand on or in connection with tires in Europe and elsewhere. Under the terms of the agreement concluded in this connection, both the agreement and the Uniroyal license can be terminated if a major competitor in the tire business acquires more than 50% of the voting rights of Continental AG or of its tire business. Furthermore, in this case Michelin also has the right to acquire a majority in MC Projects B.V. and to

have MC Projects B.V. increase its minority stake in the manufacturing company Barum Continental spol. s. r. o., Otrokovice, Czech Republic – Continental's largest tire plant in Europe – to 51%. These events could have an adverse effect on the business, financial and earnings position of Continental's Tire division.

Furthermore, Continental conducts its business in part via other companies carried at equity in which Continental holds an interest. Continental's ability to fully exploit the strategic potential in markets in which it operates through associated companies would be impaired if it were unable to agree with its partners or other interest groups on a strategy and the implementation thereof. Moreover, Continental could be subjected to fiduciary obligations to its partners or other shareholders, which could prevent or impede its ability to unilaterally expand in a business area in which the company in question operates. Additionally, there is a risk that the transfer of know-how and/or trade secrets to partners in the context of such collaborations could result in a drain of expertise from Continental. In particular, after a potential separation from a collaboration partner, there is no guarantee that the know-how and/or trade secrets transferred to such partner will not be used or disclosed to third parties, thereby adversely affecting Continental's competitive position.

Continental's operations rely on complex IT systems and networks.
Continental relies heavily on centralized, standardized information technology systems and networks to support business processes, as well as internal and external communications. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources. Although Continental has taken precautions to manage its risks related to system and network disruptions, an extended outage in a data center or telecommunications network or a similar event could lead to an extended unanticipated interruption of Continental's systems or networks. Furthermore, Continental has outsourced all its SAP operations and certain other business-critical systems to a third-party service provider, making it and thus Continental vulnerable to damage and loss caused by fire, natural hazards, terrorism, power failures, or other disturbance at such third party's facilities and networks.

Continental could be adversely affected by property loss and business interruption.
Fire, natural hazards, terrorism, power failures, or other disturbances at Continental's production facilities or within Continental's supply chain – with customers and with suppliers – can result in severe damage and loss. Such far-reaching negative consequences can also arise from political unrest or instability, especially in emerging economies. The risks arising from business interruption and loss of production are insured up to levels considered economically reasonable by Continental, but its insurance coverage could prove insufficient in individual cases. Furthermore, such events could injure or damage individuals, third party property or the environment, which could, among other things, lead to considerable financial costs for Continental.

Continental is exposed to risks from performance bonds that were granted to customers of its divested Public Transport Solutions business.
In the past, Continental has regularly granted performance bonds in connection with orders received from customers in its Public Transport Solutions business. On August 31, 2009, four subsidiaries of Continental AG, as sellers, entered into a framework agreement, which was closed on November 2, 2009, concerning the sale of the Public Transport Solutions business to subsidiaries of Trapeze Software Inc., Ontario, Canada ("Trapeze"). Under this framework agreement, Trapeze did not assume liability under any performance bonds issued by Continental to secure obligations under the contracts entered into with customers of the Public Transport Solutions business before or after the sale of the business.

Trapeze is obliged to indemnify Continental, should Continental make a payment in response to a performance bond. However, Continental's recourse is limited, unless the claim of the customer under the performance bond was made due to Trapeze's willful deceit or other intentional breach of the relevant customer contract. As a consequence, Continental may still be held liable under the performance bonds and has only limited recourse vis-à-vis Trapeze, although Continental can no longer influence the way in which the obligations towards the customer are fulfilled.

Legal, environmental and taxation risks

Continental could be held liable for soil, water or groundwater contamination or for risks related to hazardous materials.
Many of the sites at which Continental operates have been used for industrial purposes for many years, leading to risks of contamination and the resulting site restoration obligations. Moreover, Continental could be responsible for the remediation of areas adjacent to its sites if these areas were contaminated due to Continental's activities, that is, if Continental were to be found the polluter of these areas. Furthermore, soil, water and/or groundwater contamination has been discovered at a number of sites operated by Continental in the past, including Mayfield, Kentucky, U.S.A.; Adelheidsdorf, Germany; Culpeper, Virginia, U.S.A.; Gifhorn, Germany; Mechelen, Belgium; and Várzea Paulista, Brazil. The responsible authorities could assert claims against Continental, as the owner and/or tenant of the affected plots, for the examination or remediation of such soil and/or groundwater contamination, or order Continental to dispose of or treat contaminated soil excavated in the course of construction. Continental could also be sued for damages by the owner of plots leased by Continental or of other properties, if the authorities were to pursue claims against the relevant owner of the property and if Continental had caused the contamination.

On several of the sites where contamination has been discovered, remediation activities have already taken place upon order by or agreement with the competent authorities. Costs typically incurred in connection with such claims are generally difficult to predict. Moreover, if any contamination were to become a subject of public discussion, there is a risk that Continental's general reputation or its relations with its customers could be harmed.

Furthermore, at some of the sites at which Continental operates, hazardous materials were used in the past, such as asbestos-containing building materials used for heat insulation. The health and safety of third parties (for example former employees) may have been affected due to the use of such hazardous materials and Continental could therefore be exposed to related damage claims in the future.

Continental faces similar risks with respect to former sites which it has since sold. Even if Continental has contractually excluded or limited its liability vis-à-vis a purchaser, it could be held responsible for currently unknown contamination on properties which it previously owned or used. Likewise, there can be no assurance that environmentally hazardous substances will not pollute the environment or that Continental will not be called upon to remove such contamination.

Continental could become subject to additional burdensome environmental or safety regulations and additional regulations could adversely affect demand for Continental's products and services.
Continental, as a worldwide operating corporation, must observe a large number of different regulatory systems across the world that change frequently and are continuously evolving and becoming more stringent, particularly with respect to the environment, chemicals and hazardous materials, as well as health regulations. This also applies to air, water and soil pollution regulations and to waste legislation, all of which have recently become more stringent through new laws, particularly in the EU and the U.S.A. Moreover, Continental's sites and operations necessitate various permits and Continental has to comply with the requirements specified therein. In the past, adjusting to new requirements has necessitated significant investments and Continental assumes that further significant investments in this regard will be required in the future.

Furthermore, any additional regulations restricting or limiting car traffic with the aim of managing global warming (climate change) could lead to a material decrease in car sales and consequently adversely affect demand for Continental's products and services.

Continental could be unsuccessful in adequately protecting its intellectual property and technical expertise.
Continental's products and services are highly dependent upon its technological know-how and the scope and limitations of its proprietary rights therein. Continental has obtained or applied for a large number of patents and other industrial property rights that are of considerable importance to its business. The process of obtaining patent protection can be lengthy and expensive. Furthermore, patents may not be granted on currently pending or future applications or may not

be of sufficient scope or strength to provide Continental with meaningful protection or commercial advantage. In addition, although there is a presumption that patents are valid, this does not necessarily mean that the patent concerned is effective or that possible patent claims can be enforced to the degree necessary or desired.

A major part of Continental's know-how and trade secrets is not patented or cannot be protected through industrial property rights. Consequently, there is a risk that certain parts of Continental's know-how and trade secrets could be transferred to collaboration partners, customers and suppliers, including Continental's machinery suppliers or plant vendors. This poses a risk that competitors will copy Continental's know-how without incurring any expenses of their own.

Furthermore, prior to the acquisition of Siemens VDO by Continental, Siemens AG (i) contributed to Siemens VDO industrial property rights, know-how and software that were exclusively attributed to the "Siemens VDO Automotive" business unit, (ii) granted to Siemens VDO non-exclusive rights to use industrial property rights, know-how and software that were not exclusively attributed to the "Siemens VDO Automotive" business unit as of the contribution date, including certain industrial property rights of Siemens AG related to electric motors and voice recognition systems, and (iii) granted to Siemens VDO exclusive rights to use certain industrial property rights of Siemens AG related to the piezo fuel injection system. At the same time, Siemens AG retained non-exclusive, irrevocable, unrestricted, transferable and royalty-free rights to use such contributed industrial property rights, inventions on which such rights are based, know-how and software. As a consequence, Siemens AG may still use the industrial property rights, inventions on which such rights are based, know-how and software which were contributed to Siemens VDO, or for which non-exclusive rights of use were granted to Siemens VDO, to compete with Continental on the market or could license such industrial property to third parties, thereby materially adversely affecting Continental's competitive position.

Moreover, Continental has concluded a number of license, cross-license, collaboration and development agreements with its customers, competitors and other third parties under which Continental is granted rights to industrial property and/or know-how of such third parties. It is possible that license agreements could be terminated, under certain circumstances, in the event of the licensing partner's insolvency or bankruptcy and/or in the event of a change-of-control in either party, leaving Continental with reduced access to intellectual property rights to commercialize its own technologies.

There is a risk that Continental could infringe on the industrial property rights of third parties.

There is a risk that Continental could infringe on industrial property rights of third parties, since its competitors, suppliers and customers also submit a large number of inventions for industrial property protection. It is not always possible to determine with certainty whether there are effective and enforceable third-party industrial property rights to certain processes, methods or applications. Therefore, third parties could assert claims (including illegitimate ones) of alleged infringements of industrial property rights against Continental. As a result, Continental could be required to cease manufacturing, using or marketing the relevant technologies or products in certain countries or be forced to make changes to manufacturing processes and/or products. In addition, Continental could be liable to pay compensation for infringements or could be forced to purchase licenses to continue using technology from third parties.

Continental could be threatened with fines and claims for damages for alleged or actual antitrust behavior.

In 2007, the European Commission and the U.S. Department of Justice (DOJ) initiated their investigations into antitrust behavior in the marine hose market. The European Commission found Continental AG, ContiTech AG and Dunlop Oil & Marine Limited (DOM), in addition to other companies, to be responsible for violations of antitrust law. The proceedings of the European Commission and the DOJ, as well as the investigations initiated by authorities in other countries (Brazil, Japan, Australia, South Korea and Canada) against DOM for the infringement of national competition law have meanwhile been brought to a close or, as was the case with Canada, were not further pursued. DOM is still facing claims for damages by third parties due to the infringement of antitrust law as a result of the marine hose cartel. Class actions in the U.S.A. were settled. A claim brought before the British

High Court was also settled. However, further claims are still threatened in the United Kingdom and other countries (e.g. Japan, South Korea, Australia and Brazil).

In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva (CBIA) following a complaint of anticompetitive behavior in the area of commercialization of tachographs. On August 18, 2010, the Brazilian competition authorities determined an "invitation to cartel" and imposed a fine of BRL12 million (around €4.5 million) on CBIA, which was then reduced to BRL10.8 million. CBIA denies the accusation that it has infringed Brazilian antitrust law. However, an appeal lodged with the competent court of jurisdiction was unsuccessful in the first instance and is now pending before the next higher court. In addition, third parties may also claim damages from CBIA resulting from the infringement of Brazilian antitrust law.

On October 2, 2006, South African antitrust authorities received a complaint from a third party accusing several South African tire manufacturers of alleged antitrust behavior, including Continental Tyre South Africa (Pty.) Limited (CTSA), a company that is 74% owned by Continental. On August 31, 2010, the South African antitrust authorities came to the conclusion that CTSA had violated South African antitrust law and referred the matter to the responsible antitrust court for a decision. CTSA denies the allegation of infringements of South African antitrust law. However, the tribunal could impose a fine of up to 10% of CTSA's sales. In addition, third parties may also claim damages from CTSA resulting from the infringement of South African competition law.

On February 24, 2010, the European Commission conducted searches at several companies that manufacture wiring harnesses for automotive purposes, including S-Y Systems Technologies Europe GmbH (S-Y), Regensburg, Germany. Continental held a 50% share of S-Y until January 29, 2012. The European Commission announced that it has indications that the companies in question have violated EU antitrust law. Insofar as the European Commission determines that S-Y or Continental can be accused of antitrust behavior, it could impose a fine based on the severity and the duration of the violations not to exceed 10% of the previous year's sales of the participating company. Even if the European Commission determines that only S-Y exhibited antitrust behavior, it cannot be ruled out that the parent companies may be included in the fine due to joint and several liability.

On October 24, 2012, Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A., received a subpoena from the U.S. DOJ to submit certain documents in connection with the suspected involvement in violations of U.S. antitrust law in business with instrument clusters. On October 25, 2012, the South Korean antitrust authorities conducted a search of Continental Automotive Korea Ltd., Seongnam-si, South Korea, due to the suspected involvement in violations of South Korean antitrust law in business with instrument clusters. It remains to be seen whether and in what amount the South Korean antitrust authorities or the DOJ will impose fines against Continental Automotive Korea Ltd., Continental Automotive Systems US, Inc., or other companies in the corporation. Should the South Korean antitrust authorities find that Continental Automotive Korea Ltd. has violated antitrust law, they could impose a fine of up to 10% of the relevant sales in South Korea against the company. The DOJ may impose a fine of a maximum of U.S. $100 million, unless twice the company's profit or the losses for customers of the cartel would exceed this amount. Claims for damages by alleged victims would remain unaffected by any fines imposed. Continental has conducted internal audits in certain business units to check compliance with antitrust law. These audits revealed anticompetitive behavior with respect to two product groups. Continental took measures to end this behavior. There is a risk that antitrust authorities may conduct investigations due to this behavior and impose fines and that third parties, especially customers, may file claims for damages. The amount of such fines and any subsequent claims is unknown from the current perspective, but could be significant. It also cannot be ruled out that future internal audits may reveal further actual or potential violations of antitrust law that in turn could result in fines and claims for damages. In addition, alleged or actual antitrust behavior could seriously disrupt the relationships with business partners.

Continental might be exposed to tax risks regarding the use of tax loss and interest carryforwards in connection with changes in the shareholder structure of the company.
Section 8c of the German Corporate Income Tax Act *(Körperschaftsteuergesetz – KStG)* provides for the pro rata elimination of tax loss and interest carryforwards and current losses as a rule in cases where more than 25% and up to 50% of the shares in a company have been acquired within a five-year period by an individual purchaser. If more than 50% of the shares have been acquired by an individual shareholder, carryforwards and current losses are as a rule eliminated completely.

Continental could be subject to tax risks attributable to previous tax assessment periods.
Additional tax expenses could accrue at the level of the company or its subsidiaries in relation to previous tax assessment periods which have not been subject to a tax audit yet. The last completed tax audit for the company and its German subsidiaries related to the assessment periods up to and including 2007. A routine tax audit for the company and its German subsidiaries is currently being conducted by the German tax authorities for the assessment periods of 2008 to 2010. Tax audits are also pending in foreign jurisdictions for essentially the same assessment periods. As a result of the aforementioned tax audits, a material increase in the company's or its subsidiaries' tax burden is currently not expected. It cannot however be ruled out that tax audits may lead to an additional tax burden.

Furthermore, Continental is exposed to risks in connection with the takeover of Siemens VDO in 2007, since the tax indemnity provided by the seller of Siemens VDO does not cover the entire tax exposure potentially materializing for pre-acquisition periods.

Continental is exposed to risks from legal disputes.
Companies from the Continental Corporation are involved in a number of legal and arbitration proceedings and could become involved in other such proceedings in future. These proceedings could involve substantial claims for damages or payments, particularly in the U.S.A. Further information on legal disputes can be found in Note 34.

Statement on overall risk situation

In the opinion of the Executive Board, the risk situation of the Continental Corporation has not changed significantly in the past fiscal year. However, isolated risks from fiscal 2011 have been verified:

- For example, uncertainty regarding the recovery in the eurozone still persists. Accordingly, market risks in conjunction with falling demand remain high in Europe, which is precisely the most important market.

- However, despite the changes in individual risks, the analysis in the corporation-wide risk management system did not reveal any risks that, individually or collectively, pose a threat to the company or the corporation as going concerns. In the opinion of the Executive Board, there are also no discernible risks to the corporation as a going concern in the foreseeable future.

Report on Expected Developments

Forecast for economic development in selected regions

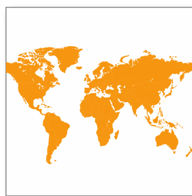
FORECAST ECONOMIC GROWTH (GDP) FOR 2013

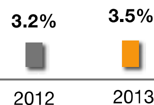
Source: IMF – World Economic Outlook 01/2013

CORE ASPECTS OF ECONOMIC DEVELOPMENT

Sources: IMF – World Economic Outlook 01/2013, OECD – Economic Outlook 2012, World Bank 12/2012, Central Banks 12/2012, German Federal Statistical Office 01/2013, Continental

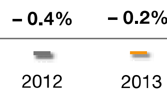
WORLD





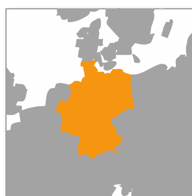
- **Uncertainty still curbing growth of advanced economies (+1.4%):** Continuing uncertainty regarding the solution to the debt crisis and efforts to consolidate national budgets in the eurozone will initially continue to curb further economic development. Indications of a significant increase in trading volume in 2013 point to restored confidence.
- **Growth in emerging and developing markets increases again (+5.5%):** The gradual increase in demand for credit indicates impetus for growth, particularly in China, India, and Indonesia.

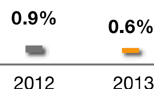
EUROZONE



- **Europe in the middle of “budget decade”:** Negative effects on economic growth resulting from budget consolidation measures in the EU states.
- **Measures to regain trust on the markets:** Creation of the EFSF and ESM rescue funds, fiscal pact to limit debt, European banking supervision by the ECB from 2014 to regain trust. At the same time, the ECB exerts influence on the secondary market for government bonds through purchases/sales as a monetary policy instrument (outright monetary transaction, OMT).
- **Gradual, long-term stabilization of the EU:** Ways to complete an economic union also lead to stabilization of the financial markets.

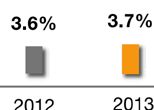
GERMANY





- **Modest growth outlook for 2013 due to several risk factors:** Thanks to its strong export business and industrial expertise, the German economy is robustly positioned but is subject to many risk factors, such as the uncertain growth momentum in the U.S.A. and China, high unemployment in Southern Europe and the progress of the energy turnaround in Germany.
- **Rising private consumption:** As a result of low price increases and private households’ increased scope for spending with relatively stable labor market conditions and an unchanged savings rate, an expansion of private consumption in real terms is anticipated.
- **Increasing corporate investments:** After overcoming the adjustment recessions in the eurozone, an increase in corporate investments at extremely favorable financing conditions can be expected. 2013 will still be dominated by investments in residential construction (“concrete gold”), but to a decreasing extent.

RUSSIA



- **Growth despite weaker demand for exports:** Growth in Russia will be driven by domestic demand, which will be boosted by fiscal policy and lending growth.
- **Only moderate consolidation of the budget:** The still robust budget situation will be used to a very limited extent for consolidation to even out the high budget deficit not dependent on crude oil.
- **Further increases in inflation:** The inflation rate is expected to increase again in 2013 to around 6.6% (2012: 5.1%).

U.S.A.

	2012	2013
	2.3%	2.0%

- **No reduction of public debt:** The budget compromise reached at the beginning of 2013 to avoid a budget freeze (fiscal cliff) allows for hardly any consolidation opportunities.
- **Consumption remains driver of economic growth:** As in 2012, economic growth is clearly linked to consumer demand, which will provide little stimulus.
- **Market for residential real estate stabilizes:** Interest among private customers in taking out personal loans has increased at a low “post-crisis” level.

BRAZIL

	2012	2013
	1.0%	3.5%

- **Increased growth due to infrastructure projects:** Private concessions granted for the construction of roads and railway lines and building projects for the 2014 Football World Cup and the 2016 Olympic Games stimulate growth. Public funding is required in addition.
- **Further declines in inflation:** Inflation is expected to fall to 4.9% in 2013 (2012: 5.2%).
- **Unemployment still comparatively low:** The unemployment rate is expected to reach 6.5% (2012: 6%).

JAPAN

	2012	2013
	2.0%	1.2%

- **Stimulation of the economy:** Moderate recovery of the economy as a result of stimulus programs introduced by the new Japanese government, supported by the central bank’s policy together with sustained domestic demand and recovering exports.
- **Public debt still highest in the world:** World’s highest debt ratio (debt/GDP in 2012: 237%; as against 79% in Germany) hardly reduced.
- **Combating deflation:** The Bank of Japan fights the current deflation of 0.8% in 2012 with massive bond purchases and easing of credit facilities. The government and the Bank of Japan aim for an inflation target of 2%.
- **Depreciation of the yen:** Export-dependent Japanese industry anticipates depreciation of the yen, resulting in improved competitiveness.

CHINA

	2012	2013
	7.8%	8.2%

- **Significant increase in growth:** Growth in 2013 is expected to exceed the target of 7.5% set for this year in the five-year plan.
- **Slight rise in exports:** With an anticipated increase of 2.5% (2012: 2.3%), exports will grow only slightly.
- **Inflation unchanged:** Stable monetary policy will continue to keep inflation at a level of around 3%.
- **Growing domestic demand:** As a result of initial measures taken by the new government to promote domestic demand – particularly through improved social security to reduce savings rates and through infrastructure measures – initial stimuli for domestic demand will be seen.

INDIA

	2012	2013
	4.5%	5.9%

- **Economic growth up significantly year-on-year:** Significant increase in growth due to political reforms that boost the economy. An inflation rate of just under 10% is expected.
- **Secure energy supply increases industrial output:** Measures to secure the energy supply will cause the output of the industrial sector to rise.
- **Structural reforms and reduction of subsidies:** Reforms and the reduction of subsidies that distort competition will promote an increase in foreign direct investments.

The global economy will continue to develop at two different speeds – a slower development with low growth rates in the advanced economies and much more dynamic growth in the emerging and developing markets.

Macroeconomic development

According to the forecast made in January 2013 by the International Monetary Fund (IMF), the global economy will generate GDP growth of 3.5% in 2013, up slightly on the 2012 level of 3.2%. Whereas the economic performance of advanced economies is likely to see sluggish growth of around 1.4% (2012: 1.3%), the emerging and developing markets will again display a much more dynamic development with an anticipated growth rate of 5.5% (2012: 5.1%). This forecast is based on the two assumptions that initial positive effects will be seen in surmounting the sovereign debt crisis in the eurozone and that the transitional solution for avoiding the fiscal cliff in the U.S.A. will have only a moderate negative impact on growth.

The advanced economies will be held back in particular by continuing general uncertainty regarding the long-term effects of measures to surmount the debt crisis, and especially the consolidation of national budgets in the eurozone. However, financing situations and conditions for business enterprises will improve again. The increasing trading volume anticipated in 2013 also indicates restored confidence in the advanced economies.

In the emerging and developing markets, there will be positive stimulus resulting from structural policy measures, government investments to stimulate the economy and improve infrastructure, and improved incentives for international direct investments.

However, there are still significant risks to the economic outlook. According to the IMF, the greatest risk relates to the possibility of further intensification of the debt crisis in the eurozone. It sees a further major risk factor, among other things, in a possible significant rise in the oil price as a result of increased geopolitical tensions. The IMF still expects the pace of growth in the advanced economies to continue to be curbed by necessary structural adjustments in the medium term.

The preceding information relating to the forecast reflects the current knowledge at the time this report went to press.

Development of key customer sectors

Global original equipment business with vehicle manufacturers has a significant influence on the performance of the Automotive divisions Chassis & Safety, Powertrain and Interior. The ContiTech division also generates more than 50% of its sales with the global vehicle manufacturers. By contrast, the global replacement markets for passenger, light truck and commercial vehicle tires are vital for the Tire division.

With regard to light vehicle production in 2013, we currently expect last year’s trend to continue, albeit at a slower pace. After a 5% increase in the previous year, in 2013 we expect global production of passenger cars, station wagons and light commercial vehicles to grow by 2% to 82.5 million units.

With a rise of around 5.5%, Asia will remain the driving force in this development – driven by the substantial growth anticipated in light vehicle production in China. In NAFTA, we anticipate low growth of 2%. By contrast, light vehicle production in Europe is likely to decrease again on account of the continuing economic crisis in large parts of the eurozone, but should stabilize at a level of 18.4 million units, corresponding to a reduction of 2%.

In 2014, we expect light vehicle production in Europe to pick up again slightly. We are also optimistic for the other regions, provided their general economy develops as expected. Overall, global light vehicle production could therefore record somewhat stronger growth in 2014 than in 2013, rising by 3% to 84.9 million units.

Production of light vehicles* in millions of units**

	2012	2013	2014
Europe	18.8	18.4	18.7
NAFTA	15.2	15.5	15.8
South America	4.3	4.4	4.6
Asia	40.3	42.5	43.8
Other markets	2.3	1.7	2.0
Worldwide	**80.9**	**82.5**	**84.9**

Source: IHS *passenger cars, station wagons, and light commercial vehicles <6t **preliminary figures and own estimates

Production of heavy vehicles* in thousands of units**

	2012	2013	2014
Europe	615	599	652
NAFTA	496	521	545
South America	185	205	228
Asia	1,817	1,967	2,039
Other markets	8	9	8
Worldwide	**3,121**	**3,301**	**3,472**

Source: IHS *commercial vehicles >6t **preliminary figures and own estimates

Global production of heavy vehicles should recover in 2013 following the sharp drop in the previous year. We are currently anticipating an increase of 6% to 3.3 million units worldwide. Improvements are expected in the Asian and South American markets in particular, but we also see signs of a recovery in NAFTA.

In 2014 we currently expect to see a further increase in heavy vehicle production of 5% to approximately 3.5 million units.

In our opinion, global demand for replacement passenger and light truck tires will increase again in 2013. We currently expect sales volumes to rise by 3% to reach more than one billion tires worldwide for the first time. Driven by China's economic growth, the Asian market is likely to see the strongest growth in 2013, with an expected increase of over 6%. In NAFTA, demand should improve after two years of slightly declining sales volumes and should reach roughly the level of 2010, corresponding to an increase of around 2%. Our assessment that the total number of cars driven in the U.S.A. has increased further gives us grounds for optimism here. Miles driven, which are calculated by the Department of Transportation (DOT) on a monthly basis, have also developed positively recently and are expected to amount to around their 2010 level.

We also expect an increase – of 4% – in sales volumes of replacement passenger and light truck tires in South America. For Europe, we anticipate a 3% recovery in 2013 following the previous year's sales slump, and a further improvement of 4% in 2014, driven primarily by the Eastern European markets. The sales volumes in the other regions should show similar growth in 2014, meaning that we currently expect an increase of 4% to 1.07 billion tires on a global level.

Following the decline in 2012, global demand for replacement commercial vehicle and trailer tires is expected to recover again in 2013. We currently anticipate global sales volumes in the order of 142.0 million truck tires, equivalent to 4% growth or an increase of 5.4 million truck tires. We expect Asia to grow by 4%. Owing to the size of the Asian market, this already represents a sales increase of some 2.9 million units.

The highest growth, amounting to 5.5%, is forecast for South America.

The European replacement market, which has recorded declining sales volumes since July 2011, should achieve a turnaround in 2013 and improve by 5% as against 2012 to approximately 19.8 million units. Here we anticipate catch-up effects among truck users, as toll statistics show that kilometers driven have increased slightly in the past two years, for Germany at least. (The toll statistics measure the kilometers driven on German roads by trucks subject to tolls with a permitted weight of 12 tonnes or more, and are published by the German Federal Office for Goods Transport on a monthly basis.)

In NAFTA, too, we expect to see catch-up effects in terms of demand for replacement commercial vehicle tires, which should cause truck tire sales volumes to grow by 2% to 21.0 million units. In contrast to the reduced demand for truck tires in 2012, the tonnage index calculated on a monthly basis by the American Trucking Association (ATA) was higher than its 2011 level. We anticipate a further rise in tonnage in 2013, meaning that increasing truck tire wear should also lead to the above-mentioned increase in demand for replacement commercial vehicle tires.

Provided these trends in the individual regions continue, we currently estimate that demand for replacement truck tires will grow by 4.5% in 2014 to total 148.4 million units worldwide.

Replacement sales of passenger, light truck and 4x4 tires*

in millions of units	2012	2013	2014
Europe	287.4	296.0	307.9
NAFTA	247.9	252.8	260.4
South America	59.3	61.5	63.8
Asia	277.6	295.4	315.4
Other markets	117.6	116.1	118.5
Worldwide	**989.8**	**1,021.8**	**1,066.0**

Source: LMC World Tyre Forecast Service *preliminary figures and own estimates

Replacement sales of truck tires*

in millions of units	2012	2013	2014
Europe	18.9	19.8	20.7
NAFTA	20.5	21.0	21.6
South America	12.7	13.4	14.2
Asia	67.3	70.2	74.0
Other markets	17.2	17.6	17.9
Worldwide	**136.6**	**142.0**	**148.4**

Source: LMC World Tyre Forecast Service *preliminary figures and own estimates

Outlook for the Continental Corporation

Expected business development in 2013
For 2013, we anticipate an increase in global light vehicle production (passenger cars, station wagons and light commercial vehicles) from 80.9 million units in 2012 to approximately 82.5 million in 2013. We also expect demand on Continental's key replacement tire markets to grow by around 2%. Based on these assumptions, we anticipate a rise in sales of around 5% to more than €34 billion for the Continental Corporation. Following the record year 2012, in which we already achieved many of our medium-term financial targets early, our goal is to maintain the high level of the adjusted EBIT margin at over 10% in 2013 as well. In the current year, there are risks for our sales and EBIT target arising from a slowdown in global economic growth, and particularly from a further decline in economic activity within the eurozone with corresponding effects on the assumptions regarding production trends in Europe. An equally important factor affecting achievement of our targets is an agreement between the political parties in the U.S.A. on further action regarding the "fiscal cliff", which must be reached in May 2013 at the latest. Otherwise, the spending cuts and tax increases which would then take effect automatically could have negative consequences for U.S. economic growth in the second half of 2013.

In contrast, opportunities may arise from a better development of the global economy, and particularly the eurozone and the U.S.A., than is currently described in the report on expected developments. Given a more favorable development, we should succeed in increasing consolidated sales by more than 5%.

In the coming years, we are essentially aiming for sales growth that is roughly 5 percentage points higher than the growth of our reference markets. However, this will be difficult to achieve in the current year due to a number of adverse influences, such as the very low demand for diesel vehicles in Southern European countries, the very modest demand for electromobility in our core markets, and the recent very weak development of replacement tire markets in Europe and NAFTA.

However, the very positive order situation of the Automotive divisions makes us confident that we will be able to return to the old growth target from 2014 at the latest. In 2012 alone, we acquired an order volume of approximately €25 billion in lifetime sales within the Automotive Group.

In this context, we are aiming for sales growth of more than 4% to over €20 billion in the Automotive Group in 2013. The adjusted EBIT margin should increase slightly year-on-year to over 8%. For the Powertrain and Interior divisions, we anticipate an improvement in the adjusted EBIT margin.

For the Rubber Group, we expect sales to climb by 6% to more than €14 billion, and the adjusted EBIT margin to exceed 14%.

We do not currently anticipate any significant negative impact from increases in raw material prices in 2013. Here we are assuming an average price of $3.60 per kilogram for natural rubber (TSR 20) and $2.50 per kilogram for butadiene, a base material for synthetic rubber. However, this estimate is still dependent on whether and to what extent demand for tires in Asia, Europe and NAFTA can recover over the course of 2013. We cannot rule out the possibility that, in the event of a faster recovery of the tire replacement markets than we had assumed, the price quotations for both of these raw materials may undergo significant increases over the remainder of the year. Whether and to what extent such increases in raw material prices can be quickly passed on to consumers in the current fiscal year remains to be seen.

As a result of good progress in reducing our indebtedness, we expect interest expenses for bank loans and bonds to decrease further in the current year. However, net interest expense will be negatively impacted by two extraordinary factors, which had a positive effect in some cases on the development in 2012. This negative impact will result firstly from a reclassification of interest expenses for pension provisions from personnel expenses to interest expenses. This effect alone amounts to approximately €90 million for the comparative period presented after first-time application. The effect takes place as part of an amendment to the financial reporting standards on accounting for pension expenses (IAS 19 [revised 2011]). It also results in a positive impact on EBIT in the same amount. Secondly, we anticipate a reversal of the positive development in the value of the early redemption options

from 2011 and 2012 for the bonds issued in 2010 and 2012. In the worst case, this effect could amount to around €250 million.

For 2013, we anticipate special effects of approximately €50 million. Amortization from the purchase price allocation resulting primarily from the acquisition of Siemens VDO in 2007 will amount to around €370 million in 2013 (2012: €445.5 million). By the end of 2014, the purchase price allocation from the acquisition of Siemens VDO will be fully amortized. The tax rate will be under 30% in 2013.

Capital expenditure in 2013 is expected to remain at the previous year's high level. One main focus will be expanding the presence of our automotive business in Asia. Within the Chassis & Safety division, the expansion of capacity for the new generation of braking systems MK 100 (ABS and ESC systems) remains the largest investment project. In the Powertrain division, we are investing particularly in manufacturing capacity for new generations of products at the locations in Limbach-Oberfrohna and Roding, Germany. The Interior division is increasing capacity for central control units at the location in Frenstat, Czech Republic, and expanding production of instrument clusters at the locations in Timisoara, Romania, and Wuhu and Shanghai, China.

Within the Rubber Group, capital expenditure will be focused on the establishment and expansion of the new tire plants in Kaluga, Russia, and Sumter, South Carolina, U.S.A., and on the expansion of the tire plant in Hefei, China. We are also investing in expanding production capacity in Puchov, Slovakia. With regard to commercial vehicle tires, the core projects for 2013 will be the expansion of capacity in Otrokovice, Czech Republic, and Mt. Vernon, Illinois, U.S.A. Capital expenditure in the ContiTech division will focus on increasing capacity in the Fluid Technology, Conveyor Belt Group and Power Transmission Group business units.

Further reduction of net indebtedness remains an important goal for Continental. Despite the proposed increase in the dividend distribution (by €150 million to €450 million) for fiscal 2012 (payable in 2013), net indebtedness is expected to decrease further in 2013. We are therefore planning for free cash flow of more than €700 million in the current year. Following the renegotiation of the syndicated loan in January 2013, there are no major refinancing requirements in the current year or the following year. Despite the negative influences on equity resulting from the first-time application of new accounting standards in the current year, the gearing ratio (net indebtedness to equity) should remain below 60% in 2013. As a result of the first-time application, pension provisions will rise by roughly €1.2 billion in comparison to the previous balance sheet disclosure. Taking into account deferred taxes, equity will accordingly decline by around €1.0 billion. However, we still expect the equity ratio to be above 32% in 2013.

As expected, the start to 2013 has proven difficult. Current assessments indicate that light vehicle production in Europe and NAFTA put together will fall by around 8% in the first quarter of 2013. For Europe alone, where Continental generates approximately 50% of its sales in the Automotive Group, we anticipate a decline in production of 12%. This downturn in the first quarter cannot be offset this year by growth in other regions, as was the case in the previous quarter (Q4 2012), for example. In addition, demand on the replacement tire markets in Europe and NAFTA is also continuing to develop sluggishly.

Overall, we therefore expect consolidated sales to decrease by 1% to 3% in comparison to the record sales in the first quarter of 2012. This decline in sales will mainly be attributable to the Automotive divisions. Over the remainder of the year, we anticipate a rise in consolidated sales, particularly in the second half of 2013, supported by an increase in global light vehicle production and demand on the replacement tire markets.

Outlook for 2014

In its latest World Economic Outlook from January 2013, the International Monetary Fund (IMF) forecasts an increase in global economic growth of more than 4% in 2014. According to the IMF, growth in the eurozone will pick up considerably then. In accordance with this, we anticipate a 3% increase in global light vehicle production in 2014 and expect demand on the replacement passenger and light truck tire markets to grow by around 4%.

If this scenario proves correct, the Continental Corporation is likely to post high single-digit growth in sales again in 2014. To accompany this growth with sufficient capacity, investments equivalent to roughly 6% of consolidated sales would be necessary, although we would still finance these entirely from free cash flow. Given a constant high dividend distribution, net indebtedness should decrease further. We would then use our regained financial strength to finance external growth to a greater extent than in the previous years.

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Consolidated Financial Statements

Statement of the Executive Board

The Executive Board of Continental AG is responsible for the preparation, completeness, and integrity of the consolidated financial statements, the management report for the corporation and Continental AG, and the other information provided in the annual report. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and include any necessary and appropriate estimates. The management report for the corporation and Continental AG contains an analysis of the net assets, financial and earnings position of the corporation, as well as further information provided in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch – HGB)*.

An effective internal management and control system is employed to ensure that the information used for the preparation of the consolidated financial statements, including the management report for the corporation and Continental AG as well as for internal reporting, is reliable. This includes standardized guidelines at corporation level for accounting and risk management in accordance with Section 91 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)* and an integrated financial control concept as part of the corporation's value-oriented management, plus internal audits. The Executive Board is thus in a position to identify significant risks at an early stage and to take countermeasures.

The Audit Committee of the Supervisory Board engaged KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, Germany, as the auditor for fiscal year 2012, pursuant to the resolution adopted by the Annual Shareholders' Meeting of Continental AG. KPMG audited the consolidated financial statements prepared in accordance with IFRS and the management report for the corporation and Continental AG. The auditor issued the report presented on the following page.

The consolidated financial statements, the management report for the corporation and Continental AG, the auditor's report, and the risk management system will be discussed in detail by the Audit Committee of the Supervisory Board together with the auditor. These documents relating to the annual financial statements and these reports will then be discussed with the entire Supervisory Board, also in the presence of the auditor, at the meeting of the Supervisory Board held to approve the financial statements.

Hanover, February 8, 2013

The Executive Board

Independent Auditor's Report

We have audited the consolidated financial statements prepared by the Continental Aktiengesellschaft, comprising the statement of income and comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and the notes to the consolidated financial statements together with the management report for the group and the company for the business year from January 1 to December 31, 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315a paragraph 1 *HGB* are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 *HGB* and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a paragraph 1 *HGB* and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hanover, February 15, 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

M. Ufer
Wirtschaftsprüfer

D. Papenberg
Wirtschaftsprüfer

Consolidated Statement of Income and Comprehensive Income

in € millions	See Note	2012	2011
Sales		**32,736.2**	**30,504.9**
Cost of sales		-25,680.3	-24,107.9
Gross margin on sales		**7,055.9**	**6,397.0**
Research and development expenses		-1,766.2	-1,608.7
Selling and logistics expenses		-1,587.4	-1,433.0
Administrative expenses		-684.5	-651.6
Other expenses and income	6	-15.5	-196.8
Income from at-equity accounted investees	8	63.4	86.5
Other income from investments	8	7.7	3.5
Earnings before interest and taxes		**3,073.4**	**2,596.9**
Interest income	9	27.8	29.2
Interest expense[1]	9	-434.6	-764.7
Net interest expense		**-406.8**	**-735.5**
Earnings before taxes		**2,666.6**	**1,861.4**
Income tax expense	10	-698.7	-536.2
Net income		**1,967.9**	**1,325.2**
Non-controlling interests		-84.4	-83.0
Net income attributable to the shareholders of the parent		1,883.5	1,242.2
Basic earnings per share in €	**36**	**9.42**	**6.21**
Diluted earnings per share in €	**36**	**9.42**	**6.21**

[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.

in € millions	See Note	2012	2011
Net income		**1,967.9**	**1,325.2**
Currency translation[1]		-24.2	-20.9
Difference from currency translation[1]		-25.0	-20.3
Reclassification adjustments to profit and loss		1.2	-0.7
Portion for at-equity accounted investees		-0.4	0.1
Available-for-sale financial assets		7.5	-2.2
Fair value adjustments		10.0	-2.2
Reclassification adjustments to profit and loss		-2.5	—
Cash flow hedges	29	28.4	122.4
Fair value adjustments		—	83.1
Reclassification adjustments to profit and loss		28.4	39.3
Deferred taxes on other comprehensive income		-21.0	-35.0
Other comprehensive income		**-9.3**	**64.3**
Comprehensive income		**1,958.6**	**1,389.5**
Attributable to non-controlling interests		-77.9	-94.3
Attributable to the shareholders of the parent		1,880.7	1,295.2

[1] Including non-controlling interests.

Consolidated Statement of Financial Position

Assets

in € millions	See Note	Dec. 31, 2012	Dec. 31, 2011
Goodwill	11	5,622.2	5,692.4
Other intangible assets	11	945.1	1,365.9
Property, plant and equipment	12	7,391.0	6,608.5
Investment property	13	19.8	19.0
Investments in at-equity accounted investees	14	376.5	480.2
Other investments	15	6.9	6.9
Deferred tax assets	16	639.1	565.8
Defined benefit assets	25	101.1	102.9
Long-term derivative instruments and interest-bearing investments	29	433.9	193.2
Other long-term financial assets	17	23.8	26.7
Other long-term assets	18	14.1	14.0
Non-current assets		**15,573.5**	**15,075.5**
Inventories	19	2,998.7	2,989.7
Trade accounts receivable	20	4,993.3	5,341.5
Other short-term financial assets	17	321.8	263.5
Other short-term assets	18	661.4	624.0
Income tax receivables	27	77.9	101.7
Short-term derivative instruments and interest-bearing investments	29	102.3	55.9
Cash and cash equivalents	21	2,397.2	1,541.2
Assets held for sale	22	211.8	45.4
Current assets		**11,764.4**	**10,962.9**
Total assets		**27,337.9**	**26,038.4**

Total equity and liabilities

in € millions	See Note	Dec. 31, 2012	Dec. 31, 2011
Subscribed capital		512.0	512.0
Capital reserves		4,155.6	4,155.6
Retained earnings		4,038.1	2,454.6
Other comprehensive income		61.7	23.9
Equity attributable to the shareholders of the parent		**8,767.4**	**7,146.1**
Non-controlling interests		377.4	397.2
Total equity	**23**	**9,144.8**	**7,543.3**
Provisions for pension liabilities and similar obligations	25	1,477.2	1,432.2
Deferred tax liabilities	16	274.5	269.3
Long-term provisions for other risks and obligations	26	308.5	321.8
Long-term portion of indebtedness	28	4,181.0	6,048.0
Other long-term financial liabilities	30	13.1	8.0
Other long-term liabilities	32	52.7	57.1
Non-current liabilities		**6,307.0**	**8,136.4**
Trade accounts payable	31	4,344.6	4,111.4
Income tax payables	27	713.3	648.2
Short-term provisions for other risks and obligations	26	597.0	905.1
Indebtedness	28	4,072.3	2,514.4
Other short-term financial liabilities	30	1,406.9	1,415.2
Other short-term liabilities	32	751.2	764.4
Liabilities held for sale	33	0.8	—
Current liabilities		**11,886.1**	**10,358.7**
Total equity and liabilities		**27,337.9**	**26,038.4**

Consolidated Statement of Cash Flows

in € millions	See Note	2012	2011
Net income		**1,967.9**	**1,325.2**
Income tax expense	10	698.7	536.2
Net interest expense	9	406.8	735.5
EBIT		**3,073.4**	**2,596.9**
Interest paid		-602.3	-691.0
Interest received		27.8	29.0
Income tax paid	10, 27	-683.5	-465.6
Dividends received		57.6	45.8
Depreciation, amortization and impairment	6, 11, 12, 13	1,781.2	1,631.1
Income from at-equity accounted and other investments, incl. impairment	8	-71.1	-90.0
Gains from the disposal of assets, companies and business operations		-10.8	-19.4
Other non-cash items	1	-13.3	-29.1
Changes in			
inventories	19	1.0	-335.3
trade accounts receivable	20	359.7	-810.8
notes sold		—	-6.7
trade accounts payable	31	203.2	596.9
pension and similar obligations	25	48.5	-2.8
other assets and liabilities		-386.9	-160.4
Cash flow arising from operating activities		**3,784.5**	**2,288.6**
Proceeds on disposal of property, plant and equipment, and intangible assets	11, 12	34.2	59.3
Capital expenditure on property, plant and equipment, and software	11, 12	-2,017.6	-1,721.2
Capital expenditure on intangible assets from development projects and miscellaneous	11	-63.1	-92.1
Proceeds on the disposal of companies and business operations	5	7.1	10.4
Acquisition of companies and business operations	5	-92.6	-54.5
Cash flow arising from investing activities		**-2,132.0**	**-1,798.1**
Cash flow before financing activities (free cash flow)		**1,652.5**	**490.5**
Changes in short-term debt		-336.8	945.8
Proceeds from the issuance of long-term debt		1,102.0	52.5
Principal repayments on long-term debt		-1,192.9	-1,398.8
Successive purchases		-18.1	-0.4
Dividends paid		-300.0	—
Dividends paid and repayment of capital to non-controlling interests		-49.5	-37.9
Cash and cash equivalents arising from first consolidation of subsidiaries		4.8	—
Cash flow arising from financing activities		**-790.5**	**-438.8**
Change in cash and cash equivalents		**862.0**	**51.7**
Cash and cash equivalents as at January 1		1,541.2	1,471.3
Effect of exchange rate changes on cash and cash equivalents		-6.0	18.2
Cash and cash equivalents as at December 31		**2,397.2**	**1,541.2**

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[3]	Difference from financial instruments[4]	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	—	—	—	1,242.2	—	—	—	**1,242.2**	83.0	**1,325.2**
Comprehensive income	—	—	—	—	—	-29.3	82.3	**53.0**	11.3	**64.3**
Net profit for the period	**—**	**—**	**—**	**1,242.2**	**—**	**-29.3**	**82.3**	**1,295.2**	**94.3**	**1,389.5**
Dividends paid/resolved	—	—	—	—	—	—	—	**—**	-37.9	**-37.9**
Issuance of shares[5]	—	—	6.6	—	—	—	—	**6.6**	—	**6.6**
Successive purchases	—	—	—	—	-15.3	—	—	**-15.3**	-3.2	**-18.5**
Other changes[6]	—	—	—	—	—	—	—	**—**	0.7	**0.7**
As at Dec. 31, 2011	**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	—	—	—	1,883.5	—	—	—	**1,883.5**	84.4	**1,967.9**
Comprehensive income	—	—	—	—	—	-28.2	25.4	**-2.8**	-6.5	**-9.3**
Net profit for the period	**—**	**—**	**—**	**1,883.5**	**—**	**-28.2**	**25.4**	**1,880.7**	**77.9**	**1,958.6**
Dividends paid	—	—	—	-300.0	—	—	—	**-300.0**	-49.5	**-349.5**
Successive purchases	—	—	—	—	36.6	—	—	**36.6**	-52.4	**-15.8**
Other changes[6]	—	—	—	—	4.0	—	—	**4.0**	4.2	**8.2**
As at Dec. 31, 2012	**200,006**	**512.0**	**4,155.6**	**4,038.1**	**-19.2**	**77.1**	**3.8**	**8,767.4**	**377.4**	**9,144.8**

See Notes 2, 5, 23 and 24 to the consolidated financial statements.

[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] Includes the shareholder's -€0.4 million (PY: €0.1 million) portion of the foreign currency translation of companies consolidated according to the equity method.

[4] In the period under review, the change in the difference from financial instruments, including deferred taxes, is mainly due to the voluntary termination of cash flow hedge accounting for interest rate hedges in 2011. The figure as at December 31, 2012, relates exclusively to available-for-sale financial assets.

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

[6] 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.

Notes to the Consolidated Financial Statements

1. Segment Reporting

Notes to segment reporting
In accordance with the provisions of IFRS 8, Operating Segments, Continental AG's segment reporting is based on the management approach with regard to segment identification, under which information regularly provided to the chief operating decision maker for decision-making purposes is considered decisive.

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. The activities of the Continental Corporation are divided into the following segments:

- **Chassis & Safety** develops and produces intelligent systems for an automotive future in which life is protected even better and injuries are avoided.
- **Powertrain** integrates innovative and efficient system solutions for the powertrain of today and of the future for vehicles of all categories.
- **Interior** offers solutions for information management in order to network drivers and passengers with their own and other vehicles, the environment and mobile devices.
- **Tires** has the right tires for every application – from passenger cars through trucks, buses and construction site vehicles to industrial vehicles, bicycles and motorcycles.
- **ContiTech** develops products made from rubber and plastic – products that are individually customized for a wide range of industries.

Other/Consolidation
This comprises centrally managed subsidiaries and affiliates, such as holding, financing and insurance companies, as well as the holding function of Continental AG and certain effects of consolidation. It also contains the effects on earnings of uncertain risks, particularly those in connection with contractual and similar claims or obligations representing, among other things, risks from investments that cannot currently be assigned to the individual operating units.

Internal control and reporting within the Continental Corporation is based on International Financial Reporting Standards (IFRS) as described in Note 2. The corporation measures the performance of its segments on the basis of their operating result (EBIT). This is expressed as the return on sales (ROS) and as the return on capital employed (ROCE), which represents EBIT as a percentage of average operating assets. Intersegment sales and other proceeds are determined at arm's length prices. For administrative services performed by centrally operated companies or by the corporation's management, costs are calculated on an arm's length basis in line with utilization. Where direct allocation is not possible, costs are assigned according to the services performed.

The segment assets comprise the operating assets of the assets side of the statement of financial position as of the end of the reporting period. The segment liabilities show the operating asset parts on the liabilities side of the statement of financial position.

Capital expenditure relates to additions to property, plant and equipment, and software as well as additions to capitalized finance leases and capitalized borrowing costs in line with IAS 23. Depreciation and amortization include the scheduled diminution of and the impairments on intangible assets, property, plant and equipment, and investment properties as well as the impairments on goodwill. This figure does not include impairments on financial investments.

Non-cash expenses/income mainly include the changes in provisions for pension liabilities – except for contributions to/withdrawals from the associated funds – and the profit or loss of and impairments on companies carried at equity. This item also includes carrying amount adjustments in profit or loss on the syndicated loan. The previous year's figures are presented comparably.

In the segment information broken down by region, sales are allocated on the basis of the domicile of the respective customers; in contrast, capital expenditure and segment assets are allocated on the basis of the domicile of the respective companies.

Segment report for 2012

in € millions	Chassis & Safety	Powertrain	Interior
External sales	7,012.8	6,073.7	6,417.6
Intercompany sales	39.7	61.1	16.6
Sales (total)	**7,052.5**	**6,134.8**	**6,434.2**
EBIT (segment result)	638.5	29.5	400.8
in % of sales	9.1	0.5	6.2
– thereof income from at-equity accounted investees	18.6	0.1	35.3
Capital expenditure[1]	383.8	395.0	257.1
in % of sales	5.4	6.4	4.0
Depreciation and amortization[2]	335.2	560.7	439.8
– thereof impairment[3]	-2.0	75.9	1.1
Internally generated intangible assets	23.0	8.2	29.5
Significant non-cash expenses/income	-5.8	-27.5	10.5
Segment assets	5,421.1	4,226.7	5,569.4
– thereof investments in at-equity accounted investees	79.5	128.5	73.7
Operating assets as at December 31	3,970.1	2,866.3	4,176.2
ROCE in % as at December 31	16.1	1.0	9.6
Operating assets (average)	4,097.4	3,028.1	4,313.0
ROCE in % (average)	15.6	1.0	9.3
Segment liabilities	1,451.0	1,360.4	1,393.2
Number of employees as at December 31[4]	34,517	31,028	33,074

in € millions	Tires	ContiTech	Other/ Consolidation	Continental Corporation
External sales	9,648.4	3,583.7	—	32,736.2
Intercompany sales	16.6	128.1	-262.1	—
Sales (total)	**9,665.0**	**3,711.8**	**-262.1**	**32,736.2**
EBIT (segment result)	1,635.4	442.4	-73.2	3,073.4
in % of sales	16.9	11.9	—	9.4
– thereof income from at-equity accounted investees	8.2	0.1	1.1	63.4
Capital expenditure[1]	830.2	151.0	2.3	2,019.4
in % of sales	8.6	4.1	—	6.2
Depreciation and amortization[2]	338.6	105.3	1.6	1,781.2
– thereof impairment[3]	-25.1	0.0	—	49.9
Internally generated intangible assets	—	—	—	60.7
Significant non-cash expenses/income	-11.0	-5.9	12.9	-26.8
Segment assets	6,075.7	1,796.9	20.9	23,110.7
– thereof investments in at-equity accounted investees	86.6	1.2	7.0	376.5
Operating assets as at December 31	4,154.3	1,179.4	-68.7	16,277.6
ROCE in % as at December 31	39.4	37.5	—	18.9
Operating assets (average)	4,430.8	1,159.9	-75.4	16,953.8
ROCE in % (average)	36.9	38.1	—	18.1
Segment liabilities	1,921.4	617.5	89.6	6,833.1
Number of employees as at December 31[4]	42,524	28,210	286	169,639

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

Segment report for 2011

in € millions	Chassis & Safety	Powertrain	Interior
External sales	6,473.7	5,782.9	6,096.9
Intercompany sales	37.1	59.1	13.8
Sales (total)	**6,510.8**	**5,842.0**	**6,110.7**
EBIT (segment result)	661.9	31.3	331.2
in % of sales	10.2	0.5	5.4
– thereof income from at-equity accounted investees	12.7	11.6	45.7
Capital expenditure[1]	327.1	393.7	247.7
in % of sales	5.0	6.7	4.1
Depreciation and amortization[2]	320.4	453.4	427.6
– thereof impairment[3]	1.6	8.5	12.7
Internally generated intangible assets	26.7	7.5	50.1
Significant non-cash expenses/income	11.4	37.3	61.6
Segment assets	5,459.9	4,580.6	5,789.5
– thereof investments in at-equity accounted investees	81.5	127.8	190.6
Operating assets as at December 31	4,014.9	3,080.1	4,299.6
ROCE in % as at December 31	16.5	1.0	7.7
Operating assets (average)	4,024.7	3,027.4	4,375.1
ROCE in % (average)	16.4	1.0	7.6
Segment liabilities	1,445.0	1,500.5	1,489.9
Number of employees as at December 31[4]	32,665	30,805	31,666

in € millions	Tires	ContiTech	Other/ Consolidation	Continental Corporation
External sales	8,704.9	3,446.5	—	30,504.9
Intercompany sales	12.8	136.6	-259.4	—
Sales (total)	**8,717.7**	**3,583.1**	**-259.4**	**30,504.9**
EBIT (segment result)	1,195.7	417.1	-40.3	2,596.9
in % of sales	13.7	11.6	—	8.5
– thereof income from at-equity accounted investees	15.6	0.2	0.7	86.5
Capital expenditure[1]	637.1	110.6	-4.9	1,711.3
in % of sales	7.3	3.1	—	5.6
Depreciation and amortization[2]	330.8	97.9	1.0	1,631.1
– thereof impairment[3]	-3.2	0.8	—	20.4
Internally generated intangible assets	—	—	—	84.3
Significant non-cash expenses/income	53.7	2.0	33.2	199.2
Segment assets	5,626.8	1,638.9	-21.8	23,073.9
– thereof investments in at-equity accounted investees	72.9	1.2	6.2	480.2
Operating assets as at December 31	3,796.6	1,066.9	-59.5	16,198.6
ROCE in % as at December 31	31.5	39.1	—	16.0
Operating assets (average)	3,561.5	1,078.8	-48.5	16,019.0
ROCE in % (average)	33.6	38.7	—	16.2
Segment liabilities	1,830.2	572.0	37.7	6,875.3
Number of employees as at December 31[4]	41,135	27,249	268	163,788

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

Reconciliation of EBIT to net income

in € millions	2012	2011
Chassis & Safety	638.5	661.9
Powertrain	29.5	31.3
Interior	400.8	331.2
Tires	1,635.4	1,195.7
ContiTech	442.4	417.1
Other/consolidation	-73.2	-40.3
EBIT	**3,073.4**	**2,596.9**
Net interest expense	-406.8	-735.5
Earnings before taxes	**2,666.6**	**1,861.4**
Income tax expense	-698.7	-536.2
Net income	**1,967.9**	**1,325.2**
Non-controlling interests	-84.4	-83.0
Net income attributable to the shareholders of the parent	**1,883.5**	**1,242.2**

Segment report by region

in € millions	Germany	Europe excluding Germany	NAFTA	Asia	Other countries	Continental Corporation
External sales 2012	**8,064.9**	**9,941.6**	**7,036.1**	**5,982.4**	**1,711.2**	**32,736.2**
External sales 2011	8,021.6	10,066.4	5,802.3	4,997.5	1,617.1	30,504.9
Capital expenditure 2012[1]	**449.0**	**700.2**	**378.7**	**320.1**	**171.4**	**2,019.4**
Capital expenditure 2011[1]	457.3	574.1	278.9	233.6	167.4	1,711.3
Segment assets as at Dec. 31, 2012	**9,124.2**	**6,154.0**	**3,755.3**	**3,266.6**	**810.6**	**23,110.7**
Segment assets as at Dec. 31, 2011	9,482.7	5,752.2	3,565.7	3,209.6	1,063.7	23,073.9
Number of employees as at Dec. 31, 2012[2]	**48,495**	**52,124**	**27,581**	**31,288**	**10,151**	**169,639**
Number of employees as at Dec. 31, 2011[2]	48,548	50,687	24,743	29,969	9,841	163,788

[1] Capital expenditure on property, plant and equipment, and software.
[2] Excluding trainees.

Reconciliation of total assets to operating assets

in € millions	Dec. 31, 2012	Dec. 31, 2011
Total assets	**27,337.9**	**26,038.4**
– Cash and cash equivalents	2,397.2	1,541.2
– Current and non-current derivative instruments, interest-bearing investments	536.2	249.1
– Other financial assets	61.4	52.5
Less financial assets	**2,994.8**	**1,842.8**
Less other non-operating assets	**515.4**	**454.2**
– Deferred tax assets	639.1	565.8
– Income tax receivables	77.9	101.7
Less income tax assets	**717.0**	**667.5**
Segment assets	**23,110.7**	**23,073.9**
Total liabilities and provisions	**18,193.1**	**18,495.1**
– Current and non-current indebtedness	8,253.3	8,562.4
– Interest payable	120.6	209.8
Less financial liabilities	**8,373.9**	**8,772.2**
– Deferred tax liabilities	274.5	269.3
– Income tax payables	713.3	648.2
Less income tax liabilities	**987.8**	**917.5**
Less other non-operating liabilities	**1,998.3**	**1,930.1**
Segment liabilities	**6,833.1**	**6,875.3**
Operating assets	**16,277.6**	**16,198.6**

2. General Information and Accounting Principles

Continental Aktiengesellschaft (Continental AG), whose registered office is Vahrenwalder Strasse 9, Hanover, Germany, is the parent company of the Continental Corporation and a listed stock corporation. It is registered in the commercial register (HRB No. 3527) of the Hanover Local Court *(Amtsgericht)*. Continental AG is a supplier to the automotive industry, with worldwide operations. The areas of business and main activities in which Continental AG is engaged are described in more detail in Note 1 on Segment Reporting. By way of resolution of the Executive Board of February 8, 2013, the consolidated financial statements of Continental AG for 2012 were approved and will be submitted to the electronic German Federal Gazette *(elektronischer Bundesanzeiger)* and published there.

The consolidated financial statements of Continental AG as at December 31, 2012, have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union, in accordance with EU Regulation (EC) No. 1606/2002 in conjunction with Section 315a (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)*. The term IFRS also includes the International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). All International Financial Reporting Standards mandatory for fiscal 2012 have been applied, subject to endorsement by the European Union.

The consolidated financial statements have been prepared on the basis of amortized cost, except for certain assets held for sale and derivative instruments recognized at fair value.

The annual financial statements of companies included in the corporation have been prepared using accounting principles consistently applied throughout the corporation, in accordance with IAS 27. The end of the reporting period for the subsidiary financial statements is the same as the end of the reporting period for the consolidated financial statements.

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.

Consolidation principles

All major subsidiaries in which Continental AG directly or indirectly holds a majority of voting rights and has the possibility of control have been included in the consolidated financial statements and fully consolidated. In accordance with the provisions of SIC-12 *(Consolidation – Special Purpose Entities)*, the consolidated financial statements must also include companies that can be controlled by Continental AG, despite a lack of majority voting rights, by other means such as agreements or guarantees. Companies were required to be included in the consolidated financial statements as a result of these provisions in 2012. The consolidation of subsidiaries is based on the purchase method, by offsetting the acquisition cost against the proportion of net assets attributed to the parent company at fair value at the date of acquisition. Intangible assets not previously recognized in the separate financial statements of the acquired company are carried at fair value. Intangible assets identified in the course of a business combination, including for example brand names, patents, technology, customer relationships and order backlogs, are recognized separately at the date of acquisition only if the requirements under IAS 38 for an intangible asset are met. Measurement at the time of acquisition is usually provisional only. Increases or reductions of assets and liabilities that become necessary within twelve months after the acquisition are adjusted accordingly. These adjustments are presented in the notes to the financial statements.

Any positive remaining amount is capitalized as goodwill. The share of non-controlling interests is measured using the pro rata (remeasured) net assets of the subsidiary. In order to ensure the recoverability of goodwill arising from an as yet incomplete measurement and the corresponding purchase price allocation, the goodwill is allocated provisionally to the affected business units as of the end of the reporting period. This provisional allocation can deviate significantly from the final allocation. Any negative difference that arises is recognized in other operating income.

The shares in the net assets of subsidiaries that are not attributable to the corporation are shown under “non-controlling interests” as a separate component of total equity.

For the term during which Continental or any of its subsidiaries have made binding offers to minority shareholders to purchase their shares in subsidiaries, those non-controlling interests are reported as financial liabilities and not as equity. These financial liabilities are recognized at fair value, which corresponds to the price offered. In the event that the offer was made simultaneously at the time of the business combination, then the fair value of the binding purchase offer is considered part of the total cost of acquisition. On the other hand, if that offer was made separately from the business combination, then any difference between the binding purchase offer and the carrying amount of the non-controlling interests at the time that offer is made is recognized outside profit or loss.

Once control has been obtained, any differences arising from successive purchases of shares from non-controlling interests between the purchase price and the carrying amount of those non-controlling interests are recognized outside profit or loss.

Where there are successive purchases of shares resulting in control, the difference between the carrying amount and the fair value at the time of first-time consolidation for those shares already held is recognized in profit and loss under other income and expenses.

Significant investments where Continental AG holds between 20.0% and 50.0% of the voting rights, thereby enabling it to exert significant influence on the associated companies, are accounted for using the equity method. No companies are included in the

consolidated financial statements using the proportionate consolidation method.

Associates are included using the equity method in which the carrying amount is adjusted to reflect the share in the associate's net equity. If the annual financial statements of the associates are not available, the pro rata earnings or losses are recognized as necessary based on estimated amounts. Goodwill arising from first-time consolidation is reported using the equity method. Goodwill is not amortized but the carrying amount of investments in associates consolidated using the equity method is tested for impairment if there are relevant indications.

Companies that are dormant or have only a low level of business activity and therefore no significant impact on the net assets, financial and earnings position of the Continental Corporation are not included in the consolidated financial statements. Such companies are recognized in the consolidated financial statements at cost unless their fair value can be determined in accordance with IAS 39.

Intercompany receivables and liabilities, in addition to income and expenses, are eliminated on consolidation. Intercompany profits arising from internal transactions, and dividend payments made within the corporation, are eliminated on consolidation. Deferred taxes on the elimination of intercompany transactions are carried in the amount derived from the average income tax rate for the corporation.

Currency translation

The assets and liabilities of foreign subsidiaries with a functional currency other than the euro are translated into euro at the year-end middle rates. The statement of comprehensive income is translated at the average exchange rates for the period. Differences resulting from currency translation are recognized in the difference from currency translation until the disposal of the subsidiary, without recognizing deferred taxes.

In the separate financial statements of Continental AG and its subsidiaries, foreign currency receivables and liabilities are measured on recognition at the transaction rate and adjusted at the end of the reporting period to the related spot rates. Gains and losses arising on foreign currency translation are recognized in profit or loss, except for certain loans. Foreign currency adjustments relating to the translation of intercompany financing made in the functional currency of one of the parties, and for which repayment is not expected in the foreseeable future, are recognized in the difference from currency translation.

Goodwill is recognized directly as an asset of the subsidiary acquired and therefore also translated into euro for subsidiaries whose functional currencies are not the euro at the end of the reporting period using the middle rate. Differences resulting from foreign currency translation are recognized in the difference from currency translation.

The following table summarizes the exchange rates used in currency translation that had a material effect on the consolidated financial statements:

Currencies		Closing rate		Average rate for the year	
1 € in		Dec. 31, 2012	Dec. 31, 2011	2012	2011
Brazil	BRL	2.70	2.42	2.51	2.33
Switzerland	CHF	1.21	1.22	1.21	1.23
China	CNY	8.22	8.16	8.11	9.00
Czech Republic	CZK	25.12	25.82	25.14	24.59
United Kingdom	GBP	0.82	0.84	0.81	0.87
Hungary	HUF	292.58	311.14	289.30	279.42
Japan	JPY	113.57	100.09	102.63	111.05
South Korea	KRW	1,405.13	1,500.35	1,448.59	1,541.86
Mexico	MXN	17.18	18.11	16.91	17.28
Malaysia	MYR	4.03	4.11	3.97	4.26
Philippines	PHP	54.09	56.70	54.29	60.27
Romania	RON	4.44	4.32	4.46	4.24
U.S.A.	USD	1.32	1.29	1.29	1.39
South Africa	ZAR	11.21	10.51	10.56	10.10

Revenue recognition

Only sales of products resulting from the ordinary business activities of the company are shown as revenue. Continental recognizes revenue for product sales when there is proof or an agreement to the effect that delivery has been made and the risks have transferred to the customer. In addition, it must be possible to reliably measure the amount of revenue and the recoverability of the receivable must be assumed.

Revenues from made-to-order production are recognized using the percentage-of-completion method. The ratio of costs already incurred to the estimated total costs associated with the contract serves as the basis of calculation. Expected losses from these contracts are recognized in the reporting period in which the current estimated total costs exceed the sales expected from the respective contract. The percentage-of-completion method is of no significance to the Continental Corporation.

Product-related expenses

Costs for advertising, sales promotion and other sales-related items are expensed as incurred. Provisions are recognized for probable warranty claims on sold products on the basis of past experience, as well as legal and contractual terms. Additional provisions are recognized for specific known cases.

Research and development expenses

Research and development expenses comprise expenditure on research and development and expenses for customer-specific applications, prototypes and testing. Advances and reimbursements from customers are netted against expenses at the time they are invoiced. In addition, the expenses are reduced by the amount relating to the application of research results from the development of new or substantially improved products, if the related activity fulfills the recognition criteria for internally generated intangible assets set out in IAS 38. This portion of the expenses is capitalized as an asset and amortized over a period of three years from the date that the developed products become marketable. However, expenses for customer-specific applications, pre-production prototypes or tests for products already being marketed (application engineering) do not qualify as development expenditure which may be recognized as an intangible asset. Furthermore, expenses incurred directly in connection with the start-up of new operations or the launch of new products or processes are recognized directly in profit or loss.

New developments for the original equipment business are not marketable until Continental AG has been nominated as the supplier for the particular vehicle platform or model and, furthermore, has successfully fulfilled preproduction release stages. Moreover, these

release stages serve as the prerequisite to demonstrate the technical feasibility of the product, especially given the high demands imposed on comfort and safety technology. Accordingly, development costs are recognized as an asset only as of the date of nomination as supplier and fulfillment of a specific pre-production release stage. The development is considered to be completed once the final approval for the unlimited series production is granted. Only very few development projects fulfill the recognition criteria.

Although suppliers are nominated by original equipment manufacturers with the general obligation to supply products over the entire life of the particular model or platform, these supply agreements constitute neither long-term contracts nor firm commitments, in particular because the original equipment manufacturers make no commitments in regard of the purchase quantities. For this reason, all pre-series production expenses – with the exception of the capitalized development costs described above – are recognized immediately in profit or loss.

Interest and investment income and expenses
Interest income and expenses are recognized for the period to which they relate; dividends receivable are recognized upon the legal entitlement to payment.

Earnings per share
Earnings per share are calculated on the basis of the weighted average number of shares outstanding. Treasury stock is deducted for the period it is held. Diluted earnings per share also include shares from the potential exercise of option or conversion rights. The corresponding expenses that would no longer be incurred after the conversion or exchange are eliminated.

Statement of financial position classification
Assets and liabilities are reported as non-current assets and liabilities in the statement of financial position if they have a remaining term of over one year and, conversely, as current assets and liabilities if the remaining term is shorter. Liabilities are treated as current if there is no unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Provisions for pensions and other post-employment obligations as well as deferred tax assets and liabilities are shown as non-current. If assets and liabilities have both current and non-current portions, the amounts are classified separately and shown as current and non-current assets or liabilities.

Goodwill
Goodwill corresponds to the difference between the purchase cost and the fair value of the acquired assets and liabilities of a business combination. Goodwill is not subject to amortization; it is tested for impairment at least annually and, if necessary, impaired.

Intangible assets
Purchased intangible assets are carried at acquisition costs and internally generated intangible assets at their production costs, provided that the conditions for recognition of an internally generated intangible asset are met in accordance with IAS 38. If intangible assets have finite useful lives, they are amortized on a straight-line basis over a useful life of three to eight years. Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, impaired.

Property, plant and equipment
Property, plant and equipment is carried at cost less straight-line depreciation. If necessary, additional impairment losses are recognized on the affected items.

Production cost consists of the direct costs and attributable material and manufacturing overheads, including depreciation.

Under certain conditions, portions of the borrowing costs were capitalized as part of the acquisition cost. This also applies to finance leases and investment property.

As soon as an asset is available for its intended use, subsequent cost is capitalized only to the extent the related modification changes the function of the asset or increases its economic value and the cost can be clearly identified. All other subsequent expenditure is recognized as current maintenance expense.

Property, plant and equipment is broken down into the lowest level of the components that have significantly different useful lives and, to the extent integrated in other assets, when they are likely to be replaced or overhauled during the overall life of the related main

asset. Maintenance and repair costs are recognized in profit or loss as incurred. The corporation has no property, plant or equipment that by the nature of its operation and deployment can be repaired and serviced only in intervals over several years. The useful lives are up to 25 years for buildings and land improvements; up to 20 years for technical equipment and machinery; and up to 12 years for operating and office equipment.

Government grants

Government grants are reported if there is reasonable assurance that the conditions in place in connection with the grants will be fulfilled and that the grants will be awarded.

Monetary grants that are directly attributable to depreciable fixed assets are deducted from the cost of the assets in question. All other monetary grants are recognized as income in line with planning and are presented alongside the corresponding expenses. Non-monetary government grants are recognized at fair value.

Investment property

Land and buildings held for the purpose of generating rental income instead of production or administrative purposes are carried at depreciated cost. Depreciation is charged on a straight-line basis over the useful lives, which correspond to those for real estate in use by the company.

Leases

Continental leases property, plant and equipment, especially buildings. If the substantial risks and rewards from the use of the leased asset are controlled by Continental, the agreement is treated as a finance lease and an asset and related financial liability are recognized. In the case of an operating lease, where the economic ownership remains with the lessor, only the lease payments are recognized as incurred and charged to income. Other arrangements, particularly service contracts, are also treated as leases to the extent they require the use of a particular asset to fulfill the arrangement and the arrangement conveys a right to control the use of the asset.

Impairment

The corporation immediately reviews intangible assets and property, plant and equipment, investment property and goodwill as soon as there is an indication of impairment (triggering event). Impairment is assessed by comparing the carrying amount with the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the present value of the expected future cash flow from the continued use of the asset (value in use). If the carrying amount is higher than the recoverable amount, the difference is recognized as an impairment loss. If the indications for the prior recognition of impairment no longer apply, the impairment losses are reversed for intangible assets, property, plant and equipment, and investment property.

Capitalized goodwill is tested for impairment once per year in the fourth quarter at the level of cash-generating units (CGU). Cash-generating units are the strategic business units that come below the segments (sub-segments) and are the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The impairment test is performed by comparing the carrying amount of the business unit including its goodwill and the recoverable amount of this business unit. The recoverable amount in this case is the value in use calculated on the basis of discounted cash flows before interest and taxes. An impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount for the business unit. If the reasons for this cease to apply in future, impairment losses on goodwill are not reversed.

The expected cash flows for the business units are derived from long-term planning that covers the next five years and is approved by the management. The plans are based in particular on assumptions for macroeconomic developments, as well as trends in sales prices, raw material prices and exchange rates. In addition to these current market forecasts, past developments and experience are also taken into account. The perpetuity beyond the period of five years is extrapolated using the expected long-term growth rates for the individual business units. However, a more detailed model with a longer period of detailed planning was used for one CGU on account of its specific situation. The main assumptions when calculating the value in

use of a cash-generating unit are the free cash flows, the discount rate and its parameters, and the long-term growth rate.

Annual impairment testing was performed on the basis of the bottom-up business plan for the next five years approved by management in the period under review. A uniform interest rate of 10.8% (PY: 10.6%) before taxes was used to discount cash flows. This pre-tax WACC is based on a target capital structure that was defined by comparison with a relevant peer group. The risk-free interest rate is 2.1% and the market risk premium 6.0%. The bonds issued in 2010 and this year were used to determine borrowing costs.

The long-term growth rate for the CGUs of the Interior, Chassis & Safety and Powertrain segments was 1.0% in the year under review (PY: 1.0%). For the cash-generating units of the Tire and ContiTech segments, the long-term growth rate was 0.5% (PY: 0.5%). These growth rates do not exceed the long-term average growth rates for the fields of business in which the cash-generating units operate.

The goodwill impairment test for 2012 resulted in impairment totaling €75.6 million (PY: —). This impairment relates entirely to the HEV (Hybrid Electric Vehicle) cash-generating unit in the Powertrain segment and is reported under other income and expenses. The remaining goodwill of the HEV cash-generating unit amounts to €29.2 million.

Assuming a 0.5 percentage point increase in the discount rate to 11.3% before taxes, impairment would have totaled €119.6 million. Reducing long-term growth rates by 0.5 percentage points would have resulted in total impairment of €103.2 million.

Assets held for sale and related liabilities

Individual non-current assets or a group of non-current assets and related liabilities are classified separately as held for sale in the statement of financial position if their disposal has been resolved and is probable. Assets held for sale are recognized at the lower of their carrying amount and their fair value less costs to sell, and are no longer depreciated once they are classified as held for sale.

Financial instruments

A financial instrument in accordance with IAS 32 is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. This includes primary financial instruments such as trade accounts receivable and payable, securities and financial receivables or liabilities and other financial liabilities. It also includes derivative instruments that are used to hedge against risks from changes in exchange rates and interest rates.

Non-derivative financial instruments

Non-derivative financial instruments are recognized at the settlement date, i.e. the date at which the asset is delivered to or by Continental AG. Non-derivative financial instruments are classified under one of the following four categories according to the purpose for which they are held. The classification is reviewed at the end of each reporting period and affects whether the asset is reported as non-current or current as well as determining whether measurement is at cost or fair value.

- Changes in the fair value of financial assets at fair value through profit and loss – which are either designated as such (fair value option) on initial recognition or are classified as held for trading – are recognized immediately in the income statement. In addition, they are reported as current assets if they are either held for trading purposes or are expected to be realized within twelve months of the end of the reporting period. The fair value option is not applied in the Continental Corporation.

- Held-to-maturity financial assets – which have fixed or determinable payments at the date of initial recognition as well as a fixed maturity and are intended to be held until that maturity – are recognized at amortized cost and reported as non-current or current assets in accordance with their term. Any impairment losses are reported in profit or loss. No financial assets are classified as held-to-maturity at present.

- Loans and receivables – which have fixed or determinable payments and are not quoted in an active market – are measured at amortized cost less any necessary impairments. They are reported in the statement of financial position in accordance with their term as non-current or current assets.

- Available-for-sale financial assets – which were designated as available for sale and not assigned to the other categories at the date of initial recognition – are measured at fair value and reported as non-current or current assets according to the expected date of sale. Unrealized gains or losses are recognized in other reserves, net of tax effects, until the date of derecognition. In the event of a significant or long-lasting decline in fair value to below cost, the impairment is recognized immediately in profit or loss. Reversals of impairment losses on equity instruments are recognized outside profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss. Where there is no price quoted on an active market and the fair value cannot be measured reliably, for example in the case of investments in unconsolidated affiliated companies or other equity investments, the assets are measured at cost.

Liabilities arising from non-derivative financial instruments may be recognized either at amortized cost or at fair value through profit and loss. Continental AG measures all non-derivative financial liabilities at amortized cost, which comprises the remaining principal balance and issuing costs, net of any unamortized premium or discount. Liabilities from finance leases are shown at the present value of the remaining lease payments based on the implicit lease interest rate. Financial obligations with fixed or determinable payments that comprise neither financial liabilities nor derivative financial liabilities and are not quoted in an active market are reported in the statement of financial position under other financial liabilities in accordance with their term.

In the case of information reported in accordance with IFRS 7, classification is in line with the items disclosed in the statement of financial position and/or the measurement category used in accordance with IAS 39.

Hybrid financial instruments

Financial instruments that have both a debt and an equity component are classified and measured separately by those components. Instruments under this heading primarily include bonds with warrants and convertible bonds. In the case of convertible bonds, the fair value of the share conversion rights is recognized separately in capital reserves at the date the bond is issued and therefore deducted from the liability incurred by the bond. Fair values of conversion rights from bonds with below-market interest rates are calculated based on the present value of the difference between the coupon rate and the market rate of interest. The interest expense for the debt component is calculated for the term of the bond based on the market interest rate at the date of issue for a comparable bond without conversion rights. The difference between the deemed interest and the coupon rate increases the carrying amount of the bond indebtedness. In the event of maturity or conversion, the equity component previously recognized in capital reserves at the date of issue is offset against the accumulated retained earnings in accordance with the option permitted by IAS 32.

Derivative instruments

Derivative instruments are only used to hedge statement of financial position items or forecast cash flows, and are recognized at their fair values. The fair value is generally the market or exchange price. In the absence of an active market, the fair value is determined using financial models, for example by discounting expected future cash flows at the market rate of interest or by applying recognized option pricing models. Derivative instruments are recognized at the date when the obligation to buy or sell the instrument arises.

Changes in the fair values of derivative instruments used for fair value hedging purposes (fair value hedges) to offset fluctuations in the market value of recognized assets or liabilities are charged to income together with the changes in value of the hedged item. Changes in the fair values of derivative instruments used to hedge future cash flows where effectiveness is demonstrated are recognized in the difference from financial instruments until the associated hedged transaction is settled.

In the hedging of foreign currency risks from net investments in foreign operations (hedge of net investments), the effective portion of the change in value of the hedges together with the effect from the currency translation of the net investment is recognized in the difference from currency translation. The accumulated currency effects are not reclassified in profit and loss until the foreign operations are sold or liquidated.

If the criteria for hedge accounting are not met or the hedge becomes ineffective, the changes in fair value of the specific derivative instrument are recognized in profit or loss as incurred, independently of the hedged item.

Embedded derivatives

Non-derivative host contracts are regularly inspected for embedded derivatives, e.g. contractual payment terms in currencies other than the typical trading currency. Embedded derivatives must be separated from the host contract if the assessment finds that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Separable embedded derivatives are measured at fair value.

Receivables

Receivables are carried at their nominal value. Valuation allowances on special items are recognized in specific cases where default is known, or based on experience. Default risks leading to lower payment inflows usually manifest themselves in financial difficulties, non-fulfillment, probable insolvency or breach of contract on the part of the customer.

Continental sells some of its trade accounts receivable under sale of receivables programs with banks. Receivables are recognized in the statement of financial position when the risks and rewards, in particular credit and default risk, have not been essentially transferred. The repayment obligations from these sales are, as a rule, then shown as short-term financial liabilities.

Inventories

Inventories are recognized at the lower of cost and net realizable value. Acquisition cost is generally determined using the weighted-average method. Production cost includes direct costs, production-related material costs, overheads and depreciation. Inventory risks resulting from decreased marketability or excessive storage periods are accounted for with write-downs.

Other assets

Other assets are recognized at amortized cost. Allowances are recognized as appropriate to reflect any possible risk related to recoverability.

Accounting for income taxes

Income taxes are measured using the concept of the statement of financial position liability method in accordance with IAS 12. Tax expenses and refunds that relate to income are recognized as income taxes. Accordingly, late payment fines and interest arising from subsequently assessed taxes are reported as tax expenses as soon as it becomes probable that the recognition of a reduction in taxes will be rejected.

Current taxes owed on income are recognized as expenses when they are incurred.

Deferred taxes include expected tax payments and refunds from temporary differences between the carrying amounts in the consolidated financial statements and the related tax bases, as well as from the utilization of loss carryforwards. No deferred tax is recognized for non-tax-deductible goodwill. The deferred tax assets and liabilities are measured at the applicable tax rates related to the period when the temporary differences are expected to reverse. Changes in tax rates are recognized once the rate has been substantially enacted. Deferred tax assets are not recognized if it is not probable that they will be realized in the future.

Provisions for pension liabilities and similar obligations

The retirement benefits offered by the corporation comprise both defined benefit and defined contribution plans.

Pension liabilities under defined benefit plans are actuarially measured pursuant to IAS 19, using the projected unit credit method that reflects salary, pension, and employee fluctuation trends. The discount rate to determine the present value is based on long-term loans in the respective capital market. Actuarial gains and losses that exceed the greater of 10% of the defined benefit obligations or 10% of the fair value of the plan assets at the start of the fiscal year are recognized in profit or loss over the expected average remaining service lives of the beneficiaries. Expenses for the interest cost on pension liabilities and income from the pension funds are not shown separately in

net interest expenses, but are included in the compensation costs in the related cost categories as classified in the income statement.

Accordingly, the interest effects of other long-term employee benefits are included in the corresponding function costs and not in net finance costs. Pension liabilities for some companies of the corporation are covered by pension funds. Furthermore, plan assets comprise all assets, as well as claims from insurance contracts, that are held exclusively towards payments to those entitled to pensions and are not available to meet the claims of other creditors. Pension obligations and plan assets are reported on a net basis in the statement of financial position.

The other post-employment benefits also shown under the provision for pension and other post-employment liabilities relate to obligations to pay for health costs for retired workers in the U.S.A. and Canada in particular.

Defined contribution plans represent retirement benefits where the company only contributes contractually fixed amounts for current service entitlements, which are generally invested by independent, external asset managers until the date of retirement of the employee. The fixed amounts are partly dependent on the level of the employee's own contribution. The company gives no guarantees of the value of the asset after the fixed contribution, either at the retirement date or beyond. The entitlement is therefore settled by the contributions paid in the year.

Provisions for other risks

Provisions are recognized when a legal or constructive obligation has arisen that is likely to result in a future cash outflow to third parties and the amount can be reliably determined or estimated. The provisions are recognized as of the end of the reporting period at the value at which the obligations could probably be settled or transferred to a third party. Non-current provisions such as litigation or environmental risks are discounted to their present value. The resulting periodic interest charge for the provisions is shown under net interest expenses including an effect from a change in interest.

Non-financial liabilities

Current liabilities are carried at their payable amount. Non-current non-financial liabilities are measured at amortized cost.

Stock option plans

The amount of personnel expenses recognized in respect of stock options in the prior year is based on the fair value of the options at the date of grant, using the Monte Carlo simulation model. The fair value of the option is recognized in capital reserves and in profit or loss over the vesting period.

On the announcement of compensation offers for stock options for employees, the offers accepted are posted against other liabilities at fair value, reducing the capital reserves.

Virtual stock options issued are recognized at fair value using the Monte Carlo simulation model. The liabilities are recognized in other financial liabilities until the end of the holding period.

Estimates

Proper and complete preparation of the consolidated financial statements requires management to make estimates and assumptions affecting the assets, liabilities and disclosures in the notes, as well as the income and expenses for the period.

The most important estimates relate to the determination of the useful lives of intangible assets and property, plant and equipment; the impairment testing of goodwill and non-current assets, in particular the underlying cash flow forecasts and discount rates; the recoverability of amounts receivable and other assets as well as income taxes receivable; the financial modeling parameters for stock option plans; the recognition and measurement of liabilities and provisions, especially the actuarial parameters for pensions and other post-employment obligations; and the probabilities of claims and amounts of settlements for warranty, litigation or environmental risks.

The assumptions and estimates are based on the information currently available at the date of preparation of the consolidated financial statements. The underlying information is regularly reviewed and updated to reflect actual developments as necessary.

Consolidated statement of cash flows

The statement of cash flows shows the sources during the period that generated cash and cash equivalents as well as the application of cash and cash equivalents. This includes all cash and cash equivalents and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value. Financial investments are considered to be cash equivalents only if they have a remaining term not exceeding three months.

3. New Accounting Pronouncements

In accordance with EU Regulation No. 1606/2002 in conjunction with Section 315a (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)* Continental AG has prepared its consolidated financial statements in compliance with the IFRS as adopted by the European Union under the endorsement procedure. Thus IFRS are only required to be applied following endorsement of a new standard by the European Union.

The following endorsed standards, interpretations issued in relation to published standards and amendments that were applicable to Continental AG became effective in 2012 and have been adopted accordingly:

The amendments to IFRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*, improve the disclosure requirements of IFRS 7 in order to help users to understand transfer transactions of financial assets and to evaluate the related risk exposures and their effect on the financial position of the entity that transferred the assets. The amendments clarify, inter alia, that disclosures (qualitative and quantitative information) have to be made about contractual rights or obligations which the entity retains or obtains in the transfer transaction also in the case an entity derecognizes financial assets in their entirety. The amendments are required to be applied for annual periods beginning on or after July 1, 2011. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The following amendments have already been endorsed by the EU but will not take effect until a later date:

As a result of the amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards (Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters)*, existing references to fixed dates (for example January 1, 2004) have been replaced by a reference to the “date of transition to IFRS”. Furthermore, rules have been included for cases in which an entity is not able to satisfy all IFRS regulations due to hyperinflation. The amendments are required to be applied for annual periods beginning on or after January 1, 2013. It is not expected that the amendments will have any effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 7, *Financial Instruments: Disclosures*, introduce additional disclosure requirements in the context of the offsetting of financial assets and financial liabilities. The amendments are required to be applied for annual periods beginning on or after January 1, 2013. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 10, *Consolidated Financial Statements*, establishes principles for the presentation and preparation of consolidated financial statements when an entity (parent) controls one or more other entities. A reporting entity is required to consolidate an investee when that entity controls the investee. Control exists only if the investor has the power over the investee, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the investor’s returns. Besides the introduction of a single consolidation model based on the principle of control, IFRS 10 includes accounting requirements regarding, inter alia, non-controlling interests, potential voting rights, and loss of control. The standard supersedes the requirement related to consolidated financial statements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. The standard and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2014. The standard and the consequential amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 11, *Joint Arrangements*, describes the principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). A joint arrangement is either a joint operation or a joint venture. A joint operator shall recognize assets, liabilities, expense and revenue in relation to its interest in the joint operation. A joint venturer shall recognize its interest in a joint venture as investment and shall account for the investment using the equity method in accordance with IAS 28, *Investments*

in Associates and Joint Ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. The standard and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2014. The standard and the consequential amendments are not expected to have any effect on the future consolidated financial statements of Continental AG.

IFRS 12, *Disclosure of Interests in Other Entities*, requires the disclosure of information that enables users of financial statements to evaluate the nature of and risk associated with interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities, and the financial effect of those interests. The standard and the consequential amendments to other standards are required to be applied for annual periods beginning on or after January 1, 2014. IFRS 12 and the consequential amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 13, *Fair Value Measurement*, defines the fair value, describes the measurement of fair value, and enhances the corresponding disclosures. IFRS 13 and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2013. The standard and the consequential amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IAS 1, *Presentation of Financial Statements*, deal with the presentation of items of other comprehensive income (OCI). The amendments require entities to group items presented in OCI on the basis of whether they are potentially subsequently reclassifiable to profit and loss or not. The option of IAS 1 (revised 2007) to present OCI items either before or net of tax will not be changed by the amendments. If presentation before tax is chosen, the tax related to each of the groups (described above) must be shown separately. The amendments and the consequential amendments to other standards are required to be applied for annual periods beginning on or after July 1, 2012. The amendments and the consequential amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IAS 12, *Income Taxes (Deferred Tax: Recovery of Underlying Assets)*, contain a clarification regarding the treatment of temporary tax differences when using the fair value model in IAS 40, *Investment Property*. It can be difficult to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40. The amendments provide a practical approach in such cases by introducing a rebuttable presumption that an investment property is recovered entirely through sale. The amendments supersede SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*. The amendments are required to be applied for annual periods beginning on or after January 1, 2013. It is not expected that the amendments will have any effect on the future consolidated financial statements of Continental AG.

IAS 19 (revised 2011), *Employee Benefits*, changes IAS 19 (revised 2008) fundamentally. The recognition of actuarial gains and losses using the corridor method and the recognition of past service cost over the vesting period are eliminated. The revised standard changes the presentation of defined benefit costs and the calculation of net interest. Furthermore, the definitions of termination benefits, curtailments, as well as short-term and other long-term benefits have been clarified and the disclosures of IAS 19 enhanced. The revised standard and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2013. IAS 19 (revised 2011) and the consequential amendments are expected to have a significant effect on the future consolidated financial statements of Continental AG. As a result of these new regulations, a change in equity of approximately €1.0 billion and a change in pension provisions amounting to about €1.2 billion are expected. Fluctuations in actuarial assumptions, especially those for the interest rate, will in the future lead to great volatility in equity.

IAS 27 (revised 2011), *Separate Financial Statements*, deals with the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in separate financial statements. IAS 27 requires that investments in subsidiaries, joint ventures and associates be accounted for either at cost or in

accordance with IAS 39, *Financial Instruments: Recognition and Measurement,* and accordingly IFRS 9, *Financial Instruments*. The standard is required to be applied for annual periods beginning on or after January 1, 2014. The standard is not expected to have any effect on the future consolidated financial statements of Continental AG.

IAS 28 (revised 2011), *Investments in Associates and Joint Ventures*, deals with the accounting for investments in associates and the application of the equity method when accounting for investments in associates and joint ventures. Furthermore, IAS 28 clarifies cases in which an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations.* The standard implements a measurement option for investments in associates or joint ventures which are held by, or are held indirectly through, an entity that is a venture capital organization, a mutual fund, unit trust or similar entity including investment-linked insurance funds. IAS 28 (revised 2011) supersedes IAS 28 (revised 2003), *Investment in Associates*, and incorporates rules of SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers.* IAS 28 is required to be applied for annual periods beginning on or after January 1, 2014. The standard is not expected to have any effect on the future consolidated financial statements of Continental AG.

The amendments to IAS 32, *Financial Instruments: Presentation*, clarify the conditions for the offsetting of financial assets and financial liabilities. The amendments are required to be applied for annual periods beginning on or after January 1, 2014. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, deals with the accounting of waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). The interpretation clarifies the requirements for recognition of production stripping costs as an asset and the corresponding measurement of the stripping activity asset. The interpretation and the consequential amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, are required to be applied for annual periods beginning on or after January 1, 2013. IFRIC 20 and the consequential amendment are not expected to have any effect on the future consolidated financial statements of Continental AG.

The following standards, interpretations issued in relation to published standards, and amendments are not yet endorsed by the EU and will become effective at a later date:

The amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards (Government Loans),* introduce an exception to retrospective application of IFRS. In accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, the benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, and accordingly IFRS 9, *Financial Instruments*, and the proceeds received. These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition. Retrospective application may be chosen if the necessary information was obtained at the time of initial recognition of the loan. With the amendments, first-time adopters are permitted to apply the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening IFRS statement of financial position. The amendments have no effect on the requirement to classify the loan as a financial liability or as an equity instrument in accordance with IAS 32, *Financial Instruments: Presentation*. The amendments are required to be applied for annual periods beginning on or after January 1, 2013. The amendments are not expected to have any effect on the future consolidated financial statements of Continental AG.

IFRS 9, *Financial Instruments*, revises the requirements of IAS 39, *Financial Instruments: Recognition and Measurement,* for the classification and measurement of financial assets and financial liabilities. The standard represents the completion of the first part of the project to replace IAS 39. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two

classifications – those measured at amortized cost and those measured at fair value. A financial asset is measured at amortized cost if the asset is held within a business model with the objective of holding assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets which do not fulfill both conditions are measured at fair value. IFRS 9 states that an entity shall reclassify all affected financial assets only when it changes its business model for managing financial assets. IFRS 9 restricts the option to designate a financial asset at fair value through profit or loss. An entity may designate if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch'). Furthermore, IFRS 9 introduces an option that, at initial recognition, an entity may irrevocably elect to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this IFRS that is not held for trading. If an entity elects to report in this manner, it must recognize in profit or loss dividends from that investment. With regard to embedded derivatives, IFRS 9 adopts the IAS 39 concept only for hosts that are assets outside the scope of IFRS 9. Requirements on classification and measurement of financial liabilities and requirements for derecognition of financial assets and liabilities were added to IFRS 9 in October 2010. The existing requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, for derecognition were adopted thereby. New requirements affect the accounting of financial liabilities when choosing the fair value option: The portion of the change in the fair value due to changes in the entity's own credit risk should be presented in other comprehensive income (OCI). IFRS 9 (including 2010 supplements) is to be applied to annual periods beginning on or after January 1, 2015. The effective date was rescheduled to 2015 by the amendments to IFRS 9, *Financial Instruments (2009 and 2010)* and IFRS 7, *Financial Instruments: Disclosures*, *(Mandatory Effective Date and Transition Disclosures)*. Furthermore, the relief from restating comparative periods and associated disclosures in accordance with IFRS 7 were amended. It is expected that IFRS 9 will have an effect on the future consolidated financial statements of Continental AG.

Under the IASB's fourth annual improvements project (*Improvements to IFRSs, May 2012*), the following amendments will become effective at a later date:

- The amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, clarifies that under certain circumstances a repeated application of IFRS 1 is possible. Furthermore the amendment clarifies the recognition of borrowing costs in accordance with IAS 23, *Borrowing Costs*, relating to qualifying assets for which the commencement date for capitalization is prior to the date of transition to IFRS.

- The amendment to IAS 1, *Presentation of Financial Statements*, clarifies the disclosure requirements for comparative information when a third balance sheet is provided on a voluntary or mandatory basis. A consequential amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, clarifies that supporting notes for all statements have to be presented. Furthermore IAS 34, *Interim Financial Reporting*, was changed through the amendment of IAS 1.

- The amendment to IAS 16, *Property, Plant and Equipment*, clarifies that spare parts and servicing equipment should not be classified as inventory when they meet the definition of property, plant and equipment as per IAS 16.

- The amendment to IAS 32, *Financial Instruments: Presentation*, clarifies that IAS 12, *Income Taxes*, is the relevant standard to account for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction. A consequential amendment to IFRIC 2, *Members' Shares in Co-operative Entities and Similar Instruments*, was made.

- The amendment to IAS 34, *Interim Financial Reporting*, clarifies the disclosure of segment information for total assets and liabilities in the interim financial reporting in order to achieve harmonization with the requirements of IFRS 8, *Operating Segments*.

The amendments are required to be applied for annual periods beginning on or after January 1, 2013. The amendments are not expected to have any effect on

the future consolidated financial statements of Continental AG.

The amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interests in Other Entities*, and IAS 27 (revised 2011), *Separate Financial Statements*, *(Investment Entities)*, deal with the definition of investment entities and introduce an exception to the general principle that all subsidiaries are to be consolidated. An investment entity that is a parent should measure its investments in particular subsidiaries in accordance with IAS 39, *Financial Instruments: Recognition and Measurement,* and accordingly IFRS 9, *Financial Instruments*. Furthermore the amendments specify new disclosure requirements for investment entities. The amendments (and the consequential amendments to other standards) are required to be applied for annual periods beginning on or after January 1, 2014. The amendments are not expected to have any effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interests in Other Entities*, *(Transition Guidance)*, define the date of initial application of IFRS 10 and explain when and how adjustments should be made. The amendments describe that an entity need only present adjusted comparative information for the period immediately preceding the date of initial application of IFRS 10. A similar transition relief is provided for IFRS 11 and IFRS 12 regarding the presentation and adjustment of comparative information. The requirement to present comparatives for the disclosures relating to unconsolidated structured entities for periods before the annual reporting period in which IFRS 12 is first applied is eliminated. The amendments are required to be applied for annual periods beginning on or after January 1, 2013.

As the endorsements of IFRS 10, 11 and 12 change the original effective date to January 1, 2014, it is expected that the same date will be obligatory. This will also be mandatory for the consequential amendment of IFRS 1, *First-time Adoption of International Financial Reporting Standards.* The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

4. Companies Consolidated

In addition to the parent company, the consolidated financial statements include 443 (PY: 439) domestic and foreign companies in which Continental Aktiengesellschaft holds a direct or indirect interest of more than 20.0% of the voting rights, or that must be included in consolidation in accordance with SIC-12. 315 (PY: 310) of these are fully consolidated and 128 (PY: 129) are accounted for using the equity method.

As against the previous year, four companies have been added to the scope of consolidated companies overall. Ten companies were acquired, ten companies were formed and one previously unconsolidated unit was included in consolidation for the first time. In addition, seven special-purpose entities were included in consolidation for the first time in accordance with SIC-12. Three companies were sold and seven were liquidated. In addition, the number of companies consolidated was reduced by 14 as a result of mergers.

In particular, the additions to the scope of consolidation in 2012 relate to the newly formed companies of the Rubber Group and the acquisition of Omitec Group Ltd., Devizes, U.K., with a total of six consolidated companies. Companies no longer included in the scope of consolidation essentially relate to the liquidation of inactive companies and mergers in both the Automotive and the Rubber Group. The effects of this are shown under Note 5.

36 (PY: 33) companies whose assets and liabilities, expenses and income, individually and combined, are not material for the net assets, financial and earnings position of the corporation, are not included in consolidation. 34 (PY: 30) of these are affiliated companies, 7 (PY: 11) of which are currently inactive. A further 2 (PY: 3) companies not included in consolidation are associated companies, 1 of which is currently inactive (PY: 1).

Further information on equity investments and an overview of the German corporations and partnerships that utilized the exemption provisions of Section 264 (3) of the German Commercial Code *(Handelsgesetzbuch – HGB)* and Section 264b *HGB* can be found in Note 40.

5. Acquisition and Sale of Companies and Business Operations

The ContiTech division is boosting its hose line business for the automotive industry by acquiring the automotive air conditioning business of the Parker Hannifin Corporation, Cleveland, Ohio, U.S.A. The transaction was closed on October 1, 2012. As part of this combined asset and share deal, business operations were taken over by ContiTech companies in the U.S.A. (Collierville, Tennessee; Rochester Hills, Michigan; Truman, Arkansas), Mexico (Monterrey, Montemorelos), the Czech Republic (Chomutov), China (Wuxi) and Germany (Muecke) and the company Parker Hannifin Climate & Industrial Controls Ltd., Chonan City, South Korea, was taken over in full by ContiTech Fluid Korea Ltd., Jeonju, South Korea. Effective October 17, 2012, this company has operated as ContiTech Fluid Korea Co., Ltd., Chonan City, South Korea.

The goal of the business combination is in particular to expand the market share with American and Asian carmakers. The preliminary purchase price amounts to €59.7 million and was settled by cash except for a residual purchase price liability of €0.2 million.

The incidental acquisition costs of €1.2 million were recognized as other operating expenses. The company was included in Continental's consolidated financial statements for the first time as at October 1, 2012.

The assets and liabilities included for the first time in the consolidated statement of financial position were recognized in the following amounts (in € millions):

Net assets acquired from Parker Hannifin Corporation	Carrying amount immediately before acquisition	Fair value at date of first consolidation
Other intangible assets	0.0	16.9
Property, plant and equipment	10.9	22.7
Other long-term financial assets	0.2	0.2
Inventories	9.8	9.7
Trade accounts receivable	17.0	16.8
Other short-term financial assets	5.4	4.2
Other assets	0.8	0.8
Cash and cash equivalents	0.1	0.1
Provisions for pension liabilities and similar obligations	-0.5	-0.8
Net deferred taxes	0.4	-0.4
Other long-term liabilities	-0.1	-0.1
Trade accounts payable	-12.4	-12.4
Indebtedness	-4.6	-4.5
Other short-term financial liabilities	-0.8	-0.8
Other liabilities	-0.8	-0.8
Purchased net assets	**25.4**	**51.6**
Purchase price		59.7
Goodwill		**8.1**

In the context of preliminary purchase price allocation, there were significant upward revaluations of property, plant and equipment relating to land and buildings (€2.1 million) and technical equipment and machinery (€9.7 million). Customer relationships were identified as an intangible asset with a value of €16.9 million. The goodwill of €8.1 million includes synergies primarily relating to the market launch in North America and Asia.

Since October 1, 2012, the business acquired from the Parker Hannifin Corporation has contributed €30.5 million to sales and -€2.8 million to the operating result. If the transaction had already been completed as at January 1, 2012, there would have been no significant change in net income after taxes and sales would have been €93.6 million higher.

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 preliminary purchase price of €4.0 million on June 1, 2012. As part of the preliminary purchase price allocation, intangible assets of €1.0 million and goodwill of €0.6 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 at December 31, 2012.

As part of a combined asset and share deal in the ContiTech division, the molded brake components business of Freudenberg Sealing Technologies GmbH & Co. KG, Weinheim, Germany, was acquired with effect from August 1, 2012. The preliminary purchase price for the transaction was €1.5 million. The holding company ContiTech SAS, Sarreguemines, France, acquired 100% of the shares in Freudenberg PSPE SAS, Andrézieux-Bouthéon, France. With effect from August 1, 2012, this company now operates as ContiTech Vibration Control France SAS, Andrézieux-Bouthéon, France. The business operations of the location in Oberwihl, Germany, were transferred to ContiTech Vibration Control GmbH, Hanover, Germany. ContiTech Mexicana, S.A. de C.V., San Luis Potosí, Mexico, took over the business operations of the

location in Querétaro, Mexico. As part of the preliminary purchase price allocation, intangible assets of €0.5 million were capitalized and a negative difference of €11.5 million was recognized in profit or loss in the consolidated financial statements. 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 at December 31, 2012.

The Independent Aftermarket unit has strengthened its diagnostics business activities with the acquisition of 100% of the shares in the diagnostics specialist Omitec Group Ltd., Devizes, U.K., by CAS U.K. Holding Ltd., Ebbw Vale, U.K., effective July 2, 2012. The purchase price for this acquisition was €9.3 million. In addition, an asset deal with a purchase price of €1.2 million was concluded in the period under review to broaden the unit’s field of activity. As part of the purchase price allocations, intangible assets of €11.0 million and goodwill of €10.9 million were capitalized. 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 at December 31, 2012.

In the Tire division, asset and share deals with a total value of €6.0 million were carried out in order to expand the sales network. Intangible assets were capitalized in the amount of €1.4 million. In the context of the purchase price allocations, the individual transactions resulted in differences that were capitalized as goodwill in the amount of €2.2 million. The effects of these transactions, including the corresponding purchase price allocations, have no material effect on the net assets, financial and earnings position as at December 31, 2012.

Acquisitions of non-controlling interests and business operations

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 transaction was closed on March 9, 2012. In addition, the acquisition of the remaining 30% of the shares in Continental Sime Tyre Sdn. Bhd., Petaling Jaya, Malaysia, was completed for a purchase price of €7.7 million. The transaction was closed on May 14, 2012. The total difference between the purchase prices and the non-controlling interests was recognized in equity in the amount of €36.6 million.

Disposals of companies and business operations

Effective December 14, 2012, all shares in FIT Automoción S.A., Bergara, Spain, 34%, were sold. This transaction and the disposal of two smaller operations of the Powertrain and ContiTech divisions resulted in a total gain of €1.6 million. This did not have any material effect on the net assets, financial and earnings position as at December 31, 2012.

Notes to the Consolidated Statement of Income

6. Other Expenses and Income

in € millions	2012	2011
Other expenses	-411.7	-415.8
Other income	396.2	219.0
Other expenses and income	**-15.5**	**-196.8**

Expenses

Other expenses relate to:

in € millions	2012	2011
Expenses for provisions	111.3	161.5
Impairment of goodwill	75.6	—
Litigation and environmental risks	61.0	52.5
Realized and unrealized foreign currency exchange losses	32.6	6.9
Expenses for termination benefits	29.2	30.8
Special bonuses	28.5	103.0
Losses on the sale of property, plant and equipment, and from scrapping	12.7	13.3
Valuation allowances for doubtful accounts	8.7	15.4
Impairment on property, plant and equipment, and intangible assets	2.6	25.4
Other	49.5	7.0
Other expenses	**411.7**	**415.8**

Other operating expenses declined slightly in the reporting period by €4.1 million to €411.7 million (PY: €415.8 million).

Declining additions to specific warranty provisions and provisions for restructuring measures resulted in a drop in these expenses of €50.2 million to €111.3 million (PY: €161.5 million). Please see Notes 26 and 34.

The economic situation of the Fuel Supply business unit in the Powertrain division in Europe is characterized by insufficient and constantly decreasing 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 were incurred in this context in the previous year.

On July 7, 2011, Continental Industrias del Caucho S.A., Madrid, Spain, reached an agreement with the employee representatives to close its site in Coslada, Spain, by the end of 2011. The plant, which assembled air conditioning lines, started reporting losses after a major contract was lost at the end of 2009. The site was closed as at December 31, 2011. This resulted in restructuring expenses of €14.1 million in the comparative period.

An annual impairment test on goodwill resulted in an impairment loss of €75.6 million (PY: –) in the Powertrain division in the reporting period.

The expenses related to provisions for litigation and environmental risks rose to €61.0 million (PY: €52.5 million). The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., Grimsby, U.K., a subsidiary of ContiTech AG in the area of offshore hoses, resulted in further expenses of €4.0 million (PY: €10.7 million) in the year under review. Please also see Notes 26 and 34.

In the year under review, expenses of €32.6 million (PY: €6.9 million) were incurred as a result of foreign currency translations from operating receivables and liabilities in foreign currencies not classified as indebtedness.

Personnel adjustments not related to restructuring led to expenses for severance payments of €29.2 million (PY: €30.8 million).

The special bonuses relate to expenses for the virtual shares in the amount of €5.7 million (PY: €4.4 million) and the long-term incentive plan in the amount of €22.8 million (PY: €21.9 million). The expenses for provisions for the Conti value sharing bonus are recognized in function costs from 2012; in the previous year they accounted for €69.5 million of other expenses. The stock option plans issued resulted in expenses of €7.2 million for the last time in the comparative period.

Losses of €12.7 million (PY: €13.3 million) arose on the sale of property, plant and equipment and scrapping activities in 2012.

The cost resulting from allowances on receivables was €8.7 million (PY: €15.4 million).

Impairment on intangible assets and property, plant and equipment was recognized in the amount of €2.6 million (PY: €25.4 million).

The "Other" item also includes expenses for other taxes, extraordinary expenses for pensions and other compensation from customer and supplier claims.

Income

Other income relates to:

in € millions	2012	2011
Gain on the reversal of provisions	218.8	39.9
Reversal of impairment losses on property, plant and equipment	28.3	5.0
Adjustments of the syndicated loan	13.3	29.1
Gain from the reimbursement of customer tooling expenses	11.6	23.8
Negative differences from the acquisition of companies and business operations	11.5	0.6
Gain on the sale of property, plant and equipment	10.9	15.2
Gain on the sale of companies and business operations	1.6	6.5
Gain on the reversal of post-employment benefit obligations	—	14.5
Other	100.2	84.4
Other income	**396.2**	**219.0**

In particular, the €177.2 million rise in other operating income to €396.2 million (PY: €219.0 million) results from the reversal of specific warranty and restructuring provisions no longer required in the amount of €218.8 million.

The reversal of impairment losses on property, plant and equipment resulted in income of €28.3 million (PY: €5.0 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. Due to a partial repayment of the syndicated loan, the carrying amount adjustments attributable on a pro-rated basis to the amount repaid were reversed in September 2012. This resulted in a gain of €2.3 million. Together with the effects from amortization of the carrying amount adjustments, there was a positive effect totaling €13.3 million in 2012 (PY: €29.1 million). Please also see the results of the renegotiation of the syndicated loan under Note 37.

In 2012, reimbursements of €11.6 million (PY: €23.8 million) were received for customer tooling.

The acquisition of the molded brake components business of Freudenberg Sealing Technologies GmbH

& Co. KG, Weinheim, Germany, resulted in income from a negative difference arising as part of the preliminary purchase price allocation and totaling €11.5 million.

Income of €10.9 million (PY: €15.2 million) was generated from the sale of property, plant and equipment in the period under review.

Other income included proceeds from license agreements and provisions for customer and supplier claims. The adjustment of the carrying amount of an investment in a joint venture was also shown here on account of the first-time preparation of IFRS consolidated financial statements. In addition, government grants amounting to €20.1 million (PY: €29.4 million) that were not intended for investments in non-current assets were recognized in profit or loss in the "Other" item and in function cost items.

7. Personnel Expenses

The following total personnel expenses are included in the income statement:

in € millions	2012	2011
Wages and salaries	5,534.6	5,165.2
Social security contributions	1,103.5	964.8
Pension and post-employment benefit costs	267.5	224.3
Personnel expenses	**6,905.6**	**6,354.3**

The rise in staff costs is due in particular to recruitment activities on account of the positive business performance in the year under review. Please also see the comments in the Management Report. The average number of employees in 2012 was 168,997 (PY: 159,663). As of the end of the year, there were 169,639 (PY: 163,788) employees in the Continental Corporation.

8. Income from Investments

in € millions	2012	2011
Share of income from at-equity accounted investees	63.3	91.9
Reversal of impairment losses/impairment on investments in at-equity accounted investees	0.1	-5.4
Income from at-equity accounted investees	**63.4**	**86.5**
Income from other investments	7.6	3.5
Reversal of impairment losses	0.1	—
Other income from investments	**7.7**	**3.5**

Please see Note 14 for information on impairment and reversals of impairment losses for at-equity accounted investees. Income from investments includes in particular the pro rata share of the profit or loss of companies accounted for using the equity method in the amount of €63.3 million (PY: €91.9 million).

9. Net Interest Expense

in € millions	2012	2011
Interest income	**27.8**	**29.2**
Interest and similar expenses	-551.1	-649.4
Financial lease cost	-5.6	-5.7
Losses from foreign currency translation	-109.6	-105.4
Gains from changes in the fair value of derivative instruments	236.4	0.3
Gains from financial assets available for sale	2.5	1.9
Interest cost for long-term provisions and liabilities	-7.7	-6.7
Capitalized interest	0.5	0.3
Interest expense	**-434.6**	**-764.7**
Net interest expense	**-406.8**	**-735.5**

The net interest expense improved by €328.7 million year-on-year to €406.8 million in 2012 (PY: €735.5 million). In addition to the decrease in interest expenses, this is due in particular to the effects of changes in the fair value of derivative instruments and the offsetting development of foreign currency translation effects, which led to a positive result overall of €126.8 million (PY: -€105.1 million).

Interest expenses, not including the effects of foreign currency translation, changes in the fair value of derivative instruments and gains from the disposal of financial assets available for sale, 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, and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., declined by €97.6 million as against the figure for the previous year to €563.9 million (PY: €661.5 million). This decline is due in particular to the significant reduction in net indebtedness as of the end of 2011 and to the lower margins and interest rates 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 at June 30, 2011. As at December 31, 2012, interest expenses for the syndicated loan amount to €240.7 million (PY: €342.4 million). The bonds issued in the third quarter of 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands, and the bond issued in September 2012 by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in a nominal amount of $950.0 million resulted in interest expenses totaling €235.4 million (PY: €227.4 million). Other borrowing by companies and the issuance of commercial papers accounted for €87.8 million (PY: €91.7 million).

Interest income in 2012 declined slightly as against the previous year by €1.4 million to €27.8 million (PY: €29.2 million).

At the end of December 2012, the positive result from changes in the fair value of derivative instruments amounted to €236.4 million (PY: €0.3 million). €113.4 million (PY: €38.0 million) of this related solely to the reporting of early redemption options for the bonds issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in September 2012 and Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010.

As a result of the termination of cash flow hedge accounting in 2011, the changes in the fair values of the derivative instruments concerned were recognized in profit or loss. The interest and cross-currency interest rate swaps used as hedging instruments in this context expired in August 2012. The changes in the fair value of derivative instruments used to hedge interest rates on an amount of €2.5 billion of the tranche of the syndicated loan originally maturing in April 2014 resulted in income of €36.7 million in 2012 (PY: €16.9 million). Changes in value recognized in equity as the difference from financial instruments for the hedges used until the voluntary end of cash flow hedge ac-

counting in July 2011 were reversed over the remaining term of the hedges. An amount of €28.4 million (PY: €25.1 million) resulting from this was recognized in net interest expense in 2012.

Unlike in the previous year, the changes in the fair value of derivative instruments used to hedge cross-currency interest rates on an amount of €625.0 million of the tranche of the syndicated loan originally maturing in August 2012 resulted in income of €102.1 million in 2012 (PY: -€7.3 million). Although cash flow hedge accounting was terminated at the end of December 2011 as a result of the early repayment of the above tranche, economically there is still an effective hedge as this tranche was refinanced in full by utilizing the revolving tranche of the syndicated loan, and the parameters of this utilization were still consistent with those of the cross-currency interest hedge. When this utilization matured in August 2012, it resulted in a negative effect of foreign currency translation of €87.9 million. In the previous year there had been income of €6.1 million.

In contrast to the previous year, when net interest was negatively impacted in the second half of the year in particular by the substantial devaluation of the Mexican peso in relation to the U.S. dollar and, among other factors, the devaluation of the Hungarian forint in relation to the euro, in 2012 the appreciation of both these currencies led to a slight positive effect on net interest overall.

10. Income Tax Expense

The domestic and foreign income tax expense of the corporation is as follows:

in € millions	2012	2011
Current taxes (domestic)	-201.1	-2.5
Current taxes (foreign)	-581.5	-427.0
Deferred taxes (domestic)	-39.8	-95.1
Deferred taxes (foreign)	123.7	-11.6
Income tax expense	**-698.7**	**-536.2**

The average domestic tax rate in 2012 was 30.2% (PY: 30.0%). This takes into account a corporate tax rate of 15.0% (PY: 15.0%), a solidarity surcharge of 5.5% (PY: 5.5%) and a trade tax rate of 14.4% (PY: 14.2%).

The following table shows the reconciliation of the expected to the reported tax expense:

in € millions	2012	2011
Earnings before taxes	**2,666.6**	**1,861.4**
Expected tax expense at the domestic tax rate	-805.3	-558.4
Foreign tax rate differences	115.1	80.1
Non-deductible expenses and non-imputable withholding taxes	-97.7	-92.2
Realization of previously non-recognized deferred taxes	92.1	33.9
Incentives and tax holidays	54.7	50.3
Non-recognition of deferred tax assets unlikely to be realized	-41.4	-88.5
First-time recognition of deferred tax assets likely to be realized	32.4	—
Taxes for previous years	-31.2	47.7
Local income tax with different tax base	-23.6	-13.8
Tax effect of companies consolidated at equity	16.0	22.6
Effects from changes in enacted tax rate	-12.7	-11.6
Effects from disposals and impairment of business units and investments	—	-1.6
Other	2.9	-4.7
Reported tax expense	**-698.7**	**-536.2**
Effective tax rate in %	**26.2**	**28.8**

The reduction in the expected tax expense from the difference in foreign tax rates primarily reflects the volume of activities in Eastern Europe and Asia.

The effect of not recognizing deferred tax assets due to insufficient probability of recoverability is much lower than in the previous year. In the year under review, the effect of allowances on deferred tax assets recognized in foreign corporation companies amounted to €41.4 million (PY: €88.5 million), €12.1 million (PY: €29.3 million) of which for previous years. For further information please see Note 16.

As a result of the positive business performance in the year under review in the U.S.A. and Mexico in particular, deferred tax assets of €92.1 million (PY: €33.9 million) which had not been recognized in the past were realized – mainly through the utilization of loss carryforwards. Furthermore, in Mexico deferred tax assets from loss carryforwards in the amount of €32.4 million for which future realization is considered likely were recognized for the first time.

As in the previous year, the item non-deductible expenses and non-imputable withholding taxes relates in part to Germany owing to an insufficient volume of non-imputable foreign withholding taxes.

The previous year's taxes for previous years item was essentially influenced by tax income of €68.2 million from the successful out-of-court settlement of a pending tax position.

The tax effects from government incentives and tax holidays rose slightly against the previous year. As in the previous year, they result in particular from the ongoing utilization of incentives in Eastern Europe and Asia.

The results of investments accounted for using the equity method included in net income resulted in tax income of €16.0 million in the year under review (PY: €22.6 million).

In the year under review, local income taxes of €23.6 million (PY: €13.8 million) were incurred with an alternative assessment basis, mainly in Hungary, the U.S.A. and Italy.

The effects of changes in tax rates relate to the remeasurement of deferred tax assets and liabilities that was required predominantly in Mexico in the year under review (PY: Thailand and the U.K.) due to changes in the law already taking effect with regard to future applicable tax rates.

The previous year's figures are presented comparably.

Notes to the Consolidated Statement of Financial Position

11. Goodwill and Other Intangible Assets

in € millions	Goodwill	Internally generated intangible assets	Purchased intangible assets	Advances to suppliers	Total other intangible assets
As at January 1, 2011					
Cost	**8,059.4**	167.3	3,587.4	13.2	**3,767.9**
Accumulated amortization	**-2,415.8**	-47.6	-1,997.0	—	**-2,044.6**
Book value	**5,643.6**	**119.7**	**1,590.4**	**13.2**	**1,723.3**
Net change in 2011					
Book value	**5,643.6**	119.7	1,590.4	13.2	**1,723.3**
Foreign currency translation	**2.2**	-0.7	5.4	0.1	**4.8**
Additions	**—**	84.3	35.1	8.2	**127.6**
Additions from first consolidation of subsidiaries	**46.6**	—	18.9	—	**18.9**
Transfers	**—**	0.0	4.5	-4.5	**0.0**
Disposals	**—**	0.0	-0.9	0.0	**-0.9**
Amortization	**—**	-31.1	-476.7	—	**-507.8**
Impairment[1]	**—**	—	—	—	**—**
Book value	**5,692.4**	**172.2**	**1,176.7**	**17.0**	**1,365.9**
As at December 31, 2011					
Cost	**8,109.7**	250.6	3,658.1	17.0	**3,925.7**
Accumulated amortization	**-2,417.3**	-78.4	-2,481.4	—	**-2,559.8**
Book value	**5,692.4**	**172.2**	**1,176.7**	**17.0**	**1,365.9**
Net change in 2012					
Book value	**5,692.4**	172.2	1,176.7	17.0	**1,365.9**
Foreign currency translation	**26.0**	1.1	-2.7	0.0	**-1.6**
Additions	**—**	60.7	32.8	13.6	**107.1**
Additions from first consolidation of subsidiaries	**21.8**	—	30.8	—	**30.8**
Reclassification to assets held for sale	**-42.4**	—	0.0	—	**0.0**
Transfers	**—**	0.0	14.1	-14.1	**0.0**
Disposals	**—**	0.0	-1.3	0.0	**-1.3**
Amortization	**—**	-66.2	-489.0	—	**-555.2**
Impairment[1]	**-75.6**	—	-0.6	—	**-0.6**
Book value	**5,622.2**	**167.8**	**760.8**	**16.5**	**945.1**
As at December 31, 2012					
Cost	**8,114.5**	308.0	3,701.0	16.5	**4,025.5**
Accumulated amortization	**-2,492.3**	-140.2	-2,940.2	—	**-3,080.4**
Book value	**5,622.2**	**167.8**	**760.8**	**16.5**	**945.1**

[1] Impairment also includes necessary reversals of impairment losses.

The acquisition of companies in 2012 resulted in an addition to goodwill totaling €21.8 million.

The remaining carrying amount of goodwill relates principally to the acquisitions of Siemens VDO (2007), Continental Teves (1998), the automotive electronics business from Motorola (2006), Continental Temic (2001), Phoenix AG (2004), AP Italia (2007) and the Thermopol Group (2007).

The goodwill and the other intangible assets are allocated to the individual segments as follows:

	Goodwill		Other intangible assets	
in € millions	**Dec. 31, 2012**	**Dec. 31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**
Chassis & Safety	2,340.1	2,333.6	159.9	202.6
Powertrain	898.9	1,008.3	231.0	420.6
Interior	2,224.3	2,201.4	464.2	667.1
Tires	73.8	72.8	49.0	47.9
ContiTech	85.1	76.3	36.9	24.6
Other/consolidation	—	—	4.1	3.1
Continental Corporation	**5,622.2**	**5,692.4**	**945.1**	**1,365.9**

Additions to purchased intangible assets from the initial consolidation of subsidiaries related mainly to customer relationships and know-how. The remaining additions mainly relate to software in the amount of €30.4 million (PY: €27.2 million).

Amounts reported under internally generated intangible assets represent capitalized development costs. €60.7 million (PY: €84.3 million) of the total development costs incurred in 2012 qualified for recognition as an asset under IAS 38.

Amortization on intangible assets amounted to €555.2 million (PY: €507.8 million), €444.2 million (PY: €406.2 million) of which is included in the consolidated income statement under the cost of sales and €111.0 million (PY: €101.6 million) of which is included in administrative expenses.

The acquired intangible assets include carrying amounts not subject to amortization of €80.9 million. These relate in particular to the VDO brand name in the amount of €71.2 million, the Phoenix brand name in the amount of €4.2 million, and the Matador brand name in the amount of €3.2 million. The remaining purchased intangible assets mainly comprise the carrying amount of software amounting to €74.2 million (PY: €66.7 million), which is amortized on a straight-line basis.

12. Property, Plant and Equipment

in € millions	Land, land rights and buildings[1]	Technical equipment and machinery	Other equipment, factory and office equipment	Advances to suppliers and assets under construction	Total
As at January 1, 2011					
Cost	2,962.7	9,654.2	1,557.7	826.7	**15,001.3**
Accumulated depreciation	-1,131.9	-6,562.6	-1,162.5	-45.6	**-8,902.6**
Book value	**1,830.8**	**3,091.6**	**395.2**	**781.1**	**6,098.7**
thereof finance leases	50.9	16.6	0.1	—	**67.6**
Net change in 2011					
Book value	1,830.8	3,091.6	395.2	781.1	**6,098.7**
Foreign currency translation	-14.5	-18.4	0.2	-11.0	**-43.7**
Additions[2]	72.3	629.1	106.7	867.7	**1,675.8**
Additions from first consolidation of subsidiaries	35.6	36.3	2.5	0.1	**74.5**
Amounts disposed of through disposal of subsidiaries	0.0	0.0	0.0	—	**0.0**
Reclassification to/from assets held for sale[3]	-33.1	0.1	—	—	**-33.0**
Transfers	50.3	432.6	42.1	-525.3	**-0.3**
Disposals	-5.2	-24.0	-4.5	-7.4	**-41.1**
Depreciation	-113.1	-848.0	-140.9	—	**-1,102.0**
Impairment[4]	-22.4	1.6	-0.4	0.8	**-20.4**
Book value	**1,800.7**	**3,300.9**	**400.9**	**1,106.0**	**6,608.5**
As at December 31, 2011					
Cost	2,966.9	10,413.7	1,625.4	1,134.7	**16,140.7**
Accumulated depreciation	-1,166.2	-7,112.8	-1,224.5	-28.7	**-9,532.2**
Book value	**1,800.7**	**3,300.9**	**400.9**	**1,106.0**	**6,608.5**
thereof finance leases	90.4	4.3	0.2	—	**94.9**
Net change in 2012					
Book value	1,800.7	3,300.9	400.9	1,106.0	**6,608.5**
Foreign currency translation	-4.7	-15.8	-3.7	-25.8	**-50.0**
Additions[2]	83.9	644.5	116.0	1,131.0	**1,975.4**
Additions from first consolidation of subsidiaries	13.1	23.8	2.5	1.9	**41.3**
Amounts disposed of through disposal of subsidiaries	0.0	0.0	—	—	**0.0**
Reclassification to/from assets held for sale[3]	-0.1	-1.2	-0.1	0.0	**-1.4**
Transfers	95.7	580.0	68.3	-745.5	**-1.5**
Disposals	-1.3	-24.1	-3.3	-3.6	**-32.3**
Depreciation	-117.6	-911.0	-146.7	—	**-1,175.3**
Impairment[4]	—	26.3	—	—	**26.3**
Book value	**1,869.7**	**3,623.4**	**433.9**	**1,464.0**	**7,391.0**
As at December 31, 2012					
Cost	3,140.7	11,404.4	1,749.2	1,471.2	**17,765.5**
Accumulated depreciation	-1,271.0	-7,781.0	-1,315.3	-7.2	**-10,374.5**
Book value	**1,869.7**	**3,623.4**	**433.9**	**1,464.0**	**7,391.0**
thereof finance leases	36.5	2.4	1.2	—	**40.1**

[1] Investment property is shown separately under Note 13.
[2] The additions include €0.5 million (PY: €0.3 million) of capitalized interest.
[3] Reclassifications to assets held for sale amount to -€2.0 million (PY: -€33.2 million); reclassifications from assets held for sale amount to €0.6 million (PY: €0.2 million).
[4] Impairment also includes necessary reversals of impairment losses.

The additions to property, plant and equipment from changes in consolidation essentially relate to the acquisition of Parker Hannifin Corporation, Cleveland, Ohio, U.S.A., and Freudenberg Sealing Technologies GmbH & Co. KG, Weinheim, Germany, as part of combined asset and share deals and other acquisitions in the fiscal year. Please see Note 5.

Production capacity was established and expanded for new products and production technologies in all business units of the Chassis & Safety segment. In addition to increasing production capacity in Europe, the locations in China, Mexico and the U.S.A. were expanded. The main additions related to the production of the next generation of electronic braking systems.

Key additions in the Powertrain segment related to the Engine Systems business unit, with investments in manufacturing facilities for engine injection systems in particular. Furthermore, the production capacity for the Sensors & Actuators and Transmission business units was also expanded. Production capacity was increased at the German locations and in China, Romania, the Czech Republic and the U.S.A. In Brasov, Romania, investments were made in the establishment of a new plant for the Fuel Supply business unit.

The Interior segment focused primarily on expanding production capacity for Body & Security and Instrumentation & Driver HMI. Investments were made in production capacity at the German locations and in China, Mexico and Romania.

The main capacity expansions in the Tires segment occurred at European best-cost locations, North and South America and Asia. Additions in Kaluga, Russia, and Sumter, South Carolina, U.S.A., related to the development of new plants in particular. Quality assurance and cost-cutting measures were also implemented.

The additions in the ContiTech segment essentially related to the rationalization of production processes and the expansion of production capacity for new products. In addition to investments in Germany, the production facilities in China, Romania, Hungary, Mexico and Brazil in particular were expanded. In Serbia and Brazil, investments were made in the establishment of new plants for the Fluid Technology business unit.

Please see Note 6 for information on impairment losses and reversals of the same.

Government investment grants of €50.8 million (PY: €6.9 million) were deducted directly from cost, most of which related to the tires plants in Sumter, South Carolina, U.S.A., and Hefei, China.

In adopting IAS 23, €0.5 million (PY: €0.3 million) was capitalized as borrowing costs. The capitalization rate used for this was 2.1% (PY: 2.2%).

Reclassifications to assets held for sale in the period relate to Powertrain segment assets in connection with the formation of a joint venture.

Property, plant and equipment includes buildings, technical equipment and other facilities assigned to the corporation as the beneficial owner on the basis of the lease agreement. These relate primarily to administration and manufacturing buildings. The leases have an average term of 24 years for buildings and five to ten years for technical equipment. The effective interest rate of the main leases is between 5.5% and 8.3% (PY: between 5.5% and 8.8%).

The purchase option in the lease for the passenger and light truck tire factory in Hefei, China, was exercised in 2012. The main other agreements do not include prolongation or purchase options.

There are restrictions on title and property, plant and equipment pledged as security for liabilities in the amount of €13.4 million (PY: €13.6 million).

13. Investment Property

in € millions	2012	2011
Cost as at January 1	32.7	33.2
Accumulated depreciation as at January 1	-13.7	-13.3
Net change		
Book value as at January 1	**19.0**	**19.9**
Foreign currency translation	0.1	-0.1
Additions	—	0.1
Disposals	—	-0.3
Reclassifications	1.5	0.3
Depreciation	-0.7	-0.9
Impairment	-0.1	0.0
Book value as at December 31	**19.8**	**19.0**
Cost as at December 31	34.3	32.7
Accumulated depreciation as at December 31	-14.5	-13.7

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property as at December 31, 2012, amounted to €24.3 million (PY: €24.0 million). Rental income in 2012 amounted to €5.6 million (PY: €4.2 million), while the associated maintenance costs amounted to €1.8 million (PY: €1.8 million). In the reporting period, a building that had already been written down in full was demolished. The reclassifications relate to assets under construction now held for the purpose of generating rental income.

14. Investments in At-Equity Accounted Investees

in € millions	2012	2011
As at January 1	**480.2**	**440.4**
Additions	0.1	0.3
Disposals	0.0	-3.9
Changes in the consolidation method, and transfers	-131.3	-1.5
Share of earnings	63.3	91.9
Reversal of impairment losses/impairment	0.1	-5.4
Other changes in value	14.4	—
Dividends received	-49.9	-42.3
Foreign currency translation	-0.4	0.7
As at December 31	**376.5**	**480.2**

Investments in at-equity accounted investees include joint ventures in the amount of €281.0 million (PY: €388.5 million) and associates in the amount of €95.5 million (PY: €91.7 million).

The additions of €0.1 million result from capital increases. Disposals in the previous year essentially related to the sale of shares in Matador Omskshina a.s.z.t., Omsk, Russia.

The reclassifications in the year under review include €125.8 million in shares in S-Y Systems Technologies Europe GmbH, Regensburg, Germany, which were reclassified to assets held for sale. Shares in FIT Automoción S.A., Bergara, Spain, in the amount of €5.5 million were also reclassified to assets held for sale in the current year. These shares were sold before the end of 2012. In the previous year, this items included the shares in DUAP AG, Herzogenbuchsee, Switzerland.

The review of the carrying amount of an associate resulted in a reversal of impairment losses of €0.1 million. In the previous year, impairment of €5.4 million was recognized for one company.

The first-time adoption of IFRS and the preparation of consolidated financial statements by a joint venture resulted in an adjustment of €14.4 million. This adjustment was posted in profit and loss under other expenses and income.

The main investments in joint ventures for the Automotive Group relate to Emitec GmbH, Lohmar, Germany; Shanghai Automotive Brake Systems Co. Ltd., Shanghai, China; SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany; and for the Rubber Group to MC Projects B.V., Amsterdam, Netherlands, together with the respective subsidiaries of these companies.

The figures taken from the last two available sets of annual financial statements (2010 and 2011) for the main joint ventures above are summarized as follows. Amounts are stated at 100%:

- Current assets €1,000.4 million (PY: €972.1 million),
- Non-current assets €293.9 million (PY: €281.5 million),
- Current liabilities €829.7 million (PY: €812.9 million),
- Non-current liabilities €88.8 million (PY: €84.8 million),
- Sales €4,256.6 million (PY: €3,925.7 million),
- Net profit €111.7 million (PY: €101.5 million).

The unaudited figures taken from the last two available sets of annual financial statements for the main associates are summarized as follows. Amounts are stated at 100%:

- Sales €541.5 million (PY: €439.9 million),
- Net profit €26.0 million (PY: €15.5 million),
- Total assets €286.8 million (PY: €256.5 million),
- Liabilities €179.2 million (PY: €171.6 million).

15. Other Investments

in € millions	Dec. 31, 2012	Dec. 31, 2011
Investments in unconsolidated affiliated companies	0.9	0.9
Other participations	6.0	6.0
Other investments	**6.9**	**6.9**

Other investments are carried at cost as their fair value cannot be determined reliably, particularly because there are no listings for these shares on the capital markets. There is no intention to sell these at the current time. There were only insignificant changes in the year under review and the previous year.

16. Deferred Taxes

Deferred tax assets and liabilities are composed of the following items:

in € millions	Dec. 31, 2012	Dec. 31, 2011
Intangible assets	-109.7	-74.0
Property, plant and equipment	-23.0	-52.2
Inventories	141.7	76.3
Other assets	-139.5	-54.6
Pension obligations less defined benefit assets	32.7	40.5
Other provisions	86.0	86.6
Indebtedness	164.9	80.9
Other differences	63.7	60.0
Allowable tax credits	13.1	12.6
Tax losses carried forward and limitation of interest deduction	134.7	120.4
Net deferred taxes	**364.6**	**296.5**
Deferred tax assets	639.1	565.8
Deferred tax liabilities	274.5	269.3

Deferred taxes are measured in accordance with IAS 12 at the tax rate applicable for the periods in which they are expected to be realized. Since 2008, there has been a limit on the deductible interest that can be carried forward in Germany; the amount deductible under tax law is limited to 30% of taxable income before depreciation, amortization and interest.

Deferred tax liabilities on intangible assets increase continually on account of the amortization of goodwill in the tax accounts.

Deferred tax assets on inventories increased to €141.7 million in the year under review, essentially as a result of elimination of intragroup transactions. There was a shift in deferred tax assets in connection with sale of receivables programs from other assets to indebtedness.

The deferred tax assets on loss and interest carryforwards rose slightly to €134.7 million (PY: €120.4 million) in the year under review. This development was influenced by the first-time recognition of deferred taxes on loss carryforwards in Mexico, the future realization of which is considered likely, and the recognition of new loss carryforwards. This was offset by the utilization of loss carryforwards in the amount of €454.3 million (PY: €316.1 million), for which deferred taxes were predominantly not recognized in previous years.

As at December 31, 2012, the corporate tax loss carryforwards amounted to €2,483.1 million (PY: €2,536.9 million). The majority of the corporation's tax loss carryforwards relate to foreign subsidiaries and are mostly limited in the period they can be carried forward.

In total, €959.9 million (PY: €1,074.6 million) in deferred tax assets were written down as it is currently not deemed sufficiently likely that they will be utilized. €727.6 million (PY: €819.0 million) of this relates to allowances on loss and interest carryforwards. In particular, €303.9 million (PY: €356.7 million) of this figure relates to companies in the U.S.A. and €248.0 million (PY: €274.0 million) to the German tax group.

As at December 31, 2012, some corporation companies and tax groups that reported a loss recognized total deferred tax assets of €129.9 million (PY: €263.5 million), which arose from current losses, loss carryforwards and a surplus of deferred tax assets. Given that future taxable income is expected, it is sufficiently probable that these deferred tax assets can be realized.

No deferred tax assets were reported for loss carryforwards abroad of €31.7 million (PY: €31.7 million).

As at December 31, 2012, the interest carryforward in Germany amounted to €491.3 million (PY: €589.4 million) after an adjustment for previous years.

In addition, allowances of €48.9 million (PY: €47.9 million) were recognized on eligible tax credit in Malaysia as it is currently not deemed sufficiently likely that the credit will be utilized.

The cumulative amount of deferred taxes for items taken directly to equity decreased from €9.2 million in the previous year to -€1.8 million primarily as a result of the voluntary termination of cash flow hedge accounting at Continental AG in July 2011. See Note 9.

The deferred tax liabilities from retained earnings of foreign companies amount to a total of €57.1 million (PY: €61.2 million). As it is not expected that amounts will be remitted to the parent company in the short or medium term, the corresponding deferred tax liabilities were not taken into account.

The measurement differences from assets or liabilities held for sale are included in the “Other assets” and “Other differences” items.

17. Other Financial Assets

	Dec. 31, 2012		Dec. 31, 2011	
	Maturity		Maturity	
in € millions	**up to 1 year**	**over 1 year**	**up to 1 year**	**over 1 year**
Amounts receivable from related parties	48.0	2.4	41.4	2.8
Loans to third parties	—	21.4	—	23.9
Amounts receivable from employees	22.6	—	19.0	—
Amounts receivable from suppliers	8.5	—	7.3	—
Amounts receivable for customer tooling	166.7	—	141.9	—
Other amounts receivable	76.0	—	53.9	—
Other financial assets	**321.8**	**23.8**	**263.5**	**26.7**

The receivables from related parties are mainly attributable to receivables from operating service business with companies carried at equity and shareholders.

Loans to third parties mainly comprise tenants’ loans for individual properties and include loans to customers with various maturities.

Receivables from employees relate mainly to preliminary payments for hourly wages and for other advances.

The receivables from the sale of customer tooling relate to costs that have not yet been invoiced. The rise of €24.8 million as against the previous year essentially results from the Automotive Group.

Other financial receivables include deposits for guarantees in particular.

The carrying amounts of the other financial assets are essentially their fair values. Impairment amounting to a total of €3.9 million (PY: €3.6 million) was recognized for the probable default risk on other assets. Expenses of €0.3 million (PY: income of €0.7 million) were incurred in the period under review.

18. Other Assets

	Dec. 31, 2012 Maturity		Dec. 31, 2011 Maturity	
in € millions	**up to 1 year**	**over 1 year**	**up to 1 year**	**over 1 year**
Tax refund claims (incl. VAT and other taxes)	414.4	—	351.4	—
Prepaid expenses	101.3	—	100.6	—
Others	145.7	14.1	172.0	14.0
Other assets	**661.4**	**14.1**	**624.0**	**14.0**

The tax refund claims primarily result from VAT receivables from the purchase of production materials.

In particular, prepaid expenses include rent and maintenance services paid for in advance and license fees. Among other things, the “Others” item includes other deferred or advanced costs.

Impairment amounting to a total of €5.3 million (PY: €5.1 million) was recognized for the probable default risk on other assets. Expenses of €0.2 million (PY: €3.8 million) were incurred in the period under review.

19. Inventories

in € millions	Dec. 31, 2012	Dec. 31, 2011
Raw materials and supplies	1,093.5	1,137.8
Work in progress	365.4	354.0
Finished goods and merchandise	1,541.8	1,499.5
Advances to suppliers	5.0	6.5
Advances from customers	-7.0	-8.1
Inventories	**2,998.7**	**2,989.7**

Write-downs recognized on inventories amounted to €12.3 million in the year under review (PY: €66.3 million). Inventories include amounts written down (gross inventories) of €339.3 million (PY: €327.0 million).

20. Trade Accounts Receivable

in € millions	Dec. 31, 2012	Dec. 31, 2011
Trade accounts receivable	5,082.3	5,445.0
Allowances for doubtful accounts	-89.0	-103.5
Trade accounts receivable	**4,993.3**	**5,341.5**

The carrying amounts of the trade accounts receivable, net of allowances for doubtful accounts, are their fair values.

The risk provision is calculated on the basis of corporation-wide standards. Customer relationships are analyzed at regular intervals. Individual valuation allowances are distinguished from general portfolio allowances for trade accounts receivable measured at amortized cost. Trade accounts receivable for which individual valuation allowances must be recognized are

not taken into account in calculating the general portfolio allowance.

The allowance for doubtful accounts essentially includes estimates and assessments of individual receivables based on the creditworthiness of the respective customer, current economic developments and the analysis of historical losses on receivables. The creditworthiness of a customer is assessed on the basis of its payment history and its ability to make repayments.

Individual allowances are recognized if the customer displays significant financial difficulties or there is a high probability of insolvency. Corresponding expenses are recognized in the allowances for doubtful accounts. If there are indications of uncollectibility, the receivables are derecognized. Should the creditworthiness improve, the impairment is reversed.

Accordingly, the individual valuation allowances and general portfolio allowances for trade accounts receivable developed as follows in the year under review:

in € millions	2012	2011
As at January 1	**103.5**	**116.9**
Additions	38.8	37.5
Utilizations	-24.2	-28.1
Reversals	-30.1	-22.1
Amounts disposed of through disposal of subsidiaries	—	—
Foreign currency translation	1.0	-0.7
As at December 31	**89.0**	**103.5**

Several sale of receivables programs are used in the Continental Corporation. When the risks and rewards of receivables, in particular credit and default risks, have not been primarily transferred, the receivables are still recognized as assets in the statement of financial position. The trade accounts receivable have a remaining term of less than one year.

The financing volume of the sale of receivables program concluded with Norddeutsche Landesbank Luxembourg S.A., Luxembourg, was increased from €230.0 million to €280.0 million in July 2012 by way of a new master agreement. The gross volume amounts to €337.5 million (PY: €287.5 million). The master agreement set to end in September 2012 was prolonged by a further year on September 26, 2012. This program was fully utilized at the end of 2012 in the amount of €280.0 million (PY: €230.0 million). €135.6 million (PY: €122.1 million) of this was already settled by way of payment by the end of the year. In addition to the receivables sold as part of the program, further receivables in the amount of €57.5 million (PY: €57.5 million) were also assigned. The cash deposited to cover any claims on the part of the lending banks not covered amounted to €17.3 million (PY: €17.3 million).

The indefinite sale of receivables program in place with Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main, Germany, since December 2010 provides for a financing volume of €150.0 million (PY: €150.0 million), of which €127.6 million (PY: €150.0 million) was utilized at the end of 2012. €46.8 million (PY: €97.7 million) of this was settled by way of payment by the end of the year. The volume of the receivables sold was €189.9 million (PY: €256.3 million). Receivables can be sold by the corporation companies Continental Benelux SPRL, Herstal, Belgium; Continental Automotive Benelux BVBA, Mechelen, Belgium; Continental France SNC, Sarreguemines, France; Continental Automotive France SAS, Toulouse, France; and Continental Automotive Rambouillet France SAS, Rambouillet, France.

On October 1, 2012, the sale of receivables program concluded with the U.S. banks Wells Fargo Bank N.A., Atlanta, Georgia; The Bank of Nova Scotia, Houston,

Texas; and Bank of America N.A., Charlotte, North Carolina, with an unchanged financing volume of $400.0 million was extended by an additional year. €278.5 million of the program had been utilized as of the end of 2012 (PY: €169.5 million). The volume of the receivables sold was €278.5 million (PY: €169.5 million). Further receivables in the amount of €465.7 million (PY: €656.9 million) were also deposited as collateral. The program can be utilized by Continental Tire The Americas LLC, Fort Mill, South Carolina, U.S.A., and Continental Automotive Systems, Inc., Auburn Hills, Michigan, U.S.A.

Two further sale of receivables programs were also set up in 2012. An indefinite agreement was concluded with The Royal Bank of Scotland N.V. Germany branch, Frankfurt am Main, Germany, at the end of April 2012. The agreed financing volume of £75.0 million can be utilized in both euros and pounds sterling. Total utilization as of the end of 2012 amounted to €91.8 million. €38.1 million of this was settled by way of payment by the end of the year. As at December 31, 2012, the volume of the receivables sold was €113.8 million. Receivables can be sold by the corporation company Continental AG.

A further sale of receivables program with a financing volume of €300.0 million was agreed with Crédit Agricole Corporate and Investment Bank, Paris, France, on July 26, 2012. The program has a term of up to five years if prolonged by either party on an annual basis. At the end of 2012, the program had been utilized in the amount of €158.3 million. €100.5 million of this was settled by way of payment by the end of the year. As at December 31, 2012, the volume of the receivables sold was €259.6 million.

The trade accounts receivable for which specific valuation allowances have not been recognized are broken down into the following maturity periods:

			thereof overdue in the following maturity periods					
in € millions Dec. 31, 2012	**Carrying amount**	**thereof not overdue**	**less than 15 days**	**15 - 29 days**	**30 - 59 days**	**60 - 89 days**	**90 - 119 days**	**more than 120 days**
Trade accounts receivable[1]	4,137.1	3,759.8	206.1	63.3	53.0	16.2	8.4	30.3
Dec. 31, 2011								
Trade accounts receivable[1]	4,612.8	4,240.4	207.6	57.8	38.7	20.4	13.2	34.7

[1] The difference between this figure and the first table in this Note of €945.2 million (PY: €832.2 million) results from receivables for which specific valuation allowances have been recognized.

Based on the customers' payment history and analysis of their creditworthiness, the Continental Corporation expects that the overdue receivables not written down will be settled in full and no valuation allowance will be required.

As at December 31, 2012, the receivables do not include any amounts from the percentage-of-completion method. Advances from customers of €0.5 million were reported in the previous year. Sales from construction contracts were recognized in the amount of €0.4 million in the previous year.

21. Cash and Cash Equivalents

Cash and cash equivalents include all liquid funds and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value.

For information on the interest rate risk and the sensitivity analysis for financial assets and liabilities, please see Note 29.

22. Assets Held for Sale

in € millions	Dec. 31, 2012	Dec. 31, 2011
Assets held for sale	167.7	45.4
Assets of a disposal group	44.1	—
Assets held for sale	**211.8**	**45.4**

€125.8 million of the assets held for sale relate to the shares held by Continental Automotive GmbH, Hanover, Germany, in S-Y Systems Technologies Europe GmbH, Regensburg, Germany. In addition, €33.6 million (PY: €34.6 million) relate to the land and property reclassified at our Automotive location in Deer Park, Illinois, U.S.A., in the prior year. An impairment loss of €21.7 million was recognized for this in 2011. The land and property in Switzerland acquired in the previous year for resale is included in the assets available for sale at €6.8 million. In addition, assets held for sale also include a smaller property.

Continental will contribute property, plant and equipment, and intangible assets with a total amount of €44.1 million to the joint venture with SK Innovation Co., Ltd., Seoul, South Korea. These assets were reclassified to available-for-sale assets in the period under review.

Assets held for sale are measured at the lower of their carrying amount prior to classification of the group of assets as held for sale and the fair value less costs to sell.

23. Total Equity

Number of shares outstanding	2012	2011
As at January 1	**200,005,983**	**200,005,983**
Change in the period	—	—
As at December 31	**200,005,983**	**200,005,983**

The subscribed capital of Continental AG was unchanged year-on-year. At the end of the reporting period it amounted to €512,015,316.48 and was composed of 200,005,983 no-par-value shares with a notional value of €2.56 per share.

By way of resolution by the Annual Shareholders' Meeting on April 27, 2012, the Executive Board was authorized, with the approval of the Supervisory Board, to increase the share capital by up to €70.0 million by issuing new shares against cash or non-cash contributions by April 26, 2015 (Article 4 (3) of the Articles of Incorporation).

On the basis of the resolution of the Annual Shareholders' Meeting on April 23, 2009, the company has additional authorized capital of €66.0 million for the issuance of new shares against cash or non-cash contributions by April 22, 2014 (Article 4 (2) of the Articles of Incorporation).

The share capital has been contingently increased by up to €3.8 million in accordance with Article 4 (4) of the Articles of Incorporation. The contingent capital increase is intended to grant the bearers of rights under the 2004 stock option plan new shares when their rights are exercised. The Annual Shareholders' Meeting on May 14, 2004, approved the 2004 stock option plan for members of the Executive Board and senior executives. The 2004 stock option plan authorized the Executive Board to grant, in line with the plan's more detailed specifications, a total of 3,936,000 subscription rights until May 13, 2009, each of which entitles the option holder to subscribe for one share. As in the previous year, no subscription rights were exercised in 2012. 36,400 (PY: 31,400) subscription rights expired in 2012, as a result of which there were no subscription rights still outstanding as of the end of the reporting period.

The share capital has been contingently increased by up to €20.0 million in accordance with Article 4 (5) of the Articles of Incorporation. The contingent capital increase is intended to grant the bearers of rights under the 2008 stock option plan new shares when their rights are exercised. The 2008 stock option plan adopted at the Annual Shareholders' Meeting on April 25, 2008, authorizes the issuance of up to 7,800,000 subscription rights to the Executive Board and senior executives until April 24, 2013. As in the previous year, no subscription rights were issued in 2012 and none expired (PY: 8,300). Thus, 47,900 subscription rights are still outstanding as of the end of the reporting period.

In accordance with Article 4 (6) of the Articles of Incorporation, the share capital has been contingently increased by up to €51.0 million by issuing up to 19,921,875 new bearer shares. The contingent capital increase serves the issue of bearer shares to the bearers and creditors of convertible and warrant-linked bonds, profit participation rights and participating bonds (or a combination of these instruments) that are issued on the basis of the authorization resolved by the Annual Shareholders' Meeting of April 27, 2012, under agenda item 8 and that grant or establish a conversion or warrant right or a conversion obligation for new shares of Continental AG. The authorization to issue these instruments is limited until April 26, 2015, and a maximum amount of €2,500 million. The authorization had not been utilized as of the end of the reporting period.

By way of resolution of the Annual Shareholders' Meeting of April 27, 2012, the contingent capital in accordance with Article 4 (4), (6) and (8) of the old version of the Articles of Incorporation with a total amount of €192.5 million was revoked.

The change in conditional capital is shown in the table below:

in € thousands	2012	2011
Conditional capital as at January 1	**209,179**	**209,280**
Additions	51,000	—
Disposals	-192,500	—
Expiration of subscription rights granted	-94	-101
Conditional capital as at December 31	**67,585**	**209,179**

Under the German Stock Corporation Act *(Aktiengesetz – AktG)*, the dividends distributable to the shareholders are based solely on Continental AG's retained earnings as at December 31, 2012, of €866.5 million (PY: €508.5 million), as reported in the annual financial statements prepared in accordance with the German Commercial Code. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €2.25 per share. With 200,005,983 shares entitled to dividends, the total distribution will therefore amount to €450,013,461.75. The remaining amount is to be carried forward to new account.

24. Share-Based Payment

The equity instruments made available for share-based payment programs are disclosed in Note 23 on total equity.

No more expenses were incurred for stock option plans in the year under review (PY: €7.2 million, reported in other operating expenses).

2004 variable stock option plan

Continental AG introduced a variable stock option plan (2004 stock option plan) with the approval of the Annual Shareholders' Meeting on May 14, 2004. This plan replaced the 1999 stock option plan and enabled the issue of up to 3.9 million subscription rights. Each option granted under this plan carries the right to subscribe for one share. These stock options can be exercised after a vesting period of three years, starting from the date on which the Executive Board (or the Supervisory Board) granted the options. Once vested, the options can be exercised, i.e. the corresponding number of Continental AG shares can be acquired, within certain exercise windows during the following two years.

Continental AG's variable stock option plans include a performance target as a prerequisite for the exercise of stock options. Subscription rights may be exercised only if the average market price of Continental shares in the XETRA closing auction on the Frankfurt Stock Exchange during the ten trading days prior to an exercise window is at least 15% (= exercise hurdle) above the average closing price during the ten trading days prior to the issue date.

The exercise price varies in accordance with an outperformance and performance discount. The outperformance discount is calculated on the basis of the performance of Continental's shares as against the MDAX. The performance discount is calculated as a function of the relative change in the corporation's EBIT margin.

The value of the issued stock options is determined using the Monte Carlo simulation model. This model ensures realistic allowances for the effects of the performance target as well as the performance and outperformance discount. Specifically, the model simulates the change in the price of Continental shares and the MDAX to reflect the outperformance of Continental shares as against the benchmark index and the increase in the average closing price of Continental shares as against the reference price. The measurement model also takes into account assumptions regarding fluctuation. The adjustment of the exercise price by the outperformance of Continental shares against the MDAX is a market condition under IFRS and is included only in measurement as of the issue date. The adjustment of the exercise price in line with the change in the return on sales (EBIT in % of sales) of the Continental Corporation is a performance condition under IFRS.

The model used also takes into account the possibility of an early exercise of the options in all cases where the adjusted exercise price falls below 50% of the reference price and the performance target is achieved during the exercise window. Further, the model assumes that, as experience has shown, option holders who have left the corporation exercise the option immediately after the vesting period.

The expected dividends recognized in the model for each year of the options' duration are based on estimates published by analysts.

The volatilities and correlation reflect historical trends, based on the closing prices for Continental shares and the MDAX as of the end of each reporting period corresponding to a period equivalent to the remaining duration of the option rights.

When calculating the exercise price, an allowance is possible if Continental's stock underperforms against the reference price, and that performance against the stock market index to which the Continental share belongs at the beginning of an exercise window is used as a basis to determine the outperformance. In addition, the plan features a cap on possible capital gain.

	2012		2011	
Stock option plan 2004	Number of subscription rights 1,000 units	Average exercise price[1] €/unit	Number of subscription rights 1,000 units	Average exercise price[1] €/unit
Outstanding as at January 1	**680.9**	**118.65**	**1,283.2**	**105.73**
Forfeited	—	—	—	—
Expired	680.9	118.65	602.3	91.13
Outstanding as at December 31	**0.0**	**—**	**680.9**	**118.65**
Exercisable on December 31	**0.0**	**—**	**680.9**	**118.65**

[1] The average exercise price is shown as no subscription rights were exercised in the period under review or the previous year.

No more stock options will be issued from the 2004 stock option plan when the 2008 stock option plan comes into effect.

A fair value of €36.18 was calculated for the options of the 2004 tranche for the last time at the end of the vesting period on July 3, 2010. The final exercise window for the 2004 stock option plan ended in 2012, hence the last subscription rights have expired.

No stock options were issued in either the reporting period or the previous year's reporting period. The range of exercise prices for the 2007 tranche was between €51.59 and €118.65.

2008 variable stock option plan

With the approval of the Annual Shareholders' Meeting on April 25, 2008, Continental AG adopted another variable stock option plan (2008 stock option plan) for senior executives and the Executive Board to take account of the new management structure after the acquisition of Siemens VDO. Its main features are the same as those of the 2004 stock option plan. Each stock option granted as part of the stock option plan carries the right to subscribe for one share. In total, up to 7.8 million stock options can be issued as part of the 2008 stock option plan. The issue of the stock options of a tranche takes place on the eleventh working day following the publication of the interim report for the first quarter of the relevant year (issue date). The stock options can be exercised only after a three-year period has elapsed since the issue date (vesting period) and then within a further period of two years commencing immediately upon expiration of the vesting period (exercise period). The stock options can be exercised only within certain time periods (exercise windows) during an exercise period.

The exercise is also linked to the attainment of a "performance target". Accordingly, exercise is possible only if the average closing price of Continental shares in XETRA trading (average closing price) during the last ten trading days before the respective exercise window is at least 15% (= exercise hurdle) above the average closing price during the last ten days of trading before the issue date. The issue amount for shares subscribed on the basis of an exercise of subscription rights derived from the 2008 stock option plan ("exercise price") corresponds to the average closing price during the last ten trading days prior to the issue date (issue price), plus a premium, minus a performance-oriented reduction and adjusted by an outperformance-oriented reduction or surcharge. The performance discount is calculated as a function of the relative change in the corporation's EBIT margin. The outperformance discounts and premiums are determined on the basis of the development of Continental's shares in comparison with the development of the DAX or the stock market index to which the Continental shares belong at the beginning of the exercise window.

The value of the issued stock options is determined using the Monte Carlo simulation model, which is explained in detail in the description of the 2004 stock option plan. In accordance with the 2004 stock option plan, a ceiling has been imposed on the achievable capital gain.

A fair value of €32.43 was calculated for the options of the 2008 tranche for the last time at the end of the vesting period on May 16, 2011. The remaining term is equal to the exercise window still available. The weighted average remaining term is four months (PY: one year and four months) and corresponds to the maximum remaining term of the entire 2008 stock option plan.

	2012		2011	
Stock option plan 2008	**Number of subscription rights 1,000 units**	**Average exercise price[1] €/unit**	**Number of subscription rights 1,000 units**	**Average exercise price[1] €/unit**
Outstanding as at January 1	**1,165.5**	**89.95**	**1,173.8**	**89.95**
Forfeited	—	—	—	—
Expired	—	—	8.3	89.95
Outstanding as at December 31	**1,165.5**	**89.95**	**1,165.5**	**89.95**
Exercisable on December 31[2]	**1,165.5**	**89.95**	**1,165.5**	**89.95**

[1] The average exercise price is given as no subscription rights were exercised in the period under review or in the previous year.
[2] Of the subscription rights exercisable on December 31, 47,900 can still be exercised. The other subscription rights are assignable to the redemption offer for the previous periods.

In December 2008, a compensation offer for granted and not yet exercised stock options was made to the senior executive management of the corporation to whom stock options were granted from the stock option plans of 2004 and 2008. The reason for the compensation offer was the limited free float of Continental AG's shares, which meant that the share price performance could be subject to coincidental fluctuations which do not reflect Continental's economic development. The stock option plan thus lost its effectiveness as a long-term remuneration instrument geared towards the company's performance.

The compensation offer was based on the fair value of the stock options as at October 31, 2008. The average weighted fair value of the 2005 to 2008 tranches was €3.13 per stock option. Based on this evaluation, a provision was made for the payments in the years 2010 and 2011 for the first time in fiscal 2008. The acceptance period ran until mid-January 2009. The majority of the stock option plan beneficiaries accepted the offer.

2009 to 2011 remuneration plans

As a component of Executive Board remuneration, a decision was made at the end of 2011 as in 2009 and 2010 to convert part of the variable element into virtual shares. The total bonus amount of €17.1 million (PY: €5.6 million) was recognized as a provision as of the end of the reporting period. Information on Executive Board remuneration can be found in the Remuneration Report.

25. Provisions for Pension Liabilities and Similar Obligations

Provisions for pension liabilities and similar obligations are shown in the following items of the statement of financial position:

in € millions	Dec. 31, 2012	Dec. 31, 2011
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	1,288.7	1,239.9
Provisions for other post-employment benefits	160.4	165.7
Provisions for similar obligations	28.1	26.6
Provisions for pension liabilities and similar obligations	**1,477.2**	**1,432.2**
Defined benefit assets (difference between pension obligations and related funds)	**101.1**	**102.9**

Pension plans
The Continental Corporation offers its employees pension plans in the form of defined benefits and defined contributions, either as general or individual plans. The provisions cover the obligations from defined benefit plans, in particular in Germany, the U.S.A., Canada, the U.K., Austria, France, Mexico, Italy and Ireland.

Separate pension funds exist to fully or partially finance the company's pension obligations for many of the plans. These pension fund assets can only be used to settle pension obligations. The principal funds are in the U.S.A., the U.K., and Germany in the form of contractual trust arrangements (CTAs). These pension fund assets are netted against the related pension provisions, provided they qualify as plan assets as defined by IAS 19.

The plan assets also include, in Germany in particular, insurance annuity contracts. In addition, certain closed pension contribution funds in Germany are shown in the reconciliation of the total pension plans due to certain warranty risks.

in € millions	Dec. 31, 2012	Dec. 31, 2011
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	1,288.7	1,239.9
Defined benefit assets (difference between pension obligations and related funds)	101.1	102.9
Net amount recognized	**1,187.6**	**1,137.0**

The pension provisions increased by €48.8 million as against the previous year. The increase is essentially due to current pension expenses, which were not offset by the pension payments made or contributions to pension plans. By contrast, defined benefit assets representing the net assets from pension obligations and related funds declined slightly by €1.8 million.

The pension obligations for Germany, the U.S.A. and Canada, the U.K. and other countries, as well as the amounts for the Continental Corporation as a whole, are shown in the following tables. The U.S.A. and Canada are abbreviated to USA/C.

The reconciliation of the changes in the defined benefit obligations from the beginning to the end of the year is as follows:

	2012					2011				
in € millions	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Defined benefit obligations as at January 1	**1,877.9**	**1,060.3**	**234.8**	**192.3**	**3,365.3**	**1,875.9**	**1,035.2**	**230.6**	**201.1**	**3,342.8**
Foreign currency differences	—	-18.3	6.4	3.5	**-8.4**	—	32.7	6.3	2.3	**41.3**
Current service cost	59.3	0.6	3.1	12.5	**75.5**	60.0	0.6	2.7	13.3	**76.6**
Interest on defined benefit obligations	93.7	49.8	12.3	9.4	**165.2**	91.8	51.9	11.4	10.0	**165.1**
Plan amendments	0.2	—	—	-0.4	**-0.2**	-14.8	—	—	—	**-14.8**
Actuarial gains/losses from changes in assumptions	554.6	117.0	35.6	26.6	**733.8**	-37.6	67.1	-10.6	-7.4	**11.5**
Actuarial gains/losses from experience adjustments	34.0	8.0	-1.4	-5.7	**34.9**	-11.6	1.4	0.6	0.4	**-9.2**
Curtailments/settlements	—	-62.6	—	-9.0	**-71.6**	—	-70.7	—	-14.0	**-84.7**
Net changes in the scope of consolidation	-0.6	—	—	2.0	**1.4**	—	—	—	1.3	**1.3**
Employee contributions	—	—	0.8	0.3	**1.1**	—	—	0.9	0.3	**1.2**
Other changes	—	—	-0.9	-0.1	**-1.0**	—	—	-0.6	-0.1	**-0.7**
Benefit payments	-86.9	-61.6	-7.5	-13.3	**-169.3**	-85.8	-57.9	-6.5	-14.9	**-165.1**
Defined benefit obligations as at December 31	**2,532.2**	**1,093.2**	**283.2**	**218.1**	**4,126.7**	**1,877.9**	**1,060.3**	**234.8**	**192.3**	**3,365.3**

The reconciliation of the changes in the plan assets from the beginning to the end of the year is as follows:

in € millions	2012					2011				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Fair value of plan assets as at January 1	**684.1**	**739.9**	**241.6**	**86.5**	**1,752.1**	**686.4**	**774.2**	**222.8**	**96.4**	**1,779.8**
Foreign currency differences	—	-11.5	6.7	2.6	**-2.2**	—	20.6	8.2	-2.3	**26.5**
Expected return on plan assets	28.5	48.0	14.6	5.0	**96.1**	31.0	53.8	13.2	5.0	**103.0**
Actuarial gains/losses from plan assets	21.5	38.0	15.8	0.4	**75.7**	-6.7	-31.4	-10.3	-2.5	**-50.9**
Employer contributions	2.0	40.9	8.7	5.3	**56.9**	0.7	51.0	14.0	9.3	**75.0**
Employee contributions	—	—	0.8	0.3	**1.1**	—	—	0.9	0.3	**1.2**
Curtailments/settlements	—	-62.6	—	—	**-62.6**	—	-70.7	—	-5.3	**-76.0**
Other changes	0.2	—	-1.0	-0.1	**-0.9**	—	—	-0.7	-6.6	**-7.3**
Benefit payments	-27.0	-61.3	-7.5	-6.0	**-101.8**	-27.3	-57.6	-6.5	-7.8	**-99.2**
Fair value of plan assets as at December 31	**709.3**	**731.4**	**279.7**	**94.0**	**1,814.4**	**684.1**	**739.9**	**241.6**	**86.5**	**1,752.1**
Actual return on plan assets	50.0	86.0	30.4	5.4	**171.8**	24.3	22.4	2.9	2.5	**52.1**

€4,050.3 million (PY: €3,295.2 million) of the defined benefit obligations as at December 31, 2012, relates to plans that are fully or partially funded and €76.4 million (PY: €70.1 million) relates to plans that are unfunded.

Curtailments and settlements in the year under review result from the restructuring of the Chatham location in Canada. In particular, the increase in the defined benefit obligations was due to the change in the discount rate and the associated rise in actuarial losses due to changes in assumptions.

In the year under review, the changes in the scope of consolidation related to the acquisition of ContiTech Vibration Control France SAS, Andrézieux-Bouthéon, France. Furthermore, pension obligations were assumed for existing companies in Germany and Mexico and the new company ContiTech Fluid Korea Co., Ltd., Chonan City, South Korea, as part of the combined asset and share deal in connection with the acquisition of the automotive air conditioning business of the Parker Hannifin Corporation, Cleveland, Ohio, U.S.A. In the previous year, the changes in consolidation related to the acquisition of Modi Tyres Company Limited, Modipuram, India.

Plan assets in Germany include the CTA assets amounting to €298.1 million (PY: €274.9 million), pension contribution fund assets of €320.6 million (PY: €320.0 million) and insurance annuity contracts amounting to €90.6 million (PY: €89.2 million). €12.2 million (PY: €5.5 million) of the actuarial gains and losses on plan assets in Germany resulted from official retirement funds and €9.5 million (PY: -€12.2 million) from the CTAs.

In the Continental Corporation there are pension funds for previously defined contributions in Germany that have been closed to new entrants since July 1, 1983, and March 1, 1984, respectively. As at December 31, 2012, the minimum net funding requirement was exceeded; Continental AG has no requirement to make additional contributions. The pension fund assets had a fair value of €320.6 million (PY: €320.0 million) as at December 31, 2012. The pension funds have tariffs with an interest rate of 3.50%, for which Continental AG is ultimately liable under the German Company Pensions Law *(Betriebsrentengesetz)*. Under this law, the pension obligations constitute a defined benefit pension plan; this plan must be reported in line with the development of pension provisions. However, given that only the plan members are entitled to the assets and all income, the benefit obligations are recognized in the same amount as the existing assets at fair value.

The following table shows the reconciliation of the funded status to the amounts contained in the statement of financial position:

in € millions	Dec. 31, 2012					Dec. 31, 2011				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Funded status[1]	**-1,822.9**	**-361.8**	**-3.5**	**-124.1**	**-2,312.3**	**-1,193.8**	**-320.4**	**6.8**	**-105.8**	**-1,613.2**
Unrecognized actuarial losses	644.9	394.3	48.7	47.0	**1,134.9**	77.4	356.2	36.7	21.1	**491.4**
Unrecognized past service cost from plan amendments	—	—	—	3.4	**3.4**	—	—	—	3.9	**3.9**
Asset ceiling	—	—	-10.4	-3.2	**-13.6**	—	-1.0	-14.9	-3.2	**-19.1**
Net amount recognized	**-1,178.0**	**32.5**	**34.8**	**-76.9**	**-1,187.6**	**-1,116.4**	**34.8**	**28.6**	**-84.0**	**-1,137.0**

[1] Difference between plan assets and defined benefit obligations.

The net amount recognized comprises the following items of the statement of financial position:

in € millions	Dec. 31, 2012					Dec. 31, 2011				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Defined benefit assets	—	61.1	34.8	5.2	**101.1**	—	66.2	28.6	8.1	**102.9**
Pension provisions	-1,178.0	-28.6	—	-82.1	**-1,288.7**	-1,116.4	-31.4	—	-92.1	**-1,239.9**
Net amount recognized	**-1,178.0**	**32.5**	**34.8**	**-76.9**	**-1,187.6**	**-1,116.4**	**34.8**	**28.6**	**-84.0**	**-1,137.0**

The pension plan of Continental Automotive Trading UK Ltd., Birmingham, U.K., reports plan assets as of the end of the fiscal year that exceed the defined benefit obligations. The recognition of such an asset is limited to the present value of the benefits to the corporation (asset ceiling). As at December 31, 2012, this present value is €0.0 million (PY: €0.0 million).

The assumptions used in measuring the pension obligations, in particular the discount factors, long-term salary growth rates and the long-term rates of return on plan assets, are established separately for each country.

In the principal pension plans, the following weighted-average valuation factors as at December 31 of the year have been used:

	2012				2011			
in %	**Germany[1]**	**USA/C**	**UK**	**Other**	**Germany[1]**	**USA/C**	**UK**	**Other**
Discount rate	3.40	3.98	4.10	3.85	5.50	4.87	5.10	5.65
Expected long-term return on plan assets	3.86	6.91	5.26	3.26	4.75	6.66	5.84	5.47
Long-term salary growth rate	3.00	3.25	3.59	3.49	3.00	3.25	3.85	4.10

[1] Not including the pension contribution funds.

Net pension cost can be summarized as follows:

	2012					2011				
in € millions	**Germany**	**USA/C**	**UK**	**Other**	**Total**	**Germany**	**USA/C**	**UK**	**Other**	**Total**
Current service cost	59.3	0.6	3.1	12.5	**75.5**	60.0	0.6	2.7	13.3	**76.6**
Interest on defined benefit obligations	93.7	49.8	12.3	9.4	**165.2**	91.8	51.9	11.4	10.0	**165.1**
Expected return on plan assets	-28.5	-48.0	-14.6	-5.0	**-96.1**	-31.0	-53.8	-13.2	-5.0	**-103.0**
Amortization of actuarial gains/losses	-0.7	33.4	7.4	-3.2	**36.9**	1.4	21.1	-1.3	1.8	**23.0**
Amortization of past service cost as well as other pension income/cost	0.2	—	—	0.3	**0.5**	-14.8	—	—	0.4	**-14.4**
Curtailments/settlements	—	8.0	—	-0.1	**7.9**	—	4.1	—	-1.6	**2.5**
Effect of change of asset ceiling	—	-1.0	-4.9	0.4	**-5.5**	—	-1.4	5.5	0.9	**5.0**
Net pension cost	**124.0**	**42.8**	**3.3**	**14.3**	**184.4**	**107.4**	**22.5**	**5.1**	**19.8**	**154.8**

Curtailments and settlements in 2012 and 2011 result in particular from the restructuring of the Chatham location in Canada.

A one percentage point increase or decrease in the discount rate used to discount pension obligations would have had the following impact on the pension obligations as of the end of the reporting period:

in € millions	Dec. 31, 2012				Dec. 31, 2011			
	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
1% increase								
Effects on service and interest cost	-5.2	3.6	0.1	6.3	-1.4	3.3	-0.1	1.9
Effects on benefit obligations	-286.6	-119.2	-46.5	-19.6	-189.0	-106.0	-36.1	-20.0
1% decrease								
Effects on service and interest cost	5.6	-4.8	-0.3	9.6	1.2	-4.4	0.1	5.5
Effects on benefit obligations	358.2	145.5	60.4	34.5	233.6	128.6	46.3	23.9

[1] Not including the pension contribution funds.

Changes in the discount rate and the salary and pension trends do not have a linear effect on the defined benefit obligations (DBO) owing to the financial models used (particularly due to the compounding of interest rates). For this reason, the net periodic pension cost derived from the pension obligations does not change by the same amount as a result of an increase or decrease in the actuarial assumptions.

Pension funds

The structure of the corporation's plan assets are reviewed by the investment committees on an ongoing basis taking into account the forecast pension obligations. In doing so, the investment committees regularly review the investment decisions taken, the underlying expected returns of the individual asset classes reflecting empirical values and the selection of the external fund managers.

The portfolio structures of the pension plan assets at the measurement date for the fiscal years 2012 and 2011, and the planned portfolio structure for fiscal 2013, are as follows:

in %	Planned structure 2013				2012				2011			
Asset class	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
Equity instruments	8	58	10	22	27	59	11	16	14	55	11	12
Debt securities	81	38	44	61	68	37	51	61	65	38	50	71
Real estate	11	4	—	3	1	3	1	3	2	3	1	3
Diversified growth fund[2]	—	—	36	—	—	—	31	—	—	—	32	—
Cash, cash equivalents and other	—	—	10	14	4	1	6	20	19	4	6	14
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

[1] The portfolio structure of the fund assets in Germany excludes the pension contribution funds, whose assets are invested mainly in fixed-income securities.
[2] The figures for the previous year have been restated accordingly.

The expected long-term return on plan assets of the individual asset classes for 2012 and 2011 is as follows:

in %	2012				2011			
Asset class	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
Equity instruments	7.00	7.95	7.50	5.79	7.10	7.70	7.59	6.44
Debt securities	3.47	5.30	4.10	3.74	4.06	5.41	4.73	5.60
Real estate	4.50	8.00	7.50	1.68	—	6.37	7.03	4.44
Diversified growth fund[2]	—	—	6.50	—	—	—	7.08	—
Cash, cash equivalents and other	—	—	3.84	4.66	—	2.82	4.83	5.01
Long-term return	**3.86**	**6.91**	**5.26**	**4.79**	**4.75**	**6.66**	**5.84**	**5.47**

[1] The expected long-term return on plan assets of the individual asset classes in Germany excludes the expected returns of the pension contribution funds, for which returns range between 4.00% and 4.50% for long-term debt securities.
[2] The figures for the previous year have been restated accordingly.

The reference date for plan asset measurement is December 31.

Employer contributions to pension funds

The following table shows the cash contributions made by the company to the pension funds for 2012 and 2011 as well as the expected contributions for 2013:

in € millions	2013 (expected)	2012	2011
Germany	0.3	2.0	0.7
USA/C	12.0	40.9	51.0
UK	5.9	8.7	14.0
Other	11.5	5.3	9.3
Total	**29.7**	**56.9**	**75.0**

The following overview contains the pension benefit payments made in the reporting year and the previous year, as well as the undiscounted, expected pension benefit payments for the next ten years:

in € millions	Germany	USA/C	UK	Other	Total
Benefits paid					
2011	85.8	57.9	6.5	14.9	**165.1**
2012	86.9	61.6	7.5	13.3	**169.3**
Benefit payments as expected					
2013	102.3	63.7	6.4	9.0	**181.4**
2014	124.2	61.2	6.7	9.5	**201.6**
2015	127.2	62.4	7.3	11.9	**208.8**
2016	136.3	63.0	7.9	17.5	**224.7**
2017	128.1	63.5	8.4	22.9	**222.9**
Total of years 2018 to 2022	750.6	320.9	52.9	86.2	**1,210.6**

The pension payments from 2012 onwards relate to lump-sum amounts in connection with fixed service cost benefit plans, as well as annual pension benefits. For the purposes of estimating the future payments, in those cases where employees have an option to immediately receive their benefits in cash on retirement or to opt for monthly pension payments, it has been assumed that in all cases the lump-sum will be chosen. Furthermore, the earliest eligible date for retirement has been assumed when determining future pension payments. The actual retirement date could occur later. Therefore the actual payments in future years for present plan members could be lower than the amounts assumed. The final payments for the location Chatham, Canada, were made in 2012.

For the current and four preceding reporting periods, the amounts of the defined benefit obligations, plan assets, deficit, as well as the experience adjustments to plan liabilities and to plan assets are as follows:

in € millions	2012	2011	2010	2009	2008
Defined benefit obligations	4,126.7	3,365.3	3,342.8	3,056.4	2,800.9
Plan assets	1,814.4	1,752.1	1,779.8	1,619.9	2,171.9
Deficit	-2,312.3	-1,613.2	-1,563.0	-1,436.5	-629.0
Experience adjustments to plan liabilities	768.7	2.3	124.7	163.3	-87.6
Experience adjustments to plan assets	76.0	-50.9	30.5	68.7	-347.6

In particular, the increase in the deficit as against the previous year is due to the change in the defined benefit obligations. The reduction in the discount rate is resulting in actuarial losses in all countries.

Other post-employment benefits

Certain subsidiaries – primarily in the U.S.A. and Canada – grant eligible employees healthcare and life insurance on retirement if they have fulfilled certain conditions relating to age and years of service. The amount and entitlement can be altered. Certain retirement benefits, in particular for pensions and healthcare costs, are provided in the U.S.A. for hourly-paid workers at unionized tire plants under the terms of collective pay agreements.

No separate plan assets have been set up for these obligations.

The reconciliation of the changes in the defined benefit obligations and the financing status from the beginning to the end of the year is as follows:

in € millions	2012	2011
Defined benefit obligations as at January 1	**202.2**	**210.9**
Foreign currency differences	-3.8	5.4
Current service cost	1.5	1.3
Interest on defined benefit obligations	9.7	10.2
Actuarial losses from changes in assumptions	20.6	8.8
Actuarial gains/losses from experience adjustments	0.1	-2.6
Curtailments/settlements	-1.4	-17.7
Benefit payments	-15.3	-14.1
Defined benefit obligations as at December 31	**213.6**	**202.2**
Unrecognized actuarial losses	57.2	42.6
Unrecognized income from plan amendments	-4.0	-6.1
Amount recognized as at December 31	**160.4**	**165.7**

In particular, the rise in the defined benefit obligations is due to the increased actuarial losses as a result of the change in the discount rate.

At the end of 2006, all hourly workers at the U.S. tire operations and retirees were notified that their maximum amount of medical coverage would be reduced further starting at the beginning of 2007. As a result of this amendment, these beneficiaries now have a standardized level of medical coverage. These plan amendments resulted in a reversal of provisions in 2006 for post-employment obligations of €108.8 million. Certain affected individuals filed a class action lawsuit contesting this measure at the end of 2006. Owing to a judicially approved settlement, which ended the legal proceedings, the company had to make a one-time payment totaling €43.5 million as compensation. Most of the payment was made in 2008, with payment of the remainder spread over the following seven years. The remaining provision of €5.2 million as at December 31, 2012 (PY: €7.7 million) is recognized under the provisions for obligations similar to pensions.

The assumptions used for the discount rate and cost increases to calculate the healthcare and life insurance benefits vary according to conditions in the U.S.A. and Canada.

The following weighted average valuation factors as at December 31 were used:

in %	2012	2011
Discount rate	3.97	4.95
Rate of increase in healthcare and life insurance benefits in the following year	7.07	7.50
Long-term rate of increase in healthcare and life insurance benefits	4.99	4.99

The net cost of healthcare and life insurance benefit obligations can be broken down as follows:

in € millions	2012	2011
Current service cost	1.5	1.3
Interest on defined benefit obligations	9.7	10.2
Amortization of actuarial gains/losses	5.1	3.8
Amortization of vested prior plan amendments	-2.8	-2.8
Curtailments/settlements	1.1	-15.7
Net loss/income	**14.6**	**-3.2**

The expenses from curtailments and settlements in the year under review result primarily from a tire location in the U.S.A.

In the previous year, income from settlements related to the restructuring of the site in Huntsville, Alabama, U.S.A., and led to a net gain from the healthcare and life insurance obligations in 2011.

The following table shows the effects of a 1% increase or decrease in the cost trend for healthcare and life insurance obligations:

in € millions	2012	2011
1% increase		
Effects on service and interest cost	0.3	0.2
Effects on benefit obligations	5.0	4.0
1% decrease		
Effects on service and interest cost	-0.2	-0.2
Effects on benefit obligations	-4.3	-3.4

A one percentage point increase or decrease in the discount rate specified above for calculating the net cost of healthcare and life insurance benefit obligations would have had the following effect on net cost:

in € millions	2012	2011
1% increase		
Effects on service and interest cost	0.8	0.6
Effects on benefit obligations	-19.8	-17.4
1% decrease		
Effects on service and interest cost	-0.9	-0.7
Effects on benefit obligations	24.1	21.0

The following table shows the payments made for other post-employment benefits in the reporting year and the previous year, as well as the undiscounted, expected benefit payments for the next ten years:

in € millions	
Benefits paid	
2011	14.1
2012	15.3
Benefit payments as expected	
2013	14.9
2014	14.6
2015	14.4
2016	14.2
2017	14.1
Total of years 2018 to 2022	68.3

The amounts for the defined benefit obligations, deficit and experience adjustments to plan liabilities for the current and four preceding reporting periods are as follows:

in € millions	2012	2011	2010	2009	2008
Defined benefit obligations	213.6	202.2	210.9	191.1	180.0
Deficit	-213.6	-202.2	-210.9	-191.1	-180.0
Experience adjustments to plan liabilities	20.7	6.2	7.3	23.5	23.3

Provisions for obligations similar to pensions
Some companies of the corporation have made commitments to employees for a fixed percentage of the employees' compensation. These entitlements are paid out when the employment relationship is terminated. In the fiscal year, the expenses for these obligations were €1.8 million (PY: €1.6 million).

Defined contribution pension plans
Not including social security contributions, the expenses for the defined contribution pension plans to which Continental Corporation contributes amounted to €32.0 million in the fiscal year (PY: €31.1 million).

26. Provisions for Other Risks and Obligations

	Dec. 31, 2012		Dec. 31, 2011	
in € millions	Current	Non-current	Current	Non-current
Restructuring provisions	48.8	41.3	117.8	47.8
Litigation and environmental risks	81.8	94.0	77.2	110.2
Flexible early retirement contracts	—	55.9	—	61.2
Anniversary and other long-service benefits	—	76.0	—	56.6
Warranties	348.0	9.1	557.8	9.9
Other provisions	118.4	32.2	152.3	36.1
Provisions for other risks and obligations	**597.0**	**308.5**	**905.1**	**321.8**

The provisions for other risks developed as follows:

in € millions	Restructuring provisions	Litigation and environmental risks	Flexible early retirement contracts	Anniversary and other long-service benefits	Warranties	Other provisions
As at January 1, 2012	**165.6**	**187.4**	**61.2**	**56.6**	**567.7**	**188.4**
Additions	3.4	74.4	117.8	18.9	264.0	111.2
Utilizations	-48.9	-71.6	-113.2	-2.9	-243.0	-78.9
Reclassification	—	—	—	—	—	—
Net changes in the scope of consolidation	—	0.0	—	0.0	0.0	0.7
Reversals	-33.6	-13.4	-10.0	3.2	-232.4	-70.3
Interest	3.7	1.5	0.1	0.1	—	0.5
Foreign currency translation	-0.1	-2.5	0.0	0.1	0.8	-1.0
As at December 31, 2012	**90.1**	**175.8**	**55.9**	**76.0**	**357.1**	**150.6**

The utilization of restructuring provisions primarily relates to the implementation of restructuring measures decided in previous years – in particular at the locations in Clairoix, France, Coslada, Spain, and Dortmund and Babenhausen, Germany.

In particular, the reversals of restructuring provisions are due to the closure of the Dortmund and Babenhausen locations in Germany.

As in the previous year, the additions to the provisions for litigation and environmental risks relate in particular to product liability risks from the tire activities in the U.S.A. Other additions include the antitrust proceedings against Dunlop Oil & Marine Ltd., Grimsby, U.K.

In particular, utilization mainly includes the product liability risks from tire activities mentioned above and payments in connection with the rulings by the antitrust authorities against Dunlop Oil & Marine Ltd., Grimsby, U.K.

Provisions for partial early retirement are calculated using a discount rate of 1.25% (PY: 2.5%). In accordance with the option under IAS 19, the interest component is reported under function costs rather than in net interest expense.

Provisions for anniversary and other long-service benefits were calculated using a discount rate of 3.4% (PY: 5.5%). In accordance with the option under IAS 19, the interest component is reported under function costs rather than in net interest expense and includes the effect of the change in the interest rate of 2.1 percentage points.

The changes in provisions for warranties include utilization of €243.0 million (PY: €264.5 million) and reversals of €232.4 million (PY: €132.8 million), partially offset by additions of €264.0 million (PY: €303.9 million), in particular for specific provisions in the Automotive Group.

Please see Note 5 for information on changes in the scope of consolidation.

The other provisions also comprise provisions for risks from operations, partially in connection with fixed supply and acceptance agreements.

27. Income Tax Liabilities

Tax liabilities developed as follows:

in € millions	2012	2011
As at January 1	**648.2**	**697.9**
Additions	692.3	411.0
Utilizations and advance payments for the current fiscal year	-613.8	-450.6
Reversals	-14.0	-9.2
Additions from the first consolidation of subsidiaries	0.2	0.4
Foreign currency translation	0.4	-1.3
As at December 31	**713.3**	**648.2**

When reconciling the income tax liabilities with the income taxes paid in the statement of cash flows, the cash changes in income tax receivables must be included in addition to the utilizations and current advance payments shown here.

28. Indebtedness

	Dec. 31, 2012			Dec. 31, 2011		
		Maturity			Maturity	
in € millions	Total	up to 1 year	over 1 year	Total	up to 1 year	over 1 year
Bonds	**3,744.2**	1.0	3,743.2	**2,996.2**	—	2,996.2
Bank loans and overdrafts[1,2]	**3,030.7**	2,810.0	220.7	**4,492.6**	1,551.2	2,941.4
Derivative instruments	**11.4**	10.6	0.8	**163.0**	161.2	1.8
Financial lease liabilities	**64.4**	7.0	57.4	**122.9**	15.7	107.2
Liabilities from sale of receivables	**936.2**	777.9	158.3	**549.5**	549.5	—
Other indebtedness[3]	**466.4**	465.8	0.6	**238.2**	236.8	1.4
Indebtedness	**8,253.3**	**4,072.3**	**4,181.0**	**8,562.4**	**2,514.4**	**6,048.0**

[1] Thereof €9.9 million (PY: €5.5 million) secured by land charges, mortgages and similar securities.
[2] The syndicated loan drawdown of €2,137.1 million maturing originally in April 2014 will be repaid prematurely in February 2013 as a result of the agreement concluded in January 2013 for a new syndicated loan and is thus reported as current.
[3] In 2012, other indebtedness included €459.7 million (PY: €216.6 million) utilized under the commercial paper program and €1.6 million (PY: €1.4 million) in liabilities on bills drawn and issued.

Continental's key bond issues

in € millions Issuer/type	Amount of issue	Carrying amount Dec. 31, 2012	Stock market-value Dec. 31, 2012	Carrying amount Dec. 31, 2011	Stock market-value Dec. 31, 2011	Coupon p.a.	Issue/maturity and fixed interest until	Issue price
CGF euro bond	750.0	739.1	811.5	735.5	806.9	8.500%	2010 / 07-2015	99.005%
CGF euro bond	625.0	621.8	669.4	620.9	635.8	6.500%	2010 / 01-2016	98.861%
CGF euro bond	1,000.0	1,003.1	1,073.7	1,003.6	1,016.7	7.500%	2010 / 09-2017	99.330%
CGF euro bond	625.0	628.8	669.2	629.4	628.5	7.125%	2010 / 10-2018	99.246%
CRoA U.S. dollar bond	720.2	744.6	736.7	—	—	4.500%	2012 / 09-2019	100.000%
Total	**3,720.2**	**3,737.4**	**3,960.5**	**2,989.4**	**3,087.9**			

The carrying amount of bonds rose from €2,996.2 million at the end of 2011 to €3,744.2 million as of the end of fiscal 2012. This increase is essentially due to the issue of a bond denominated in U.S. dollars with an issue volume of $950.0 million by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in September 2012. The seven-year bond bears interest at 4.5% p.a. Interest payments are made semi-annually in arrears. Like the four euro bonds issued in the third quarter of 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands, with a total volume of €3.0 billion, this bond participates in the extensive collateral package granted to the lending banks in line with the renegotiations of the syndicated loan in 2009. Please see Note 37. As in the terms and conditions of issue for the four euro bonds issued in the third quarter of 2010, the issuer of this bond was also granted an option for early repayment. As in the previous year, all early redemption options were reported as an embedded derivative in accordance with IAS 39 (please see Note 29).

The carrying amount of the bonds also includes the U.S. dollar bonds issued by Continental Tire Andina S.A., Quito, Ecuador, in 2011 and 2012 with a total value of €6.8 million (PY: €6.8 million).

Breakdown of credit lines and available financing from banks

in € millions Company	Type[1]	Dec. 31, 2012 Amount of issue	Dec. 31, 2012 Carrying amount	Dec. 31, 2011 Amount of issue	Dec. 31, 2011 Carrying amount	Interest	Maturity
CAG, Conti Automotive, CRoA, CGF, Conti Benelux, Conti Autom. Benelux, Conti Autom. Holding Netherlands	SL SL	4,637.1	341.5 2,134.4	5,375.0	1,003.2 2,856.8	Euribor/USD Libor + margin	2013[2] 2013[2]
Conti Temic Electronics (Phils.)	LBL	—	—	11.6	11.6	USD Libor + margin	2012
Conti Mabor	LBL	8.2	7.6	8.2	7.4	0%[3]	2016[4]
Conti Automotive	LBL	—	—	20.0	20.0	4.38%	2012
Conti Autom. Hungary Kft.	LBL	—	—	10.8	10.8	5.34%	2012[4]
CAG	LBL	—	—	300.0	299.9	6.39%	2012
Conti Tire China Production	LBL LBL	13.9	13.9	2.1 11.8	2.1 11.8	EUR Libor + margin	2015[5] 2015[5]
CAS Changshu	LBL	8.5	8.5	12.3	12.3	6.21%[6]	2014[7]
Conti Matador Rubber Prod.	LBL	20.0	20.0	20.0	20.0	Euribor + margin	2014
Conti Tire China Production	LBL	32.8	32.8	—	—	PBoC + margin	2015[7]
Conti Tire do Brasil	LBL	58.8	58.8	—	—	variable[8] + margin	2018[9]
Conti Autom. (Thail.) Co., Ltd.	LBL LBL	70.0	35.0 35.0	—	— —	Euribor + margin	2017[4] 2020[4]
Various bank lines		1,003.1	343.2	965.6	236.7	mainly variable	mainly <1 year
Credit lines and available financing from banks		**5,852.4**		**6,737.4**			
Liabilities to banks			**3,030.7**		**4,492.6**		

[1] SL: syndicated loan; LBL: long-term bank loan.
[2] Originally maturing April 2014, maturing early in February 2013 on account of agreement on a new syndicated loan concluded on January 22, 2013.
[3] Interest-free development loan.
[4] Semi-annual repayments.
[5] Two tranches combined due to contract adjustment in November 2012; non-linear repayments.
[6] Interest rate as at December 31, 2011: 5.18%.
[7] Non-linear repayments.
[8] Different variable interest bases.
[9] Monthly repayments.

The previous year's figures are presented comparably.

Abbreviations

- CAG, Continental Aktiengesellschaft, Hanover, Germany
- CAS Changshu, Continental Automotive Systems Changshu, Co., Ltd., Changshu, China
- CGF, Conti-Gummi Finance B.V., Maastricht, Netherlands
- Conti Autom. Holding Netherlands, Continental Automotive Holding Netherlands B.V., Maastricht, Netherlands
- Conti Automotive, Continental Automotive GmbH, Hanover, Germany
- Conti Benelux, Continental Benelux SPRL, Herstal, Belgium
- Conti Autom. Benelux, Continental Automotive Benelux BVBA, Mechelen, Belgium
- Conti Tire do Brasil, Continental do Brasil Produtos Automotivos Lda., Camaçari, Brazil
- Conti Mabor, Continental Mabor Indústria de Pneus S.A., Lousado, Portugal
- Conti Matador Rubber Prod., Continental Matador Rubber s.r.o., Púchov, Slovakia
- Conti Temic Electronics (Phils.), Continental Temic Electronics (Phils.), Inc., Calamba-City, Philippines
- Conti Tire China Production, Continental Tires (Hefei) Co., Ltd., Hefei, China
- CRoA, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.
- Conti Autom. Hungary Kft., Continental Automotive Hungary Kft., Veszprém, Hungary
- Conti Autom. (Thail.) Co., Ltd., Continental Automotive (Thailand) Co., Ltd., Rayong, Thailand

As at December 31, 2012, there were financing commitments from banks in the amount of €5,852.4 million (PY: €6,737.4 million). A nominal amount of €2,801.3 million of this had not been utilized as of the end of the reporting period (PY: €2,189.5 million). €2,154.1 million (PY: €1,473.6 million) of this relates to the revolving tranche of the syndicated loan maturing early in February 2013 on account of the new agreement for the syndicated loan concluded in January 2013 (see Note 37). In the year under review, the Continental Corporation utilized its commercial paper program, its sale of receivables programs and its various bank lines to meet short-term credit requirements.

The reduction in financing commitments from banks is essentially due to the partial repayment of the syndicated loan and the repayment of the €300.0 million European Investment Bank loan that matured in 2012.

With the renegotiation in late March 2011 of the syndicated loan originally maturing in August 2012, Continental had successfully completed the final step in the refinancing package to improve its financial and capital structure that was agreed in December 2009. The results of this renegotiation mainly provided for longer terms and improved conditions. Furthermore, an easing of the restriction on dividend payments provided for in the financing conditions and of the restriction on the annual investment volume was also agreed. The financing volume of €6.0 billion committed for the syndicated loan in late March 2011 comprised a tranche of €625.0 million maturing in August 2012 and two further tranches, including a revolving credit line of €2.5 billion, maturing in April 2014.

Thanks to the positive business performance, the first tranche of the syndicated loan of €625.0 million was repaid early at the end of December 2011. This reduced the volume of this loan to €5,375.0 million as of the end of 2011. In the third quarter of 2012, Continental took advantage of the positive capital market environment to further optimize the maturity structure of its financial liabilities and in September 2012 placed the U.S. dollar bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., with an issue volume of $950.0 million. As stipulated in the syndicated loan agreement, the net issue proceeds from this bond were used to repay the syndicated loan, resulting in an early partial repayment of €737.9 million. Thus, the volume of the syndicated loan was reduced to €4,637.1 million at the end of 2012. As of the end of 2012, the syndicated loan had been utilized by Continental AG and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., and had a total value as of the end of the reporting period of €2,475.9 million (PY: €3,860.0 million).

In order to further improve the financial and maturity structure while at the same time increasing financial flexibility, Continental began the refinancing process for the syndicated loan not maturing until April 2014 in December 2012 (see also Note 37).

In light of the conclusion of a new agreement for the syndicated loan in January 2013, the fixed tranche of €2,137.1 million originally maturing by April 2014 has been reclassified to current indebtedness.

As a further result of the renegotiation, the credit margins for the syndicated loan were lowered at the end of March 2011. They have since been based on the Continental Corporation's leverage ratio (net indebtedness/EBITDA, according to the definition in the syndicated loan) rather than its rating. The leverage ratio had already improved as at 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 at 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 €2.4 million at the end of December 2012 (PY: €15.7 million). These deferrals will be amortized over the term of the loan and increase or reduce expenses accordingly.

As in the previous year, the agreed financial covenants were also complied with as of the end of the respective quarter in 2012. Please see Note 29 for the maturity structure of indebtedness.

Financial lease liabilities

The future payment obligations resulting from financial leases are shown in the table below:

Dec. 31, 2012, in € millions	2013	2014	2015	2016	2017	from 2018	Total
Minimum lease payments	10.6	9.8	9.5	9.1	18.9	24.7	**82.6**
Interest component	3.6	3.1	2.6	2.2	3.6	3.1	**18.2**
Financial lease liabilities	**7.0**	**6.7**	**6.9**	**6.9**	**15.3**	**21.6**	**64.4**

Dec. 31, 2011, in € millions	2012	2013	2014	2015	2016	from 2017	Total
Minimum lease payments	23.0	53.4	9.9	9.7	9.5	50.0	**155.5**
Interest component	7.3	5.5	3.5	3.0	2.5	10.8	**32.6**
Financial lease liabilities	**15.7**	**47.9**	**6.4**	**6.7**	**7.0**	**39.2**	**122.9**

The purchase option in the financial lease for the tire factory in Hefei, China, that was exercised in 2012 both reduced the fair value of the financial lease liabilities and resulted in a drop in minimum lease payments in 2013. The fair value of financial lease liabilities is €70.5 million (PY: €151.1 million). The effective interest rate of the main leases is between 5.5% and 8.3% (PY: between 5.5% and 8.8%).

29. Financial Instruments

The carrying amounts and fair values of financial assets and liabilities in the various measurement categories, classified by statement of financial position category and non-current and current items, are as follows:

in € millions	Measurement category in acc. with IAS 39	Carrying amount as at Dec. 31, 2012	Fair value as at Dec. 31, 2012	Carrying amount as at Dec. 31, 2011	Fair value as at Dec. 31, 2011
Other investments	AfS	6.9	6.9	6.9	6.9
Derivative instruments and interest-bearing investments					
Derivative instruments accounted for as hedging instruments	n/a	6.1	6.1	—	—
Derivative instruments not accounted for as hedging instruments	HfT	260.7	260.7	111.6	111.6
Financial assets available for sale	AfS	178.9	178.9	85.0	85.0
Other receivables with a financing character	LaR	90.5	90.5	52.5	52.5
Trade accounts receivable	LaR	4,993.3	4,993.3	5,341.5	5,341.5
Other financial assets	LaR	345.6	345.6	290.2	290.2
Cash and cash equivalents					
Cash and cash equivalents	LaR	2,397.2	2,397.2	1,541.2	1,541.2
Financial assets available for sale	AfS	0.0	0.0	—	—
Financial assets		**8,279.2**	**8,279.2**	**7,428.9**	**7,428.9**
Indebtedness					
Derivative instruments not accounted for as hedging instruments	HfT	11.4	11.4	163.0	163.0
Financial lease liabilities	n/a	64.4	70.5	122.9	151.1
Other indebtedness	FLAC	8,177.5	8,412.4	8,276.5	8,368.3
Trade accounts payable	FLAC	4,344.6	4,344.6	4,111.4	4,111.4
Other financial liabilities	FLAC	1,420.0	1,419.3	1,423.2	1,423.2
Financial liabilities		**14,017.9**	**14,258.2**	**14,097.0**	**14,217.0**
Aggregated according to categories as defined in IAS 39:					
Financial assets held for trading (HfT)		260.7		111.6	
Loans and receivables (LaR)		7,826.6		7,225.4	
Available for sale (AfS)		185.8		91.9	
Financial liabilities held for trading (HfT)		11.4		163.0	
Financial liabilities measured at amortized cost (FLAC)		13,942.1		13,811.1	

Abbreviations
- AfS, available for sale
- FLAC, financial liability at amortized cost
- HfT, held for trading
- LaR, loans and receivables

Financial instruments in the held for trading category are measured at fair value. Financial instruments in the available for sale category are also measured at fair value, unless this cannot be reliably measured, in which case the financial assets are measured at cost.

Cash and cash equivalents, trade accounts receivable, trade accounts payable and other financial assets and liabilities generally have short remaining maturities. As a result, the carrying amounts as of the end of the reporting period are, as a rule, approximately their fair values.

Derivative instruments that meet the requirements of hedge accounting are not allocated to any IAS 39 measurement category, since they are explicitly excluded from the individual measurement categories.

Derivative instruments for which hedge accounting is not applied are classified as financial assets and liabilities held for trading.

The fair values of other indebtedness and of finance lease liabilities were determined by discounting all future cash flows at the applicable interest rates for the corresponding residual maturities, taking into account a company-specific rating spread.

The total of the positive carrying amounts is equivalent to the maximum default risk of the Continental Corporation from financial assets.

The financial instruments measured at fair value are shown in the table below in accordance with their measurement method. The levels of the fair value hierarchy are defined as follows:

- Level 1: quoted prices on the active market for identical instruments.
- Level 2: quoted prices on the active market for a similar instrument or a measurement method for which all major input factors are based on observable market data.
- Level 3: measurement method for which the major input factors are not based on observable market data.

in € millions		Dec. 31, 2012	Level 1	Level 2	Cost
Other investments	AfS	6.9	—	—	6.9
Financial assets available for sale	AfS	178.9	169.0	9.9	0.0
Derivative instruments accounted for as hedging instruments	n/a	6.1	—	6.1	—
Derivative instruments not accounted for as hedging instruments	HfT	260.7	—	260.7	—
Financial assets valued at fair value		**452.6**	**169.0**	**276.7**	**6.9**
Derivative instruments not accounted for as hedging instruments	HfT	11.4	—	11.4	—
Financial liabilities valued at fair value		**11.4**	**—**	**11.4**	**—**

in € millions		Dec. 31, 2011	Level 1	Level 2	Cost
Other investments	AfS	6.9	—	—	6.9
Financial assets available for sale	AfS	85.0	75.4	9.5	0.1
Derivative instruments accounted for as hedging instruments	n/a	—	—	—	—
Derivative instruments not accounted for as hedging instruments	HfT	111.6	—	111.6	—
Financial assets valued at fair value		**203.5**	**75.4**	**121.1**	**7.0**
Derivative instruments not accounted for as hedging instruments	HfT	163.0	—	163.0	—
Financial liabilities valued at fair value		**163.0**	**—**	**163.0**	**—**

There are currently no financial assets in the Continental Corporation which are measured according to level 3 of the fair value hierarchy. There were no transfers between the different levels of the fair value hierarchy.

The net gains and losses by measurement category were as follows:

		From remeasurement			Net gains and losses	
in € millions	From interest	At fair value	Currency translation	Impairment losses	2012	2011
Loans and receivables	24.8	—	-13.2	-8.7	2.9	50.4
Financial assets available for sale	3.0	2.5	—	-0.2	5.3	6.3
Financial assets and financial liabilities held for trading	—	236.1	—	—	236.1	-0.2
Financial liabilities at amortized cost	-550.6	—	-37.2	—	-587.8	-715.4
Net gains and losses	**-522.8**	**238.6**	**-50.4**	**-8.9**	**-343.5**	**-658.9**

Interest income and expense from financial instruments is reported in net interest expense (see Note 9). No interest income was generated from impaired financial assets.

The valuation allowance for loans and receivables results from trade accounts receivable. Gains and losses on financial assets and liabilities held for trading that were determined during subsequent measurement include both interest rate and exchange rate effects.

The changes in value of the financial assets designated as available for sale that were recognized directly in equity amounted to €10.0 million in 2012 (PY: -€2.2 million); €2.5 million (PY: –) was taken from equity and recognized in profit or loss in the fiscal year.

Collateral

As at December 31, 2012, a total of €2,528.1 million (PY: €2,077.1 million) of financial assets had been pledged as collateral. As in the previous year, also in the year under review, collateral mainly consists of trade accounts receivable; the remainder relates to pledged cash or other financial assets. Trade accounts receivable sold under sale of receivables programs as well as the aforementioned collateral in the form of trade accounts receivable are shown in Note 20.

As agreed in 2009 in the renegotiation of the syndicated loan, Continental AG and selected subsidiaries granted the lending banks a collateral package. This consists of guarantees by certain subsidiaries, the pledging of shares in the guaranteeing subsidiaries, certain bank account balances and the transfer of internal claims. No further collateral was provided in this context. The bonds issued in 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands, with a total volume of €3.0 billion and the bond issued in September 2012 by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., with a total vol-

ume of $950.0 million and also a defined portion of the corporation's bilateral lines of credit with banks also participate in the collateral package. See Note 37.

Hedging policy and derivative instruments

The international nature of its business activities and the resulting financing requirements mean that the corporation is exposed to exchange rate and interest rate fluctuations. Where foreign currency risks are not fully compensated by offsetting delivery and payment flows, exchange rate forecasts are constantly updated to ensure that risks can be hedged as necessary in individual cases using appropriate financial instruments. In addition, long and short-term interest rate movements are monitored continuously and controlled using derivative instruments. Thus, interest rate and currency derivative instruments allow debt to be accessed with any required interest and currency structure, regardless of the location at which the financing is required.

The use of hedging instruments is covered by corporate-wide guidelines, adherence to which is regularly reviewed by internal audit. Internal settlement risks are minimized through the clear segregation of functional areas.

1. Currency management

The international nature of the corporation's business activities results in deliveries and payments in various currencies. Currency exchange fluctuations involve the risk of losses because assets denominated in currencies with a falling exchange rate lose value, while liabilities denominated in currencies with a rising exchange rate become more expensive. At Continental the net exposure, calculated primarily by offsetting exports against imports in the individual currencies, is regularly recorded and measured. For many years now, the corporation has been using natural hedges to reduce currency risks so that the difference between receipts and payments in any one currency is kept as low as possible. Expected exchange rate developments are also monitored and analyzed accordingly. Exchange rate risks are hedged as necessary using appropriate financial instruments. Currency management sets tight limits for open positions and thus considerably reduces the risks from hedging activities. For hedging, it is allowed to use only those derivative instruments that can be reported and measured in the risk management system. Financial instruments that do not meet these criteria cannot be used at all. The corporation's net foreign investments are, as a rule, not hedged against exchange rate fluctuations.

Operational foreign currency risk

Continental compiles its subsidiaries' actual and expected foreign currency payments at a global level for currency management purposes. These amounts represent the corporation's transaction exposure and are measured as the net cash flow per currency on a rolling twelve-month basis. The foreign exchange and interest rate committee convenes weekly to review and initiate hedging measures. These must not exceed 30% of the twelve-month exposure per currency without the express permission of the Executive Board.

Financial foreign currency risks

In addition, currency risks also result from external and internal loan agreements that are denominated in a currency other than the functional currency of the respective subsidiary. As at December 31, 2012, the net exposure of the major currencies euro and U.S. dollar amounted to -€139.3 million (PY: -€854.3 million) and €158.8 million (PY: -€192.6 million) respectively. These currency risks are generally hedged against through the use of derivative instruments, particularly currency forwards, currency swaps and cross-currency interest rate swaps.

Sensitivity analysis

IFRS 7 requires a presentation of the effects of hypothetical changes of currency prices on earnings and equity using a sensitivity analysis. The changes to the currency prices are related to all financial instruments outstanding as of the end of the reporting period. Forecast transactions are not included in the sensitivity analysis. To determine the transaction-related net foreign currency risk, the financial instruments are categorized according to foreign currency for this portfolio and a 10% appreciation or depreciation of the respective functional currency of the subsidiaries is assumed in relation to the foreign currency. The following table shows, before income taxes, the overall effect as measured using this approach, as well as the individual effects resulting from the euro and the U.S. dollar, as major transaction currencies, on the difference from currency translation from financial instruments in equity and on net income.

	2012		2011	
in € millions	Total equity[1]	Net income[1]	Total equity[1]	Net income[1]
Local currency +10%				
Total	**88.9**	**18.1**	**51.4**	**25.4**
thereof EUR	51.4	33.1	51.4	13.4
thereof USD	37.5	-2.5	—	34.1
Local currency -10%				
Total	**-88.9**	**-18.1**	**-51.4**	**-25.4**
thereof EUR	-51.4	-33.1	-51.4	-13.4
thereof USD	-37.5	2.5	—	-34.1

[1] Not including tax effects.

Effects of translation-related currency risk
A large number of the subsidiaries are located outside the euro currency zone. As Continental AG's reporting currency is the euro, the financial statements of these companies are translated into euro. In order to address translation-related currency effects as part of risk management, it is assumed that investments in foreign companies are entered into for the long term and that earnings are reinvested. Translation-related effects that arise when the value of net asset items translated into euro changes as a result of currency fluctuations are recognized outside profit or loss in the consolidated financial statements.

2. Interest rate management
Variable interest agreements pose the risk of rising interest rates for liabilities and falling interest rates for interest-bearing financial investments. These risks are monitored and evaluated as part of our interest rate management activities and managed by means of derivative interest rate hedging instruments. The corporation's interest-bearing net indebtedness is the subject of these activities. All interest rate hedges serve exclusively to manage identified interest rate risks. One of the goals is to keep around 50% to 75% of gross interest-bearing debt at a fixed interest rate.

The corporation is not exposed to a risk of fluctuation in the fair value of long-term financial liabilities due to market changes in fixed interest rates as the lenders do not have the right to demand early repayment in the event of changing rates. If the corporation has the right to redeem instruments before maturity, such redemption is considered only if this is advantageous from the Continental Corporation's perspective.

Interest rate risk

The profile of interest-bearing financial instruments allocated to net indebtedness, taking into account the effect of the Continental Corporation's derivative instruments, is as follows:

in € millions	2012	2011
Fixed-interest instruments		
Financial assets	0.7	24.2
Financial liabilities	-3,898.3	-6,632.4
Floating-rate instruments		
Financial assets	2,665.9	1,654.5
Financial liabilities	-4,343.6	-1,767.0
Fair value of derivative instruments		
Financial assets	266.8	111.6
Financial liabilities	-11.4	-163.0
Net indebtedness	**-5,319.9**	**-6,772.1**

In accordance with IFRS 7, effects of financial instruments on earnings and equity resulting from interest rate changes must be presented using a sensitivity analysis.

Fair value sensitivity analysis

An increase in interest rates of 100 basis points in 2012 would have led to a decline in net interest expense of €71.5 million (PY: €4.3 million). €67.6 million (PY: €4.3 million) of this was due to changes in euro interest rates and €3.9 million (PY: €0.0 million) to the change in U.S. dollar interest rates.

A decline in interest rates of 100 basis points would have improved net interest expense by €68.6 million (PY: €16.5 million). €54.6 million (PY: €16.5 million) of this was due to changes in euro interest rates and €13.9 million (PY: €0.0 million) to the change in U.S. dollar interest rates.

These effects resulted primarily from the embedded early redemption options of the bonds. This analysis assumes that interest rates cannot be lower than or equal to 0%. Tax effects have not been taken into account.

Cash flow sensitivity analysis

An increase in interest rates of 100 basis points in 2012 would have led to a decline in net interest expense of €16.8 million (PY: €1.1 million), while a decline in interest rates of 100 basis points would have led to an improvement in net interest expense of €16.8 million (PY: €1.1 million). The effects essentially result from floating-rate financial instruments in the currencies euro, U.S. dollar, Chinese renminbi and South Korean won. This analysis is based on the assumption that all other variables, and in particular exchange rates, remain unchanged. The same assumption applied to 2011.

in € millions	2012	2011
Interest rate increase +100 basis points		
Total	**-16.8**	**-1.1**
thereof EUR	-26.0	-6.1
thereof CNY	4.7	3.3
thereof KRW	1.6	1.7
thereof USD	-0.9	-3.4
Interest rate decline -100 basis points		
Total	**16.8**	**1.1**
thereof EUR	26.0	6.1
thereof CNY	-4.7	-3.3
thereof KRW	-1.6	-1.7
thereof USD	0.9	3.4

3. Counterparty risk

Derivative instruments are subject to default risk to the extent that counterparties may not meet their payment obligations either in part or in full. To limit this risk, contracts are entered into with selected banks only. The development of contractual partners' creditworthiness is continuously monitored, particularly by monitoring the rating classifications and the market assessment of default risk using the respective credit default swap rates.

4. Liquidity risks

A liquidity forecast is prepared by central cash management on a regular basis.

Cost-effective, adequate financing is necessary for the subsidiaries' operating business. Various marketable financial instruments are used for this purpose. They comprise overnight money, term deposits, commercial paper, sale of receivables programs, the syndicated loan with a committed nominal amount of €4,637.1 million (PY: €5,375.0 million) and other bilateral loans. Furthermore, approximately 45% of gross indebtedness is financed on the capital market in the form of long-term bonds. Capital expenditure by subsidiaries is primarily financed through equity and loans from banks or subsidiaries. There are also cash-pooling arrangements with subsidiaries to the extent they are possible and justifiable in the relevant legal and tax situation. If events lead to unexpected financing requirements, Continental AG can draw upon existing liquidity and fixed credit lines from banks. For detailed information on the existing used and unused committed credit lines, please refer to Note 28.

The following undiscounted cash outflows result in the next five years and after from the financial liabilities of €14,017.9 million (PY: €14,097.0 million):

Dec. 31, 2012 in € millions	2013	2014	2015	2016	2017	thereafter	Total
Other indebtedness incl. interest payments[1]	-4,344.7	-353.2	-1,048.3	-818.0	-1,316.2	-1,458.8	**-9,339.2**
Derivative instruments[2]	-10.9	—	—	—	—	—	**-10.9**
Financial lease liabilities	-10.6	-9.8	-9.5	-9.1	-18.9	-24.7	**-82.6**
Trade accounts payable	-4,344.6	—	—	—	—	—	**-4,344.6**
Other financial liabilities	-1,406.9	-2.2	-4.6	-2.1	-2.1	-2.1	**-1,420.0**

[1] Includes a drawdown from a credit line originally valid until 2014 with an amount of €2,483.0 million, which is now maturing early in February 2013 due to the renegotiation of the loan.
[2] Not including embedded derivative instruments as they do not give rise to cash outflows.

Dec. 31, 2011 in € millions	2012	2013	2014	2015	2016	thereafter	Total
Other indebtedness incl. interest payments[1]	-2,698.8	-345.8	-3,156.8	-958.7	-753.3	-1,759.5	**-9,672.9**
Derivative instruments[2]	-158.8	0.0	—	—	—	—	**-158.8**
Financial lease liabilities	-23.0	-53.4	-9.9	-9.7	-9.5	-50.0	**-155.5**
Trade accounts payable	-4,111.4	—	—	—	—	—	**-4,111.4**
Other financial liabilities	-1,415.2	-8.0	—	—	—	—	**-1,423.2**

[1] Includes a drawdown payable in 2012 from a credit line originally valid until 2014 with an amount of €1,026.4 million.
[2] Not including embedded derivative instruments as they do not give rise to cash outflows.

In the analysis, foreign currency amounts were translated using the spot exchange rate current as of the end of the reporting period into euro. For floating-rate non-derivative financial instruments, the future interest payment flows were forecast using the most recently contractually fixed interest rates. Forward interest rates were used to determine the floating rate payments for derivative instruments. The analysis only includes cash outflows from financial liabilities. The net payments are reported for derivative instruments that are liabilities as of the end of the reporting period. Cash inflows from financial assets were not accounted for.

The cash outflows in the maturity analysis are not expected to occur at significantly different reference dates or in significantly different amounts.

5. Default risk

Credit risk from trade accounts receivable and financial receivables includes the risk that receivables will be collected late or not at all. These risks are analyzed and monitored by central and local credit managers. The responsibilities of the central credit management function also include pooled receivables risk management. Contractual partners' creditworthiness and payment history are analyzed on a regular basis. However, default risk cannot be excluded with absolute certainty, and any remaining risk is addressed by establishing portfolio valuation allowances on the basis of experience or charging impairment losses for specific individual risks. Default risk for non-derivative financial amounts receivable is also limited by ensuring that agreements are entered into with partners with proven creditworthiness only or that collateral is provided or trade credit insurance is agreed. Please see Note 20 for information on determining creditworthiness. Financial assets that are neither past due nor impaired accordingly have a prime credit rating.

Further information about risks and risk management can be found in the "Risk Report" section of the Management Report.

Measurement of derivative instruments

Derivative instruments are recognized at fair value, which is generally determined by discounting the ex-

pected cash flows on the basis of yield curves. For example, the fair value of currency forwards is calculated as the difference from the nominal amounts discounted with the risk-free interest rates of the respective currencies and translated at the current spot exchange rate. To calculate the fair value of interest rate swaps and cross-currency interest rate swaps, the future cash flows are discounted with the interest rates for the respective maturities, with deposit rates used as short-term interest rates whilst long-term interest rates are based on the swap rates in the respective currency.

As at December 31, 2012, positive fair values of embedded derivatives amounted to €254.7 million (PY: €105.6 million) while negative fair values of embedded derivatives amounted to €0.8 million (PY: €1.8 million). These essentially relate to the recognition of the early redemption options for the bonds issued in 2010 of Conti-Gummi Finance B.V., Maastricht, Netherlands, and the bond issued by Continental Rubber of America Corp., Wilmington, Delaware, U.S.A., in September 2012. The options were measured using an option pricing model. A risk-free yield curve adapted to the credit risk of Continental AG was used. The volatility of the Continental AG refinancing rate was determined approximately using swaption volatilities. The recognized amortized costs of these bonds take into account the value calculated for the embedded options on issue.

The following overview shows the fair values and nominal values of the stand-alone derivative instruments as of the end of the reporting period:

in € millions	Dec. 31, 2012			Dec. 31, 2011		
Fair value	**Assets**		**Liabilities**	**Assets**		**Liabilities**
Hedge of a net investment						
Currency forwards	6.1		—	—		—
Other derivative instruments						
Cross-currency interest rate swaps	0.6		—	3.1		-101.5
Interest rate swaps	—		—	—		-36.7
Currency swap/currency forwards	5.4		-10.6	2.9		-23.0
Currency options	—		—	0.0		—
Total fair value	**12.1**		**-10.6**	**6.0**		**-161.2**
– thereof long-term	—		—	2.2		0.0
– thereof short-term	12.1		-10.6	3.8		-161.2
Nominal values						
Hedge of a net investment		184.3			—	
Cross-currency interest rate swaps		5.5			650.3	
Interest rate swaps		—			2,501.4	
Currency swap/currency forwards		869.2			661.8	
Currency options		—			2.5	
Total of nominal values		**1,059.0**			**3,816.0**	

In the case of highly effective and longer term hedges, Continental usually applies hedge accounting as set out in IAS 39.

As at December 31, 2012, the Continental Corporation designated currency swaps as hedging instruments in hedges of net investments in foreign operations. The currency swaps serve to hedge the currency risks of long-term, intragroup foreign currency loans that are classified as net investments in a foreign operation in accordance with IAS 21. The changes in the values of these loans due to exchange rates are offset by the recognition of changes in the value of the currency swaps in consolidated equity. A sensitivity analysis was performed to prospectively measure effectiveness. Effectiveness was demonstrated retrospectively using the dollar offset method by comparing the changes in the value of the hedging instruments with the changes in the value of the hedged transactions. The results of retrospective effectiveness testing fell within a range of 80% to 125%, meaning that the hedges used by the corporation could be considered highly effective. As of the end of the year, these hedges did not result in an ineffectiveness to be recognized in profit or loss.

For cash flow hedges, changes in the market value of the derivative instruments are taken directly to other comprehensive income in total equity until the hedged item is recognized in profit or loss.

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 originally maturing in April 2014 was voluntarily terminated prematurely. Furthermore, at the end of December 2011, hedge accounting for the partial amount of €625.0 million was also terminated on account of the early repayment of the tranche of the syndicated loan originally due in August 2012. Changes in the fair value of these hedges were recognized directly in profit or loss. The interest swaps and the cross-currency interest rate swaps used to hedge the syndicated loan expired in August 2012.

Changes in value recognized in equity as a difference arising from financial instruments by the end of July 2011 for the hedges of the cash flow hedge accounting voluntarily terminated in July 2012 were reversed over the remaining term of the hedges. A negative amount of €28.4 million (PY: €25.1 million) resulting from this was recognized in net interest expense in 2012.

Changes in value recognized in equity as the difference from financial instruments for the hedges of the cash flow hedge accounting terminated at the end of December 2011 were recognized in full in profit and loss in December 2011. This resulted in an increase of €14.2 million in net interest expense.

Changes in the difference from cash flow hedges are as follows:

Difference from cash flow hedges in € millions	Jan. 1, 2011	Fair value adjustments	Reclassification adjustments to profit and loss[1]	Dec. 31, 2011/ Jan. 1, 2012	Fair value adjustments	Reclassification adjustments to profit and loss[1]	Dec. 31, 2012
Before taxes	-150.8	83.1	39.3	-28.4	—	28.4	—
Deferred taxes	46.8	-25.8	-12.5	8.5	—	-8.5	—
After taxes	**-104.0**	**57.3**	**26.8**	**-19.9**	**—**	**19.9**	**—**

[1] Reclassified to net interest expense.

30. Other Financial Liabilities

in € millions	Dec. 31, 2012 Total	Dec. 31, 2012 Current	Dec. 31, 2012 Non-current	Dec. 31, 2011 Total	Dec. 31, 2011 Current	Dec. 31, 2011 Non-current
Liabilities to related parties	**119.2**	118.7	0.5	**88.8**	88.0	0.8
Interest payable	**96.5**	96.5	—	**180.7**	180.7	—
Liabilities for payroll and personnel related costs	**620.8**	620.8	—	**600.6**	600.6	—
Liabilities for selling expenses	**511.3**	511.3	—	**479.2**	479.2	—
Termination benefits	**18.6**	18.6	—	**24.3**	24.3	—
Purchase prices payable on company acquisitions	**22.3**	19.8	2.5	**30.5**	23.3	7.2
Other liabilities	**31.3**	21.2	10.1	**19.1**	19.1	0.0
Other financial liabilities	**1,420.0**	**1,406.9**	**13.1**	**1,423.2**	**1,415.2**	**8.0**

The liabilities to related parties relate in particular to liabilities to associates for services provided. The clear rise results from a corporation company formed in 2010 that sources significant portions of its merchandise from a company carried at equity.

Interest liabilities at the end of 2012 mainly result from deferred interest for the bonds issued. The decrease in comparison to the end of 2011 is due primarily to the expiration in August 2012 of interest rate hedges of Continental AG for the syndicated loan, which stipulated annual interest payments.

Liabilities for selling expenses relate in particular to obligations from bonus agreements with customers and deferred price reductions granted.

The liabilities from company acquisitions essentially include a liability from a call option for non-controlling interests in a corporation company in the amount of €19.8 million.

The other financial liabilities also include an amount of €11.7 million representing an obligation to Chase Community Equity, LLC, Delaware, U.S.A., a subsidiary of JP Morgan Chase Bank, N.A., New York, U.S.A., in connection with a greenfield investment.

The Continental value sharing bonus is a program allowing Continental employees to share in net income. The amount of profits shared is calculated on the basis of key internal figures. A provision of €90.1 million (PY: €69.5 million) was recognized for the period under review.

Liabilities for staff costs also include the long-term incentive plans:

- 2009 long-term incentive plan
- 2010 long-term incentive plan
- 2011 long-term incentive plan
- 2012 long-term incentive plan

2009 long-term incentive plan
In 2009, senior executives of the Continental Corporation were granted a long-term incentive (LTI) bonus which depends on their job grade and their degree of target achievement. This bonus is intended to allow for participation in the long-term, sustainable increase in the corporation's value and profitability.

The LTI is issued in annual tranches (LTI tranches). In addition to the issue of the 2009/13 tranche with a term of four years, a further tranche (2009/12) was also issued in 2009 with a term of three years, due to the transition from a three-year term for the previous stock option plan to a four-year term for the LTI. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2009/12 tranche was resolved on August 17, 2009; the 2009/13 tranche on July 20, 2009.

For each beneficiary of an LTI tranche, the Executive Board of Continental AG specifies the amount of a target bonus in euro to be paid out upon 100% target achievement. The actual LTI bonus paid out on expiry of the LTI tranche depends on the degree of target achievement which can lie between 0% (no payment) and 300% (maximum payment). The degree of achievement of two target criteria is decisive for the payment and amount of the LTI bonus. The first target criterion consists of the weighted average of the Continental value contribution (CVC) of the Continental Corporation over a period of four fiscal years and three fiscal years for the additional tranche, starting from the fiscal year in which the LTI tranche is issued. The weighted average in terms of the LTI is calculated by adding together 10% of the CVC of the first fiscal year of the LTI tranche, 20% of the CVC of the second fiscal year of the LTI tranche, 30% of the CVC of the third fiscal year of the LTI tranche and 40% of the CVC of the fourth fiscal year of the LTI tranche. The weighted average with regard to the additional 2009/12 tranche in the period under review is calculated by adding together 22.22% of the CVC of the first fiscal year of the LTI tranche, 33.33% of the CVC of the second fiscal year of the LTI tranche and 44.45% of the CVC of the third fiscal year of the LTI tranche. The second target criterion comprises the ratio of free cash flow in the Continental Corporation (FCF) to consolidated sales. The key variable for measuring this target criterion is based on the last full fiscal year prior to expiry of the respective LTI tranche. The degree of target achievement for both target criteria can lie between 0% and 300%. The key variables for determining the degree of target achievement are defined for each target criterion upon issue of an LTI tranche. The ultimate degree of target achievement used to calculate the LTI bonus to be paid out is determined through the addition of the two equally weighted target criteria. The basis for calculating the LTI bonus comprises the individual bonus amount in the event of 100% target achievement promised upon issue of an LTI tranche. The LTI bonus is paid as a gross one-off payment normally at the end of the second full calendar month following expiry of the LTI tranche at the latest but not before the end of July. After the expiry of the 2009/12 LTI tranche in August 2012, the bonus was paid out by utilizing the provision in September 2012.

2010 long-term incentive plan
Tranche 2010/14, with a term of four years, was issued in 2010. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2010/14 tranche was resolved on September 6, 2010.

The basic features of the 2010/14 tranche are the same as those of the 2009 LTI plan. The first target criterion consists of the weighted average of the CVC of the Continental Corporation over a period of four fiscal years. The weighted average in terms of the 2010 LTI is calculated by adding together 10% of the CVC of the first fiscal year of the LTI tranche, 20% of the CVC of the second fiscal year of the LTI tranche, 30% of the CVC of the third fiscal year of the LTI tranche and 40% of the CVC of the fourth fiscal year of the LTI tranche. The second target criterion comprises the ratio of free cash flow in the Continental Corporation (FCF) to consolidated sales. The key variable for measuring this target criterion is based on the last full fiscal year prior to expiry of the respective LTI tranche. The degree of target achievement for both target criteria can lie between 0% and 300%.

2011 long-term incentive plan

Tranche 2011/15, with a term of four years, was issued in 2011. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2011/15 tranche was resolved on August 22, 2011.

The basic features of the 2011/15 tranche are the same as those of the 2009 LTI plan. The first target criterion consists of the weighted average of the CVC of the Continental Corporation over a period of four fiscal years. The weighted average in terms of the 2011 LTI is calculated by adding together 10% of the CVC of the first fiscal year of the LTI tranche, 20% of the CVC of the second fiscal year of the LTI tranche, 30% of the CVC of the third fiscal year of the LTI tranche and 40% of the CVC of the fourth fiscal year of the LTI tranche. The second target criterion comprises the ratio of free cash flow in the Continental Corporation (FCF) to consolidated sales. The key variable for measuring this target criterion is based on the last full fiscal year prior to expiry of the respective LTI tranche. The degree of target achievement for both target criteria can lie between 0% and 300%.

2012 long-term incentive plan

Tranche 2012/16, with a term of four years, was issued in 2012. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2012/16 tranche was resolved on July 6, 2012.

The basic features of the 2012/16 tranche are the same as those of the 2009 LTI plan. The first target criterion consists of the weighted average of the CVC of the Continental Corporation over a period of four fiscal years. The weighted average in terms of the 2012 LTI is calculated by adding together 10% of the CVC of the first fiscal year of the LTI tranche, 20% of the CVC of the second fiscal year of the LTI tranche, 30% of the CVC of the third fiscal year of the LTI tranche and 40% of the CVC of the fourth fiscal year of the LTI tranche. The second target criterion comprises the ratio of free cash flow in the Continental Corporation (FCF) to consolidated sales. The key variable for measuring this target criterion is based on the last full fiscal year prior to expiry of the respective LTI tranche. The degree of target achievement for both target criteria can lie between 0% and 300%.

All LTI plans granted so far are classified and assessed as “other long-term employee benefits” under IAS 19.

The expenses of long-term incentive plans are recognized in other operating expenses. These amounted to €22.8 million in the year under review (PY: €21.9 million) for the incentive plans described above.

31. Trade Accounts Payable

Trade accounts payable amounted to €4,344.6 million (PY: €4,111.4 million) as of the end of the fiscal year. The liabilities are measured at amortized cost. The full amount is due within one year.

The liabilities do not include any amounts from the percentage-of-completion method. For information on liquidity risk, currency risk and the sensitivity analysis for trade accounts payable, please see Note 29.

32. Other Liabilities

	Dec. 31, 2012			Dec. 31, 2011		
in € millions	Total	Current	Non-current	Total	Current	Non-current
Liabilities for workers' compensation	**66.2**	34.4	31.8	**71.9**	39.7	32.2
Liabilities for social security	**133.7**	133.7	—	**124.2**	124.2	—
Liabilities for vacation	**131.7**	131.7	—	**122.8**	122.8	—
Liabilities for VAT and other taxes	**199.3**	199.3	—	**180.1**	180.1	—
Deferred income	**86.8**	67.4	19.4	**83.2**	59.9	23.3
Others	**186.2**	184.7	1.5	**239.3**	237.7	1.6
Other liabilities	**803.9**	**751.2**	**52.7**	**821.5**	**764.4**	**57.1**

Deferred income includes a monetary government grant (€4.2 million) for the land of a tire company in the U.S.A. that is subject to certain conditions.

This is expected to be reversed to profit or loss in subsequent periods in line with fulfillment of the obligations. There are no significant, unfulfilled conditions or other contingencies in connection with recognized government subsidies.

33. Liabilities Held for Sale

Liabilities for a business operation held for sale were reclassified in the year under review.

in € millions	Dec. 31, 2012	Dec. 31, 2011
Liabilities held for sale	—	—
Liabilities of disposal group	0.8	—
Liabilities held for sale	**0.8**	**—**

Other Disclosures

34. Litigation and Compensation Claims

Continental AG and its subsidiaries are involved in lawsuits and regulatory investigations and proceedings worldwide. Such lawsuits, investigations and proceedings could also be initiated or claims asserted in other ways in the future.

Product liability
In particular, Continental is constantly subject to product liability lawsuits and other proceedings in which the company could be accused of the alleged infringement of its duty of care, violations against warranty obligations or defects of material or workmanship, as well as to claims from alleged breaches of contract or product recalls and government fines. The pending claims include lawsuits in the U.S.A. for property damage, personal injury, and death caused by alleged defects in our products. Claims for material and immaterial damages, and in some cases punitive damages, are being asserted. The outcome of individual proceedings, which are generally decided by a jury in a court of first instance, cannot be predicted with certainty. No assurance can be given that Continental will not incur substantial expenses as a result of the final judgments or settlements in some of these cases, or that these amounts will not exceed any provisions set up for these claims. Some subsidiaries in the U.S.A. are exposed to relatively limited claims for damages from purported health injuries allegedly caused by products containing asbestos. The total costs for dealing with all such claims and proceedings have amounted to less than €50 million per year since 2006.

Proceedings relating to ContiTech AG
The proceedings regarding rescission and nullification by Phoenix AG shareholders brought against the resolutions adopted at the Shareholders' Meeting of the company held on December 28, 2004, for approval of a management and profit and loss pooling agreement and the merger agreement with ContiTech AG and for confirmatory resolutions by the Annual Shareholders' Meeting of Phoenix AG on May 19, 2005, have been substantively concluded since 2009. On September 16, 2011, the Hamburg Regional Court *(Landgericht)* ruled on the judicial review proceedings on the appropriateness of compensation and settlement under the management and profit and loss pooling agreement and the conversion ratio established in the merger agreement, ordering ContiTech AG to make additional payments. Continental is still of the opinion that the 2004 valuation of Phoenix AG and ContiTech AG was appropriate and that the compensation and settlement under the management and profit and loss transfer agreement as well as the conversion ratio in the merger agreement were established correctly. Appeals have therefore been filed. However, an increase in the amounts paid to the minority shareholders after the end of these proceedings cannot be ruled out.

The actions of rescission and nullification by shareholders of ContiTech AG against resolutions adopted at the Annual Shareholders' Meeting of the company on August 22, 2007, regarding the approval of the conclusion of a management and profit transfer agreement between this company as the controlled company and ContiTech-Universe Verwaltungs-GmbH as the controlling company and regarding the squeeze-out of minority shareholders were concluded in 2009 by a dismissal which is final. Partial settlement agreements were entered in the records of the Hanover Regional Court *(Landgericht)* on May 2 and July 12, 2012, in the judicial review proceedings regarding the appropriateness of the settlement and compensation payment under the management and profit and loss pooling agreement and the settlement for the squeeze-out. Under these settlements, a payment of €3.50 plus interest per share on top of the exit compensation under the management and profit and loss pooling agreement was agreed, as was – merely declaratory – a higher compensatory payment under the management and profit and loss pooling agreement on account of the squeeze-out. On October 17, 2012, the Hanover Regional Court awarded additional payments of the same amount. Individual petitioners have filed appeals against these rulings with the Celle Higher Regional Court *(Oberlandesgericht)*. These are still pending.

Regulatory proceedings
In 2007, the European Commission and the U.S. Department of Justice (DOJ) initiated their investigations into antitrust behavior in the marine hose market. The European Commission found Continental AG, ContiTech AG and Dunlop Oil & Marine Limited (DOM) liable – among other companies – for infringements of antitrust law. The proceedings of the European Commission and the DOJ, and of the authorities in other countries (Brazil, Japan, Australia, South Korea and

Canada) against DOM for violations of their respective national antitrust law have since all been concluded and, like the case in Canada, will not be pursued further. DOM is still facing claims for damages from third parties due to the infringement of antitrust law as a result of the marine hose cartel. Class actions in the U.S.A. were settled. A claim brought before the British High Court was also settled. However, further claims are still possible in the U.K. and other countries (e.g. Japan, South Korea, Australia and Brazil).

In May 2005, the Brazilian antitrust authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva (CBIA), Brazil, following a complaint by a third party of alleged anticompetitive behavior in the area of the commercialization of tachographs. On August 18, 2010, the Brazilian competition authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (around €4.5 million) on CBIA, which was then reduced to BRL 10.8 million. CBIA refutes the accusation. However, an appeal filed against this ruling with the competent court was unsuccessful in the first instance and is now pending at the next higher court. In addition, third parties may claim damages from CBIA resulting from the infringement of Brazilian antitrust law.

On October 2, 2006, the South African antitrust authorities received a complaint from a third party accusing several South African tire manufacturers of alleged antitrust behavior, including Continental Tyre South Africa (Pty.) Limited (CTSA), a company that is 74% owned by Continental. On August 31, 2010, the South African antitrust authorities came to the conclusion that CTSA and other companies had violated South African antitrust law and referred the matter to the competent Competition Tribunal for a decision. CTSA denies all allegations of infringements of South African antitrust law. However, the tribunal could impose a fine of up to 10% of CTSA's sales. In addition, third parties may claim damages from CTSA resulting from the infringement of South African competition law.

On October 5, 2007, the antitrust authorities for the Basque Country, Spain, received a complaint from a third party against Continental Automotive Spain, S.A. (CAS) due to alleged anticompetitive behavior in tachograph business. After investigation by the antitrust authorities, the Basque antitrust court sentenced CAS to a fine of €700,000 on January 20, 2010. On appeal by CAS, the Basque High Court reduced the fine to €150,000 on December 20, 2011. A third party has claimed damages.

On February 24, 2010, the European Commission conducted searches at several companies that manufacture wiring harnesses for automotive purposes, including S-Y Systems Technologies Europe GmbH (S-Y), Regensburg, Germany (see also Note 37). The European Commission announced that it has indications that the companies in question have violated EU antitrust law. Insofar as the European Commission determines that S-Y or Continental can be accused of antitrust behavior, it could impose a fine based on the severity and the duration of the violations not to exceed 10% of the previous year's sales of the participating company. Even if the European Commission determines that only S-Y exhibited antitrust behavior, it cannot be ruled out that the parent companies may be included in the fine due to joint and several liability.

On October 24, 2012, Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A., received a subpoena from the U.S. DOJ to submit certain documents in connection with the suspected involvement in violations of U.S. antitrust law in instrument cluster business. On October 25, 2012, the South Korean antitrust authorities searched Continental Automotive Korea Ltd., Seongnam-si, South Korea, in connection with the suspected involvement in violations of South Korean antitrust law in instrument cluster business. It remains to be seen whether and in what amount the South Korean antitrust authorities or the DOJ will impose fines against Continental Automotive Korea Ltd., Continental Automotive Systems US, Inc., or other companies in the corporation. Should the South Korean antitrust authorities find that Continental Automotive Korea Ltd. has violated antitrust law, they could impose a fine of up to 10% of the relevant sales in South Korea against the company. The DOJ can impose a maximum fine of U.S. $100 million unless this amount is exceeded by double the company's profits or the losses suffered by customers of the cartel. Claims for damages by alleged victims would remain unaffected by any fines imposed.

A large number of employees at Continental France SNC, Sarreguemines, France, have filed claims at industrial tribunals in Compiègne and Soissons, France, against this corporation company and, in

some cases, against Continental AG as well. The plaintiffs seek damages in connection with the cessation of passenger tire production at the plant in Clairoix, France. Continental considers these actions unfounded but cannot rule out that a court will award the plaintiffs damages.

35. Contingent Liabilities and Other Financial Obligations

in € millions	Dec. 31, 2012	Dec. 31, 2011
Liabilities on guarantees	78.3	131.6
Liabilities on warranties	9.4	9.0
Other financial obligations	110.3	122.3
Other contingent liabilities	8.7	7.6
Contingent liabilities and other financial obligations	**206.7**	**270.5**

The contingent liabilities primarily relate to guarantees for the liabilities of affiliated companies and third parties not included in consolidation and to contractual warranties relating to associated companies. In particular, they include a guarantee for a major project by a business segment disposed of in the previous years in the amount of €27.3 million (PY: €57.2 million). To the best of our knowledge, the underlying obligations will be fulfilled in all cases. Utilization is not anticipated.

Other financial obligations also relate to possible claims for damages from pending proceedings in France.

The Continental Corporation could be subject to obligations relating to environmental issues under governmental laws and regulations, or as a result of various claims and proceedings that are pending or that might be made or initiated against it. Estimates of future expenses in this area are naturally subject to many uncertainties, such as the enactment of new laws and regulations, the development and application of new technologies and the identification of contaminated land or buildings for which the Continental Corporation is legally liable.

Open purchase commitments for property, plant and equipment amounted to €245.1 million (PY: €286.5 million).

In 2012, expenses for operating leases and rental agreements amounted to €143.2 million (PY: €145.6 million).

Future liabilities relating to operating leases and rental agreements with an original or remaining term of more than one year as at December 31, 2012, for which the corporation is not the beneficial owner, and for which the related assets are therefore not recognized as property, plant and equipment, are shown in the table below for 2013 and cumulatively for the years 2014 through 2017, and likewise cumulatively from 2018.

Dec. 31, 2012, in € millions	2013	2014-2017	from 2018
Operating leases and rental agreements	171.5	337.4	128.9

Dec. 31, 2011, in € millions	2012	2013-2016	from 2017
Operating leases and rental agreements	143.2	277.9	92.2

36. Earnings per Share

Basic earnings per share rose to €9.42 in 2012 (PY: €6.21), the same amount as diluted earnings per share. In both the period under review and the previous year, there were no dilutive effects such as interest savings on convertible bonds or warrant-linked bonds (after taxes). There were also no dilutive effects from stock option plans or the assumed exercise of convertible bonds.

in € millions/millions of shares	2012	2011
Net income attributable to the shareholders of the parent	1,883.5	1,242.2
Weighted average number of shares issued	200.0	200.0
Earnings per share in €	**9.42**	**6.21**

37. Events after the End of the Reporting Period

SK Continental E-motion commences operations
On January 1, 2013, the closing took place for SK Continental E-motion, Singapore, Singapore, a company jointly managed by SK Innovation Co., Ltd., Seoul, South Korea, and Continental, after the agreement to form the company was signed in July 2012. All the responsible authorities approved the application by the two companies without restriction. SK Continental E-motion develops, produces and markets battery systems based on lithium-ion technology for cars and light trucks.

SK Innovation holds 51% in the new company and Continental 49%. The two companies are planning to invest a total of around €270 million in SK Continental E-motion within the next five years. SK Continental E-motion does not affect the business strategies of SK Innovation or Continental. Both companies will continue to supply their customers in the automotive industry with their entire existing product range. In addition to its head office in Singapore, SK Continental E-motion has an operative unit in Berlin, Germany, and in Daejeon, South Korea, and commenced operations on January 2, 2013.

Continental signs new syndicated loan agreement
On January 23, 2013, Continental announced the signing of a new syndicated loan agreement and that it had thereby further improved its maturities structure. The loan volume committed by more than 30 German and international banks declined slightly to a total of €4.5 billion and is divided into two tranches with different maturities: a loan of €1.5 billion with a term of three years and a revolving credit line in the amount of €3.0 billion with a term of five years. Under the new syndicated loan agreement, Continental secured the release of the physical collateral previously provided for financing and agreed further simplifications in documentation.

Sales of shares in S-Y Systems Technologies Europe GmbH
As at January 29, 2013, Continental sold all its shares in S-Y Systems Technologies Europe GmbH, Regensburg, Germany, to Yazaki Europe Ltd., Hertfordshire, U.K., a subsidiary of the Yazaki Corporation, Tokyo, Japan, as a result of which Yazaki now holds all shares in the company. Continental and Yazaki previously each held 50% in S-Y. S-Y develops and markets cable harnesses and associated components for automotive applications.

38. Auditor's Fees

For fiscal 2012, a global fee of €9.0 million (PY: €8.7 million) was agreed for the audit of the consolidated financial statements and the separate financial statements of the subsidiaries.

The fees were recognized as an expense specifically for the auditor of Continental AG elected by the Annual Shareholders' Meeting.

The following fees relate only to services directly connected with Continental AG and its German subsidiaries:

in € millions	2012	2011
Audit of financial statements	2.9	2.9
Other assurance services	1.9	0.9
thereof assurance services in connection with bond issues[1]	0.2	—
thereof insurance fees in connection with bond issues[1]	0.9	—
Tax advisory services	0.1	0.1
Other services provided to the parent company or its subsidiaries	0.0	—
Total	**4.9**	**3.9**

[1] These amounts essentially relate to the directly attributable costs in connection with the issue of bonds in accordance with IAS 32.37. They are deducted from the cost of the bond and recognized in profit or loss over its term.

KPMG AG Wirtschaftsprüfungsgesellschaft and its registered branches are deemed the auditor.

39. Transactions with Related Parties

Remuneration of the Executive Board and the Supervisory Board

The remuneration of the corporation's key management personnel that must be disclosed in accordance with IAS 24 comprises the remuneration of the active members of the Executive Board and the Supervisory Board.

The remuneration of the active members of the Executive Board in the respective years was as follows:

in € thousands	2012	2011
Short-term benefits	9,583	9,758
Service cost relating to post-employment benefits	3,964	2,939
Payments on termination of employment contract	—	3,000
Share-based payment	10,434	5,110
Total	**23,981**	**20,807**

The basic elements of the Executive Board remuneration system and the amounts granted to the Executive Board and the Supervisory Board in the year under review are explained in the Remuneration Report in the Corporate Governance Report, to which the Management Report refers.

The total remuneration granted to the Executive Board of Continental AG in 2012 amounted to €14.7 million (PY: €15.5 million). That total remuneration also includes the long-term components of variable remuneration totaling €5.1 million (PY: €5.7 million), which are converted into virtual shares of the company. In 2012,

this resulted in the long-term components for 2011 being converted into 83,596 (PY: 86,484) virtual shares.

Former members of the Executive Board and their surviving dependents received payments totaling €5.4 million in the year under review (PY: €8.2 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €103.6 million (PY: €86.6 million).

Remuneration paid to the members of Continental AG's Supervisory Board, including meeting fees, totaled €3.1 million (PY: €2.4 million).

In 2012, as in 2011, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board.

No remuneration was paid to Supervisory Board members for any personally rendered services, except for the remuneration of the employee representatives arising from their employment contract.

Moreover, none of the members of the Executive Board or Supervisory Board entered into any reportable transactions with other management personnel holding key positions, or with companies in whose management or supervisory bodies these individuals are represented. This also applies to close relatives of such individuals.

Transactions with related parties other than subsidiaries:

in € millions	2012	2011
Income	123.6	110.0
Expenses	111.1	90.6

Income, mainly from sales, and expenses, mainly from product and material procurement, resulting from transactions between subsidiaries and related parties are attributable solely to the ordinary business activities of the respective company and were conducted on an arm's length basis. The corresponding receivables from and liabilities to these companies are reported in the statement of financial position.

Please refer to Note 25 regarding transactions with Continental Pension Trust e.V. in the year under review.

The transactions with the Schaeffler Group in the reporting year are attributable to ordinary business activities and were concluded on an arm's length basis. The income in the reporting year of €34.4 million (PY: €23.9 million) and expenses totaling €91.2 million (PY: €74.6 million) are both included in the transactions with related parties.

Investment agreement

On August 20, 2008, Continental AG entered into a far-reaching investment agreement with Schaeffler KG, Mrs. Maria-Elisabeth Schaeffler and Mr. Georg F. W. Schaeffler. With the exception of a section that expired on August 31, 2012, the open-ended agreement, which cannot be terminated by the parties effective before the end of the Annual Shareholders' Meeting in 2014, contains comprehensive provisions to safeguard the interests of Continental AG, its shareholders, employees and customers. Former German Chancellor Dr. Gerhard Schröder is the guarantor for the Schaeffler Group's compliance with its obligations in the interest of all Continental AG stakeholders. The legal successor of Schaeffler KG (now "Schaeffler Holding GmbH & Co. KG") is Schaeffler AG, which was Schaeffler GmbH until October 13, 2011. Economically effective retroactively to January 1, 2010, Schaeffler Holding transferred its holding in Continental AG to what is now Schaeffler AG through Schaeffler Verwaltungs GmbH by way of spin-off in accordance with Section 123 (3) No. 1 of the German Transformation Act *(Umwandlungsgesetz – UmwG)*. In the meantime, Schaeffler Verwaltungs GmbH (13.76%) and Schaeffler Beteiligungsholding GmbH & Co. KG, a subsidiary of Schaeffler AG (36.14%), have the direct holding in Continental AG and have acceded to the investment agreement.

Notices in Accordance with the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)*

From the start of the fiscal year to the time of the preparation of the financial statements, we received the following notifications in accordance with Section 21 (1) *WpHG* on holdings in Continental AG. In the event of the limits stated in this provision being reached, exceeded or fallen below on multiple occasions by the same party, only the most recent notification has been shown here. Notifications from earlier fiscal years regarding holdings still applicable as of the end of the 2012 reporting period are still shown here.

By way of letter dated March 21, 2012, we received notification that:

- the share of voting rights in Continental AG held by Government of Singapore Investment Corporation Pte Ltd, Singapore, Singapore, fell below the threshold of 3% on March 16, 2012, and amounted to 2.90% (5,808,371 voting rights) at this time.
- the share of voting rights in Continental AG held by the Government of Singapore, represented by and through the Singapore Ministry of Finance, Singapore, fell below the threshold of 3% on March 16, 2012, and amounted to 2.90% (5,808,371 voting rights) on this date. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG* through Government of Singapore Investment Corporation Pte Ltd, Singapore, Singapore.
- We also received notification that, of the above 2.90% (5,808,371 voting rights) of the voting rights in Continental AG, 2.17% (4,349,462 voting rights) are also attributed to the Government of Singapore in accordance with Section 22 (1) Sentence 1 No. 2 *WpHG*.

On May 3, 2012, we received notification that:

- the share of voting rights in Continental AG held by SEB AG, Frankfurt, Germany, exceeded the threshold of 3% of voting rights on April 27, 2012, and amounted to 4.89% (9,777,188 voting rights) at this time.
- the share of voting rights in Continental AG held by Skandinaviska Enskilda Banken AB (publ), Stockholm, Sweden, exceeded the threshold of 3% of voting rights on April 27, 2012, and amounted to 4.89% (9,777,188 voting rights) at this time. The shares of SEB AG, Frankfurt, Germany, are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

Furthermore, SEB AG, Frankfurt, Germany, notified us on May 3, 2012 that its share of voting rights in Continental AG fell below the threshold of 3% on April 30, 2012, and amounted to 0.00% (0 voting rights) on this date.

Skandinaviska Enskilda Banken AB (publ), Stockholm, Sweden, notified us on May 4, 2012, that its share of voting rights in Continental AG fell below the threshold of 3% on April 30, 2012, and amounted to 0.00% (0 voting rights) on this date.

On September 27, 2012, we received notification that:

- the share of voting rights in Continental AG held by M.M.Warburg & CO KGaA, Hamburg, Germany, fell below the thresholds of 5% and 3% of voting rights on September 27, 2012, and amounted to 0.00% (0 voting rights) at this time.
- the share of voting rights in Continental AG held by M.M.Warburg & CO Gruppe (GmbH & Co.) KGaA, Hamburg, Germany, fell below the thresholds of 5% and 3% of voting rights on September 27, 2012, and amounted to 0.00% (0 voting rights) at this time. The shares are attributed in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

On September 28, 2012, we received notification that:

- the share of voting rights in Continental AG held by B. Metzler seel. Sohn & Co. KGaA, Frankfurt, Germany, fell below the thresholds of 5% and 3% of voting rights on September 27, 2012, and amounted to 0.00% (0 voting rights) at this time.
- the share of voting rights in Continental AG held by B. Metzler seel. Sohn & Co. Holding AG, Frankfurt, Germany, fell below the thresholds of 5% and 3% of voting rights on September 27, 2012, and amounted to 0.00% (0 voting rights) at this time.

By way of letter dated October 1, 2012, we received notification that:

- the share of voting rights in Continental AG held by BR Jersey International Holdings L.P., St. Helier, Jersey, Channel Islands, exceeded the threshold of 3% of voting rights on September 25, 2012, and amounted to 3.08% (6,160,762 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock International Holdings, Inc., New York, NY, U.S.A., exceeded the threshold of 3% of voting rights on September 25, 2012, and amounted to 3.08% (6,160,762 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Advisors Holdings, Inc., New York, NY, U.S.A., exceeded the threshold of 3% of voting rights on September 25, 2012, and amounted to 3.15% (6,309,605 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

By way of letter dated October 3, 2012, we received notification that:

- the share of voting rights in Continental AG held by BlackRock Group Limited, London, U.K., exceeded the threshold of 3% of voting rights on September 27, 2012, and amounted to 3.42% (6,846,998 voting rights) on this date. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

On October 30, 2012, we received notification that:

- the share of voting rights in Continental AG held by BlackRock, Inc., New York, U.S.A., exceeded the threshold of 5% of voting rights on October 24, 2012, and amounted to 5.09% (10,181,131 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Holdco 2, Inc., Wilmington, Delaware, U.S.A., exceeded the threshold of 5% of voting rights on October 24, 2012, and amounted to 5.01% (10,022,107 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Financial Management, Inc., New York, U.S.A., exceeded the threshold of 5% of voting rights on October 24, 2012, and amounted to 5.01% (10,022,107 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

On October 6, 2011, we received notification that:

- the share of voting rights in Continental AG held by Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time.

- the share of voting rights in Continental AG held by Schaeffler Familienholding Drei GmbH & Co. KG, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Familienholding Zwei GmbH, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Familienholding Eins GmbH, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler GmbH, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Verwaltungs GmbH, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. 36.14% of these shares (72,290,458 voting rights) are attributed to Schaeffler Verwaltungs GmbH in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Holding GmbH & Co. KG, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Management GmbH, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Holding LP, Dallas, Texas, U.S.A., remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Mrs. Maria-Elisabeth Schaeffler, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Mr. Georg F. W. Schaeffler, U.S.A., remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

In 2012 and until February 8, 2013 inclusively, the members of the Executive Board held shares representing a total interest of less than 1% of the capital stock of the company. Shares representing 49.90% of the share capital of the company were attributable to two members of the Supervisory Board – Mrs. Maria-Elisabeth Schaeffler and Mr. Georg F. W. Schaeffler – held as specified in the notification of voting rights on October 6, 2011. In 2012 and until February 8, 2013 inclusively, the other members of the Supervisory Board held shares representing a total interest of less than 1% of the capital stock of the company.

40. List of Shareholdings of the Corporation

Further information on equity investments can be found in the list of the corporation's shareholdings in accordance with Section 313 of the German Commercial Code *(Handelsgesetzbuch – HGB)*, which is published as part of the consolidated financial statements in the electronic German Federal Gazette *(elektronischer Bundesanzeiger)*. The consolidated financial statements with the list of the corporation's shareholdings are also made available for inspection by the shareholders in the business premises at the company's headquarters from the date on which the Annual Shareholders' Meeting is convened, and from that point in time are available together with the additional documents and information in accordance with Section 124a of the German Stock Corporation Act *(Aktiengesetz – AktG)* online at www.continental-ir.com.

Statutory exemption provisions applying to German companies

The following German companies and partnerships utilized the exemption provisions of Section 264 (3) *HGB* and Section 264b *HGB*:

Company	Registered office
ADC Automotive Distance Control Systems GmbH	Lindau
Alfred Teves Beteiligungsgesellschaft mbH	Frankfurt am Main
Babel Grundstücksverwaltungsgesellschaft mbH	Schwalbach am Taunus
Benecke-Kaliko AG	Hanover
Beneform GmbH	Peine
CAS München GmbH	Hanover
CAS-One Holdinggesellschaft mbH	Hanover
Conseo GmbH	Hamburg
Conti Temic microelectronic GmbH	Nuremberg
Conti Versicherungsdienst Versicherungsvermittlungsges. mbH	Hanover
Continental Aftermarket GmbH	Eschborn
Continental Automotive GmbH	Hanover
Continental Automotive Grundstücksges. mbH	Frankfurt am Main
Continental Automotive Grundstücksvermietungsges. mbH & Co. KG	Frankfurt am Main
Continental Caoutchouc-Export-GmbH	Hanover
Continental Engineering Services & Products GmbH	Ingolstadt
Continental Engineering Services GmbH	Frankfurt am Main
Continental Finance GmbH	Hanover
Continental Mechanical Components Germany GmbH	Roding
Continental Reifen Deutschland GmbH	Hanover
Continental Safety Engineering International GmbH	Alzenau
Continental Teves AG & Co. oHG	Frankfurt am Main
Continental Trading GmbH	Schwalbach am Taunus
ContiTech AG	Hanover
ContiTech Antriebssysteme GmbH	Hanover
ContiTech Elastomer-Beschichtungen GmbH	Hanover
ContiTech Kühner Beteiligungsgesellschaft mbH	Hanover
ContiTech Kühner GmbH & Cie. KG	Oppenweiler
ContiTech Luftfedersysteme GmbH	Hanover
ContiTech MGW GmbH	Hannoversch Münden
ContiTech Schlauch GmbH	Hanover
ContiTech Techno-Chemie GmbH	Karben

Company	Registered office
ContiTech Transportbandsysteme GmbH	Hanover
ContiTech Verwaltungs-GmbH	Hanover
ContiTech Vibration Control GmbH	Hanover
ContiTech-Universe Verwaltungs-GmbH	Hanover
Correx Handelsgesellschaft für Kautschukprodukte mbH	Hanover
Eddelbüttel & Schneider GmbH	Hamburg
eStop GmbH	Schwalbach am Taunus
Formpolster GmbH	Hanover
Gerap Grundbesitz- und Verwaltungsgesellschaft mit beschränkter Haftung	Frankfurt am Main
Göppinger Kaliko GmbH	Eislingen
IDM GmbH Industriesensoren	Lindau
IPM GmbH Informationen Prozesse Menschen	Hamburg
Max Kammerer GmbH	Frankfurt am Main
OTA Grundstücks- und Beteiligungsverwaltung GmbH	Frankfurt am Main
Phoenix Beteiligungsgesellschaft mbH	Hamburg
Phoenix Compounding Technology GmbH	Hamburg
Phoenix Conveyor Belt Systems GmbH	Hamburg
Phoenix Fluid Handling Industry GmbH	Hamburg
Phoenix Industrieanlagen Verwaltungs GmbH	Hamburg
Phoenix Sechste Verwaltungsgesellschaft mbH	Hamburg
Phoenix Service GmbH & Co. KG	Hamburg
Phoenix Vermögensverwaltungsgesellschaft mbH	Hamburg
REG Reifen-Entsorgungsgesellschaft mbH	Hanover
STEINEBRONN BETEILIGUNGS-GMBH	Oppenweiler
TEMIC Automotive Electric Motors GmbH	Berlin
UMG Beteiligungsgesellschaft mbH	Hanover
Union-Mittelland-Gummi-GmbH & Co. Grundbesitz KG	Hanover
Vergölst GmbH	Bad Nauheim

41. German Corporate Governance Code/Declaration in Accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz)*

The declaration required in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz)* was issued by the Executive Board and the Supervisory Board on April 27, 2012, and is available to our shareholders on the following website: www.continental-corporation.com in the Investor Relations section under Corporate Governance.

FURTHER INFORMATION

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Responsibility Statement by the Company's Legal Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the corporation, and the 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.

Hanover, February 8, 2013

Continental AG
The Executive Board

Other Directorships – The Executive Board

List of the positions held by the Executive Board members on statutory supervisory boards and on comparable controlling bodies of companies in Germany and abroad in accordance with Section 285 No. 10 of the German Commercial Code *(Handelsgesetzbuch – HGB)*:

Companies with no country specified are located in Germany.

Dr. Elmar Degenhart
Chairman
Corporate Communications
Corporate Quality and Environment
Continental Business System
Automotive Central Functions
ContiTech AG, Hanover* (Chairman)

José A. Avila
Powertrain Division
Continental Automotive France SAS, Toulouse, France*; SK Continental E-motion Pte. Ltd., Singapore* (since January 1, 2013); Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar (Member of the Board of Directors; since January 1, 2013)

Dr. Ralf Cramer
Chassis & Safety Division
Continental Automotive Corporation, Yokohama, Japan*; Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*; Continental Automotive Systems, Inc., Wilmington, Delaware, U.S.A.*; Continental Automotive Systems Holding US, Inc., Wilmington, Delaware, U.S.A.*

Helmut Matschi
Interior Division
SAS Autosystemtechnik Verwaltungs GmbH, Karlsruhe; SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe (Vice Chairman); S-Y Systems Technologies Europe GmbH, Regensburg; Continental Automotive GmbH, Hanover* (Chairman)

Wolfgang Schäfer
Finance, Controlling, Compliance, Law and IT
Continental Reifen Deutschland GmbH, Hanover*; Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*; Continental Automotive Systems, Inc., Wilmington, Delaware, U.S.A.*; Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.*

Nikolai Setzer
Tire Division
Continental Reifen Deutschland GmbH, Hanover* (Chairman); Continental India Limited, New Delhi, India*; Continental Tyre AS Malaysia Sdn. Bhd., Petaling Jaya, Malaysia* (until June 7, 2012); Continental Tyre PJ Malaysia Sdn. Bhd., Petaling Jaya, Malaysia* (until June 7, 2012); Continental Tyre Malaysia Sdn. Bhd., Petaling Jaya, Malaysia* (until June 7, 2012); Continental Tire Holding US, LLC, Wilmington, Delaware, U.S.A.*; Continental Tire the Americas LLC, Fort Mill, South Carolina, U.S.A.*; Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth, South Africa*

Elke Strathmann
Human Resources, Director of Labor Relations, Corporate Social Responsibility
(Member of the Executive Board since January 2, 2012)

Heinz-Gerhard Wente
ContiTech Division
Corporate Purchasing
Benecke-Kaliko AG, Hanover* (Vice Chairman); ContiTech Antriebssysteme GmbH, Hanover* (Chairman); ContiTech-Elastomer Beschichtungen GmbH, Hanover* (Chairman); ContiTech Luftfedersysteme GmbH, Hanover* (Chairman); ContiTech MGW GmbH, Hann. Münden* (Vice Chairman); ContiTech Schlauch GmbH, Hanover* (Chairman); ContiTech Techno-Chemie GmbH, Karben* (Vice Chairman); ContiTech Transportbandsysteme GmbH, Hanover* (Chairman); ContiTech Vibration Control GmbH, Hanover* (Chairman); Phoenix Compounding Technology GmbH, Hamburg* (Chairman); ContiTech Grand Ocean Fluid (Changchun) Co., Ltd., Changchun, China*; ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*; ContiTech Thermopol, LLC, Manchester, New Hampshire, U.S.A.*; ContiTech Beattie Corp., Houston, Texas, U.S.A.*

*Companies pursuant to Section 100 (2) of the German Stock Corporation Act *(Aktiengesetz)*.

Other Directorships – The Supervisory Board

Memberships of other statutory supervisory boards and of comparable controlling bodies of companies in Germany and abroad in accordance with Section 285 No. 10 of the German Commercial Code *(Handelsgesetzbuch – HGB)*:

Companies with no country specified are located in Germany.

Prof. Dr.-Ing. Wolfgang Reitzle, Chairman
President and CEO of Linde AG
Holcim Ltd., Zurich, Switzerland (since April 17, 2012)

Werner Bischoff*, Vice Chairman
Trade Union Secretary, IG BCE
(Mining, Chemical and Energy Industrial Union)
Evonik Industries AG, Essen (until October 2012); RWE AG, Essen; RWE Dea AG, Hamburg; RWE Power AG, Essen

Michael Deister*
Chairman of the Works Council for the Stöcken Plant

Dr. Gunter Dunkel
Chairman of the Board of Management of Norddeutsche Landesbank Girozentrale
Bremer Landesbank Kreditanstalt Oldenburg Girozentrale, Bremen**; Deutsche Hypothekenbank AG, Hanover** (Chairman); Norddeutsche Landesbank Luxembourg S.A., Luxembourg** (Chairman); NORD/LB Covered Finance Bank S.A., Luxembourg** (Chairman; since April 1, 2012); Skandifinanz Bank AG, Zurich, Switzerland** (Chairman of the Board of Directors; until May 1, 2012)

Hans Fischl*
Chairman of the Works Council for the Regensburg Location, Chairman of the Corporate Works Council of Continental AG and Member of the Central Works Council of Continental Automotive GmbH

Dr. Jürgen Geißinger
President and CEO of Schaeffler AG
MTU Aero Engines Holding AG, Munich; MTU Aero Engines GmbH, Munich; Schaeffler Group USA Inc., Fort Mill, South Carolina, U.S.A.**; Schaeffler Holding (China) Co. Ltd., Changsa, China**; Sandvik AG, Stockholm, Sweden (since May 2012)

Prof. Dr.-Ing. E. h. Hans-Olaf Henkel
Honorary Professor at the University of Mannheim
Bayer AG, Leverkusen (until April 27, 2012); Daimler Luft- und Raumfahrt Holding AG, Munich; Heliad Equity Partners GmbH & Co. KGaA, Frankfurt am Main (until August 28, 2012); Ringier AG, Zofingen, Switzerland (until June 22, 2012); SMS Holding GmbH, Hilchenbach; UsedSoft Schweiz AG, Zug, Switzerland (since December 12, 2012)

Michael Iglhaut*
Chairman of the Works Council for the Frankfurt Location, Chairman of the Central Works Council of Continental Teves AG & Co. oHG

Jörg Köhlinger*
Trade Union Secretary, IG Metall (Metalworkers' Union) for the Central Region, and IG Metall Delegate for the Corporate Works Council, the Central Works Council of Continental Teves, as well as the Supervisory Committee of the Central Works Councils of Continental Teves, Temic and Automotive
Rasselstein GmbH, Andernach

Prof. Dr. Klaus Mangold
Chairman of the Supervisory Board of Rothschild GmbH
Alstom Deutschland AG, Mannheim (Chairman); Leipziger Messe GmbH, Leipzig; Metro AG, Düsseldorf; Rothschild GmbH, Frankfurt am Main (Chairman); TUI AG, Hanover (Chairman); Alstom S.A., Paris, France

Hartmut Meine*
District Manager of IG Metall (Metalworkers' Union) for Lower Saxony and Saxony-Anhalt
KME Germany GmbH, Osnabrück; Volkswagen AG, Wolfsburg

Dirk Nordmann*
Chairman of the Works Council for the Vahrenwald Plant, ContiTech Antriebssysteme GmbH, Hanover
ContiTech Luftfedersysteme GmbH, Hanover

Artur Otto*
Head of Marketing & Business Development S&T Automotive

Klaus Rosenfeld
Member of the Executive Board of Schaeffler AG

Georg F. W. Schaeffler
Partner of the Schaeffler Group
Schaeffler AG, Herzogenaurach** (Chairman)

Maria-Elisabeth Schaeffler
Partner of the Schaeffler Group
Nürnberger Lebensversicherung AG, Nuremberg (since September 1, 2012); Schaeffler AG, Herzogenaurach**; Österreichische Industrieholding AG, Vienna, Austria

Jörg Schönfelder*
Chairman of the Works Council for the Korbach Plant and Chairman of the European Works Council
Continental Reifen Deutschland GmbH, Hanover**

Dr. Bernd W. Voss
Member of various Supervisory Boards
Wacker Chemie AG, Munich

Erwin Wörle*
Chairman of the Works Council of Conti Temic microelectronic GmbH, Ingolstadt
Conti Temic microelectronic GmbH, Nuremberg** (Vice Chairman)

Prof. KR Ing. Siegfried Wolf
Chairman of the Board of Directors of Russian Machines OJSC
Banque Baring Brothers Sturdza SA, Geneva, Switzerland; GAZ Group, Nizhny Novgorod, Russia (Chairman); Glavstroy Corporation LLC, Moscow, Russia (Chairman); Österreichische Industrieholding AG, Vienna, Austria; PSK Transstroy LLC, Moscow, Russia (Chairman; until April 30, 2012); Russian Machines OJSC, Moscow, Russia (Chairman); SBERBANK Europe AG, Vienna, Austria (Chairman; since February 16, 2012); Siemens Aktiengesellschaft Austria, Vienna, Austria; STRABAG SE, Vienna, Austria; VERBUND AG, Vienna, Austria

* Employee representative.
** Companies pursuant to Section 100 (2) of the German Stock Corporation Act *(Aktiengesetz)*.

Members of the Supervisory Board Committees:

1. Chairman's Committee and Mediation Committee required under Section 27 (3) of the German Co-determination Act *(Mitbestimmungsgesetz)*
Prof. Dr.-Ing. Wolfgang Reitzle, Werner Bischoff, Hans Fischl, Georg F. W. Schaeffler

2. Audit Committee
Dr. Bernd W. Voss (Chairman), Michael Deister, Michael Iglhaut, Hartmut Meine, Klaus Rosenfeld, Georg F. W. Schaeffler

3. Nomination Committee
Prof. Dr.-Ing. Wolfgang Reitzle, Georg F. W. Schaeffler, Maria-Elisabeth Schaeffler, Dr. Bernd W. Voss

Ten-Year Review – Corporation

		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Balance sheets											
Non-current assets[1]	in € millions	15,573.5	15,075.5	14,887.9	14,724.6	16,348.4	17,383.9	5,877.9	5,193.8	4,953.9	4,835.0
Current assets[2]	in € millions	11,764.4	10,962.9	9,502.6	8,324.6	8,339.5	10,353.7	4,975.1	5,353.9	4,742.0	3,463.5
Total assets	in € millions	27,337.9	26,038.4	24,390.5	23,049.2	24,687.9	27,737.6	10,853.0	10,547.7	9,695.9	8,298.5
Shareholders' equity (excl. non-controlling interests)	in € millions	8,767.4	7,146.1	5,859.6	3,772.6	5,265.4	6,583.2	4,470.8	3,574.2	2,706.2	1,983.2
Non-controlling interests	in € millions	377.4	397.2	343.3	289.1	264.5	272.9	239.1	220.8	231.0	151.4
Total equity (incl. non-controlling interests)	in € millions	9,144.8	7,543.3	6,202.9	4,061.7	5,529.9	6,856.1	4,709.9	3,795.0	2,937.2	2,134.6
Equity ratio[3]	in %	33.5	29.0	25.4	17.6	22.4	24.7	43.4	36.0	30.3	23.9
Capital expenditure[4]	in € millions	2,019.4	1,711.3	1,296.4	860.1	1,595.2	896.9	805.0	871.8	703.0	625.8
Net indebtedness	in € millions	5,319.9	6,772.1	7,317.0	8,895.5	10,483.5	10,856.4	1,181.0	493.2	881.1	1,168.6
Gearing ratio	in %	58.2	89.8	118.0	219.0	189.6	158.3	25.1	13.0	30.0	58.9
Income statements											
Sales	in € millions	32,736.2	30,504.9	26,046.9	20,095.7	24,238.7	16,619.4	14,887.0	13,837.2	12,597.4	11,534.4
Share of foreign sales	in %	75.4	73.7	72.8	71.0	68.5	69.2	67.6	65.8	66.8	67.0
Cost of sales[5]	in %	78.4	79.0	77.8	80.0	80.4	75.8	75.3	74.6	75.0	76.5
Research and development expenses[5]	in %	5.4	5.3	5.6	6.7	6.2	5.0	4.5	4.3	4.2	4.3
Selling expenses[5]	in %	4.8	4.7	5.0	5.6	4.9	5.5	5.7	6.1	6.2	6.2
Administrative expenses[5]	in %	2.1	2.1	2.5	3.0	3.2	2.7	3.0	3.1	3.1	3.3
EBITDA	in € millions	4,854.6	4,228.0	3,587.6	1,591.2	2,771.4	2,490.6	2,301.5	2,248.9	1,824.6	1,458.3
EBITDA[5]	in %	14.8	13.9	13.8	7.9	11.4	15.0	15.5	16.3	14.5	12.6
Personnel expenses	in € millions	6,905.6	6,354.3	5,891.7	5,199.8	5,746.3	3,652.7	3,175.2	3,054.3	3,011.7	2,681.8
Depreciation and amortization[6]	in € millions	1,781.2	1,631.1	1,652.4	2,631.6	3,067.6	814.8	699.6	741.8	667.2	603.1
Net income attributable to the shareholders of the parent	in € millions	1,883.5	1,242.2	576.0	-1,649.2	-1,123.5	1,020.6	981.9	929.6	716.2	314.0
Dividend and earnings per share											
Dividend for the fiscal year	in € millions	450.0[7]	300.0	—	—	—	323.4	293.1	145.9	116.3	70.4
Number of shares as at December 31	in millions	200.0	200.0	200.0	169.0	169.0	161.7	146.5	145.9	145.4	135.4
Net income (per share) attributable to the shareholders of the parent	€	9.42	6.21	2.88	-9.76	-6.84	6.79	6.72	6.38	5.19	2.37
Employees											
Annual average	in thousands	169.0	159.7	142.7	133.4	148.4	93.9	81.6	81.1	73.7	66.5

[1] Up to 2003, this item was comprised of all items that were primarily long-term, i.e., fixed assets, investments, and other primarily long-term assets.
[2] Up to 2003, this item included all items that were primarily current assets.
[3] Since 2004, this item has included the non-controlling interests.
[4] Capital expenditure on property, plant and equipment, and software.
[5] As a percentage of sales.
[6] Excluding impairments on financial investments.
[7] Subject to the approval of the Annual Shareholders' Meeting on May 15, 2013.

The information for fiscal years since 2004 has been reported in accordance with IFRS, and for 2003 in accordance with US GAAP.

Glossary of Financial Terms

Continental Value Contribution (CVC). The CVC represents the absolute amount of additional value created, and the Delta CVC represents the change in absolute value creation over the prior year. This change in the absolute contribution measured by Delta CVC allows us to monitor the extent to which management units generate value-creating growth or resources must be employed more efficiently.

The CVC is measured by subtracting the weighted average cost of capital (WACC) from the ROCE and multiplying this by the average operating assets for the fiscal year. The weighted average cost of capital calculated for the Continental Corporation corresponds to the required minimum return. The cost of capital is calculated as the weighted average ratio of the cost of equity and borrowing costs.

Currency swap. Swap of principal payable or receivable in one currency into similar terms in another currency. Often used when issuing loans denominated in a currency other than that of the lender.

Defined Benefit Obligations (DBO). DBO is defined as the present value of all vested and non-vested benefits calculated on the basis of estimated salary levels at retirement. The only actuarial method that may be used to calculate the DBO is the projected unit credit method. DBO corresponds to PBO (projected benefit obligations).

Derivative instruments. Transactions used to manage interest rate and/or currency risks.

Dividend payout ratio. The dividend payout ratio is the ratio between the dividend for the fiscal year and the earnings per share.

EBIT. Earnings Before Interest and Taxes. EBIT represents the results of operations.

EBITDA. Earnings Before Interest, Taxes, Depreciation and Amortization.

Finance lease. Under a finance lease, the lessor transfers the investment risk to the lessee. This means that the lessor bears only the credit risk and any agreed services. The lessee is the beneficial owner of the leased asset. Finance leases are characterized by a fixed basic term during which the lease may not be terminated by the lessee.

Gearing ratio. The gearing ratio represents the net indebtedness divided by total equity, expressed as a percentage.

Hedging. Securing a transaction against risks, such as fluctuations in exchange rates, by entering into an offsetting hedge transaction, typically in the form of a forward contract.

IAS. International Accounting Standards. Accounting standards of the IASB.

IASB. International Accounting Standards Board. The authority that defines the International Financial Reporting Standards.

IFRIC. International Financial Reporting Interpretations Committee (predecessor of the International Financial Reporting Standards Interpretations Committee, IFRS IC).

IFRS. International Financial Reporting Standards. The accounting standards of the IASB.

IFRS IC. International Financial Reporting Standards Interpretations Committee. The body that determines appropriate accounting treatment in the context of existing IFRS and IAS.

Interest rate swap. An interest rate swap is the exchange of interest payments between two parties. For example, this allows variable interest to be exchanged for fixed interest, or vice versa.

Net indebtedness. The net amount of interest-bearing financial liabilities as recognized in the balance sheet, cash and cash equivalents, the positive fair values of the derivative instruments as well as other interest-bearing investments.

Operating assets. Operating assets are the assets less liabilities as reported in the balance sheet, without recognizing the net indebtedness, discounted trade bills, deferred tax assets, income tax receivable and payable, as well as other financial assets and debts.

Operating lease. A form of lease that is largely similar to rental. Leased assets are recognized in the lessor's balance sheet and capitalized.

PPA. Purchase Price Allocation. PPA is the process of breaking down the purchase price and assigning the values to the identified assets, liabilities, and contingent liabilities following a business combination. Subsequent adjustments to the opening balance sheet – resulting from differences between the preliminary and final fair values at the date of initial consolidation – are recognized as “PPA adjustments”.

Rating. Standardized indicator for the international finance markets that assesses and classifies the creditworthiness of a debtor. The classification is the result of an economic analysis of the debtor by specialist rating companies.

ROCE. Return On Capital Employed. We define ROCE as the ratio of EBIT to average operating assets for the fiscal year.

SIC. Standing Interpretations Committee (predecessor to the IFRIC).

US GAAP. United States Generally Accepted Accounting Principles. These principles are subdivided into binding and guiding principles.

Weighted Average Cost of Capital (WACC). The WACC represents the weighted average cost of the required return on equity and net interest-bearing liabilities.

Financial Calendar

2013	
Annual Financial Press Conference	March 7
Analyst Telephone Conference	March 7
Annual Shareholders' Meeting	May 15
Financial Report as at March 31, 2013	May 3
Half-Year Financial Report as at June 30, 2013	August 1
Financial Report as at September 30, 2013	November 4

2014	
Annual Financial Press Conference	March
Analyst Telephone Conference	March
Annual Shareholders' Meeting	April 25
Financial Report as at March 31, 2014	May
Half-Year Financial Report as at June 30, 2014	August
Financial Report as at September 30, 2014	November

Contact Details

This Annual Report is also published in German. The financial statements of Continental Aktiengesellschaft are also available in English and German.

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The Annual Report and the interim reports are available on the Internet at:
www.continental-corporation.com

Publication Details

Published by:
Continental Aktiengesellschaft, Hanover, Germany
Corporate Communications

Concept, Consultancy and Design:
CAT Consultants, Hamburg, Germany

Printing and Processing:
BWH, Hanover, Germany

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