

# Continental Media Webcast: Fiscal 2016

Comments of the Chairman of the Executive Board  
of Continental Aktiengesellschaft,  
Dr. Elmar Degenhart,  
and the company's Chief Financial Officer,  
Wolfgang Schäfer,  
on the occasion of the  
Continental Media Webcast: Fiscal 2016  
on March 2, 2017

**Check against delivery!**

Please note that all statements are preliminary numbers that still need to be approved or determined by the Supervisory Board.

## Wolfgang Schäfer, CFO of Continental AG:

Ladies and Gentlemen,

### **We continued our growth again in 2016!**

And we comfortably achieved our adjusted annual targets. We even slightly exceeded them: we increased sales by 5 percent in organic terms – that is, adjusted for exchange rate effects and changes in the scope of consolidation. This means that we once again grew faster than the markets in which we operate. Nominally, there was an increase of more than 3 percent to €40.5 billion.

At €4.1 billion, our EBIT is almost at the previous year's level, and we achieved an EBIT margin of 10.1 percent. By way of comparison, in 2015 the figure was 10.5 percent.

The adjusted EBIT of €4.3 billion is only slightly lower than it was in 2015. The adjusted EBIT margin is once again at a high level of 10.8 percent.

As you are aware, provisions for warranty cases and pending antitrust proceedings, as well as expenses resulting from supply bottlenecks at a major supplier and increased development expenses have negatively impacted our profitability over the past year. Altogether, we are talking about negative effects of approximately €480 million.

Ladies and gentlemen, please let me repeat what we already said elsewhere in October: Most of the causes of these incidents may have happened a long time ago, but they are still unacceptable to us! Meeting the highest quality standards and acting with integrity are non-negotiable for us. We punish violations against this with absolute consistency. Our compliance mechanisms work very well and took effect at an early stage in the most recent cases.

Despite these detrimental events, automotive business developed well in 2016.

This was due mainly to market growth in Europe, the U.S.A., and China. Production of passenger cars and light commercial vehicles increased by more than 3 percent to around 93 million units worldwide in 2016. We once again grew faster than the market. Because with sales of €24.5 billion, our Automotive divisions recorded organic growth of 5 percent.

We will continue to achieve above-average growth in the years ahead. This is evidenced by our incoming orders: Automobile manufacturers worldwide placed orders worth over €35 billion with us, representing a year-on-year increase of more than 15 percent. Particularly strong growth was recorded by advanced driver assistance systems, with orders rising to more than €3 billion. Orders for products and systems for hybrid and electric vehicles also increased. They were up 17 percent at more than €1.2 billion.

Greater automation, electrification, and digitalization of mobility require more software.

This has two effects: higher costs for software development but also generally lower investment in property, plant, and equipment. The higher expenses in software development are therefore not worrying. And they hold value for the customer – this is what the customer is paying for. This can be seen in gross earnings on the one hand and in relation to R&D expenses on the other hand, which develop analogously. All in all, we do not expect the higher R&D costs to have a negative impact on the EBIT margin in the medium and long term. They are the result of a move away from mechanics and toward more electronics and software in vehicles.

Now let's move on to our business with technology products made of rubber:

In 2016, as in the previous year, we benefited from weak development in some parts of the raw material markets. The positive impact from lower costs for raw materials totaled approximately €150 million in the past fiscal year. However, this trend has now reversed. For the current year, we anticipate a negative impact of €500 million.

In the Tire division, we sold a record volume of 150 million passenger car and truck tires. We thus increased our market share further worldwide.

Sales in the Tire division recorded organic growth of 4.7 percent to €10.7 billion. The adjusted EBIT margin rose to 21.7 percent. Thanks to this record result, the Tire division contributes more than half of adjusted consolidated EBIT. This is an outstanding achievement!

It is also worth mentioning the acquisitions of Bandvulc in the U.K. and Hoosier Racing Tire in the U.S.A., with which we have further enhanced our expertise in the field of ultra-high-performance tires.

Sales in the ContiTech division recorded organic growth of 2.5 percent to €5.5 billion. The adjusted return on sales of 9.7 percent was considerably higher than in the previous year. This is particularly pleasing in view of the persistently weak demand in the oil and mining business.

We were also pleased to receive the antitrust authorities' approval of the purchase of the Hornschuch Group. This was granted a couple of days ago. In line with our strategy, we are thereby strengthening our business outside the automotive industry as well.

More than half of Hornschuch's sales are attributable to industrial applications such as synthetic leather for the furniture industry.

Overall, Continental has a very sound financial basis.

We further reduced net indebtedness by more than €700 million to €2.8 billion.

Equity increased to €14.7 billion – a new record high. This corresponds to an equity ratio of 40.7 percent.

The same applies to net income: With a profit after taxes of €2.8 billion and earnings per share of €14.01, we generated a new record high for our shareholders.

The Executive Board is therefore proposing to increase the dividend for the fifth time in a row. The dividend per share is to amount to €4.25. This corresponds to a total payout of €850 million, or a dividend payout ratio of 30.3 percent.

### **Now moving on to the outlook:**

#### **We intend to continue our profitable growth in 2017:**

Although the environment is becoming more challenging in political and economic terms, the start to the year has confirmed our expectations.

We currently anticipate a moderate rise in global vehicle production of 1 percent to just under 94 million passenger cars and light commercial vehicles. China and Europe in particular, as well as stabilizing markets in Brazil and Russia, will more than compensate for the slight decline in growth on the American market.

For fiscal 2017, we expect an increase in sales of 6 percent to more than €43 billion. We also expect to achieve an adjusted EBIT margin of over 10.5 percent again.

Ladies and gentlemen, in summary this all means nothing other than that we are aiming to achieve new record figures in a challenging environment.

## Dr. Elmar Degenhart, CEO of Continental AG:

In top shape financially and a technical pioneer: This is how Continental is presenting itself to you now.

And we need to be in this top condition, as we are observing the developments around us with concern: Protectionism, populism, and Britain's exit from the EU. Political and economic uncertainty is growing. We have to expect major turbulence without forewarning on our markets.

As a result, one thing above all counts for us: speed. Accelerating fast and braking hard and safely when necessary. This is our response to volatility and uncertainty.

At the same time, the automotive industry is undergoing a fundamental transformation. This doesn't stop at firmly established technologies and proven business models.

The inner workings of the car as we know it will be made up completely differently in 10 to 15 years' time. Electrification, automation, and digitalization are bringing about the biggest transformation process in the more than 130-year history of the automobile.

We are tackling this radical change vigorously and purposefully, creating value sustainably with pioneering technologies and new business models.

In the future, cars will of course be purely electrically powered, fully connected, and autonomously driven. But that is not the only change currently taking place. The combustion engine actually still has its peak ahead of it. Until then, we can make it even more efficient by means of partial electrification, for example with our 48-volt system. We do not expect to see a gradual decrease in direct injection and diesel engines until after 2025.

Our persistence will pay off. We strongly believe in fully electric driving. For this reason, we have invested a total of more than €1 billion over the past years and are currently working on more than 50 production projects worldwide.

With our components and systems for electric cars, we will generate higher value than with solutions for combustion engine drive systems.

We all know what is currently holding the electric car back from a breakthrough: low range and high acquisition costs along with a lack of convenience.

I am convinced that a leap forward in battery cell technology is required to help electric mobility achieve a breakthrough.

We intend to make systematic use of the new growth prospects for electric mobility. For this reason, in October last year we announced a strategic review of our Powertrain division. This should also result in our business here being more firmly focused on new opportunities.

We hope you understand that we do not wish to make any further comments on this at present. We will provide more details on this around the time when we publish our figures for the first quarter.

We are already growing rapidly with products and systems for assisted and automated driving.

In the past fiscal year, our sales with advanced driver assistance systems amounted to €1.2 billion. We anticipate sales of well over €2 billion in 2020.

In this way, we are helping to make accidents a thing of the past. This is no longer just a utopian vision! For this reason, we have already invested more than €1 billion in research and development for assisted and automated driving. Over the coming years, we will further increase expenses for this.

Sensor technology is one good example of our rapid growth: We want to bring automated driving onto the roads safely. To achieve this, vehicles must be able to detect their surroundings reliably. This is done using systems that complement and corroborate one another.

Sharpening the senses of vehicles in this way is an important element for automated driving. Flash lidar is a pioneering laser technology in this area. It works in a similar way to a series of flash photos.

This is a highly efficient method. We use it to construct an extremely accurate and distortion-free map of the surroundings.

This particularly applies to situations that were previously challenging for sensors, such as driving in fog or snow or going through tunnels. Our laser technology will be ready for production by 2020.

Alongside electrification and automation, digitalization is the third key technology that will define the car of the future.

The car of the future will be a computer on wheels. It will have to cope with a huge amount of unprocessed data: more data than four full-length feature films in high resolution in a single second.

This includes important road data that will be picked up by our tire sensors.

Reduced to the essentials, we make data packages available to third parties. To do so, we extend our "eHorizon" to a cloud service: a highly precise map of the vehicle's surroundings, enabling exact navigation.

Our eHorizon is already successful in standard production. Today, it is not yet connected to the Internet. Yet even in its current form, it makes a significant contribution to saving fuel.

200,000 trucks equipped with this technology have reduced their diesel consumption by more than 390 million liters since 2012. This corresponds to a saving of almost €500 million. CO2 emissions from trucks were able to be reduced by over a million metric tons.

In the future, more and more sensor data from vehicles will be available in the cloud. This way, our eHorizon becomes dynamic. Important milestones on the route are updated virtually in real time. Furthermore, our growing road database controls information pertaining to current traffic infrastructure.

For instance information on new road signs, changed traffic light phases or road closures. With current data from eHorizon and road database, we support anticipatory driving. The result: added safety and even better fuel economy.

Vehicles are thus becoming part of the Internet. This gives rise to new growth potential for us that goes beyond traditional business with components.

We are already using services to increase the impact of our products and functions.

Take tachographs, for example – a key component of modern truck safety. We have now created a whole ecosystem of electronic services in this area. In this way, we keep millions of vehicles worldwide constantly on the move. Fleet managers thus save time and money. Furthermore, optimized fleets reduce emissions.

With the acquisition of Zonar, our ecosystem has grown by another 600,000 vehicles in the U.S.A. This includes school buses as well as the transportation of hazardous goods. For example, parents can use our services to track whether their children have arrived safely at school on the bus.

Increasing digitalization allows for completely new mobility services. This includes keyless access systems for rental vehicles.

A new multi-billion market is emerging that we are tapping systematically with our Intelligent Transportation Systems business unit in Silicon Valley.

It is clear that we still earn most of our money with tangible products. However, we will increasingly earn it with helpful intangible functions.

By 2020, we will generate sales of more than €50 billion with our successful business with tires, industrial products, and automotive electronics.

In the meantime, this will increasingly be supplemented by income from services.

We once grew with horsepower. Now we are growing with billions of bit and bytes.

Continental is a mobility company that is currently transforming into one of the leading technology and service companies.

We are looking forward to this – just as we now look forward to taking your questions.