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Winning the Transformation with a Focus on Growth and Value

Speech by Chairman of the Executive Board
Nikolai Setzer,
Continental Aktiengesellschaft, Hanover
at the
Annual Shareholders' Meeting for Fiscal 2020
on April 29, 2021, in Hanover



Ladies and gentlemen,

This is the future. And it is already here today. At Continental!

Communicating intuitively with a machine. This was once a dream. Then an idea. Today it is reality. You, too, will soon be able to experience this reality. As standard. In your new vehicle.

Here you see our **3D car cockpit**.



It can be used to conveniently perform all driving commands. No typing. No clicking. All you have to do is speak. Or touch.

You drive using simple gestures.

And you are even safer and even more relaxed. The cockpit shows an innovative panorama, which you and all the passengers experience. In 3D. Clearly. And in real time. In daylight and at night. Everything is automatically in front of your eyes. Even when you look to the side.

Nano structures make this possible. They bend light, thus creating holograms, which are 1,000 times thinner than a human hair. An invisible contribution to a visible new driving experience.

With this technology, we are heading into a new era. That's nothing new for us. After all, **we have been shaping transformation for 150 years**. Back then, we started out making parts from soft rubber, such as cushioning for horses' hooves. This was followed by hard rubber components. Then came our breakthrough with tires for bicycles, and later for cars as well. And today? We are one of the world's key suppliers for mobility. For the car and transport.

Shaping the transformation has made us strong. And it is making us strong now. Continental used to provide components. Now our business is the mobility of people. Mobility that is safe. Clean. That fits our modern lifestyle. That means it meets specific needs. It is intelligent. And connected. And everyone enjoys it. **That's what makes our heart beat**. As it has done for 150 years!

As well as drawing on our traditional strengths, we have also set ourselves new priorities: We are digitalizing. We are using sensors. We are developing our own software. The response from the market has been good, so we feel that we have what it takes to succeed in this new era.

Ladies and gentlemen,

Good morning,

and welcome to the virtual 2021 Annual Shareholders' Meeting!

Today marks the second time we will be using this format. A year ago, we still thought it would be an exception and that we would be able to meet in person again this year. But unfortunately this is not yet the case. So thank you for participating today online.

In the next 30 minutes, I will give you an overview of

- Where we stand.
- What our plan is.
- Where we have made progress. What we have achieved.
- And how we will proceed.



2020

Anything but easy.

2020 was not easy for us. Worldwide, 16 percent fewer vehicles rolled off the assembly lines than in 2019. This had a noticeable impact. On us as well.

We responded quickly by:

- Adjusting our costs.
- Concentrating on growth and value.
- And repositioning ourselves.

And then there was the change in management in the fall that presented us with an additional challenge. After more than eleven years at the helm, our CEO **Dr. Elmar Degenhart** stepped down from his position due to health reasons. This came as a surprise.

He helped significantly increase Continental's value. Under his guidance, we returned to the German DAX 30 performance index. He renewed the foundation of our culture of values, making us successful and fit for the future.

Elmar Degenhart and I enjoyed a close working relationship the whole time, and I hold him in the highest esteem. He is a role model both as a leader and as a person, and he always encouraged me and others. I thank him for the trust he placed in me. We all greatly regret his resignation. We wish him a full recovery. On behalf of everyone here, I thank him for his outstanding achievements. Most importantly, dear Elmar, all the best!



Our spirit of For One Another is stronger than the pandemic!

The importance of values can be seen every day. Especially during a pandemic. Our employees fully identify with them. Nearly 90 percent say that they fully support the values of Continental.

That is why our employees are considerate of each other. And we are looking out for them with a comprehensive plan. From the very start. At all locations worldwide. There is no elevated risk of coronavirus infection anywhere. We are testing, and we are vaccinating! In Romania. In Lithuania. And in the US. We are cooperating closely with the authorities there. Together, we have set up vaccination centers. Our company doctors in Germany are ready as well. They will get started as soon as they are permitted.

All our employees are doing their part. They are protecting themselves and each other.

Some have manufactured protective equipment themselves.

Many have given up some of their salary in 2020.

And many continue to work in crisis teams. Day and night. On weekends and public holidays.

In the meantime, **80,000 of our staff are working remotely**, which is almost 90 percent of all employees who use PCs.

That's how we are doing it all around the world.

This is the true embodiment of our spirit of For One Another. It is stronger than the pandemic.

And so today I say from the bottom of my heart: thank you! On behalf of the entire Executive Board, thank you to all of our more than 235,000 employees worldwide!



Where we stand: we performed well operationally in 2020!

Of course, we, too, suffered from the crisis in 2020. Nonetheless, the commitment and hard work of our employees worldwide deserve praise, because there was at least some good news in 2020.

- › Our **costs were lower** – much lower even than we anticipated.
- › Our **free cashflow was higher** than in 2019. The fact that this was achieved organically is all the more impressive.
- › The same applies to our **total equity and our cashflow**, which both remain very solid.
- › Our **net-indebtedness** is virtually unchanged.
- › And our **debt-to-equity ratio** is sound.
- › All of that is a **firm basis** to build on.



The **Tires and ContiTech** business areas were once again among our main sources of earnings. Although we sold fewer tires overall in 2020, all-season and two-wheel tires performed better year-on-year. Sales volumes in China increased. We are growing there.

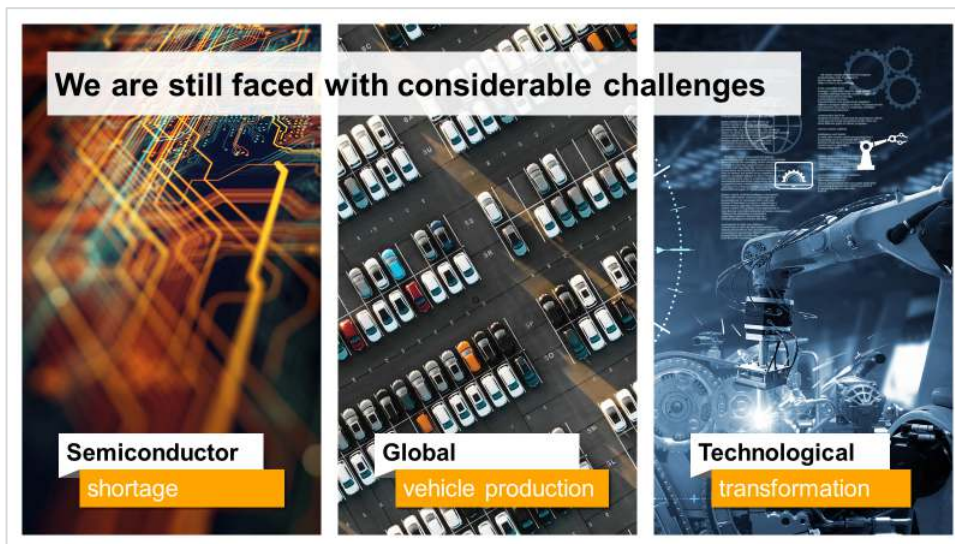
A key stimulus from China was also recorded at ContiTech.

Both businesses make up our Rubber Technologies group sector, which on balance was almost as successful as in 2019. An impressive achievement. After all, a winner delivers good results even under adverse circumstances.

As the **Continental Group**, we racked up some achievements. And in the end, we achieved more than we thought we would in the spring. Measured against the circumstances, we performed well, especially in operational terms.

Our **sales** decreased by 12.7 percent in organic terms. But we outperformed the market.

The **adjusted operating result** amounted to €1.3 billion. **Unadjusted**, it was just minus €718 million.



Our **net income** was negative at minus €962 million. The **dividend** is linked to this. That has been our policy for many years. We are therefore recommending that no dividend be paid for 2020.

That has another advantage. It is a precautionary measure for us, given that we are still faced with considerable challenges.

- For one, **global supply chains** continue to break down. Above all, we cannot get enough semiconductors as a consequence of the pandemic. This is slowing down many industries at present.
- Second, **global vehicle production** is only gradually getting back on track. The forecasts provided by market institutes are clear: not until 2025 at the earliest do they expect a return to the levels of 2017.
- And third, the unprecedented **technological transformation**, which we will be dealing with for a long time to come. You all know the key words here. Digitalizing systems. Interconnecting systems. Expanding mobility with more assisted and automated functions. Adding more and more autonomous functions. And using all of that to intelligently control the flow of traffic.
- In addition, we are enhancing **our efficiency** with the help of Industry 4.0. This enables us to grow faster and faster and reduce our costs.

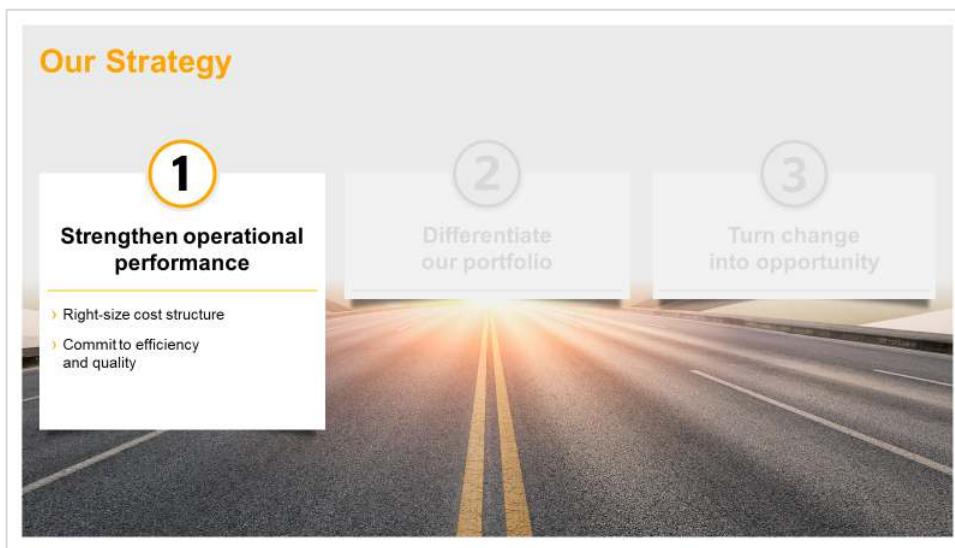
Navigating our way through the crisis.

Responding to the market.

Shaping transformation.

These are three major tasks that, however, also offer major opportunities for us.

And we are seizing them. We have realigned our strategy to this end. Three points here are important.



The first is the most urgent one. Clearly, it is our **operational performance**, which is the basis for every kind of success. We are constantly increasing it further. This is the only way we can remain competitive.

We are working harder on this in all areas: We are cutting costs. We are speeding up processes. We are streamlining our structure. We are enhancing quality and promoting new, more effective forms of collaboration.

Where necessary, we are scaling back or ceasing production, for instance, wherever digital transformation is replacing long established technologies. This is the case with analog instruments.

Or we are removing capacity from the market when it is obviously excessive in the long term, which is the case with passenger and light truck tires in Europe.

Or where we can no longer keep up with the competition permanently because our cost structure is not competitive, for instance.



We are tackling all of this, as we continue with our **“Transformation 2019–2029” program.**

Here, we will change more than 30,000 jobs. By this we mean modify them, relocate them, or reduce them in number.

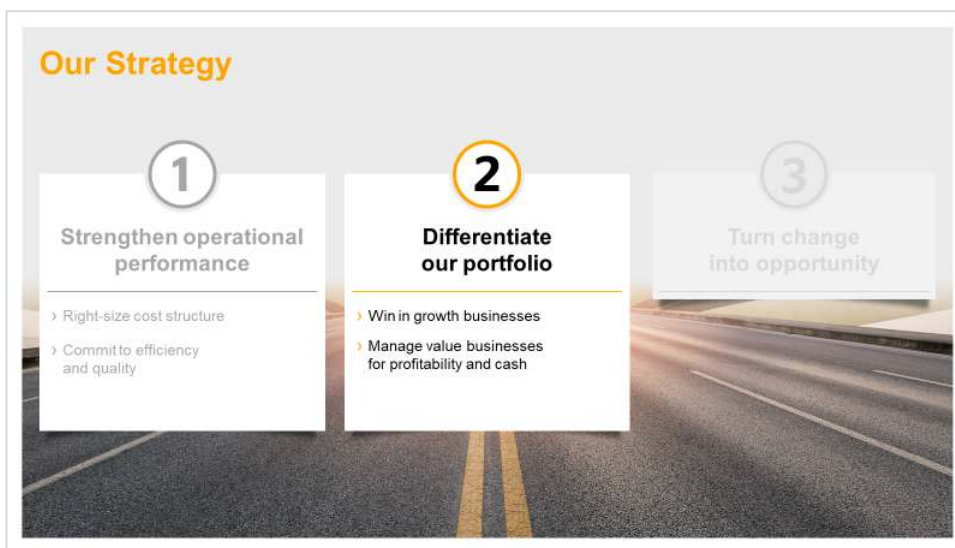
This process is sometimes painful, and it is something we are discussing with employees at present. Because no matter what we change, we do so in as socially acceptable a manner as possible.

It goes without saying that we take a very close look at each decision. I have been working for this company for almost 25 years. Above all, with the main goal of ensuring our organization is fit for the future. For me, one thing is clear. The more resolutely we do what needs to be done now, the more we ensure our success in the future. And, accordingly, the safer future jobs are.

We are well on track with our program:

- › We have changed about 6,000 jobs so far.
- › About 1,500 employees have been placed in new jobs just within the company.
- › At the same time, we are continuing with our training initiative. Some 1,000 employees are already taking advantage of these opportunities, thus creating new, long-term prospects for themselves.
- › We are also working together with numerous local authorities when it comes to the re-use of locations.

Our aim remains the same: to save more than €1 billion in gross terms from 2023. Per year. That comes to €850 million at Continental excluding Vitesco Technologies.

**Two strategies for our portfolio: growth and value**

The second point of our strategy concerns our **portfolio**. We have reclassified it, dividing it into business that focuses on “growth,” and business that concentrates primarily on “value.”

In the **growth-based areas**, we set ourselves apart with innovative technologies. Our goal here is to outperform the market.

Take, for example, our high-performance computers in the car. They are its heart. We have already received a lot of orders for them, bringing in more than €4 billion in sales.

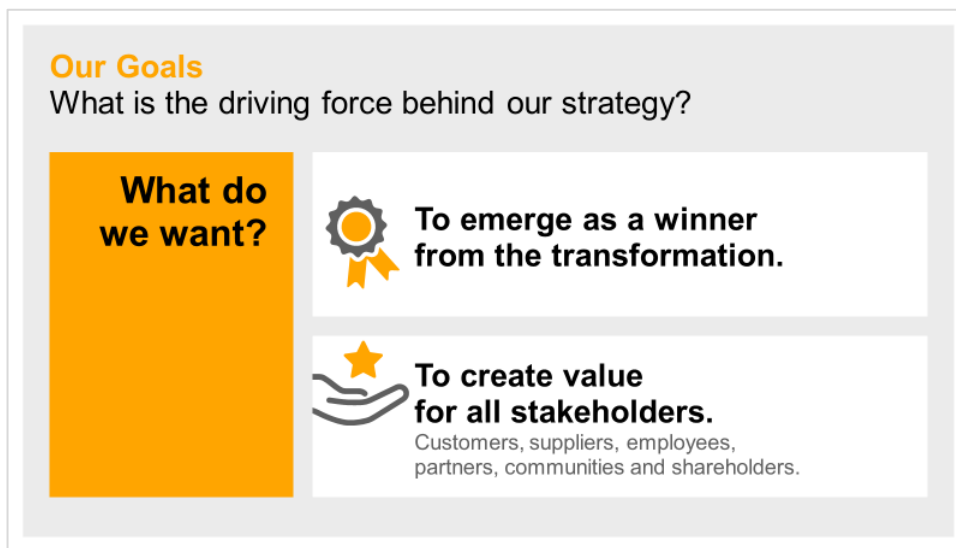
Other examples of growth relate to assisted driving. It is continuing to develop further. It is becoming automated. And later it will become autonomous. We're growing right along with it. A third example for growth is intelligent and connected mobility.

But there is growth with tires as well, such as in the vehicle fleet segment. Here, we monitor the tires' pressure and temperature. And their tread depth. All measured with meticulous precision. And in real time. For this we use sensors, which we connect to our data centers. In this way, we are making tires more intelligent. And we are making driving safer and more economical.

But growth also exists in certain markets, such as in China. Even in 2020, we sold more tires there than we did in 2019.

The other part of our portfolio will **focus on value**, above all in saturated markets where growth is limited. But we have a strong position there. Profits flow continuously and quickly thanks to our leading position in many product groups. Such as with technologies for driving safety. These include brakes, as well as display and control elements. And also the tire business in Europe. We are focusing on value when it comes to all of these business areas.

Focus on "growth" in some areas. Focus on "value" in others. Two different methods for different markets. But both create value. The difference is their time horizon. And also the technologies. As well as the processes.



Creating value with “growth” means creating more value with new technologies in the medium and long term.

Creating value with “value” means generating profit with tried-and-tested technologies in the long term.

The two approaches are equally important for us. Because we know that, by utilizing our high-margin business of today, we will tap into the high-margin business of tomorrow.

In this way, we will emerge as a winner from the transformation!

And this is the way to **create maximum value**. For the market. For you! For our workforce. And for all of our stakeholders.



Vitesco Technologies is ready for launch

Profitability is also important when it comes to Vitesco Technologies, our powertrain business. Its future is on the agenda today. I'll go into the details later on.

I ask you: Agree to our plan today! The business will then be launched as an independent company this year. With a solid capital structure and suitable equity.

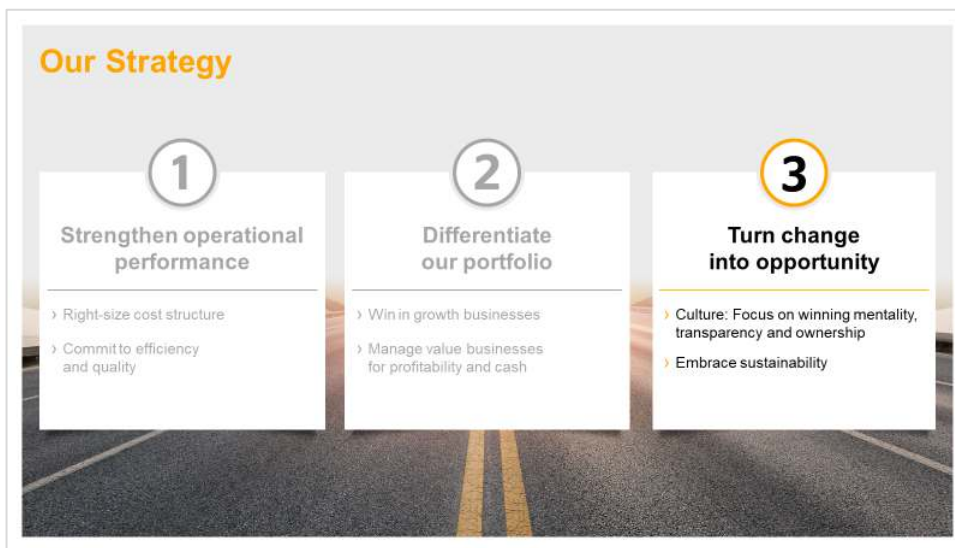
In this way, we are **turning one champion into two** – each strong in its own area. Both companies will be able to achieve their full potential.

We are certain that our powertrain business has what it takes to make it on a market that is growing strongly and currently repositioning itself.



Electric mobility is also the future of Continental. Because e-vehicles have a lot of Continental on board, in addition to the drive system. Take for example the new ID.4 model from **Volkswagen**. We are contributing its heart and brain, as we did for its predecessor, the ID.3. And also its eyes and ears, and a few other things as well. We are thus also making electric driving intuitive, comfortable, convenient and safe.

We are increasing our **share of value** in the vehicle with such contributions.



Values create value: our culture makes the difference

The third pillar of our strategy concerns our culture. As we all know, processes are important for success. As is the portfolio as well as technical progress. But all three do not shape the future. Only people do.

The third point of our strategy is therefore about boldly seizing new opportunities.

And the key to this is our culture: whatever comes our way and whatever the circumstances are, we are focused on winning. And that is why we follow our values. Here, the following points are essential: We take ownership of tasks.

- › Responsibility spurs us on. That means we also consider the consequences of our actions on everyone. That is why we work for one another and not just with one another, worldwide throughout the entire organization.
- › We make processes easier to understand so we can act more quickly.
- › We act in an open manner. We foster transparency and trust one another.

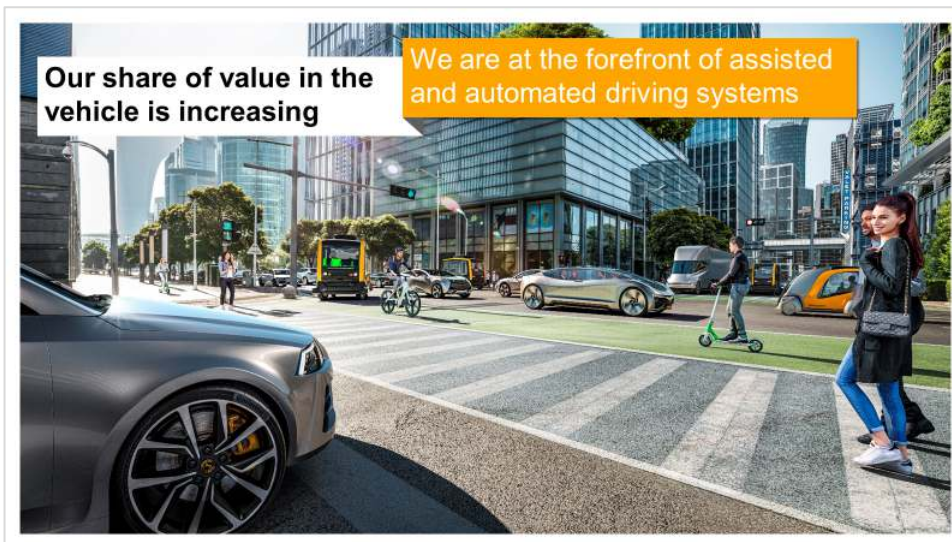
All of this is critical to our success. And we promote all of this systematically. For example, with our **new incentive systems**. In this way, we will continue on our path toward success. And toward sustainability. Here, we are systematic and pioneering. In terms of what we produce. But also how we produce.



- From as early as 2022, for example, we will make our global business for emission-free vehicles **completely carbon-neutral**. That is the plan. At the same time, we will improve our carbon footprint. We are already carbon-neutral when it comes to electricity. Since 2020, all of our plants worldwide have been using green power, which will save more than two million metric tons of CO₂ every year. By doing so, we are improving our climate footprint.
- For 2040, we are aiming for **zero carbon in all our plants**.
- And finally, by 2050 at the latest, we plan to be carbon-neutral across our entire business. In other words, from one end of the value chain to the other. And then comes the big goal: **"100 percent carbon neutrality."** We are targeting 2050 for this at the latest.

In addition, we are looking at our technologies for driving and transport, with which we make free and personal mobility sustainable. Which means clean and safe. That is why we are connecting it intelligently. And making it comfortable, convenient and affordable. After all, technology is effective **only if it is accepted**. And that is the case if it is **enjoyable**. And when it is **affordable**. Technology is sustainable only then. That's what makes our heart beat.

This is what we mean when we say want to "shape the future."



Where we are making progress: a living reality

We are leading the way with many functions.

Think back to 1999, for example, and the world premiere in the Mercedes S-Class: adaptive cruise control that maintains a safe distance to the vehicle ahead. We were instrumental in this. The doors could also be opened and closed without a key. That was another one of our systems. Since then, we have been at the forefront of assisted and automated driving systems, for which we have landed numerous orders.

From 2018 to 2020 alone, the **orders** have totaled more than €9 billion.

That is a lot. And it is only set to increase. Because the market is growing. It will more than double in the next three years. And we will grow with it. Because more automation in the car means more opportunities for us **to increase our share of the value in the car.**

How will we achieve this? Among other things, by working with start-ups, which make us faster and strengthens our position. And we demonstrate that we are a top supplier when it comes to complex systems. We are already working with **NVIDIA** and **AEye**. As well as with **EasyMile** and **AAI**. And with **Cartica AI** and the “**here**” map service.

They are all pioneers. Just like us. Each is at the forefront of their respective fields.

We also recently acquired a stake in **Recogni**, a US company specialized in chip design. Its processors serve as a kind of data booster that consume very little power. And yet they enhance the already high performance of our computers in the car, where they analyze data quickly and precisely. In this way, we make automated and autonomous driving even safer, cleaner, easier and more comfortable.

That is why we are stepping-up our **investment** by €200 million to €250 million in this year alone. Exclusively for assisted and automated driving.

Six weeks ago, we also announced that “Autonomous Mobility” will become a business area in its own right. This shows that we are serious. We are striving to become the global leader when it comes to technology!



Already today,

- We have 20,000 IT specialists working for us.
- They write more than 250 software programs. Each week!
- We also have our own software academy.
- One billion vehicles are already equipped with functions we have programmed. Including everything that people expect from computers in the car. And, in addition, a lot of other things that they find useful. As well as things that let them enjoy driving.

It's nice if you enjoy driving. But it's essential that you are safe when driving. Driving economically is good for the environment and saves you money. But all of that ends up generating a **huge amount of data**. 20 terabytes. That is the same as about 5,000 movies. A second!

We see to it that such amounts of data flow in real time. This gives us a competitive advantage. That's why we are now collaborating closely with **Amazon**. Together, we are speeding up communication: from the car as well as into the car.



We are using artificial intelligence here. Such as in our new **supercomputer** in Frankfurt, which is making assistance systems fit for practical use. No other computer in the world does it faster. What used to take weeks can now be done in hours. And because we are increasing the level of simulation, we are able to refine our test drives on the road.

We are also at the forefront when it comes to new safety systems. For example, we now offer an electronic assistant that uses radar and scopes out the surroundings of the vehicle. This helps truck drivers when turning and protects cyclists and pedestrians.



Tires, too, are becoming increasingly intelligent. Our sensors seamlessly monitor their condition.

We connect them with the cloud. And use telemetric data and algorithms, all of which make driving and traffic safer. This is the case at SHARE NOW. The company rents cars. And it has already been relying on our new technology for some time now.

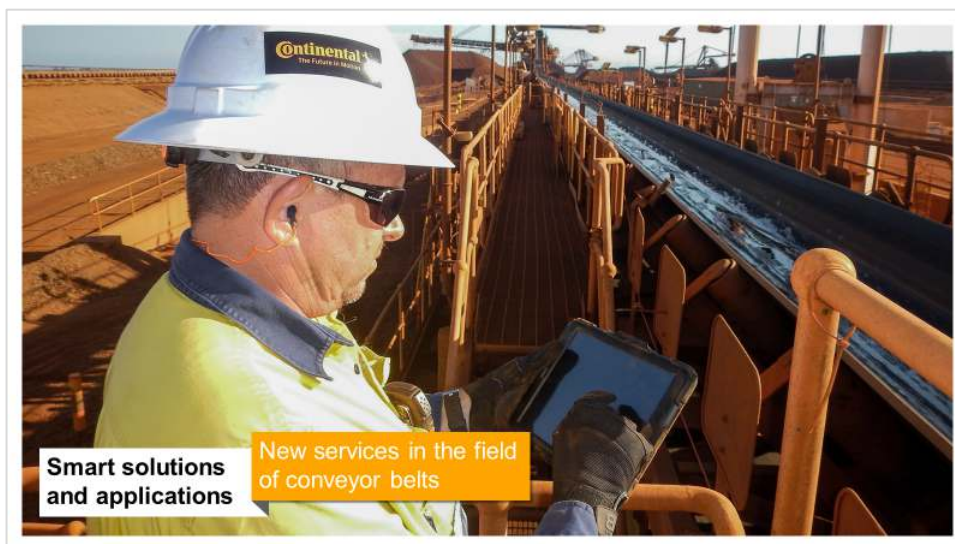


We are also looking forward to further progress this year. With tires. And with assisted and automated driving.

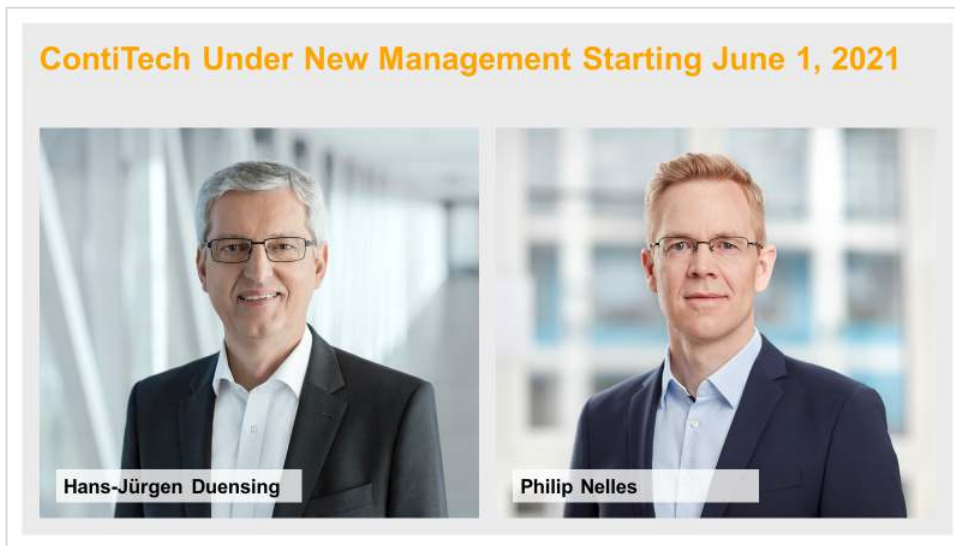
As well as with

- brake systems.
- In 5G.
- In ultra-broadband.
- In the new, intelligent materials.
- And in the exchange between humans and machines.

In these and other areas, we are already close to starting production.



In ContiTech, we will achieve growth primarily with new, digital technologies. We use them to monitor conveyor belts. We also do this remotely with the help of drones, for example. The data is processed with artificial intelligence. In this way, we detect the condition of the belts with great precision. We can thus predict when there will be wear and tear. This allows our customers to better plan maintenance and repairs, saving them time and money.



As you can see, ContiTech is breaking new ground. Since 2015, the man responsible for its progress has been **Hans-Jürgen Duensing**, member of the Executive Board.

Under his leadership, we have successfully integrated newly acquired companies into ContiTech. He has accelerated the transformation of this business area. He expanded it, increasing its growth and making it more profitable. In our quest to emerge as winners from the transformation, Hans-Jürgen Duensing has played a major role.

In four weeks, he will step down from the Executive Board at his own request to focus more on his personal life. On behalf of the entire Executive Board, I thank him for his successful work and wish him the very best for the future! And I am looking forward to working with his successor, **Philip Nelles**. Dear Philip, welcome! And the best of success!



Outlook for 2021: we are picking up speed

Ladies and gentlemen,

I've shown you a lot of new things today, and none of them are futuristic visions. No, they are all actual examples from the present. From our daily business.

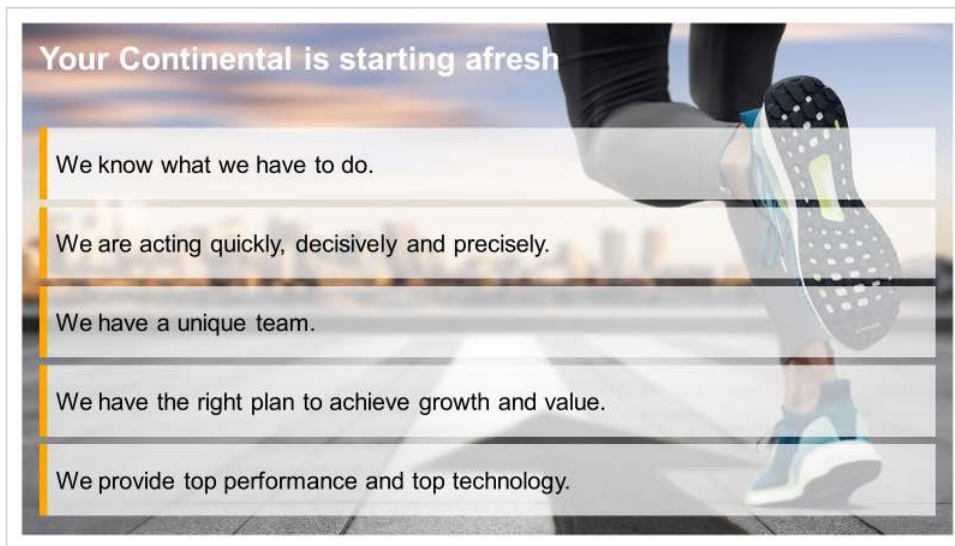
As the **fourth quarter** showed, things are looking up! Progress may be slow this year as we continue to deal with the uncertainty of the coronavirus pandemic.

But demand in 2021 is recovering. And we are too. Our **sales** will increase. In 2021, we expect €40.5 billion to €42.5 billion and an **adjusted profit margin** of between 5 and 6 percent, before interest and taxes. All of these figures still include our powertrain business.

We are aiming for stronger organic growth in **sales** by increasing it in the **medium term** by around 5 to 8 percent organically per year on average.

The same goes for our **adjusted profit margin** before interest and taxes. Here, our goal is somewhere between 8 and 11 percent per year.

And for our **return on capital employed** we expect 15 to 20 percent.



Ladies and gentlemen,

Your Continental is starting afresh. In other words:

- We know what we have to do. Especially under the current circumstances.
- We are acting quickly, decisively and precisely.
- We have a unique team that is focused on success.
- We have the right plan to achieve growth and value.
- We provide top performance and top technology.

We will strive for free, individual mobility. A mobility that brings joy to all because it is safe and clean, more comfortable and convenient, intelligent and interconnected.

This is how we generate growing value.

And it is how we will emerge from the crisis as a winner.

Thank you for your trust!

And thank you for supporting us in our work!