Annual Report 2008

Continental

# We.

Annual Report 2008

# Continental Corporation

| in € millions | 2008 | 2007 | Δ in % |
|---|---|---|---|
| Sales | 24,238.7 | 16,619.4 | 45.8 |
| EBITDA | 2,771.4 | 2,490.6 | 11.3 |
| in % of sales | 11.4 | 15.0 | |
| EBIT before amortization of intangible assets from PPA | 210.0 | 1,737.2 | -87.9 |
| in % of sales | 0.9 | 10.5 | |
| EBIT | -296.2 | 1,675.8 | -117.7 |
| in % of sales | -1.2 | 10.1 | |
| Net income attributable to the shareholders of the parent | -1,123.5 | 1,020.6 | -210.1 |
| Earnings per share (in €) | -6.84 | 6.79 | |
| | | | |
| EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) | 320.3 | 1,737.2 | -81.6 |
| in % of sales | 1.3 | 10.5 | |
| Adjusted[1] EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) | 1,837.3 | 1,841.5 | -0.2 |
| in % of sales | 7.6 | 11.1 | |
| Free cash flow | 628.5 | -10,625.6 | 105.9 |
| Net indebtedness | 10,483.5 | 10,856.4 | -3.4 |
| Gearing ratio in % | 189.6 | 158.3 | |
| Total equity | 5,529.9 | 6,856.1 | -19.3 |
| Equity ratio in % | 22.4 | 24.7 | |
| Number of employees at the end of the year[2] | 139,155 | 151,654 | -8.2 |
| Dividend in € | — | 2.00 | |
| Share price (high) in € | 86.62 | 109.07 | |
| Share price (low) in € | 27.00 | 84.19 | |

[1] Before special effects.

[2] Excluding trainees.

# Continental's Core Business Areas

## Automotive Group

| in € millions | 2008 | 2007 | Δ in % |
|---|---|---|---|
| Sales | 14,900.0 | 7,295.9 | 104.2 |
| EBITDA | 1,428.8 | 903.7 | 58.1 |
| in % of sales | 9.6 | 12.4 | |
| EBIT | -1,205.8 | 504.3 | -339.1 |
| in % of sales | - 8.1 | 6.9 | |
| Adjusted[1] EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) | 908.9 | 654.5 | 38.9 |
| in % of sales | 6.1 | 9.0 | |

[1] Before special effects.

## Rubber Group

| in € millions | 2008 | 2007 | Δ in % |
|---|---|---|---|
| Sales | 9,353.9 | 9,337.0 | 0.2 |
| EBITDA | 1,415.9 | 1,638.4 | -13.6 |
| in % of sales | 15.1 | 17.5 | |
| EBIT | 984.9 | 1,225.6 | -19.6 |
| in % of sales | 10.5 | 13.1 | |
| Adjusted[1] sales | 9,058.7 | 9,252.8 | -2.1 |
| Adjusted[2] EBIT | 1,008.8 | 1,233.4 | -18.2 |
| in % of sales | 11.1 | 13.3 | |

[1] Before changes in the scope of consolidation.

[2] Before changes in the scope of consolidation and special effects.

We – the people at Continental. We describes the team spirit that evolves while mutually focusing on one goal. We stands for a culture that fosters creativity and welcomes openness. We refers to a climate that promotes flexibility and generates enthusiasm. We stands for the commitment of the employees. We are Continental.

It was “their” production line from the very beginning. The machine operators were involved in installing and setting up the new MKxxE/A production line. From the start, they got to know everything about the machines used in the Frankfurt plant to produce electronic brake systems. Today, they see to it that the production process runs smoothly and that the line is kept in shape. Every employee who was there at the start later took on the sponsorship for a new team member, showing them the ropes and sharing their knowledge and experience of this production line. Benjamin Heyne, Seyran Agbulut, Hicham Badran, Florian Prager and Tuncay Bayrak belong to a 24-member group of system operators who will soon be mentoring further colleagues in their training phase.

That’s team spirit.

# Team Spirit

Theodor Kett finds it a bit exaggerated when some of his colleagues refer to him as a perfectionist, because as he sees it, nothing is really perfect. There is always room for improvement. And Theodor Kett should know, as he submitted more than 70 improvement suggestions as part of the Continental Ideas Management program. Of those 70 suggestions, 59 were awarded premiums and implemented in the production in Regensburg. He loves his profession as a technician, and he appreciates the freedom given to him by his employer Continental so that he can let his full creativity unfold. You can't get good ideas out of a catalogue. You have to be open to them at just the right moment.

That's creativity.

Creativity

# Openness

At Continental, there is a lot to talk about every day: ranging from day-to-day events to business policy and product innovations. Here, the company attaches great importance to a culture of open dialogue and information sharing, which evolves from speedy, honest and direct communication through all levels of hierarchy. For Matthias Schönberg (2nd from left) and his co-workers in Charlotte, North Carolina, U.S.A., (left to right: Travis Roffler, Joe Maher and John Barnes), such communication is normal. It is founded on mutual respect between management and employees – who are, after all, a company's most valuable asset.

That's openness.

# Flexibility

Catherine Chatellard was born in France and spent a few years in America while going to school and studying. She then found employment in Belgium for five years. Since 2002 she has been working in Spain, where she is assigned to replacement sales for automotive drive systems. Half of the time she is at the office, the other half on the road calling on customers in Spain and Portugal. Staff members like Catherine Chatellard take it fully in stride that the requirements they face change from day to day. In the process they profit all the time from new encounters and new experiences – and the company benefits from their drive and commitment.

That's flexibility.

Nuno Teodoro from Portugal, Mareile Noga from Germany, Alexis Keathley from the U.S.A., Danqing Huang from China, Andres Guerrero from Portugal, and Kumar Krishnamurthy from India are filled with enthusiasm, even if so much is new for them. As participants in Continental's eXplore Trainee Program, the young talented engineers work together on projects that involve intercultural tasks, in addition to budgeting and technical implementation. This means that all participants have to rely on their colleagues' strengths, take on responsibility for themselves and others, and face new challenges on an ongoing basis. And they master this with unconventional ideas, often displaying previously undiscovered abilities along the way.

That's enthusiasm.

Enthusiasm

# Commitment

Miguel Velasco-Antillon, Sergio Cervera-Mireles and Pedro Avalos-Esparza, members of a team from Mexico, have every reason in the world to celebrate. They have just been singled out for the Continental BASICS Award 2008. This prize is conferred annually on individual employees or teams that get exemplary initiatives going and display exceptional commitment. This particular team implemented recycling processes for various types of scrap at the Guadalajara plant, yielding around $ 120,000. The money will be plowed back into various projects, from support for a primary school in a disadvantaged area and a health care campaign to the planting of 6,000 trees within the city limits.

That's commitment.

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# Dear Shareholders,

2008 was a year of extraordinary and far-reaching changes for our company. Let us have a look back: In starting off the first year of the "new" Continental, we were filled with energy, concentrating most of our efforts on the challenges presented by the Siemens VDO acquisition. We finished off the year with just as much energy – but much differently than expected. Instead of being in a position to concentrate on the VDO integration and the restructuring of the Powertrain division backed by growing markets, in the second half of 2008 we suddenly had to get the company ready to weather the automotive industry's worst crisis in decades.

We managed the first steps well, thanks to the enormous commitment of Continental's approximately 140,000 employees worldwide. Together, we set in motion the greatest cost-containment program in the history of the company, involving tangible and painful cuts in all areas. We are aware that we have just won the first round, however, and that we have lots of hard work ahead before we achieve our goal of new, sustainable and substantial cash flow to reduce our high debt.

But the second half of the year brought with it not only the economic downturn, which could not be foreseen in its severity, but, with the takeover offer from the Schaeffler Group, there was another entirely new task to be faced: Ensuring the interests of all stakeholders, including those of the existing shareholders, while at the same time creating a basis for constructive, future-oriented and value-generating cooperation with the new major shareholder. We are convinced that, with the investment agreement concluded with the Schaeffler Group, we have a strong basis for this task.

Unfortunately, the entire process ran neither smoothly nor quietly. You undoubtedly kept up on all the media reports and commentaries.

At the time this Annual Report – and thus this letter – went to print, it was still unclear in just what constellation Continental AG and the Schaeffler Group would cooperate in the future. But we do have one common goal: We want to create a new global champion in the automotive supplier business, with a home base in Germany. One thing is certain, regardless of the details: No matter what the solution is in the end, it must and will be in the interests of Continental AG and all its stakeholders – my colleagues on the Executive Board and I have seen to that, and will do so in the future as well.

But if we summarize the results of all the challenges in fiscal 2008 – those expected as well as those entirely unforeseen – one thing is clear: Continental indeed did very well, also in comparison to the competition. Please bear in mind that, owing to the many extraordinary events and the dramatic economic downturn, raw material prices hit unprecedented levels halfway through 2008, massively impacting corporate earnings. All the more noteworthy was the efficiency and performance of the entire Continental team, whom I wish to thank most sincerely.

I also extend my thanks to my Executive Board colleagues, who have been and are reliable partners, even before I was elected as Executive Board chairman. With our long-standing chairman Manfred Wennemer as well as the long-standing CFO Dr. Alan Hippe, who supported me greatly during his six months as vice chairman of the Executive Board after I took on the position of chairman on September 1, 2008, two outstanding managers and executive personalities have bid farewell to Continental. I would also like to extend my thanks to Gerhard Lerch and William L. Kozyra. The company and its stakeholders have much to thank them all for. And with these changes, we have also entered a new era in the leadership of the company: Continental will undergo substantial change. This will entail major challenges which we want to master, but it will also present major opportunities that we will seize. Continue to support us with your trust – as shareholders or also as potential investors.

Sincerely,

Dr. Karl-Thomas Neumann
Chairman of the Executive Board

**Dr. Alan Hippe**
Vice Chairman of the Executive Board
Finance, Controlling, IT and Law
Head of the Rubber Group
Passenger and Light Truck Tires Division
(until February 28, 2009)

**Dr. Karl-Thomas Neumann**
Chairman of the Executive Board
Head of the Automotive Group
Chassis & Safety, Powertrain, and Interior Divisions
Corporate Communications

**Heinz-Gerhard Wente**
ContiTech Division
Human Resources, Director of Labor Relations

**Dr. Hans-Joachim Nikolin**
Passenger and Light Truck Tires (since March 1, 2009)
and Commercial Vehicle Tires Divisions
Purchasing, Quality and Environment

# Members of the Executive Board

**Dr. Karl-Thomas Neumann**
born in 1961 in Twistringen, Lower Saxony, Germany
Chairman of the Executive Board
Head of the Automotive Group
Chassis & Safety, Powertrain, and Interior Divisions
Corporate Communications
appointed until September 2014

**Dr. Hans-Joachim Nikolin**
born in 1956 in Eschweiler, North Rhine-Westphalia, Germany
Passenger and Light Truck Tires and Commercial Vehicle Tires Divisions
Purchasing, Quality and Environment
appointed until May 2014

**Heinz-Gerhard Wente**
born in 1951 in Nettelrede, Lower Saxony, Germany
ContiTech Division
Human Resources, Director of Labor Relations
appointed until May 2012

**Dr. Alan Hippe**
born in 1967 in Darmstadt, Hesse, Germany
Vice Chairman of the Executive Board
Finance, Controlling, IT and Law
Head of the Rubber Group
Passenger and Light Truck Tires Division
(until February 28, 2009)

**Manfred Wennemer**
born in 1947 in Ottmarsbocholt, North Rhine-Westphalia, Germany
Chairman of the Executive Board
Passenger and Light Truck Tires Division, and Interior Division
(until August 31, 2008)

**Gerhard Lerch**
born in 1943 in Enkengrün, Bavaria, Germany
ContiTech Division
(until September 29, 2008)

**William L. Kozyra**
born in 1957 in Detroit, Michigan, U.S.A.
Deputy Member of the Executive Board
NAFTA Region
(until June 1, 2008)

# The Continental Share

## Public takeover offer for all outstanding Continental shares.

**Continental share listings**

Continental AG's shares are listed on the German stock exchanges in Frankfurt, Hanover, Hamburg, and Stuttgart. In the U.S.A. they are traded as part of an American Depositary Receipt program on the Over-the-Counter market. They are not admitted for trading on a U.S. stock market.

The no-par value shares have a notional value of €2.56 per share.

**Continental share data**

| | |
|---|---|
| Type of share | No-par value share |
| German securities code number | 543900 |
| ISIN numbers | DE0005439004 and DE000A0LR860 |
| Reuters ticker symbol | CONG |
| Bloomberg ticker symbol | CON |
| Index membership | DAX 30 (until Dec. 21, 2008) MDAX (since Dec. 22, 2008) Prime All Share Prime Automobile |
| Number of outstanding shares as of December 31, 2008 | 169,005,983 |

**American Depositary Receipts 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 |

**Public takeover offer of the Schaeffler Group and investment agreement**

On July 15, 2008, Schaeffler KG announced a public takeover offer to all shareholders of Continental AG for a price of €70.12 per share, and published the offer document on July 30, 2008. On August 20, 2008, Continental AG entered into a far-reaching investment agreement with Schaeffler KG, Mrs. Maria-Elisabeth Schaeffler and Mr. Georg Schaeffler. The open-ended agreement, which cannot be terminated by the parties before spring 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. As provided for in the investment agreement, Schaeffler KG increased the offer price per Continental share from €70.12 to €75.00 on August 21, 2008. The shareholders had until September 16, 2008, to accept the revised offer. The key points of the investment agreement were presented to the capital market on August 27, 2008, and can be accessed online via Continental's homepage.

The takeover offer was accepted for more than 138.5 million Continental shares. For purposes of the takeover offer, Continental shares were traded under two additional security identification numbers, reflecting the point in time at which the shares were tendered:

**ISIN numbers**

| | |
|---|---|
| DE000AOWMHE4 | Tender within the offer period from July 30 – August 27, 2008 |
| DE000AOWMHF1 | Tender within the further offer period from September 3 – 16, 2008 |

On December 19, 2008, the European Commission gave its approval without restrictions for Schaeffler KG's acquisition of shares in Continental AG. Trading of the shares tendered for sale ended on January 2, 2009, and the takeover offer was completed on January 8. The investment agreement took full effect upon the offer's completion.

On January 24, Continental AG and the Schaeffler Group agreed on constructive cooperation based upon the investment agreement. Continental's Supervisory Board requested the company's Executive Board, under the leadership of Dr. Karl-Thomas Neumann, to develop concepts for cooperation between the automotive divi-

sions of both corporations. It is the mutual objective of Continental and Schaeffler to create a new global champion in the automotive supplier business, with a home base in Germany. At the same time, the Supervisory Board approvingly took note of the Executive Board's proposal to initiate the process to create an organizationally and legally independent Rubber Group (carve out).

**Development of the equity markets in the overall economic environment**

Stock markets worldwide were in a very poor condition in the year under review. This dramatic negative course of events was triggered by the crisis on the U.S. mortgage market, which expanded into a global financial crisis in the course of the year and ultimately took hold of business cycles as well.

At first, the financial crisis was kept under control by means of crisis management at the central banks and governments. Thus, for example, the stricken Anglo-Saxon Northern Rock bank was nationalized, the U.S. bank Bear Stearns was taken over by JP Morgan Chase with the help of the U.S. Federal Reserve, the U.S. insurer AIG received several multi-billion government cash loans, and the U.S. mortgage finance firms Freddie Mac and Fannie Mae were placed under conservatorship. In Germany, particularly the IKB Deutsche Industriebank and the mortgage financing firm Hypo Real Estate had to be supported by means of government interventions. Hypo Real Estate is even in danger of being nationalized.

Following the announcement of the U.S. bank Lehman Brothers insolvency on September 15, 2008, a dramatic intensification of the crisis occurred along with plunging stock prices on global stock markets. As a result of uncertainty regarding the extent of the financial crisis and the systemic risks associated with the Lehman bank insolvency, the interbank market came to a virtual standstill and fears arose that the financial market crisis would lead to a global recession. As barometers of the uncertainty, volatility indexes and the credit spreads shot to unprecedented levels. At the same time, the expectation components of significant sentiment indicators dropped to record lows within the shortest period. Central banks initially reacted with hefty liquidity-assistance measures and considerable key interest rate reductions. In addition, to a degree which previously had been unknown, governments initiated comprehensive rescue packages to recapitalize the banking sector as well as to lessen the loss in confidence at this time of crisis.

At the end of November 2008, record lows were posted by the DAX at 4,127.41 points, the Dow Jones EURO STOXX 50 at 2,165.91 points, and the Dow Jones Industrial Average at 7,552.29 points. Although this record low placed the DAX at the same share price level seen at the start of 2004, the Eurozone blue chip index even dropped to the level reached during the previous capital market crisis which was subsequent to the burst Internet bubble in February 2003. Thereafter, stabilization set in until the year's end, in the course of which the regional indexes achieved at least a 10% recovery from their record lows. Nonetheless, the share price declines were very considerable. The DAX closed at 4,810.20 points on December 31, 2008, which corresponds to a 40.4% year-on-year decline. Development of the Dow Jones EURO STOXX 50 was similar, which declined by 44.4% in the year under review. The leading U.S. Dow Jones Industrial Average index closed at 8,776.39 points on December 31, 2008. This represents a decrease of 33.8% for the year.

Already in the first half-year, automotive stocks were more heavily impacted than the regional leading indexes by declining sales figures particularly in the U.S.A. and by inflationary fears due to dramatically increased prices of raw materials and food. In July 2008, for example, the price for Brent crude oil reached its high at $145.7 per barrel. This drastic price increase for raw materials was halted by the substantially worsened economic prospects and the increasing fear of a worldwide recession due to the financial market crisis. For example, expectations of gross domestic product growth in the Eurozone in 2008 were revised considerably downward several times within the year by all reputable institutions. Following negative growth rates with respect to real gross domestic product in the second and third quarters of 2008, the Eurozone along with Germany are, by definition, in a recession.

During the rest of the year, although commodity prices dropped further in light of slackened economic growth, and the spot price for Brent crude oil was only $41.8 per barrel on December 31, 2008, the decline in new-vehicle registrations in Europe and the U.S.A. intensified enormously and gripped the newly industrializing countries in the fourth quarter as well. Therefore, in the second half-year alone there were production cuts in Europe and the U.S.A. amounting to more than 3 million vehicles, which led to numerous profit warnings, particularly among the automotive suppliers.

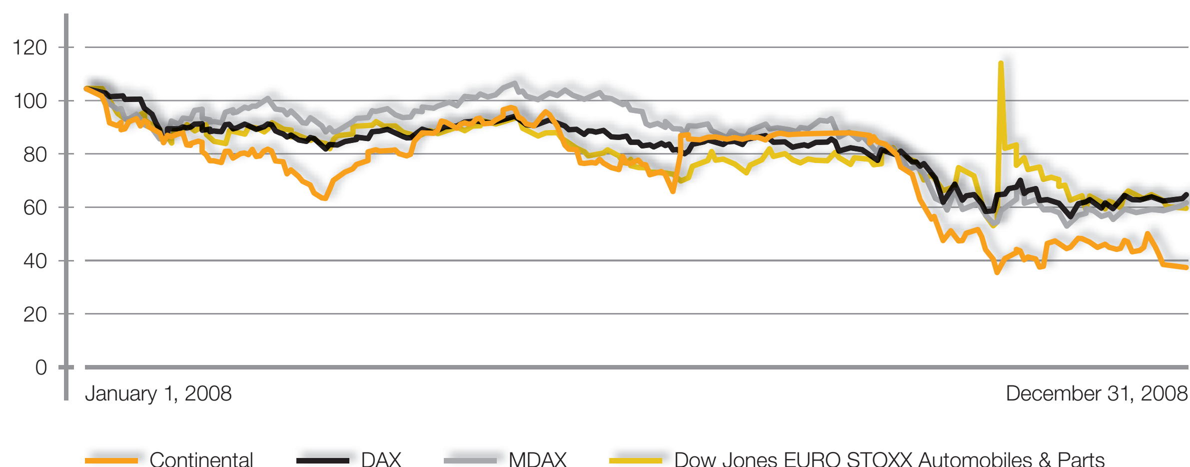
At the end of the year, the industrial index for the European automotive sector registered a 44.1% decline and was just 0.3 percentage points above the Dow Jones EURO STOXX 50 index. With an absolute share price development of 60.2%, the index heavyweight Volkswagen was, however, the only stock in the Dow Jones EURO STOXX Automobiles & Parts index to perform positively. All other securities posted large double-digit share price declines between 49% and 81% at the end of the reporting period.

**Continental shares with sharp price decline**

Continental share performance was dominated primarily by three factors in 2008: the automotive sector's downward trend, the substantial worsening of indebtedness figures following the acquisition of Siemens VDO Automotive AG, as well as the Schaeffler Group's public takeover offer. Continental's share price performance also exhibited a high degree of volatility. From the start of the year, Continental was increasingly the subject of takeover speculation. On July 15, 2008, Schaeffler KG announced its decision to make a public takeover offer to all shareholders of Continental AG. As a result of the increased bid price to €75.00 per share via parallel acquisition, the price fluctuated between €70.48 and €74.18 per share until expiration of the additional offer period on September 16, 2008. Following expiration of the additional offer period, the share price dropped and posted significant declines in the wake of the international financial crisis and rapidly worsened prospects for the automotive industry. Against this background, Continental had to revise its outlook downward for 2008 twice in the second half-year. In addition, the share price was negatively impacted by speculations regarding the conclusion of the takeover as well as fears regarding the debt incurred by the Schaeffler Group following payment of the offer price to the Continental shareholders. Under pressure from these speculations as well, the Continental share reached the year's low of €27.00 per share on October 28, 2008, at the level of October 2003. In line with the stabilization phase in the market, the Continental share also recovered slightly and closed at a price of €28.88 per share on December 31, 2008. This corresponds to a 67.5% decline for the year. Early in 2009, the share price was again impacted by speculations regarding an upcoming capital increase, the supposed necessity for federal assistance, and the further deterioration of the situation in the automotive industry.

On December 3, 2008, Deutsche Börse announced that, by means of the fast-exit rule, Continental AG would depart from the DAX index as of December 22, 2008, and be listed in the MDAX index as of the same point in time. The reason for this was the low market capitalization on the basis of Continental AG's free float. The decision was based on the assumption that slightly more than 10% of all Continental shares are available for trading following the completion of the Schaeffler Group's public takeover offer.

**Share price performance**



The free float market capitalization amounted to roughly €502.2 million on December 31, 2008. Thus, the Continental share ranked 26th among MDAX listings at the end of the year and occupied top ranking in terms of XETRA trading volume.

**Dividend suspended**

In 2008, the Continental Corporation generated an EBIT amounting to -€296.2 million. After deduction of taxes and interest, as well as minority interests, the net income attributable to shareholders of the parent totaled -€1,123.5 million, down more than €2 billion on the previous year. In its annual financial statements, Continental AG posted a loss of €339.7 million. The distribution of a dividend is thus out of the question.

At the same time, total shareholder return was -65.3% for fiscal year 2008 (2007: 3.3%).

**Convertible bonds**

In May 2004, the financing company Conti-Gummi Finance B.V. issued a €400 million convertible bond with a guarantee from Continental AG. In the year under review, over 90% of the bondholders exercised their conversion rights. Bonds in the principal amount of €356.7 million were converted into Continental AG shares. This resulted in 7,236,650 new shares. The remaining amount of the convertible bond was repaid early and in full by Continental on October 23, 2008.

| **Key figures per share in €** | **2008** | **2007** |
|---|---|---|
| Basic earnings | -6.84 | 6.79 |
| Diluted earnings | -6.84 | 6.52 |
| Free cash flow | 3.83* | -70.65 |
| Dividend | — | 2.00 |
| **Dividend payout ratio (%)** | **—** | **31.7** |
| Dividend yield (%) | — | 2.2 |
| Total equity (book value) | 33.68 | 45.59 |
| Share price at year-end | 28.88 | 88.99 |
| Average share price | 62.06 | 97.34 |
| Price-earnings ratio (P/E ratio) | — | 14.34 |
| High | 86.62 | 109.07 |
| Low | 27.00 | 84.19 |
| **Average trading volume (XETRA)** | **2,276,482** | **1,699,750** |
| Number of shares, average (in millions) | 164.2 | 150.4 |
| Number of shares as of December 31 (in millions) | 169.0 | 161.7 |

* Information about the free cash flow development can be found in the Earnings, Financial and Net Assets Position section.

| **Continental share price performance and indexes** | **Dec. 31, 2008** | **Dec. 31, 2007** | **Δ %** |
|---|---|---|---|
| Continental shares (in €) | 28.88 | 88.99 | -67.5 |
| DAX 30* | 4,810.20 | 8,067.32 | -40.4 |
| Dow Jones EURO STOXX 50** | 2,447.62 | 4,399.72 | -44.4 |
| Dow Jones Industrial Average** | 8,776.39 | 13,264.82 | -33.8 |
| DAX Prime Automobile* | 508.42 | 785.54 | -35.3 |
| Dow Jones Automobiles & Parts** | 198.38 | 354.71 | -44.1 |
| S&P Automobiles Industry Index** | 36.24 | 107.36 | -66.2 |

* Performance index including dividends.

** Price index excluding dividends.

**Investments in Continental shares***

| Initial investment | Jan. 1, 1999 | Jan. 1, 2003 | Jan. 1, 2008 |
|---|---|---|---|
| Investment period in years | 10 | 5 | 1 |
| Portfolio growth in € as of December 31, 2008 | 5,620.00 | -1,190.00 | -60,110.00 |
| Average dividends in investment period | 8,149.03 | 6,320.00 | 2,000.00 |
| Shareholder return p.a.** | 4.76% | 3.20% | -65.30% |
| Average returns of comparable indexes in % | | | |
| DAX 30 | -0.39% | 3.94% | -40.37% |
| Dow Jones EURO STOXX 50 | -3.07% | -2.38% | -44.37% |

* Number of shares: 1,000.

**Assuming that the dividend is not reinvested.

**Rating; renegotiation of €13.5 billion loan**

Again in 2008, Continental remained in constant dialog with the leading rating agencies Moody's Investors Service (Moody's) and Standard & Poor's.

The leading rating agencies changed Continental AG's credit rating in the year under review as follows:

| December 31, 2008 | Rating | Outlook |
|---|---|---|
| Standard & Poor's | BBB- | negative |
| Moody's | Ba1 | negative |

| December 31, 2007 | Previous rating | Outlook |
|---|---|---|
| Standard & Poor's | BBB | stable |
| Moody's | Baa1 | creditwatch |

On January 27, 2009, Continental was downgraded to BB with a negative outlook by Standard & Poor's rating agency. For financing reasons, Continental is sticking to its goal to keep its rating within the higher credit category, which is characterized by low default rates and referred to as the investment-grade category. The target minimum ratings are BBB and Baa2.

The downgrading to the sub-investment-grade category, i.e. below BBB- and Baa3, hinders Continental's access to financing instruments such as commercial paper, which nevertheless comprise only a small portion of the Continental Corporation's overall financing.

Continental Corporation's most important financing instrument is the €13.5 billion syndicated loan negotiated in August and October 2007. An additional repayment under tranche A was made in August 2008 so that now €800 million are still outstanding, which will become due in August 2009. In December 2008, Continental commenced renegotiation of terms with the consortium of banks and successfully concluded these in January 2009. This renegotiation became necessary since, in light of the collapse of business in the automotive sector, there was the risk that Continental might have no longer been able to fulfill specific agreed limits for the ratio of earnings to indebtedness in 2009. Modifications to the loan agreement included a higher interest margin and tighter restrictions regarding liquidity outflows not utilized to repay debt. Continental expects only minor changes in its net interest expense since the margin increase should be compensated predominantly by the decline of interest rates for borrowing with shorter interest terms.

**Extensive investor relations activities**

Again in 2008, our investor relations efforts ensured that information was shared with the capital market continuously and in a transparent manner. In the period under review, institutional investors (shareholders and bondholders), private shareholders, and analysts were provided with up-to-date and comprehensive information about the company. In the first half-year, the IR team conducted numerous presentations and group discussions around the world on an accustomed large scale. These often included presentations by the chairman of the Executive Board or the CFO.

As planned, a Capital Market Day was staged for the first time in March 2008, which was very well received among investors and analysts. The main topic was the integration of Siemens VDO Automotive AG and the three newly formed divisions: Chassis & Safety, Powertrain, and Interior. On this occasion, several presentations were given by the respective Executive Board members and the CFO. These were accompanied by a wide range of product presentations.

In addition, several investors paid visits to production facilities in Germany. Their interest was focused on our activities in the automotive areas.

With regard to the ongoing takeover process, capital market communications in the second half-year were confined to the publication of the quarterly reports and significant events in connection with the public takeover offer. After completion of the takeover offer on January 8, 2009, IR activities were resumed on an accustomed scale.

The utilization of our information offerings via the Internet increased further in 2008. For instance, the number of visits to our IR web pages increased by roughly 25% to approximately 326,000. Of these, the number of downloads registered a particularly high increase amounting to 170%. All published company information, forthcoming dates and contacts can be found on Continental's investor relations pages at www.continental-ir.com. The investor relations team can be reached at any time via Internet at ir@conti.de.

Our investor relations activities once again earned broad recognition. Among other prizes received in the year under review, the renowned *Wirtschaftswoche* (a leading weekly business news magazine in Germany), in cooperation with Thomson, Reuters, and Extel, awarded us the 2008 German Investor Relations Award, honoring Continental's IR team for the best investor relations work among the 30 DAX-listed companies.

**Further increase in attendance at Annual Shareholders' Meeting**

Around 53% of the common stock was represented at the Annual Shareholders' Meeting on April 25, 2008. This represents an increase of six percentage points compared with the previous year. When voting on all of the 10 agenda items, the Annual Shareholders' Meeting endorsed management's proposals by a large majority.

**Shareholder structure**

In accordance with statutory requirements, we have disclosed changes in our shareholder structure that were communicated to us in the course of 2008, in line with the provisions of the *Wertpapierhandelsgesetz* (German Securities Trading Act).

Due to the public takeover offer made by the Schaeffler Group and the low number of shares not tendered amounting to about 10% of all outstanding shares in Continental, in the year under review we did not implement any identification of outside shareholders customarily conducted in December. Following the official conclusion of the public takeover offer on January 8, 2009, the following shareholder structure resulted with regard to the 169,005,983 outstanding Continental shares: Schaeffler KG, 49.90%; Sal. Oppenheim jr. & Cie., 19.86%; and B. Metzler seel. Sohn & Co., 19.50%.

Detailed information about shareholders holding more than 3% of Continental AG's shares as well as the changes during 2008 is provided under Note 39 to the consolidated financial statements.

# Dear Shareholders,

In the past fiscal year, the Supervisory Board of Continental AG continued to advise and monitor the Executive Board with regard to management of the company. The Supervisory Board was involved in decisions of fundamental importance to the company in accordance with the Articles of Incorporation and statutory requirements.

In addition, the Executive Board supplied the Supervisory Board with regular, up-to-date, and comprehensive reports on strategy, developments, and key business transactions regarding both the company and the corporation, as well as on related opportunities and risks. In addition to these reports, the Supervisory Board, the Chairman's Committee and the Audit Committee informed themselves in detail about other matters relating to the company and discussed them at their meetings and separate sessions. The members of the Supervisory Board were also available for consultation by the Executive Board outside the meetings. Furthermore, the chairmen of the Supervisory Board and the Executive Board were in regular contact with one another and exchanged information and ideas.

In the second half of the year under review, the Supervisory Board's activities naturally were dominated by the Schaeffler Group's public takeover offer made to Continental AG's shareholders. The Supervisory Board addressed this topic in several regular and extraordinary meetings as well as telephone conferences and closely accompanied the Executive Board. In the process, the Supervisory Board also retained its own consultants. Together with the Executive Board, the Supervisory Board issued the prescribed statement regarding the public takeover offer pursuant to Section 27 of the *Wertpapiererwerbs- und Übernahmegesetz* (German Securities Acquisition and Takeover Act) on August 13, 2008. The Supervisory Board discussed the investment agreement negotiated by the Executive Board with Schaeffler KG and its proprietors in depth and approved it on August 20, 2008.

In conjunction with the investment agreement's conclusion, the Supervisory Board approved Mr. Manfred Wennemer's departure by mutual agreement from his position as the chairman of the Executive Board as of August 31, 2008. In the course of his longtime service as a member of the Executive Board and as its chairman since September 11, 2001, Mr. Wennemer made an enormous contribution to the company. The Supervisory Board thanks him most sincerely for his achievements. On August 23, 2008, the Supervisory Board appointed

**Dr. Hubertus von Grünberg**
Chairman of the Supervisory Board

Dr. Karl-Thomas Neumann as Mr. Wennemer's successor and at the same time designated Dr. Alan Hippe as vice chairman of the Executive Board.

After the Supervisory Board's extraordinary meeting on January 24, 2009, Continental AG and the Schaeffler Group announced that they had come to an agreement for constructive cooperation based upon the investment agreement. Continental's Supervisory Board requested the company's Executive Board, under the leadership of Dr. Neumann, to develop concepts for cooperation between the automotive divisions of both corporations. At the same time, the Supervisory Board approvingly took note of the Executive Board's proposal to initiate the process to create an organizationally and legally independent Rubber Group (carve out).

Dr. von Grünberg stepped down from his post as member of the Supervisory Board as of the end of the meeting on March 6, 2009. Mr. Rolf Koerfer will be elected as the new chairman of the Supervisory Board.

In the meeting on January 24, 2009, the Supervisory Board also gave its consent to the request of Dr. Alan Hippe, vice chairman of the Executive Board, CFO and head of Continental AG's Rubber Group, to release him from his duties as Executive Board member prematurely as of February 28, 2009, by mutual agreement. The Supervisory Board thanks Dr. Hippe for his most outstanding achievements for Continental during decisive phases in its corporate history.

In line with the agreement reached with the Schaeffler Group, Mr. Jan P. Oosterveld (on January 26, 2009),

Mr. Fred Steingraber (on January 26, 2009), Prof. Jürgen Stockmar (on January 25, 2009) and Mr. Christian Streiff (on February 3, 2009) stepped down from their positions as Supervisory Board members. On February 5, 2009, the district court of Hanover named Mrs. Maria-Elisabeth Schaeffler, Mr. Georg F. W. Schaeffler, Dr. Jürgen Geißinger and Mr. Rolf Koerfer as their successors. The Supervisory Board would like to thank the departing members for their longtime contribution to the success of the company.

The integration of the VDO activities, which were acquired in 2007, comprised a significant topic of discussion during all regular meetings held last year. The acquisition of the Tikka Spikes Group was another matter which the Supervisory Board addressed and approved. As in the previous years, the Supervisory Board repeatedly discussed the company's strategic development and orientation in general, as well as the strategic planning of the divisions. The Supervisory Board also addressed the formation of an automotive group and a rubber group.

In connection with its issuance of the declaration in accordance with Section 161 of the *Aktiengesetz* (German Stock Corporation Act), the Supervisory Board deliberated and adopted most of the revisions to the German Corporate Governance Code as enacted in June 2008 by the Government Commission on the German Corporate Governance Code. Details of this can be found in our Corporate Governance Report starting on page 15. Once again, the Audit Committee was closely involved in matters regarding compliance and risk management. The Executive Board regularly reported to the committee with regard to significant events and internal auditing work. In addition, the other material risks covered by the risk management system were presented in the Audit Committee along with the corresponding measures resolved by the Executive Board.

Of course, one focus of all Supervisory Board plenary meetings and Audit Committee meetings was the ongoing, detailed information on sales, earnings, and employment developments at corporate and divisional level, as well as the company's financial position. In particular, the Supervisory Board was informed by the Executive Board about business developments that deviated from the company's plans and defined targets.

Before publication of the half-year and quarterly financial reports, the Audit Committee discussed and reviewed them, paying special attention to the results for the individual reporting periods as well as the outlook for the year as a whole. At its meeting in December 2008, the Supervisory Board discussed the financial and capital expenditure plans for fiscal year 2009 and the long-term planning. It also approved the budget for 2009. In the process, the Supervisory Board discussed in depth the impact of the worldwide financial and economic crisis on the company as well as resultant planning uncertainties. Late in 2008 and early in 2009, the Supervisory Board was also closely involved in the renegotiations of the financing of the Siemens VDO acquisition which were initiated by the Executive Board at an early stage.

KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, audited the annual financial statements for 2008 prepared by the Executive Board, the 2008 consolidated financial statements, and the combined management report for Continental AG and the corporation, including the bookkeeping and the risk management system. Continental AG's 2008 consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). An unqualified audit opinion was issued.

With regard to the risk management system, the auditors determined that the Executive Board initiated the measures required under Section 91 (2) of the *Aktiengesetz* (German Stock Corporation Act) and that the company's risk management system is suited to recognize risks early on that could threaten the continued existence of the company.

The documents relating to the annual financial statements and the audit reports were discussed with the Executive Board and the auditor in the Audit Committee meeting on February 18, 2009. They also were discussed at length at the plenary meeting of the Supervisory Board on March 6, 2009. The required documents were distributed on a timely basis prior to these meetings, allowing sufficient opportunity to review them. The auditors were present at the meetings to discuss the annual financial statements and the consolidated financial statements. They reported on the key findings of the audit and were available to provide additional information to the Audit Committee and the Supervisory Board.

The Supervisory Board endorsed the results of the audit by the independent auditors on the basis of its own examination of the annual financial statements, the consolidated financial statements, the management report

for Continental AG and the corporation, as well as on the basis of the Audit Committee's report and recommendation. No objections were made. The Supervisory Board approved the annual financial statements and the consolidated annual financial statements. The annual financial statements for 2008 are thereby adopted.

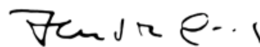
There were further changes within the Executive Board in the year under review. On May 29, 2008, the Supervisory Board approved the departure of Mr. William L. Kozyra from the Executive Board by mutual agreement as of June 1, 2008. The Supervisory Board would like to thank Mr. Kozyra for his contribution to the company's success. After many years of commendable service to Continental, Mr. Gerhard Lerch retired on September 30, 2008. The company owes him its sincere appreciation. His successor responsible for the ContiTech division is Mr. Heinz-Gerhard Wente, who will additionally maintain responsibility for Human Resources and remain director of Labor Relations. In addition to heading Finance, Controlling and Law, Dr. Alan Hippe assumed responsibility for the Passenger and Light Truck Tires division from Mr. Wennemer on April 1, 2008.

In the year under review, the Supervisory Board held a total of four regular meetings as well as nine extraordinary meetings and telephone conferences. No member was absent from more than half of the regular or extraordinary meetings. The Chairman's Committee met eleven times, and the Audit Committee four times. The permanent committee required under Section 27 (3) of the *Mitbestimmungsgesetz* (German Co-determination Act) was not required to meet. The Nomination Committee formed in 2007 has become active in preparation of the Supervisory Board's election at the Annual Shareholders' Meeting in 2009 for the first time. There are no other committees.

The Supervisory Board would like to thank the Executive Board, all employees, and the employee representatives for their outstanding work during the past year. They have achieved respectable results for Continental by means of their great commitment in a difficult situation characterized by major uncertainties.

Hanover, March 6, 2009

For the Supervisory Board
Sincerely,



Dr. Hubertus von Grünberg
Chairman

# Members of the Supervisory Board

Dr. Hubertus von Grünberg
(until March 6, 2009)

Werner Bischoff*, Vice Chairman

Dr. h.c. Manfred Bodin

Dr. Diethart Breipohl

Michael Deister*

Dr. Michael Frenzel

Dr. Jürgen Geißinger
(by court order of February 5, 2009)

Prof. Dr.-Ing. E.h. Hans-Olaf Henkel

Michael Iglhaut*

Rolf Koerfer
(by court order of February 5, 2009)

Hartmut Meine*

Dirk Nordmann*

Jan P. Oosterveld
(until January 26, 2009)

Dr. Thorsten Reese*

Georg F. W. Schaeffler
(by court order of February 5, 2009)

Maria-Elisabeth Schaeffler
(by court order of February 5, 2009)

Jörg Schönfelder*

Jörg Schustereit*

Fred G. Steingraber
(until January 26, 2009)

Prof. Dr. h.c. Jürgen Stockmar
(until January 25, 2009)

Christian Streiff
(until February 3, 2009)

Dr. Bernd W. Voss

Dieter Weniger*

Erwin Wörle*

* Employee representative

# Corporate Governance Principles

## The Corporate Governance Principles are an integral part of corporate management. They serve to foster the responsible, value-creation focused management of the corporation.

The Executive Board and the Supervisory Board consider good corporate governance to be a core ingredient of corporate management efforts focused on sustainably increasing the value of the company in the interest of all stakeholders. Corporate governance is the responsibility of the company's corporate bodies, i.e., the Shareholders' Meeting, the Supervisory Board, and the Executive Board, as specified by law and our Articles of Incorporation. Continental AG's Corporate Governance Principles are closely modeled on the German Corporate Governance Code and are published on the Internet at www.continental-corporation.com. Together with the Basics, which we have used to lay down our corporate goals and guidelines since 1989, and our Code of Conduct, these Principles form a guideline for corporate management and control at Continental.

**Corporate bodies**

Shareholders exercise their rights, including their voting rights, in the Shareholders' Meeting. Each Continental AG share entitles the holder to one vote. Shares conferring multiple or preferential voting rights do not exist. Nor do any limitations on voting rights exist.

The Executive Board has sole responsibility for the management of the company. This responsibility is shared by the members of the Executive Board. The chairman of the Executive Board is responsible for the company's overall management and business policy. He ensures consistent management by the Executive Board and coordinates the work of the members of the Executive Board.

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

**The Supervisory Board and its committees**

In accordance with the *Mitbestimmungsgesetz* (German Codetermination Act) 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 Annual Shareholders' Meeting, while the other half are elected by the employees of Continental AG and its German subsidiaries. Both the shareholder representatives and the employee representatives have an equal duty to act in the interest of the company. The Supervisory Board's chairman represents the shareholders. He has the casting vote in the event of a tie. Further information on the members of the Supervisory Board is provided on pages 209 and 210 of this Annual Report.

The Supervisory Board has drawn up by-laws for itself, which supplement the law and the Articles of Incorporation with more detailed provisions, including provisions on the duty of confidentiality, on handling conflicts of interest, and on the Executive Board's reporting obligations.

The Supervisory Board currently has four committees: the Chairman's Committee, the Audit Committee, the Nomination Committee, and the Mediation Committee. The members of the committees are listed on page 210.

The Chairman's Committee is comprised of the Supervisory Board's chairman, vice chairman, and the two additional members of the Mediation Committee. The Chairman's Committee is primarily responsible for concluding, terminating, and amending the employment contracts (and hence also for remuneration arrangements) and other agreements with members of the Executive Board.

The Audit Committee's tasks relate to the company's accounting, the audit of the financial statements, and

compliance. In particular, the committee performs a preliminary examination of Continental AG's annual financial statements and the consolidated financial statements as well as the risk management system, and makes its recommendation to the plenary session of the Supervisory Board, which then passes resolutions pursuant to Section 171 (1) of the *Aktiengesetz* (German Stock Corporation Act). Furthermore, the committee discusses the company's draft interim financial reports and is responsible for assuring the necessary independence of auditors, for engaging the auditors, for determining the focus of the audit as required, and for negotiating the fee. The chairman of the Audit Committee, Dr. Voss, as former CFO of Dresdner Bank, has special knowledge and experience in the application of accounting principles and internal control procedures. Previous members of the company's Executive Board and the chairman of the Supervisory Board may not act 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. This committee consists entirely of shareholder representatives.

In line with Section 31 (3) Sentence 1 of the *Mitbestimmungsgesetz*, the Mediation Committee acts if a candidate for appointment to the Executive Board does not achieve the statutory two-thirds majority upon first ballot. In this case, the Mediation Committee must make a recommendation regarding the appointment.

The Supervisory Board's report on its work and the work of its committees in the past fiscal year can be found on pages 11 and 12.

**The Executive Board**

The Executive Board currently has three members. Further information on the members and their responsibilities can be found on page 207.

The responsibilities of the chairman and the other members of the Executive Board are governed by its by-laws. These regulate which key matters pertaining to the company and its subsidiaries require a decision to be made by the Executive Board. Article 14 of the Articles of Incorporation requires the consent of the Supervisory Board for significant measures carried out by management.

**Accounting**

Continental Corporation's accounting is prepared in accordance with International Financial Reporting Standards (IFRS). More detailed information on the IFRS is provided in this Annual Report under Note 2 to the consolidated financial statements. The annual financial statements of Continental AG are prepared in accordance with the accounting regulations of the *Handelsgesetzbuch* (German Commercial Code).

**Risk management**

Continental's risk situation is analyzed and managed with the help of a corporation-wide risk management system that serves to provide early warning of developments that could endanger the continued existence of the company. Details can be found starting on page 98.

**Transparent and prompt reporting**

Communications at Continental are prompt and transparent. The company reports to shareholders, analysts, shareholders' associations, the media and interested members of the public on its situation and on significant developments within the company. All shareholders have equal access to this information. All new information communicated to financial analysts and similar addressees is made available to shareholders without delay. In particular, the Internet is utilized to guarantee the timely distribution of information. 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 2009 and 2010 can be found at the back of this report and on the Internet at www.continental-corporation.com.

**Continental AG's Corporate Governance Principles**

Due to revisions to the German Corporate Governance Code as enacted in the summer of 2008 by the Government Commission on the German Corporate Governance Code, the Supervisory Board and the Executive Board also deliberated on our Corporate Governance Principles in the past year. The Supervisory Board and Executive Board resolved to adopt most of these amendments for Continental.

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

On December 10, 2008, the Executive Board and the Supervisory Board issued their annual declaration in accordance with Section 161 of the *Aktiengesetz*. This

stated that the company has complied and will comply with the recommendations made by the Government Commission on the German Corporate Governance Code published by the German Federal Ministry of Justice in the official part of the electronic *Bundesanzeiger* (Federal Gazette), and indicated which recommendations have not been applied, as well as those that will continue not to be applied. The declaration was made permanently available to shareholders on Continental's website. Earlier declarations in accordance with Section 161 of the *Aktiengesetz* 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.

a) Deviations from recommendations

The company cannot comply with the recommendation in Section 2.3.2 to inform all domestic and foreign financial services providers, shareholders, and shareholders' associations of the invitation to the General Meeting, including sending the invitation documents using electronic means. The shares of the company are bearer shares (Article 5 of the Articles of Association), which means that it is impossible to identify all recipients.

Section 4.2.3 (3) recommends that, when entering into Executive Board contracts, companies should not agree to severance payments for premature termination of Executive Board positions without justifiable grounds which exceed the value of two annual salaries – including additional benefits. Continental's Executive Board contracts do not contain provisions stipulating severance payments in such cases. In the past, however, severance payments were agreed in some cases that exceeded the thresholds recommended by the Code, but which complied with what is legally permitted. Currently, the Supervisory Board is reviewing the Executive Board's remuneration system, including the possible introduction of a severance payment cap.

Section 5.4.3 Sentence 1 of the Code requires all Supervisory Board elections to be conducted individually. However, voting on a list of candidates has been practiced for years by most stock corporations in Germany, including Continental. This system has never led to any objections at Continental's Annual Shareholders' Meetings. Thus, voting procedures at the Annual Shareholders' Meetings run in a more concentrated and efficient manner. Any shareholder who desires elections of individual candidates is free to request this at the Annual Shareholders' Meeting. The chairman of the Shareholders' Meeting then decides whether to grant the request directly, or only if it is approved by a majority of the Annual Shareholders' Meeting. This flexibility has proven to be practicable in the past. We believe that this is in the interests of shareholders.

Pursuant to Section 5.4.4 of the Code, it should not be the rule that the retiring chairman or a member of the Executive Board become chairman of the Supervisory Board or of a Supervisory Board committee. We believe that the Annual Shareholders' Meeting should not be restricted in its right to decide on a case-by-case basis whether such an arrangement is appropriate. The issue of whether a candidate is suitably qualified and independent to hold office on the Supervisory Board should be the deciding factor. Of course, any proposal to elect a member of the Executive Board to the Supervisory Board must be particularly justified. We have adopted the Code's recommendation to disclose to shareholders candidates proposed for chairman of the Supervisory Board (Section 5.4.3 Sentence 3), thus ensuring a maximum of transparency.

b) Deviations from suggestions

Section 2.3.4: To date, the company has not given shareholders the opportunity to follow the Annual Shareholders' Meeting using communication media such as the Internet. Although our Articles of Incorporation permit the use of electronic media to transmit some or all of the Annual Shareholders' Meeting, we do not think that the benefit to shareholders currently justifies the costs associated with such use. We therefore currently do not follow this suggestion.

Section 5.1.2 (2) Sentence 1: In most cases, even first-time appointments of new members of the Executive Board have been for a term of office of five years. The Supervisory Board considers this to be necessary and in the interest of the company in order to enable the company to attract candidates who meet the high requirements for these positions.

# Remuneration Report

**Remuneration of the Executive Board**

The Chairman's Committee is responsible for negotiating the remuneration of the Executive Board. Upon recommendation by the Chairman's Committee, the plenary session of the Supervisory Board determines the structure of the remuneration system, including the significant elements of the contract, and reviews it regularly. Remuneration for Executive Board members consists of the following elements:

Each Executive Board member receives a fixed annual remuneration which is paid in 12 monthly installments. Basically, this fixed component has remained unchanged since 2004. However, in two instances in 2008, the fixed component was increased due to the adoption of new functions within the Executive Board. In one case, the fixed salary was adjusted to take account of exchange rate changes. A general adjustment will not be made until 2010 at the earliest.

In addition, each Executive Board member receives a variable remuneration. This is contingent, in part, upon the amount of the dividend distributed to shareholders. Should the dividend amount be increased significantly, the Chairman's Committee may alter the method of calculation. The bonus also is dependent on the achievement of individually agreed targets relating to key performance indicators of the respective Executive Board member's scope of duties. This variable remuneration component is limited to a maximum amount that is contingent upon the fixed annual remuneration. Furthermore, a special bonus can be granted for particular projects in individual cases.

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. Members of the Executive Board must pay taxes on these additional benefits. In addition, they were granted stock options in the year under review as part of the 2008 stock option plan.

Continued remuneration payments also have been agreed for a certain period in the event of employment disability without one's own fault. Executive Board members are entitled to transitional payments for six months in the event of termination of their employment contract, except in the case of resignation or a mutually accepted early release from their contract. These transitional payments are determined on the basis of the most recently paid fixed annual salary and the average of the variable remuneration for the last three fiscal years. All members of the Executive Board have been granted post-employment benefits that are not linked exclusively to retirement but that may also apply in the event of non-renewal of their contract if the non-renewal was not due to actions on the part of the Executive Board member. Dr. Hippe, Dr. Neumann and Dr. Nikolin are also entitled to post-employment benefits in the event of premature termination of their employment contract. The maximum post-employment benefit amounts to 50% of the most recent fixed compensation payment and 12% of the average bonus for the last five fiscal years. For each year of service, a member of the Executive Board attains a benefit entitlement amounting to 10% of the maximum post-employment benefit, until the full entitlement has been achieved after 10 years. Dr. Hippe, Dr. Neumann and Dr. Nikolin are entitled to an adjustment of the post-employment benefit after commencement of such benefit payments in the event of a 5% change in the consumer price index. Otherwise, the adjustment is carried out in accordance with Section 16 of the German Occupational Pension Improvement Act. A transitional payment or any other income is offset from the post-employment benefit.

No compensation agreements exist with members of the Executive Board in the event of a takeover bid for, or a change of control in the company. No payments were promised or granted in 2008 to members of the Executive Board by a third party with respect to their activities on the Executive Board.

The total remuneration of each individual member of the Executive Board for the fiscal year, broken down into fixed and variable components, and the individual pension expense in the previous fiscal year, as well as the amount and value of the stock options granted under stock option plans, is disclosed in the table on the next page. In addition to this, Mr. Wennemer received a severance payment of €7.144 million upon termination of his employment relationship. Mr. Lerch receives compensation for the period of competition prohibition. In 2008, he was paid €0.166 million in this context. Further details of the stock option plans are given in Note 23 to the consolidated financial statements. As of December 31, 2008, a settlement offer for the subscription rights granted under stock option plans had not yet been submitted to the members of the Executive Board.

## Remuneration of the Executive Board in 2008

| in € thousands | Remuneration components | | | | Stock options granted[3] | | Pensions |
|---|---|---|---|---|---|---|---|
| | Fixed[1] | Variable | Long-term incentives[2] | Total | Quantity | Compensa-tion cost[4] | Service cost 2008[5] |
| Dr. K.-T. Neumann | 648 | 362 | 676 | 1,686 | 25,000 | 573 | 223 |
| M. Wennemer (until August 31, 2008) | 519 | 107 | 811 | 1,437 | 30,000 | 602 | 378 |
| Dr. A. Hippe | 630 | 278 | 676 | 1,584 | 25,000 | 625 | 133 |
| G. Lerch (until September 29, 2008) | 365 | 135 | — | 500 | — | 274 | — |
| Dr. H.-J. Nikolin | 483 | 5 | 540 | 1,028 | 20,000 | 602 | 137 |
| Heinz-Gerhard Wente | 484 | 98 | 540 | 1,122 | 20,000 | 260 | 60 |
| W. L. Kozyra (deputy member) (until May 31, 2008) | 193 | 239 | 443 | 875 | 16,400 | 165 | 59 |
| **Total** | **3,322** | **1,224** | **3,686** | **8,232** | **136,400** | **3,101** | **990** |

[1] In addition to cash components, the fixed remuneration includes non-cash elements, such as company cars, insurance, and moving costs.

[2] Market values of the stock options granted in 2008.

[3] The stock options granted in 2008 relate to the 2008 stock option plan.

[4] The amount of personnel expenses carried in the consolidated financial statements (compensation cost) in 2008 for the stock options granted under the stock option plans in 2008 or prior years.

[5] The service cost component of pension expense for 2008 calculated in accordance with international accounting principles.

## Remuneration of the Executive Board in 2007

| in € thousands | Remuneration components | | | | Stock options granted[3] | | Pensions |
|---|---|---|---|---|---|---|---|
| | Fixed[1] | Variable | Long-term incentives[2] | Total | Quantity | Compensa-tion cost[4] | Service cost 2007[5] |
| M. Wennemer | 752 | 1,824 | 1,085 | 3,661 | 30,000 | 795 | 633 |
| Dr. A. Hippe | 502 | 1,501 | 724 | 2,727 | 20,000 | 525 | 193 |
| G. Lerch | 475 | 1,357 | 724 | 2,556 | 20,000 | 293 | — |
| Dr. K.-T. Neumann | 544 | 1,396 | 724 | 2,664 | 20,000 | 361 | 298 |
| Dr. H.-J. Nikolin | 476 | 1,115 | 724 | 2,315 | 20,000 | 515 | 168 |
| T. Sattelberger (until May 2, 2007) | 164 | 383 | — | 547 | — | 128 | 178 |
| H.-G. Wente (since May 3, 2007) | 307 | 737 | 238 | 1,282 | 6,600 | 117 | 39 |
| W. L. Kozyra (deputy member) | 319 | 741 | 560 | 1,620 | 15,480 | 301 | 211 |
| **Total** | **3,539** | **9,054** | **4,779** | **17,372** | **132,080** | **3,035** | **1,720** |

[1] In addition to cash components, the fixed remuneration includes non-cash elements, such as company cars, insurance, and moving costs.

[2] Market values of the stock options granted in 2007.

[3] The stock options granted in 2007 relate to the 2004 stock option plan.

[4] The amount of personnel expenses carried in the consolidated financial statements (compensation cost) in 2007 for the stock options granted under the stock option plans in 2007 or prior years.

[5] The service cost component of pension expense for 2007 calculated in accordance with international accounting principles.

**1999 stock option plan**
In fiscal 2008, the members of the Executive Board had no more stock options under the 1999 stock option plan.

The average exercise price was €9.19 following deduction of the performance and outperformance discounts.

| Stock option plan 2004 | | Outstanding at Jan. 1 | Exercised | Granted | Expired | Outstanding at Dec. 31 | Exercisable on Dec. 31[1] |
|---|---|---|---|---|---|---|---|
| Dr. K.-T. Neumann | Number of stock options | 45,000 | – | – | – | 45,000 | 5,000 |
| | Average exercise hurdle (€/unit) | 100.86 | – | – | – | 100.86 | 79.41 |
| M. Wennemer (until August 31, 2008) | Number of stock options | 90,000 | – | – | 90,000 | – | – |
| | Average exercise hurdle (€/unit) | 92.81 | – | – | 92.81 | – | – |
| Dr. A. Hippe | Number of stock options | 60,000 | – | – | – | 60,000 | 20,000 |
| | Average exercise hurdle (€/unit) | 92.81 | – | – | – | 92.81 | 79.41 |
| G. Lerch (until September 29, 2008) | Number of stock options | 36,600 | – | – | 36,600 | – | – |
| | Average exercise hurdle (€/unit) | 102.15 | – | – | 102.15 | – | – |
| Dr. H.-J. Nikolin | Number of stock options | 60,000 | – | – | – | 60,000 | 20,000 |
| | Average exercise hurdle (€/unit) | 92.81 | – | – | – | 92.81 | 79.41 |
| H.-G. Wente | Number of stock options | 25,800 | – | – | – | 25,800 | 12,600 |
| | Average exercise hurdle (€/unit) | 81.31 | – | – | – | 81.31 | 51.13 |
| W. L. Kozyra (deputy member) (until May 31, 2008) | Number of stock options | 35,280 | – | – | 35,280 | – | – |
| | Average exercise hurdle (€/unit) | 96.96 | – | – | 96.96 | – | – |

[1] The average exercise price is stated for the exercisable options.

The average exercise price was €19.75 following deduction of the performance discounts and outperformance adjustment.

Option rights granted under the 2004 stock option plan could be exercised for the first time in 2007.

| Stock option plan 2008 | | Outstanding at Jan. 1 | Exercised | Granted | Expired | Outstanding at Dec. 31 | Exercisable on Dec. 31 |
|---|---|---|---|---|---|---|---|
| Dr. K.-T. Neumann | Number of stock options | — | — | 25,000 | — | 25,000 | — |
| | Average exercise hurdle (€/unit) | — | — | 89.95 | — | 89.95 | — |
| M. Wennemer (until August 31, 2008) | Number of stock options | — | — | 30,000 | 30,000 | — | — |
| | Average exercise hurdle (€/unit) | — | — | 89.95 | 89.95 | — | — |
| Dr. A. Hippe | Number of stock options | — | — | 25,000 | — | 25,000 | — |
| | Average exercise hurdle (€/unit) | — | — | 89.95 | — | 89.95 | — |
| G. Lerch (until September 29, 2008) | Number of stock options | — | — | — | — | — | — |
| | Average exercise hurdle (€/unit) | — | — | — | — | — | — |
| Dr. H.-J. Nikolin | Number of stock options | — | — | 20,000 | — | 20,000 | — |
| | Average exercise hurdle (€/unit) | — | — | 89.95 | — | 89.95 | — |
| H.-G. Wente | Number of stock options | — | — | 20,000 | — | 20,000 | — |
| | Average exercise hurdle (€/unit) | — | — | 89.95 | — | 89.95 | — |
| W. L. Kozyra (deputy member) (until May 31, 2008) | Number of stock options | — | — | 16,400 | 16,400 | — | — |
| | Average exercise hurdle (€/unit) | — | — | 89.95 | 89.95 | — | — |

**Remuneration of the Supervisory Board**

Article 16 of the Articles of Incorporation regulates the remuneration paid to members of the Supervisory Board. It consists of a fixed and a variable component, the latter being contingent upon the net income per share in the previous fiscal year. The chairman and vice chairman of the Supervisory Board and membership and chairmanship of its committees qualify for higher remuneration. In addition, the members of the Supervisory Board are paid meeting-attendance fees and their expenses are reimbursed. The D&O insurance policy also covers members of the Supervisory Board. However, in line with their responsibilities, the appropriate deductible is lower than that of the Executive Board.

Remuneration of individual Supervisory Board members in 2008 as provided for under these arrangements is presented in the table on the right.

**Shares held by Supervisory Board and Executive Board members; directors' dealings**

In 2008 and up to and including February 1, 2009, the members of the Executive Board held shares representing a total interest of less than 1% in the common stock of the company. On February 9, 2009, shares representing 49.90% of the common stock of the company were attributable to two of the new members of the Supervisory Board appointed on February 5, 2009 – Mrs. Maria-Elisabeth Schaeffler and Mr. Georg F. W. Schaeffler – held as specified in the notification of voting rights on January 13, 2009. In 2008 and up to and including February 9, 2009, the other members of the Supervisory Board held shares representing a total interest of less than 1% in the common stock of the company. In fiscal year 2008, Continental AG gave notice in accordance with Section 15a of the *Wertpapierhandelsgesetz* (German Securities Trading Act) to the effect that five members of the Executive Board purchased a total of 13,570 shares and two members of the Supervisory Board as well as a related party of a member of the Supervisory Board sold a total of 7,150 shares.

Hanover, March 2009

Continental AG

The Supervisory Board — The Executive Board

## Remuneration of the Supervisory Board

| in € thousands | Remuneration components | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | Fixed[1] | Variable | Fixed[1] | Variable |
| Dr. Hubertus von Grünberg | 88 | – | 83 | 120 |
| Werner Bischoff | 66 | – | 62 | 90 |
| Dr. h.c. Manfred Bodin | 45 | – | 42 | 60 |
| Dr. Diethart Breipohl | 66 | – | 62 | 90 |
| Michael Deister | 66 | – | 63 | 90 |
| Dr. Michael Frenzel | 44 | – | 41 | 60 |
| Prof. Dr.-Ing. E.h. Hans-Olaf Henkel | 44 | – | 41 | 60 |
| Michael Iglhaut | 66 | – | 61 | 90 |
| Hartmut Meine | 45 | – | 42 | 60 |
| Dirk Nordmann | 44 | – | 42 | 60 |
| Jan P. Oosterveld | 44 | – | 42 | 60 |
| Dr. Thorsten Reese | 66 | – | 63 | 90 |
| Jörg Schönfelder | 45 | – | 41 | 60 |
| Jörg Schustereit | 45 | – | 42 | 60 |
| Fred G. Steingraber | 44 | – | 41 | 60 |
| Prof. Dipl.-Ing. Jürgen Stockmar | 45 | – | 41 | 60 |
| Christian Streiff | 44 | – | 41 | 60 |
| Dr. Bernd W. Voss | 86 | – | 83 | 120 |
| Dieter Weniger | 45 | – | 41 | 60 |
| Erwin Wörle | 45 | – | 41 | 60 |
| **Total** | **1,083** | **–** | **1,015** | **1,470** |

[1] Including meeting-attendance fees.

**Team spirit,** *noun.* A positive social characteristic of a group of persons or a team. The team interacts in order to achieve a specified task. Here, the “we” is in the foreground, not the “I”. Team spirit is an intensified form of the “we-feeling” expressed in the interdependence of the group members, whereas the pure “we-feeling” is born out by the common goal.

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# Overview

## Continental is one of the world's leading automotive industry suppliers. We want to make individual mobility safer, more comfortable, and more sustainable through forward-looking products and services.

Continental was founded in Hanover in 1871 and is currently one of the five largest automotive suppliers in the world and is the second largest in Europe. As a supplier of tires, brake control systems, driving dynamics control, driver assistance systems, sensors, systems and components for the powertrain and chassis, instrumentation, infotainment solutions, vehicle electronics and technical elastomers, we contribute towards enhanced driving safety and protection of the global climate. Continental is also a competent partner in networked automobile communication.

With its six divisions – Chassis & Safety, Powertrain, Interior, Passenger and Light Truck Tires, Commercial Vehicle Tires, and ContiTech – Continental is a continuous driving force for future mobility concepts, and not just in the automotive industry. As of December 31, 2008, we employed approximately 140,000 at some 190 locations in 35 countries.

Our business units hold leading competitive positions. For example, we are number one worldwide for hydraulic brake systems, driver assistance systems, sensor technology, airbag control units, air suspension systems, telematics, vehicle instrumentation, and fuel supply systems. We are number two for electronic brake systems and brake boosters. In the tire sector, Continental ranks fourth worldwide and is the market leader in Europe in passenger and light truck tires and industrial tires. ContiTech is the world leader in the markets for foil for automotive interiors, conveyor belts, and rail vehicle air springs, as well as in other sectors.

Each division and each employee at Continental consider themselves to be not just suppliers of products and systems. Across the board, we at Continental take a holistic approach to the challenges our customers confront us with. We are a successful development partner. Our know-how goes directly to where it is needed: our customers.

- The core competencies of the **Chassis & Safety** division, which has around 27,000 employees, are components and systems for comprehensive driving safety, driving dynamics and occupant protection for maximum possible safety in all driving situations.

- The **Powertrain** division, which has around 25,000 employees, stands for innovative and efficient powertrain system solutions. Powertrain concepts of the future shall be more economical and more environmentally friendly. The vision here is to bring zero-emission mobility within reach.

- The **Interior** division, with approximately 31,000 employees, is the market and technological leader in vehicle information management, i.e., for a seamless flow of information between people, vehicles, mobile devices, and the environment.

- Employing around 26,000 people, the **Passenger and Light Truck Tires** division develops and manufactures tires for compact, medium-size, and full-size passenger cars, as well as for SUVs, vans, motorcycles, and bicycles. Extended mobility systems are also included in this division.

- The **Commercial Vehicle Tires** division has a workforce of approximately 8,000 and markets a large spectrum of truck, bus, industrial, and off-the-road tires suitable for a wide range of applications and service conditions.

- The **ContiTech** division, which employs around 22,000 persons, is a worldwide technology leader when it comes to innovations made from rubber and plastics. The division develops and produces functional parts, components, and systems for the automotive industry and for other key industries.

# Structure of the Corporation

The Continental Corporation is made up of the Automotive Group and the Rubber Group, each of which consists of three strong divisions.

## Automotive Group

Sales: €14.9 billion
Employees: 82,737

### Chassis & Safety

Sales: €5.1 billion
Employees: 26,680

- Electronic Brake Systems
- Hydraulic Brake Systems
- Sensorics
- Passive Safety & ADAS
- Chassis Components

### Powertrain

Sales: €4.0 billion
Employees: 25,244

- Engine Systems
- Transmission
- Hybrid Electric Vehicle
- Sensors & Actuators
- Fuel Supply

### Interior

Sales: €5.9 billion
Employees: 30,813

- Body & Security
- Commercial Vehicles & Aftermarket
- Connectivity
- Instrumentation & Displays
- Interior Modules
- Multimedia

## Rubber Group

Sales: €9.4 billion
Employees: 56,154

### Passenger and Light Truck Tires

Sales: €5.1 billion
Employees: 26,227

- Original Equipment
- Replacement Business, Europe & Africa
- Replacement Business, The Americas
- Replacement Business, Asia
- Two-Wheel Tires

### Commercial Vehicle Tires

Sales: €1.4 billion
Employees: 8,247

- Truck Tires Europe
- Truck Tires The Americas
- Truck Tires Replacement Business, Asia
- Industrial Tires

### ContiTech

Sales: €3.0 billion
Employees: 21,680

- Air Spring Systems
- Benecke-Kaliko Group
- Conveyor Belt Group
- Elastomer Coatings
- Fluid Technology
- Power Transmission Group
- Vibration Control

# Business Activities, Organization, and Locations

Entrepreneurially responsible units form the basis of our organization. The factors contributing to their success include an all-round customer focus, uncompromising quality, and a high degree of innovativeness.

## Chassis & Safety Division

Drive relaxed – arrive safely: The Chassis & Safety division provides holistic safety concepts with the goal of realizing the vision of accident-free, injury-free motoring. Even today, many traffic hazards can be reduced to a minimum. Chassis & Safety develops and produces electronic and hydraulic brake control and dynamic driving control systems, driver assistance systems, airbag electronics, windshield washer systems, as well as electronic air suspension systems and sensors. Innovative vehicle components and professional system expertise are combined in our comprehensive ContiGuard® safety concept.

Chassis & Safety has 64 locations in 22 countries. The approximately 27,000 employees generated sales of €5.1 billion in the year under review. The division comprises five business units:

- Electronic Brake Systems
- Hydraulic Brake Systems
- Sensorics
- Passive Safety and Advanced Driver Assistance Systems (ADAS)
- Chassis Components

The **Electronic Brake Systems** business unit develops and produces electronic brake systems, such as ESC (electronic stability control) and ABS (anti-lock brake system), as well as software solutions for control functions to improve driving stability and chassis control.

As one of the world's leading suppliers of foundation brakes and brake actuation systems, the **Hydraulic Brake Systems** business unit is continuously developing innovations for classic brake technology and optimized actuation systems for all vehicle categories.

The **Sensorics** business unit specializes in the fast, precise detection of rotational speeds, movements, and physical forces that influence vehicles.

The **Passive Safety & Advanced Driver Assistance Systems (ADAS)** business unit develops safety electronics that significantly reduce the risk of accidents as well as injuries to vehicle occupants and other road users. Advanced driver assistance systems integrate information from sensors that monitor vehicle surroundings into the assistance functions and thus enhance safety. Adaptive cruise control systems, lane departure systems, and other products relieve drivers of routine tasks so they can have better control over complex or critical driving situations.

The interaction of sensors, the steering system and damping functions is the core area of competence of the **Chassis Components** business unit. Products for air suspension, steering assistance and chassis control make a decisive contribution to increasing driving safety, comfort, and pleasure.

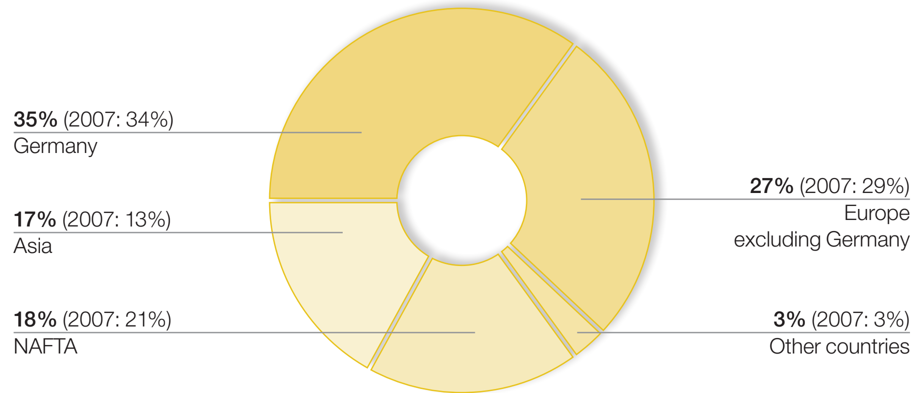
### Market positions

We are the world leader in foundation brakes, brake hoses, driver assistance systems, sensor systems, air suspension systems and airbag electronics. Ranking second, we are also one of the world's leading manufacturers of electronic brake systems, brake boosters and parking brakes.

### Opportunities for growth

The requirements for safety and mobility are increasing steadily in response to increasing volumes of traffic as well as official regulations. The European Commission has set the goal of cutting the number of accident fatalities from around 40,000 in 2000 to half this figure by 2010. In addition, there are plans in the EU to make it mandatory for cars to be equipped with ESC. The U.S. National Highway Traffic Safety Administration has ruled that all new passenger cars and small delivery trucks sold in the U.S.A. starting in 2012 must be equipped with ESC. With its know-how in safety and driver assistance systems, the Chassis & Safety division is ideally positioned for today and the future.

**Chassis & Safety Division: Sales by regions**
(as of December 31, 2008)




Another opportunity for growth is the rising demand for inexpensive vehicles in eastern Europe, Asia, Latin America, and increasingly in industrialized countries. In this area, we are working hard to make safety affordable for everyone. The focal points are airbag control units, sensors, ABS and hydraulic brake systems, as well as drum brakes.

**Product highlights:**

**The new dimension of mobile safety: ContiGuard®**

With ContiGuard®, Continental has developed a safety system that networks the active and passive safety-related functions and fully integrates them into a comprehensive safety package, making the vehicles intelligent and foresighted. At the heart of the system is a hazard computer which calculates the likelihood of an accident in every traffic situation and initiates appropriately graduated measures to avoid an accident altogether, or, if that is not possible, to reduce the consequences of the accident to a minimum for the passengers and other road users.

**MK 100 – the new brake system generation**

The MK 100 is one of the electronic brake systems of the future. It is based on a modular product family and can be scaled as desired. This includes everything from motorcycle ABS with or without the integral brake function to sophisticated high-end solutions with extremely powerful and low-pulsating pump variants. The MK 100 will gradually replace the current series of brake systems from Continental and represents a new dimension in terms of installation space and weight. Both will be reduced by approximately 20% as compared to the current generation. The weight reduction helps decrease fuel consumption and $CO_2$ emissions, and the system is ideally suited for the requirements in the dynamically growing markets in eastern Europe and Asia thanks to its modular principle. Volume production is slated to get underway in 2011.

**More safety for trucks as well**

Assistance systems which help the driver and therefore reduce the risk of an accident significantly, such as forward collision warning, systems for monitoring the surroundings of a vehicle, lane departure systems, and radar-based blind spot assist, will be used in commercial vehicles ever more often in the future. We have developed new safety technology for trucks which already fulfills the legal requirements slated to come into effect in 2013. Collision hazards lurk behind the truck on the right in particular. The Blind Spot Detection (BSD) system monitors this area behind the truck using radar. Another frequent cause of accidents is when a vehicle strays from the traffic lane as a result, for instance, of driver fatigue or distraction. The Lane Departure Warning (LDW) system can help prevent this.

## Powertrain Division

The Powertrain division brings together innovative and efficient system solutions affecting every aspect of a vehicle's powertrain. The goal is to not only make driving more affordable and environmentally sound, but to increase driving comfort and pleasure as well. The product portfolio includes everything from gasoline and diesel injection systems – including sensors, actuators, and customized electronics – to fuel delivery systems, engine and transmission management, and solutions for hybrid drives.

The Powertrain division has 62 locations in 20 countries. In 2008, approximately 25,000 employees achieved sales of €4.0 billion. The division is divided into five business units:

- Engine Systems
- Transmission
- Hybrid Electric Vehicle
- Sensors & Actuators
- Fuel Supply

The expertise of the **Engine Systems** business unit lies in extremely advanced, electronically controlled injection systems for gasoline and diesel engines with the corresponding engine electronics. Piezo technology, for example, helps to ensure compliance with the legal emission limits for nitrogen oxides and particulate matter (Euro 6 and US Tier 2) that will go into effect in 2014, and reduces the $CO_2$ emissions by an additional 3% as compared to conventional diesel direct injection systems. Piezo technology injects diesel fuel more precisely and atomizes fuel more finely, making it possible to reduce the amount of fuel needed for combustion.

The **Transmission** business unit develops and produces electronics for controlling the latest automatic transmissions, such as stepped automatic transmissions, continuously variable transmissions, automatic gearshift systems, double-clutch transmissions, transfer boxes, and all-wheel drive systems. The product offering ranges from external control devices to integrated mechatronics. Especially in double-clutch transmissions, ultra-modern electronics ensure maximum ride comfort as well as reduced fuel consumption and therefore lower pollutant emissions.

The hybrid drive, a combination of internal combustion engine and electric motor, reduces a vehicle's fuel consumption and emissions by up to 25% while upping driving pleasure at the same time. The **Hybrid Electric Vehicle** business unit develops components and systems for hybrid, electric, and fuel cell vehicles. Strong cooperation partnerships underpin our systems expertise in the area of hybrid drives.

Without exception, every future powertrain component and system will be electronically controlled, which will increase the demand for sensors, and this is the main focus of the **Sensors & Actuators** business unit. Sensors and actuators help achieve further reductions in emissions and fuel consumption while boosting performance, service life, comfort, and safety. Sensors for measuring nitrogen oxide in exhaust gas are a highly noteworthy innovation in this business unit.

Products of the **Fuel Supply** business unit include fuel delivery units, fuel-level sensors, fuel pumps, valves, and integrated electronics. Thanks to the modular nature of the components, we can react flexibly to the requirements of the various automotive manufacturers, as all relevant products can be connected to create a complete functional system.

### Market positions

We are the world market leader in fuel supply systems, engine actuators, passive and pressure sensors, and transmission and powertrain control units. We are number two in the diesel and gasoline injection systems market.

### Opportunities for growth

The Powertrain division concentrates on innovative technologies aimed at permanently reducing $CO_2$ emissions. This includes progressive electrification of the powertrain.

Our hybrid drives reduce fuel consumption and vehicle emissions. Because we assume that internal combustion engines will remain the dominant power transmission system beyond the coming decade, we are driving forward further developments to gasoline and diesel engines with the aim of decreasing the fuel consumption of gasoline engines and the emissions of diesel engines even further.

**Powertrain Division: Sales by regions**
(as of December 31, 2008)

**Product highlights:**

**Holistic turbocharger solutions**

As a result of the increasing demand for fuel-efficient gasoline engines, the demand for smaller engine sizes and turbocharging is also on the rise. Turbochargers, particularly in conjunction with direct injection, offer downsizing opportunities, i.e., the use of smaller, more economical gasoline engines without compromising performance, making it possible to reduce $CO_2$ emissions by more than 15%. Thus, gasoline engines are now beginning to rival diesel engines. The Powertrain division is spearheading the development of holistic turbocharger solutions. Our team has developed turbocharger prototypes that will most likely be ready for production for the vehicle generations starting in 2010.

**Energy management of the future**

Fuel savings of at least 25% and extra torque make hybrid and electric vehicles an attractive alternative. They offer the ideal combination of dynamic driving and reductions in fuel consumption and emissions. Our technology makes the integration and application of electrical drive systems quicker and more economical. The respective business area develops components as well as systems up to production readiness and offers know-how on everything from energy storage units and electric machines to powertrain management and power electronics.

**Series production start for lithium-ion batteries**

In September 2008, production of lithium-ion batteries for use in vehicles with hybrid drives began in Nuremberg. As energy storage units of the latest generation, lithium-ion batteries offer significantly greater storage density than the technologies currently still being used in hybrid vehicles (nickel-metal hydride). The battery developed by Continental weighs about 25 kilograms and requires some 13 liters of space. In this way, the electric motor can support the combustion engine with up to 19 kilowatts, thus cutting fuel consumption significantly during startup or brisk acceleration. Lithium-ion batteries, including hybrid technology, are being used in the new Mercedes S400 BlueHYBRID, for which market launch is planned for mid-2009.

## Interior Division

The Interior division bundles the full array of activities dealing with information management, i.e., the display, exchange, and administration of information in the vehicle. We network the driver, passengers, and vehicle (car-to-driver); the vehicle with the infrastructure (car-to-infrastructure); vehicles with mobile devices (car-to-device); and vehicles with other vehicles (car-to-car). “Always On” is our vision: Drivers should have any information they want available at all times and stay connected to the outside world when they want, while retaining complete control of their vehicles.

Interior has a network of 62 locations in 22 different countries. With approximately 31,000 employees, the division achieved sales of €5.9 billion in fiscal 2008, and comprises six business units:

- Body & Security
- Commercial Vehicles & Aftermarket
- Connectivity
- Instrumentation & Displays
- Interior Modules
- Multimedia

The **Body & Security** business unit develops and produces electronic systems for vehicle access, for rendering key-interlock systems reliable, and for guaranteeing the availability of basic and comfort functions in the vehicle. Solutions for battery and energy management are also part of the product line. These solutions are intended primarily for hybrid and electric vehicles as well as start/stop systems, for example.

The **Commercial Vehicles & Aftermarket** business unit handles commercial vehicle and trade activities. It develops and manufactures products to make commercial vehicles and special vehicles safer, cleaner, and more economical, and to make their use more efficient in daily business. This area includes products such as the digital tachograph, guidance and control systems for drive electronics and on-board electronics, as well as on-board units for toll charges. The Aftermarket subunit supplies the independent automotive parts market and repair workshops.

The **Connectivity** business unit is the expert for everything related to the networking of the vehicle with the outside world and the integration of mobile devices into the vehicle. A current example is the automatic emergency call system (eCall) that, in the event of an accident, independently relays the vehicle’s position and the severity of the accident to rescue services.

The engineers and designers in the **Instrumentation & Displays** unit create display systems and design man-machine interfaces in keeping with the latest ergonomic principles. The product portfolio comprises inexpensive instruments for vehicles in the low-price segment and complex instrument clusters for the premium segment, as well as high-definition color displays and modern head-up displays.

The **Interior Modules** business unit specializes in integrating a wide range of products into the cockpit. The business unit produces and develops cockpits as well as haptic control elements. Interior Modules is also the preferred supplier for operating and control elements used in heating and air conditioning systems. Furthermore, this unit has advanced the vehicle roof control unit to an important electronics hub, for example.

The **Multimedia** business unit develops and produces radio and multimedia systems with integrated navigation for all vehicle categories. The product range includes everything from simple CD radios, as well as radios with integrated hands-free function and connection options for MP3 players to multimedia systems with integrated navigation and high-definition graphics.

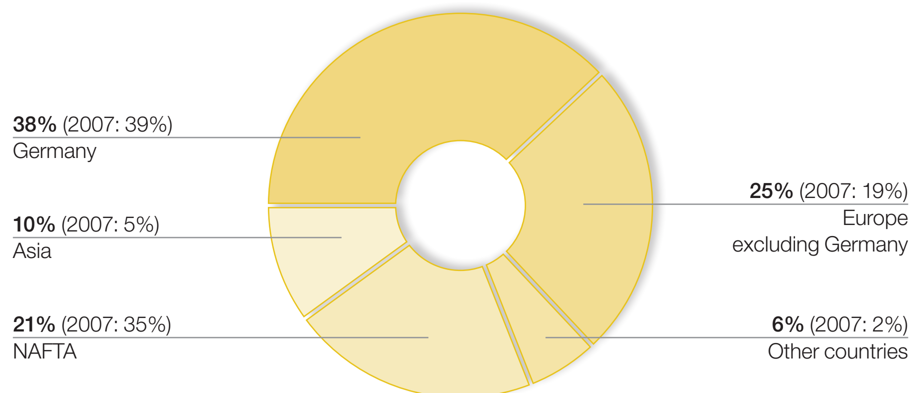
### Market positions

We are number one worldwide in instrumentation, telematics systems, access systems and body electronics for passenger cars, and number two in radio, air conditioner controllers and tire pressure monitoring systems. The division is also the world leader in tachographs, control systems and sensors, instrumentation and complete driver workplaces for commercial vehicles.

### Opportunities for growth

A manageable flow of information within a vehicle and between the vehicle and its environment are core tasks for future mobility. Thanks to our driver information systems and telematics systems, we are already making a significant contribution to enabling the seamless integration of portable devices into cars while also optimizing the interface between cars and drivers to make driving even more comfortable, safer, and environmentally friendly in the future.

**Interior Division: Sales by regions**
(as of December 31, 2008)




Telematics systems will play an important role in the reduction of $CO_2$ emissions in the future. They are a central element for networking vehicles with one another and with the infrastructure. According to statistics, drivers in the EU spend a quarter of their travel time in traffic jams. With the communication between vehicles and with a vehicle's surroundings, traffic congestion in large cities and in metropolitan areas can be identified very early on and avoided, thus reducing $CO_2$ emissions.

According to plans from the European Commission, every new vehicle, starting in fall 2010, should be equipped with an automatic emergency call function (eCall). This wireless connection to emergency call centers will transmit important accident data to the respective emergency responders, thus enabling quick reactions in the critical seconds after an accident. In the Connectivity unit, we have been working for many years on the further development of eCall and are therefore very well-positioned to take part in future growth.

**Product highlights:**

**New technology for interiors**
In the next few years, we plan to start large-scale production of various new products for vehicle interiors, thus further promoting the operability, networking with mobile devices, and the quick expandability of vehicle electronics. The second generation of our innovative head-up display is also already in development. In a particularly forward-looking vehicle concept, a highly integrated center console with new connection technology will enter series production.

**Successful application of high-tech solutions for emerging markets**
With the development of the inexpensive body control unit known as the Basic Function Controller (BFC), we have initially focused primarily on the fast-growing BRIC countries (Brazil, Russia, India, and China). The product is also gaining popularity with automotive manufacturers in the west looking for more competitively priced control units that restrict themselves to essential functions. In the instrumentation sector, we have been highly successful in Asia, where more than 10 different vehicle platforms with instrument clusters from Continental were launched in 2008 alone.

## Passenger and Light Truck Tires Division

The Passenger and Light Truck Tires division develops and manufactures passenger and light truck tires for compact, medium-size, and full-size cars and SUVs, as well as tires for vans, light trucks, and RVs. The tires are known for their excellent force transmission, optimum tracking stability and superb vehicle-road contact in all types of weather. By reducing the rolling resistance, we are also making a contribution to climate protection. The focus of our development work is obviously directed toward the improvement of safety-relevant properties. We are and will remain leaders in this area. This division produces tires under the brand names of Continental, Uniroyal (except in the NAFTA region, Columbia, and Peru), Semperit, Barum, General Tire, Viking, Gislaved, Mabor, Matador, Euzkadi, and Sime Tyres.

The Passenger and Light Truck Tires division also includes our two-wheel (motorcycle and bicycle) business and our retail tire companies with more than 2,200 specialty tire outlets and franchises in 13 countries.

It has 23 locations in 15 countries and a workforce of approximately 26,000. In 2008, sales amounted to €5.1 billion, and a total of 111 million tires were sold. The Passenger and Light Truck Tires division is divided into five business units:

- Original Equipment
- Replacement Business, Europe & Africa
- Replacement Business, The Americas
- Replacement Business, Asia
- Two-Wheel Tires

The **Original Equipment** unit represents global business with automotive manufacturers. It sells products primarily of the Continental and General Tire (NAFTA region) brands, which also include systems that provide for extended mobility. Examples of such systems are tires with runflat properties (Self-Supporting Runflat Tires), which have a reinforced sidewall that supports the tire in the event of a puncture; ContiSeal, a self-sealing tire introduced in 2008 exclusively for the Volkswagen Passat CC; and the ContiComfortKit, a kit comprising a compressor and sealant for conveniently sealing tire punctures.

The **Replacement Business** is divided into the regions of Europe & Africa, The Americas, and Asia. In addition to Continental tires (premium brand) and Barum tires (budget brand), which are sold all over the world, it sells the following regional brands: Uniroyal, Semperit, General Tire, Viking, Gislaved, Mabor, Matador, Euzkadi, and Sime Tyres.

The product portfolio of **Two-Wheel Tires** ranges from bicycle tires (city, trekking, mountain bike and high-performance racing tires) as well as motorcycle tires (scooter, Enduro and high-performance 0-degree tires, some of which are approved for speeds up to 300 km/h), for the original equipment and replacement markets. There are appropriate products available for professional and hobby bikers alike.

**Market positions**

Continental is the number four company worldwide in the passenger and light truck tire market. We are the market leader in Europe for passenger car and light truck tires. This also applies to the original equipment sector (winter tires and tuning), in which about every third vehicle in Europe rolls off the line on our tires.

**Sales to the automotive industry**

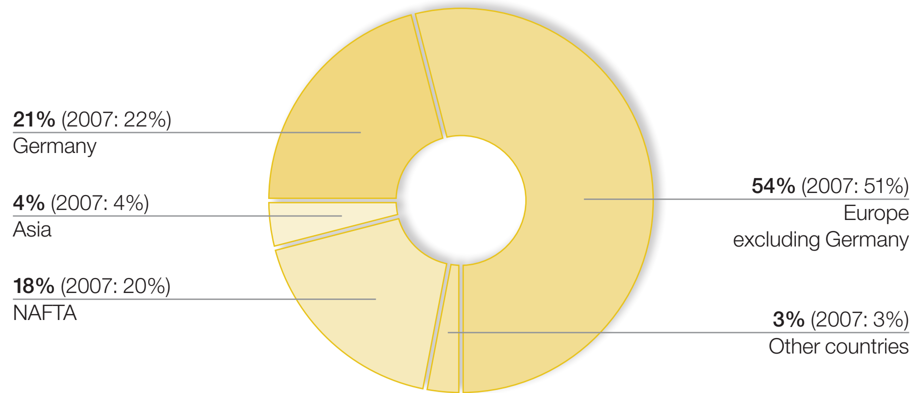
26.8% of sales in the Passenger and Light Truck Tires division relates to business with vehicle manufacturers, and 73.2% to the replacement business.

**Opportunities for growth**

Our multi-brand strategy covers all market segments: premium, quality, and budget. We are reflecting the shift in product mix towards larger and more high-performance tires by the timely expansion of our product range. We have increased the safety reserves while simultaneously reducing the rolling resistance of our passenger car and light truck tires, which means a long-term contribution to necessary $CO_2$ reductions. We believe that a further reduction of up to 30% in rolling resistance is possible by 2018. However, the safety-relevant tire properties, such as braking on dry or, more important still, on wet roads, still take precedence.

We are continuing the expansion of our locations in low-cost countries. Thus, as planned, we increased our holding in Continental Matador Rubber s.r.o., headquartered in Puchov, Slovakia, from 51% to 66% in the year under review. We also see new sales potential in the MENENA region (Middle East, Near East, and North Africa), where we got started with our own representative office and selected sales partners at the end of 2008 and start of 2009.

**Passenger and Light Truck Tires Division: Sales by regions**
(as of December 31, 2008)




**Product highlights:**

**Tires with top marks**
Continental tires have once again received top marks in winter driving tests. The ContiWinterContact winter tire family was tested against tires from more than 60 competitors by experts from the ADAC (the German Automobile Club), the Stiftung Warentest consumer reporting institute, ÖAMTC (the Austrian Automobile, Motorcycle and Touring Club), TCS (the Swiss Touring Club), and two special-interest publications, *AutoBild* and *auto motor und sport*. All Continental products received the highest ratings assigned.

Major investments in new market-specific product lines were also honored with test victories in the U.S.A. as well. Particularly noteworthy are the no. 1 rankings for the Continental and General Tire brands in the trade magazines *Tire Rack* and *Consumer Report*.

In the Nordic winter tire segment, which is geared towards extreme winter conditions, the ContiVikingContact line as the premium product was named best product by six of eight leading magazines, such as *Za Rulem* (Russia) and *auto motor och sport* (Sweden).

**New: ContiWinterContact TS 830 and TS 830 P**
With the new ContiWinterContact TS 830, Continental has made further progress in terms of driving safety and rolling resistance of winter tires. This was made possible by the intricate tread structures with an innovative 3D sipe and a modified sidewall design, plus new polymer compounds in the tread. Approved for speeds up to 240 km/h, the new winter tires for vehicles with 15- and 16-inch rim sizes have been available at tire dealers since fall 2008.

In fall 2009 we will further expand our range of winter tires with the ContiWinterContact TS 830 P, which is designed to work effectively with electronic driver assistance systems. The new tire was given an asymmetrical tread that provides the best driving properties for wet and dry handling, as well as on typical wintry roads. Special 0-degree sinusoidal siping makes it possible to transfer longitudinal and lateral forces so that vehicles both with or without ESC can directly implement steering and braking commands. The new ContiWinterContact TS 830 P will be available in 20 different versions; further sizes are planned for winter 2010. Mercedes-Benz has already granted original equipment approval.

**New Continental ExtremeContact family**
With the ExtremeContact tire line, which was developed especially for the North American market, Continental is strengthening its range of products geared towards specific local requirements. All tires have a substantially longer service life, while offering improved handling properties as well as a much lower rolling resistance.

The high-performance tires of the Continental ExtremeContact DW line (summer tires), Continental ExtremeContact DWS (all-season tires) and Continental ExtremeWinterContact (winter tires) will be available in some 250 different sizes for rims from 15 to 24 inches starting mid-2009.

## Commercial Vehicle Tires Division

The Commercial Vehicle Tires division has the goal of ensuring economic mobility in goods transport, passenger transit and construction-site traffic by offering bus, truck, and industrial tires for a wide spectrum of applications and service conditions. In certain regions, off-the-road tires are also available. The division's products are successful both in the original equipment and replacement markets. The Continental premium brand is marketed worldwide. In Europe, the Barum, Semperit, Uniroyal, and Matador brands are available as well. This selection is rounded off by the General Tire brand and our new Ameri*Steel brand in the Americas, as well as the Euzkadi brand in Mexico. In Asia, tires of the Sime Tyres brand are also available. The Industrial Tires business unit develops and produces tires of the Continental, Barum, and Simex brands.

We produce commercial vehicle tires at 12 locations in seven countries. In the year under review, 6.7 million truck tires were sold. With four business units and approximately 8,000 employees, the division posted sales in 2008 amounting to €1.4 billion:

- Truck Tires, Europe
- Truck Tires, The Americas
- Truck Tires, Replacement Business, Asia
- Industrial Tires

**Commercial vehicle tires** from Continental, whether for goods or passenger transport, whether for on or off-road service, stand for advanced technology, high mileage, reliable power transmission, and low fuel consumption thanks to their low rolling resistance. Our tires are divided into the "Goods," "People," and "Construction" segments depending on how they are used. However, because roads are not all the same, nor is transport the same in every case, we adhere to customized tire concepts. There is a "right" tire for every purpose, one that is optimally attuned to the specific application conditions and thus enhances the safety, economy, and comfort of the vehicles.

Continental **truck tires** are certainly well worth the investment. Their performance strengths last not only the whole life of the tire, they can also be exploited a second time round after the retreading process. With the ContiRe and ContiTread retread solutions, we are specifically focusing on helping transportation companies save money.

Key account and retail customers can also rely on our comprehensive range of services. ContiTireManagement is a service that can be tailored to suit the needs of fleets and can reduce tire-related operating costs. It provides a permanent, comprehensive analysis of all tire- and service-related data and optimizes the point at which tires should be changed. With more than 5,000 service partners throughout Europe, the ContiBreakdownService is available 24 hours a day, 365 days a year, for quick assistance in the case of a tire failure.

Continental **industrial tires** are used all over the globe on transport vehicles such as forklifts. There is a diverse range of products in this sector as well. It includes everything from solid rubber tires for situations in which avoiding punctures and preventing repairs are the key criteria, to products with a light-colored tire tread for companies where cleanliness is the most important factor.

### Market positions

We are the number four company worldwide in the truck tire market. In Europe, we are number two in the original equipment business and number three in the replacement business. We are Europe's market leader for industrial tires.

### Sales to the automotive industry

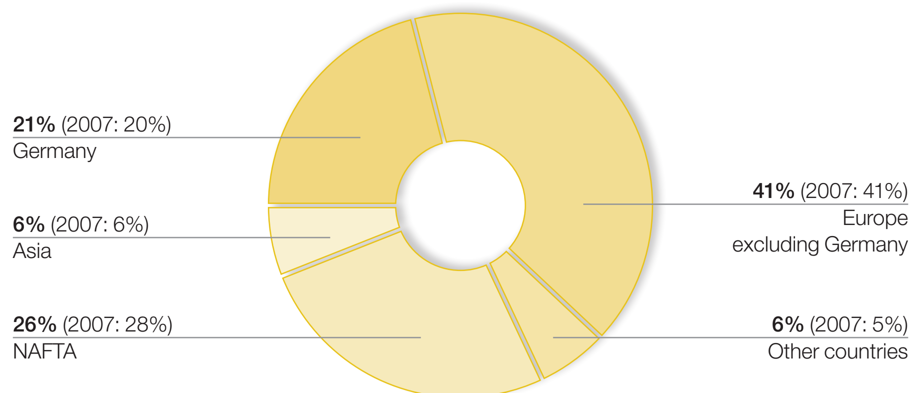
26.3% of the Commercial Vehicle Tires division's sales relates to business with vehicle manufacturers and 73.7% to the replacement business.

### Opportunities for growth

We believe the key regions for future growth will be Russia and the Near and Middle East, in addition to Asia and South America. We opened up a new representative office in Dubai in the year under review. In Russia, we concluded an off-take contract with a local partner. We established a new sales company in Argentina. In order to intensify our activities to increase our market presence in India, we reached an agreement for cooperation with a local partner there.

In the U.S., we anticipate further growth in our business with fleet operators, so we significantly expanded our sales organization there.

**Commercial Vehicle Tires Division: Sales by regions**
(as of December 31, 2008)




Our new product line for the most significant market segment, the transport of goods, has had a successful start with a trailer tire in the year under review. In 2009, we will be following this up with new tires for the front and drive axles as well as tires for winter use. This will put us in a position in the coming year to supply our customers with a completely new tire generation.

**Product highlights:**

**The HTR2 – a forerunner for a new generation of tires**
In 2008, we launched a new tire for truck trailers, the HTR2. Within a short time of the market launch, this tire became a market leader in its segment thanks to its long service life, very low rolling resistance and the Airkeep technology, which retains the tire's proper inflation pressure level 50% longer. At the IAA International Motor Show for Commercial Vehicles, it won an award as the trailer innovation of 2008 from European trade journalists. The HTR2 is the forerunner of a completely new generation of tires that will be launched in the next two years.

**Further milestones in our product development**
The HTR2 tire will be followed in the coming months by the new HDR2 drive-axle and HSR2 steering-axle tires. All three tires are specialists for regional traffic conditions. We are also supplementing our long-distance range with the new HSL2 and HDL2 tires. And with the HSW2 and HDW2 tires, we are launching an entirely new, trend-setting generation of winter tires.

On the whole, in the next two years we will be updating more than 80% of our product spectrum for goods transportation, representing a market coverage of 67%. With these new tires, we are in a position to provide our customers with excellent cost efficiency in regional traffic, long-distance traffic, and in wintry road conditions. Not only do the tires deliver improved mileage performance, they also boast the best fuel economy in their respective class. We are thus making a substantial contribution to improving the cost efficiency of our fleet customers, while reducing the negative impacts on the environment by cutting $CO_2$ emissions.

**CRV20 – Setting a new standard for industrial tires**
In 2009, we will be introducing a new industrial radial tire, the CRV20. This tire stands for enormous power, speed, and comfort, and is used for intra-facility transportation, for example at airports. The CRV20 also fulfills requirements with regard to economy and lower emissions. The low rolling resistance saves energy and the special tread design and tread depth ensure a long tire life. It is an ideal tire for tractor vehicles.

## ContiTech Division

ContiTech is a specialist for rubber and plastics technology, and a much sought-after partner worldwide. As a technology partner and original equipment manufacturer, the division develops and produces functional parts, components and systems for the automotive industry, machine and equipment construction, rail vehicles, printing, the building trade, the chemical and petrochemical industries, maritime navigation and aviation, and mining.

ContiTech has manufacturing operations at 58 locations in 18 countries. Around 22,000 employees generated sales of €3.0 billion in 2008. ContiTech is divided into seven business units:

- Air Spring Systems
- Benecke-Kaliko Group
- Conveyor Belt Group
- Elastomer Coatings
- Fluid Technology
- Power Transmission Group
- Vibration Control

The **Air Spring Systems** business unit is one of the leading development partners and producers of components and systems for self-adjusting air suspension. These air suspension systems ensure safety and comfort in commercial vehicles, buses, and railway vehicles, and are also used to bear stationary machines and foundations.

The **Benecke-Kaliko Group** gives a car's interior the perfect look and feel with high-quality plastic soft trim, which is used, for example, on instrument panels, door trim panels, sun visors, or as artificial leather for seats.

The **Conveyor Belt Group** supplies the worldwide mining industry with high-performance conveyor belts that are individually tailored to the job in question – for both surface and underground mining operations. In addition, the unit develops and produces conveyor belt solutions for diverse industrial applications, as well as specialized products.

The **Elastomer Coatings** business unit specializes in coated fabrics and other reinforcing materials. Products include printing blankets that ensure perfect print quality. In addition, the business unit develops and produces diaphragm materials and engineered materials that can be found, for example, in liferafts or collapsible tanks.

Hoses, hose lines, and complex line systems (made of elastomers, plastic, textile, and steel) from the **Fluid Technology** business unit are not only found in passenger and commercial vehicles and many other industries such as machine construction, they are also used for widely varying applications like crude oil transportation and food processing.

The **Power Transmission Group** develops and manufactures drive belts, matched components, and complete belt-drive systems for reliable power transmission in vehicles, machinery, and equipment.

The **Vibration Control** business unit is a specialist for molded rubber parts and rubber-to-metal bonded parts as well as plastic products and manufactures passive and active vibration and noise control systems for equipment, machinery and vehicles.

### Market positions

We are positioned at the forefront of the global market for non-tire rubber products. The division is the world market leader for heat-resistant charge air hoses for cars, transportation hoses for use in large excavators and the oil industry, conveyor belts, air springs for rail vehicle technology, and foil for vehicle interiors. Moreover, we are the European market leader for vehicle hoses and hose lines, air spring systems for commercial vehicles, timing belts, and multiple V-ribbed belts.

### Sales to the automotive industry

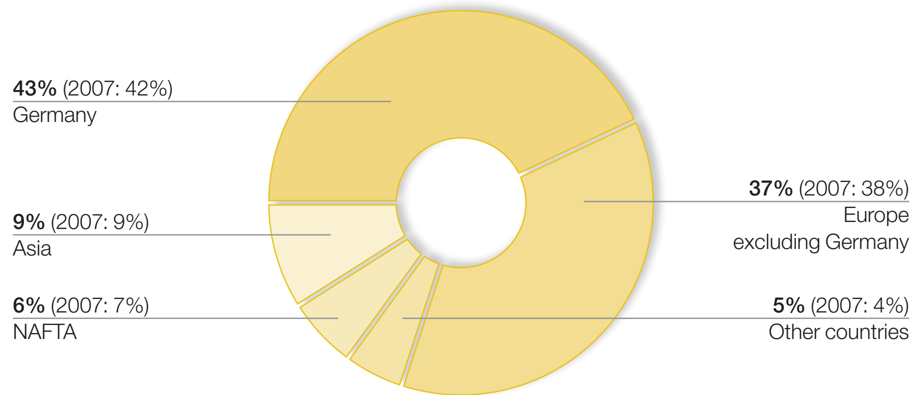
52.5% of sales in the ContiTech division relates to business with vehicle manufacturers, and 47.5% to business with other industries and the replacement market.

### Opportunities for growth

ContiTech continues to focus on profitable growth. In China, we have laid the foundation for a new plant in Changshu, 100 kilometers northwest of Shanghai, where the Vibration Control, Fluid Technology and Air Spring Systems business units are to have a base by mid-2010. We are thus expanding our production in China significantly, and will invest approximately €30 million in the first expansion phase. By 2013 we intend to more than double our sales in China.

The Conveyor Belt Group is tapping further growth with the construction of a new plant in Brazil. As part of its globalization strategy, the Benecke-Kaliko Group is expanding its market presence in North America. Vibration Control expects to have additional sales from its activities in the global wind power industry.

**ContiTech Division: Sales by regions**
(as of December 31, 2008)




**Product highlights:**

**Torque reaction mount made of polyamide**
ContiTech Vibration Control has brought a torque reaction mount made of fiberglass-reinforced polyamide to production readiness. The mount, which is up to 50% lighter than a comparable component made of aluminum, is setting new standards in lightweight vehicle design. For the first time in a passenger vehicle's engine-mount system, a mechanical, heavy-duty component is being used that is made of thermoplastic synthetic materials. With the lightweight component, the total weight of a vehicle and thus its fuel consumption can be reduced.

**New seat material for sports cars**
Sporty, durable, non-slip: these are words to describe the new material known as Sport-Esteem® for car seats. The Benecke-Kaliko unit of the ContiTech division developed this globally unique product in two years. In addition to its sporty appearance, excellent wear resistance, and good grip, the material also satisfies ecological standards and provides for a sure hold in the seat. Sport-Esteem® is now available for the first time to all automotive manufacturers, and was launched on the European market in 2008 with an extensive marketing campaign.

**GIGABOX as a contribution to the "quiet train"**
Within the framework of the federally-supported "Quiet Traffic" research project, ContiTech Air Spring Systems is participating in the freight traffic project "A quiet train on a real track – L Zar G" with its GIGABOX. The research association is intending to implement the EU target of reducing rail traffic noise by half by the year 2020 (as compared to 2002). We are contributing to the planned success with the GIGABOX, a unique system consisting of wheel set bearings and hydraulic springs.

# Corporate Strategy

## Our six divisions are significantly involved in shaping the global automotive megatrends – safety, environment and information.

Our work is geared to making motoring safer, more comfortable and more sustainable. Our core business areas – the Automotive Group and the Rubber Group – contribute significantly to the megatrends in the automotive industry. The six divisions are differently geared towards the various trends.

**Safety**
Demand for active and passive vehicle safety components is constantly increasing, due to both stricter legal requirements and increasing volumes of traffic with the resulting safety expectations from drivers themselves.

Thanks to innovative driver assistance systems such as ABS, ESC and airbags, the number of fatalities from road accidents has dropped sharply in recent years, despite an increasing volume of traffic. International authorities and institutions want to step up this development, meaning that the market for safety systems will continue to grow. The European Commission has set the goal of cutting the number of accident fatalities from around 40,000 in 2000 to half this figure by 2010. Tire pressure monitoring systems are to be standard in all 2012 model vehicles. In addition, the European Commission is working to prescribe the installation of the automatic emergency call system (eCall), which in the event of an accident independently relays the vehicle's position and the severity of the accident to rescue services. The U.S. National Highway Traffic Safety Administration (NHTSA) has ruled that all new passenger cars and small delivery trucks sold in the U.S.A. starting in 2012 must be equipped with ESC. On December 2, 2008, the European Parliament also took decisive steps to prescribe the installation of ESC systems in new cars in Europe from 2011 on. So from 2013 on, all new vehicles should be equipped with ESC systems.

Improving road safety is the focus of the Chassis & Safety division, as well as the Tire divisions. Chassis & Safety is a global leader in driver assistance systems. We also succeeded in setting new standards with our comprehensive safety concept Conti-Guard®, which combines active and passive vehicle safety components. This also includes products from other divisions, such as the eCall concept and head-up displays from the Interior division. Reliable power transmission, short braking distances and maximum tracking stability are significant qualities which set Continental tires apart.

The ContiTech division also does its part to ensure safety, for instance with air spring systems in trains.

**Environment**
The need for environmentally friendly, climate-friendly technologies is growing due to increasingly stringent consumption and emissions standards, but also as a result of the huge increase in fuel costs.

To take account of this, numerous initiatives and standards have been developed internationally. The European Commission is aiming to reduce average $CO_2$ emissions to 120 g/km by 2012 for each new car sold. In the U.S.A., the revised average fleet consumption figures (CAFE standards – Corporate Average Fuel Economy) provide for a 40% improvement in average miles per fuel gallon from 25 mpg to 35 mpg (this corresponds roughly to a reduction in $CO_2$ emissions from 219 g/km to 156 g/km) as of 2020. Japan has set itself the goal of increasing the mileage performance of cars by 23.5% to 16.8 km/l, which would result in the same percentage reduction in $CO_2$.

The environment megatrend is the core competence of the Powertrain division. Piezo injection, for example, has set new standards for diesel and gasoline engines in terms of fuel consumption and emissions. This positions us well for the future, as we expect combustion engines to remain the predominant drive system beyond the coming decade. For that reason, we give ultra-high priority to the topic of downsizing as well, and are developing turbocharger solutions for gasoline and diesel engines. Our hybrid drives can lower fuel consumption and vehicle emissions by as much as 25%.

Other divisions also contribute towards reducing emissions and fuel consumption with their products and systems. For instance, Interior contributes with the intelligent networking of vehicles to avoid traffic jams, Chassis & Safety with driver assistance systems and the intelligent gas pedal, the Tire divisions with rolling-resistance-

optimized tires, and ContiTech with low-permeation hose lines and powertrain management components.

**Information**

Information management inside the car is increasingly important and precisely for this reason should be made more transparent. The driver should be unburdened as much as possible and should be guided quickly and safely through increasing volumes of traffic. The steady rise in the volume of data and information exchanged between vehicles, drivers, and their environment is resulting in new and steadily developing markets involving networked systems and products in the areas of infotainment and telematics.

One of the most pressing jobs for the Interior division, which is a world leader in the area of telematics, is to ensure a manageable flow of information within the vehicle and between the vehicle and its driving environment.

**Growing market segment “Affordable cars”**

The terms “affordable cars” and “low-cost cars” refer to favorably priced cars costing less than $10,000/€7,000. These affordable cars are mainly manufactured and sold in the future markets of Asia, but also in Brazil and eastern Europe. They include models such as the Cherry QQ in China, the Tata Nano in India, and the Dacia Sandero in eastern Europe. We want to continue tapping this growing segment. Market observers anticipate that in 2015 at least 10 million favorably priced vehicles will be sold worldwide.

With its modularly designed products, Continental is in a position to satisfy all customer requirements in the growth markets, from premium vehicles to compacts. Here, it is necessary to reconsider how the product must be designed for each market to ensure that market requirements are met.

In India, China and Romania, for example, we develop and produce components and systems which are tailored to specific local needs. Our company’s high quality standards are in place for all products, regardless of where and for whom they are produced. This means that we can also offer those of our products which are developed and manufactured in Asia to our European and American customers.

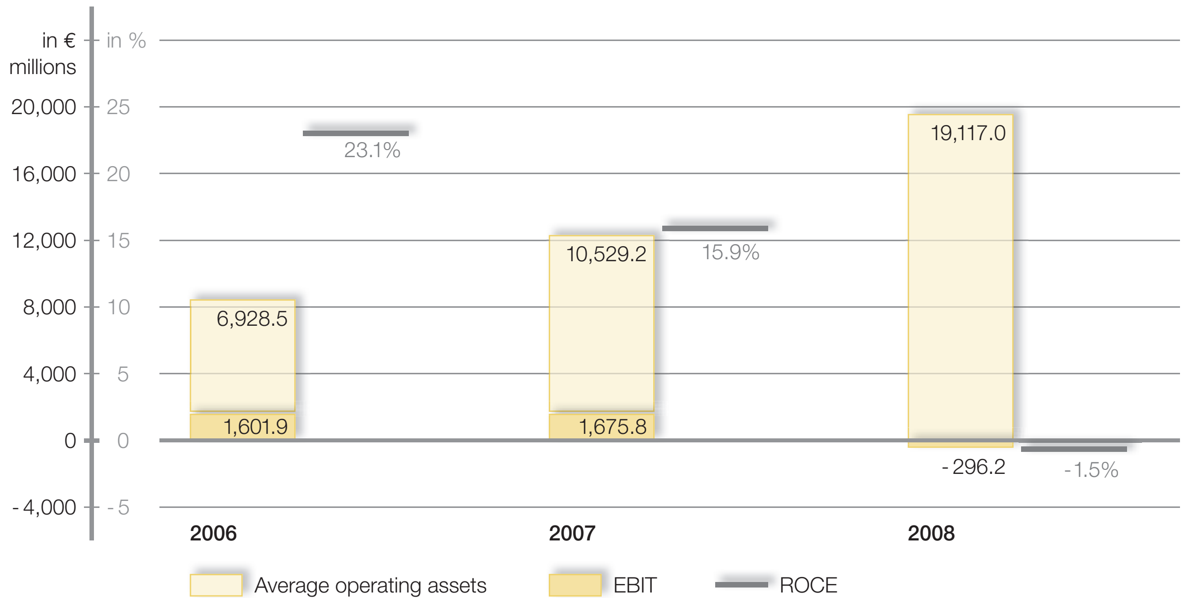
Our products and components are found for instance in the Tata Nano, which we supply with gasoline fuel supply units, and in the Dacia Sandero. For the latter, Chassis & Safety supplies brake boosters and airbag control units, Powertrain provides products such as injectors, engine control units and sensors, Interior supplies the body control, and ContiTech supplies diaphragms for fuel management and power steering lines. Every second Sandero rolls off the assembly line with Continental tires.

**Strategic focuses**

Despite concentrating on the automotive industry megatrends, we are keeping to our successful strategic focuses, even though at present only the Rubber Group is able to limit its dependence on the automotive manufacturing sector:

- We develop and manufacture components, modules, and complex systems. In addition, we offer engineering services – tailored to the needs of our customers.
- Entrepreneurial action and strict cost discipline are embedded at all levels of the organization – right down to the smallest unit.
- One of our key responsibilities is climate protection, to which we make a substantial contribution with our technologies and products.
- We want our business units to hold leading positions in their respective markets, or to be able to achieve such a position with a manageable level of business risk in the foreseeable future.
- To limit our dependence on the cyclical automotive manufacturing sector, we aim to generate around 40% of our sales outside this industry.

### Development of ROCE




**Value management**
Continental uses the following key performance indicators at all management levels:

- the percentage return on capital employed (ROCE),
- the Continental Value Contribution (CVC) as the absolute amount of value achieved,
- and the change in absolute value over the previous 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 employ resources efficiently.

In determining the ROCE, Continental has switched the calculation of operating assets to the average operating assets method. Accordingly, this key performance indicator is given in the Annual Report as EBIT in % of the average operating assets, and no longer as EBIT in % of the operating assets as of the balance sheet date. The average operating assets consist of the average of all operating assets at the respective balance sheet dates for the four quarter-months. Furthermore, the definition of the operating assets was changed for fiscal 2008. The new definition led primarily to more liability items of the balance sheet being included in the operating assets. The preceding years have been restated accordingly.

# Employees

## The strong performance and commitment of our employees are key to long-term economic success.

Involving the workforce in corporate decisions and processes increases both employee satisfaction and economic performance. For this reason, we strive to give our employees many and varied opportunities to participate actively in corporate processes.

**"BASICS live" employee survey**

Continental's corporate values and vision are firmly anchored in the BASICS, which form the basis for our daily activities. Regular "BASICS live" surveys on a global scale give us an idea of how the BASICS are put into practice and where improvements can be made. Among other things, the questions concern employee satisfaction, cooperation with supervisors, and employee attitudes to the company.

The 2006 "BASICS live" survey resulted in the initiation and processing of some 8,500 improvement projects throughout the corporation. These sustainable positive effects explain the enthusiastic response to the 2008 employee survey which was conducted in 28 languages. Again, almost 80% of employees took part – a benchmark once more not only in the automotive supplier industry.

In 2008, employees again rated Continental as a good employer. The marks regarding loyalty to the company, quality orientation, cooperation with the supervisors and in the respective work groups are clearly above the industry's benchmark. The employees see a need for improvement in the area of departmental strategy and cooperation between the departments. Management uses the feedback to improve work processes. We intend to turn a large number of suggestions into detailed tasks and projects, which will then be implemented, in order to ensure that the process of improvement is a continuous one.

**"BIG SIX Radar" 360° feedback process**

Our employees' opinions are of relevance not only to the corporate culture but also in terms of improving the management quality of the supervisors. The employees' assessment of management quality is therefore an important factor in the "BIG SIX Radar" 360° feedback process to which some 2,500 mid-level and senior executives are subjected every three years. This set of criteria is based on Continental's BIG SIX expertise model: vision, entrepreneurship, execution, drive, learning and interaction. Employees, colleagues, internal customers, and supervisors use these six factors to assess the executives and highlight personal improvement potential. The 360° feedback supports our belief that good management conduct encourages good employees to stay with the company, resulting in lower employee turnover.

**"Pulse Taker"**

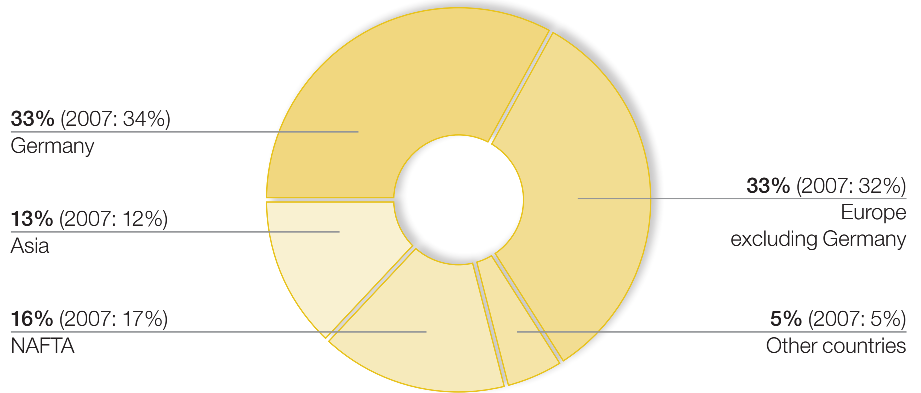
Particularly in times of change, it is of great importance to focus on corporate culture and management quality in order to ensure the success of integration processes. Even before the integration of Siemens VDO into Continental AG, we carried out a comparative cultural analysis of the companies. Using the Pulse Taker, employees of each company who had previously worked together on preparations for the integration were asked to provide assessments of their own corporate culture and that of the other company and to describe what they considered to be the strengths of each. The result was that attributes such as innovative, structured, customer-oriented and quality-focused are mainly attached to Siemens VDO while Continental was considered to be target-oriented, profitable, decisive and unbureaucratic.

The findings of the survey were incorporated into Continental's corporate vision while influencing the process of cultural integration and contributing to the modification of the expertise model.

**Internal communication is extremely important**

Continental considers internal communication to be of great importance. A key element in the media mix is the employee magazine, *conti intern*, founded in 1972. The six editions published each year are received by nearly all employees, and we take particular pains to ensure that employees can read the corporate news in their own languages. *conti intern* is published in 13 languages and

**Employees by regions**
(as of December 31, 2008)




covers topics from the whole company under the headings Business & Strategy, Plants & Markets, Technology & Innovation, Names and News as well as Panorama & Sport. Added to these are pages with varying content from individual divisions and regions.

**"Learning Factory" in production**
Qualified employees are needed in a world marked by rapidly changing, highly complex production processes of the kind common everywhere at Continental these days. Down-to-earth job training and continuing education guarantee success for each employee personally and for the company as a whole. Further professional training measures are therefore indispensable, as only in this way can each individual be sure of asserting himself in tomorrow's working world as well. The three rubber-processing divisions initiated a modular qualification program – the "Learning Factory" – back in 2006 underscoring the importance of continuous learning processes as a means of ensuring the employees' sustained employability. The program is based on an overall employer/works council agreement. As a result, Continental is one of the first employers in the industry to implement the labor agreement covering occupational qualifications of employees in the chemical industry.

**Human resources development programs**
Continental offers newcomers the Corporate Entry Program, providing them with an insight into the company as a whole, while the Leadership Entry Program is available to potential new executives and has additional country-specific or business-specific content. The Leadership Entry Program Cadre, for example, has been performed for several years now in China.

In addition, the International Management Program (IMP) was held in 2008 for the 15th time. In 2008, this was attended for the first time by 30 employees from all six divisions including the former Siemens VDO operations. At the end of May, seven project teams consisting of international participants presented their business models, developed in a six-month period, to the members of the Executive Board and senior and mid-level management. This time, the topics focused on the growing Asian markets, innovative products, and cost-effective solutions. A separate project was dedicated to introducing a standardized configuration and change management tool in view of the integration of the former Siemens VDO locations.

To the benefit of our executives, the Corporate Executive Development Program was held in association with the Ashride Business School for the second time. This program gives executives the opportunity to develop their skills in three modules related to strategy, value creation and management.

**Diverse vocational training and further qualification**
With our vocational training, we hope to attract and hold on to the most promising pupils and students. For this reason, we offer training in various technical and commercial professions as well as comparable induction programs abroad. Our goal is to cover part of our university graduate needs with dual courses of study, ContiBachelor or ContiMaster programs.

In addition to the traditional professions such as industrial clerk, mechatronics engineer and process engineer, we are continually expanding our dual courses of study

in collaboration with local universities in order to obtain qualified bachelor graduates with practical experience for commercial activities. A combination of block study with national and international placements within the company enables us to find excellent graduates who are already familiar with our processes and standards and who, as a result, can be assimilated into the various departments very quickly after being recruited. We also offer similar opportunities to pupils with technical interests in the form of technical dual courses of study directed towards obtaining the qualification of Bachelor of Science or Bachelor of Engineering.

1,871 young people in Germany and 2,380 globally are currently being trained in technical and commercial professions at Continental.

We are continuing to expand our "Continental universities" in the U.S.A., Mexico, Germany, and the Philippines. The courses offered here range from in-job Bachelor and Masters programs through to support for employees working in production, administration, research and development, and sales, in obtaining their high-school diplomas.

**We want the very best**

The key to achieving our ambitious corporate goals is finding the employees most suited to working at our company. Regardless of whether employees will be working in the plants, administration, research and development, marketing or sales: We make sure that both specialist and cultural requirements are met. We are helped in this by our Ambassador Program, in which executives and experts assume the roles of Conti university ambassadors. In this way, we try to engage interested students at an early stage for internships or as in-plant students. This allows both sides to decide whether they are suited to one another and whether they should continue to work together once the studies have ended.

We work together with leading technical universities in order to obtain the best graduates for our global talent initiatives. Nine universities including Georgia Tech, the Massachusetts Institute of Technology (MIT), RWTH Aachen, Politechnica São Paulo, and Tsinghua, Beijing, are currently participating. During the year under review, we expanded our trainee retention activities to include the Global Engineering Internship Program. Nineteen students from seven countries attended a technical internship of several months' duration at Continental locations. The first internship year group met for a workshop in Otrokovice, Czech Republic, and Vienna, Austria. In addition to intercultural expertise training, the agenda focused on topics such as the importance of international networking of research and development as well as production. The students are put forward for the internship by the partner university at which they are studying. For this training collaboration, Continental provides the internships and covers travel and accommodation costs. In 2009, we intend to undertake this innovative program again with international students. During 2008, the program received the Corporate Leader of the Year for Experimental Education Award from the National Society for Experimental Education of the U.S.A.

**Our attractiveness as an employer has increased**

Workshops, presentations, student open-days and support for innovative student projects round off our activities focused on obtaining talented young people. Our motto is always: "Are you auto-motivated? Welcome!" In some countries we measure our attractiveness as an employer with the renowned Trendence Study and the Universum ranking. In Germany in 2008, we again moved up in the eyes of engineers, this time by nine places to 23.

# Environment

Responsibility for a product comprises the selection of the raw materials, development, production, utilization, and recycling of the product that is no longer suitable for use.

**Responsibility during a product's life cycle**
Product responsibility extends over a product's entire life cycle. This begins with the raw materials used and covers the development, production, use, and recycling of the product, whereby manufacturers and customers each bear responsibility for the product. Continental takes on the development and production according to the best possible standards to minimize the impact on health and the environment, while customers ensure that products are used for their designated purpose.

When consuming raw materials, we ensure that natural resources are used carefully. Where production is concerned, we are aiming to reduce energy and water consumption annually while lowering $CO_2$ emissions and waste by 5%.

The customer's responsibility begins with the product's use, ensuring that it is maintained and taken care of to obtain maximum possible performance and the longest possible use phase.

The end of the use phase is followed by recycling of the product that is no longer suitable for use. This may take the form of extracting the materials or the energy content.

**Recycling requirements for vehicle components**
The European Union's End-of-Life Vehicle Directive obliges automobile manufacturers to demonstrate the recyclability of all vehicle components. This makes the vehicle's recyclability an important product property which must be taken into account as early as the development of the individual parts and components.

In order to work together with customers on improving product recyclability, the relevant information concerning each product is compiled, evaluated and made available to the customer. In the Automotive Group, for example, this is achieved by means of a recycling passport, which includes component drawings, material data, and dismantling steps for the products. This form of information processing has proven to be extremely practicable and has made a considerable contribution to improving the recyclability of our products.

**Recycling vehicle components**
Vehicle components that can no longer be used result from repair and maintenance in workshops and the stripping down of end-of-life vehicles. The disposal of workshop waste includes the recycling of scrap metal such as brake disks and pads.

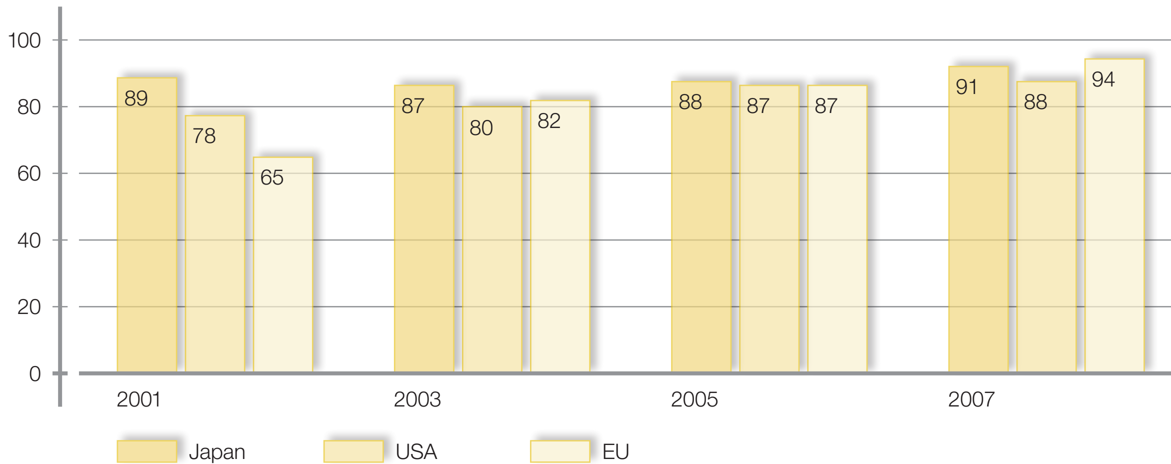
In the recycling process for end-of-life vehicles, airbags and high-polluting components are removed. In the next step, recyclable parts are extracted. The wheels are taken apart, and rims and tires are disposed of separately.

The body remains are shredded. The resulting particle mixtures ensure that more than 85% of the vehicle weight is recycled, in compliance with the European Union's End-of-Life Directive, which will require even greater improvements in future. There are similar regulations in Korea and Japan, and corresponding laws are in the pipeline in China, Russia and Turkey.

**Disposal of used tires**
As described above, the vast majority of Continental vehicle components, except the tires, are disposed of when end-of-life vehicles are stripped. Metallic components are used as a source of material, while elastomers and plastics can be recycled as a source of energy. The disposal of these components from the Automotive Group and the ContiTech division does not present a problem and is the responsibility of the vehicle manufacturers.

Scrap tire disposal is of particular importance because tires are replaced several times during the use phase of one vehicle: Every year, more than three million metric tons of scrap tires arise in Europe, approximately 600,000 of them in Germany, where tire sales are highest. The cement industry makes a significant contribution to disposing of these volumes by using the scrap tires as fuel in the cement-making process due to their high

**Recycling/recovery of used tires in the European Union, U.S.A. and Japan in %**




*Sources:* Japan Automobile Tire Manufacturers Association, Rubber Manufacturers Association, European Tyre and Rubber Manufacturers Association. (No data were available for 2008 at the time this Annual Report went to print.)

energy content. The steel and silica contained in the tires are also used as secondary raw materials.

Another recycling method which is gaining ground is the utilization of material from shredded tires. The steel and textile components are usually removed and recycled separately during the shredding process. The pure rubber granulate can then be used, for example, in the manufacture of panels for protecting buildings (insulation, sealing). As fine-particle granulate, it is also used as an elastic filler material on sports grounds with artificial turf. Even finer material such as rubber dust can be used in road construction, for instance in a noise-absorbing asphalt layer.

The retreading of tires is particularly common in the case of truck tires. After close inspection, suitable tires are given a new tread. In some fields of application, high-quality retreads present a cost-effective alternative to new tires, extending the life of the tire while also conserving resources.

As a result of its proactive approach to product responsibility, the tire industry increased the recycling rate for used tires in Europe (EU27) to 94% in 2007. There have been similar achievements in Japan and the U.S.A. Germany reached a recycling rate of 100% as early as 2006. As a result, used tire recycling in Germany occupies an excellent position in comparison with other common types of waste. The recycling rate is around 90% for used paper, 80% for glass, 77% for aluminum, and 76% for steel.

# Acting Responsibly

Continental is a value- and values-oriented company. We manage resources in a sustainable manner, and assume social responsibility: We create values.

**CSR Guideline adopted**

Continental is committed to Corporate Social Responsibility (CSR). We create values, manage resources in a sustainable manner, and assume social responsibility. This means that Continental acts in a value- and values-oriented manner – globally. With this in mind, in June 2008 the Executive Board adopted the CSR Guideline, which has its roots in the Basics corporate guidelines and documents our fundamental values and principles:

- We respect the laws and culture of each country in which we operate.
- We live and work in accordance with ethical and legal principles. These principles are set out in our code of conduct.
- We act with honesty and integrity at all times.
- We conduct an open and constructive dialogue with all groups in society.
- We respect the interests of our stakeholders (customers, shareholders, employees, suppliers) and allow them to participate fairly in our success.
- We are environmentally conscious, protecting the climate and resources and thus ensuring their sustainability.
- We ensure the long-term success of the company through our actions.

**Diversity Team expanded**

In 2008, we further intensified our diversity activities (employee heterogeneity) by expanding the Diversity Team. Our reasons for doing this are not only to promote and anchor equal opportunities within the company but also to reflect the increasing internationalization of Continental. There are three key aspects:

- The employees should be supported with child care provisions and flexible working hours, for example with the option of working part-time or from home. Our aim is to retain and promote high performers in the company. The focus here is not least on female employees who receive support, for instance, in the form of seminars and mentoring programs. We hope to promote in particular the advancement of women in this way.
- We have increased our focus on international recruitment and human resources development. According to forecasts, many countries will face a shortage of highly qualified employees in future. We go to great lengths to ensure that we can deploy the “right” employee at the “right” time at the “right” place.
- We also closely monitor demographic trends. For this purpose, we have developed special programs and concepts focusing on jobs and functional areas for older employees.

**Signing of the Diversity Charter**

It is not only internally that Continental fulfils its obligation in terms of diversity. The company also shows its commitment to this topic to the outside world. We demonstrated this in December 2008, when we signed the Diversity Charter, an initiative aimed at promoting diversity within companies. The purpose is to promote the acceptance, appreciation and integration of diversity within the corporate culture. The charter enables the companies to create a work environment free of prejudice. All employees are to be treated with respect regardless of gender, race, nationality, ethnic origin, religion or ideology, disability, age, sexual orientation, and identity. The fundamental principle is that in an open corporate culture, all employees should feel appreciated and integrated within the company and the employment market. The Diversity Charter initiative supported by numerous companies is backed by the German Federal Government. The charter’s patron is the German Chancellor, Angela Merkel.

**Program for demographic development**

Companies will face considerable challenges in coming years in the face of the demographic trend in western industrialized nations. There will be an increase in the number of older employees. We expect the number of older employees in our plants in Germany alone to triple by 2015.

In 2005, we launched our Demographics Program to address this change. In 2008, an electronic evaluation system was introduced, which enables us to assess the suitability of workplaces for the changed performance abilities of older production employees. The results are documented, statistically analyzed and compared with the expected demand in our plants. The system also alerts us to measures for ergonomic improvements. One focus concerns the quality and structuring of work conditions and work organization with regard to workplaces in production. Another focus concerns performance capacity on the basis of the employee's health. As a result, we are structuring a number of workplaces in such a way as to allow older employees to continue to make their usual high contribution to the company's economic success and to their own personal success, while taking their changed performance profile into account.

We intend to counter the increase in illness statistically linked with advancing age by means of medical and psychological programs, the purpose of which is to increase health awareness among the employees regardless of the area of the company in which they work. We are also providing health-promotion programs such as cancer screening, flu vaccinations and psycho-social support.

**ContiRunningDay 2008**

In October 2008, the ContiRunningDay demonstrated how it is possible to bring people together on the basis of a joint cross-border campaign, promote good health and make a worthwhile commitment. On October 11, some 10,000 Continental employees set off running or walking for charity under the motto "fit for the future". Employees in 20 countries worldwide took part in the 24-hour sports event. The Asian locations, in particular Japan, were first off the blocks. The event was brought to a close many hours later by participants on the other side of the world in the U.S.A. and Mexico. At numerous locations, the ContiRunningDay was accompanied by events in support of local charities. In addition the Continental Corporation contributed with a donation to a relief organization. The ContiRunningDay sports event was also an expression of the successful integration of all new additions to the corporation, such as Siemens VDO.

**Exemplary school route planner on the Internet**

In collaboration with the Lower Saxony's Road Patrol division, Continental created the SchulwegPlaner.de (school route planner) online platform – just one of many examples of our social commitment. The purpose of this project, the first of its kind in Germany, is to reduce the number of accidents involving children on their way to and from school. The fact that children's safety on their way to and from school continues to be a cause for great concern is borne out by the statistics: On average in Germany, one child is involved in a road traffic accident every 14 minutes. As one focus of our work concerns road safety innovations and products, the connection with school route safety was obvious.

The school route planner systematically depicts the sidewalks, pedestrian crossings and traffic signals as well as accident hotspots, and then comes up with a precise route map of the safest possible way to and from school. Once generated on the computer, the route map can easily be printed out, and step-by-step additions and amendments can be made at any time. Numerous German schools have worked with this tool since it went live in fall 2007.

The school route planner received an award from the German Federal Ministry of Economics and Technology at the International Consumer Electronics Exhibition (IFA) in Berlin. The ministry's "Wege ins Netz" (Ways into the Internet) initiative awarded prizes to projects which meaningfully guide people in the direction of the Internet. In this competition, the road safety project took first place among 139 candidates.

# Economic Climate

The following information on inflation and growth rates for 2008 reflects the estimates available at the time this Annual Report went to print.

## Macroeconomic development

### Global economy

The crisis which began in July 2007 on the U.S. mortgage market grew into a global financial crisis in 2008, which had a particularly severe effect on the world economy in the third and fourth quarters. In its World Economic Outlook (last updated in January 2009), the International Monetary Fund (IMF) lowered its forecasts for 2008 and 2009 three times so significantly that a global recession has to be considered as the probable economic situation for 2009. In many countries (U.S.A., Germany, Japan), a declining economic development was observed as early as the second and third quarter of the year 2008. Therefore many economists see the "technical" recession as having already begun in these countries in the second quarter of 2008. The reality has fallen significantly short of forecasts, which generally predicted 5% growth for 2008. The IMF sees the rate of world economic growth in 2008 at just 3.4%. Despite investment programs running into the trillions by all national governments, the global economy is expected to grow by only 0.5% in 2009. This would represent the worst level since the Second World War. Economists feel that the key to achieving these forecasts lies in part in reestablishing the money cycle and especially the credit cycle.

### Germany

Following a strong first six months in 2008, economic growth slowed noticeably in the second half of the year. The labor market was able to profit from the upswing of the past years, with the unemployment rate falling below 8%. Over the course of 2008, growth of exports slowed, with exports falling in the fourth quarter. The slowing global economy resulted in a decline in investments, which impacted Germany as an export nation in particular. Primarily, the automotive industry was hit hard. The inflation rate moved in line with energy prices. Whereas at mid-2008 the price for a barrel of oil exceeded $140, in the second half of the year the price fell to below $50 per barrel. Parallel to this, the inflation rate dropped below 2% at the end of 2008. The gross domestic product (GDP) was up 1.3% in 2008.

### Western Europe and the Eurozone

The financial crisis and the global slump in demand triggered a recession in the Eurozone as well. The restrictive monetary policy of the European Central Bank (ECB) and the high energy prices did not foster economic growth within the Eurozone in 2008 either. After 2.6% growth in GDP in 2007, growth fell below 1%. With inflation rates of about 4%, the ECB had no leeway for an expansive monetary policy for a long time. The key interest rate of the ECB was thus still 4.25% in the third quarter, but was lowered to 2.5% at the end of the year.

### Central and eastern Europe

This region also did not remain unaffected by the declining economic situation. Nonetheless, growth in Poland and Slovakia exceeded 5%. Declining economic growth resulted in a decrease in the inflation rate in these countries as well. At the end of 2008, their central banks also began to lower key interest rates.

### Russia

The year 2008 highlighted Russia's sensitivity to developments in raw material and energy prices. At the end of 2008, the Russian currency came under enormous pressure, after energy prices in particular had plummeted. The energy sector represents more than 30% of the country's GDP. The Russian central bank intervened with large amounts of money in order to maintain the desired exchange rate of the ruble to the bi-currency basket comprising the euro and the U.S. dollar.

### America

The U.S. economy has been in a recession since early 2008. Real estate prices have yet to reach bottom, and consumer spending, which drives economic growth, is on the decline as well. In 2008 far more than two million persons lost their jobs in the U.S.A., and the unemployment rate rose above 7%. The government already initiated many measures in 2008 to stimulate the economy. The U.S.A.'s stricken financial system is to be stabilized by state intervention. The Lehman Brothers insolvency in September 2008 is considered to be the key event that intensified the financial market crisis. The Fed fund rate fell to 0% to 0.25% at the end of the year.

**Asia**
The export-oriented Japanese economy was also hit hard by the sharp downturn in the global economy, with exports down a quarter by the end of 2008 year-on-year. The central bank had no opportunity to stimulate the economy by lowering interest rates, which had been low for years.

China again recorded strong economic growth at approximately 9%, but was not able to shield its export-oriented economy from the slump in the global economy. In the second half of 2008, the Chinese central bank responded by cutting interest rates to provide monetary stimulus.

## Industry development

The global business with automobile manufacturers is the most important market segment for our company as an international automotive supplier. However, the global original equipment market for commercial vehicles and the replacement markets for passenger, light truck, and commercial vehicle tires in western and central Europe and the NAFTA region are also significant. Within a macroeconomic setting, trends in these market segments differed greatly during the year under review.

**Automobile production**
The key factor driving our original equipment business in the light vehicle segment (passenger cars, station wagons, and light commercial vehicles) is the volume of vehicles produced worldwide, in particular in Europe and North America, which account for 86% of Continental's sales. Around 67 million vehicles were manufactured in 2008, a decrease of more than 4% year-on-year. This is the most significant decline in worldwide automobile production since 2001, when the number of vehicles manufactured fell by 3.4%.

In the first half of the year, the worldwide volume of vehicles increased by 2.2% despite the explosion in prices on the commodity markets. In the following six months, however, the number of vehicles produced fell by almost 4 million. This dramatic development resulted from the effects of the global financial crisis on the real economy, which hit the automotive sector hard very early on. More than 90% of the decline in 2008 occurred in the fourth quarter alone, in which all of the world's key markets recorded high double-digit declines in sales, which led to unprecedented cuts in production. Some manufacturers even halted vehicle production entirely in December 2008. This development is still having its effects at the beginning of 2009. Due to the developments in the second half of the year, all forecasts made at the beginning of 2008 are no longer valid.

The NAFTA region in particular was already displaying a significant negative trend in new vehicle registrations even before the banking crisis began. This was caused by the rapid price increases on the commodity markets as well as by the significant price fall in U.S. real estate. The rapid increase in oil prices and the announcement of tightened emissions regulations (CAFE rules) had a particularly heavy impact on demand in the light truck segment (pick-ups, off-road vehicles and minivans). Consequently, production of light vehicles as a whole had already fallen by over 900,000 vehicles (-11.8%) in the first half of the year, due primarily to weak demand for vehicle models from the Big Three – General Motors, Ford and Chrysler. This was still more than offset by strong increases in demand on the other vehicle markets. Global production in this segment rose by almost 800,000 vehicles in the first half of the year. Almost 50% of this growth related to the Europe sales region, which is a key market for Continental. However, the newly industrializing countries (Brazil, Russia, India and China) also displayed high double-digit growth rates in the first half of the year.

The second half of the year saw a complete reversal of the situation. The financial market crisis reached an interim peak with the insolvency of the U.S. investment bank Lehman Brothers and spread with unexpected rapidity and severity to the economic regions of Europe, Asia and the rest of the world. The situation in North America, already very strained, again worsened drastically. In many regions of Europe, the number of new vehicle registrations fell to below the level at the height of the recession in the early 1990s. New vehicle registrations in the U.S.A. dropped by almost 30% in the second half of the year, reaching the level of the early 1980s. Consequently, light vehicle production fell to 12.7 million units, equivalent to a decrease of around 20%, in the second half of the year. This represents a minus of 16% for the year as a whole.

Due to good development in the first half of the year, the decline in Europe was comparatively minor at minus 5%. However, in connection with the second half of the year there was a 14% downturn on the production side here

| Production of light vehicles** in millions of units | 2008* | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Western Europe | 14.7 | 16.2 | 15.9 | 16.1 | 16.4 |
| Eastern Europe | 6.4 | 6.0 | 4.9 | 4.2 | 3.9 |
| NAFTA | 12.7 | 15.0 | 15.3 | 15.7 | 15.7 |
| South America | 3.8 | 3.6 | 3.0 | 2.8 | 2.5 |
| Asia | 28.1 | 27.7 | 25.6 | 23.2 | 21.5 |
| Africa and Middle East | 1.6 | 1.7 | 1.6 | 1.4 | 1.3 |
| **Total** | **67.3** | **70.2** | **66.3** | **63.4** | **61.3** |

*Source:* Global Insight *preliminary estimate **passenger cars, station wagons, and light commercial vehicles (<6t)

as well. Whilst in western Europe almost 1.4 million fewer vehicles were produced than in the previous year in absolute terms, production in eastern Europe rose by nearly 400,000 units to 6.4 million.

The Asia region (excluding Japan) produces one in four vehicles, whereas only one vehicle in five comes from the NAFTA region. Europe continues to produce over 30% of all vehicles manufactured worldwide, with the emphasis again shifting in favor of eastern Europe in 2008, which accounts for 30% of total European output. In 2005, the figure was just 20%.

**Commercial vehicle production**

The development of commercial vehicle production in western Europe was similar to that of the light vehicle segment in this region, particularly in the second half of the year. However, both the increase in western Europe in the first half of the year and the subsequent slump resulting from the direct dependence on economic activity were even more drastic. Production in western Europe rose by 5.2% to 559,345 units for the year as a whole. This was due to the high level of commercial vehicle production in the first half of the year, which experienced double-digit growth, whilst over the rest of the year production was cut back by a figure in the high double digits.

In contrast, development in the U.S.A. remained below expectations during the entire period. In the first quarter, it was still possible to link the decline in Class 5-7 (up to 15t) and Class 8 Trucks (more than 15t) in the U.S.A. to the effects of purchases being brought forward due to the 2007 changes to environmental regulations. The magnitude (-30%) constituted an early negative signal as to the state of the U.S. economy. Due to the poor economic development, the upturn which was hoped for owing to the low basis figures in the following quarters did not materialize. Production volumes sank by 13%. The segment of commercial vehicles up to 15t was hit particularly hard, experiencing a setback of 24%. There had already been a 25% decline in the previous year, with the volume for this class of vehicle decreasing by 117,000 units to 157,000 units in just two years. Overall, the U.S. commercial vehicle market was down 45% in two years.

However, commercial vehicle output in 2008 on the whole remained just above the previous year's figure. 2.7 million units were produced worldwide, representing an increase of 1.5%. This growth was achieved only through positive development in the other sales markets. The highest growth was seen in South America with an increase of 19.8% to 194,759 units, a figure which has almost doubled since 2006. At 206,068 units, commercial vehicle output in eastern Europe exceeded the level of the previous year. In Asia, commercial vehicle output also increased, in this case to more than 1.3 million units. This represents more than 50% of all commercial vehicles produced across the world. The growth in other regions resulted exclusively from the very good development until around August 2008. As in the light vehicle segment, production in these regions saw a double-digit drop too, particularly in the fourth quarter.

| Production of heavy vehicles** in thousands of units | 2008* | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Western Europe | 559 | 532 | 480 | 460 | 430 |
| Eastern Europe | 206 | 188 | 140 | 130 | 120 |
| NAFTA | 366 | 421 | 650 | 590 | 490 |
| South America | 195 | 163 | 100 | 110 | 100 |
| Asia | 1,362 | 1,346 | 970 | 950 | 990 |
| **Total** | **2,689** | **2,649** | **2,340** | **2,240** | **2,130** |

*Source:* Global Insight *preliminary estimate **commercial vehicles (>6t)

### Passenger tire replacement business

In the passenger tire replacement business, our most important markets are in western and central Europe, and in the NAFTA region. Neither of these markets recorded any increase as against the previous year. However, due to the lower level of fluctuation (cyclicality) in the sector, the downturn was not as serious as in the light vehicle segment, particularly in the second half of the year. In contrast, the trend was very similar across the regions.

The number of passenger tires sold fell to 275.5 million units in western and central Europe, which is equivalent to a year-on-year decrease of about 5%. Whilst consumers reacted to the high oil prices by driving less, particularly in the first half of 2008, they avoided purchasing new tires in the second half of the year, primarily in response to the poor economic development. In addition, consumers saw themselves facing increased tire prices, particularly in the second half of the year, since the tire manufacturers attempted to offset the rapidly rising costs of raw materials by increasing tire prices. At around 5%, the decline in the NAFTA region was just as great as in Europe. The data published by the Department of Transportation (DOT) show a significant decrease in miles driven of around 5% in the first half of 2008. Only with the rapid fall in raw material prices in the second half of the year did the indicator stabilize at a low level, and the miles driven by vehicle owners decreased by 3.7% for the year as a whole. In the U.S. in particular, the decline in economic performance had a much more marked effect on customer behavior than the lower gasoline prices. From September on, sales volumes dropped by a percentage in the high double-digits. Our sales forecasts were thus significantly wide of the mark.

### Truck tire replacement business

The volumes in the markets of western and central Europe and in the NAFTA region are also particularly important for our truck tire replacement business. In 2008, the volume of western and central European markets fell by 6.8% to 19.2 million units. The number of truck tires sold in the NAFTA region decreased by 7.4% to 19.1 million units. We had expected a slight increase in market volume.

### Replacement sales of passenger, light truck and 4x4 tires

| in millions of units | 2008* | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Western and Central Europe | 275.5 | 288.7 | 287.1 | 273.8 | 265.6 |
| NAFTA | 262.9 | 275.9 | 264.9 | 274.0 | 269.6 |
| Asia | 212.9 | 205.6 | 196.9 | 184.6 | 172.1 |

*Source:* LMC World Tyre Forecast Service, 2008 *preliminary estimate

**Replacement sales of truck tires**

| in millions of units | 2008* | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Western and Central Europe | 19.2 | 20.6 | 19.9 | 19.3 | 19.2 |
| NAFTA | 19.1 | 20.6 | 20.9 | 21.5 | 20.5 |
| Asia | 60.4 | 57.9 | 52.8 | 49.9 | 46.5 |

*Source:* LMC World Tyre Forecast Service, 2008 *preliminary estimate

**Markets for raw materials**

Important raw materials for our production include metals such as copper, steel, nickel and aluminum. Oil-based raw materials and natural rubber are also utilized in tire manufacturing. Developments on the raw materials markets were also characterized by a high degree of volatility in 2008. After prices for oil-based raw materials and metals had increased sharply to reach record levels in the first half of 2008, they fell substantially in the context of the deterioration in the economic outlook.

Prices for nickel already started to fall early in 2007, and this trend continued in the year under review. At $21.30 per kilogram, the average price was around 41% lower than the average price in 2007. Prices for aluminum, copper and steel rose in the first half of 2008 to record high levels at first, but then dropped significantly over the rest of the year amid fears of a global recession. Whilst the average prices for aluminum and copper decreased slightly year-on-year – by 1.5% and 3.3% respectively – the average price of tempered steel in particular was around 65% higher than the average price in 2007. Due to the significant price decreases in the second half of the year, the prices of all types of metal we use were lower on December 31, 2008, than the average price level in 2005.

Metals, which we only buy in a highly processed state, such as formed and machined parts, are another base material for production. The fact that the average steel price was much higher in 2008, for example, had no major negative effect on our business because our suppliers have strong inventories.

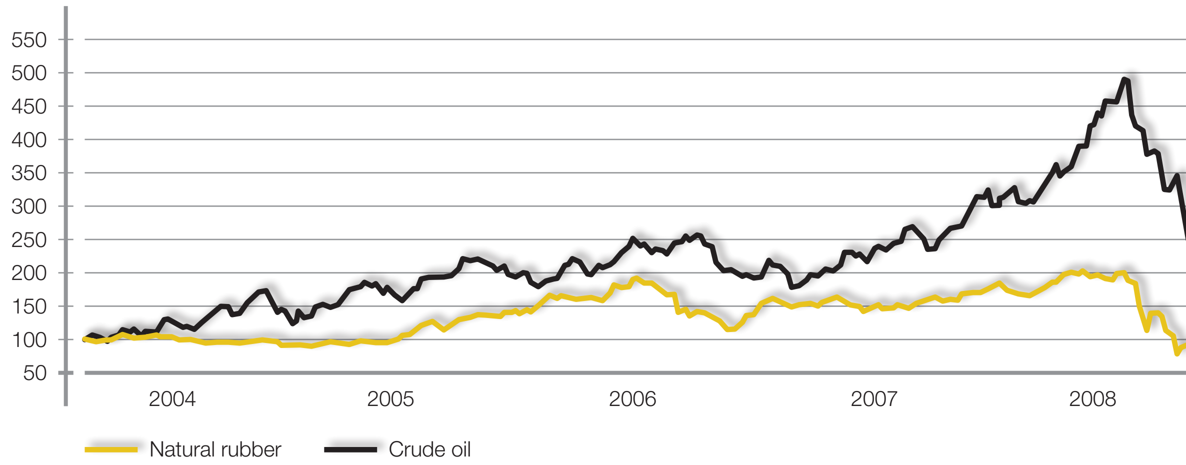
Natural rubber, which is traded on the Singapore and Tokyo commodity exchanges, is an extremely important single raw material for the Continental Corporation, particularly for the Tire divisions. Continental buys various types of natural rubber, primarily in Thailand, Malaysia, and Indonesia, where trends in prices tend to be similar.

From the second half of 2007 on, the price of natural rubber increased again and peaked in early July 2008 at $3,388.6 per ton. This was followed by a significant decrease in price up until the end of the period under review. For instance, on December 29, 2008, natural rubber type TSR 20 was quoted on the SICOM Singapore exchange at $1,378.3 per ton. This represents a nearly 60% decrease in comparison with the highest price in July. The price level is also around 32% lower than the 2006 average market price. A ton of natural rubber (TSR 20) cost an average of $2,653.8 in 2008, an increase of approximately 21% in comparison to $2,199.0 in the previous year.

In addition to natural rubber, which we use directly, crude oil is the most important base for many of the materials used in production, such as synthetic rubber, carbon black, and chemicals. In some cases, there are multi-stage production processes at our suppliers between the crude oil and the materials procured by Continental. The crude oil market rose sharply from 2004 on, and on July 3, 2008, it reached a new peak with a price of $145.7 per barrel for the North Sea variety Brent. Amid the fears of a global recession which arose from the financial crisis, prices fell sharply on the crude oil market, a trend which accelerated further with the certainty of an economic downturn. As of December 31, 2008, the price for Brent was listed at $41.8 per barrel. The price thereby fell to a level which was last reached in the year 2004. However, the average price for crude oil rose by 36% in comparison to the previous year.

The increase in all raw materials calculated in U.S. dollars was slightly offset by the average increase of around 8% in the euro in the year under review.

Overall there was an adverse impact on our earnings of around €325 million in 2008, resulting primarily from price trends for natural and synthetic rubber. This could not be entirely offset by mix improvements and price increases.


Trends in prices
550
500
450
400
350
300
250
200
150
100
50
2004
2005
2006
2007
2008
Natural rubber
Crude oil

# Earnings Position

- Sales up 45.8%
- EBIT before amortization of intangible assets from PPA, before depreciation of tangible assets from PPA (only Siemens VDO), and before special effects, down 0.2%

| Continental Corporation in € millions | 2008 | 2007 | Δ in % |
| --- | --- | --- | --- |
| Sales | 24,238.7 | 16,619.4 | 45.8 |
| EBITDA | 2,771.4 | 2,490.6 | 11.3 |
| in % of sales | 11.4 | 15.0 | |
| EBIT before amortization of intangible assets from PPA | 210.0 | 1,737.2 | -87.9 |
| in % of sales | 0.9 | 10.5 | |
| EBIT | -296.2 | 1,675.8 | -117.7 |
| in % of sales | -1.2 | 10.1 | |
| Net income attributable to the shareholders of the parent | -1,123.5 | 1,020.6 | -210.1 |
| Earnings per share (in €) | -6.84 | 6.79 | |
| Research and development expenses | 1,498.2 | 834.8 | 79.5 |
| in % of sales | 6.2 | 5.0 | |
| Depreciation and amortization[1] | 3,067.6 | 814.8 | 276.5 |
| Operating assets (as of December 31)[2] | 17,286.1 | 19,242.1 | -10.2 |
| EBIT in % of operating assets (as of December 31)[2] | -1.7 | 8.7 | |
| Operating assets (average)[2] | 19,117.0 | 10,529.2 | 81.6 |
| EBIT in % of operating assets (average)[2] | -1.5 | 15.9 | |
| Capital expenditure[3] | 1,595.2 | 896.9 | 77.9 |
| in % of sales | 6.6 | 5.4 | |
| Number of employees at the end of the year[4] | 139,155 | 151,654 | - 8.2 |
| | | | |
| Adjusted EBIT before amortization of intangible assets from PPA[5] | 1,727.0 | 1,841.5 | -6.2 |
| in % of sales | 7.1 | 11.1 | |
| Adjusted EBIT[5] | 1,275.1 | 1,780.1 | -28.4 |
| in % of sales | 5.3 | 10.7 | |
| | | | |
| EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) | 320.3 | 1,737.2 | -81.6 |
| in % of sales | 1.3 | 10.5 | |
| Adjusted EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO)[5] | 1,837.3 | 1,841.5 | -0.2 |
| in % of sales | 7.6 | 11.1 | |

[1] Excluding write-downs of investments.
[2] New definition of operating assets.
[3] Capital expenditure on property, plant, equipment and software.
[4] Excluding trainees.
[5] Before special effects.

**Sales up 45.8%**

Consolidated sales in 2008 rose by €7,619.3 million or 45.8% compared with the same period of the previous year to €24,238.7 million (2007: €16,619.4 million). This increase results from the €5,240.1 million year-on-year rise in the first six months of 2008 and from the €2,379.2 million year-on-year rise in the second half of 2008. In both periods, the changes in the scope of consolidation – particularly through the acquisition of Siemens VDO – had a positive impact, whilst exchange rate changes tended to reduce sales. Whereas the first half of 2008 was still characterized by organic growth, in the second half of 2008 there was a decline in volume due to the changed, negative market environment.

Sales by region in 2008 saw no material changes from the previous year:

| Sales by region in % | 2008 | 2007 |
|---|---|---|
| Germany | 31 | 31 |
| Europe excluding Germany | 36 | 37 |
| NAFTA | 19 | 21 |
| Asia | 10 | 8 |
| Other countries | 4 | 3 |

**EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) down 81.6%**

It is no longer possible to identify separately the depreciation of tangible assets from PPA (purchase price allocation) for Siemens VDO and for the other acquisitions transacted in the past. For this reason, a rough estimate was made for Siemens VDO based upon the euro value as of November 30, 2007. According to this estimate, depreciation of tangible assets from PPA (only Siemens VDO) in 2008 totaled €110.3 million for the corporation.

Consolidated EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) was down in 2008 compared with the same period of last year by €1,416.9 million, or 81.6%, to €320.3 million (2007: €1,737.2 million), equivalent to 1.3% (2007: 10.5%) of sales. Before special effects, EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) fell by €4.2 million, or 0.2%, to €1,837.3 million (2007: €1,841.5 million). The adjusted return on sales amounted to 7.6% (2007: 11.1%).

**EBIT before amortization of intangible assets from PPA down 87.9%**

Consolidated EBIT before amortization of intangible assets from PPA was down in 2008 compared with 2007 by €1,527.2 million, or 87.9%, to €210.0 million (2007: €1,737.2 million). EBIT before amortization of intangible assets from PPA amounted to 0.9% (2007: 10.5%) of sales.

**EBIT down 117.7%;**
**EBIT before special effects down 28.4%**

EBIT was down €1,972.0 million on the previous year to -€296.2 million (2007: €1,675.8 million), a decrease of 117.7%. The return on sales fell to -1.2% (2007: 10.1%). Before special effects, EBIT declined by €505.0 million or 28.4% to €1,275.1 million (2007: €1,780.1 million). The adjusted return on sales amounted to 5.3% (2007: 10.7%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to -1.5% (2007: 15.9%). Continental changed its definition of operating assets and replaced it with an average calculation. The previous year's figures were adjusted accordingly.

The increase in raw material prices had a negative impact of approximately €325 million on the corporation's EBIT in 2008 compared with the average prices for 2007. This affected primarily the Tire divisions.

**Special effects in 2008**

The annual impairment test on goodwill led to an impairment requirement of €1,230.0 million. €475.2 million of this related to the Interior division, €145.2 million to the Chassis & Safety division and €609.6 million to the Powertrain division.

The impairment test on customer relationships in other intangible assets led to an impairment requirement of €54.3 million with one customer. €32.6 million of this related to the Interior division and €21.7 million to the Powertrain division.

The relocation of production capacity from our Ebbw Vale plant in the UK to the plant in Zvolen, Slovakia, that began in 2006 led to a further impairment of €0.5 million in the Chassis & Safety division in 2008.

Write-downs on the book value of a joint venture of the Chassis & Safety division on the estimated liquidation revenue led to an impairment of €2.4 million.

As part of winding-up restructuring activities connected with the acquisition of the automotive electronics business acquired from Motorola, there was a positive effect on EBIT of €4.3 million for the Interior and Powertrain divisions in the reporting period, which resulted from net restructuring expenses and from the reversal of unutilized provisions. This was more than offset by expenses of €6.0 million from the continuing integration of the automotive electronics business acquired from Motorola.

At the plant in Wetzlar, Germany, production for the Interior division will be shut down due to a lack of orders. Research and development (R&D) activities are to remain in Wetzlar. This led to restructuring expenses in the amount of €26.1 million in the period under review.

At the plant in Babenhausen, Germany, two customer contracts are to expire in the Interior division, and there are currently no successor products. This led to restructuring expenses of €40.7 million in the year under review.

Also in the Interior division, the product portfolio was reviewed in conjunction with the acquisition of Siemens VDO and business sections in the non-OE sector were identified that are not part of our core business. The sale process was initiated for one of these business sections, leading to recognition of impairment losses in the amount of €46.9 million.

Production at the plant in Rambouillet, France, is to be relocated. R&D activities and administration are to remain at the location. This led to restructuring expenses of €42.9 million in the Interior division in the period under review.

Restructuring expenses of €4.4 million were incurred in 2008 for the research and development location in Munich, Germany.

The Interior division decided to discontinue operating activities in the aftermarket infotainment segment. This led to restructuring expenses of €9.4 million.

The sale of the parking assist systems business led to a gain of €6.2 million in the Interior division. This led to restructuring expenses of €0.5 million.

Plans are to close the plant in Birmingham, UK. Here the cockpit business of the Interior division was sold on December 31, 2008, resulting in a €1.0 million gain, and restructuring expenses of €2.1 million were incurred. The relocation of further business activities of the Interior division led to restructuring expenses of €0.7 million. Restructuring expenses of €3.8 million resulted from the relocation of the fuel supply business in the Powertrain division to Dortmund, Germany, and Brandys, Czech Republic.

Impairment testing on the book values of at-equity-accounted shares in the Interior division led to two impairment requirements of €35.0 million and €5.0 million.

In addition, there were further restructuring expenses of €1.7 million for various sites of the Interior division in the period under review.

The sensors business of the Chassis & Safety and Powertrain divisions at the Dortmund location in Germany will be closed due to reductions in volume and a lack of follow-up orders. This led to restructuring expenses in the amount of €15.6 million in the period under review.

In connection with the transfer of the R&D activities of the Chassis & Safety and Powertrain divisions, restructuring expenses of €6.2 million were incurred at the Elkhart site in the U.S.A. in the period under review.

The electric motors activities were sold – primarily under an asset deal – to the Brose Group with effect from April 1, 2008. This sale generated an overall gain of €2.0 million for the Powertrain division.

The Powertrain division plant at Asnière, France, is to be closed down. This led to restructuring expenses of €18.8 million.

In the U.S.A., production of diesel injection systems at the Blythewood plant as well as the research and development activities at the Columbia site are being relocated to Newport News. This led to restructuring expenses of €10.5 million.

At the end of 2008, an agreement was reached with union representatives for hourly workers at the Newport News, U.S.A. plant to freeze retirement payments for medical care at their current level. This resulted in a positive effect on earnings of €10.2 million.

An OE vehicle manufacturer withdrew an order at short notice, due to financing difficulties of the contractual partner, who in turn as a tier-one supplier was one of Continental's customers. This turn of events affected the new Powertrain plant in Costa Rica because the first production of engine and transmission control units had been planned for this initial contract at the end of 2008. Continental submitted a claim for damages against the tier-one supplier, who consequently filed for Chapter 11 insolvency protection in the U.S.A. Conversely, Continental also cancelled existing contracts with its suppliers and was subsequently also faced with claims for damages. A final agreement, however, could be reached with these parties, mainly under which Continental agreed to acquire the product-specific tooling already in place. The related tooling was written off in full, given there was no other application. In total, expenses of €12.4 million were incurred to settle the claims. Due to the excellent basis that is offered by the production plant in Costa Rica, Continental is presently reviewing options for quickly transferring other products for the NAFTA region to ensure that this plant is efficiently utilized. There was no need for any impairment in connection with this site.

There was a positive effect on EBIT of €0.3 million from net expense balance, primarily as a result of scrapping unusable machinery and reversing unutilized provisions during the restructuring phase at the U.S. tire plants in Charlotte and Mayfield.

Property, plant, and equipment at the Mount Vernon plant in the U.S.A. was written down in the amount of €11.4 million due to the failure to achieve process efficiency and to the related earnings situation. This requirement was due to capital expenditures made in 2008 which, under IFRS impairment principles, are not recognized at replacement cost but at the lower net realizable value.

In the Commercial Vehicle Tires division, the plant at Alor Gajah, Malaysia, is being closed down, with some parts of production being relocated to Petaling Jaya, Malaysia. This led to restructuring expenses of €0.8 million.

In the ContiTech division there was an overall positive effect on EBIT of €0.9 million resulting from various minor restructuring measures and from unutilized provisions, mainly for Roulunds, Denmark, and for ContiTech Schlauch, Northeim, Germany.

The sale of the Benecke-Kaliko unit's furniture covering business resulted in a gain of €4.7 million in the ContiTech division. This led to the reversal of unutilized provisions in the amount of €2.4 million.

The sale of Phoenix Dichtungstechnik GmbH led to a gain of €24.3 million in the ContiTech division.

The Italian company ContiTech Ages was sold at the end of 2004. Expenses of €3.3 million were incurred in connection with outstanding receivables, mainly due to the company's insolvency.

In 2007, the antitrust authorities of the European Union, the U.S.A., the UK, Australia, Brazil, Japan and Korea initiated investigations into alleged antitrust behavior – in particular price-fixing agreements by employees of Dunlop Oil & Marine Ltd., UK, a subsidiary of ContiTech AG, in the area of offshore hoses. In 2008 and more recently on January 28, 2009, decisions made by certain authorities and other events led to expenses of €29.0 million.

Various smaller impairments in the amount of €7.2 million were incurred in the corporation.

Special effects in 2008 reduced consolidated earnings by a total of €1,571.3 million. Adjusted for goodwill impairment of €1,230.0 million and for customer relationship impairment of €54.3 million, there was a negative impact of €287.0 million from special effects for the corporation.

**Special effects in 2007**

The continuing integration of the automotive electronics business acquired from Motorola resulted in expenses of €25.9 million and restructuring expenses of €8.1 million in 2007.

To optimize the organization of production facilities in Germany and improve the cost structure of the Electric Drives unit, the Haldensleben site was closed except for remaining minor winding-up activities at the end of 2007. The Haldensleben operations were relocated to Berlin. This led to restructuring expenses of €5.8 million in 2007.

Effective January 1, 2008, Continental Teves Japan Inc. sold significant parts of its plant, including the related buildings and machinery at the Hiroshima location in Japan, to Nisshinbo Industries Inc. for the symbolic amount of 1 yen. In accordance with IFRS, the carrying amount of the plant must be written down to its expected selling price. This led to an impairment loss of €3.6 million in 2007.

The relocation of production capacity from our Ebbw Vale plant in the UK to the Zvolen plant in Slovakia, which commenced in 2006, resulted in restructuring expenses of €1.4 million in 2007.

As subleasing is not possible, a provision of €5.2 million was set up in 2007 for unused leased facilities near Detroit, Michigan, U.S.A., acquired as part of the acquisition of the automotive electronics business acquired from Motorola.

The closure of the downtown location in Bangalore, India, and the relocation of machinery to the area surrounding Bangalore led to restructuring expenses of €2.1 million in 2007.

On December 20, 2007, we announced at our site in Chatham, Canada, that the remaining production activities there would be discontinued. A provision for restructuring of €10.1 million was created for this purpose in 2007.

In connection with the purchase price allocation of Siemens VDO in 2007, inventories valued at €33.6 million were written up to fair value. Utilization of these inventories in December 2007 led to an expense in the corresponding amount.

Our U.S. tire company Continental Tire North America (CTNA) amended its coverage of healthcare costs for retirees in 2006. In an interim decision, the responsible court of first instance upheld a class-action lawsuit brought against this measure insofar as the amendments to the pension plan should not have been implemented in full unilaterally. CTNA has lodged an appeal against this decision. CTNA has also submitted a proposal for a mutually agreed solution to the affected retirees, which essentially provides for a one-time payment to be made to an external fund. Under this agreement, the existing plan amendments were maintained. In this context, expenses of €46.5 million were recognized in the Passenger and Light Truck Tires division and €3.4 million in the Commercial Vehicle Tires division in 2007.

In addition, the medical healthcare plans for salaried employees were adjusted in 2007 by further limiting medical benefits. This resulted in positive effects on earnings amounting to €27.6 million in the Passenger and Light Truck Tires division and of €14.4 million in the Commercial Vehicle Tires division.

In particular, unutilized provisions amounting to €3.1 million were reversed in 2007 as part of the winding-up of the restructuring activities at the tire plant in Charlotte, U.S.A.

Property, plant, and equipment at the Mount Vernon plant in the U.S.A. was written down in the amount of €18.7 million due to the failure to achieve process efficiency and the related earnings situation. This requirement was due to capital expenditures made in 2007 which, under IFRS impairment principles, are not recognized at replacement cost but at the lower net realizable value.

As a result of the earnings position, the investment in Drahtcord Saar KG was written down by €5.5 million in 2007.

The first consolidation of the Matador Group in 2007 led to a gain of €21.2 million from the negative balance. This was partially offset by impairment losses of €1.3 million on an unused brand name and an unused power plant.

In 2007, the ContiTech division incurred restructuring expenses totaling €2.9 million, including expenses related to Roulunds, Denmark.

The sale of the Benecke-Kaliko unit’s furniture covering business resulted in a gain of €8.2 million for the ContiTech division in 2007. This led to restructuring expenses of €4.7 million.

Special effects in 2007 resulted in a loss of €104.3 million for the corporation.

**Procurement**
The total procurement volume for the Continental Corporation rose by 44% to €15.4 billion (2007: €10.7 billion). This significant increase is primarily due to the change in the scope of consolidation due to the acquisition of Siemens VDO. Another factor was the further increase in raw material prices on the international raw material markets in 2008. Decreases in orders in the fourth quarter reduced the procurement volume.

**Research and development**
Research and development expenses (R&D) rose by €663.4 million, or 79.5%, to €1,498.2 million (2007: €834.8 million), amounting to 6.2% (2007: 5.0%) of sales. The key reason for this increase is the change in the scope of consolidation due to the acquisition of Siemens VDO.

In the Chassis & Safety, Powertrain and Interior divisions, costs stemming from initial product development projects in the original equipment business are being capitalized. Costs are capitalized as of the point in time at which we have been nominated as a supplier by the original equipment manufacturer and have successfully fulfilled a specific pre-release stage. Capitalization ends with the approval for unlimited series production. The costs of customer-specific applications, pre-production prototypes, and testing for products already being sold, continue to be expensed as incurred. Capitalized development expenses are amortized over a useful life of three years, using the straight-line method. The assumed useful life reflects the time in which an economic benefit is likely to be achievable from these development projects.

The requirements for capitalizing intangible assets from development activities (IAS 38) were not met in the Passenger and Light Truck Tires, Commercial Vehicle Tires and ContiTech divisions.

**Depreciation and amortization**
Total depreciation and amortization increased by €2,252.8 million to €3,067.6 million (2007: €814.8 million), corresponding to 12.7% (2007: 4.9%) of sales. In the year under review, impairment losses of €1,341.4 million (2007: €27.1 million) were recognized. Adjusted for goodwill impairment of €1,230.0 million and for customer relationship impairment of €54.3 million, there were impairment losses of €57.1 million for fiscal 2008.

**Net interest expense**
At -€706.7 million, net interest expense rose by €552.5 million compared with the previous year (2007: -€154.2 million).

The increase in comparison to the previous year is particularly due to the acquisition of Siemens VDO in December 2007, which impacted the previous year's net interest expense for only one month. The debt taken up for this purpose had a negative impact of €500.7 million (2007: €53.5 million) on the net interest expense in 2008.

Interest expense increased by €484.8 million to -€695.1 million (2007: -€210.3 million).

There was a further negative effect on the net interest expense for 2008 as a result of mainly non-cash exchange rate effects from financial receivables and liabilities accepted or issued in foreign currencies. These were only partially offset by contrasting effects from changes in the fair value of derivative instruments arranged contractually for hedging purposes. In comparison to 2007, the resulting impact on the net interest expense increased by €90.2 million to -€91.6 million (2007: -€1.4 million).

In the future, renegotiations of the general conditions for the syndicated loan to finance the acquisition of Siemens VDO, which were concluded in January 2009, will lead to higher margins in comparison to the previous conditions. However, the series of interest rate cuts announced by central banks at the end of 2008 in the wake of the financial market crisis will significantly reduce the effects of increased margins.

**Tax expense**
At €75.0 million, tax expense was down €396.7 million from €471.7 million in 2007. This is due primarily to the decrease in the earnings before taxes. The goodwill impairment of €1,230.0 million in the year under review did not lead to any reduction in taxes. The tax rate before goodwill impairment was 33.0% (2007: 31.0%). The increase in the tax rate resulted chiefly from the non-recognition of deferred tax assets due to insufficient probability of recoverability and effects from impairment on investments, as well as non-tax-deductible operating expenses. This was in part offset by foreign tax rate differences, as well as incentives and tax holidays.

| **Reconciliation of EBIT to net income in € millions** | **2008** | **2007** | **Δ in %** |
|---|---|---|---|
| Chassis & Safety | 303.1 | 567.0 | -46.5 |
| Powertrain | -1,046.2 | -73.5 | -1,323.4 |
| Interior | -462.6 | 10.8 | -4,383.3 |
| Passenger and Light Truck Tires | 626.4 | 738.7 | -15.2 |
| Commercial Vehicle Tires | 29.5 | 124.1 | -76.2 |
| ContiTech | 329.1 | 362.8 | -9.3 |
| Other/consolidation | -75.5 | -54.1 | -39.6 |
| **EBIT** | **-296.2** | **1,675.8** | **-117.7** |
| Net interest expense | -706.7 | -154.2 | -358.3 |
| **Earnings before income taxes** | **-1,002.9** | **1,521.6** | **-165.9** |
| Income taxes | -75.0 | -471.7 | 84.1 |
| **Net income** | **-1,077.9** | **1,049.9** | **-202.7** |
| Minority interests | -45.6 | -29.3 | - 55.6 |
| **Net income attributable to the shareholders of the parent** | **-1,123.5** | **1,020.6** | **-210.1** |
| Earnings per share (in €), undiluted | -6.84 | 6.79 | -200.7 |

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

Net income attributable to the shareholders of the parent decreased by €2,144.1 million to -€1,123.5 million (2007: €1,020.6 million). This corresponds to earnings per share of -€6.84 (2007: €6.79).

# Financial Position

**Reconciliation of cash flow**

Cash flow from operating activities decreased by €28.8 million year-on-year to €1,884.8 million, equivalent to 7.8% (2007: 11.5%) of sales. The main reasons for this decline include the €453.7 million year-on-year increase in interest payments, particularly from the purchase price financing for the acquisition of Siemens VDO. A second major factor is the €70.6 million year-on-year decrease in liabilities from outstanding wage and salary payments. Tax refunds amounting to €149.2 million from the retroactive merger of Siemens VDO Automotive AG into Continental Automotive GmbH, as well as the reduction of the working capital by €362.5 million at the end of fiscal 2008, had a positive effect.

In 2008, free cash flow totaled €628.5 million. Cash outflow was €11,254.1 million lower than in the previous year, primarily as a result of the cash flow for the acquisition of Siemens VDO in the 2007 financial year, for which there was no comparable expenditure in 2008. Expenditure for investments in property, plant, and equipment, and software, and in intangible assets increased by €717.0 million in 2008 as compared to the previous year. Cash inflow from the disposal of subsidiaries and business units increased by €349.0 million year-on-year to €350.0 million. The most important factor here was the sale of the electric motors activities to the Brose Group, which provided cash flow totaling €230.0 million. Overall, cash used for investing activities decreased by €11,282.9 million year-on-year to €1,256.3 million.

**Net indebtedness** decreased by €372.9 million to €10,483.5 million as compared with €10,856.4 million at year-end 2007. At 189.6%, the gearing ratio is higher than the previous year's level (2007: 158.3%) despite the reduction in net indebtedness due to reduced equity in comparison to end of the previous year. A considerable part of the reduction of indebtedness resulted from the almost complete exercise of conversion rights from the convertible bond of the financing subsidiary Conti-Gummi Finance B.V. (CGF), Amsterdam, the Netherlands, which was issued in May 2004, for originally €400.0 million. From the outstanding nominal amount of €377.1 million at the end of 2007, a nominal amount of €356.7 million was converted, and the remaining portion of €20.4 million was repaid on October 23, 2008. Additionally, the sale of the electric motors activities to the Brose Group as described previously provided cash flow totaling €230.0 million. The negative impact from the drastic deterioration in the general economic environment with its corresponding effects on the automotive industry meant that a further reduction of indebtedness was not possible.

**Capital expenditure (additions)**

Additions to property, plant, and equipment and software amounted to €1,595.2 million, up €698.3 million on the previous year (€896.9 million). Capital expenditure amounted to 6.6% (2007: 5.4%) of sales.

The increase in capital expenditure is primarily due to the new business from Siemens VDO.

**Indebtedness**

Gross indebtedness amounted to €12,117.3 million at the end of 2008 (2007: €13,126.8 million), a year-on-year decrease of €1,009.5 million.

At €70.0 million, **bonds** were down €786.5 million from €856.5 million in 2007. Alongside the completion of the CGF convertible bond (originally €400.0 million) as described above, the original €500.0 million Continental AG bond issued in 2001 was repaid on December 5, 2008 as scheduled.

**Liabilities to banks** were €11,399.3 million on December 31, 2008 (2007: €11,397.7 million), thereby remaining almost at the level of the previous year. As of December 31, 2008, the syndicated loan taken out by Continental AG and by Continental Rubber of America, Corp. (CRoA), Wilmington, U.S.A., to finance the acquisition of Siemens VDO amounted to a book value of €10,162.7 million. For tranche C, due in August 2012, there were interest hedges of €3,125.0 million at the end of 2008. The resulting average fixed interest rate to be paid is 4.19% plus margin. The extension option for tranche A due in August 2008 was exercised for a partial amount of €800.0 million. In August 2008, the Continental Corporation took out a three-year promissory loan for €110.0 million through its financing subsidiary CGF.

At €648.0 million, the **other financial liabilities** were down €224.6 million from €872.6 million in 2007. This is primarily due to reduced utilization of the commercial paper program in comparison with the previous year. At €64.6 million, the figure at the end of 2008 was €373.3 million lower than the previous year's figure of €437.9 million. Also, the asset-backed securitization programs were utilized with a lower volume, €251.0 million as compared to €279.2 million in 2007. The market value of

| in € millions | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Cash provided by operating activities | 1,884.8 | 1,913.6 |
| Cash used for investing activities | -1,256.3 | -12,539.2 |
| **Cash flow before financing activities (free cash flow)** | **628.5** | **-10,625.6** |
| Dividends paid | -323.4 | -293.1 |
| Dividends paid and repayment of capital to minority interests | -43.9 | -11.1 |
| Proceeds from the issuance of shares | 1.0 | 1,487.9 |
| Non-cash changes | 118.4 | -25.2 |
| Other | 18.0 | -225.9 |
| Foreign exchange effects | -25.7 | 17.6 |
| **Change in net indebtedness** | **372.9** | **-9,675.4** |

the derivatives countered this trend. At €199.5 million, it was up €192.9 million on its value of €6.6 million as of December 31, 2007.

**Cash and cash equivalents, derivative instruments and interest-bearing investments** decreased by €636.6 million to €1,633.8 million (2007: €2,270.4 million).

**Net indebtedness** decreased by €372.9 million to €10,483.5 million as compared with €10,856.4 million at year-end 2007.

**Effective indebtedness**, i.e., including contingent liabilities on notes, was down €386.4 million to €10,490.4 million (2007: €10,876.8 million).

**Financing**

Due to the continuing deterioration of the economic situation in the final months of 2008, a possible need for adjustment of the credit conditions for the syndicated loan taken out for the acquisition of Siemens VDO began to emerge. Continental therefore proactively approached the banks in December 2008 with a concept to adjust the contract conditions to changes in the economic environment. Almost all the banks involved agreed to Continental's proposals in January 2009. The renegotiations resulted in an agreement on higher margins in comparison with the previous conditions, together with increased flexibility with regard to the net indebtedness to EBITDA ratio granted up until the end of 2010. The current credit lines totaling €11.8 billion, the breakdown and maturities of the individual tranches as well as their term from August 2009 to August 2012 are not affected by these modifications. In view of the changed situation for the company, modifications to the company's other obligations were also made in the agreement. For instance, some of the provisions of the investment agreement concluded with Schaeffler KG in August 2008 were incorporated in the conditions. As for dividend payments, restrictions were agreed upon that are, with the exception of fiscal 2008, oriented toward the dividend level for fiscal 2007. This means that the corporation's financial basis is secured. Continental currently has liquidity of €3.5 billion in cash, cash equivalents and unutilized credit lines.

In 2008, the originally agreed covenants were complied with as of the respective quarterly balance sheet date.

On average, based on quarter-end values, 33.8% of gross debt after hedging measures had fixed interest rates over the year.

# Net Assets Position

**Total assets**
Total assets were down €3,049.7 million to €24,687.9 million (2007: €27,737.6 million, not including subsequent adjustments to the opening balance sheet for Siemens VDO and Matador). This is mainly due to the goodwill impairment, the reduction of receivables and the sale of the electric motors activities to Brose, as well as the repayment of current indebtedness.

**Non-current assets**
Non-current assets fell by €1,035.3 million to €16,348.4 million (2007: €17,383.9 million). This decrease is primarily a result of goodwill impairment of €1,230.0 million and amortization of intangible assets from PPA. At €6,384.1 million, goodwill was down €905.1 million from €7,289.2 million in 2007. The effect from goodwill impairment was partially offset by subsequent adjustments to the opening balance sheet totaling €305.6 million. Other intangible assets fell by €457.1 million to €2,522.7 million (2007: €2,979.8 million). Property, plant, and equipment increased by €153.6 million to €6,122.2 million (2007: €5,968.6 million). The €228.7 million increase in deferred tax assets to €391.3 million (2007: €162.6 million) is due particularly to capitalizing losses carried forward in Germany, including those relating to interest limits, as well as the temporary loss situation of some foreign units.

**Current assets**
Current assets fell by €2,014.2 million to €8,339.5 million (2007: €10,353.7 million). This resulted primarily from the decrease in trade accounts receivable, cash and cash equivalents, and assets held for sale. Trade accounts receivable dropped by €656.1 million to €3,287.5 million (2007: €3,943.6 million). This was mainly due to declining sales at the end of 2008. The previous year's high level of cash and cash equivalents (€2,199.4 million) due to the acquisition of Siemens VDO decreased by €630.0 million in the year under review to €1,569.4 million, primarily as a result of reduced current indebtedness. Assets held for sale decreased by €551.3 million to €46.5 million (2007: €597.8 million). This was due both to the sale of the electric motors activities to the Brose Group, and to the reclassification of one business unit which was held for sale in the previous year and for which the disposal process begun in the previous year was halted. There was a €109.9 million reduction in income tax receivables to €148.0 million (2007: €257.9 million). This was primarily attributable to the recognition of taxes receivable in connection with the retroactive merger of Siemens VDO Automotive AG with Continental Automotive GmbH.

**Total equity**
At €5,529.9 million, total equity was down €1,326.2 million from €6,856.1 million in 2007. This is chiefly the result of a negative net income attributable to the shareholders of the parent totaling €1,123.5 million, as well as dividend payouts of €323.4 million for the previous year and negative effects from the translation of net assets in foreign locations totaling €127.6 million. This was partially offset by the conversion of convertible bonds, which led to a nominal equity increase of €356.7 million.

**Non-current liabilities**
At €11,310.3 million, non-current provisions and liabilities were down slightly by €358.0 million from €11,668.3 million in 2007. In the context of temporary losses at some foreign units, deferred taxes decreased by €123.5 million to €401.7 million (2007: €525.2 million). Non-current indebtedness declined by €104.3 million to €9,768.3 million (2007: €9,872.6 million).

**Current provisions and liabilities**
At €7,847.7 million, current provisions and liabilities were down by €1,365.5 million from €9,213.2 million in 2007, mainly due to decreased current indebtedness. Trade accounts payable dropped by €289.1 million to €2,469.8 million (2007: €2,758.9 million) due to reduced production volumes at the end of the year. Liabilities held for sale decreased by €203.2 million to €39.6 million (2007: €242.8 million). Reasons for this were the sale of the electric motors activities to the Brose Group, and the reclassification of one business unit which was held for sale in the previous year and for which the disposal process begun in the previous year was halted. Current provisions for other risks increased by €183.7 million to €1,026.3 million (2007: €842.6 million). This rise is attributable chiefly to subsequent adjustments to the opening balance sheet for Siemens VDO.

### Consolidated balance sheets

| Assets in € millions | Dec. 31, 2008 | Dec. 31, 2007 |
| --- | --- | --- |
| Goodwill | 6,384.1 | 7,289.2 |
| Other intangible assets | 2,522.7 | 2,979.8 |
| Property, plant, and equipment[1] | 6,122.2 | 5,968.6 |
| Investments in associates | 718.3 | 766.4 |
| Other long-term assets | 601.1 | 379.9 |
| **Non-current assets** | **16,348.4** | **17,383.9** |
| Inventories | 2,570.5 | 2,535.9 |
| Trade accounts receivable | 3,287.5 | 3,943.6 |
| Other short-term assets | 912.1 | 1,674.8 |
| Cash and cash equivalents | 1,569.4 | 2,199.4 |
| **Current assets** | **8,339.5** | **10,353.7** |
| **Total assets** | **24,687.9** | **27,737.6** |

| Total equity and liabilities in € millions | Dec. 31, 2008 | Dec. 31, 2007 |
| --- | --- | --- |
| **Total equity** | **5,529.9** | **6,856.1** |
| **Non-current liabilities** | **11,310.3** | **11,668.3** |
| Trade accounts payable | 2,469.8 | 2,758.9 |
| Other short-term provisions and liabilities | 5,377.9 | 6,454.3 |
| **Current liabilities** | **7,847.7** | **9,213.2** |
| **Total equity and liabilities** | **24,687.9** | **27,737.6** |
| | | |
| **Net indebtedness** | **10,483.5** | **10,856.4** |
| **Gearing ratio in %** | **189.6** | **158.3** |

[1] Property, plant, and equipment is shown adjusted by investment properties.

### Operating assets

A year-on-year comparison of operating assets at corporation level shows a decrease of €1,956.0, from €19,242.1 million to €17,286.1 million. The key reasons for this decrease are the impairment of €1,230.0 million on goodwill capitalized for the acquisition of Siemens VDO, as well as both scheduled and unscheduled amortization of intangible assets from PPA from the acquisition of Siemens VDO, which amounted to €499.6 million. The sale of the electric motors activities to the Brose Group led to a disposal of operating assets of €215.1 million, while the sale of Phoenix Dichtungstechnik GmbH led to a disposal of operating assets of €20.2 million. The intention to sell was already shown in the 2007 annual financial statements by reclassifying the original operating assets under the items “Assets held for sale” and “Liabilities held for sale” with net amounts of €218.8 million and €15.5 million respectively. Other disposals related to the parking assist systems business and Benecke-Kaliko’s furniture coverings business to Renolit AG. Smaller additions resulted in particular from the acquisition of the companies Tikka Russia, Tikka Finland and Oltas Turkey, as well as the inclusion of FSC Italia into the scope of consolidation.

Assets and liabilities of one company of the ContiTech division, which is held for sale, and of one business segment from the non-OE sector which is not part of our core business, have been reclassified under the items “Assets held for sale” and “Liabilities held for sale” respectively. This produced additions to the “Assets held for sale”/“Liabilities held for sale” items under operating assets totaling €41.7 million and €39.6 million respectively, and a corresponding reduction recorded against the original asset and liability items. The reversal in one company unit, where the disposal process begun in the previous year was halted, had the opposite effect on these items.

Total non-current assets reported amounted to €15,824.0 million, down €1,299.7 million from the previous year. This decrease resulted primarily from goodwill, which fell by €905.1 million to €6,384.1 million, and from other intangible assets, which fell by €457.1 million to €2,522.7 million. The goodwill impairment was partially offset by goodwill additions of €305.6 million from the subsequent application of the opening balance sheet figures from the Siemens VDO acquisition. In addition, a €153.6 million rise in property, plant, and equipment to €6,122.2 million increased non-current assets.

At the end of the year, working capital amounted to €3,395.1 million. Operating receivables amounted to €3,294.4 million (2007: €3,964.0 million) and inventories to €2,570.5 million (2007: €2,535.9 million). Operating liabilities amounted to €2,469.8 million (2007: €2,758.9 million).

**Employees**

The workforce of the Continental Corporation fell by 12,499 in comparison with 2007 to 139,155 employees. As a result of the decrease in volumes, there was a significant reduction in staff in the Automotive Group through restructuring and portfolio adjustments. The disposal of the electric motors activities reduced the workforce by 4,561. At ContiTech there were considerable staff cuts, totaling 2,191 employees. The reasons for this were the decline in orders and the sale of Phoenix Dichtungstechnik GmbH with 248 employees.

| Employees by region in % | 2008 | 2007 |
|---|---|---|
| Germany | 33 | 34 |
| Europe excluding Germany | 33 | 32 |
| NAFTA | 16 | 17 |
| Asia | 13 | 12 |
| Other countries | 5 | 5 |

# Key Figures for the Automotive Group

| Automotive Group in € millions | 2008 | 2007 | Δ in % |
|---|---|---|---|
| Sales | 14,900.0 | 7,295.9 | 104.2 |
| EBITDA | 1,428.8 | 903.7 | 58.1 |
| in % of sales | 9.6 | 12.4 | |
| EBIT before amortization of intangible assets from PPA | -706.2 | 558.7 | -226.4 |
| in % of sales | -4.7 | 7.7 | |
| EBIT | -1,205.8 | 504.3 | -339.1 |
| in % of sales | -8.1 | 6.9 | |
| Research and development expenses | 1,276.2 | 623.9 | 104.6 |
| in % of sales | 8.6 | 8.6 | |
| Depreciation and amortization[1] | 2,634.6 | 399.4 | 559.6 |
| Operating assets (as of December 31)[2] | 13,151.4 | 15,254.6 | -13.8 |
| EBIT in % of operating assets (as of December 31)[2] | -9.2 | 3.3 | |
| Operating assets (average)[2] | 14,734.3 | 6,364.6 | 131.5 |
| EBIT in % of operating assets (average)[2] | -8.2 | 7.9 | |
| Capital expenditure[3] | 1,095.6 | 474.9 | 130.7 |
| in % of sales | 7.4 | 6.5 | |
| Number of employees at the end of the year[4] | 82,737 | 92,876 | -10.9 |
| | | | |
| Adjusted EBIT before amortization of intangible assets from PPA[5] | 798.6 | 654.5 | 22.0 |
| in % of sales | 5.4 | 9.0 | |
| Adjusted EBIT[5] | 353.3 | 600.1 | -41.1 |
| in % of sales | 2.4 | 8.2 | |
| | | | |
| EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) | -595.9 | 558.7 | -206.7 |
| in % of sales | -4.0 | 7.7 | |
| Adjusted EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO)[5] | 908.9 | 654.5 | 38.9 |
| in % of sales | 6.1 | 9.0 | |

[1] Excluding write-downs of investments.

[2] New definition of operating assets.

[3] Capital expenditure on property, plant, equipment and software.

[4] Excluding trainees.

[5] Before special effects.

# Development in the Divisions: Chassis & Safety

- Sales up 10.4%
- EBIT before amortization of intangible assets from PPA, before depreciation of tangible assets from PPA (only Siemens VDO), and before special effects, down 10.7%

**Sales volume**
In the Electronic Brake Systems business unit, sales volume fell 8.6% to 14.4 million units (2007: 15.7 million units) over the course of 2008.

Sales volume at the Hydraulic Brake Systems business unit also decreased. The volume of brake boosters fell by 3.3% to 13.0 million units (2007: 13.4 million units). Brake calipers saw a decrease of 12.4% to 30.3 million units (2007: 34.5 million units).

**Sales up 10.4%**
Sales by the Chassis & Safety division increased in 2008 to €5,134.0 million (2007: €4,648.6 million), up 10.4% compared with the previous year. This increase resulted from changes in the scope of consolidation, especially from the acquisition of Siemens VDO. Volume decreases in the fourth quarter and exchange rate changes had the opposite effect.

**EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) down 37.6%**
It is no longer possible to identify separately the depreciation of tangible assets from PPA for Siemens VDO and for the other acquisitions transacted in the past. For this reason, a rough estimate was made for Siemens VDO based upon the euro value as of November 30, 2007. According to this estimate, depreciation of tangible assets from PPA (only Siemens VDO) in 2008 totaled €2.5 million for the Chassis & Safety division.

EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) for the Chassis & Safety division was down on the previous year. It decreased by €215.7 million, or 37.6%, to €358.1 million (2007: €573.8 million), and was equivalent to 7.0% (2007: 12.3%) of sales. Before special effects, EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) fell by €62.6 million, or 10.7%, to €519.9 million (2007: €582.5 million). The adjusted return on sales amounted to 10.1% (2007: 12.5%).

**EBIT before amortization of intangible assets from PPA down 38.0%**
In the Chassis & Safety division, EBIT before amortization of intangible assets from PPA was down in 2008 compared with the previous year. It decreased by €218.2 million, or 38.0%, to €355.6 million (2007: €573.8 million), representing 6.9% of sales (2007: 12.3%).

**EBIT down 46.5%;**
**Adjusted EBIT down 19.2%**
Compared with the same period of last year, the Chassis & Safety division reported a decrease in EBIT of €263.9 million, or 46.5%, to €303.1 million (2007: €567.0 million). The return on sales fell to 5.9% (2007: 12.2%). Before special effects, EBIT declined by €110.8 million, or 19.2%, to €464.9 million (2007: €575.7 million). The adjusted return on sales amounted to 9.1% (2007: 12.4%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 6.7% (2007: 19.7%).

**Special effects in 2008**
The annual impairment test on goodwill led to an impairment requirement of €145.2 million for the Chassis & Safety division.

The relocation of production capacity from our Ebbw Vale plant in the UK to the plant in Zvolen, Slovakia, that began in 2006 led to a further impairment of €0.5 million in the Chassis & Safety division in 2008.

Write-downs on the book value of a joint venture of the Chassis & Safety division on the expected liquidation revenue led to an impairment of €2.4 million.

The sensors business of the Chassis & Safety and Powertrain divisions at the Dortmund location in Germany will be closed due to reductions in volume and a lack of follow-up orders. This led to restructuring expenses in the Chassis & Safety division in the amount of €6.3 million in the period under review.

Due to the transfer of R&D activities of the Chassis & Safety and Powertrain divisions to the Elkhart site in the U.S.A., restructuring expenses of €3.6 million were incurred at the Chassis & Safety division in the period under review.

Various smaller impairments in the amount of €3.8 million were incurred in the Chassis & Safety division.

Special effects in 2008 reduced earnings of the Chassis & Safety division by a total of €161.8 million. Adjusted for goodwill impairment of €145.2 million, special effects impacted the Chassis & Safety division by a total of €16.6 million.

**Special effects in 2007**

Effective January 1, 2008, Continental Teves Japan Inc. sold significant parts of its plant, including the related buildings and machinery at the Hiroshima location in Japan, to Nisshinbo Industries Inc. for the symbolic amount of 1 yen. In accordance with IFRS, the carrying amount of the plant must be written down to its expected selling price. This led to an impairment loss of €3.6 million in 2007.

The transfer of production capacity from the Ebbw Vale plant in the UK to the Zvolen plant in Slovakia, which commenced in 2006, resulted in restructuring expenses in 2007 of €1.4 million.

In connection with the purchase price allocation of Siemens VDO in 2007, inventories valued at €3.7 million were written up to fair value. Utilization of these inventories in December 2007 led to an expense in the corresponding amount.

Special effects reduced earnings of the Chassis & Safety division by a total of €8.7 million in 2007.

**Procurement**

The procurement market for the Chassis & Safety division resulted to a large extent from that of the former automotive operations of Continental AG. The centralized purchasing structure introduced at that time continues to bring positive rewards. The main priorities were to source new suppliers for new technologies in the Driver Assistance Systems unit, and to reduce costs in all business units. Prices of raw materials (steel, steel scrap, and aluminum) went up from the middle of the financial year.

**Research and development**

Research and development expenses rose by €76.1 million or 21.9% year-on-year to reach €423.6 million (2007: €347.5 million), or 8.3% (2007: 7.5%) of sales.

**Depreciation and amortization**

Total depreciation and amortization increased by €257.4 million compared with 2007 to €486.8 million (2007: €229.4 million), corresponding to 9.5% (2007: 4.9%) of sales. In 2008, impairment losses of €150.6 million (2007: €5.1 million) were recognized on property, plant, and equipment and on intangible assets.

**Operating assets**

Operating assets in the Chassis & Safety division amounted to €4,308.3 million, a €134.1 million decrease in comparison with the end of 2007.

Non-current assets totaled €4,331.2 million (2007: €4,406.7 million), of which goodwill accounted for €2,665.5 million (2007: €2,719.7 million), intangible assets for €321.6 million (2007: €363.0 million) and property, plant, and equipment for €1,251.2 million (2007: €1,235.6 million). In the Chassis & Safety division, there were losses of €145.2 million from goodwill impairment in fiscal 2008, as well as €52.5 million from scheduled amortization of intangible assets from PPA from the acquisition of Siemens VDO. This was partially offset by goodwill additions of €84.3 million from the subsequent identification of opening balance sheet figures from the Siemens VDO acquisition.

Working capital at the year-end was €376.4 million (2007: €484.1 million). Operating receivables amounted to €556.3 million (2007: €723.2 million) and inventories to €288.2 million (2007: €324.1 million). Operating liabilities totaled €468.1 million (2007: €563.2 million).

| Chassis & Safety in € millions | 2008 | 2007 | Δ in % |
|---|---|---|---|
| Sales | 5,134.0 | 4,648.6 | 10.4 |
| EBITDA | 789.9 | 796.4 | -0.8 |
| in % of sales | 15.4 | 17.1 | |
| EBIT before amortization of intangible assets from PPA | 355.6 | 573.8 | -38.0 |
| in % of sales | 6.9 | 12.3 | |
| EBIT | 303.1 | 567.0 | -46.5 |
| in % of sales | 5.9 | 12.2 | |
| Research and development expenses | 423.6 | 347.5 | 21.9 |
| in % of sales | 8.3 | 7.5 | |
| Depreciation and amortization[1] | 486.8 | 229.4 | 112.2 |
| Operating assets (as of December 31)[2] | 4,308.3 | 4,442.4 | -3.0 |
| EBIT in % of operating assets (as of December 31)[2] | 7.0 | 12.8 | |
| Operating assets (average)[2] | 4,494.4 | 2,876.6 | 56.2 |
| EBIT in % of operating assets (average)[2] | 6.0 | 19.7 | |
| Capital expenditure[3] | 336.0 | 279.8 | 20.1 |
| in % of sales | 6.5 | 6.0 | |
| Number of employees at the end of the year[4] | 26,680 | 27,809 | -4.1 |
| | | | |
| Adjusted EBIT before amortization of intangible assets from PPA[5] | 517.4 | 582.5 | -11.2 |
| in % of sales | 10.1 | 12.5 | |
| Adjusted EBIT[5] | 464.9 | 575.7 | -19.2 |
| in % of sales | 9.1 | 12.4 | |
| | | | |
| EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) | 358.1 | 573.8 | -37.6 |
| in % of sales | 7.0 | 12.3 | |
| Adjusted EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO)[5] | 519.9 | 582.5 | -10.7 |
| in % of sales | 10.1 | 12.5 | |

[1] Excluding write-downs of investments.
[2] New definition of operating assets.
[3] Capital expenditure on property, plant, equipment and software.
[4] Excluding trainees.
[5] Before special effects.

**Capital expenditure (additions)**
Additions to the Chassis & Safety division increased by €56.2 million year-on-year to €336.0 million (2007: €279.8 million). Capital expenditure amounted to 6.5% (2007: 6.0%) of sales.

In virtually all business units, investments were made in expanding production capacity.

**Employees**
The number of employees in the Chassis & Safety division decreased by 1,129 compared with previous year to 26,680 (2007: 27,809). In all business units, job vacancies were not refilled and adjustment measures were implemented in response to the volume decrease.

# Development in the Divisions: Powertrain

- Sales up 243.2%
- EBIT before amortization of intangible assets from PPA, before depreciation of tangible assets from PPA (only Siemens VDO), and before special effects, down €131.5 million

**Sales volume**

Significant volume decreases were recorded as early as the beginning of the year in North America by the Engine Systems (injection systems installed in light and medium-duty commercial vehicles), Transmission (transmission control units) and Sensors & Actuators business units. This decline more than offset the temporary positive trend for electronic control units and injection systems for diesel and gasoline engines in Europe and Asia, a trend which did not continue into the fourth quarter.

**Sales up 243.2%**

Sales by the Powertrain division increased in 2008 to €4,040.0 million (2007: €1,177.0 million), up 243.2% compared with the previous year. This increase resulted from changes in the scope of consolidation, especially from the acquisition of Siemens VDO. Volume decreases in the fourth quarter and exchange rate changes had the opposite effect.

**EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) down €742.5 million**

It is no longer possible to identify separately the depreciation of tangible assets from PPA for Siemens VDO and for the other acquisitions transacted in the past. For this reason, a rough estimate was made for Siemens VDO based upon the euro value as of November 30, 2007. According to this estimate, depreciation of tangible assets from PPA (only Siemens VDO) in 2008 totaled €54.3 million for the Powertrain division.

EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) for the Powertrain division was down on the previous year. It decreased by €742.5 million to -€796.0 million (2007: -€53.5 million), equivalent to -19.7% (2007: -4.5%) of sales. Before special effects, EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) fell by €131.5 million to -€136.8 million (2007: -€5.3 million). The adjusted return on sales amounted to -3.4% (2007: -0.5%).

**EBIT before amortization of intangible assets from PPA down €796.8 million**

In the Powertrain division, EBIT before amortization of intangible assets from PPA was down in 2008 compared with the previous year. It decreased by €796.8 million to -€850.3 million (2007: -€53.5 million), representing -21.0% of sales (2007: -4.5%).

**EBIT down €972.7 million;**
**Adjusted EBIT down €340.0 million**

The Powertrain division reported a decrease in EBIT of €972.7 million to -€1,046.2 million compared with the same period of last year (2007: -€73.5 million). The return on sales fell to -25.9% (2007: -6.2%). Before special effects, EBIT declined by €340.0 million to -€365.3 million (2007: -€25.3 million). The adjusted return on sales amounted to -9.0% (2007: -2.1%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to -22.7% (2007: -4.6%).

**Special effects in 2008**

The annual impairment test on goodwill led to an impairment requirement of €609.6 million for the Powertrain division.

The impairment test on customer relationships in other intangible assets led to an impairment requirement of €21.7 million with one customer for the Powertrain division.

Due to the winding-up of restructuring activities connected with the acquisition of the automotive electronics business acquired from Motorola, there was a positive EBIT effect of €0.2 million for the Powertrain division in the reporting period resulting from net restructuring expenses and from the reversal of unutilized provisions.

This was more than offset by expenses of €4.1 million from the continuing integration of the automotive electronics business acquired from Motorola.

In the context of the planned closure of the plant in Birmingham, UK, there were restructuring expenses of €3.8 million for the relocation of the Powertrain division's Fuel Supply business to Dortmund, Germany, and Brandys, Czech Republic.

The sensors business of the Chassis & Safety and Powertrain divisions at the Dortmund location in Germany will be closed due to reductions in volume and a lack of follow-up orders. This led to restructuring expenses in the Powertrain division in the amount of €9.3 million in the period under review.

Due to the transfer of R&D activities of the Chassis & Safety and Powertrain divisions, restructuring expenses of €2.6 million were incurred at the Elkhart site in the U.S.A. for the Powertrain division in the period under review.

The electric motors activities were sold – primarily under an asset deal – to the Brose Group with effect from April 1, 2008. This sale generated an overall gain of €2.0 million for the Powertrain division.

The Powertrain division plant at Asnière, France, is to be closed down. The division incurred restructuring expenses of €18.8 million.

In the U.S.A., production of diesel injection systems at the Blythewood plant as well as the research and development activities at the Columbia site are being relocated to Newport News. This led to restructuring expenses of €10.5 million.

At the end of 2008, an agreement was reached with trade union representatives for hourly workers at the Newport News, U.S.A. plant to freeze retirement payments for medical care at their current level. This resulted in a positive effect on earnings of €10.2 million.

An OE vehicle manufacturer withdrew an order at short notice, due to financing difficulties of the contractual partner, who in turn as a tier-one supplier was one of Continental's customers. This turn of events affected the new Powertrain plant in Costa Rica because the first production of engine and transmission control units had been planned for this initial contract at the end of 2008. Continental submitted a claim for damages against the tier-one supplier, who consequently filed for Chapter 11 insolvency protection in the U.S.A. Conversely, Continental also cancelled existing contracts with its suppliers and was subsequently also faced with claims for damages. A final agreement, however, could be reached with these parties, mainly under which Continental agreed to acquire the product-specific tooling already in place. The related tooling was written off in full, given there was no other application. In total, expenses of €12.4 million were incurred to settle the claims. Due to the excellent basis that is offered by the production plant in Costa Rica, Continental is presently reviewing options for quickly transferring other products for the NAFTA region to ensure that this plant is efficiently utilized. There was no need for any impairment in connection with this site.

Various smaller impairments in the amount of €0.5 million were incurred in the Powertrain division.

Special effects in 2008 reduced earnings of the Powertrain division by a total of €680.9 million. Adjusted for goodwill impairment of €609.6 million and for customer relationship impairment of €21.7 million, there was a negative impact of €49.6 million from special effects for the Powertrain division.

**Special effects in 2007**

On December 20, 2007, we announced at our site in Chatham, Canada, that the production activities there would be discontinued. A provision for restructuring of €10.1 million was created for this purpose in 2007.

In connection with the purchase price allocation of Siemens VDO in 2007, inventories valued at €12.2 million were written up to fair value. Utilization of these inventories in December 2007 led to an expense in the corresponding amount.

To optimize the organization of production facilities in Germany and improve the cost structure of the electric drives business, the Haldensleben site was closed except for remaining minor winding-up activities up until the end of 2007. The Haldensleben operations were relocated to Berlin. This led to restructuring expenses of €5.8 million in 2007.

| Powertrain in € millions | 2008 | 2007 | Δ in % |
|---|---|---|---|
| Sales | 4,040.0 | 1,177.0 | 243.2 |
| EBITDA | 81.6 | 5.9 | 1,283.1 |
| in % of sales | 2.0 | 0.5 | |
| EBIT before amortization of intangible assets from PPA | -850.3 | -53.5 | -1,489.3 |
| in % of sales | -21.0 | -4.5 | |
| EBIT | -1,046.2 | -73.5 | -1,323.4 |
| in % of sales | -25.9 | -6.2 | |
| Research and development expenses | 420.1 | 144.9 | 189.9 |
| in % of sales | 10.4 | 12.3 | |
| Depreciation and amortization[1] | 1,127.8 | 79.4 | 1,320.4 |
| Operating assets (as of December 31)[2] | 3,839.7 | 4,960.0 | -22.6 |
| EBIT in % of operating assets (as of December 31)[2] | -27.2 | -1.5 | |
| Operating assets (average)[2] | 4,610.8 | 1,592.9 | 189.5 |
| EBIT in % of operating assets (average)[2] | -22.7 | -4.6 | |
| Capital expenditure[3] | 494.4 | 129.6 | 281.5 |
| in % of sales | 12.2 | 11.0 | |
| Number of employees at the end of the year[4] | 25,244 | 31,608 | -20.1 |
| | | | |
| Adjusted EBIT before amortization of intangible assets from PPA[5] | -191.1 | -5.3 | -3,505.7 |
| in % of sales | -4.7 | -0.5 | |
| Adjusted EBIT[5] | -365.3 | -25.3 | -1,343.9 |
| in % of sales | -9.0 | -2.1 | |
| | | | |
| EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) | -796.0 | -53.5 | -1,387.9 |
| in % of sales | -19.7 | -4.5 | |
| Adjusted EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO)[5] | -136.8 | -5.3 | -2,481.1 |
| in % of sales | -3.4 | -0.5 | |

[1] Excluding write-downs of investments.

[2] New definition of operating assets.

[3] Capital expenditure on property, plant, equipment and software.

[4] Excluding trainees.

[5] Before special effects.

The continuing integration of the automotive electronics business acquired from Motorola led to proportionate integration expenses of €14.6 million and restructuring expenses of €2.9 million for the Powertrain division in 2007.

As subleasing is not possible, a proportionate provision of €2.6 million was set up in the Powertrain division in 2007 for unused leased facilities near Detroit, Michigan, U.S.A., taken on as part of the acquisition of the automotive electronics business acquired from Motorola.

Special effects reduced earnings of the Powertrain division by a total of €48.2 million in 2007.

**Procurement**

The procurement market for the Powertrain division comprises both the existing suppliers for Continental AG and those added with the acquisition of Siemens VDO. Procurement activities for the increased product portfolio using the already established centralized purchasing structure led to synergies, especially in the fields of electronics and transmissions.

**Research and development**
Research and development expenses rose by €275.2 million or 189.9% year-on-year to reach €420.1 million (2007: €144.9 million), or 10.4% (2007: 12.3%) of sales.

**Depreciation and amortization**
Total depreciation and amortization increased by €1,048.4 million compared with 2007 to €1,127.8 million (2007: €79.4 million), corresponding to 27.9% (2007: 6.7%) of sales. In 2008, impairment losses of €653.3 million (2007: €1.4 million) were recognized on property, plant, and equipment and on intangible assets.

**Operating assets**
Operating assets in the Powertrain division amounted to €3,839.7 million, a €1,120.3 million decrease in comparison to the end of 2007.

Non-current assets totaled €3,972.7 million (2007: €4,434.2 million), of which goodwill accounted for €1,402.6 million (2007: €1,911.1 million), intangible assets for €897.6 million (2007: €1.054.6 million) and property, plant, and equipment for €1,520.8 million (2007: €1,319.8 million). In the Powertrain division, there were losses of €609.6 million from goodwill impairment in fiscal 2008, as well as €195.9 million from scheduled and unscheduled amortization of intangible assets from PPA from the acquisition of Siemens VDO. This was partially offset by goodwill additions of €96.3 million from the subsequent identification of opening balance sheet figures from the Siemens VDO acquisition.

Working capital at the year-end was €342.4 million (2007: €504.6 million). Operating receivables amounted to €575.3 million (2007: €747.6 million) and inventories to €278.7 million (2007: €302.7 million). Operating liabilities totaled €511.6 million (2007: €545.7 million).

**Capital expenditure (additions)**
Additions to the Powertrain division increased by €364.8 million year-on-year to €494.4 million (2007: €129.6 million). Capital expenditure amounted to 12.2% (2007: 11.0%) of sales.

The Engine Systems business unit invested in the expansion of manufacturing capacity for engine injection systems.

The Transmission business unit expanded its production of transmission control units.

**Employees**
The number of employees in the Powertrain division decreased by 6,364 compared with the previous year to 25,244 (2007: 31,608), which was due primarily to the sale of the electric motors activities with 4,561 employees. In line with sales declines, employees in Engine Systems decreased by 918, in Fuel Supply by 456, and in the Sensors business unit by 400.

# Development in the Divisions: Interior

- Sales up 282.4%
- EBIT before amortization of intangible assets from PPA, before depreciation of tangible assets from PPA (only Siemens VDO), and before special effects, up €448.6 million

**Sales volume**

The market slump in November and December had a negative impact on sales volume for the year overall, particularly in the NAFTA region. There was a noticeable decline in the Commercial Vehicles unit.

Despite the downturn in the market in the fourth quarter, the Body & Security business unit managed to sell 27.8 million body and door control units.

The Instrumentation & Displays business unit sold 17.5 million units in 2008.

We were able to increase substantially the sales figures for digital tachographs in the Commercial Vehicles & Aftermarket business unit.

**Sales up 282.4%**

Sales by the Interior division increased in 2008 to €5,856.7 million (2007: €1,531.6 million), up 282.4% year-on-year. This increase resulted from changes in the scope of consolidation, especially from the acquisition of Siemens VDO. Volume decreases in the fourth quarter and exchange rate changes had the opposite effect.

**EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) down €196.3 million**

It is no longer possible to identify separately the depreciation of tangible assets from PPA for Siemens VDO and for the other acquisitions transacted in the past. For this reason, a rough estimate was made for Siemens VDO based upon the euro value as of November 30, 2007. According to this estimate, depreciation of tangible assets from PPA (only Siemens VDO) in 2008 totaled €53.5 million for the Interior division.

EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) for the Interior division was down on the previous year. It decreased by €196.3 million to -€157.9 million (2007: €38.4 million), equivalent to -2.7% (2007: 2.5%) of sales. Before special effects, EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) increased by €448.6 million to €525.9 million (2007: €77.3 million). The adjusted return on sales amounted to 9.0% (2007: 5.0%).

**EBIT before amortization of intangible assets from PPA down €249.8 million**

In the Interior division, EBIT before amortization of intangible assets from PPA was down in 2008 compared with previous year. It decreased by €249.8 million to -€211.4 million (2007: €38.4 million), representing -3.6% (2007: 2.5%) of sales.

**EBIT down €473.4 million; Adjusted EBIT up €204.1 million**

The Interior division reported a decrease in EBIT of €473.4 million to -€462.6 million compared with the same period of last year (2007: €10.8 million). The return on sales fell to -7.9% (2007: 0.7%). Before special effects, EBIT was up €204.1 million to €253.8 million (2007: €49.7 million). The adjusted return on sales amounted to 4.3% (2007: 3.2%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to -8.2% (2007: 0.6%).

**Special effects in 2008**

The annual impairment test on goodwill led to an impairment requirement of €475.2 million for the Interior division.

The impairment test on customer relationships in other intangible assets led to an impairment requirement of €32.6 million with one customer for the Interior division.

As part of winding-up restructuring activities connected with the acquisition of the automotive electronics business acquired from Motorola, there was a positive effect on EBIT of €4.1 million for the Interior division in the

reporting period resulting from net restructuring expenses and from the reversal of unutilized provisions. This was partially offset by expenses of €1.9 million from the continuing integration of the automotive electronics business acquired from Motorola.

At the plant in Wetzlar, Germany, production is to be shutdown due to a lack of orders. Research and development (R&D) activities are to remain in Wetzlar. This led to restructuring expenses of €26.1 million for the period under review.

At the plant in Babenhausen, Germany, two customer contracts are to expire, and there are currently no successor products, which led to restructuring expenses of €40.7 million in 2008.

The product portfolio was reviewed in conjunction with the acquisition of Siemens VDO and business sections in the non-OE sector were identified that are not part of our core business. The sale process was initiated for one of these business sections and led to recognition of impairment losses in the amount of €46.9 million.

Production at the plant in Rambouillet, France, is to be relocated. R&D activities and administration are to remain at the location. This led to restructuring expenses in the amount of €42.9 million in the period under review.

Restructuring expenses of €4.4 million were incurred in 2008 for the research and development location in Munich, Germany.

The Interior division decided to discontinue its business activities in the aftermarket infotainment segment. This led to restructuring expenses of €9.4 million.

The sale of the parking assist systems business led to a gain of €6.2 million and restructuring expenses of €0.5 million in the Interior division.

Plans are to close the plant in Birmingham, UK. Here the cockpit business of the Interior division was sold on December 31, 2008, resulting in a €1.0 million gain. This led to restructuring expenses of €2.1 million. The relocation of further business activities of the Interior division led to restructuring expenses of €0.7 million.

Impairment testing on the book values of at-equity-accounted shares in the Interior division led to two impairment requirements of €35.0 million and €5.0 million.

In addition, there were further restructuring expenses of €1.7 million for various sites of the Interior division in the period under review.

Various smaller impairments in the amount of €2.6 million were incurred in the Interior division.

Special effects reduced earnings of the Interior division by a total of €716.4 million in 2008. Adjusted for goodwill impairment of €475.2 million and for customer relationship impairment of €32.6 million, there was a negative impact of €208.6 million from special effects for the Interior division.

**Special effects in 2007**

The closure of the downtown location in Bangalore, India, and the relocation of machinery to the area surrounding Bangalore led to restructuring expenses of €2.1 million.

In connection with the purchase price allocation of Siemens VDO in 2007, inventories valued at €17.7 million were written up to fair value. Utilization of these inventories in December 2007 led to an expense in the corresponding amount.

The continuing integration of the automotive electronics business acquired from Motorola led to proportionate integration expenses of €11.3 million and restructuring expenses of €5.2 million for the Interior division in 2007.

As subleasing was not possible, a proportionate provision of €2.6 million was set up in the Interior division in 2007 for unused leased facilities near Detroit, Michigan, U.S.A., taken on as part of the acquisition of the automotive electronics business acquired from Motorola.

Special effects reduced earnings of the Interior division by a total of €38.9 million in 2007.

| Interior in € millions | 2008 | 2007 | Δ in % |
|---|---|---|---|
| Sales | 5,856.7 | 1,531.6 | 282.4 |
| EBITDA | 557.3 | 101.3 | 450.1 |
| in % of sales | 9.5 | 6.6 | |
| EBIT before amortization of intangible assets from PPA | -211.4 | 38.4 | -650.5 |
| in % of sales | -3.6 | 2.5 | |
| EBIT | -462.6 | 10.8 | -4,383.3 |
| in % of sales | -7.9 | 0.7 | |
| Research and development expenses | 432.5 | 131.5 | 228.9 |
| in % of sales | 7.4 | 8.6 | |
| Depreciation and amortization[1] | 1,019.9 | 90.5 | 1,027.0 |
| Operating assets (as of December 31)[2] | 5,003.4 | 5,852.2 | -14.5 |
| EBIT in % of operating assets (as of December 31)[2] | -9.2 | 0.2 | |
| Operating assets (average)[2] | 5,629.1 | 1,895.1 | 197.0 |
| EBIT in % of operating assets (average)[2] | -8.2 | 0.6 | |
| Capital expenditure[3] | 265.2 | 65.5 | 304.9 |
| in % of sales | 4.5 | 4.3 | |
| Number of employees at the end of the year[4] | 30,813 | 33,459 | -7.9 |
| Adjusted EBIT before amortization of intangible assets from PPA[5] | 472.4 | 77.3 | 511.1 |
| in % of sales | 8.1 | 5.0 | |
| Adjusted EBIT[5] | 253.8 | 49.7 | 410.7 |
| in % of sales | 4.3 | 3.2 | |
| EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) | -157.9 | 38.4 | -511.2 |
| in % of sales | -2.7 | 2.5 | |
| Adjusted EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO)[5] | 525.9 | 77.3 | 580.3 |
| in % of sales | 9.0 | 5.0 | |

[1] Excluding write-downs of investments.
[2] New definition of operating assets.
[3] Capital expenditure on property, plant, equipment and software.
[4] Excluding trainees.
[5] Before special effects.

**Procurement**

The procurement market for the Interior division comprises both the existing suppliers for Continental AG and those added with the acquisition of Siemens VDO. This market, ranging from infotainment products to interior fittings, is generating new driver interface solutions. The resulting new business areas will also lead to the emergence of new suppliers and potential synergies. Pressure on prices was the determining factor for the results, especially in the field of plastic resins. Synergy effects were exploited in the Body & Security business unit.

**Research and development**

Research and development expenses rose by €301.0 million or 228.9% year-on-year to reach €432.5 million (2007: €131.5 million), or 7.4% (2007: 8.6%) of sales.

**Depreciation and amortization**

Total depreciation and amortization increased by €929.4 million compared with 2007 to €1,019.9 million (2007: €90.5 million), corresponding to 17.4% (2007: 5.9%) of sales. In 2008, impairment losses of €523.6 million (2007: €0.3 million) were recognized on property, plant, and equipment and on intangible assets.

**Operating assets**

Operating assets in the Interior division amounted to €5,003.4 million, an €848.8 million decrease in comparison to the end of 2007.

Non-current assets totaled €4,970.9 million (2007: €5,735.9 million), of which goodwill accounted for €2,222.0 million (2007: €2,566.5 million), intangible assets for €1,204.8 million (2007: €1,445.6 million) and property, plant, and equipment for €1,100.7 million (2007: €1,207.8 million). In the Interior division, there were losses of €475.2 million from goodwill impairment in fiscal 2008, as well as €251.2 million from scheduled and unscheduled amortization of intangible assets from PPA from the acquisition of Siemens VDO. This was partially offset by goodwill additions of €125.0 million from the subsequent identification of opening balance sheet figures from the Siemens VDO acquisition.

Working capital at the year-end was €570.9 million (2007: €679.8 million). Operating receivables amounted to €650.6 million (2007: €884.3 million) and inventories to €479.0 million (2007: €566.3 million). Operating liabilities totaled €558.7 million (2007: €770.8 million).

**Capital expenditure (additions)**

Additions to the Interior division increased by €199.7 million year-on-year to €265.2 million (2007: €65.5 million). Capital expenditure amounted to 4.5% (2007: 4.3%) of sales.

Investment in the year under review focused primarily on expanding manufacturing capacity for Body & Security and Instrumentation & Displays. In particular, manufacturing capacity was expanded at the German plants as well as in China, the Czech Republic, Spain and Mexico.

**Employees**

The number of employees in the Interior division decreased by 2,646 to 30,813 (2007: 33,459). In the Body & Security business unit, the workforce was reduced by 839 employees due to synergy effects and productivity measures. Productivity measures and streamlining locations led to a reduction of 766 in staff numbers in the Connectivity business unit. In the Multimedia business unit, the workforce was reduced by 652 employees through restructuring and portfolio adjustments. Productivity measures and adjustments due to the decline in sales led to a reduction of 430 employees in the Instrumentation & Displays business unit.

# Key Figures for the Rubber Group

| Rubber Group in € millions | 2008 | 2007 | Δ in % |
|---|---|---|---|
| Sales | 9,353.9 | 9,337.0 | 0.2 |
| EBITDA | 1,415.9 | 1,638.4 | -13.6 |
| in % of sales | 15.1 | 17.5 | |
| EBIT before amortization of intangible assets from PPA | 991.5 | 1,232.7 | -19.6 |
| in % of sales | 10.6 | 13.2 | |
| EBIT | 984.9 | 1,225.6 | -19.6 |
| in % of sales | 10.5 | 13.1 | |
| Research and development expenses | 222.0 | 210.9 | 5.3 |
| in % of sales | 2.4 | 2.3 | |
| Depreciation and amortization[1] | 431.0 | 412.8 | 4.4 |
| Operating assets (as of December 31)[2] | 4,138.8 | 3,966.2 | 4.4 |
| EBIT in % of operating assets (as of December 31)[2] | 23.8 | 30.9 | |
| Operating assets (average)[2] | 4,369.5 | 4,149.1 | 5.3 |
| EBIT in % of operating assets (average)[2] | 22.5 | 29.5 | |
| Capital expenditure[3] | 499.1 | 404.8 | 23.3 |
| in % of sales | 5.3 | 4.3 | |
| Number of employees at the end of the year[4] | 56,154 | 58,536 | -4.1 |
| | | | |
| Adjusted sales[5] | 9,058.7 | 9,252.8 | -2.1 |
| Adjusted EBIT before amortization of intangible assets from PPA[6] | 1,015.4 | 1,240.5 | -18.1 |
| in % of sales | 11.2 | 13.4 | |
| Adjusted EBIT[6] | 1,008.8 | 1,233.4 | -18.2 |
| in % of sales | 11.1 | 13.3 | |

[1] Excluding write-downs of investments.
[2] New definition of operating assets.
[3] Capital expenditure on property, plant, equipment and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before changes in the scope of consolidation and special effects.

# Development in the Divisions: Passenger and Light Truck Tires

- Sales up 2.5%
- Adjusted sales up 1.1% before consolidation and exchange rate changes
- Adjusted EBIT down 15.5%

**Sales volume**

At 110.8 million tires, we again topped the previous year's sales volume. Sales in the Original Equipment business unit were down on the figure for 2007. We were able to lift sales volume in Europe, but the volume in the NAFTA region was substantially below the previous year's figure. Both sales volume and market share for Original Equipment in Europe were at the level of the previous year. We increased sales volume in the North American Replacement market. The product mix again improved.

**Sales up 2.5%;**
**Adjusted sales up 1.1% before consolidation and exchange rate changes**

Sales in the Passenger and Light Truck Tires division rose to €5,100.3 million, up 2.5% compared with 2007 (€4,975.6 million). Before changes in the scope of consolidation and exchange rate effects, the increase was 1.1%.

**EBIT before amortization of intangible assets from PPA down 15.0%**

EBIT before amortization of intangible assets from PPA for the Passenger and Light Truck Tires division was down on the previous year. It decreased by €111.3 million, or 15.0%, to €629.4 million (2007: €740.7 million), equivalent to 12.3% (2007: 14.9%) of sales.

**EBIT down 15.2%;**
**Adjusted EBIT down 15.5%**

The Passenger and Light Truck Tires division reported a decrease in EBIT of €112.3 million, or 15.2%, to €626.4 million (2007: €738.7 million), and achieved a return on sales of 12.3% (2007: 14.8%). Before changes in the scope of consolidation and special effects, adjusted EBIT was down by €118.1 million, or 15.5%, to €644.8 million (2007: €762.9 million). The adjusted return on sales amounted to 13.1% (2007: 15.3%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 25.2% (2007: 31.8%).

The increase in raw material prices had a negative impact of approximately €168 million on the Passenger and Light Truck Tires division in 2008 compared with the average prices for 2007.

**Special effects in 2008**

There was a positive effect on EBIT of €0.3 million from the net expense balance, primarily as a result of scrapping unusable machinery and reversing unutilized provisions during the next phase of restructuring measures at the U.S. tire plants in Charlotte and Mayfield.

Property, plant, and equipment at the Mount Vernon plant in the U.S.A. was written down in the amount of €11.4 million due to the failure to achieve process efficiency and the related earnings situation. This requirement was due to capital expenditures made in 2008 which, under IFRS impairment principles, are not recognized at replacement cost but at the lower net realizable value.

Various smaller impairments in the amount of €0.6 million were incurred in the Passenger and Light Truck Tires division.

Special effects reduced earnings of the Passenger and Light Truck Tires division by a total of €11.7 million in 2008.

**Special effects in 2007**

An expense of €46.5 million was recognized in the Passenger and Light Truck Tires division in 2007 for the one-time payment to an external fund in connection with healthcare provision for retirees in the U.S.A.

| Passenger and Light Truck Tires in € millions | 2008 | 2007 | Δ in % |
|---|---|---|---|
| Sales | 5,100.3 | 4,975.6 | 2.5 |
| EBITDA | 873.5 | 969.6 | -9.9 |
| in % of sales | 17.1 | 19.5 | |
| EBIT before amortization of intangible assets from PPA | 629.4 | 740.7 | -15.0 |
| in % of sales | 12.3 | 14.9 | |
| EBIT | 626.4 | 738.7 | -15.2 |
| in % of sales | 12.3 | 14.8 | |
| Research and development expenses | 119.5 | 110.5 | 8.1 |
| in % of sales | 2.3 | 2.2 | |
| Depreciation and amortization[1] | 247.1 | 230.9 | 7.0 |
| Operating assets (as of December 31)[2] | 2,323.3 | 2,197.0 | 5.7 |
| EBIT in % of operating assets (as of December 31)[2] | 27.0 | 33.6 | |
| Operating assets (average)[2] | 2,488.1 | 2,324.6 | 7.0 |
| EBIT in % of operating assets (average)[2] | 25.2 | 31.8 | |
| Capital expenditure[3] | 292.7 | 222.0 | 31.8 |
| in % of sales | 5.7 | 4.5 | |
| Number of employees at the end of the year[4] | 26,227 | 26,281 | -0.2 |
| | | | |
| Adjusted sales[5] | 4,914.4 | 4,975.6 | -1.2 |
| Adjusted EBIT before amortization of intangible assets from PPA[6] | 647.8 | 764.9 | -15.3 |
| in % of sales | 13.2 | 15.4 | |
| Adjusted EBIT[6] | 644.8 | 762.9 | -15.5 |
| in % of sales | 13.1 | 15.3 | |

[1] Excluding write-downs of investments.
[2] New definition of operating assets.
[3] Capital expenditure on property, plant, equipment and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before changes in the scope of consolidation and special effects.

In addition, the medical healthcare plans for salaried employees in the U.S.A. were adjusted in 2007 by further limiting medical benefits. This produced a positive effect on earnings in the Passenger and Light Truck Tires division amounting to €27.6 million.

Unutilized provisions of €3.1 million were reversed in 2007 as part of the winding-up of restructuring activities at the tire plant in Charlotte, North Carolina, U.S.A.

Property, plant, and equipment at the Mount Vernon plant in the U.S.A. was written down in the amount of €18.7 million due to the failure to achieve process efficiency and the related earnings situation. This requirement was due to capital expenditures made in 2007 which, under IFRS impairment principles, are not recognized at replacement cost but at the lower net realizable value.

As a result of the earnings position, the investment in Drahtcord Saar KG was written down by €5.5 million.

The first consolidation of the Matador Group led to a proportionate gain of €16.8 million for the Passenger and Light Truck Tires division in 2007 from the negative balance. This was partially offset by proportionate impairment losses of €1.0 million on an unused brand name and an unused power plant.

Special effects in 2007 resulted in a total loss of €24.2 million for the Passenger and Light Truck Tires division.

**Procurement**

The year 2008 was characterized by supply shortages on the raw materials markets, driven by strong demand and speculation. This trend resulted in record high levels for purchase prices around the middle of the year. Prices

began to ease towards the end of the year due to a significant decline in demand. However, because of the time lag between purchasing and utilizing many of our raw materials, these price decreases will not begin to have a noticeable effect on production costs until 2009.

**Research and development**

Research and development expenses rose by 8.1% year-on-year to reach €119.5 million (2007: €110.5 million), or 2.3% (2007: 2.2%) of sales.

**Depreciation and amortization**

Depreciation and amortization increased to €247.1 million (2007: €230.9 million), representing 4.8% of sales (2007: 4.6%). In 2008, impairment losses of €13.1 million (2007: €19.7 million) were recognized on property, plant, and equipment.

**Operating assets**

Operating assets in the Passenger and Light Truck Tires division increased by €126.3 million to €2,323.3 million compared with year-end 2007 (€2,197.0 million).

Non-current assets increased by €30.3 million to €1,386.8 million (2007: €1,356.5 million). This increase is mainly due to the acquisition of the companies Tikka Russia, Tikka Finland and Oltas Turkey, as well as the inclusion of FSC Italia in the scope of consolidation, which led to a year-on-year rise in operating assets of €20.4 million as of the date of the first consolidation.

Working capital increased by a total of €42.5 million to €1,250.1 million (2007: €1,207.6 million). Inventories were up €138.4 million to €936.0 million (2007: €797.6 million). Without exchange rate effects, this increase would have been €20.1 million higher. The acquisitions detailed above led to a €6.3 million gain in inventories from the first consolidation. Operating receivables were down €35.7 million to €850.9 million (2007: €886.6 million). €24.4 million of these receivables resulted from exchange rate effects. Operating liabilities were up €60.2 million to €536.8 million (2007: €476.6 million).

**Capital expenditure (additions)**

Additions to the Passenger and Light Truck Tires division increased by €70.7 million year-on-year to €292.7 million (2007: €222.0 million). Capital expenditure amounted to 5.7% (2007: 4.5%) of sales.

Investments were focused on the continued expansion of capacity in the European low-cost locations in Slovakia, the Czech Republic, Portugal, and Romania.

**Employees**

The number of employees in the Passenger and Light Truck Tires division decreased by 54 compared with previous year to 26,227 (2007: 26,281). Whilst the number of people working for the Replacement Europe business unit went down, one of the reasons being reductions at ContiTrade, there was an increase of 287 employees in the Replacement The Americas business unit.

# Development in the Divisions: Commercial Vehicle Tires

- Sales down 3.3%;
- Adjusted sales down 1.6% before consolidation and exchange rate changes
- Adjusted EBIT down 67.9%

**Sales volume**
Our worldwide sales volume of truck tires decreased by 6.4% to 6.7 million units. All business units were below the previous year's levels.

**Sales down 3.3%;**
**Adjusted sales down 1.6% before consolidation and exchange rate changes**
The Commercial Vehicle Tires division reported a 3.3% decline in sales to €1,404.2 million (2007: €1,452.4 million). Before changes in the scope of consolidation and exchange rate effects, sales dropped by 1.6%.

**EBIT before amortization of intangible assets from PPA down 75.8%**
EBIT before amortization of intangible assets from PPA for the Commercial Vehicle Tires division was down on the previous year. It decreased by €94.9 million, or 75.8%, to €30.3 million (2007: €125.2 million), equivalent to 2.2% (2007: 8.6%) of sales.

**EBIT down 76.2%;**
**Adjusted EBIT down 67.9%**
The Commercial Vehicle Tires division reported a decrease in EBIT of 76.2% to €29.5 million (2007: €124.1 million), and achieved a return on sales of 2.1% (2007: 8.5%). Before changes in the scope of consolidation and special effects, adjusted EBIT was down by €76.8 million, or 67.9%, to €36.3 million (2007: €113.1 million). The adjusted return on sales amounted to 2.7% (2007: 8.1%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 3.8% (2007: 17.8%).

The increase in raw material prices had a negative impact of approximately €96 million on the Commercial Vehicle Tires division in 2008 compared with the average prices for 2007.

**Special effects in 2008**
The plant at Alor Gajah, Malaysia, is being closed down, with some parts of production being relocated to Petaling Jaya, Malaysia. This led to restructuring expenses of €0.8 million.

In the Commercial Vehicle Tires division there was an impairment of €0.1 million.

Special effects reduced earnings of the Commercial Vehicle Tires division by a total of €0.9 million in 2008.

**Special effects in 2007**
An expense of €3.4 million was recognized in the Commercial Vehicle Tires division in 2007 for the one-time payment to an external fund in connection with healthcare provision for retirees in the U.S.A.

In addition, the medical healthcare plans for salaried employees in the U.S.A. were adjusted in 2007 by further limiting medical benefits. This produced a positive effect on earnings in the Commercial Vehicle Tires division amounting to €14.4 million.

The first consolidation of the Matador Group led to a proportionate gain of €3.2 million for the Commercial Vehicle Tires division in 2007 from the negative balance. This was partially offset by proportionate impairment losses amounting to €0.3 million on an unused power plant.

Overall, special effects in 2007 resulted in a gain of €13.9 million for the Commercial Vehicle Tires division.

| Commercial Vehicle Tires in € millions | 2008 | 2007 | Δ in % |
|---|---|---|---|
| Sales | 1,404.2 | 1,452.4 | -3.3 |
| EBITDA | 112.4 | 202.4 | -44.5 |
| in % of sales | 8.0 | 13.9 | |
| EBIT before amortization of intangible assets from PPA | 30.3 | 125.2 | -75.8 |
| in % of sales | 2.2 | 8.6 | |
| EBIT | 29.5 | 124.1 | -76.2 |
| in % of sales | 2.1 | 8.5 | |
| Research and development expenses | 43.4 | 43.6 | -0.5 |
| in % of sales | 3.1 | 3.0 | |
| Depreciation and amortization[1] | 82.9 | 78.3 | 5.9 |
| Operating assets (as of December 31)[2] | 750.7 | 702.7 | 6.8 |
| EBIT in % of operating assets (as of December 31)[2] | 3.9 | 17.7 | |
| Operating assets (average)[2] | 776.2 | 697.8 | 11.2 |
| EBIT in % of operating assets (average)[2] | 3.8 | 17.8 | |
| Capital expenditure[3] | 95.6 | 83.0 | 15.2 |
| in % of sales | 6.8 | 5.7 | |
| Number of employees at the end of the year[4] | 8,247 | 8,384 | -1.6 |
| | | | |
| Adjusted sales[5] | 1,335.6 | 1,399.5 | -4.6 |
| Adjusted EBIT before amortization of intangible assets from PPA[6] | 37.1 | 114.2 | -67.5 |
| in % of sales | 2.8 | 8.2 | |
| Adjusted EBIT[6] | 36.3 | 113.1 | -67.9 |
| in % of sales | 2.7 | 8.1 | |

[1] Excluding write-downs of investments.
[2] New definition of operating assets.
[3] Capital expenditure on property, plant, equipment and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before changes in the scope of consolidation and special effects.

**Procurement**
Like the Passenger and Light Truck Tires division, the Commercial Vehicle Tires division was also exposed to historic price increases in 2008. It was only towards the end of the year that prices went down, the effects of which will not be felt until in the new fiscal year. Earnings were especially impacted by heavy increases in prices for natural rubber owing to the high share of that raw material in truck tires.

**Research and development**
Research and development expense decreased to €43.4 million (2007: €43.6 million), or 3.1% (2007: 3.0%) of sales.

**Depreciation and amortization**
Depreciation and amortization increased to €82.9 million (2007: €78.3 million), representing 5.9% (2007: 5.4%) of sales. In 2008, impairment losses of €0.4 million (2007: €0.3 million) were recognized on property, plant, and equipment.

**Operating assets**
Operating assets in the Commercial Vehicle Tires division increased by €48.0 million compared with the previous year to €750.7 million (2007: €702.7 million).

At €478.3 million, non-current assets remained almost unchanged in comparison to the previous year.

Working capital increased by a total of €24.0 million to €359.1 million (2007: €335.1 million). Inventories were up €28.8 million to €240.9 million (2007: €212.1 million). Both operating receivables, at €292.8 million (2007: €300.2 million), and operating liabilities, at €174.6 million (2007: €177.2 million), were virtually unchanged. There

were no material changes in exchange rates or in the scope of consolidation.

**Capital expenditure**

Additions to the Commercial Vehicle Tires division increased by €12.6 million year-on-year to €95.6 million (2007: €83.0 million). Capital expenditure amounted to 6.8% (2007: 5.7%) of sales.

Important additions were made as a result of the expansion of manufacturing capacity for truck tires in Mount Vernon, Illinois, U.S.A., and Puchov, Slovakia.

**Employees**

The number of employees in the Commercial Vehicle Tires division decreased by 137 compared with the previous year to 8,247 (2007: 8,384). The main reason for this was the reduction in volume, which particularly affected the Stöcken plant with 167 employees.

# Development in the Divisions: ContiTech

- Sales down 1.9%;
- Adjusted sales down 0.4% before consolidation and exchange rate changes
- Adjusted EBIT down 8.3%

**Sales down 1.9%;**
**Adjusted sales down 0.4% before consolidation and exchange rate changes**
Sales in the ContiTech division declined to €3,007.0 million, down 1.9% compared with the previous year (2007: €3,063.9 million). Before changes in the scope of consolidation and exchange rate effects, sales dropped by 0.4%.

Sales in the Conveyor Belt Group business unit increased by 9.7% year-on-year, and those in the Elastomer Coatings business unit increased by 0.7%. All other business units posted declines in sales.

**EBIT before amortization of intangible assets from PPA down 9.5%**
EBIT before amortization of intangible assets from PPA for the ContiTech division was down on the previous year. It decreased by €34.8 million, or 9.5%, to €331.9 million (2007: €366.7 million), representing 11.0% (2007: 12.0%) of sales.

**EBIT down 9.3%;**
**Adjusted EBIT down 8.3%**
EBIT of the ContiTech division fell to €329.1 million (2007: €362.8 million), representing a 9.3% decrease. The return on sales amounted to 10.9% (2007: 11.8%) Before changes in the scope of consolidation and special effects, adjusted EBIT was down by €29.6 million, or 8.3%, to €327.8 million (2007: €357.4 million). The adjusted return on sales amounted to 11.1% (2007: 11.8%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 29.8% (2007: 32.2%).

The increase in raw material prices had a negative impact of approximately €26 million on the ContiTech division in 2008 compared with the average prices for 2007.

**Special effects in 2008**
In the ContiTech division there was an overall positive effect on EBIT of €0.9 million resulting from various minor restructuring measures and from unutilized provisions, mainly for Roulunds, Denmark, and for ContiTech Schlauch, Northeim, Germany.

The sale of the Benecke-Kaliko unit's furniture covering business resulted in a gain of €4.7 million. This led to the reversal of unutilized provisions in the amount of €2.4 million.

The sale of Phoenix Dichtungstechnik GmbH led to a gain of €24.3 million.

The Italian company ContiTech Ages was sold at the end of 2004. Expenses of €3.3 million were incurred in connection with outstanding receivables, mainly due to the company's insolvency.

In 2007, the antitrust authorities of the European Union, the U.S.A., the UK, Australia, Brazil, Japan and Korea initiated investigations into alleged antitrust behavior – in particular price-fixing agreements by employees of Dunlop Oil & Marine Ltd., UK, a subsidiary of ContiTech AG, in the area of offshore hoses. In 2008 and more recently on January 28, 2009, decisions made by certain authorities and other events led to expenses of €29.0 million.

There was a positive balance of €0.4 million in the division due to impairment and a reversal of impairment loss.

Overall, special effects in 2008 resulted in a gain of €0.4 million for the ContiTech division.

| ContiTech in € millions | 2008 | 2007 | Δ in % |
|---|---|---|---|
| Sales | 3,007.0 | 3,063.9 | -1.9 |
| EBITDA | 430.1 | 466.4 | -7.8 |
| in % of sales | 14.3 | 15.2 | |
| EBIT before amortization of intangible assets from PPA | 331.9 | 366.7 | -9.5 |
| in % of sales | 11.0 | 12.0 | |
| EBIT | 329.1 | 362.8 | -9.3 |
| in % of sales | 10.9 | 11.8 | |
| Research and development expenses | 59.1 | 56.8 | 4.0 |
| in % of sales | 2.0 | 1.9 | |
| Depreciation and amortization[1] | 101.0 | 103.6 | -2.5 |
| Operating assets (as of December 31)[2] | 1,064.7 | 1,066.4 | -0.2 |
| EBIT in % of operating assets (as of December 31)[2] | 30.9 | 34.0 | |
| Operating assets (average)[2] | 1,105.2 | 1,126.6 | -1.9 |
| EBIT in % of operating assets (average)[2] | 29.8 | 32.2 | |
| Capital expenditure[3] | 110.8 | 99.8 | 11.0 |
| in % of sales | 3.7 | 3.3 | |
| Number of employees at the end of the year[4] | 21,680 | 23,871 | -9.2 |
| | | | |
| Adjusted sales[5] | 2,966.3 | 3,032.6 | -2.2 |
| Adjusted EBIT before amortization of intangible assets from PPA[6] | 330.6 | 361.3 | -8.5 |
| in % of sales | 11.1 | 11.9 | |
| Adjusted EBIT[6] | 327.8 | 357.4 | -8.3 |
| in % of sales | 11.1 | 11.8 | |

[1] Excluding write-downs of investments.
[2] New definition of operating assets.
[3] Capital expenditure on property, plant, equipment and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before changes in the scope of consolidation and special effects.

**Special effects in 2007**

The first consolidation of the Matador Group led to a proportionate gain of €1.2 million for the ContiTech division in 2007 from the negative balance.

In 2007, the ContiTech division incurred restructuring expenses totaling €2.9 million, including expenses related to Roulunds, Denmark.

The sale of the Benecke-Kaliko unit's furniture covering business resulted in a gain of €8.2 million. This led to restructuring expenses of €4.7 million.

Overall, special effects in 2007 resulted in a gain of €1.8 million for the ContiTech division.

**Procurement**

Compared to the Tire divisions, the individual business units of the ContiTech division have to source a much more diversified portfolio of materials. However, similar to the Tire divisions, ContiTech's earnings were also impacted by the sharp increases in prices of raw materials up to the third quarter of 2008.

**Research and development**

Research and development expenses rose by €2.3 million year-on-year to reach €59.1 million (2007: €56.8 million), or 2.0% of sales (2007: 1.9%).

**Depreciation and amortization**

Total depreciation and amortization decreased compared with 2007 by €2.6 million to €101.0 million (2007: €103.6 million), and remained unchanged at 3.4% (2007:

3.4%) of sales. In 2008, reversals of impairment losses totaling €0.4 million (2007: €0.3 million) were recognized on property, plant, and equipment.

**Operating assets**
In the year under review, operating assets in the ContiTech division remained virtually unchanged at €1,064.7 million (2007: €1,066.4 million).

The sale of Phoenix Dichtungstechnik GmbH led to a €20.2 million decrease in operating assets. The intention to sell was already shown in the 2007 annual financial statements by reclassifying the original operating assets under the items “Assets held for sale” and “Liabilities held for sale” with a net amount of €15.5 million.

Non-current assets totaled €669.2 million, almost matching the previous year’s level (2007: €679.9 million).

Working capital decreased compared with year-end 2007 by a total of €26.4 million to €503.9 million (2007: €530.3 million). Inventories were up €14.3 million to €347.7 million (2007: €333.4 million). Without exchange rate effects, this increase would have been €10.3 million higher. Operating receivables were down €61.1 million to €402.3 million (2007: €463.4 million). €15.5 million of these receivables resulted from exchange rate effects. Operating liabilities decreased by €20.4 million to €246.1 million (2007: €266.5 million). Exchange rate effects led to a reduction of €7.7 million. There were no significant effects from changes in the scope of consolidation.

**Capital expenditure**
Additions to the ContiTech division increased by €11.0 million year-on-year to €110.8 million (2007: €99.8 million). Capital expenditure amounted to 3.7% (2007: 3.3%) of sales.

Alongside rationalization and expansion investments in Germany, the main focus of investments was expanding manufacturing capacity at the European low-cost locations in Hungary and Romania, as well as in Mexico, Brazil and China.

**Employees**
The number of employees in the ContiTech division fell by 2,191 compared with the previous year to 21,680 (2007: 23,871). The most significant factor here was the decline in orders, which led to reductions in staff numbers in the Fluid Technology business unit (1,144), the Power Transmission Group unit (455) and the Air Spring Systems business unit (205). The workforce also decreased by 248 due to the sale of Phoenix Dichtungstechnik GmbH.

# Earnings, Financial and Net Assets Position of the Parent Company

In addition to the report on the overall development of the corporation, the following separately summarizes the financial performance and position of the parent company.

Unlike the consolidated financial statements, the stand-alone financial statements of Continental Aktiengesellschaft are prepared in accordance with the *Handelsgesetzbuch* (German Commercial Code) and *Aktiengesetz* (German Stock Corporation Act). The management report of Continental Aktiengesellschaft has been combined with the consolidated report of the Continental Corporation in accordance with Section 315 (3) of the *Handelsgesetzbuch*, since the future development and related risks and opportunities of the parent company, including its key research and development activities, are integrally combined with the corporation as a whole. Further, the following separate summary of the parent company's stand-alone results, net assets and financial position as part of the consolidated management report, provides the basis for understanding the Executive Board's proposal for the distribution of the parent company's net income.

| Net assets and financial position of Continental Aktiengesellschaft | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| | | |
| **Assets in € millions** | | |
| Intangible assets | 56.5 | 61.1 |
| Property, plant, and equipment | 189.6 | 188.5 |
| Investments | 10,815.6 | 10,725.5 |
| **Non-current assets** | **11,061.7** | **10,975.1** |
| Inventories | 232.5 | 201.7 |
| Other assets and amounts receivable | 6,102.6 | 7,316.9 |
| Marketable securities | 315.0 | 0.0 |
| Cash and cash equivalents | 424.7 | 1,116.5 |
| **Current assets** | **7,074.8** | **8,635.1** |
| **Prepaid expenses** | **37.9** | **83.7** |
| | **18,174.4** | **19,693.9** |
| **Shareholders' equity and liabilities in € millions** | | |
| Common stock | 432.6 | 414.0 |
| Capital reserves | 3,120.9 | 2,781.9 |
| Surplus reserves | 54.7 | 54.7 |
| Retained earnings | -339.7 | 336.7 |
| **Shareholders' equity** | **3,268.5** | **3,587.3** |
| **Provisions** | **788.8** | **837.4** |
| **Liabilities** | **14,117.1** | **15,267.8** |
| **Deferred income** | **0.0** | **1.4** |
| | **18,174.4** | **19,693.9** |
| Gearing ratio in % | 218.3 | 189.7 |
| Equity ratio in % | 18.0 | 18.2 |

Total assets decreased year-on-year by €1,519.5 million to €18,174.4 million. (2007: €19,693.9 million). This is due primarily to the €1,214.3 million decrease in other assets and amounts receivable from €7,316.9 million in 2007 to €6,102.6 million, and to the €691.8 million decrease in cash and cash equivalents from €1,116.5 million in 2007 to €424.7 million. This is partially offset by the purchases of short-term securities totaling €315.0 million.

The €90.1 million rise in financial investments is mainly the result of capital increases of €358.1 million at subsidiaries, which were introduced largely to optimize capital structure, which is offset by capital repayments totaling €179.5 million.

Non-current assets reached a 60.9% share of total assets as of December 31, 2008, (2007: 55.7%). 97.8% of this is attributable to investments (2007: 97.7%).

Liabilities from bonds decreased by €744.7 million to €64.6 million (2007: €809.3 million). This was primarily the result of the processing of the convertible bond in 2008 and of reduced utilization of the commercial paper program. Liabilities to banks decreased by €648.4 million to €10,803.1 million (2007: €11,451.5 million).

At €3,268.5 million, shareholders' equity was down €318.8 million from €3,587.3 million in 2007. This is primarily due to the net loss for the year of €353.0 million in 2008, and to dividend payouts for fiscal 2007 totaling €323.4 million in 2008. The settlement of the convertible bonds led to an increase in capital reserves of €338.2 million.

Sales were down €62.7 million to €2,592.7 million (2007: €2,655.4 million). This represents a decline of -2.4% (2007: +7.3%), due, in particular, to lower sales volumes of both passenger tires as well as truck tires, which fell by 4.4% and 17.4% respectively. A net increase in average prices had the opposite effect. The replacement business in Germany saw a sales decline of 17.0%, whilst export business sales fell by 3.3%. There was a slight increase in sales in the original equipment business in Germany.

Cost of sales rose by €35.9 million to €2,129.3 million (2007: €2,093.4 million). The gross margin on sales decreased by €98.6 million, or 17.5%, to €463.4 million (2007: €562.0 million).

As in the previous year, other operating income and other operating expenses particularly included expenses and income from corporate overheads or cost credits and charges from or for other subsidiaries.

Also as in the previous year, net income from financial activities consists primarily of profit transfer agreements and income from investments. Profit transfers from Formpolster GmbH, Hanover, (€232.5 million) and investment income from Continental Teves AG & Co. oHG, Frankfurt am Main, (€198.0 million) are offset by losses absorbed from Continental Caoutchouc-Export Aktiengesellschaft, Hanover, and from Continental Automotive GmbH, Hanover, of €135.4 million and €484.8 million respectively.

The €380.2 million increase in net interest expense, now at -€460.3 million, is due in particular to the acquisition of Siemens VDO in December 2007, which impacted the previous year's net interest result for only one month. Net income from financial activities accounts for 97.5% of earnings before taxes (2007: 67.4%).

After taking into account net revenue from income tax totaling €178.1 million (2007: expense of €223.6 million), Continental Aktiengesellschaft's net loss for the year is €353.0 million (2007: net income for the year of €336.2 million). The after-tax return on sales was -13.6% (2007: 12.6%). The after-tax return on equity was -10.8% compared with 9.4% in 2007.

After the inclusion of the retained earnings carried forward from the previous year (€13.3 million), the net loss for the year was €339.7 million.

| Statement of income of Continental Aktiengesellschaft in € millions | 2008 | 2007 |
|---|---|---|
| **Sales** | **2,592.7** | **2,655.4** |
| Cost of sales | 2,129.3 | 2,093.4 |
| **Gross margin on sales** | **463.4** | **562.0** |
| Selling expenses | 210.0 | 218.2 |
| Administrative expenses | 109.7 | 85.8 |
| Other operating income | 221.4 | 170.8 |
| Other operating expenses | 378.3 | 246.3 |
| Net income from financial activities | -517.9 | 377.3 |
| **Earnings before taxes** | **-531.1** | **559.8** |
| Income taxes | 178.1 | - 223.6 |
| **Net loss (2007: net income) for the year** | **-353.0** | **336.2** |
| Retained earnings brought forward from the previous year | 13.3 | 0.5 |
| **Retained losses (2007: retained earnings)** | **-339.7** | **336.7** |

Because of this net loss for the year, we will propose to the Annual Shareholders' Meeting that no dividend is paid for fiscal 2008, and that the net loss is carried forward to new account.

On the basis of the currently available economic forecasts, we are aiming to break even in fiscal 2009. At present no risks are identifiable in connection with investments.

## Report pursuant to Section 289, Subsection 4 and Section 315, Subsection 4 of the *Handelsgesetzbuch* (German Commercial Code)

1. The subscribed capital of the company amounts to €432,655,316.48. It is divided into 169,005,983 no-par-value shares. These shares are, without exception, common shares; different classes of shares are not contemplated. Each share has voting rights from the time it is issued but is dividend-bearing, for the first time, only for the fiscal year in which it is issued. Each no-par-value share entitles the holder to one vote at the Annual Shareholders' Meeting (Article 20, Paragraph 1 of the Articles of Incorporation).

2. As part of Continental AG's investment agreement with Schaeffler KG, Mrs. Maria-Elisabeth Schaeffler and Mr. Georg Schaeffler concluded on August 20, 2008, the Schaeffler Group is required 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. In addition, as part of this agreement Schaeffler KG undertook, in the event it resells parcels of its maximum shareholding by August 31, 2012, to grant a pre-emptive right to a buyer nominated by the guarantor specified in the agreement, if the sale to such buyer is in the best interest of Continental AG and Schaeffler KG. According to Schaeffler KG, it resold Continental shares which, on conclusion of the takeover offer to the Continental AG shareholders, would have resulted in a holding exceeding the maximum shareholding, to financial institutions, which will resell these shares over a period of five years in a market sensitive manner. However, for the duration of the agreements with the financial institutions, the shares are not to be resold below €75.00 without Schaeffler's consent. To the best of the Executive Board's knowledge, there are no other restrictions which apply to the voting rights or to the transfer of the shares, including those that are the result of agreements between shareholders.

3.1 Direct equity interests exceeding ten percent of voting rights (reported level of equity interest):

a) Schaeffler KG, Herzogenaurach (49.90%)

   b) Sal. Oppenheim jr. & Cie KGaA, Cologne (19.86%)

   c) B. Metzler seel. Sohn & Co KGaA (19.50%)

3.2 Indirect equity interests exceeding ten percent of voting rights (reported level of equity interest):

   a) INA-Holding Schaeffler KG (49.90%)

   b) Schaeffler Holding LP, Dallas, Texas, U.S.A. (49.90%)

   c) Mrs. Maria Elisabeth Schaeffler, Germany (49.90%)

   d) Mr. Georg F. W. Schaeffler, U.S.A. (49.90%)

   e) Sal. Oppenheim jr. & Cie S.C.A., Luxembourg, Luxembourg (19.86%)

   f) B. Metzler seel. Sohn & Co Holding AG, Frankfurt am Main (19.50%)

4. Shares with privileges that grant controlling powers do not exist.

5. The company is not aware of any employees with shareholdings not directly exercising control of voting rights.

6. Appointment and dismissal of the members of the Executive Board are carried out in accordance with Section 84 of the *Aktiengesetz* (German Stock Corporation Act) in conjunction with Section 31 of the *Mitbestimmungsgesetz* (German Co-determination Act). Accordingly, the Supervisory Board is responsible for the appointment and dismissal of a member of the Executive Board. It reaches its 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 following the voting. Other nominations may 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 where the chairman of the Supervisory Board has the casting vote in accordance with Section 31, Subsection 4 of the *Mitbestimmungsgesetz*.

   Amendments to the Articles of Incorporation are made by the Shareholders' Meeting. In Article 20, Paragraph 3 of the Articles of Incorporation, the Shareholders' Meeting has made use of the possibility granted in Section 179, Subsection 1, Sentence 2 of the *Aktiengesetz*, to assign to the Supervisory Board the power to make amendments solely affecting the version of the Articles of Incorporation.

   Resolutions of the Shareholders' Meeting to amend the Articles of Incorporation in accordance with Article 20, Paragraph 2 of the Articles of Incorporation shall be adopted by a simple majority as a rule and, insofar as a majority of the capital stock is required, by a simple majority of the capital stock represented unless otherwise required by mandatory law or by the Articles of Incorporation. The law prescribes a mandatory majority of three quarters of the capital stock 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 conditional capital.

7.1 The Executive Board may issue new shares only on the basis of resolutions by the Shareholders' Meeting.

   a) In line with Article 4, Paragraph 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 an amount of €150.0 million by issuing new shares by April 23, 2012.

   b) On the basis of the resolution by the Annual Shareholders' Meeting on May 5, 2006, and the resolution amending this which was made by the Annual Shareholders' Meeting on April 25, 2008, the Executive Board is authorized – with the approval of the Supervisory Board – to issue bonds with warrants and/or convertible bonds up to a total amount of €4.5 billion until May 4, 2011, in accordance with the authorization resolutions cited. In this context the Annual Shareholders' Meeting approved conditional capital of up to €111.5 million. The resolution by the Annual Shareholders' Meeting on May 5, 2006, has

been challenged. The conditional capital was entered in the commercial register. If the Executive Board issues bonds with warrants and/or convertible bonds on the basis of its authorization, new shares would be issued in accordance with the conditions of these bonds.

c) On the basis of the resolution by the Annual Shareholders' Meeting on April 25, 2008, the Executive board is authorized – with the approval of the Supervisory Board - to issue convertible bonds, bonds with warrants and/or income bonds up to a total nominal amount of €1.5 billion until May 4, 2011. In this context, the Annual Shareholders' Meeting approved conditional capital of up to €37.5 million. If the Executive Board issues convertible bonds, bonds with warrants and/or income bonds on the basis of this authorization, new shares would be issued in accordance with the conditions of these bonds.

d) Finally, the Executive Board is entitled to issue new shares to the beneficiaries of the stock option plans of 2004 and 2008 adopted by the respective Shareholders' Meeting in accordance with the conditions of these stock option plans.

7.2 Based on the authorization granted by the Annual Shareholders' Meeting on April 25, 2008, the Executive Board is authorized until October 24, 2009, to acquire shares of the company with a total value of up to 10% of the basic capital at the time of the resolution on the stock exchange or by public tender offer for all lawful purposes. Furthermore, in Section 71 of the *Aktiengesetz*, the law grants the Executive Board in certain cases listed there, the right to buy back own shares.

8. The following material agreements are subject to a change of control at Continental AG:

   The contract governing a syndicated loan in the amount of €13.5 billion – which was concluded in August 2007 in connection with the acquisition of Siemens VDO Automotive AG and was amended in the agreement of January 23, 2009 – grants every creditor the right to prematurely terminate his share of the credit line and the loan granted as part thereof and to demand repayment of it, if a person or persons acting in concert acquire control of Continental AG and subsequent negotiations concerning a continuance of the loan have not led to an agreement. "Control" is defined as holding more than 50% of the voting rights as well as the subjection of Continental AG to a controlling agreement. The €600.0 million loan agreement with the European Investment Bank also allows for the right of the bank, in cases where there is a "change of control", to demand talks concerning the situation and, if the bank comes to the conclusion that it has a negative effect on the future repayment of the loan, to demand early repayment. A "change of control" here means the acquisition of more than 50% of the voting rights or the right to more than 50% of the dividends or the right to appoint more than 50% of the members of the Executive Board or the Supervisory Board by a person or by persons acting in concert. Should a change of control occur, as outlined in the agreements described above and a contractual partner exercises his 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.

   In 1996, Compagnie Financière Michelin and Continental AG founded the 50/50 joint venture MC Projects B.V. in the Netherlands, to which Michelin contributed the rights to the Uniroyal brand for Europe. MC Projects B. V. licenses these rights to Continental. According to the agreements in conjunction with this joint venture, this license can be terminated for cause, 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. No compensation agreements have been concluded between the company and the members of the Executive Board or employees providing for the case that a takeover bid takes place.

## 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 fixed salary, bonus, components with a long-term incentive effect, as well as additional benefits, including post-employment benefits. Further details including the individual remuneration are specified in the remuneration report of the Corporate Governance Report starting on page 18. The remuneration report is a part of the Management Report.

# Supplementary Report on Events Occurring after December 31, 2008

As of February 9, 2009, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items as of December 31, 2008.

On September 11, 2008, a purchase agreement was signed for the acquisition of Kolubara Univerzal Ltd., Serbia. The purchase has not yet been concluded because the conditions for conclusion on the part of the seller have not yet been met. The purchase is expected to be concluded in the first quarter of 2009. The company, which achieved sales of around €15 million in 2008, is to be integrated into the ContiTech Conveyor Belt Group. It has roughly 250 employees in Serbia and primarily manufactures conveyor belting.

On January 30, 2009, M.I.L. Matinvestments Limited, Cyprus, informed us that it is exercising its option to sell its remaining 34% stake in Slovakian Continental Matador Rubber s.r.o. to Continental at a price of €46.8 million, effective July 1, 2009.

On January 8, 2009, Schaeffler KG concluded its takeover offer to the shareholders of Continental AG and now holds 49.9% of Continental AG shares. The change in shareholders will have a negative impact on the future availability of tax losses carried forward. In the event that future tax reductions can not be realized in Germany as a result of Schaeffler KG exceeding a 30% equity interest, Continental is entitled to compensation for any possible negative impacts, in accordance with the investment agreement concluded with the Schaeffler Group on August 20, 2008. Due to the negative impact from losses carried forward in the U.S.A., Continental AG booked a claim for €20.0 million from Schaeffler KG in January 2009. This will be shown as a payment into capital reserves.

After the Supervisory Board's special meeting on January 24, 2009, Continental AG and the Schaeffler Group announced that they had come to an agreement for constructive cooperation based upon the investment agreement.

On January 27, 2009, Continental was downgraded to BB with a negative outlook by Standard & Poor's rating agency. For financing reasons, Continental is sticking to its goal to keep its rating within the higher credit category which is characterized by low default rates and referred to as the investment-grade category. The target minimum rating is BBB and Baa2.

In January 2009, Continental successfully concluded renegotiations with the consortium of banks on the general conditions for the syndicated loan the consortium had issued to finance the acquisition of Siemens VDO. Due to the continuing deterioration of the economic situation in the final months of 2008, a possible need for adjustment of the credit conditions began to emerge. Continental therefore proactively approached the banks in December 2008 with a concept to adjust the contractual terms to the changed economic environment. Among other things, the credit margin was increased in the loan agreement, and restrictions were tightened regarding liquidity outflows not utilized to repay debt. Continental expects only minor changes in net interest expense since the margin increase should be compensated predominantly by the decline of interest rates for borrowing with shorter interest terms.

### Changes in the Executive Board

At its meeting on January 24, 2009, the Supervisory Board of Continental AG gave its consent to the request of Dr. Alan Hippe, vice chairman of the Executive Board, CFO, and head of the Rubber Group of Continental AG, to release him from his duties as member of the Executive Board of Continental AG prematurely as of February 28, 2009, by mutual agreement.

Effective March 1, 2009, Gérard Cordonnier is to assume the role of CFO for the Continental Corporation on a temporary basis.

Effective March 1, 2009, Nikolai Setzer is to assume the role of head of the Passenger and Light Truck Tires division on a temporary basis, alongside his existing duties as head of the Replacement Business for Passenger and Light Truck Tires in Europe and Africa.

**Changes in the Supervisory Board**

In line with the agreement reached with the Schaeffler Group, Mr. Jan P. Oosterveld (on January 26, 2009), Mr. Fred Steingraber (on January 26, 2009), Prof. Jürgen Stockmar (on January 25, 2009) and Mr. Christian Streiff (on February 3, 2009) stepped down from their positions as Supervisory Board members. By court order of February 5, 2009, the district court of Hanover appointed Mrs. Maria-Elisabeth Schaeffler, Mr. Georg F. W. Schaeffler, Dr. Jürgen Geißinger and Mr. Rolf Koerfer as their successors.

# Risk Report

## Continental's overall risk situation is analyzed and managed corporation-wide using the risk management system.

As a global corporation, Continental must take into account a wide variety of risks. These could negatively impact our business and in extreme cases endanger the company's existence. We accept calculable risks if the resulting opportunities lead us to expect to achieve a sustainable growth in value. A uniform corporation-wide risk management system is in place in order to ensure that risks are detected in time, their causes analyzed, and that the risks are assessed and avoided or at least minimized. It regulates the recording, assessment, documentation, and reporting of risks and is integrated into the company's strategy, planning, and budgeting processes. The risk management system, which complies fully with the corporate governance principles of the Continental Corporation and with statutory requirements, is included in the annual audit.

**Identifying, assessing, and reporting risk**
The management of each unit of the corporation analyzes the material risks relating to that unit. Such risks are categorized and evaluated according to set guidelines. Risks are normally assessed according to their negative impact on the unit's operating result. Using an extensive risk inventory, the units report any changes to previously reported risks plus any new developments that could turn into material risks as part of their monthly reporting. Any new material risks arising between regular reporting dates have to be reported immediately. 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.

**Risk management**
The responsible management initiates suitable countermeasures that are also documented in the reporting system for each risk identified and assessed as material. The identified risks are monitored and consolidated at corporation level by the compliance and risk committee which reports regularly to the Executive Board and recommends additional actions where necessary. 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.

**Macroeconomic risks**
Our expectations for the macroeconomic developments for the near future are described starting on page 103.

Negative developments that could also affect our company directly or indirectly cannot be ruled out in view of the major uncertainty concerning economic trends and the global confidence crisis in the banking sector. Most institutions are currently predicting a recession in the U.S.A., Europe and Japan, with no signs of recovery forecast until the second half of 2009 at the earliest. A significant downturn in economic activity is also expected in the newly industrializing countries. From the present perspective it is difficult to say whether and to what extent the "aid packages" for banks and the economy initiated by the national governments will succeed in reviving global economic momentum in the course of the year. The key factor will be to bring about a swift solution to the confidence crisis in the banking sector and the associated restrictions in lending. The longer this process takes, the more profound will be the impact on the goods and services sector. Added to this is the risk of geopolitical instability as a result of a prolonged global recession. However, it is not possible to assess the consequences of state intervention in terms of partial or full nationalization, something that has been limited to the banking sector until now.

We currently consider the following areas to be of significant risk to the company:

**Industry risks**
For the automotive industry in particular, the uncertainty concerning the development of the economy in 2009 is reflected in the large fluctuation in expert predictions regarding sales volumes in 2009, which range from a 10% to a 25% decline in new car registrations throughout the world. If the bottom of this spectrum were to be reached, this would result in a dramatic under-utilization of our customers' capacities. In view of the high fixed cost intensity of the industry, the insolvency of a cus-

tomer or of one of its subsidiaries could then no longer be ruled out. A direct consequence of this would be doubtful accounts which are also not insurable due to the current situation. However, we are confronting this risk by means of effective debtor management. By contrast, the systemic risk also associated with the insolvency of a customer, and in particular of an automobile manufacturer, is difficult to predict and can therefore barely be protected against.

Falling production volumes generally pose sales risks in volume and monetary terms, as well as earnings. Such risks arise because although automotive manufacturers normally nominate at least one supplier for a certain vehicle, they do not commit themselves to a minimum purchase. We can fundamentally reduce these risks by making our production capacities more flexible and taking action to cut our fixed costs, for example. Growing installation rates to some extent compensate for these risks for some of the company's key products in the automotive area. Furthermore, part of our strategy relies on generating a substantial percentage of sales outside the automotive industry in order to spread our risk across industries with different cycles. In order to be even better prepared for the foreseeable difficult environment in 2009, the Executive Board already decided at the end of 2008 to impose significant limits on the volume of investment and spending in the area of research and development in 2009 and furthermore to launch a comprehensive cost-cutting program.

Following the, in some cases significant, fall in the price of many key raw materials for Continental as a result of the financial and economic crisis, an increase in the price of oil or natural rubber of the kind often observed seasonally in previous years is unlikely. A prolonged low level of raw material prices could bring pressure on our prices, especially in the tire aftermarket, and is something that could entail a direct impact on the sales and earnings situation of the tire operations in particular.

**Procurement risks**

A forecast of the raw materials markets for the near future is included on page 106.

The automotive divisions can be affected by cost exposure in particular due to rising steel prices, whereas the other divisions are mainly affected by the development of oil and natural rubber prices. Since these raw materials are usually purchased in U.S. dollars, a stronger U.S. dollar can represent a further price risk for our companies that are outside of the U.S.A. and whose currency is not tied to the U.S. dollar. We mitigate the risks of unavailability of raw materials and production materials by observing the market carefully and seeking out and developing new suppliers if necessary. Nevertheless, single sourcing cannot always be avoided. We limit the risk of supply delays, insufficient quantities and inadequate quality by carefully selecting our suppliers and reviewing them carefully, something that has been stepped up again in the wake of the financial and economic crisis.

**Investment risks**

Capital expenditure decisions are subject to risk due to their long-term effects and their volumes. For this reason, they are implemented only after a standard corporation-wide approval procedure has been carried out, which includes a careful check of the assumptions and profitability, taking into account location-specific risk factors. Owing to the uncertainty surrounding economic developments, the criteria were reviewed again at the end of 2008. The outcome of this was an immediate cut in capital expenditure.

**Product risks**

Product defects can entail liability risks and costly replacement activities. We address such risks with careful product development, comprehensive quality management and intensive monitoring of the market. Insurance policies and other precautionary measures provide additional protection. Due in particular to uncertainties in the U.S. legal system, where first-instance decisions are generally made by lay-person juries, there is no assurance that individual product liability claims will not exceed the related provisions.

**Environmental risks**

Comprehensive environmental management enables us to identify environmental risks at an early stage and to take precautionary action. We take possible environmental effects into consideration during the development of our products. We certify our plants in accordance with the ISO 14001 environmental standard.

Since many of the corporation's properties have been used for industrial purposes for many years, risks of contamination and the resulting site restoration obligations cannot be ruled out completely. However, we pay very special attention to identifying such risks when acquiring companies. If necessary, appropriate provisions are included in contracts.

Stricter statutory regulations particularly where the environment is concerned can lead to higher development and production costs. We track legislative initiatives in our key markets as part of our risk identification and control procedures and address the issue of alternative materials for our products in our research and development activities.

**Risks from pension commitments**

In the U.S.A., the United Kingdom, and certain other countries, we use pension funds run by independent external fund managers to manage and finance pension commitments. In 2006, Continental established legally independent trust funds under a contractual trust arrangement for the funding of post-employment obligations of certain subsidiaries in Germany. Weak financial markets can impact the pension fund's performance and lead to significant additional expenses. Developments on the international equity markets in the past fiscal year have had a negative impact on performance. By contrast, our investment ratio in the bonds sector and on the money market had a stabilizing effect. The development of the pension liabilities and the funds is disclosed in Note 24 to the consolidated financial statements. For some time now, we have been proceeding with our gradual transition to defined contribution pension plans to further reduce the risks from pension commitments.

Some of the subsidiaries in the U.S.A. also have obligations to contribute to the healthcare costs of retirees. A further increase in these costs cannot be excluded, but we aim to mitigate this risk by limiting the amount payable by the corporation.

**Credit risks**

Local and central credit managers analyze and monitor the operational credit risk. The responsibilities of our central credit management function also include pooled accounts receivable risk management. Nevertheless, default risk can never be excluded with absolute certainty and has risen further in view of the precarious economic situation surrounding U.S. manufacturers and suppliers.

**Country risks**

Our strategy of expanding production at low-wage locations and penetrating new markets can result in our consciously accepting appropriate and calculable country and market-specific risks. This applies above all to newly industrializing countries. We examine and monitor the legal and political conditions as part of our general risk management process. Assessing country-specific risk is an important aspect when examining the profitability of an investment.

**Legal risks**

Legal risks, disputes, and claims for damages are disclosed in Note 33 to the consolidated financial statements. We address the risk of non-compliance with applicable laws – in particular antitrust non-compliance and corruption – through intensified training programs, monitoring activities by our internal control systems, audits of the corporate internal audit department, and strict action against any misconduct.

**Personnel risks**

Highly-qualified employees are of key importance for an innovative company such as Continental. Fluctuation can result in the loss of key expertise. We try to commit our qualified technical and management personnel to us by means of incentive programs, performance-based remuneration systems and by offering international development prospects. We attract qualified new recruits by maintaining close contact with universities and running special recruitment programs.

The Continental Corporation operates globally. Some of our employees therefore come from different cultural backgrounds. Risks from deliberate illegal acts by individuals cannot be excluded. We reduce these risks by means of an internal control system that is monitored by the corporate internal audit department and consists of a segregation of functions, dual control, procedural guidelines in force throughout the corporation, and our Code of Conduct. We systematically investigate any possible misconduct.

However the risk cannot be excluded that in particular the recent development of Continental AG, which is primarily characterized by the new major shareholder, could result in the departure of further key management staff. The imminent realignment of the corporation and the organizational and legal separation of the Rubber Group could also give rise to an above-average fluctuation rate.

**Risks from investments**

Using acquisitions and investments to increase the value added for the corporation and improve its market position is part of our corporate strategy. This results in a risk from investments that we attempt to reduce in advance by conducting in-depth due diligence. All acquisitions

and investments are analyzed for their strategic relevance and earnings power. However, in the wake of what in some cases has been a dramatic worsening of the underlying conditions for the automotive industry, at the end of the year it was necessary to test goodwill for impairment, primarily as a result of the takeover of Siemens VDO activities in December 2007. Customer relationships, which are listed in the balance sheet as intangible assets, likewise underwent impairment testing. As a result, there was a non-cash impairment charge which is described in more detail on pages 124 and 125. In the event of a prolonged negative development of the vehicle markets, further impairment of goodwill and customer relationships cannot be ruled out.

**IT risks**

A centralized and standardized IT environment poses the risk of excessive dependence on a single system or data center since a system failure could have serious consequences for the entire company. We aim to minimize this risk by means of a number of safety mechanisms, including access control systems, emergency planning and uninterruptible power supplies for critical systems and redundant data storage. We use firewall systems, virus scanners, etc., to protect our IT systems against data security risks resulting from unauthorized access.

**Interest rate and currency risks, risks from derivatives**

The international nature of our 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, we have been using natural hedges to reduce currency risks. These hedges are aimed at keeping the difference between income and expenses in any one currency as low as possible, thus minimizing the effect of exchange rate fluctuations against the euro. We also monitor and analyze expected exchange rate developments. Exchange rate risks are hedged as necessary using appropriate financial instruments. Currency management sets tight limits for open positions and thus considerably reduces the hedging risk. For hedging, we only allow the use of those derivative financial instruments that can be reported and measured in the risk management system. The corporation's net foreign investments are generally not hedged against exchange rate fluctuations. Our imports into the Eurozone generally exceed exports to other currency zones.

Variable interest agreements for liabilities pose the risk of rising interest rates. 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 liabilities are the subject of these activities. All interest rate hedges serve exclusively to manage identified interest rate risks. In 2008, extensive hedging of tranche C of the €13.5 billion syndicated loan facility arranged in 2007 and due for maturity in 2012 was carried out in order to mitigate the interest rate risk in the long term. Altogether €3.15 billion was hedged at an average rate of 4.19%. It remains our aim to keep around 50% of total borrowings at a fixed and 50% at a variable interest rate.

The Continental Corporation is not exposed to a risk of fluctuation in the fair value of long-term, fixed interest rate financial liabilities due to changes in market interest rates, as the lenders cannot exercise any right to early repayment due to rate fluctuations.

To reduce counterparty risk, interest rate and currency management transactions are only entered into with selected banks. The counterparties undergo credit analysis on an ongoing basis. We minimize internal settlement risks by clearly segregating functional areas. The central controlling function regularly determines and monitors forecasted surpluses or shortages in individual currencies from the operating business throughout the corporation. A liquidity forecast is prepared by central cash management on a regular basis.

**Liquidity risks**

Cost-effective, adequate financing is necessary for the subsidiaries' operating business. Various marketable financial instruments are employed for this purpose, including overnight money, term deposits, commercial paper, bonds, and bilateral and syndicated loans. 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. Should events lead to unexpected financing requirements, Continental can draw upon existing liquidity and fixed credit lines from banks.

**Other risks**

The uncertain development of 2009 made it necessary to amend the loan agreements concluded in connection with the takeover of Siemens VDO activities in 2007. The new terms and conditions stipulate an increase in the interest margin as well as amendments to further provisions. In return, until the end of 2010 Continental has been granted greater flexibility with regard to the indebtedness ratios that must be complied with as stipulated in the loan agreements. The economic environment has deteriorated substantially in recent months, which has also had an impact on the sales and earnings position of Continental. As for the future situation in 2009, major uncertainty prevails, and estimates of market development vary greatly. Despite these circumstances and the existing uncertainties, the Executive Board expects to comply with the newly negotiated financial covenants in 2009, based upon its current estimates founded on a careful review of the information available. In the event that the covenants are not complied with, the loans could be called for repayment. In view of Continental's operative performance and good strategic setup, the Executive Board does however assume that the financing can be maintained as things look now. A cost increase from the credit terms and conditions would likely be a result. In addition there is also the risk, which is more closely explained in the report starting on page 92 pursuant to Section 289, Subsection 4 and Section 315, Subsection 4 of the *Handelsgesetzbuch* (German Commercial Code), that the lending banks will exercise their right to prematurely terminate their shares of the credit line if there is a change of control at Continental AG, especially if the Schaeffler Group's shareholding reaches or exceeds 50% of Continental AG's voting capital stock.

There is no real need in 2009 to refinance the syndicated loan originally amounting to €13.5 billion since Continental had more than a total of €3.8 billion available in the form of existing liquidity and unused bank credit lines at the end of 2008. In 2010, on the other hand, tranche B, in the amount of €3.5 billion, will become due. Depending on conditions, this amount is to be paid off in installments or in its entirety via the capital market in the form of one or more transactions by August 2010. In view of the significant deterioration in Continental's credit rating and the high risk premiums for corporate risks, a material increase in net interest expense would be practically unavoidable from the current perspective if the sum were to be refinanced via the credit market.

# Report on Expected Developments

## Economic conditions in the following two fiscal years.

**Macroeconomic development**
The first bail-outs by the U.S. Federal Reserve Bank in March 2008 (Bear Stearns and JP Morgan Chase) were initial signs that the crisis on the mortgage market (subprime crisis) had grown into a real financial crisis, which then swiftly took a hold in Europe and across the whole world. The insolvency of the U.S. investment bank Lehman Brothers in September 2008 resulted in an enormous loss of confidence, causing even trade between banks to come to a virtual standstill. Credit premiums rapidly increased to record highs and property prices experienced a slump across the board. Stock prices plunged on global stock markets. According to the most recent estimates, a total of $2.2 trillion was destroyed last year. This massive loss of assets inevitably impacted the real economy, resulting in decreased growth rates as early as the second quarter of 2008 in some regions.

As a first step, national governments focused on the confidence crisis, providing funds in the form of direct financial assistance or guarantees in order to stabilize the monetary cycle. In the U.S.A., a $700 billion TARP fund (troubled assets relief program) was initially made available to the banks. The German Federal Government created the SoFFin (*Sondervermögen Finanzmarktstabilisierung*, Special Fund Financial Market Stabilization) with a volume of €500 billion. England and France also provided comprehensive, multi-billion guarantees. With the risk of inflation mitigated considerably due to the slump on commodities markets, the central banks in the U.S.A., Europe and England felt encouraged to introduce significant interest rate cuts in order to supply urgently required liquidity and also to restore confidence between the banks. The last interest cut by the Federal Reserve Bank was to 0% - 0.25%, that of the European Central Bank to 2% and that of the Bank of England to 1.0%.

In addition, the national governments set up multi-billion investment programs. The U.S.A. alone plans to invest around $800 billion in 2009, mainly in infrastructure, sustainability and education. At the beginning of 2009, the *Bundesrat* (upper house of the German parliament) approved the second economic stimulus package of €50 billion, meaning that the entire package now amounts to around €80 billion. Criteria were also determined for a €100 billion state umbrella for industrial companies. Overall, the IMF (International Monetary Fund) puts the state investment programs of the G20 countries at 1.5% of GDP. As a side-effect, in 2009 net indebtedness of many EU member states will rise to above the 3% limit prescribed in the Maastricht criteria.

Nonetheless, the global economy is still heading into recession in 2009. Global economic growth is currently estimated at just 0.5% by the IMF, representing a further bleakening of growth prospects of 1¾ percentage points in comparison to the last forecast made in November 2008. The growth of the world economy would thus be maintained only through emerging and developing economies, with the economic performance of advanced economies predicted to contract by around 2%. This would be the first time since the end of World War II that national economies in the U.S.A., Canada, Europe and Japan are all in decline simultaneously. It is important to note that, at present, all economic institutes are explicitly stressing the high degree of uncertainty of their forecasts. Opportunities for better development are seen if the national investment programs manage to bring about a revival of economic activity. However, the risk that a further sustained credit crunch could exacerbate the situation is generally emphasized.

**Germany**
Among the large European countries, the economic downtown is expected to have the greatest impact in Germany, where a 2.5% decline in economic performance is predicted. With its two economic stimulus packages, the German Federal Government has planned state measures amounting to €80 billion to support the economy in the next two years. In order to stabilize the automotive industry, car taxes have been lowered for at least one year and a scrapping premium is paid when a vehicle which is nine years old or more is replaced with a new car. The job market, which up to now has proved robust, will suffer in 2009 as a result of economic developments. The number of unemployed is currently expected to rise by as many as 500,000. In contrast, the considerably lower risk of inflation should have a noticeable positive effect.

**Western Europe/Eurozone**
The European economy will continue to shrink in 2009. Positive signals are expected for the second half of the year as a result of low interest rates and state economic

stimulus schemes. However, sinking property prices and growing unemployment will impact consumer spending. ECB key interest rates are likely to move below 2% in the near future and at the same time the inflation rate should decrease in 2009.

**Central and eastern Europe**
Here, too, economic growth will experience a noticeable slow-down. Some of the currencies have depreciated by more than 25% against the euro since fall 2008. Whereas in countries such as Poland, Slovakia and the Czech Republic positive economic growth can be expected, in Hungary a recession is expected. In particular, private households in Hungary are likely to suffer from the depreciation of the national currency (forint), since many real estate loans were taken out in low-interest currencies such as the Swiss franc and the Japanese yen and have since become considerably more expensive. Inflation rates are likely to decrease here as well.

**Russia**
Russia's foreign currency reserves declined considerably already in 2008, since the central bank had used them to stabilize the national currency (ruble). If raw material and energy prices remain at their current low level, economic growth will slow. This will also limit the Russian government's latitude to maneuver as regards state economic stimulus schemes.

**U.S.A.**
The economic situation in the U.S.A. is only likely to improve once the financial system and property prices have stabilized. U.S. citizens will choose to save a larger proportion of their money in 2009, leading to lower consumer spending. Even now, the explosion in public deficit can already be seen as a burden for the future. The U.S.A.'s dependency on inflows of foreign capital will increase further. The recession will probably last for the whole of 2009, bringing with it a falling inflation rate approaching zero. Unemployment will continue to rise.

**Asia**
The export-oriented Japanese economy suffered as a result of the strong yen at the beginning of 2009. Rising unemployment will impact on consumer behavior. A decline in GDP is to be expected in 2009.

In China, economic growth of over 5% is anticipated due to falling interest rates and state economic stimulus schemes. The decrease in the growth rate also has its positive aspects, since the economic situation in China was previously in danger of overheating.

**Industry development**
Our key sales markets are the global business with vehicle manufacturers, and the replacement markets for passenger, light truck and commercial vehicle tires, particularly in western and central Europe as well as the NAFTA region. While the original equipment business with automakers is highly significant for the business trends within our Chassis & Safety, Powertrain, Interior, and ContiTech divisions, the replacement markets for passenger, light truck and commercial vehicle tires are of great importance to the Tire divisions.

In view of the economic environment described above, there is a great deal of uncertainty as regards the development of **light vehicle production** (passenger, station wagons, light commercial vehicles <6t) in 2009. A decline in global sales volume of anywhere between 10% and 25% is forecast. Should the decrease indeed be that high, production would be down approx. 14 million vehicles compared to 2008. That figure would correspond to total vehicle production output in the U.S. in 2007. The initial figures for January indicate that the decline in vehicle production was even more significant in the first quarter than in the fourth quarter of 2008. We currently expect a decrease of over 2.5 million in vehicles produced. Due to the continual changes in economic environment factors (exchange rates, GDP, consumer confidence, unemployment, etc.), a serious forecast for the entire year for individual regions, or even for the market as a whole, is not possible at the present time. National schemes to support the industry mostly in the form of scrapping premiums (Germany, France, Spain and Italy) and/or tax cuts (Germany, UK) offer opportunities for better development. For the U.S.A., vehicle production of between 9.0 million and 11.0 million is currently expected. For Europe, estimates vary between 17.0 million and 19.0 million units. The large range in the forecasts even for the current year is shown in the table below. The estimates for 2010 are the forecasts made by the sources cited, and reflect the hope that light vehicle production will revive in the second half of 2010.

However, there is also a great deal of uncertainty regarding the development of **heavy vehicle markets** in 2009. Market observers and industry leaders foresee a possible 30% to 50% decrease in production in Europe. Forecasts in the U.S. also vary widely. Estimates for Class 8

| Production of light vehicles* in millions of units | 2008** | 2009*** | 2010 |
|---|---|---|---|
| Western Europe | 14.7 | 11.5 – 13.0 | 13.2 |
| Eastern Europe | 6.4 | 5.5 – 6.0 | 6.2 |
| NAFTA | 12.7 | 9.0 – 11.0 | 11.7 |
| South America | 3.8 | 2.5 – 3.0 | 3.1 |
| Asia | 28.1 | 24.3 – 26.5 | 28.1 |
| Africa and Middle East | 1.6 | 1.0 – 1.7 | 1.7 |
| **Total** | **67.3** | **53.8 – 61.2** | **64.0** |

* passenger cars, station wagons, and light commercial vehicles (<6t)
*Source:* Global Insight **preliminary estimates ***market expectations

| Production of heavy vehicles* in thousands of units | 2008** | 2009*** | 2010 |
|---|---|---|---|
| Western Europe | 559 | 280 – 440 | 474 |
| Eastern Europe | 206 | 180 – 200 | 204 |
| NAFTA | 366 | 275 – 290 | 408 |
| South America | 195 | 155 – 180 | 158 |
| Asia | 1,362 | 1,290 – 1,300 | 1,388 |
| **Total** | **2,689** | **2,180 – 2,410** | **2,632** |

* commercial vehicles (>6t)
*Source:* Global Insight **preliminary estimates ***market expections

**Replacement sales of passenger, light truck and 4x4 tires**

| in millions of units | 2008* | 2009 | 2010 |
|---|---|---|---|
| Western and Central Europe | 275,5 | 270,0 | 274,7 |
| NAFTA | 262,9 | 252,2 | 254,6 |
| Asia | 212,9 | 218,9 | 231,0 |

*Source:* LMC World Tyre Forecast, 2008 *preliminary estimates

**Replacement sales of truck tires**

| in millions of units | 2008* | 2009 | 2010 |
|---|---|---|---|
| Western and Central Europe | 19.2 | 18.6 | 18.9 |
| NAFTA | 19.1 | 18.2 | 18.6 |
| Asia | 60.4 | 62.0 | 64.9 |

*Source:* LMC World Tyre Forecast, 2008 *preliminary estimates

vehicle markets range between 130,000 and 170,000 units in 2009. Because of the severity of the economic crisis in the U.S.A., changes in general economic conditions as of 2010 are not expected to bring forward demand or production to any significant extent in the current year. A decline in production of up to 25% for the Class 5-8 truck segments is currently anticipated for the whole market in the U.S.A. If the expectations of economic recovery in 2010 prove justified, then in light of the extremely low basis, this should lead to a significant increase in commercial vehicle production, particularly in the U.S.A. A recovery of the market in Europe could likewise be expected.

Trends in the last ten to fifteen years have shown that **passenger tire replacement markets** are less subject

to fluctuations than vehicle production. This evaluation is supported by the stabilization in miles driven in Europe and the U.S.A., resulting from lowered gasoline prices, as well as by the fact that tires have to be replaced once they have reached a certain degree of wear. We therefore anticipate that the European market will shrink by around 2% in 2009. Following in part considerable decreases in the U.S.A. in 2008, we expect a further decline of around 4% there. With gasoline prices lower and miles driven again higher, and on the basis of a weak market since the beginning of the century, a recovery as of 2010 seems probable.

We anticipate an increase in volumes for the Asian markets over the next two years.

Despite the partly very significant slump in the **truck tire replacement business** in 2008, we do not expect a recovery in volume in 2009. Only as of 2010 do we anticipate a slight increase in all regions.

**Markets for raw materials**

The significant fall in prices on the commodities markets is not likely to continue to the same extent in 2009 as was observed in the fourth quarter of 2008 in particular. If the global economy stabilizes, as is considered possible from the second half of the year on, then increasing raw material prices are even to be expected again.

# Outlook for the Continental Corporation

**Expected development of business**

In view of the continuing turbulence on the financial markets and the recession in many parts of the world, it is not possible at present to reliably assess the underlying data (currencies, interest rates, sales and production markets). Despite this, our highest aim is to reduce the corporation's net indebtedness further. This is why further measures have been initiated in addition to the cuts in investments and research and development, among other things, that have already been undertaken. Suspension of the dividend is a further important step toward lowering debt. We anticipate that we will also be able to generate substantial free cash flow in 2009. For this reason, as things look now it can be assumed that Continental will fulfill the obligations set out in the loan agreements (covenant level), to be determined on a quarterly basis. The economic environment has deteriorated substantially in recent months, which has also had an impact on the sales and earnings position of Continental. As for the future situation in 2009, major uncertainty prevails, and estimates of market development vary greatly. Despite these circumstances and the existing uncertainties, the Executive Board expects to comply with the newly negotiated financial covenants in 2009, based upon its current estimates founded on a careful review of the information available.

Furthermore, Continental is looking into various alternatives for paying off tranche B in the amount of €3.5 billion, which will become due in August 2010.

Constructive talks which began at the end of January with the Schaeffler Group on collaboration between the two companies are being continued intensively.

Business at the start of the first quarter of fiscal 2009 has demonstrated the magnitude of the challenges that will confront us this year. The slump in sales, particularly in the automotive divisions, is likely to accelerate in the first half of 2009. For this reason, against the background of the previous year's high comparative figures, it cannot be ruled out that extremely large-scale deviations from last year can occur, particularly in the first half-year. It is also to be expected that significant restructuring measures will be necessary in the current year.

**Creativity,** *noun.* The ability to think and act inventively. The term creativity was originally used to describe the root of personal intellectual artistic conceptions. More recently, commerce and science have become increasingly interested in this human ability. Research into creative processes and their controllability and predictability is gaining importance.

## Consolidated Financial Statements

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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 earnings, financial and net assets position of the corporation, as well as further information provided in accordance with the provisions of the *Handelsgesetzbuch* (German Commercial Code).

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 and internal reporting, is reliable. This includes standardized guidelines at corporation level for accounting and risk management in accordance with Section 91 (2) of the *Aktiengesetz* (German Stock Corporation Act) 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 engaged KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, as the auditors for the 2008 financial year, 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 auditors issued the report presented on the following page.

The consolidated financial statements, the management report for the corporation and Continental AG, the auditors' report, and the risk management system will be discussed in detail by the Audit Committee of the Supervisory Board together with the auditors. These documents relating to the annual financial statements and these reports will then be discussed with the entire Supervisory Board at the meeting of the Supervisory Board held to approve the financial statements.

Hanover, February 9, 2009

The Executive Board

# Independent Auditor's Report

We have audited the consolidated financial statements prepared by the Continental Aktiengesellschaft, comprising the income statement, the balance sheet, cash flow statement, 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, 2008. 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 Abs. 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 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 Abs. 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, March 2, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

(formerly KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft)

Zehnder — Dr. Thümler
Wirtschaftsprüfer — Wirtschaftsprüfer

# Consolidated Income Statements

| in € millions | See Note | 2008 | 2007 |
|---|---|---|---|
| **Sales** | | **24,238.7** | **16,619.4** |
| Cost of sales | | -19,484.7 | -12,595.6 |
| **Gross margin on sales** | | **4,754.0** | **4,023.8** |
| Research and development expenses | | -1,498.2 | -834.8 |
| Selling and logistics expenses | | -1,180.0 | -912.9 |
| Administrative expenses | | -770.1 | -452.9 |
| Other income and expenses | 6 | -1,627.1 | -172.7 |
| At-equity share in earnings of associates | 7 | 16.4 | 19.0 |
| Other income from investments | 7 | 8.8 | 6.3 |
| **Earnings before interest and taxes** | | **-296.2** | **1,675.8** |
| Interest income | 8 | 80.0 | 57.5 |
| Interest expense | 8 | -786.7 | -211.7 |
| **Net interest expense** | | **-706.7** | **-154.2** |
| **Earnings before taxes** | | **-1,002.9** | **1,521.6** |
| Income tax expense | 9 | -75.0 | -471.7 |
| **Net income** | | **-1,077.9** | **1,049.9** |
| Minority interests | | -45.6 | -29.3 |
| Net income attributable to the shareholders of the parent | | -1,123.5 | 1,020.6 |
| | | | |
| **Undiluted earnings per share in €** | **36** | **-6.84** | **6.79** |
| **Diluted earnings per share in €** | **36** | **-6.84** | **6.52** |

See accompanying notes to the consolidated financial statements.

# Consolidated Balance Sheets

**Assets**

| in € millions | See Note | Dec. 31, 2008 | Dec. 31, 2007 after PPA adjustments | Dec. 31, 2007 before PPA adjustments |
|---|---|---|---|---|
| Goodwill | 10 | 6,384.1 | 7,594.8 | 7,289.2 |
| Other intangible assets | 10 | 2,522.7 | 2,980.7 | 2,979.8 |
| Property, plant, and equipment | 11 | 6,122.2 | 5,970.6 | 5,968.6 |
| Investment property | 12 | 19.9 | 29.5 | 29.5 |
| Investments in associates | 13 | 718.3 | 792.1 | 766.4 |
| Other investments | 14 | 14.2 | 24.1 | 23.8 |
| Deferred tax assets | 15 | 391.3 | 97.9 | 162.6 |
| Deferred pension charges | 24 | 116.0 | 77.5 | 77.5 |
| Long-term derivative instruments and interest-bearing investments | 28 | 16.6 | 19.5 | 19.5 |
| Other long-term financial assets | 16 | 34.1 | 48.0 | 48.0 |
| Other assets | 17 | 9.0 | 19.0 | 19.0 |
| **Non-current assets** | | **16,348.4** | **17,653.7** | **17,383.9** |
| Inventories | 18 | 2,570.5 | 2,536.2 | 2,535.9 |
| Trade accounts receivable | 19 | 3,287.5 | 3,943.4 | 3,943.6 |
| Other short-term financial assets | 16 | 126.8 | 196.7 | 190.3 |
| Other assets | 17 | 543.0 | 574.8 | 577.3 |
| Income tax receivable | 26 | 148.0 | 250.7 | 257.9 |
| Short-term derivative instruments and interest-bearing investments | 28 | 47.8 | 51.5 | 51.5 |
| Cash and cash equivalents | 20 | 1,569.4 | 2,199.4 | 2,199.4 |
| Assets held for sale | 21 | 46.5 | 571.2 | 597.8 |
| **Current assets** | | **8,339.5** | **10,323.9** | **10,353.7** |
| **Total assets** | | **24,687.9** | **27,977.6** | **27,737.6** |

## Total Equity and Liabilities

| in € millions | See Note | Dec. 31, 2008 | Dec. 31, 2007 after PPA adjustments | Dec. 31, 2007 before PPA adjustments |
|---|---|---|---|---|
| Common stock | | 432.6 | 414.0 | 414.0 |
| Capital reserves | | 3,097.9 | 2,808.7 | 2,808.7 |
| Retained earnings | | 2,217.2 | 3,624.8 | 3,614.4 |
| Other comprehensive income | | -482.3 | -253.9 | -253.9 |
| **Equity attributable to the shareholders of the parent** | | **5,265.4** | **6,593.6** | **6,583.2** |
| Minority interests | | 264.5 | 263.6 | 272.9 |
| **Total equity** | **22** | **5,529.9** | **6,857.2** | **6,856.1** |
| Provisions for pension liabilities and other post-employment benefits | 24 | 669.7 | 688.6 | 688.6 |
| Deferred tax liabilities | 15 | 401.7 | 390.4 | 525.2 |
| Long-term provisions for other risks | 25 | 429.7 | 500.0 | 466.0 |
| Long-term portion of indebtedness | 27 | 9,768.3 | 9,872.6 | 9,872.6 |
| Other long-term financial liabilities | 29 | — | 67.4 | 73.5 |
| Other long-term liabilities | 31 | 40.9 | 42.4 | 42.4 |
| **Non-current liabilities** | | **11,310.3** | **11,561.4** | **11,668.3** |
| Trade accounts payable | 30 | 2,469.8 | 2,763.4 | 2,758.9 |
| Income tax payable | 26 | 507.8 | 559.7 | 532.7 |
| Short-term provisions for other risks | 25 | 1,026.3 | 1,127.8 | 842.6 |
| Indebtedness | 27 | 2,349.0 | 3,255.2 | 3,254.2 |
| Other short-term financial liabilities | 29 | 889.2 | 928.7 | 902.9 |
| Other liabilities | 31 | 566.0 | 681.4 | 679.1 |
| Liabilities held for sale | 32 | 39.6 | 242.8 | 242.8 |
| **Current liabilities** | | **7,847.7** | **9,559.0** | **9,213.2** |
| **Total equity and liabilities** | | **24,687.9** | **27,977.6** | **27,737.6** |

# Consolidated Cash Flow Statements

| in € millions | 2008 | 2007 |
|---|---|---|
| EBIT | -296.2 | 1,675.8 |
| Interest paid | -598.5 | -144.8 |
| Interest received | 79.3 | 57.0 |
| Income tax paid | -282.1 | -483.9 |
| Dividends received | 62.6 | 15.0 |
| Depreciation, amortization and impairments | 3,067.6 | 814.8 |
| At-equity share in earnings of associates and accrued dividend income from other investments, incl. impairments | -25.2 | -25.4 |
| Gains from the disposal of assets, subsidiaries and business units | -43.3 | -21.7 |
| Other non-cash items | 0.0 | -21.2 |
| Changes in | | |
| inventories | -77.4 | -169.7 |
| trade accounts receivable | 664.2 | 91.1 |
| trade accounts payable | -312.3 | -4.5 |
| pension and post-employment provisions | -4.9 | 28.8 |
| other assets and liabilities | -349.0 | 102.3 |
| **Cash provided by operating activities** | **1,884.8** | **1,913.6** |
| Proceeds on disposal of property, plant, equipment, and intangible assets | 69.8 | 43.4 |
| Capital expenditure on property, plant, equipment, and software | -1,595.2 | -896.9 |
| Capital expenditure on intangible assets from development projects | -26.0 | -7.3 |
| Proceeds on disposal of subsidiaries and business units, incl. surrendered cash and cash equivalents | 350.0 | 1.0 |
| Acquisition of subsidiaries and business units, incl. acquired cash and cash equivalents | -102.4 | -11,676.5 |
| Interest-bearing advances | 47.5 | -2.9 |
| **Cash used for investing activities** | **-1,256.3** | **-12,539.2** |
| | | |
| **Cash flow before financing activities (free cash flow)** | **628.5** | **-10,625.6** |
| Changes in short-term debt | -178.9 | 2,026.5 |
| Proceeds from the issuance of long-term debt | 175.0 | 9,188.4 |
| Principal repayments on long-term debt | -847.9 | -136.0 |
| Proceeds from the issuance of shares | 1.0 | 9.1 |
| Capital increase | — | 1,478.8 |
| Dividends paid and repayment of capital to minority interests | -43.9 | -11.1 |
| Dividends paid | -323.4 | -293.1 |
| **Cash flow used for/provided by financing activities** | **-1,218.1** | **12,262.6** |
| | | |
| **Change in cash and cash equivalents** | **-589.6** | **1,637.0** |
| Cash and cash equivalents as of January 1 | 2,199.4 | 571.1 |
| Effect of exchange rate changes on cash and cash equivalents | -40.4 | -8.7 |
| **Cash and cash equivalents as of December 31** | **1,569.4** | **2,199.4** |

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Changes in Total Equity

| | Number of shares[1] | Common stock | Capital reserves | Retained earnings | Other comprehensive income | | | Subtotal | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Difference from | | | | | |
| in € millions | (thousands) | | | | successive share purchases | currency translation | financial instruments[2] | | | |
| **As of Jan. 1, 2007** | **146,529** | **375.1** | **1,340.1** | **2,886.8** | **-22.9** | **-107.5** | **-0.8** | **4,470.8** | **239.1** | **4,709.9** |
| Net income | — | — | — | 1,020.6 | — | — | — | 1,020.6 | 29.3 | **1,049.9** |
| Comprehensive income | — | — | — | — | — | -111.0 | 1.0 | -110.0 | -5.2 | **-115.2** |
| **Net profit for the period** | **—** | **—** | **—** | **1,020.6** | **—** | **-111.0** | **1.0** | **910.6** | **24.1** | **934.7** |
| Dividends paid | — | — | — | -293.1 | — | — | — | -293.1 | -11.1 | **-304.2** |
| Issuance of shares | 15,183 | 38.9 | 1,468.7 | — | — | — | — | 1,507.6 | — | **1,507.6** |
| Successive purchases[3] | — | — | — | — | -12.7 | — | — | -12.7 | -36.4 | **-49.1** |
| Reclassification of equity component[4] | — | — | -0.1 | 0.1 | — | — | — | — | — | **—** |
| Changes in minority interests[5] | — | — | — | — | — | — | — | — | 57.2 | **57.2** |
| **As of Dec. 31, 2007, before PPA adjustments** | **161,712** | **414.0** | **2,808.7** | **3,614.4** | **-35.6** | **-218.5** | **0.2** | **6,583.2** | **272.9** | **6,856.1** |
| **Opening balance sheet adjustments[6]** | **—** | **—** | **—** | **10.4** | **—** | **—** | **—** | **10.4** | **-9.3** | **1.1** |
| **As of Dec. 31, 2007, after PPA adjustments** | **161,712** | **414.0** | **2,808.7** | **3,624.8** | **-35.6** | **-218.5** | **0.2** | **6,593.6** | **263.6** | **6,857.2** |
| Net income | — | — | — | -1,123.5 | — | — | — | -1,123.5 | 45.6 | **-1,077.9** |
| Comprehensive income | — | — | — | — | — | -127.5 | -103.1 | -230.6 | -19.9 | **-250.5** |
| **Net profit for the period** | **—** | **—** | **—** | **-1,123.5** | **—** | **-127.5** | **-103.1** | **-1,354.1** | **25.7** | **-1,328.4** |
| Dividends paid | — | — | — | -323.4 | — | — | — | -323.4 | -21.2 | **-344.6** |
| Issuance of shares | 7,294 | 18.6 | 328.5 | — | — | — | — | 347.1 | — | **347.1** |
| Successive purchases[3] | — | — | — | — | 2.2 | — | — | 2.2 | -5.5 | **-3.3** |
| Reclassification of equity component[4] | — | — | -39.3 | 39.3 | — | — | — | — | — | **—** |
| Changes in minority interests[5] | — | — | — | — | — | — | — | — | 1.9 | **1.9** |
| **As of Dec. 31, 2008** | **169,006** | **432.6** | **3,097.9** | **2,217.2** | **-33.4** | **-346.0** | **-102.9** | **5,265.4** | **264.5** | **5,529.9** |

See accompanying notes to the consolidated financial statements.

[1] Shares outstanding.

[2] Includes derivative financial instruments and available-for-sale financial assets. As of December 31, 2008, there was a net of total deferred taxes of €47.0 million (2007: €0.5 million) on the gross amount of financial instruments.

[3] Successive acquisitions of shares of fully consolidated companies.

[4] Reclassification of equity component on the conversion of convertible bonds.

[5] Changes in minority interests from consolidation changes or capital increases.

[6] See Note 5: Siemens VDO and Matador.

# Segment Reporting

**Segment report by division for 2008**

| in € millions | Chassis & Safety | Powertrain | Interior | Passenger and Light Truck Tires |
|---|---|---|---|---|
| Sales to external customers | 5,091.5 | 3,962.0 | 5,846.1 | 5,088.8 |
| Intercompany sales | 42.5 | 78.0 | 10.6 | 11.5 |
| **Total sales** | **5,134.0** | **4,040.0** | **5,856.7** | **5,100.3** |
| EBIT (segment result) | 303.1 | -1,046.2 | -462.6 | 626.4 |
| as % of sales | 5.9 | -25.9 | -7.9 | 12.3 |
| – thereof at-equity share in earnings of associates | 8.8 | 5.3 | -12.1 | 8.7 |
| Capital expenditure[1] | 336.0 | 494.4 | 265.2 | 292.7 |
| as % of sales | 6.5 | 12.2 | 4.5 | 5.7 |
| Depreciation and amortization[2] | 486.8 | 1,127.8 | 1,019.9 | 247.1 |
| – thereof impairment | 150.6 | 653.3 | 523.6 | 13.1 |
| Significant non-cash expenses/income | 0.0 | -27.2 | 39.8 | -28.0 |
| Segment assets[3] | 5,230.7 | 4,933.8 | 6,209.8 | 3,224.2 |
| – thereof investments in associates | 75.8 | 137.0 | 427.5 | 64.8 |
| Operating assets (as of December 31)[3] | 4,308.3 | 3,839.7 | 5,003.4 | 2,323.3 |
| ROCE in % (as of December 31)[3] | 7.0 | -27.2 | -9.2 | 27.0 |
| Operating assets (average)[3] | 4,494.4 | 4,610.8 | 5,629.1 | 2,488.1 |
| ROCE in % (average)[3] | 6.7 | -22.7 | -8.2 | 25.2 |
| Segment liabilities[3] | 922.4 | 1,094.1 | 1,206.4 | 900.9 |
| Number of employees as of December 31, 2008 | 26,680 | 25,244 | 30,813 | 26,227 |

| in € millions | Commercial Vehicle Tires | Conti-Tech | Other/Con-solidation | Continental Corporation |
|---|---|---|---|---|
| Sales to external customers | 1,320.6 | 2,929.7 | — | 24,238.7 |
| Intercompany sales | 83.6 | 77.3 | -303.5 | 0.0 |
| **Total sales** | **1,404.2** | **3,007.0** | **-303.5** | **24,238.7** |
| EBIT (segment result) | 29.5 | 329.1 | -75.5 | -296.2 |
| as % of sales | 2.1 | 10.9 | — | -1.2 |
| – thereof at-equity share in earnings of associates | 0.4 | 0.2 | 5.1 | 16.4 |
| Capital expenditure[1] | 95.6 | 110.8 | 0.5 | 1,595.2 |
| as % of sales | 6.8 | 3.7 | — | 6.6 |
| Depreciation and amortization[2] | 82.9 | 101.0 | 2.1 | 3,067.6 |
| – thereof impairment | 0.4 | 0.4 | | 1,341.4 |
| Significant non-cash expenses/income | 1.9 | -23.8 | -13.9 | -51.2 |
| Segment assets[3] | 1,033.0 | 1,464.2 | -18.5 | 22,077.2 |
| – thereof investments in associates | 5.9 | 2.3 | 5.0 | 718.3 |
| Operating assets (as of December 31)[3] | 750.7 | 1,064.7 | -4.0 | 17,286.1 |
| ROCE in % (as of December 31)[3] | 3.9 | 30.9 | | -1.7 |
| Operating assets (average)[3] | 776.2 | 1,105.2 | 13.2 | 19,117.0 |
| ROCE in % (average)[3] | 3.8 | 29.8 | | -1.5 |
| Segment liabilities[3] | 282.3 | 399.5 | -14.5 | 4,791.1 |
| Number of employees as of December 31, 2008 | 8,247 | 21,680 | 264 | 139,155 |

See accompanying explanations in Note 35.

[1] Capital expenditure on property, plant, equipment, and software.

[2] Excluding write-downs of investments.

[3] New definition of operating assets.

## Segment report by division for 2007

| in € millions | Chassis & Safety | Powertrain | Interior | Passenger and Light Truck Tires |
|---|---|---|---|---|
| Sales to external customers | 4,625.9 | 1,140.5 | 1,529.4 | 4,959.9 |
| Intercompany sales | 22.7 | 36.5 | 2.2 | 15.7 |
| **Total sales** | **4,648.6** | **1,177.0** | **1,531.6** | **4,975.6** |
| EBIT (segment result) | 567.0 | -73.5 | 10.8 | 738.7 |
| as % of sales | 12.2 | -6.2 | 0.7 | 14.8 |
| – thereof at-equity share in earnings of associates | 12.8 | 0.0 | 0.5 | 5.2 |
| Capital expenditure[1] | 279.8 | 129.6 | 65.5 | 222.0 |
| as % of sales | 6.0 | 11.0 | 4.3 | 4.5 |
| Depreciation and amortization[2] | 229.4 | 79.4 | 90.5 | 230.9 |
| – thereof impairment[3] | 5.1 | 1.4 | 0.3 | 19.7 |
| Significant non-cash expenses/income | -2.6 | 18.6 | 9.9 | -32.1 |
| Segment assets[4] | 5,525.6 | 6,166.8 | 7,237.7 | 3,091.2 |
| – thereof investments in associates | 74.5 | 121.4 | 503.0 | 51.7 |
| Operating assets (as of December 31)[4] | 4,442.4 | 4,960.0 | 5,852.2 | 2,197.0 |
| ROCE in % (as of December 31)[4] | 12.8 | -1.5 | 0.2 | 33.6 |
| Operating assets (average)[4] | 2,876.6 | 1,592.9 | 1,895.1 | 2,324.6 |
| ROCE in % (average)[4] | 19.7 | -4.6 | 0.6 | 31.8 |
| Segment liabilities[4] | 1,083.2 | 1,206.8 | 1,385.5 | 894.2 |
| Number of employees as of December 31, 2007 | 27,809 | 31,608 | 33,459 | 26,281 |

| in € millions | Commercial Vehicle Tires | Conti-Tech | Other/Con-solidation | Continental Corporation |
|---|---|---|---|---|
| Sales to external customers | 1,373.4 | 2,990.3 | — | 16,619.4 |
| Intercompany sales | 79.0 | 73.6 | -229.7 | — |
| **Total sales** | **1,452.4** | **3,063.9** | **-229.7** | **16,619.4** |
| EBIT (segment result) | 124.1 | 362.8 | -54.1 | 1,675.8 |
| as % of sales | 8.5 | 11.8 | — | 10.1 |
| – thereof at-equity share in earnings of associates | 0.4 | 0.2 | -0.1 | 19.0 |
| Capital expenditure[1] | 83.0 | 99.8 | 17.2 | 896.9 |
| as % of sales | 5.7 | 3.3 | — | 5.4 |
| Depreciation and amortization[2] | 78.3 | 103.6 | 2.7 | 814.8 |
| – thereof impairment[3] | 0.3 | 0.3 | — | 27.1 |
| Significant non-cash expenses/income | -2.3 | -13.9 | -8.5 | -30.9 |
| Segment assets[4] | 1,001.3 | 1,529.4 | -5.7 | 24,546.3 |
| – thereof investments in associates | 8.5 | 2.1 | 5.2 | 766.4 |
| Operating assets (as of December 31)[4] | 702.7 | 1,066.4 | 21.4 | 19,242.1 |
| ROCE in % (as of December 31)[4] | 17.7 | 34.0 | | 8.7 |
| Operating assets (average)[4] | 697.8 | 1,126.6 | 15.6 | 10,529.2 |
| ROCE in % (average)[4] | 17.8 | 32.2 | | 15.9 |
| Segment liabilities[4] | 298.6 | 463.0 | -27.1 | 5,304.2 |
| Number of employees as of December 31, 2007 | 8,384 | 23,871 | 242 | 151,654 |

[1] Capital expenditure on property, plant, equipment, and software.

[2] Excluding write-downs of investments.

[3] In 2007, write-ups of €0.7 million are included in the ContiTech division.

[4] New definition of operating assets.

## Reconciliation of EBIT to net income

| in € millions | 2008 | 2007 |
|---|---|---|
| Chassis & Safety | 303.1 | 567.0 |
| Powertrain | -1,046.2 | -73.5 |
| Interior | -462.6 | 10.8 |
| Passenger and Light Truck Tires | 626.4 | 738.7 |
| Commercial Vehicle Tires | 29.5 | 124.1 |
| ContiTech | 329.1 | 362.8 |
| Other/consolidation | -75.5 | -54.1 |
| **EBIT** | **-296.2** | **1,675.8** |
| Net interest expense | -706.7 | -154.2 |
| **Earnings before income taxes** | **-1,002.9** | **1,521.6** |
| Income tax expense | -75.0 | -471.7 |
| **Net income** | **-1,077.9** | **1,049.9** |
| Minority interests | -45.6 | -29.3 |
| **Net income attributable to the shareholders of the parent** | **-1,123.5** | **1,020.6** |

## Segment report by region

| in € millions | Germany | Europe excluding Germany | NAFTA region | Asia | Other countries | Continental Corporation |
|---|---|---|---|---|---|---|
| **Sales to external customers 2008** | **7,623.3** | **8,621.3** | **4,535.2** | **2,497.1** | **961.8** | **24,238.7** |
| Sales to external customers 2007 | 5,111.0 | 6,089.1 | 3,566.7 | 1,303.8 | 548.8 | 16,619.4 |
| **Capital expenditure 2008** | **458.3** | **551.7** | **253.2** | **235.9** | **96.1** | **1,595.2** |
| Capital expenditure 2007 | 304.0 | 261.4 | 187.4 | 97.2 | 46.9 | 896.9 |
| **Segment assets as of Dec. 31, 2008** | **12,219.2** | **4,495.7** | **3,443.0** | **1,262.5** | **656.8** | **22,077.2** |
| Segment assets as of Dec. 31, 2007 | 14,001.3 | 4,712.3 | 3,878.2 | 1,196.0 | 758.5 | 24,546.3 |
| **Number of employees as of Dec. 31, 2008** | **46,305** | **46,037** | **21,723** | **18,013** | **7,077** | **139,155** |
| Number of employees as of Dec. 31, 2007 | 52,294 | 48,720 | 25,614 | 18,040 | 6,986 | 151,654 |

# Notes to the Consolidated Financial Statements

## 1. General Information

Continental Aktiengesellschaft, 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 of the Hanover Local Court (HR B No. 3527). Continental AG is a supplier to the automotive industry, with worldwide operations. Upon resolution of the Executive Board of February 9, 2009, the consolidated financial statements of Continental AG for 2008 were approved and will be submitted to the electronic *Bundesanzeiger* (Federal Gazette) and published there.

The consolidated financial statements of Continental AG as of December 31, 2008, 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 *Handelsgesetzbuch* (German Commercial Code). The term IFRS includes all International Accounting Standards (IAS) still in force 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 year 2008 have been applied, subject to recognition by the European Union.

## 2. Accounting Principles

The consolidated financial statements have been prepared on the basis of amortized historical cost, except for certain assets held for sale and derivative financial instruments, recognized at their 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. In general, the balance sheet dates of the subsidiary financial statements are the same as the balance sheet date of the consolidated financial statements.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts presented are in millions of euros. We point out 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. No companies were required to be included in the consolidated financial statements as a result of these provisions in either 2008 or 2007. The consolidation of subsidiaries is based on the purchase method, by offsetting the purchasing costs against the proportion of net assets attributed to the parent company at fair value at the date of acquisition. Intangible assets not previously recorded in the standalone financial statements of the acquired company are also entered at their 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. If they can only be measured on a provisional basis at the time of acquisition, the assets and/or liabilities are adjusted as necessary within twelve months after the acquisition. Corresponding adjustments are presented in the notes to the financial statements. However, the ratios from the previous year are not subsequently changed.

Any positive remaining amount is capitalized as goodwill. In order to ensure the recoverability of goodwill arising from provisional measurement and the corresponding purchase price allocation, the provisional goodwill is allocated provisionally to the affected management units as of the balance sheet date. This provisional allocation can deviate significantly from the final allocation.

The shares in the net assets of subsidiaries that are not attributable to the corporation are shown under 'minority 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 minority interests are shown 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 minority interests at the time that offer is made is recognized directly in equity.

In particular in Germany, offers to purchase minority interests are required by law in connection with management and profit and loss pooling agreements, in accordance with the redemption obligations under Section 305 of the *Aktiengesetz* (German Stock Corporation Act).

Once control has been obtained, any differences arising from successive purchases of shares from minority interests between the purchase price and the carrying amount of those minority interests are recognized directly in equity.

Where there are successive purchases of shares, at the point in time where control is obtained any difference between the carrying amount for shares previously held prior to obtaining control and the fair value is taken directly to equity. To the extent this difference reflects unrecognized fair values compared with the historical cost of the net assets of the associate, the difference is credited separately to a revaluation reserve within total equity.

Significant investments where Continental AG holds between 20.0% and 50.0% of the voting rights, thereby enabling it to exert substantial influence on the associated companies, are in general accounted for using the equity method. Companies that are dormant or have only a low level of business activity and therefore no significant impact on the net assets, financial position, and results of operations 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.

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 proportionate share in earnings or losses is recognized as necessary based on estimated amounts. Goodwill arising from the first consolidation of associates is accounted for under the equity method. Goodwill is not amortized but in the case of the relevant indications is tested annually for impairment.

Intercompany amounts receivable and payable, as well as income and expenses, are eliminated on consolidation. Intercompany profits arising on the supply of goods and services, and dividend payments made within the corporation, are eliminated on consolidation. Deferred taxes related to the elimination of intercompany transactions are recognized at the effective income tax rate for the corporation.

**Foreign currency translation**

The assets and liabilities of foreign subsidiaries with a functional currency other than the euro are translated into euros at the year-end middle rates. The statement of income is translated at the exchange rates prevailing at the transaction dates. Differences resulting from currency translation are recognized in accumulated other comprehensive income until the disposal of the subsidiary, without recognizing deferred taxes.

In the stand-alone statements of Continental AG and its subsidiaries, amounts receivable and payable in foreign currencies are measured on recognition at the transaction rate and adjusted at the balance sheet date to the related spot rates. Gains and losses arising on foreign currency translation are recognized in the income statement, 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 charged directly to other comprehensive income within total equity.

In accordance with IAS 21, any goodwill is recognized directly as an asset of the subsidiary acquired and therefore also translated for subsidiaries whose functional currencies are not the euro into euros at the balance

sheet date using the middle rate. Differences resulting from foreign currency translation are recognized in accumulated other comprehensive income.

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, 2008 | Dec. 31, 2007 | 2008 | 2007 |
| Brazil | BRL | 3.37 | 2.59 | 2.67 | 2.67 |
| Switzerland | CHF | 1.50 | 1.66 | 1.59 | 1.64 |
| China | CNY | 9.81 | 10.74 | 10.23 | 10.37 |
| Czech Republic | CZK | 26.53 | 26.52 | 24.96 | 27.75 |
| United Kingdom | GBP | 0.98 | 0.74 | 0.80 | 0.68 |
| Hungary | HUF | 266.58 | 253.81 | 251.69 | 251.33 |
| Japan | JPY | 127.70 | 166.07 | 152.31 | 161.21 |
| South Korea | KRW | 1,813.69 | 1,376.51 | 1,604.59 | 1,273.07 |
| Mexico | MXN | 19.43 | 16.00 | 16.30 | 14.98 |
| Malaysia | MYR | 4.99 | 4.88 | 4.89 | 4.71 |
| Philippines | PHP | 67.80 | 60.69 | 65.16 | 63.09 |
| Romania | RON | 4.05 | 3.61 | 3.68 | 3.34 |
| Slovakia | SKK | 30.13 | 33.68 | 31.27 | 33.76 |
| U.S.A. | USD | 1.42 | 1.47 | 1.47 | 1.37 |
| South Africa | ZAR | 13.47 | 10.06 | 12.07 | 9.66 |

**Revenue recognition**

Revenue – before VAT/sales tax and after deducting sales allowances – is recognized at the date of delivery provided that economic ownership, and therefore the major risks and rewards, have been transferred to the buyer, and that payment is probable.

Only sales of products resulting from the ordinary business activities of the company are shown as revenue. Ancillary income or proceeds, such as from the sale of equipment or scrap, or rental and licensing income, are netted against the related expenses.

Revenues from made-to-order production – mostly for public transportation operators – 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 actual estimated total costs exceed the sales expected from the respective contract.

**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 may be 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 to 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 is 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 sold (application engineering), generally do not

qualify as development expenditure which may be recognized as an intangible asset. Furthermore, expenses incurred directly in connection with starting up new operations or launching new products or processes are charged immediately to income.

Only very few development projects fulfill the strict recognition criteria as intangible assets since our major medium- and longer-term projects are for supplying automobile manufacturers (original equipment business). New developments for the original equipment business are not marketable until Continental has been nominated as the supplier for the particular vehicle platform or model and, furthermore, has successfully fulfilled pre-production 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.

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 volume commitments. 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 in treasury. 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.

**Balance sheet classification**
Assets and liabilities are shown as non-current assets and liabilities in the balance sheet 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 avoid settlement of the liability within twelve months after the balance sheet date. Provisions for pensions and other post-employment obligations as well as deferred tax assets and liabilities are generally shown as non-current. If assets and liabilities have both current and non-current portions, the amounts are classified separately.

**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, written down to the extent 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 straight-line 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, written down to the extent impaired.

**Property, plant, and equipment**
Property, plant, and equipment is carried at cost less straight-line depreciation. Impairment losses are recognized through an additional write-down of the affected items. Investment grants are generally deducted from cost.

Construction cost consists of the direct costs and attributable material and manufacturing overheads, including depreciation. It does not include any financing costs.

As soon as an asset is available for its intended use, subsequent cost is only capitalized 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 recorded as current period 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 as an expense as incurred. The corporation has no property, plant, or equipment that by the nature of its operation and deployment can only be repaired and serviced in intervals over several years. The useful lives are up to 33 years for buildings and land improvements; up to twelve years for technical equipment and machinery; and two to ten years for factory and office equipment.

**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.

**Leasing**

Continental AG leases property, plant, and equipment, especially buildings. If the substantial risks and rewards from the use of the leased asset are controlled by Continental AG, 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, property, plant, and equipment and investment property when there is an indication of impairment by comparing the carrying amount with the recoverable amount. The recoverable amount corresponds to the higher of the fair value less costs to sell and the present value of the expected future cash flows from the continued use of the asset. If the carrying amount is higher than the recoverable amount, the difference is recognized as an impairment loss. If the circumstances for the prior recognition of an impairment no longer prevail, the impairment losses are reversed.

The annual impairment test for goodwill is made at the level of the strategic business units, which represent the relevant cash-generating units. Recoverability is tested by comparing the carrying amount of the business unit, including goodwill, with its recoverable amount on the basis of its discounted pre-tax cash flows representing the value in use. An impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount for the business unit. Impairment losses for goodwill are not reversed in subsequent periods.

The expected cash flows for the business units are always derived from the long-term plans that cover the following five years. The terminal cash flows are extrapolated using the expected growth rates for the individual business units for the subsequent periods. 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 2008, in view of the uncertain climate, the unpredictable effects of the financial market crisis and the difficulty in forecasting the development of volumes, no 5-year plan was adopted by the Executive Board and the Supervisory Board. Using the target figures for 2009 drawn up and authorized in November 2008, and the agreed guidance for 2010, and building upon other available planning documents, the values in use were calculated on the basis of discounted pre-tax cash flows. These budgeted figures were adjusted for anticipated significant special effects and taking into account risk factors and discounts, as well as the current market situation. The overall average growth rate applied in the 2008 test was 0.92% (2007: 0.42%). The increase in the growth rate is associated especially with the higher share of the automotive divisions within the entire corporation as a result of the acquisition of Siemens VDO. The average growth rate used in the fiscal year was 0.50% for the Rubber Group and 1.15% for the Automotive Group. Due to the uncertain economic conditions, impairment testing during the year was ceased, and the test was carried out for the first time on December 31. The interest rate used in fiscal 2008 to discount cash flows was 11.5% (2007: 12.8%). This interest rate used for discounting (pre-tax WACC), was determined on the basis of a target capital structure and debt rate of a peer group and not based on company-specific parameters in line with the Modified Capital Asset Pricing Model (MCAPM). The comparable interest rate would have been 10.6%. The impairment on the goodwill would therefore have been €433.8 million, instead of €1,230.0

million. An interest rate of 12.4% would have resulted in an impairment of €2,249.9 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 balance sheet if their disposal has been committed 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, a financial liability or an equity instrument. They include non-derivative financial instruments such as trade accounts receivable and payable, securities and financial assets, and indebtedness and other financial liabilities. They also include derivative financial 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. 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 each reporting date 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 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 12 months following the balance sheet date.

- 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 charged directly to income.

- Loans and receivables – which have fixed or determinable payments and are not quoted on an active market – are measured at amortized cost less any necessary impairment write-downs. They are reported in the balance sheet in accordance with their term as non-current or current assets.

- Available-for-sale financial assets – which are designated as available for sale at the date of initial recognition – are measured at fair value, if a fair value can be determined, and reported as non-current or current assets according to the expected date of sale. Unrealized gains or losses are recognized in accumulated other comprehensive income, net of tax effects, until the date of derecognition. If the impairment is determined to be permanent, the loss is recognized immediately in profit or loss. If fair value cannot be determined, 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 generally measures all 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 indebtedness nor derivative financial liabilities and are not quoted on an active market are reported in the balance sheet under other financial liabilities in accordance with their term.

**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 include primarily bonds with warrants and convertible bonds. In the case of convertible bonds, the market value of the share conversion rights is recognized separately in capital reserves at the date the bond is issued and therefore deducted from the indebtedness incurred through the bond proceeds. Market 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 over 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 is accrued over the term to the carrying amount of the bonded indebtedness. The issuing costs of the convertible bond are deducted directly from the carrying amount of the debt component. 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 39.

**Derivative financial instruments**

Derivative financial instruments are used only for hedging of balance sheet items or forecasted cash flows, and are recognized at their fair values. The fair value generally corresponds to 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 financial instruments are recognized at the trading date, i.e., when the obligation to buy or sell the instrument is incurred.

Changes in the fair values of derivative financial instruments used for fair value hedging purposes 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 financial instruments used to hedge future cash flows where effectiveness is demonstrated are recognized directly in equity until the associated hedged transaction is settled. If the criteria for hedge accounting are not met or the hedge becomes ineffective, the changes in fair value of the specific derivative financial instrument are recognized in income as incurred, independently of the hedged item. Once the forecasted transaction for which the cash flows have been hedged results in the recognition of a financial asset or a financial liability, any gains or losses previously deferred in equity are released to income at that time. If the transaction leads to the recognition of a non-financial asset, it is reflected by an increase or reduction in the cost of acquisition.

**Amounts receivable**

Amounts receivable are carried at their principal amount. Valuation allowances are recognized in specific cases where default is probable, or as a general allowance based on experience. Continental AG sells trade accounts receivable, particularly under asset-backed securitization programs. The accounts receivable are still recognized in the balance sheet when the risks and rewards, in particular credit and default risk, have not been transferred. The repayment obligations from these sales are then shown as short-term indebtedness.

**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 cost. Write-downs are recognized as appropriate to reflect any possible risk related to recoverability.

**Accounting for income taxes**

Income taxes are measured using the balance sheet 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.

These include deferred taxes for the 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 other post-employment benefits**

The retirement benefits offered by the corporation encompass 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 obligation 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 cost of other, similar long-term employee benefits is included in the compensation costs as part of the cost categories as classified in the income statement and not shown separately as net interest expense. 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 balance sheet.

The significant 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., Canada, and other countries.

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 at the balance sheet date 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 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.

**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 rate; 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 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 regularly reviewed and updated to reflect actual developments as necessary and based on the information currently available at the date of preparation of the consolidated financial statements.

**Consolidated cash flow statements**

The statements of cash flows show the sources during the period that generated cash and cash equivalents as well as the application of cash and cash equivalents. Cash includes all liquid funds and demand deposits. Cash equivalents are short-term (maturing in less than three months), highly liquid financial investments that can be readily converted into known cash amounts and are subject to only minor fluctuations 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 (I) of the *Handelsgesetzbuch*, 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 amendments and interpretations issued in relation to published standards that were applicable to Continental AG became effective in 2008 and have been adopted accordingly:

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions, provides guidance on how IFRS 2 is to be applied to share-based payment arrangements involving an entity's own equity instruments or those of another entity in the same group of companies (e.g., the parent company). The interpretation requires share-based payments in which the entity receives goods or services as consideration for its own equity instruments to be accounted for in accordance with IFRS 2, regardless of how the equity instruments are obtained (e.g., share buyback or conditional capital increase). IFRIC 11 also states that, if rights to the equity instruments of the parent are granted to employees of a subsidiary, this must be classified in the subsidiary's financial statements as cash-settled or equity-settled share-based payment transactions, depending on whether the parent company itself or the subsidiary grants the parent company's shares. Its application had no effect on the Continental Corporation.

IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, specifies additional criteria for determining the limit in IAS 19 on the amount of a defined benefit surplus that can be recognized as an asset. Under it, a surplus must be unconditionally available for a refund or reduction in future contributions for an entity to recognize an asset. IFRIC 14 also aims to avoid the possibility of statutory minimum funding requirements being onerous for the entity. On the other hand, additional liabilities must be recognized if an entity has a statutory obligation to cover an existing shortfall for past service on the minimum funding basis. Its application had no significant effect on the Continental Corporation.

The Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures, allow non-derivative financial instruments from the 'at fair value through profit or loss' category to be reclassified under certain conditions to other categories if these instruments were not designated at fair value through profit or loss by the entity upon initial recognition. Under certain circumstances, the changes also allow financial assets of the 'available for sale' category to be reclassified to the 'loans and receivables' category. Correspondingly, IFRS 7 was amended. The amendments are to be applied retrospectively as of July 1, 2008. Reclassifications made in periods beginning on or after November 1, 2008, shall take effect only from the date when the reclassification is made. Reclassifications before November 1, 2008, can be carried out with effect from an earlier time, though not on a date before July 1, 2008. Its application had no effect on the Continental Corporation.

The following standards and interpretations will only become effective at a later date:

The Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a subsidiary, jointly controlled entity, or associate, allow entities to determine in the IFRS opening balance of the separate financial statements, the cost of an investment in a subsidiary, jointly controlled entity, or associate either by using the fair value or a previous GAAP carrying amount at the entity's date of transition to IFRS. These amendments to IFRS 1 and IAS 27 are to be applied for annual periods beginning on or after January 1, 2009. The changes are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The Amendments to IFRS 2, Share-based Payment, Vesting Conditions and Cancellations, clarify the definition and treatment of vesting conditions and non-vesting conditions within IFRS 2 and also provide guidance on the accounting treatment of cancellations by a party other than the entity. The amendments are to be applied to all share-based payments that are within the scope of IFRS 2 for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 3, Business Combinations (revised), was amended to take account of a number of issues relating to accounting for business combinations. The main amendments are as follows:

- All transaction costs, including costs directly attributable to the acquisition, must be expensed immediately instead of treating them as a component of the purchase price of the acquired entity;
- In future, an option will exist for all business combinations in which less than a 100% interest is acquired to recognize the non-controlling interests either including any goodwill attributable to them or, as previously, merely at the fair value of the non-controlling interest's proportionate share of the identifiable assets and liabilities;
- When determining the purchase price, contingent purchase price adjustments must now be included at their fair value at the acquisition date, regardless of the probability of their occurrence. Subsequent adjustments to the fair value of purchase price components classified as liabilities must generally be recognized in income in the period in which the adjustment is made;
- In the case of a business combination achieved in stages (step acquisition), the acquirer must in future recognize the differences between carrying value and fair value of the previously held stock at the time of acquisition in income;
- All contractual relationships existing at the acquiree at the acquisition date, with the exception of leases, must be reclassified or redesignated;
- A claim granted to the acquirer by the seller to indemnification in relation to a liability of the acquiree, e.g., in connection with tax risks or legal disputes, will in future lead to the recognition of an asset in the amount of the liability concerned. In subsequent periods, this asset must then be measured in the same way as the related liability.

The amendments to IFRS 3 are only required to be applied to business combinations taking place in annual periods beginning on or after July 1, 2009. Its application will start to affect the accounting treatment of acquisitions from 2010 onwards.

IFRS 8, Operating Segments, replaces the risks and rewards approach of IAS 14 to segment reporting by a management approach that identifies and reports segments based on information regularly made available to the chief operating decision maker for decision-making purposes. Therefore, the financial accounting approach of IAS 14 to the measurement of segment information is also replaced by the management approach. The application of IFRS 8 is mandatory only for annual periods beginning on or after January 1, 2009; however, the prescribed approach to identifying and reporting segments is consistent with the principles already applied by Continental AG.

IAS 1, Presentation of Financial Statements (revised 2007), requires all non-owner changes in equity to be presented separately from owner changes in equity. Non-owner changes in equity must either be presented using the single statement approach or the two statements approach. The latter option includes a separate income statement and a statement of comprehensive income. IAS 1 also changes the titles of financial statement components within IFRS affecting all existing standards and interpretations, but the new titles are not mandatory for use in financial statements. When an entity applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the financial statements, the presentation of a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements is required. The revised IAS 1 also extends the disclosure requirements regarding the other comprehensive income. The revised IAS 1 replaces the current IAS 1 and will come into effect for annual periods beginning on or after January 1, 2009. The revised IAS 1 is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The Amendments to IAS 23, Borrowing Costs (revised 2007), led to an adjustment of IAS 23 to the effect that funds that are borrowed specifically to acquire or produce a qualifying asset must be capitalized. The previous option to capitalize borrowing costs was eliminated. In this context, a qualifying asset is one for which a substantial period of time is necessary to get it ready for its intended use or sale. The amendments shall be applied for annual periods beginning on or after January 1, 2009. The main qualifying assets concerned are planned new production facilities. Its application will start to affect the accounting treatment of certain investment projects of Continental Corporation from 2009.

IAS 27, Consolidated and Separate Financial Statements (revised 2008), was amended to include the following clarifications:

- The "economic entity approach" is required to be applied to all transactions involving non-controlling interests. Under it, purchases and disposals of investments in subsidiaries that do not result in a loss of control are accounted for as an equity transaction. Thus such transactions do not result in any change in the carrying amounts of the assets and liabilities reported in the balance sheet (including goodwill).

- By contrast, where a disposal of an investment leads to a loss of control, a disposal gain or loss is recognized in income. In future, the disposal gain or loss will also include the difference between the previous carrying amount and the fair value of such investments in the subsidiary that are retained after the loss of control.

- The current limitation on the loss attributable to non-controlling interests to the carrying amount of the non-controlling interests is eliminated, with the result that the carrying amount of non-controlling interests may be negative in future.

The amendments to IAS 27 are only required to be applied for annual periods starting on or after July 1, 2009, and will have an effect on future transactions from 2010 onwards.

The Amendments to IAS 32, Financial Instruments: Presentation and IAS 1, Presentation of Financial Statements, Puttable Financial Instruments and Obligations Arising on Liquidation, allow under certain criteria puttable instruments to be classified as equity. The amendments shall be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any effect on the future consolidated financial statements of Continental AG.

The Amendments to IAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items, introduce additional application guidance in the context of hedge accounting regarding the designation of inflation in a financial hedged item and the designation in a hedged item of a one-side risk. The amendments are to be applied for annual periods beginning on or after July 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRIC 12, Service Concession Arrangements, provides guidance on the accounting by operators (licensees) for the rights and obligations arising from public-to-private service concession arrangements. The interpretation applies to agreements in which public infrastructure services are outsourced to private companies and in which

a) The grantor controls and regulates what services the operator (licensee) must provide with the infrastructure, to whom it must provide them, and at what price, and

b) The grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement (infrastructure that is used in a public-to-private service concession arrangement for its entire useful life is also within the scope of IFRIC 12, if the condition under a) is met).

IFRIC 12 shall be applied for annual periods beginning on or after January 1, 2008. IFRIC 12 is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRIC 13, Customer Loyalty Programs, regulates the accounting treatment of entities granting award credits such as bonus points or air miles, to customers who buy other goods or services. The interpretation requires a portion of the revenue from the sale to be allocated to the award credits. This portion of the revenue may only be recognized in income when the obligation is met. The interpretation applies to annual periods beginning on or after July 1, 2008. IFRIC 13 is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRIC 15, Agreements for the Construction of Real Estate, deals with the accounting for revenue and associated expenses by entities that undertake the construction of real estate. The interpretation clarifies the conditions to determine whether the agreement is within the scope of IAS 11, Construction Contracts or IAS 18, Revenue. The interpretation also deals with the question when revenue from the construction of real estate should be recognized. The interpretation is required to be applied for annual periods beginning on or after January 1,

2009. IFRIC 15 is not expected to have any effect on the future consolidated financial statements of Continental AG.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation, clarifies that only foreign exchange differences arising between the functional currency of the foreign operation and the functional currency of any parent entity may qualify for hedge accounting. IFRIC 16 also states that any entity within the group (except the foreign operation that itself is being hedged) can hold the hedging instrument in a hedge of a net investment in a foreign operation. When a foreign operation that was hedged is disposed of, the amount reclassified to profit or loss as a reclassification adjustment from the foreign currency translation reserve in respect of the hedging instrument is determined in accordance with IAS 39, Financial instruments: Recognition and Measurement, and the amount reclassified in respect of the net investment in that foreign operation is determined in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates. The interpretation is required to be applied for annual periods beginning on or after October 1, 2008. IFRIC 16 is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRIC 17, Distributions of Non-cash Assets to Owners, deals with the recognition and measurement of dividends payable and addresses also the question of how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable. The liability to pay a dividend shall be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. The dividend payable shall be measured at the fair value of the assets to be distributed. Subsequent adjustments at a later reporting date or at the date of settlement shall be recognized directly in equity. At the date of settlement, the difference between the carrying amount of the asset distributed and the carrying amount of the dividend payable shall be recognized in profit or loss. IFRIC 17 also amends IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, to the effect that in the future, assets classified as 'held for distribution to owners' will be in the scope of IFRS 5. The interpretation is required to be applied for annual periods beginning on or after July 1, 2009. IFRIC 17 is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

With the first Annual Improvement Project (May 2008)) of the IASB, the following amendments will also become effective at a later date:

- The amendments to IFRS 5, Non-current Assets Held for Sale and discontinued Operations, (and consequential amendments to IFRS 1, First-time Adoption of the International Financial Reporting Standards), clarify that in cases in which an entity is committed to a sale plan involving loss of control of a subsidiary, all assets and liabilities of that subsidiary shall be classified as 'held for sale' in accordance with IFRS 5, provided that the requirements of IFRS 5 are fulfilled. The classification shall be conducted regardless of whether a non-controlling interest after the sale will be retained. Correspondingly, IFRS 1 and the disclosure requirements regarding discontinued operations are amended. The amendments are required to be applied for annual periods beginning on or after July 1, 2009. The 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, clarify the presentation of derivatives as current or non-current. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 16, Property, Plant and Equipment (and consequential amendments to IAS 7, Statement of Cash Flows), deal with sales of property, plant and equipment previously held for rental purposes. The amendments clarify that IFRS 5 does not apply in such cases. Such assets shall be transferred to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale shall be recognized as revenue. IAS 7 is amended to the effect that cash payments to manufacture or acquire such assets and cash receipts from rental and sale of such assets are to be included within operating activities. The term 'net selling price' has been replaced by the term 'fair value less cost to sell' in IAS 16. These amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 19, Employee Benefits, essentially clarify the definition of curtailments and negative past service cost, the definition of short-term and other long-term employee benefits and the definition of 'return on plan assets' and the determination of the actual and expected return. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, deal with the accounting treatment of government loans with a below-market rate of interest. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 23, Borrowing Costs, revise the wording of IAS 23 regarding the borrowing costs components in order to harmonize the calculation of borrowing costs of IAS 23 and IAS 39. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 27, Consolidated and Separate Financial Statements, clarify the measurement of investments in subsidiaries, jointly controlled entities, and associates held for sale in the separate financial statements of the parent. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 28, Investments in Associates, clarify that any impairment loss after applying the equity method is not allocated against any goodwill or other assets included in the investments balance. Reversals of impairment should be recognized as an adjustment to the investments in the associate to the extent that the recoverable amount of the associate increases. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 28, Investments in Associates and IAS 31, Interests in Joint Ventures, (and consequential amendments to IAS 32, Financial Instruments: Presentation, and IFRS 7, Financial instruments: Disclosures), deal with investments in associates or interests in jointly controlled entities measured at fair value in accordance with IAS 39 which are outside the scope of IAS 28 und IAS 31. For such investments in associates and interests in jointly controlled entities, the amendments delete the general disclosure requirements of IAS 28 and IAS 31 and identify instead specific disclosures that should be made. IAS 32 and IFRS 7 were correspondingly amended. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 29, Financial Reporting in Hyperinflationary Economies, specify the description of the measurement basis in annual financial statements. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 36, Impairment of Assets, revise IAS 36 to the effect that in those cases where the fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those required for calculations based on the value in use should be made. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 38, Intangible Assets, clarify the accounting of advertising and promotional activities and the unit of production method of amortization. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 39, Financial Instruments: Recognition and Measurement, clarify the reclassification of financial assets in or out of the ‘at fair value through profit or loss’ category, the applicable effective interest rate on cessation of fair value hedge accounting and also the designation of hedging instruments. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 40, Investment Property, clarify that property under construction or developed for future use as an investment property is within the scope of IAS 40. Furthermore, the amendments give additional guidance in cases where the fair value cannot be measured reliably. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The first Annual Improvement Project (May 2008), has also resulted in smaller amendments (editorial changes, changes in wording) to IFRS 7, Financial Instruments: Disclosures; IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors; IAS 10, Events After the Reporting Period; IAS 18, Revenue; IAS 34, Interim Financial Reporting; IAS 20, Accounting for Government Grants and Disclosure of Government Assistance; IAS 29, Financial Reporting in Hyperinflationary Economies; IAS 40, Investment Property; and IAS 41, Agriculture. These amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments are not expected to have a significant effect on the consolidated financial statements of Continental AG, hence the individual amendments were not analyzed in detail.

# Correction:

Due to a clerical error, ContiTech AG has been omitted from the list of companies having applied the statutory exemption provisions. The corrected list is shown below, the addition being emphasized.

## 4. Companies Consolidated

In addition to the parent company, the consolidated financial statements include 357 (2007: 371) domestic and foreign companies in which Continental Aktiengesellschaft holds a direct or indirect interest of more than 20.0% of the voting rights. Of these, 306 (2007: 318) are fully consolidated and 51 (2007: 53) are carried at equity.

The number of companies consolidated decreased in total by 14 year-on-year. Three companies were acquired, four companies were established and four previously unconsolidated units were consolidated for the first time. Eight companies were sold and five were liquidated. In addition, the companies consolidated were reduced by seven companies as a result of mergers and five companies were deconsolidated.

The principal additions in 2008 to the companies consolidated relate to the acquisitions of Tikka OY Finland and OOO Tikka Russia. The companies sold to the Brose Group were among the most significant disposals in 2008. The effects of this are shown under Note 5 – Acquisition and Sale of Companies.

63 (2007: 60) companies whose assets, liabilities, income, and expenses are of only minor significance both individually and collectively for the assets, earnings, and financial position of the corporation, were not consolidated. Of these, 36 (2007: 30) companies are affiliated companies, of which 20 (2007: 20) are currently inactive. A further 27 (2007: 30) companies not consolidated are associated companies, of which six (2007: six) are currently inactive.

More information on equity interests can be found in the list of the corporation's shareholdings, which is published with the consolidated financial statements in the electronic *Bundesanzeiger* (Federal Gazette).

**Statutory exemption provisions applying to German companies**

The statutory exemption provisions have been applied to the following German corporations or commercial partnerships pursuant to Section 264 (3) or 264b of the *Handelsgesetzbuch* (German Commercial Code):

ADC Automotive Distance Control Systems GmbH, Lindau; Alfred Teves Beteiligungs-GmbH, Frankfurt am Main; Babel Grundstücksverwaltungsgesellschaft mbH, Mainz; Benecke-Kaliko Aktiengesellschaft, Hanover; Beneform GmbH, Peine; CAS München GmbH, Hanover; CAS-One Holdinggesellschaft mbH, Hanover; Conseo GmbH, Hamburg; Continental Automotive Grundstücksgesellschaft mbH, Frankfurt am Main; Continental Mechanical Components Germany GmbH, Roding; IDM GmbH Industriesensoren, Lindau; IPM GmbH, Hamburg; Conti Temic microelectronic GmbH, Nürnberg; Conti Versicherungsdienst Versicherungsvermittlungsgesellschaft mbH, Hanover; Continental Automotive GmbH, Hanover; Continental Caoutchouc-Export-Aktiengesellschaft, Hanover; Continental Engineering Services GmbH, Frankfurt am Main; ContiTech AG, ContiTech Antriebssysteme GmbH, Hanover; ContiTech Elastomer-Beschichtungen GmbH, Hanover; ContiTech Formpolster GmbH, Hanover; ContiTech Kühner Beteiligungsgesellschaft mbH, Hanover; ContiTech Luftfedersysteme GmbH, Hanover; ContiTech Schlauch GmbH, Hanover; ContiTech Techno-Chemie GmbH, Karben; 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, Seefeld; Formpolster GmbH, Hanover; GERAP Grundbesitz- und Verwaltungsgesellschaft mbH, Frankfurt am Main; Göppinger Kaliko GmbH, Eislingen; Max Kammerer GmbH, Frankfurt am Main; Metallgummi GmbH, Hamburg; ContiTech MGW GmbH, Hanoversch Münden; OTA Grundstücks- und Beteiligungsverwaltung GmbH, Frankfurt am Main; Phoenix 6. Verwaltungs-GmbH, Hamburg; ContiTech Fluid Automotive GmbH, Hamburg; Phoenix Beteiligungsgesellschaft mbH, Hamburg; Phoenix Compounding Technology GmbH, Hamburg; Phoenix Conveyor Belt Systems Asia 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 Siebte Verwaltungsgesellschaft mbH, Hamburg; Phoenix Vermögensverwaltungs-GmbH, Hamburg; REG-Reifen-Entsorgungsgesellschaft mbH, Hanover; Continental Safety Engineering International GmbH, Regensburg; Continental Mechatronic Verwaltungsgesellschaft mbH, Stollberg; Continental Trading GmbH, Frankfurt am Main; Steinebronn Beteiligungs-GmbH, Oppenweiler; TEMIC Automotive Electric Motors GmbH, Berlin; UMG Beteiligungsgesellschaft mbH, Hanover; Vergölst GmbH, Bad Nauheim;

## 4. Companies Consolidated

In addition to the parent company, the consolidated financial statements include 357 (2007: 371) domestic and foreign companies in which Continental Aktiengesellschaft holds a direct or indirect interest of more than 20.0% of the voting rights. Of these, 306 (2007: 318) are fully consolidated and 51 (2007: 53) are carried at equity.

The number of companies consolidated decreased in total by 14 year-on-year. Three companies were acquired, four companies were established and four previously unconsolidated units were consolidated for the first time. Eight companies were sold and five were liquidated. In addition, the companies consolidated were reduced by seven companies as a result of mergers and five companies were deconsolidated.

The principal additions in 2008 to the companies consolidated relate to the acquisitions of Tikka OY Finland and OOO Tikka Russia. The companies sold to the Brose Group were among the most significant disposals in 2008. The effects of this are shown under Note 5 – Acquisition and Sale of Companies.

63 (2007: 60) companies whose assets, liabilities, income, and expenses are of only minor significance both individually and collectively for the assets, earnings, and financial position of the corporation, were not consolidated. Of these, 36 (2007: 30) companies are affiliated companies, of which 20 (2007: 20) are currently inactive. A further 27 (2007: 30) companies not consolidated are associated companies, of which six (2007: six) are currently inactive.

More information on equity interests can be found in the list of the corporation's shareholdings, which is published with the consolidated financial statements in the electronic *Bundesanzeiger* (Federal Gazette).

**Statutory exemption provisions applying to German companies**

The statutory exemption provisions have been applied to the following German corporations or commercial partnerships pursuant to Section 264 (3) or 264b of the *Handelsgesetzbuch* (German Commercial Code):

ADC Automotive Distance Control Systems GmbH, Lindau; Alfred Teves Beteiligungs-GmbH, Frankfurt am Main; Babel Grundstücksverwaltungsgesellschaft mbH, Mainz; Benecke-Kaliko Aktiengesellschaft, Hanover; Beneform GmbH, Peine; CAS München GmbH, Hanover; CAS-One Holdinggesellschaft mbH, Hanover; Conseo GmbH, Hamburg; Continental Automotive Grundstücksgesellschaft mbH, Frankfurt am Main; Continental Mechanical Components Germany GmbH, Roding; IDM GmbH Industriesensoren, Lindau; IPM GmbH, Hamburg; Conti Temic microelectronic GmbH, Nürnberg; Conti Versicherungsdienst Versicherungsvermittlungsgesellschaft mbH, Hanover; Continental Automotive GmbH, Hanover; Continental Caoutchouc-Export-Aktiengesellschaft, Hanover; Continental Engineering Services GmbH, Frankfurt am Main; ContiTech Antriebssysteme GmbH, Hanover; ContiTech Elastomer-Beschichtungen GmbH, Hanover; ContiTech Formpolster GmbH, Hanover; ContiTech Kühner Beteiligungsgesellschaft mbH, Hanover; ContiTech Luftfedersysteme GmbH, Hanover; ContiTech Schlauch GmbH, Hanover; ContiTech Techno-Chemie GmbH, Karben; 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, Seefeld; Formpolster GmbH, Hanover; GERAP Grundbesitz- und Verwaltungsgesellschaft mbH, Frankfurt am Main; Göppinger Kaliko GmbH, Eislingen; Max Kammerer GmbH, Frankfurt am Main; Metallgummi GmbH, Hamburg; ContiTech MGW GmbH, Hanoversch Münden; OTA Grundstücks- und Beteiligungsverwaltung GmbH, Frankfurt am Main; Phoenix 6. Verwaltungs-GmbH, Hamburg; ContiTech Fluid Automotive GmbH, Hamburg; Phoenix Beteiligungsgesellschaft mbH, Hamburg; Phoenix Compounding Technology GmbH, Hamburg; Phoenix Conveyor Belt Systems Asia 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 Siebte Verwaltungsgesellschaft mbH, Hamburg; Phoenix Vermögensverwaltungs-GmbH, Hamburg; REG-Reifen-Entsorgungsgesellschaft mbH, Hanover; Continental Safety Engineering International GmbH, Regensburg; Continental Mechatronic Verwaltungsgesellschaft mbH, Stollberg; Continental Trading GmbH, Frankfurt am Main; Steinebronn Beteiligungs-GmbH, Oppenweiler; TEMIC Automotive Electric Motors GmbH, Berlin; UMG Beteiligungsgesellschaft mbH, Hanover; Vergölst GmbH, Bad Nauheim;

Continental Automotive Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Frankfurt am Main; Continental Teves AG & Co. oHG, Frankfurt am Main; ContiTech Kühner GmbH & Cie. KG, Oppenweiler; Phoenix Service GmbH & Co. KG, Hamburg; Union-Mittelland-Gummi-GmbH & Co. Grundbesitz KG, Hanover.

## 5. Acquisition and Sale of Companies

**Siemens VDO**

The first-time recognition of Siemens VDO was determined only provisionally as of December 31, 2007, since the fair values attributable to identifiable assets, liabilities and contingent liabilities and the transaction costs could be determined only provisionally. The provisional fair values of Siemens VDO's opening balance were determined at the time of first consolidation (December 3, 2007). During the twelve months following the time of acquisition, necessary adjustments to the assets, liabilities and contingent liabilities were made. In particular, other provisions were adjusted by €319.2 million. In total, purchased net assets decreased by €291.8 million. Goodwill rose by €305.6 million.

| Acquisition of Siemens VDO | Preliminary fair value at date of first consolidation | Opening balance sheet adjustments | Final fair value at date of first consolidation |
|---|---|---|---|
| Intangible assets | 2,757.9 | 0.9 | 2,758.8 |
| Property, plant, and equipment | 2,299.2 | 2.0 | 2,301.2 |
| Investments | 636.3 | 26.0 | 662.3 |
| Inventories | 778.6 | 0.3 | 778.9 |
| Accounts receivable | 1,706.2 | -0.2 | 1,706.0 |
| Other current assets, including income tax receivables | 373.7 | -9.7 | 364.0 |
| Cash and cash equivalents | 838.1 | — | 838.1 |
| Assets held for sale | 502.2 | -26.6 | 475.6 |
| Pension provisions | -151.3 | — | -151.3 |
| Net deferred taxes | -198.0 | 70.1 | -127.9 |
| Tax and other provisions | -629.6 | -346.2 | -975.8 |
| Indebtedness | -109.7 | -1.0 | -110.7 |
| Trade accounts payable | -1,310.6 | -4.5 | -1,315.1 |
| Other liabilities | -439.8 | -12.2 | -452.0 |
| Liabilities held for sale | -228.8 | — | -228.8 |
| **Net assets** | **6,824.4** | **-301.1** | **6,523.3** |
| Minority interests | -57.0 | 9.3 | -47.7 |
| **Purchased net assets** | **6,767.5** | **-291.8** | **6,475.6** |
| Purchase price of shares | 6,882.7 | — | 6,882.7 |
| Accounts receivable acquired from Siemens AG | 4,409.0 | — | 4,409.0 |
| **Purchase price** | **11,291.8** | **—** | **11,291.8** |
| Repayment of financing at closing | 1,042.4 | 7.8 | 1,050.2 |
| **Total payment at closing** | **12,334.1** | **—** | **12,341.9** |
| Transaction costs | 5.1 | 6.0 | 11.1 |
| **Goodwill** | **5,571.8** | **305.6** | **5,877.4** |

**Tikka**

On September 1, 2008, Continental Global Holding Netherlands BV, Netherlands, acquired 100% of the shares in Tikka OY Finland and OOO Tikka Russia at a provisional purchase price totaling €7.9 million plus transaction costs of €0.3 million. The relevant agreements were signed on June 18, 2008. The acquired assets and liabilities were recognized in the following amounts:

| Acquisition of Tikka | Carrying amount immediately before acquisition | Fair value at date of first consolidation |
|---|---|---|
| Intangible assets | 0.1 | 4.6 |
| Property, plant, and equipment | 3.2 | 3.6 |
| Inventories | 3.8 | 3.8 |
| Accounts receivable | 4.2 | 4.0 |
| Other current assets | 0.9 | 0.9 |
| Cash and cash equivalents | 0.2 | 0.2 |
| Net deferred taxes | -0.2 | -1.4 |
| Indebtedness | -7.7 | -7.7 |
| Trade accounts payable | -1.7 | -1.7 |
| Other current liabilities | -0.6 | -0.6 |
| **Purchased net assets** | **2.2** | **5.7** |
| Purchase price | | 7.9 |
| Transaction costs | | 0.3 |
| **Goodwill** | | **2.5** |

This preliminary purchase price allocation resulted in goodwill of €2.5 million. The goodwill reflects the strengthening of the international position in the area of studded tires and growth opportunities in the countries of northern Europe and in Russia. The acquired intangible assets include technologies and customer relationships. Since September 2008, TIkka's business has contributed €2.3 million to sales and -€0.8 million to net income attributable to the shareholders of the parent. The Continental Corporation's reported sales for 2008 would have been €10.9 million higher, net income €0.5 million higher, and earnings per share would not have changed significantly if this transaction had been completed on January 1, 2008.

**Oltas**

On September 1, 2008, Continental Caouchouc-Export Aktiengesellschaft acquired 89.7% of shares in Otomotiv Lastikeleri Tevzi A.S., Turkey (Oltas), at a purchase price of €5.2 million plus transaction costs of €0.3 million. The relevant agreements were signed on July 22, 2008. The acquired assets and liabilities were recognized in the following amounts:

| Acquisition of Oltas | Carrying amount immediately before acquisition | Fair value at date of first consolidation |
|---|---|---|
| Intangible assets | 0.0 | 0.0 |
| Property, plant, and equipment | 0.3 | 0.4 |
| Inventories | 4.1 | 4.9 |
| Accounts receivable | 14.6 | 14.3 |
| Other current assets | 0.3 | 0.2 |
| Cash and cash equivalents | 2.8 | 2.8 |
| Pension provisions | -0.6 | -0.6 |
| Net deferred taxes | — | 0.0 |
| Indebtedness | -6.9 | -7.1 |
| Trade accounts payable | -7.4 | -7.4 |
| Other current liabilities | -0.5 | -1.1 |
| **Net assets** | **6.7** | **6.4** |
| Minority interests | 0.7 | 0.6 |
| **Purchased net assets** | **6.0** | **5.8** |
| Purchase price | | 5.2 |
| Transaction costs | | 0.3 |
| **Negative balance** | | **-0.3** |

This preliminary purchase price allocation resulted in a negative balance of €0.3 million, which was recognized in other operating income. The sales company for tires will develop Continental's position in Turkey and increase growth opportunities in the region's new markets. Since September 2008, Oltas' business has contributed €11.7 million to sales and -€1.7 million to net income attributable to the shareholders of the parent. The Continental Corporation's reported sales for 2008 would have been €25.3 million higher, net income attributable to the shareholders of the parent €0.7 million higher, and earnings per share would not have changed significantly if this transaction had been completed on January 1, 2008.

**Renolit**

In 2007, Benecke-Kaliko AG, part of the ContiTech division, concluded a purchase and transfer agreement with effect from January 1, 2008, with Renolit AG and its subsidiary Alkor GmbH Kunststoffe. The associated property, plant, and equipment was acquired in the second quarter of 2008. The transaction in the form of an asset deal concerns business activities with PVC, ABS and TPO foils for use in cars and commercial vehicles. The assets acquired were carried at the following fair values:

| Acquisition of Renolit | Carrying amount immediately before acquisition | Fair value at date of first consolidation |
|---|---|---|
| Intangible assets | — | 2.1 |
| Property, plant, and equipment | 1.1 | 4.2 |
| Inventories | 2.6 | 2.6 |
| Accounts receivable | 3.1 | 3.1 |
| **Purchased net assets** | **6.8** | **12.0** |
| Purchase price | | 12.0 |
| **Goodwill** | | **—** |

With this transaction, Conti Tech has strengthened its position in the market for surface materials for the automotive industry. Conversely, Benecke-Kaliko AG had already sold its furniture covering business in 2007 to the Renolit Group. The consequences of these transactions on the sales and net income attributable to the shareholders are insignificant.

**Matador**

With effect from July 1, 2008, Continental acquired a further 15% stake in the Slovakian Continental Matador Rubber s.r.o. at a purchase price of €20.6 million. Another difference of €10.4 million also arose between final and provisional purchase prices, taking into consideration additional transaction costs. This has been carried directly in equity, and the previous year adjusted accordingly.

**Phoenix**

On November 2, 2004, Continental AG acquired 75.6% of the shares of Phoenix AG as a result of a public takeover offer. The acquired shares in Phoenix were contributed to ContiTech AG. On November 16, 2004, Phoenix AG and ContiTech AG concluded a merger agreement. The Annual Shareholders' Meetings of Phoenix AG and ContiTech AG approved the agreement. The merger was entered in the commercial register of ContiTech AG and became effective on January 16, 2007. Phoenix AG ceased to exist as a result of the merger.

The minority shareholders of Phoenix AG at the date of the merger are now shareholders of ContiTech AG with a share of the capital and voting rights in ContiTech AG of approximately 1.5%. As a result of this interest held by minority shareholders in ContiTech AG, the management and profit and loss pooling agreement entered into with ContiTech-Universe Verwaltungs-GmbH as the controlling company terminated at the end of fiscal year 2007 in accordance with Section 307 of the *Aktiengesetz* (German Stock Corporation Act). On July 11, 2007, ContiTech AG as the controlled company entered into a new management and profit and loss pooling agreement effective from January 1, 2008, with ContiTech-Universe Verwaltungs-GmbH as the controlling company. The management and profit and loss pooling agreement contains a binding offer to redeem the shares held by the minority shareholders of ContiTech AG for €24.83 per share in cash. The Annual Shareholders' Meeting of ContiTech AG on August 22, 2007, approved the management and profit and loss pooling agreement and resolved to transfer the shares held by minority shareholders to ContiTech-Universe Verwaltungs-GmbH in return for a cash redemption offer in accordance with Section 327a of the *Aktiengesetz* (squeeze-out). The redemption offer also amounts to €24.83 per share of ContiTech AG. Shareholders have filed actions for rescission and nullification contesting both resolutions that are still pending. The Hanover Regional Court dismissed all claims with its judgment of January 14, 2009. It is expected that individual claimants will lodge an appeal against the judgment. The management and profit and loss pooling agreement was entered in the commercial register of ContiTech AG on January 9, 2008, and thus became effective. By final resolution of December 30,

2008, the Celle Higher Regional Court decided that the claims against the decision to transfer minority shareholders' shares to ContiTech-Universe Verwaltungs-GmbH do not stand in the way of the entry in ContiTech AG's commercial register. The transfer resolution has been registered for entry into the commercial register, but not yet entered. Special proceedings (*Spruchverfahren*) have been initiated by shareholders to establish whether the amount of the cash redemption offer under the management and profit and loss pooling agreement is appropriate and were still pending at the date of preparation of the annual financial statements. After completion of these proceedings, the terms of the redemption offer may change.

**Other acquisitions**

In June 2008, Temic Automotive Electric Motors GmbH subscribed to a €2.4 million capital increase in the Japanese specialist for lithium ion batteries ENAX Inc., thus acquiring 8% of the company. Continental thus intends to secure for itself a strong position in the lithium ion battery sector.

In April 2008, Continental UK Group Holdings acquired additional shares in the associated company Alphapeak Ltd, UK. The investment of €8.6 million has strengthened Continental's position in the area of propulsion systems for electric and hybrid vehicles as well as system integration for combustion engines.

ContiTech AG acquired the residual shares in the Greek conveyor belt company IMAS A.E. previously in other ownership at a purchase price of €3.3 million. The difference of €2.2 million between the purchase price and carrying value of the acquired minority shares was recognized directly in equity.

The effects of these transactions on net income attributable to the shareholders of the parent are insignificant.

Additional acquisitions were completed by the individual divisions in 2008. No further information is provided in respect of these acquisitions because they have had no material effect on the net assets and results of operations of the Continental Corporation.

**Sales of companies**

As of April 1, 2008, the electric motors activities were sold to the Brose Group – predominantly as part of an asset deal – for a price of €248.8 million (provisional purchase price). The final purchase price determination is likely to be concluded in the second quarter of 2009. This sale generated an overall gain of €2.0 million for the Powertrain division. The unit sold includes the motor activities acquired as part of the purchase of Siemens VDO, and essentially comprises motors for electric windows, anti-lock braking systems, heating/ventilation, engine cooling and electric power steering as well as development offices.

Income of €6.2 million was realized from the sale of the park assistance activities of the Body & Security business unit in the Interior division. In the same division, the sale of the cockpit modules business led to an expense of €1.1 million.

The sale of the Benecke-Kaliko unit's furniture covering business resulted in a gain of €4.7 million in the ContiTech division.

Phoenix Dichtungstechnik GmbH was also sold effective July 1, 2008, to an investment company for proceeds totaling €41.5 million. The disposal generated a gain of €24.3 million.

# Notes to the Consolidated Income Statements

## 6. Other Income and Expenses

| in € millions | 2008 | 2007 |
|---|---|---|
| Other expenses | -1,770.3 | -296.7 |
| Other income | 143.2 | 124.0 |
| **Other income and expenses** | **-1,627.1** | **-172.7** |

The other expenses relate primarily to:

| in € millions | 2008 | 2007 |
|---|---|---|
| Goodwill impairment | 1,230.0 | — |
| Restructuring measures without impairment | 151.5 | 28.6 |
| Impairment of property, plant, equipment, and intangible assets | 111.4 | 27.1 |
| Litigation and environmental risks | 18.8 | 58.2 |
| Realized and unrealized foreign currency exchange losses | 68.2 | 26.2 |
| Losses on sale of property, plant, and equipment | 15.6 | — |
| Valuation allowances for doubtful accounts | 34.4 | 14.8 |
| Post-employment benefit obligations in the U.S.A. | — | 49.9 |
| Expenses for termination benefits | 53.3 | 33.2 |
| Impairment of assets held for sale | 46.9 | — |
| Other | 40.2 | 58.7 |
| **Other expenses** | **1,770.3** | **296.7** |

**Expenses**

The annual measurement of goodwill for impairment as part of an impairment test led to an impairment requirement of €1,230.0 million. €475.2 million related to the Interior division, €145.2 million to the Chassis & Safety division and €609.6 million to the Powertrain division.

The impairment test on customer relationships in other intangible assets led to an impairment requirement of €54.3 million with one customer. €32.6 million of this related to the Interior division and €21.7 million to the Powertrain division.

At the plant in Babenhausen, Germany, two customer contracts are to expire in the Interior division and there are no successor products. This led to restructuring expenses of €40.7 million in the reporting period.

At the plant in Wetzlar, Germany, production for the Interior division will be shut down due to a lack of orders. Research and development (R&D) activities are to remain in Wetzlar. This led to restructuring expenses and impairment of property, plant and equipment in the amount of €26.1 million in the period under review.

Production at the plant in Rambouillet, France, is to be relocated. R&D activities as well as administration are to remain at the location. This led to restructuring expenses and impairment of property, plant and equipment in the Interior division in the amount of €42.9 million in the period under review.

The Interior division decided to discontinue its business activities in the aftermarket infotainment segment. The company incurred restructuring expenses and impairment of property, plant, and equipment of €9.4 million in this context.

It is planned to close the location in Birmingham, UK. Here the cockpit business of the Interior division was sold as of December 31, 2008. This led to income of €1.0 million. The company incurred restructuring expenses and impairment of €2.1 million in this context. The relocation of further business activities of the Interior division led to restructuring expenses and impairment of €0.7 million. The relocation of the Powertrain division’s fuel supply operations to Dortmund, Germany, and Brandys, Czech Republic, generated restructuring expenses and impairment of €3.8 million.

The sensors business of the Chassis & Safety and Powertrain divisions at the Dortmund location in Germany will be closed due to reductions in volumes and a lack of follow-up orders. This led to restructuring expenses and impairment of property, plant and equipment in the amount of €15.6 million in the period under review.

In connection with the relocation of the Chassis & Safety and Powertrain divisions' R&D activities, restructuring expenses and impairment of property, plant, and equipment of €6.2 million were incurred at the Elkhart plant in the U.S.A. in the period under review.

The Powertrain division's plant in Asnière, France, is to be closed down. In this context, a restructuring provision of €15.8 million was created and impairment expenses of €3.0 million were incurred.

The production of diesel injection systems at the Blythewood, U.S.A., plant, and the research and development activities at the Columbia, U.S.A., plant, will both be relocated to Newport News, U.S.A. The company incurred restructuring expenses and impairment of property, plant, and equipment of €10.5 million in this context.

An OE vehicle manufacturer withdrew an order at short notice, due to financing difficulties of the contractual partner, who in turn as a tier-one supplier was one of Continental's customers. This turn of events affected the new Powertrain plant in Costa Rica because the first production of engine and transmission control units had been planned for this initial contract at the end of 2008. Continental submitted a claim for damages against the tier-one supplier, who consequently filed for Chapter 11 insolvency protection in the U.S.A. Conversely, Continental also cancelled existing contracts with its suppliers and was subsequently also faced with claims for damages. A final agreement, however, could be reached with these parties, mainly under which Continental agreed to acquire the product-specific tooling already in place. The related tooling was written off in full, given there was no other application. In total, expenses of €12.4 million were incurred to settle the claims. Due to the excellent basis that is offered by the production plant in Costa Rica, Continental is presently reviewing options for quickly transferring other products for the NAFTA region to ensure that this plant is efficiently utilized. There was no need for any impairment in connection with this site.

Property, plant, and equipment at the Mount Vernon plant in the U.S.A. was written down in the amount of €11.4 million (2007: €18.7 million) due to the failure to achieve process efficiency and the associated earnings situation. This requirement was due to capital expenditures made in 2008 which under IFRS impairment principles are not recognized at replacement cost but at the lower net realizable value.

€7.2 million for various smaller impairments – above all on property, plant, and equipment – was incurred by the corporation during the period under review.

In the previous year, the closure of the downtown location in Bangalore, India, and the relocation of machinery to the area surrounding Bangalore led to restructuring expenses of €2.1 million.

On December 20, 2007, we announced at our plant in Chatham, Canada, that the remaining production activities there would be discontinued. A provision for restructuring of €10.1 million was created for this purpose in 2007.

To optimize the organization of production facilities in Germany and improve the cost structure of the Electric Drives business unit, the Haldensleben plant was closed with effect from the end of 2007 except for remaining minor winding-up activities. The Haldensleben operations were relocated to Berlin. As a result, restructuring expenses of €5.8 million were incurred in the previous year, of which €4.2 million within other expenses.

Effective January 1, 2008, Continental Teves Japan Inc. sold significant parts of its plant including the related buildings and machinery at the Hiroshima location in Japan, to Nisshinbo Industries Inc. for the symbolic amount of 1 yen. In accordance with IFRS, the carrying amount of the plant had to be written down to its expected selling price. In 2007, this led to an impairment loss of €3.6 million.

In 2007, the ContiTech division incurred restructuring expenses and impairment losses totaling €2.9 million, including expenses and losses related to Roulunds, Denmark.

Please see Note 25 for information on expenses relating to litigation and environmental risks.

In 2008, expenses of €68.2 million (2007: €26.2 million) were incurred as a result of foreign currency translations from receivables and liabilities in foreign currencies.

During the period under review, losses arose from sales of assets of €15.6 million and valuation allowances on receivables of €34.4 million (2007: €14.8 million).

Our U.S. tire company Continental Tire North America (CTNA) amended its coverage of healthcare costs for retirees in 2006. In an interim decision, the competent court of first-instance had upheld in part a class-action lawsuit brought against this measure. In the meantime, the legal proceedings have been brought to a close with a settlement consisting primarily of a one-time contribution to a special health benefits fund without modifying the implemented plan changes. In this context, expenses of €49.9 million were recognized in 2007.

The expenses for severance payments of €53.3 million (2007: €33.2 million) relate to various individual workforce adjustment measures, especially in connection with the integration and generation of synergies from the acquisition of Siemens VDO, which did not have the scope of a restructuring measure.

In the Interior division, the product portfolio was reviewed in conjunction with the acquisition of Siemens VDO and business sections in the non-OE sector were identified that do not belong to our core business. The sale process was initiated for one of these business sections and led to recognition of impairment losses in the amount of €46.9 million.

The Italian company ContiTech Ages was sold at the end of 2004. Expenses of €3.3 million were incurred in connection with outstanding receivables, essentially due to the insolvency of the company.

As subleasing is not possible, a provision of €5.2 million was set up in the previous year for unused leased facilities near Detroit, Michigan, U.S.A., taken on as part of the acquisition of the automotive electronics business from Motorola.

The 'Other' item also includes expenses for the scrapping of property, plant, and equipment at various locations, share option plans and costs for the integration of the automotive electronics business acquired from Motorola.

The other income relates to:

| in € millions | 2008 | 2007 |
|---|---|---|
| Gain on the reversal of post-employment benefit obligations in the U.S.A. | 10.2 | 42.0 |
| Gain on sale of subsidiaries and business units | 46.5 | 8.2 |
| Negative balance from the acquisition of the Matador Group | — | 21.2 |
| Gain on sale of property, plant, and equipment | 12.4 | 13.4 |
| Gain from reimbursement of customer tooling expenses | 19.6 | 13.6 |
| Other | 54.5 | 25.6 |
| **Other income** | **143.2** | **124.0** |

**Income**

At the end of 2008, an agreement was reached with the union representatives of hourly workers at the Newport News plant, U.S.A., to freeze retirement payments for medical care at the current level. As a consequence, €10.2 million of the previously reserved amounts was released in income.

In the previous year in the U.S.A., the medical healthcare plans for salaried employees were adjusted by further limiting medical benefits. This resulted in positive effects on earnings amounting to €27.6 million in the Passenger and Light Truck Tires division and to €14.4 million in the Commercial Vehicle Tires division.

The sale of the park assist systems business led to a gain of €6.2 million in the Interior division. The sale of the cockpit business resulted in a gain of €1.0 million.

The electric motors activities were sold – primarily under an asset deal – to the Brose Group with effect from April 1, 2008. This sale generated an overall gain of €2.0 million for the Powertrain division.

The sale of the Benecke-Kaliko unit's furniture covering business resulted in a gain of €4.7 million in the ContiTech division (2007: €8.2 million). This led to the reversal of unutilized restructuring provisions of €2.4 million (2007: restructuring expenses of €4.7 million).

The sale of Phoenix Dichtungstechnik GmbH led to a gain of €24.3 million in the ContiTech division.

The first consolidation of the Matador Group led to a gain of €21.2 million from the negative balance in 2007. This was partially offset by impairment losses of €1.3 million on an unused brand name and an unused power plant.

Income of €12.4 million (2007: €13.4 million) was generated from the sale of property, plant and equipment during the period under review.

In 2008, reimbursements of €19.6 million (2007: €13.6 million) for customer tooling were received.

In particular, unutilized provisions amounting to €3.1 million were reversed in the previous year as part of winding up the restructuring measures at the tire plant in Charlotte, U.S.A.

'Other' income is attributable primarily to license agreements and refund payments from customers for unused capacity. In addition, government grants amounting to €4.9 million (2007: €6.5 million) that were not intended for investments in non-current assets were recognized in income in the 'other' item as well as in the fixed cost items.

The following total personnel expenses are included in the income statement:

| in € millions | 2008 | 2007 |
|---|---|---|
| Wages and salaries | 4,710.0 | 2,967.3 |
| Social security contributions | 885.5 | 577.0 |
| Pension and post-employment benefit costs | 150.8 | 108.4 |
| **Personnel expenses** | **5,746.3** | **3,652.7** |

The increase in personnel expenses is due in particular to the first-time consolidation of Siemens VDO over 12 months. The average number of employees in 2008 was 148,379 (2007: 93,895).

## 7. Income from Investments

| in € millions | 2008 | 2007 |
|---|---|---|
| Share in earnings of associates | 53.9 | 24.5 |
| Write-downs of investments in associates | -42.4 | -5.5 |
| Write-ups of investments in associates | 4.9 | — |
| **At-equity share in earnings of associates** | **16.4** | **19.0** |
| Income from other investments | 8.8 | 6.4 |
| Other investments and loans | — | -0.1 |
| **Other income from investments** | **8.8** | **6.3** |

Income from investments includes in particular the proportionate share of the profit or loss of companies accounted for using the equity method in the amount of €53.9 million (2007: €19.0 million). Please see Note 13 for write-downs on investments in associates.

## 8. Net Interest Expense

| in € millions | 2008 | 2007 |
|---|---|---|
| **Interest income** | **80.0** | **57.5** |
| Interest and similar expense | -673.1 | -189.3 |
| Financial lease cost | -4.4 | -1.7 |
| Convertible bonds | -7.2 | -9.8 |
| Losses/gains from foreign currency translation | -88.1 | 22.4 |
| Losses from changes in the fair value of derivative instruments | -3.5 | -23.8 |
| Interest cost for long-term provisions and liabilities | -10.4 | -9.5 |
| **Interest expense** | **-786.7** | **-211.7** |
| **Net interest expense** | **-706.7** | **-154.2** |

The significant downturn in the net interest result is primarily due to the rise in financial liabilities for the acquisition of Siemens VDO in December 2007, which also negatively impacted the net interest result for 2007 for just one month.

The losses from foreign currency translation resulted in particular from depreciation of the Brazilian real and the Mexican peso against the euro and the U.S. dollar.

## 9. Income Tax Expense

The domestic and foreign income tax expense of the corporation was as follows:

| in € millions | 2008 | 2007 |
|---|---|---|
| Current taxes (domestic) | 26.7 | -224.4 |
| Current taxes (foreign) | -357.7 | -302.6 |
| Deferred taxes (domestic) | 101.9 | 12.1 |
| Deferred taxes (foreign) | 154.1 | 43.2 |
| **Income tax expense** | **-75.0** | **-471.7** |

The average domestic tax rate for 2008 was 30.0% (2007: 39.2%). This rate reflects a federal corporate tax rate of 15.0% (2007: 25.0%), a reunification surcharge of 5.5% (2007: 5.5%) and a municipal trade tax rate of 14.2% (2007: 17.3%).

The following table shows the reconciliation of the expected to the reported tax expense:

| in € millions | 2008 | 2007 |
|---|---|---|
| **Net income before tax** | **-1,002.9** | **1,521.6** |
| Non deductible goodwill impairment | -1,230.0 | — |
| **Net income before tax and goodwill impairment** | **227.1** | **1,521.6** |
| Expected tax expense at the domestic tax rate | -68.1 | -596.5 |
| Foreign tax rate differences | 85.5 | 125.8 |
| Non-recognition of deferred tax assets unlikely to be realized | -93.5 | -24.0 |
| Effects from disposals and impairment of business units and holdings | -11.2 | — |
| Incentives and tax holidays | 25.0 | 24.6 |
| Non-deductible expenses | -33.5 | -16.8 |
| Taxes for previous years | 29.9 | 0.5 |
| Negative balance from Oltas (2007: Matador) | 0.3 | 8.3 |
| Other | -9.4 | 6.4 |
| **Income tax expense reported in the financial statements** | **-75.0** | **-471.7** |
| **Effective tax rate in % before goodwill impairment** | **33.0** | **31.0** |

The reduction in the expected tax expense from the difference in foreign tax rates primarily reflects the increasing volume of our activities in eastern Europe and Portugal. The earnings situation in the U.S.A. also provides relief in this business sector, in which the recoverability of deferred tax assets can still be assumed.

The effect of not recognizing deferred tax assets due to insufficient probability of recoverability is much higher than in the previous year and can be attributed above all to the increase in loss carryforwards in the U.S.A. and Mexico.

In 2008, tax reductions were claimed or expired from losses carried forward amounting to €40.5 million (2007: €56.1 million). As in the previous year, there was no change to the tax expense, since deferred tax assets had already been recognized or written down on the balance sheet for this purpose.

The impairment of investments primarily includes the non-tax depreciation of the investment carrying value of two at-equity investments of the Interior division.

The tax effects from government incentives and tax holidays remained virtually unchanged against the previ-

ous year. Due to the first-time whole-year consolidation of the Siemens VDO companies, increased benefits in Asia in particular stand in contrast to a reduction due to expiring subsidies in eastern Europe.

The effect of the non-deductible expenses has been comparably presented for the previous year. The increase against the previous year is the result of the first-time whole-year consolidation of the Siemens VDO companies. Other important items are the non-deductible withholding tax of the German tax group and non-tax-deductible expenses from the antitrust penalty imposed on Dunlop Oil & Marine Ltd., UK. In 2008, taxes for previous years relate to the settlement of outstanding tax obligations from previous years.

The 'Other' item mainly includes the lack of trade tax relief from interest expenses and other local minimum taxes. The reversal of deferred tax obligations from retained foreign earnings has a contrasting effect, since it is not expected that these will be remitted to the parent company in the short or medium term.

# Notes to the Consolidated Balance Sheets

## 10. Goodwill and Other Intangible Assets

| in € millions | Goodwill | Internally generated intangible assets | Purchased intangible assets | Advances to suppliers | Total other intangible assets |
|---|---|---|---|---|---|
| **At January 1, 2007** | | | | | |
| Cost | 2,033.5 | 28.0 | 577.0 | 14.2 | **619.2** |
| Accumulated amortization | -315.7 | -23.0 | -374.4 | — | **-397.4** |
| **Book value** | **1,717.8** | **5.0** | **202.6** | **14.2** | **221.8** |
| **Net change in 2007** | | | | | |
| Book value | 1,717.8 | 5.0 | 202.6 | 14.2 | **221.8** |
| Foreign currency translation | -54.9 | 0.2 | -5.6 | 0.0 | **-5.4** |
| Additions | — | 7.3 | 41.9 | 15.2 | **64.4** |
| Additions from first consolidation of subsidiaries | 5,630.4 | — | 2,808.0 | — | **2,808.0** |
| Reclassification to assets held for sale | — | — | -3.5 | — | **-3.5** |
| Transfers | — | — | 10.5 | -10.5 | **0.0** |
| Disposals | -4.1 | — | -0.2 | — | **-0.2** |
| Amortization | — | -3.6 | -100.8 | — | **-104.4** |
| Impairment write-downs | — | — | -0.9 | — | **-0.9** |
| **Book value before PPA adjustments** | **7,289.2** | **8.9** | **2,952.0** | **18.9** | **2,979.8** |
| Opening balance sheet adjustments | 305.6 | — | 0.9 | — | **0.9** |
| **At December 31, 2007, after PPA adjustments** | | | | | |
| Cost | 7,900.7 | 25.3 | 3,376.0 | 18.9 | **3,420.2** |
| Accumulated amortization | -305.9 | -16.4 | -423.1 | — | **-439.5** |
| **Book value** | **7,594.8** | **8.9** | **2,952.9** | **18.9** | **2,980.7** |
| **Net change in 2008** | | | | | |
| Book value | 7,594.8 | 8.9 | 2,952.9 | 18.9 | **2,980.7** |
| Foreign currency translation | 16.8 | 0.0 | 25.6 | 0.1 | **25.7** |
| Additions | — | 26.0 | 68.6 | 6.9 | **101.5** |
| Additions from first consolidation of subsidiaries | 2.5 | — | 9.0 | — | **9.0** |
| Reclassification to assets held for sale | — | — | -21.7 | — | **-21.7** |
| Restatements from assets held for sale | — | — | 3.4 | — | **3.4** |
| Transfers | — | — | 4.9 | -4.9 | **—** |
| Disposals | — | — | -1.9 | -2.2 | **-4.1** |
| Amortization | — | -2.8 | -512.5 | — | **-515.3** |
| Impairment write-downs | -1,230.0 | -1.5 | -55.0 | — | **-56.5** |
| **Book value** | **6,384.1** | **30.6** | **2,473.3** | **18.8** | **2,522.7** |
| **At December 31, 2008** | | | | | |
| Cost | 7,921.6 | 51.2 | 3,454.8 | 18.8 | **3,524.8** |
| Accumulated amortization | -1,537.5 | -20.6 | -981.5 | — | **-1,002.1** |
| **Book value** | **6,384.1** | **30.6** | **2,473.3** | **18.8** | **2,522.7** |

In 2007, the acquisition of Siemens VDO, AP Italia, and the Thermopol Group gave rise to goodwill amounting to €5,936.0 million after PPA adjustments. The remaining carrying amount of goodwill relates principally to the acquisition of the automotive electronics business from Motorola (2006), Continental Teves (1998), Continental Temic (2001), and Phoenix AG (2004). The goodwill and the other intangible assets were allocated to the corporation's divisions as follows:

| | Other intangible assets | | | Goodwill | | |
|---|---|---|---|---|---|---|
| **in € millions** | **Dec. 31, 2008** | **Dec. 31, 2007 after PPA adjustments** | **Dec. 31, 2007 before PPA adjustments** | **Dec. 31, 2008** | **Dec. 31, 2007 after PPA adjustments** | **Dec. 31, 2007 before PPA adjustments** |
| Chassis & Safety | 321.6 | 363.0 | 363.0 | 2,665.6 | 2,804.0 | 2,719.7 |
| Powertrain | 897.6 | 1,055.5 | 1,054.6 | 1,402.6 | 2,007.4 | 1,911.1 |
| Interior | 1,204.8 | 1,445.6 | 1,445.6 | 2,222.0 | 2,691.5 | 2,566.5 |
| Passenger and Light Truck Tires | 55.1 | 53.4 | 53.4 | 16.1 | 13.8 | 13.8 |
| Commercial Vehicle Tires | 12.9 | 12.9 | 12.9 | 3.0 | 3.0 | 3.0 |
| ContiTech | 27.8 | 30.6 | 30.6 | 74.8 | 75.1 | 75.1 |
| Other/consolidation | 2.9 | 19.7 | 19.7 | — | — | — |
| **Continental Corporation** | **2,522.7** | **2,980.7** | **2,979.8** | **6,384.1** | **7,594.8** | **7,289.2** |

The annual impairment test on goodwill led to an impairment requirement of €1,230.0 million. €475.2 million related to the Interior division, €145.2 million to the Chassis & Safety Division and €609.6 million to the Powertrain division.

The impairment test on customer relationships in other intangible assets led to an impairment requirement of €54.3 million with one customer. €32.6 million of this related to the Interior division and €21.7 million to the Powertrain division.

Amounts shown under internally generated intangible assets represent capitalized development costs. Of the total amount of development costs incurred in 2008, €26.0 million (2007: €7.3 million) met the criteria for recognition as an asset.

Additions to purchased intangible assets from the first consolidation of subsidiaries related mainly to customer relationships and technology-based assets from the acquisitions during the fiscal year. The other additions are mainly related to software.

Of the €515.3 million (2007: €104.4 million) amortization expense incurred for intangible assets, €412.2 million (2007: €83.5 million) was included in cost of sales and €103.1 million (2007: €20.9 million) was included in administrative expenses in the consolidated income statements.

The purchased intangible assets include carrying amounts of €85.5 million (2007: €88.5 million) that are not amortized. These relate in particular to the brand name of VDO in the amount of €71.4 million and to the brand name of Matador in the amount of €8.1 million.

The remaining purchased intangible assets at December 31, 2008, mainly comprise the carrying amount of software amounting to €84.5 million (2007: €88.4 million), which is amortized on a straight-line basis.

For disclosures on impairments, please see Note 6.

## 11. 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 |
|---|---|---|---|---|---|
| **At January 1, 2007** | | | | | |
| Cost | 1,807.9 | 6,103.3 | 1,075.8 | 393.8 | 9,380.8 |
| Accumulated depreciation | -789.4 | -4,283.9 | -759.8 | -16.6 | -5,849.7 |
| **Book value** | **1,018.5** | **1,819.4** | **316.0** | **377.2** | **3,531.1** |
| thereof finance leases | 39.4 | 1.3 | 1.3 | — | 42.0 |
| **Net change in 2007** | | | | | |
| Book value | 1,018.5 | 1,819.4 | 316.0 | 377.2 | 3,531.1 |
| Foreign currency translation | -20.1 | -25.0 | -2.3 | -7.4 | -54.8 |
| Additions | 38.7 | 340.3 | 89.4 | 372.7 | 841.1 |
| Additions from first consolidation of subsidiaries | 632.1 | 1,359.2 | 190.7 | 251.1 | 2,433.1 |
| Reclassification to assets held for sale | -12.0 | -12.8 | -2.0 | -7.3 | -34.1 |
| Transfers | 36.5 | 253.7 | 9.1 | -299.3 | 0.0 |
| Disposals | -20.5 | -9.3 | -1.2 | -8.0 | -39.0 |
| Depreciation | -66.4 | -508.5 | -107.7 | — | -682.6 |
| Impairment write-downs | -3.7 | -18.5 | -0.5 | -4.2 | -26.9 |
| Write-ups | 0.7 | — | — | — | 0.7 |
| **Book value before PPA adjustments** | **1,603.8** | **3,198.5** | **491.5** | **674.8** | **5,968.6** |
| Opening balance sheet adjustments | 4.2 | 117.8 | -119.3 | -0.7 | 2.0 |
| **At December 31, 2007, after PPA adjustments** | | | | | |
| Cost | 2,392.1 | 7,819.4 | 1,181.9 | 681.1 | 12,074.5 |
| Accumulated depreciation | -784.1 | -4,503.1 | -809.7 | -7.0 | -6,103.9 |
| **Book value** | **1,608.0** | **3,316.3** | **372.2** | **674.1** | **5,970.6** |
| thereof finance leases | 49.0 | 46.4 | 1.5 | — | 96.9 |
| **Net change in 2008** | | | | | |
| **Book value** | **1,608.0** | **3,316.3** | **372.2** | **674.1** | **5,970.6** |
| Foreign currency translation | -32.9 | -76.6 | -9.5 | -22.2 | -141.2 |
| Additions | 105.4 | 621.7 | 94.6 | 729.4 | 1,551.1 |
| Additions from first consolidation of subsidiaries | 0.8 | 8.2 | 0.8 | 0.7 | 10.5 |
| Amounts disposed of through disposal of subsidiaries | -0.1 | -16.6 | -2.5 | -0.1 | -19.3 |
| Reclassification to assets held for sale | -3.0 | -4.3 | -0.1 | -6.1 | -13.5 |
| Restatements from assets held for sale | 28.2 | 30.1 | 5.0 | 18.3 | 81.6 |
| Transfers | 72.5 | 482.4 | 23.1 | -568.8 | 9.2 |
| Disposals | -7.7 | -39.7 | -6.0 | -7.9 | -61.3 |
| Depreciation | -99.7 | -974.0 | -136.8 | -0.1 | -1,210.6 |
| Impairment write-downs | -11.3 | -42.8 | -0.4 | -0.4 | -54.9 |
| **Book value** | **1,660.2** | **3,304.7** | **340.4** | **816.9** | **6,122.2** |
| **At December 31, 2008** | | | | | |
| Cost | 2,529.7 | 8,517.8 | 1,233.4 | 822.7 | 13,103.6 |
| Accumulated depreciation | -869.5 | -5,213.1 | -893.0 | -5.8 | -6,981.4 |
| **Book value** | **1,660.2** | **3,304.7** | **340.4** | **816.9** | **6,122.2** |
| thereof finance leases | 63.0 | 41.4 | 0.4 | — | 104.8 |

[1] Investment property is presented separately under Note 12.

The additions to property, plant, and equipment from changes in the consolidated companies were mainly the result of the first-time consolidation of the Tikka Group and other acquisitions of the fiscal year; see Note 5.

Investment in the reporting period in the Interior division focused primarily on expanding manufacturing capacity for Body & Security and Instrumentation & Displays. In particular, manufacturing capacity was expanded at the German plants, as well as in China, the Czech Republic, Spain and Mexico. The Chassis & Safety division again invested in the expansion of production capacity for brake and safety systems due to continued demand for ESC and ABS systems. In the Powertrain division, manufacturing capacity for engine injection systems and for transmission control units was further expanded. The focus of investments in the Passenger and Light Truck Tires division was on the continued expansion of capacity at the European low-cost locations in Slovakia, the Czech Republic, Portugal, and Romania. Important additions were made in the Commercial Vehicle Tires division as a result of the expansion of manufacturing capacity for truck tires in Mount Vernon, U.S.A., and Puchov, Slovakia. In addition to rationalization and expansion investments in Germany, ContiTech focused investment on the expansion of manufacturing capacity at the European low-cost locations in Hungary and Romania, as well as in Mexico, Brazil and China.

For disclosures on impairments, please see Note 6.

Government investment grants amounting to €4.3 million (2007: €10.0 million) were deducted directly from the acquisition costs.

The reclassifications to assets held for sale related mainly to property, plant, and equipment, and to minor activities. The reversals relate to the reclassification of an operation reported in the opening balance of Siemens VDO as of December 3, 2007, as a disposal group, in line with IFRS 5.

Property, plant, and equipment includes buildings, technical equipment, and other facilities which can be assigned to the corporation as the beneficial owner on the basis of the lease agreement terms. These relate primarily to administration buildings and manufacturing systems. The leases have an average term of 20 years for buildings and 5 to 10 years for technical equipment and are based on interest rates of between 5.8% and 10.8%. There are no renewal or purchase options in most of the contracts.

## 12. Investment Property

The corporation's land and buildings accounted for as investment property changed as follows in the year under review:

| in € millions | 2008 | 2007 |
|---|---|---|
| Cost at January 1 | 39.7 | 27.8 |
| Accumulated depreciation at January 1 | -10.2 | -9.9 |
| | | |
| **Net change** | | |
| **Book value at January 1** | **29.5** | **17.9** |
| Foreign currency translation | -0.1 | 0.0 |
| Changes in companies consolidated | — | 17.4 |
| Additions | — | 0.4 |
| Disposals | — | -5.5 |
| Repostings | -9.2 | — |
| Depreciation | -0.3 | -0.7 |
| **Book value at December 31** | **19.9** | **29.5** |
| | | |
| Cost at December 31 | 30.4 | 39.7 |
| Accumulated depreciation at December 31 | -10.5 | -10.2 |

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property at December 31, 2008, amounted to €33.5 million (2007: €33.9 million). Rental income in 2008 was €4.1 million (2007: €3.7 million) and the related maintenance costs were €3.0 million (2007: €2.7 million). The reclassifications relate both to real estate reused by the corporation and to individual real estate no longer used by the corporation.

## 13. Investments in Associates

| in € millions | 2008 | 2007 |
|---|---|---|
| **At January 1, before PPA adjustments** | **766.4** | **121.9** |
| Opening balance sheet adjustments | 25.7 | — |
| **At January 1, after PPA adjustments** | **792.1** | **121.9** |
| Additions | 8.7 | 0.7 |
| Additions from first consolidation of subsidiaries | — | 632.6 |
| Disposals | -50.8 | -1.0 |
| Changes in the consolidation method, and transfers | 10.8 | 0.0 |
| Share of earnings | 53.9 | 24.5 |
| Write-downs | -42.4 | -5.5 |
| Dividends received | -53.8 | -8.6 |
| Foreign exchange effects | -0.2 | 1.8 |
| **At December 31** | **718.3** | **766.4** |

The disposals relate mainly to the sale of Huf Hülsbeck & Fürst GmbH & Co., Velbert.

The changes in the consolidation method and transfers relate to SupplyOn AG, Halbergmoos, in the amount of €4.9 million and to Alphapeak Ltd, UK, in the amount of €5.9 million.

The impairment test on the book value of two investments measured at equity of the Interior division led to impairment requirements of €35.0 million and €5.0 million.

Write-downs on the book value of a joint venture of the Chassis & Safety division to the expected liquidation revenues led to an impairment of €2.4 million.

In 2007, impairments of €5.5 million were carried out at Drahtcord Saar KG.

The principal investments in associates for the automotive divisions relate to Hyundai Autonet Co. Ltd, Kyoungkido, Korea; S-Y-Systems Technologies Europe GmbH, Regensburg; Emitec GmbH, Lohmar; SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe; Siemens VDO Automotive Huizhou Co. Ltd Huizhou, China; and Shanghai Automotive Brake Systems Co. Ltd, China; and for tire activities, Compañía Ecuatoriana del Caucho, S.A., Ecuador; and MC Projects B.V., the Netherlands.

The unaudited key figures taken from the last available annual financial statements of these principal associates are summarized as follows (amounts are stated at 100%; reference amounts from 2007 are also shown):

- Sales €4,825.0 million (2007: €4,961.6 million)
- Profit for the year €129.6 million (2007: €107.8 million)
- Total assets €1,608.9 million (2007: €1,749.3 million)
- Liabilities €957.1 million (2007: €776.6 million).

## 14. Other Investments

| in € millions | Shares in affiliated companies | Other investments | Total |
|---|---|---|---|
| **At January 1, 2007** | **6.1** | **9.3** | **15.4** |
| Foreign currency translation | 0.0 | -0.6 | **-0.6** |
| Additions from first consolidation of subsidiaries | 0.1 | 9.0 | **9.1** |
| Impairment write-downs | -0.1 | 0.0 | **-0.1** |
| **At December 31, 2007, before PPA adjustments** | **6.1** | **17.7** | **23.8** |
| Opening balance sheet adjustments | — | 0.3 | **0.3** |
| **At December 31, 2007, after PPA adjustments** | **6.1** | **18.0** | **24.1** |
| Foreign currency translation | -0.2 | -0.1 | **-0.3** |
| Additions | 0.0 | 2.5 | **2.5** |
| Disposals | 0.0 | -7.5 | **-7.5** |
| Changes in the consolidation method, and transfers | 1.3 | -10.8 | **-9.5** |
| Write-ups | — | 4.9 | **4.9** |
| **At December 31, 2008** | **7.2** | **7.0** | **14.2** |

Other investments are carried at cost as their fair value cannot be determined reliably. At €2.4 million, the additions relate to the acquisition of ENAX Inc., Japan; the disposals of €7.5 million relate to the sale of shares in ETAS GmbH, Stuttgart. The changes to the consolidation method and reclassifications mainly relate to the reclassification of Alphapeak Ltd, UK, and SupplyOn AG, Halbergmoos, to associated companies and the deconsolidation of Phoenix France S.a.r.l., France, and Phoenix Industrial Plastics UK Ltd, UK.

The write-up of €4.9 million relates to SupplyOn AG, Halbergmoos.

## 15. Deferred Taxes

Deferred tax assets and liabilities are composed of the following items:

| in € millions | Dec. 31, 2008 | Dec. 31, 2007 after PPA adjustments | Dec. 31, 2007 before PPA adjustments |
|---|---|---|---|
| Intangible assets | -611.2 | -617.1 | -616.9 |
| Property, plant, and equipment | -107.1 | -186.8 | -186.4 |
| Inventories | 26.7 | 28.0 | 28.1 |
| Other assets | -24.2 | -0.3 | -9.0 |
| Pension obligations less deferred charges | 97.5 | 112.5 | 112.5 |
| Other provisions | 126.7 | 222.0 | 164.2 |
| Indebtedness | 69.6 | -7.3 | -7.5 |
| Other differences | 55.7 | 42.8 | 38.7 |
| Allowable tax credits | 29.4 | 28.4 | 28.4 |
| Tax losses carried forward and limitation of interest deduction | 326.5 | 85.3 | 85.3 |
| **Net deferred taxes** | **-10.4** | **-292.5** | **-362.6** |
| Deferred tax assets | 391.3 | 97.9 | 162.6 |
| Deferred tax liabilities | 401.7 | 390.4 | 525.2 |

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. From 2008, a limit on the deductible interest that can be carried forward applies in Germany; the amount deductible under the tax law is limited to 30% of the taxable income before write-downs and interest.

In 2008, total net deferred tax assets amounting to €251.0 million (2007: €63.8 million) were recognized by certain subsidiaries that comprised current losses, interest capable of being carried forward, and other net recoverable temporary differences. Taking into account realizable tax strategies and on the assumption that future taxable income is sufficiently probable, it is expected that these net deferred tax assets can be realized.

As of December 31, 2008, the corporation's corporate tax losses carried forward amounted to €1,975.3 million (2007: €822.1 million). A large part of the corporation's existing losses carried forward relate to foreign subsidiaries and are mostly limited in the period they can be carried forward.

A total of €534.3 million (2007: €429.6 million) of deferred tax assets have not yet been recognized in the corporation as their recoverability is currently considered to be not sufficiently probable. Of these assets, €328.3 million (2007: €232.2 million) relates to losses carried forward, in particular in the U.S.A. and Mexico.

As of December 31, 2008, the limitation of deductible interest in Germany amounted to €383.2 million (2007: none).

The cumulative amount of deferred taxes for items taken directly to total equity increased from €0.5 million in the previous year to €47.0 million.

The deferred tax liabilities from retained earnings of foreign companies amount to a total of €59.3 million (2007: €47.8 million). Since 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 (2007: €9.8 million).

The valuation differences from assets or liabilities held for sale are included in the 'Other assets' and 'Other differences' items.

## 16. Other Financial Assets

| in € millions | Dec. 31, 2008 | | Dec. 31, 2007 after PPA adjustments | | Dec. 31, 2007 before PPA adjustments | |
|---|---|---|---|---|---|---|
| | Maturity | | Maturity | | Maturity | |
| | up to 1 year | over 1 year | up to 1 year | over 1 year | up to 1 year | over 1 year |
| Amounts receivable from related parties | 25.3 | — | 43.6 | 9.9 | 43.6 | 9.9 |
| Loans to third parties | — | 33.6 | — | 37.7 | — | 37.7 |
| Amounts receivable from employees | 15.6 | — | 16.0 | — | 16.0 | — |
| Amounts receivable from suppliers | 2.5 | — | 2.9 | — | 2.9 | — |
| Amounts receivable for customer tooling | 54.4 | — | 35.0 | — | 35.0 | — |
| Other amounts receivable | 29.0 | 0.5 | 99.2 | 0.4 | 92.8 | 0.4 |
| **Other financial assets** | **126.8** | **34.1** | **196.7** | **48.0** | **190.3** | **48.0** |

The carrying amounts of the other financial assets correspond essentially to their fair values. Amounts receivable from employees relate mainly to preliminary payments for hourly wages and for other advances.

Loans to third parties mainly comprise loans to customers in Germany (2007: the U.S.A.) maturing in 2013 and 2017. The loans have partly been granted at below-market interest rates, partly at variable interest rates. The loans to third parties also include tenants' loans on individual properties.

The receivables from the sale of customer tooling relate to costs that have not yet been invoiced.

The receivables included in other financial assets of the previous year arising from recoveries on the amounts paid on the acquisition of companies for €36.9 million have been recognized in the reporting year in line with the decision of the arbitration panel in New York, U.S.A., which granted Continental's claim against Motorola. The sale of equipment and business units includes receivables in the amount of €18.8 million (2007: €48.9 million), mainly from the sale of the electric motors activities to the Brose Group.

## 17. Other Assets

| in € millions | Dec. 31, 2008 | | Dec. 31, 2007 after PPA adjustments | | Dec. 31, 2007 before PPA adjustments | |
|---|---|---|---|---|---|---|
| | Maturity | | Maturity | | Maturity | |
| | up to 1 year | over 1 year | up to 1 year | over 1 year | up to 1 year | over 1 year |
| Tax refund claims (incl. VAT and other taxes) | 300.4 | — | 351.0 | — | 351.0 | — |
| Prepaid expenses | 54.3 | — | 65.3 | — | 65.3 | — |
| Others | 188.3 | 9.0 | 158.5 | 19.0 | 161.0 | 19.0 |
| **Other assets** | **543.0** | **9.0** | **574.8** | **19.0** | **577.3** | **19.0** |

The reduction in tax refund claims is mainly the result of reduced VAT/sales tax receivables associated with the reduction in trade accounts payable; see Note 30.

Valuation allowances amounting to €0.4 million (2007: €4.2 million) were recognized for the default risk on other assets.

## 18. Inventories

| in € millions | Dec. 31, 2008 | Dec. 31, 2007 after PPA adjustments | Dec. 31, 2007 before PPA adjustments |
|---|---|---|---|
| Raw materials and supplies | 901.6 | 896.2 | 896.2 |
| Work in progress | 306.8 | 335.5 | 335.5 |
| Finished goods and merchandise | 1,376.9 | 1,313.3 | 1,313.0 |
| Advances to suppliers | 11.7 | 13.0 | 13.0 |
| Advances from customers | -26.5 | -21.8 | -21.8 |
| **Inventories** | **2,570.5** | **2,536.2** | **2,535.9** |

Valuation allowances recognized for inventories in the year under review amounted to €38.7 million (2007: €41.1 million). Inventories include amounts written down (gross inventories) of €188.7 million (2007: €150.0 million).

## 19. Trade Accounts Receivable

| in € millions | Dec. 31, 2008 | Dec. 31, 2007 after PPA adjustments | Dec. 31, 2007 before PPA adjustments |
|---|---|---|---|
| Trade accounts receivable | 3,428.7 | 4,058.9 | 4,059.1 |
| Allowances for doubtful accounts | -141.2 | -115.5 | -115.5 |
| **Trade accounts receivable** | **3,287.5** | **3,943.4** | **3,943.6** |

The carrying amounts of the trade accounts receivable, net of allowances for doubtful accounts, correspond to their fair values.

The corporation increased individual valuation allowances and general portfolio allowances for trade accounts receivable in 2008 by €47.1 million (2007: €19.7 million). During the same period, €4.2 million (2007: €20.7 million) of allowances recognized in previous years was utilized, and €12.7 million (2007: €4.8 million) was reversed. The net increase of allowances for doubtful accounts was reported as other expenses in the income statement. There were no changes to the companies consolidated during the year under review (2007: €37.1 million). No reclassifications (2007: €0.1 million) were carried out in assets held for sale. Currency translation effects in fiscal 2008 amounted to -€4.5 million (2007: -€2.6 million).

The provision for risks 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 financial instruments 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.

As of December 31, 2008, receivables include €28.8 million (2007: €35.4 million) from percentage of completion, mainly attributable to the automotive companies of the former Siemens VDO and to the Matador Group. In the period under review, €48.2 million in advance payments was received from customers (2007: none). In 2008, the accumulated costs and profits of construction contracts in process on the balance sheet date amounted to €72.7 million (2007: -€1.6 million).

Continental AG, Hanover, Continental Teves AG & Co. oHG, Frankfurt am Main, and Conti Temic microelectronic GmbH, Nuremberg, can utilize the asset-backed securitization program arranged by West LB in July 2004, with a volume of €350.0 million. The program expires in July 2009, and was utilized by all participating companies as of the balance sheet date.

As of December 31, 2008, the relevant companies had sold accounts receivable amounting to €156.0 million under this program (2007: €221.4 million). The accounts receivable sold are still recognized in the balance sheet, because the associated risks and rewards, in particular credit and default risk, have not been completely transferred. All trade accounts receivable have a maturity of less than one year.

The liabilities related to accounts receivable sold in this context amount to €216.6 million (2007: €279.2 million). In contrast to the portfolio of receivables sold, the liabilities are not reduced by the receivables already settled as of the balance sheet date; payments totaling €116.2 million (2007: €127.9 million) were recorded.

In December 2008, Continental AG concluded a new asset-backed securitization program with Skandifinanz Bank AG at a volume of €50.0 million, and from March 1, 2009, €150.0 million, on a revolving basis. At the end of 2008, €27.2 million in receivables had been sold as part of this program, against liabilities of €34.3 million. The receivables amount has been reduced by the already posted payments of €9.4 million.

As of the balance sheet date, Tikka OY, Finland, which was taken over during the fiscal year, had sold receivables of €0.1 million and has recognized liabilities in the same amount.

The asset-backed securitization program agreed in May 2006 for $250.0 million on a revolving basis with Wachovia Capital Markets, LLC as arranger and administrator was dissolved on September 30, 2008.

In 2008, the contractual terms of trade accounts receivable with a carrying amount of €2.2 million (2007: €0.4 million) were renegotiated, since they would be otherwise overdue. This essentially involved extending the payment date.

The trade accounts receivable are broken down into the following maturity periods:

| in € millions | | | overdue in the following maturity periods | | | | | |
|---|---|---|---|---|---|---|---|---|
| December 31, 2008 | Book value | 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 | 3,428.7 | 2,771.1 | 287.3 | 92.9 | 96.3 | 32.6 | 32.1 | 116.4 |
| **December 31, 2007, after PPA adjustments** | | | | | | | | |
| Trade accounts receivable[1] | 4,019.7 | 3,465.3 | 231.1 | 116.7 | 93.7 | 37.7 | 22.9 | 52.3 |

[1] The difference of €39.2 million in 2007 versus the previous table is the result of receivables for which individual valuation allowances are recognized, and which were not included in the determination of the maturity periods in 2007, in contrast to the fiscal 2008.

## 20. Cash and Cash Equivalents

Cash includes 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 only minor fluctuations in value.

## 21. Assets Held for Sale

| in € millions | Dec. 31, 2008 | Dec. 31, 2007 after PPA adjustments | Dec. 31, 2007 before PPA adjustments |
|---|---|---|---|
| Business units held for sale | 41.7 | 558.3 | 584.9 |
| Property, plant, and equipment held for sale | 4.8 | 12.9 | 12.9 |
| **Assets held for sale** | **46.5** | **571.2** | **597.8** |

The business units held for sale relate in particular to business operations in the non-OE sector of the Interior and Conti Tech divisions, which are not part of the Continental Corporation’s core business. The disposal process has been initiated for two of these business units. The assets held for sale in the previous year included in particular the electric motors activities, which were sold to the Brose Group in 2008.

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 net fair value. In this connection, there was an impairment loss of €46.9 million for one of these business fields, which was reported within other operating expenses.

The assets of the business units held for sale after impairment losses comprise:

| In € millions | Dec. 31, 2008 | Dec. 31, 2007 after PPA adjustments | Dec. 31, 2007 before PPA adjustments |
|---|---|---|---|
| Non-current assets | 5.9 | 237.2 | 263.8 |
| Inventories | 22.7 | 105.2 | 105.2 |
| Trade accounts receivable | 12.2 | 193.2 | 193.2 |
| Other current assets | 0.9 | 19.4 | 19.4 |
| Cash and cash equivalents | 0.0 | 3.3 | 3.3 |
| **Business units held for sale** | **41.7** | **558.3** | **584.9** |

Following the termination of sales negotiations, the Continental Group decided in the fourth quarter of the reporting period to abandon its intention to sell an operation classified in Siemens VDO's opening balance as of December 3, 2007, as a disposal group in line with IFRS 5. The end of classification as 'held for sale' had no impact on earnings within the reporting period. An overview of liabilities related to the assets held for sale can be found under Note 32.

## 22. Total Equity

| Number of shares outstanding | 2008 | 2007 |
|---|---|---|
| At January 1 | 161,712,083 | 146,529,127 |
| Change due to conversions and exercise of options | 7,293,900 | 530,044 |
| Capital increase against cash contributions | — | 14,652,912 |
| **At December 31** | **169,005,983** | **161,712,083** |

The subscribed capital increased by €18.5 million year-on-year (2007: €0.1 million) following the exercise of conversion rights and by €0.1 million (2007: €1.3 million) following the exercise of subscription rights.

The common stock of the company therefore amounted to €432,655,316.48 at the balance sheet date (2007: €413,982,932.48) and is composed of 169,005,983 (2007: 161,712,083) no-par value bearer shares with a notional value of €2.56 per share.

Authorized capital stock of €150.0 million for the issuance of new shares against cash and/or non-cash contributions is currently still available to the company until April 23, 2012, from the authorization amount of €187.5 million adopted originally on April 24, 2007, following a capital increase from authorized capital in 2007.

A total of 1,381,840 subscription rights were issued under the stock option plan adopted in 1999 for members of the Executive Board and senior executives. Each option entitles the option holder to subscribe for one share. The 10,000 subscription rights still outstanding as at December 31, 2007, were fully exercised during the fiscal year.

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 authorizes 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. No subscription rights were issued in 2008 (2007: 859,880), 47,250 were exercised (2007: 462,750), and 459,230 expired (2007: 116,300).

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. In 2008, 1,369,250 subscription rights were issued, of which 145,750 have expired.

In December 2008, a redemption offer for granted and not yet exercised subscription rights was submitted to the senior executives of the corporation to whom stock options were granted from the stock option plans of 2004 and 2008. Because of the limited free float of Continental AG's shares, the share price performance may be subject to coincidental fluctuations which do not reflect Continental's economic development. The stock option plan thus loses its effectiveness as a long-term remuneration instrument geared towards the company's performance. By December 31, 2008, just some of the stock option plan beneficiaries had taken up the offer.

On May 19, 2004, a convertible bond guaranteed by Continental AG for a nominal amount of €400 million was issued by Conti-Gummi Finance B.V., Amsterdam, The Netherlands. The convertible bond had a coupon of 1.625% and originally matured on May 19, 2011. Holders of the conversion rights were originally entitled to convert them into shares of Continental AG at a price of €51.00 per share, representing a total entitlement of 7,843,137 no-par value shares. The dividend increases declared for fiscal years 2004 to 2007 changed the conversion ratio in accordance with the terms of the bond. In 2008, the conversion ratio corresponded to a conversion price of €49.29 (2007: €50.05) per share and had therefore – after including previously exercised conversion rights – entitled bondholders to subscribe for a total of 7,650,545 no-par value shares equal to a conditional capital of €19.6 million. Conversion rights amounting to €356.7 million were exercised in 2008 which resulted in the issue of 7,236,650 shares, meaning that as of October 6, 2008, only 413,895 conversion rights had still not been exercised. The issuer therefore had the right, according to the bond conditions, to make an early repayment of the remaining bond amount. Continental exercised this right and paid an amount of €20.4 million to the remaining creditors.

The common stock was conditionally increased in line with Article 4(4) c of the Articles of Association by up to €6.3 million for the purposes of issuing stock options under the 2004 stock option plan.

According to Article 4(5) of the Articles of Association, the capital stock has been increased by a further €111.5 million to grant conversion and option rights until May 4, 2011.

According to Article 4(6) of the Articles of Association, the capital stock has also been conditionally increased by up to €3.8 million to grant stock options as part of the 2004 stock option plan.

The conditional capital II of €37.5 million in line with Article 4(7) of the Articles of Association serves to grant new shares to the holders of convertible bonds and/or bonds with warrants, participation rights or income bonds, where they are issued by May 4, 2011.

According to Article 4(8) of the Articles of Association, there is conditional capital of €20.0 million for the 2008 stock option plan adopted by the Annual Shareholders' Meeting of April 25, 2008.

| in € thousands | 2008 | 2007 |
|---|---|---|
| **Conditional capital at January 1** | **176,581** | **29,006** |
| Additions | 57,468 | 149,229 |
| Reductions | -37,500 | — |
| Exercised conversion and subscription rights | -18,672 | -1,357 |
| Expiration of subscription rights granted | -2,313 | -297 |
| Redemption of subscription rights granted | -2,663 | — |
| **Conditional capital at December 31** | **170,654** | **176,581** |

Under the *Aktiengesetz* (German Stock Corporation Act), the dividends distributable to the shareholders are based solely on Continental AG's net retained earnings as at December 31, 2008, as reported in the annual financial statements prepared in accordance with the German Commercial Code. Since Continental AG posted a loss in its annual financial statements as of December 31, 2008, no dividend will be distributed for fiscal 2008. In 2008, a dividend of €2.00 per share was distributed for fiscal 2007.

## 23. Share-Based Payment

The implementation of share-based payment programs in 2008 is disclosed in Note 22 on Shareholders' Equity.

The expenses from the stock option plans are recognized in personnel expenses and reported in other operating expenses. In 2008, they amounted to €20.1 million (2007: €18.9 million).

A new stock option plan was adopted in the year under review (2008 variable stock option plan).

**1999 variable stock option plan**
With the approval of the Annual Shareholders' Meeting on June 1, 1999, Continental AG adopted a variable stock option plan (1999 stock option plan), which granted up to 1.6 million stock options to senior executives and the Executive Board. Each option granted under this plan carries the right to subscribe for one share. These stock options may be exercised after a vesting period of three years, starting from the date on which the Executive Board (or the Supervisory Board, as appropriate) 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.

The Continental AG variable stock option plans include a performance target as a prerequisite for the exercise of stock options. These subscription rights may only be exercised 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 a performance discount. The outperformance discount is calculated on the basis of the performance of Continental's shares in comparison with the performance of 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 so-called 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 of Continental shares against the MDAX to reflect the outperformance. 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 the measurement at the issue date. The adjustment of the exercise price to the change in the return on sales (EBIT as % of sales) of the Continental Corporation is a performance condition under IFRS and, accordingly, is not used for the measurement at the grant date. The update parameters applied to measurement dates after the issue date are

based on current estimates available from independent analysts, while maintaining the other parameters.

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 published estimates by independent analysts.

The volatilities and correlation reflect historical trends and are determined based on the closing prices for Continental shares and the MDAX index at each balance sheet date corresponding to a period equivalent to the remaining term of the option rights.

| Stock option plan 1999 | 2008 | | 2007 | |
|---|---|---|---|---|
| in € millions | Number of subscription rights | Average exercise price[1] | Number of subscription rights | Average exercise price[1] |
| | 1,000 units | €/unit | 1,000 units | €/unit |
| Outstanding at January 1 | 10.0 | 21.14 | 61.5 | 21.05 |
| Exercised[2] | 10.0 | 21.14 | 51.5 | 21.03 |
| Expired | — | — | — | — |
| Outstanding at December 31 | — | — | 10.0 | 21.14 |
| Exercisable on December 31 | — | — | 10.0 | 9.19 |

[1] With the exception of the stock options exercisable on December 31, the average exercise hurdle is given.

[2] The exercise price was €9.19 (2007: €9.15) following deduction of the performance and outperformance discounts.

The last 10,000 stock options of the 1999 stock option plan were exercised in the reporting year. The weighted average remaining option duration was 6 months in 2007.

**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. The plan corresponds to the stock option plan developed in 1999 in terms of its main features and makes it possible to issue up to 3.9 million stock options.

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 1999 stock option plan. The difference lies in the fact that, 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, a ceiling has been imposed on the achievable capital gain.

No more stock options will be issued from the 2004 stock option plan when the 2008 stock option plan comes into effect.

| Stock option plan 2004 | 2008 | | 2007 | |
|---|---|---|---|---|
| in € millions | Number of subscription rights | Average exercise price[1] | Number of subscription rights | Average exercise price[1] |
| | 1,000 units | €/unit | 1,000 units | €/unit |
| Outstanding at January 1 | 2,351.0 | 93.24 | 2,070.2 | 70.67 |
| Exercised[2] | 47.3 | 43.10 | 462.8 | 43.10 |
| Granted | — | — | 859.9 | 118.65 |
| Expired | 459.2 | 90.81 | 116.3 | 78.89 |
| Outstanding at December 31 | 1,844.5 | 95.13 | 2,351.0 | 93.24 |
| Exercisable on December 31[3] | 511.4 | 76.47 | 74.3 | 18.74 |

[1] With the exception of the stock options exercisable on December 31, the average exercise hurdle is given.

[2] The average exercise price was €19.75 (2007: €18.74) following deduction of the performance and outperformance corrections.

[3] This was determined based on the respective exercise price.

The weighted average remaining option duration is 2 years and 6 months (2007: 3 years and 6 months).

For stock options from the 2004 stock option plan outstanding at the end of the reporting period from the 2004 tranche, the exercise price ranges between €18.74 and €25.11. For the 2005 tranche of the 2004 stock option plan, the range is between €79.41 and €79.65.

**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. The plan corresponds to the stock option plan developed in 2004 in terms of its main features and thus also to the 1999 stock option plan, with the exception of a few differences.

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 only be exercised within certain time periods (exercise windows) during an exercise period.

The exercise is also linked to the attainment of a 'performance target'. Accordingly, an 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% 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 MDAX 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 1999 stock option plan. In agreement with the 2004 stock option plan, a ceiling has been imposed on the achievable capital gain.

| Stock option plan 2008 | 2008 | | 2007 | |
|---|---|---|---|---|
| in € millions | Number of sub-scription rights | Average exercise price[1] | Number of sub-scription rights | Average exercise price[1] |
| | 1,000 units | €/unit | 1,000 units | €/unit |
| Outstanding at January 1 | — | — | — | — |
| Exercised | — | — | — | — |
| Granted | 1,369.3 | 89.95 | — | — |
| Expired | 145.8 | 89.95 | — | — |
| Outstanding at December 31 | 1,223.5 | 89.95 | — | — |
| Exercisable on December 31 | — | — | — | — |

[1] With the exception of the stock options exercisable on December 31, the average exercise hurdle is given.

The weighted average remaining option duration is 4 years and 4 months.

The assumptions used in calculating the fair value of the respective tranches changed as follows:

| | Tranche 2008 | Tranche 2007 |
|---|---|---|
| Reference price in € | 78.22 | 103.17 |
| Closing price Continental in € | 82.16 | 104.62 |
| Closing price DAX Index | 7,156.55 | 8,050.68 |
| Risk-free rate (in %) | 3.96 | 4.42 |
| Volatility Continental (in %) | 27.20 | 29.19 |
| Volatility DAX (in %) | 17.07 | 22.99 |
| Correlation Continental/DAX | 0.62 | 0.55 |
| Dividend yield (in %) | 2.55 | 2.27 |
| Option period | 5 years | 5 years |
| **Fair value at grant date in €** | **27.52** | **37.84** |
| **Fair value at balance sheet date December 31, 2008 in €** | **27.02** | **36.18** |
| **Fair value at balance sheet date December 31, 2007 in €** | **—** | **36.18** |

In December 2008, a redemption 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. Because of the limited free float of Continental AG's shares, the share price performance may be subject to coincidental fluctuations which do not reflect Continental's economic development. The stock option plan thus loses its effectiveness as a long-term remuneration instrument geared towards the company's performance.

The redemption offer is based on the fair value of the stock options as of October 31, 2008. The average weighted fair value of the 2005 to 2008 tranches was €3.13. The acceptance period ran until mid-January 2009. By December 31, 2008, just some of the stock option plan beneficiaries had taken up the offer.

## 24. Provisions for Pension Liabilities and Other Post-Employment Benefits

Provisions for pension liabilities and other post-employment benefits are shown in the following balance sheet items:

| in € millions | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Pension provisions (unfunded obligations and net liabilities from obligations and related funds) | 460.2 | 405.3 |
| Provisions for other post-employment benefits | 185.1 | 191.8 |
| Provisions for similar obligations | 24.4 | 91.5 |
| **Pension obligations** | **669.7** | **688.6** |
| Deferred pension charges (difference between pension obligations and related funds) | 116.0 | 77.5 |

**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 UK, Austria, France, Mexico, Italy, and Ireland.

Separate pension funds exist to fully or partially finance the company's pension obligations for the principal plans. These pension fund assets may only be used to settle pension obligations. The principal funds are in the U.S.A. and the UK, as well as in Germany in the form of a contractual trust arrangement (CTA). In the previous year, pension funds in Germany, the U.S.A., Canada, the UK, and Switzerland were added through the acquisition of Siemens VDO. The Trust Arrangement for German employees entitled to pensions set up by Siemens was adapted to the legal construction of the Continental Corporation's CTA during the course of the integration of Siemens VDO. These plan assets are netted against the related pension provisions.

The plan assets also include, in particular in Germany, insurance annuity contracts. In addition, certain closed pension contribution funds in Germany are shown in the reconciliation of the total pension plans in accordance with IFRIC D 9 due to certain warranty risks.

| in € millions | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Pension provisions (unfunded obligations and net liabilities from obligations and related funds) | 460.2 | 405.3 |
| Deferred pension charges (difference between pension obligations and related funds) | 116.0 | 77.5 |
| **Net amount recognized** | **344.2** | **327.8** |

The pension provisions increased by €54.9 million compared with the previous year. The significant effects are the result of the reclassification of individual pension plans in France, Italy and Korea, which had previously been reported under the provisions for similar obligations. The reclassification was made because of standardizations carried out in the fiscal year, which led to classification of the plans as defined benefit plans. Deferred pension charges representing the net assets from pension obligations and related funds increased by €38.5 million. The rise was influenced significantly by the expected income from the pension funds in Germany and the U.S.A., which over-compensate the continued pension provisions in accordance with the corridor method at the end of the year.

The pension obligations for Germany, the U.S.A. and Canada, the UK, 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 U.S.A./C.

The reconciliation of the changes in the defined benefit obligation and the plan assets from the beginning to the end of the year is as follows:

| in € millions | 2008 | | | | | 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Germany | U.S.A./C | UK | Other | Total | Germany | U.S.A./C | UK | Other | Total |
| **Changes in defined benefit obligation** | | | | | | | | | | |
| Defined benefit obligation at January 1 | 1,641.1 | 892.0 | 199.4 | 156.5 | 2,889.0 | 1,496.0 | 666.7 | 171.8 | 84.3 | 2,418.8 |
| Reclassification | — | — | — | 70.8 | 70.8 | — | — | — | — | — |
| Foreign currency translation | — | -5.4 | -52.5 | -13.5 | -71.4 | — | -63.6 | -15.8 | -0.5 | -79.9 |
| Current service cost | 57.7 | 7.8 | 3.4 | 11.0 | 79.9 | 34.4 | 2.5 | 4.3 | 4.4 | 45.6 |
| Interest cost on defined benefit obligation | 82.4 | 49.2 | 10.9 | 10.5 | 153.0 | 63.8 | 37.4 | 8.7 | 4.3 | 114.2 |
| Vested prior plan amendments | — | 0.1 | — | — | 0.1 | — | — | — | 0.0 | 0.0 |
| Unvested prior plan amendments | — | 0.0 | — | 0.6 | 0.6 | — | — | — | — | — |
| Actuarial gains/losses from changes in assumptions | -39.2 | -37.7 | 6.2 | -10.4 | -81.1 | -180.9 | -17.6 | -15.1 | -12.6 | -226.2 |
| Actuarial gains/losses from experience adjustments | -14.8 | 6.4 | 2.1 | -0.2 | -6.5 | 3.4 | 7.4 | -1.1 | 0.4 | 10.1 |
| Curtailments and settlements | 0.0 | -0.1 | -1.0 | -49.0 | -50.1 | -0.1 | 8.0 | — | -0.3 | 7.6 |
| Net changes in the scope of consolidation | -24.8 | — | — | — | -24.8 | 302.4 | 293.5 | 50.8 | 83.4 | 730.1 |
| Employee contributions | — | — | 1.6 | 0.4 | 2.0 | — | — | 1.5 | 0.3 | 1.8 |
| Other changes | 0.0 | — | -0.7 | 0.0 | -0.7 | -1.1 | 1.1 | -0.4 | -0.1 | -0.5 |
| Benefit payments | -80.9 | -56.5 | -5.3 | -17.2 | -159.9 | -76.8 | -43.4 | -5.3 | -7.1 | -132.6 |
| **Defined benefit obligation at December 31** | **1,621.5** | **855.8** | **164.1** | **159.5** | **2,800.9** | **1,641.1** | **892.0** | **199.4** | **156.5** | **2,889.0** |
| **Change in plan assets** | | | | | | | | | | |
| Fair value of plan assets at January 1 | 1,357.2 | 882.8 | 218.0 | 93.6 | 2,551.6 | 1,087.3 | 643.7 | 150.8 | 25.3 | 1,907.1 |
| Reclassification | — | — | — | 27.5 | 27.5 | — | — | — | — | — |
| Foreign currency translation | — | -8.8 | -50.0 | -8.4 | -67.2 | — | -64.2 | -16.0 | 0.1 | -80.1 |
| Net changes in the scope of consolidation | -20.5 | — | — | — | -20.5 | 276.5 | 277.5 | 69.5 | 66.5 | 690.0 |
| Expected return on plan assets | 64.1 | 65.1 | 14.2 | 3.8 | 147.2 | 49.8 | 50.0 | 10.4 | 1.9 | 112.1 |
| Actuarial gains/losses from plan assets | -36.5 | -271.1 | -34.7 | -5.3 | -347.6 | -29.0 | -0.9 | 1.4 | -0.4 | -28.9 |
| Employer contributions | 0.2 | 6.3 | 5.0 | 10.8 | 22.3 | 1.0 | 20.1 | 6.0 | 3.3 | 30.4 |
| Employee contributions | — | — | 1.6 | 0.4 | 2.0 | — | — | 1.5 | 0.3 | 1.8 |
| Curtailments and settlements | — | — | — | -45.7 | -45.7 | — | — | — | -0.4 | -0.4 |
| Other changes | — | -0.1 | -0.6 | -0.2 | -0.9 | — | 0.0 | -0.3 | -0.9 | -1.2 |
| Benefit payments | -27.6 | -56.5 | -5.3 | -7.4 | -96.8 | -28.4 | -43.4 | -5.3 | -2.1 | -79.2 |
| **Fair value of plan assets at December 31** | **1,336.9** | **617.7** | **148.2** | **69.1** | **2,171.9** | **1,357.2** | **882.8** | **218.0** | **93.6** | **2,551.6** |

€2,740.3 million (2007: €2,848.2 million) of the defined benefit obligation at December 31, 2008, relates to plans that are fully or partially funded, and €60.6 million (2007: €40.8 million) relates to plans that are unfunded.

The changes to the companies consolidated in Germany are the result of the sale of the electric motors activities to the Brose Group.

The pension plan acquired in Switzerland with Siemens VDO was not continued in its previous form. The obligation was outsourced to an external financial services provider. The Continental Corporation therefore no longer has any obligations in this respect. The pension plan is reported as a settlement.

Plan assets in Germany include the CTA assets amounting to €909.5 million (2007: €925.2 million), pension contribution fund assets of €343.0 million (2007: €348.7 million), and insurance annuity contracts amounting to €84.5 million (2007: €83.3 million). €5.0 million of the actuarial gains and losses on plan assets in Germany in 2008 resulted from official retirement funds (2007: -€7.0 million) and -€41.5 million from the CTAs (2007: -€22.0 million).

Continental AG has pension funds for previously defined contributions in Germany that have been closed to new entrants since July 1, 1983, and March 1, 1984, respectively. At December 31, 2008, the minimum net funding requirement was exceeded; Continental AG has no requirement to make additional contributions. The pension fund assets show a fair value of €343.0 million (2007: €348.7 million) on December 31, 2008. The pension funds are subject to an effective minimum interest rate of 3.50%, for which Continental is ultimately liable under the *Betriebsrentengesetz* (German Law Relating to Company Pension Plans), and accordingly constitute a defined benefit pension plan in accordance with IFRIC D 9. This plan is therefore included in the total reconciliation of the defined 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 balance sheet:

| in € millions | December 31, 2008 | | | | | December 31, 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Germany | U.S.A./C | UK | Other | Total | Germany | U.S.A./C | UK | Other | Total |
| Funded status[1] | -284.5 | -238.1 | -15.9 | -90.4 | -628.9 | -283.9 | -9.2 | 18.6 | -62.9 | -337.4 |
| Unrecognized actuarial gains/losses | -24.8 | 286.9 | 23.3 | 2.3 | 287.7 | -8.3 | 44.7 | -4.9 | 1.3 | 32.8 |
| Unrecognized past service cost from plan amendments | — | 0.2 | — | 1.4 | 1.6 | — | 0.2 | — | 0.0 | 0.2 |
| Effect of asset limitation | — | -0.9 | -7.1 | — | -8.0 | — | -5.1 | -18.4 | — | -23.5 |
| Reclassification to liabilities held for sale | 3.4 | — | — | — | 3.4 | 0.1 | — | — | — | 0.1 |
| **Net amount recognized** | **-305.9** | **48.1** | **0.3** | **-86.7** | **-344.2** | **-292.1** | **30.6** | **-4.7** | **-61.6** | **-327.8** |
| The net amount recognized in the balance sheet comprises the following balance sheet items: | | | | | | | | | | |
| Deferred pension charges | 27.4 | 80.7 | 3.3 | 4.6 | 116.0 | 8.2 | 64.6 | 2.2 | 2.5 | 77.5 |
| Pension provisions | -333.3 | -32.6 | -3.0 | -91.3 | -460.2 | -300.3 | -34.0 | -6.9 | -64.1 | -405.3 |
| **Net amount recognized** | **-305.9** | **48.1** | **0.3** | **-86.7** | **-344.2** | **-292.1** | **30.6** | **-4.7** | **-61.6** | **-327.8** |

[1] Difference between plan assets and benefit obligation.

The pension plan of Continental Automotive Trading UK Ltd, (formerly Siemens VDO Automotive Ltd), UK, reports plan assets at the end of the fiscal year that exceed the defined benefit obligation. The recognition of such an asset is limited to the present value of the benefits to the corporation (asset ceiling). At December 31, 2008, this present value is €0.0 (2007: €0.0).

The pension plan of Continental Automotive Canada, Inc., Canada, also reports plan assets that the Continental Corporation cannot fully utilize. At December 31, 2008, this present value is €0.2 million (2007: €0.4 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 assumptions have been used:

| Average valuation factors as of Dec. 31 | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| in % | Germany[1] | U.S.A./C | UK | Other | Germany[1] | U.S.A./C | UK | Other |
| Discount rate | 6.00 | 6.23 | 6.00 | 7.05 | 5.60 | 5.73 | 5.90 | 6.05 |
| Expected long-term return on plan assets | 4.92 | 7.48 | 6.72 | 6.32 | 4.84 | 7.71 | 7.11 | 5.99 |
| Long-term rate of compensation increase | 3.50 | 3.08 | 4.10 | 3.64 | 3.00 | 3.43 | 3.75 | 3.49 |

[1] Excluding the pension contribution funds.

Net pension expenses can be summarized as follows:

| in € millions | 2008 | | | | | 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Germany | U.S.A /C | UK | Other | Total | Germany | U.S.A /C | UK | Other | Total |
| Current service cost | 57.7 | 7.8 | 3.4 | 11.0 | 79.9 | 34.4 | 2.5 | 4.3 | 4.4 | 45.6 |
| Interest on defined benefit obligation | 82.4 | 49.2 | 10.9 | 10.5 | 153.0 | 63.8 | 37.4 | 8.7 | 4.3 | 114.2 |
| Expected return on plan assets | -64.1 | -65.1 | -14.2 | -3.8 | -147.2 | -49.8 | -50.0 | -10.4 | -1.9 | -112.1 |
| Amortization of actuarial gains/losses | 0.0 | 6.2 | 9.9 | 0.1 | 16.2 | 2.4 | 1.3 | — | -0.4 | 3.3 |
| Amortization of past service cost | — | 0.2 | — | 0.0 | 0.2 | 0.0 | 0.1 | — | 0.0 | 0.1 |
| Curtailments and settlements | -0.3 | 0.0 | -1.0 | -2.7 | -4.0 | 0.0 | 8.0 | — | 0.0 | 8.0 |
| Effect of change of asset ceiling | — | -3.8 | -8.3 | — | -12.1 | — | — | — | — | — |
| Other pension income | — | — | — | 0.0 | 0.0 | — | -6.1 | — | 0.1 | -6.0 |
| **Net period pension cost** | **75.7** | **-5.5** | **0.7** | **15.1** | **86.0** | **50.8** | **-6.8** | **2.6** | **6.5** | **53.1** |

The income from curtailments and settlements relates in particular to the locations in Rambouillet, France, and Ebbw Vale, UK.

Curtailments and settlements in 2007 are the result in particular of expenses from the closure of the Chatham location in Canada as of July 1, 2008.

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 at the balance sheet date:

| in € millions | Dec. 31, 2008 | | | | Dec. 31, 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Germany[1] | U.S.A./C | UK | Other | Germany[1] | U.S.A./C | UK | Other |
| **1% increase** | | | | | | | | |
| Effects on service and interest costs | -2.0 | 1.4 | -0.5 | -1.3 | -2.1 | 1.5 | -1.2 | -0.4 |
| Effects on benefit obligation | -119.3 | -80.4 | -23.8 | -14.4 | -142.1 | -89.4 | -33.7 | -13.6 |
| **1% decrease** | | | | | | | | |
| Effects on service and interest costs | 1.7 | -2.1 | 0.7 | 0.8 | 1.9 | -2.7 | 1.5 | 0.9 |
| Effects on benefit obligation | 146.3 | 95.7 | 28.5 | 19.7 | 177.0 | 106.3 | 43.9 | 26.8 |

[1] Excluding the pension contribution funds.

Changes in the discount factor as well as the salary and pension trends do not have a linear effect on the defined benefit obligations (DBO), because of 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 as a result of an increase or decrease in the discount rate assumptions by the same amount.

**Pension funds**

The structure of the corporation's plan assets is based on an asset/liability management study that includes the forecasted pension obligations and the corresponding plan assets. Investment committees regularly review the investment decisions taken and the selection of the external fund managers.

The portfolio structures of the pension plan assets at the measurement date for fiscal years 2008 and 2007, as well as the planned portfolio structure for fiscal year 2009, are as follows:

| in % | Planned structure 2009 | | | | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Type of asset | Germany[1] | U.S.A./C | UK | Other | Germany[1] | U.S.A./C | UK | Other | Germany[1] | U.S.A./C | UK | Other |
| Equity instruments | 23 | 53 | 47 | 12 | 7 | 57 | 34 | 12 | 10 | 57 | 60 | 25 |
| Debt securities | 77 | 44 | 53 | 58 | 69 | 38 | 55 | 56 | 69 | 39 | 35 | 36 |
| Real estate | — | 3 | — | 2 | 1 | 5 | 2 | 3 | 1 | 4 | 1 | 10 |
| Cash, cash equivalents and other | — | — | — | 28 | 24 | 0 | 9 | 29 | 20 | 0 | 4 | 29 |
| **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.

The expected long-term return on plan assets of the individual asset types for 2008 and 2007 was as follows:

| in % | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| Type of asset | Germany[1] | U.S.A./C | UK | Other | Germany[1] | U.S.A./C | UK | Other |
| Equity instruments | 7.10 | 8.62 | 8.00 | 6.65 | 7.10 | 9.10 | 8.16 | 7.45 |
| Debt securities | 4.26 | 5.49 | 5.53 | 6.49 | 3.98 | 5.79 | 5.38 | 6.42 |
| Real estate | — | 6.37 | 8.00 | 4.96 | — | 6.00 | 7.25 | 5.02 |
| Cash, cash equivalents and other | — | — | 5.00 | 5.41 | — | 6.00 | 4.76 | 4.58 |
| **Long-term return** | **4.92** | **7.48** | **6.72** | **6.27** | **4.84** | **7.71** | **7.11** | **5.99** |

[1] The expected long-term return on the individual asset types relating to fund assets in Germany excludes the expected returns of the pension contribution funds, whose returns range from 4.00% to 4.50%, for long-term debt securities.

The reference date for plan asset measurement is December 31.

**Pension funds**
**Contributions by the employer**

The following table shows the cash contributions made by the company to the pension funds in 2008 and 2007:

| in € millions | 2008 | | | | | 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Germany | U.S.A./C | UK | Other | Total | Germany | U.S.A./C | UK | Other | Total |
| Planned contributions | 0.2 | 6.3 | 5.0 | 10.8 | 22.3 | 1.0 | 0.0 | 6.0 | 3.3 | 10.3 |
| Special contributions | — | — | — | — | — | — | 20.1 | — | — | 20.1 |

The expected contributions to the pension funds for 2009 are:

| in € millions | 2009 (expected) | | | | |
|---|---|---|---|---|---|
| | Germany | U.S.A./C | UK | Other | Total |
| Planned contributions | — | 11.2 | 3.9 | 5.2 | 20.3 |

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 five years:

| in € millions | Germany | U.S.A./C | UK | Other | Total |
|---|---|---|---|---|---|
| **Benefits paid** | | | | | |
| 2007 | 76.8 | 43.4 | 5.3 | 7.1 | 132.6 |
| 2008 | 80.9 | 56.5 | 5.3 | 17.2 | 159.9 |
| **Benefit payments as expected** | | | | | |
| 2009 | 90.8 | 58.3 | 3.8 | 8.5 | 161.4 |
| 2010 | 104.7 | 148.9 | 4.2 | 8.8 | 266.6 |
| 2011 | 104.0 | 53.8 | 4.9 | 10.0 | 172.7 |
| 2012 | 104.8 | 52.3 | 5.6 | 10.5 | 173.2 |
| 2013 | 97.6 | 53.5 | 6.5 | 12.2 | 169.8 |
| Total of years 2014 - 2018 | 539.4 | 290.2 | 39.7 | 65.1 | 934.4 |

The expected pension payments from 2009 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 concluding payments for the location Chatham, Canada, will be made in 2010.

The amounts for the current and four preceding periods are as follows:

| in € millions | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Defined benefit obligation | 2,796.5 | 2,889.0 | 2,418.8 | 2,489.9 | 1,814.5 |
| Plan assets | 2,171.9 | 2,551.6 | 1,907.1 | 1,326.7 | 696.8 |
| Deficit | -624.6 | -337.4 | -511.7 | -1,163.2 | -1,117.7 |
| | | | | | |
| Experience adjustments to plan liabilities | -87.6 | -216.1 | -31.3 | 215.9 | 107.8 |
| Experience adjustments to plan assets | -347.6 | -28.9 | 18.4 | 12.3 | 2.6 |

**Other post-employment benefits**

Certain subsidiaries – primarily in the United States 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 plants under the terms of collective pay agreements.

No separate plan assets have been set up for these obligations.

| in € millions | 2008 | 2007 |
|---|---|---|
| **Change in defined benefit obligation** | | |
| Defined benefit obligation at January 1 | 208.8 | 188.3 |
| Foreign currency translation | 1.6 | -16.1 |
| Current service cost | 4.4 | 1.7 |
| Interest cost on defined benefit obligation | 10.9 | 10.3 |
| Actuarial gains from changes in assumptions | -7.1 | -6.8 |
| Actuarial gains/losses from experience adjustments | -17.2 | 14.4 |
| Curtailments/settlements/plan modifications | -10.2 | -42.0 |
| Changes in the scope of consolidation | — | 72.0 |
| Other changes | 0.4 | 3.7 |
| Benefit payments | -11.6 | -16.7 |
| **Defined benefit obligation at December 31** | **180.0** | **208.8** |
| Unrecognized actuarial losses | -10.3 | -36.3 |
| Unrecognized income from plan amendments | 15.4 | 19.3 |
| **Amount recognized on December 31** | **185.1** | **191.8** |

The reduction in the defined benefit obligation is primarily the result of curtailments in the U.S.A. and associated actuarial gains due to deviating events.

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 release 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. Due to a judicially approved settlement, which ended the legal proceedings, the company must make a one-time payment totaling €43.5 million as compensation. Most of the payment was made in 2008, with payment of the remainder in the next seven years. The remaining provision of €16.8 million (2007: €43.5 million) is recorded under the provisions for obligations similar to pensions within pension obligations.

The medical benefits for employees, including retired former employees, were limited in 2007. These plan adjustments resulted in a gain of €42.0 million. According to a legal assessment, these adjustments do not require the consent of the employees or retirees concerned.

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 assumptions were used:

| Average valuation factors as of December 31 in % | 2008 | 2007 |
|---|---|---|
| Discount rate | 6.58 | 5.78 |
| Rate of increase in healthcare and life insurance benefits in the following year | 8.58 | 9.72 |
| Long-term rate of increase in healthcare and life insurance benefits | 4.99 | 4.93 |

The net cost of healthcare and life insurance benefit obligations can be broken down as follows:

| in € millions | 2008 | 2007 |
|---|---|---|
| Current service cost | 4.4 | 1.7 |
| Interest cost on defined benefit obligation | 10.9 | 10.3 |
| Amortization of actuarial losses | 1.1 | 2.4 |
| Amortization of vested prior plan amendments | -2.9 | -3.5 |
| Curtailments/settlements | -10.2 | -42.0 |
| Other costs | 0.4 | 3.3 |
| **Net loss/gain** | **3.7** | **-27.8** |

The gains from curtailments resulting from plan adjustments owing to the reduction of the upper limit of medical benefits for employees at an automotive location in the U.S.A. amount to €10.2 million in the fiscal year. In 2007, income was also generated from curtailments and settlements as a result of the reduction of the upper limit to the medical benefits for employees in the U.S.A.

The following table shows the effects of a 1% increase or decrease in the cost trend for healthcare and life insurance obligations:

| in € millions | 2008 | 2007 |
|---|---|---|
| **1% increase** | | |
| Effects on net cost | 1.0 | 0.2 |
| Effects on benefit obligation | 7.7 | 2.9 |
| **1% decrease** | | |
| Effects on net cost | -0.8 | -0.2 |
| Effects on benefit obligation | -6.5 | -2.5 |

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 | 2008 | 2007 |
|---|---|---|
| **1% increase** | | |
| Effects on service and interest costs | -0.4 | 0.4 |
| Effects on benefit obligation | -18.5 | -22.7 |
| **1% decrease** | | |
| Effects on service and interest costs | 0.3 | -0.2 |
| Effects on benefit obligation | 21.9 | 25.2 |

The following table shows the payments made for other post-employment benefits in 2008 and the previous year, as well as the undiscounted expected benefit payments for the next five years:

| **Benefits paid in € millions** | |
|---|---|
| 2007 | 16.7 |
| 2008 | 11.6 |
| **Benefit payments as expected** | |
| 2009 | 12.5 |
| 2010 | 12.5 |
| 2011 | 12.5 |
| 2012 | 12.5 |
| 2013 | 12.6 |
| 2014 - 2018 | 65.4 |

The amounts for the current and four preceding periods are as follows:

| **in € millions** | **2008** | **2007** | **2006** | **2005** | **2004** |
|---|---|---|---|---|---|
| Defined benefit obligation | 180.0 | 208.8 | 188.3 | 327.3 | 436.3 |
| Deficit | -180.0 | -208.8 | -188.3 | -327.3 | -436.3 |
| Experience adjustments to plan liabilities | 23.3 | -7.6 | 47.8 | -25.5 | 27.8 |

**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 fiscal 2008, the expenses for these obligations were €0.8 million (2007: €1.0 million).

The provision for obligations similar to pensions fell by €67.1 million in fiscal 2008. This is mainly the result of the reclassification of individual pension plans in France, Italy and Korea to pension provisions of €41.1 million. Furthermore, there was a one-off payment agreed in 2007 with the U.S. union; the outstanding amount of €16.8 million will be paid out in the next seven years.

**Defined contribution pension plans**
Excluding social security contributions, the expenses for the defined contribution pension plans to which Continental Corporation contributes amounted to €31.3 million in 2008 (2007: €25.3 million). The increase is due to the fact that the expenses of the former VDO companies were included for only one month in 2007 and other pension plans were converted from defined benefit to defined contribution in 2008.

## 25. Provisions for Other Risks

| in € millions | December 31, 2008 | | December 31, 2007 after PPA adjustments | | December 31, 2007 before PPA adjustments | |
|---|---|---|---|---|---|---|
| | Current | Non-current | Current | Non-current | Current | Non-current |
| Restructuring provisions | 199.5 | — | 145.1 | — | 151.8 | — |
| Litigation and environmental risks | — | 147.5 | — | 179.6 | — | 164.1 |
| Flexible early retirement contracts | — | 107.0 | — | 117.5 | — | 117.5 |
| Anniversary and other long-service benefits | — | 71.1 | — | 74.3 | — | 74.3 |
| Warranties | 654.1 | — | 757.5 | — | 471.6 | — |
| Other provisions | 172.7 | 104.1 | 225.2 | 128.6 | 219.2 | 110.1 |
| **Provisions for other risks** | **1,026.3** | **429.7** | **1,127.8** | **500.0** | **842.6** | **466.0** |

The provisions changed during the year as follows:

| | Restructuring provisions | Litigation and environmental risks | Flexible early retirement contracts | Anniversary and other long-service benefits | Warranties | Other provisions |
|---|---|---|---|---|---|---|
| **in € millions** | | | | | | |
| **At January 1, 2008, before PPA adjustments** | **151.8** | **164.1** | **117.5** | **74.3** | **471.6** | **329.3** |
| Opening balance sheet adjustments | -6.7 | 15.5 | — | — | 285.9 | 24.5 |
| **At January 1, 2008, after PPA adjustments** | **145.1** | **179.6** | **117.5** | **74.3** | **757.5** | **353.8** |
| Additions | 154.9 | 44.1 | 29.1 | 11.6 | 101.1 | 156.9 |
| Utilization | -99.3 | -57.5 | -45.3 | -8.9 | -157.8 | -168.7 |
| Net changes in the scope of consolidation | 0.0 | -0.1 | 0.0 | 0.0 | 0.2 | 0.0 |
| Reclassification to liabilities held for sale | — | — | -0.3 | -0.1 | 0.0 | -12.7 |
| Restatements from liabilities held for sale | 8.4 | 0.2 | 8.9 | 2.6 | 8.7 | 5.9 |
| Reversals | -3.4 | -25.3 | -4.9 | -1.8 | -52.8 | -57.9 |
| Interest | 0.1 | 4.7 | 2.0 | -6.9 | — | 2.8 |
| Foreign currency translation | -6.3 | 1.8 | 0.0 | 0.3 | -2.8 | -3.3 |
| **At December 31, 2008** | **199.5** | **147.5** | **107.0** | **71.1** | **654.1** | **276.8** |

The additions to the restructuring provisions mainly relate to expenses in connection with the relocation of the production at the plant in Rambouillet, France, and the production for diesel injection systems at the plant in Blythewood, U.S.A., and expenses in connection with the relocation of the research and development activities at the plant in Columbia, U.S.A. Also included in the additions are expenses in connection with the announcement of production shutdowns at the plants in Chatham, Canada, and Wetzlar, Germany, as well as expenses relating to the closure of the plant in Asnière, France. Expenses from the discontinuation of operations of the Aftermarket Infotainment segment of the Interior division and the closure of the sensors business of the Chassis & Safety and Powertrain divisions at the plant in Dortmund, Germany, have also been taken into account. Expiring customer orders at the Babenhausen plant led to restructuring expenses in the Interior division.

The utilization primarily relates to the implementation of restructuring measures adopted in previous years – in particular at the locations in Chatham, Canada, and Hanover-Stöcken, Germany, and the integration of the automotive electronics business acquired from Motorola.

As in the previous year, the increases and utilization of the provisions for litigation and environmental risks related in particular to product liability risks from the tire activities in the U.S.A.

In addition, the antitrust authorities of the European Union, the U.S.A., the UK, Australia, Brazil, Japan and Korea initiated investigations into alleged antitrust behavior in 2007 – in particular price-fixing agreements by employees of Dunlop Oil & Marine Ltd, UK, a subsidiary of ContiTech AG, in the area of offshore hoses. In 2008 and more recently on January 28, 2009, decisions made by certain authorities and other events led to expenses of €29.0 million.

The reversals mainly relate to expired patent risks due in part to patent duration in the automotive area.

Provisions for the flexible early retirement contracts, as well as anniversary and other long-service benefits, were measured using a discount rate of 6.50% (2007: 5.60%).

In accordance with the option under IAS 19, the interest component was not separately shown in net interest expense, but included in compensation costs as part of the cost categories as classified in the income statement; it includes the effect of the change in the interest rate of 0.9 percentage points.

The changes in provisions for warranties include utilization amounting to €157.8 million (2007: €69.3 million), and additions of €101.1 million (2007: €62.5 million), in particular for specific provisions in the automotive divisions.

The changes in the scope of consolidation are related in particular to the first consolidation of Oltas.

Please see Note 5 for information on the adjustment to the opening balance sheet.

The reclassification to liabilities held for sale relate in particular to operations held for sale in the non-OE sector of the Interior and ContiTech divisions, which are not part of the Continental Corporation's core business.

The remaining provisions include mainly provisions for risks from operations.

## 26. Income Tax Liabilities

Tax liabilities changed as follows:

| in € millions | 2008 | 2007 |
|---|---|---|
| **At January 1, before PPA adjustments** | **532.7** | **—** |
| Subsequent adjustments to the opening balance sheet | 27.0 | — |
| **At January 1, after PPA adjustments** | **559.7** | **381.6** |
| Additions | 394.5 | 545.6 |
| Utilization and advance payments for the current fiscal year | -366.6 | -444.8 |
| Additions from the first consolidation of subsidiaries | -0.1 | 72.2 |
| Reversals | -70.5 | -18.6 |
| Foreign currency translation | -9.2 | -3.3 |
| **At December 31** | **507.8** | **532.7** |

Please see Note 5 for information on the adjustment to the opening balance sheet.

In addition to the utilization and advance payments for the current fiscal year, the changes in income tax receivables are also included in income taxes paid in the cash flow statement.

The reduction in income tax receivables of €109.9 million from €257.9 million to €148.0 million is mainly the result of the refunds for the 2007 taxable period which exceed the advance payments. The opening balance adjustments amounted to €7.2 million.

## 27. Indebtedness

| in € millions | December 31, 2008 | | | December 31, 2007 after PPA adjustments | | | December 31, 2007 before PPA adjustments | | |
|---|---|---|---|---|---|---|---|---|---|
| | With a term of | | | With a term of | | | With a term of | | |
| | Total | up to 1 year | more than 1 year | Total | up to 1 year | more than 1 year | Total | up to 1 year | more than 1 year |
| Bonds | 70.0 | 70.0 | — | 856.5 | 446.1 | 410.4 | 856.5 | 446.1 | 410.4 |
| Bank loans and overdrafts[1] | 11,399.3 | 1,914.5 | 9,484.8 | 11,397.7 | 2,044.9 | 9,352.8 | 11,397.7 | 2,044.9 | 9,352.8 |
| Derivative financial instruments | 199.5 | 24.9 | 174.6 | 6.6 | 5.9 | 0.7 | 6.6 | 5.9 | 0.7 |
| Financial lease liabilities | 129.6 | 22.3 | 107.3 | 133.0 | 24.8 | 108.2 | 132.0 | 23.8 | 108.2 |
| Liabilities from asset-backed securitization programs | 251.0 | 251.0 | — | 279.2 | 279.2 | — | 279.2 | 279.2 | — |
| Other indebtedness[2] | 67.9 | 66.3 | 1.6 | 454.8 | 454.3 | 0.5 | 454.8 | 454.3 | 0.5 |
| **Indebtedness** | **12,117.3** | **2,349.0** | **9,768.3** | **13,127.8** | **3,255.2** | **9,872.6** | **13,126.8** | **3,254.2** | **9,872.6** |

[1] Thereof €2.3 million (2007: €4.6 million) secured by land charges, mortgages, and similar securities.

[2] In 2008, other indebtedness includes €64.6 million (2007: €437.9 million) drawn down from the commercial paper program and €1.3 million (2007: €4.2 million) liabilities on bills drawn and issued.

As of December 31, 2008, the carrying value of issued bonds amounted to €70.0 million (2007: €856.5 million) and thus corresponds to the market value. In the previous year, the market value was €903.5 million. On the 2008 balance sheet date, the issue volume was €70.0 million (2007: €893.2 million) and is represented by a bond placed in 2006 by Continental Rubber of America, Corp. (CRoA), Wilmington, U.S.A., as part of the debt issuance program. This floating-rate bond, the interest rate of which was 5.2% at the end of 2008 (2007: 4.8%), was issued at a price of 99.97% and is due in July 2009.

On April 25, 2008, the dividend increase proposed for fiscal year 2007 changed the conversion ratio of the convertible bond issued by Conti-Gummi Finance B.V. in May 2004 and guaranteed by Continental AG, in accordance with the terms of the bond. The conversion ratio of 2,028.7852 shares for each €100,000 nominal value of the bond corresponds to a conversion price per share of €49.29 (previously €50.05). In 2008, bondholders exercised their conversion rights and converted bonds with a principal amount of €356.7 million; this reduced the original issue amount from €400.0 million to €20.4 million. On October 23, 2008, Conti Gummi Finance B.V. exercised its right to early repayment and paid the outstanding nominal amount including accrued interest. In the year under review, the interest expense attributable to the bond up until conversion or repayment amounted to €7.2 million (2007: €9.8 million). In the previous year, the interest rate advantage attributable to the convertible bond was €36.7 million; in the reporting year, the conversion or repayment of the outstanding nominal amount

of the bond led to a reversal of the equity component of the related convertible bond portion on conversion amounting to €29.4 million (2007: €0.1 million).

The conversion led to the creation of 7,236,650 shares of Continental AG. Claims arising from remaining fractions of shares were settled in cash.

**Breakdown of credit lines and available financing from banks**

| **in € millions** | | **Dec. 31, 2008** | | | **Dec. 31, 2007** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Company** | **Type[1]** | **Amount of issue** | **Book value** | **Market value** | **Amount of issue** | **Book value** | **Market value** | **Interest** | **Maturity** |
| CAG, Conti Automotive, | | | 887.2[2] | 887.2 | | 740.0 | 740.3 | | 2009[2] |
| CRoA, CGF, | | | 799.7 | 799.7 | | 1,016.5 | 1,017.3 | | 2009 |
| Conti Benelux | | | 3,491.5 | 3,491.5 | | 3,486.2 | 3,510.9 | Euribor | 2010 |
| | SEL | 11,800.0 | 4,984.3 | 4,984.3 | 12,020.2 | 4,979.9 | 5,029.7 | + margin | 2012 |
| Conti Automotive[3] | LBL | 40.0 | 40.0 | 39.2 | 40.0 | 40.0 | 39.8 | 3.90% | 2011 |
| Conti Automotive[3] | LBL | 15.0 | 15.0 | 14.4 | 15.0 | 15.0 | 14.2 | 3.76% | 2011 |
| CGF | | | 59.9 | 61.6 | | | | 6.213% | 2011 |
| | PL | 110.0 | 49.9 | 49.9 | — | — | — | Euribor + margin | 2011 |
| Conti Mabor | LBL | 17.1 | 17.1 | 17.1 | 22.9 | 22.9 | 22.9 | Euribor + margin | 2011[5] |
| CRoA | LBL | 35.3 | 35.3 | 36.7 | 34.0 | 34.0 | 35.5 | 5.53% | 2011 |
| Conti Automotive[3] | LBL | 20.0 | 20.0 | 19.4 | 20.0 | 20.0 | 19.3 | 4.38% | 2012 |
| Conti Teves | LBL | 39.5 | 39.5 | 40.9 | 47.6 | 47.6 | 47.6 | 5.34% | 2012 [6] |
| Conti Brazil | LBL | 24.8 | 24.8 | 20.7 | 40.4 | 40.4 | 32.6 | 8.21%[4] | 2012 [7] |
| CAG | | | 300.0 | 292.6 | | 300.0 | 293.2 | 4.67% | 2012 |
| | LBL | 600.0 | 300.0 | 291.0 | 600.0 | 300.0 | 291.9 | 4.59% | 2012 |
| Conti Brazil | LBL | 19.1 | 19.1 | 17.4 | 19.1 | 19.1 | 17.3 | 3.44% | 2013 [6] |
| Conti Brazil | LBL | 17.6 | 17.6 | 17.9 | 17.0 | 17.0 | 16.7 | 4.78% | 2013 [6] |
| CT Fluid Hungary | LBL | 38.1 | 38.1 | 38.1 | — | — | — | 4.35% | 2013 [6] |
| Various bank lines | | 892.5 | 260.3 | 260.3 | 722.7 | 319.1 | 319.1 | mainly variable | mainly <1 year |
| **Credit lines and available financing from banks** | | **13,669.0** | | | **13,598.9** | | | | |
| **Liabilities to banks** | | | **11,399.3** | **11,379.9** | | **11,397.7** | **11,448.3** | | |

[1] SEL: syndicated euro loan; LBL: long-term bank loan; PL: promissory loan.

[2] The credit line permits an extension of any drawdown until 2012.

[3] Transfer of SV Mechatronic GmbH & Co. KG to Continental Automotive GmbH in July 2008.

[4] Average interest rate.

[5] Annual redemption payments.

[6] Semi-annual redemption payments.

[7] Monthly redemption payments.

**Explanation of company names**

CAG, Continental Aktiengesellschaft, Hanover, Germany

CGF, Conti-Gummi Finance B.V., Amsterdam, The Netherlands

Conti Automotive, Continental Automotive GmbH, Hanover, Germany

Conti Benelux, Continental Benelux S.A., Zaventem, Belgium

Conti Brazil, Continental do Brasil Produtos Automotivos Ltda., Varzea Paulista, Brazil

Conti Mabor, Continental Mabor Indústria de Pneus S.A., Lousado, Portugal

CRoA, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.

Conti Teves, Continental Teves Hungária Kft., Veszprém, Hungary

CT Fluid Ungarn, ContiTech Fluid Automotive Hungária Kft., Mako, Hungary

On December 31, 2008, credit lines and available financing from banks amounted to €13,669.0 million (2007: €13,598.9 million). Of these, a nominal amount of €2,237.2 million was not drawn down as of the reporting date (2007: €2,153.6 million). The share of long-term credit lines in this nominal amount was €1,605.0 million (2007: €1,750.0 million). In the year under review, the Continental Corporation utilized its commercial paper program, its asset-backed securitization programs, and its various bank lines to meet short-term credit requirements. The syndicated loan obtained to finance the acquisition of Siemens VDO was utilized on December 31, 2008, by Continental AG and Continental Rubber of America, Corp. (CRoA), Wilmington, U.S.A., and valued at a total of €10,162.7 million (2007: €10,222.6 million). For tranche C, due in August 2012, there were interest hedges at the end of 2008 amounting to €3,125.0 million. The resulting average fixed interest rate to be paid is 4.19% plus margin. The extension option for tranche A due in August 2008 was exercised for a partial amount of €800.0 million. The committed amount was accordingly reduced from €12.0 billion to €11.8 billion. In August 2008, the Continental Corporation borrowed €110.0 million through its financing subsidiary CGF under a promissory loan with a three-year term. There were interest hedges for a partial amount of €50.0 million.

In January 2009, Continental concluded the renegotiation of terms of the syndicated loan for the acquisition of Siemens VDO with the consortium of banks providing the credit. A possible need for adjustment of the credit conditions began to emerge in the final months of 2008 due to the continued downturn in the economic situation. In December 2008, Continental therefore approached the banks proactively with a concept to adapt the contractual terms to the changed economic environment. Among other things, the credit margin was increased in the loan agreement, and restrictions were tightened regarding liquidity outflows not utilized to repay debt. Continental expects only minor changes in net interest expense since the margin increase should be compensated predominantly by the decline of interest rates for borrowing with shorter interest terms.

Continental also had talks with the European Investment Bank (EIB) in the 2008 fiscal year about the current business relationship and the expansion of cooperation.

Please see Note 28 about the structure of maturities of indebtedness.

**Financial lease liabilities**

The future payment obligations resulting from financial leases are shown in the following tables:

| December 31, 2008/in € millions | 2009 | 2010 to 2013 | From 2014 | Total |
|---|---|---|---|---|
| Minimum lease payments | 29.3 | 63.3 | 90.2 | 182.8 |
| Interest component | 7.0 | 22.1 | 24.1 | 53.2 |
| **Financial lease liabilities** | **22.3** | **41.2** | **66.1** | **129.6** |

| December 31, 2007, after PPA adjustments/in € millions | 2008 | 2009 to 2012 | From 2013 | Total |
|---|---|---|---|---|
| Minimum lease payments | 31.7 | 67.0 | 86.0 | 184.7 |
| Interest component | 6.9 | 19.7 | 25.1 | 51.7 |
| **Financial lease liabilities** | **24.8** | **47.3** | **60.9** | **133.0** |

The fair value of the financial lease liabilities is €131.6 million (2007: €141.2 million). The effective interest rate of the leasing contracts lies between 5.8% and 10.8% (2007: between 5.5% and 8.4%).

## 28. Financial Instruments

The carrying amounts and fair values of financial assets and liabilities belonging to the various measurement categories, classified by balance sheet category and non-current and current items, are as follows:

| in € millions | Measurement category in acc. with IAS 39 | Carrying amount | Fair value | Carrying amount after PPA adjustments | Fair value |
|---|---|---|---|---|---|
| | | Dec. 31, 2008 | Dec. 31, 2008 | Dec. 31, 2007 | Dec. 31, 2007 |
| Other investments | AfS | 14.2 | 14.2 | 24.1 | 24.1 |
| Derivative instruments and interest-bearing investments | | | | | |
| Derivative instruments accounted for as hedging instruments | n.a. | 6.4 | 6.4 | 8.0 | 8.0 |
| Derivative instruments not accounted for as hedging instruments | HfT | 27.5 | 27.5 | 19.8 | 19.8 |
| Financial assets available for sale | AfS | 11.1 | 11.1 | 9.8 | 9.8 |
| Other receivables with a financing character | LaR | 19.4 | 19.4 | 143.2 | 143.2 |
| Trade accounts receivable | LaR | 3,287.5 | 3,287.5 | 3,943.4 | 3,943.4 |
| Other financial assets | LaR | 160.9 | 155.2 | 244.7 | 244.7 |
| Cash and cash equivalents | | | | | |
| Cash and cash equivalents | LaR | 1,232.0 | 1,232.0 | 2,087.9 | 2,087.9 |
| Financial assets available for sale | AfS | 337.4 | 337.4 | — | — |
| Financial assets held for trading | HfT | — | — | 1.7 | 1.7 |
| **Financial assets** | | **5,096.4** | **5,090.7** | **6,482.6** | **6,476.1** |
| | | | | | |
| Indebtedness | | | | | |
| Derivative instruments accounted for as hedging instruments | n.a. | 174.4 | 174.4 | 0.1 | 0.1 |
| Derivative instruments not accounted for as hedging instruments | HfT | 25.1 | 25.1 | 6.5 | 6.5 |
| Liabilities from financial leases | n.a. | 129.6 | 131.6 | 133.0 | 142.2 |
| Other indebtedness | FLAC | 11,788.2 | 11,768.8 | 12,988.2 | 13,035.2 |
| Trade accounts payable | FLAC | 2,469.8 | 2,469.8 | 2,763.4 | 2,763.4 |
| Other financial liabilities | FLAC | 889.2 | 889.2 | 996.1 | 996.1 |
| **Financial liabilities** | | **15,476.3** | **15,458.9** | **16,887.3** | **16,920.6** |
| | | | | | |
| Aggregated according to categories as defined in IAS 39 | | | | | |
| Financial asset HfT | | 27.5 | | 21.5 | |
| LaR | | 4,699.8 | | 6,419.2 | |
| AfS | | 362.7 | | 33.9 | |
| Financial liability HfT | | 25.1 | | 6.5 | |
| FLAC | | 15,147.2 | | 16,747.7 | |

**Abbreviations**
AfS, available for sale
FLAC, financial liability at amortized cost
HfT, held for trading
LaR, loans and receivables

Financial instruments belonging to the available for sale and held for trading categories are measured at their fair value unless this cannot be reliably measured. In the latter case, the financial assets are measured at cost.

Cash and cash equivalents, trade receivables, trade payables and other financial liabilities, generally have short remaining maturities. As a result, the carrying amounts at the closing date approximate to the fair value.

The derivative financial instruments which 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 financial instruments that did not qualify as highly effective hedges are classified as financial assets and liabilities held for trading.

The fair value of liabilities from financial leases corresponds to the present value of the payments associated with the liabilities based on the applicable yield curve.

The fair values of the company's financial 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 net gains and losses by measurement category were as follows:

| in € millions | From interest | From remeasurement | | | From de-recognition | Net gains and losses | |
|---|---|---|---|---|---|---|---|
| | | At fair value | Currency translation | Impairment losses | | 2008 | 2007 |
| Loans and receivables | 79.1 | — | -41.1 | -34.4 | — | 3.6 | 46.2 |
| Financial assets available for sale | 0.9 | — | — | 4.9 | 4.3 | 10.1 | -0.1 |
| Financial assets and financial liabilities held for trading | — | -3.5 | — | — | — | -3.5 | 15.8 |
| Financial liabilities at amortized cost | -690.7 | — | 47.2 | — | — | -643.5 | -181.8 |
| **Net gains and losses** | **-610.7** | **-3.5** | **6.1** | **-29.5** | **4.3** | **-633.3** | **-119.9** |

Interest income from financial instruments is reported in net interest expense (see Note 8).

Gains and losses determined during remeasurement are recognized in the financial result, with the exception of allowances on trade receivables, which are recognized in other income and expense.

Gains and losses on financial assets and liabilities held for trading, that were determined during remeasurement, 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 €0.3 million in 2008 (2007: €1.0 million); the amount taken from equity and recognized in income during the fiscal year was €1.8 million (2007: none).

**Collateral**
As of December 31, 2008, a total of €37.2 million of financial assets had been pledged as collateral (2007: €97.8 million). Trade receivables sold under ABS programs are presented separately under Note 19.

During the fiscal year, financial assets pledged as collateral – including collateral that can be sold or pledged by the recipient – primarily comprise term deposits (2007: money market funds) used as collateral for the cash settlement specified for the other shareholders of ContiTech AG, Hanover, as part of a squeeze-out, which has been offset against the corresponding liability.

**Hedging policy and financial derivatives**

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 fluctuations 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 the same manner, long- and short-term interest rate movements are continuously monitored and also hedged as necessary. In addition, interest rate and currency derivatives allow debt to be accessed on every available capital market, regardless of the location at which the financing is required.

**1. Guidelines and risk management**

The use of hedging instruments is covered by corporate-wide guidelines, adherence to which is regularly reviewed by internal audit. As part of interest rate and currency management, maximum notional amounts are defined in order to strictly limit the risk associated with hedges. Further, only derivative financial instruments that can be included and evaluated in the risk management system may be used for hedging purposes. Financial instruments that do not meet these criteria may not be used at all. A detailed description of the risks and of risk management can be found in the “Risk Report” section of the Management Report.

**a) Currency management**

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 12-month forward basis. The currency committee convenes weekly to review and initiate hedging measures. These may not exceed 30% of the 12-month exposure without the express permission of the Executive Board. The corporation’s net foreign investments are generally not hedged against exchange rate fluctuations.

**Foreign currency risk**

Currency risks result from financial instruments denominated in a currency different from the functional currency of the respective subsidiary. IFRS 7 requires a presentation of the effects of hypothetical changes of currency prices on earnings and equity using sensitivity analyses. The changes to the currency prices are related to the financial instruments outstanding on the reporting date. 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. According to this system, a 10% appreciation of the functional currency would have improved net income by €9.9 million (2007: €1.0 million) and reduced the cash flow hedge reserve in equity by €6.7 million (2007: €10.0 million). A 10% depreciation of the functional currency would have led to a reduction in net income of €9.9 million (2007: €1.0 million) and increased the cash flow hedge reserve in equity by €6.7 million (2007: €10.0 million).

**Effects of translation-related currency risk**

A large number of the subsidiaries are located outside the euro area. Since Continental AG’s reporting currency is the euro, the financial statements of these companies are translated into euros. In order to address translation-related currency effects as part of risk management, it is assumed that investments in foreign companies are generally 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 euros changes as a result of currency fluctuations are taken to equity in the consolidated financial statements.

**b) Interest rate management**

The corporation’s activities to manage the risk arising from variable interest rates are focused on its interest-bearing liabilities. The use of derivative financial instruments serves exclusively to manage identified interest rate risks. 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 only considered if this is advantageous from Continental AG’s perspective.

**Interest rate risk**

Deviating from the previous year, short-term borrowing and investment expected for refinancing or re-investment, as well as liabilities from asset-backed securitization programs and commercial paper in the reporting year were categorized as on a floating-rate. According to this classification, the previous year's values of the fixed interest rate financial assets would have been €113.4 million lower and the fixed interest rate liabilities would have been €764.8 million lower. Accordingly, higher values would have resulted for the floating-rate instruments. Furthermore, the market values of the derivatives were separately reported for reconciliation to net indebtedness.

The profile of the Continental Corporation's interest-bearing financial instruments following hedging measures was as follows:

| in € millions | 2008 | 2007 before PPA adjustments |
|---|---|---|
| **Fixed-interest instruments** | | |
| Financial assets | 2.4 | 115.5 |
| Financial liabilities | -4,276.2 | -2,502.3 |
| | | |
| **Floating-rate instruments** | | |
| Financial assets | 1,597.5 | 2,127.1 |
| Financial liabilities | -7,641.6 | -10,617.9 |
| | | |
| **Market value of derivative instruments** | | |
| Financial assets | 33.9 | 27.8 |
| Financial liabilities | -199.5 | -6.6 |
| | | |
| **Net indebtedness** | **-10,483.5** | **-10,856.4** |

The Continental Corporation has entered into interest rate derivatives, some of which are classified as effective cash flow hedges. As a result, a change in interest rates as of the balance sheet date would have a direct effect on the income statement (net interest expense) and/or on equity.

In line with IFRS 7, effects on earnings and equity resulting from interest rate changes must be presented using sensitivity analyses.

**Fair value – sensitivity analysis**

An increase in interest rates of 100 basis points in 2008 would have led to a decline in the income statement of €1.5 million (2007: €1.7 million) and to an increase in the difference from financial instruments in equity in the amount of €103.3 million (2007: €0.9 million).

A decrease in interest rates of 100 basis points would have led to an improvement in the income statement of €1.3 million (2007: €1.8 million) and a decrease in the difference from financial instruments in equity of €118.6 million (2007: €0.9 million). This analysis assumes that interest rates cannot be lower than or equal to 0%.

**Cash flow – sensitivity analysis**

An increase in interest rates of 100 basis points in 2008 would have reduced net interest income by €60.4 million (2007: €4.9 million).

A decrease in interest rates of 100 basis points would have improved net interest income by €60.4 million (2007: €4.9 million).

This analysis is based on the assumption that all other variables, and in particular exchange rates, remain unchanged. The same assumption applies to 2007. The increase in the interest effect in the cash flow sensitivity analysis is due to the fact that the syndicated euro loan taken out in December 2007 for the acquisition of Sie-

mens VDO has been used as a representative average for the whole of the year in the previous year's figures of the analysis.

#### c) Counterparty risk

Derivative financial 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 only entered into with selected banks, i.e., partners with prime ratings. The development of contractual partners' creditworthiness is continuously monitored. In addition, internal settlement risks are minimized through the clear segregation of functional areas.

### 2. Liquidity risks

Liquidity risk is counteracted by a comprehensive short-term and long-term liquidity plan, taking into account existing credit lines. The financing requirements of the operating businesses are covered by equity, participation in cash pooling agreements, or bank and intercompany loans to the related subsidiaries, to the extent that this is appropriate and permitted within the respective legal and tax codes. A variety of financial instruments available on the market are used to meet corporate financing requirements. These include overnight money, term deposits, commercial paper, and bonds, as well as bilateral and syndicated loans. Where events lead to unexpected liquidity requirements, Continental AG can draw upon both existing liquidity and fixed credit lines from banks.

The following payment outflows result in the next five years and after from the financial liabilities of €15,476.3 million (2007: €16,891.3 million after PPA adjustments):

| December 31, 2008<br>in € millions | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Other indebtedness incl. interest payments[1] | -2,791.3 | -3,956.1 | -588.7 | -5,832.5 | -14.8 | — | -13,183.4 |
| Derivative instruments | 14.5 | -56.9 | -31.1 | -115.7 | — | — | -189.2 |
| Financial lease liabilities | -29.3 | -19.6 | -17.8 | -14.3 | -11.6 | -90.2 | -182.8 |
| Trade accounts payable | -2,469.8 | — | — | — | — | — | -2,469.8 |
| Other financial liabilities | -889.2 | — | — | — | — | — | -889.2 |

[1] Includes a drawdown payable in 2009 from a credit line valid until 2012 with an amount of €887.2 million.

| December 31, 2007<br>in € millions | 2008 | 2009 | 2010 | 2011 | 2012 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Other indebtedness incl. interest payments | -3,792.7 | -706.3 | -3,955.0 | -717.3 | -5,769.2 | -17.0 | -14,957.5 |
| Derivative instruments | -6.7 | -0.5 | -0.6 | -0.6 | -0.6 | — | -9.0 |
| Financial lease liabilities | -31.7 | -25.8 | -16.5 | -14.1 | -10.6 | -86.0 | -184.7 |
| Trade accounts payable | -2,763.4 | — | — | — | — | — | -2,763.4 |
| Other financial liabilities | -996.1 | — | — | — | — | — | -996.1 |

In the analysis, foreign currency amounts were translated with the spot exchange rate current at the time of the reporting date into euros. For floating-rate non-derivative financial instruments, the future interest payment flows were forecasted using the most recently fixed interest rates. Forward interest rates were used to determine the floating rate payments for derivative financial instruments. The analysis includes exclusively payment outflows from financial liabilities; payment inflows from financial assets were not accounted for.

### 3. Default risk

Credit risk from trade accounts receivable and financial amounts receivable includes the risk that amounts receivable will be collected late or not at all. These risks are analyzed and monitored by central and local credit managers. The responsibilities of our central credit management function also include pooled accounts receivable risk management. However, default risk cannot be excluded with absolute certainty, and any remaining risk is addressed by establishing 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 only entered into with partners who have prime credit ratings or that sufficient collateral is provided. For further information, please see Note 19.

### Measurement of derivative financial instruments

Derivative financial instruments are measured at their market value. The market value is determined on the basis of the fair value, which is calculated by discounting the expected cash flows, based on the yield curves.

| in € millions | December 31, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| **Market values** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| **Cash flow hedges (effective)** | | | | |
| Cross-currency interest rate swaps | 6.4 | -68.6 | 8.0 | — |
| Interest rate swaps | — | -105.8 | — | -0.1 |
| **Other derivatives** | | | | |
| Cross-currency interest rate swaps | 6.1 | — | 4.8 | — |
| Interest rate swaps | — | -0.1 | 0.3 | -0.7 |
| Interest rate options | — | -0.2 | 0.2 | — |
| Currency forwards | 21.4 | -24.8 | 14.5 | -5.8 |
| **Total of market values** | **33.9** | **-199.5** | **27.8** | **-6.6** |
| – thereof long-term | 6.1 | -174.6 | 9.0 | -0.7 |
| – thereof short-term | 27.8 | -24.9 | 18.8 | -5.9 |
| **Nominal values** | | | | |
| Cash flow hedges | | 3,245.0 | | 82.9 |
| Cross-currency interest rate swaps | | 84.6 | | 121.4 |
| Interest rate swaps | | 10.0 | | 10.0 |
| Interest rate options | | 10.0 | | 10.0 |
| Currency forwards | | 854.4 | | 1,336.1 |
| **Total of nominal values** | | **4,204.0** | | **1,560.4** |

In the case of highly effective hedges, Continental applies hedge accounting as set out in IAS 39. For cash flow hedges, changes in the market value of the derivatives are taken directly to other comprehensive income in total equity until the hedged item is recognized in income. The interest and currency derivatives have maturities and conditions corresponding to the underlying transactions.

The Continental Corporation has classified both interest rate swaps and cross-currency interest rate swaps as cash flow hedges. The cash flow hedges relate to a partial hedging of the floating-rate syndicated euro loan for the acquisition of Siemens VDO and to the DIP private placement of €70.0 million. In 2008, marking to market of these financial instruments therefore resulted in an accumulated expense of €149.5 million (2007: €1.5 million) before tax that was recognized directly in equity.

The majority of long-term derivative financial instruments mature in 2012.

The accumulated other comprehensive income relating to the derivative financial instruments was as follows in the year under review:

| in € millions | Jan. 1, 2007 | Fair value changes | Reversals | Dec. 31, 2007/ Jan. 1, 2008 | Fair value changes | Reversals | Dec. 31, 2008 |
|---|---|---|---|---|---|---|---|
| Market value | -0.8 | -0.8 | 0.1 | -1.5 | -148.1 | 0.1 | -149.5 |
| Deferred taxes | 0.3 | 0.2 | 0.0 | 0.5 | 46.5 | 0.0 | 47.0 |
| **Other comprehensive income** | **-0.5** | **-0.6** | **0.1** | **-1.0** | **-101.6** | **0.1** | **-102.5** |

The prospective and retrospective effectiveness of hedges is demonstrated through regular effectiveness testing. The dollar offset method is used to determine retrospective effectiveness. This calculates the ratio of the fair value changes or changes in cash flow of the hedged underlying transaction to the fair value changes or changes in cash flow of the hedging transaction. The results of retrospective effectiveness testing fell within a range of 80% to 125%, meaning that the hedges used by the corporation can be considered highly effective. As

in the previous year, no ineffectiveness arose from the existing cash flow hedges during the reporting year.

Non-derivative basis contracts are regularly inspected for embedded derivatives, e.g., contractual payment terms in currencies other than the functional or typical trading currency. Embedded derivatives must be separated from the basis agreement 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 basis agreement. The corporation did not hold any embedded derivative instruments requiring separate recognition in the reporting year.

## 29. Other Financial Liabilities

| in € millions | Dec. 31, 2008 | Dec. 31, 2007 after PPA adjustments | Dec. 31, 2007 before PPA adjustments |
|---|---|---|---|
| Liabilities to associated companies | 15.2 | 16.1 | 16.1 |
| Interest payable | 123.6 | 60.1 | 60.1 |
| Liabilities for payroll and personnel related costs | 312.7 | 388.6 | 388.6 |
| Liabilities for selling expenses | 361.7 | 397.7 | 397.7 |
| Termination benefits | 23.1 | 36.2 | 36.2 |
| Purchase prices payable on company acquisitions | 46.8 | 69.2 | 75.3 |
| Other liabilities | 6.1 | 28.2 | 2.4 |
| **Other financial liabilities** | **889.2** | **996.1** | **976.4** |

Purchase prices payable on company acquisitions in the year under review relate to the purchase price option exercised by July 1, 2009, for the acquisition of the remaining shares in the tire and conveyor belt business of the Matador Group in the amount of €46.8 million (2007: €73.5 million).

The reduction of the liabilities for personnel expenses resulted primarily from the increased use of flexitime as part of capacity reduction in the plants at the end of the year and the cancellation of profit-sharing for each employee.

The increase in interest payable in the year under review is mainly the result of interest ceilings in connection with Continental AG's interest hedging transactions.

The other financial liabilities are due within one year.

## 30. Trade Accounts Payable

The trade accounts payable amounted to €2,469.8 million (2007: €2,763.4 million after PPA adjustments) at the end of the fiscal year.

Trade accounts payable are shown at historical cost. The total amount is due within one year.

The liabilities include €9.7 million (2007: €3.1 million) from percentage of completion.

## 31. Other Liabilities

| in € millions | December 31, 2008 | | | Dec. 31, 2007 after PPA adjustments | | | Dec. 31, 2007 before PPA adjustments | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current |
| Liabilities for workers' compensation | 59.3 | 39.4 | 19.9 | 55.5 | 39.3 | 16.2 | 55.5 | 39.3 | 16.2 |
| Liabilities for social security | 93.4 | 93.4 | — | 94.5 | 94.5 | — | 92.2 | 92.2 | — |
| Liabilities for vacation | 118.3 | 118.3 | — | 148.6 | 148.6 | — | 148.6 | 148.6 | — |
| Liabilities for VAT and other taxes | 156.3 | 156.3 | — | 196.4 | 196.4 | — | 196.4 | 196.4 | — |
| Deferred income | 36.8 | 26.1 | 10.7 | 37.6 | 24.8 | 12.8 | 37.6 | 24.8 | 12.8 |
| Others | 142.8 | 132.5 | 10.3 | 191.2 | 180.1 | 13.4 | 191.2 | 177.8 | 13.4 |
| **Other liabilities** | **606.9** | **566.0** | **40.9** | **723.8** | **683.7** | **42.4** | **721.5** | **679.1** | **42.4** |

The reduction of the liabilities for vacation is mainly the result of reduction of vacation as part of capacity reductions in the plants at the end of the year.

The reduction in sales and other taxes corresponds with the reduction in trade accounts receivable at the end of the year.

## 32. Liabilities Held for Sale

The liabilities held for sale relate in particular to business activities in the non-OE area of the Interior and ContiTech divisions, which are not part of the Continental Corporation's core business.

In the previous year, the liabilities held for sale mainly comprised the electric motors activities, which were sold to the Brose Group in 2008.

The liabilities held for sale comprise the following items:

| in € millions | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Indebtedness | 0.0 | 0.0 |
| Provisions | 16.6 | 33.0 |
| Trade accounts payable | 10.2 | 143.3 |
| Other liabilities | 12.8 | 66.5 |
| **Liabilities held for sale** | **39.6** | **242.8** |

Note 21 includes an overview of the assets held for sale, as well as other information.

In the fourth quarter of the reporting period, the Continental Corporation decided to abandon its intention to sell operations classified in Siemens VDO's opening balance as of December 3, 2007, as a disposal group in line with IFRS 5. The end of classification as 'held for sale' had no impact on earnings.

# Other Disclosures

## 33. Litigation and Compensation Claims

Various lawsuits, official investigations, administrative proceedings, and other claims against companies of the corporation are pending, or may be initiated or asserted in the future. In Continental's opinion, these pending claims are proceedings that are related to the corporation's normal business, with the exception of the disputes described.

The pending claims include lawsuits in the U.S.A. for property loss, personal injury, and death allegedly caused by faults 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 layperson 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. Class-action lawsuits against subsidiaries for allegedly faulty tires filed at the Federal District Court in Philadelphia, Pennsylvania, U.S.A., and at a court in the state of New Jersey, U.S.A., have been settled.

In connection with the shutdown of tire production at the Herstal facility belonging to Continental Benelux S.A., a large number of former employees had brought actions against this company and its Board of Directors before the Commercial and Labor Courts in Liège, Belgium. They were seeking material and immaterial damages, claiming that the company violated company law, labor law, and co-determination law. The Liège Commercial Court dismissed the claims. After the Liège Labor Court partially recognized some of the claims, the compensation payable by the company was reduced again on appeal. Further appeals can be lodged against these rulings, but are not expected. Additional claims from employee representatives were completely rejected by the appellate court in parallel proceedings. In response, the plaintiffs have lodged an appeal to reverse that ruling.

Shareholders of Phoenix AG brought actions of rescission and nullification against the resolutions adopted at the Special 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. The Ordinary Shareholders' Meeting of Phoenix AG on May 19, 2005, confirmed the resolutions that had been adopted on December 28, 2004. Actions had also been brought by shareholders against these confirmations of the resolutions. On December 7, 2005, the Hamburg Regional Court dismissed all claims against the confirmatory resolutions in the first instance. The Hanseatic Higher Regional Court confirmed the dismissal of the claims on February 1, 2008, and the right to appeal was denied. Several claimants have lodged an appeal against denial of leave to appeal at the German Federal Court of Justice. In addition to rescission proceedings, proceedings regarding the appropriateness of settlements and compensatory payments under the management and profit and loss pooling agreement and the exchange ratio established in the merger agreement are pending.

On August 22, 2007, the Annual Shareholders' Meeting of ContiTech AG approved the conclusion of a management and profit and loss pooling agreement between ContiTech AG as controlled company and ContiTech-Universe Verwaltungs-GmbH as the controlling company effective January 1, 2008, (additional remarks under Note 5). Additionally, the Annual Shareholders' Meeting of ContiTech AG resolved to squeeze out minority shareholders. Minority shareholders have brought actions for rescission and nullification against both resolutions. The Hanover Regional Court dismissed all claims with its judgment of January 14, 2009. It is expected that some claimants will lodge an appeal against the judgment. However, the Celle Higher Regional Court decided by final resolution of December 30, 2008, that the rescission actions against the resolution to transfer minority shareholders' shares to ContiTech-Universe Verwaltungs-GmbH do not stand in the way of the entry in ContiTech AG's commercial register.

As announced by the company on June 30, 2006, a shareholder has brought an action for rescission and nullification of the resolution adopted by Continental AG's Annual Shareholders' Meeting on May 5, 2006, under agenda item 9 (partial termination and granting of a new authorization to issue convertible bonds, deletion and cancellation of the existing conditional capital, and creation of new conditional capital). Two other shareholders have joined this action as partners in the dispute.

The Hanover Regional Court declared the resolution of the Annual Shareholders' Meeting on February 22, 2007, null and void. This ruling was confirmed by the Higher Regional Court of Celle on November 7, 2007. The company has lodged an appeal against this, about which a decision has not yet been reached. The entry of the resolved conditional capital into the commercial register was finally approved by the Hanover Regional Court upon petition by the company and was completed on August 17, 2007.

Unionized employees of Continental Tire North America, Inc. (CTNA) filed a class-action lawsuit against the company at the end of 2006, with the aim of reversing an amendment to its coverage of healthcare costs for retirees. In an interim decision, the competent court of first-instance has upheld in part the claimants' claim. The legal proceedings have now been brought to a close with a settlement consisting primarily of a one-time contribution to a special health benefits fund without modifying the implemented plan changes.

In connection with the acquisition of the automotive electronics business from Motorola, Continental AG initiated arbitration proceedings against Motorola to resolve a dispute over Continental's contractual right to decrease the purchase price. On October 1, 2008, the arbitration tribunal in New York, U.S.A., granted Continental's claim in the full principal amount of $54.3 million. The decision is final and absolute.

On May 2, 2007, Continental became aware of the fact that the antitrust authorities of the European Union, the U.S.A., and the UK had initiated investigations into alleged antitrust behavior – in particular price-fixing agreements by employees of Dunlop Oil & Marine Ltd, UK, a subsidiary of ContiTech AG, in the area of offshore hoses. In the meantime, authorities in Australia, Brazil, Japan, and Korea began parallel investigations, some of which are still ongoing. In December 2007, two employees of Dunlop Oil & Marine Ltd, who have left the company, admitted before a U.S. court their participation in a price-fixing agreement, among other things, regarding offshore hoses in the U.S.A., and accepted fines and prison sentences. In subsequent criminal proceedings in the UK, these persons have also been given a custodial sentence. The proceedings in Japan were settled with an undertaking by Dunlop Oil & Marine Ltd to refrain from antitrust activities. On January 8, 2009, Dunlop Oil & Marine Ltd pleaded guilty before the competent Federal District Court in Florida, U.S.A., to certain antitrust activities and received a fine of $4.5 million in line with an agreement with the prosecuting authority. On January 28, 2009, the European Commission imposed a fine of €18.0 million on Dunlop Oil & Marine Ltd, for which ContiTech AG and Continental AG are jointly and severally liable in the amount of €16.0 million and €7.1 million respectively. The company is still examining this decision and any further steps. Civil class-action suits for compensation in the U.S.A. were settled by a comparable payment by Dunlop Oil & Marine Ltd of $6.5 million. It cannot be ruled out that further penalties and fines will be imposed, and claims for damages asserted. The amount of the financial burden cannot yet be estimated in full on the basis of existing information.

The outcome of the pending cases or potential cases brought against subsidiaries in the future may, individually or as a whole, have a material effect on Continental AG's results. However, in view of the existing provisions, the obligations that may potentially result from such pending cases will not, in our opinion, have a material effect on the corporation's net assets.

## 34. Non-Recognized Contingent Liabilities and Other Obligations

| in € millions | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Liabilities on bills of exchange | 27.2 | 25.9 |
| Liabilities on guarantees | 101.1 | 22.5 |
| Liabilities on warranties | 1.5 | 12.6 |
| Other contingent liabilities | 25.2 | 22.6 |
| **Non-recognized contingent liabilities and other obligations** | **155.0** | **83.5** |

The non-recognized contingent liabilities relate primarily to guarantees for the liabilities of unconsolidated affiliated companies and third parties, as well as to contractual warranties relating to associated companies. An amount of €59.1 million is the result of the transfer of a guarantee for a larger project.

Continental AG may 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 asserted 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 Continental is legally liable.

Continental AG conducts recall and voluntary exchange actions for products it has sold, as prescribed by law or deemed necessary and appropriate in order to ensure customer satisfaction and compliance with its own safety standards. The corporation's warranty provisions also include the estimated expenses as necessary for such measures. Estimates of expected expenses are based primarily on previous experience. Estimates of expected expenses are inevitably subject to numerous uncertainties, such as the enactment of new laws and regulations, the number of products sold, or the type of measures to be taken, which could lead to the need to adjust the previously recognized provisions. No assurance can be given that the actual expenses will not exceed existing provisions by presently undeterminable amounts. However, although the potential expenses could have a material effect on Continental AG's results, the probable amounts have been adequately provided for and therefore, in our opinion, the settlement of these obligations will not have a material effect on the corporation's overall net assets.

In 2008, expenses for operating leases and rental agreements amounted to €138.2 million (2007: €100.7 million).

Future liabilities relating to these agreements with an original or remaining term of more than one year as of December 31, 2008, 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 below for 2009 and cumulatively for the years 2010 through 2014, and cumulatively from 2014.

| December 31, 2008/in € millions | 2009 | 2010 to 2014 | From 2014 |
|---|---|---|---|
| Operating leases and rental agreements | 142.4 | 266.7 | 145.9 |

| December 31, 2007/in € millions | 2008 | 2009 to 2013 | From 2013 |
|---|---|---|---|
| Operating leases and rental agreements | 138.2 | 295.2 | 146.6 |

Open purchase commitments for property, plant, and equipment amounted to €344.2 million (2007: €288.0 million).

## 35. Segment Reporting

**Notes to segment reporting**
In accordance with IAS 14, segment reporting is based on a risk and reward approach that reflects the internal organizational and management structure and the system of internal reporting to the Executive Board and the Supervisory Board. The operating divisions are the corporation's primary format for reporting segment information, with geographical segments being the secondary format.

During the course of the acquisition of Siemens VDO, the corporation's previous organizational structure was changed. The former Automotive Systems division was dissolved and brought together with the activities of Siemens VDO in the three new divisions, Chassis & Safety, Powertrain, and Interior.

The Continental Corporation's activities are carried out by the divisions as follows:

**Chassis & Safety**
The core of the new Chassis & Safety division is a large portion of the business of the former Automotive Systems division. This new division combines the active and passive safety activities and driver assistance systems of both companies.

**Powertrain**
The new Powertrain division stands for innovative and efficient systems solutions covering all aspects of powertrains. The former business areas of the Continental Corporation and Siemens VDO were united to form this division.

**Interior**
The focus of the new Interior division is information management between the vehicle, driver, and passengers, between vehicles, and between the vehicle and the environment. This division was formed from complementary operating units at the Continental Corporation and Siemens VDO.

**Passenger and Light Truck Tires**
The Passenger and Light Truck Tires division develops, manufactures, and distributes passenger and light truck tires for compact, medium-size, and full-size cars as well as tires for vans. This division is also responsible for extended mobility systems. Motorcycle and bicycle tires are also included in this division, as well as Continental's own retail tire companies.

**Commercial Vehicle Tires**
The Commercial Vehicle Tires division offers truck, bus, industrial, and off-the-road tires for the most diverse service areas and application requirements.

**ContiTech**
The ContiTech division is the world's largest manufacturer in the field of rubber and plastics technology outside of the tire industry. The division develops and produces functional parts, components, and systems for the automotive industry and for other key sectors, such as the rail and printing industries, as well as mining, and machinery and equipment construction.

**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 currently not assignable 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 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 as rendered. Where direct allocation is possible, costs are assigned according to the services performed.

The divisions' segment assets comprise the operating assets of the assets side of the balance sheet as of the reporting date. The segment liabilities show the operating assets of the liabilities side of the balance sheet.

Non-cash expenses/income mainly includes the changes in pension provisions apart from contributions made to the associated funds, as well as the share of profit or loss of associates and gains and losses from disposals of property, plant, and equipment, and intangible assets, as well as businesses. Capital expenditure relates to additions to property, plant, and equipment, and software.

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.

| in € millions | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| **Total assets** | **24,687.9** | **27,737.6** |
| less financial assets | | |
| – cash and cash equivalents | 1,569.4 | 2,199.4 |
| – current and non-current derivatives, interest-bearing investments | 64.4 | 71.0 |
| – other financial assets | 26.5 | 91.1 |
| | **1,660.3** | **2,361.5** |
| | | |
| – less other non-operating assets | 418.0 | 429.7 |
| | | |
| less income tax receivable | | |
| – deferred tax assets | 391.3 | 162.6 |
| – income tax receivable | 148.0 | 257.9 |
| | **539.3** | **420.5** |
| | | |
| plus discounted bills for trade accounts receivable | 6.9 | 20.4 |
| | | |
| **Segment assets**[1] | **22,077.2** | **24,546.3** |
| | | |
| **Total liabilities and provisions** | **19,158.0** | **20,881.5** |
| less financial liabilities | | |
| – current and non-current indebtedness | 12,117.3 | 13,126.8 |
| – interest payable | 129.7 | 136.1 |
| | **12,247.0** | **13,262.9** |
| less income tax liabilities | | |
| – deferred tax liabilities | 401.7 | 525.2 |
| – income tax payable | 507.8 | 532.7 |
| | **909.5** | **1,057.9** |
| | | |
| – less other non-operating liabilities | 1,210.4 | 1,256.5 |
| | | |
| **Segment liabilities** | **4,791.1** | **5,304.2** |
| | | |
| **Operating assets** | **17,286.1** | **19,242.1** |

[1] New definition of the operating assets.

## 36. Earnings per Share

Earnings per share are calculated as shown below:

| in € millions/millions of shares | 2008 | 2007 |
|---|---|---|
| Net income attributable to the shareholders of the parent | -1,123.5 | 1,020.6 |
| Weighted average number of shares issued | 164.2 | 150.4 |
| **Undiluted earnings per share in €** | **-6.84** | **6.79** |
| Net income attributable to the shareholders of the parent | -1,123.5 | 1,020.6 |
| Interest savings on convertible bonds, net of taxes | — | 9.3 |
| **Diluted net income attributable to the shareholders of the parent** | **-1,123.5** | **1,029.9** |
| Weighted average number of shares issued | 164.2 | 150.4 |
| Dilution effect from the potential conversion of options | — | 7.5 |
| Dilution effect from stock option plans | 0.0 | 0.0 |
| **Diluted weighted average number of shares** | **164.2** | **157.9** |
| **Diluted earnings per share in €** | **-6.84** | **6.52** |

## 37. Events After the Balance Sheet Date

Up to February 9, 2009, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items as of December 31, 2008.

A purchase agreement for the acquisition of Kolubara Univerzal Ltd, Serbia, was signed on September 11, 2008. The purchase has not yet been completed because the purchaser's fulfillment conditions have not yet been met. Completion is expected for the first quarter of 2009. The company is incorporated into the ContiTech Conveyor Belt Group and achieved sales of around €15 million in 2008. It has roughly 250 employees in Serbia and primarily manufactures conveyor belting.

On January 30, 2009, M.I.L. Matinvestments Limited, Cyprus, informed us of its intention to exercise its option to sell its remaining 34% stake in the Slovakian Continental Matador Rubber s.r.o. with effect from July 1, 2009, to Continental at a price of €46.8 million.

On January 8, 2009, Schaeffler KG completed its takeover offer to the shareholders of Continental AG and holds 49.9% of shares in Continental AG. The change in shareholder negatively impacts the future utilization of tax loss carryforwards. Where future tax reductions in Germany cannot be realized because Schaeffler KG's shareholding exceeds 30%, compensation accrues to Continental in line with the investment agreement of August 20, 2008, with the Schaeffler Group. Due to the negative impact from losses carried forward in the U.S.A., Continental AG booked a claim for €20.0 million from Schaeffler KG in January 2009. This will be shown as a payment into capital reserves.

After the Supervisory Board's special meeting on January 24, 2009, Continental AG and the Schaeffler Group announced that they had come to an agreement for constructive cooperation based upon the investment agreement.

On January 27, 2009, Continental was downgraded to BB with a negative outlook by Standard & Poor's rating agency. For financing reasons, Continental is adhering to its objective of keeping its rating within the higher credit category which is characterized by low default rates and referred to as the investment-grade category. The target minimum rating is BBB and Baa2.

In January 2009, Continental concluded the renegotiation of terms of the syndicated loan for the acquisition of Siemens VDO with the consortium of banks providing the credit. A possible need for adjustment of the loan terms began to emerge in the final months of 2008 due to the continued downturn in the economic situation. In December 2008, Continental therefore approached the banks proactively with a concept to adapt the contractual terms to the changed economic environment.

Among other things, the credit margin was increased in the loan agreement, and restrictions were tightened regarding liquidity outflows not utilized to repay debt. Continental expects only minor changes in net interest expense since the margin increase should be compensated predominantly by the decline of interest rates for borrowing with shorter interest terms.

**Changes in the Executive Board**

In its meeting on January 24, 2009, the Supervisory Board of Continental AG complied with the request of Dr. Alan Hippe, vice chairman of the Executive Board, CFO and head of Continental AG's Rubber Group, to release him from his duties as member of the Executive Board of Continental AG by mutual agreement in advance as of February 28, 2009.

With effect from March 1, 2009, Gérard Cordonnier will temporarily take over the function of CFO for the Continental Corporation.

Effective March 1, 2009, Nikolai Setzer is to assume the role of head of the Passenger and Light Truck Tires division on a temporary basis, alongside his existing duties as head of the Replacement Business for Passenger and Light Truck Tires in Europe and Africa.

**Changes in the Supervisory Board**

In line with the agreement reached with the Schaeffler Group, Mr. Jan P. Oosterveld (on January 26, 2009), Mr. Fred Steingraber (on January 26, 2009), Prof. Jürgen Stockmar (on January 25, 2009) and Mr. Christian Streiff (on February 3, 2009) stepped down from their positions as Supervisory Board members. By court order of February 5, 2009, the district court of Hanover appointed Mrs. Maria-Elisabeth Schaeffler, Mr. Georg F. W. Schaeffler, Dr. Jürgen Geißinger and Mr. Rolf Koerfer as their successors.

## 38. Auditors' Fees

For fiscal 2008, a total fee of €9.9 million (2007: €8.6 million) was agreed for the worldwide audit of the consolidated financial statements and the related standalone financial statements of the subsidiaries.

The following fees were recognized as an expense specifically for the auditors of Continental AG elected by the Annual Shareholders' Meeting:

| in € millions | 2008 | 2007 |
|---|---|---|
| Audit of financial statements | 3.5 | 3.5 |
| Other assurance services | 0.3 | 0.5 |
| Tax advisory services | 0.3 | 0.0 |
| Other services provided to the parent company or its subsidiaries | 0.1 | 0.4 |

These fees only relate to services directly provided to Continental AG and its German subsidiaries. The auditors elected by the Annual Shareholders' Meeting are KPMG AG Wirtschaftsprüfungsgesellschaft and its registered offices.

## 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 was as follows:

| in € thousands | 2008 | 2007 |
|---|---|---|
| Short-term benefits | 4,546 | 12,593 |
| Service cost relating to post-employment benefits | 990 | 1,720 |
| Payments on termination of employment contract | 7,310 | — |
| Share-based payment | 3,101 | 3,035 |

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 section; reference is made to this in the Management Report.

In 2008, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board.

Former members of the Executive Board and their surviving dependants received payments totaling €11.9 million in 2008 (2007: €4.4 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependants amounted to €65.9 million (2007: €61.7 million).

The remuneration paid to the members of the Supervisory Board was as follows:

| in € thousands | 2008 | 2007 |
|---|---|---|
| Short-term benefits | 1,083 | 2,485 |

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 for close members of the families of such individuals.

Transactions with related parties, other than subsidiaries:

| in € millions | 2008 | 2007 |
|---|---|---|
| Income | 164.2 | 40.6 |
| Expenses | 106.6 | 43.3 |

Income, in particular from sales, and expenses, in particular from product and material procurement, 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. They are essentially the result of relationships with associates. The corresponding amounts receivable from or payable to these companies are reported in the balance sheet.

A declaration of suretyship in the amount of €0.2 million was issued in the previous year for a foreign related party, which expired in the year under review.

The transactions with the Schaeffler Group in the reporting year are attributable to ordinary business activities and were concluded at usual market conditions. The income in the reporting year amounted to €17.0 million; expenses to €33.6 million.

**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 Schaeffler. The open-ended agreement, which cannot be terminated by the parties before spring 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.

**Notice in accordance with the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act)**
In the 2008 fiscal year, we received notifications from various investors relating to a rising above or falling below the threshold values in line with Section 21 of the WpHG. The following gives the most up-to-date information on investments exceeding or falling below the threshold values subject to a duty of disclosure in line with the WpHG.

The Europacific Growth Fund, Los Angeles, U.S.A., informed us on March 26, 2008, July 23, 2008 and August 27, 2008, that the company's share of voting rights had fallen below the threshold of 3% of the voting rights in Continental AG and was 2.75% as of August 27, 2008.

The notifications from UBS AG Zurich, Switzerland, in line with Section 26 (1) of the WpHG, which reached us during the 2008 fiscal year, date from April 10, April 11, April 22, April 23, April 28, May 21 and June 19 of the year. According to these, the company's voting rights share as of June 16, 2008, was 1.54%, of which 0.21% of the voting rights were allocated in line with Section 22 (1) Sentence 1 of the WpHG.

Letters from Marsico Capital Management LLC, Denver, Colorado, U.S.A., dated April 30, May 5, June 4, July 2, July 14, and July 23, 2008, notified us that the company's voting rights share had fallen below the threshold of 3% on July 22, 2008, and was approximately 2.77% at this point.

We received letters on April 14, and April 23, 2008, from Barclays Global Investors UK Holdings Limited, London, England, according to which the company's voting rights share had fallen below the 3% threshold as of April 23, 2008, and was 2.98% at this point.

Letters from Morgan Stanley, Wilmington, Delaware, U.S.A., dated April 30, May 7, and May 21, 2008, notified us that the company's voting rights share had fallen below the 3% threshold on May 1, 2008, and was 1.93% at this point.

The voting rights share of Société Générale S.A., Paris, France, fell below the 3% threshold on May 4, 2008, and was at 2.34% according to a letter dated May 6, 2008.

According to letters from Capital World Growth and Income Fund Inc., Los Angeles, U.S.A., dated July 23, and July 30, 2008, its voting rights share fell below the 3% threshold on July 24, 2008, and was then 2.93%.

The voting rights share of Capital Research and Management Company, Los Angeles, U.S.A., has also fallen below 3% as of August 26, 2008. The company's letters reached us on July 23, and August 28, 2008.

On January 13, 2009, we were notified that

- The voting rights share of Schaeffler KG, Herzogenaurach, in Continental AG had exceeded the thresholds of 20%, 25% and 30% on January 8, 2009, and was 49.9% at this point.

- The voting rights share of INA-Holding Schaeffler KG, Herzogenaurach, in Continental AG had exceeded the

thresholds of 20%, 25% and 30% on January 8, 2009 and was 49.9% at this point. This voting stock is attributed in accordance with Section 22 (1) Sentence 1 no. 1 of the WpHG.

- The voting rights share of Schaeffler Holding LP, Dallas, U.S.A., in Continental AG had exceeded the thresholds of 20%, 25% and 30% on January 8, 2009, and was 49.9% at this point. This voting stock is attributed in accordance with Section 22 (1) Sentence 1 no. 1 of the WpHG.
- The voting rights share of Mrs. Maria-Elisabeth Schaeffler, Germany, in Continental AG had exceeded the thresholds of 20%, 25% and 30% on January 8, 2009, and was 49.9% at this point. This voting stock is attributed in accordance with Section 22 (1) Sentence 1 no. 1 of the WpHG.
- The voting rights share of Mr. Georg F.W. Schaeffler, U.S.A., in Continental AG had exceeded the thresholds of 20%, 25% and 30% on January 8, 2009, and was 49.9% at this point. This voting stock is attributed in accordance with Section 22 (1) Sentence 1 no. 1 of the WpHG.

Corresponding letters from companies and persons of the Schaeffler Group relating to voting rights exceeding or falling below the thresholds of 10%, 15% and 20% reached us on October 22, December 1, December 10 and December 30, 2008.

On January 9, 2009, we received notification that the voting rights share of various associated companies of the Bank of America Corporation, Wilmington, U.S.A., specifically associated companies of Merrill Lynch & Co., Inc., Wilmington, U.S.A., had exceeded the thresholds of 3%, 5%, 10% and 15% on January 6, 2009. In the same notification, we were informed that on January 8, 2009, the companies' voting rights share had fallen below the thresholds of 3%, 5%, 10% and 15% and was 0% at this point.

On January 12, 2009, B. Metzler seel. Sohn & Co. Holding AG, Frankfurt am Main, notified us that its voting rights share in Continental AG had exceeded the thresholds of 5%, 10% and 15% on January 8, 2009, and was 19.50% on that date. In accordance with Section 22 (1) Sentence 1 no. 1 of the WpHG these voting rights are attributable to the company from B. Metzler seel. Sohn & Co. KGaA. Previous notifications reached us on January 5 and January 7, 2009.

The voting rights share of Sal. Oppenheim jr. & Cie. S.C.A., Luxembourg, Luxembourg, in Continental AG exceeded the thresholds of 10% and 15% on January 8, 2009 and was 19.86% on this date. In accordance with Section 22 (1) Sentence 1 no. 1 of the WpHG, these voting rights are attributable to the company from Sal. Oppenheim jr. & Cie. KGaA, Cologne. Earlier notifications of the company date from January 2 and January 12, 2009.

In 2008 and up to and including February 1, 2009, members of the Executive Board held shares representing a total interest of less than 1% in the common stock of the company. On February 9, 2009, shares of 49.90% in the company's common stock with voting rights were attributable to Mrs. Maria-Elisabeth Schaeffler and Mr. Georg F. W. Schaeffler, newly appointed members of the Supervisory Board as of February 5, 2009, according to a voting rights notification of January 13, 2009. In 2008 and up to and including February 9, 2009, the remaining members of the Supervisory Board held shares representing a total interest of less than 1% in the common stock of the company. In the 2008 fiscal year, Continental AG announced in line with Section 15a of the WpHG that five members of the Executive Board had acquired a total of 13,570 shares and two members of the Supervisory Board and one related party of a member of the Supervisory Board had sold a total of 7,150 shares.

## 40. German Corporate Governance Code/Declaration in Accordance with Section 161 of the *Aktiengesetz*

The declaration required in accordance with Section 161 of the *Aktiengesetz* (German Stock Corporation Act) was issued by the Executive Board and the Supervisory Board on December 10, 2008, and is available to our shareholders on the following website: www.continental-corporation.com.

**Commitment,** *noun.* Intensive to passionate dedication to a goal, for instance personal involvement for idealistic reasons, activities outside professional duties (social commitment) or in the framework of professional tasks and activities.

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# Responsibility Statement

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 9, 2009

Continental AG
The Executive Board

# Other Directorships – The Executive Board

**List of the positions held by current and former 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 *Handelsgesetzbuch* (German Commercial Code):**

**Companies with no country specified are located in Germany.**

**Dr. Karl-Thomas Neumann**
**Chairman (since September 1, 2008)**
**Head of the Automotive Group**
**Chassis & Safety, Interior, and Powertrain Divisions**
**Corporate Communications**
SupplyOn AG, Gerlingen-Schillerhöhe (until May 2008); Continental Teves, Inc., Wilmington, Delaware, U.S.A.*

**Manfred Wennemer**
**Passenger and Light Truck Tires Division, and Interior Division**
Directorships until August 31, 2008: ContiTech AG, Hanover (Chairman)*; Continental Teves, Inc., Wilmington, Delaware, U.S.A.*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*
**Member of the Executive Board until August 31, 2008**

**Dr. Alan Hippe**
**Vice Chairman (since September 1, 2008)**
**Head of the Rubber Group**
**Passenger and Light Truck Tires Division**
**Finance, Controlling, IT, Law**
Hamburg-Mannheimer Versicherungs-AG, Hamburg (until March 2008); Hamburg-Mannheimer Sachversicherungs-AG, Hamburg (until March 2008); KION GROUP GmbH, Wiesbaden; Voith AG, Heidenheim (since May 2008); ContiTech AG, Hanover*; CG Tire, Inc., Charlotte, North Carolina, U.S.A.*; CGT Referral Resources, Inc., Charlotte, North Carolina, U.S.A.*; Compañia Hulera Euzkadi, S.A. de C.V., Mexico D.F., Mexico*; Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*; Continental Automotive Licensing Corp., Charlotte, North Carolina, U.S.A.*; Continental Llantera Potosina, S.A. de C.V., Mexico D.F., Mexico*; Continental Products Corporation, Charlotte, North Carolina, U.S.A.*; Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.*; Continental Teves, Inc., Wilmington, Delaware, U.S.A.*; Continental Tire de Mexico, S.A. de C.V., Mexico D.F., Mexico*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; Continental Tire Servicios, S.A. de C.V., Mexico D.F., Mexico*; ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*; CTNA Holding Corp., Charlotte, North Carolina, U.S.A.*; Dynagen, Inc., Charlotte, North Carolina, U.S.A.*; Englewood Services, Inc., Charlotte, North Carolina, U.S.A.*; General Tire de Mexico, S.A. de C.V., Mexico D.F., Mexico*; General Tire International Company, Charlotte, North Carolina, U.S.A.*; The Continental General Tire Foundation, Charlotte, North Carolina, U.S.A.*
**Member of the Executive Board until February 28, 2009**

**Gerhard Lerch**
**ContiTech Division**
Directorships until September 29, 2008: Benecke-Kaliko AG, Hanover (Chairman)*; ContiTech Antriebssysteme GmbH, Hanover (Chairman)*; ContiTech Luftfedersysteme GmbH, Hanover (Chairman)*; ContiTech Schlauch GmbH, Korbach*; ContiTech Techno-Chemie GmbH, Karben*; ContiTech Transportbandsysteme GmbH, Northeim (Chairman)*; ContiTech Vibration Control GmbH, Hanover (Chairman)*; Caucho Tecnica, Santiago, Chile (Chairman of the Board of Directors)*; ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*; IMAS S.A., Volos, Greece (Chairman of the Board of Directors)*
**Member of the Executive Board until September 29, 2008**

**Dr. Hans-Joachim Nikolin**
**Passenger and Light Truck Tires (since March 1, 2009), and Commercial Vehicle Tires Divisions**
**Corporate Purchasing, Quality and Environment**
TÜV Nord-Gruppe, Hamburg; Drahtcord Saar GmbH & Co. KG, Merzig; KG Deutsche Gasrußwerke GmbH & Co., Dortmund; Continental Sime Tyre Sdn. Bhd., Petaling Jaya, Malaysia*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; Continental Tyre South Africa (PTY) Limited, Port Elizabeth, South Africa*; Matador RU Slovshintrade Z.A.O., Omsk, Russia*

**Heinz-Gerhard Wente**
**ContiTech Division**
**Human Resources, Director of Labor Relations**
Benecke-Kaliko AG, Hanover (Vice Chairman); ContiTech Antriebssysteme GmbH, Hanover (Chairman)*; ContiTech Luftfedersysteme GmbH, Hanover (Chairman)*; ContiTech Schlauch GmbH, Hanover (Chairman)*; ContiTech Techno-Chemie GmbH, Karben (Chairman)*; ContiTech Transportbandsysteme GmbH, Hanover (Vice Chairman)*; ContiTech Vibration Control GmbH, Hanover (Chairman)*; ContiTech Grand Ocean Changchun Co. Ltd., Changchun, China*; ContiTech North America, inc. Wilmington, Delaware, U.S.A.*

**William L. Kozyra**
**Deputy Member**
**NAFTA Region**
Directorships until June 1, 2008: Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*; Continental Teves, Inc., Wilmington, Delaware, U.S.A.*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*; Temic Automotive of North America, Inc., Auburn Hills, Michigan, U.S.A.*
**Member of the Executive Board until June 1, 2008**

* Consolidated companies pursuant to Section 100 (2) of the *Aktiengesetz* (German Stock Corporation Act).

# 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 *Handelsgesetzbuch* (German Commercial Code):**

**Companies with no country specified are located in Germany.**

**Dr. Hubertus von Grünberg, Chairman**
**Member of various Supervisory Boards**
Allianz Versicherungs-AG, Munich; Deutsche Telekom AG, Bonn; ABB Ltd., Zurich, Switzerland (Chairman of the Board of Directors); Schindler Holding AG, Hergiswil, Switzerland
**Member of the Supervisory Board until March 6, 2009**

**Werner Bischoff*, Deputy Chairman**
**Member of the Executive Board of IG BCE (Mining, Chemical, and Energy Industrial Union)**
Evonik Degussa GmbH, Essen; Evonik Industries AG, Essen; Hoechst GmbH, Frankfurt/Main; RWE AG, Cologne; RWE Dea AG, Hamburg; RWE Power AG, Essen; Sanofi-Aventis Deutschland GmbH, Frankfurt/Main

**Dr. h.c. Manfred Bodin**
**Member of various Supervisory Boards**
CeWe Color Holding AG, Oldenburg (until May 2008); VHV Holding AG, Hanover

**Dr. Diethart Breipohl**
**Member of various Supervisory Boards**
Arcandor AG, Essen (until April 2008); KME Germany AG, Osnabrück (Chairman) (until March 2008); Atos Origin International, Paris, France (until June 2008); Crédit Lyonnais, Paris, France; EULER & Hermes, Paris, France (until May 2008)

**Michael Deister*, Deputy Chairman of the Works Council for the Stöcken Plant and Deputy Chairman of the Corporate Works Council**

**Dr. Michael Frenzel**
**Chairman of the Executive Board of TUI AG**
AWD Holding AG, Hanover; AXA Konzern AG, Cologne; E.ON Energie AG, Munich; Hapag-Lloyd AG, Hamburg (Chairman)**; Hapag-Lloyd Flug GmbH, Hanover (Chairman)**; Norddeutsche Landesbank, Hanover; TUI Deutschland GmbH, Hanover (Chairman)**; TUI Cruises, Hamburg (Member of the Shareholders' Committee) (since June 2008); Volkswagen AG, Wolfsburg; Preussag North America, Inc., Atlanta, U.S.A. (Chairman)**; TUI China Travel Co., Ltd., Beijing, China**; TUI Travel PLC, London, UK (Non-Executive Chairman)**

**Dr. Jürgen Geißinger, President and CEO of INA-Holding Schaeffler KG, Herzogenaurach**
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**
**Appointed by court order of February 5, 2009**

**Prof. Dr.-Ing. E.h. Hans-Olaf Henkel**
**Honorary Professor at the University of Mannheim**
Bayer AG, Leverkusen; Daimler Luft- und Raumfahrt Holding AG, Munich; EPG AG, Zweibrücken; Heliad Equity Partners GmbH & Co. KGaA, Frankfurt/Main (since February 2009); SMS GmbH, Düsseldorf; Ringier AG, Zofingen, Switzerland

**Michael Iglhaut*, Chairman of the Works Council for the Frankfurt Location, Chairman of the Central Works Council of Continental Teves AG & Co. oHG, and First Deputy Chairman of the Corporate Works Council**

**Rolf Koerfer, Lawyer**
GLOBALE Rückversicherungs-AG, Cologne
**Appointed by court order of February 5, 2009**

**Hartmut Meine*, District Manager of IG Metall (Metalworkers' Union) for Lower Saxony and Saxony-Anhalt**
KME Germany AG, Osnabrück; Volkswagen AG, Wolfsburg (since January 2009)

**Dirk Nordmann*, Chairman of the Works Council for the Vahrenwald Plant, ContiTech Antriebssysteme GmbH**

**Jan P. Oosterveld**
**Member of various Supervisory Boards**
Atos Origin S.A., Paris, France; Barco NV, Kortrijk, Belgium; Candover Investments Plc, London, UK (since October 2008); Cookson Group Plc, London, UK; Crucell NV, Leiden, Netherlands (Chairman)
**Member of the Supervisory Board until January 26, 2009**

**Dr. Thorsten Reese***
**Head of Corporate Quality and Environment**

**Georg F. W. Schaeffler, Partner of the Schaeffler Group, Herzogenaurach**
**Appointed by court order of February 5, 2009**

**Maria-Elisabeth Schaeffler, Partner of the Schaeffler Group, Herzogenaurach**
Österreichische Industrieholding AG, Vienna, Austria
**Appointed by court order of February 5, 2009**

**Jörg Schönfelder*, Chairman of the Works Council for the Korbach Plant**

**Jörg Schustereit*, Chairman of the Works Council for the Northeim Plant, ContiTech Transportbandsysteme GmbH**

**Fred G. Steingraber**
**Chairman Emeritus A.T. Kearney, U.S.A.,**
**Chairman of the Board of Advisors, U.S.A.,**
**Retired Chairman and CEO, A.T. Kearney, U.S.A.**
Diamond Hill Financial Trends Fund, Columbus, Ohio, U.S.A.; Elkay Manufacturing, Oak Brook, Illinois, U.S.A.; 3i plc, London, UK
**Member of the Supervisory Board until January 26, 2009**

**Prof. Dr. h.c. Jürgen Stockmar, Managing Director of Magna Education and Research GmbH & Co KG, Oberwaltersdorf, Austria**
**Member of the Supervisory Board until January 25, 2009**

**Christian Streiff, Chairman of the Managing Board of PSA Peugeot Citröen, Paris, France**
ThyssenKrupp AG, Düsseldorf
**Member of the Supervisory Board until February 3, 2009**

**Dr. Bernd W. Voss**
**Member of various Supervisory Boards**
Allianz Lebensversicherungs-AG, Stuttgart (until May 2008); Bankhaus Reuschel & Co., Munich (Vice Chairman); Dresdner Bank AG, Frankfurt/Main; Hapag-Lloyd AG, Hamburg; OSRAM GmbH, Munich (until February 2008); Wacker Chemie AG, Munich; ABB Ltd., Zürich, Switzerland

**Dieter Weniger*, Trade Union Secretary, IG BCE (Mining, Chemical, and Energy Industrial Union)**

**Erwin Wörle*, Chairman of the Works Council of Conti Temic microelectronic GmbH, Ingolstadt**
Conti Temic microelectronic GmbH, Nuremberg** (Deputy Chairman)

* Employee representative.
**Consolidated companies pursuant to Section 100 (2) of the *Aktiengesetz* (German Stock Corporation Act).

**Members of the Supervisory Board Committees:**

**1. Chairman's Committee and Mediation Committee required under Section 27 (3) of the *Mitbestimmungsgesetz* (German Co-determination Act)**
Dr. Hubertus von Grünberg (until March 6, 2009), Chairman; Werner Bischoff; Dr. Diethart Breipohl; Michael Iglhaut

**2. Audit Committee**
Dr. Bernd W. Voss, Chairman; Michael Deister; Dr. Hubertus von Grünberg (until March 6, 2009); Dr. Thorsten Reese

**3. Nomination Committee**
Dr. Hubertus von Grünberg (until March 6, 2009); Dr. Diethart Breipohl; Dr. Bernd W. Voss

# Ten-Year Review – Corporation

| | | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance sheets** | | | | | | | | | | | |
| Non-current assets[1] | € millions | 16,348.4 | 17,383.9 | 5,877.9 | 5,193.8 | 4,953.9 | 4,835.0 | 5,102.2 | 5,424.4 | 4,718.6 | 4,485.0 |
| Current assets[2] | € millions | 8,339.5 | 10,353.7 | 4,975.1 | 5,353.9 | 4,742.0 | 3,463.5 | 3,094.9 | 3,570.2 | 2,896.6 | 2,918.8 |
| Total assets | € millions | 24,687.9 | 27,737.6 | 10,853.0 | 10,547.7 | 9,695.9 | 8,298.5 | 8,197.1 | 8,994.6 | 7,615.2 | 7,403.8 |
| Shareholders' equity (excl. minority interests) | € millions | 5,265.4 | 6,583.2 | 4,470.8 | 3,574.2 | 2,706.2 | 1,983.2 | 1,715.2 | 1,546.7 | 1,844.1 | 1,760.6 |
| Minority interests | € millions | 264.5 | 272.9 | 239.1 | 220.8 | 231.0 | 151.4 | 92.2 | 101.4 | 145.7 | 142.4 |
| Total equity, (incl. minority interests) | € millions | 5,529.9 | 6,856.1 | 4,709.9 | 3,795.0 | 2,937.2 | 2,134.6 | 1,807.4 | 1,648.1 | 1,989.8 | 1,903.0 |
| Equity ratio[3] | in % | 22.4 | 24.7 | 43.4 | 36.0 | 30.3 | 23.9 | 20.9 | 17.2 | 24.2 | 23.8 |
| Capital expenditure[4] | € millions | 1,595.2 | 896.9 | 805.0 | 871.8 | 703.0 | 625.8 | 620.0 | 740.8 | 715.2 | 625.6 |
| Net indebtedness | € millions | 10,483.5 | 10,856.4 | 1,181.0 | 493.2 | 881.1 | 1,168.6 | 1,899.0 | 2,601.1 | 2,017.9 | 1,712.8 |
| Gearing ratio | in % | 189.6 | 158.3 | 25.1 | 13.0 | 30.0 | 58.9 | 110.7 | 168.2 | 109.4 | 97.3 |
| **Income statements** | | | | | | | | | | | |
| Sales | € millions | 24,238.7 | 16,619.4 | 14,887.0 | 13,837.2 | 12,597.4 | 11,534.4 | 11,408.3 | 11,233.3 | 10,115.0 | 9,132.2 |
| Share of foreign sales | in % | 68.5 | 69.2 | 67.6 | 65.8 | 66.8 | 67.0 | 68.4 | 70.4 | 68.9 | 68.6 |
| Cost of sales[5] | in % | 80.4 | 75.8 | 75.3 | 74.6 | 75.0 | 76.5 | 78.2 | 82.8 | 75.6 | 74.5 |
| Research and development expenses[5] | in % | 6.2 | 5.0 | 4.5 | 4.3 | 4.2 | 4.3 | 4.3 | 4.1 | 4.1 | 4.1 |
| Selling expenses[5] | in % | 4.9 | 5.5 | 5.7 | 6.1 | 6.2 | 6.2 | 6.4 | 6.3 | 11.1 | 11.6 |
| Administrative expenses[5] | in % | 3.2 | 2.7 | 3.0 | 3.1 | 3.1 | 3.3 | 3.4 | 3.6 | 3.7 | 3.8 |
| EBITA | € millions | -296.2 | 1,675.8 | 1,601.9 | 1,507.1 | 1,157.4 | 855.2 | 694.3 | 32.8 | 533.0 | 607.3 |
| EBITA[5] | in % | -1.2 | 10.1 | 10.8 | 10.9 | 9.2 | 7.4 | 6.1 | 0.3 | 5.3 | 6.7 |
| Personnel expenses | € millions | 5,746.3 | 3,652.7 | 3,175.2 | 3,054.3 | 3,011.7 | 2,681.8 | 2,650.2 | 2,867.8 | 2,580.8 | 2,387.7 |
| Depreciation and amortization[6] | € millions | 3,067.6 | 814.8 | 699.6 | 741.8 | 667.2 | 603.1 | 670.3 | 891.3 | 654.7 | 576.5 |
| Net income attributable to the shareholders of the parent | € millions | -1,123.5 | 1,020.6 | 981.9 | 929.6 | 716.2 | 314.0 | 226.0 | -257.6 | 204.7 | 234.7 |
| **Employees (annual average)** | thousands | 148.4 | 93.9 | 81.6 | 81.1 | 73.7 | 66.5 | 65.1 | 67.0 | 63.5 | 62.6 |

[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 minority interests.

[4] Capital expenditure on property, plant, equipment and software.

[5] As a percentage of sales; as of 2001, selling expenses comprise only the functional selling and logistics costs, plus IT costs.

[6] Excluding write-downs of investments.

The information for fiscal years since 2004 has been reported in accordance with IFRS, for the years 1998 to 2003 in accordance with U.S. GAAP.

# Glossary of Financial Terms

**Asset-Backed Securitization Program.** Under such programs, trade accounts receivable are pooled for each country and sold to financing companies, who refinance the purchase by issuing commercial paper.

**Continental Value Contribution (CVC).** CVC represents the absolute amount of additional value created, and the Delta CVC represents the change in absolute value creation over the prior year. Value is created when the actual return (ROCE) exceeds the required minimum. The required minimum return is derived from the weighted average cost of capital (WACC) for the Continental Corporation. CVC is measured by subtracting the minimum return from the actual ROCE and multiplying the net difference by the average operating assets for the fiscal 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 employ resources efficiently.

**Currency swap.** Swap of principal and interest payable or receivable in one currency into similar terms in another currency. Often used when issuing bonds for which the issuing currency is not the local currency of the issuer.

**Defined Benefit Obligation (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 obligation).

**Derivative financial 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. Since 2002, when the amortization of goodwill was discontinued, EBITA has been equal to EBIT.

**EBITA.** EBIT before scheduled goodwill amortization.

**EBITDA.** Earnings before interest, taxes, depreciation and amortization. EBIT before depreciation of property, plant and equipment, and amortization of intangible assets, i.e., relates to impairment losses on plant and machinery as well as the goodwill of companies acquired.

**FAS.** Financial Accounting Standards. The accounting standards or amendments issued by the FASB.

**FASB.** Financial Accounting Standards Board. The authority that defines the financial accounting standards for U.S. GAAP.

**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. The accounting principles formerly issued by the IASB, which are still applicable in some cases.

**IASB.** International Accounting Standards Board. The authority that defines the International Financial Reporting Standards.

**IFRIC.** International Financial Reporting Interpretations Committee. Committee that reviews and determines appropriate treatment of accounting issues within the context of current IFRS and IAS.

**IFRS.** International Financial Reporting Standards. The accounting standards issued by the IASB.

**Interest rate cap.** An interest rate cap sets an upper limit for a variable interest rate in relation to a notional debt amount. To the extent that the variable interest due on the underlying debt exceeds the cap amount, the holder of the cap receives income as compensation in the amount of the difference to the cap. An up-front premium is paid as consideration for the cap.

**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 liabilities and cash and cash equivalents as recognized in the balance sheet as well as the market values of the derivative instruments.

**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 first 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 Interpretation 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

| 2009 | |
|---|---|
| Annual Financial Press Conference | February 19 |
| Telephone Conference for Analysts | February 19 |
| Annual Shareholders' Meeting | April 23 |
| Interim Report as of March 31, 2009 | April 29 |
| Interim Report as of June 30, 2009 | July 30 |
| Interim Report as of September 30, 2009 | October 29 |

| 2010 | |
|---|---|
| Annual Financial Press Conference | February |
| Analyst Conference | February |
| Annual Shareholders' Meeting | April |
| Interim Report as of March 31, 2010 | April |
| Interim Report as of June 30, 2010 | July |
| Interim Report as of September 30, 2010 | October |

**Contact Data**
This Annual Report is also published in German. The financial statements of Continental Aktiengesellschaft are also available in English and German.

If you wish to receive copies of any of these reports, please contact:
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The entire Annual Report and the interim reports are available on the Internet at:
www.continental-corporation.com

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